

Annual Securities Report

(35th Business Term)

From April 1, 2019 to March 31, 2020

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

This document is an English translation of a report that has been generated/printed with a Table of Contents and page numbers attached to data from the Securities Report filed with the Financial Services Agency using EDINET (Electronic Disclosure for Investors' NETwork).

Included at the end of this report are English translations of the Report of Independent Registered Public Accounting Firm attached to the Securities Report filed in the manner described above and the Report on Internal Control and Confirmation Letter filed in conjunction with the above mentioned Securities Report.

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 herein and in any other materials publicly disclosed by NTT on its website.

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PART 1. INFORMATION ON THE COMPANY

PART 1. INFORMATION ON THE COMPANY

ITEM 1. OVERVIEW OF THE COMPANY

1. Selected Financial Data

(1) Selected Consolidated Financial and Other Data of the Company

		IFRS			
		Date of Transition to IFRS	33 rd Business Term	34 th Business Term	35 th Business Term
		April 1, 2017	Year Ended March 31, 2018	Year Ended March 31, 2019	Year Ended March 31, 2020
Operating revenues	Millions of yen	—	11,782,148	11,879,842	11,899,415
Profit before taxes	Millions of yen	—	1,740,479	1,671,861	1,570,141
Profit attributable to NTT	Millions of yen	—	897,887	854,561	855,306
Comprehensive income (loss) attributable to NTT	Millions of yen	—	950,302	826,154	743,451
NTT shareholders' equity	Millions of yen	8,620,997	9,050,358	9,264,913	9,061,103
Total assets	Millions of yen	21,223,727	21,541,444	22,295,146	23,014,133
NTT shareholders' equity per share	Yen	2,138.82	2,295.79	2,416.01	2,492.60
Basic earnings per share attributable to NTT	Yen	—	224.93	220.13	231.21
Diluted earnings per share attributable to NTT	Yen	—	—	—	—
Equity ratio (ratio of NTT shareholders' equity to Total assets)	%	40.6	42.0	41.6	39.4
ROE (ratio of profit attributable to NTT)	%	—	10.2	9.3	9.3
Price earnings ratio	Multiple	—	10.9	10.7	11.1
Cash flows from operating activities	Millions of yen	—	2,541,270	2,406,157	2,995,211
Cash flows from investing activities	Millions of yen	—	(1,746,185)	(1,774,136)	(1,852,727)
Cash flows from financing activities	Millions of yen	—	(968,279)	(584,266)	(1,041,261)
Cash and cash equivalents at end of year	Millions of yen	1,075,773	895,003	946,134	1,033,574
Number of employees [Average number of temporary employees]	Number of people	274,844 [90,746]	284,544 [80,481]	307,894 [62,805]	319,039 [51,787]

Notes: 1. Operating revenues do not include consumption taxes.

2. NTT shareholders' equity does not include the portion attributable to non-controlling interests.

3. 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.

4. NTT shareholders' equity per share is calculated based on the number of shares outstanding at the end of the fiscal year, excluding treasury stock, and Basic earnings per share attributable to NTT is calculated based on the average number of shares outstanding during the fiscal year, excluding treasury stock.

5. NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020. The figures for NTT shareholders' equity per share and Basic earnings per share attributable to NTT for each fiscal year have been adjusted to reflect the impact of this stock split.

6. Number of employees indicates the number of full-time employees as of March 31 of each of the years indicated. The average annual number of temporary employees for the fiscal years indicated is shown in brackets.
7. Beginning with the 35th business term, certain overseas subsidiaries have expanded the scope of aggregation of their numbers of employees, and the numbers of employees for prior fiscal years have also been restated accordingly.
8. NTT's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") beginning with the 34th business term.

		U.S GAAP		
		31 st Business Term	32 nd Business Term	33 rd Business Term
		Year Ended March 31, 2016	Year Ended March 31, 2017	Year Ended March 31, 2018
Operating revenues	Millions of yen	11,540,997	11,391,016	11,799,587
Income before income taxes and equity in earnings (losses) of affiliated companies	Millions of yen	1,329,259	1,527,769	1,755,624
Net income attributable to NTT	Millions of yen	737,738	800,129	909,695
Comprehensive income (loss) attributable to NTT	Millions of yen	422,153	860,200	956,013
NTT shareholders' equity	Millions of yen	8,833,806	9,052,479	9,485,981
Total assets	Millions of yen	21,035,931	21,250,325	21,675,770
NTT shareholders' equity per share	Yen	2,107.16	2,245.86	2,406.30
Basic earnings per share attributable to NTT	Yen	175.17	195.47	227.89
Diluted earnings per share attributable to NTT	Yen	—	—	—
Equity ratio (ratio of NTT shareholders' equity to Total assets)	%	42.0	42.6	43.8
Return on equity ratio (ratio of Net income attributable to NTT to NTT shareholders' equity)	%	8.4	8.9	9.8
Price earnings ratio	Multiple	13.8	12.2	10.8
Net cash provided by operating activities	Millions of yen	2,711,845	2,917,357	2,637,547
Net cash used in investing activities	Millions of yen	(1,759,778)	(2,089,311)	(1,841,777)
Net cash used in financing activities	Millions of yen	(707,575)	(981,511)	(931,658)
Cash and cash equivalents at year end	Millions of yen	1,088,275	925,213	780,300
Number of employees [Average number of temporary employees]	Number of people	241,448 [99,855]	274,844 [90,746]	284,544 [80,481]

Notes: 1. Operating revenues do not include consumption taxes.

2. NTT shareholders' equity does not include the portion attributable to non-controlling interests.

3. 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.

4. NTT shareholders' equity per share is calculated based on the number of shares outstanding at the end of the fiscal year, excluding treasury stock, and Basic earnings per share attributable to NTT is calculated based on the average number of shares outstanding during the fiscal year, excluding treasury stock.

5. NTT conducted a two-for-one stock split of its common stock with an effective date of July 1, 2015 and a two-for-one stock split of its common stock with an effective date of January 1, 2020. The figures for NTT shareholders' equity per share and Basic earnings per share attributable to NTT for each fiscal year have been adjusted to reflect the impact of these stock splits.

6. Number of employees indicates the number of full-time employees as of March 31 of each of the years indicated. The average annual number of temporary employees for the fiscal years indicated is shown in brackets.
7. Beginning with the 35th business term, certain overseas subsidiaries have expanded the scope of aggregation of their numbers of employees, and the numbers of employees for prior fiscal years have also been restated accordingly.

(2) Selected Non-Consolidated Financial and Other Data of the Company

		31st Business Term	32nd Business Term	33rd Business Term	34th Business Term	35th Business Term
		Year Ended March 31, 2016	Year Ended March 31, 2017	Year Ended March 31, 2018	Year Ended March 31, 2019	Year Ended March 31, 2020
Operating revenues	Millions of yen	521,742	474,380	663,118	750,740	649,740
Recurring profit	Millions of yen	381,487	334,901	528,552	612,862	508,877
Net income	Millions of yen	666,679	288,117	725,192	1,192,784	480,768
Common stock	Millions of yen	937,950	937,950	937,950	937,950	937,950
Shares outstanding at end of year	Shares	2,096,394,470	2,096,394,470	2,096,394,470	1,950,394,470	3,900,788,940
Net assets	Millions of yen	4,717,924	4,383,510	4,600,635	5,222,248	4,845,259
Total assets	Millions of yen	7,052,062	6,681,061	6,711,306	7,098,890	6,834,082
Net assets per share	Yen	1,125.38	1,087.52	1,167.04	1,361.81	1,332.87
Dividends per share [Interim dividend per share (included above)]	Yen	110.00 [50.00]	120.00 [60.00]	150.00 [75.00]	180.00 [85.00]	95.00 [47.50]
Earnings per share	Yen	158.30	70.39	181.67	307.25	129.96
Diluted net income per share	Yen	—	—	—	—	—
Capital to asset ratio	%	66.9	65.6	68.6	73.6	70.9
Return on equity	%	14.7	6.3	16.1	24.3	9.6
Price earnings ratio	Multiple	15.3	33.8	13.5	7.7	19.8
Payout ratio	%	34.7	85.2	41.3	29.3	73.1
Number of employees [Average number of temporary employees]	Number of people	2,763 [58]	2,709 [51]	2,644 [54]	2,562 [65]	2,494 [74]
Total shareholder return [Index: TOPIX including dividends]	% %	134.1 [89.2]	134.7 [102.3]	142.8 [118.5]	142.3 [112.5]	159.6 [101.8]
Highest stock price	Yen	9,147 □5,419	5,180	5,905	5,448	5,705 □2,908
Lowest stock price	Yen	7,252 □4,005	4,156	4,545	4,050	4,528 □2,153

Notes: 1. Operating revenues do not include consumption taxes.

2. Diluted net income per share is not listed as there are no applicable dilutive stock.

3. Net assets per share is calculated on the basis of the number of shares outstanding at the end of the fiscal year, excluding treasury stock, and earnings per share is calculated on the basis of the average number of outstanding shares during the fiscal year, excluding treasury stock.

4. NTT conducted a two-for-one stock split of its common stock with an effective date of July 1, 2015 and a two-for-one stock split of its common stock with an effective date of January 1, 2020. The figures for Net assets per share and Earnings per share for each fiscal year have been adjusted to reflect the impact of these stock splits.

5. The figures for Dividends per share and Interim dividend per share have been presented as if NTT's two-for-one stock split of its common stock with an effective date of January 1, 2020 had been conducted at the beginning of the fiscal year.

6. Number of employees indicates the number of full-time employees as of March 31 of each of the years indicated. The average annual number of temporary employees for the fiscal years indicated is shown in brackets.

7. The highest and lowest stock prices are from the First Section of the Tokyo Stock Exchange.

8. The top-line highest and lowest stock prices for the 31st business term are from before the July 1, 2015 stock split, and the highest and lowest stock prices marked with a “□” symbol are from after the stock split.
9. The top-line highest and lowest stock prices for the 35th business term are from before the January 1, 2020 stock split, and the highest and lowest stock prices marked with a “□” symbol are from after the stock split.
10. NTT’s accounting policy was changed from the 34th business term and its main financial and other data for prior fiscal years are presented after having applied this change retroactively.

2. History

(1) Background

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

(2) History

April 1985	NTT was incorporated as a limited liability, joint-stock company.
February 1987	NTT's Shares were listed on the Tokyo Stock Exchange (the "TSE") and other stock exchanges in Japan.
July 1988	NTT's DATA Communications Division was transferred to NTT DATA System Service Corporation.
April 1992	Implemented organizational reform corresponding to the long distance and regional communications service divisions through a review of, and commitment to, a divisional system.
July 1992	Business operations relating to car phones, mobile phones, maritime telephones, aircraft passenger telephones and radio paging were transferred to NTT Mobile Communications Network, Inc.
December 1992	NTT's electricity, construction and building management operations were transferred to NTT FACILITIES.
September 1994	NTT ADSs were listed on the New York Stock Exchange (the "NYSE").
October 1994	NTT's Shares were listed on the London Stock Exchange.
April 1995	NTT DATA System Service Corporation was listed on the TSE.
September 1997	NTT transferred its software headquarters business to NTT COMMUNICATIONWARE CORPORATION.
August 1998	NTT DATA System Service Corporation changed its business name to NTT DATA CORPORATION.
October 1998	NTT Mobile Communications Network, Inc. was listed on the TSE.
July 1999	Implemented a group reorganization by which NTT became a holding company. Operation of NTT's intra-prefectural communications services was transferred to its two wholly owned subsidiaries, NTT East and NTT West, and inter-prefectural communications services were transferred to NTT COMMUNICATIONS CORPORATION, also a wholly owned subsidiary of NTT.
April 2000	NTT Mobile Communications Network, Inc. changed its business name to NTT DOCOMO, INC.
November 2000	NTT COMMUNICATIONWARE CORPORATION changed its business name to NTT COMWARE CORPORATION.
March 2002	NTT DOCOMO, INC. was listed on the London Stock Exchange and the NYSE.
November 2004	NTT URBAN DEVELOPMENT CORPORATION was listed on the TSE.
January 2009	NTT implemented a 100-for-1 common stock split.
July 2015	NTT implemented a 2-for-1 common stock split.
November 2018	NTT established a wholly owned subsidiary, NTT, Inc., and transferred NTT Communications, Dimension Data, NTT DATA and other items under NTT, Inc..
November 2018	NTT established a wholly owned subsidiary, NTT, Inc., and transferred NTT Communications, Dimension Data Holdings plc, NTT DATA and other items under NTT, Inc.
July 2019	NTT established a wholly owned subsidiary, NTT Urban Solutions, Inc., and established NTT Urban Development and NTT Facilities under it. NTT, Inc. established a wholly owned subsidiary, NTT Ltd. and transferred its global businesses, including NTT Communications and Dimension Data Holdings plc, under NTT Ltd.
January 2020	NTT implemented a 2-for-1 common stock split.

3. Description of Business

NTT Group consists of NTT (as the holding company) , its 979 subsidiaries and its 132 affiliated companies (as of March 31, 2020). The principal business segments of NTT Group are its mobile communications business, regional communications business, long distance and international communications business, and data communications business. NTT Group also has other business segment.

NTT Group is categorized as a listed company pursuant to Article 49, Paragraph 2 of the Cabinet Office Ordinance on Regulations on Transactions of Securities, and accordingly insignificance tests for material facts for purposes of insider trading regulations are determined on the basis of consolidated figures.

Details of the business and corporate position of the consolidated subsidiaries are described below.

NTT Group's five business segments are described under Note 2.1. to the Consolidated Financial Statements.

(1) Mobile Communications Business Segment

The principal services in the mobile communications business segment are mobile phone services and related services.

(Consolidated Subsidiaries)

NTT DOCOMO, NTT Plala Inc., and 95 other companies.

(2) Regional Communications Business Segment

The principal services in the regional communications business segment are domestic intra-prefectural communications services and related ancillary services.

(Consolidated Subsidiaries)

NTT East, NTT West, and 43 other companies.

(3) Long Distance and International Communications Business Segment

The principal services in the long distance and international communications business segment are domestic inter-prefectural communications services, services related to the international communications business, services related to the solutions business and related services.

(Consolidated Subsidiaries)

NTT, Inc., NTT Communications, NTT Ltd., Dimension Data Holdings plc, NTT Security Corporation, NTT America, Inc., NTT EUROPE LTD., Lux e-shelter 1 S.a.r.l., Arkadin International SAS, NTT Global Data Centers Americas, NTT Global Networks Incorporated, NETMAGIC SOLUTIONS PRIVATE LIMITED, GYRON INTERNET LIMITED, NTT Managed Services Americas Intermediate Holdings, Transatel SAS, WhiteHat Security, Inc., Symmetry Holding Inc., Spectrum Holdings Inc., and 369 other companies.

(4) Data Communications Business Segment

The principal services in the data communications business segment are system integration services and network system services.

(Consolidated Subsidiaries)

NTT DATA CORPORATION, NTT DATA, Inc., NTT DATA Services, LLC, EVERIS PARTICIPACIONES, S.L.U., NTT Data International L.L.C., and 312 other companies.

(5) Other Business Segment

The other business segment includes NTT's operations, and its real estate, finance, power, systems development and development of advanced technologies businesses.

(Consolidated Subsidiaries)

NTT Urban Solutions, NTT Urban Development, NTT FACILITIES, NTT FINANCE, NTT Anode Energy, NTT COMWARE CORPORATION, NTT ADVANCED TECHNOLOGY CORPORATION, and 126 other companies.

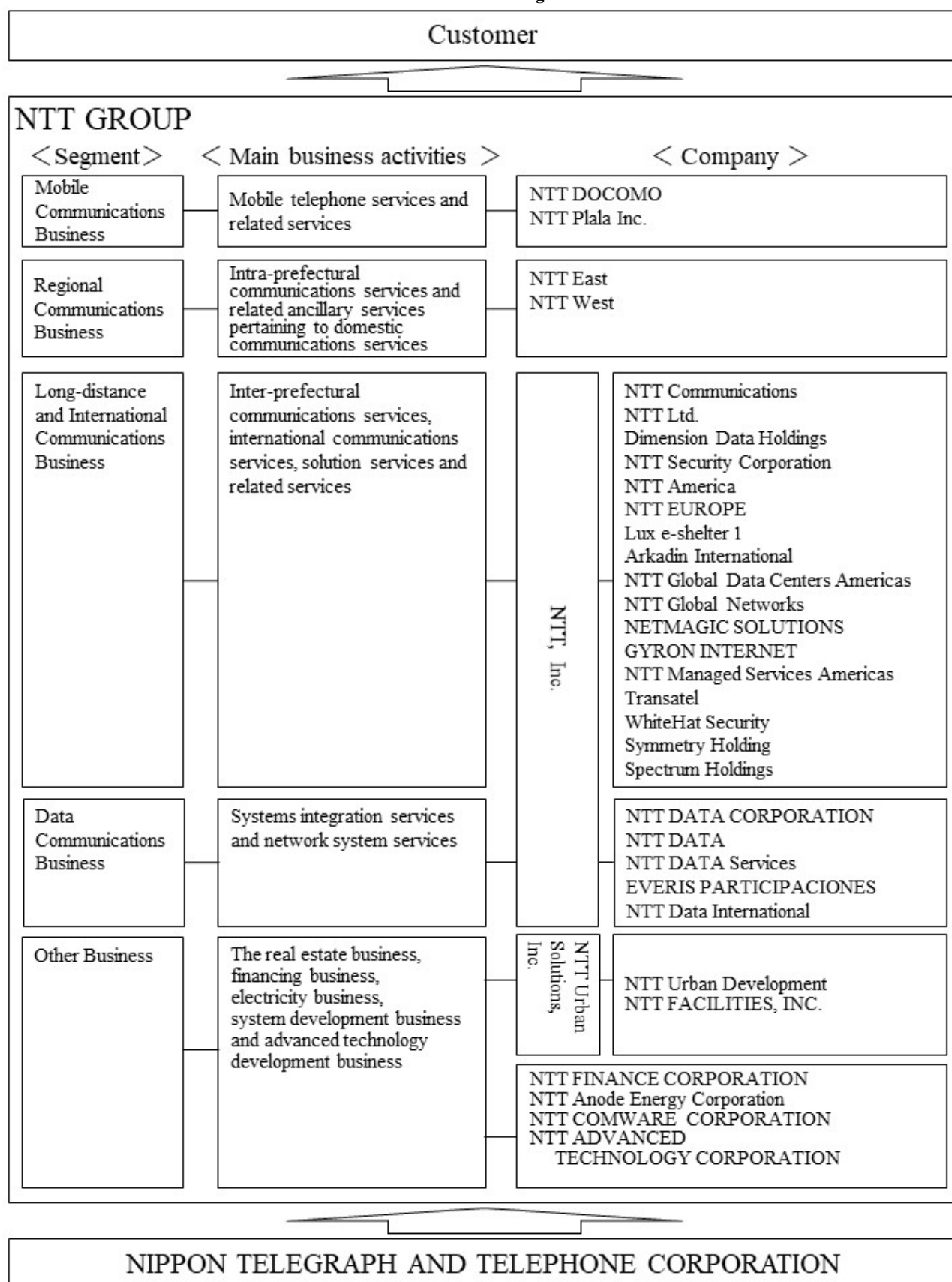
Note: During the current fiscal year, RagingWire Data Centers and Secure-24 Intermediate Holdings changed their name to NTT Global Data Centers Americas and NTT Managed Services Americas Intermediate Holdings, respectively.

Note: During the current fiscal year, NTT Plala Inc. has changed its business segment from the Long Distance and International Communications Business to the Mobile Communications Business.

Note: In this Annual Securities Report, "NTT DOCOMO" refers to NTT DOCOMO, INC., "NTT East" refers to Nippon Telegraph and Telephone East Corporation, "NTT West" refers to Nippon Telegraph and Telephone West Corporation, "NTT Communications" refers to NTT Communications Corporation, "NTT DATA" refers to NTT DATA CORPORATION, and "NTT Plala" refers to NTT Plala, Inc.

A diagram of NTT Group's business lines is included on the following page.

Business Lines Diagram



4. Information on Subsidiaries and Affiliates

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
(Consolidated Subsidiaries) NTT DOCOMO, INC. Notes: *1, *2, *3, *4, *5	Chiyoda-ku, Tokyo	(millions of yen) 949,680	Mobile Communications Business	66.23 (0.01)	Provides mobile communication services and smart life area services. Concurrent Officers Position Held: No
NTT Plala Inc.	Toshima-ku, Tokyo	(millions of yen) 12,321	Mobile Communications Business	100.00 (100.00)	Provides internet connection and video distribution services. Concurrent Officers Position Held: No
Nippon Telegraph and Telephone East Corporation Notes: *1, *3, *4	Shinjuku-ku, Tokyo	(millions of yen) 335,000	Regional Communications Business	100.00	Provides intra-prefectural communications services in the eastern part of Japan. NTT is the provider of a long-term capital loan to NTT East. Concurrent Officers Position Held: Yes
Nippon Telegraph and Telephone West Corporation Notes: *1, *3, *4	Chuo-ku, Osaka	(millions of yen) 312,000	Regional Communications Business	100.00	Provides intra-prefectural communications services in the western part of Japan. NTT is the provider of a long-term capital loan to NTT West. Concurrent Officers Position Held: Yes
NTT, Inc. Note: *1	Chiyoda-ku, Tokyo	(millions of yen) 748,723	Long Distance and International Communications Business Data Communications Business	100.00	Governance, strategy planning and policy promotion for the global business of NTT Group. Concurrent Officers Position Held: Yes
NTT Communications Corporation Notes: *1, *3, *4	Chiyoda-ku, Tokyo	(millions of yen) 230,979	Long Distance and International Communications Business	100.00 (100.00)	Provides inter-prefectural communications services, international communications services and internet-related services. Concurrent Officers Position Held: No

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
NTT Ltd. Note: *1	United Kingdom	(ten thousands of U.S. dollars) 828,719	Long Distance and International Communications Business	100.00 (100.00)	Provides IT services and communications and internet-related services for corporations. Concurrent Officers Position Held: Yes
Dimension Data Holdings Note: *1, *4	United Kingdom	(ten thousands of U.S. dollars) 88,852	Long Distance and International Communications Business	100.00 (100.00)	Provides IT system building and maintenance support for corporations. Concurrent Officers Position Held: No
NTT Security Corporation Note: *4	Chiyoda-ku, Tokyo	(millions of yen) 39,468	Long Distance and International Communications Business	100.00 (100.00)	Provides professional security services Concurrent Officers Position Held: Yes
NTT America Note: *1	U.S.A.	(ten thousands of U.S. dollars) 296,875	Long Distance and International Communications Business	100.00 (100.00)	Provides ICT services in North America. Concurrent Officers Position Held: No
NTT EUROPE	United Kingdom	(ten thousands of British pounds) 17,858	Long Distance and International Communications Business	100.00 (100.00)	Provides ICT services in Europe. Concurrent Officers Position Held: No
Lux e-shelter 1	Luxembourg	(ten thousands of Euros) 40,321	Long Distance and International Communications Business	100.00 (100.00)	Provides data center-related services in Europe. Concurrent Officers Position Held: No
Arkadin International	France	(ten thousands of Euros) 17,724	Long Distance and International Communications Business	100.00 (100.00)	Provides teleconference, web conference and video conference services. Concurrent Officers Position Held: No

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
NTT Global Data Centers Americas	U.S.A.	(ten thousands of U.S. dollars) 42,429	Long Distance and International Communications Business	100.00 (100.00)	Provides data center-related services in North America. Concurrent Officers Position Held: No
NTT Global Networks	U.S.A.	(ten thousands of U.S. dollars) 51,353	Long Distance and International Communications Business	100.00 (100.00)	Provides network services. Concurrent Officers Position Held: No
NETMAGIC SOLUTIONS	India	(ten thousands of Indian rupees) 1,661,093	Long Distance and International Communications Business	100.00 (100.00)	Provides data center-related services in India. Concurrent Officers Position Held: No
GYRON INTERNET	United Kingdom	(ten thousands of British pounds) 9,300	Long Distance and International Communications Business	100.00 (100.00)	Provides data center-related services in the UK. Concurrent Officers Position Held: No
NTT Managed Services Americas Intermediate Holdings *1	U.S.A.	(ten thousands of U.S. dollars) 92,524	Long Distance and International Communications Business	100.00 (100.00)	Provides managed services in North America. Concurrent Officers Position Held: No
Transatel	France	(ten thousands of Euros) 586	Long Distance and International Communications Business	80.70 (80.70)	Provides mobile connectivity services for IoT. Concurrent Officers Position Held: No
WhiteHat Security	U.S.A.	(U.S. dollars) 10	Long Distance and International Communications Business	100.00 (100.00)	Provides security services. Concurrent Officers Position Held: No

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
Symmetry Holding	U.S.A.	(ten thousands of U.S. dollars) 21,645	Long Distance and International Communications Business	100.00 (100.00)	Provides managed services in North America. Concurrent Officers Position Held: No
Spectrum Holdings *1	British Virgin Islands	(ten thousands of U.S. dollars) 410,193	Long Distance and International Communications Business	100.00 (100.00)	Manages certain subsidiaries of NTT Ltd. in Europe and North America. Concurrent Officers Position Held: No
NTT DATA CORPORATION Notes: *1, *2, *3, *4, *5	Koto-ku, Tokyo	(millions of yen) 142,520	Data Communications Business	54.21 (54.21)	Provides data communications systems services and network system services. Concurrent Officers Position Held: No
NTT DATA Note: *1	U.S.A.	(ten thousands of U.S. dollars) 505,613	Data Communications Business	100.00 (100.00)	Consulting, system design and development in North America. Concurrent Officers Position Held: No
NTT DATA Services Note: *1	U.S.A.	(ten thousands of U.S. dollars) 211,429	Data Communications Business	100.00 (100.00)	Consulting, system design and development in North America. Concurrent Officers Position Held: No
EVERIS PARTICIPACIONES	Spain	(ten thousands of Euros) 12,302	Data Communications Business	100.00 (100.00)	Consulting, system design and development. Concurrent Officers Position Held: No
NTT Data International Note: *1	U.S.A.	(ten thousands of U.S. dollars) 507,807	Data Communications Business	100.00 (100.00)	Manages subsidiaries of NTT DATA CORPORATION in North America. Concurrent Officers Position Held: No

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
NTT Urban Solutions, Inc. Note: *1, *4	Chiyoda-ku, Tokyo	(millions of yen) 108,372	Other Business	100.00	Contact point for urban solutions business, and integrated management of urban solutions-related information. Concurrent Officers Position Held: No
NTT URBAN DEVELOPMENT CORPORATION	Chiyoda-ku, Tokyo	(millions of yen) 48,760	Other Business	100.00 (100.00)	Real estate acquisition, development, leasing, and management. Concurrent Officers Position Held: No
NTT FACILITIES, INC.	Minato-ku, Tokyo	(millions of yen) 12,400	Other Business	100.00 (100.00)	Design, management, and maintenance of buildings, equipment, and electric power facilities. Concurrent Officers Position Held: No
NTT FINANCE CORPORATION Notes: *2, *4	Minato-ku, Tokyo	(millions of yen) 16,771	Other Business	100.00 (7.83)	Lease and installment sales of telecommunications-related devices, and billing and collection of charges for communications and other services. Concurrent Officers Position Held: No
NTT Anode Energy Corporation	Chiyoda-ku, Tokyo	(millions of yen) 7,924	Other Business	100.00	Development of smart energy solutions and energy management system. Concurrent Officers Position Held: Yes
NTT COMWARE CORPORATION Note: *4	Minato-ku, Tokyo	(millions of yen) 20,000	Other Business	100.00	Development, production, operation and maintenance of information communications systems and software. Concurrent Officers Position Held: No

<u>Name</u>	<u>Location</u>	<u>Common Stock</u>	<u>Principal Business</u>	<u>Percentage of Voting Rights</u>	<u>Relationship</u>
NTT Advance Technology Corporation Notes: *1, *4	Saiwai-ku, Kawasaki	(millions of yen) 5,000	Other Business	100.00	Technology transfer, technology consulting, system design and development. Concurrent Officers Position Held: No
Others: 945 companies					

Notes: 1. The Principal Business column lists the segment of each company.

2. Numbers listed in parentheses under Percentage of Voting Rights indicate the percentage of voting rights held indirectly.

Furthermore, Common Stock figures for overseas subsidiaries include additional paid-in capital (APIC).

3. Note *1: Indicates a specified subsidiary.

4. Note *2: Company files an Annual Securities Report.

5. Note *3: During the current fiscal year, the company was party to an agreement relating to the continued usage of the results of the company's and NTT's core research and development, pursuant to which NTT is compensated for the provision of comprehensive services related to NTT's core research and development.

6. Note *4: During the current fiscal year, 18 of the companies subject to consolidated accounting were parties to an agreement with NTT for group management, with the objective of maximizing each group company's profits while also continuing to respect the mutual independence and autonomy of group companies. NTT is compensated for the provision of comprehensive services related to carrying out group management.

7. Note *5: The company's ratio of net sales (excluding sales among consolidated subsidiaries) to total consolidated sales is greater than 10:100, but key information on profit and loss for NTT DOCOMO and NTT DATA are omitted, as such companies are Annual Securities Report filing companies.

5. Employees

(1) Consolidated Basis

<u>Segment</u>	<u>Number of Employees</u>	
Mobile communications business	27,558	[6,803]
Regional communications business	74,754	[27,128]
Long distance and international communications business	51,580	[8,355]
Data communications business	133,196	[3,122]
Other business	31,951	[6,379]
Total	319,039	[51,787]

Notes: 1. Number of employees indicates the number of full-time employees. The average annual number of temporary employees for the fiscal year is shown in brackets.

2. Beginning with the fiscal year ended March 31, 2020, certain overseas subsidiaries have expanded the scope of aggregation of their numbers of employees.

(2) Non-Consolidated Basis of the Company

<u>Number of Employees</u>	<u>Average Age</u>	<u>Average Length of Employment (years)</u>	<u>Average Annual Salary (yen)</u>
2,494[74]	41.1	16.7	9,222,240

<u>Segment</u>	<u>Number of Employees</u>	
Other business	2,494	[74]
Total	2,494	[74]

Notes: 1. Annual Average Salary includes both standard and extraordinary salaries and bonuses.

2. Number of employees indicates the number of full-time employees. The average annual number of temporary employees for the fiscal year is shown in brackets.

(3) Labor Union Status

The relationship between management and labor at NTT Group is stable, with no developments of note.

ITEM 2. BUSINESS OVERVIEW

1. Management Policy, Business Environment and Challenges Facing NTT

Forward-looking statements included herein are made as of the date of the filing of this Annual Securities Report.

(1) Management Policy

NTT Group, in order to “continue providing reliable and safe services, and to continue being of use as a company that will continue to be trusted by everyone” on the foundation of the confidence and performance that has sustained the development of telecommunications in Japan for over 100 years and on a world-leading research and development capacity, will aggressively develop businesses that meet diversifying and expanding ICT needs, will always obtain high levels of trust from customers and shareholders, and will target continuous development as it fulfills the legal obligations and social missions required of each of its businesses in the midst of severely competitive environments.

Under this basic policy, based on the “Your Value Partner 2025” Medium-Term Management Strategy, NTT Group will aim to work together with all its partners to promote initiatives to resolve social issues in its role as “Your Value Partner”.

(2) Business Environment

The rise in the global population and the spread of urbanization are increasingly accelerating, and environmental problems are becoming progressively more serious. Moreover, the global spread of the novel coronavirus disease 2019 (COVID-19) pandemic is ongoing, and the impact on our society and economy is becoming increasingly uncertain. On the other hand, there has been a movement around the world towards more sustainable societies, based on the SDGs (Sustainable Development Goals) adopted by the United Nations.

Under such social conditions, the information and telecommunications market is seeing intensifying competition, some of it driven by new players. We expect that new services that utilize cutting-edge technologies such as 5G, virtualization and AI will be developed, and through the process of digital transformation, smart societies will be achieved. When that happens, in order to create new value and to resolve societal issues, there will be an increase in cooperation and connections between a variety of players that transcends the boundaries of traditional business areas, and the role that information and communications required to play will increasingly expand.

(3) Challenges Facing NTT Group

Business Development Pursuant to the Medium-Term Management Strategy

Based on the “Your Value Partner 2025” Medium-Term Management Strategy, NTT Group will work with all our partners to resolve societal issues through our business activities. Going forward, we will continue our efforts to raise corporate value by proceeding with the following initiatives.

• Supporting our Customers’ Digital Transformations

We are increasing the number of projects we work on to promote a B2B2X model that utilizes digital services and data management, in order to achieve a smart society. As for the expansion of 5G services, we will generate new value by leveraging the characteristics of 5G to provide highly immersive and interactive services with a wide range of partners. Furthermore, we will strengthen our customer base through the provision of NTT DOCOMO’s “Gigaho” and “Gigalight” billing plans, and create revenue-generating opportunities through services for members of the “d POINT CLUB.” Through these initiatives, we will implement personal solutions that provide highly personalized offerings to each individual customer, thus supporting customers’ lifestyle changes.

• Accelerating Our Own Digital Transformation

While enhancing synergistic effects by combining integrated solutions to promote customer digitalization with innovative initiatives utilizing cutting-edge technology, in alignment with NTT Group’s global resources and branding, we will strengthen the competitiveness and accelerate the growth of our international business as One NTT. Specifically, we will shift to a business centered on NTT Ltd. and based on high value-added offerings, such as managed services, and promote initiatives to further develop the NTT brand globally.

For the domestic business, measures for digitalization will be driven primarily by the CDOs (Chief Digital Officers) appointed to the main companies. In addition to seeking to raise efficiency through the digitalization of our own business processes by

using AI and Robotic Process Automation (RPA), we will implement smart operations that do not require human intervention, which will include the business processes of external partner companies. Also, to further enhance Group management, we will adopt a unified Enterprise Resource Planning (ERP) system and integrate shared functions.

• ***Leveraging Talent, Technologies and Assets***

Centering on NTT Urban Solutions, Inc., we will leverage NTT Group's strengths in real estate, ICT, energy and environmental technology and other fields to the fullest extent and advance a new urban solutions business beyond conventional real estate development. Furthermore, in order to swiftly provide new energy solutions, NTT Anode Energy Corporation will advance service development and provision, and the optimization of operating resources as a means of promoting a smart energy business that makes full use of ICT.

In addition, by leveraging management resources such as our community-based sales structures, cutting-edge technology, facilities and locations, and through collaborations with a variety of partners, such as local governments, we will support the improvement of administrative and life services and the revitalization of local industry.

We will continue to focus our efforts on ensuring a safe and secure ICT platform, such as by further ruggedizing our facilities and improving turnaround time for recovery work in disaster countermeasures.

• ***Promoting ESG Management and Enhancing the Returns of Shareholders to Improve Corporate Value***

By applying ESG (environmental, social, governance) management, we seek to resolve societal issues, and achieve continuous improvements to corporate value. From the perspective of ESG management, the most important areas with the highest levels of priority have been set as "reducing environmental impact," "strengthening security," "leveraging diverse human resources," "reinforcing disaster countermeasures," and "strengthening corporate governance in order to achieve continuous growth," with the aim of expanding business opportunities while minimizing business risks.

With regard to the environment, we will push the limits to create new innovation through R&D, and reduce the environmental impact of the business, thereby contributing to the environmental impact reduction efforts of customers, corporations and society, and aiming to achieve zero-environmental impact. Specifically, in addition to establishing the Space Environment and Energy Laboratories, we will move forward with IOWN (Innovative Optical and Wireless Network) research and development with the aim of achieving an overwhelming advantage in low power consumption technology. In addition, for the promotion of our own shift to green electricity, we have set a target of deriving at least 30% of our needs from renewable energy by fiscal 2030, in addition to which we will work on bolstering our environment and energy initiatives further through such measures as endorsing the Task Force on Climate-related Financial Disclosures (TCFD) and issuing green bonds.

With regard to the promotion of diversity and inclusion, we have worked to double our female manager ratio in Japan from 2.9% in fiscal 2012, to 6% in fiscal 2020, and this target was achieved one year early in fiscal 2019. Going forward, we will set a new target of achieving a female manager ratio of at least 10% by fiscal 2025. We will continue to create innovation and contribute to the resolution of societal issues by establishing comfortable working environments.

In addition, in order to secure high levels of stability and reliability for our network, we will work to provide even safer and more secure services through the accumulation of everyday network operational knowhow.

As part of efforts to reinforce governance for sustainable growth, in March 2020 we resolved and announced our policies to implement an executive officer system. We will establish a framework that clearly segregates the management-related decision-making and supervisory functions carried out by the Board of Directors from business execution functions carried out by executive officers, and plan to strengthen corporate governance and improve management flexibility.

With regard to dividends, our basic policy is to steadily increase dividends, and we also flexibly carry out buybacks to improve capital efficiency.

Promotion of Fundamental Research & Development, etc.

While striving to achieve a balance between the network technology platform, technology that will provide the foundation for new services and applications, and cutting-edge/basic technology, we will promote higher value-added research and development, while collaborating for innovation with other research institutions and partner companies both in Japan and overseas, as exemplified by the IOWN Global Forum, and actively working to exchange, disseminate and standardize technology.

2. Risk Factors

In addition to the information contained in this Annual Securities Report relating to NTT Group's business, accounting and other matters, prospective investors should also carefully consider the risks described below related to NTT Group's business environment, business strategy and operations, regulations to which NTT is subject and NTT's relationship with the Government, which may be material to such investors' judgment, as summarized below.

Forward-looking statements included herein are made as of the date of the filing of this Annual Securities Report. Additional risks not currently known to NTT or that NTT now deems immaterial may also impair NTT Group's business operations. The forward-looking statements included in this Annual Securities Report also involve risks and uncertainties. NTT Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including the risks NTT Group faces as described below and elsewhere in this Annual Securities Report.

The spread of the COVID-19 pandemic may have an effect on the business of NTT Group as a whole.

The COVID-19 pandemic continues to spread worldwide. As a result of the prolonged spread of the pandemic, it is possible that our business activities will be materially affected, including through the reduction of our customers' business activities, reductions in systems integration orders and in sales of various services and delays in planned construction. Furthermore, even after the abatement of the pandemic, it is possible that people's daily lives and the workstyles of businesses will significantly change, which may, as a result, impact NTT Group's business results and financial position.

In response to the worldwide spread of the pandemic, NTT Group is working to protect the health and safety of all stakeholders, including its customers, partners and employees. At the same time, NTT Group is striving to ensure stable access to information communication services, which are vital for people's daily lives and corporate activities. NTT and its major subsidiaries operating communications businesses are working towards the prevention of infection, from the perspective of respecting human life, and fulfilling its duty as a designated public institution. At present, NTT has been able to maintain the network capacity necessary to accommodate increasing traffic, and will strengthen facilities as necessary in the future.

Post-pandemic, from the perspective of maintaining social distancing, it is possible that work from home, telemedicine and distance learning will rapidly expand. In addition to accelerating the provision of services for an increasingly "remote"-style society, NTT is also driving the advancement of technologies such as authentication control technology. Furthermore, NTT will actively support the promotion of digital transformation. By introducing digital technology and AI into work that relies on manpower, such as agriculture, manufacturing and construction, NTT will aim to expand smart operations and contribute to solving the social issue of labor shortages. Also, by building connected value chains in various fields, such as logistics, NTT will work to make industry more efficient, leading to optimizing the movement of people and things and the provision of energy.

In anticipation of a post-pandemic data-driven society, NTT Group will contribute to the realization of a smart society along with its partners all over the world by leading in innovation, including through the development of technology.

Risks Associated with the Business Environment and NTT Group's Corresponding Business Strategies

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

NTT Group has operations all over the world.

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

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

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

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

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

In the information and communications market and amid a fierce competition involving new players, new services utilizing advanced technologies such as 5G, virtualization, and AI have developed, and it is anticipated that a smart society may be achieved through digital transformation. While market competition that surpasses existing business sector boundaries continues to further intensify, such as through various new stakeholders joining telecommunications operators in the market and expanding services from providers of over-the-top content ("OTT" a content distribution service utilizing other companies' communications infrastructure, allowing a service provider to distribute services without owning its own communications infrastructure), collaborative coordination and cooperation among businesses operators to create new added value is also progressing. Moreover, NTT Group conducts a variety of business activities in markets outside of the information and communications sector, and in each market, intense competition resulting from structural changes is increasing.

If NTT Group is unable to respond appropriately to increased competition and other changes in the structure of the markets in which it operates, its operating revenues may decline. In the information and communications market, NTT Group's results of operations and financial condition could still be adversely affected if, despite these efforts, intensifying competition due to new competitors entering the market, and maintenance and further expansion of NTT's customers base through new billing plans, do not proceed as expected. Moreover, in the information services market, the growth of information service companies in such as India and China, is bringing about global competition. Intensified competition resulting from new competitors' aggressive market entry may have an adverse effect on NTT Group's results of operations and financial condition. Furthermore, it is possible that each of NTT Group's businesses in other markets will fail to achieve forecasted revenues, which may result in an adverse effect on NTT Group's results of operations and financial condition.

In consideration of these risks, NTT Group promoted various initiatives based on the four pillars of its "Your Value Partner 2025" Medium-Term Management Strategy: "support our customers' digital transformations," "accelerate our own digital transformation," "leverage talent, technologies, and assets," and "promote ESG management, and enhance the return of shareholders to improve corporate value."

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

NTT Group is expanding its global business as a cornerstone of its operations, and has also implemented initiatives to accelerate profit creation in this area.

However, if these efforts do not progress as anticipated, or the cloud services market does not grow as anticipated, or revenues do not grow as expected due to increased competition or other factors, NTT Group's results of operations and financial condition may be adversely affected.

In consideration of these risks, and in order to deliver consistent growth of its global business operations, NTT Group has worked on restructuring its global business. NTT Group established a global holding company under its umbrella, and will strengthen its global business promotional structure by formulating strategies quickly by embracing and integrating the diverse talents, skills and management expertise in global markets of its personnel in each of its group companies and by establishing a global operating company under the umbrella of the global holding company, shifting to a business centered on high value-added offerings, such as managed services, and promoting initiatives to further develop the NTT brand globally. In addition, stringent cost-efficiency initiatives are also underway in each of the Group's companies to, among other things, strengthen and improve the efficiency of services and operations, and reduce costs and improve income by strengthening collaboration on deliveries across NTT Group. NTT Group also monitors the progress of these initiatives on a regular basis and responds to any related developments promptly when the need arises.

NTT Group may not achieve anticipated cost savings.

NTT Group is working to generate profits by increasing capital expenditure efficiencies and reducing costs in the domestic fixed-line and mobile communications markets.

However, it is possible that NTT Group will be unable to fully achieve the anticipated optimization of its capital expenditures or reductions in sales expenses, facility-related costs, and personnel and other costs due to changes in the competitive environment or due to the current state of progress in streamlining equipment or general business operations. Any such failure to achieve intended cost reductions could adversely impact NTT Group's results of operations and financial condition.

In consideration of these risks, and to improve capital expenditure efficiencies, NTT Group is working to simplify and streamline the network in each company, and aims to further improve productivity in various operations by digitizing its own business processes using AI and other technologies. Furthermore, NTT established 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 will reduce the total procurement costs of NTT Group, as well as unify the specifications of procurement items and narrow down models. NTT, NTT East and NTT West are excluded from this procurement system.

For IT systems, efforts are also being made to promote efficiency through standardization and by utilizing the latest technology, such as virtualization. In addition, by using NTT Group's RPA (WinActor) for business process, NTT Group is continuously working toward further improving its business operations efficiency, and is working to ensure simple yet highly productive business operations based on initiatives such as the conversion to the B2B2X model.

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

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

NTT Group engages in joint ventures, alliances and collaborations, as well as acquisitions and other strategic investments to expand its global business operations in particular in response to changes in market structure and customers' needs.

However, NTT Group may not be able to maintain or enhance the value or financial performance of, or achieve sufficient synergies with, the domestic or overseas operations in which it has invested or agreed to invest or that it may in the future acquire. In addition, there may be occasions when NTT Group will suffer potential losses resulting from the dissolution or disposition of its investments, partnerships or other cooperative initiatives. Furthermore, the recent increase in the number of foreign subsidiaries within NTT Group may result in increased fragmentation within the group and render a common understanding difficult to achieve. There may be occasions when it is difficult for NTT to exert the control over its overseas subsidiaries necessary to oversee their business and operations. In addition, there is a risk that factors related to cross-border business, such as legal restrictions relating to investment and competition, differences in tax systems, differences in business customs including contract practices, labor relations, and international politics, may pose challenges to NTT Group's management of its overseas business activities. If such risks materialize, NTT Group's results of operations and financial condition may be adversely affected.

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

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

In order for NTT Group and its business partners to carry out their business operations, they at times need to obtain licenses and other rights to use the intellectual property and other rights of third parties. NTT Group and its business partners have entered into the necessary intellectual property licenses, and based on their experience as well as industry practice, NTT Group believes that it will continue to be able to obtain such licenses on reasonable terms.

However, if NTT Group is unable to reach or maintain agreements with the holders of such rights on commercially acceptable terms or at all, NTT Group and its business partners may not be able to provide certain technologies, products or services to its customers.

Further, as NTT Group's global business expands, particularly through overseas acquisitions, claims of intellectual property infringement and other claims against NTT Group, particularly by foreign corporations in jurisdictions in which it has completed acquisitions, may increase as it develops new products, services and technologies, and acquires companies that may be subject to ongoing or future intellectual property litigation. If NTT Group is subject to claims of infringement of intellectual property rights, it may be required to expend considerable time and costs to reach a resolution. If such claims are determined adversely to NTT Group, it may be required to pay substantial damages or royalties to third parties, or may be subject to a temporary or permanent injunction preventing certain NTT Group companies from offering certain products or services and required to develop non-infringing products or technologies, which could result in a loss of revenues from businesses related to such rights. Further, any improper use by third parties of NTT Group's intellectual property and other rights could result in a decrease in NTT Group's contemplated license revenues and compromise NTT Group's competitive advantage.

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

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

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

A number of companies both in Japan and abroad have entered the information and communications market, in which the diversity and sophistication of services and technology has rapidly increased, and where changes in the market, with a focus on cloud services in particular, are expected to accelerate even further going forward. In this environment, NTT Group's ability to hire and retain highly skilled personnel significantly affects the success of its business.

If the hiring or retention of such key, highly skilled personnel by NTT Group does not proceed as expected, it could adversely affect NTT Group's ability to develop new technologies, design new products, enhance its existing products and execute its growth strategy, which could negatively impact its results of operations and financial condition.

In consideration of these risks, NTT Group implemented measures to strengthen employee training, in addition to providing training in collaboration with the government, other businesses and educational institutions. NTT Group works to understand each employee's work responsibilities, work environment, compensation and benefits and career goals by arranging regular meetings with employees to enable NTT Group to implement preventive measures promptly as necessary to retain its employees. In addition, NTT established a new global research center in the United States, NTT Research, Inc., which conducts fundamental and innovative research on next-generation technologies, and has also promoted the retention of excellent researchers by improving the position of research staff. NTT Group will prevent personnel leakage by preparing an environment engaged in advanced research.

Risks Associated with Business Management

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

In recent years, as threats related to information security have become increasingly sophisticated and diversified, causing incidents such as damage due to cyberattacks and information leaks to emerge as social problems, developing information security countermeasures for smartphones, cloud services and other new ICT services has become an increasing concern.

Given these circumstances, service interruptions or disruptions in the quality of NTT Group's services due to cyberattacks, such as targeted attacks or unauthorized access of NTT Group's communication networks, servers or other equipment, or the leakage, tampering or loss of information due to intrusions into company networks, could occur, which could harm NTT Group's credibility and corporate image and thereby adversely affect NTT Group's results of operation and financial condition.

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

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

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

With respect to the provision of these services, natural disasters such as earthquakes, tsunamis, typhoons and floods, and other issues including a larger-than-expected increase in telecommunication traffic, terrorism, armed action, regional conflict and various other events could cause system and network failure or threaten the safety of NTT Group employees. As a result, there may be occasions when disruptions in NTT Group's business operations make it impossible to provide reliable services, which may lead to NTT Group being held liable for related damages, potentially damaging NTT Group's credibility and corporate image. Recently, as a result of the increased energy of natural disasters, disasters have become more widespread, large-scale and long-lasting. A large-scale disaster could not only severely damage NTT Group's telecommunications networks, but could also harm NTT Group employees or cause damage to systems that could take a long time to restore, and the resulting emergency electricity use restrictions could hinder NTT Group's ability to provide reliable services. These events may lead to reductions in income and substantial repair costs.

In consideration of these risks, NTT Group has implemented a variety of measures, including strengthening the durability and water resistance of exchange buildings, re-assessing its transmission lines, strengthening emergency power sources for exchange buildings and base stations against long-term blackouts and improving initial response to restoration activities by AI-driven damage prediction. Through these various efforts, NTT Group is taking steps towards ensuring safe and secure operations of its networks and systems which are essential to the provision of services. In addition, NTT is conducting training exercises to respond to anticipated large-scale disasters and to confirm the safety of employees using those systems.

NTT Group also provides and delivers systems and services to customers in the system integration business, which typically operates under a service contract model in which services are completed from the receipt of orders through the delivery dates.

As a result of this model, NTT Group generally assumes full contractual responsibility at all stages, but there is a possibility that a deviation from initial estimates or problems in project management at the development stage could result in cost overruns or losses due to delivery delays.

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

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

NTT Group is subject to a wide variety of laws and regulations, as the scope of its business encompasses a variety of products and services both in Japan and abroad. As a result, some of NTT Group's business activities require licenses, notifications, and permit approvals. In addition, it is possible that NTT Group's growing business operations, especially outside of Japan, could be subject to additional burdens stemming from, among other things, the local rules and regulations of the countries in which NTT operates, or the lack thereof, the unpredictable nature of commercial and judicial interpretations of such local laws, the adoption of new laws and the revision of existing laws.

With respect to laws and regulations, it may not always be possible to eliminate compliance risk and reputational risk from loss of credibility, including, for example, in the case of an employee's improper personal behavior. The occurrence of any of the risks described above could adversely affect NTT Group's business, including its reputation and credibility, as well as NTT Group's ability to obtain new subscribers or its eligibility to secure governmental contracts, which could in turn adversely affect NTT Group's results of operations and financial condition.

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

There is increasing societal demand to ensure the protection of confidential information, such as customers' personal information, as well as increasing requirements to protect such information from a legal standpoint.

However, given the further sophistication of criminal activities aimed at obtaining personal information and other confidential information, it is possible that NTT Group will be unable to eliminate the risk of a leak or misuse of confidential information.

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

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

NTT Group's products and services may be inappropriately used by users. For example, if cybercrimes, such as unsolicited bulk e-mails, illegal money transfers made through online banking, or bank transfer scams, are perpetrated using NTT Group's services, or if NTT Group customers experience incidents of unsolicited bulk e-mails being sent through its servers, NTT Group customers may be harmed as a result of these actions. Further, there has been a wide range of debate regarding minors' access to illegal or harmful websites, and the effectiveness of filtering services intended to restrict minors from accessing such harmful sites. In addition, there are also concerns over the increasing incidence of accidents caused by the use of mobile phones while operating vehicles or bicycles, as well as issues with increasing occurrence of problems caused by the use of mobile phones while walking. In addition, there are issues concerning the high fees charged for the excess use of paid content by subscribers and the leaking of private information by fraudulent applications and software.

Such issues may adversely affect the credibility of NTT Group's products and services, adversely impact customer satisfaction, and tarnish NTT Group's corporate image, which may result in an increasing number of cancellations among current subscribers and an inability to acquire the anticipated number of new subscribers, which could adversely affect NTT Group's results of operations and financial condition.

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

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

Because NTT Group operates through a large number of sites both domestically and abroad, and offers a wide array of goods and services, it is possible that NTT Group will become a party to various types of litigation, disputes, or claims for damages.

If NTT Group were to become party to any such litigation, dispute, or claim for damages, in addition to the possibility of a potential financial burden, an unfavorable decision could harm NTT Group's credibility and corporate image, and thereby adversely affect NTT Group's results of operation and financial condition.

In consideration of these risks, NTT Group monitors litigation, disputes and claims against all NTT Group companies, including currently active claims and pending claims, and responds to any related developments promptly when the need arises.

Risks Associated with the Government, Including Rules, Regulations and Others

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

The regulation of the Japanese telecommunications industry has evolved in many areas, including amendments to telecommunications laws aimed at promoting competition, protecting service users and other purposes.

Decisions relating to Government regulations and the resulting changes in the telecommunications industry may affect NTT Group's results of operations and financial condition.

In consideration of these risks, NTT Group is taking appropriate steps to obtain necessary information on developments relating to the Government's information and telecommunications policies and regulations, and has also presented its views through public comments and hearings.

For a summary of Government regulations currently under review, see "Supplemental Information-Regulations Applicable to NTT's Business- (1) Regulations."

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

NTT Group has limited frequencies available for its services.

While the number of subscribers and the traffic per subscriber are expected to increase in conjunction with the expanded use of devices such as smartphones and tablets, if NTT Group were unable to obtain the frequency spectrum required for unhindered operation or if the start of operations on a different band frequency did not progress as planned, NTT Group may suffer degradation of service quality and incur additional costs. In addition, NTT Group may face constraints in providing wireless services or lose subscribers to competitors, which could have a material adverse effect on NTT Group's results of operations or financial condition.

In consideration of these risks, NTT Group is working to obtain new frequencies and implementing carrier aggregation with respect to its mobile communications networks to improve the efficiency of frequency usage.

For additional details, see "Supplemental Information-Regulations Applicable to NTT's Business- (1) Regulations- 3. Radio Act."

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

NTT Group is subject, both in Japan and overseas, to laws and regulations relating to the environment, such as those governing the reduction of greenhouse gas emissions, energy conservation, waste disposal and harmful substance removal.

In the event that stricter laws and regulations and societal demands with respect to the environment materialize in the future, or new laws and regulations are introduced, costs may increase, which may impact NTT Group's financial condition and results of operations.

In consideration of these risks, NTT Group is promoting initiatives to contribute to the environmental impact reduction efforts and aiming to achieve zero environmental impact. Specifically, in addition to setting a target of deriving at least 30% of its needs from renewable energy by fiscal 2030, NTT will work on bolstering its environment and energy initiatives further through such measures as endorsing the TCFD, issuing green bonds, establishing the Space Environment and Energy Laboratories and advancing IOWN research and development with the aim of achieving an overwhelming advantage in low power consumption technology.

The Government owns enough NTT Shares to give it considerable influence over whether resolutions at NTT shareholder meetings are adopted.

The Government, through the Minister of Finance, currently owns 34.69% of NTT's outstanding Shares excluding treasury stock, which equates to 34.73% of the voting rights. The Government, in its capacity as a shareholder, votes at NTT shareholder meetings and, by virtue of its statutorily mandated position as the largest shareholder, has the power to exert considerable influence over decisions made at such meetings. In 1997, in a statement at the Diet, the Government stated that it did not intend to actively use its position as a shareholder to direct the management of NTT. In fact, the Government has not historically used its power as a shareholder to direct the management of NTT. For details regarding the regulatory authority the Government legally has with respect to NTT Group, see "Supplemental Information-Regulations Applicable to NTT's Business- (1)Regulations."

(1) Regulations

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

NTT and certain of its subsidiaries are subject to regulations that affect their business under the NTT Act, the Radio Act, and the Telecommunications Business Act. A summary of these regulations is provided below.

1. Telecommunications Business Act (Act No. 86 of 1984)

Regulations under Telecommunications Business Act are as follows:

(a) Regulations applicable to all telecommunications companies

a. Business Commencement/Termination

- Registration with the Minister regarding the commencement of telecommunications business (Article 9)
However, where the scale of the telecommunications circuit facilities which are to be installed and the scope of the area covered thereby do not exceed certain thresholds or fall within a certain category of radio facilities, only a notice to the Minister is required (Article 16).
- Update of registration in the event of a merger, stock acquisition or other similar transaction (Article 12(2)).
- Notification to the Minister as well as their service subscribers on matters relating to the suspension or discontinuation by telecommunications companies of their telecommunications business (Article 18, Article 26(4)).

b. Setting of Subscriber Rates and Other Terms of Service

- Notification to the Minister of the terms of the basic telecommunications services they provide (Article 19).
Telecommunications businesses that provide basic telecommunications services are required to provide fee-related and other contractual terms and conditions related to those services to the MIC.
- Regulations relating to consumer protection
Telecommunications companies are imposed consumer protection, including provisions on pre-contract accountability (Article 26), document delivery obligations (Article 26(2)), systems for the termination of initial contracts (Article 26 (3)), notification obligations in the event of the suspension or discontinuation of telecommunications operations (Article 26(4)), obligations to handle complaints and inquiries (Article 27), prohibitions on misstatements or on excessive solicitation (Article 27(2)), and measures applicable to business agents, such as trustees (Article 27(4)), among other provisions.

(Note) Ministry of Internal Affairs and Communications (the “MIC Ordinance”) requires basic telecommunications services to be provided across Japan because they are regarded as essential to the lives of people in Japan. These are known as “universal services.” These services include telephone subscriber lines (base rates) or optical IP telephones equivalent to telephone subscriber lines, Type 1 Public Telephones (public telephones installed pursuant to the MIC standards) and emergency numbers (110, 118, 119).

c. Interconnection

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

d. Universal Service Fund (“USF”)

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

Under the NTT Act, NTT East and NTT West became responsible for providing universal services and were designated as eligible telecommunications carriers by the Minister. In the fiscal year ended March 31, 2020, the aggregate amount of compensation to NTT East and NTT West in connection with the USF was ¥6.5 billion, and in the fiscal year ending March 31, 2021, the aggregate amount of compensation to NTT East and NTT West in connection with the USF is expected to be ¥6.6 billion.

(b) Regulations Imposed Only on NTT East and NTT West

a. Rates and Other Terms of Service

- Regulations promulgated under the Telecommunications Business Act require NTT East and NTT West to notify the Minister of the terms and conditions of their rate warranty agreements for designated telecommunications services (Article 20). These regulations also require that rates and other terms of service for designated telecommunications services provided by Category I designated telecommunications facilities be established and submitted to the Minister.
- The Telecommunications Business Act also provides for the regulation of rates for specified telecommunications services (Article 21) and for price cap regulations. The regulations promulgated under the Telecommunications Business Act require that the Minister be notified whenever the service rates of a business are at or below the standard price index specified by the Minister, and approval of the Minister is required when a business proposes to increase rates above the standard price index.

(Note)

- “Category I designated telecommunications facilities” comprise fixed terminal transmission line facilities installed by a telecommunications carrier where the facilities that have been installed by such carrier in a prefecture represent one-half or more of the total number of such facilities in the prefecture, and other ancillary facilities installed together with these facilities whose connection with other telecommunications carriers is essential for improving convenience to subscribers, and for the comprehensive and reasonable development of telecommunications services (designated by the Minister of Internal Affairs and Communications). The main telecommunications facilities of NTT East and NTT West have been designated as Category I designated telecommunications facilities.
- “Designated telecommunications services” are services that are provided by a telecommunications business using a Category I designated telecommunications facility established by such telecommunications business, and that have been designated as services for which “it is particularly necessary to protect the interests of customers by ensuring that the rates and other terms of service are fair and appropriate.” The determination of what constitutes a designated telecommunications service is based on a consideration of various factors, including whether alternative services are being adequately provided by other telecommunications carriers. Specifically, this refers to telephone subscriber line services, ISDN, public telephones, dedicated services, FLET’S Hikari, Hikari Denwa and other services, but excludes services providing supplementary functions that have minimal beneficial impact on subscribers.
- “Specified telecommunications services” are designated telecommunications services or services specified in the MIC Ordinance as having a significant beneficial impact on subscribers. Specifically, this refers to telephone subscriber services, ISDN and public telephone services provided by NTT East and NTT West.
- “Standard price index” refers to an index published by the Minister of Internal Affairs and Communications that shows the standard charges for each type of designated telecommunications service taking into consideration the appropriate costs and commodity prices to support efficient management.
- “Price cap regulation” is a system that sets maximum limits on rates. As the actual charge indexes for NTT East and NTT West are below the level of the standard charge index applicable to the one-year period beginning on October 1, 2019, no price adjustments pursuant to the price cap regulation have been made.

b. Interconnection

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

(Telephone Line Interconnection Charges)

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

The Telecommunications Council of 2018 determined, as a result of a review, that it would continue to apply the LRIC Methodology for interconnection charges for the period from the fiscal year ended March 31, 2020 until the fiscal year ending March 31, 2022.

(Optical Fiber Line Interconnection Charges)

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

In order to maintain low barriers to entry by other carriers through the lowering of interconnection charges, NTT East and NTT West have employed a future cost method that designates the three-year period from the start of the fiscal year ended March 31, 2021 to the end of the fiscal year ending March 31, 2023 as the computation period in order to calculate subscriber optical fiber interconnection charges. For these interconnection charges, NTT Group has introduced a cost difference adjustment system under which adjustments are made by adding the difference between the actual revenue from interconnection charges and the actual cost of interconnection charges for the following year and future years, which NTT believes will eliminate the risk of unrecoverable amounts.

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

Regulations promulgated under the Telecommunications Business Act require NTT East and NTT West to notify the Minister of:

- (i) in the event that any functions relating to Category I designated telecommunications facilities are suspended or discontinued, NTT East and NTT West are required to notify other telecommunications carriers who use such functions in advance, in accordance with the MIC Ordinance (Article 33(2)),
- (ii) plans related to the functions of Category I designated telecommunications facilities, including any changes or additions to such functions (Article 36),

- (iii) any agreement to share Category I designated telecommunications facilities with other telecommunications carriers (Article 37), and,
- (iv) in the event that any wholesale telecommunications provision business utilizing Category I designated telecommunications facilities is started, modified, or terminated, NTT East and NTT West are required to notify the Minister of such start, modification, or termination, as well as the type of wholesale service, the fee applicable to certain wholesale businesses that meet certain conditions, and other information (Article 38 (2)). Further, there are regulations governing the organization and publication of information furnished to or obtained by the Minister (Article 39 (2)).

c. Prohibited Activities

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

(c) Regulations Imposed on NTT DOCOMO

a. Interconnection

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

NTT DOCOMO's main telecommunications facilities for mobile phones were designated by the Minister as Category II designated telecommunications facilities requiring a reliable connection with other telecommunications businesses. NTT DOCOMO is required to establish its interconnection rates and terms of interconnection in its interconnection agreements and to submit them to the Minister.

- In the event that any functions relating to Category II designated telecommunications facilities are suspended or discontinued, NTT DOCOMO is required to notify other telecommunications carriers who use such functions in advance, in accordance with the MIC Ordinance (Article 34(2)).
- In the event that any wholesale telecommunications provision business utilizing Category II designated telecommunications facilities is started, modified, or terminated, regulations promulgated under the Telecommunications Business Act require NTT DOCOMO to notify the Minister of such start, modification, or termination, as well as the type of wholesale service, the fee applicable to certain wholesale businesses that meet certain conditions, and other information (Article 38(2)). Further, there are regulations governing the organization and publication of information furnished to or obtained by the Minister (Article 39(2)).

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

b. Prohibited Activities

From the perspective of preserving competitiveness between telecommunications operators, NTT DOCOMO is prohibited from offering more preferential service rates when devices are purchased than when devices are not purchased, constraining users with excessively long contract periods and similar activities (Article 27(3)). In addition to NTT DOCOMO, this prohibition applies to all operators designated by the Minister.

Furthermore, NTT DOCOMO, as a dominant business in the mobile communications market, is prohibited from using interconnection information for other than its intended purposes and from giving unfair preferential treatment to other NTT Group companies as designated by the Minister (Article 30).

(Note)

“Category II designated telecommunications facilities” consist of (a) transmission line facilities connected to designated mobile equipment (including mobile phone devices and BWA devices) installed by telecommunications businesses which (i) are installed by the same telecommunications businesses, and (ii) represent ten percent or more of the total number of transmission line facilities in the entire service area, and (b) telecommunications facilities which were installed specifically to provide such telecommunications services for reliable connection with other telecommunications businesses designated by the Minister.

2. NTT Act (Act No. 85 of 1984)

(a) Overview

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

1. Purpose

- a. The NTT Act requires NTT to own all of the shares issued by NTT East and NTT West, to ensure appropriate and reliable provision of telecommunications services by these companies, and to engage in research activities relating to telecommunications technologies that form the foundation for telecommunications in Japan.
- b. The NTT Act also requires NTT East and NTT West to manage regional telecommunications businesses as joint-stock companies.

2. Business Activities

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

(i) in regional telecommunications business activities (activities conducted by establishing telecommunications facilities without using the facilities of other telecommunications business carriers) in prefectures in the following regions:

A. for NTT East: Hokkaido Prefecture, Aomori Prefecture, Iwate Prefecture, Miyagi Prefecture, Akita Prefecture, Yamagata Prefecture, Fukushima Prefecture, Ibaraki Prefecture, Tochigi Prefecture, Gunma Prefecture, Saitama Prefecture, Chiba Prefecture, Tokyo, Kanagawa Prefecture, Niigata Prefecture, Yamanashi Prefecture and Nagano Prefecture; and

B. for NTT West: Kyoto Prefecture, Osaka Prefecture and all other prefectures not listed above.

(ii) in business activities incidental to those set forth above.

d. Upon notification to the Minister, the NTT Act permits NTT East and NTT West to engage

(i) in business activities necessary to achieve their respective purposes and

(ii) in regional telecommunications business activities in any region or prefecture not otherwise designated.

e. In addition, upon notification to the Minister, NTT East and NTT West may engage in telecommunications businesses and other business activities utilizing their equipment, technology or employees, to the extent that there is no interference with the smooth implementation of their regional telecommunications business activities and the maintenance of fair competition in regional telecommunications business activities.

3. Responsibilities

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

(b) Matters Requiring the Approval of the Minister

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

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

(c) Other Obligations to the Minister

In addition to the foregoing, the NTT Act imposes several additional duties on NTT, NTT East and NTT West, including:

- (i) a duty to submit balance sheets, profit and loss accounts and business reports to the Minister (Article 13);
- (ii) a duty to abide by orders issued by the Minister (Article 16); and
- (iii) a duty to comply with requests to submit reports on business activities (Article 17).

3. *Radio Act (Act No. 131 of 1950)*

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

(Spectrum Band Allocation for Mobile Communication Businesses)

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

(2) Matters Relating to NTT's Shares

1. Restrictions on the Ratio of Foreign Ownership of the Voting Rights of NTT's Shares (Article 6 of the NTT Act)

If the ratio of foreign ownership of voting rights to the total voting rights of NTT's Shares would equal or exceed one-third, NTT is prohibited from recording the names and addresses of such foreign owners on its shareholder registry and registering such foreign ownership.

(Note) "Foreign ownership" refers to:

- (1) any person who is not of Japanese nationality;
- (2) any foreign government or any of its representatives;
- (3) any foreign juridical person or association; or
- (4) any juridical person or association whose voting rights are directly owned by entities listed in clauses (1) through (3) above in a ratio equal to or exceeding the ratio specified in the applicable ministerial ordinance of the MIC.

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

2. Government Ownership and of NTT Shares (Article 4 of the NTT Act)

The NTT Act requires the Government, at all times, to own one-third or more of the total number of issued Shares of NTT.

(Note)

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

As of March 31, 2020, the total number of issued Shares of NTT was 3,900,788,940, of which the Government owned 1,260,906,000 Shares or 34.69% of outstanding Shares, excluding treasury stock.

(Note)

In December 2000, NTT issued 300,000 new Shares (equal to 120 million Shares after a 100-for-1 stock split on January 4, 2009, a 2-for-1 stock split on July 1, 2015 and a 2-for-1 stock split on January 1, 2020) in a public offering. These Shares are not included in the total number of issued Shares when calculating the percentage of Government-owned Shares. The total number of Government-owned Shares includes Shares which are unregistered because of a failure in the transfer of title, and such Shares are therefore not actually owned by the Government. These Shares are nominally owned by the Government but are excluded from the total number of Shares owned by the Government when calculating the percentage of Government-owned Shares. If these conditions are taken into account, the percentage of Government-owned Shares is 33.33%.

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

3. Government Dispositions of NTT Shares

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

Background of Sales and Sale Policy

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

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

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

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

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

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

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

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

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

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

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

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

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

For the fiscal year ended March 31, 2020, the Government designated 48,666,710 Shares as the maximum number of Shares that it would sell; of these, NTT repurchased 48,666,700 Shares as treasury stock on September 11, 2019.

3. Management's Analysis of Financial Condition, Results of Operations and Cash Flows

Summary of Results of Operations

Forward-looking statements included herein are made as of the date of the filing of this Annual Securities Report.

(1) Results of Operations

In the fiscal year ended March 31, 2020, the information and telecommunications market continued to see increased usage of a variety of digital services as a result of the advances in such areas as cloud services, IoT, big data and AI, and 5G services were launched. The analysis and utilization (data management) of data accumulated through the use of such services are driving a global digital transformation resulting in reforms that will further take in a positive direction, such as by improving the convenience of people's daily lives, creating new business models and enhancing productivity. In addition, it is becoming increasingly necessary to take steps such as strengthening information security against increasingly sophisticated and complex cyberattacks, reinforcing anti-disaster measures, and contributing to the protection of the environment. Furthermore, with the global spread of the COVID-19 outbreak at the end of the fiscal year, there is a need for initiatives such as work from home, distance learning, and telemedicine.

The role of information and telecommunications is becoming more important in terms of resolving these wide-ranging social issues.

In light of these circumstances, based on the "Your Value Partner 2025" Medium-Term Management Strategy, NTT Group aims to work together with all our partners to promote initiatives to resolve social issues in its role as "Your Value Partner."

Supporting our Customers' Digital Transformations

NTT Group has proceeded with initiatives including the promotion of the B2B2X model to support the creation of new value, initiatives to implement and launch 5G services, and increasingly personalized services to support lifestyle changes, among other efforts.

- In addition to concluding an industry-government-academia cooperation agreement with Hokkaido University and the City of Iwamizawa in June 2019 with the goal of creating a smart agri-city, NTT concluded a comprehensive cooperation agreement with the Chiba City for future community development in July 2019. We also expanded the "Community Development Partnership Agreement" we entered into with the City of Sapporo in 2015 to cover 12 municipalities in the Sapporo Metropolitan Area, as part of our initiatives to further aid in the reinvigoration of local economies.
- Toyota Motor Corporation and NTT entered into a memorandum of understanding concerning a business and capital alliance in March 2020. The purpose of the memorandum of understanding is to build a long-term and continuous cooperative relationship that enables the commercialization of smart city businesses, with each company being a core partner to share the same values and promote social development, with the aim of realizing smart cities, which continue to evolve in accordance with the needs of residents.
- In December 2019, Mitsubishi Corporation and NTT agreed to form a business partnership in order to transform industrial value chains and to create new value through digital transformation, and also agreed to co-invest in HERE Technologies, a global service provider in location information services based in the Netherlands. In addition, Microsoft Corporation and NTT entered into a multi-year strategic alliance aimed at delivering secure and reliable solutions to promote the building of Global Digital Fabric, development of digital enterprise solutions, and co-innovation of next-generation technologies.
- In order to promote the personalization of services and respond to diversifying customer lifestyles, the new billing plans, "Gigaho" and "Gigalight," which feature simple structures and great value, were launched in June 2019, and the number of subscriptions to said plans exceeded 14.94 million.

Note: The number of subscriptions is the total number of "Gigaho," "Gigalight," "5G Gigaho," "5G Gigalight," "Ketai Plan," "Kids Ketai Plan," "Data Plus," and "5G Data Plus."

- In March 2020, we began provision of 5G commercial services. We provide the "5G Gigaho" and "5G Gigalight" billing plans, as well as seven different 5G devices, services in the game, music and sports genres, and solutions contributing to the

promotion of a more sophisticated approach to industry, and of digital transformation. Through 5G, we will contribute to the creation of new value and to the resolution of societal issues, promoting initiatives to make the lives of our customers more convenient and richer.

Accelerating Our Own Digital Transformation

NTT Group advanced initiatives such as the One NTT global growth strategy to enhance the competitiveness of its global business and digital transformation of its domestic business.

- In July 2019, NTT Ltd. (Head office: London, UK) began operations as the global operating company of the NTT brand. In addition to changing the logo used by each overseas subsidiary of NTT Ltd. to the NTT logo, the company names in each area were changed one by one to become prefixed with “NTT.” In addition, at NTT Ltd., structural reforms have been promoted with the aim of implementing a shift towards high value-added offerings, such as managed services.
- In September 2019, we concluded a technology partnership agreement with Major League Baseball (MLB) in the United States, the first such agreement for a Japanese IT company. In addition to the MLB, we have been taking steps to further strengthen the NTT brand through global sports events, such as the “IndyCar Series,” of which NTT is a title sponsor, and the “Tour de France,” of which NTT Ltd. is an official technology partner.
- In terms of initiatives to realize smart cities, which began with developments in Las Vegas in the United States, NTT collaborated with local Malaysian stakeholders to start the first on-site testing in Asia in February 2020 in the Cyberjaya district of Malaysia. In addition to verifying the possibility of resolving societal issues in Asia using the smart city technology and know-how developed by NTT Group in the United States, this on-site testing allows us to move forward with the construction of a sustainable business model.
- The adoption of RPA has allowed us to drive improvements in work efficiency, and as of the end of March 2020, it was utilized in approximately 2,100 business processes within NTT Group. Adoption of RPA is not restricted to deployments within the Group, as we have also been recommending it to customers, of which approximately 5,000 companies now use this technology as of the end of March 2020. In preparation for further advances in Group management, the adoption of a unified ERP system has been promoted across the Group for business departments such as human resources, finance, and procurement.
- We introduced automation to increase the efficiency of the operations of help desks that receive telephone inquiries about service issues in Japan (NTT DOCOMO, NTT East, NTT West, and NTT Communications). In principle, we guide customers to websites that enable them to diagnose issues themselves, and we use chat bots to provide consultations on issues.

Leveraging Talent, Technologies and Assets

NTT Group also worked on initiatives to create new businesses including utilization of real estate and the supply of energy, and to revitalize local communities and regional economies.

- In July 2019, NTT Urban Solutions, Inc., which plays a central role in the urban solutions business in NTT Group, started its operations. In Japan, it has promoted urban development initiatives in cities such as Fukuoka, Sendai and Kyoto.
- In September 2019, NTT Anode Energy Corporation started its operations for the promotion of smart energy business. NTT Group will pursue business in the three domains of power generation, transmission/distribution/storage, and retailing/wholesaling such as by acquiring ENNET Corporation, which operates electricity retailing business, and will promote higher competitiveness and expanded earnings in the energy business.
- With respect to communications fraud, which has become increasingly sophisticated and complex, in order for customers to use their telephones securely, in August 2019, NTT Group leveraged its services and technology to begin trials of the use of AI in the analysis of communications fraud. Based on the results of these trials, as soon as preparations are complete, we intend to launch services.

- In recent years, the increase in the level of energy of natural disasters has resulted in frequent occurrences of large-scale destruction. Given the increasing impact of disasters on communications equipment and services, as well as the increasingly long recovery periods, we are advancing initiatives to strengthen our facilities and accelerate turnaround for recovery work. Main initiatives related to the strengthening of facilities:
 - Expanded use of medium-zone base stations capable of dealing with power outages and other disasters
 - Power outage countermeasures in which electric vehicles are used with base stations
 - Integrated management and operation of NTT Group's approximately 400 mobile power supply vehicles
 - Underground installation of cables taking into account the impact of disasters, and consideration of wireless fixed telephone lines

Main initiatives related to accelerated recovery work:

- Prior roll out of recovery system (national wide-area support structure, etc.) based on damage forecasts that make use of AI
- Reinforcing the recovery system and securing manpower, including leveraging former employees of NTT
- Strengthen support of customers affected by disasters, such as by setting up Wi-Fi and storage batteries in public telephone boxes, and providing "mobile 113," a system for repair reception

Promoting ESG Management and Enhancing the Returns of Shareholders to Improve Corporate Value

NTT Group considers the continuous enhancement of corporate value and the return of profits to shareholders to be important management issues, and is working to reduce its environmental impact, leverage diverse human resources, reinforce information security, and enhance the returns of shareholders.

- In terms of reducing environmental impact, using the "EP100" targets that aim to double business energy efficiency as a base, we worked to improve power supply efficiency in the communications businesses. In addition, we promoted EV (Electric Vehicle) conversions for general transport based on the "EV100" project, which seeks to encourage the use of electric vehicles and the rolling out of infrastructure.
- As part of the utilization of diverse human resources, we joined "The Valuable 500," an international initiative to promote the participation of disabled people in business, in December 2019. In addition, as part of the activities to promote the participation of disabled people in the workforce, we conducted a trial of Robot "OriHime-D," controlled by people with physical disabilities remotely at NTT reception.
- In high recognition of the ESG initiatives NTT Group has implemented for sustained improvements in corporate value, NTT was selected for inclusion in the Dow Jones Sustainability World Index (DJSI World), a leading global index of ESG investment, for the second consecutive year. In addition, NTT was selected based on all of the four ESG indicators adopted for ESG investment in Japanese companies by the Government Pension Investment Fund (GPIF), which is one of the largest pension funds in the world (as of the end of March 2020).
- In terms of returns to shareholders, we paid dividends and implemented flexible share buybacks. In addition, we conducted a two-for-one stock split of common stock with an effective date of January 1, 2020, to lower the minimum investment price per unit of NTT, thereby facilitating an environment where it is easier to invest in NTT's shares and expanding NTT's investor base.
- With the aim of raising the attractiveness of NTT's shares and increasing the number of shareholders who own the stock over the medium- to long-term, NTT decided to present "d POINTs" to its shareholders.

As a result of the initiatives described above, results of operations for the fiscal year ended March 31, 2020 were as follows.

	Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues	11,879.8	11,899.4	19.6	0.2 %
Fixed voice related services	1,077.7	999.4	(78.2)	(7.3) %
Mobile voice related services	946.7	966.5	19.8	2.1 %
IP/Packet communications services	3,721.2	3,619.3	(101.9)	(2.7) %
Sales of telecommunications equipment	929.2	691.8	(237.3)	(25.5) %
System integration	3,594.1	3,731.4	137.3	3.8 %
Other	1,611.0	1,891.0	280.0	17.4 %
Operating expenses	10,186.0	10,337.3	151.3	1.5 %
Operating profit	1,693.8	1,562.2	(131.7)	(7.8) %
Finance income and costs	(11.9)	(3.3)	8.6	72.5 %
Share of profit (loss) of entities accounted for using equity method	(10.1)	11.3	21.3	—
Profit before taxes	1,671.9	1,570.1	(101.7)	(6.1) %
Income taxes	533.2	458.8	(74.4)	(14.0) %
Profit	1,138.7	1,111.3	(27.3)	(2.4) %
Less—profit attributable to non-controlling interests	284.1	256.0	(28.1)	(9.9) %
Profit attributable to NTT	854.6	855.3	0.7	0.1 %

Operating Revenues

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

Operating revenues in the fiscal year ended March 31, 2020 increased 0.2% from the previous fiscal year to ¥11,899.4 billion. This increase was due to such factors as an increase in revenues in the data communications business segment, both domestically and overseas, and an increase in revenues from the effect of expanding the scope of consolidation of Ennet Corporation in the other business segment.

Operating revenues for each service category for the fiscal year ended March 31, 2020 are summarized as follows:

Fixed Voice Related Services

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

Fixed voice related revenues for the fiscal year ended March 31, 2020 decreased 7.3% from the previous fiscal year to ¥999.4 billion, accounting for 8.4% of total operating revenues. This decrease was due to a continued decline in the number of subscriptions for telephone subscriber lines and INS-Net caused by the increased popularization of mobile phones and optical IP telephones, and an increase in free or low-priced communications services offered by OTT operators.

Mobile Voice Related Services

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

Mobile voice related revenues for the fiscal year ended March 31, 2020 increased 2.1% from the previous fiscal year to ¥966.5 billion, accounting for 8.1% of total operating revenues. This increase was due to, mainly to the revenue boosting effect associated with the reduction of "Monthly Support" discounts.

IP/Packet Communications Services

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

In the fiscal year ended March 31, 2020, revenues from IP/packet communications services decreased 2.7% from the previous fiscal year to ¥3,619.3 billion, accounting for 30.4% of total operating revenues. This decrease was due to, among other things, the increased number of transfers to the "Hikari Collaboration Model" in the regional communications business segment and a decrease in revenues in the mobile communications business segment due to the introduction of new billing plans, despite the continued increase in the number of "docomo Hikari" subscriptions in the mobile communications business segment.

Sales of Telecommunications Equipment

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

In the fiscal year ended March 31, 2020, revenues from telecommunications equipment sales decreased 25.5% from the previous fiscal year to ¥691.8 billion, accounting for 5.8% of total operating revenues. This decrease was mainly due to a decrease in the number of equipment units sold as a result of the introduction of service/device separation plans in the mobile communications business segment.

System Integration

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

In the fiscal year ended March 31, 2020, revenues from system integration increased 3.8% from the previous fiscal year to ¥3,731.4 billion, accounting for 31.4% of total operating revenues. This increase was mainly due to factors such as the NTT's expansion of its scope of business both domestically and overseas in the data communications business segment.

Other

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

In the fiscal year ended March 31, 2020, revenues from other services increased 17.4% from the previous fiscal year to ¥1,891.0 billion, accounting for 15.9% of total operating revenues, mainly due to the effect of expanding the scope of consolidation of Ennet Corporation.

Operating Expenses

Operating expenses in the fiscal year ended March 31, 2020 increased 1.5% from the previous fiscal year to ¥10,337.3 billion. The reasons for the increase are discussed below.

Personnel Expenses

Personnel expenses in the fiscal year ended March 31, 2020 increased 1.5% from the previous fiscal year to ¥2,428.5 billion. This increase was mainly due to the increase in personnel expenses as a result of the expansion of overseas businesses in the data communications business segment, despite a decrease in personnel expenses due to employee retirements in the regional communications business segment.

Expenses for Purchase of Goods and Services and Other Expenses

In the fiscal year ended March 31, 2020, expenses for purchase of goods and services and other expenses increased 1.5% from the previous fiscal year to ¥6,006.4 billion. This increase was mainly due to an increase as a result of expanding the scope of consolidation of Ennet Corporation in the other business segment, partially offset by a decrease in revenue-linked device costs and a decrease as a result of adopting IFRS 16 (Leases) in the mobile communications business segment.

Depreciation and Amortization Expenses

Depreciation and amortization expenses in the fiscal year ended March 31, 2020 increased 9.9% from the previous fiscal year to ¥1,465.3 billion. This increase was mainly due to the effect of adopting IFRS 16 (Leases).

Operating Profit

As a result of the foregoing, operating profit for the fiscal year ended March 31, 2020 decreased 7.8% from the previous fiscal year to ¥1,562.2 billion.

Finance Income and Costs

Finance income and costs for the fiscal year ended March 31, 2020 was ¥(3.3) billion compared to ¥(11.9) billion for the previous fiscal year.

Share of Profit (Loss) of Entities Accounted for Using Equity Method

Share of profit (loss) of entities accounted for using equity method for the fiscal year ended March 31, 2020 was ¥11.3 billion compared to ¥(10.1) billion for the previous fiscal year.

Profit before Taxes

As a result of the foregoing, profit before taxes for the fiscal year ended March 31, 2020 decreased 6.1% from the previous fiscal year to ¥1,570.1 billion.

Income Taxes

In the fiscal year ended March 31, 2020, income taxes decreased 14.0% from the previous fiscal year to ¥458.8 billion. Effective tax rates for the fiscal year ended March 31, 2019 and for the fiscal year ended March 31, 2020 were 31.89% and 29.22%, respectively.

Profit Attributable to NTT

As a result, profit for the fiscal year ended March 31, 2020 decreased 2.4% from the previous fiscal year to ¥1,111.3 billion. Profit attributable to NTT (excluding the profit attributable to non-controlling interests) for the fiscal year ended March 31, 2020 increased 0.1% from the previous fiscal year to ¥855.3 billion.

(2) Segment Information

NTT Group has five business segments: mobile communications business, regional communications business, long distance and international communications business, data communications business and other business. (For further details, see Note 2.1 to the Consolidated Financial Statements.)

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

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

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

The data communications business segment comprises system integration services.

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

An overview of the operational results for each business segment is as follows (intersegment revenues are included in the operating revenues, operating expenses and operating income of operational results for each business segment). Because of the difficulty associated with presenting information classified as production or orders due to the fact that NTT Group is engaged in businesses such as the telecommunications business, NTT Group does not present segment production or order scale by amount or quantity. Accordingly, the summary of production, orders received and sales is presented in connection with operating results for each segment.

1. Mobile Communications Business Segment

In the Mobile Communications Business Segment, we worked to promote sales of the new billing plans, “Gigaho,” “Gigalight” and “docomo Hikari,” which feature simple structures and great value, and launched 5G service, and collaborated with various business partners in the smart life area, in an effort to provide new value-added services.

Details of Main Initiatives

- We worked to expand the number of retail outlets which implemented “d Pay” smartphone payment service and “d POINTs.” As a result, the number of “d POINT CLUB” subscribers reached 75.09 million, while the number of registered “d POINT CARD” came to 43.26 million.
- In order to reduce customer waiting times at docomo shops, we introduced online and telephone reservation systems, and increased the number of time slots during which appointments are possible. In addition, from December 2019, we unified our support approach to provide free guidance on procedures for customers who have purchased a device at a docomo shop, and who wish the phone to be set up and data transferred.
- We entered into a capital and business alliance agreement with M3, Inc., the largest domestic medical IT company, which counts approximately 90% of Japan’s physicians as members, and established empheal, Inc. to support corporate health management.
- As a result of providing information related to 5G technology and specifications, and offering a 5G technology trial environment free of charge, the number of participants in the “DOCOMO 5G Open Partner Program,” which is an initiative aimed at creating new solutions with partner companies, had risen to 3,400 as of the end of March 2020.

Summary of Segment Performance (April 1, 2019 to March 31, 2020)

	Fiscal Year Ended March 31,			
	2019	2020	Change	Percent Change
	(in billions of yen)			
Operating revenues	4,840.8	4,651.3	(189.6)	(3.9) %
Mobile voice related services	956.2	976.3	20.1	2.1 %
IP/packet communications services	2,159.3	2,102.5	(56.7)	(2.6) %
Sales of telecommunications equipment	844.4	608.2	(236.2)	(28.0) %
Other	880.9	964.2	83.3	9.5 %
Operating expenses	3,827.2	3,796.6	(30.6)	(0.8) %
Operating profit	1,013.6	854.7	(159.0)	(15.7) %

Operating revenues for the mobile communications business segment for the fiscal year ended March 31, 2020 decreased to ¥4,651.3 billion (a decrease of 3.9% from the previous fiscal year) due to, among other things, a decrease in the IP/packet communications services revenues as a result of the effect of introducing new billing plans, along with a decrease in revenues from the sales of mobile communications devices due to a decrease in the number of units sold as a result of the introduction of service/device separation plans, partially offset by an increase in revenues from the smart life field as a result of the transfer of certain subsidiaries between operating segments and other factors. On the other hand, operating expenses for the fiscal year ended March 31, 2020 decreased to ¥3,796.6 billion (a decrease of 0.8% from the previous fiscal year) due to, among other things, cost reductions and a decrease in costs for devices as a result of a decrease in the number of units sold, partially offset by the effect of the transfer of certain subsidiaries between operating segments and an increase in points expenses. As a result, operating profit decreased to ¥854.7 billion (a decrease of 15.7% from the previous fiscal year).

Number of Mobile Communications Subscriptions and Estimated Market Share

	As of March 31,			
	2019	2020	Change	Percent Change
	(in thousands)			
Mobile phone services ⁽¹⁾	78,453	80,326	1,873	2.4 %
5G services	—	14	14	—
LTE (Xi) services	55,872	61,664	5,792	10.4 %
FOMA services	22,581	18,648	(3,933)	(17.4) %
Estimated mobile phone market share ⁽²⁾	44.7%	44.1%	(0.6)points	—
sp-mode services	41,797	44,273	2,476	5.9 %
i-mode services	9,098	6,204	(2,893)	(31.8) %
Plala (ISP)	3,234	3,938	704	21.8 %
Hikari TV	3,001	2,983	(19)	(0.6) %

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

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

(3) For the fiscal year ended March 31, 2020, as a result of the transfer of certain subsidiaries from the long-distance and international communications business segment to the mobile communications business segment, the numbers of subscriptions for Plala (ISP) and Hikari TV have been recorded under the mobile communications business segment.

As of March 31, 2020, the number of subscriptions to NTT DOCOMO mobile phone services increased by 1.87 million, from 78.45 million at the end of the previous fiscal year to 80.33 million subscriptions. In addition, churn rates decreased by 3 basis points to 0.54%.

ARPU and MOU of Mobile Phone Services

	Fiscal year ended March 31,		Change	Percent Change
	2019	2020		
Aggregate ARPU (JPY).....	4,800	4,740	(60)	(1.3) %
Mobile ARPU (JPY).....	4,360	4,230	(130)	(3.0) %
“docomo Hikari” ARPU (JPY).....	440	510	70	15.9 %
MOU (minutes)	134	133	(1)	(0.7) %

See “Footnote 1, ‘MOU (average monthly minutes of use per unit): Average communication time per subscription’” at the end of this item for a description of how MOU is calculated. See “Footnote 3, ‘Method of calculating ARPU-(b) NTT DOCOMO’” at the end of this item for a description of how ARPU is calculated for mobile phone services.

Aggregate ARPU of mobile phone services decreased by ¥60 (1.3%) to ¥4,740 for the fiscal year ended March 31, 2020, from ¥4,800 for the fiscal year ended March 31, 2019. This decrease was due to a decrease of ¥130 (3.0%) in Mobile ARPU to ¥4,230 for the fiscal year ended March 31, 2020, from ¥4,360 for the fiscal year ended March 31, 2019, as a result of the effect of adopting new billing plans, partially offset by an increase of ¥70 (15.9%) in “docomo Hikari” ARPU to ¥510 for the fiscal year ended March 31, 2020, from ¥440 in the fiscal year ended March 31, 2019, as a result of an increase for the number of docomo Hikari subscriptions, among other factors.

2. Regional Communications Business Segment

In the regional communications business segment, NTT Group worked on the “Hikari Collaboration Model,” which provides wholesale fiber-optic access services, among other things, to various service providers, as well as strengthening its solutions business with the aim of revitalizing local communities and regional economies.

- We established NTT AgriTechnology Corporation, NTT Group’s first “Agriculture × ICT” specialist company, aiming to promote urban development through agriculture by utilizing IoT / AI. In addition, in order to promote such initiatives as contributing to the revitalization of local communities and regional economies, we established NTTe-Sports, Inc. as a joint venture with SKY Perfect JSAT Corporation and Taito Corporation.
- NTT East and NTT West collaborated with many local governments nationwide, promoting a variety of initiatives aimed at utilizing ICT for urban development and other purposes. Beginning in the Kyoto area, NTT West has started the staged launch of the “Local Revitalization Cloud” service, which is a shared-usage cloud aimed at universities and local governments.
- In order to address the societal issues of how to save and pass on regional cultural and artistic assets, and to respond to our customers’ expectation that we will help revitalize local communities and convey their appeal through culture and art, we promoted the collection of digital data related to local culture and art, and broadcasted information using cutting-edge technology to contribute to the revitalization of local communities through local artistic and cultural traditions. We also hosted the “Digital × Hokusai (prelude)” interactive exhibition as a means of expressing the concept of this initiative.

Summary of Segment Performance (April 1, 2019 to March 31, 2020)

	Fiscal Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues	3,152.3	3,079.9	(72.4)	(2.3) %
Fixed voice related services	1,085.2	1,006.1	(79.1)	(7.3) %
IP/packet communications services	1,500.7	1,489.7	(10.9)	(0.7) %
Sales of telecommunications equipment	76.6	76.6	(0)	(0) %
System integration services	168.9	206.1	37.2	22.0 %
Other	320.9	301.3	(19.6)	(6.1) %
Operating expenses	2,791.6	2,691.6	(100.0)	(3.6) %
Operating profit	360.7	388.3	27.6	7.6 %

Operating revenues in the regional communications business segment for the fiscal year ended March 31, 2020 decreased to ¥3,079.9 billion (a decrease of 2.3% from the previous fiscal year) due to a decrease in revenues from fixed voice-related services and the effect of the transfer of certain subsidiaries between operating segments, among other factors. On the other hand, operating expenses decreased to ¥2,691.6 billion in the fiscal year ended March 31, 2020 (a decrease of 3.6% from the previous fiscal year), as a result of the elimination of impairment losses recorded in the prior fiscal year relating to metal cables. As a result, segment operating profit in the fiscal year ended March 31, 2020 increased 7.6% to ¥388.3 billion.

Numbers of Fixed-Line Telephone and INS-Net Subscriptions

	As of March 31,		Change	Percent Change
	2019	2020		
	(in thousands)			
NTT East:				
Telephone subscriptions	8,119	7,528	(590)	(7.3) %
INS-Net subscriptions	1,086	982	(104)	(9.6) %
NTT West:				
Telephone subscriptions	8,244	7,615	(629)	(7.6) %
INS-Net subscriptions	1,052	960	(92)	(8.8) %

(1) Number of Telephone subscriptions is the total of individual lines and central station lines (including lines under the Subscriber Telephone Light Plan).

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

As a result of the shift in customer demand to mobile telephones, IP phones and broadband access services and to free or low-priced communications services offered by OTT operators, the aggregate number of fixed line subscriptions (fixed-line telephone & INS-Net) as of March 31, 2020 stood at 17,085 thousand, a decrease of 1,415 thousand from the previous fiscal year.

Numbers of Subscriptions for “FLET’S Hikari (including the Hikari Collaboration Model),” “FLET’S ADSL,” “Hikari Denwa,” and “FLET’S TV Transmission Service”

	As of March 31,		Change	Percent Change
	2019	2020		
	(in thousands)			
NTT East:				
FLET’S Hikari (including the Hikari Collaboration Model)	11,880	12,240	359	3.0 %
(incl.) Hikari Collaboration Model	7,470	8,149	679	9.1 %
FLET’S ADSL	258	201	(58)	(22.4) %
Hikari Denwa (channels)	9,759	9,940	181	1.9 %
FLET’S TV Transmission Service	1,033	1,082	49	4.7 %
NTT West:				
FLET’S Hikari (including the Hikari Collaboration Model)	9,197	9,418	221	2.4 %
(incl.) Hikari Collaboration Model	5,220	5,739	519	9.9 %
FLET’S ADSL	344	282	(62)	(18.0) %
Hikari Denwa (channels)	8,485	8,563	78	0.9 %
FLET’S TV Transmission Service	684	747	63	9.2 %

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

(2) “Hikari Denwa” and “FLET’S TV Transmission Service” include wholesale services provided to service providers by NTT East and NTT West.

As a result of NTT's initiatives to expand the Hikari Collaboration Model, as of March 31, 2020, the number of FLET'S Hikari subscriptions (including the Hikari Collaboration Model) had increased to 21,658 thousand lines, an increase of 580 thousand (2.8%) from the previous fiscal year; the number of Hikari Denwa subscriptions increased to 18,503 thousand channels, an increase of 259 thousand channels (1.4%) from the previous fiscal year; and the number of FLET'S TV subscriptions increased to 1,828 thousand channels, an increase of 112 thousand channels (6.5%) from the previous fiscal year.

ARPU of Fixed Line Services and FLET'S Hikari Services

	As of March 31,			
	2019	2020	Change	Percent Change
NTT East:				
Aggregate Fixed Line ARPU (Telephone Subscriber Lines + INS-NET Subscriber Lines)	2,540	2,510	(30)	(1.2) %
FLET'S Hikari ARPU.....	4,910	4,790	(120)	(2.4) %
Basic Monthly Charge.....	3,520	3,470	(50)	(1.4) %
Optional Services.....	1,390	1,320	(70)	(5.0) %
NTT West:				
Aggregate Fixed Line ARPU (Telephone Subscriber Lines + INS-NET Subscriber Lines)	2,520	2,500	(20)	(0.8) %
FLET'S Hikari ARPU.....	4,930	4,820	(110)	(2.2) %
Basic Monthly Charge.....	3,380	3,320	(60)	(1.8) %
Optional Services.....	1,550	1,500	(50)	(3.2) %

See “-Footnote 2, ‘ARPU: Average monthly revenue per unit’” for a description of ARPU, and “Footnote 3, ‘Method of calculating ARPU-(a) NTT East and NTT West’” for a description of how aggregate fixed-line ARPU is calculated.

For the fiscal year ended March 31, 2020, aggregate fixed-line ARPU (telephone subscriber lines plus INS-Net subscriber lines) was ¥2,510 for NTT East and ¥2,500 for NTT West, a decrease of ¥30 (1.2%) and ¥20 (0.8%), respectively, from the corresponding figures in the previous fiscal year. This decline was due to, among other factors, the shift by high-volume users to IP telephone services and the migration of users from fixed-line services to mobile phone services.

FLET'S Hikari ARPU for the fiscal year ended March 31, 2020 was ¥4,790 for NTT East and ¥4,820 for NTT West, a decrease of ¥120 (2.4%) and ¥110 (2.2%), respectively, from the corresponding figures in the previous fiscal year. These reductions were due to reduced earnings as a result of the progress of the Hikari Collaboration Model, among other factors.

3. Long Distance and International Communications Business Segment

In the Long Distance and International Communications Business Segment, in addition to enhancing our ability to provide ICT solutions, which combine network, security and other services, we worked to enhance our service provision in growth areas such as cloud services and IT outsourcing.

Details of Main Initiatives

- In order to respond to global demand for cloud services and data centers, in countries where the market continues to expand we worked to enhance our service provision structure. In Europe, we began operating Netherlands Amsterdam 1 Data Center and Germany Frankfurt 4 Data Center, while Asia we began construction of Indonesia Jakarta 3 Data Center.
- We acquired the shares of Symmetry Holding Inc., a leading North American provider of managed services, which specializes in SAP. Through the share acquisition we acquired the capability in North America, which is the largest market for managed services globally, to migrate and manage on-premise SAP to the cloud, while strengthening our ability to provide hybrid cloud solutions to SAP users.
- Together with Mizuho Financial Group, Inc., Mizuho Bank, Ltd., and Mizuho Information & Research Institute, Inc., we jointly developed a voice recognition system for a work efficiency tool which automates the entry of transaction data for market instruments by utilizing voice recognition and processing technology, text mining, and RPA. Mizuho Bank has begun using the system in its market banking operations.

Summary of Segment Performance (April 1, 2019 to March 31, 2020)

	Fiscal Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues	2,278.7	2,205.8	(72.9)	(3.2) %
Fixed voice related services	220.3	207.9	(12.3)	(5.6) %
IP/packet communications services	427.5	418.3	(9.2)	(2.2) %
Sales of telecommunications equipment	11.5	11.0	(0.5)	(4.0) %
System integration services	1,439.1	1,442.6	3.5	0.2 %
Other	180.3	125.9	(54.4)	(30.2) %
Operating expenses	2,178.5	2,102.2	(76.3)	(3.5) %
Operating profit	100.1	103.6	3.4	3.4 %

Operating revenues in the Long Distance and International Communications Business Segment for the fiscal year ended March 31, 2020 were ¥2,205.8 billion (a decrease of 3.2% from the previous fiscal year), as a result of the effect of transferring certain subsidiaries to other operating segments. On the other hand, operating expenses were ¥2,102.2 billion (a decrease of 3.5% from the previous fiscal year), as a result of a decrease in expenses due to transferring certain subsidiaries to other operating segments, among other things, despite the increased costs due to the reorganization of overseas businesses. As a result, operating profit was ¥103.6 billion (an increase of 3.4% from the previous fiscal year).

Number of Subscriptions for IP/packet Communications-Related Services in the Long Distance and International Communications Business Segment

	As of March 31,		Change	Percent Change
	2019	2020		
	(in thousands)			
OCN (ISP)	7,305	7,153	(152)	(2.1) %

4. Data Communications Business Segment

In the Data Communications Business Segment, we responded to the acceleration of our customers' digital transformation at a global level, and to their increasingly diversified and sophisticated needs, by working to expand our business in the global market and to extend and consistently provide a range of IT services, such as offerings of digitalization and system integration, that are responsive to the changes in the market.

Details of Main Initiatives

- By authenticating payment methods using a designated QR code at the point of entry to the store, we have begun offering a “Catch & Go” service by which customers can take home products they have picked up in the store without paying at the checkout. By making no-checkout digital stores a reality, consumers can avoid the stress of paying at the checkout, and enjoy convenient and money-saving shopping experiences, such as preferential campaigns based on movement within the store. From the perspective of employees and store managers, work efficiency can be improved by not operating a checkout, and purchasing opportunities can be maximized by eliminating waiting at the checkout. In addition, understanding data on routes and actions taken within the store by consumers enables further opportunities to expand sales, and can also be utilized in store design and marketing.
- We were selected as a strategic partner for the digital transformation project of Naturgy Energy Group, SA of Spain, which provides gas and electricity in more than 30 countries, mainly in Europe and Latin America. Going forward, we will provide BPO/ITO services for maintaining and operating systems related to gas and electricity distribution and various operations related to utility retail services, using advanced platform and other systems that we have developed.
- In pursuit of our growth strategy in North America, we acquired two US-based companies, Flux7 Labs Inc. and NET ESOLUTIONS CORPORATION. The acquisitions of these companies will strengthen our capabilities in relation to Amazon Web Services and in the US federal healthcare sector.

Summary of Segment Performance (April 1, 2019 to March 31, 2020)

	Fiscal Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues	2,163.6	2,266.8	103.2	4.8 %
System integration services	2,163.6	2,266.8	103.2	4.8 %
Operating expenses	2,015.9	2,135.9	120.0	6.0 %
Operating profit	147.7	130.9	(16.8)	(11.4) %

Operating revenues in the data communications business segment for the fiscal year ended March 31, 2020 increased to ¥2,266.8 billion (an increase of 4.8% from the previous fiscal year) due to, among other things, the expansion of business in each of the enterprise and solution, finance and public/social infrastructure fields domestically, and also the expansion of overseas business mainly in EMEA and Latin America. On the other hand, operating expenses increased to ¥2,135.9 billion (an increase of 6.0% from the previous fiscal year) due to, among other things, the impact of an increase in revenue-linked expenses. As a result, operating profit in the fiscal year ended March 31, 2020 decreased 11.4% from the previous fiscal year to ¥130.9 billion.

5. Other Business Segment

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

Details of Main Initiatives

• Real Estate Business

We established NTT Urban Solutions, Inc., a company that centralizes functions of NTT Group's real estate business, and promoted core office and retail operations, residential operations, and global business. Also, in the hotel and resort business, we worked on the development of multiple hotels in the Kyoto area, such as those utilizing historical buildings, and thus contributed to urban development in local communities.

• Finance Business

We have developed financial services such as leasing and financing to facilitate the popularization of ICT devices and resolve social challenges revolving around the environmental, educational and medical fields. Furthermore, we provided billing and collection services for telecommunication service bills, and credit card transaction settlement services.

• Electric Power Business

We established NTT Anode Energy Corporation., which promotes smart energy business in NTT Group. By combining and utilizing our ICT and direct-current power supply technology to the fullest extent, and providing green power generated at our solar power plants, we worked on initiatives for safe and secure urban development that uses natural energy and finite energy resources efficiently and without waste, and that is resilient to risks such as natural disasters.

• System Development Business

In preparation for advancing digital transformation, we have begun developing and deploying a cluster of IT systems that will become a new service platform. We were also engaged in initiatives to develop solutions for resolving societal issues, such as urban security and the revitalization of regions.

Summary of Segment Performance (April 1, 2019 to March 31, 2020)

	Fiscal Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues	1,240.3	1,601.7	361.4	29.1 %
Operating expenses	1,154.6	1,510.8	356.1	30.8 %
Operating profit	85.6	90.9	5.3	6.2 %

In the other business segment, primarily due to the effect of expanding the scope of consolidation of Ennet Corporation, operating revenues for the fiscal year ended March 31, 2020 increased to ¥1,601.7 billion (an increase of 29.1% from the previous fiscal year), and operating expenses for the fiscal year ended March 31, 2020 also increased to ¥1,510.8 billion (an increase of 30.8% from the previous fiscal year).

As a result, operating profit increased to ¥90.9 billion (an increase of 6.2% from the previous fiscal year).

	Fiscal Year Ended March 31,		Change	Percent Change
	2019	2020		
	(in billions of yen)			
Operating revenues.....	11,879.8	11,899.4	19.6	0.2 %
Domestic(*)	9,678.3	9,675.8	(2.5)	(0.0) %
Overseas(*)	2,201.6	2,223.6	22.1	1.0 %

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

Domestic operating revenues for the fiscal year ended March 31, 2020 decreased to ¥9,675.8 billion (a decrease of 0.0% from the previous fiscal year) due to, among other things, a decrease in revenues in the mobile communications business segment, despite the effect of expanding the scope of consolidation of Ennet Corporation. Overseas operating revenues for the fiscal year ended March 31, 2020 increased to ¥2,223.6 billion (an increase of 1.0% from the previous fiscal year) due to, among other things, the impact of the expansion of business in the data communications business segment.

Notes

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

2. ARPU: Average monthly revenue per unit

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

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

3. Method of calculating ARPU

(a) NTT East and NTT West

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

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

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

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

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

- (4) In terms of number of channels, transmission rate, and line use rate (base rate), INS-Net 1500 is in all cases roughly ten times greater than INS-Net 64. For this reason, one INS-Net 1500 subscription is calculated as ten INS-Net 64 subscriptions.
- (5) For purposes of calculating FLET'S Hikari ARPU, the number of subscribers is determined based on the number of FLET'S Hikari subscribers (including B FLET'S, FLET'S Hikari Next, FLET'S Hikari Light, FLET'S Hikari Lightplus and FLET'S Hikari WiFi Access provided by NTT East, 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 "Hikari Collaboration Model" wholesale services provided by NTT East and NTT West to service providers.
- (6) Number of Active Subscribers used in the ARPU calculation of NTT East and NTT West is as below:
 FY Results: Sum of number of Active Subscribers for each month from April to March

$$\text{Active Subscribers} = (\text{number of subscribers at end of previous month} + \text{number of subscribers at end of current month})/2$$
- (b) NTT DOCOMO
- NTT computes ARPU for NTT DOCOMO as follows:

$$\text{Aggregate ARPU} = \text{Mobile ARPU} + \text{"docomo Hikari" ARPU}.$$
- (1) Mobile ARPU: $\text{Mobile ARPU-related revenues (basic monthly charges, voice communication charges and packet communication charges)} / \text{Number of active users}$
 "docomo Hikari" ARPU: $\text{"docomo Hikari" ARPU-related revenues (basic monthly charges and voice communication charges)} / \text{Number of Active Users}$
- (2) Number of Active Users used in the ARPU calculation of NTT DOCOMO is as below.
 Sum of number of Active Users for each month during the applicable period

$$\text{Active Users} = (\text{number of users at end of previous month} + \text{number of users at end of current month})/2.$$
- (3) The number of "users" used to calculate ARPU is basically total number of subscriptions, excluding the subscriptions listed below:
 Number of active users = subscriptions
- Subscriptions of communication module services, "Phone Number Storage," "Mail Address Storage," "docomo Business Transceiver" and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to MVNOs; and
 - Data Plan subscriptions in the case where the customer contracting for such subscription in his/her name also has a subscription for 5G, Xi or FOMA services in his/her name.
- Revenues from communication module services, "Phone Number Storage," "Mail Address Storage," "docomo Business Transceiver," and wholesale telecommunications services and interconnecting telecommunications facilities that are provided to MVNOs, and the impact of "d POINTs"-related revenues, among others, are not included in NTT DOCOMO's ARPU calculation.

(3) Liquidity and Capital Resources

The status of cash flows during the fiscal years ended March 31, 2019 and 2020 were as follows.

Year Ended March 31	Billions of yen	
	2019	2020
Cash flows provided by operating activities	2,406.2	2,995.2
Cash flows provided by operating activities (Excluding the impact of non-business days ^{(1),(2)} and adopting IFRS 16 ⁽³⁾)	2,397.9	2,602.5
Cash flows used in investing activities	(1,774.1)	(1,852.7)
Cash flows used in financing activities	(584.3)	(1,041.3)
Cash flows used in financing activities (Excluding the impact of adopting IFRS 16 ⁽³⁾)	(584.3)	(872.3)
Cash and cash equivalents at the end of year	946.1	1,033.6
Cash and cash equivalents at the end of year (Excluding the impact of non-business days ⁽²⁾)	1,169.8	1,033.6

- (1) The impact in the amount of ¥8.3 billion, caused by the last days of the fiscal year ended March 31, 2018 and 2019 falling on non-business days, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.
- (2) The impact in the amount of ¥223.7 billion, caused by the last day of the fiscal year ended March 31, 2019 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.
- (3) The impact on cash flows from operating and financing activities in the amount of ¥169.0 billion, caused by the adoption of IFRS 16 (Leases) beginning on April 1, 2019.

Financing, Capital Resources and Use of Funds

Cash flows provided by operating activities during the fiscal year ended March 31, 2020, excluding the impact of non-business days and the adoption of IFRS 16 (Leases), amounted to ¥2,602.5 billion, an increase of ¥204.6 billion from ¥2,397.9 billion in the fiscal year ended March 31, 2019. This increase was due to, among other factors, an increase in collections of trade receivables. Cash flows provided by operating activities for the fiscal year ended March 31, 2020 was ¥2,995.2 billion.

NTT Group used the cash flows provided by operating activities mainly to acquire property, plant and equipment, pay dividends and complete stock repurchases.

Cash flows used in investing activities during the fiscal year ended March 31, 2020 amounted to ¥1,852.7 billion, an increase in payments of ¥78.6 billion from ¥1,774.1 billion in the fiscal year ended March 31, 2019. This increase was due to, among other factors, an increase of ¥184.0 billion in investments for property, plant and equipment and intangibles on a cash basis, and an increase of ¥136.8 billion in purchase of investments, despite an increase of ¥239.0 billion in proceeds from sale or redemption of investments.

The increase in payments for investments in property, plant and equipment and intangibles for the fiscal year ended March 31, 2020 resulted from, among other factors, an increase in capital expenditures due to the promotion of urban solutions business in the other business. For the fiscal year ended March 31, 2020, capital investments amounted to ¥1,806.6 billion on an accrual basis, of which ¥572.8 billion was invested in the mobile communications business and ¥522.5 billion was invested in the regional communications business.

Cash flows used in financing activities during the fiscal year ended March 31, 2020, excluding the impact of the adoption of IFRS 16 (Leases), amounted to ¥872.3 billion, an increase in payments of ¥288.0 billion from ¥584.3 billion in the fiscal year ended March 31, 2019. This increase in payments was due to, among other factors, an increase in share repurchases. Cash flows used in financing activities for the fiscal year ended March 31, 2020 was ¥1,041.3 billion.

As of March 31, 2020, the total balance of the interest-bearing debt of NTT Group was ¥4,699.9 billion, an increase of ¥437.2 billion from the balance of ¥4,262.7 billion as of March 31, 2019. The ratio of interest-bearing debt to shareholders' equity stood at 51.9% as of March 31, 2020 (from 46.0% as of March 31, 2019).

NTT Group believes that the net cash it expects to generate from operating activities, financing from banks and other financial institutions and/or offerings of equity or debt securities in the capital markets will provide the requisite financial resources to meet NTT Group's currently anticipated capital investment and other expenditure needs and payment of debt.

With respect to planned capital investments for the fiscal year ending March 31, 2021, we anticipate that new SI orders and sales of various types of services will be significantly affected by the impact of the COVID-19 pandemic. Because we cannot predict the timing of the termination of the pandemic or of the arrival of a second wave of the pandemic, and cannot reasonably estimate the amount of the impact of COVID-19, we have decided to postpone disclosing such planned capital investments at this time. We intend to promptly provide disclosure of such plans as soon as it is possible to reasonably estimate the amount of the impact. In addition, the actual amount of NTT Group's financing will depend on its future performance, market conditions and other factors, and is therefore difficult to predict.

Liquidity

As of March 31, 2020, NTT Group had cash and cash equivalents balance at the end of the fiscal year of ¥1,033.6 billion, a decrease of ¥136.2 billion compared to the balance of ¥1,169.8 billion as of March 31, 2019, which excludes the impact of non-business days. Cash equivalents represent a temporary cash surplus used to repay debts and make capital investments, among other factors, and are used as working capital. Accordingly, the balance of cash equivalents fluctuates each fiscal year depending on particular financing and working capital requirements.

Contractual Obligations

NTT Group's existing contractual obligations as of March 31, 2020 were summarized as follows:

(Millions of yen)

Contractual Obligations	Payments Due by Period			
	Total	Less than one year	One to five years	More than five years
	(in millions of yen)			
Long-term debt ⁽¹⁾	2,640,564	474,786	1,278,296	887,482
Bonds	769,004	239,847	462,461	66,696
Bank loans	1,871,560	234,939	815,835	820,786
Interest payments on long-term debt	123,126	26,647	59,030	37,449
Lease obligations ⁽²⁾	660,078	162,001	262,434	235,643
Purchase commitments ⁽³⁾	67,842	38,457	22,259	7,125
Other fixed liabilities ⁽⁴⁾	—	—	—	—

Contractual Obligations transferred to liabilities directly associated with assets held for sale

(Millions of yen)

Contractual Obligations	Payments Due by Period			
	Total	Less than one year	One to five years	More than five years
	(in millions of yen)			
Long-term debt ⁽⁵⁾				
Bank loans	479,651	32,148	367,637	79,866
Interest payments on long-term debt	5,712	1,716	3,273	722
Lease obligations ⁽²⁾	31,440	4,886	12,807	13,747
Other fixed liabilities ⁽⁶⁾	—	—	—	—

(1) Long-term debt is presented including amounts maturing within one year. See Note 4.5 to the Consolidated Financial Statements for details on Long-term debt.

(2) Lease obligations include interest.

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

(4) The amount of other fixed liabilities is not shown in the above table, due to the immateriality of certain obligations and uncertainty of certain payments. In addition, NTT Group expects to contribute a total amount of ¥22,700 million to its pension plans in the fiscal year ending March 31, 2020 (see Note 3.11 to the Consolidated Financial Statements).

(5) Long-term debt is presented including amounts maturing within one year. See Note 3.4 to the Consolidated Financial Statements for details on Long-term debt.

(6) The amount of other fixed liabilities is not shown in the table above, due to the immateriality of certain obligations and uncertainty of certain payments.

As of March 31, 2020, NTT Group had outstanding commitments mainly for the purchase of property, plant and equipment and other assets of approximately ¥67.8 billion. NTT Group expects to fund such commitments with cash flows provided by operating activities.

(4) Significant Accounting Estimates and Judgements Involving Estimates

Please see Note 4 in the consolidated financial statements.

As for the spread of the COVID-19 pandemic, as described in “2 Risk Factors”, as a result of the prolonged spread of the pandemic, it is possible that NTT Group’s business activities will be materially affected, including through the reduction of its customers’ business activities which may cause reductions in systems integration orders and in sales of various services and delays in planned construction. Furthermore, even after the abatement of the pandemic, it is possible that people’s daily lives and the workstyles of businesses will significantly change, which may, as a result, impact NTT Group’s business results and financial position. However, there was no material impact on the company's accounting estimates and assumptions at the end of fiscal year ended March 31, 2020. In addition, NTT Group has not released its financial results forecast for fiscal year ending March 31, 2021 because the company cannot predict the timing of the termination of the pandemic or of the arrival of a second wave of the pandemic, and cannot reasonably estimate the amount of the impact of COVID-19. However, as of the date of the submission of the Annual Securities Report, NTT Group believes that the situation has not yet reached a stage where it could have a material impact on such estimates and assumptions.

4. Significant Management Contracts

Not applicable.

5. Research and Development

In accordance with the “Your Value Partner 2025” Medium-Term Management Strategy, NTT Group promoted innovative research and development with the aim of triggering global change. As its specific example, in preparation for the IOWN (Innovative Optical and Wireless Network) concept announced in May 2019, we worked not only on the development of component technologies, with the inclusion of global input, and on the creation of case studies in industry but also to be a source of new value creation in diverse fields, we have promoted initiatives together with parties in a wide range of industrial fields with the goal of enhancing industrial competitiveness and resolving societal issues.

IOWN comprises three main technology components: “all-photonics network” that uses optical technology; “digital twin computing” that enables high-speed, real-time interaction between things and people in cyberspace; and Cognitive Foundation®, in which these and various other ICT resources are efficiently managed.

Research and development to support the IOWN concept

- By using light as a means for transmitting signals inside the processors that perform information processing and calculations inside a computer, we aim to create a hybrid opto-electrical processor that will solve problems that arise with electrical processing, such as power consumption and increase in heat emission, and realize ultra-low power consumption and high-performance information processing. We have realized ultra-compact photo-electric conversion elements such as an optical transistor that uses nano-photonics technology.
- To conduct a comparative time experiment by connecting several optical lattice clocks that are more precise than atomic clocks that are the current standard for measuring seconds, we used the optical fiber network of NTT East for an optical frequency transmission experiment with the University of Tokyo. As a result, the required frequency precision for the comparative experiment was achieved, in a major step towards conducting the experiment.
- With Kyoto University, we initiated a project to build a new worldview that reconciles people and technological progress. By utilizing knowledge of the humanities and social sciences, such as philosophy, we aim to construct an original worldview that fuses the real and the virtual.

Globalizing Research and Development

- In January 2020, the IOWN Global Forum was established in the United States by industry leaders NTT, Intel Corporation and Sony Corporation, all three of which have superior expertise in the technological areas that form the core of IOWN. In March 2020, wide-ranging recruitment efforts began, with many companies both in Japan and overseas signing up as members, and specific technological considerations commenced through the use of online video conferencing. Going forward, we will work with a variety of partners for the earliest possible implementation of the IOWN concept.
- In July 2019, we opened NTT Research, Inc., which operates three research laboratories, in Silicon Valley in the United States for the purpose of reinforcing fundamental research. We have started joint research with universities and research institutes in the United States and Europe in each area of quantum computational science, medical / health / healthcare, and basic cryptography / blockchain.

Research and Development to Promote the B2B2X Model and DX

- For the live viewing of Major League Baseball (MLB) in the United States, we created “Ultra Reality Viewing” technology utilizing a parallax-free widescreen camera that requires only one unit to record widescreen footage that was previously recorded by four units. By eliminating parallax, it became possible to record the subject in its true form.
- In preparation for the PSTN migration, while continuing to use metal cables, which are used for traditional telephone networks, we have linked to IP networks of NTT East and NTT West (NGNs) through conversion devices, and built a fundamental technology that enables the IP interconnection with other carriers and the migration of relay/signal transfer switches to IP.

- In cooperation with Hokkaido University and the City of Iwamizawa, in order to achieve unmanned, fully automated operation in agricultural equipment using remote monitoring, we have started testing of the optimal positioning and positional information transmission method, optimal network technology, collection of IoT devices' data, and AI analysis.

Promoting Other Cutting-edge Research

- In collaboration with the Tokyo Institute of Technology, we achieved an all-optical switch that operates at ultra-high speeds while using the lowest energy consumption in the world. By combining a technology called plasmonics for guiding light into a nano-sized optical pathway with graphene, which has excellent optical properties, we achieved ultra-high-speed switching operation with low energy consumption that exceeds the potential of electronic control. We aim to utilize this technology for ultra-high-speed control of future optical integrated circuits for information processing.
- By forcing graphene, a sheet of carbon material, to spontaneously adapt to a three-dimensional cylindrical structure and culturing nerve cells inside it over a long period of time, we succeeded in developing a method of rebuilding microscopic nerve cell fibers at a micro- to millimeter scale. This is expected to lead to new bio-device applications such as fundamental technology for reconstructive surgery using stem cells, manufacturing technology for flexible stimulation electrodes implanted in damaged tissues, and technology to create tissues for pharmaceutical screening.
- NTT concluded an agreement with the Japan Aerospace Exploration Agency (JAXA) with the aim of implementing ultra-high-speed, high-capacity, secure optical/wireless network infrastructure to seamlessly connect land and space. In preparation for merging the technology of both sides in order to create social infrastructure, the two parties are undertaking joint research in areas such as optical wireless communications in space, next-generation Earth observation, and communication between the ground stations and low earth orbit satellites.
- As part of our efforts to enable communications beneath the surface of the sea where radio waves cannot easily penetrate, we achieved subsurface communication speeds of 1 Mbit/s, a double-digit improvement over current levels by using ultrasound MIMO multiplexing technology to overcome variations in the subsurface propagation path.

As a result of these research and development initiatives, NTT's total expenditures for the year ended March 31, 2020 were ¥102.3 billion yen (a 3.1% increase from the previous fiscal year), partially offset by revenues from core research and development of ¥100.5 billion yen (a 2.6% increase from the previous fiscal year).

The following table presents a summary of research and development costs by segment for the fiscal year ended March 31, 2020:

Segment	Millions of yen	Summary
Mobile communications business.....	92,804	Research and development in the area of new products and services related to mobile communications, and research and development aimed at increasing the quality of existing services and enhancing the performance of network functions, among other things.
Regional communications business...	84,091	Research and development relating to IP and broadband services, increasing access services to meet diversifying user needs, high value-added services, and other services.
Long distance and international communications business.....	20,392	Development of high value-added services in fields ranging from IP networks to platforms, and other services.
Data communications business.....	21,793	Technology development to strengthen competitiveness in systems integration and other fields.
Other business.....	106,311	Research and development relating to: (a) the creation of basic technologies required for the development of advanced networks and new services that will support the development of an ICT society, (b) technologies that contribute to reducing industry's burden on the environment, (c) new principles, new parts and new materials expected to bring about extensive technological innovations in the information and communications sector, and (d) others.
Subtotal.....	325,391	
Elimination.....	100,500	
Total.....	224,891	

ITEM 3. PROPERTY, PLANT AND EQUIPMENT

1. Overview of Capital Investments

NTT Group (including its consolidated subsidiaries) has shifted its investment focus from investments primarily centered on telecommunications infrastructure project developments to investments that are responsive to various service needs.

The following table summarizes capital investments for the fiscal year ended March 31, 2020:

Segment	Millions of yen	Percent Change	Summary
Mobile communications business	572,765	(3.5)%	Expansion and improvement of mobile communications transmissions equipment, and others
Regional communications business.....	522,508	(3.4)%	Maintenance and improvements of voice communications equipment, expansion of data transmissions equipment, and others
Long distance and international communications business.....	279,310	14.3%	Expansion and improvement of data communications equipment, maintenance and improvements of voice communications equipment, and others
Data communications business	193,843	8.2%	Expansion and maintenance of data communications equipment, and others
Other business.....	238,223	71.8%	Development and acquisition of real estate, and others
Total.....	1,806,649	6.5%	

Notes: 1. The above figures do not include consumption taxes.

2. NTT Group plans to procure the required funds from cash on hand, the issuance of corporate bonds and long-term debt.

3. Capital investments include investments related to the acquisition of intangible assets.

4. NTT Group used the capital investment amounts shown above, determined on an accrual basis, for the purchase of property, plant and equipment, intangible assets, and investment property. The table below presents the difference between the amount of capital investments shown above and the amount presented on the consolidated statements of cash flows under “Purchase of property, plant and equipment, intangible assets, and investment property.”

	Year ended March 31, 2020
	(in millions of yen)
Purchase of property, plant and equipment, intangible assets, and investment property.....	1,856,351
Difference in capital investment amounts.....	49,702

2. Overview of Major Facilities

NTT Group's major facilities were as follows:

(1) Breakdown by Segment

As of March 31, 2020						
	Telecom Facilities	Land	Buildings	Other	Total	Number of Employees
	(book value, in millions of yen)					(people)
Mobile communications business.....	1,819,142	153,256	275,409	984,048	3,231,855	27,558
Regional communications business.....	3,260,921	260,986	712,569	579,726	4,814,202	74,754
Long distance and international communications business.....	153,202	83,018	318,083	1,139,073	1,693,376	51,580
Data communications business.....	111,476	49,318	106,410	1,106,975	1,374,179	133,196
Other business.....	32,032	157,057	232,265	1,211,401	1,632,755	31,951
Total.....	5,376,773	703,635	1,644,736	5,021,223	12,746,367	319,039

Note: The above figures do not include consumption taxes.

(2) Overview of the Company and Consolidated Subsidiaries

As of March 31, 2020

<u>Company Name</u>	<u>Type of Asset</u>	<u>Book Value</u> <u>(Millions of Yen)</u>	<u>Land Area</u> <u>(m²)</u>	<u>Number of Branches</u>	<u>Number of</u> <u>Employees</u>
Nippon Telegraph and Telephone Corporation	Mechanical equipment	—	819,597.52	Headquarters (1)	2,494
	Antenna systems	—		Others (4)	
	Terminal equipment	—			
	Local lines equipment	—			
	Long-distance lines equipment	—			
	Civil engineering equipment	—			
	Underwater lines equipment	—			
	Land	27,746			
	Buildings	84,895			
	Leased assets	14			
	Other	47,056			
	Total	159,712			

<u>Company Name</u>	<u>Type of Asset</u>	<u>Book Value (Millions of Yen)</u>	<u>Land Area (m²)</u>	<u>Number of Branches</u>	<u>Number of Employees</u>
NTT DOCOMO, Inc.	Mechanical equipment	1,184,896	3,780,923.00	Headquarters (1) Branches (8)	8,100
	Antenna systems	548,735			
	Terminal equipment	—			
	Local lines equipment	30,500			
	Long-distance lines equipment	—			
	Civil engineering equipment	13,793			
	Underwater lines equipment	—			
	Land	196,402			
	Buildings	261,471			
	Leased assets	2,257			
	Other	760,169			
	Total	2,998,226			
Nippon Telegraph and Telephone East Corporation	Mechanical equipment	322,286	7,909,484.61	Headquarters (1) Branches (29)	4,952
	Antenna systems	3,155			
	Terminal equipment	19,079			
	Local lines equipment	875,255			
	Long-distance lines equipment	3,193			
	Civil engineering equipment	570,353			
	Underwater lines equipment	466			
	Land	194,470			
	Buildings	378,591			
	Leased assets	1,400			
	Other	136,069			
	Total	2,504,320			

<u>Company Name</u>	<u>Type of Asset</u>	<u>Book Value (Millions of Yen)</u>	<u>Land Area (m²)</u>	<u>Number of Branches</u>	<u>Number of Employees</u>
Nippon Telegraph and Telephone West Corporation	Mechanical equipment	269,458	10,331,099.49	Headquarters (1) Branches (30)	3,294
	Antenna systems	7,418			
	Terminal equipment	9,763			
	Local lines equipment	1,050,774			
	Long-distance lines equipment	1,623			
	Civil engineering equipment	490,894			
	Underwater lines equipment	3,364			
	Land	170,524			
	Buildings	321,526			
	Leased assets	187			
	Other	120,051			
	Total	2,445,586			
NTT Communications Corporation	Mechanical equipment	126,069	853,249.15	Headquarters (1) Branches (14)	5,523
	Antenna systems	1,601			
	Terminal equipment	1,907			
	Local lines equipment	1,125			
	Long-distance lines equipment	6,618			
	Civil engineering equipment	—			
	Underwater lines equipment	552			
	Land	48,728			
	Buildings	195,789			
	Leased assets	16,948			
	Other	165,007			
	Total	564,349			

As of March 31, 2020

<u>Company Name</u>	<u>Type of Asset</u>	<u>Book Value (Millions of Yen)</u>	<u>Land Area (m²)</u>	<u>Number of Branches</u>	<u>Number of Employees</u>
NTT DATA CORPORATION	Mechanical equipment	99,209	153,380.00	Headquarters (1)	11,515
	Antenna systems	—		Branches (19)	
	Terminal equipment	8,765			
	Local lines equipment	—			
	Long-distance lines equipment	—			
	Civil engineering equipment	—			
	Underwater lines equipment	—			
	Land	56,064			
	Buildings	81,414			
	Leased assets	476			
	Other	298,793			
	Total	544,721			

3. Planned Capital Investments and Disposals of Property

With respect to planned capital investments for the fiscal year ending March 31, 2021, we anticipate that new SI orders and sales of various types of services will be significantly affected by the impact of the COVID-19 pandemic. Because we cannot predict the timing of the termination of the pandemic or of the arrival of a second wave of the pandemic, and cannot reasonably estimate the amount of the impact of COVID-19, we have decided to postpone disclosing such planned capital investments at this time. We intend to promptly provide disclosure of such plans as soon as it is possible to reasonably estimate the amount of the impact.

ITEM 4. INFORMATION ON NTT**1. Information on NTT's Shares****(1) Total Number of Shares****i . Total Number of Shares**

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

ii. Issued Shares

<u>Class</u>	<u>Number of Shares Issued as of March 31, 2020 (shares)</u>	<u>Number of Shares Issued as of the Filing Date (shares) (June 24, 2020)</u>	<u>Stock Exchange on which the Company is Listed</u>	<u>Description</u>
Common Stock	3,900,788,940	3,900,788,940	Tokyo Stock Exchange (First Section)	The number of shares per one unit of shares is 100 shares
Total	3,900,788,940	3,900,788,940	—	—

Note: Pursuant to the Board of Directors' resolution on November 5, 2019, NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020. As a result of the stock split, the total number of issued shares increased by 1,950,394,470 shares to 3,900,788,940 shares.

(2) Information on Share Acquisition Rights**i . Description of Stock Option System**

Not applicable.

ii. Information on Shareholder Rights Plans

Not applicable.

iii. Information on Other Share Acquisition Rights

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares and Capital

<u>Date</u>	<u>Changes in the total number of issued shares (shares)</u>	<u>Balance of the total number of issued shares (shares)</u>	<u>Changes in Capital (millions of yen)</u>	<u>Balance of Capital (millions of yen)</u>	<u>Change in Capital Reserve (millions of yen)</u>	<u>Balance of Capital Reserve (millions of yen)</u>
July 1, 2015 ⁽¹⁾	1,136,697,235	2,273,394,470	—	937,950	—	2,672,826
November 13, 2015 ⁽²⁾	(177,000,000)	2,096,394,470	—	937,950	—	2,672,826
September 26, 2018 ⁽³⁾	(146,000,000)	1,950,394,470	—	937,950	—	2,672,826
January 1, 2020 ⁽⁴⁾	1,950,394,470	3,900,788,940	—	937,950	—	2,672,826

Notes: 1. NTT completed a two-for-one stock split of its common stock with an effective date of July 1, 2015.

2. NTT cancelled 177,000,000 shares held as treasury stock on November 13, 2015.

3. NTT cancelled 146,000,000 shares held as treasury stock on September 26, 2018.

4. NTT completed a two-for-one stock split of its common stock with an effective date of January 1, 2020.

(5) Composition of Shareholders

As of March 31, 2020

Class	Status of Shares (100 shares per unit of stock)								Number of Less-than-One-Unit Shares (shares)
	National and Local Governments	Financial Institutions	Financial Instrument Business Operators	Other Institutions	Foreign Shareholders		Individuals and Others	Total	
					Non-Individuals	Individuals			
Number of Shareholders (people)	3	263	66	5,021	1,607	884	627,208	635,052	—
Share Ownership (units)	12,609,464	7,633,292	656,707	430,076	9,401,519	22,499	8,209,149	38,962,706	4,518,340
Percentage of Shares (%)	32.36	19.59	1.69	1.10	24.13	0.06	21.07	100.00	—

Notes: 1. “Individuals and Others” and “Number of Less-than-One-Unit Shares” above include 2,655,939 units and 12 shares of treasury stock, respectively. Furthermore, there were 265,593,912 shares of treasury stock recorded on the list of shareholders, and the actual number of treasury stock held was 265,592,712 shares as of March 31, 2020.

2. “Other Institutions” and “Number of Less-than-One-Unit Shares” above include 574 units and 88 shares registered in the name of Japan Securities Depository Center, Inc., respectively.

3. The number of persons holding less-than-one-unit shares was 177,037.

(6) Major Shareholders

As of March 31, 2020

<u>Name</u>	<u>Address</u>	<u>Number of Shares Held</u> (thousands of shares)	<u>Ownership Percentage of the Total Number of Issued Shares</u>
The Minister of Finance	1-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo	1,260,906	34.69
The Master Trust Bank of Japan, Ltd. (Trust Account)	11-3, Hamamatsucho 2-chome, Minato- ku, Tokyo	200,508	5.52
Japan Trustee Services Bank, Ltd. (Trust Account)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	165,856	4.56
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	59,576	1.64
Japan Trustee Services Bank, Ltd. (Trust Account 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	53,432	1.47
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)	48,451	1.33
Japan Trustee Services Bank, Ltd. (Trust Account 7)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	41,995	1.16
Moxley & Co. LLC (Standing proxy: MUFG Bank, Ltd.)	4 NEW YORK PLAZA, 13TH FLOOR, NEW YORK, NY 10004 U.S.A (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	37,588	1.03
Japan Trustee Services Bank, Ltd. (Trust Account 1)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	27,405	0.75
THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Mizuho Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NY 10286 U.S.A (15-1, Konan 2-chome, Minato-ku, Tokyo)	27,206	0.75
Total	—	1,922,927	52.90

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

(7) Information on Voting Rights

i . Issued Shares

As of March 31, 2020

<u>Classification</u>	<u>Number of Shares (shares)</u>	<u>Number of Voting Rights</u>	<u>Description</u>
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.)	265,592,700 shares of common stock	—	—
Shares with Full Voting Rights (others)	3,630,677,900 shares of common stock	36,306,767	—
Shares Representing Less than One Unit	4,518,340 shares of common stock	—	—
Number of Issued Shares	3,900,788,940 shares of common stock	—	—
Total Number of Voting Rights	—	36,306,767	—

Note: The total number of shares in “Shares with Full Voting Rights (others)” includes 57,400 shares held in the name of the Japan Securities Depository Center, and the number of shares in “Shares Representing Less Than One Unit” includes 88 shares held in the name of the Japan Securities Depository Center. “Number of Voting Rights” includes 574 voting rights associated with Shares with Full Voting Rights held in the name of the Japan Securities Depository Center, and does not include 12 voting rights associated with “Shares with Full Voting Rights” recorded on the shareholder register under NTT, but not actually owned by NTT.

ii. Treasury Stock

As of March 31, 2020

<u>Name of Shareholder</u>	<u>Address</u>	<u>Number of Shares Held Under Own Name (shares)</u>	<u>Number of Shares Held Under the Names of Others (shares)</u>	<u>Total Shares Held (shares)</u>	<u>Ownership Percentage to the Total Number of Issued Shares</u>
Nippon Telegraph and Telephone Corporation	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	265,592,700	—	265,592,700	6.8%
Total	—	265,592,700	—	265,592,700	6.8%

Notes: 1. In addition to the above, there are 1,200 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” above.

2. Pursuant to the Board of Directors’ resolution on November 5, 2019, NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020.

2. Information on Acquisitions of Treasury Stock

Class of Shares: Acquisitions of common stock pursuant to Article 155, Paragraph 3, Article 155, Paragraph 7 and Article 155, Paragraph 8 of the Companies Act of Japan

(1) Status of Acquisitions of Treasury Stock Pursuant to Resolutions at the General Meeting of Shareholders

Not applicable.

(2) Status of Acquisitions of Treasury Stock Pursuant to Resolutions at Meetings of the Board of Directors

Acquisitions pursuant to Article 155, Paragraph 3 of the Companies Act of Japan:

<u>Classification</u>	<u>Numbers of Shares (shares)</u>	<u>Total Amount (yen)</u>
Resolution of the Board of Directors of May 10, 2019 (Acquisition Period: May 13, 2019 to July 31, 2019)	106,000,000	250,000,000,000
Treasury stock acquired prior to the fiscal year ended March 31, 2020	—	—
Treasury stock acquired during the fiscal year ended March 31, 2020	100,960,200	249,999,891,500
Total number and value of remaining shares of treasury stock authorized	5,039,800	108,500
Percentage unused as of March 31, 2020 (%)	4.8	0.0
Treasury stock acquired during the current period	—	—
Percentage unused as of the filing date (%)	4.8	0.0

<u>Classification</u>	<u>Numbers of Shares (shares)</u>	<u>Total Amount (yen)</u>
Resolution of the Board of Directors of August 6, 2019 (Acquisition Period: August 7, 2019 to September 30, 2019)	106,000,000	300,000,000,000
Treasury stock acquired prior to the fiscal year ended March 31, 2020	—	—
Treasury stock acquired during the fiscal year ended March 31, 2020	97,960,000	251,071,480,000
Total number and value of remaining shares of treasury stock authorized	8,040,000	48,928,520,000
Percentage unused as of March 31, 2020 (%)	7.6	16.3
Treasury stock acquired during the current period	—	—
Percentage unused as of the filing date (%)	7.6	16.3

Acquisitions pursuant to Article 155, Paragraph 8 of the Companies Act of Japan:

<u>Classification</u>	<u>Numbers of Shares (shares)</u>	<u>Total Amount (yen)</u>
Resolution of the Board of Directors of May 10, 2019 (Acquisition Day: May 14, 2019)	605,832	Amount reflecting the acquisition price multiplied by the number of shares subject to acquisition
Treasury stock acquired prior to the fiscal year ended March 31, 2020	—	—
Treasury stock acquired during the fiscal year ended March 31, 2020	605,832	1,475,200,920
Total number and value of remaining shares of treasury stock authorized	—	—
Percentage unused as of March 31, 2020 (%)	—	—
Treasury stock acquired during the current period	—	—
Percentage unused as of the filing date (%)	—	—

- Notes: 1. Pursuant to the Board of Directors' resolution on November 5, 2019, NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020. Share amounts listed above have been adjusted to reflect the stock split.
2. For acquisitions pursuant to Article 155, Paragraph 8 of the Companies Act of Japan, the Board of Directors resolved that the acquisition price would be the closing price of NTT's stock on the Tokyo Stock Exchange on the dates of purchase.

(3) Description of Acquisitions of Treasury Stock Not Made Pursuant to Resolutions at the General Meeting of Shareholders or Meetings of the Board of Directors

Acquisitions pursuant to Article 155, Paragraph 7 of the Companies Act of Japan:

<u>Classification</u>	<u>Numbers of Shares (shares)</u>	<u>Total Amount (yen)</u>
Treasury stock acquired during the fiscal year ended March 31, 2020	76,880	201,244,517
Treasury stock acquired during the current period	4,553	11,388,792

- Note: 1. Pursuant to the Board of Directors' resolution on November 5, 2019, NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020. The breakdown of treasury stock acquired during the fiscal year ended March 31, 2020 includes 29,316 shares acquired before the stock split, an increase of 29,316 shares as a result of the stock split, and 18,248 shares acquired after the stock split.
2. "Treasury stock acquired during the current period" does not include acquisitions of less-than-one-unit shares from June 1, 2020 to the date of the filing of this Annual Securities Report.

(4) Status of Dispositions and Holdings of Acquired Treasury Stock

<u>Classification</u>	<u>Fiscal year ended March 31, 2020</u>		<u>Current Period</u>	
	Number of Shares (shares)	Total Disposition Amount (yen)	Number of Shares (shares)	Total Disposition Amount (yen)
Acquired treasury stock offered to subscribers	—	—	—	—
Acquired treasury stock that was canceled	—	—	—	—
Acquired treasury stock that was transferred due to mergers, exchange offers or company split	—	—	—	—
Other (Disposition of shares by third-party allotment)	—	—	80,775,400	199,999,890,400
Other (Sales through requests to purchase less-than-one-unit shares)	5,692	15,034,308	2,816	7,097,932
Total number of treasury stock held	265,592,712	—	184,819,049	—

Notes: 1. “Other (Disposition of shares by third-party allotment)” refers to a third-party allotment, with Toyota Motor Corporation as subscriber, that was conducted pursuant to the Board of Directors’ resolution on March 24, 2020.

2. Pursuant to the Board of Directors’ resolution on November 5, 2019, NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020. The number of sales through requests to purchase less-than-one-unit shares for the fiscal year ended March 31, 2020 includes 1,446 shares sold prior to the stock split, an increase of 1,446 shares as a result of the stock split, and 2,800 shares sold after the stock split.

3. The amounts of treasury stock sold or otherwise disposed of during the current period does not include sales of less-than-one-unit shares from June 1, 2020 to the date of the filing of this Annual Securities Report.

2. The total amount of treasury stock held does not include acquisitions and sales of less-than-one-unit shares from June 1, 2020 to the date of the filing of this Annual Securities Report.

3. Dividend Policy

NTT has set the return of profits to shareholders while continuously improving 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 has a fundamental policy of distributing surplus twice a year, as interim and year-end dividends. The distribution of surplus is authorized by the general meeting of shareholders for year-end dividends, and by the Board of Directors for interim dividends. For the year ended March 31, 2020, pursuant to the dividend policy described above, the interim dividend was ¥95 per share and the year-end dividend was ¥47.5 per share. NTT conducted a two-for-one stock split of its common stock with an effective date of January 1, 2020, pursuant to the Board of Directors' resolution on November 5, 2019 (referred to herein as the "stock split"). The annual dividend for the fiscal year ended March 31, 2020, including the interim dividend calculated as if the stock split had been conducted at the beginning of the fiscal year, was ¥95 per share.

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

NTT's Articles of Incorporation state, "The company shall, by resolution of the board of directors, be entitled to make distributions of surplus in accordance with Article 454, Paragraph 5 of the Companies Act to persons designated as pledgees of shares, as stipulated in Paragraph 1 of the preceding Article, by the notice served on the 30th day of September of each year from the transfer institution pursuant to Article 151, Paragraph 1 of the Book-Entry Transfer Act."

Dividend payments for the fiscal year ended March 31, 2020 were as follows:

<u>Date of Resolution</u>	<u>Total Amount of Dividends</u> (millions of yen)	<u>Dividends Per Share</u> (yen)
November 5, 2019 Resolution of the Board of Directors	172,674	95
June 23, 2020 Resolution of the General Meeting of Shareholders	172,672	47.5

Note: 1. The dividend per share amount presented for the dividend made pursuant to the November 5, 2019 resolution of the Board of Directors has not been adjusted to reflect the stock split.

2. The dividend per share amount present for the dividend made pursuant to the June 23, 2020 resolution of the General Meeting of Shareholders reflects the impact of the stock split.

4. Status of Corporate Governance

Forward-looking statements included herein are made as of the date of the filing of this Annual Securities Report.

(1) Overview of Corporate Governance

i . Basic Views of Corporate Governance

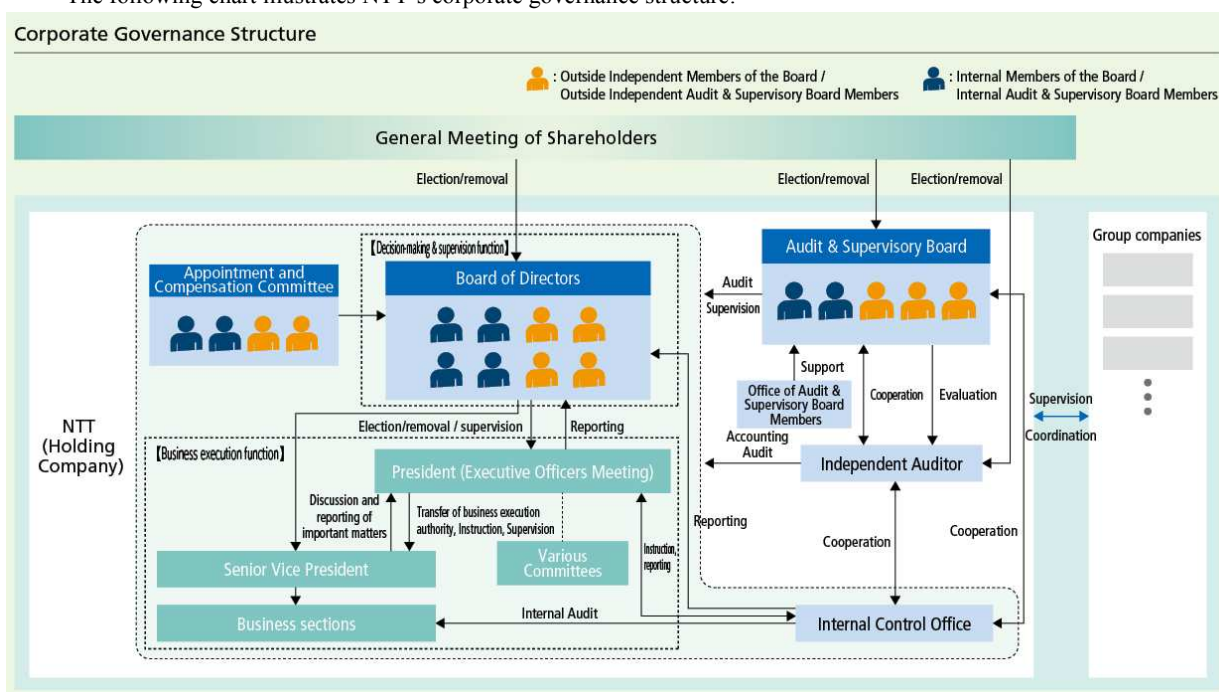
As the holding company of NTT Group, NTT believes that raising the effectiveness of corporate governance is an important management issue for meeting the expectations of various stakeholders, including shareholders and other investors, as well as customers, business partners, and employees, and for maximizing corporate value. Accordingly, NTT is working to strengthen corporate governance based on the purpose of the principles of the Corporate Governance Code promulgated by the Tokyo Stock Exchange. Based on NTT's "Your Value Partner 2025" Medium-Term Management Strategy in order to work together with all its partners to promote initiatives to resolve social issues in its role as "Your Value Partner," NTT will work towards ensuring sound management executing appropriate decision-making and business activities clarifying accountability, and maintaining thorough compliance as basic policies.

ii. Corporate Governance Structure

NTT, in order to strengthen functions for appropriately supervising and auditing business execution, seeks to strengthen its auditing system by appointing several outside independent Members of the Board, and by establishing an Audit & Supervisory Board, of which outside independent Audit & Supervisory Board Members make up a majority. In addition, through its adoption of an executive officer system, NTT intends to clearly separate management-related decision-making and supervisory functions from business execution functions and improve its management flexibility. Additionally, NTT has voluntarily established an “Appointment and Compensation Committee,” which consists of four Members of the Board, including two outside independent Members of the Board, to further increase the objectivity and transparency of decisions relating to appointment and compensation. NTT has determined that governance functions based on a Board of Corporate Auditors (Audit & Supervisory Board) are sufficiently effective to achieve this purpose.

Business execution at NTT is conducted in accordance with the organizational regulations governing the functions and operations of each organization. Important decisions are made under the supervision of the Board of Directors and based on the responsibility regulations that define the responsibilities and authorities for the president, senior executive vice presidents, senior vice presidents and the head of each organization. In addition, NTT has established various meetings and committees as has been deemed necessary to discuss important business execution-related matters in order to ensure that appropriate decisions are made for facilitating effective Group management.

The following chart illustrates NTT's corporate governance structure:



Board of Directors

The Board of Directors has eight Members of the Board, including four outside independent Members of the Board. In principle, the ordinary meetings of the Board of Directors are held once per month. In addition, extraordinary meetings are held as needed. The Board of Directors makes decisions on matters stipulated by law and on important matters related to company management and Group management. Moreover, through such means as periodic reports from Members of the Board and senior vice presidents on the status of business execution, the Board of Directors supervises the business execution of Members of the Board and senior vice presidents.

Audit & Supervisory Board

The Audit & Supervisory Board consists of a total of five Audit & Supervisory Board Members, comprising two internal Audit & Supervisory Board Members and three outside independent Audit & Supervisory Board Members (including two women, one in each category).

Appointment and Compensation Committee

For the purpose of improving objectivity and transparency in the decisions of appointments and compensation of Members of the Board, NTT has established on a non-statutory basis the Appointment and Compensation Committee, which consists of four Members of the Board, including two outside independent Members of the Board, as a preliminary review institution of the Board of Directors, and are increasing the effectiveness of governance.

In the fiscal year ended March 31, 2020, the meetings of the Appointment and Compensation Committee were held five times, and active discussions were conducted regarding the role of the Board of Directors for further strengthening governance, introduction of an executive officer system and other matters.

Executive Officers Meeting

Important corporate matters to be decided are, in principle and in advance, discussed by “Executive Officers Meetings,” which is made up of senior vice presidents and others. The Executive Officers Meeting is held about once a week. To improve the transparency of management decision-making, one Audit & Supervisory Board Member participates in the Executive Officers Meeting.

Various Committees

A number of committees have been established below the Executive Officers Meeting to discuss specific important business execution-related matters. Major committees include the Technology Strategy Committee, which deliberates on the Group’s R&D vision and technology development strategy; the Investment Strategy Committee, which examines investment projects that are larger than a certain scale; and the Finance Strategy Committee, which discusses basic financial strategies and financial issues. These committees, which are held as necessary throughout the year, are in principle chaired by the president or a senior executive vice president, and are attended by relevant senior vice presidents and others.

iii. Other Things of Corporate Governance

(A) Status of Board of Directors

Composition of the Board of Directors

The Board of Directors is of a size appropriate to the Group’s business, and the composition of the Board of Directors reflects consideration for a balance of experience and specialties and for diversity. The Board of Directors has eight Members of the Board, including four outside independent Members of the Board who have been appointed in order to strengthen functions for appropriately supervising business execution.

Please see “(2) Members of the Board” for additional details

Activities of the Board of Directors

In principle, the ordinary meetings of the Board of Directors are held once per month. In addition, extraordinary meetings are held as needed. The Board of Directors makes decisions on matters stipulated by law and on important matters related to company management and Group management. Moreover, through such means as periodic reports from Members of the Board and senior vice presidents on the status of business execution, the Board of Directors supervises the business execution of Members of the Board and senior vice presidents.

Evaluation of the Effectiveness of the Board of Directors

The Board of Directors of NTT, which is a pure holding company, plays the role of monitoring the specific business operations of the Group companies based on the medium- to long-term business strategy of the entire Group.

The Board of Directors of NTT decides important items related to the Group's management which have passed the "Executive Officers Meeting," made up of the senior vice presidents and others, as well as the review of the various committees chaired by the president or a senior executive vice president and attended by the relevant senior vice presidents, while also monitoring the status of the execution of the duties of the individual Members of the Board and senior vice presidents.

At the meetings of the Board of Directors, based on the authority of the individual Members of the Board, current issues in group management and the initiatives being taken to resolve them are reported and reviewed, and in the fiscal year ended March 31, 2020, active discussions were held centering on important matters related to company and group management, such as partnerships and other initiatives to advance the B2B2X model under the Medium-Term Management Strategy "Your Value Partner 2025," as well as the formulation of policies to further strengthen governance. Furthermore, in addition to holding advance explanations for outside independent Members of the Board on matters discussed at previous meetings of the Board of Directors, in the fiscal year ended March 31, 2020, explanations of matters such as immediate issues and the status of considerations were also given by Representative Members of the Board after meetings of the Board of Directors. By striving to clarify the focus of execution of duties and the purpose of initiatives, we are working to strengthen the supervisory function of the Board of Directors.

Furthermore, to allow the outside independent Members of the Board to more deeply understand the Company's business, meetings were held to exchange ideas and opinions on the executives and individual management strategies of the major subsidiaries, and they attended exhibitions of the research and development which the Company is focusing its efforts into and received explanations on topics such as the results of cutting-edge research. Additionally, ideas and opinions on issues in Group management were exchanged among the outside independent Members of the Board and the Audit & Supervisory Board Members, among the outside independent Members of the Board and the Representative Members of the Board, among the outside independent Members of the Board and the executives of the major Group companies in and outside Japan, and among the outside independent Members of the Board of NTT and the outside independent Members of the Board of the major Group companies and other members.

In these meetings, we received opinions on NTT's Board of Directors from the outside independent Members of the Board and the Audit & Supervisory Board Members that adequate information is provided and Members of the Board engage in active discussion, thereby ensuring the Board's effectiveness.

Also, with the aim of strengthening corporate governance through continuous improvement of the effectiveness of the Board of Directors, in the fiscal year ended March 31, 2020, questionnaire surveys regarding the Board of Directors were conducted targeting all Members of the Board and Audit & Supervisory Board Members, and the effectiveness of the Board was evaluated. Questions were asked with regard to the role and responsibilities of the Board of Directors, its composition, its operation and the level of satisfaction, and the results, which were compiled through a third-party organization, confirmed that the Board was sufficiently fulfilling its important role and responsibilities, with a majority of positive opinions for all of the questions.

In order to invigorate strategic discussions on the Board, the Company sought to bring the Board of Directors to an appropriate size, and at the Ordinary General Meeting of Shareholders held on June 23, 2020, eight Members of the Board, including four outside independent Members of the Board, were elected, bringing the total percentage of outside independent Members of the Board to 50%. In addition, through its adoption of an executive officer system, the Company intends to clearly separate management-related decision-making and supervisory functions from business execution functions and improve its management flexibility.

Taking into account these initiatives, NTT has evaluated that the effectiveness of the Board of Directors is being ensured.

Appointment and Dismissal Policies and Procedure for Members of the Board

In terms of the composition of NTT's Board of Directors, the nomination of executives is based on the "NTT Group Personnel Policy," and personnel with the skills to resolve issues recognized by NTT Group are nominated broadly from inside and outside of the Group.

Outside Members of the Board and outside Audit & Supervisory Board Members are elected with the expectation that they can provide opinions based on a broad management perspective or as an expert. Furthermore, both non-outside and outside Members of the Board are elected in line with NTT Group's promotion of diversity. After the General Meeting of Shareholders held on June 23, 2020, there are eight Members of the Board, and as a result, the ratio of independent outside Members of the Board, including one female Member of the Board, is now 50%.

Furthermore, appointments and dismissals of Members of the Board are made upon deliberation by the Appointment and Compensation Committee, which consists of four Members of the Board, including two outside independent Members of the Board. In addition, pursuant to applicable law (Article 10(1) of the Act on Nippon Telegraph and Telephone Corporation, etc.), NTT is not permitted to appoint non-Japanese Members of the Board.

NTT Group strives to contribute to the resolution of social issues and the realization of a safer, more secure, and more affluent society. To accomplish this goal, the Group acts as a trusted "Your Value Partner" that customers continue to select in order to provide them with new value on a global basis. NTT has established the policy of positioning individuals that share these ideals in the upper ranks of NTT Group's management, and NTT is electing such individuals from both inside and outside the Group.

In regard to Member of the Board candidates, individuals are elected based on the broad-ranging perspective and experience, superior management skill and leadership, business sense and motivation necessary to contribute to the overall development of NTT Group in order to facilitate the improvement of NTT Group's corporate value. From the perspective of strengthening the function of supervising business execution, for outside independent Members of the Board, NTT elects individuals who present no risk of a conflict of interest with general shareholders. In principle, NTT appoints several outside independent Members of the Board.

With regard to the nomination of Members of the Board, NTT has established the Appointment and Compensation Committee, which consists of four Members of the Board including two outside independent Members of the Board. The committee discusses candidates and then makes proposals to be approved by the Board of Directors and presented for voting at the General Meeting of Shareholders.

Succession Plan

With respect to successor candidates for the CEO position, NTT views it as important to secure successor candidates who can respond to technological innovation, market trends, and the speed of changes in the business environment. By securing the diversity of candidates through offering experience of a broad range of jobs and appointments to important posts, NTT is cultivating personnel for promotion who, in addition to possessing integrity and insight, are exceptionally well-suited to the times. The decision regarding the appointment is made by the Board of Directors after it has been presented for deliberation to the Appointment and Compensation Committee, which consists of four Members of the Board including two outside independent Members of the Board.

Support System for Members of the Board

The secretariat of the Board of Directors is made available as a venue of contact for outside independent Members of the Board, which they can use to receive support with regard to their daily duties through explanations, responses to inquiries about business execution, and other means.

Number of Members of the Board

NTT's Articles of Incorporation state that the number of Members of the Board shall be 15 people or fewer.

Requirements for Resolutions to Appoint Members of the Board

NTT's Articles of Incorporation state that resolutions to appoint Members of the Board may be made by a majority of shareholders present if they represent at least one-third (1/3) of the total voting rights of the shareholders who can exercise their voting rights. NTT's Articles of Incorporation further state that such resolutions are not subject to cumulative voting.

(B) Audit & Supervisory Board Members

Please see "(3) Audit & Supervisory Board, Independent Auditor and Internal Control" for additional details.

(C) Others

Overview of Internal Control Systems

NTT has established the Basic Policies Concerning the Maintenance of Internal Control Systems for NTT Group, which was approved via resolution by the Board of Directors. The basic concepts of these policies are as follows.

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 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.

Training for Members of the Board and Audit & Supervisory Board Members

NTT Group works to cultivate candidates suitable for top management who are able to respond to the rapidly changing management environment, by creating a range of training opportunities in areas including domestic and overseas economic and social issues, compliance, and risk management, and by allowing employees to accumulate new job experiences. Additionally, outside independent Members of the Board can gain a deeper understanding of NTT's group businesses through opportunities to deepen their understanding of the business trends of Group companies and of the latest R&D results at the research facilities of NTT.

Contracts Limiting the Liabilities for Damages

Contracts limiting the liabilities for damages in Article 423 (1) of the Companies Act of Japan are put in place between NTT and outside Members of the Board and Audit & Supervisory Board Members based on Article 427 (1) of the same act. Under these contracts, the maximum amount of liability for damages is defined as the lowest amount of liability set forth in Article 425 (1) of the Companies Act.

Shareholder Meeting Matters that May Be Resolved by the Board of Directors

NTT's Articles of Incorporation state that NTT may purchase its own shares in open market transactions or otherwise pursuant to resolutions of the Board of Directors. This is intended to enable a flexible capital policy that is responsive to the current business environment.

NTT's Articles of Incorporation state that, in accordance with the provisions of Article 454, Paragraph 5 of the Companies Act of Japan, NTT may declare interim dividends with a record date of September 30 each year pursuant to resolutions of the Board of Directors. This is intended to enable the expeditious return of profits to shareholders.

NTT's Articles of Incorporation state that NTT may exempt Members of the Board and Audit & Supervisory Board Members for liabilities to the extent permitted by law pursuant to resolutions of the Board of Directors. This is intended to enable Members of the Board and Audit & Supervisory Board Members to fully engage in their expected roles when fulfilling their responsibilities.

Special Resolution Requirements for Shareholder Meetings

NTT's Articles of Incorporation state that, with respect to resolutions set forth in Article 309, Paragraph 2 of the Companies Act of Japan, resolutions may be adopted by at least two-thirds (2/3) of the voting rights of the shareholders who are present at such shareholder meetings if they represent at least one-third (1/3) of the total voting rights of the shareholders who can exercise their voting rights. This is intended to enable the more reliable satisfaction of quorum requirements.

Overview of Internal Compliance Systems:

Establishment of NTT Group Corporate Ethics Charter

It is imperative to conduct business in compliance with laws and regulations, and maintain high ethical standards in order to promote sound corporate activities. Recognizing this, NTT drew up the NTT Group Corporate Ethics Charter in November 2002.

The NTT Group Corporate Ethics Charter, which applies to all officers and employees of the NTT Group, lays out the basic principles of corporate ethics and provides specific guidelines for ethical behavior. The stipulations in the guidelines are intended to remind everyone of their duty as members of a large corporate group that bears responsibility to society in terms of preventing dishonesty, misconduct, and the disclosure of corporate secrets, as well as refraining from exchanging excessive favors with customers and suppliers, and ensuring that they conduct themselves according to the highest ethical standards in both private and public activities.

Initiatives to Promote Awareness of the NTT Group Corporate Ethics Charter

To ensure the effectiveness of the NTT Group Corporate Ethics Charter, we offer training sessions on corporate ethics to employees, and through a website for employees, we explain the NTT Group Corporate Ethics Charter in detail and give examples of corporate ethics issues in an effort to raise employee's level of understanding. Furthermore, NTT conducts annual surveys of employees to measure their awareness, and the results are then used for awareness enhancement initiatives.

Establishment of Corporate Ethics Help Line (Outside of the Company)

To prevent illegal conduct or a scandal, each Group company has set up an internal consulting center to handle reports of improper activities. In addition, NTT has established the Corporate Ethics Help Line as an external contact point for NTT Group companies and outsources its operation to a law firm.

The content of the consultations and reports are investigated and handled by the staff member in charge, and a report is submitted to the Corporate Ethics Committee of each Group company. All reports are collected at least once a year by NTT, where the response status is ascertained and reported to the Board of Directors.

Furthermore, the NTT Group Corporate Ethics Charter clearly states that people who file reports with these help lines will be protected from any disadvantage arising from the fact that they filed a report.

In addition, NTT Group has established and operates an independent reporting route to Audit & Supervisory Board Members as a contact point that is independent from management. In general, reports made through external reporting lines are also simultaneously sent directly to Audit & Supervisory Board Members, and it is also possible to make reports directly to Audit & Supervisory Board Members only.

Prevention of Bribery

Understanding that it is essential to comply with laws and regulations and to operate its business with high ethical standards, NTT Group prohibits all forms of corruption, including bribery, improper benefits and facilitation payments*. In particular, with respect to the prevention of bribery, NTT Group has created a "Anti-Bribery Handbook" and distributed it to employees of Group companies, including its overseas subsidiaries, and has also posted the handbook on its internal website to ensure

thorough awareness. Furthermore, for NTT, NTT East and NTT West, bribery is prohibited pursuant to the NTT Act, and any violations are subject to legal penalties.

* Note: “Facilitation payments” are small payments made for purposes of facilitating procedures for ordinary administrative services.

Collaboration with Suppliers

NTT has established and announced the “Supply Chain CSR Promotion Guidelines” in order to fulfill its social responsibility by following social norms and laws with all of its suppliers against wrongful actions in the supply chain, including bribery. Through these Supply Chain CSR Promotion Guidelines, NTT is working to prevent misconduct, including among suppliers, by requesting compliance with statements such as “maintain a clean and normal relationship with the government and administration, and do not engage in bribery, illegal political contributions or other such misconduct” and “do not engage in the exchange of inappropriate profits in relationships with stakeholders.”

Promotion of Risk Management: Business Risk Management

NTT has established Risk Management Rules stipulating basic policies on risk management with the aims of, among others, anticipating and preventing the materialization of potential risks and 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 risks. During the fiscal year ended March 31, 2020, the committee held one meeting during which discussions involved identifying risks that could potentially have a Companywide 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.

Risk Analysis and Identification of Key Risks

From time to time, NTT reviews assumed risks and management policies based on changes in the social environment. In the identification of risks, the Business Risk Management Committee plays the central role. Analysis processes for the risks faced by NTT Group are formulated, and risk analysis is periodically implemented in accordance with these processes. In this way, Companywide risks are identified. In addition, correlation analyses are implemented for these risks. Those risks with the potential to have the greatest influence are specified as “material risks,” and countermeasures are formulated. Please see “ITEM 2. BUSINESS OVERVIEW” for further discussion of risks, including risks related to NTT’s business.

Dialogue with Shareholders and Other Investors:

NTT promotes management that prioritizes discussions with shareholders, which not only includes discussions at General Meetings of Shareholders but also involves senior management, including the president, actively promoting discussions with shareholders about medium-term management strategies, corporate governance, business performance trends, and other topics through one-on-one meetings with institutional investors and briefings targeting individual investors. The opinions received from shareholders through such discussions are shared in the Company. NTT considered and formulated the “Your Value Partner 2025” Medium-Term Management Strategy in light of shareholder opinions.

During discussions with shareholders, insider information is strictly controlled, and information is proactively disclosed with due consideration to fair disclosure (timely, fair, and impartial information disclosure). To increase convenience for overseas investors, we strive to release Japanese- and English-language disclosure materials at the same time. The Japanese- and English-language versions of the entire Notice of Convocation for the Ordinary General Meeting of Shareholders, including the business report, were released at the same time, more than one month prior to the date of the Ordinary General Meeting of Shareholders.

Policy for Constructive Dialogue with Shareholders and Other Investors

• ***Appointment of Executives/Members of the Board***

The Head of Finance and Accounting is responsible for communications with investors, and the IR office is established within the Finance and Accounting Department.

• ***Measures to Ensure Positive Cooperation between Internal Departments***

The Finance Strategy Committee takes steps to enhance communications based on cooperation with related departments, such as periodically discussing the settlement of accounts.

• ***Promotion of Opportunities for Dialogue***

In addition to one-on-one meetings, we hold briefings, etc., in accordance with themes that reflect investor needs.

• ***Appropriate and Effective Feedback***

Input from shareholders and other investors is shared with management and Group companies and is used to enhance communications.

• ***Control of Insider Information***

We are implementing information disclosure in a fair and impartial manner in accordance with our disclosure policy.

Initiatives to Enhance Dialogue (fiscal year ended March 31, 2020)

For institutional investors:

- Implementing quarterly financial results presentations (4 times)
- Participating in IR conferences in Japan and overseas (8 times)
- Holding NTT IR DAY (briefing for institutional investors, 1 time)
- Implementing one-on-one briefings in Japan and overseas (total of more than 350 times) (topics: medium-term management strategy, financial results, corporate governance, etc.)

For individual investors:

- Implementing Company briefings (15 times) (including 4 company briefings by senior executives)
- Implementing online Company briefings (1 time)
- Participating in individual investor fairs (1 time)

(2) Members of the Board

i . Member List

Composition: 10 men and 3 women (percentage of women: 23.1%)

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Chairman of the Board	Hiromichi Shinohara	March 15, 1954	<p>April 1978: Joined Nippon Telegraph and Telephone Public Corporation</p> <p>June 2009: Senior Vice President Head of Research and Development Planning Member of the Board of the Company</p> <p>June 2011: Senior Vice President Head of Research and Development Planning Head of the Information Sharing Laboratory Group Member of the Board of the Company</p> <p>October 2011: Senior Vice President Head of Research and Development Planning Member of the Board of the Company</p> <p>June 2012: Executive Vice President Head of Research and Development Planning Member of the Board of the Company</p> <p>June 2014: Senior Executive Vice President Head of Research and Development Planning Representative Member of the Board of the Company</p> <p>June 2018: Chairman of the Board of the Company (present post)</p>	Note 3	44,300
Representative Member of the Board President Chief Executive Officer (CEO)	Jun Sawada	July 30, 1955	<p>April 1978: Joined Nippon Telegraph and Telephone Public Corporation</p> <p>June 2008: Senior Vice President Executive Manager of Corporate Strategy Planning Department Member of the Board of NTT Communications Corporation</p> <p>June 2011: Executive Vice President Executive Manager of Corporate Strategy Planning Department Member of the Board of NTT Communications Corporation</p> <p>June 2012: Senior Executive Vice President Executive Manager of Corporate Strategy Planning Department Representative Member of the Board of NTT Communications Corporation</p> <p>June 2013: Senior Executive Vice President Representative Member of the Board of NTT Communications Corporation</p> <p>June 2014: Senior Executive Vice President Representative Member of the Board of the Company</p> <p>June 2018: President and Chief Executive Officer Representative Member of the Board of the Company (present post)</p> <p>August 2018: President and Chief Executive Officer Representative Member of the Board of NTT, Inc. (present post)</p>	Note 3	34,400

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Representative Member of the Board Senior Executive Vice President In charge of business strategy Chief Financial Officer (CFO) Chief Compliance Officer (CCO) Chief Human Resource Officer (CHRO)	Akira Shimada	December 18, 1957	<p>April 1981: Joined Nippon Telegraph and Telephone Public Corporation</p> <p>June 2007: Vice President of Corporate Strategy Planning of the Company</p> <p>July 2007: General Manager of the Accounts and Finance Department of Nippon Telegraph and Telephone West Corporation</p> <p>July 2009: General Manager of the General Affairs and Personnel Department of Nippon Telegraph and Telephone East Corporation</p> <p>June 2011: Senior Vice President General Manager of the General Affairs and Personnel Department Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>June 2012: Senior Vice President Head of the General Affairs Member of the Board of the Company</p> <p>June 2012: Member of the Board of Nippon Telegraph and Telephone West Corporation</p> <p>June 2015: Executive Vice President Head of General Affairs Member of the Board of the Company</p> <p>June 2018: Senior Executive Vice President Representative Member of the Board of the Company (present post)</p> <p>August 2018: Member of the Board of NTT, Inc.</p> <p>October 2018: Senior Executive Vice President of NTT, Inc.(present post)</p>	Note 3	21,908
Representative Member of the Board Senior Executive Vice President In charge of technical strategy Chief Technology Officer (CTO) Chief Information Officer (CIO) Chief Digital Officer (CDO)	Naoki Shibutani	February 25, 1963	<p>April 1985: Joined the Company</p> <p>July 2013: Executive Manager of the Medium-term Management Strategies Promotion Office of the Corporate Strategy Planning Department of Nippon Telegraph and Telephone East Corporation</p> <p>June 2014: Senior Vice President Executive Manager of the Plant Planning Department of the Network Business Headquarters Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>July 2017: Senior Vice President Executive Manager of the Plant Planning Department of the Network Business Headquarters and Tokyo Olympic & Paralympic Promotion Office Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>June 2018: Senior Executive Vice President Senior Executive Manager of the New Business Development Headquarters Representative Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>July 2019: Senior Executive Vice President Senior Executive Manager of the New Business Development Headquarters and the Digital Transformation Headquarters Representative Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>June 2020: Senior Executive Vice President Representative Member of the Board of the Company (present post)</p>	Note 3	9,200

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Outside Member of the Board	Katsuhiko Shirai	September 24, 1939	<p>April 1965: Assistant of the First Faculty of Science and Engineering of Waseda University</p> <p>April 1968: Full-time lecturer of the Faculty of Science and Engineering of Waseda University</p> <p>April 1970: Assistant Professor of the Faculty of Science and Engineering of Waseda University</p> <p>April 1975: Professor of the Faculty of Science and Engineering of Waseda University</p> <p>November 1994: Director of Academic Affairs and Director of the International Exchange Center of Waseda University</p> <p>November 1998: Executive Director of Waseda University</p> <p>November 2002: President of Waseda University</p> <p>November 2010: Educational Advisor of Waseda University</p> <p>April 2011: Chairperson of the Foundation for the Open University of Japan</p> <p>June 2012: Member of the Board of the Company (present post)</p> <p>June 2012: Director of Japan Display, Inc.</p> <p>November 2016: Honorary Advisor of Waseda University (present post)</p>	Note 1 Note 3	9,600
Outside Member of the Board	Sadayuki Sakakibara	March 22, 1943	<p>April 1967: Joined Toyo Rayon Co., Ltd. (currently registered as Toray Industries, Inc.)</p> <p>June 2002: President of Toray Industries, Inc.</p> <p>June 2010: Chairman and Representative Member of the Board of Toray Industries, Inc.</p> <p>June 2010: Director of Mitsui O.S.K. Lines, Ltd.</p> <p>June 2012: Member of the Board of the Company (present post)</p> <p>June 2013: Director of Hitachi, Ltd.</p> <p>June 2014: Chairman of the Japan Business Federation (Keidanren)</p> <p>June 2014: Chairman of the Board of Directors, Toray Industries, Inc.</p> <p>June 2015: Chief Senior Adviser and Chief Senior Counselor of Toray Industries, Inc.</p> <p>June 2017: Senior Adviser of Toray Industries, Inc.</p> <p>June 2018: Special Adviser of Toray Industries, Inc.</p> <p>June 2018: Honorary Chairman of the Japan Business Federation (present post)</p> <p>March 2019: Outside Director of SHIMANO INC. (present post)</p> <p>May 2019: Outside Director of Nitori Holdings Co., Ltd. (present post)</p> <p>December 2019: Director and Chairperson of the Board of Japan Investment Corporation (present post)</p>	Note 1 Note 3	20,500

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Outside Member of the Board	Ken Sakamura	July 25, 1951	<p>April 2000: Professor of the Interfaculty Initiative in Information Studies and the Graduate School of Interdisciplinary Information Studies of the University of Tokyo</p> <p>January 2002: Director of YRP Ubiquitous Networking Laboratory (present post)</p> <p>April 2009: Director of Institute of Infrastructure Application of Ubiquitous Computing of the Interfaculty Initiative in Information Studies of the University of Tokyo</p> <p>October 2014: President of Vitalizing Local Economy Organization by Open Data & Big Data (present post)</p> <p>April 2017: Professor and Dean of Faculty of Information Networking for Innovation and Design of Toyo University (present post) Head of collaboration Hub for University and Business of Toyo University</p> <p>June 2017: Emeritus Professor of the University of Tokyo (present post)</p> <p>June 2019: Member of the Board of the Company (present post)</p> <p>August 2019: President of Association for IoT Services Coordination (present post)</p>	Note 1 Note 3	900
Outside Member of the Board	Keiko Takegawa	April 23, 1958	<p>July 2008: Director-General for Policies on Cohesive Society and Minister's Secretariat of Cabinet Office</p> <p>July 2009: Director-General for Gender Equality Bureau of Cabinet Office</p> <p>December 2012: Director-General of the Public Relations Office of Cabinet Office</p> <p>July 2014: Director of the Gender Equality Bureau of Cabinet Office</p> <p>April 2019: Professor of Showa Women's University</p> <p>June 2019: Member of the Board of the Company (present post)</p> <p>June 2019: Corporate Auditor of MITSUI MINING & SMELTING CO., LTD. (present post)</p> <p>April 2020: Professor and Dean of Faculty of Global Business of Showa Women's University (present post)</p>	Note 1 Note 3	600

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Audit & Supervisory Board Member	Takao Maezawa	October 24, 1955	<p>April 1978: Joined Nippon Telegraph and Telephone Public Corporation</p> <p>June 2006: Executive Manager of Human Resources Management Department, General Manager of Training Institute Executive Manager of the General Affairs of NTT Communications Corporation</p> <p>June 2008: Senior Vice President Deputy General Manager of the Enterprise Business Division Member of the Board of NTT Communications Corporation</p> <p>June 2011: Executive Vice President Deputy General Manager of the Enterprise Business Division Member of the Board of NTT Communications Corporation</p> <p>August 2011: Executive Vice President Head of Second Sales Division Member of the Board of NTT Communications Corporation</p> <p>June 2012: President and CEO of NTT PC Communications Incorporated</p> <p>June 2016: Full Time Audit & Supervisory Board Member of the Company (present post)</p> <p>August 2018: Audit & Supervisory Board Member of NTT, Inc. (present post)</p>	Note 4	20,008
Audit & Supervisory Board Member	Kanae Takahashi	July 17, 1963	<p>April 1987: Joined the Company</p> <p>July 2013: Deputy Head of the Internal Control Office of the General Affairs Department of the Company</p> <p>June 2014: Head of the Internal Control Office of the General Affairs Department of the Company</p> <p>June 2016: Executive Manager of the Kanagawa Division and Manager of the Kanagawa Branch of the Kanagawa Division Member of the Board of Nippon Telegraph and Telephone East Corporation</p> <p>June 2016: Executive Manager of the Kanagawa Division and Manager of the Kanagawa Branch of the Kanagawa Division Member of the Board of NTT EAST-MINAMI KANTO CORPORATION</p> <p>June 2019: Executive Vice President Executive Manager of the Corporate Strategy Planning Department and the NW Facilities Business Department Member of the Board of NTT InfraNet Co., Ltd.</p> <p>June 2020: Full Time Audit & Supervisory Board Member of the Company (present post)</p>	Note 5	4,200

<u>Position Responsibility</u>	<u>Name</u>	<u>Date of Birth</u>	<u>Brief Career Summary</u>	<u>Term</u>	<u>Share Ownership (shares)</u>
Outside Audit & Supervisory Board Member	Takashi Iida	September 5, 1946	<p>April 1974: Registered as attorney-at-law (Daini Tokyo Bar Association) (registration up-to-date) Joined Mori Sogo Law Offices (currently Mori Hamada & Matsumoto)</p> <p>April 1991: Deputy Chairman of the Daini Tokyo Bar Association</p> <p>April 1997: Executive Governor of the Japan Federation of Bar Associations</p> <p>April 2006: Chairman of the Daini Tokyo Bar Association</p> <p>April 2006: Vice President of the Japan Federation of Bar Associations</p> <p>January 2012: Established Kowa Law Office (present post)</p> <p>June 2012: Corporate Auditor (Part-Time) for Shimadzu Corporation (present post)</p> <p>June 2013: Corporate Auditor of JAFECO Co., Ltd</p> <p>June 2013: Outside Director of Alps Electric Co., Ltd. (currently ALPS ALPINE CO., LTD.) (present post)</p> <p>June 2014: Outside Audit & Supervisory Board Member of the Company (present post)</p>	Note 2 Note 4	6,900
Outside Audit & Supervisory Board Member	Hideki Kanda	September 24, 1953	<p>April 1977: Research Assistant of Faculty of Law of the University of Tokyo</p> <p>April 1980: Lecturer of Faculty of Law of Gakushuin University</p> <p>April 1982: Associate Professor of Faculty of Law of Gakushuin University</p> <p>April 1988: Associate Professor of Faculty of Law of the University of Tokyo</p> <p>April 1991: Associate Professor of Graduate Schools for Law and Politics of the University of Tokyo</p> <p>May 1993: Professor of Graduate Schools for Law and Politics of the University of Tokyo</p> <p>April 2016: Professor of Professional School of Law (Law School) of Gakushuin University (present post)</p> <p>June 2016: Emeritus Professor of the University of Tokyo (present post)</p> <p>June 2017: Director of Sumitomo Mitsui Trust Bank, Limited (present post)</p> <p>June 2019: Outside Audit & Supervisory Board Member of the Company (present post)</p>	Note 2 Note 4	0
Outside Audit & Supervisory Board Member	Kaoru Kashima	January 20, 1958	<p>November 1981: Joined Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)</p> <p>April 1985: Registered as a certified public accountant (registration up-to-date)</p> <p>June 1996: Partner of Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)</p> <p>June 2002: Senior Partner of ShinNihon & Co. (currently Ernst & Young ShinNihon LLC)</p> <p>July 2006: In charge of personnel of HR Development Headquarters of ShinNihon & Co.</p> <p>September 2010: Managing Director of Ernst & Young ShinNihon LLC In charge of Corporate Culture Promotion Office In charge of Public Relations Office</p> <p>July 2012: General Manager of Knowledge Headquarters Managing Director of Ernst & Young ShinNihon LLC</p> <p>July 2013: Representative Director of Ernst & Young Institute Co., Ltd.</p> <p>June 2019: Outside Audit & Supervisory Board Member of the Company (present post)</p> <p>June 2019: Director of Sumitomo Mitsui Trust Bank, Limited (present post)</p> <p>March 2020: Audit & Supervisory Board Member of Kirin Holdings Company, Limited (present post)</p>	Note 2 Note 4 Note 6	0
Total					172,516

- Notes: 1. Mr. Katsuhiko Shirai, Mr. Sadayuki Sakakibara, Mr. Ken Sakamura and Ms. Keiko Takegawa are Outside Members of the Board.
2. Mr. Takashi Iida, Mr. Hideki Kanda and Ms. Kaoru Kashima are Outside Audit & Supervisory Board Members.
3. The length of term for Members of the Board is two years following the June 23, 2020 Ordinary General Meeting of Shareholders.
4. The length of term for Audit & Supervisory Board Members is four years following the June 25, 2019 Ordinary General Meeting of Shareholders.
5. The length of term for Audit & Supervisory Board Members is three years following the June 23, 2020 Ordinary General Meeting of Shareholders.
6. The surname of Kaoru Kashima is Taya in the family register.

ii. Outside Members of the Board and Audit & Supervisory Board Members

Nomination Policies and Procedure for Outside Members of the Board and Audit & Supervisory Board Members

From the perspectives of strengthening supervising functions for execution and guaranteeing appropriate audits of the execution of duties by Members of the Board, NTT has the policy of selecting individuals to serve as outside Members of the Board and outside Audit & Supervisory Board Members who do not represent risks of conflicts of interest with general shareholders. NTT designates outside Members of the Board and outside Audit & Supervisory Board Members who fulfill both the independence criteria stipulated by Tokyo Stock Exchange, Inc., and NTT's own independence standards as outside independent Members of the Board or outside independent Audit & Supervisory Board Members.

Independence Standards for the Independent Directors/ Audit & Supervisory Board Members (Kansayaku)

In order to meet the independence standards, a person may not fall under any of the categories below in the last three fiscal years:

- (1) A person who executes business in a partner company that exceeds NTT's standards ⁽¹⁾
- (2) A person who executes business in a lending company that exceeds NTT's standards ⁽²⁾
- (3) A consultant, accountant, lawyer, or any other person providing professional services, who received monetary payments or any other gain in assets equal to or more than ¥10 million, excluding the Board Members' or Audit & Supervisory Board Members' compensation, from NTT or its major subsidiaries ⁽³⁾ in any of the last three fiscal years
- (4) A person who executes business in an organization that received donations exceeding NTT's standards ⁽⁴⁾

Even if any of (1) through (4) above applies to a person, where it has been decided that a person meets the independence standards, the reasons shall be explained and disclosed at the time of the person's appointment as the Independent Member of the Board or Audit & Supervisory Board Member.

- Notes: 1. "A partner company that exceeds NTT's standards" is defined as a company that has had any business dealing with NTT and its major subsidiaries ⁽³⁾ in any of the last three fiscal years equal to or more than 2% of the total operating revenues of NTT and its major subsidiaries for the respective fiscal year.
2. "A lending company that exceeds NTT's standards" is defined as a company in which the total amount of borrowings on a consolidated basis in any of the last three fiscal years equals to or is more than 2% of NTT's consolidated total assets for the respective fiscal year.
3. The major subsidiaries are NTT DOCOMO, INC., NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION, NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION, NTT COMMUNICATIONS CORPORATION and NTT DATA CORPORATION.
4. "An organization that received donations exceeding NTT's standards" is defined as an organization which received donations from NTT and its major subsidiaries*3 in any of the last three fiscal years exceeding ¥10 million or 2% of the total income of the organization, whichever is larger, during the respective fiscal year.

Criteria for Selection and Activities of Outside Members of the Board and Audit & Supervisory Board Members

NTT, in order to strengthen functions for appropriately supervising and auditing business execution, seeks to strengthen its auditing system by appointing four outside independent Members of the Board. Each outside independent member of the board has a wealth of experience as operational director of an academic educational institution, as a corporate manager or as an officer of public relations and diversity promotion in the Government has a high level of integrity and insight and, by providing advice from a wide-ranging managerial perspective, plays an important role in helping to strengthen the supervisory function for business execution.

Outside Members of the Board receive reports from the corporate auditors and Internal Control Office regarding audit plans and results, and also oversee business operations by providing input as needed.

NTT appoints three outside independent Audit & Supervisory Board Members out of the five total Audit Supervisory & Board Members. NTT expects that each outside independent Audit & Supervisory Board Member conduct future audits based on the knowledge and insight they have gained throughout their careers. NTT's Audit & Supervisory Board, including the outside independent Audit & Supervisory Board Members, exchange opinions with NTT's accounting auditors regarding audit plans, audit results and other information. The Audit & Supervisory Board also exchanges opinions with the Internal Control Office, including information relating to internal audit results.

(3) Audit & Supervisory Board, Independent Auditor and Internal Control

i. Audit & Supervisory Board Members

Composition of the Audit & Supervisory Board

The Audit & Supervisory Board comprises three outside independent Audit & Supervisory Board Members (including one female member), who have experience and knowledge in a range of fields—as a lawyer, university professor, and Certified Public Accountant—and two internal Audit & Supervisory Board Members (including one female member). NTT conducts effective audits by combining the independence of outside Audit & Supervisory Board Members with the superior information collection capabilities of internal Audit & Supervisory Board Members. Among the board members, the Audit & Supervisory Board Member, Takao Maezawa, has experience in the accounting division of NTT and its affiliated companies while Audit & Supervisory Board Member, Kaoru Kashima, a Certified Public Accountant, has considerable knowledge in the areas of finance and accounting.

Please see “(2) Members of the Board” for additional details.

Activities of the Audit & Supervisory Board

For the fiscal year ended March 31, 2020, on the basis of the audit plan, the Audit & Supervisory Board conducted an efficient and effective audit in collaboration with the Internal Control Office, Independent Auditors and group company corporate auditors amid significant changes in management, including the global business reorganization and expansion of areas of business, on both audit matters required by law and on other matters, such as the progress of the Medium-Term Management Strategy and initiatives to maintain and improve corporate governance. Furthermore, although local meetings with overseas subsidiaries that had previously been scheduled for February 2020 and thereafter were cancelled due to the global spread of the COVID-19 pandemic, as a result of countermeasures, such as replacing those meetings with web conferences, there was no material impact on audit activities.

Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings. In addition, Audit & Supervisory Board Members meet with Representative Members of the Board, to exchange ideas and opinions, and meet with Members of the Board and Representative Members of the Board at each group company to hold discussions on various topics. In this way, Audit & Supervisory Board Members maintain an understanding of the status of the execution of duties by Members of the Board and provide their opinions as needed. In the fiscal year ended March 31, 2020, Audit & Supervisory Board Members met to exchange ideas and opinions with Representative Members of the Board 10 times, and held discussions with Members of the Board and with Representative Members of the Board at each group company 42 times. In the fiscal year ended March 31, 2020, the Audit & Supervisory Board met 23 times (with Ms. Akiko Ide, Mr. Takao Maezawa and Mr. Takashi Iida each attending 23 out of 23 meetings, Mr. Hideki Kanda attending 14 out of 15 meetings, and Ms. Kaoru Kashima attending 14 out of 14 meetings).

Moreover, separate from meetings of the Audit & Supervisory Board, the Audit & Supervisory Board Members Preliminary Deliberation Meeting met 28 times. These meetings provide a venue for the sharing of information. For example, at these meetings Audit & Supervisory Board Members receive explanations from corporate officers of matters to be discussed at the Executive Officers Meeting. Furthermore, Audit & Supervisory Board Members work closely with Independent Auditors and the Internal Control Office. Audit & Supervisory Board Members exchanged opinions with Independent Auditors 10 times and the Internal Control Office 10 times, and receive explanations of audit plans and reports on the status of internal control systems and provide advice as needed.

In initiatives related to Group companies, Audit & Supervisory Board Members received information from the Representative Members of the Board of 19 major Group companies regarding the status of corporate governance and measures to maintain and enhance corporate governance, and discussions were conducted on those matters. In addition, Audit & Supervisory Board Members visited major bases in Japan and overseas (19 bases), received information from local representatives, and conducted discussions. Furthermore, Audit & Supervisory Board Members received reports regarding audit results from Audit & Supervisory Board Members of major Group companies and exchanged opinions with them. In addition, the Audit & Supervisory Board is implementing initiatives that contribute to enhancing the auditing activities of Audit & Supervisory Board Members of major Group companies, including regularly holding training sessions by outside experts for Audit & Supervisory Board Members of major Group companies.

Through these activities, Audit & Supervisory Board Members support the sound, steady growth of NTT and Group companies from an independent perspective that differs from that of executives. In addition, Audit & Supervisory Board Members contribute to the strengthening of corporate governance systems and the fostering of awareness of compliance matters.

Evaluation of the Effectiveness of the Audit & Supervisory Board

In the fiscal year ended March 31, 2020, an evaluation of the performance of the Audit & Supervisory Board was conducted for the purpose of reviewing audit activities, reflecting this in audit plans for the next fiscal year, improving the quality of audits and other matters. As a result of discussions and verifications on effectiveness held by Audit & Supervisory Board Members, based on the results of questionnaires taken by each Audit & Supervisory Board Member, NTT evaluated that the effectiveness of the Audit & Supervisory Board is being ensured. NTT determined that increasing the opportunities to exchange opinions with Representative Members of the Board has made it possible to cooperate on management issues, confirm awareness of risks and enabled Audit & Supervisory Board Members to more actively propose ideas, and that improving communications with auditors has contributed to maintaining the appropriateness of the audit process. NTT also recognized, however, that, in light of significant changes in management, including the global business reorganization and expansion of areas of business, it will be necessary to strengthen collaboration with the Internal Control Office and group company corporate auditors. NTT will work to further improve the Audit & Supervisory Board's effectiveness going forward.

Nomination Policies and Procedure for Audit & Supervisory Board Members

NTT has the policy of electing candidates for Audit & Supervisory Board Members that have the capacity to provide audits based on specialized experience and insight. From the perspective of guaranteeing fair audits of the execution of duties by Members of the Board, for outside independent Audit & Supervisory Board Members NTT elects individuals who present no risk of a conflict of interest with general shareholders. In accordance with the Companies Act, NTT ensures that outside independent Audit & Supervisory Board Members make up half or more of the Audit & Supervisory Board.

With regard to the nomination of Audit & Supervisory Board Members, nomination involves Members of the Board proposing Audit & Supervisory Board Member candidates based on the nomination policy described above. These proposals are then discussed by the Audit & Supervisory Board, which consists of half or more of outside independent Audit & Supervisory Board Members, and consent is granted if appropriate. The candidates are then approved by the Board of Directors and presented for voting at the General Meeting of Shareholders.

Support Structures for Audit & Supervisory Board Members

The Office of Audit & Supervisory Board Members, which has four dedicated NTT employees, has been established as a structure to support audits by the Audit & Supervisory Board Members. In addition, NTT has concluded contracts with lawyers and other specialists who may be called upon as necessary to provide advice at the expense of NTT. In addition, when Audit & Supervisory Board Members are elected, they are trained with respect to market trends and compliance. They then continue to undergo training on broad spectrum of topics, including domestic and overseas economic and social issues, after appointment. Moreover, NTT is creating opportunities for tours and implementing other initiatives so that outside Audit & Supervisory Board Members can further deepen their understanding of NTT and NTT Group.

ii. Internal Control

The Internal Control Office consists of 12 members, and works together with the internal auditing divisions of each Group company to verify the internal control systems in place throughout the Group and the status of their implementation. Specifically, internal audits are conducted by the internal auditing divisions of each Group company, and the results of these auditing activities are reviewed by NTT. In addition, by conducting standardized audits with regard to major risk factors that are common issues throughout the Group and testing the maintenance and operation of internal control systems related to financial reporting pursuant to the Financial Instruments and Exchange Act of Japan, NTT is continuously enhancing and verifying their effectiveness.

In addition, the Internal Control Office reports the above results to the president and to the Board of Directors, and also reports them to and shares them with the Audit & Supervisory Board and the independent auditor and promotes necessary coordination.

Furthermore, the Internal Control Office shares the above results with relevant departments. Based on such results, relevant departments work to improve the internal control system as needed.

iii. Independent Auditor

Activities of the Independent Auditor

NTT has appointed KPMG AZSA LLC as its Independent Auditor since 1985. The Independent Auditor maintains the level of coordination with the Audit & Supervisory Board and the Internal Control Office necessary to conduct appropriate audits. As part of this coordination, the Independent Auditor appropriately audits through reporting the audit plans and audit results to the Audit & Supervisory Board and working together with the Internal Control Office to establish systems for monitoring the status of oversight related to evaluating internal control systems for financial reports.

For the fiscal year ended March 31, 2020, the Independent Auditors who carried out the audit were Takuji Kanai, Kensuke Sodekawa and Masashi Oki, with 25 public certified accountants and 30 other staff assisting in conducting the audits.

In order to maintain the independence of the audit process, NTT also conducts appropriate rotations of KPMG AZSA LLC officers in accordance with the Certified Public Accountants Act of Japan, with lead engagement partners not being able to participate in audit responsibilities for more than five consecutive accounting periods, after which there is an interval of five accounting periods before such partners may participate again. Furthermore, officers other than lead engagement partners may not participate in audit responsibilities for more than seven consecutive account periods, after which there is an interval of two accounting periods before such officers may participate again.

Nomination Policy and Reason of the Independent Auditor

NTT believes that it is important to maintain and enhance audit quality while increasing audit efficiency. Based on this policy, the Audit & Supervisory Board evaluates Independent Auditor candidates from the perspectives of their independence and specialties and the appropriateness and adequateness of their auditing activities. The candidates that are approved by the Audit & Supervisory Board are then presented for voting at the Ordinary General Meeting of Shareholders.

The Audit & Supervisory Board may choose to dismiss or not reappoint the Independent Auditor in any of the cases described in Article 340 (1) of the Companies Act based on a unanimous vote by all Audit & Supervisory Board Members. 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.

iv. Description of Audit Fees

Compensation of Independent Auditor

Category	<u>Fiscal year ended March 31, 2019</u>		<u>Fiscal year ended March 31, 2020</u>	
	<u>Compensation for Audit Services</u> (millions of yen)	<u>Compensation for Non-Audit Services</u> (millions of yen)	<u>Compensation for Audit Services</u> (millions of yen)	<u>Compensation for Non-Audit Services</u> (millions of yen)
NTT	316	15	333	0
Consolidated subsidiaries	2,450	96	2,537	70
Total	2,766	111	2,870	70

Non-audit services for which NTT and its consolidated subsidiaries pay compensation to KPMG AZSA LLC, NTT's independent auditor, include advisory and guidance services related to verifying the status of the maintenance of internal control, on the basis of Auditing and Assurance Practice Committee Statement No.86 (Assurance Reports on Controls at a Service Organization), and to International Financial Reporting Standards.

Compensation of the Same Network (KPMG Network) as the Independent Auditor (excluding the above "Compensation of Independent Auditor")

<u>Category</u>	<u>Fiscal year ended March 31, 2019</u>		<u>Fiscal year ended March 31, 2020</u>	
	<u>Compensation for Audit Services (millions of yen)</u>	<u>Compensation for Non -Audit Services (millions of yen)</u>	<u>Compensation for Audit Services (millions of yen)</u>	<u>Compensation for Non -Audit Services (millions of yen)</u>
NTT	—	—	—	—
Consolidated subsidiaries	1,667	188	2,236	197
Total	1,667	188	2,236	197

NTT and its consolidated subsidiaries pay compensation to KPMG AZSA LLC, NTT's Independent Auditor, and other member firms of the KPMG network for audit services and non-audit services.

Of these services, audit services provided by entities other than KPMG AZSA LLC consisted of audits of the financial statements of 442 overseas consolidated subsidiaries, and non-audit services consisted of the preparation of tax returns for 49 consolidated subsidiaries in Japan and overseas.

Other Significant Audit Service Fees

Not applicable.

Policy for Determining Audit Fees

Not applicable. However, audit fees are determined with the consent of the Audit & Supervisory Board in accordance with applicable laws and regulations, taking into consideration such factors as the size and characteristics of NTT and its subsidiaries and the days required for the audits.

Evaluation of Independent Auditor by the Audit & Supervisory Board and Reasons

The Audit & Supervisory Board evaluates the independence and expertise of the independent auditor, and the validity and appropriateness of the audit activity by the independent auditor. Specifically, the Audit & Supervisory Board has evaluated the quality control of the independent auditor, the composition of the audit team, communications with the Audit & Supervisory Board and management, quality of overseas networks and firms, audit reports and other points, and has confirmed that the independent auditor has the business execution ability and quality control systems suitable for NTT's independent auditor.

Reasons for Consent to Compensation to Independent Auditor by the Audit & Supervisory Board

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.

(4) Compensation of Members of the Board and Audit & Supervisory Board Members Policy

Policy

With regard to compensation policy and the composition and levels of compensation of Members of the Board of NTT, in order to improve objectivity and transparency, NTT established the Appointment and Compensation Committee, comprised of four Members of the Board, including two outside independent Members of the Board. Compensation matters are decided by the Board of Directors after deliberation by this committee. In the fiscal year ended March 31, 2020, in addition to holding meetings of the Appointment and Compensation Committee five times, committee members also met to exchange opinions and ideas on multiple occasions.

Compensation of Members of the Board (excluding outside Members of the Board) consists of a base salary and a bonus. The base salary is paid monthly on the basis of the scope of each Member of the Board's roles and responsibilities. The bonus is paid taking into account factors including the degree of achievement of performance indicators, such as EPS for the fiscal year ended March 31, 2020. Performance indicators are set at the financial targets set forth in the Medium-Term Management Strategy, and, specifically, are determined based on EPS, operating profit, ROIC, capex to sales, overseas sales, overseas operating income margin and the total number of B2B2X projects. Also, Members of the Board make contributions of a certain defined amount or more from their base salary and bonus for the purchase of NTT shares through the Board Members Shareholding Association in order to reflect NTT's medium to long-term business results in compensation. Purchased shares are to be held by the Members of the Board throughout their terms of office. The composition ratio of compensation in a case where standard business results are achieved is roughly 70/30 of fixed compensation to performance-related compensation.

Also, with the aim of realizing a stronger awareness of achieving the Medium-Term Management Strategy, sustainable growth, and medium- to long-term improvement in corporate value, NTT is considering expanding the ratio of overall compensation occupied by performance-related compensation from fiscal 2021.

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

Compensation of Audit & Supervisory Board Members is determined by resolution of the Audit & Supervisory Board and consists of a base salary only, for the same reasons as those cited above with respect to outside Members of the Board.

Total Compensation of Members of the Board and Audit & Supervisory Board Members (Fiscal Year Ended March 31, 2020)

<u>Class</u>	<u>Number of Persons Paid (persons)</u>	<u>Monthly Remuneration (millions of yen)</u>	<u>Board Member Bonuses (millions of yen)</u>	<u>Total Amount (millions of yen)</u>
Members of the Board (excluding Outside Members of the Board)	11	447	98	545
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	2	74	—	74
Total	13	521	98	619

- Notes: 1. Maximum limits on total annual compensation of Members of the Board and Audit & Supervisory Board Members were set at ¥750 million for Members of the Board (15 members or less) and ¥200 million for Audit & Supervisory Board Members (five members or less) at the 21st Ordinary General Meeting of Shareholders held on June 28, 2006.
2. In addition to the above, there was a bonus of ¥18 million paid to six Members of the Board who concurrently serve as employees.
3. With respect for the performance indicator targets for the payment of executive bonuses for the fiscal year under review, all of the targets have been achieved except for overseas sales and overseas operating income margin.

Total Amount of Compensation for Outside Members of the Board
(Fiscal Year Ended March 31, 2020)

	<u>Number of Persons Paid</u> (persons)	<u>Monthly Remuneration</u> (millions of yen)
Total Compensation for Outside Members of the Board	9	97

Note: The table above includes two Outside Members of the Board who resigned on June 25, 2019 at the conclusion of the 34th Ordinary General Meeting of Shareholders.

(5) Shareholdings

NTT does not hold shares to create stable shareholders, and has no plans to do so in the future.

Criteria of and Approach to the Classification of Equity Securities for Investments

In terms of holding shares, NTT designates equity securities that are solely for the purpose of investments as “stocks held to obtain profits by using short-term fluctuations in interest rates, currencies, security market prices and market discrepancies, or to receive dividends or other things.”

On the other hand, NTT makes strategic shareholdings by “holding stock as needed in order to pursue collaboration and open innovation with partners in various industries to contribute to medium- to long-term improvement in corporate value.”

Equity Securities Held for Purposes other than Solely for Investment

NTT's policy is to make strategic shareholdings, as needed, in order to pursue collaboration and open innovation with partners in various industries to contribute to medium- to long-term improvement in corporate value. With regard to the shares held pursuant to these policies, the Investment Strategy Committee evaluates the appropriateness of holding individual stocks by comprehensively taking into consideration the contribution to the medium- to long-term results of NTT, the progress of business collaborations, future considerations concerning business collaborations, performance trends of the investment targets and future business strategies of NTT.

With respect to exercising voting rights of strategic shareholding, NTT exercises voting rights acquired through share ownership, as it sees fit, from the perspective of sustainable growth of the companies NTT invests in and improving corporate value for both NTT and the companies.

The status of NTT's holding of such stock is as follows:

(a) Number of issues and total balance sheet amount of equity securities held for purposes other than solely for investment

	Number of Issues	Total Balance Sheet Amount (Millions of yen)
Unlisted shares	6	9,155
Shares other than unlisted shares	2	44,425

(Issues in which the number of shares increased in the fiscal year ended March 31, 2020)

	Number of Issues	Total acquisition cost relating to the increase in the number of shares (Millions of yen)	Reasons for the increase in the number of shares
Unlisted shares	—	—	—
Shares other than unlisted shares	1	70,388	For business alliances intended to strengthen and expand the lease business and finance business

(Issues in which the number of shares decreased in the fiscal year ended March 31, 2020)

	Number of Issues	Total sale value relating to the decrease in the number of shares (Millions of yen)
Unlisted shares	1	33
Shares other than unlisted shares	—	—

(b) Number of shares, balance sheet amounts and other information of specified equity securities and deemed holdings of equity securities by issue

(Specified Equity Securities)

Issue Name	Year ended March 31, 2020	Year ended March 31, 2019	Purpose of holding, quantitative effects of holding, and reasons for the increase in the number of shares	Whether the investee holds NTT's shares
	Number of Shares (Shares)	Number of Shares (Shares)		
	Balance Sheet Amounts (Millions of yen)	Balance Sheet Amounts (Millions of yen)		
KADOKAWA CORPORATION	2,040,000	2,040,000	Primarily strengthening business collaboration in the field of research and development for video and social media services. Comprehensively taking into account NTT Group's aim of expanding the usage area of NTT Group's technology, including through demonstration experiments of a variety of advanced technologies, the contribution to medium- to long-term business results resulting from the evolution of services that utilize them, as well as the company's business results and future management strategies, NTT Group has decided to continue holding their shares.	No
	2,780	2,380		
Tokyo Century Corporation	12,302,800	—	NTT entered into a capital and business alliance with the company during the fiscal year ended March 30, 2020, and acquired shares which it currently holds, primarily with the aim of strengthening business collaboration in the lease business and asset business field. Comprehensively taking into account the contribution to medium- to long-term business results resulting from the strengthening of NTT's lease business and cooperation in the asset business field through the joint venture established with the company, among other factors, as well as the company's business results and future management strategies, NTT Group has decided to continue holding their shares.	No
	41,644	—		

Note: In July 2019, Kadokawa Dwango Corporation changed its name to KADOKAWA CORPORATION.

(Deemed holdings of equity securities)

Not applicable.

Equity Securities Held Solely for the Purpose of Investment

Not applicable.

Equity Securities Reclassified from Held Solely for the Purpose of Investment to Held for Purposes other than Solely for Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

Equity Securities Reclassified from Held for Purposes other than Solely for Investment to Held Solely for the Purpose of Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

The status of NTT DOCOMO, which has the highest amount of investment shares on its balance sheet among NTT and its consolidated subsidiaries, is as follows:

Equity Securities Held for Purposes other than Solely for Investment

- a. Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors, etc. of the appropriateness of shareholdings in individual issues

With respect to shares strategically held, the Company considers the status of achievement of the purposes of investments, such as the reinforcement of relationships and the promotion of collaboration, as well as whether the returns and risks of the shareholdings are commensurate with capital costs, etc., and the Board of Directors verifies the appropriateness of the shareholdings. In the event that a rationale for a shareholding can no longer be found due to changes in the situation going forward, the Company will conduct a review of such shares, such as reducing the number of shares.

- b. Number of issues and total balance sheet amount

	Number of Issues	Total Balance Sheet Amount (Millions of yen)
Unlisted shares	43	10,017
Shares other than unlisted shares	17	257,115

(Issues in which the number of shares increased in the fiscal year ended March 31, 2020)

	Number of Issues	Total acquisition cost relating to the increase in the number of shares (Millions of yen)	Reasons for the increase in the number of shares
Unlisted shares	3	30,368	To promote collaboration with the business alliance partner
Shares other than unlisted shares	1	33,273	To promote collaboration with the business alliance partner

(Issues in which the number of shares decreased in the fiscal year ended March 31, 2020)

	Number of Issues	Total sale value relating to the decrease in the number of shares (Millions of yen)
Unlisted shares	1	1,703
Shares other than unlisted shares	1	747

c. Number of shares, balance sheet amounts and other information of specified equity securities and deemed holdings of equity securities by issue

(Specified Equity Securities)

Issue Name	Year ended March 31, 2020	Year ended March 31, 2019	Purpose of holding, quantitative effects of holding, and reasons for the increase in the number of shares	Whether the investee holds NTT DOCOMO's shares
	Number of Shares (Shares)	Number of Shares (Shares)		
	Balance Sheet Amounts (Millions of yen)	Balance Sheet Amounts (Millions of yen)		
PLDT Inc.	31,330,155	31,330,155	To enhance the corporate value of NTT DOCOMO through global collaboration and information sharing and to maintain and reinforce the favorable relationship	No
	74,686	76,102		
M3, Inc.	20,200,000	—	NTT DOCOMO entered into a capital and business alliance and acquired the company's shares in the fiscal year ended March 31, 2020 to improve corporate value by collaborating in the medical and health fields that leverage the company's assets	No
	64,539	—		
Far EasTone Telecommunications Co., Ltd.	153,543,573	153,543,573	To enhance the corporate value of NTT DOCOMO through global collaboration and information sharing and to maintain and reinforce the favorable relationship	No
	34,503	40,955		
KT Corporation	22,711,035	22,711,035	To enhance the corporate value of NTT DOCOMO through global collaboration and information sharing and to maintain and reinforce the favorable relationship	No
	24,592	38,929		
FamilyMart Co., Ltd.	7,251,200	7,251,200	To expand priority business of NTT DOCOMO through the promotion of collaboration in d Payment and d POINTs	No
	14,052	20,455		
Lawson, Inc.	2,092,000	2,092,000	To expand priority business of NTT DOCOMO through the promotion of collaboration in d Payment and d POINTs	No
	12,405	12,844		
Nippon Television Holdings, Inc.	7,779,000	7,779,000	To enhance corporate value through collaboration between the services of NTT DOCOMO and the investee group's superior contents and the utilization of know-how	No
	9,373	12,913		
TOKYO BROADCASTING SYSTEM HOLDINGS, INC.	5,713,000	5,713,000	To enhance corporate value through collaboration between the services of NTT DOCOMO and the investee group's superior contents and the utilization of know-how	No
	8,592	11,574		
FUJI MEDIA HOLDINGS, INC.	7,700,000	7,700,000	To enhance corporate value through collaboration between the services of NTT DOCOMO and the investee group's superior contents and the utilization of know-how	No
	8,292	11,765		
KADOKAWA CORPORATION	1,204,208	1,204,208	To enhance corporate value through collaboration between the services of NTT DOCOMO and the investee group's superior contents and the utilization of know-how	YES
	1,641	1,405		
Oisix ra daichi Inc.	1,000,000	1,000,000	To enhance corporate value through collaboration in the food area utilizing the assets held by the investee	No
	1,481	1,679		

Issue Name	Year ended March 31, 2020	Year ended March 31, 2019	Purpose of holding, quantitative effects of holding, and reasons for the increase in the number of shares	Whether the investee holds NTT DOCOMO's shares
	Number of Shares (Shares)	Number of Shares (Shares)		
	Balance Sheet Amounts (Millions of yen)	Balance Sheet Amounts (Millions of yen)		
EduLab, Inc.	429,200	429,200	To enhance corporate value through collaboration in the education field utilizing the assets held by the investee	No
	1,185	2,424		
SKY Perfect JSAT Holdings Inc.	2,048,100	2,048,100	To enhance the corporate value of NTT DOCOMO through collaboration and information sharing in the satellite communication business with the investee and to maintain and reinforce the favorable relationship	No
	786	942		
neos corporation	1,020,000	1,020,000	To enhance corporate value through collaboration between the services of NTT DOCOMO and the investee group's superior contents and the utilization of know-how	No
	523	1,074		
PKSHA Technology Inc.	214,000	214,000	To enhance corporate value through collaboration in the AI field utilizing the assets held by the investee	No
	334	1,316		
Nippon BS Broadcasting Corporation	80,000	80,000	To maintain and reinforce the business relationships with the investee group	No
	81	84		
BICCAMEIRA INC	50,000	50,000	To maintain and reinforce the business relationships with the investee group	No
	43	58		
NTT DATA INTRAMART CORPORATION	—	245,000	To enhance corporate value through collaboration in the development of corporate solutions utilizing the investee's assets	No
	—	872		

Notes: 1. The number of shares and balance sheet amount for PLDT Inc. include 8,533,253 shares and ¥20,523 million in the form of ADRs for the fiscal year ended March 31, 2019, and include 8,533,253 shares and ¥19,093 million in the form of ADRs for the fiscal year ended March 31, 2020.

2. The number of shares and balance sheet amount for KT Corporation include 16,906,444 shares and ¥23,342 million in the form of ADRs for the fiscal year ended March 31, 2019, and include 16,906,444 shares and ¥14,314 million in the form of ADRs for the fiscal year ended March 31, 2020.

3. It is difficult to quantify the effects of shareholding. The rationales for the shareholdings are verified by considering the status of achievement of the purposes of investments, such as the reinforcement of relationships and the promotion of collaboration, and whether the returns and risks of the shareholdings are commensurate with capital costs, etc.

4. In September 2019, FamilyMart UNY Holdings Co., Ltd. changed its name to FamilyMart Co., Ltd.

5. In July 2019, Kadokawa Dwango Corporation changed its name to KADOKAWA CORPORATION.

(Deemed holdings of equity securities)

Not applicable.

Equity Securities Held Solely for the Purpose of Investment

Not applicable.

Equity Securities Reclassified from Held Solely for the Purpose of Investment to Held for Purposes other than Solely for Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

Equity Securities Reclassified from Held for Purposes other than Solely for Investment to Held Solely for the Purpose of Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

The status of NTT DATA, which has the next-highest amount of investment shares on its balance sheet among NTT and its consolidated subsidiaries, is as follows:

Equity Securities Held for Purposes other than Solely for Investment

a. Policy

•Policy Relating to Strategic Shareholdings

NTT DATA's purpose of strategic shareholdings is to maintain medium- to long-term relationships, to expand trading volume and to create synergies with clients and business partners by holding shares issued by them. It is NTT DATA's policy to hold such shares if holding them is likely to enhance NTT DATA's enterprise value and lead to profit for its shareholders.

On the other hand, NTT DATA designates equity securities that are solely for the purpose of investment as "stocks held in order to obtain profits by using short-term fluctuations in interest rates, currencies, security market prices and market discrepancies, or to receive dividends or other things."

•Assessment of Strategic Shareholdings

The Board of Directors of NTT DATA assesses the significance of NTT DATA's strategic shareholdings each year, in a comprehensive manner for each company whose stock NTT DATA holds, from the viewpoint of whether benefits and risks from holding the shares are commensurate with capital costs and whether holding the shares in line with the purposes of holding: to maintain medium-to long-term relationships, to expand trading volume, to create synergies, and for other reasons, and then determines whether to hold or sell such shares. In the fiscal year ended March 31, 2020, as a result of this assessment, NTT DATA confirmed the appropriateness of holding all the listed shares held. If it no longer proves to be appropriate to hold a share due to future changes in circumstances, NTT DATA will take measures including reduction of the number of shares.

•Standards for Ensuring the Exercise of its Proper Voting Rights in Relation to Strategic Shareholdings

With regard to standards for ensuring the exercise of its proper voting rights in relation to strategic shareholdings, NTT DATA judges in a comprehensive manner whether the exercise of its voting right in relation to strategic shareholdings will lead to continuous growth and improvement in the medium- to long-term enterprise value of an issuing company. For example, NTT DATA will vote against a proposal if it has a negative impact on the financial soundness of the issuing company or the company's illegal action is discovered. NTT DATA considers that such comprehensive judgment will enhance its own enterprise value and medium- to long-term profit for its shareholders and investors.

b. Number of issues and total balance sheet amount

	Number of Issues	Total Balance Sheet Amount (Millions of yen)
Unlisted shares	81	5,371
Shares other than unlisted shares	46	90,520

(Issues in which the number of shares increased in the fiscal year ended March 31, 2020)

	Number of Issues	Total acquisition cost relating to the increase in the number of shares (Millions of yen)	Reasons for the increase in the number of shares
Unlisted shares	2	131	• For business collaborations with companies with advanced technology
Shares other than unlisted shares	—	—	—

(Issues in which the number of shares decreased in the fiscal year ended March 31, 2020)

	Number of Issues	Total sale value relating to the decrease in the number of shares (Millions of yen)
Unlisted shares	11	1,172
Shares other than unlisted shares	1	825

c. Number of shares, balance sheet amounts and other information of specified equity securities and deemed holdings of equity securities by issue

(Specified Equity Securities)

Issue Name	Year ended March 31, 2020	Year ended March 31, 2019	Purpose of holding, quantitative effects of holding, and reasons for the increase in the number of shares	Whether the investee holds NTT DATA's shares
	Number of Shares (Shares)	Number of Shares (Shares)		
	Balance Sheet Amounts (Millions of yen)	Balance Sheet Amounts (Millions of yen)		
Recruit Holdings Co., Ltd.	28,350,000	31,500,000	To expand business by maintaining and strengthening relationships in the enterprise and solutions segment	No
	79,267	99,572		
eGuarantee, Inc.	1,440,000	1,440,000	To expand business by maintaining and strengthening relationships in the financial segment	No
	2,277	1,591		
Serverworks Co., Ltd.	130,000	65,000	To expand business by acquiring new technologies and solutions in the enterprise and solution segment. Number of shares has increased due to a stock split.	No
	1,698	1,173		
Japan Airport Terminal Co., Ltd.	375,000	375,000	To expand business by maintaining and strengthening relations in the public and social infrastructure segment	No
	1,566	1,753		
DTS CORPORATION	771,100	385,550	To facilitate business activities by strengthening IT partnerships in the financial segment. Number of shares has increased due to a stock split.	Yes
	1,450	1,577		
Dai-ichi Life Holdings, Inc.	670,000	670,000	To expand business by maintaining and strengthening relationships in the financial segment	No
	868	1,030		
Seven & i Holdings Co., Ltd.	204,228	204,228	To expand business by maintaining and strengthening relationships in the enterprise and solutions segment	No
	730	853		
CIJ, Ltd.	475,200	475,200	To facilitate business activities by strengthening IT partnerships in the public and social infrastructure segment	Yes
	355	398		
Billing System Corporation	440,000	220,000	To expand business by maintaining and strengthening relationships in the financial segment. Number of shares has increased due to a stock split.	No
	288	802		
TECNOS DATA SCIENCE ENGINEERING INCORPORATED	160,000	160,000	To expand business by acquiring new technologies and solutions in the enterprise and solution segment	No
	286	767		

Note: Quantitative holding effect of each issue:

Although the Board of Directors of NTT DATA assesses the reasonableness of NTT DATA's strategic shareholdings each year in a comprehensive manner for each company whose stock NTT DATA holds, from the viewpoint of whether benefits and risks from holding the shares are commensurate with capital costs and in line with the purposes of holding (which are: to maintain the medium-to long-term relationship, to expand trading volume, to create synergies, and for other reasons), the quantitative holding effect of each issue is difficult to report due to confidentiality and competition reasons.

(Deemed holdings of equity securities)

Not applicable.

Equity Securities Held Solely for the Purpose of Investment

Not applicable.

Equity Securities Reclassified from Held Solely for the Purpose of Investment to Held for Purposes other than Solely for Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

Equity Securities Reclassified from Held for Purposes other than Solely for Investment to Held Solely for the purpose of Investment during the Fiscal Year Ended March 31, 2020

Not applicable.

Item 5. Financial Information

1. Basis of Preparation of the Consolidated Financial Statements

- (1) Pursuant to the provision of Article 93 of the “Ordinance on the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance of Japan No. 28 of 1976), NTT Group’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).
- (2) NTT’s standalone financial statements are prepared in accordance with the “Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements” (Ordinance of the Ministry of Finance of Japan No. 59 of 1963).
In addition, Amounts stated in the standalone financial statements are rounded to the nearest million yen.

2. Auditor’s Report

In accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, NTT Group’s consolidated financial statements for the consolidated fiscal year (from April 1, 2019 to March 31, 2020) and non-consolidated financial statements for the fiscal year (from April 1, 2019 to March 31, 2020) have been audited by KPMG AZSA LLC.

3. Special Measures to Ensure the Appropriateness of the Consolidated Financial Statements and Structures to Properly Prepare the Consolidated Financial Statements in Accordance with IFRS

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

- (1) NTT Group is a member of organizations such as the Financial Accounting Standards Foundation in order to put in place a system in which NTT Group can ensure that it has an appropriate grasp on the contents of the accounting standards and can accurately respond to any changes in them. In addition, NTT Group periodically conducts reviews of the accounting standards and maintains internal regulations.
- (2) With respect to the application of IFRS, NTT Group obtains press releases and statements of the accounting principles published by the International Accounting Standards Board from time to time in order to gain an understanding of the most recent standards. Furthermore, to prepare appropriate consolidated financial statements in accordance with IFRS, NTT Group developed group accounting policies and accounting guidelines in compliance with IFRS, and conducts its accounting in accordance with those policies and guidelines.

1. 【Consolidated Financial Statements】

(1) Consolidated Financial Statements

① 【Consolidated Statement of Financial Position】

(Millions of yen)

	Notes	As of March 31, 2019	As of March 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents	4.2,4.3	¥ 946,134	¥ 1,033,574
Trade and other receivables	3.2,4.3 4.8	4,391,434	3,502,834
Other financial assets	4.4,4.8	117,753	32,384
Inventories	3.3	331,634	257,329
Other current assets	2.2,2.4	550,487	530,073
Subtotal		6,337,442	5,356,194
Assets held for sale	3.4	242,524	1,347,307
Total current assets		6,579,966	6,703,501
Non-current assets			
Property, plant and equipment	3.5	9,012,947	9,087,463
Right-of-use assets	3.6	—	446,828
Goodwill	3.7	886,531	980,841
Intangible assets	3.7	1,627,762	1,694,060
Investment property	3.8	967,006	1,106,145
Investments accounted for using the equity method	3.4,3.9	298,261	283,291
Other financial assets	4.4,4.8	1,138,502	846,285
Deferred tax assets	2.4,3.4	1,124,467	1,153,042
Other non-current assets	2.2,3.11	659,704	712,677
Total non-current assets		15,715,180	16,310,632
Total assets		¥ 22,295,146	¥ 23,014,133

	Notes	As of March 31, 2019	As of March 31, 2020
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings	4.5,4.8	¥ 1,397,545	¥ 2,054,506
Trade and other payables	3.10,4.8	2,092,479	2,142,752
Lease liabilities	3.6	—	154,126
Other financial liabilities	4.6,4.8	44,305	16,943
Accrued payroll		468,216	469,395
Income taxes payable		237,282	214,098
Other current liabilities	2.2,3.13	988,244	996,360
Sub total		5,228,071	6,048,180
Liabilities directly associated with assets held for sale	3.4	—	559,432
Total current liabilities		5,228,071	6,607,612
Non-current liabilities			
Long-term borrowings	4.5,4.8	2,865,181	2,165,778
Lease liabilities	3.6	—	378,346
Other financial liabilities	4.6,4.8	175,087	129,229
Defined benefit liabilities	3.11	1,878,013	1,873,501
Deferred tax liabilities	2.4	61,189	70,249
Other non-current liabilities	2.2,3.13	282,815	326,791
Total non-current liabilities		5,262,285	4,943,894
Total liabilities		10,490,356	11,551,506
Equity			
Nippon Telegraph and Telephone Corporation (“NTT”) shareholders’ equity			
Common stock	4.1	937,950	937,950
Additional paid-in capital	4.1	2,341,206	2,252,672
Retained earnings	3.4,4.1 4.4	5,954,305	6,499,942
Treasury stock	4.1	(150,635)	(653,369)
Other components of equity	3.4,4.1 4.4	182,087	23,908
Total NTT shareholders’ equity		9,264,913	9,061,103
Non-controlling interests	4.1	2,539,877	2,401,524
Total equity		11,804,790	11,462,627
Total liabilities and equity		¥ 22,295,146	¥ 23,014,133

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

【Consolidated Statement of Profit or Loss】

(Millions of yen)

	Notes	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Operating revenues	2.1,2.2	¥ 11,879,842	¥ 11,899,415
Operating expenses			
Personnel expenses		2,391,617	2,428,484
Expenses for purchase of goods and services and other expenses	2.3,3.8	5,917,693	6,006,379
Depreciation and amortization	3.5,3.6, 3.7,3.8	1,333,647	1,465,310
Loss on disposal of property, plant and equipment and intangible assets		172,167	171,597
Impairment losses	2.1		
Goodwill	3.7	39,443	2,933
Metal cables	3.5	66,003	—
Other		20,952	13,722
Taxes and dues	3.8	244,487	248,839
Total operating expenses		10,186,009	10,337,264
Operating profit	2.1	1,693,833	1,562,151
Finance income	4.4,4.7	24,465	46,986
Finance costs	4.4,4.7, 4.8	36,362	50,253
Share of profit (loss) of entities accounted for using the equity method	2.1,3.9	(10,075)	11,257
Profit before taxes		1,671,861	1,570,141
Income taxes	2.4,3.4	533,174	458,795
Profit		¥ 1,138,687	¥ 1,111,346
Profit attributable to NTT		854,561	855,306
Profit attributable to Non-controlling interests		284,126	256,040
<hr/>			
Earnings per share attributable to NTT			
Basic earnings per share (yen)	2.5	¥ 220.13	¥ 231.21

	Notes	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit		¥ 1,138,687	¥ 1,111,346
Other comprehensive income (net of taxes)	4.1		
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		5,967	(68,503)
Share of other comprehensive income of entities accounted for using the equity method	3.4,3.9	(4,637)	(2,266)
Remeasurements of the defined benefit plans		(13,250)	11,365
Total of items that will not be reclassified to profit or loss		(11,920)	(59,404)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges		(2,784)	(18)
Foreign currency translation adjustments		2,791	(84,107)
Share of other comprehensive income of entities accounted for using the equity method	3.9	(12,025)	1,774
Total of items that may be reclassified to profit or loss		(12,018)	(82,351)
Total other comprehensive income (net of taxes)		(23,938)	(141,755)
Total comprehensive income		¥ 1,114,749	¥ 969,591
Comprehensive income attributable to NTT		826,154	743,451
Comprehensive income attributable to Non-controlling interests		288,595	226,140

(3) 【Consolidated Statement of Changes in Equity】

Fiscal year ended March 31, 2019

(Millions of yen)

	Notes	NTT shareholders' equity						Non-controlling interests	Total equity
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	Total		
As of March 31, 2018		¥937,950	¥2,396,555	¥6,125,957	¥(610,742)	¥200,638	¥9,050,358	¥2,515,296	¥11,565,654
Cumulative effect of adoption of IFRS 9 “Financial Instruments”		—	—	14,033	—	(2,432)	11,601	7,565	19,166
As of April 1, 2018		937,950	2,396,555	6,139,990	(610,742)	198,206	9,061,959	2,522,861	11,584,820
Comprehensive income									
Profit		—	—	854,561	—	—	854,561	284,126	1,138,687
Other comprehensive income	4.1	—	—	—	—	(28,407)	(28,407)	4,469	(23,938)
Total comprehensive income		—	—	854,561	—	(28,407)	826,154	288,595	1,114,749
Transactions with owners and other transactions									
Dividends of surplus	4.1	—	—	(313,605)	—	—	(313,605)	(142,171)	(455,776)
Transfer to retained earnings	4.1	—	—	(8,383)	—	8,383	—	—	—
Transfer to non-financial assets	4.1	—	—	—	—	3,905	3,905	—	3,905
Purchase and disposal of treasury stock	4.1	—	0	—	(258,153)	—	(258,153)	—	(258,153)
Cancellation of treasury stock	4.1		(2)	(718,258)	718,260				
Changes in ownership interest in subsidiaries without loss of control	4.1	—	(61,233)	—	—	—	(61,233)	(135,038)	(196,271)
Share-based compensation transactions		—	(6,589)	—	—	—	(6,589)	—	(6,589)
Put options granted to non-controlling interests	4.1	—	12,475	—	—	—	12,475	5,630	18,105
Total Transactions with owners and other transactions		—	(55,349)	(1,040,246)	460,107	12,288	(623,200)	(271,579)	(894,779)
As of March 31, 2019		¥ 937,950	¥2,341,206	¥5,954,305	¥ (150,635)	¥ 182,087	¥9,264,913	¥2,539,877	¥11,804,790

	Notes	NTT shareholders' equity						Non-controlling interests	Total equity
		Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	Total		
As of March 31, 2019		¥937,950	¥2,341,206	¥5,954,305	¥(150,635)	¥182,087	¥9,264,913	¥2,539,877	¥11,804,790
Comprehensive income									
Profit		—	—	855,306	—	—	855,306	256,040	1,111,346
Other comprehensive income	4.1	—	—	—	—	(111,855)	(111,855)	(29,900)	(141,755)
Total comprehensive income		—	—	855,306	—	(111,855)	743,451	226,140	969,591
Transactions with owners and other transactions									
Dividends of surplus	4.1	—	—	(354,827)	—	—	(354,827)	(151,414)	(506,241)
Transfer to retained earnings	4.1	—	—	46,324	—	(46,324)	—	—	—
Purchase and disposal of treasury stock	4.1	—	1	—	(502,734)	—	(502,733)	—	(502,733)
Changes in ownership interest in subsidiaries without loss of control	4.1	—	(104,613)	—	—	—	(104,613)	(210,163)	(314,776)
Share-based compensation transactions		—	(1,386)	—	—	—	(1,386)	7	(1,379)
Put options granted to non-controlling interests	4.1	—	19,392	—	—	—	19,392	(1,916)	17,476
Other		—	(1,928)	(1,166)	—	—	(3,094)	(1,007)	(4,101)
Total Transactions with owners and other transactions		—	(88,534)	(309,669)	(502,734)	(46,324)	(947,261)	(364,493)	(1,311,754)
As of March 31, 2020		¥ 937,950	¥2,252,672	¥6,499,942	¥ (653,369)	¥ 23,908	¥9,061,103	¥2,401,524	¥11,462,627

	Notes	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities			
Profit		¥ 1,138,687	¥ 1,111,346
Depreciation and amortization		1,333,647	1,465,310
Impairment losses		126,398	16,655
Share of loss (profit) of entities accounted for using the equity method		10,075	(11,257)
Losses on retirement of property, plant and equipment and intangible assets		85,703	80,971
Gain on sales of property, plant and equipment and intangible assets		(10,142)	(12,885)
Income taxes		533,174	458,795
Decrease (increase) in trade and other receivables	4.3	(338,018)	210,566
Decrease (increase) in inventories		1,572	59,880
Decrease (increase) in other current assets		(11,538)	17,266
Increase (decrease) in trade and other payables / accrued payroll		99,452	22,736
Increase (decrease) in other current liabilities		12,511	18,922
Increase (decrease) in defined benefit liabilities		834	2,470
Increase (decrease) in other non-current liabilities		4,359	11,370
Other		(7,082)	(7,427)
Subtotal		2,979,632	3,444,718
Interest and dividends received		79,330	88,632
Interest paid		(39,416)	(49,829)
Income taxes paid		(613,389)	(488,310)
Net cash provided by (used in) operating activities		2,406,157	2,995,211
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets, and investment property		(1,672,350)	(1,856,351)
Purchase of investments		(65,623)	(202,410)
Proceeds from sale or redemption of investments	3.4	55,178	294,153
Expenses due to acquisition of control of subsidiaries		(107,264)	(126,915)
Other		15,923	38,796
Net cash provided by (used in) investing activities		(1,774,136)	(1,852,727)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	4.5	486,124	707,276
Proceeds from increases in long-term borrowings	4.5	434,922	315,549
Repayments of long-term borrowings	4.5	(627,680)	(512,882)
Repayment of lease liabilities	3.6,4.5	—	(184,384)
Payments for acquisition of interests in subsidiaries from non-controlling interests	4.5	(164,415)	(364,643)
Dividends paid		(313,605)	(354,827)
Dividends paid to non-controlling interests		(142,020)	(151,058)
Payments for purchase of treasury stock		(258,215)	(501,431)
Other		623	5,139
Net cash provided by (used in) financing activities		(584,266)	(1,041,261)
Effect of exchange rate changes on cash and cash equivalents		3,376	(13,783)
Net increase (decrease) in cash and cash equivalents		51,131	87,440
Cash and cash equivalents at the beginning of the year	4.3	895,003	946,134
Cash and cash equivalents at the end of the year	4.3	¥ 946,134	¥ 1,033,574

【Notes to Consolidated Financial Statement】

NTT Group describes Notes summarizing in five groups by relevancy in order to enhance understandability of Consolidated Financial Statement.

1. Basis of Preparation
2. Results for the year
3. Assets and Liabilities (excluding Financial Instruments)
4. Equity and Financing
5. Other Notes

Each note describes the relevant accounting policies and the significant accounting estimates and judgments involving estimate.

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1. Basis of Preparation

1.1. Reporting Entity

NIPPON TELEGRAPH AND TELEPHONE CORPORATION (“NTT”) is a corporation domiciled in Japan. The address of NTT’s registered headquarter is disclosed on its website (<https://www.ntt.co.jp/index.html>). The consolidated financial statements comprise NTT and its subsidiaries (“NTT Group” or “the Group”).

NTT Group’s business segments and material subsidiaries are as follows:

Mobile communications business (mobile phone business and related business)

- NTT DOCOMO Corporation (“NTT DOCOMO”)

Regional communications business (domestic intra-prefectural communications services and related ancillary services)

- NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION (“NTT East”)
- NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION (“NTT West”)

Long distance and international communications business (domestic inter-prefectural Communications services, services related to the international communications business, services related to the solutions business and related services)

- NTT Communications Corporation (“NTT Communications”)
- NTT Ltd.

Data communications business (system integration services and network system services)

- NTT DATA Corporation (“NTT DATA”)

1.2. Basis of Preparation

(1) Matters Regarding Compliance with 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 Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976) (the “Order on Consolidated Financial Statements”). Consequently, in accordance with Article 93 of the Order on Consolidated Financial Statements, the Group has prepared the consolidated financial statements pursuant to International Financial Reporting Standards (“IFRS”). The consolidated financial statements were approved by the President and Chief Executive Officer Jun Sawada and Senior Executive Vice President and Chief Financial Officer Akira Shimada on June 24, 2020.

The NTT Group's accounting policies are based on IFRS effective as of March 31, 2020, with the exception of IFRS which was not adopted early.

(2) Basis for Measurement

As described in “Note 1.3. Significant Accounting Policies,” and the related notes to each item, the consolidated financial statements are prepared on the basis of cost, with the exception of certain items such as financial instruments measured at fair value, and assets and liabilities recognized in relation to the defined benefit plans.

(3) Functional Currency and Presentation Currency

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

(4) Changes in Accounting Policies

NTT Group has applied IFRS 16 “Lease” (“IFRS 16”) from the beginning of the current fiscal year. Description is presented in “Note 3.6 Leases”.

1.3. Significant Accounting Policies

The accounting policies adopted by NTT Group apply to all periods presented in the consolidated financial statements.

(1) Basis for Consolidation

(i) Subsidiaries

Subsidiaries are companies over which NTT Group has control.

Beginning and ending of consolidation

Subsidiaries are consolidated for the periods from the date when control is obtained until the date when control is lost.

Accounting policies adopted by subsidiaries

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

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year-end date is different from that of NTT Group for practically unfeasible to align the year-end dates with that of NTT Group. The fiscal year-end date of such subsidiaries is mainly December 31. For such subsidiaries, adjustments are made for any significant transactions or events that occur due to the difference 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 beginning date of consolidation and any subsequent 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 in the preparation of the consolidated financial statements

The balances of intra-group receivables and payments, transactions, and unrealized gains and losses incurred from the intra-group transactions are eliminated.

Changes in a parent's ownership interest

Changes in equity interests are accounted for as capital transactions when additional equity in a subsidiary is gained or part of the equity in a subsidiary is disposed of, 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 or losses are calculated as the difference between:

- the sum of the fair value of the consideration received and the fair value of the remaining equity interests; and
- the net carrying amount of the assets (including goodwill), liabilities, and non-controlling interests of the subsidiary on the date when control is lost.

(ii) Investments in associates and joint ventures

Associates are companies whose finances and management policies are significantly influenced by NTT Group, without exerting control or joint control. In principle, companies in which NTT Group holds 20% to 50% of the voting rights are included in associates. Companies in which NTT Group holds less than 20% of the voting rights may be considered as associates if the Group is considered to exert significant influence through the dispatch of officers or similar means.

Joint ventures are companies in which several parties (including NTT and/or its subsidiaries) invest and have rights to the net assets based on arrangements for joint control. Joint control is the sharing of control as contractually agreed. It exists only when all parties sharing control are required to be in unanimous consent 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 cost. Subsequently, from the date when NTT Group starts to exert significant influence to the date when such influence ceases, the Group recognizes its share of profit or loss and other comprehensive income of the investees and adjusts the investment amount.

If any losses on investments in associates or joint ventures exceed NTT Group's invested interests in these companies, NTT Group only recognizes losses to the extent of its investment amount, except for cases where NTT Group bears legal or other similar obligations, or makes payments on behalf of such company.

Unrealized profit or loss arising from transactions with associates and joint ventures is added to, or deducted from, the investments in the associates and joint ventures, up to a maximum of NTT Group's share.

The amount of the cost of investment in an associate or joint venture that exceeds NTT Group's share of the net fair value of identifiable assets and liabilities recognized on the acquisition date is recognized as goodwill and included in the carrying amount of the investment in an associate or joint venture.

As this goodwill is not recognized separately, discrete impairment testing for goodwill is not performed. Instead, an impairment test is carried out on the total investment in associates and joint ventures deemed as a single asset if there is objective evidence to indicate that the investment may be impaired.

The consolidated financial statements include investments accounted for using the equity method which have different fiscal year-end dates than that of NTT Group due to the relationship with other shareholders or other circumstances that make it practically unfeasible to align the fiscal year-end dates with that of NTT Group. The fiscal year-end date of such equity method investments is mainly December 31. Adjustments are made for any significant transactions or events that occur during the period between the equity method investments' fiscal year ends and that of NTT Group.

(iii) Consolidated structured entities

Structured entities* that NTT Group has control over are consolidated. It has not provided, nor intends to provide, any significant financial support or other significant support to the consolidated structured entities without contractual obligation. Structured entities that third parties have control over are not consolidated and they are financing through investment by each partner.

* Structured entities:

Entities that are structured principally as venture funds in the form of partnerships, and Special Purpose Company in the form of limited partnerships for investment, and investment trusts with a purpose of securitizing property and other assets. They are designed so that the voting rights or similar rights are not determinant in evaluating control.

Description about subsidiaries and structured entities are presented in "Note 5.1. Major Subsidiaries."

(2) Foreign Currency Translation

(i) Transactions denominated in foreign currencies

The financial statements of NTT Group companies are prepared in their functional currency. 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.

The exchange rate used for translation assets and liabilities denominated in foreign currencies into the functional currency

Items	Measurement method	Exchange rate	Example
Monetary assets and liabilities denominated in foreign currencies*1	—	At the end of the fiscal year	Trade receivables
Non-monetary assets and liabilities denominated in foreign currencies*2	Fair value	At the date of measurement fair value	Financial assets measured at fair value through other comprehensive income (equity instruments)
	Cost	At the transaction date	Property, Plant and Equipment

*1. Monetary assets and liabilities : The right to receive a fixed or a determinable number of monetary units (Assets) or the obligation (Liabilities) to deliver them.

*2. Non-monetary assets and liabilities : Assets and liabilities that do not have the characteristics of *1

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

(ii) Foreign operations (foreign subsidiaries)

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

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

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

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

(3) Fair Value

The fair value of financial instruments is determined based on market information including market prices, and calculation techniques such as the market approach, income approach, and cost approach.

The assumptions (inputs) for valuation techniques used to measure fair value are required to be categorized into three levels based on their observability. The use of more observable inputs is required in valuation techniques. NTT Group categorizes the assumptions (inputs) used to measure fair value into the following three levels and puts Level 1 measurements as the highest priority:

- Level 1

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

- Level 2

Of the inputs that are directly or indirectly observable, such as a market price of a similar asset or liability in an active market or a market price of an identical or similar asset or liability in an inactive market, those inputs that are 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.

Description about the assumptions (inputs) used to measure fair value is presented in “Note 3.4. Assets Held for Sale”, “Note 3.5. Property, Plant and Equipment (3) Impairment Losses”, “Note 3.7. Goodwill and Intangible Assets (3) Impairment Tests for Goodwill and Intangible Assets with Indefinite Useful Lives”, “Note 3.8. Investment Property (3) Fair Value”, and “Note 4.8. Financial Instruments (3) Fair Value of Financial Instruments”.

(4) Other Accounting Policies

Other accounting policies are described in the related notes as follows.

Note 2.1. Segment Information

Note 2.2. Operating Revenues

Note 2.4. Income Taxes

Note 2.5. Earnings per Share

Note 3.1. Business Combinations and Acquisitions of Non-controlling Interests

Note 3.3. Inventories

Note 3.4. Assets Held for Sale

Note 3.5. Property, Plant and Equipment

Note 3.6. Leases

Note 3.7. Goodwill and Intangible Assets

Note 3.8. Investment Property

Note 3.11. Employee Benefits

Note 3.12. Provisions

Note 4. Equity and Financing

Note 4.1. Equity

Note 4.2. Cash and Cash Equivalents

1.4. Significant Accounting Estimates and Judgments Involving Estimates

(1) Significant Accounting Estimates and Judgments Involving Estimates

In preparing the 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 are based on management's best judgments taking into account various factors that are considered reasonable as of the period end, based on past experience and currently available information. However, due to the nature of such judgments, the actual results in the future may differ from these estimates or assumptions.

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

The judgments, estimates, and assumptions that have a significant impact on NTT Group's consolidated financial statements

Judgments, Estimates, and Assumptions	Specific Items	Related Notes
The judgments of whether an entity is controlled by NTT Group in determining the scope of consolidation	<ul style="list-style-type: none"> • Presence of control • Presence of joint control • Presence of significant influence 	1.3. Significant Accounting Policies (1) 5.1. Major Subsidiaries
Judgments of whether forecast transactions are eligible hedged items for hedge accounting	<ul style="list-style-type: none"> • Eligibility of the hedging instrument • Eligibility of hedged items • Evaluation of hedging effectiveness • Designation of the hedging relationship and documentation of the purpose of risk management at the inception of a hedging transaction 	4. Equity and Financing
Estimates of the fair value of assets acquired and liabilities assumed in a business combination	—	3.1. Business Combinations and Acquisition of Non-controlling Interests
Fair value measurements of financial assets measured at fair value through other comprehensive income (FVTOCI)	—	3.4. Assets Held for Sale 4. Equity and Financing 4.8. Financial Instruments (3)
Estimates of amortization periods and for impairment of financial assets measured at amortized cost	<ul style="list-style-type: none"> • The credit risk on a financial asset • The expected credit losses from a possible default 	4. Equity and Financing 4.8. Financial Instruments (1)
Fair value measurements of derivatives	—	3.4. Assets Held for Sale 4. Equity and Financing 4.4. Other Financial Assets 4.6. Other Financial Liabilities 4.7. Finance Income and Finance Costs 4.8. Financial Instruments (3)
Estimates of useful lives of property, plant and equipment, right-of-use assets, intangible assets and investment property	—	3.5. Property, Plant and Equipment 3.6. Leases 3.7. Goodwill and Intangible Assets 3.8. Investment Property
Lease term	—	3.6. Leases

Judgments, Estimates, and Assumptions	Specific Items	Related Notes
Estimates for impairment of property, plant and equipment, right-of use asset, intangible assets, investment property and goodwill	<ul style="list-style-type: none"> • Judgments whether there are any indications of impairment • The recoverable amount of individual assets, cash-generating unit, groups of cash-generating units • Judgement whether there are any indications that an impairment loss recognized in prior years may no longer exist or may decrease 	3.5. Property, Plant and Equipment 3.6. Leases 3.7. Goodwill and Intangible Assets 3.8. Investment Property
Measurement of defined benefit obligations	<ul style="list-style-type: none"> • The discount rates used to determine projected benefit obligations • Expected rates of salary increase • Average life expectancy of pension recipients at the age of 65 as of the end of the year 	3.11. Employee Benefits
Judgments and estimates for recognition and measurement of provisions	<ul style="list-style-type: none"> • The probability that the obligations will be required to be settled • The amount of provisions 	3.12. Provisions
Recognition of revenue	<ul style="list-style-type: none"> • The amount of telecommunications traffic (for phone calls) that are unused in the current month but are expected to be used in the following month or afterward in the Mobile communications services • The portion of granted points to customers depending on their use of mobile voice-related services which is expected to be used by customers in future • The amount of telecommunications traffic (for phone calls) that are unused in the current month but are expected to be used in the following month or afterward in the IP/packet communications services • The estimated average period of the end customers' subscription to defer revenues from non-recurring upfront fees such as installation charges and activation fees in the IP/packet communications services • The portion of granted points to customers depending on their use of IP/packet communications services which is expected to be used by customers in future • Refund liabilities in the sales of telecommunications terminal equipment • The expected losses occurrence in the system development services • Recoverability related to assets recognized from contract costs 	2.2. Operating Revenue (2)~(4)

Judgments, Estimates, and Assumptions	Specific Items	Related Notes
Assessment of recoverability of deferred tax assets	<ul style="list-style-type: none"> • The expected level of future taxable profit • Tax planning opportunities • The expected timing of the reversal of deferred tax liabilities 	2.4. Income Taxes

(2) Changing Estimates

Estimates of useful lives of property, plant and equipment

From April 1, 2019, NTT Group revised its estimate of the expected useful lives of optical cables (a part of Cables in Telecommunications service lines) and extended expected useful life based on current actual utilization. This change in estimate has been accounted for prospectively. Regarding the impact from this change in accounting estimate in Consolidated Statement of Profit or Loss for the fiscal year ended March 31, 2020, “Depreciation and amortization” were decreased by ¥44,020 million, “Profit attributable to NTT” were increased by ¥30,396 million, “Basic earnings per share” were increased by ¥8.22. Per share information for the date of January 1, 2020 reflects the impact of the stock split.

Regarding the impact in segment profit were presented in “Note 2.1. Segment Information”.

1.5. New Standards Not Yet Applied

None of the standards and interpretations that were newly issued or revised before the approval date of the consolidated financial statements have been adopted early by NTT Group and have a material impact on NTT Group.

2. Results for the year

This section presents operating results for the NTT Group, including segment information, operating revenues, operating expenses, income taxes, and earnings per share .

Impairment losses on property, plant and equipment are included in "3. Assets and Liabilities (excluding Financial Instruments)".

2.1. Segment Information

(Accounting Policies)

An operating segment is a component of business activities that earn revenues and incur expenses including revenues and expenses relating to transactions with other operating segments. For the operating results of all operating segments, discrete financial information is available, and the operating results are regularly reviewed by NTT's Board of Directors to facilitate the allocation of management resources to individual segments and the assessment of performance.

NTT Group's business segments are as below, for which discrete financial information is available and whose operating results are utilized by NTT Group's management to make decisions about the allocation of resources and to assess business performance. Services included in each segment are as follows:

Mobile communications business segment

Mobile voice-related services, IP/packet communications services, sales of telecommunications terminal equipment, and other services

Regional communications business segment

Fixed voice-related services, IP/packet communications services, sales of telecommunications terminal equipment, 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

Data communications business segment

System integration services

Other business segment

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

Operating revenues

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Effect of intersegment transfers of certain subsidiaries *
Mobile communications business			
Transactions with external customers	4,774,711	4,586,125	71,076
Inter-segment transactions	66,138	65,167	872
Subtotal	4,840,849	4,651,292	71,948
Regional communications business			
Transactions with external customers	2,463,941	2,383,464	(14,923)
Inter-segment transactions	688,391	696,458	(4,728)
Subtotal	3,152,332	3,079,922	(19,651)
Long distance and international communications business			
Transactions with external customers	2,162,563	2,086,188	(71,076)
Inter-segment transactions	116,128	119,570	(2,729)
Subtotal	2,278,691	2,205,758	(73,805)
Data communications business			
Transactions with external customers	2,037,782	2,131,133	—
Inter-segment transactions	125,843	135,675	—
Subtotal	2,163,625	2,266,808	—
Other business			
Transactions with external customers	440,845	712,505	14,923
Inter-segment transactions	799,425	889,175	45,105
Subtotal	1,240,270	1,601,680	60,028
Elimination of inter-segment transactions	(1,795,925)	(1,906,045)	(38,520)
Total	11,879,842	11,899,415	—

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of operating revenue compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are presented as "Effect of inter-segment transfers of certain subsidiaries" in the table above.

Segment profit or loss

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Effect of intersegment transfers of certain subsidiaries *
Segment profit			
Mobile communications business	1,013,644	854,650	1,108
Regional communications business	360,726	388,279	(874)
Long distance and international communications business	100,148	103,563	(1,110)
Data communications business	147,717	130,937	—
Other business	85,624	90,919	869
Total	1,707,859	1,568,348	(7)
Elimination of inter-segment transactions	(14,026)	(6,197)	7
Operating profit	1,693,833	1,562,151	—

Segment profit represents operating revenues less operating expenses.

Regarding the impact from change of the expected useful lives of optical cables, segment profit for the year ended March 31, 2020, were increased by ¥42,806 million for “Regional Communications Business”, ¥1,214 million for “Long Distance and International Communications Business” and ¥44,020 million in total. Description of this change is presented in “Note 1.4. Significant Accounting Estimates and Judgments Involving Estimates”.

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of segment profit compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are presented as “Effect of inter-segment transfers of certain subsidiaries” in the table above.

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Share of profit (loss) of entities accounted for using the equity method		
Mobile communications business	(12,013)	3,634
Regional communications business	167	(124)
Long distance and international communications business	(873)	35
Data communications business	175	308
Other business	2,469	7,404
Total	(10,075)	11,257

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of share of profit (loss) of entities accounted for using the equity method compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are immaterial.

Segment assets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020	Effect of intersegment transfers of certain subsidiaries *3
Segment assets			
Mobile communications business	7,340,543	7,535,922	60,511
Regional communications business	6,884,134	6,809,283	(54,630)
Long distance and international communications business	2,994,007	3,125,597	(102,674)
Data communications business	2,548,369	2,756,539	—
Other business*1	11,546,523	12,180,692	56,996
Total	31,313,576	32,408,033	(39,797)
Elimination of inter-segment transactions*2	(9,018,430)	(9,393,900)	39,797
Total	22,295,146	23,014,133	—

*1. "Other business" includes stocks of subsidiaries held by NTT.

*2. "Elimination of inter-segment transactions" includes the offset between the investment account and the capital account.

*3. During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of segment assets compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are presented as "Effect of inter-segment transfers of certain subsidiaries" in the table above.

Goodwill recognized in an acquisition is allocated to assets of the segments to which the acquired business belongs. Description of goodwill by segment is presented in "Note 3.7 Goodwill and Intangible Assets (3) Impairment Tests for Goodwill and Intangible Assets with Indefinite Useful Lives."

Other significant accounts

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Depreciation and Amortization		
Mobile communications business	470,922	580,838
Regional communications business	447,984	414,472
Long distance and international communications business	178,424	210,690
Data communications business	153,577	196,269
Other business	90,943	131,900
Total	1,341,850	1,534,169
Elimination of inter-segment transactions	(8,203)	(68,859)
Total	1,333,647	1,465,310

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of depreciation and amortization compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are immaterial.

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Capital investment		
Mobile communications business	593,749	572,765
Regional communications business	540,997	522,508
Long distance and international communications business	244,326	279,310
Data communications business	179,214	193,843
Other business	138,672	238,223
Total	1,696,958	1,806,649

The figures for capital investments are the accrual-based amounts required for acquisition of property, plant and equipment, intangibles and investment property.

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of capital investment compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are immaterial.

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Impairment losses - Goodwill		
Mobile communications business	23,758	1,969
Long distance and international communications business	15,685	—
Data communications business	—	964
Total	39,443	2,933

Impairment losses for goodwill are presented in “Note 3.7. Goodwill and Intangible Assets (3) Impairment Tests for Goodwill and Intangible Assets with Indefinite Useful Lives.”

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Impairment losses - Metal cables		
Regional communications business	66,003	—

Impairment losses for a portion of metal cables for the telecommunications business are presented in “Note 3.5 Property, Plant and Equipment (3) Impairment Losses.”

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Impairment losses - Other		
Mobile communications business	9,063	214
Regional communications business	3,698	875
Long distance and international communications business	3,968	8,583
Data communications business	683	1,314
Other business	3,540	2,736
Total	20,952	13,722

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. The increased or decreased amounts of impairment losses compared to the status without these inter-segment transfer during the fiscal year ended March 31, 2020 are immaterial.

Inter-segment transactions are conducted as an independent customer based on arm's length prices.

Geographic information

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Operating revenues		
Japan	9,678,265	9,675,788
Overseas	2,201,577	2,223,627
Total	11,879,842	11,899,415

1. Operating revenues are classified into “Japan” or “Overseas” according to the locations of customers to whom the goods and services are provided. Overseas non-current assets are not disclosed as they are not material.
2. For the fiscal years ended March 31, 2019 and March 31, 2020, there was no operating revenue from transactions with a single external customer that accounted for 10% or more of NTT Group's total operating revenues.

2.2. Operating Revenues

(Accounting Policies)

Revenue is recognized at an amount of the consideration to which NTT Group expects to be entitled in exchange for the goods or services transferred to customers based on the following five-step approach, excluding interest and dividend revenues pursuant to IFRS 9, insurance premium revenues pursuant to IFRS 4 and real estate rental income and lease income pursuant to IAS 17 or IFRS 16.

Step 1: Identifying the contract with the customer

Step 2: Identifying performance obligations 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. Costs to fulfill a contract are costs incurred for fulfilling contracts before goods or services are transferred to customers. NTT Group applies the practical expedient of Paragraph 94 of IFRS 15 except for installation fees, activation fees, point programs, and other fees in mobile voice-related service and IP/packet communications services and system integration services and expenses incremental cost of obtaining a contract when incurred if the amortization period of the asset that otherwise would have been recognized is less than 1 year.

NTT Group has five business segments: Mobile communications business, Regional communications business, Long distance and international communications business, Data communications business, and Other business. Through these segments, the 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.

(i) Fixed voice-related services

In the Regional communications business segment and Long distance and international communications business segment, fixed voice-related services including telephone subscriber lines, INS-Net, conventional leased circuits, and high-speed digital circuits are provided to customers. NTT Group recognizes revenue upon the provision of fixed voice-related services. Fixed voice-related services are billed monthly.

(ii) Mobile voice-related services

In the Mobile communications business segment, mobile voice-related services including voice call services in LTE (Xi) are provided to customers. NTT Group recognizes revenue upon the 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. For these services, the portion of revenue corresponding to the voice allowances that are 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 Group offers a point program whereby points are granted to customers depending on their use of mobile voice-related services and the points can be appropriated to payments on merchandise and mobile phone charges. The portion of granted points which is expected to be used by customers in future is recognized as a performance obligation. Transaction prices are allocated based on the ratios of independent selling prices of these performance obligations. Transaction prices allocated to the performance obligations under the point program are deferred as "Other current liabilities" in the consolidated statement of financial position, and revenue is recognized as the points are used.

Revenue from activation fees, which constitute revenue from non-recurring upfront fees, are deferred and recognized as revenue over the period in which monthly support services are provided.

(iii) IP/packet communications services

In the Mobile communications business segment, services such as the LTE (Xi) packet service and IP/packet communications services including DOCOMO Hikari* are provided. In the Regional communications business segment, services are provided including FLET'S Hikari and Hikari Collaboration Model. In the Long distance and international communications business segment, services such as Arcstar Universal One, IP-VPN, and OCN are provided. The main performance obligations are identified as described below and recognized as revenue based on the contents of these services and the patterns of transfer to customers.

*DOCOMO Hikari: Fiber-optic access services and others are provided on a wholesale basis to various operators by NTT East and NTT West.

Mobile communications business segment

NTT Group recognizes revenue upon the provision of IP/packet communications services.

In some of its billing plans, NTT Group determines an amount of telecommunications traffic (for data communications) 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.

For these services, the portion of revenue corresponding to the data allowances that are 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

New sales incentives 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 incentives for ongoing use at the time of future annual contract renewal are estimated as variable consideration 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.

Regional communications business segment and Long distance and international communications business segment

NTT Group recognizes revenue upon the provision of IP/packet communications services. IP/packet communications services for consumers are billed monthly and for enterprise customers 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 customers' subscription for FLET'S Hikari and Hikari Collaboration Model.

Mobile communications business segment, Regional communications business segment, and Long distance and international communications business segment

NTT Group offers a point program whereby points are granted to customers depending on their use of IP/packet communications services and the points can be appropriated to payments on merchandise and mobile phone charges. That portion of granted points which is expected to be used by customers in future is recognized as a performance obligation. Transaction prices are allocated based on the ratios of independent selling prices of these performance obligations. Transaction prices allocated to the performance obligations under the point program are deferred as "Other current liabilities" in the consolidated statement of financial position, and revenue is recognized as the points are used.

(iv) Sales of telecommunications terminal equipment

In the Mobile communications business segment, telecommunications terminal equipment is sold mainly to sales agents. NTT Group recognizes revenue upon delivery of the equipment to sales agents. Upon delivery to sales agents, revenues from sales of telecommunications terminal equipment are recognized after deducting certain agency commissions and incentives given to subscribers. Subscribers have an option to select installment payments for the purchase of handsets from sales agents and others over a period of 12 or 24 months. When installment payments are selected, under the agreements entered into between NTT Group, subscribers, and sales agents, NTT Group makes payments to sales agents for the handsets in place of the subscribers. NTT Group then charges the subscribers for the purchased handsets, together with basic monthly charges and communication charges, over the term of installment payments. Because terminal equipment sales are recognized upon delivery of handsets to sales agents, advance payments for the purchased handsets to sales agents and subsequent cash collection of the installment receivable from subscribers do not impact NTT Group's revenues.

NTT Group offers a program in which we give a waiver of up to 12 months of installment payments to customers who choose the installment payment plan in 36 months on the sale of handset, on condition of returning the handset to NTT Group after use in the Mobile communications business segment from this fiscal year ended March 31 2,020. The estimated amount of consideration received for which we do not expect to be entitled is recognized as refund liabilities upon the sale of handset, and the same amount is deducted from revenues. The liability is included in “Other non-current liabilities” in the consolidated statement of financial position. Although NTT Group recognizes that there is a high level of uncertainty regarding the number and timing of handset returns by customers under the program, NTT Group uses the percentage of customers who use the program and the timing of handset replacement calculated for each type of product based on our past experience as underlying figures to calculate the amount of rights for which NTT Group do not expect to be entitled in the future. NTT Group includes such amounts in transaction price only to the extent that it is highly probable that significant reversal in the cumulative revenue recognized will not occur. On the other hand, the right of collection of handsets from customers in exchange for settlement of the refund liability is recorded in “Other current assets” and “Other non-current assets” respectively in the consolidated statement of financial position. These assets are measured at the amount equal to carrying amount of the product less any expected costs to recover those handsets (including potential decreases in the value to the entity of returned handsets) when they are sold.

(v) System integration services

In the Regional communications business segment and Long distance and international communications business segment, NTT Group provides system development services and other services, while in the Long distance and international communications business segment and Data communications business segment, the Group provides integrated IT solution services; both of these services are mainly provided to 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.

When losses are expected to arise, an allowance for losses is recognized based on the estimates of all revenues and expenses expected to accrue upon delivery. As a result, revenues and expenses may be reasonably estimated at different stages until completion of benefits transfer. Recognized losses may be reassessed as the contract progresses and are recorded in the consolidated fiscal year in which the factual cause for the loss is confirmed.

(vi) Other services

In the Mobile communications business segment, NTT Group offers services including distribution services of movies, music, and e-books; financial and payment services; shopping services; services to support activities of daily living; 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.

(Accounting Estimates and Judgments Involving Estimates)

Recognition of revenue is estimated described as above. And recoverability related to assets recognized from contract costs is estimated.

(1) Disaggregation of Revenues

(i) Revenue from contracts with customers and others

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Revenue from contracts with customers	11,470,828	11,439,420
Revenue from other sources	409,014	459,995
Total	11,879,842	11,899,415

Revenues recognized from other sources mainly comprises real estate rental income and lease income under IFRS 16 (IAS 17 for the previous fiscal year) interest and dividend income under IFRS 9, and insurance income under IFRS 4.

(ii) Relationship between disaggregated revenues and segment revenues

(Millions of yen)

Main Services	Fiscal year ended March 31, 2019					
	Segment					
	Mobile communi- cations business	Regional communi- cations business	Long distance and international communi- cations business	Data communi- cations business	Other business	Total
Fixed voice-related services	—	889,587	188,080	—	—	1,077,667
Mobile voice-related services	946,742	—	—	—	—	946,742
IP/packet communications services	2,138,545	1,157,148	420,806	—	4,723	3,721,222
Sales of telecommunications terminal equipment	843,700	75,535	9,927	—	—	929,162
System integration services	—	118,711	1,410,231	2,037,782	27,348	3,594,072
Other services	845,724	222,960	133,519	—	408,774	1,610,977
Total	4,774,711	2,463,941	2,162,563	2,037,782	440,845	11,879,842
Revenue from contracts with customers	4,750,467	2,346,964	2,029,149	2,037,782	306,466	11,470,828
Revenue from other sources	24,244	116,977	133,414	—	134,379	409,014

(Millions of yen)

Main Services	Fiscal year ended March 31, 2020					
	Segment					
	Mobile communications business	Regional communications business	Long distance and international communications business	Data communications business	Other business	Total
Fixed voice-related services	—	825,853	173,570	—	—	999,423
Mobile voice-related services	966,501	—	—	—	—	966,501
IP/packet communications services	2,081,150	1,121,520	411,272	—	5,342	3,619,284
Sales of telecommunications terminal equipment	607,579	75,380	8,859	—	—	691,818
System integration services	—	152,211	1,412,421	2,131,133	35,633	3,731,398
Other services*	930,895	208,500	80,066	—	671,530	1,890,991
Total	4,586,125	2,383,464	2,086,188	2,131,133	712,505	11,899,415
Revenue from contracts with customers	4,556,046	2,263,711	1,925,398	2,131,133	563,132	11,439,420
Revenue from other sources	30,079	119,753	160,790	—	149,373	459,995

* During the fiscal year ended March 31, 2020, certain subsidiaries included in reporting segments "Regional Communications Business" were transferred and they are included in "Other Businesses", and "Long Distance and International Communications Business" were transferred and they are included in "Mobile Communications Business" or "Other Businesses", respectively. Impact of these transfer is presented in "Note 2.1. Segment Information" and relevant revenue is mainly included in "Other business".

In its five business segments of Mobile communications business, Regional communications business, Long distance and international 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, sales of telecommunications terminal equipment, system integration services, and other services. Description is presented in "Accounting Policies for this note."

(2) Contract Balances

Information on receivables, contract assets, and contract liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Receivables from contracts with customers (Trade and other receivables)	2,422,895	2,118,358
Contract assets (Other current assets)	107,169	96,523
Contract liabilities (Other current liabilities and Other non-current liabilities)	776,401	818,395

Contract assets are mainly related to NTT Group's rights to compensation for its work on system integration that has created a customer-controlled asset as of the reporting date, but for which the Group has not yet claimed. Contract assets are transferred to receivables when the right to payment becomes unconditional. Contract liabilities are mainly related to unused points that have been granted to customers as they use mobile phones and FLET'S Hikari, and to consideration received in advance and accounted for as deferred revenues from the initial construction fees for FLET'S Hikari and DOCOMO Hikari and activation.

Of the revenues recognized in the fiscal year ended March 31, 2019 and March 31, 2020, ¥333,110 million and ¥330,948 million, respectively, were included in the balance of contract liabilities as of the beginning of the fiscal year.

The amount of revenue recognized in the fiscal years ended March 31, 2019 and March 31, 2020 due to performance obligations satisfied, or partially satisfied, in the past periods was immaterial.

(3) Transaction Price Allocated to the Remaining Performance Obligations

(Millions of yen)

Types of performance obligations	As of March 31, 2019	As of March 31, 2020	Description about the expected time of satisfaction of performance obligations
Installation fees, activation fees, point programs, and other fees in mobile voice-related service and IP/packet communications services	404,448	405,031	Expected to be satisfied within approximately 13 years
Integrated IT solution and development of system and software in system integration services	2,786,956	2,989,019	Expected to be satisfied within approximately 4 years.
Other than above (mainly common service charges under non-cancelable lease contracts, construction work)	116,783	117,730	Common service charges under non-cancelable lease contracts are expected to be satisfied within approximately 18 years, construction works are within approximately 21 years, others are within approximately 11 years.

The practical expedient of Paragraph 121 of IFRS 15 has not been applied to residual performance obligations related to installation fees, activation fees, point programs, and other fees in mobile voice-related service and IP/packet communications services, in addition to system integration services. Remaining performance obligations related to contracts expected to be satisfied within 1 year are included. Other than above has been applied. Remaining performance obligations related to contracts expected to be satisfied within 1 year are not included.

(4) Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets recognized from the costs to obtain a contract	263,983	276,914
Assets recognized from the costs to fulfill a contract	58,619	60,468
Total	322,602	337,382

NTT Group recognizes as an asset the incremental cost of obtaining a contract and the cost to fulfill a contract with a customer if it expects to recover those costs. The asset is recorded in "Other non-current assets" in the consolidated statement of financial position. The incremental costs of obtaining a contract are those that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained. The costs to fulfill a contract are those that the Group incurs to fulfill a contract generated before it transfers goods or services to a customer.

The incremental costs of obtaining a contract, which NTT Group recognizes as an asset, are mainly commissions to sales agents that were incurred to acquire customers, and incremental costs that would not have been incurred if the contract had not been obtained. The costs to fulfill a contract are mainly direct personnel expenses related to the reception clerical work to accept new contracts, and costs directly related to the service provided to the customer. When recognizing as an asset the incremental cost for obtaining a contract and the cost to fulfill a contract, only the amount expected to be recovered is recognized as an asset, taking into account the cancellation rates of customers (contractors). The asset is amortized over the estimated average contract term of the related service.

Assets recognized from contract costs are reviewed quarterly for recoverability. The Group assesses whether the carrying amount of the asset exceeds the remaining consideration that is expected to be received during the contract term of providing related services in consideration of the cancellation rates and other factors less costs that are directly related to the goods or services provided and not yet recognized as an expense. These estimates and assumptions may have a significant impact on the amount of assets recognized from contract costs if the underlying circumstances change and impairment loss is recognized for the assets. Therefore, NTT Group considers that such estimates are important.

The amounts of amortization on the assets recognized from contract costs for the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020 were ¥142,062 million and ¥133,847 million, respectively, and no impairment losses accrued.

2.3. Operating Expenses

(1) Expenses for purchase of goods and services and other expenses

Details of items recorded as expenses for purchase of goods and services and other expenses

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Outsourcing expense	1,527,482	1,645,697
Cost of equipment purchased	896,170	706,621
*Cost of goods	921,104	928,321
Agency commissions	444,524	424,971
Total	3,789,280	3,705,610

* Cost of goods mainly includes purchase of goods for sales and materials for construction work.

(2) Research and development expenses

The research and development expenses that were expensed when incurred in the fiscal years ended March 31, 2019 and 2020 amounted to ¥211,322 million and ¥224,891 million, respectively. Description of research and development expenses is presented in “ITEM2 BUSINESS OVERVIEW 5. Research and Development” and accounting method is presented in “Note 3.7 Goodwill and Intangible Assets.

2.4. Income Taxes

(Accounting Policies)

Income taxes consist of current taxes and deferred taxes, and are recognized in profit or 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, or recovered from, the tax authorities. Tax calculations use the tax rates and tax laws that have been enacted or substantively 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 unused tax losses and unused tax credits can be utilized against the future taxable profit. The probability of realizing deferred tax assets will depend on whether taxable profit will be available during the periods in which deductible temporary differences will reverse or unused tax losses can be utilized. In this assessment, NTT Group considers the expected level of future taxable profit, tax planning opportunities, and the expected timing of the reversal of deferred tax liabilities. The probability of realizing deferred tax assets depends mainly on the future taxable profit, and NTT Group considers that sufficient taxable profit will be available on an ongoing basis. However, when the estimate of probable future taxable profit for the periods, the net amount of deferred tax assets expected to be realized may be reduced. A reassessment of the recoverability of deferred tax assets is conducted at the end of the fiscal year.

Note that deferred tax assets are not recognized for temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and that does not affect either accounting profit or taxable profit.

Deferred tax assets are recognized for deductible temporary differences arising from investments in subsidiaries, associates, and interests in joint ventures only if it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

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 the initial recognition of an asset or a liability in a transaction that is not a business combination and that does not affect either accounting profit or taxable profit
- taxable temporary differences arising from the initial recognition of goodwill
- taxable temporary differences arising from investments in subsidiaries, associates, and joint ventures for which the timing of the reversal of the temporary difference can be controlled and it is probable 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 has 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 NTT Group has a legally enforceable right to offset current tax assets and liabilities and income taxes are imposed on the same taxpayer by the same taxation authority.

(Accounting Estimates and Judgments Involving Estimates)

The recoverability of deferred tax assets is estimated described as above.

(1) Deferred Tax Assets and Deferred Tax LiabilitiesDetails and changes of deferred tax assets and deferred tax liabilities by major factor

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets		
Defined benefit liabilities	582,660	582,369
Accrued enterprise tax	15,909	14,095
Property, plant and equipment and intangible assets	386,709	357,980
Accrued payroll	111,141	113,317
Unused tax losses	60,744	58,282
Provision for point programs	7,458	8,672
Investments accounted for using the equity method	18,882	6,775
Equity instruments	20,203	42,797
Accounts receivable - trade	43,668	9,263
Real estate tax payable	40,560	40,502
Contract liabilities	106,525	127,958
Loss allowance	11,166	15,214
Other	126,220	132,233
Total	1,531,845	1,509,457
Offset to deferred tax liabilities	(407,378)	(356,415)
Net deferred tax assets	1,124,467	1,153,042

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax liabilities		
Equity instruments	60,781	48,647
Property, plant and equipment	126,145	129,590
Intangible assets	52,750	46,617
Investments accounted for using the equity method	*46,922	4,291
Plan assets related to the defined benefit plan	34,357	32,969
Contract cost	107,618	115,528
Other	39,994	49,022
Total	468,567	426,664
Offset to deferred tax assets	(407,378)	(356,415)
Net deferred tax liabilities	61,189	70,249

* Description of impact of assets held for sale is presented in “Note 3.4 Assets Held for Sale”.

Changes of net deferred tax assets

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Balance at the beginning of the year	1,099,851	1,063,278
Cumulative effect of adopting IFRS 9 “Financial Instruments”	(6,875)	—
Amount recognized in profit or loss	4,831	(30,671)
Amount recognized as other comprehensive income		
Cash flow hedges	(442)	270
Financial assets measured at fair value through other comprehensive income	1,445	33,426
Remeasurements of the defined benefit plans	5,027	(5,123)
Share of other comprehensive income of entities accounted for using the equity method	(32,473)	21,900
Total	1,071,364	1,083,080
Others*	(8,086)	(287)
Balance at the end of the year	1,063,278	1,082,793

* The main effects were foreign currency translation differences and business combinations.

Deductible temporary differences and unused tax losses for which no deferred tax assets are recognized

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deductible temporary differences	156,384 (15,928)	207,967 (22,744)
Unused tax losses		
Expiration date	74,258	73,559
Within 5 years	(13,652)	(14,281)
Expiration date	800,777	839,335
Over 5 years and within 20 years	(185,998)	(190,067)
Indefinite periods	65,756 (17,386)	101,291 (26,534)
Total unused tax losses	940,791 (217,036)	1,014,185 (230,882)
Total deductible temporary differences and unused tax losses	1,097,175 (232,964)	1,222,152 (253,626)

The amounts of deductible temporary differences and unused tax losses are based on temporary differences, and those presented in parentheses are on a tax basis.

For entities subject to consolidated taxation system, recoverability of national corporate tax is assessed based on the estimate of future taxable income of the consolidated taxpaying group, while recoverability of local taxes is assessed based on the future taxable income of each entity. When local taxes are deemed as not recoverable, the amounts of future deductible temporary differences and unused tax losses on a temporary difference basis are multiplied by local tax rates and presented as the amount on a tax basis.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Unused tax losses *1	810,804	774,407
Unused tax losses for which no deferred tax assets are recognized *2,3,4	677,711 (166,446)	621,469 (160,092)
Net deferred tax assets related to unused tax losses	32,688	39,397
Future taxable income needed to realize the net deferred tax assets related to unused tax losses	*5 133,094	※6 152,939

*1. Unused tax losses may be offset against taxable income generated from ordinary operating activities until the end of the fiscal year ending March 31, 2036.

*2. Large amounts of unused tax losses for which no deferred tax assets are recognized were due to, among other factors, insufficient taxable income expected to be earned in the future is not large compared with the unused tax losses and the uncertainties about the future plans for generating taxable income, despite the three years of cumulative income recorded in the fiscal years ended March 31, 2019 and 2020. Net deferred tax assets related to unused tax losses is reassessed at the end of each fiscal year based on the forecast for taxable income and the recoverability of deferred tax assets. The amount of the carryforward of unused tax losses for which no deferred tax assets are recognized may decrease in the future.

*3. The decrease in unused tax losses for which no deferred tax assets are recognized (in the amount on a tax basis) in the fiscal year ended March 31, 2020, is mainly due to ¥7,427 million of a change in the estimate of recoverability of deferred tax assets for NTT America, Inc.

*4. The amounts of unused tax losses for which no deferred tax assets are recognized are based on temporary differences, and those presented in parentheses are on a tax basis.

*5. Calculated on the basis of US\$1 = ¥110.99 (as of March 31, 2019)

*6. Calculated on the basis of US\$1 = ¥108.83 (as of March 31, 2020)

Total temporary differences relating to investments in subsidiaries and associates for which no deferred tax liabilities are recognized

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Taxable temporary differences	397,703 (125,117)	207,692 (65,340)

The amounts of taxable temporary differences are based on temporary differences, and those presented in parentheses are on a tax basis.

(2) Details of Income TaxesDetails of total income taxes

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Income taxes recognized in profit or loss		
Current tax expenses	538,005	428,124
Deferred tax expenses		
Origination and reversal of temporary differences	(8,783)	32,327
Recognition of deductible temporary differences not recognized in prior years	(9,272)	6,416
Recognition of unused tax losses not recognized in prior years	(7,443)	(8,072)
Attributable to NTT America, Inc. included in the above *1	(6,385)	(7,424)
Effect of changes in tax rates	*3 20,667	—
Total deferred tax expenses	(4,831)	30,671
Total income taxes recognized in profit or loss	533,174	458,795
Total income taxes recognized in other comprehensive income *2	30,255	(25,289)
Total income taxes recognized in additional paid-in capital *2	9,548	—
Total income taxes	572,977	433,506

*1. This impact was due to a reassessment of the recoverability of deferred tax assets and increasing the deferred tax assets for the fiscal years ended March 31, 2019 and 2020.

*2. The details of total income taxes recognized in other comprehensive income and total income taxes recognized in additional paid-in capital are presented in “Note 4.1. Equity”.

*3. The factor is presented in “Note 3.4. Assets Held for Sale”.

Almost all the profit before taxes and tax expenses of NTT Group were recorded in Japan. For the fiscal years ended March 31, 2019 and 2020, NTT and NTT’s domestic subsidiaries were subject to national corporate tax of 24.22%, local corporate inhabitant tax of approximately 3.78%, and local deductible corporate enterprise tax of approximately 5.04%. The statutory effective tax rates were 31.46%, respectively. The rates of corporate inhabitant tax and corporate enterprise tax differ depending on the municipality.

Foreign subsidiaries are subject to local corporate taxes.

NTT Group accounts for and prepares the consolidated financial statements under the consolidated taxation system. Under the consolidated taxation system, tax expenses for each fiscal year are calculated by aggregating taxable income of the consolidated taxpaying companies, and the recoverability of deferred tax assets related to national corporate tax is assessed on the basis of the aggregated estimate of future taxable income of the consolidated taxpaying companies. As of March 31, 2020, NTT and its 102 wholly owned subsidiaries in Japan, such as NTT East, NTT West, and NTT Communications, are included in the consolidated taxpaying companies.

Details of major items for the difference between the statutory effective tax rate and average actual tax rate

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Statutory effective tax rate	31.46%	31.46%
(Adjustment)		
Effect of reassessment of recoverability of deferred tax assets	(0.07%)	1.09%
Effect of tax credits	(1.02%)	(1.35%)
Effect of non-deductible expenses	1.05%	0.53%
Effect of temporary differences in investments in subsidiaries through consolidated internal transactions	—	(3.32%)
Other	0.47%	0.81%
Average actual tax rate	31.89%	29.22%

(3) Income taxes receivable included in other current assets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Income taxes receivable	110,051	112,579

2.5. Earnings per Share

(Accounting Policies)

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 rights 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.

Basic earnings per share

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit attributable to NTT (millions of yen)	854,561	855,306
Weighted average number of the outstanding common shares (share)	3,882,137,457	3,699,278,775
Basic earnings per share (yen)	220.13	231.21

Diluted earnings per share attributable to NTT is not stated, because NTT did not have potentially dilutive common shares during the periods.

Stock Split

NTT conducted a two-for-one stock split of its common stock, with a record date of March 31, 2020 and an effective date of January 1, 2020 based on the resolution at a meeting of board of directors on November 5, 2019. Per share information for the fiscal year ended, 2019 and 2020 reflects the impact of the stock split.

3 Assets and Liabilities (excluding Financial Instruments)

This section presents items related to assets used to generate operating revenues and liabilities that arise as a result. Items related to cash management are described in "4. Equity and Financing".

3.1. Business Combinations and Acquisitions of Non-controlling Interests

(Accounting Policies)

The consideration delivered at the time of business combination is measured as the sum of the fair value of assets transferred by NTT Group and the liabilities of the former owner of the acquired company assumed by NTT Group. Acquisition-related expenses are recognized in profit or loss at the time they are incurred.

Any identifiable assets acquired and liabilities of the former owner of the acquired company assumed by NTT Group on the date when control is obtained 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 when control is obtained (acquired) 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 excess amount 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 when control is obtained. If the difference is a negative amount, it is immediately recognized in profit or loss. Goodwill generated by a business combination is allocated to cash-generating units that benefit from the business combination on the date when control is obtained.

On a case-by-case basis for each business combination transaction, 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. In 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 when control is obtained. Any differences arising from remeasurements are recognized in profit or loss or 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 date when control was obtained is accounted for using the same method as would be used if NTT Group were to directly dispose of those interests, and is recognized in profit or loss or other comprehensive income.

If the initial accounting for business combinations is not completed by the end of the fiscal year, NTT Group reports provisional amounts for those items related goodwill, identifiable assets acquired and liabilities assumed. Subsequently, if any new facts and circumstances are found to have existed as of the date when control was obtained, and if such facts or circumstances are deemed to affect the recognized amount of the business combination, the provisional amounts as of the date when control was obtained are retrospectively adjusted for up to one year from the date when control is obtained.

(Accounting Estimates and Judgments Involving Estimates)

Assets acquired through the business combination and liabilities of the former owner of the acquired company is estimated described as above.

<Fiscal year ended March 31, 2019>

There was no significant business combination.

Description about making NTT Urban Development Corporation a wholly owned subsidiary of NTT-SH Corporation is presented in “Note 4.1. Equity (7) Equity Transactions with Non-controlling Interests.”

<Fiscal year ended March 31, 2020>

There was no significant business combination.

3.2. Trade and Other Receivables

Trade and other receivables are classified as financial assets measured at amortized cost, except for lease receivables.

Details of trade and other receivables

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Gross amounts		
Notes and accounts receivables - trade*	2,841,236	2,463,378
Accounts receivable - other	857,049	1,032,603
Lease receivables	628,255	83,196
Installment sales receivables	129,337	—
Loss allowance	(64,443)	(76,343)
Total	4,391,434	3,502,834

* Short-term telecommunications terminal equipment installment sales receivables of ¥596,229 million and ¥459,682 million were included in “Notes and accounts receivables - trade” for the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020.

Trade and other receivables that are expected to be collected later than 12 months from the end of each reporting period (March 31, 2019, or March 31, 2020) were ¥100,060 million, and ¥3,205 million, respectively. The details of lease receivables that are expected to be collected later than 12 months from the end of the reporting period are not included in these amounts and are described in “Note 3.6 Leases.”

Trade and other receivables on the consolidated statement of financial position represents the amount after deducting allowance for doubtful accounts and loss allowance.

3.3. Inventories

(Accounting Policies)

Inventories consist of telecommunications terminal equipment, materials to be sold, work in progress, and supplies, which are measured at the lower of cost and net realizable value (net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell). The costs of telecommunications terminal equipment and materials to be sold are determined on a first-in, first-out basis. The cost of work in progress is mainly attributable to software production pursuant to contracts with customers and construction of real estate held for sale, including labor and subcontractors' costs. The cost of supplies is principally determined by mainly the average cost method or the specific identification method.

Details of inventories

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Telecommunications terminal equipment and materials to be sold	178,459	88,563
Work in progress	63,007	82,071
Supplies	90,168	86,695
Total	331,634	257,329

Amounts of inventories recognized as expenses, write-down of inventories, and reversal of write-down

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Inventories recognized as expenses	1,567,237	1,390,696
Write-down of inventories	7,093	14,906
Reversal of write-down of inventories	(259)	(346)

3.4. Assets Held for Sale

(Accounting Policies)

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 determined 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 and their fair value less costs to sell. Such assets are not depreciated. An impairment loss is recognized if the fair value less costs to sell falls below the carrying amount. In the event of a subsequent increase in the fair value less costs to sell, 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 asset no longer satisfies the requirements to be held for sale, it will cease to be classified as held for sale. In such case, the asset will be measured at the lower of the applicable carrying amount had it not been classified as held for sale or its recoverable amount as of the date it ceases to meet the requirements to be classed as held for sale.

Sumitomo Mitsui Card Company, Limited

Overview

As of March 31, 2019, 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.

In July 2005, 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. NTT DOCOMO group and SMFG will jointly develop a business to facilitate cashless payments by leveraging each of their customer bases and know-how and further expanding their “iD” electronic money service, while looking into the possibility of a new collaboration in areas such as FinTech. As a result of this arrangement, NTT DOCOMO agreed to sell all Sumitomo Mitsui Card shares to SMFG in April 2019.

On April 1, 2019, NTT DOCOMO sold all of its Sumitomo Mitsui Card shares to SMFG.

Impact on accounting treatment and on the consolidated financial statements

For the fiscal year ended March 31, 2019, 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 “Assets held for sale”. As a result, the subsequent application of the equity method was discontinued and the amount of the asset was measured at its carrying amount at that time. Assets held for sale comprise ¥234,160 million of investments in associates attributable to Mobile communications business, which had been accounted for using the equity method.

Accumulated other comprehensive income (net of taxes) related to “Assets held for sale” amounted to ¥30,620 million (credit side) and was included in “Other components of equity” in the Consolidated Statement of Financial Position as of March 31, 2019. This total amount represents the changes in the fair value of financial assets measured at fair value through other comprehensive income.

Due to the decision to recover this investment by sale, deferred tax liabilities arising from the temporary differences on this investment increased by ¥42,530 million and were offset against deferred tax assets on the Consolidated Statement of Financial Position. As a result, “Income taxes” on the Consolidated Statements of Profit or Loss for the fiscal year ended March 31, 2019, increased by ¥20,667 million, and “Share of other comprehensive income of entities accounted for using the equity method (items that will not be reclassified to profit or loss)” (credit side) on the consolidated statement of comprehensive income decreased by ¥21,863 million.

For the fiscal year ended March 31, 2020, accumulated other comprehensive income (net of taxes) related to “Assets held for sale” amounted to ¥30,620 million (credit side) was not recognized in profit or loss, but will be directly reclassified to

retained earnings when the asset is sold because NTT DOCOMO sold all of its Sumitomo Mitsui Card shares. The impact of this sales to Consolidated Statement of Profit or Loss was not material. The amount of proceeds from the sale is included in “Proceeds from sale or redemption of investments” in the Consolidated Statement of Cash Flows.

Capital and Business Tie-up Agreement with Tokyo Century Corporation

Overview

NTT resolved to form a capital and business tie-up (hereinafter referred to as “the capital and business tie-up”) with Tokyo Century Corporation (hereinafter referred to as “Tokyo Century”) at a Meeting of the Board of Directors held on February 6, 2020 and entered into an agreement regarding the capital and business tie-up.

As part of the capital and business tie-up, the new company (NTT TC Leasing Co., Ltd) established by NTT Finance Corporation (hereinafter referred to as “NTT Finance”), will first succeed to part of the leasing business and global business of NTT Finance by the method of absorption-type split upon spin-off, and then NTT group will transform the new company into a joint venture by selling shares equivalent to 50 percent of the total number of outstanding shares of the new company to Tokyo Century in order to bolster and augment leasing and financial business in Japan and other countries for NTT group and Tokyo Century.

In addition to the above, NTT acquired shares of Tokyo Century's common stock equivalent to 10 percent of the total outstanding shares after the third-party allocation implemented by Tokyo Century by underwriting part of the allocation.

Impact on accounting treatment and on the Consolidated Financial Statements

In accordance with this completion of share transfer, the new company is expected to be a joint venture company accounted for using the equity method for NTT group. As a result, assets and liabilities directly associated with these assets related to part of the leasing business and global business of NTT Finance, which are included in “Other business” segment, were classified as assets held for sale and liabilities directly associated with assets held for sale, respectively, until the completion of the share transfer. The amount of these assets and liabilities were measured at its carrying amount because their fair values less costs to sell exceeded the carrying amounts.

Details of disposal group classified as assets held for sale and liabilities directly associated with assets held for sale

(Millions of yen)

Item	As of March 31, 2020	Item	As of March 31, 2020
(Asset)		(Liabilities)	
Trade and other receivables	817,249	Short-term debt	32,148
Other financial assets (current)	291,988	Trade and other payables	17,373
Property, plant and equipment	115,057	Lease liabilities (current)	4,858
Other financial assets (Non-current)	114,678	Other current liabilities	11,348
Others	8,335	Long-term debt	447,503
		Lease liabilities (Non-current)	26,538
		Other financial liabilities (Non-current)	18,357
		Others	1,307
Total	1,347,307	Total	559,432

The impact on other components of equity directly associated with “Assets held for sale” as of March 31, 2020 is immaterial.

And the impact of selling shares on the Consolidated Statements of Profit or Loss will be immaterial.

Details of Trade and other receivables in the above table of assets held for sale

Trade and other receivables are classified as financial assets measured at amortized cost, except for lease receivables.

(Millions of yen)

	As of March 31, 2020
Accounts receivable - other	26,336
Lease receivables	660,129
Installment sales receivables	135,088
Loss allowance	(4,304)
Total	817,249

Trade and other receivables in the above table that are expected to be collected later than 12 months from March 31, 2020 was ¥99,806 million.

Details of other financial assets in the above table of assets held for sale

(Millions of yen)

	Fiscal year ended March 31, 2020
Current assets	
Financial assets measured at fair value through profit or loss	
Debt securities	1,099
Loans receivables	129,566
Financial assets measured at amortized cost	
Debt securities	11,972
Loans receivables	149,351
Subtotal	291,988
Non-current assets	
Financial assets measured at fair value through profit or loss	
Debt securities	99,824
Investments in capital	6,990
Financial assets measured at fair value through other comprehensive income	
Equity securities	434
Financial assets measured at amortized cost	
Debt securities	10,378
Loss allowance	(2,948)
Subtotal	114,678
Total	406,666

Significant investments in financial assets measured at fair value through other comprehensive income are not included.

Details of Short-Term Borrowings and Long-Term Borrowings in the above table of liabilities directly associated with assets held for sale

Short-term borrowings and Long-term borrowings are classified as financial liabilities measured at amortized cost.

Details of short-term borrowings

Short-term borrowings shown in the table of liabilities directly associated with assets held for sale above is the current portion of long-term debt.

Details of Long-term borrowings

(Millions of yen)

	Maturity date	As of March 31, 2020
Debt denominated in Japanese yen		
Secured loans from financial institutions		
0.15% floating rate loans	2026	10,337
Unsecured loans from financial institutions		
0.16% (weighted average) fixed rate loans	2020-2043	395,360
0.23% floating rate loans	2026	3,097
Subtotal		408,794
Debt denominated in foreign currencies		
Unsecured loans from financial institutions		
2.03% (weighted average) floating rate U.S. dollar loans	2020-2029	52,814
Other loans	2020-2023	18,043
Subtotal		70,857
Total principal of Long-term borrowings		479,651
Less current portion		32,148
Total Long-term borrowings		447,503

Interest rates and maturity dates in the above table are those as of March 31, 2020.

Details of Assets pledged as collateral in the above table of assets held for sale

(Millions of yen)

	As of March 31, 2020
Property, plant and equipment	13,017
Total	13,017

Details of Liabilities corresponding to assets pledged as collateral in the above table of assets held for sale

(Millions of yen)

	As of March 31, 2020
Long-term borrowings*1	10,337
Total	10,337

Long-term borrowings includes the current portion which is included in the above table of liabilities directly associated with assets held for sale in the above table of assets held for sale.

Details of trade and other payables in the above table of liabilities directly associated with assets held for sale

Trade and other payables are classified as financial liabilities measured at amortized cost.

(Millions of yen)

	As of March 31, 2020
Accounts payable - trade	14,315
Accounts payable - other	197
Accrued expenses	777
Deposits received	2,084
Total	17,373

Details of other financial liabilities included in the above table of liabilities directly associated with assets held for sale

(Millions of yen)

	As of March 31, 2020
Current liabilities	
Financial liabilities measured at fair value through profit or loss	
Derivative financial liabilities	
Applied hedge accounting	21
Subtotal	21
Non-current liabilities	
Financial liabilities measured at fair value through profit or loss	
Derivative financial liabilities	
Applied hedge accounting	1,552
Lease and guarantee deposits received	16,805
Subtotal	18,357
Total	18,378

Details of financial instruments measured at fair value in the above table of assets held for sale and liabilities directly associated with assets held for sale

① The fair value of financial instruments not measured at fair value

The carrying amount and estimated fair value of financial instruments not measured at a fair value

(Millions of yen)

	As of March 31, 2020	
	Carrying amount	Fair value
Long-term borrowings (including current portion or balance due within 1 year)	479,651	478,696

With regard to the above-mentioned items, the assumptions (inputs) used to measure fair value defined in “Note 1.3. Significant Accounting Policies (3) Fair Value” are classified as Level 2.

With the exception of the above-mentioned items, the financial instruments not measured at fair value are not included in the table, because their carrying amounts approximate their fair values. The fair values of Long-term borrowings (including current portion or balance due within 1 year) are measured by discounting future cash flows using discount rates assumed for similar new debt, except for floating rate debt whose carrying amounts and fair values are deemed almost equivalent.

② Fair value measurement

Assets and liabilities measured at fair value

As of March 31, 2020

(Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Debt securities	—	100,923	—	100,923
Investments in capital	—	—	6,990	6,990
Loans receivables	—	129,566	—	129,566
Financial assets measured at fair value through other comprehensive income				
Equity securities	—	—	434	434
Total	—	230,489	7,424	237,913
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives financial liabilities				
Applied hedge accounting	—	1,573	—	1,573
Total	—	1,573	—	1,573

In the fiscal year ended March 31, 2020, there was no material transfer between levels.

Reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis in the fiscal year

As of March 31, 2020

(Millions of yen)

Classification	Balance at the beginning of the year	Gain (losses)		Increase by purchases	Decrease by sales	Other changes	Balance at the end of the year	Gain (losses) for the period relating to assets held at the end of the year
		Profit	Other comprehensive income					Profit
Financial assets:								
Investments in capital	—	—	—	6,990	—	—	6,990	327
Equity securities	—	—	—	434	—	—	434	—

1. “Increase by purchases” include increases or decreases from new consolidations, deconsolidations, and transfers from (to) other accounts.
2. Gains or losses included in the “Profit” are included in the “Finance income” or “Finance costs” in the consolidated statement of profit or loss.

Valuation techniques used to measure fair value of financial instruments

In the consolidated statement of financial position, the valuation techniques used 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. Their fair value is measured based on the pricing models developed independently by financial and other institutions using underlying conditions that are observable in markets, such as credit ratings and discount rates.

(ii) Loans receivables

The fair values of loans receivable are calculated primarily by discounting the total principal and interest using interest rates assumed for similar new 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 using underlying conditions that are observable in markets, such as exchange rates. The fair value of currency swap agreements and interest rate swap agreements is measured by using underlying conditions that are observable in markets, such as London Inter-bank Offered Rate (LIBOR), swap rates, and exchange rates, and by discounting future cash flows to present value.

(iv) Equity securities and investments in capital

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

Details of lease liabilities by due date in the above table of liabilities directly associated with assets held for sale

As of March 31, 2020

(Millions of yen)

	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Lease liabilities	4,886	12,807	13,747	31,440

Details of finance lease receivable by due date in the above table of assets held for sale

(Millions of yen)

	As of March 31, 2020
Less than 1 year	178,714
One to two years	152,270
Two to three years	123,020
Three to four years	94,325
Four to five years	59,297
More than five years	110,569
Total	718,195
Less unearned finance income	58,066
Net investment in the lease	660,129
Less unguaranteed residual value	2,287
Present value	657,842

Details of the financial instruments classified as assets held for sale and liabilities directly associated with assets held for sale are presented in “Note 4.8 Financial Instruments”.

3.5. Property, Plant and Equipment

(Accounting Policies)

Recognition

Property, plant and equipment are measured using the cost model, which deducts accumulated depreciation and accumulated impairment losses from cost. The cost includes expenses directly attributable to the acquisition of an asset and the cost of borrowings to be capitalized.

Depreciation

Depreciation is calculated principally using the straight-line method over the estimated useful life of each component. The depreciable amount is calculated by deducting the residual value of an asset from the cost 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
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Telecommunications service lines

Cables.....	13 to 36 years
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Tubes and tunnels.....	50 years
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Buildings and structures

Reinforced concrete buildings.....	42 to 56 years
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Machinery, tools and fixtures.....	3 to 26 years
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NTT Group reviews the depreciation methods, useful lives, and residual values at the end of each fiscal year. Any changes are accounted for as changes in accounting estimates on a prospective basis.

(Accounting Estimates and Judgments Involving Estimates)

As described in the above accounting policies, the useful lives of property, plant and equipment are estimated.

(1) Changes**Changes in carrying amounts, costs, accumulated depreciation, and accumulated impairment losses of property, plant and equipment****Carrying amounts of property, plant and equipment**

(Millions of yen)

	Telecom- munications equipment	Telecom- munications service lines	Buildings and structures	Machinery, vessels and tools	Land	Construction in progress	Total
As of April 1, 2018	2,537,032	2,694,393	1,761,762	743,651	654,855	420,481	8,812,174
Acquisition	26,347	582	7,653	140,137	7,131	1,110,960	1,292,810
Acquisition in business combination	—	—	1,122	2,503	23	—	3,648
Sale or disposal	(61,682)	(14,251)	(22,907)	(9,618)	(5,595)	(6,180)	(120,233)
Transfer between accounts	538,083	253,369	143,321	147,112	(8,580)	(1,074,268)	(963)
Depreciation	(432,271)	(186,457)	(135,147)	(151,273)	—	—	(905,148)
Impairment	(2,322)	(66,934)	(2,654)	(2,864)	(1,107)	(7)	(75,888)
Foreign currency translation adjustments	144	306	(2,198)	(2,652)	(560)	(384)	(5,344)
Other	(4,023)	3,029	17,184	(35,309)	51,616	(20,606)	11,891
As of March 31, 2019	2,601,308	2,684,037	1,768,136	831,687	697,783	429,996	9,012,947
Cumulative effect of adopting IFRS 16 “Lease”	—	—	(11,996)	(29,310)	—	—	(41,306)
Adjusted beginning balance (As of April 1, 2019)	2,601,308	2,684,037	1,756,140	802,377	697,783	429,996	8,971,641
Acquisition	18,457	101	26,846	133,353	7,469	1,086,697	1,272,923
Acquisition in business combination	—	—	3,014	4,403	7,364	625	15,406
Sale or disposal	(52,104)	(13,850)	(15,956)	(17,981)	(4,018)	(7,680)	(111,589)
Transfer between accounts	502,458	220,312	155,207	144,238	(1,318)	(1,034,099)	(13,202)
Depreciation	(438,405)	(145,114)	(130,647)	(153,634)	—	—	(867,800)
Impairment	—	—	(1,017)	(2,874)	(120)	(50)	(4,061)
Foreign currency translation adjustments	(60)	(105)	(7,952)	(14,365)	(2,125)	(3,308)	(27,915)
Transfer to assets held for sale	—	—	(18,722)	(81,092)	—	(15,243)	(115,057)
Other	(1,578)	1,316	10,579	(26,698)	(1,400)	(15,102)	(32,883)
As of March 31, 2020	2,630,076	2,746,697	1,777,492	787,727	703,635	441,836	9,087,463

Note: Depreciation and impairment are included in “Depreciation and amortization” and “Impairment losses” are included in the consolidated statement of profit or loss, respectively.

Cost

(Millions of yen)

	Telecom- munications equipment	Telecom- munications service lines	Buildings and structures	Machinery, vessels and tools	Land	Construction in progress	Total
As of April 1, 2018	11,007,130	16,183,748	5,506,426	2,309,269	657,746	420,481	36,084,800
As of March 31, 2019	10,929,456	16,353,389	5,543,499	2,415,775	699,178	429,996	36,371,293
Cumulative effect of adopting IFRS 16 “Lease”	—	—	(13,739)	(62,427)	—	—	(76,166)
Adjusted beginning balance	10,929,456	16,353,389	5,529,760	2,353,348	699,178	429,996	36,295,127
As of March 31, 2020	10,895,484	16,502,388	5,611,601	2,350,900	705,456	441,836	36,507,665

Accumulated depreciation and impairment losses

(Millions of yen)

	Telecom- munications equipment	Telecom- munications service lines	Buildings and structures	Machinery, vessels and tools	Land	Construction in progress	Total
As of April 1, 2018	8,470,098	13,489,355	3,744,664	1,565,618	2,891	—	27,272,626
As of March 31, 2019	8,328,148	13,669,352	3,775,363	1,584,088	1,395	—	27,358,346
Cumulative effect of adopting IFRS 16 “Lease”	—	—	(1,743)	(33,117)	—	—	(34,860)
Adjusted beginning balance	8,328,148	13,669,352	3,773,620	1,550,971	1,395	—	27,323,486
As of March 31, 2020	8,265,408	13,755,691	3,834,109	1,563,173	1,821	—	27,420,202

(2) Leased AssetsCarrying amounts of leased assets classified as finance leases included in property, plant and equipment

(Millions of yen)

	Buildings and structures	Machinery, vehicles and tools	Total
As of April 1, 2018	3,988	25,746	29,734
As of March 31, 2019	11,996	29,310	41,306

There is no carrying amounts as of March 31, 2020 due to adopting IFRS 16 as presented in (1) Changes. Details regarding lease are presented in “Note 3.6 Lease”

(3) Impairment Losses

(Accounting Policies)

NTT Group determines whether there are any indications of impairment at each reporting date. The recoverable amount in the impairment test is calculated as the higher of either the value in use or the fair value less 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.

If there are indications of impairment, the recoverable amounts are estimated. If the recoverable amount of individual assets cannot be estimated, an estimate is made of the recoverable amount for the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest unit of an asset group that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

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

On each reporting date, NTT Group assesses whether there is any indication that an impairment loss recognized in prior years may no longer exist or may have decreased. If any such indication exists, NTT Group estimates the recoverable amount of the asset or cash-generating unit. In the event that the recoverable amount exceeds the carrying amount of the asset or the cash-generating unit, the impairment loss is reversed, with the upper limit set at the lower of (i) the recoverable amount and (ii) the carrying amount net of amortization or depreciation that would have been determined if no impairment loss had been recognized in prior years. There was no reversing an impairment loss for the fiscal years ended March 31 2019 and March 31 2020.

(Accounting Estimates and Judgments Involving Estimates)

Impairment of property, plant and equipment are estimated as described above.

Fiscal year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

Impairment losses for 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 were 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 shrinkage of 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 were idle assets with no prospect of future use and thus reduced the carrying amount to the recoverable amount.

In the fiscal year ended March 31, 2019, NTT Group determined some metal cables that had been previously expected to be used in the future were idle assets with no prospect of future use, in addition to the assets recognized as idle assets in the fiscal year ended March 31, 2018.

NTT Group started specific efforts toward some metal cable contractors to use optical cables and decided to simplify their contract procedures (abolition of the temporary mandatory use of metal cables due to change of operators).

In light of these changes in the business environment, NTT Group additionally regarded the metal cable lines left with the wiring to the customers' homes even after the termination of the contract as the unused portions. The Group determined that such metal cable lines were idle assets with no prospect of future use and thus reduced the carrying amount to the recoverable amount. Consequently, impairment losses of ¥66,003 million were recorded for telecommunications service lines in the Regional communications business segment in the fiscal year ended March 31, 2019. The recoverable amount of the metal cables is ¥47,816 million based on the fair value less costs of disposal using the market approach. The assumptions (inputs) used to measure fair value are classified as Level 3. Under the market approach, the recoverable amount is estimated taking into consideration the market price of the main material and the cost necessary to make it available for sale.

Fiscal year ended March 31, 2020 (April 1, 2019 to March 31, 2020)

There was no significant impairment loss.

(4) Assets Pledged as Collateral

The amounts of property, plant and equipment that are pledged as collateral for corporate bonds and loans are stated in “Note 4.5. Short-Term Borrowings and Long-Term Borrowings.”

(5) Assets with Restricted Ownership

Under finance leases liabilities recognized in the fiscal year ended March 31, 2019 and leases liabilities recognized in the fiscal year ended March 31, 2020, the Group bears obligations and lessors reserve ownership of leased assets and right-of-use assets. The details of finance leases and right-of-use assets are presented in “Note 3.6. Leases.”

(6) Borrowing Costs

Of the borrowing costs (interest paid) related to the construction of property, plant and equipment, those that are incurred during the construction periods are included in the cost of the asset. Borrowing costs on the development of internal-use software are also included in the cost of the software. Borrowing costs included in the costs are depreciated over the estimated useful life of the relevant asset. For the fiscal year ended March 31, 2019 and fiscal year ended March 31, 2020, the amounts of borrowing costs incurred were ¥26,725 million and ¥34,085 million, respectively, of which ¥1,299 million and ¥1,179 million were included in the costs of the assets. Interest paid in the fiscal years ended March 31, 2019 and 2020 were ¥39,416 million and ¥49,829 million, respectively.

The capitalization rate applied in capitalizing the borrowing costs was 0.60% to 0.80%.

3.6. Leases

(Accounting Policies)

NTT Group has applied IFRS 16 “Lease” (“IFRS 16”) from the beginning of the current fiscal year while NTT Group had applied IAS 17 “Lease” (“IAS 17”) until fiscal year ended March 31, 2019. As a result, NTT Group changed accounting policy related to lease.

<Changes in Accounting Policies>

(i) Accounting treatment as a lessee

Lease transactions as a lessee were classified as finance leases when the lessor transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, while other lease transactions were classified as operating leases under IAS 17 “Leases” for the year ended March 2019.

As a result of the application of IFRS 16, when NTT Group assesses that a contract is, or contains, a lease* at the inception of the contract, NTT Group initially recognizes a Right-of-use assets and Lease liabilities in the Consolidated Statements of Financial Position at the commencement date of the contract without classifying finance leases or operating leases except for leases with a lease term of 12 months or less or when the underlying assets are of low value. As for leases for which underlying value is of low value, NTT Group recognises lease payments associated with such leases as expenses on a straight-line basis over the lease term. NTT Group does not apply IFRS 16 to leases of intangible assets.

*A contract is determined to be a lease or contain a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration.

(ii) Accounting treatment as a lessor

For leases in which NTT Group is the lessor, excluding subleases, NTT Group is not required to make any adjustments at the time of the application of IFRS 16.

Regarding the subleases in which NTT Group is intermediate lessor, NTT Group reassessed subleases by referencing Right of use assets recognized from head leases in which NTT Group is the lessee rather than the underlying asset that is the subject of a lease then some sublease contracts classified as operating leases in or prior to the previous fiscal year are classified as finance leases. As a result, NTT Group derecognizes Right-of-use assets and recognizes Trade and Other Receivables (Lease receivables) in the Consolidated Statements of Financial Position.

(iii) Transitional Measures

NTT Group applies IFRS 16 using the modified retrospective approach, under which recognizing the cumulative effect of applying the standard as an adjustment to the beginning balance of retained earnings at the date of initial application with no restatement of the comparative period. For the assessment of whether a contract that was concluded in or prior to the previous fiscal year is, or contains a lease, the NTT Group has applied the practical expedient of maintaining its previous assessment.

(iv) The impact of the changes in Accounting Policies

The impact of the application of IFRS 16 is described below.

The amounts newly recognized as the Right-of use assets and Lease liabilities regarding the lease transactions classified as operating leases in the previous fiscal year

	(Millions of yen)
	The beginning balance based on IFRS 16 (April 1, 2019)
(Consolidated Statement of Financial Position)	
Assets	
Right-of-use assets	434,216
Trade and Other Receivables (Lease receivables)	54,594
Investment property	35,572
Liabilities	
Lease liabilities (Current and Non-current)	517,384

There were no material impacts on retained earnings at the beginning of the current fiscal year.

The amounts of depreciation and amortization newly recognized from Right-of-use assets and Investment property
(Millions of yen)

	Fiscal year ended March 31, 2020
(Consolidated Statement of Profit or Loss)	
Depreciation and amortization	148,501

Despite Depreciation and amortization is newly recognized, lease payments, which used to be recognized as Expenses for purchase of goods and services and other expenses for the previous fiscal year is not recognized. As a result, the impact in Consolidated Statement of Profit or Loss for the fiscal year ended March 31 2020 is immaterial.

The impact in cash flow statement due to the change of classification for principal payment of lease liabilities recognized
(Millions of yen)

	The impact for the fiscal year ended March 31, 2020
(Consolidated Statement of Cash Flows)	
Net cash provided by (used in) operating activities	169,007
Net cash provided by (used in) financing activities	(169,007)

The impact above is mainly due to the change of classification for lease payments equivalent to principal payment from Net cash provided by (used in) operating activities in previous fiscal year to Net cash provided by (used in) financing activities as principal payment of lease liabilities.

Reconciliation of lease liabilities

	(Millions of yen)
Lease liabilities recognized at March 31, 2019	46,316
Operating lease commitments at March 31, 2019 as disclosed in Consolidated Financial Statements	225,824
Discounted using the incremental borrowing rate at April 1, 2019	214,971
Recognition exemption for lease of low-value assets	(32,081)
subtotal	229,206
Extension or cancelation options reasonably certain exercised	334,494
Lease liabilities recognized at April 1, 2019	563, 700
The weighted-average rate of the incremental borrowing rate applied on lease liabilities recognized on Consolidated Financial Position at April 1, 2019	1.57%

NTT Group used a number of practical expedients when applying IFRS 16 retrospectively to lease transactions previously classified as operating lease under IAS 17 as follows:

- A lessee may apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- A lessee may rely on its assessment of whether leases are onerous applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review.
- A lessee may elect not to apply the requirements to recognize right-of-use assets to leases for which the lease term ends within 12 months of the date of initial application.
- A lessee may exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- A lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

(i) Accounting treatment as a lessee

(a) Lease liabilities

Lease liabilities are initially measured at the present value of unpaid lease payments*¹ at the commencement date of the contract, discounted using NTT Group's incremental borrowing rate*². Lease payments are accounted as payments for interest calculated applying the effective interest method and payments for principal. Payments for interest are presented as finance cost in the Consolidated Statement of Profit or Loss and classified as cash flows from operating activities Consolidated Statement of Cash Flows. Payments for principal are classified as cash flows from financing activities.

*1. An option to extend the lease shall be exercised when it is determined that it is necessary to exercise the option after comprehensively taking into consideration the necessity of the business execution of the assets subject to the contract, the difficulty of acquisition of alternative assets, exercise conditions of the option, etc.

*2. As interest rate implicit in the lease cannot be readily determined, NTT Group uses incremental borrowing rate as discount rate.

(b) Right-of-use assets

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liabilities, adjusted for any initial direct costs incurred and prepaid lease payments, etc. After the initial measurements, Right-of-use assets are depreciated over the useful life or the lease term of the underlying asset, whichever is shorter, from the commencement date of the contract. The estimated useful life of Right-of-use assets is determined as same as owned property, plant and equipment. Right-of-use assets are deducted by impairment if identified and adjusted at remeasurement of the specific lease liabilities. Accounting Policies related to the judgement whether there are any indications of impairment of right-of-use assets, calculation about the recoverable amount in the impairment test and the value in use are same as presented in "3.5. Property, Plant and Equipment (3) Impairment loss".

A part of Right-of-use assets which satisfies the definition of investment property is presented as Investment property in the Consolidated Statements of Financial Position.

(ii) Accounting treatment as a lessor

Identification and classification

NTT Group determines whether or not a contract constitutes a lease or contains a lease based on the actual substance of the contract at the commencement date of the contract.

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

Substantially all the risks 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 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 non-cancellable period and periods during which a renewal option is considered reasonably certain to be exercised on the commencement date of the lease.

Recognition and measurement

(i) Finance lease transactions

The net investment in the lease is recognized as a lease receivable, and the total lease payment receivable is allocated to an amount equivalent to principal of the lease receivable and an amount equivalent to interest. The amount allocated to interest on the lease payment receivable is calculated using a method that reflects a constant periodic rate of return on the lessor's net investment in the lease. The net investment in the lease is the sum of the uncollected lease payment receivable by a lessor under a finance lease and any unguaranteed residual value (the portion of the residual value of the lease assets, which a lessee does not guarantee, or only a party related to the lessor guarantees), discounted by the interest rate implicit in the lease.

(ii) Operating lease transactions

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

Identification and classification

NTT Group determines whether or not a contract constitutes a lease or contains a lease based on the actual substance of the contract at the commencement date of the contract.

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

Substantially all the risks 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 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 non-cancellable period and periods during which a renewal option is considered reasonably certain to be exercised on the commencement date of the lease.

Recognition and measurement

(i) Finance lease transactions

(As lessee)

Lease assets and lease liabilities are initially recognized at the lower of the fair value of the lease asset at the commencement date and the present value of the total 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 repayments of lease liabilities, and finance costs are calculated so that they produce a constant periodic rate of interest on the remaining balance of the lease liability.

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

Description of leases is presented in "Note3.5. Property, Plant and Equipment (2)Lease Assets".

(As lessor)

The net investment in the lease is recognized as a lease receivable, and the total lease payment receivable is allocated to an amount equivalent to principal of the lease receivable and an amount equivalent to interest. The amount allocated to interest on the lease payment receivable is calculated using a method that reflects a constant periodic rate of return on the lessor's net investment in the lease. The net investment in the lease is the sum of the uncollected lease payment receivable by a lessor under a finance lease and any unguaranteed residual value (the portion of the residual value of the lease assets, which a lessee does not guarantee, or only a party related to the lessor guarantees), discounted by the interest rate implicit in the lease.

(ii) Operating lease transactions

(As lessee)

The total lease payment payable over the term of the operating lease is recognized as an expense using the straight-line method over the lease term.

(As lessor)

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

(Accounting Estimates and Judgments Involving Estimates)

The useful lives of right-of-use assets are estimated as described above.

The lease term are estimated as described above

Impairment of right-of-use assets are estimated as described above.

(1) As Lessee

NTT Group leases certain office space, employees' residential facilities, and other assets under finance leases or operating leases.

(i) Finance leases

Future minimum lease payments under finance leases and the present value

(Millions of yen)

	Minimum lease payments	Present value of minimum lease payments
	As of March 31, 2019	As of March 31, 2019
Within 1 year	16,198	14,040
Over 1 year and within 5 years	26,023	21,823
Over 5 years	19,512	10,453
Total	61,733	46,316
Less amount equivalent to interest	15,417	
Present value	46,316	

(ii) Operating leases

Lease payments under operating leases for land, buildings, and equipment for the fiscal years ended March 31, 2019 were ¥222,299 million.

Total future rental payments under non-cancellable operating leases

(Millions of yen)

	As of March 31, 2019
Within 1 year	52,826
Over 1 year and within 5 years	115,214
Over 5 years	57,784
Total	225,824

(2) As Lessor

NTT Group leases out certain office space and other assets under finance leases or operating leases.

(i) Finance leases

Future minimum lease payment receivable under finance leases and the present value

(Millions of yen)

	Gross investment in finance leases	Present value of minimum lease payment receivable
	As of March 31, 2019	As of March 31, 2019
Within 1 year	173,597	157,258
Over 1 year and within 5 years	393,079	360,878
Over 5 years	123,653	107,296
Total	690,329	625,432
Less unearned finance income	62,074	
Net investment in finance leases	628,255	
Less unguaranteed residual value	2,823	
Present value	625,432	

(ii) Operating leases

Future minimum lease payment receivable under non-cancellable operating leases

(Millions of yen)

	As of March 31, 2019
Within 1 year	28,147
Over 1 year and within 5 years	62,998
Over 5 years	120,936
Total	212,081

<Fiscal year ended March 31, 2020>

(1) Lessee

The NTT Group has concluded lease contracts for land, buildings (office space), company housing facilities, and various other facilities primarily for the purpose of ensuring flexibility in asset replacement, reducing the administrative burden associated with asset administration, and increasing the efficient use of funds.

Among the contracts above, leases of primarily land, buildings (office space), and various types of equipment have an option for extension by the lessee with the objective of ensuring flexibility in the allocation of NTT Group business sites and personnel. Lease payments during the period in which the lease is extendable by exercising the option to extend the lease and such extendable period are generally the same as or similar to the original contract period and lease payments.

Both the option to extend the lease and the option to terminate the lease are reviewed on an annual basis to determine whether they may be exercised or not. The financial impact of this revision is immaterial in the current consolidated fiscal year.

For the NTT Group, leases that include variable lease payments and residual value guarantees or that have not yet entered into are immaterial.

In addition, the NTT Group may engage in sales and leaseback transactions, in which it purchases telecommunications equipment to be leased at the request of customers from a telecommunications equipment provider, sells the equipment to a leasing company, and enters into a lease agreement at the same time. The reason for this is to collect funds related to the purchase of telecommunications equipment as soon as possible and to reduce the risk associated with holding assets by setting the lease period in line with the customer contract period. There will be no gain or loss on sale of such transactions.

Details of right-of-use assets

Carrying amounts

(Millions of yen)

	Class of underlying asset			Total
	Buildings and structures	Machinery, vessels and tools	Land	
As of March 31, 2020	374,696	42,001	30,131	446,828

Cost

(Millions of yen)

	Class of underlying asset			合計
	Buildings and structures	Machinery, vessels and tools	Land	
As of March 31, 2020	501,845	71,412	38,564	611,821

Accumulated depreciation and impairment losses

(Millions of yen)

	Class of underlying asset			合計
	Buildings and structures	Machinery, vessels and tools	Land	
As of March 31, 2020	127,149	29,411	8,433	164,993

Changes in carrying amounts of right-of-use assets

(Millions of yen)

	Fiscal year ended March 31, 2020
Depreciation	
Class of Underlying asset: Buildings and structures	135,547
Class of Underlying asset: Machinery, vessels and tools	17,275
Class of Underlying asset: Land	8,774
Total of Depreciation	161,596
Increase	158,405

Impact on Consolidated Statement of Profit or Loss

(Millions of yen)

	Fiscal year ended March 31, 2020
Interest on lease liabilities	8,690
Expenses relating to low-value assets	46,579
Income from sub-lease	1,141

Impact on Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2020
Total cash outflow for leases	239,653

Total cash outflow for leases includes Repayment of lease liabilities on Consolidated Statement of Cash Flows, Interest on lease liabilities and Expenses relating to low-value assets, too.

Details of lease liabilities by due date

As of March 31, 2020

(Millions of yen)

	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Lease liabilities	162,001	262,434	235,643	660,078

(2) Lessor(i) Finance leases

NTT Group leases office space and other assets under finance leases lease agreements. These leased assets are exposed to the risk of being damaged by the use, intent or negligence of the lessee beyond the normal use of such assets. In order to avoid or reduce these risks, the NTT Group requires the lessee to make a certain security deposit or residual value guarantee in the lease agreement, or attaches insurance to the lease agreement, and if the assets are actually damaged, the loss is appropriated for the loss.

Income from finance lease

(Millions of yen)

	Fiscal year ended March 31, 2020
Selling profit or loss	2,142
Finance income on the net investment in the lease	18,314

Details of finance lease receivable by due date

(Millions of yen)

	As of March 31, 2020
Less than 1 year	27,624
One to two years	16,214
Two to three years	4,571
Three to four years	3,913
Four to five years	3,020
More than five years	36,164
Total	91,506
Less unearned finance income	8,310
Net investment in the lease (Present value)	83,196

(ii) Operating leases

NTT Group leases office space, machinery and other assets under operating lease agreements. These leased assets are exposed to the risk of being damaged by the use, intent or negligence of the lessee beyond the normal use of such assets. In order to avoid or reduce these risks, the NTT Group requires the lessee to make a certain security deposit or residual value guarantee in the lease agreement, or attaches insurance to the lease agreement, and if the assets are actually damaged, income from these measures is appropriated for the loss.

Income from operating lease

(Millions of yen)

	Fiscal year ended March 31, 2020
Lease income	291,600

Details of operating lease income by due date

(Millions of yen)

	As of March 31, 2020
Less than 1 year	160,431
One to two years	106,739
Two to three years	82,663
Three to four years	73,337
Four to five years	61,290
More than five years	221,292
Total	705,752

Underlying assets subject to an operating lease are recognized on "Property, plant and equipment" or "Investment property" in Consolidated Statement of Financial Position.

Underlying assets subject to an operating lease

Carrying amounts

(Millions of yen)

	Buildings and structures	Machinery, vessels and tools	Land	Investment Property
As of March 31, 2019	237,440	205,034	47,777	834,333
Cumulative effect of adopting IFRS 16 "Lease"	(968)	(349)	—	35,572
Adjusted beginning balance	236,472	204,685	47,777	869,905
Acquisition	17,842	30,985	2,711	120,281
Acquisition in business combination	36	1,585	1,757	—
Sale or disposal	(358)	(5,745)	—	(4,254)
Commencement or end of lease	24,911	21,123	879	64,896
Transfer between accounts	13,803	8,501	1,250	9,152
Depreciation	(15,841)	(24,818)	—	(21,544)
Impairment	—	—	—	(502)
Foreign currency translation adjustments	(4,753)	(6,975)	(1,219)	(2,605)
Transfer to assets held for sale	—	(32,008)	—	—
Other	5,402	2,617	1,153	2,673
As of March 31, 2020	277,514	199,950	54,308	1,038,002

Cost

(Millions of yen)

	Buildings and structures	Machinery, vessels and tools	Land	Investment Property
As of March 31, 2019	347,762	345,447	47,777	1,274,810
As of March 31, 2020	410,848	343,901	54,308	1,505,577

Accumulated depreciation and impairment losses

(Millions of yen)

	Buildings and structures	Machinery, vessels and tools	Land	Investment Property
As of March 31, 2019	110,322	140,413	—	440,477
As of March 31, 2020	133,334	143,951	—	467,575

3.7. Goodwill and Intangible Assets

(Accounting Policies)

Goodwill

NTT Group measures goodwill as the excess amount 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 when control of the company is obtained.

Goodwill is not amortized, but tested for impairment whenever there is an indication of impairment in cash-generating units or groups of cash-generating units to which goodwill is allocated, and at the same time every year irrespective of whether there is any indication of impairment.

Goodwill is accounted for in the consolidated statement of financial position at the carrying amount determined by deducting the accumulated impairment losses from the cost.

Intangible Assets

Intangible assets are measured using the cost model, which deducts the accumulated amortization and accumulated impairment losses from the cost.

Intangible assets individually acquired 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 fair value as of the date when control is obtained. Research and development expenses incurred within NTT Group are recognized as intangible assets (internally generated intangible assets) when expenditures for development activities meet the requirements for capitalization, measured at the time of initial recognition as the sum of expenditures incurred from the date when all requirements for capitalization are met, to the date when the development is completed. Other expenditures are expensed when incurred. Description of research and development expenses that are expensed is presented in “Note 2.3. Operating Expenses.”

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

Intangible assets with definite useful lives are amortized using the straight-line method over the estimated useful lives of the assets.

The main intangible asset with a definite useful life is computer software. Internal-use software is capitalized if it has a useful life of more than one year. Subsequent costs of adding to, modifying, or improving internal-use software is capitalized only to the extent that they add new functions to the software. 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, useful lives, and residual values at the end of each fiscal year. Any changes are accounted for as changes in accounting estimates on a prospective basis.

The main intangible assets with indefinite useful lives are trademarks and trade names.

NTT Group does not amortize intangible assets with indefinite useful lives or intangible assets that are not yet available for use, but test them for impairment whenever there is an indication of impairment, and at the same time every year irrespective of whether there is any indication of impairment. Description regarding the impairment of such assets is presented in “Note 3.5. Property, Plant and Equipment (3) Impairment”.

(Accounting Estimates and Judgments Involving Estimates)

The useful lives of intangible assets are estimated as described above.

(1) ChangesChanges in carrying amounts, costs, accumulated amortization, and accumulated impairment lossesCarrying amount

(Millions of yen)

	Goodwill	Intangible assets					
		Software	Rights to use facilities	Trade-marks, trade names	Rights to acquire buildings	Other	Total
As of April 1, 2018	841,283	1,224,108	38,729	49,225	16,792	260,594	1,589,448
Acquisition	—	7,590	1,860	—	—	3,656	13,106
Increase due to internal development	—	442,933	—	—	—	—	442,933
Acquisition in business combination	85,693	1,947	—	—	—	35,429	37,376
Sale or disposal	(14,183)	(8,704)	—	(8,066)	—	(530)	(17,300)
Amortization	—	(378,454)	(1,699)	(660)	—	(34,316)	(415,129)
Impairment	(39,443)	(5,304)	—	—	—	(3,065)	(8,369)
Foreign currency translation adjustments	10,424	(1,024)	(70)	210	—	2,314	1,430
Other	2,757	(2,562)	27	(2)	(15,713)	2,517	(15,733)
As of March 31, 2019	886,531	1,280,530	38,847	40,707	1,079	266,599	1,627,762
Acquisition	—	4,779	835	—	—	15,749	21,363
Increase due to internal development	—	483,782	—	—	—	—	483,782
Acquisition in business combination	104,005	5,063	—	—	—	47,465	52,528
Sale or disposal	(935)	(20,646)	(6)	(14)	—	(265)	(20,931)
Amortization	—	(383,828)	(1,712)	—	—	(34,921)	(420,461)
Impairment	(2,933)	(1,867)	—	—	—	(2,189)	(4,056)
Foreign currency translation adjustments	(27,905)	(2,683)	(143)	(718)	—	(7,141)	(10,685)
Transfer to assets held for sale	—	(1,318)	—	—	—	(1,929)	(3,247)
Other	22,078	(3,911)	(110)	(30,784)	—	2,810	(31,995)
As of March 31, 2020	980,841	1,359,901	37,711	9,191	1,079	286,178	1,694,060

Note: Amortization and impairment are included in “Depreciation and amortization” and “Impairment losses” in the consolidated statement of profit or loss, respectively.

Cost

(Millions of yen)

	Goodwill	Intangible assets					
		Software	Rights to use facilities	Trade-marks, trade names	Rights to acquire buildings	Other	Total
As of April 1, 2018	962,413	6,504,263	354,427	55,952	16,792	558,465	7,489,899
As of March 31, 2019	998,850	6,718,486	353,982	41,230	1,079	589,837	7,704,614
As of March 31, 2020	1,085,939	6,903,474	335,632	9,714	1,079	624,658	7,874,557

Accumulated depreciation and impairment losses

(Millions of yen)

	Goodwill	Intangible assets					
		Software	Rights to use facilities	Trade-marks, trade names	Rights to acquire buildings	Other	Total
As of April 1, 2018	121,130	5,280,155	315,698	6,727	—	297,871	5,900,451
As of March 31, 2019	112,319	5,437,956	315,135	523	—	323,238	6,076,852
As of March 31, 2020	105,098	5,543,573	297,921	523	—	338,480	6,180,497

* Goodwill, for which is fully impaired is excluded from the accumulated impairment loss

Carrying amounts of internally generated intangible assets related to software

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Software		
Internally generated intangible assets	1,259,629	1,339,308

Carrying amounts of intangible assets with indefinite useful lives

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Trademarks and trade names	40,707	9,191
Rights to acquire buildings	1,079	1,079
Other	20,143	21,223
Total	61,929	31,493

Intangible assets with indefinite useful lives are not amortized as the limit of the contractual terms of trademarks, trade names, and rights to acquire building have not been determined and the cost to maintain the value of those rights is immaterial.

Trademarks and trade names are intangible assets with indefinite useful lives, which were acquired through business combination.

(2) Assets Pledged as Collateral

The amounts of intangible assets pledged as collateral for corporate bonds and loans are stated in “Note 4.5. Short-Term Borrowings and Long-Term Borrowings.”

(3) Impairment Tests for Goodwill and Intangible Assets with Indefinite Useful Lives

Carrying amounts of goodwill by segment

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Mobile communications business	33,177	30,518
Long distance and international communications business	423,896	473,229
Data communications business	429,304	461,543
Other business	154	15,551
Total	886,531	980,841

(Accounting Policies)

Accounting Policies related to the judgement whether there are any indications of impairment of intangible assets, calculation about the recoverable amount in the impairment test and the value in use are same as presented in "3.5. Property, Plant and Equipment (3) Impairment loss".

(i) Impairment of intangible assets

Accounting Policies are same as presented in "3.5. Property, Plant and Equipment (3) Impairment loss". And Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment whenever there is an indication of impairment, and at the same time every year irrespective of whether there is any indication of impairment.

(ii) Impairment of goodwill

Goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to enjoy the benefits resulting from the business combination. Goodwill is tested for impairment whenever there is an indication of impairment in the cash-generating units, and at the same time every year irrespective of whether there is any indication of impairment. If the recoverable amount of the cash-generating unit is less than its carrying amount in the impairment test, the impairment loss is deducted from the carrying amount of goodwill allocated to the cash-generating units or groups of cash-generating units. It is then deducted from the carrying amount of each asset in proportion to the carrying amounts of the assets other than goodwill in the cash-generating unit or groups of cash-generating units.

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

(Accounting Estimates and Judgments Involving Estimates)

Impairment of intangible assets and goodwill are estimated as described above.

Cash-generating units or groups of cash-generating units containing significant goodwill

Fiscal Year ended March 31, 2019

Name of cash-generating unit or groups of cash-generating units	NTT DATA Services	System Integration-Apac of Dimension Data	Lux e-shelter	Secure24
Carrying amount of goodwill (millions of yen)	335,136	59,985	57,062	51,477
Permanent growth rate (%)	3.1	3.1	1.0	2.0
Weighted average cost of capital (%)*	8.5	11.7	7.0	10.0
EBITDA multiple (times)	13.0	—	—	14.9
Measurement method of recoverable amount	The fair value less costs of disposal, discounted cash flow method and guideline public company method	The fair value less costs of disposal, discounted cash flow method	The fair value less costs of disposal, discounted cash flow method	The fair value less costs of disposal, discounted cash flow method and guideline public company method
Segment	Data communications business	Long distance and international communications business	Long distance and international communications business	Long distance and international communications business

*Weighted average cost of capital is after-tax, same in the following descriptions.

The discounted cash flow method is calculated based on the estimated future cash flows (5 – 11 years) approved by management, discounted at the weighted average cost of capital. The guideline public company method is calculated by multiplying it by the ratio to the corporate value of other companies in the same industry listed on EBITDA based on current business performance. The assumptions (inputs) used to measure fair value defined in “Note 1.3. Significant Accounting Policies (3) Fair Value” are classified as Level 3.

The recoverable amounts of cash-generating units or groups of cash-generating units including these goodwill exceeded the carrying amounts. In the fiscal year ended March 31, 2019, if the discount rates of NTT DATA Services and Secure 24 increase by 0.5% and 0.8%, respectively, there would be a possibility of an impairment loss. The headroom of those cash-generating unit or groups of cash-generating units were 24.3 billion yen and 4.3 billion yen, respectively.

Fiscal Year ended March 31, 2020

Name of cash-generating unit or groups of cash-generating units	NTT DATA Services	NTT Ltd - ICT infrastructure
Carrying amount of goodwill (millions of yen)	364,388	153,804
Permanent growth rate (%)	3.1	1.9
Weighted average cost of capital (%)	8.0	7.4
Measurement method of recoverable amount	The fair value less costs of disposal, discounted cash flow method	The fair value less costs of disposal, discounted cash flow method
Segment	Data communications business	Long distance and international communications business

The discounted cash flow method is calculated based on the estimated future cash flows (8 – 10 years) approved by management, discounted at the weighted average cost of capital. The guideline public company method is calculated by multiplying it by the ratio to the corporate value of other companies in the same industry listed on EBITDA based on current business performance. The assumptions (inputs) used to measure fair value defined in “Note 1.3. Significant Accounting Policies (3) Fair Value” are classified as Level 3. As for NTT DATA Services, although we also applied the guideline public company method as one of valuation method to calculate its fair value in the previous fiscal year, we did not apply it in this

fiscal year since sufficient amount of comparable information was not available publicly due to the newly applied IFRS16 standard.

The recoverable amounts of cash-generating units or groups of cash-generating units including these goodwill exceeded the carrying amounts. In the fiscal year ended March 31, 2020, if the discount rates of NTT DATA Services and NTT Ltd - ICT infrastructure increase by 0.8% and 0.3%, respectively, there would be a possibility of an impairment loss. The headroom of those cash-generating unit or groups of cash-generating units were 85.6 billion yen and 50.0 billion yen, respectively.

Change of cash-generating units

NTT Group launched NTT Ltd., a global technology services provider, in July 2019 to strengthen the competitiveness of the global business. NTT Ltd. brings together comprehensive range of capabilities such as data center services, network services which was previously operated under NTT Communications, and established an organization which delivers high-value services globally.

As a result of this reorganization, we changed composition of cash-generating units under newly formed NTT Ltd. group, and formed a new group of cash-generating units, ICT infrastructure, which consists of several individual cash-generating units such as Lux e-shelter, RagingWire, amongst others, which operate data center services business, network services business and other services. ICT infrastructure composes one of group of cash-generating units containing significant goodwill alongside of NTT DATA Services.

Impairment of goodwill

<Fiscal year ended March 31, 2019>

An impairment test was implemented for NTT Security, which is a cash-generating unit belonging to the Long distance and international communications business. As a result, impairment losses were recognized. This is due to the decreased recoverable amount of cash-generating unit as a result of reassessment of mid-term business forecast based on the recent market environment and other factors relating to managed security services and professional services. All impairment losses are allocated to goodwill.

The recoverable amounts of the cash-generating units are the fair value less costs of disposal, which are measured by the discounted cash flow method using unobservable inputs. The assumptions (inputs) used to measure fair value defined in “Note 3. Significant Accounting Policies (5) Fair Value” are classified as level 3.

Recorded amounts of impairment losses, recoverable amounts, and main assumptions used to estimate the recoverable amounts

Name of cash-generating unit	NTT Security
Impairment losses (millions of yen)	15,685
Recoverable amount (millions of yen)	9,983
Permanent growth rate (%)	1.0
Weighted average cost of capital (%)	13.2

In the fiscal year ended March 31, 2019, we recognized impairment losses of 23,758 million of yen on goodwill allocated to certain cash-generating units in the mobile communications business segment as well. That businesses that operates platforms related to the distribution and billing of mobile content overseas, and we estimate the recoverable amount to be no value (Calculated at fair value less costs of disposal).

<Fiscal year ended March 31, 2020>

NTT group did not recognize a significant impairment loss.

3.8. Investment Property

(Accounting Policies)

Overview

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

Measurement

After initial recognition, NTT Group measures investment property using the cost model, which deducts accumulated depreciation and accumulated impairment losses from 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 to 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 as changes in accounting estimates on a prospective basis.

(Accounting Estimates and Judgments Involving Estimates)

NTT Group estimates the useful lives of its investment properties.

(1) Changes

Changes in carrying amounts, costs, accumulated depreciation, and accumulated impairment losses of investment property

Carrying amount

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Balance at the beginning of the year	1,002,301	967,006
Cumulative effect of adopting IFRS 16 “Lease”	—	35,572
Adjusted beginning balance	1,002,301	1,002,578
Acquisition	43,812	121,085
Sale or disposal	(3,032)	(5,012)
Transfer between accounts	9,342	10,813
Depreciation	(18,619)	(21,922)
Impairment	(1,054)	(502)
Foreign currency translation adjustments	10	(2,666)
Other	(65,754)	1,771
Balance at the end of the year	967,006	1,106,145

Note: Depreciation and impairment are included in “Depreciation and amortization” and “Impairment losses” are included in the consolidated statement of profit or loss, respectively.

Costs, accumulated depreciation, and accumulated impairment losses

(Millions of yen)

	Cost	Accumulated depreciation and impairment losses
As of March 31, 2019	1,409,101	442,095
Cumulative effect of adopting IFRS 16 “Lease”	35,572	—
Adjusted beginning balance	1,444,673	442,095
As of March 31, 2020	1,575,525	469,380

NTT Group owns leased office buildings.

Investment property is grouped based on the smallest identifiable group of assets that generates largely independent cash inflows.

(2) Impairment Losses

(Accounting Policies)

Accounting Policies are same as presented in “3.5. Property, Plant and Equipment (3) Impairment loss”.

(Accounting Estimates and Judgments Involving Estimates)

NTT Group estimates the impairment of its investment properties.

In the fiscal years ended March 31, 2019 and March 31, 2020, there were no significant impairment losses recorded relating to investment property.

(3) Fair Value

Fair value of investment property

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Fair value	2,175,058	2,437,430

Fair value of investment property is mainly an appraisal value by an independent real estate appraisal expert, and is based on an evaluation by the discount cash flow method or observable market prices of similar assets.

The assumptions (inputs) used to measure fair value of investment property defined in “Note 1.3. Significant Accounting Policies (3)Fair Value” are classified as Level 3.

(4) Revenues and Expenses from Investment Property

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Rental income	113,969	117,198
Rental expenses	71,135	74,536
Profit	42,834	42,662
Gains (losses) on sale of investment property	3,386	3,675

Rental income from investment property is included in “Operating revenues” in the consolidated statement of profit or loss.

Rental expenses are expenses incurred to generate rental income, such as depreciation, repair expenses, insurance expenses, taxes and dues, and included in “Expenses for purchase of goods and services and other expenses”, “Depreciation and amortization”, and “Taxes and dues” in the consolidated statement of profit or loss.

3.9. Investments Accounted for Using the Equity Method

Information on sum of investments in non-significant associates and joint ventures

Information on sum of non-significant investments accounted for using the equity method (total share of NTT Group)

(1) Details of carrying amounts of investments accounted for using the equity method

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Interests in associates	248,433	246,003
Interests in joint ventures	49,828	37,288
Total	298,261	283,291

(2) NTT Group's share of comprehensive income of associates and joint ventures accounted for using the equity method (net of taxes)

(i) Associates

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit(losses)	(15,739)	6,536
Other comprehensive income	(16,565)	(384)
Total comprehensive income	(32,304)	6,152

(ii) Joint ventures

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit(losses)	5,664	4,721
Other comprehensive income	(97)	(108)
Total comprehensive income	5,567	4,613

3.10. Trade and Other Payables

Trade and other payables are classified as financial liabilities measured at amortized cost.

Details of trade and other payables

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Accounts payable - trade	912,142	928,024
Accounts payable - other	940,283	967,083
Accrued expenses	149,757	149,747
Deposits received	90,297	97,898
Total	2,092,479	2,142,752

3.11. Employee Benefits

(Accounting Policies)

NTT Group primarily has defined contribution plans and defined benefit plans.

(i) Defined contribution plans

Contributions to the defined contribution plans are recognized as expenses when an employee renders service each fiscal year. Unpaid contributions are recognized as liabilities.

(ii) Defined benefit plans

Liabilities recognized in connection with the defined benefit plans (defined benefit liabilities) are determined by deducting the fair value of the plan 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. In the projected unit credit method, 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 the 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 or loss. Interest amounts are calculated using discount rates determined by referring to the market yields on high-quality corporate bonds as of the fiscal year end that reflect the estimated timing and amount of benefit payments.

Remeasurements of the net amount of assets and liabilities in the defined benefit plans consist of actuarial gains and losses and the return on plan assets (excluding amounts included in interest). They are recognized in other comprehensive income, with the cumulative amount being promptly reclassified from “Other components of equity” to retained earnings.

(Accounting Estimates and Judgments Involving Estimates)

NTT Group measures defined benefit liabilities.

(1) Defined Contribution Pension Plans

Retirement benefit expenses recorded by NTT and part of its subsidiaries related to the defined contribution benefit plans

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Retirement benefit expenses	25,424	27,044

(2) Defined Benefit Plans

(i) Lump-sum payments on retirement and contract-type corporate pension plans

The employees of NTT Group are generally entitled to lump-sum payments on retirement determined by reference to the employee's basic rate of pay, length of service, and other conditions.

NTT and certain subsidiaries sponsor non-contributory contract-type corporate pension plans, which provide pensions from funds equivalent to 28% of the lump-sum payments on retirement. The employees have an option to receive the benefit in a lump-sum payment.

NTT Group has transferred from the contract-type corporate pension plans to a defined contribution pension plan regarding the future contributions made on or after April 1, 2014. The Group's contract-type corporate pension plan continues to remain for the contributions made until March 31, 2014.

(ii) NTT Kigyuu-Nenkin-Kikin (NTT Corporate Defined Benefit Pension Plan (“NTT CDBP”)) (former NTT Welfare Pension Plan) and NTT Special Accounting Fund for NTT CDBP (former NTT Special Accounting Fund for NTT Welfare Pension Plan)

a) NTT CDBP (former NTT Welfare Pension Plan)

NTT CDBP is a pension plan to which both NTT Group and its employees make contributions, to add employees' own additional benefits to the basic pension and the welfare pension under the public pension scheme.

b) NTT Special Accounting Fund for NTT CDBP (former NTT Special Accounting Fund for NTT Welfare Pension Plan)

NTT Special Accounting Fund for the NTT CDBP is a transitionally managed pension plan to liquidate the former NTT Mutual Aid Plan pursuant to the Law to Partially Amend the Japanese Welfare Pension Insurance Law and other legislations. This aims to provide pension benefits based on the former Public Corporation Employee Mutual Aid Association Law, following the integration of the former NTT Mutual Aid Plan into the welfare pension insurance in April 1997.

NTT Special Accounting Fund for the NTT CDBP is a public welfare pension scheme and falls under a multiple-employer defined benefit plan.

In accordance with the provisions of the Law and other legislations, NTT Group pays contributions determined by the Japanese government every year based on the pay-as-you-go system to NTT Special Accounting Fund for the NTT CDBP (former NTT Special Accounting Fund for NTT Welfare Pension Plan). Such contributions are made pursuant to the former Public Corporation Employee Mutual Aid Association Law to cover the costs of pension benefits for the period of service in and prior to June 1956 for employees who worked at NTT, Nippon Telegraph and Telephone Public Corporation, and/or its former government organizations (the Ministry of Communications in the area of telecommunications and the Ministry of Telecommunications) and retired in July 1956 or later.

For NTT CDBP and NTT Special Accounting Fund for NTT CDBP in (ii) above, defined benefit obligations are calculated separately from lump-sum payments on retirement and contract-type corporate pension plans in (i) above.

These defined benefit plans are exposed to actuarial risks (investment risk, interest risk, longevity risk, and inflation risk).

Changes in the present value of retirement benefit obligations and fair value of plan assets under the defined benefit plans

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Changes in the present value of defined benefit obligations		
At the beginning of the year	3,825,802	3,762,055
Current service cost	105,495	105,813
Interest cost	21,294	17,467
Remeasurements	12,326	(61,739)
Changes in demographic assumptions	(2,131)	(175)
Changes in financial assumptions	50,420	(42,182)
Experience adjustments	(35,963)	(19,382)
Past service cost	825	—
Benefit payments (lump-sum payments on retirement and pension)	(203,223)	(196,361)
Other	(464)	21,936
At the end of the year	3,762,055	3,649,171
Changes in fair value of plan assets		
At the beginning of the year	2,085,429	1,998,477
Interest income	12,482	10,067
Income related to plan assets excluding interest income	(5,105)	(43,388)
Employer contributions	29,132	22,980
Employee contributions	3,158	3,048
Benefit payments (pension)	(126,394)	(118,477)
Other	(225)	13,710
At the end of the year	1,998,477	1,886,417
Net defined benefit liabilities	(1,763,578)	(1,762,754)

The measurement date is March 31.

Amounts recorded in the consolidated statement of financial position

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Defined benefit liabilities	(1,878,013)	(1,873,501)
Other non-current assets	114,435	110,747
Net defined benefit liabilities	(1,763,578)	(1,762,754)

Details of amounts recorded as retirement benefit expenses

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Retirement benefit expenses		
Current service cost	102,337	102,765
Past service cost	825	—
Interest cost (income)	8,812	7,400
Total	111,974	110,165

Details of amounts recorded in other comprehensive loss (income)

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Other comprehensive loss (income)		
Remeasurements	17,431	(18,351)
Other	1,169	900
Total	18,600	(17,451)

Actuarial assumptions for pension

	As of March 31, 2019	As of March 31, 2020
Assumptions used to determine projected benefit obligations		
Discount rate	0.1%~0.5%	0.2%~0.6%
Expected rates of salary increase	3.4%	3.4%
Average life expectancy of pension recipients at the age of 65 as of the end of the year (year)		
Male	18.7	18.7
Female	23.8	23.8

The weighted average duration of defined benefit obligations (the weighted average of the periods until when benefits arise divided by the defined benefit obligation for each period) for the fiscal years ended March 31, 2019 and 2020 was 16.4 years and 16.5 years, respectively.

NTT Group expects to contribute ¥22,700 million to NTT CDBP in the fiscal year ending March 31, 2021.

Sensitivity analysis of defined benefit obligations

Effect on defined benefit obligations if one of the actuarial assumptions fluctuates within a reasonably possible extent at the end of the fiscal year, provided that no other assumptions have changed

	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Increase	Decrease	Increase	Decrease
Discount rate (change of 0.5%)	(232,921)	257,597	(223,396)	246,980

This analysis does not exhaustively consider the cash flow distribution expected under the plans, but provides an overview of the sensitivity of the assumptions presented above.

Fair value of plan assets under the defined benefit plans at the end of the year

(Millions of yen)

	As of March 31, 2019		
	Total	With quoted market price in an active market	Without quoted market price in an active market
Cash and cash equivalents	208,336	208,126	210
Debt instruments			
Japanese government bonds and local government bonds	535,579	517,943	17,636
Domestic corporate bonds	168,285	—	168,285
Foreign government bonds	18,854	17,818	1,036
Foreign corporate bonds	557	89	468
Equity securities			
Domestic securities	200,074	198,189	1,885
Foreign securities	97,736	97,736	—
Beneficiary certificates of securities investment trust	276,097	—	276,097
Pooled funds	163,020	—	163,020
Life insurance company general accounts	294,481	—	294,481
Other	35,458	—	35,458
Total	1,998,477	1,039,901	958,576

	As of March 31, 2020		
	Total	With quoted market price in an active market	Without quoted market price in an active market
Cash and cash equivalents	152,024	151,722	252
Debt instruments			
Japanese government bonds and local government bonds	542,476	444,766	97,710
Domestic corporate bonds	155,106	—	155,106
Foreign government bonds	18,733	17,419	1,314
Foreign corporate bonds	414	83	331
Equity securities			
Domestic securities	184,707	183,084	1,623
Foreign securities	77,506	77,506	—
Beneficiary certificates of securities investment trust	250,557	—	250,557
Pooled funds	174,016	—	174,016
Life insurance company general accounts	289,161	—	289,161
Other	41,717	—	41,717
Total	1,886,417	874,630	1,011,787

Funding policy

NTT Group's funding policy takes into account various factors such as funded status of the plan assets, and actuarial calculations. Contributions to the plan assets are intended to cover benefits for services to be provided in the future.

In order to be able to maintain financial balance over the future, NTT CDBP and the contract-type corporate pension plans stipulate that the amount of the premium be recalculated every five years and every three years, respectively, as of the end of the fiscal year. However, if there is a significant change in the environment surrounding the pension finance, NTT Group will review the financial status as necessary.

Management policy with respect to pension assets

NTT Group's management policy with respect to pension assets is formulated with the objective of ensuring steady disbursement of benefits in future periods. Therefore, the long-term aim of asset management is to secure the total profits deemed necessary to ensure sound pension financing. To achieve this, NTT Group selects various investments and takes into consideration their expected return and risks, and the correlation among the selected investments. The Group then sets the target of allocation ratio for plan assets and endeavors to maintain that ratio. The target allocation ratio for plan assets is determined from a mid- to long-term perspective and is reviewed annually. In the event that there is a significant change in the investment environment, the Group reviews the target allocation ratio for plan assets as necessary.

Target allocation ratio for plan assets

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Domestic bonds	57.2%	56.6%
Domestic stocks	14.0%	14.2%
Foreign bonds	2.0%	2.1%
Foreign stocks	9.0%	9.2%
Life insurance company general accounts	15.8%	15.8%
Other	2.0%	2.1%
Total	100.0%	100.0%

“Other” includes investments in alternative assets such as privately placed REITs (Real Estate Investment Trust).
Alternative assets have different risk-return characteristics from traditional investments such as stocks and bonds.

3.12. Provisions

(Accounting Policies)

Provisions are recognized in cases where NTT Group has present legal or constructive obligations as a result of past events, as well as where it is probable that the obligations will be required to be settled and when it is possible to reliably estimate the amount of the obligation. A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies, or others, and 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 the estimated future cash flows to the present value, taking into account the risks and uncertainties related to the obligation as of the fiscal year end.

The provisions that NTT Group recognizes are primarily asset retirement obligations, provision for environmental measures, and provision for point 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 installing 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 to provide for environmental protections, such as polychlorinated biphenyl (PCB) waste treatment and soil improvement work.

(iii) Provision for point programs

NTT Group grants "points" to customers based on the usage of mobile, credit card service, and other services, which may be appropriated to payments on merchandise and mobile phone charges. In determining the provision for point programs, point usage rates and other calculation elements are estimated, reflecting the portion of points that is expected to expire due to future cancellation and other reasons when such portion can be estimated.

(Accounting Estimates and Judgments Involving Estimates)

NTT Group makes judgments and estimates for recognition and measurement of provisions

Changes in provisions

As of March 31, 2019

(Millions of yen)

	Asset retirement obligations	Provision for environmental measures	Provision for point programs	Other	Total
As of April 1, 2018	27,667	12,966	32,007	27,067	99,707
Provision	1,700	133	11,408	30,537	43,778
Business combinations	—	—	—	(9)	(9)
Increase due to passage of time	286	—	—	—	286
Use	(3,219)	(989)	(12,850)	(18,474)	(35,532)
Reversal	—	—	(7,055)	(6,830)	(13,885)
Foreign currency translation adjustments	18	—	—	(506)	(488)
Other	1,633	—	551	1,295	3,479
As of March 31, 2019	28,085	12,110	24,061	33,080	97,336
Current liabilities	2,706	6,252	23,224	24,859	57,041
Non-current liabilities	25,379	5,858	837	8,221	40,295
	28,085	12,110	24,061	33,080	97,336

As of March 31, 2020

(Millions of yen)

	Asset retirement obligations	Provision for environmental measures	Provision for point programs	Other	Total
As of April 1, 2019	28,085	12,110	24,061	33,080	97,336
Provision	1,614	—	18,900	28,872	49,386
Business combinations	108	—	—	(54)	54
Increase due to passage of time	287	—	—	—	287
Use	(2,788)	(5,241)	(12,037)	(21,305)	(41,371)
Reversal	—	—	(3,155)	(6,930)	(10,085)
Foreign currency translation adjustments	(3)	—	—	(476)	(479)
Other	577	—	(180)	(2,108)	(1,711)
As of March 31, 2020	27,880	6,869	27,589	31,079	93,417
Current liabilities	1,344	2,181	26,745	25,677	55,947
Non-current liabilities	26,536	4,688	844	5,402	37,470
	27,880	6,869	27,589	31,079	93,417

Although most of the provisions are asset retirement obligations and provision for point programs. Asset retirement obligations are expected to be used when the cost of dismantling and removal of the asset and the cost of restitution occurred. Provision for point programs are to be used when the points are consumed, the amount and the timing of payments are based on the current plan and subject to change.

3.13. Other Liabilities

Details of other liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Contract liabilities	776,401	818,395
Real estate tax payable and others	129,620	129,374
Accrued consumption tax	79,388	87,318
Provisions	97,336	93,417
Advances received (leasing out)	37,661	46,935
Refund liabilities	—	31,961
Other	150,653	115,751
Total	1,271,059	1,323,151
Current liabilities	988,244	996,360
Non-current liabilities	282,815	326,791
Total	1,271,059	1,323,151

4. Equity and Financing

This section describes equity management, equity structure and financing of the NTT Group.

(Accounting Policies)

(i) Financial assets

Recognition, classification, and measurement of financial assets

NTT Group recognizes these assets on the dates when NTT Group becomes party to the contract. 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 or loss.

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

(a) Financial assets measured at amortized cost

Of loans and other similar debt instruments, 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 (collecting contractual cash flows, selling financial assets or both).
- * business model: An entity's business model refers to how an entity manages its financial assets in order to generate 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.

On initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. Based on the timing of the payment of consideration for goods and services provided, the effect of the time value of money is immaterial, and trade receivables are initially measured at their transaction price without adjustment of the effect of the time value of money.

After initial recognition, they are measured at amortized cost by deducting loss allowance from the gross carrying amount calculated applying the effective interest method.

(b-1) Financial assets measured at fair value through other comprehensive income (debt instruments)

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.

At the time of initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. After initial recognition, they are measured at fair value and any subsequent changes in the fair value are recognized in other comprehensive income. Cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss when the asset is derecognized due to sales and other reasons.

(b-2) Financial assets measured at fair value through other comprehensive income (equity instruments)

At initial recognition, an entity may make elect (irrevocable to change after the election) to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument such as stock that is not held for trading. NTT Group makes this designation for each financial instrument.

At the time of initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. After initial recognition, they are measured at fair value and any subsequent changes in the fair value are recognized in other comprehensive income. Cumulative other comprehensive income recognized in "Other components of equity" is transferred to retained earnings and not to profit or loss, when these financial assets are derecognized. Dividends are recognized in profit or loss.

(c) Financial assets measured at fair value through profit or loss

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

At the time of initial recognition, these financial assets are measured at fair value, and any transaction costs directly attributable to the acquisition of the financial asset are recognized in profit or loss when incurred. After initial recognition, they are measured at fair value, with any subsequent changes in the fair value recognized in profit or loss.

Impairment of financial assets

NTT Group determines the amount of impairment loss (loss allowance) for financial assets 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, based on the expected credit losses measured as below:

- If, at the end of the fiscal year, the credit risk on a financial asset has not increased significantly since initial recognition, the loss allowance is measured using the amount of the expected credit losses from a possible default within 12 months after 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, the loss allowance is measured using the amount of the expected credit losses from all possible defaults over the expected life of the financial instrument (lifetime expected credit losses).

Notwithstanding the above, the amounts of loss allowance for trade receivables and contract assets that do not include significant financial elements and lease receivables are always measured using the amount of the lifetime expected credit losses.

NTT Group recognizes and measures the expected credit losses as follows:

(i) Measurement of the expected credit losses on trade and other receivables, and other assets (including lease receivables and contract assets)

The Group measures the expected credit losses on trade and other receivables, and other financial assets (including lease receivables and credit card receivables).

The reserve matrix is designed to calculate loss allowance for the balance of each receivable at the end of the fiscal year based on the classification of receivables by the delinquency period and the default rate for each delinquency period.

The default rates are determined based on historical credit loss experience during the life of each receivable and adjusted for forward-looking estimates (including the probability of deterioration of economic environment during the following fiscal year).

(ii) Measurement of the expected credit losses on other financial assets (debt securities, trade loan receivables and others)

The Group determines whether credit risk of financial assets has increased significantly since initial recognition by considering reasonable and supportable information. This information includes past information, external ratings, past due information, as well as forward-looking information.

The Group determines that credit risk has increased significantly since initial recognition when, for example, a borrower falls under any of the following conditions:

- the external rating of the borrower is deemed ineligible for investment; or

- the delinquency period exceeds 30 days.

The Group defines that a default has occurred when a borrower falls under any of the following conditions:

- it is judged that there is almost no possibility that the borrower pays obligations to the Group without executing the security interest; or
- the delinquency period exceeds 90 days.

The Group divides financial instruments by the following groups and measures the expected credit losses on a collective basis:

- types of financial products
- geographic locations of borrowers

The Group determines that a financial asset has been impaired when any of the following situations is confirmed:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or

A financial asset is written off when there is no reasonable expectations of recovering it in its entirety or a portion thereof.

If the contractual terms of a financial asset has been modified and the financial asset has not been derecognized, NTT Group assesses whether there has been a significant increase in the credit risk of the financial asset by comparing:

- (a) the risk of a default occurring at the reporting date (based on the modified contractual terms); and
- (b) the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

(iii) Measurement of the expected credit losses on loan commitments and financial guarantee contracts

As the expected credit losses on the unexecuted balance of loan commitments related to the credit card business cannot be identified separately from those related to the credit card receivables, they are recognized together with the loss allowance on credit card receivables. The measurement method in (ii) above is followed to determine whether the unexecuted balance of loan commitments related to loan receivables and the credit risk of financial guarantee contracts have significantly increased since initial recognition.

(iv) Others

In estimating the expected credit losses, unemployment rates are incorporated as forward-looking information. There is no change in the estimation technique or important assumptions used in estimating the expected credit losses during the reporting period.

(ii) Financial liabilities

At initial recognition, all financial liabilities are classified as financial liabilities measured at amortized cost, with the exception of those financial liabilities that are measured at fair value through profit or loss. NTT Group initially recognizes these financial liabilities on the dates when NTT Group becomes party to the contracts.

A financial liability is derecognized and excluded from the consolidated statement of financial position when it is extinguished, i.e., when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities measured at amortized cost

Of financial liabilities such as loans and corporate bonds, those that are not measured at fair value through profit or loss are classified as financial liabilities measured at amortized cost. At initial recognition, these financial liabilities are measured at fair value minus any transaction costs directly attributable to the issuance of the liability. After initial recognition, such liabilities are measured at amortized cost applying the effective interest rate method.

Financial liabilities measured at fair value through profit or loss

Financial liabilities held for trading and measured at fair value through profit or loss, such as derivatives, are measured at fair value at the time of initial recognition. These financial liabilities continue to be measured at fair value after initial recognition, with any subsequent changes recognized in profit or loss.

(iii) Derivatives and hedge accounting

Objective of derivative transactions

NTT Group formulates risk management policies for hedging foreign currency risk and interest rate risk, as well as conducts derivative transactions, such as forward foreign exchange contracts, interest rate swaps, and currency swaps. The Group does not conduct derivative transactions for speculative purposes.

At the inception of a hedging transaction, NTT Group designates the hedging relationship and documents a risk management objective in conducting the hedge transaction. This documentation includes the designation of hedging instruments, the items or transactions being hedged, the nature of the risks being hedged, and methods for assessing the effectiveness of the hedging instruments used in offsetting changes in the fair value or in cash flows of the hedged items.

Assessment of hedging effectiveness

NTT Group confirms that an economic relationship exists between the hedged item and the hedging instrument, which offsets changes in the cash flows of the hedged item against changes in the cash flows of the hedging instrument through qualitative and quantitative assessments. The qualitative assessment concludes whether the critical terms of the hedging instrument and the hedged item match or are closely aligned, and the quantitative assessment concludes whether the hedged item and the hedging instrument is in a relationship that offset their value changes arising from the same risk.

At the inception of the hedging relationship, NTT Group estimates the ratio of the change in the value of the hedged item resulting from the change in the value of the hedged item to the change in the value of the hedging instrument and determine the required quantity of hedging instruments. In principle, the hedge ratio is 1:1.

Generally, no material hedge ineffectiveness is expected to arise as the Group conducts highly effective hedging transactions.

Recognition and measurement

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

Cash flow hedges

As a cash flow hedge, NTT Group designates forward exchange contracts to fix the changes in the cash flows of foreign currency-denominated receivables and payables, foreign currency-denominated firm commitments, and foreign currency-denominated forecast transactions. It also designates interest rate swaps and currency swaps to fix floating interest on floating-rate assets and liabilities.

Of the changes in the fair value of derivatives that are hedging instruments, the portions determined to be effective are recognized in other comprehensive income, with the cumulative changes recognized in "Other components of equity." In the accounting period in which the gain or loss on the hedged item is recognized, the cumulative amount recognized in other components of equity is transferred to profit or loss. If, however, the hedged item is a forecast transaction that gives rise to a non-financial asset or liability, the amount cumulatively recognized in "Other components of equity" is transferred as an adjustment to the initial carrying amount of the non-financial asset or liability. The ineffective portion of the changes in the fair value of derivatives as hedging instruments is recognized in profit or loss. As hedging instruments of cash flow hedges, NTT Group designates only the change in the value of the spot element of a forward exchange contract and the change in the fair value of a currency swap excluding that of the foreign currency basis spread. In the previous fiscal year and the current fiscal year, the impact of the amounts that have been recognized in profit or loss due to hedge ineffectiveness or for the portions excluded from the assessment of hedge effectiveness is not material. The amount of the effect of the termination of hedge accounting and the reclassification of the valuation difference on cash flow hedges because the occurrence of forecasted transactions was not expected into profit or loss were not material.

Fair value hedges

As a fair value hedge, NTT Group designates currency swaps for hedging the risks of changes in the fair values of foreign currency-denominated receivables and payables and foreign currency-denominated firm commitments, and interest rate swaps for transforming fixed interest on fixed-rate assets and liabilities to floating interest.

Changes in the fair value of derivatives that are hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items that correspond to hedged risk adjust the carrying amounts of the hedged items and are recognized in profit or loss.

Derivatives not designated as hedging instruments

NTT Group has entered into forward exchange contracts, interest rate swap agreements, currency swap agreements, currency option agreements, and forward contracts to mitigate the risks from changes in interest rates and foreign exchange rates, of which there are some agreements to which hedge accounting is not applied. Changes in the fair value of derivatives are recognized in profit or loss.

Description about financial instruments is presented in “Note 3.2. Trade and Other Receivables”, “Note 3.10. Trade and Other Payables”, “Note 4.4. Other Financial Assets”, “Note 4.5. Short-Term Borrowings and Long-Term Borrowings”, “Note 4.6. Other Financial Liabilities” and “Note 4.8. Financial Instruments”. Description about finance income and finance costs is presented in “Note 4.7. Finance Income and Finance Costs”.

(Accounting Estimates and Judgments Involving Estimates)

NTT Group makes estimates of amortization periods and for impairment of financial assets measured at amortized cost.

NTT Group makes estimates of fair value measurements of financial assets measured at fair value through other comprehensive income (FVTOCI).

NTT Group makes estimates of judgments of whether forecast transactions are eligible hedged items for hedge accounting and fair value measurements of derivatives.

4.1. Equity

(1) Total number of authorized shares, issued shares and treasury stock

(Accounting Policies)

When NTT acquires treasury stock, the consideration paid including direct acquisition costs (after adjustment of tax effect) is recognized as an item of capital deduction. No gain or loss is recognized on the purchase, sale or cancellation of the treasury stock. Any difference in the carrying amount and the consideration paid at the time of sale is recognized as additional paid-in capital.

All shares issued by the Company are common shares with no par value, and the issued shares have been fully paid.

Changes in the total number of authorized shares, the number of issued shares and treasury stock

(Shares)

	Total number of authorized shares	Issued shares	Treasury stock
April 1, 2018	6,192,920,900	2,096,394,470	125,318,558
Purchase of treasury stock under resolution of the Board of Directors	—	—	53,646,000
Repurchase of treasury stock based on less-than-one-unit share purchase demand	—	—	37,070
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	—	—	(3,882)
Cancellation of treasury stock	—	(146,000,000)	(146,000,000)
As of March 31, 2019	6,192,920,900	1,950,394,470	32,997,746
Purchase of treasury stock under resolution of the Board of Directors	—	—	99,763,016
Repurchase of treasury stock based on less-than-one-unit share purchase demand	—	—	47,564
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	—	—	(4,246)
Increase by stock split	—	1,950,394,470	132,788,632
As of March 31, 2020	6,192,920,900	3,900,788,940	265,592,712

On November 24, 1995, based on the resolution of the Board of Directors' meeting held on April 28, 1995, NTT capitalized an aggregate amount of ¥15,600 million of its additional paid-in capital to common stock and made a free share distribution of 312,000 shares, which represented 2% of the outstanding shares, to shareholders of record as at September 30, 1995.

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

Stock Split

NTT conducted a two-for-one stock split of its common stock, with a record date of March 31, 2020 and an effective date of January 1, 2020 based on the resolution at a meeting of board of directors on November 5, 2019.

Major resolutions of repurchasing its outstanding common stock by NTT's Board of Directors and status

The date of resolution	Plan			Result			
	Period of repurchases	Total number of shares to be repurchased (million shares)	Aggregate repurchase amount (million yen)	Period for repurchases	Total number of shares repurchased (shares)	Aggregate repurchased amount (million yen)	Status of repurchase
February 21, 2018	From February 22, 2018 to June 30 2018	31	150,000	From March 2018 to May 2018	29,178,000	150,000	Concluded
November 6, 2018	From November 7, 2018 to March 29 2019	36	150,000	From November 2018 to January 2019	32,868,000	150,000	Concluded
May 10, 2019	From May 13, 2019 to July 31 2019	53	250,000	From May 2019 to July 2019	50,480,100	250,000	Concluded
August 6, 2019	From August 7, 2019 to September 30 2019	53	300,000	September 2019	48,980,000	251,071	Concluded

(2) Distribution of Retained Earnings

The amount of surplus available for distribution under the Companies Act of Japan as of March 31, 2020 was ¥1,098,533 million. Dividends from surplus for the fiscal year are not recorded in the financial statements for that fiscal year, but are recorded in the following fiscal year after the general meeting of shareholders has approved the distribution. Retained earnings on the consolidated financial statements for the current fiscal year include a dividend of ¥172,672 million (¥47.5 per share) approved at the General Meeting of Shareholders to be held on June 23, 2020.

(i) The amount of dividends paid out in the fiscal years ended March 31, 2019 and March 31, 2020

Resolution	Class of shares	Source of dividends	Total dividend (millions of yen)	Dividend per share (yen)	Record date	Effective date
June 26, 2018 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	147,831	75	March 31, 2018	June 27, 2018
November 6, 2018 Board of Directors	Common shares	Retained earnings	165,774	85	September 30, 2018	December 5, 2018
June 25, 2019 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	182,153	95	March 31, 2019	June 26, 2019
November 5, 2019 Board of Directors	Common shares	Retained earnings	172,674	95	September 30, 2019	December 5, 2019

(ii) Dividends declared with a record date during the fiscal year ended March 31, 2019 and an effective date during the fiscal year ending March 31, 2020

Resolution	Class of shares	Source of dividends	Total dividend (millions of yen)	Dividend per share (yen)	Record date	Effective date
June 23, 2020 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	172,672	47.5	March 31, 2020	June 24, 2020

*1. A two-for-one stock split (hereinafter referred to as the stock split) has been conducted with the effective date of January 1, 2020, and the amount before the stock split is shown.

*2. Dividends per Share planned to be resolved at Ordinary general meeting of shareholders on June 23, 2020 reflects the impact of the “stock split”

(3) Capital Management

In order to achieve sustainable development, NTT aims to improve capital efficiency by acquiring treasury stock while focusing on profit growth. Following are the main indicators that the Company uses in capital management:

- Earnings per share (EPS): Basic earnings per share

Description about Basic earnings per share is presented in “Note 2.5. Earnings per Share.”

(4) Put Options Granted to Non-controlling Interests

(Accounting Policies)

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

With regard to short put options for subsidiary shares that the NTT Group has granted to the owners of non-controlling interests, the amounts deducted from additional paid-in capital were ¥27,802 million, and ¥9,894 million, respectively, at the end of the fiscal year ended March 31, 2019 and the end of the fiscal year ended March 31, 2020.

(5) Other Components of Equity

Details and changes in other components of equity

(Millions of yen)

	Change in the fair value of financial assets measured at fair value through other comprehensive income *	Cash flow hedge	Remeasure-ments of defined benefit plans	Foreign currency translation adjustment	Total
As of April 1, 2018	146,520	(6,657)	—	58,343	198,206
Other comprehensive income	(498)	(2,363)	(16,115)	(9,431)	(28,407)
Transfer to retained earnings	(7,732)	—	16,115	—	8,383
Transfer to non-financial assets, etc.	—	3,905	—	—	3,905
As of March 31, 2019	138,290	(5,115)	—	48,912	182,087
Other comprehensive income	(52,288)	(400)	8,425	(67,592)	(111,855)
Transfer to retained earnings	(37,899)	—	(8,425)	—	(46,324)
As of March 31, 2020	48,103	(5,515)	—	(18,680)	23,908

The details of other comprehensive income included in non-controlling interests is as follows.

(Millions of yen)

	Changes in the fair value of financial assets measured at fair value through other comprehensive income *	Cash flow hedge	Remeasure-ments of defined benefit plans	Foreign currency translation adjustment	Total
From April 1, 2018 to March 31, 2019	4,600	(267)	93	43	4,469
From April 1, 2019 to March 31, 2020	(15,693)	(95)	152	(14,264)	(29,900)

* The balance as of March 31, 2019 includes amounts related to “Asset held for sale” under IFRS 5. Details are presented in “Note 3.4. Assets Held for Sale.”

(6) Other Comprehensive IncomeDetails of other comprehensive income and related tax effects

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income (Note)		
Amounts arising during the period	8,411	(99,873)
Before tax effect	8,411	(99,873)
Tax effect	(2,444)	31,370
After tax effect	5,967	(68,503)
Remeasurements of the defined benefit plans		
Amounts arising during the period	(18,277)	16,488
Before tax effect	(18,277)	16,488
Tax effect	5,027	(5,123)
After tax effect	(13,250)	11,365
Share of other comprehensive income of entities accounted for using the equity method		
Amounts arising during the period	20,685	(1,068)
Before tax effect	20,685	(1,068)
Tax effect	(25,322)	(1,198)
After tax effect	(4,637)	(2,266)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges		
Amounts arising during the period	29,434	2,157
Amounts reclassified to profit	(31,776)	(2,445)
Before tax effect	(2,342)	(288)
Tax effect	(442)	270
After tax effect	(2,784)	(18)
Foreign currency translation adjustments		
Amounts arising during the period	3,334	(84,107)
Amounts reclassified to profit	(543)	—
Before tax effect	2,791	(84,107)
Tax effect	—	—
After tax effect	2,791	(84,107)
Share of other comprehensive income of entities accounted for using the equity method		
Amounts arising during the period	(4,951)	7,067
Amounts reclassified to profit	—	(5,263)
Before tax effect	(4,951)	1,804
Tax effect	(7,074)	(30)
After tax effect	(12,025)	1,774
Total other comprehensive income		
Amounts arising during the period	38,636	(159,336)
Amounts reclassified to profit	(32,319)	(7,708)
Before tax effect	6,317	(167,044)
Tax effect	(30,255)	25,289
After tax effect	(23,938)	(141,755)

(7) Equity Transactions with Non-controlling Interests

Changes in additional paid-in capital due to equity transactions with non-controlling interests

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Changes in additional paid-in capital due to equity transactions with non-controlling interests		
Changes in NTT's ownership interest by making NTT Urban Development Corporation a wholly owned subsidiary	(114,030)	—
Effect on tax and others by NTT DOCOMO's share repurchase of its treasury stock*	(9,548)	—
Effect of changes in NTT's ownership interest by NTT DOCOMO's share repurchase of its treasury stock	62,417	(82,061)
Other	(72)	(22,552)
Net increase (decrease) in additional paid-in capital due to transactions with non-controlling interests	(61,233)	(104,613)

* Description about total income taxes recognized in additional paid-in capital are presented in "Note 2.4 Income Taxes."

Making NTT Urban Development Corporation a wholly owned subsidiary of NTT-SH Corporation

NTT-SH Corporation (Currently NTT Urban Solutions, Inc. "NTT-SH"), which is a wholly owned subsidiary of NTT, conducted a series of transactions for the purpose of making NTT Urban Development Corporation ("NTT UD") a wholly owned subsidiary of NTT-SH by acquiring all of the common shares of NTT UD (the "NTT UD Shares"), as described below.

* NTT-SH Corporation was reorganized into NTT Urban Solutions, Inc. on April 1, 2019.

Tender offer

On October 15, 2018, NTT-SH resolved to acquire all of the NTT UD Shares through a tender offer, and purchased the NTT UD Shares for a total purchase price of ¥154,316 million from October 16, 2018 through November 27, 2018. As a result, NTT Group's ownership interests in NTT UD increased from 67.30% to 95.20%.

Contribution in kind

On December 10, 2018, the Board of Directors of NTT resolved to contribute all of its NTT UD Shares to NTT-SH and on December 13, 2018, completed the transaction. The contribution in kind did not change the Group's ownership interests in NTT UD.

Demand for sales of shares

On December 17, 2018, pursuant to the Companies Act of Japan, NTT-SH demanded that the owners of non-controlling interests in NTT UD sell all of their ownership interests in NTT UD (4.8%) to NTT-SH (total amount of ¥26,517 million). On the same day, the Board of Directors of NTT UD approved the demand. As a result, NTT Group's ownership interest in NTT UD is deemed 100% and accounted for as such.

As a result of the series of transactions described above, additional paid-in capital decreased by ¥114,030 million in the fiscal year ended March 31, 2019. NTT-SH completed the acquisition of all of the NTT UD Shares and made NTT UD a wholly owned subsidiary of NTT-SH as of January 11, 2019.

NTT DOCOMO's repurchase of its treasury stock

On October 31, 2018, the Board of Directors of NTT DOCOMO resolved that the company would repurchase up to 260 million outstanding shares of its common stock for ¥600 billion during 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 for ¥600 billion between November 7, 2018 and December 7, 2018. As a result of NTT's participation in the tender offer, 256,752,200 shares of NTT DOCOMO's common stock held by NTT were purchased for ¥597,206 million, and NTT Group's ownership interest in NTT DOCOMO decreased from 66.65% to 64.11%. In connection with this series of transactions, additional paid-in capital increased by ¥52,869 million in the fiscal year ended March 31, 2019.

On April 26, 2019, the Board of Directors of NTT DOCOMO resolved that NTT DOCOMO would repurchase up to 128.3 million outstanding shares of its common stock for ¥300,000 million during May 7, 2019 through April 30, 2020. Based on this resolution, NTT DOCOMO repurchased 106,601,600 shares of its common stock for ¥300,000 million from May 2019 through May 2020. As a result, NTT's ownership interest in NTT DOCOMO increased from 64.1% to 66.2% and "Additional paid-in capital" decreased by ¥82,061 million in the Consolidated Statement of Financial Position as of May 31, 2020.

(8) 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 surplus. The details of NTT Act are presented in "Item 2. Business Overview, 2. Risk Factors."

4.2. Cash and Cash Equivalents

(Accounting Policies)

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 three months of the acquisition date.

Cash and cash equivalents are classified as financial assets measured at amortized cost.

Details of cash and cash equivalents

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Cash and deposits	903,111	1,009,763
Commercial paper and repurchase agreements	269	15
Term deposits, certificates of deposits, and others	42,754	23,796
Total	946,134	1,033,574

Cash and deposits are deposited mainly with financial institutions in Japan and are not concentrated significantly on a particular financial institution.

4.3. Impact on the Consolidated Financial Statements Due to the Last Day of Fiscal Year Fallen on a Non-business Day

The last day of the fiscal year ended March 31, 2018 and fiscal year ended March 31, 2019 fell on a non-business day, resulting in the due date of certain bills, including telecommunication service bills, being set to the first business day of the following month. Consequently, the impact on the consolidated financial statements is as follows.

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
(Consolidated Statement of Financial Position)		
Cash and cash equivalents	(223,672)	—
Trade and other receivables	223,672	—

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
(Consolidated Statement of Cash Flows)		
Decrease (increase) in trade and other receivables	8,257	223,672
Cash and cash equivalents as of April 1	(231,929)	(223,672)
Cash and cash equivalents as of March 31	(223,672)	—

4.4. Other Financial Assets

(Accounting Estimates and Judgments Involving Estimates)

NTT Group makes estimates of fair value measurements of financial assets measured at fair value through other comprehensive income (FVTOCI)

NTT Group estimates fair value measurements of derivatives.

Details of other financial assets

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Current assets		
Financial assets measured at fair value through profit or loss		
Debt securities	6,352	—
Loans receivables	17,831	—
Derivative financial assets		
Applied hedge accounting	9,160	205
Not applied hedge accounting	577	2,021
Financial assets measured at fair value through other comprehensive income		
Equity securities	2,476	4,259
Financial assets measured at amortized cost		
Debt instruments	3,074	105
Loans receivables	61,885	5,367
Short-term investments	13,143	18,092
Other	3,419	2,335
Loss allowance	(164)	—
Subtotal	117,753	32,384
Non-current assets		
Financial assets measured at fair value through profit or loss		
Debt securities	90,777	—
Investments in capital	34,467	39,725
Loans receivables	139,295	—
Derivative financial assets		
Applied hedge accounting	5,775	4,804
Not applied hedge accounting	2,283	3,693
Financial assets measured at fair value through other comprehensive income		
Equity securities	408,141	430,523
Financial assets measured at amortized cost		
Debt securities	28,226	6,770
Loans receivables	131,784	63,323
Long - term telecommunications terminal equipment receivables	238,395	243,965
Leasehold and guarantee deposits	59,356	59,654
Other	13,882	13,315
Loss allowance	(13,879)	(19,487)
Subtotal	1,138,502	846,285
Total	1,256,255	878,669

Investments in the above equity securities are classified as financial assets measured at fair value through other comprehensive income as NTT Group holds all of them for maintaining and strengthening transactional relationships with the investees.

Major financial assets measured at fair value through other comprehensive income

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Recruit Holdings Co., Ltd.	99,572	79,267
M3, Inc.	—	64,539
Tokyo Century Corporation	—	41,659
Far EasTone Telecommunications Co., Ltd	40,956	34,504
KT Corporation	38,929	24,592
StarHub Ltd	20,922	17,419
FamilyMart Co.,Ltd.	20,456	14,053
Lawson, Inc.	12,845	12,406
SKY Perfect JSAT Holdings Inc.	14,110	11,779
Nippon Television Holdings, Inc.	13,556	9,841
TOKYO BROADCASTING SYSTEM HOLDINGS, INC.	13,120	9,740
FUJI MEDIA HOLDINGS, INC.	11,987	8,449
Robi Axiata Limited	10,750	6,275
Premier Investment Corporation	6,073	5,181
UC CARD Co., Ltd.	15,335	—
Other	92,006	95,078
Total	410,617	434,782

Information on financial assets measured at fair value through other comprehensive income that were derecognized mainly due to sales in line with revised business policies

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Fair value at derecognition	23,393	14,111
Accumulated gains (losses) at derecognition	14,034	6,899
Dividend received	98	63

Accumulated gains or losses relating to financial assets measured at fair value through other comprehensive income were transferred from other components of equity to retained earnings at the time of derecognition.

Dividends received relating to financial assets measured at fair value through other comprehensive income are discussed in Note "4.7. Finance Income and Finance Costs".

4.5. Short-Term Borrowings and Long-Term Borrowings

Short-term borrowings and Long-term borrowings for the fiscal year ended March 31, 2020 are classified as financial liabilities measured at amortized cost.

(1) Details of Short-Term Borrowings and Long-Term Borrowings

Details of short-term borrowings

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Debt denominated in Japanese yen		
Unsecured loans from banks (weighted average interest rate: %)	246,360 (0.09%)	356,072 (0.05%)
Commercial paper (weighted average interest rate: %)	287,000 ((0.00)%)	662,984 (0.01%)
Debt denominated in foreign currencies		
Secured loans from banks (weighted average interest rate: %)	1,700 (8.57%)	2,640 (8.01%)
Unsecured loans from banks (weighted average interest rate: %)	355,907 (2.35%)	558,024 (1.17%)
Total Short-term borrowings	890,967	1,579,720

Short-term borrowings including current portion or balance due within 1 year are shown in Long-term borrowings.

Details of long-term borrowings

(Millions of yen)

	Maturity date	As of March 31, 2019	As of March 31, 2020
Debt denominated in Japanese yen			
Corporate bonds			
0.05–1.99% fixed rate corporate bonds	2020–2032	800,000	579,600
0.18% floating rate corporate bonds	2022	100	100
Secured loans from financial institutions			
1.67% (weighted average) fixed rate loans	2029	1,174	1,018
0.96% (weighted average) floating rate loans	2032	18,171	6,447
Unsecured loans from financial institutions			
0.80% (weighted average) fixed rate loans	2020–2048	1,720,678	1,346,032
0.07% (weighted average) floating rate loans	2020–2032	46,175	59,425
Subtotal		2,586,298	1,992,622
Debt denominated in foreign currencies			
Corporate bonds			
1.90–2.07% fixed rate U.S. dollar corporate bonds	2020–2021	144,217	87,028
1.90% floating rate U.S. dollar corporate bonds	2020	55,495	54,415
0.26–1.30% fixed rate Euro corporate bonds	2023–2028	34,466	48,023
Secured loans from financial institutions			
3.49% (weighted average) floating rate U.S. dollar loans	2022–2023	—	19,438
Other loans	2020–2026	3,506	2,744
Unsecured loans from financial institutions			
2.18% (weighted average) fixed rate U.S. dollar loans	2020–2024	15,567	10,895
1.99% (weighted average) floating rate U.S. dollar loans	2020–2033	443,086	330,909
0.73% (weighted average) fixed rate Euro loans	2020–2029	32,110	48,047
0.14% (weighted average) floating rate Euro loans	2020–2030	19,567	16,520
Other loans	2020–2026	37,671	30,085
Subtotal		785,683	648,104
Total principal of Long-term borrowings		3,371,981	2,640,726
less discount or premium on bonds		(222)	(162)
Total principal of Long-term borrowings (less discount or premium on bonds)		3,371,759	2,640,564
Less current portion		506,578	474,786
Total Long-term borrowings		2,865,181	2,165,778

Interest rates and maturity dates in the above table are those as of March 31, 2020.

All holders of the corporate bonds totaling ¥339,975 million issued by NTT, referred to in the above table, have preferential rights under the Act on Nippon Telegraph and Telephone Corporation, etc. (the “NTT Act”) to be paid prior to other unsecured indebtedness. Their rights follow certain general preferential rights provided for in the Japanese Civil Code, such as preferential rights of employees to wages.

Some of the corporate bonds as of March 31, 2020 may be redeemed by NTT at par before maturity dates. Corporate bonds are generally repurchased in the market or from the bond holders.

Unused lines of credit under commitment line contracts with banks

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Unused lines of credit	50,250	309,800

(2) Pledged Assets and Secured Debts

Assets pledged as collateral and secured debts are as follows.

(NTT)

Assets pledged as collateral by NTT

Pursuant to Article 9 of the NTT Act, all the property of NTT is pledged as general collateral against the corporate bonds issued by NTT.

Liabilities corresponding to assets pledged as collateral

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Corporate bonds (including current portion)	495,449	339,975

(Consolidated subsidiaries)

As a Japanese business practice regarding short-term and long-term bank loans, collateral and guarantees may be pledged for current and future debt in a written transaction contract, if required by the bank. When the payment becomes due or the repayment falls in default, the bank has the right to offset the debt with the bank deposit of the debtor.

Various transaction contracts stipulate that banks may require debtors to pledge additional collateral or they may take out a lien on certain assets.

Assets pledged as collateral by consolidated subsidiaries

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Cash and cash equivalents	2,153	3,823
Other financial assets	1,837	2,477
Trade and other receivables	51,266	37,990
Other current assets	—	16
Property, plant and equipment	31,865	26,746
Intangible assets	22	—
Investment property	5,507	53,272
Other non-current assets	24	60
Total	92,674	124,384

Liabilities corresponding to assets pledged as collateral

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Trade and other payables	17,443	14,051
Other current liabilities	—	1,750
Short-term borrowings	1,700	2,640
Corporate bonds	100	100
Long-term borrowings*1	22,851	29,647
Total	42,094	48,188

*1. Long-term borrowings includes the current portion.

(3) Reconciliation of Changes in Liabilities Relating to Cash Flows from Financing Activities

(Millions of yen)

	Debt	Lease liabilities	Put options granted to non- controlling interests	Derivative financial liabilities (assets) held for hedging liabilities arising from financing activities	Total
As of March 31, 2018	3,971,599	36,943	56,546	15,859	4,080,947
Cumulative effect of adopting IFRS9 “Financial Instruments”	(245)	—	—	5,478	5,233
As of April 1, 2018	3,971,354	36,943	56,546	21,337	4,086,180
Changes in cash flows from financing and repayments					
Net increase (decrease) in Short-term borrowings	486,124	—	—	—	486,124
Proceeds from increases in Long-term borrowings	434,922	—	—	—	434,922
Repayments of Long-term borrowings	(627,680)	—	—	—	(627,680)
Repayments of lease liabilities	—	(14,876)	—	—	(14,876)
Purchase of shares in subsidiaries from non-controlling interests	—	—	(4,915)	—	(4,915)
Total changes in liabilities relating to cash flows from financing activities	293,366	(14,876)	(4,915)	—	273,575
Changes as a result of obtaining or losing control of a subsidiary or other business	(171)	65	(13,207)	—	(13,313)
Effect of changes in foreign currency exchange rates	32,644	9	(708)	—	31,945
Accrued finance lease obligations	—	25,665	—	—	25,665
Changes in fair value liabilities	—	—	—	(21,197)	(21,197)
Other changes	(34,467)	(1,490)	(3,814)	—	(39,771)
As of March 31, 2019	4,262,726	46,316	33,902	140	4,343,084
IFRS16	—	517,384	—	—	517,384
As of April 1, 2019	4,262,726	563,700	33,902	140	4,860,468
Changes in cash flows from financing and repayments					
Net increase (decrease) in Short-term borrowings	707,276	—	—	—	707,276
Proceeds from increases in Long-term borrowings	315,549	—	—	—	315,549
Repayments of Long-term borrowings	(521,996)	—	—	9,114	(512,882)
Repayments of lease liabilities	—	(184,384)	—	—	(184,384)
Purchase of shares in subsidiaries from non-controlling interests	—	—	(38,212)	—	(38,212)
Total changes in liabilities relating to cash flows from financing activities	500,829	(184,384)	(38,212)	9,114	287,347
Changes as a result of obtaining or losing control of a subsidiary or other business	(2,337)	984	4,428	—	3,075
Effect of changes in foreign currency exchange rates	(37,752)	(4,530)	(629)	—	(42,911)
Accrued lease obligations	—	199,470	—	—	199,470
Changes in fair value liabilities	—	—	—	6,983	6,983
Transfer to liabilities directly associated with assets held for sale	(479,651)	(31,396)	—	—	(511,047)
Other changes	(23,531)	(11,372)	10,405	—	(24,498)
As of March 31, 2020	4,220,284	532,472	9,894	16,237	4,778,887

The above reconciliation includes only changes in the balances of liabilities arising from financing activities and does not include changes in the balances of capital arising from financing activities.

Amounts of Debt, and Lease liabilities respectively are same as “Transfer to liabilities directly associated with assets held for sale” presented in the table above.

4.6. Other Financial Liabilities

(Accounting Estimates and Judgments Involving Estimates)
NTT Group estimates fair value measurements of derivatives.

Details of other financial liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Current liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivative financial liabilities		
Applied hedge accounting	118	4,879
Not applied hedge accounting	794	1,360
Financial liabilities measured at cost		
Other	7,836	8,096
Put options granted to non-controlling interests	21,517	2,608
Lease liabilities	14,040	—
Subtotal	44,305	16,943
Non-current liabilities		
Financial liabilities measured at fair value through profit or loss		
Derivative financial liabilities		
Applied hedge accounting	18,342	18,674
Not applied hedge accounting	374	293
Financial liabilities measured at cost		
Lease and guarantee deposits received	106,202	96,468
Other	5,508	6,508
Put options granted to non-controlling interests	12,385	7,286
Lease liabilities	32,276	—
Subtotal	175,087	129,229
Total	219,392	146,172

4.7. Finance Income and Finance Costs

(Accounting Estimates and Judgments Involving Estimates)
NTT Group estimates fair value measurements of derivatives.

Details of finance income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Interest income *		
Financial assets measured at amortized cost	5,805	6,573
Dividend income		
Financial assets measured at fair value through other comprehensive income	9,953	9,360
Net changes in fair value of financial assets measured at fair value through profit or loss	3,157	1,328
Gain on sale of securities		
Financial assets measured at amortized cost	2,444	14,649
Gain on step acquisition	—	12,806
Other	3,106	2,270
Total	24,465	46,986

* Gains or losses on valuation of interest rate swap contracts are included in the interest income.

“Net changes in fair value of financial assets measured at fair value through profit or loss” include changes in fair value, interest income, dividend income, and foreign exchange translation gain or loss.

Interest income on lease receivables of ¥17,000 million and ¥18,641 million were included in “Operating revenues” for the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020, respectively.

In addition to the above, Interest income on financial assets measured at fair value through profit or loss of ¥4,746 million and ¥4,035 million were included in “Operating revenues” for the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020. Interest income on financial assets measured at amortized cost of ¥26,542 million and ¥32,454 million were included in “Operating revenues” for the fiscal year ended March 31, 2019 and the fiscal year ended March 31, 2020.

Details of finance costs

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Interest expenses *1		
Financial liabilities measured at amortized cost	25,426	24,216
Lease liabilities	—	8,690
Net exchange differences *2	4,819	7,302
Impairment losses		
Financial assets measured at amortized cost	648	6,968
Net changes in fair value of financial assets measured at fair value through profit or loss	354	787
Loss on sale of securities		
Financial assets measured at amortized cost	4,173	190
Other	942	2,100
Total	36,362	50,253

*1. Gains or losses on valuation of interest rate swap contracts are included in the interest expenses.

*2. Gains or losses on valuation of forward foreign-exchange contracts and currency swap contracts are included in the net exchange differences.

Impairment losses of ¥24,580 million and ¥37,311 million on financial assets measured at amortized cost were included in the operating expenses for the fiscal year ended March 31, 2019 and 2020.

Interest expenses of ¥15,022 million and ¥15,596 million were included in the operating expenses of the fiscal years ended March 31, 2019 and 2020, respectively.

4.8. Financial Instruments

(1) Financial Risk Management

(Accounting Estimates and Judgments Involving Estimates)

NTT Group estimates the amortization periods and for impairment of financial assets measured at amortized cost.

NTT Group is exposed to financial risks (credit risk, liquidity risk, and market risk) in conducting business activities. In order to avoid or reduce such risks, it manages risks based on certain policies. In addition, the Group reports on the status of major financial risk management to its management.

(i) Credit risk management

Receivables arising from NTT Group's business activities are exposed to the credit risk of customers. Bonds held for the management of surplus and shares held for business policy purposes are mainly exposed to the credit risk of the issuer. In addition, derivative transactions conducted by NTT Group for the purpose of hedging foreign exchange risk and interest rate risk are exposed to the credit risk of counterparty financial institutions.

To appropriately manage the credit risk on trade receivables, NTT Group, in principle, defines credit limits or transaction conditions based on its credit management rules and monitors the balance of receivables from business partners with high credit risk. In addition, the Group has collateral or credit enhancement for specific credit exposures.

For the management of surplus and derivative transactions, in order to prevent the occurrence of credit risk based on the Group's financial rules, the Group, in principle, investments in bonds that meet certain rating criteria or conducts transactions with high-rating financial institutions, and monitors the status. NTT Group does not have any excessive concentration of business transactions with a single party or a group to which the party belongs.

Maximum credit risk exposure of NTT Group

(i) Trade and other receivables (including lease receivables and contract assets)

Credit risk exposures on trade and other receivables and loss allowance

As of March 31, 2019

(Millions of yen)

Overdue period	Total carrying amounts	Loss allowance	Credit impairment
Within 30 days	4,543,398	(17,627)	N
30–90 days	135,191	(3,728)	N
More than 90 days	131,103	(52,240)	Y
Total	4,809,692	(73,595)	

* Accounts receivable - other, telecommunications terminal equipment installment sales receivables and installment sales receivables (total amount is ¥1,668,210) from other than contracts with customers are included in the table above.

As of March 31, 2020

(Millions of yen)

Overdue period	Total carrying amounts	Loss allowance	Credit impairment
Within 30 days	3,633,435	(15,487)	N
30–90 days	140,086	(5,378)	N
More than 90 days	148,697	(61,898)	Y
Total	3,922,218	(82,763)	

* Accounts receivable - other, telecommunications terminal equipment installment sales receivables and installment sales receivables (total amount is ¥1,615,282) from other than contracts with customers are included in the table above.

Credit risk exposures on trade and other receivables included assets held for sale in and loss allowance

As of March 31, 2019

Not applicable.

As of March 31, 2020

(Millions of yen)

Overdue period	Total carrying amounts	Loss allowance	Credit impairment
Within 30 days	817,990	(3,771)	N
30–90 day	1,064	(329)	N
More than 90 days	2,499	(2,467)	Y
Total	821,553	(6,567)	

* Accounts receivable - other, telecommunications terminal equipment installment sales receivables and installment sales receivables (total amount is ¥161,424) from other than contracts with customers are included in the table above.

(ii) Other financial assets (debt securities)

Credit risk exposures on other financial assets (debt securities) measured at an amortized cost

As of March 31, 2019

(Millions of yen)

External rating	Amortized cost method	
	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses
BBB to AAA	31,300 (—)	— (—)
No external rating	94,546 (4,089)	— (—)
Total	125,846 (4,089)	—

As of March 31, 2020

(Millions of yen)

External rating	Amortized cost method	
	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses
Baa2,A1,A+	4,369 (—)	2,506 (2,506)
No external rating	93,743 (1,048)	9,518 (9,513)
Total	98,112 (1,048)	12,024 (12,019)

Of the table above, those with no external rating have been verified as equivalent to an investment grade based on the debtor's financial status and information from credit research companies. There are no debt securities that are overdue.

The amounts mentioned above are total carrying amounts. The amounts of loss allowance are presented in parentheses.

Credit risk exposures on other financial assets (debt securities) included in assets held for sale measured at an amortized cost

As of March 31, 2019

Not applicable.

As of March 31, 2020

(Millions of yen)

External rating	Amortized cost method	
	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses
BBB to AA	22,323 (-)	- (-)
Total	22,323 (-)	- (-)

Of the table above, those with no external rating have been verified as equivalent to an investment grade based on the debtor's financial status and information from credit research companies. There are no debt securities that are overdue.

The amounts mentioned above are total carrying amounts. The amounts of loss allowance are presented in parentheses.

(iii) Other financial assets (operating loans)

NTT Group classifies credit exposures mentioned below based on the substantive judgment, taking into consideration not only the information on overdue periods but also the information available, such as external ratings.

Credit risk exposure on operating loans

As of March 31, 2019

(Millions of yen)

Classification	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses		Credit impaired financial assets purchased or structured	Total
		Not credit impaired financial assets	Credit impaired financial assets		
Operating loans					
Within 30 days	180,667 (802)	- (-)	- (-)	- (-)	180,667 (802)
More than 30 days	- (-)	- (-)	- (-)	- (-)	- (-)
More than 90 days	- (-)	- (-)	- (-)	- (-)	- (-)
Total	180,667 (802)	- (-)	- (-)	- (-)	180,667 (802)

As of March 31, 2020

(Millions of yen)

Classification	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses		Credit impaired financial assets purchased or structured	Total
		Not credit impaired financial assets	Credit impaired financial assets		
Operating loans					
Within 30 days	50,781 (—)	— (—)	— (—)	— (—)	50,781 (—)
More than 30 days	— (—)	— (—)	— (—)	— (—)	— (—)
More than 90 days	— (—)	— (—)	— (—)	— (—)	— (—)
Total	50,781 (—)	— (—)	— (—)	— (—)	50,781 (—)

The amounts mentioned above are total carrying amounts. The amounts of loss allowance are presented in parentheses.

Credit risk exposure on operating loans included in assets held for sale

As of March 31, 2019

Not applicable.

As of March 31, 2020

(Millions of yen)

Classification	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses		Credit impaired financial assets purchased or structured	Total
		Not credit impaired financial assets	Credit impaired financial assets		
Operating loans					
Within 30 days	149,351 (685)	— (—)	— (—)	— (—)	149,351 (685)
More than 90 days	— (—)	— (—)	— (—)	— (—)	— (—)
More than 90 days	— (—)	— (—)	— (—)	— (—)	— (—)
Total	149,351 (685)	— (—)	— (—)	— (—)	149,351 (685)

The amounts mentioned above are total carrying amounts. The amounts of loss allowance are presented in parentheses.

(iv) Loan commitments and financial guarantee contracts

NTT Group conducts the cashing business incidental to the credit card business and offers loan contracts that promise to lend funds up to a certain limit. As of March 31, 2019, the credit risk exposure of the unused loan commitments under the cashing business was ¥307,459 million (of which, ¥266,013 million was related to the credit card business).

NTT Group also conducts the financial guarantee business against receivables of third parties. As of March 31, 2019 and March 31, 2020, the credit risk exposure of the financial guarantee contracts was ¥19,470 million (including ¥14,975 million regarding jointly controlled entities) and ¥19,041 million (including ¥19,041 million regarding jointly controlled entities), respectively. The earliest period during which these loan commitments and financial guarantee contracts may be exercised is within one year.

The above exposures of loan commitments and financial guarantee contracts are recorded at the same amount as the 12-month expected credit losses and loss allowance is little considering feasibility.

The impact of assets held for sale is included in the credit risk exposure of undisbursed loans related to loan commitments.

Changes in loss allowance during the period

As of March 31, 2019

(Millions of yen)

Classification	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses			Credit impaired financial assets purchased or structured	Total
		Not credit impaired financial assets	Credit impaired financial assets	Trade receivables, contract assets, or leased assets*		
As of April 1, 2018	4,404	—	164	62,807	—	67,375
Increase	650	—	—	51,063	—	51,713
Decrease	(163)	—	(164)	(40,275)	—	(40,602)
As of March 31, 2019	4,891	—	—	73,595	—	78,486

* Loss allowance for accounts receivable - other, telecommunications terminal equipment installment sales receivables and installment sales receivables from other than contracts with customers are included.

Classification	Recorded at the same amount as the 12-month expected credit losses	Recorded at the same amount as the lifetime expected credit losses			Credit impaired financial assets purchased or structured	Total
		Not credit impaired financial assets	Credit impaired financial assets	Trade receivables, contract assets, or leased assets*		
As of April 1, 2019	4,891	—	—	73,595	—	78,486
Increase	421	—	9,122	66,659	—	76,202
Decrease	(229)	—	(453)	(50,924)	—	(51,606)
Transfer to assets held for sale	(685)	—	—	(6,567)	—	(7,252)
Transfer to "Recorded at the same amount as the lifetime expected credit losses"	(3,350)	—	3,350	—	—	—
As of March 31, 2020	1,048	—	12,019	82,763	—	95,830

* Loss allowance for accounts receivable - other, telecommunications terminal equipment installment sales receivables and installment sales receivables from other than contracts with customers are included.

Main form of collateral by type of financial assets

The following mainly correspond to financial assets for which a loss allowance is recorded at the same amount as the 12-month expected credit losses.

As of March 31, 2019

(Millions of yen)

Classification	Carrying amount	Main forms of collateral held
Other financial assets		
Operating loans	52,683	Real estate, Aircraft or vessel
Other	1,405	Securities

As of March 31, 2020

(Millions of yen)

Classification	Carrying amount	Main forms of collateral held
Other financial asset		
Operating loans	15,600	Real estate
Assets held for sale		
Other financial asset		
Operating loans	62,494	Aircraft or vessel

(ii) Liquidity risk management

Liquidity risk is mainly the risk that NTT Group faces in fulfilling its obligations related to financial liabilities that are settled by cash or other financial assets. The Group's basic policy is to generate funds necessary for its business activities on its own in promoting its business. The funds generated are managed efficiently through inter-group financing. Moreover, the Group aims to secure stable, low-cost funds when raising funds to support business activities.

As of March 31, 2019 and March 31, 2020, NTT Group's cash and deposits and cash equivalents amounted to ¥946.1 billion and ¥1,033.6 billion, respectively. Cash equivalents are temporary surplus that will be used as working capital, mainly for debt repayment and investment. Therefore, the balance of cash equivalents changes every year depending on the status of the funding and working capital at that time.

Details of financial liabilities (excluding obligations under finance leases) by due date

As of March 31, 2019

(Millions of yen)

	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Short-term borrowings	890,967	—	—	890,967
Trade and other payables	2,092,479	—	—	2,092,479
Long-term borrowings	545,900	1,914,946	1,089,540	3,550,385
Other financial liabilities	30,938	82,865	59,273	173,076
Derivatives	912	6,311	12,405	19,628
Other than derivatives	30,026	76,554	46,868	153,448

As of March 31, 2020

(Millions of yen)

	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Short-term borrowings	1,579,720	—	—	1,579,720
Trade and other payable	2,142,752	—	—	2,142,752
Long-term borrowings	501,433	1,337,325	924,932	2,763,690
Other financial liabilities	17,958	74,085	54,129	146,172
Derivatives	6,239	4,116	14,851	25,206
Other than derivatives	11,719	69,969	39,278	120,966
Liabilities directly associated with assets held for sale				
Trade and other payable	17,373	—	—	17,373
Long-term borrowings	33,864	370,911	80,588	485,363
Other financial liabilities	21	5,768	12,589	18,378
Derivatives	21	804	748	1,573
Other than derivatives	—	4,964	11,841	16,805

Long-term borrowings includes the current portion or balance due within 1 year.

Fair value adjustments arising from fair value hedge accounting are not included.

Details of obligations under finance leases by the due date are presented in “Note 3.4. Assets Held for Sale ” and “Note 3.6. Leases.”

(iii) Market risk management

Market risk is the risk of fluctuations in market prices, such as foreign exchange rates, interest rates, and stock prices, which affects NTT Group’s earnings or the value of its financial instruments. The purpose of market risk management is to control market risk exposure by managing it within acceptable parameters, while maximizing return.

Risk management of foreign exchange and interest rate fluctuations

NTT Group uses derivatives, such as forward exchange contracts, interest rate swap contracts, currency swap contracts, and interest rate option contracts, as necessary, to limit the exposure related to debt and loss of assets that may arise from fluctuations in foreign exchange rates and interest rates. The Group does not enter into derivative transactions for trading purposes. Derivative transactions are carried out in accordance with internal regulations, and are managed by NTT Group.

(a) Management of foreign exchange rate fluctuation risk

NTT Group performs corporate activities globally, which exposes it to exchange rate fluctuation risks associated with transactions, financing, and investment in currencies other than the functional currency of each local company. NTT Group enters into forward foreign exchange contracts, currency swap agreements, and currency option agreements to hedge the risk of fluctuations in foreign currency exchange rates principally associated with foreign currency-denominated long-term borrowings issued by NTT Group. Such contracts and agreements have the same maturity as the underlying debt. NTT Group judges whether these transactions effectively offset the impact of foreign currency rate fluctuations. The main causes of ineffectiveness in these hedge relationships are currency basis spreads, spot-forward differences on forward exchange contracts, and credit risk of counterparties. The currency basis spreads and the spot-forward differences of forward exchange contracts are excluded from the designation of hedging instruments. The main currencies to be hedged are US dollars and the euros.

(i) Currency risk exposure

Major currency risk exposure (net)

Currency	As of March 31, 2019	As of March 31, 2020
USD (thousand USD)	3,906,848	35,071
Euro (thousand euros)	1,403,773	1,706,211

The amount of foreign exchange risk hedged by derivatives is excluded.

(ii) Sensitivity analysis of foreign exchange risk

(a) Estimated amount of increase in profit before taxes assuming that Japanese yen depreciated by ¥1

(Millions of yen)

Currency	As of March 31, 2019	As of March 31, 2020
USD	3,611	(189)
Euro	1,400	1,706

The amount of decrease in profit before taxes assuming that the Japanese yen appreciated by ¥1 is the same amount.

(b) Estimated amount of increase in equity assuming that Japanese yen depreciated by ¥1

(Millions of yen)

Currency	As of March 31, 2019	As of March 31, 2020
USD	2,678	24
Euro	962	1,169

The amount of decrease in profit before taxes assuming that the Japanese yen appreciated by ¥1 is the same amount.

Foreign currency translation adjustment is excluded.

* The impact from assets held for sale and liabilities directly associated with assets held for sale are included in "(a) Estimated amount of increase in profit before taxes assuming that Japanese yen depreciated by ¥1" and "(b) Estimated amount of increase in equity assuming that Japanese yen depreciated by ¥1".

(b) Management of interest rate risk

NTT Group pays interest incurred to procure funds that are necessary for working capital and capital investment to promote business activities. For such debts, the Group generally adopts a policy to fix future cash flows and borrows, mainly at fixed interest rates. If borrowings are made at a floating interest rate, the Group is exposed to the risk of fluctuations in future cash flows of interest, as interest is subject to fluctuations in market interest rates. Therefore, the Group has concluded interest rate swap contracts that pay or receive the difference of floating interest rate received and fixed interest paid, as well as interest rate currency swap contracts with financial institutions, in order to curb the increase in interest payments due to rising interest rates for long-term borrowings with floating interest rates. These instruments are executed with creditworthy financial institutions.

As a result, fluctuations in the market interest rates have little impact on NTT Group, and the interest rate risk is not significant to the Group.

Fair value hedges

Not applicable.

Cash flow hedges

Derivative transactions and hedging for the fiscal year ended March 31, 2019 are as follows:

Notional principal and average price of major hedging instruments

As of March 31, 2019

Classification	Contents	Notional principal and average price	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Cash flow hedges	Interest rate swaps to fix the floating interest rates* ¹	Notional principal (millions of yen)	2,834	66,513	51,411	120,758
	Foreign exchange contracts and forecast transactions of RMB	Notional principal (millions of RMB)	581	99	—	680
		Average price (JPY/RMB)	16.05	15.99	—	—
	Currency swaps and borrowings in USD* ²	Notional principal (millions of USD)	830	2,170	1,081	4,081
		Average price (JPY/USD)	99.61	109.48	117.82	—

*1. The major condition of interest rates for interest rate swaps is floating interest rate receivable of Japanese Bankers Association TIBOR (three months and six months) to fixed interest rate payable of 0.5% to 3.9%.

*2. The major condition of interest rates for currency swaps is floating interest rate receivable of LIBOR (three months and six months) to fixed interest rate payable of (0.3)% to 0.4%.

As of March 31, 2020

Classification	Contents	Notional principal and average price	Within 1 year	Over 1 year and within 5 years	Over 5 years	Total
Cash flow hedges	Interest rate swaps to fix the floating interest rates *1	Notional principal (millions of yen)	14,560	56,960	39,115	110,635
	Foreign exchange contracts and forecast transactions of RMB	Notional principal (millions of RMB)	681	105	—	786
		Average price (JPY/RMB)	15.21	15.00	—	—
	Foreign exchange contracts and forecast transactions of USD	Notional principal (millions of USD)	32	1	—	33
		Average price (JPY/USD)	108.42	101.71	—	—
		Notional principal (millions of USD)	32	—	—	32
		Average price (AUD/USD)	0.61	—	—	—
	Foreign exchange contracts and forecast transactions of JPY	Notional principal (millions of yen)	3,250	—	—	3,250
		Average price (JPY/USD)	107.60	—	—	—
	Currency swaps and borrowings in USD*2	Notional principal (millions of USD)	1,100	1,470	1,081	3,651
		Average price (JPY/USD)	111.56	107.75	117.82	—

*1. The major condition of interest rates for interest rate swaps is floating interest rate receivable of Japanese Bankers Association TIBOR (three months and six months) to fixed interest rate payable of 0.5% to 3.9%.

*2. The major condition of interest rates for currency swaps is floating interest rate receivable of LIBOR (three months and six months) to fixed interest rate payable of (0.01)% to 0.3%.

The impact from assets held for sale and liabilities directly associated with assets held for sale are included.

Derivatives designed as hedging instruments

As of March 31, 2019

(Millions of yen)

	Notional principal	Carrying amount (millions of yen)		Line item in consolidated statement of financial position	Gain or loss on hedges recognized in the period in other comprehensive income *1	Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment *1	Major line item in consolidated statement of profit or loss for reclassification adjustment
		Asset	Liability				
Interest rate swaps	120,758	356	3,611	*2	(2,054)	593	Finance costs
Foreign exchanges	11,271	22	153	*2	(492)	174	Finance costs
Currency swaps	448,162	14,555	14,695	*2	31,980	(32,543)	Finance costs

*1. The amounts are presented before adjustment of tax effect.

*2. “Other financial assets (current),” “Other financial assets (non-current),” “Other financial liabilities (current),” and “Other financial liabilities (non-current)”

As of March 31, 2020

(Millions of yen)

	Notional principal	Carrying amount (millions of yen)		Line item in consolidated statement of financial position	Gain or loss on hedges recognized in the period in other comprehensive income *1	Amount reclassified from cash flow hedge reserve to profit or loss as reclassification adjustment *1	Major line item in consolidated statement of profit or loss for reclassification adjustment
		Asset	Liability				
Interest rate swaps	110,635	—	3,971	*2	(1,480)	554	Finance costs
Foreign exchanges	22,276	230	137	*2	9	185	Finance costs
Currency swaps	408,877	4,780	21,017	*2	3,628	(3,184)	Finance costs

*1. The amounts are presented before adjustment of tax effect.

*2. “Other financial assets (current),” “Other financial assets (non-current),” “Other financial liabilities (current),” “Other financial liabilities (non-current)” and “Liabilities directly associated with assets held for sale”

Changes in amounts recorded in other components of equity in the consolidated statement of financial position related to cash flow hedge reserve

As of March 31, 2019

(Millions of yen)

	Cash flow hedge reserve		
	Interest rate swaps	Foreign exchanges	Currency swaps
Balance at the beginning of the current fiscal year	(899)	155	(2,974)
Cumulative effect of adoption of IFRS 9 “Financial Instruments”	(24)	(2,813)	(102)
Amount arising during the period	(1,389)	(1,419)	22,430
Reclassification adjustments to profit	412	121	(22,518)
Transfer to non-financial assets	—	3,905	—
Balance at the end of the current fiscal year	(1,900)	(51)	(3,164)

As of March 31, 2020

(Millions of yen)

	Cash flow hedge reserve		
	Interest rate swaps	Foreign exchanges	Currency swaps
Balance at the beginning of the current fiscal year	(1,900)	(51)	(3,164)
Amount arising during the period	(889)	(90)	2,271
Reclassification adjustments to profit	385	129	(2,206)
Transfer to non-financial assets	—	—	—
Balance at the end of the current fiscal year	(2,404)	(12)	(3,099)

The main item of reclassification adjustments to profit is the transfer from other components of equity to profit or loss during the accounting period in which gain or loss on the hedged item is recognized.

Management of stock price fluctuation risk

As of March 31, 2019 and March 31, 2020, NTT Group held approximately ¥338.7 billion and ¥378.6 billion, respectively, of marketable shares (all on a fair value basis) mainly of customers and associates, bearing the risk of stock price fluctuations. The Group manages stock price fluctuation risk by regularly monitoring the fair value and unrealized gains and losses of each investee, based on a risk management strategy.

If the stock index had risen or fallen 10% as of March 31, 2019 and March 31, 2020, total equity would have increased or decreased by about ¥24.1 billion and ¥29.5 billion, respectively.

(2) Continuing Involvement in Derecognized Financial Asset

Continuing involvement in financial assets derecognized during the fiscal year ended March 31, 2020 was as follows.

NTT DOCOMO, a subsidiary of NTT, concluded an agreement for the transfer to third parties of the rights to receive cash flows from credit card receivables (Trade and other receivables) up to March 31, 2021.

The credit card receivables subject to the transfer are separated into senior, mezzanine and sub-ordinated portions based on the risk of default. For the mezzanine portion, NTT group deposit cash for the third parties and bear the credit risk.

Although NTT group bear the credit risk for the mezzanine portion as stated above, the credit risk assumed by the NTT group is insignificant because the default risk is highly likely to be absorbed by the sub-ordinated portion. NTT group are also properly monitoring the default risk by tracking the actual collection of the transferred receivables as adequate. The rights to claim over the third parties for the portion of cash deposit are recognized as “Trade and other receivables” in the consolidated statement of financial position. The fair value of the cash deposit portion is the same as its book value.

In the fiscal year ended March 31, 2020, NTT group derecognized the transferred assets and treated the transactions as sales transactions as below, because substantially all the risks and rewards of ownership was transferred to third parties.

	(Millions of yen)
	As of March 31, 2020
Amount of credit card receivables derecognized	55,556
Amount of the portion with cash deposit	5,500
Considerations received for the transfer of asset	49,994

The amount of losses recognized as a result of this transaction was immaterial.

The maximum amount of exposure to losses pertaining to this matter is ¥5,500 million, which represents the total amount of cash deposits provided by the NTT group to the third parties. No credit losses were incurred for the fiscal year ended March 31, 2020.

(3) Fair Value of Financial Instruments

(Accounting Estimates and Judgments Involving Estimates)

Fair value measurements of financial assets measured at fair value through other comprehensive income (FVTOCI).

Fair value measurements of derivatives.

(i) The fair value of financial instruments not measured at fair value

The carrying amount and estimated fair value of financial instruments not measured at a fair value

(Millions of yen)

	As of March 31, 2019		As of March 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term borrowings (including current portion or balance due within 1 year)	3,371,759	3,436,096	2,640,564	2,697,274

With regard to the above-mentioned items, the assumptions (inputs) used to measure fair value defined in “Note 1.3. Significant Accounting Policies (3) Fair Value” are classified as Level 2.

With the exception of the above-mentioned items, the financial instruments not measured at fair value are not included in the table, because their carrying amounts approximate their fair values. The fair values of Long-term borrowings (including current portion or balance due within 1 year) are measured by discounting future cash flows using discount rates assumed for similar new debt, except for floating rate debt whose carrying amounts and fair values are deemed almost equivalent.(ii)

Fair value measurement

Assets and liabilities measured at fair value

As of March 31, 2019

(Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Debt securities	—	97,129	—	97,129
Investments in capital	—	942	33,525	34,467
Loans receivables	—	157,126	—	157,126
Derivatives financial assets				
Applied hedge accounting	—	14,935	—	14,935
Not applied hedge accounting	—	2,860	—	2,860
Financial assets measured at fair value through other comprehensive income				
Equity securities	338,748	1,675	70,194	410,617
Total	338,748	274,667	103,719	717,134
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives financial liabilities				
Applied hedge accounting	—	18,460	—	18,460
Not applied hedge accounting	—	1,164	—	1,164
Total	—	19,624	—	19,624

In the fiscal year ended March 31, 2019, there was no material transfer between levels.

Assets and liabilities measured at fair value

As of March 31, 2020

(Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Investments in capital	—	1,387	38,338	39,725
Derivatives financial assets				
Applied hedge accounting	—	5,009	—	5,009
Not applied hedge accounting	—	5,714	—	5,714
Financial assets measured at fair value through other comprehensive income				
Equity securities	378,607	—	56,175	434,782
Total	378,607	12,110	94,513	485,230
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives financial liabilities				
Applied hedge accounting	—	23,553	—	23,553
Not applied hedge accounting	—	1,646	—	1,646
Total	—	25,199	—	25,199

In the fiscal year ended March 31, 2020, there was no material transfer between levels.

Reconciliation of Level 3 assets and liabilities measured at fair value on a recurring basis

As of March 31, 2019

(Millions of yen)

Classification	Balance at the beginning of the year	Gain (losses)		Increase by purchases	Decrease by sales	Other changes	Balance at the end of the year	Gain (losses) for the period relating to assets held at the end of the year
		Profit	Other comprehensive income					Profit
Financial assets:								
Investments in capital	26,444	3,827	—	5,820	(2,206)	(360)	33,525	2,819
Equity securities	66,548	—	7,695	7,131	(8,386)	(2,794)	70,194	—

1. “Increase by purchases” and “Decrease by sales” include increases or decreases from new consolidations, deconsolidations, and transfers from (to) other accounts.
2. Gains or losses included in the “Profit” are included in the “Finance income” or “Finance costs” in the consolidated statement of profit or loss.

Classification	Balance at the beginning of the year	Gain (losses)		Increase by purchases	Decrease by sales	Other changes	Balance at the end of the year	Gain (losses) for the period relating to assets held at the end of the year
		Profit	Other comprehensive income					Profit
Financial assets:								
Investments in capital	33,525	1,331	—	11,105	(8,900)	1,277	38,338	847
Equity securities	70,194	—	(42,719)	43,532	(13,030)	(1,802)	56,175	—

1. “Increase by purchases” and “Decrease by sales” include increases or decreases from new consolidations, deconsolidations, and transfers from (to) other accounts.
2. Gains or losses included in the “Profit” are included in the “Finance income” or “Finance costs” in the consolidated statement of profit or loss.

Valuation techniques used to measure fair value of financial instruments

In the consolidated statement of financial position, the valuation techniques used 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. Their fair value is measured based on the pricing models developed independently by financial and other institutions using underlying conditions that are observable in markets, such as credit ratings and discount rates.

(ii) Loans receivables

The fair values of loans receivable are calculated primarily by discounting the total principal and interest using interest rates assumed for similar new 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 using underlying conditions that are observable in markets, such as exchange rates. The fair value of currency swap agreements and interest rate swap agreements is measured by using underlying conditions that are observable in markets, such as London Inter-bank Offered Rate (LIBOR), swap rates, and exchange rates, and by discounting future cash flows to present value.

(iv) Equity securities and investments in capital

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

5. OTHER NOTES

5.1. Major Subsidiaries

(Accounting Estimates and Judgments Involving Estimates)

The judgments of whether an entity is controlled by NTT Group in determining the scope of consolidation.

(1) Subsidiaries

The major subsidiaries of the Group are as described in “PART 1 INFORMATION ON THE COMPANY, ITEM 1 OVERVIEW OF THE COMPANY, 1. Status of Company, 4 Status of Affiliates.”

(2) Structured Entities

Size of non-consolidated structured entities, carrying amount of NTT Group’s investments in the entities, and the Group’s potential maximum loss exposure

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Total asset of non-consolidated structured entities	86,663	86,034
NTT Group’s maximum loss exposure	19,899	20,798
Carrying amount of investments that NTT Group has recognized	19,899	20,798
Commitment contracts for additional investment	—	—

Supplemental information on non-consolidated structured entities

- In the consolidated statement of financial position, NTT Group’s investments are included and presented in “Investments accounted for using the equity method” or “Other financial assets (non-current).” The Group has not recognized any liability for the non-consolidated structured entities.
- The potential maximum loss exposure arising from the involvement with the structured entities is limited to the total of the carrying amount of NTT Group’s investment and the commitment for additional investment.
- NTT Group’s maximum loss exposure shows the maximum amount of loss that may occur. It does not mean the amount of loss expected from engaging in the structured entities.
- The Group has neither provided, nor intended to provide, financial or any other significant support to the above non-consolidated structured entities without contractual obligations.

(3) Condensed Consolidated Financial Information of Subsidiaries in which NTT Group has Significant Non-controlling Interests

Condensed consolidated financial information of subsidiaries in which NTT Group has significant non-controlling interests

NTT DOCOMO

General information

	As of March 31, 2019	As of March 31, 2020
Share of interests held by non-controlling interests (%)	35.89	33.78
Cumulative non-controlling interests in subsidiary groups (millions of yen)	1,927,958	1,773,425

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit or loss allocated to non-controlling interests of subsidiary groups	238,176	199,817

Condensed consolidated financial information

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Current assets	2,922,859	2,715,326
Non-current assets	4,417,687	4,820,596
Current liabilities	1,626,647	1,740,152
Non-current liabilities	319,775	523,511
Equity	5,394,124	5,272,259

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Sales	4,840,849	4,651,292
Profit	664,851	594,781
Comprehensive income	657,332	561,375

The dividend paid from NTT DOCOMO to the non-controlling interests during the fiscal year ended March 31, 2020 amounted to ¥128,594 million (¥135,393 million for the fiscal year ended March 31, 2019).

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net cash provided by (used in) operating activities	1,216,014	1,317,796
Net cash provided by (used in) investing activities	(296,469)	(354,760)
Net cash provided by (used in) financing activities	(1,090,052)	(783,901)
Effect of exchange rate changes on cash and cash equivalents	3	(353)
Net increase (decrease) in cash and cash equivalents	(170,504)	178,782

5.2. Related Parties

(1) Relationships and Transactions with the Government of Japan

The Government of Japan currently holds 33.33% of the issued shares of the Company. As a shareholder, the government holds the right to vote at the general meeting of shareholders of the Company, and as the largest shareholder, theoretically has the power to exercise a great influence over the decisions of the general meeting of shareholders. However, in its 1997 Diet statement, the government announced that it does not exercise shareholder rights to be actively involved in the management of the Company. In fact, the government has never exercised such authority to be directly involved in the Company's management in the past.

Transactions with the Group and various departments or organizations of the government are conducted as an independent customer based on arm's length prices. There are no individually significant transactions.

(2) Transactions with Related Parties

NTT Group is engaged in a variety of transactions with associates and jointly controlled entities, the most important of which are the purchase of terminal equipment and materials, and outsourcing of various services. Transactions with associates and jointly controlled entities are conducted based on arm's length prices.

Balances of receivables from and payables to associates and jointly controlled entities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Balance of receivables		
Associates	23,994	17,804
Jointly controlled entities	14,875	13,868
Total	38,869	31,672
Balance of payables		
Associates	263,927	18,459
Jointly controlled entities	22,709	18,365
Total	286,636	36,824

Amount of transactions with associates and jointly controlled entities

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Operating revenues		
Associates	99,540	48,577
Jointly controlled entities	6,939	2,410
Total	106,479	50,987
Operating expenses		
Associates	136,376	82,518
Jointly controlled entities	40,564	11,941
Total	176,940	94,459

(3) Remuneration for Key Management

Remuneration for key management

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Monthly remuneration	466	499
Board member bonuses	112	98
Total	578	597

5.3. Purchase Commitments

On the date of March 31, 2019 and March 31, 2020, purchase commitments for property, plant and equipment, intangible assets, investment property and inventories amounted to ¥77,280 million, and ¥67,842 million, respectively. These are mainly for unperformed contracts related to the purchase of telecommunications facilities and terminals.

5.4. Contingent Liabilities

As of March 31, 2020, contingent liabilities related to guaranteed debt and others stood at ¥68,925 million.

As of March 31, 2020, NTT Group had no outstanding lawsuits, disputes, and damages that have a significant impact on the financial position and results of operations.

5.5. Subsequent Events

Acquisition of Toyota Motor Corporation's shares and disposal of treasury stock by way of third-party allotment

On March 24, 2020, the Board of Directors resolved that NTT would enter into a memorandum of understanding for a business and capital alliance (the "Alliance") with Toyota Motor Corporation ("Toyota") and entered into the Alliance on the same day. On April 9, 2020, Toyota and NTT mutually executed a comprehensive underwriting agreement for a third-party allotment based on this memorandum of understanding. NTT acquired Toyota's shares and conducted a disposition of shares of the NTT's treasury stock through a third-party allotment with Toyota as the subscriber for the shares on the same day.

1. Overview of acquisition of Toyota's share

(1) Acquisition date	April 9, 2020
(2) Type and number of shares acquired	29,730,900 shares of Toyota's common stock
(3) Acquisition price per share	¥6,727 per share
(4) Total amount of acquisition	¥199,999,764,300
(5) Percentage to the total number of issued and outstanding shares held by NTT	0.90% of Toyota's common stock

2. Overview of a disposition of shares of the NTT's treasury stock through a third-party allotment, with Toyota as the subscriber for the shares

(1) Disposition date	April 9, 2020
(2) Type and number of shares disposed	80,775,400 shares of the NTT's common stock
(3) Disposition price	¥2,476 per share
(4) Amount of funds raised	¥199,999,890,400
(5) Percentage to the total number of issued and outstanding shares held by Toyota	2.07% of the NTT's issued and outstanding common stock

(2) Other

Quarterly Information, etc. for the current fiscal year

Cumulative period	Three months ended June 30, 2019	Six months ended September 30, 2019	Nine months ended December 31, 2019	Fiscal year ended March 31, 2020
Operating revenue (Millions of yen)	2,915,438	5,889,551	8,862,691	11,899,415
Profit before taxes (current period) (Millions of yen)	526,783	1,001,859	1,467,784	1,570,141
Quarterly (current period) profit attributable to NTT (Millions of yen)	280,530	547,670	796,922	855,306
Quarterly (current period) basic earnings attributable to NTT per share (yen)	73.66	145.53	214.20	231.21

(Accounting period)	Q1	Q2	Q3	Q4
Quarterly basic earnings attributable to NTT per share (yen)	73.66	71.84	68.57	16.06

Stock Split

NTT conducted a two-for-one stock split of its common stock, with a record date of March 31, 2020 and an effective date of January 1, 2020 based on the resolution at a meeting of board of directors on November 5, 2019. Per share information for the fiscal year ended, 2019 and 2020 reflects the impact of the stock split.

ITEM 6. STOCK-RELATED ADMINISTRATION FOR THE COMPANY

Fiscal year	From April 1 to March 31
Annual General Meeting of Shareholders	During June
Record Date	March 31
Record Date for Distributions of Surplus	September 30 March 31
Number of Shares Constituting One Unit	100 shares
Purchases and Sales of Less-than-one-Unit Shares	
Handling Office	Sumitomo Mitsui Trust Bank, Limited(Headquarters), 4-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited 4-1 Marunouchi 1-chome, Chiyoda-ku, Tokyo
Forwarding Address	—
Purchase and Sale Fees	None
Method of Public Notice	NTT's method of public notice is through electronic disclosure. However, if NTT cannot use electronic disclosure due to accidents or for other unforeseen circumstances, NTT will provide public notice through <i>Nihon Keizai Shimbun</i> . NTT's URL for public notice is: https://www.ntt.co.jp/ir/index_e.html
Special Benefits to Shareholders	Not applicable.
Restrictions on Shareholder Eligibility	Pursuant to Article 6 of the Act on Nippon Telegraph and Telephone Corporation, Etc., the ratio of foreign ownership of voting rights to the total amount of voting rights of NTT's shares is permitted to be up to one-third.

Note: Pursuant to NTT's Articles of Incorporation, shareholders of NTT may not exercise rights with respect to shares representing less than one unit other than the following rights: rights set forth in Article 189, Paragraph 2 of the Companies Act; the right of request pursuant to the stipulations of Article 166, Paragraph 1 of the Companies Act; the right to receive allocations of offered shares and offered stock acquisition rights in accordance with the number of shares owned by the Shareholder; and the right to request the Company to sell shares in a number which, when combined with the shares representing less than one unit.

ITEM 7. REFERENCE INFORMATION ON THE COMPANY

1. Information about the Parent Company of the Company

NTT has no “parent company” as such term is defined in Article 24, Paragraph 7-1 of the Financial Instruments and Exchange Act of Japan.

2. Other Reference Information

NTT filed the following materials during period from April 1, 2018 to the date of the filing of this Annual Securities Report:

(1) Annual Securities Report, Including Attachments and Confirmation Letter

Fiscal Year (34th Business Term) (from April 1, 2018 to March 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on June 26, 2019

(2) Internal Control Report, Including Attachments

Fiscal Year (34th Business Term) (from April 1, 2018 to March 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on June 26, 2019

(3) Quarterly Reports and Confirmation Letters

First Quarter, 35th Business Term (from April 1, 2019 to June 30, 2019)

Filed with the Director of the Kanto Local Finance Bureau on August 7, 2019

Second Quarter, 35th Business Term (from July 1, 2019 to September 30, 2019)

Filed with the Director of the Kanto Local Finance Bureau on November 6, 2019

Third Quarter, 35th Business Term (from October 1, 2019 to December 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on February 7, 2020

(4) Extraordinary Reports

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 3 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.

Filed with the Director of the Kanto Local Finance Bureau on June 10, 2019

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.

Filed with the Director of the Kanto Local Finance Bureau on June 26, 2019

Extraordinary Report Pursuant to Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance Concerning Disclosure of Corporate Affairs, etc.

Filed with the Director of the Kanto Local Finance Bureau on June 24, 2020

(5) Stock Repurchase Status Reports

Reporting Period (from March 1, 2019 to March 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on April 1, 2019

Reporting Period (from May 1, 2019 to May 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on June 3, 2019

Reporting Period (from June 1, 2019 to June 30, 2019)

Filed with the Director of the Kanto Local Finance Bureau on July 1, 2019

Reporting Period (from July 1, 2019 to July 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on August 1, 2019

Reporting Period (from August 1, 2019 to August 31, 2019)

Filed with the Director of the Kanto Local Finance Bureau on September 2, 2019

Reporting Period (from September 1, 2019 to September 30, 2019)

Filed with the Director of the Kanto Local Finance Bureau on October 1, 2019

(6) Securities Registration Statement (disposition of treasury stock as a third-party allotment) , Including Attachments

Filed with the Director of the Kanto Local Finance Bureau on March 24, 2020

PART II. INFORMATION ABOUT GUARANTORS OF THE COMPANY

Not applicable.

[English Translation of the Independent Auditor's Report Originally Issued in the Japanese Language]

Independent Auditor's Report on the Financial Statements
and
Internal Control Over Financial Reporting

June 24, 2020

To The Board of Directors of
Nippon Telegraph and Telephone Corporation

KPMG AZSA LLC
Tokyo Office

Takuji Kanai (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Kensuke Sodekawa (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Masashi Oki (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Financial Statement Audit

Opinion

We have audited the accompanying consolidated financial statements of Nippon Telegraph and Telephone Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the Nippon Telegraph and Telephone Corporation's Annual Securities Report ("Yukashoken Hokokusho"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended, and notes to the consolidated financial statements, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements".

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note "3.6. Lease" of the consolidated financial statements which describes the Group has adopted IFRS16 "Lease" from the beginning of this fiscal year ended March 31, 2020.
Our opinion is not modified in respect of this matter.

Responsibilities of Management and Corporate auditors and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS.

Corporate auditors and Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to assess the risk and design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Internal Control Audit

Opinion

We also have audited the accompanying internal control report of Nippon Telegraph and Telephone Corporation (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”) as at March 31, 2020, in accordance with Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2020, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Internal Control Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and Audit & Supervisory Board for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Corporate auditors and Audit & Supervisory Board are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor’s report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide corporate auditors and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which are required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Independent Auditor’s Report on the Financial Statements and Internal Control Over Financial Reporting:

The Independent Auditor’s Report on the Financial Statements and Internal Control Over Financial Reporting herein is the English translation of the Independent Auditor’s Report on the Financial Statements and Internal Control Over Financial Reporting as required by the Financial Instruments and Exchange Act of Japan.

[Cover]

[Document Filed]	Confirmation Letter
[Applicable Law]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed With]	Director, Kanto Local Finance Bureau
[Filing Date]	June 24, 2020
[Company Name]	Nippon Denshin Denwa Kabushiki Kaisha
[Company Name in English]	NIPPON TELEGRAPH AND TELEPHONE CORPORATION
[Title and Name of Representative]	Jun Sawada, President and Chief Executive Officer
[Title and Name of Chief Financial Officer]	Akira Shimada, Senior Executive Vice President
[Address of Head Office]	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo
[Place Where Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)

1. Matters Related to Adequacy of Statements Contained in the Annual Securities Report

Mr. Jun Sawada, President and Chief Executive Officer, and Mr. Akira Shimada, Senior Executive Vice President, confirmed that statements contained in the Annual Securities Report for the 35th Business Term (from April 1, 2019 to March 31, 2020) were adequate under the Financial Instruments and Exchange Act.

2. Special Notes

None.

[Cover]

[Document Filed]	Internal Control Report
[Applicable Law]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed With]	Director, Kanto Local Finance Bureau
[Filing Date]	June 24, 2020
[Company Name]	Nippon Denshin Denwa Kabushiki Kaisha
[Company Name in English]	NIPPON TELEGRAPH AND TELEPHONE CORPORATION
[Title and Name of Representative]	Jun Sawada, President and Chief Executive Officer
[Title and Name of Chief Financial Officer]	Akira Shimada, Senior Executive Vice President
[Address of Head Office]	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo
[Place Where Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1, Nihombashi Kabutocho, Chuo-ku, Tokyo)

1. Matters Related to the Basic Framework for Internal Control over Financial Reporting

Mr. Jun Sawada, President and Chief Executive Officer, and Mr. Akira Shimada, Senior Executive Vice President, are responsible for the maintenance and operation of internal control over financial reporting of NTT. We maintain and operate internal control over financial reporting in accordance with the basic framework of internal control indicated in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council.

In addition, internal control seeks to achieve its purpose within a reasonable range through the organic combination and functioning of its basic elements. As a result, internal control over financial reporting may not be able to completely prevent or detect false statements in financial reporting.

2. Matters Related to Scope of Assessment, Record Date, and Assessment Procedures

The evaluation of internal control over financial reporting is conducted with a record date of March 31, 2020, which is the last day of the current consolidated fiscal year, and is made in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, management conducted an evaluation of internal controls that have a material effect on the entirety of NTT’s financial reporting on a consolidated basis (“company-level controls”), and based on the results of that evaluation, selected business processes to be evaluated. In management’s evaluation of those business processes, management analyzed the selected business processes, identified key controls that have a material effect on the reliability of the NTT’s financial reporting, and assessed the maintenance and operation status of these key controls. These procedures were the basis of management’s evaluation of the effectiveness of NTT’s internal control.

Management determined the required scope of assessment of internal control over financial reporting for NTT, its consolidated subsidiaries and its affiliates accounted for under the equity method from the perspective of the materiality of the effect on the reliability of financial reporting. This materiality of the effect on the reliability of financial reporting is determined by assessing the materiality of quantitative and qualitative impacts. We confirmed that we had reasonably determined the scope of assessment of internal controls over business processes based on the results of our evaluation of internal controls of NTT and 12 consolidated subsidiaries taken as a whole. Consolidated subsidiaries and affiliates accounted for under the equity method who were determined to not be material from a quantitative or qualitative perspective were not included in the scope of evaluation of internal controls of the company as a whole.

Regarding the scope of the assessment of internal control over business processes, we totaled the figures from business units with high operating revenues (after eliminating intercompany transactions) for the previous consolidated fiscal year for each business unit. We designated five business units as “significant business units,” consisting of the three business units that accounted for approximately 2/3 of consolidated operating revenues for the previous consolidated fiscal year, together with business units that were qualitatively significant. At the selected significant business units, we included for purposes of our assessment those business processes that lead to operating revenues, operating receivables and other receivables (trade notes and accounts receivable), inventories and property, plant and equipment (telecommunications equipment and telecommunications line facilities). In addition, we have also included in the scope of our assessment, as business processes having greater materiality considering their impact on financial reporting (regardless of whether or not they are part of a significant business unit), business processes involving critical accounts that have a greater likelihood of containing material misstatements or that involve estimates and projections, as well as business processes involving high-risk transactions or operations.

3. Matters Related to the Results of the Assessment

As a result of the assessment described above, management concluded that, as of March 31, 2020, NTT’s internal control over financial reporting is effective based on those criteria.

4. Supplementary Matters

None.

5. Special Notes

None.