

1. Qualitative Information

(1) Qualitative Information Relating to Consolidated Business Results

i. Consolidated results

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	(Billions of yen)			
	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	5,589.0	5,524.3	(64.6)	(1.2)%
Operating expenses	4,855.5	4,597.8	(257.7)	(5.3)%
Operating income	733.5	926.5	193.0	26.3 %
Income before income taxes and equity in earnings (losses) of affiliated companies	717.4	896.9	179.5	25.0 %
Net income attributable to NTT	377.3	476.1	98.8	26.2 %

During the six months ended September 30, 2016, pursuant to its Medium-Term Management Strategy, adopted in May 2015, entitled “Towards the Next Stage 2.0,” NTT implemented measures to embark on a profit growth track by accelerating its self-transformation towards becoming a “Value Partner.”

<Efforts to Expand NTT’s Global Business and Increase Profit Generation>

NTT Group seeks to expand and establish its global business as a cornerstone of its business operations and to accelerate profit generation through the following initiatives.

Specifically, NTT Group promoted cross-selling through collaboration among its group companies, including businesses related to global networks, cloud migration, and IT outsourcing, and received orders from business operators such as Admin Re, a U.K. insurance company, and Public Transport Victoria, the transportation authority in the Australian state of Victoria.

Furthermore, each NTT Group Company has been resolutely engaged in optimizing services and operations and reducing procurement costs by continuously implementing cost reduction measures.

In addition, in order to support the above measures, NTT Group aims to strengthen its group governance and risk management, by increasing the transparency of information regarding group management, further unifying group accounting standards and practices, bolstering cash management, and enhancing collaboration within NTT Group’s global subsidiaries.

<Efforts to Optimize Domestic Network Businesses and Enhance Profitability>

NTT Group aimed to enhance profit generation of its domestic network businesses by optimizing capital investments and reducing costs. With regard to optimizing capital investments, NTT worked to improve the efficiency of its facility use and reduce procurement costs, in addition to simplifying and streamlining its network systems. A project team formed last year is in the process of reviewing various topics and initiatives aimed at generating profits.

In the regional communications business segment, NTT promoted initiatives for its “Hikari Collaboration Model” and subscriptions for Hikari access services for the “Hikari Collaboration Model” reached 6.9 million. In the mobile communications business segment, NTT worked to enhance profitability by increasing the sales of its “Kake-hodai &Pake-aeru” billing plan with the introduction of “Ultra-Pack,” for which subscriptions reached 33.4 million subscriptions. Through the above efforts, NTT worked to reduce costs beginning with controlling marketing costs.

<Efforts to Achieve Sustainable Growth >

The Japanese government has been developing and implementing a variety of policies centered on the Tokyo 2020 Olympic and Paralympic Games and the Japanese government’s “Vitalization of Local Economies” initiative. NTT Group plans to make use of these opportunities to accelerate migration to the B2B2X model and strengthen measures aimed at creating services that will become the standards of the next generation.

Specifically, NTT entered into a collaboration agreement with J. League and DAZN to promote the utilization of ICT through the “Smart Stadium Project” at J. League stadiums and club hometowns.

In addition, NTT Group entered into a collaboration agreement with FANUC Corporation with respect to Edge Computing Technology and the utilization of ICT infrastructure. Through this collaboration, NTT Group will support FANUC Corporation’s early-stage development and launch of the open platform “FANUC Intelligent Edge Link and Drive system (FIELD system)” service and its de facto standardization.

As a result of these efforts, NTT Group's consolidated operating revenues for the six months ended September 30, 2016 were ¥5,524.3 billion (a decrease of 1.2% from the same period of the previous fiscal year), consolidated operating expenses were ¥4,597.8 billion (a decrease of 5.3% from the same period of the previous fiscal year), consolidated operating income was ¥926.5 billion (an increase of 26.3% from the same period of the previous fiscal year), consolidated income before income taxes and equity in earnings (losses) of affiliated companies was ¥896.9 billion (an increase of 25.0% from the same period of the previous fiscal year), and net income attributable to NTT was ¥476.1 billion (an increase of 26.2% from the same period of the previous fiscal year).

Notes: (1) The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States.

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

ii. Segment results

Results by business segment are as follows.

Regional Communications Business Segment

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	(Billions of yen)			
	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	1,680.6	1,620.4	(60.1)	(3.6)%
Operating expenses	1,526.0	1,388.2	(137.8)	(9.0)%
Operating income	154.6	232.2	77.6	50.2 %

Operating revenues in the regional communications business segment for the six-month period ended September 30, 2016 decreased 3.6% from the same period of the previous fiscal year to ¥1,620.4 billion due to, among other things, a decrease in fixed voice-related revenues. On the other hand, operating expenses for the six-month period ended September 30, 2016 decreased 9.0% from the same period of the previous fiscal year to ¥1,388.2 billion due to efforts to streamline operating expenses, particularly with respect to sales-related expenses in connection with the expansion of the "Hikari Collaboration Model," in addition to the effect of the change in the depreciation method of property, plant and equipment, among other factors. As a result, segment operating income for the six-month period ended September 30, 2016 increased 50.2% from the same period of the previous fiscal year to ¥232.2 billion.

Number of subscriptions

	(Thousands of subscriptions)			
	As of March 31, 2016	As of September 30, 2016	Change	Percent Change
FLET'S Hikari (including Hikari Collaboration Model) ⁽¹⁾	19,259	19,704	445	2.3 %
NTT East	10,666	10,958	291	2.7 %
NTT West	8,593	8,746	153	1.8 %
Hikari Collaboration Model	4,691	6,917	2,226	47.5 %
NTT East	3,077	4,337	1,260	41.0 %
NTT West	1,615	2,580	966	59.8 %
Hikari Denwa ⁽²⁾	17,374	17,545	170	1.0 %
NTT East	9,123	9,242	120	1.3 %
NTT West	8,252	8,302	51	0.6 %

Notes:

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

(2) Figures for "Hikari Denwa" indicate the number of channels (in thousands), and include wholesale services provided by NTT East and NTT West to service providers.

Long Distance and International Communications Business Segment

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	(Billions of yen)			
	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	1,097.2	1,038.8	(58.4)	(5.3)%
Operating expenses	1,049.6	996.7	(53.0)	(5.0)%
Operating income	47.6	42.2	(5.4)	(11.4)%

Operating revenues in the long distance and international communications business segment for the six-month period ended September 30, 2016 decreased 5.3% from the same period of the previous fiscal year to ¥1,038.8 billion. This decrease was due to, among other things, a decrease in fixed voice-related revenues and the impact of exchange rate fluctuations on NTT's overseas businesses, partially offset by an increase in IP/packet communications revenues due to the expansion of "OCN Hikari" and other services. On the other hand, operating expenses for the six-month period ended September 30, 2016 decreased 5.0% from the same period of the previous fiscal year to ¥996.7 billion primarily due to the streamlining of sales-related expenses, among other things. As a result, segment operating income for the six-month period ended September 30, 2016 decreased 11.4% from the same period of the previous fiscal year to ¥42.2 billion.

Mobile Communications Business Segment

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	(Billions of yen)			
	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	2,215.0	2,288.0	73.0	3.3 %
Operating expenses	1,753.9	1,704.3	(49.6)	(2.8)%
Operating income	461.2	583.7	122.6	26.6 %

Despite a decline in revenues from sales of equipment, operating revenues for the mobile communications business segment for the six-month period ended September 30, 2016 increased 3.3% from the same period of the previous fiscal year to ¥2,288.0 billion due to a recovery in IP/packet communications revenues resulting from an increase in the number of subscribers to "Kake-hodai & Pake-aeru" and "docomo Hikari," as well as an increase in revenues from "dmarket" services and from the Smart Life area. On the other hand, despite an increase in revenue-linked expenses in the "docomo Hikari" and Smart Life areas, operating expenses for the six-month period ended September 30, 2016 decreased 2.8% from the same period of the previous fiscal year to ¥1,704.3 billion due to a decrease in the cost of equipment sold, efforts to streamline costs, and a decrease in depreciation expense resulting from the change of the depreciation method of property, plant and equipment. As a result, segment operating income for the six-month period ended September 30, 2016 increased 26.6% from the same period of the previous fiscal year to ¥583.7 billion.

Number of subscriptions

	(Thousands of subscriptions)			
	As of March 31, 2016	As of September 30, 2016	Change	Percent Change
Mobile phone services	70,964	72,943	1,980	2.8 %
"Kake-hodai & Pake-aeru"	29,704	33,416	3,712	12.5 %
LTE(Xi) services	38,679	41,281	2,603	6.7 %
FOMA services	32,285	31,662	(623)	(1.9)%

Note:

The number of Mobile phone services subscribers (including LTE (Xi) and FOMA services) includes subscriptions to communication module services.

Data Communications Business Segment

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

(Billions of yen)

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	745.7	762.1	16.3	2.2 %
Operating expenses	707.5	726.2	18.6	2.6 %
Operating income	38.2	35.9	(2.3)	(6.0)%

Despite the impact of exchange rate fluctuations on NTT's overseas businesses, operating revenues in the data communications business segment for the six-month period ended September 30, 2016 increased 2.2% from the same period of the previous fiscal year to ¥762.1 billion due to, among other things, expansion of NTT's domestic businesses. On the other hand, operating expenses for the six-month period ended September 30, 2016 increased 2.6% from the same period of the previous fiscal year to ¥726.2 billion due to, among other things, an increase in revenue-linked expenses and the temporary effect of M&A related expenses. As a result, segment operating income for the six-month period ended September 30, 2016 decreased 6.0% from the same period of the previous fiscal year to ¥35.9 billion.

Other Business Segment

Six-Month Period Ended September 30, 2016 (April 1, 2016 – September 30, 2016)

(Billions of yen)

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016	Change	Percent Change
Operating revenues	567.8	567.6	(0.2)	(0.0)%
Operating expenses	540.1	537.9	(2.2)	(0.4)%
Operating income	27.6	29.7	2.1	7.4 %

Operating revenues in the other business segment for the six-month period ended September 30, 2016 slightly decreased from the same period of the previous fiscal year to ¥567.6 billion due to a decrease in revenues of NTT Group's real estate business, partially offset by an increase in revenues of NTT Group's finance business, among other things. On the other hand, operating expenses for the six-month period ended September 30, 2016 also slightly decreased 0.4% from the same period of the previous fiscal year to ¥537.9 billion as a result of a decrease in revenue-linked expenses. As a result, segment operating income for the six-month period ended September 30, 2016 increased 7.4% from the same period of the previous fiscal year to ¥29.7 billion.