

NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | Millions of yen | | Millions of U.S. dollars (Note 2) |
|---|---------------------|-----------------------|---|
| | March 31, 2009 | September 30, 2009 | September 30, 2009 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 1,052,777 | ¥ 952,434 | \$ 10,583 |
| Short-term investments | 20,264 | 47,294 | 525 |
| Notes and accounts receivable, trade | 1,947,765 | 1,719,174 | 19,102 |
| Allowance for doubtful accounts | (45,208) | (40,485) | (450) |
| Inventories (Note 3) | 313,494 | 372,275 | 4,136 |
| Prepaid expenses and other current assets | 512,479 | 568,516 | 6,317 |
| Deferred income taxes | 266,480 | 259,351 | 2,882 |
| Total current assets | <u>4,068,051</u> | <u>3,878,559</u> | <u>43,095</u> |
| Property, plant and equipment: | | | |
| Telecommunications equipment | 14,705,383 | 14,792,341 | 164,359 |
| Telecommunications service lines | 13,968,838 | 14,095,223 | 156,614 |
| Buildings and structures | 5,770,337 | 5,790,863 | 64,343 |
| Machinery, vessels and tools | 1,755,854 | 1,778,561 | 19,762 |
| Land | 1,111,734 | 1,116,371 | 12,404 |
| Construction in progress | 305,167 | 311,278 | 3,459 |
| | 37,617,313 | 37,884,637 | 420,941 |
| Accumulated depreciation | (27,415,794) | (27,808,799) | (308,987) |
| Net property, plant and equipment | <u>10,201,519</u> | <u>10,075,838</u> | <u>111,954</u> |
| Investments and other assets: | | | |
| Investments in affiliated companies | 622,735 | 638,266 | 7,092 |
| Marketable securities and other investments | 277,375 | 294,830 | 3,276 |
| Goodwill | 453,617 | 490,245 | 5,447 |
| Other intangibles | 1,406,991 | 1,396,714 | 15,519 |
| Other assets | 894,828 | 893,996 | 9,933 |
| Deferred income taxes | 871,272 | 878,435 | 9,760 |
| Total investments and other assets | <u>4,526,818</u> | <u>4,592,486</u> | <u>51,027</u> |
| Total assets | <u>¥ 18,796,388</u> | <u>¥ 18,546,883</u> | <u>\$ 206,076</u> |

The accompanying notes are an integral part of these financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| | Millions of yen | | Millions of U.S. dollars (Note 2) |
|---|--------------------|-----------------------|---|
| | March 31, 2009 | September 30, 2009 | September 30, 2009 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings | ¥ 388,028 | ¥ 252,356 | \$ 2,804 |
| Current portion of long-term debt | 603,041 | 414,220 | 4,603 |
| Accounts payable, trade | 1,302,607 | 909,402 | 10,105 |
| Accrued payroll | 454,575 | 393,213 | 4,369 |
| Accrued interest | 12,481 | 11,802 | 131 |
| Accrued taxes on income | 288,803 | 257,604 | 2,862 |
| Accrued consumption tax | 28,326 | 34,252 | 381 |
| Advances received | 114,934 | 135,486 | 1,505 |
| Deposit received | 275,089 | 243,576 | 2,706 |
| Other | 226,315 | 224,128 | 2,490 |
| Total current liabilities | <u>3,694,199</u> | <u>2,876,039</u> | <u>31,956</u> |
| Long-term liabilities: | | | |
| Long-term debt | 3,691,688 | 3,881,336 | 43,126 |
| Obligations under capital leases | 47,394 | 42,802 | 476 |
| Liabilities for employees' retirement benefits | 1,639,785 | 1,658,350 | 18,426 |
| Other | 577,692 | 615,183 | 6,835 |
| Total long-term liabilities | <u>5,956,559</u> | <u>6,197,671</u> | <u>68,863</u> |
| Equity: | | | |
| Nippon Telegraph and Telephone Corporation ("NTT") shareholders' equity | | | |
| Common stock, no par value (Note 4) | | | |
| Authorized – 6,192,920,900 shares | | | |
| Issued – 1,574,120,900 shares at March 31 and September 30, 2009 | | | |
| | 937,950 | 937,950 | 10,422 |
| Additional paid-in capital | 2,841,037 | 2,841,016 | 31,567 |
| Retained earnings (Note 4) | 5,066,637 | 5,276,101 | 58,623 |
| Accumulated other comprehensive income (loss) | (341,917) | (308,343) | (3,426) |
| Treasury stock, at cost (Note 4) – 250,844,167 shares at March 31 and 250,837,921 shares at September 30, 2009 | (1,205,597) | (1,205,553) | (13,395) |
| Total NTT shareholders' equity | <u>7,298,110</u> | <u>7,541,171</u> | <u>83,791</u> |
| Noncontrolling interests | 1,847,520 | 1,932,002 | 21,466 |
| Total equity | <u>9,145,630</u> | <u>9,473,173</u> | <u>105,257</u> |
| Contingent liabilities (Note 8) | | | |
| Total liabilities and equity | <u>¥18,796,388</u> | <u>¥18,546,883</u> | <u>\$ 206,076</u> |
| Per share of common stock: | | | |
| Shareholders' equity | <u>¥ 5,515.18</u> | <u>¥ 5,698.83</u> | <u>\$ 63.32</u> |

The accompanying notes are an integral part of these financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
SIX-MONTH PERIOD ENDED SEPTEMBER 30

| | Millions of yen | | Millions of U.S. dollars (Note 2) |
|--|------------------|------------------|---|
| | 2008 | 2009 | 2009 |
| Operating revenues: | | | |
| Fixed voice related services | ¥ 1,315,716 | ¥ 1,194,434 | \$ 13,271 |
| Mobile voice related services | 1,179,627 | 1,084,606 | 12,051 |
| IP/packet communications services | 1,416,757 | 1,535,954 | 17,066 |
| Sale of telecommunications equipment | 369,321 | 295,696 | 3,286 |
| System integration | 541,444 | 567,062 | 6,301 |
| Other | 341,728 | 320,356 | 3,560 |
| | <u>5,164,593</u> | <u>4,998,108</u> | <u>55,535</u> |
| Operating expenses (Note 7): | | | |
| Cost of services (exclusive of items shown separately below) | 1,161,911 | 1,177,744 | 13,086 |
| Cost of equipment sold (exclusive of items shown separately below) | 459,941 | 387,317 | 4,304 |
| Cost of system integration (exclusive of items shown separately below) | 344,082 | 361,388 | 4,015 |
| Depreciation and amortization | 1,020,780 | 996,992 | 11,078 |
| Impairment loss | 401 | 500 | 6 |
| Selling, general and administrative expenses | 1,432,396 | 1,427,397 | 15,860 |
| | <u>4,419,511</u> | <u>4,351,338</u> | <u>48,349</u> |
| Operating income (loss) | <u>745,082</u> | <u>646,770</u> | <u>7,186</u> |
| Other income (expenses): | | | |
| Interest and amortization of bond discounts and issue costs | (30,134) | (28,811) | (320) |
| Interest income | 12,602 | 12,290 | 137 |
| Other, net | 43,611 | 13,341 | 148 |
| | <u>26,079</u> | <u>(3,180)</u> | <u>(35)</u> |
| Income (loss) before income taxes and equity in earnings (losses) of affiliated companies | <u>771,161</u> | <u>643,590</u> | <u>7,151</u> |
| Income tax expense (benefit): | | | |
| Current | 338,954 | 291,010 | 3,233 |
| Deferred | (102,279) | (31,245) | (347) |
| | <u>236,675</u> | <u>259,765</u> | <u>2,886</u> |
| Income (loss) before equity in earnings (losses) of affiliated companies | 534,486 | 383,825 | 4,265 |
| Equity in earnings (losses) of affiliated companies | 7,421 | 4,718 | 52 |
| Net income (loss) | <u>541,907</u> | <u>388,543</u> | <u>4,317</u> |
| Less – Net income attributable to noncontrolling interests | (135,554) | (106,299) | (1,181) |
| Net income (loss) attributable to NTT | <u>¥ 406,353</u> | <u>¥ 282,244</u> | <u>\$ 3,136</u> |
| Summary of total comprehensive income (loss): | | | |
| Net income (loss) | ¥ 541,907 | ¥ 388,543 | \$ 4,317 |
| Other comprehensive income (loss) | (38,012) | 43,506 | 483 |
| Comprehensive income (loss) | 503,895 | 432,049 | 4,800 |
| Less – Other comprehensive income attributable to noncontrolling interests | (130,561) | (116,231) | (1,291) |
| Comprehensive income (loss) attributable to NTT | <u>¥ 373,334</u> | <u>¥ 315,818</u> | <u>\$ 3,509</u> |
| | | | U.S. dollars (Note 2) |
| | Shares or yen | | 2009 |
| | 2008 | 2009 | |
| Per share of common stock (Note 4): | | | |
| Weighted average number of shares outstanding | 1,357,276,301 | 1,323,282,575 | |
| Net income (loss) attributable to NTT | <u>¥ 299.39</u> | <u>¥ 213.29</u> | <u>\$ 2.37</u> |

The accompanying notes are an integral part of these financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
THREE-MONTH PERIOD ENDED SEPTEMBER 30

| | Millions of yen | | Millions of U.S. dollars (Note 2) |
|--|------------------|------------------|---|
| | 2008 | 2009 | 2009 |
| Operating revenues: | | | |
| Fixed voice related services | ¥ 652,186 | ¥ 595,260 | \$ 6,614 |
| Mobile voice related services | 580,695 | 544,590 | 6,051 |
| IP/packet communications services | 721,691 | 774,685 | 8,608 |
| Sale of telecommunications equipment | 152,947 | 131,886 | 1,465 |
| System integration | 285,208 | 283,297 | 3,148 |
| Other | 178,278 | 165,501 | 1,839 |
| | <u>2,571,005</u> | <u>2,495,219</u> | <u>27,725</u> |
| Operating expenses (Note 7): | | | |
| Cost of services (exclusive of items shown separately below) | 585,879 | 594,893 | 6,610 |
| Cost of equipment sold (exclusive of items shown separately below) | 193,428 | 173,765 | 1,931 |
| Cost of system integration (exclusive of items shown separately below) | 184,309 | 179,238 | 1,991 |
| Depreciation and amortization | 517,024 | 500,386 | 5,560 |
| Impairment loss | 401 | 196 | 2 |
| Selling, general and administrative expenses | 716,945 | 725,742 | 8,064 |
| | <u>2,197,986</u> | <u>2,174,220</u> | <u>24,158</u> |
| Operating income (loss) | <u>373,019</u> | <u>320,999</u> | <u>3,567</u> |
| Other income (expenses): | | | |
| Interest and amortization of bond discounts and issue costs | (14,952) | (14,006) | (156) |
| Interest income | 6,279 | 5,952 | 66 |
| Other, net | 18,914 | 4,729 | 53 |
| | <u>10,241</u> | <u>(3,325)</u> | <u>(37)</u> |
| Income (loss) before income taxes and equity in earnings (losses) of affiliated companies | <u>383,260</u> | <u>317,674</u> | <u>3,530</u> |
| Income tax expense (benefit): | | | |
| Current | 189,900 | 166,456 | 1,849 |
| Deferred | (101,485) | (39,005) | (433) |
| | <u>88,415</u> | <u>127,451</u> | <u>1,416</u> |
| Income (loss) before equity in earnings (losses) of affiliated companies | 294,845 | 190,223 | 2,114 |
| Equity in earnings (losses) of affiliated companies | 3,886 | 2,014 | 22 |
| Net income (loss) | <u>298,731</u> | <u>192,237</u> | <u>2,136</u> |
| Less – Net income attributable to noncontrolling interests | (67,912) | (49,550) | (551) |
| Net income (loss) attributable to NTT | <u>¥ 230,819</u> | <u>¥ 142,687</u> | <u>\$ 1,585</u> |
| Summary of total comprehensive income (loss): | | | |
| Net income (loss) | ¥ 298,731 | ¥ 192,237 | \$ 2,136 |
| Other comprehensive income (loss) | (4,383) | 11,018 | 123 |
| Comprehensive income (loss) | 294,348 | 203,255 | 2,259 |
| Less – Other comprehensive income attributable to noncontrolling interests | (66,740) | (52,811) | (587) |
| Comprehensive income (loss) attributable to NTT | <u>¥ 227,608</u> | <u>¥ 150,444</u> | <u>\$ 1,672</u> |
| | | | U.S. dollars (Note 2) |
| | Shares or yen | | 2009 |
| | 2008 | 2009 | |
| Per share of common stock (Note 4): | | | |
| Weighted average number of shares outstanding | 1,350,740,988 | 1,323,283,730 | |

| | | | | | |
|---------------------------------------|---------------|---|---------------|----|-------------|
| Net income (loss) attributable to NTT | <u>170.88</u> | ¥ | <u>107.83</u> | \$ | <u>1.20</u> |
|---------------------------------------|---------------|---|---------------|----|-------------|

The accompanying notes are an integral part of these financial statements.

NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX-MONTH PERIOD ENDED SEPTEMBER 30

| | <u>Millions of yen</u> | | <u>Millions of</u> |
|---|------------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2009</u> | <u>U.S. dollars</u> |
| | | | <u>(Note 2)</u> |
| | | | <u>2009</u> |
| Cash flows from operating activities: | | | |
| Net income (loss) | ¥ 541,907 | ¥ 388,543 | \$ 4,317 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities - | | | |
| Depreciation and amortization | 1,020,780 | 996,992 | 11,078 |
| Impairment loss | 401 | 500 | 6 |
| Deferred taxes | (102,279) | (31,245) | (347) |
| Loss on disposal of property, plant and equipment | 45,473 | 44,796 | 498 |
| Equity in (earnings) losses of affiliated companies | (7,421) | (4,718) | (53) |
| (Increase) decrease in notes and accounts receivable, trade | 157,971 | 238,387 | 2,648 |
| (Increase) decrease in inventories | (101,950) | (59,507) | (661) |
| (Increase) decrease in other current assets | (85,482) | (57,279) | (637) |
| Increase (decrease) in accounts payable, trade and accrued payroll | (389,742) | (329,069) | (3,656) |
| Increase (decrease) in accrued consumption tax | (1,314) | 5,831 | 65 |
| Increase (decrease) in accrued interest | (1,163) | (689) | (8) |
| Increase (decrease) in advances received | 19,014 | 20,464 | 227 |
| Increase (decrease) in accrued taxes on income | (6,334) | (32,246) | (358) |
| Increase (decrease) in other current liabilities | (14,057) | (113) | (1) |
| Increase (decrease) in liability for employees' retirement benefits | (9,061) | 40,933 | 455 |
| Increase (decrease) in other long-term liabilities | 21,673 | 35,266 | 392 |
| Other | 774 | (14,370) | (160) |
| Net cash provided by (used in) operating activities | <u>1,089,190</u> | <u>1,242,476</u> | <u>13,805</u> |
| Cash flows from investing activities: | | | |
| Payments for property, plant and equipment | (850,669) | (727,184) | (8,080) |
| Proceeds from sale of property, plant and equipment | 46,309 | 16,036 | 178 |
| Payments for purchase of non-current investments | (66,044) | (52,245) | (580) |
| Proceeds from sale and redemption of non-current investments | 38,899 | 16,148 | 179 |
| Payments for purchase of short-term investments | (2,541) | (39,486) | (439) |
| Proceeds from redemption of short-term investments | 4,494 | 16,128 | 179 |
| Acquisition of intangibles and other assets | (320,496) | (298,134) | (3,312) |
| Net cash provided by (used in) investing activities | <u>¥(1,150,048)</u> | <u>¥(1,068,737)</u> | <u>\$ (11,875)</u> |

The accompanying notes are an integral part of these financial statements.

**NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX-MONTH PERIOD ENDED SEPTEMBER 30

| | Millions of yen | | Millions of U.S. dollars (Note 2) |
|---|-----------------|-------------|---|
| | 2008 | 2009 | 2009 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debt | ¥ 395,173 | ¥ 368,174 | \$ 4,091 |
| Payments for settlement of long-term debt | (292,575) | (344,493) | (3,828) |
| Proceeds from issuance of short-term debt | 2,327,475 | 2,167,618 | 24,085 |
| Payments for settlement of short-term debt | (2,301,358) | (2,303,342) | (25,592) |
| Dividends paid (Note 4) | (61,375) | (72,780) | (809) |
| Proceeds from sale of (payments for acquisition of) treasury stock, net | (100,748) | 23 | 0 |
| Acquisition of treasury stocks by subsidiary | (51,848) | — | — |
| Other | (76,790) | (90,863) | (1,010) |
| Net cash provided by (used in) financing activities | (162,046) | (275,663) | (3,063) |
| Effect of exchange rate changes on cash and cash equivalents | (2,991) | 1,581 | 18 |
| Net increase (decrease) in cash and cash equivalents | (225,895) | (100,343) | (1,115) |
| Cash and cash equivalents at beginning of period | 1,169,566 | 1,052,777 | 11,698 |
| Cash and cash equivalents at end of period | ¥ 943,671 | ¥ 952,434 | \$ 10,583 |
| Cash paid during the period for: | | | |
| Interest | ¥ 31,306 | ¥ 29,490 | \$ 328 |
| Income taxes, net | 261,362 | 288,524 | 3,206 |

The accompanying notes are an integral part of these financial statements.

NIPPON TELEGRAPH AND TELEPHONE CORPORATION
AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of significant accounting policies:

As permitted by Section 93 of “Regulation Concerning the Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Japanese Cabinet Office Ordinance No. 64 of 2007), the accompanying consolidated balance sheets at March 31 and September 30, 2009, and the consolidated statements of income for the three and six months ended September 30, 2008 and 2009 and cash flows for the six months ended September 30, 2008 and 2009 of NTT and its subsidiaries (“NTT Group”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Certain disclosures required by U.S. GAAP have been omitted.

(1) Application of New Accounting Standards

Business Combinations

Effective April 1, 2009, NTT Group adopted the accounting pronouncement issued by the Financial Accounting Standards Board (“FASB”) in December 2007 relating to business combinations. This pronouncement requires use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. The adoption of this pronouncement did not have a material impact on the results of operations or the financial position of NTT Group for the six months ended September 30, 2009.

Noncontrolling Interests in Consolidated Financial Statements

Effective April 1, 2009, NTT Group adopted the accounting pronouncement issued by FASB in December 2007 relating to noncontrolling interests in consolidated financial statements. This pronouncement establishes accounting and reporting standards for the noncontrolling interest (previously referred to as minority interests) in a subsidiary and for the deconsolidation of a subsidiary. This pronouncement requires the presentation that the noncontrolling interest should be reclassified to equity and consolidated net income should be adjusted to include net income attributed to the noncontrolling interest in the consolidated financial statements. This pronouncement also requires single method of accounting as equity transactions for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation.

The adoption of this pronouncement has an impact on the presentation of noncontrolling interests in the consolidated financial statements including retrospective reclassification; however, the adoption of this pronouncement did not have a material impact on the results of operations or financial position of NTT Group.

Accounting for Financial Guarantee Insurance Contracts

Effective April 1, 2009, NTT Group adopted the accounting pronouncement issued by FASB in May 2008 relating to accounting for financial guarantee insurance contracts. This pronouncement prescribes accounting for insurers of financial obligations, bringing consistency to recognizing and recording premiums and to loss recognition. This pronouncement also requires expanded disclosures about financial guarantee insurance contracts. The adoption of this pronouncement did not have a material impact on the results of operations or the financial position of NTT Group.

Subsequent Events

Effective April 1, 2009, NTT Group adopted the accounting pronouncement issued by FASB in May 2009 relating to subsequent events. This pronouncement requires that the effect of subsequent events that occurred after the balance-sheet date and before the date the financial statements are either “issued” or “available to be issued” should be evaluated and disclosed. The adoption of this pronouncement did not have an impact on the results of operations or the financial position of NTT Group.

The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

Effective July 1, 2009, NTT Group adopted the accounting pronouncement issued by FASB in June 2009 relating to the FASB Accounting Standards Codification and the hierarchy of generally accepted accounting principles. This pronouncement prescribes the change which divides non-governmental U.S. GAAP into the authoritative Codification and the non-authoritative guidance, doing away with the previous four-level hierarchy. The financial statements that adopted this pronouncement should follow the Codification in place of legacy accounting pronouncements. The adoption of this pronouncement did not have an impact on the results of operations or the financial position of NTT Group.

(2) Recent Pronouncements

In April 2009, FASB issued the accounting pronouncement relating to mergers and acquisitions of not-for-profit entities. This pronouncement gives not-for-profit entities specific guidance on accounting for mergers and acquisitions, including analogies to business-combination accounting and more uniform presentations. This pronouncement prescribes how to determine whether a combination is a merger or an acquisition, how to account for each, and the disclosures that should be made. This pronouncement is to be applied prospectively to mergers for which merger dates are on or after the beginning of an initial reporting period beginning on or after December 15, 2009, and to acquisitions for which acquisition dates are on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Earlier application is prohibited. The adoption of this pronouncement will not have an impact on the results of operations or financial position of NTT Group.

In June 2009, the FASB issued the accounting pronouncement relating to accounting for transfers of financial assets. This pronouncement eliminates the concept and associated guidance of a “qualifying special-purpose entity” (“QSPE”), creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor’s interest in transferred financial assets. This statement is effective (including for existing QSPEs) as of the beginning of a company’s first fiscal year that begins after November 15, 2009 and for subsequent interim and annual reporting periods. This pronouncement also provides for transfers that occurred before and after its effective date. Management is currently evaluating the impact of the adoption of this pronouncement on its results of operations and financial position of NTT Group.

In June 2009, the FASB issued the accounting pronouncement relating to the variable interest entity (“VIE”). This pronouncement prescribes the change of the approach to determining a VIE’s primary beneficiary (the reporting entity that must consolidate the VIE) and requires companies to reassess more frequently whether they must consolidate VIEs. This pronouncement is effective as of the beginning of a company’s first fiscal year that begins after November 15, 2009 and for subsequent interim and annual reporting periods. Management is currently evaluating the impact of the adoption of this pronouncement on its results of operations and financial position of NTT Group.

(3) Net Income attributable to NTT per Share

Basic net income attributable to NTT per share (“EPS”) is computed based on the average number of shares outstanding during the period and is appropriately adjusted for any free distribution of common stock. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. Since NTT did not issue dilutive securities for the six months ended September 30, 2008 and 2009, there is no difference between basic EPS and diluted EPS. In January 2009, NTT effected the split of one share of its common stock into 100 shares. The computations of EPS have been adjusted retroactively for the three and six months ended September 30, 2008 and are presented to reflect the stock split.

(4) Reclassifications

Certain items for prior periods’ financial statements have been reclassified to conform to the presentation for the three and six months ended September 30, 2009.

2. Convenience translation into U.S. dollar amounts:

The consolidated financial statements are expressed in Japanese yen. However, the consolidated financial statements as of and for the three and six months ended September 30, 2009 have been translated into United States dollars at the rate of ¥90 = U.S.\$1, the approximate current exchange rate prevailing on September 30, 2009. Those U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for convenience of the reader. This translation should not be construed as a representation that any or all the amounts shown could be converted into U.S. dollars at this or any other rate.

3. Inventories:

Inventories at March 31 and September 30, 2009 comprised the following:

| | Millions of yen | | Millions of |
|---|-------------------|-----------------------|--------------|
| | March 31, 2009 | September 30, 2009 | U.S. dollars |
| Telecommunications equipment to be sold and materials | ¥139,155 | ¥ 194,241 | \$ 2,158 |
| Projects in progress | 132,638 | 133,947 | 1,488 |
| Supplies | 41,701 | 44,087 | 490 |
| Total | ¥313,494 | ¥ 372,275 | \$ 4,136 |

4. Equity:

Outstanding shares and Treasury stock–

The changes in the number of outstanding shares and treasury stock for the fiscal year ended March 31, 2009 and for the six months ended September 30, 2009, were as follows:

| | Change in shares | |
|---|----------------------|--------------------|
| | Issued shares | Treasury stock |
| Balance at March 31, 2008 | 15,741,209 | 2,102,470.82 |
| Acquisition of treasury stock through purchase of fractional shares | — | 2,726.22 |
| Purchase of treasury stock under resolution of the board of directors | — | 341,307.00 |
| Resale of treasury stock to fractional shareholders | — | (1,824.08) |
| Effect of stock split | 1,558,379,691 | 242,023,316.04 |
| Acquisition of treasury stock through purchase of less-than-one-unit shares | — | 10,623 |
| Purchase of treasury stock under resolution of the board of directors | — | 6,386,800 |
| Resale of treasury stock to holders of less-than-one-unit shares | — | (21,252) |
| Balance at March 31, 2009 | 1,574,120,900 | 250,844,167 |
| Acquisition of treasury stock through purchase of less-than-one-unit shares | — | 14,990 |
| Resale of treasury stock to holders of less-than-one-unit shares | — | (21,236) |
| Balance at September 30, 2009 | <u>1,574,120,900</u> | <u>250,837,921</u> |

With the implementation of the “Law for Partial Amendments to the Law Concerning Book-Entry Transfer of Corporate Bonds and Other Securities for the Purpose of Streamlining the Settlement of Trades of Stocks and Other Securities (Law No. 88 of 2004)” (“Settlement Streamlining Law”), on January 5, 2009, share certificates of listed companies were converted to electronic form.

The introduction of the electronic share certificate system required that fractional shares be eliminated. In order to provide for a smooth transition away from the fractional share system, the board of directors, at their meeting held May 13, 2008, resolved that, subject to approval of the introduction of the unit share system at the 23rd general shareholders meeting and the approval of the Minister of Internal Affairs and Communications, on the day immediately preceding the implementation date of the electronic share certificate system, one share of common stock be split into 100 shares, and the number of shares constituting one unit be set at 100. This resolution was approved at the 23rd general shareholders meeting and by the Minister of Internal Affairs and Communications on June 25, 2008.

The effective date of the stock split was determined when the implementation date of the Settlement Streamlining Law was set as January 5, 2009. Accordingly, on January 4, 2009, NTT effected the split of one share of its common stock into 100 shares, pursuant to the foregoing resolution. The computations of the per share amount have been adjusted retroactively for the three and six months ended September 30, 2008 and are presented to reflect the effect of the stock split.

On May 13, 2008, the board of directors resolved that NTT may acquire up to 450,000 outstanding shares (pre-stock split) of its common stock at an amount in total not exceeding ¥200 billion from May 14, 2008 through March 24, 2009. Based on this resolution, NTT acquired 341,307 shares (pre-stock split) of its common stock for a total purchase price of ¥169,767 million from July through December 2008. In January 2009, NTT acquired 6,386,800 shares of its common stock after the stock split for ¥30,233 million. The shareholders' meeting on June 24, 2009, did not resolve that NTT may acquire its common stock.

Dividend—

(1) Cash dividends paid

| | |
|---------------------------|--|
| Resolution | The shareholders' meeting on June 24, 2009 |
| Class of shares | Common stock |
| Source of dividends | Retained earnings |
| Total cash dividends paid | ¥72,780 million (\$758 million) |
| Cash dividends per share | ¥55 (\$0.57) |
| Date of record | March 31, 2009 |
| Date of payment | June 25, 2009 |

(2) Cash dividends declared

| | |
|-------------------------------|---|
| Resolution | The Board of Directors' meeting on November 9, 2009 |
| Class of shares | Common stock |
| Source of dividends | Retained earnings |
| Total cash dividends declared | ¥79,397 million (\$882 million) |
| Cash dividends per share | ¥60 (\$0.67) |
| Date of record | September 30, 2009 |
| Date of payment | December 10, 2009 |

Changes in equity-

Changes in total equity, NTT shareholders' equity and equity attributable to the noncontrolling interest for the six months ended September 30, 2008, and 2009, were as follows:

| | Millions of yen | | |
|--|--------------------------|--------------------------|--------------|
| | NTT shareholders' equity | Noncontrolling interests | Total equity |
| Balance at March 31, 2008 | ¥ 7,410,761 | ¥ 1,863,998 | ¥9,274,759 |
| Dividends paid to NTT Shareholders | (61,375) | — | (61,375) |
| Dividends paid to noncontrolling interests | — | (44,163) | (44,163) |
| Acquisition of treasury stocks | (101,222) | — | (101,222) |
| Resale of treasury stocks | 474 | — | 474 |
| Other equity transactions | — | (37,731) | (37,731) |
| Net income (loss) | 406,353 | 135,554 | 541,907 |
| Other comprehensive income (loss) | (33,019) | (4,993) | (38,012) |
| Unrealized gain (loss) on securities | (11,102) | (2,297) | (13,399) |
| Unrealized gain (loss) on derivative instruments | 414 | (210) | 204 |
| Foreign currency translation adjustments | (15,666) | (2,165) | (17,831) |
| Pension liability adjustments | (6,665) | (321) | (6,986) |
| Balance at September 30, 2008 | ¥ 7,621,972 | ¥ 1,912,665 | ¥9,534,637 |

| | Millions of yen | | |
|--|--------------------------|--------------------------|--------------|
| | NTT shareholders' equity | Noncontrolling interests | Total equity |
| Balance at March 31, 2009 | ¥ 7,298,110 | ¥ 1,847,520 | ¥9,145,630 |
| Dividends paid to NTT Shareholders | (72,780) | — | (72,780) |
| Dividends paid to noncontrolling interests | — | (39,831) | (39,831) |
| Acquisition of treasury stocks | (58) | — | (58) |
| Resale of treasury stocks | 81 | — | 81 |
| Other equity transactions | — | 8,082 | 8,082 |
| Net income (loss) | 282,244 | 106,299 | 388,543 |
| Other comprehensive income (loss) | 33,574 | 9,932 | 43,506 |
| Unrealized gain (loss) on securities | 12,069 | 4,802 | 16,871 |
| Unrealized gain (loss) on derivative instruments | (2,141) | 4 | (2,137) |
| Foreign currency translation adjustments | 15,318 | 4,303 | 19,621 |
| Pension liability adjustments | 8,328 | 823 | 9,151 |
| Balance at September 30, 2009 | ¥ 7,541,171 | ¥ 1,932,002 | ¥9,473,173 |

| | Millions of U.S. dollars | | |
|--|--------------------------|--------------------------|--------------|
| | NTT shareholders' equity | Noncontrolling interests | Total equity |
| Balance at March 31, 2009 | \$ 81,090 | \$ 20,528 | \$101,618 |
| Dividends paid to NTT Shareholders | (808) | — | (808) |
| Dividends paid to noncontrolling interests | — | (443) | (443) |
| Acquisition of treasury stocks | (1) | — | (1) |
| Resale of treasury stocks | 1 | — | 1 |
| Other equity transactions | — | 90 | 90 |
| Net income (loss) | 3,136 | 1,181 | 4,317 |
| Other comprehensive income (loss) | 373 | 110 | 483 |
| Unrealized gain (loss) on securities | 134 | 53 | 187 |
| Unrealized gain (loss) on derivative instruments | (24) | 0 | (24) |
| Foreign currency translation adjustments | 170 | 48 | 218 |
| Pension liability adjustments | 93 | 9 | 102 |
| Balance at September 30, 2009 | \$ 83,791 | \$ 21,466 | \$105,257 |

5. Fair value measurements:

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1—Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2—Inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3—Inputs are unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis as of March 31 and September 30, 2009 are as follows:

| | Millions of yen | | | |
|-------------------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| | March 31, 2009 | | | |
| | Fair value measurements using | | | |
| | Total | Level 1 ^{*1} | Level 2 ^{*2} | Level 3 ^{*3} |
| Assets | | | | |
| Available-for-sale securities | ¥170,551 | ¥168,695 | ¥ 1,856 | — |
| Derivatives | 6,205 | — | 6,205 | — |
| Liabilities | | | | |
| Derivatives | ¥ 5,651 | — | ¥ 5,651 | — |

| | Millions of yen | | | |
|-------------------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2009 | | | |
| | Fair value measurements using | | | |
| | Total | Level 1 ^{*1} | Level 2 ^{*2} | Level 3 ^{*3} |
| Assets | | | | |
| Available-for-sale securities | ¥195,417 | ¥166,875 | ¥ 2,035 | ¥26,507 |
| Derivatives | 4,599 | — | 4,599 | — |
| Liabilities | | | | |
| Derivatives | ¥ 8,689 | — | ¥ 8,689 | — |

| | Millions of U.S. dollars | | | |
|-------------------------------|-------------------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2009 | | | |
| | Fair value measurements using | | | |
| | Total | Level 1 ^{*1} | Level 2 ^{*2} | Level 3 ^{*3} |
| Assets | | | | |
| Available-for-sale securities | \$2,171 | \$ 1,854 | \$ 23 | \$ 294 |
| Derivatives | 51 | — | 51 | — |
| Liabilities | | | | |
| Derivatives | \$ 97 | — | \$ 97 | — |

*1 Quoted prices for identical assets or liabilities in active markets

*2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs derived principally from observable market data

*3 Unobservable inputs

Available-for-sale securities—

Available-for-sale securities comprised marketable equity securities and debt securities, and financial instruments classified as available-for-sale debt securities. If active market prices are available, fair value is measured by quoted prices for identical assets in active markets, which is classified to level 1. If active market prices are not available, fair value is measured by inputs derived principally from observable market data provided by financial institutions, which is classified to level 2. If debt securities do not have quoted prices for identical assets, fair value is measured by inputs derived from unobservable data including discount rate, which is classified to level 3.

Assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2009 are as follows:

| | Millions of yen | | | | |
|---------------|-------------------------------|-----------------------|-----------------------|-----------------------|--------------|
| | September 30, 2009 | | | | |
| | Fair value measurements using | | | | Losses |
| | Total | Level 1 ^{*1} | Level 2 ^{*2} | Level 3 ^{*3} | (before tax) |
| Assets | | | | | |
| Real estate | ¥16,456 | — | — | ¥16,456 | ¥ 4,776 |

| | Millions of U.S. dollars | | | | |
|---------------|-------------------------------|-----------------------|-----------------------|-----------------------|--------------|
| | September 30, 2009 | | | | |
| | Fair value measurements using | | | | Losses |
| | Total | Level 1 ^{*1} | Level 2 ^{*2} | Level 3 ^{*3} | (before tax) |
| Assets | | | | | |
| Real estate | \$183 | — | — | \$ 183 | \$ 53 |

*1 Quoted prices for identical assets or liabilities in active markets

*2 Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs derived principally from observable market data

*3 Unobservable inputs

Real estate–

If a decline in value or an increase in estimated costs of completion of real estate held for resale included in inventories makes inventory cost to be unrecoverable, the real estate is written down by its fair value. In measuring fair value of such inventories, fair value is measured by using various evaluation models based on inputs that are unobservable in the market, such as a salable price based on a real-estate appraisal, which is classified to level 3.

Real estate in the table above includes that transferred from inventories to property, plant and equipment as a result of a change in use after measuring fair value.

6. Business segment and geographic area:

The operating segments reported below are those for which segment-specific financial information is available. NTT Group's management uses this financial information to make decisions on the allocation of management resources and to evaluate business performance. Accounting policies used to determine segment profit/loss are consistent with those used to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States.

The regional communications business segment principally comprises revenues from fixed voice related services, IP/packet communications services, sales of telecommunications equipment, and other operating revenues.

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

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

The data communications business segment principally comprises revenues from system integration services.

The other business segment principally comprises operating revenues from such activities as building-maintenance, real estate rental, systems development, leasing, and research and development.

Business segments -

Sales and operating revenue:

| For the three months ended September 30 | Millions of yen | | Millions of U.S. dollars |
|--|-----------------|------------|-----------------------------|
| | 2008 | 2009 | 2009 |
| Regional communications business - | | | |
| Customers | ¥ 867,435 | ¥ 848,503 | \$ 9,428 |
| Intersegment | 145,810 | 128,425 | 1,427 |
| Total | 1,013,245 | 976,928 | 10,855 |
| Long distance and international communications business - | | | |
| Customers | 293,147 | 281,121 | 3,124 |
| Intersegment | 31,814 | 27,259 | 303 |
| Total | 324,961 | 308,380 | 3,427 |
| Mobile communications business - | | | |
| Customers | 1,086,853 | 1,050,220 | 11,669 |
| Intersegment | 10,685 | 10,833 | 120 |
| Total | 1,097,538 | 1,061,053 | 11,789 |
| Data communications business - | | | |
| Customers | 233,584 | 236,196 | 2,624 |
| Intersegment | 31,867 | 27,990 | 311 |
| Total | 265,451 | 264,186 | 2,935 |
| Other - | | | |
| Customers | 89,986 | 79,179 | 880 |
| Intersegment | 201,609 | 184,962 | 2,055 |
| Total | 291,595 | 264,141 | 2,935 |
| Elimination | (421,785) | (379,469) | (4,216) |
| Consolidated total | ¥2,571,005 | ¥2,495,219 | \$ 27,725 |

| For the six months ended September 30 | Millions of yen | | Millions of U.S. dollars |
|--|-----------------|------------|-----------------------------|
| | 2008 | 2009 | 2009 |
| Regional communications business - | | | |
| Customers | ¥1,725,745 | ¥1,682,317 | \$ 18,693 |
| Intersegment | 282,607 | 255,346 | 2,837 |
| Total | 2,008,352 | 1,937,663 | 21,530 |
| Long distance and international communications business - | | | |
| Customers | 581,141 | 564,052 | 6,267 |
| Intersegment | 55,306 | 52,412 | 583 |
| Total | 636,447 | 616,464 | 6,850 |
| Mobile communications business - | | | |
| Customers | 2,243,360 | 2,123,513 | 23,595 |
| Intersegment | 24,424 | 22,294 | 248 |
| Total | 2,267,784 | 2,145,807 | 23,843 |
| Data communications business - | | | |
| Customers | 446,481 | 476,044 | 5,289 |
| Intersegment | 60,818 | 58,242 | 647 |
| Total | 507,299 | 534,286 | 5,936 |
| Other - | | | |
| Customers | 167,866 | 152,182 | 1,691 |
| Intersegment | 391,325 | 373,164 | 4,146 |
| Total | 559,191 | 525,346 | 5,837 |
| Elimination | (814,480) | (761,458) | (8,461) |
| Consolidated total | ¥5,164,593 | ¥4,998,108 | \$ 55,535 |

Segment profit or loss:

| For the three months ended September 30 | Millions of yen | | Millions of U.S. dollars |
|---|------------------------|-----------------|-------------------------------------|
| | 2008 | 2009 | 2009 |
| Operating income (loss): | | | |
| Regional communications business | ¥ 29,526 | ¥ 34,622 | \$ 385 |
| Long distance and international communications business | 27,518 | 26,344 | 293 |
| Mobile communications business | 279,069 | 231,955 | 2,577 |
| Data communications business | 23,198 | 15,631 | 174 |
| Other | 9,220 | (4,313) | (48) |
| Total | 368,531 | 304,239 | 3,381 |
| Elimination | 4,488 | 16,760 | 186 |
| Consolidated operating income | ¥373,019 | ¥320,999 | \$ 3,567 |

| For the six months ended September 30 | Millions of yen | | Millions of U.S. dollars |
|---|------------------------|-----------------|-------------------------------------|
| | 2008 | 2009 | 2009 |
| Operating income (loss): | | | |
| Regional communications business | ¥ 40,700 | ¥ 50,698 | \$ 563 |
| Long distance and international communications business | 55,430 | 51,236 | 569 |
| Mobile communications business | 574,208 | 482,325 | 5,359 |
| Data communications business | 44,851 | 36,873 | 410 |
| Other | 23,407 | 6,861 | 76 |
| Total | 738,596 | 627,993 | 6,977 |
| Elimination | 6,486 | 18,777 | 209 |
| Consolidated operating income | ¥745,082 | ¥646,770 | \$ 7,186 |

Transfers between reportable businesses are made at arms-length prices. Operating income is sales and operating revenues less costs and operating expenses.

Geographic information is not presented due to immateriality of revenue attributable to international operations.

There have been no sales and operating revenue from transactions with a single external customer amounting to 10% or more of NTT's revenues for the six months ended September 30, 2008 and 2009.

7. Research and development expenses:

Research and development expenses are charged to income as incurred and such amounts charged to income for the six months ended September 30, 2008 and 2009 were ¥114,440 million and ¥122,283 million (\$1,359 million), respectively. Such amounts charged to income for the three months ended September 30, 2008 and 2009 were ¥61,177 million and ¥63,905 million (\$710 million), respectively.

8. Contingent liabilities:

Contingent liabilities at September 30, 2009 for loans guaranteed amounted to ¥9,814 million (\$109 million).

At September 30, 2009, NTT Group had no material litigation or claims outstanding, pending or threatened against it, which would be expected to have a material adverse effect on NTT's consolidated financial position or results of operations.

9. Subsequent events:

There were no significant subsequent events for the period after September 30, 2009, through November 10, 2009, the issue date of the financial statements.