

[Translation]

Quarterly Securities Report

(The Third Quarter of the 34th Business Term)
From October 1, 2018 to December 31, 2018

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

Table of Contents

Item 1. Overview of the Company	4
1. Selected Financial Data	4
2. Description of Business	5
Item 2. Business Overview	6
1. Risk Factors	6
2. Analysis of Consolidated Financial Condition, Results of Operations, and Cash Flows	6
3. Material Contracts	15
Item 3. Information on NTT	16
1. Information on NTT's Shares	16
(1) Total Number of Shares	16
(2) Information on Share Acquisition Rights	16
(3) Information on Moving Strike Convertible Bonds	16
(4) Changes in the Total Number of Issued Shares, the Amount of Common Stock, and Other	17
(5) Major Shareholders	17
(6) Information on Voting Rights	17
2. Changes in Directors and Senior Management	18
Item 4. Financial Information	19
Condensed Consolidated Financial Statements	20
(1) Condensed Consolidated Balance Sheets	20
(2) Condensed Consolidated Statements of Profit or Loss and Consolidated Statements of Comprehensive Income ...	22
(3) Condensed Consolidated Statement of Changes in Equity.....	26
(4) Condensed Consolidated Statements of Cash Flows	28
Notes	
1. Reporting Entity	
2. Basis of Preparation	
3. Significant Accounting Policies	
4. Significant Accounting Estimates and Judgments Involving Estimates	
5. New Standards Not Yet Applied	
6. Segment Information	
7. Impact on the consolidated financial statements due to the non-business day for the fiscal year ended March 31, 2018 and third quarter ended December 31, 2018.	
8. Assets held for sale	
9. Property, Plant and Equipment	
10. Goodwill	
11. Investments accounted for using equity method	
12. Corporate Bonds	
13. Equity and Other Equity Items	
14. Operating Revenues	
15. Fair Value of Financial Instruments	
16. Subsequent Events	
17. First-time Adoption of International Financial Reporting Standards ("IFRS")	

[Note]

This document is an English translation of certain items that were disclosed in NTT's Quarterly Securities Report for the nine-month period ended December 31, 2018, which NTT filed on February 8, 2019 with the Financial Services Agency of Japan.

The forward-looking statements and projected figures concerning the future performance of NTT and its subsidiaries and affiliates contained or referred to herein are based on a series of assumptions, projections, estimates, judgments and beliefs of the management of NTT in light of information currently available to it regarding NTT and its subsidiaries and affiliates, the economy and telecommunications industry in Japan and overseas, and other factors. These projections and estimates may be affected by the future business operations of NTT and its subsidiaries and affiliates, the state of the economy in Japan and abroad, possible fluctuations in the securities markets, the pricing of services, the effects of competition, the performance of new products, services and new businesses, changes to laws and regulations affecting the telecommunications industry in Japan and elsewhere, other changes in circumstances that could cause actual results to differ materially from the forecasts contained or referred to herein, as well as other risks included in NTT's most recent Annual Securities Report and in any other materials publicly disclosed by NTT on its website.

[Cover]

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Item 1. Overview of the Company

1. Selected Financial Data

IFRS

		Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Fiscal year ended March 31, 2018
Operating revenues	Millions of yen	8,746,913	8,795,215	11,782,148
Profit before taxes	Millions of yen	1,528,771	1,530,421	1,740,479
Profit attributable to NTT	Millions of yen	781,350	792,127	897,887
Comprehensive income attributable to NTT	Millions of yen	866,802	787,248	950,302
NTT shareholders' equity	Millions of yen	9,010,153	9,243,504	9,062,752
Total assets	Millions of yen	21,443,595	21,899,828	21,541,444
Basic earnings per share attributable to NTT	Yen	390.34	406.50	449.86
Diluted earnings per share attributable to NTT	Yen	-	-	-
Equity ratio (Ratio of NTT Shareholders' Equity to Total Assets)	%	42.0	42.2	42.1
Net cash provided by operating activities	Millions of yen	1,693,406	1,607,638	2,541,270
Net cash used in investing activities	Millions of yen	(1,335,674)	(1,295,018)	(1,746,185)
Net cash used in financing activities	Millions of yen	(546,102)	(298,874)	(968,279)
Cash and cash equivalents at end of period	Millions of yen	892,230	908,380	895,003

Notes: (1) NTT's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

(2) As NTT prepares condensed consolidated financial statements, changes in the non-consolidated financial data, are not provided.

(3) Operating revenues do not include consumption taxes.

(4) Diluted earnings per share attributable to NTT is not stated because NTT did not have potentially dilutive common shares that were outstanding during the period.

2. Description of Business

The principal business segments of NTT Group (NTT and its affiliated companies) are its regional communications business, long distance and international communications business, mobile communications business, and data communications business.

There were no material changes in NTT Group's business during the nine months ended December 31, 2018, nor were there any material changes in its subsidiaries and affiliated companies.

Item 2. Business Overview

1. Risk Factors

There were no risks newly identified during the nine months ended December 31, 2018. There was no material change in risk factors which were described in NTT's Annual Securities Report for the fiscal year ended March 31, 2018.

2. Analysis of Consolidated Financial Condition, Results of Operations, and Cash Flows

(1) Consolidated Results

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

	(Billions of yen)			
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	8,746.9	8,795.2	48.3	0.6%
Operating expenses	7,337.3	7,268.1	(69.2)	(0.9)%
Operating profit	1,409.6	1,527.1	117.5	8.3%
Profit before taxes	1,528.8	1,530.4	1.7	0.1%
Profit attributable to NTT	781.4	792.1	10.8	1.4%

During the nine months ended December 31, 2018, pursuant to the outline of NTT Group's Medium-Term Management Strategy "Your Value Partner 2025," which was announced in November 2018, NTT Group, in its role as "Your Value Partner," promoted initiatives through its business operation and worked with its partners to resolve social issues.

<Support Our Customer's Digital Transformation>

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

- NTT DOCOMO launched "Welcome Sumaho Wari," a usage fee discount service, for customers who switch from feature phones to smartphones for the first time. In addition, in line with the launch of the discount service, NTT DOCOMO worked to increase the number of smartphone and tablet users through a variety of measures, including providing "special benefits for smartphone users over 60 years old," that make everyday life more enjoyable and fulfilling.
- The number of companies that have adopted the RPA (Robotic Process Automation) tool "WinActor" offered by NTT Advanced Technology exceeded 2,000. As of April 2018, the number of companies that had adopted this system was 1,000. However, in response to the recent trend toward reform of working styles, more than 1,000 additional companies have introduced this system in about six months, and it is widely used by customers of various industries and scales, mainly in the IT, manufacturing,

distribution and retail industries. WinActor improves productivity and streamlines operations by automatically processing routine tasks in various Windows software based on pre-created scenarios.

- NTT East started offering IoT packages for factories that enable the “visualization” of production sites in November 2018. The IoT package for factories combines devices and clouds which utilize IoT and operational support, which will allow factory customers to install them comfortably and easily. With this package, it is possible to store operation data of manufacturing machines, to detect an abnormal stop at an early stage by alert notification, and to record images by a network camera at an abnormal stop. Through these features, customers will achieve “improvement of productivity”, “labor-reduced work” and “human resource development” in the field, such as through revised work processes and employee skill acquisition.

<Accelerate Our Own Digital Transformation>

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

- NTT Communications established the NTT Global Data Centers Preparatory Corporation as the first step in creating a wholly owned subsidiary to comprehensively handle data center construction, asset management and wholesale services for NTT Group companies on a global basis. The company will respond to rapidly growing demands for data centers across countries worldwide and further strengthen data center-related business within the group. The envisioned data center “investment company” is expected to begin constructing data centers from April 2019.
- NTT Communications has started developing a new data center, the “California Silicon Valley 1 (SV1) Data Center,” through RagingWire Data Center, Inc., which is a subsidiary of NTT Communications in the United States. Although Silicon Valley is the No. 2 data center market in the United States, there is a continuing shortage of supply. NTT Communications will expand our presence in the United States’ data center market by responding to strong customer demand through the construction of this data center.
- NTT East and NTT West announced that they will stop accepting new applications for services such as “Private Switchboard Service,” “Lines for Incoming Calls Only,” and “Shortened Dials” on October 31, 2019, as part of the services that will be discontinued when the fixed-line telephone network (Telephone Subscriber Lines and INS-NET Subscriber Lines) is switched over to the IP network.

<Leverage Talent, Technologies, and Assets>

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

- NTT announced that it will launch a new research center, NTT Research, Inc., in July 2019 in Silicon Valley, North America, in order to globally expand and strengthen fundamental and innovative research for next-generation technologies. NTT Research, Inc. will launch three laboratories (Quantum Science & Computing, Cryptography & Information Security, and Medical & Health Informatics) and invite distinguished researchers to be the directors of the laboratories. In addition, NTT Research, Inc. will invite accomplished researchers from around the world and will strengthen the fundamental and innovative research collaborating with NTT R&D in Japan.

- NTT will aim to achieve profit growth for the entire NTT Group through maximizing its utilization of NTT Group's real estate, ICT/energy/environmental technologies and other assets and promoting new style of urban development (urban solutions business) beyond conventional real estate development. In order to centralize and accelerate decision making in the urban solutions business, NTT completed a tender offer to make NTT Urban Development, which plays a central role in the real estate business in the NTT Group, a wholly owned subsidiary.
- NTT DOCOMO and AGC Inc. have jointly developed the world's first glass antenna capable of transmitting and receiving radio waves, which can be attached from the internal side of existing glass windows without disrupting the view. NTT DOCOMO plans to start delivering this type of glass antenna in the first half of 2019, and is also planning the development of a 5G glass antenna.

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

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

- NTT became a member of the “EP100” (*1) and “EV100” (*2) initiatives of the NPO The Climate Group. NTT is the first telecommunications operator in the world to become a member. NTT Group will promote ESG management by promoting the introduction of high-efficiency DC power equipment, energy-saving in communications equipment, and EV conversion to reduce NTT's environment impact and its vehicle ownership costs.

Notes: (1) EP100 : A global initiative by The Climate Group in partnership with Alliance to Save Energy, which brings together companies that aim to double their energy productivity (raise their energy saving rate by 50%, etc.)

(2) EV100 : A global initiative by The Climate Group bringing together companies committed to accelerate the shift to electric transport.

- In order to improve its capital efficiency and enhance returns to shareholders, at a meeting of its Board of Directors held on November 6, 2018, NTT authorized matters relating to the repurchase of either up to 36 million shares of its common stock or shares of its common stock in an aggregate cost not exceeding ¥150 billion.

As a result of these efforts, NTT Group's consolidated operating revenues for the nine-month period ended December 31, 2018 were ¥8,795.2 billion (an increase of 0.6% from the same period of the previous fiscal year), consolidated operating expenses were ¥7,268.1 billion (a decrease of 0.9% from the same period of the previous fiscal year), consolidated operating profit was ¥1,527.1 billion (an increase of 8.3% from the same period of the previous fiscal year), profit before taxes was ¥1,530.4 billion (an increase of 0.1% from the same period of the previous fiscal year), and profit attributable to NTT was ¥792.1 billion (an increase of 1.4% from the same period of the previous fiscal year).

(2) Segment Results

NTT Group has five business segments: regional communications business, long distance and international communications business, mobile communications business, data communications business and other business. See Note 6 to the consolidated financial statements.

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

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

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

The data communications business segment comprises system integration services.

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

Results by business segment are as follows (intersegment revenues are included in the operating revenues, operating expenses and operating profit of operational results for each business segment):

Regional Communications Business Segment

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Billions of yen)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	2,377.5	2,325.5	(52.1)	(2.2)%
Fixed voice related services	855.6	813.6	(42.1)	(4.9)%
IP/packet communications services	1,141.0	1,125.8	(15.2)	(1.3)%
System integration services	103.5	106.4	2.9	2.8%
Other services	277.4	279.8	2.3	0.8%
Operating expenses	2,069.9	1,974.1	(95.7)	(4.6)%
Operating profit	307.7	351.4	43.7	14.2%

Operating revenues in the regional communications business segment for the nine-month period ended December 31, 2018 decreased 2.2% from the same period of the previous fiscal year to ¥2,325.5 billion due to, among other things, a decrease in fixed voice related services revenues. On the other hand, operating expenses for the nine-month period ended December 31, 2018 decreased 4.6% from the same period of the previous fiscal year to ¥1,974.1 billion due to a decrease in personnel expenses and less impairment losses for metal cables, among other factors. As a result, segment operating profit for the nine-month period ended December 31, 2018 increased 14.2% from the same period of the previous fiscal year to ¥351.4 billion.

Number of Subscriptions

(Thousands of subscriber lines/subscriptions, unless otherwise indicated)

Service	As of March 31, 2018	As of December 31, 2018	Change	Percent Change
(NTT East)				
Telephone Subscriber Lines	8,707	8,260	(447)	(5.1)%
INS-Net	1,188	1,111	(77)	(6.5)%
FLET'S Hikari (including Hikari Collaboration Model)	11,491	11,809	318	2.8%
FLET'S ADSL	342	276	(66)	(19.2)%
Hikari Denwa (thousands of channels)	9,558	9,720	161	1.7%
FLET'S TV Transmission Services	992	1,022	30	3.0%
(NTT West)				
Telephone Subscriber Lines	8,832	8,382	(450)	(5.1)%
INS-Net	1,143	1,074	(69)	(6.0)%
FLET'S Hikari (including Hikari Collaboration Model)	9,041	9,186	145	1.6%
FLET'S ADSL	438	364	(73)	(16.7)%
Hikari Denwa (thousands of channels)	8,474	8,494	21	0.2%
FLET'S TV Transmission Services	624	668	45	7.2%

Notes: (1) Number of Telephone Subscriber Lines is the total of individual lines and central station lines (Subscriber Telephone Light Plan is included).

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

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

(4) Numbers of subscribers for "Hikari Denwa" and "FLET'S TV Transmission Services" include wholesale services provided to service providers by NTT East and NTT West.

Long Distance and International Communications Business Segment

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Billions of yen)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	1,666.1	1,684.4	18.3	1.1%
Fixed voice related services	180.3	168.5	(11.8)	(6.6)%
IP/packet communications services	305.0	319.7	14.7	4.8%
System integration services	1,045.5	1,059.4	13.9	1.3%
Other services	135.3	136.8	1.5	1.1%
Operating expenses	1,585.7	1,579.3	(6.4)	(0.4)%
Operating profit	80.4	105.1	24.7	30.7%

Operating revenues in the long distance and international communications business segment for the nine-month period ended December 31, 2018 increased 1.1% from the same period of the previous fiscal year to ¥1,684.4 billion. This increase was due to, among other things, an increase in system integration services revenues due to an expansion in overseas business and an increase in IP/packet communications services revenues due to the expansion of “Arcstar Universal One” and other services, partially offset by a decrease in fixed voice related revenues. On the other hand, operating expenses for the nine-month period ended December 31, 2018 decreased 0.4% from the same period of the previous fiscal year to ¥1,579.3 billion due to, among other things, certain impairment losses that had been recorded in the nine-month period ended December 31, 2017 no longer being recorded for the nine-month period ended December 31, 2018. As a result, segment operating profit for the nine-month period ended December 31, 2018 increased 30.7% from the same period of the previous fiscal year to ¥105.1 billion.

Number of Subscriptions

(Thousands of subscriptions)

Service	As of March 31, 2018	As of December 31, 2018	Change	Percent Change
OCN (ISP)	7,521	7,375	(146)	(1.9)%
Plala (ISP)	3,145	3,194	49	1.6%
Hikari TV	3,016	2,998	(18)	(0.6)%

Mobile Communications Business Segment

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Billions of yen)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	3,589.4	3,654.1	64.7	1.8%
Mobile voice related services	707.3	717.5	10.2	1.4%
IP/packet communications services	1,613.3	1,628.9	15.6	1.0%
Other services	1,268.8	1,307.7	38.9	3.1%
Operating expenses	2,733.6	2,752.1	18.5	0.7%
Operating profit	855.9	902.0	46.2	5.4%

Operating revenues for the mobile communications business segment for the nine-month period ended December 31, 2018 increased 1.8% from the same period of the previous fiscal year to ¥3,654.1 billion due to an increase in equipment sales revenues as a result of higher smartphone prices, among other factors. On the other hand, operating expenses for the nine-month period ended December 31, 2018 increased 0.7% from the same period of the previous fiscal year to ¥2,752.1 billion due to an increase in equipment sales revenue-linked equipment costs, among other factors. As a result, segment operating profit for the nine-month period ended December 31, 2018 increased 5.4% from the same period of the previous fiscal year to ¥902.0 billion.

Number of Subscriptions

(Thousands of subscriptions)

Service	As of March 31, 2018	As of December 31, 2018	Change	Percent Change
Mobile Telecommunications Services	76,370	77,517	1,147	1.5%
(incl.) "Kake-hodai & Pake-aeru" billing plan	41,964	44,637	2,672	6.4%
Telecommunications Services (LTE (Xi))	50,097	53,834	3,737	7.5%
Telecommunications Services (FOMA (3G))	26,273	23,684	(2,590)	(9.9)%
sp-mode	38,998	40,809	1,811	4.6%
i-mode	12,111	9,963	(2,149)	(17.7)%

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

Data Communications Business Segment

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Billions of yen)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	1,485.4	1,550.7	65.3	4.4%
Operating expenses	1,398.0	1,455.9	57.9	4.1%
Operating profit	87.4	94.8	7.4	8.5%

Operating revenues in the data communications business segment for the nine-month period ended December 31, 2018 increased 4.4% from the same period of the previous fiscal year to ¥1,550.7 billion due to, among other things, the expansion of business in the public/social infrastructure and enterprise and solutions fields domestically, and the expansion of overseas business, especially in EMEA and Latin America.

On the other hand, operating expenses for the nine-month period ended December 31, 2018 increased 4.1% from the same period of the previous fiscal year to ¥1,455.9 billion due to, among other things, the impact of an increase in revenue-linked expenses. As a result, segment operating profit for the nine-month period ended December 31, 2018 increased 8.5% from the same period of the previous fiscal year to ¥94.8 billion.

Other Business Segment

Nine-Month Period Ended December 31, 2018 (April 1, 2018 – December 31, 2018)

(Billions of yen)

	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Operating revenues	849.0	855.3	6.3	0.7%
Operating expenses	763.1	772.1	9.1	1.2%
Operating profit	85.9	83.2	(2.7)	(3.2)%

Operating revenues in the other business segment for the nine-month period ended December 31, 2018 increased 0.7% from the same period of the previous fiscal year to ¥855.3 billion due to, among other factors, an increase in revenues of finance businesses. On the other hand, operating expenses for the nine-month period ended December 31, 2018 increased 1.2% from the same period of the previous fiscal year to ¥772.1 billion due to, among other things, an increase in revenue-linked expenses in finance businesses. As a result, segment operating profit for the nine-month period ended December 31, 2018 decreased 3.2% from the same period of the previous fiscal year to ¥83.2 billion.

(3) Cash Flows

Cash flows provided by operating activities, excluding the impact of non-business days, for the nine months ended December 31, 2018 decreased by ¥316.2 billion (16.4%) from the same period of the previous fiscal year to ¥1,613.9 billion. This decrease was due to, among other factors, income from an arbitration award for the nine months ended December 31, 2017 and a decrease in collections of trade receivables for the nine months ended December 31, 2018. Cash flows provided by operating activities for the nine months ended December 31, 2018 was ¥1,607.6 billion.

Cash flows used in investing activities decreased by ¥40.7 billion (3.0%) from the same period of the previous fiscal year to ¥1,295.0 billion. This decrease was due to, among other factors, a decrease in capital investments.

Cash flows used in financing activities decreased by ¥247.2 billion (45.3%) from the same period of the previous fiscal year to ¥298.9 billion. This decrease was due to, among other factors, an increase in debt.

As a result of the above, NTT Group's consolidated cash and cash equivalents, excluding the impact of non-business days, as of December 31, 2018 was ¥1,146.5 billion, an increase of ¥19.6 billion (1.7%) from the end of the previous fiscal year. Cash and cash equivalents as of December 31, 2018 was ¥908.4 billion.

	(Billions of yen)			
	Nine Months Ended December 31, 2017	Nine Months Ended December 31, 2018	Change	Percent Change
Cash flows provided by operating activities	1,693.4	1,607.6	(85.8)	(5.1)%
Cash flows provided by operating activities (excluding the impact of non-business days ⁽¹⁾⁽²⁾)	1,930.1	1,613.9	(316.2)	(16.4)%
Cash flows used in investing activities	(1,335.7)	(1,295.0)	40.7	3.0%
Cash flows used in financing activities	(546.1)	(298.9)	247.2	45.3%
Cash and cash equivalents	892.2	908.4	16.2	1.8%
Cash and cash equivalents (excluding the impact of non-business days ⁽¹⁾⁽³⁾)	1,128.9	1,146.5	17.6	1.6%

Note: (1) Effect in the amount of ¥236.7 billion, caused by the last day of the nine months ended December 31, 2017 falling on a non-business day, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.

(2) Effect in the amount of ¥6.2 billion, caused by each of the last day of the year ended March 31, 2018 and the nine months ended December 31, 2018 falling on non-business days, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.

(3) Effect in the amount of ¥238.2 billion, caused by the last day of the nine months ended December 31, 2018 falling on a non-business day, resulting in the due date for certain bills, including telecommunication services bills, being set to the first business day of the following month.

(4) Operational and Finance Issues Facing the Corporate Group

There were no material changes in the operational and finance issues facing the corporate group for the nine months ended December 31, 2018, and no new additional issues arose during the period.

(5) Research and Development

NTT's research and development expenses for the nine months ended December 31, 2018 were ¥147.4 billion. There were no material changes in NTT's research and development activities during the nine months ended December 31, 2018.

3. Material Contracts

There were no material contracts relating to NTT's operations that were agreed upon or entered into during the nine months ended December 31, 2018.

Item 3. Information on NTT

1. Information on NTT's Shares

(1) Total Number of Shares

Total Number of Shares

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

Issued Shares

Class	Number of Shares Issued as of December 31, 2018 (shares)	Number of Shares Issued as of the Filing Date (shares) (February 8, 2019)	Stock Exchange on which the Company is Listed	Description
Common Stock	1,950,394,470	1,950,394,470	Tokyo Stock Exchange (First Section)	Number of shares per one unit of shares is 100 shares
Total	1,950,394,470	1,950,394,470	—	—

Notes: (1) Pursuant to the Board of Directors' resolution on February 21, 2018, NTT acquired 29,178,000 shares of its outstanding common stock between March 5, 2018 and May 23, 2018.

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

(3) Pursuant to the Board of Directors' resolution on November 6, 2018, NTT acquired 29,473,000 shares of its outstanding common stock between November 12, 2018 and December 31, 2018.

(2) Information on Share Acquisition Rights

(i) Description of Stock Option System

Not applicable.

(ii) Information on Shareholder Rights Plans

Not applicable.

(3) Information on Moving Strike Convertible Bonds

Not applicable.

(4) Changes in the Total Number of Issued Shares, the Amount of Common Stock, and Other

Date	Changes in the total number of issued shares (shares)	Balance of the total number of issued shares (shares)	Changes in Common Stock (millions of yen)	Balance of Common Stock (millions of yen)	Change in Capital Reserve (millions of yen)	Balance of Capital Reserve (millions of yen)
October 1, 2018 - December 31, 2018	—	1,950,394,470	—	937,950	—	2,672,826

(5) Major Shareholders

Not applicable for the nine months ended December 31, 2018.

(6) Information on Voting Rights

Issued Shares

As of December 31, 2018

Classification	Number of Shares (shares)	Number of Voting Rights	Description
Shares without Voting Rights	—	—	—
Shares with Restricted Voting Rights (Treasury Stock, etc.)	—	—	—
Shares with Restricted Voting Rights (Others)	—	—	—
Shares with Full Voting Rights (Treasury Stock, etc.)	(Treasury Stock) 29,593,700 shares of common stock (Others) 36,800 shares of common stock	—	—
Shares with Full Voting Rights (Others)	1,918,237,400 shares of common stock	19,182,368	—
Shares Representing Less than One Unit	2,526,570 shares of common stock	—	—
Number of Issued Shares	1,950,394,470 shares of common stock	—	—
Total Number of Voting Rights	—	19,182,368	—

Note: The total number of shares in “Shares with Full Voting Rights (others)” includes 28,900 shares held in the name of the Japan Securities Depository Center, and the number of shares in “Shares Representing Less Than One Unit” includes 44 shares held in the name of the Japan Securities Depository Center. “Number of Voting Rights” includes 289 voting rights associated with “Shares with Full Voting Rights” held in the name of the Japan Securities Depository Center, and does not include 6 voting rights associated with “Shares with Full Voting Rights” recorded on the shareholder register under NTT, but not actually owned by NTT.

Treasury Stock

As of December 31, 2018

Name of Shareholder	Address	Number of Shares Held Under Own Name (shares)	Number of Shares Held Under the Names of Others (shares)	Total Shares Held (shares)	Ownership Percentage to the Total Number of Issued Shares
(Treasury Stock) Nippon Telegraph and Telephone Corporation	5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo	29,593,700	—	29,593,700	1.5%
(Others) Nihon Meccs Corporation	6-3, Irifune 3-chome, Chuo-ku, Tokyo	36,800	—	36,800	0.0%
Total	—	29,630,500	—	29,630,500	1.5%

Notes: (1) In addition to the above, there are 600 shares that are recorded on the shareholder register under NTT, but not actually owned by NTT. Such shares are included in “Shares with Full Voting Rights (others)” under “Issued Shares”.

- (2) Pursuant to the Board of Directors’ resolution on February 21, 2018, NTT acquired 29,178,000 shares of its outstanding common stock between March 5, 2018 and May 23, 2018. For details, please see “Note 13. Equity and Other Equity Items” under “Condensed Quarterly Consolidated Financial Statement” of “4. Financial Information”.
- (3) Pursuant to the Board of Directors’ resolution on September 18, 2018, NTT canceled 146,000,000 shares of its treasury stock on September 26, 2018. For details, please see “Note 13. Equity and Other Equity Items” under “Condensed Quarterly Consolidated Financial Statement” of “4. Financial Information”.
- (4) Pursuant to the Board of Directors’ resolution on November 6, 2018, NTT acquired 29,473,000 shares of its outstanding common stock between November 12, 2018 and December 31, 2018. For details, please see “Note 13. Equity and Other Equity Items” under “Condensed Quarterly Consolidated Financial Statement” of “4. Financial Information”.

2. Changes in Directors and Senior Management

Not applicable.

Item 4. Financial Information

1. Basis of Preparation of Condensed Quarterly Consolidated Financial Statements

In accordance with Article 93 of the “Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007) (the “Ordinance on Consolidated Financial Statements”), NTT Group prepares condensed quarterly consolidated financial statements pursuant to International Accounting Standard (“IAS”) No. 34, “Interim Financial Reporting.”

2. Auditor’s Report

In accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, NTT Group’s condensed quarterly consolidated financial statements for the second quarter of the consolidated accounting period (from July 1, 2018 to December 31, 2018 and from April 1, 2018 to December 31, 2018) have been audited by KPMG AZSA LLC.

3. Special Measures to Ensure the Appropriateness of the Consolidated Financial Statements

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

(1) NTT Group participates in organizations such as the Financial Accounting Standards Foundation in order to put in place a system in which NTT Group can ensure it has an appropriate grasp on the contents of accounting standards and can accurately respond to changes in accounting standards. In addition, NTT Group periodically undertakes reviews of accounting standards, and maintains internal regulations.

(2) With respect to the application of IFRS, NTT Group obtains press releases and statements of accounting principles published by the International Accounting Standards Board from time to time in order to gain an understanding of most recent standards. Furthermore, in order to prepare appropriate consolidated financial statements in accordance with IFRS, NTT Group has developed group accounting policies and accounting guidelines in compliance with IFRS, and conducts its accounting in accordance with those policies and guidelines.

【Condensed Consolidated Financial Statements】
(1) 【Condensed Consolidated Statement of Financial Position】

Millions of yen				
	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	7	¥1,075,773	¥895,003	¥908,380
Trade and other receivables	7	3,623,577	4,022,227	4,149,021
Other financial assets	15	167,410	123,344	122,697
Inventories		326,718	354,181	428,512
Other current assets		383,506	474,405	542,380
Sub Total		5,576,984	5,869,160	6,150,990
Assets held for sale	8	-	-	234,160
Total current assets		5,576,984	5,869,160	6,385,150
Non-current assets				
Property, plant and equipment	9	8,719,755	8,812,174	8,858,633
Goodwill	10	881,292	841,283	922,265
Intangible assets		1,609,598	1,589,448	1,610,208
Investment property		992,317	1,002,301	953,427
Investments accounted for using equity method	8,11	528,981	539,342	322,756
Other financial assets	15	1,010,546	1,068,799	1,111,406
Deferred tax assets	8	1,243,283	1,173,946	1,082,321
Other non-current assets		660,971	644,991	653,662
Total non-current assets		15,646,743	15,672,284	15,514,678
Total assets		¥21,223,727	¥21,541,444	¥21,899,828

Millions of yen				
	Notes	Date of Transition to IFRS (April 1, 2017)	March 31, 2018	December 31, 2018
LIABILITIES AND EQUITY				
Current liabilities				
Short-term debt	12,15	¥1,079,243	¥1,017,744	¥1,652,360
Trade and other payables		1,797,544	1,811,723	1,615,516
Other financial liabilities	15	45,727	50,711	89,132
Accrued payroll		450,360	455,007	382,755
Accrued taxes on income		233,817	240,670	156,708
Other current liabilities		958,862	1,046,582	947,313
Total current liabilities		4,565,553	4,622,437	4,843,784
Non-current liabilities				
Long-term debt	12,15	3,179,645	2,953,855	2,907,696
Other financial liabilities	15	201,789	190,356	170,356
Defined benefit liabilities		1,876,845	1,860,524	1,891,949
Deferred tax liabilities		99,038	74,095	71,177
Other non-current liabilities		258,428	274,523	284,463
Total non-current liabilities		5,615,745	5,353,353	5,325,641
Total liabilities		10,181,298	9,975,790	10,169,425
Equity				
Nippon Telegraph and Telephone Corporation (“NTT”) shareholders’ equity	13			
Common stock	13	937,950	937,950	937,950
Additional paid-in capital	13	2,410,572	2,396,555	2,330,918
Retained earnings	13	5,480,639	6,138,351	5,919,290
Treasury stock	13	(375,223)	(610,742)	(135,244)
Other components of equity	8,13	179,453	200,638	190,590
Total NTT shareholders’ equity		8,633,391	9,062,752	9,243,504
Non-controlling interests		2,409,038	2,502,902	2,486,899
Total equity		11,042,429	11,565,654	11,730,403
Total liabilities and equity		¥21,223,727	¥21,541,444	¥21,899,828

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

【Condensed Consolidated Statement of Profit or Loss】

【Nine Months Ended December 31】

Millions of yen except per share data			
	Notes	2017	2018
Operating revenues	6,14	¥8,746,913	¥8,795,215
Operating expenses			
Personnel expenses		1,800,713	1,785,820
Expenses for purchase of goods and services and other expenses		4,204,271	4,243,637
Depreciation and amortization		1,003,668	990,649
Expenses on disposal of fixed assets		97,444	93,227
Impairment losses			
Goodwill	10	25,308	-
Metal cables	9	124,800	66,003
Other		743	1,357
Taxes and dues		80,355	87,396
Total operating expenses		7,337,302	7,268,089
Operating profit	6	1,409,611	1,527,126
Finance income		43,153	17,827
Finance costs	11	83,347	25,451
Income from arbitration award	11	147,646	-
Share of profit (loss) of entities accounted for using equity method		11,708	10,919
Profit before taxes		1,528,771	1,530,421
Income taxes	8	484,002	495,114
Profit		1,044,769	1,035,307
Profit attributable to			
NTT		781,350	792,127
Non-controlling interests		263,419	243,180
Profit		1,044,769	1,035,307
Earnings per share attributable to NTT			
Basic earnings per share (yen)		¥390.34	¥406.50

【Condensed Consolidated Statement of Comprehensive Income】

【Nine Months Ended December 31】

		Millions of yen	
	Notes	2017	2018
Profit		¥1,044,769	¥1,035,307
Other comprehensive income (net of taxes)	13		
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		—	1,595
Share of other comprehensive income of entities accounted for using equity method	8	(832)	(2,392)
Remeasurements of defined benefit plans		(353)	451
Total of items that will not be reclassified to profit or loss		(1,185)	(346)
Items that may be reclassified to profit or loss			
Unrealized gains (loss) on securities		32,714	—
Cash flow hedges		1,541	(2,652)
Foreign currency translation adjustments		51,726	10,318
Share of other comprehensive income of entities accounted for using equity method	11	37,477	(7,248)
Total of items that may be reclassified to profit or loss		123,458	418
Total other comprehensive income (net of taxes)		122,273	72
Total comprehensive income		1,167,042	1,035,379
Comprehensive income attributable to			
NTT	13	866,802	787,248
Non-controlling interests	13	300,240	248,131
Total comprehensive income		¥1,167,042	¥1,035,379

【Condensed Consolidated Statement of Profit or Loss】

【Three Months Ended December 31】

Millions of yen except per share data			
	Notes	2017	2018
Operating revenues	6,14	¥3,055,751	¥3,002,016
Operating expenses			
Personnel expenses		614,177	602,998
Expenses for purchase of goods and services and other expenses		1,519,746	1,475,547
Depreciation and amortization		339,450	334,170
Expenses on disposal of fixed assets		34,674	34,091
Impairment losses			
Goodwill	10	25,308	-
Metal cables	9	124,800	66,003
Other		1	1,329
Taxes and dues		26,334	31,504
Total operating expenses		2,684,490	2,545,642
Operating profit	6	371,261	456,374
Finance income		5,270	4,839
Finance costs	11	43,073	9,975
Income from arbitration award	11	147,646	-
Share of profit (loss) of entities accounted for using equity method		5,738	865
Profit before taxes		486,842	452,103
Income taxes		159,831	137,990
Profit		327,011	314,113
Profit attributable to			
NTT		217,271	232,401
Non-controlling interests		109,740	81,712
Profit		327,011	314,113
Earnings per share attributable to NTT			
Basic earnings per share (yen)		¥109.10	¥119.88

【Condensed Consolidated Statement of Comprehensive Income】

【Three Months Ended December 31】

		Millions of yen	
	Notes	2017	2018
Profit		¥327,011	¥314,113
Other comprehensive income (net of taxes)	13		
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		—	(37,303)
Share of other comprehensive income of entities accounted for using equity method		(353)	254
Remeasurements of defined benefit plans		(71)	404
Total of items that will not be reclassified to profit or loss		(424)	(36,645)
Items that may be reclassified to profit or loss			
Unrealized gains (loss) on securities		25,911	—
Cash flow hedges		63	(1,759)
Foreign currency translation adjustments		4,810	(44,717)
Share of other comprehensive income of entities accounted for using equity method	11	35,650	3,936
Total of items that may be reclassified to profit or loss		66,434	(42,540)
Total other comprehensive income (net of taxes)		66,010	(79,185)
Total comprehensive income		393,021	234,928
Comprehensive income attributable to			
NTT	13	263,987	176,000
Non-controlling interests	13	129,034	58,928
Total comprehensive income		¥393,021	¥234,928

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

【Nine Months Ended December 31, 2017】

Millions of yen									
		NTT Shareholders' Equity						Non-controlling interests	Total equity
Notes	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Other components of equity	Total			
April 1, 2017		¥937,950	¥2,410,572	¥5,480,639	¥(375,223)	¥179,453	¥8,633,391	¥2,409,038	¥11,042,429
Comprehensive income									
Profit		—	—	781,350	—	—	781,350	263,419	1,044,769
Other comprehensive income	13	—	—	—	—	85,452	85,452	36,821	122,273
Total comprehensive income		—	—	781,350	—	85,452	866,802	300,240	1,167,042
Value of transactions with shareholders etc.									
Dividends of surplus	13	—	—	(271,405)	—	—	(271,405)	(125,809)	(397,214)
Transfer to retained earnings	13	—	—	(803)	—	803	—	—	—
Purchase and disposal of treasury stock	13	—	1	—	(193,455)	—	(193,454)	—	(193,454)
Changes in ownership interest in subsidiaries	13	—	(13,963)	—	—	—	(13,963)	(2,613)	(16,576)
Share-based compensation transactions		—	(8,352)	—	—	—	(8,352)	—	(8,352)
Put options granted to non-controlling interests	13	—	(2,866)	—	—	—	(2,866)	—	(2,866)
Total value of transactions with shareholders etc.		—	(25,180)	(272,208)	(193,455)	803	(490,040)	(128,422)	(618,462)
December 31, 2017		¥937,950	¥2,385,392	¥5,989,781	¥(568,678)	¥265,708	¥9,010,153	¥2,580,856	¥11,591,009

【Nine Months Ended December 31, 2018】

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			
March 31, 2018		¥937,950	¥2,396,555	¥6,138,351	¥(610,742)	¥200,638	¥9,062,752	¥2,502,902	¥11,565,654
Cumulative effect of adoption of IFRS 9 “Financial Instruments”		—	—	14,033	—	(2,432)	11,601	7,565	19,166
April 1, 2018		937,950	2,396,555	6,152,384	(610,742)	198,206	9,074,353	2,510,467	11,584,820
Comprehensive income									
Profit		—	—	792,127	—	—	792,127	243,180	1,035,307
Other comprehensive income	13	—	—	—	—	(4,879)	(4,879)	4,951	72
Total comprehensive income		—	—	792,127	—	(4,879)	787,248	248,131	1,035,379
Value of transactions with shareholders etc.									
Dividends of surplus	13	—	—	(313,605)	—	—	(313,605)	(141,502)	(455,107)
Transfer to retained earnings	13	—	—	6,642	—	(6,642)	—	—	—
Transfer to non-financial assets	13	—	—	—	—	3,905	3,905	—	3,905
Purchase and disposal of treasury stock	13	—	0	—	(242,762)	—	(242,762)	—	(242,762)
Cancellation of treasury stock	13	—	(2)	(718,258)	718,260	—	—	—	—
Changes in ownership interest in subsidiaries	13	—	(62,756)	—	—	—	(62,756)	(130,197)	(192,953)
Share-based compensation transactions		—	(6,217)	—	—	—	(6,217)	—	(6,217)
Put options granted to non-controlling interests	13	—	3,338	—	—	—	3,338	—	3,338
Total value of transactions with shareholders etc.		—	(65,637)	(1,025,221)	475,498	(2,737)	(618,097)	(271,699)	(889,796)
December 31, 2018		¥937,950	¥2,330,918	¥5,919,290	¥(135,244)	¥190,590	¥9,243,504	¥2,486,899	¥11,730,403

(4) 【Condensed Consolidated Statement of Cash Flows】

【Nine Months Ended December 31】

		Millions of yen	
	Notes	2017	2018
Cash flows from operating activities			
Profit		¥1,044,769	¥1,035,307
Depreciation and amortization		1,003,668	990,649
Impairment losses		150,851	67,360
Share of loss (profit) of entities accounted for using equity method		(11,708)	(10,919)
Losses on retirement of fixed assets		44,188	40,425
Gain on sales of fixed assets		(3,969)	(9,968)
Income taxes		484,002	495,114
Decrease (increase) in trade and other receivables	7	(251,301)	(111,187)
Decrease (increase) in inventories		(81,932)	(85,710)
Decrease (increase) in other current assets		(97,909)	(87,047)
Increase (decrease) in trade and other payables / accrued payroll		(136,599)	(194,976)
Increase (decrease) in other current liabilities		(8,013)	(72,714)
Increase (decrease) in defined benefit liabilities		32,154	31,749
Increase (decrease) in other non-current liabilities		1,436	6,527
Other		42,916	15,440
Sub-total		2,212,553	2,110,050
Interest and dividends received		48,893	48,030
Interest paid		(35,062)	(30,615)
Income taxes paid		(532,978)	(519,827)
Net cash provided by (used in) operating activities		1,693,406	1,607,638
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(1,325,998)	(1,219,241)
Purchase of investments		(242,958)	(46,147)
Proceeds from sale or redemption of investments		251,096	48,027
Expenses due to acquisition of control of subsidiaries		(9,039)	(93,868)
Other		(8,775)	16,211
Net cash provided by (used in) investing activities		(1,335,674)	(1,295,018)
Cash flows from financing activities			
Net increase (decrease) in short-term debt		123,170	689,552
Proceeds from increases in long-term debt	12	357,786	244,814
Repayment of long-term debt	12	(416,051)	(368,924)
Payments for acquisition of interests in subsidiaries from non-controlling interests		(15,028)	(161,350)
Dividends paid		(271,405)	(313,605)
Dividends paid to non-controlling interests		(125,471)	(141,050)
Payments for purchase of treasury stock		(193,497)	(242,809)
Other		(5,606)	(5,502)
Net cash provided by (used in) financing activities		(546,102)	(298,874)
Effect of exchange rate change on cash and cash equivalents		4,827	(369)
Net increase (decrease) in cash and cash equivalents		(183,543)	13,377
Cash and cash equivalents as of April 1	7	1,075,773	895,003
Cash and cash equivalents as of December 31	7	¥892,230	¥908,380

【Notes to Condensed Consolidated Financial Statement】

1. Reporting Entity

NIPPON TELEGRAPH AND TELEPHONE CORPORATION (hereinafter “NTT”) is a company domiciled in Japan. The address of NTT’s registered headquarters is displayed on the company’s website (http://www.ntt.co.jp/index_e.html). The condensed consolidated financial statements comprise NTT and its subsidiaries (“NTT Group”).

NTT Group’s principal businesses and activities and material subsidiaries are follows:

Regional Communications Business (the provision of communications services within local prefectures and other incidental business under the group’s domestic telecommunications business)

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

Long Distance and International Communications Business (the provision of communications services between prefectures under the group’s domestic telecommunications business, as well as the group’s international communications business, solutions business and other businesses incidental thereto)

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

Mobile Communications Business (mobile phone business and related services)

- NTT DOCOMO Corporation (“NTT DOCOMO”)

Data Communications Business (systems integration and network systems services etc.)

- NTT DATA Corporation (“NTT DATA.”)

2. Basis of Preparation

(1) Matters Regarding Compliance with and First-Time Adoption of IFRS

NTT Group meets the requirements of a “Specified Company complying with Designated International Accounting Standards” pursuant to Article 1-2 of the “Order on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Order No. 64 of 2007) (the “Order on Consolidated Financial Statements”). Consequently, in accordance with Article 93 of the Order on Consolidated Financial Statements, NTT Group prepares condensed quarterly consolidated financial statements pursuant to International Accounting Standard (“IAS”) No. 34, “Interim Financial Reporting.” The condensed quarterly consolidated financial statements were approved by the Board of Directors on February 7, 2019.

NTT Group has applied International Financial Reporting Standards (“IFRS”) beginning with the three months ended June 30, 2018 (April 1, 2018 to June 30, 2018), with the date of transition to IFRS being April 1, 2017. In connection with the transition to IFRS, NTT Group has applied IFRS 1, “First-time Adoption of International Financial Reporting Standards.” Please see “Note 17: First-Time Adoption of IFRS” for details regarding the impact of the transition to IFRS on NTT Group’s financial position, results of operation and cash flows.

NTT Group’s accounting policies conform to IFRS as in effect as of December 31, 2018, with the exception of IFRS provisions that have not been early adopted and exemptions allowed pursuant to IFRS 1.

(2) Basis for Measurement

As described in “Note 3: Significant Accounting Policies,” the condensed quarterly consolidated financial statements are prepared on the basis of acquisition cost, with the exception of financial instruments measured at fair value, and assets and liabilities recognized in relation to defined benefit plans.

(3) Functional Currency and Presentation Currency

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

(4) Changes in Accounting Policy

NTT Group has applied IFRS 9, “Financial Instruments” (as published in July 2014) from the beginning of the fiscal year ending March 31, 2019 (April 1, 2018).

Based on exemptions under IFRS 1, comparative figures have not been restated with IFRS 9. The accounting standards in use as of the date of transition to IFRS and in previous fiscal years were generally accepted accounting principles in the United States (“U.S. GAAP”); and the significant accounting policies under U.S. GAAP, as well as the significant accounting policies for the current fiscal year are described in “3. Significant Accounting Policies, (4) Financial Instruments.”

Due to the change in this accounting policy, equity instruments whose fair value was not easily determined under U.S. GAAP (under which they were measured using the cost method) will be measured at fair value at the beginning of the current fiscal year. At the time of application of IFRS 9 pursuant to IFRS 1, the irrevocable election was made that for all subsequent changes in fair value would be recorded as other comprehensive income. Any changes in fair value were recognized as “other comprehensive income” in the condensed consolidated statement of comprehensive income.

The impact of this change on the consolidated statement of financial position:

(Millions of yen)

Accounting Item (Classifications based on U.S. GAAP)	Balance as of end of previous fiscal year (March 31, 2018)	Balance at the beginning of current fiscal year based on IFRS 9 (April 1, 2018)	Correction Factor
Non-current assets Other financial assets (Investment using cost method)	54,364	67,258	Impact of using fair value measurements for unlisted stocks

Excluding the above-mentioned correction factor, the impact of this accounting policy change was not material.

The cumulative effects at the beginning of the current fiscal year as a result of the application of IFRS 9

(Millions of yen)

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

The impact on “profit” and “basic earnings per share” for the nine months ended December 31, 2018 were not material.

3. Significant Accounting Policies

The accounting policies adopted by NTT Group apply to all periods described in these condensed consolidated financial statements (including the consolidated statement of financial position as of the date of transition to IFRS).

(1) Basis for Consolidation

(i) Subsidiaries

“Subsidiaries” are companies over which NTT Group has control.

Control

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

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

Beginning and ending consolidation

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

Accounting policies adopted by a subsidiary

In the event that the accounting policies adopted by a subsidiary differ from those adopted by NTT Group, then the financial statements of the subsidiary are adjusted as required.

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

The consolidated financial statements include financial statements for subsidiaries of which fiscal year-end date is different from that of NTT Group due to the fact that the local legal systems of the jurisdictions in which such subsidiaries reside, or other similar circumstances make it practically unfeasible to align the dates with the fiscal year-end date of NTT Group. The fiscal year-end date for such subsidiaries is mainly December 31. For such subsidiaries, either supplemental financial information is prepared at the fiscal year-end of the parent company, or, alternatively, adjustments are made for any significant transactions or events that occur during the period between such subsidiaries’ fiscal year-ends and that of NTT Group.

Non-controlling interests

Non-controlling interests are composed of the amount of equity held as of the date control is initially gained and any fluctuations in those non-controlling interests from that date. In general, subsidiaries’ comprehensive income is allocated to shareholders’ equity and non-controlling interests, even in the event that the non-controlling interests are negative balances.

Transactions eliminated on consolidated financial statements

The balance of intra-group receivables and payments, transactions and unrealized gains and losses incurred from the intra-group transactions are eliminated when preparing consolidated financial statements.

Changes in a parent's ownership interest

Changes in equity interests are treated as capital transactions for accounting purposes in cases where additional equity in a subsidiary is gained or where part of the equity in a subsidiary is disposed, while control of the subsidiary is maintained. The carrying amounts of NTT Group's equity interests and non-controlling interests are adjusted to reflect any changes in NTT Group's equity interests in subsidiaries. Any difference between the adjusted value of non-controlling interests and the fair value of consideration paid or received is directly recognized in equity and is attributable to NTT.

When NTT Group loses control of a subsidiary, the related gains/losses are calculated as the differences between:

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

With respect to subsidiaries, anything that has previously been recognized as other components of equity is transferred to profit/loss.

(ii) Investments in associates and joint ventures

"Associates" are companies over which NTT Group exerts significant influence in terms of the company's finances and management policies, without exerting control or joint control. In general, other companies in which NTT Group holds 20% to 50% of the voting rights are included in associates. Cases where NTT Group holds less than 20% of the voting rights may be included in associates if the Group is considered to exert significant influence through the dispatch of officers or similar means.

"Joint ventures" are companies in which NTT Group invests and several parties (including NTT and/or its consolidated subsidiaries) have rights to net assets based on arrangements for joint control. "Joint control" is the sharing of control as contractually agreed, and exists only when all parties sharing control to net assets are required to be in consistent agreement when making decisions on relevant activities.

Investments in associates and joint ventures are accounted for using the equity method. The amounts invested in associates and joint ventures are initially recognized at the acquisition cost. Subsequently, with effect from the date NTT Group starts to exert significant influence to the date such influence ceases, any profit/loss and other comprehensive income are recognized as equity interests and investment amounts are adjusted.

If any losses on investment in associates or joint ventures exceed NTT Group's invested interests in that company, NTT Group shall only recognize losses up to NTT Group's invested interests to the extent of legal or other similar obligations, or payments to be made on such company's behalf.

Unrealized profit/loss generated by transactions between associates and joint ventures are added or deducted from the investment in the associates and joint ventures, up to a maximum of NTT Group's equity share.

The amount of the acquisition cost of investments in associates and joint ventures exceeding NTT Group's equity share of the net fair value of identifiable assets and liabilities as recognized on acquisition date are recognized as goodwill and included in the carrying amount of investments in associates and joint ventures.

As this goodwill is not recognized separately, no independent goodwill impairment test can be carried out. Instead, an impairment test is carried out on total investment in associates and joint ventures as a single asset if there is objective evidence to indicate that the investment may be impaired.

The consolidated financial statements include investments in associates and joint venture with different fiscal year-end dates from NTT Group due to the fact that, depending on the relationship with other shareholders and similar circumstances making it practically unfeasible to align the dates with the fiscal year-end date of NTT Group. The fiscal year-end date for such associates and joint venture are mainly December 31. Adjustments are made for any significant transactions or events that occur during the period between their fiscal year-ends and that of NTT Group.

(2) Business Combinations

The consideration delivered at the time of the business combination is measured as the sum of the assets transferred by NTT Group, the liabilities of former owner of the acquired company underwritten by NTT Group and the fair value of stock or other equity instruments issued by NTT Group on the date control is gained. Acquisition-related expenses are measured in profit/loss at the time they are incurred.

Any identifiable assets acquired and liabilities assumed on the date control is gained are measured at fair value as of that date, with the exception of the following:

- Deferred tax assets/deferred tax liabilities, and assets/liabilities relating to employee benefits are recognized and measured in accordance with IAS 12, “Income Taxes” and IAS 19, “Employee Benefits,” respectively.
- The acquired company’s share-based compensation agreements, or any liabilities or equity instruments issued to convert such agreements to NTT Group’s scheme, are measured on the date control is gained in accordance with IFRS 2, “Share-based Payment.”
- Assets classified as held for sale or disposal groups are measured in accordance with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations.”

Goodwill is measured as the amount of excess if the sum of the transferred consideration and the amount of the non-controlling interests in the acquired company exceed the net amount of identifiable assets and liabilities on the date control is gained. If any such difference is a negative amount, it is immediately recognized in profit/loss.

NTT Group chooses to measure non-controlling interests in the acquiree either at fair value or, alternatively, as a proportion of the identifiable net assets in the acquired company recognized by NTT Group for each business combination transaction. In the case of business combinations achieved in stages, the equity interest in the acquired company previously held by NTT Group is remeasured at fair value on the date control is gained. Any differences arising from remeasurement are recognized as profit/loss or as other comprehensive income and then transferred to retained earnings.

The amount of other comprehensive income pertaining to changes in the amount of interests in the acquired company which was recorded prior to the dated control was gained is accounted for using the same method as would be used if NTT Group were to directly dispose of those interests, and is recognized as profit/loss or other comprehensive income.

If the initial accounting for business combinations is not completed by the end of the fiscal year, NTT Group will report provisional amounts for those items that have not yet been completed. Subsequently, if any new facts and circumstances are found to have existed as of the date control was gained, and if any such facts/circumstances are deemed to affect the recognized amount of the business combination process, the provisional amounts will be retrospectively adjusted as of the date control was gained as a correction discovered during the measurement period. The measurement period is a maximum of one year from the date control is gained.

NTT Group has applied the provisions on exemptions set forth under IFRS 1 and will not apply IFRS 3, “Business Combinations” retrospectively for any business combinations that occurred prior to April 1, 2002. Goodwill generated by business combinations that occurred prior to April 1, 2002 is recognized at its book value under U.S. GAAP. In addition, goodwill generated by business combinations prior to the date of transition to IFRS will be subjected to impairment tests as of the date of transition to IFRS, regardless of whether there is any indication of impairment or not.

(3) Foreign Currency Translations

(i) Transactions in Foreign Currencies

NTT Group company's financial statements are prepared in the functional currency used in each company. Any transactions in currencies other than the functional currency (i.e., in a foreign currency) are translated using the exchange rate at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rate at the end of the fiscal year. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated into the functional currency using the exchange rate at the date when the fair value was measured. Furthermore, non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the exchange rate at the transaction rate.

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

(ii) Foreign Operations (Foreign Subsidiaries)

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

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

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

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

(4) Financial Instruments

Previous accounting standards (U.S. GAAP) are applied on the date of transition to IFRS and the previous fiscal years pursuant to the exemption provisions in IFRS 7, “Financial Instruments: Disclosures,” and IFRS 9, based on IFRS 1. For the fiscal year ending March 31, 2019, IFRS 7 and IFRS 9 have been applied, with the accounting policies described below.

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

(i) Financial Assets

Recognition, classification, and measurement applied to financial assets

Upon initial recognition, financial assets are classified as (a) financial assets measured at amortized cost, (b) financial assets measured at fair value through other comprehensive income or (c) financial assets measured at fair value through profit/loss. In each case, NTT Group initially recognizes these assets on the dates on which NTT Group became party to contracts for them.

If the contractual rights to cash flows of the financial asset expire, or alternatively if the contractual rights to receive cash flows of the financial asset are transferred and substantially all the risks and rewards of ownership of the financial asset are thereby transferred as well, then the financial asset is derecognized and it is excluded from the quarterly consolidated statement of financial position.

(a) Financial Assets Measured at Amortized Cost

In the case of loans and other similar debt instruments, any financial assets that satisfy both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any transaction costs directly attributable to the acquisition of financial assets measured at amortized cost are added to the fair value of these assets upon initial recognition. Furthermore, taking into consideration the timing for payment of consideration for goods and services provided, the time value of money is immaterial, and trade receivables that do not include any significant financial elements are initially measured at the applicable transaction price.

After initial recognition, those assets are measured at amortized cost by deducting the loss allowance from the gross carrying amount calculated based on the effective interest method.

(b-1) Financial Assets Measured at Fair Value through Other Comprehensive Income (Debt Instruments)

In the case of corporate bonds and other similar debt instruments, debt instruments that satisfy both of the following conditions are classified as “financial assets measured at fair value through other comprehensive income.”

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any transaction costs directly attributable to the acquisition of financial assets at fair value through other comprehensive income are added to the fair value at the time of initial recognition. After initial recognition, those assets are measured at fair value and any subsequent changes are recognized as other comprehensive income. Amounts recognized as other comprehensive income are cumulatively transferred to profit/loss if the asset is derecognized due to selling or otherwise.

(b-2) Financial Assets Measured at Fair Value through Other Comprehensive Income (Equity Instruments)

At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. NTT Group determines this designation for each financial instrument.

Any transaction costs directly attributable to the acquisition are added to the fair value of equity instruments at fair value through other comprehensive income at the time of initial recognition. After initial recognition, such instruments are measured at fair value and any subsequent changes are recognized as other comprehensive income. When recognition of other comprehensive income that has accumulated in "other components of equity" is terminated, the accumulated amount is transferred to "retained earnings" and not to profit/loss. In addition, dividends are recognized as profit/loss.

(c) Financial Assets Measured at Fair Value through Profit/Loss

Financial assets other than those mentioned in (a), (b-1) and (b-2), such as derivatives, are classified as financial assets measured at fair value through profit/loss.

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

Impairment of Financial Assets

NTT Group measures the amount of impairment loss (loss allowance) for financial assets to be measured at amortized cost, financial assets measured at fair value through other comprehensive income (debt instruments), lease receivables, contract assets, financial guarantee contracts and loan commitments on the basis of expected credit loss as shown below.

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

Notwithstanding the above, the amount of loss allowance for trade receivables and contract assets that do not include any significant financial elements and lease receivables is always measured using the expected credit loss for the full term.

(ii) Financial Liabilities

At initial recognition, all financial liabilities are classified as financial liabilities that are measured at amortized cost with the exception of those liabilities that are measured at fair value through profit/loss. In each case, NTT Group initially recognizes financial liabilities on the dates on which NTT Group became party to contracts for them.

A financial liability is excluded from the quarterly consolidated statement of financial position when it is extinguished; that is, when the obligation specified in the contract is discharged or cancelled or expires.

Financial Liabilities Measured at Amortized Cost

Among financial liabilities such as loans and corporate bonds, those financial liabilities that are not measured at fair value through profit/loss are classified as financial liabilities measured at amortized cost. When measuring financial liabilities at amortized cost, any transaction costs directly attributable to the issuance of the debt are deducted from the fair value applicable at the time of the initial recognition. After initial recognition, such liabilities are measured at amortized cost based on the effective interest rate method.

Financial Liabilities Measured at Fair Value through Profit/Loss

Financial liabilities classified as assets held for trading and that are measured at fair value through profit/loss, such as derivatives, are measured at the fair value applicable at the time of initial recognition. Those liabilities are measured at fair value after initial recognition as well, and any subsequent changes are recognized as profit/loss.

(iii) Accounting for Derivatives and Hedges

Risk management objective and strategy

NTT Group conducts derivative transactions, such as forward exchange contract transactions, interest rate swap transactions and currency swap transactions, in order to hedge foreign exchange risk and interest rate risk. NTT Group does not conduct derivative transactions for speculative purposes.

At the inception of the hedging relationship, NTT Group provides designation and documentation of risk management objectives with regard to hedging relationships and undertaking the hedge. This documentation includes the designation of hedging instruments, the items or transactions being hedged, the nature of the risks being hedged, and methods for evaluating the effectiveness of the hedging instruments used when the hedge is being conducted to offset changes in the fair value of the items/transactions being hedged or changes in cash flows.

Evaluation of hedging effectiveness

At the time of making the hedge designation, NTT Group expects any such hedges to be highly effective in offsetting changes in fair value or cash flows, and also continuously evaluates their effectiveness for the future throughout the period in which they are designated as hedges.

Recognition and measurement

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

Fair Value Hedges

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

Cash Flow Hedges

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

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

Derivatives Not Designated as Hedging Instruments

Changes in the fair value of derivatives are recognized as profit/loss.

(i) Equity securities and debt securities

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

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

Unrealized gains and losses, which are the differences between fair values and costs, are reported as a component of accumulated

other comprehensive income (loss), net of taxes. NTT Group periodically reviews the carrying amounts of its marketable securities

for instances in which fair value has declined below cost and resulted in impairments that are other than temporary. If this evaluation indicates there is an impairment that is other than temporary, the full amount by which the cost of the security exceeds its

fair value is recorded as an impairment loss.

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

These securities are carried at cost.

Debt securities designated as held-to-maturity

These securities are carried at amortized cost, and any amount by which the book value exceeds the net realizable value is recorded

as an impairment loss, unless such declines are deemed to be temporary. Realized gains and losses, which are determined on the

average cost method, are reflected in income.

(ii) Allowance for Doubtful Accounts

NTT Group records allowances for doubtful accounts to prepare for losses on bad debts. The allowance for doubtful accounts against receivables that are not evaluated for impairment individually on the basis of similar credit risks, but rather are evaluated as a group, is calculated based on historical credit loss ratio for each category of receivable. The allowance for doubtful accounts against receivables individually evaluated for impairment is calculated based on the estimated uncollectible amount based on the analysis of certain individual accounts. In addition, financing receivables that are determined to be uncollectible due to, among other factors, the condition of the debtor are written off at the time of such determination.

Among financing receivables including loans and lease receivables, the main receivables held by the financial subsidiaries are monitored past due status by length of past due date. Financing receivables on nonaccrual status are determined with no prospects for collecting contractual interest on the basis of past due date and other factors.

(iii) Financial Derivative Instruments (Derivatives)

Risk management objective and strategy

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

NTT Group formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the consolidated statement of financial position or (2) specific firm commitments or forecasted transactions

Assessment of hedge effectiveness

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

Presentation and measurement

All derivatives are recognized at fair value either in assets or liabilities, and are recorded in the consolidated statement of financial position under "Other financial assets (current)," "Other financial assets (non-current)," "Other financial liabilities (current)," or "Other financial liabilities (non-current)." Each derivative is categorized as current or non-current depending on whether the term to maturity of the particular instrument is 12 months or less, or over 12 months. Changes in the fair value of a derivative are recognized as profit/loss or equity (under "Other components of equity"). This depends on whether the derivative is recognized as a hedge transaction or not, and whether or not it is intended to hedge fair value or cash flow.

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

The fair values of foreign exchange futures, interest rate swaps, currency swaps, currency options and forward transactions are assessed using market prices based on observable market data provided by financial institutions.

Fair value hedges

Derivative trades classified as "fair value hedges" are designated as fair value hedges for recognized assets and liabilities, or for unrecognized firm commitments. Changes in the fair value of hedge-effective derivatives are recorded as profit/loss, and are offset with changes in hedged assets and liabilities.

Cash flow hedges

Derivatives classified as cash flow hedges are designated as hedges against the risk of changes in cash flows related to scheduled transactions or recognized assets and liabilities. Changes in the fair value of hedge-effective derivatives are firstly recorded as "Other components of equity" and then are reclassified to profit/loss at the point in time when the hedge transaction affects profit/loss.

Derivatives not designated as hedging instruments

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

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of following items.

- cash at hand,
- deposits that can be withdrawn as required
- short term investments that can be readily converted to cash and only have an insignificant risk of changes in value whose term to maturity falls within 3 months of the acquisition date.

(6) Inventories

Inventories consist of telecommunications equipment to be sold, materials, work in progress, and production supplies, which are measured at the lower of cost or net realizable value (Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale). The costs of telecommunications equipment to be sold and materials are determined on a first-in, first-out basis. The cost of work in progress is mainly attributable to that of software production pursuant to contract with customer or that of construction of real estate held for resale, including labor and subcontractors' cost base. The cost of supplies is determined by the average cost method or by the specific identification method.

(7) Property, Plant and Equipment

Plant, property and equipment are measured using the cost model which records an amount calculated by deducting accumulated depreciation and accumulated impairment losses from the acquisition cost. Acquisition costs include expenses directly attributable to the acquisition of an asset and the cost of borrowings to be capitalized.

Depreciation is measured principally using the straight-line method over the estimated useful life of each component. The depreciable value is calculated by deducting residual value from the acquisition price of the asset. Land and construction in progress are not depreciated.

The estimated useful lives of major items of property, plant and equipment are as follows:

Telecommunications Equipment

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

Telecommunications Service Lines

Cables 13 to 36 years

Tubes and tunnels 50 years

Buildings and Structures

Reinforced concrete buildings 42 to 56 years

Machinery, vessels and tools 3 to 26 years

NTT Group reviews the depreciation method for assets, useful lives and residual values at the end of each fiscal year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

(8) Goodwill

NTT Group measures goodwill as the amount of excess if the sum of the transferred consideration and the amount of the non-controlling interests in the acquired company exceeds the net amount of identifiable assets and liabilities on the date control of the company is gained.

Goodwill is not amortized, but impairment test is performed at least annually and when there is any indication of impairment in cash-generating units where goodwill is allocated.

For details regarding the impairment of goodwill, see “Note 3. Significant Accounting Policies - (12) Impairment.” “Goodwill” is accounted for in the consolidated statement of financial position at the carrying amount obtained by deducting the accumulated impairment losses from the acquisition cost.

(9) Intangible Assets

Intangible assets are measured using the cost model as the amount obtained by deducting accumulated amortization and accumulated impairment losses from the acquisition cost.

Individually acquired intangible assets are measured at cost at the initial recognition. Intangible assets acquired through business combinations are recognized separately from goodwill at the time of the initial recognition and are measured at the fair value as of the date control is gained. R&D expenses incurred within NTT Group are recognized as expenses when incurred, with the exception of expenditures on development activities that meet the requirements for capitalization (internally generated intangible assets). Internally generated intangible assets are measured at the time of the initial recognition as the sum total of expenditures incurred from the date all requirements for capitalization are met, to the date the development is completed.

Intangible assets is comprised of the asset with finite useful lives and the asset with indefinite useful lives.

For intangible assets with a finite useful lives, amortization costs are calculated using the straight-line method over the estimated useful lives of the assets.

The main intangible asset with a finite useful life is computer software. Internal-use software is capitalized if it has a useful life of more than one year. The cost of adding to, modifying, or improving software used is capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed as incurred. Capitalized computer software is amortized on a straight-line basis over approximately five to seven years.

NTT Group reviews the amortization method used for assets, useful lives and residual values at the end of each fiscal year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

The main intangible assets with indefinite useful lives are trademarks, trade names and land lease rights.

NTT Group does not amortize intangible assets with indefinite useful lives or intangible assets that are not yet in use, but tested for impairment on an annual basis and when there are indicators of impairment. For details regarding the impairment of such assets, see “Note 3. Significant Accounting Policies - (12) Impairment.”

(10) Lease

Identification and classification

NTT Group determines whether or not a contract constitutes a lease or contains a lease based on the actual circumstances of a contract at its start date.

Lease transactions that transfer substantially all the risk and rewards incidental to ownership of the asset to the lessee are classified as “finance leases,” while other lease transactions are classified as “operating leases.”

Substantially all the risk and rewards incidental to ownership of the asset are deemed to have been transferred if the lease term accounts for the majority of the asset’s useful economic life, or if the present value of the minimum lease payments is approximately equivalent to the full fair value of the asset. The lease term is set as the sum of the periods during which renewal options can be reasonably assured, in addition to the period when the contract cannot be canceled, on the date the lease starts.

Recognition and measurement

(i) Finance Lease Transactions

(as Lessee)

Leased assets and lease obligations are initially recognized at the lower of (i) the fair value of the leased asset as of the date the lease starts or (ii) the present value of the sum total of the minimum lease payments.

After initial recognition, the accounting treatment for the asset will be based on the accounting policies applicable to the asset. Lease payments are allocated to finance costs and lease obligation repayments, and finance costs are calculated in order to achieve a constant rate of interest for a certain period with respect to the outstanding debt.

Assets held under finance leases are depreciated using their estimated useful lives in cases where transfer of ownership is assured before the end of the lease term, and are depreciated using the shorter of the lease term or the estimated useful life of the leased asset in cases where transfer is not assured.

(as Lessor)

The net investment in the lease is recognized as the lease receivable, and the total sum of lease payments receivable is classified as principal equivalent or interest equivalent. The amount allocated as interest on the lease payments receivable is calculated pursuant to a method that reflects a constant periodic rate of return on the lessor's net investment in the lease. The lessor's net investment in the lease is the sum total of the uncollected lease fees due to the lessor in the finance lease and the unguaranteed residual value (that portion where there is no lessee’s guarantee, or where only the parties related to the lessor have made a guarantee), discounted by the calculated interest rate applicable to the lease.

(ii) Operating Lease Transactions

(as Lessee)

The sum total of lease payments due over the term of the operating lease is recognized as an expense using the straight-line method over the duration of the lease term.

(as Lessor)

The sum total of lease payments receivable over the term of the operating lease is recognized as revenue using the straight-line method over the duration of the lease term.

(11) Investment Property

Investment property is real estate held to earn rentals, capital gains on sales or other dispositions, or both. It does not include property sold in the ordinary course of business or property used in production or supply of goods or services or for any other administrative purpose.

After initial recognition, NTT Group measures investment property using the cost model as the amount obtained by, accumulated depreciation and accumulated impairment losses from the acquisition cost.

With the exception of land, investment property is depreciated over its estimated useful life primarily based on the straight-line method, with an estimated life of 2-50 years. NTT Group reviews the depreciation method, useful lives and residual values at the end of each year, and any changes are accounted for on a prospective basis as changes in accounting estimates.

(12) Impairment

(i) Impairment of Property, Plant and Equipment, Intangible Assets and Investment Properties

NTT Group determines whether there are any indicators of potential impairment of property, plant and equipment, intangible assets and investment properties as of each reporting date.

If there are indicators of impairment, estimates are carried out to assess recoverable amounts. If it is not possible to estimate the recoverable amount for individual assets, then an estimate is made of the amount recoverable for the cash-generating unit to which the asset belongs. Cash-generating units are the smallest unit of asset group, and generate cash flows that are largely independent of other assets or asset groups.

Intangible assets with indefinite useful lives and intangible assets that are not yet in use are tested for impairment at least once a year and more frequently when indicators of impairment are present.

The recoverable amount is calculated as the higher of either the value-in-use or the fair value after the deduction of disposal costs. The value-in-use is calculated by discounting estimated future cash flows to present value using a pre-tax discount rate that reflects the time value of money and the inherent risk of the asset.

In the event that the recoverable amount for the asset or the cash-generating unit falls below the carrying amount, then the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit/loss.

On each reporting date, NTT Group determines whether there are any indicators that impairment losses recognized in previous years have been reduced or eliminated. NTT Group estimates the recoverable amount for the asset or cash-generating unit if there are indicators that the impairment is in reversal. In the event that the recoverable amount exceeds the carrying amount for the asset or the cash-generating unit, then the impairment is reversed, with the upper limit set at the lower of (i) the recoverable amount or (ii) carrying amount after the deduction of amortization or depreciation if no impairment loss has been recognized in previous years.

(ii) Impairment of Goodwill

NTT Group determines whether there are any indicators of potential impairment of goodwill as of each reporting date.

Goodwill is allocated to either the cash-generating unit or the cash-generating unit group that is expected to enjoy the benefits resulting from the business combination and impairment test is performed at least annually and more frequently when there are indicators of impairment in the cash-generating unit. The impairment loss is deducted from the carrying amount of goodwill allocated to the cash-generating unit or cash-generating unit group if the recoverable amount for the cash-generating unit is less than the carrying amount in the impairment test; then it is deducted from the carrying amount for each asset in proportion to the carrying amount for assets (i.e. assets other than goodwill) in the cash-generating unit or cash-generating unit group.

Impairment losses for goodwill are recognized in profit/loss and are not reversible in subsequent periods.

(13) Employee Benefits

NTT Group primarily uses defined contribution and defined benefit plans.

(i) Defined contribution plans

Contributions to defined contribution plans are recognized as expenses when an employee renders a service each fiscal year, and unpaid contributions are recognized as liabilities.

(ii) Defined Benefit Plans

Liabilities recognized in connection with defined benefit plans (defined benefit liabilities) are obtained by deducting the fair value of the plan's assets from the present value of the defined benefit obligations as of the end of the fiscal year.

Defined benefit obligations are calculated by an independent pension actuary using the projected unit credit method. The projected unit credit method is a method in which each period of service gives rise to an additional unit of benefit entitlement in exchange for services provided by an employee, and each unit is measured separately to build up the final obligation. Costs pertaining to defined benefit plans are composed of service costs, interest on the net amount of defined benefit liabilities and assets and remeasurements of the net amount of defined benefit liabilities and assets. Service costs and interest are recognized in profit/loss. Interest amounts are calculated using discount rates determined by referring to the market yield for high-quality corporate bonds payable as of the fiscal year end that reflect the estimated timing and amount of benefit payments.

Remeasurement of the net amount of assets and liabilities in defined benefit plans consists of actuarial gains and losses and revenues related to plan assets (excluding amounts included in interest) and is recognized in other comprehensive income, with accumulated amounts being promptly reclassified from other components of equity to retained earnings.

(14) Provisions

Provisions are recognized in cases where NTT Group faces current legal or constructive obligations as a result of past events, as well as where it is possible that the liabilities will need to be settled or when it is possible to reliably estimate the amount of the liabilities. A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Using a pre-tax interest rate that reflects the time value of money, provisions are measured by discounting estimated future cash flows (taking into account the risks and uncertainties related to the obligation as of the fiscal year end) to present value.

The provisions that NTT Group recognizes are primarily asset retirement obligations, provisions for environmental measures and provisions for points programs.

(i) Asset Retirement Obligations

NTT Group recognizes legal obligations related to the disposal of property, plant and equipment as asset retirement obligations; and upon recognition the carrying amount of the related asset is increased.

NTT Group considers its main legal obligations to be the restoration of leased land and buildings for telecommunications equipment to their original condition and recognizes these as asset retirement obligations.

(ii) Provision for Environmental Measures

This provision records the estimated amount of expenditures needed for environmental protections, such as PCB (polychlorinated biphenyl) waste treatment and soil improvement work.

(iii) Provision for Points Programs

NTT Group grants "points" to customers based on the usage of mobile, credit card service and other services, which may be exchanged for benefits such as payments on merchandise and mobile phone charges. The provision for the points program is recorded for points that are awarded to customers but that do not give rise to any contractual performance obligations.

(15) Revenue

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

Step 1: Identifying the contract with the customer.

Step 2: Identifying the performance obligation in the contract.

Step 3: Determining the transaction price.

Step 4: Allocating the transaction price to separate performance obligations in the contract.

Step 5: Recognizing revenue when or as the performance obligation is satisfied.

The part of incremental costs of obtaining a contract and costs to fulfill a contract with customers that is expected to be recoverable is recognized as an asset. Incremental costs of obtaining a contract are those incurred in obtaining a contract with a customer that would not have incurred if the contract had not been obtained. Furthermore, costs to fulfill a contract are costs incurred for fulfilling contracts before goods or services are transferred to customers.

NTT Group provides the following six services: fixed voice related services, mobile voice related services, IP/packet communications services, sales of telecommunications equipment, system integration services, and other services, in its five business segments of Regional Communications Business, Long Distance and International Communications Business, Mobile Communications Business, Data Communications Business, and Other Business.

(i) Fixed Voice Related Services

In the Regional Communications Business and Long Distance and International Communications Business, fixed voice related services including telephone subscriber lines, INS-Net, conventional leased circuits, and high-speed digital circuits are provided to consumers and enterprise customers. NTT Group recognizes revenue upon provision of fixed voice related services. Fixed voice related services are billed monthly.

(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 consumers and enterprise customers. NTT Group recognizes revenue upon provision of mobile voice related services. Mobile voice related services are billed monthly.

In some of its billing plans, NTT Group determines an amount of telecommunications traffic (for phone calls) available within the scope of the fixed charge of each billing plan, offering a service of automatically carrying forward to the following month the unused amount of telecommunications traffic out of the amount available in a relevant month. For these services, the portion of revenue corresponding to the voice allowances that were unused in the current month but are expected to be used in the following month or afterward is deferred, and deferred amounts are recognized as revenue when such allowances are used.

In addition, NTT offers a points program whereby points are granted to customers in line with use of mobile voice related services, and points that are rewarded can be used to buy products, use as credits against communications charges, and for other uses. That portion of granted points which is expected to be used by the customer in future is recognized as a performance obligation. Transaction prices are allocated based on independent selling price ratios for these performance obligations. Transaction prices allocated to the performance obligations under the points program are deferred as “Other current liabilities” in the consolidated statement of financial position, and revenue is recognized in line with points usage.

Activation fees, which constitute revenues from non-recurring upfront fees, are recognized as revenue over the period of provision of the monthly support services after being deferred.

(iii) IP/Package Communications Services

In the Regional Communications Business Segment, services are provided including FLET'S Hikari and Hikari Collaboration Model, in which fiber-optic access services are provided on a wholesale basis to various operators; in the Long Distance and International Communications Business, services are provided such as Arcstar Universal One, IP-VPN and OCN; and in the Mobile Communications Business, services are provided such as the LTE (Xi) packet service and IP/package communications services including DOCOMO Hikari. The main performance obligations are identified as described below and recognized as revenue based on the content of these services and the pattern of transfer to customers.

Regional Communications Business Segment and Long Distance and International Communications Business Segment

NTT Group recognizes revenue upon the provision of IP/package communications services. In the case of IP/package communications services for consumers, these are billed monthly; for enterprise customers, these are billed at the contractually agreed time.

Non-recurring upfront fees such as installation charges and activation fees are deferred and recognized as revenues over the estimated average period of the end customer's subscription for FLET'S Hikari and Hikari Collaboration Model.

Regional Communications Business Segment

New sales subsidies paid to collaboration model operators for new contracts under the Hikari Collaboration Model are deferred as "Other non-current liabilities" in the consolidated statement of financial position, and are deducted from revenues for three years from the time of payment. The amounts paid as sales subsidies for ongoing use at the time of future annual contract renewal are estimated mainly based on historical performance and deducted from revenues for one year from the time of initial contract conclusion or the most recent contract renewal as variable consideration.

Mobile Communications Business Segment

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

Certain rate plans offer a service in which the amounts of telecommunications allowances (for data communications) that can be used per period are based on a specified fixed price, and any portions of those allowances that are not used are automatically carried over. For these services, the portion of revenue corresponding to the data allowances that were unused in the current month but are expected to be used in the following month or afterward is deferred, and deferred amounts are recognized as revenue when such allowances are used.

Regional Communications Business Segment, Long Distance and International Communications Business Segment and Mobile Communications Business Segment

NTT Group offers a points program whereby points that have been granted to customers in line with their IP/package communications services usage can be exchanged to buy products, use as credits against communications charges, and for other uses. That portion of granted points which is expected to be used by the customer in future is recognized as a performance obligation. Transaction prices are allocated in relation to these performance obligations based on independent selling price ratios. Transaction prices allocated to the performance obligations under the points program are deferred as "Other current liabilities" in the consolidated statement of financial position, and revenue is recognized in line with points usage.

(iv) Sales of Telecommunications Equipment

The Mobile Communications Business Segment comprises the sale of telecommunications equipment to agent resellers and other purchasers. NTT Group recognizes revenue upon delivery of the equipment to agent resellers and other purchasers. Upon delivery to agent resellers, certain commissions and incentives given to subscribers are recognized as a reduction of revenues of telecommunication equipment. Subscribers have the option to select installment payments for the purchase of the handset from the agent reseller or others over a period of 12 or 24 months. When installment payments are selected, under agreements entered into among NTT Group, subscribers and agent resellers, NTT Group provides funds by paying for the purchase of the handset to the agent. NTT Group then includes current installments for the receivable for the purchased handset with basic monthly charges and communication charges for the installment payment term. Because equipment sales are recognized upon delivery of handsets to agent resellers, the advance payment for the purchased handset to agent resellers and subsequent cash collection of the installment receivable for the purchased handset from subscribers do not have an impact on NTT Group revenues.

(v) System Integration Services

In the Regional Communications Business Segment and Long Distance and International Communications Business Segment, NTT Group provides system integration services such as system development services, and in the Long Distance and International Communications Business Segment and Data Communications Business Segment, NTT Group provides system integration services such as integrated IT solution services, in each case to enterprise customers. With respect to system integration services, NTT Group recognizes revenue over the course of the installation period, as the benefits transfer to customers as the installation progresses. As cost is deemed to arise in proportion to the degree of installation progress, the cost based input method is used for recognition of revenue. Contract consideration is usually invoiced upon delivery.

With respect to allowance for losses when losses are expected to arise, an allowance is made for the consolidated fiscal year that included the date on which it became clear that a loss would arise.

(vi) Other Services

In the Mobile Communications Business Segment, NTT Group offers services including distribution services for movies, music, e-books, financial and payment services, shopping services, services related to everyday life, and "Mobile Device Protection Service."

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

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

(16) Income Taxes

Income taxes consist of current taxes and deferred taxes and are recognized in profit/loss, excluding taxes arising from business combinations, as well as taxes incurred from items directly recognized in other comprehensive income or equity.

Current taxes

Current taxes are measured as the amount expected to be paid to (received from) the tax authorities. Tax calculations use the tax rates and tax laws that have been enacted or substantially enacted by the end of the fiscal year.

Deferred taxes

Recognition of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that deductible temporary differences and the carry forward of unused tax losses and tax credit can be utilized by the future taxable profit. A reassessment of deferred tax assets is conducted at the end of the fiscal year to determine their recoverability.

Note that deferred tax assets are not recognized in respect of temporary differences arising not from business combination but from initial recognition of assets and liabilities in a transaction that does not affect either accounting profit or taxable income.

Deductible temporary differences concerning investments in subsidiaries, associates and joint ventures are recognized as deferred tax assets only if it is possible that the temporary difference will reverse in the foreseeable future and it is possible that the temporary difference will be utilized by the future taxable income.

Recognition of deferred tax liabilities

Deferred tax liabilities are generally recognized for taxable temporary differences, with the exception of the temporary differences listed below.

- Temporary differences arising from initial recognition of assets and liabilities in transactions that are not business combinations and that do not affect accounting profit or taxable income
- Taxable temporary differences arising from the initial recognition of goodwill
- Those taxable temporary differences concerning investments in subsidiaries, associates and joint ventures where the timing of the reversal of the temporary difference can be controlled and it is possible that the temporary difference will not be reversed in the foreseeable future

Measurement of deferred tax assets and liabilities

Deferred tax assets and liabilities are measured using the tax rate expected to be applied at the time the asset is realized or the liability is settled, based on the law that have been enacted or substantially enacted by the end of the fiscal year.

Presentation of deferred tax assets and liabilities

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

(17) Earnings per Share

Basic earnings per share ("EPS") is calculated based on the average number of outstanding shares during the fiscal year (excluding treasury shares). Diluted EPS is calculated by taking into account the effect of dilution caused by the exercise of the right to issue new shares, the performance of contracts, or the conversion to new shares. However, NTT has not issued dilutive securities for any fiscal year, and there is therefore no difference between basic EPS and diluted EPS.

(18) Operating Segments

Operating segments are components of business activities that earn revenues and incur expenses, including transactions with other operating segments. Financial information is available individually for the results of all operating segments, and is regularly reviewed by NTT's Board of Directors to facilitate the allocation of management resources to individual segments and the evaluation of performance.

(19) Non-Current Assets Held for Sale

Non-current assets that are determined to recover their carrying amount principally through a sale transaction rather than through continuing use, as well as non-current assets that are no longer used 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 or their fair value less sales costs. Such assets are no longer depreciated. These assets are recognized as impaired if the fair value less sales costs falls below their carrying amounts. In the event of a subsequent increase in the fair value less sales costs, the previously recognized impairment loss is reversed. The maximum amount by which the impairment loss can be reversed is the amount of the impairment loss previously recognized. If the assets no longer satisfy the requirements to be held for sale, they will no longer be recorded as such. In this case, if the asset is no longer classified as held for sale then they will be measured at the lower of either the applicable carrying amount or their recoverable value as of the date they cease to meet the requirements to be classed as "held for sale."

(20) Put Options Granted to Non-Controlling Shareholders

Generally, short put options (the right to sell to NTT Group) on subsidiary shares that NTT Group grants to non-controlling interest holders are initially recognized as "other financial liabilities" at the present value of the redemption amount, with the same amount deducted from additional paid-in capital. After initial recognition, the options are measured at amortized cost based on the effective interest rate method, while any subsequent changes in value are recognized as "additional paid-in capital".

(21) Treasury Stock

In the event that treasury stock is acquired, the consideration paid including direct acquisition costs (after adjustment for tax) are recognized as a capital deduction item. There is no recognition of profit/loss for the purchase, sale or cancellation of treasury stock. Note that any difference in the carrying amount and the consideration paid at the time of sale is recognized as "additional paid-in capital".

4. Significant Accounting Estimates and Judgments Involving Estimates

In preparing the condensed quarterly consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies as well as the amounts reported for assets, liabilities, revenue and expenses. These estimates and assumptions involve past experience and the collection of available data, and they are based on management's best judgment in consideration of various factors considered reasonable as of the reporting date. However, due to the nature of such judgments, future results may vary from these estimates and assumptions.

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

The judgments, estimates and assumptions that have a significant impact on NTT Group's condensed consolidated financial statements are as follows:

- The judgment as to whether or not NTT controls a company in which it invests when defining the scope of consolidation (Note 3. Significant Accounting Policies (1))
- Estimates on the fair value of assets acquired and liabilities assumed through business combinations (Note 3. Significant Accounting Policies (2))
- Measurements of fair value for financial assets that are measured as "financial assets measured at fair value through other comprehensive income" (Note 3. Significant Accounting Policies (4) & Note 15. Financial Instruments)
- Judgments on eligibility of forecast transactions as hedged item in hedge accounting (Note 3. Significant Accounting Policies (4))
- Estimates on amortization periods and impairment for financial assets measured at amortized cost (Note 3. Significant Accounting Policies (4))
- Fair value measurements for derivatives (Note 3. Significant Accounting Policies (4) & Note 15. Financial Instruments)
- Estimates on the useful life of property, plant and equipment, intangible assets and investment property (Note 3. Significant Accounting Policies (7), (9), (10) & (11))
- Estimates on impairment losses for property, plant and equipment, intangible assets, investment property and goodwill (Note 3. Significant Accounting Policies (12))
- Measurement of obligations under defined benefit plans (Note 3. Significant Accounting Policies (13))
- Judgments and estimates involving the recognition and measurement of provisions (Note 3. Significant Accounting Policies (14))
- Revenue recognition (Note 3. Significant Accounting Policies (15))
- Estimate of realizability of deferred tax assets (Note 3. Significant Accounting Policies (16))

5. New Standards Not Yet Applied

Standards and interpretations that were newly issued or revised prior to the date these condensed quarterly consolidated financial statements were approved that NTT Group has not adopted earlier, and whose adoption may impact NTT Group, are as shown below.

Standard / Title	Mandatory Deadline for Adoption (hereinafter the “Initial Fiscal Year”) / NTT Group’s Scheduled Fiscal Year of Adoption	Outline of New Incorporation/Revision	Potential Impact on Consolidated Financial Statements
IFRS 16 / Leases	January 1, 2019 / Fiscal year ending March 31, 2020	IFRS 16 replaces part of the contents of the existing IAS 17 (Leases) and the main revisions are as follows. ▪ Introduction of the concept of control into the concept of lease definitions ▪ Revised accounting treatment for lessees	The significant impact of adopting this standard will relate to right-of-use assets and lease liabilities concerning leases for land and other property required for the placement of lessee's offices and telecommunications equipment are recorded. As a result, it is expected that the balances in assets and liabilities in the consolidated statement of financial position will increase. Details regarding this impact are in the process of being calculated.

6. Segment Information

For each of the business segments reported below, financial information is available, and such financial information is used by NTT Group’s management to allocate management resources and assess business performance, includes services as below.

Regional Communications Business segment

Fixed voice related services, IP/packet communications services, system integration services, and other services

Long Distance and International Communications Business segment

Fixed voice related services, IP/packet communications services, system integration services, and other services

Mobile Communications Business segment

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

Data Communications Business segment

System integration services

Other Business segment

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

Operating Revenues

Nine Months Ended December 31

(Millions of yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Regional Communications Business		
Transactions with external customers	1,909,549	1,821,112
Inter-segment transactions	468,000	504,383
Sub-total	2,377,549	2,325,495
Long Distance and International Communications Business		
Transactions with external customers	1,592,900	1,603,482
Inter-segment transactions	73,215	80,917
Sub-total	1,666,115	1,684,399
Mobile Communications Business		
Transactions with external customers	3,542,632	3,605,642
Inter-segment transactions	46,781	48,475
Sub-total	3,589,413	3,654,117
Data Communications Business		
Transactions with external customers	1,408,805	1,464,993
Inter-segment transactions	76,552	85,693
Sub-total	1,485,357	1,550,686
Other Business		
Transactions with external customers	293,027	299,986
Inter-segment transactions	555,941	555,302
Sub-total	848,968	855,288
Elimination of inter-segment transactions	(1,220,489)	(1,274,770)
Total	8,746,913	8,795,215

Three Months Ended December 31

(Millions of yen)

	Three Months Ended December 31, 2017 (October 1, 2017 - December 31, 2017)	Three Months Ended December 31, 2018 (October 1, 2018 - December 31, 2018)
Regional Communications Business		
Transactions with external customers	634,313	611,507
Inter-segment transactions	164,348	169,573
Sub-total	798,661	781,080
Long Distance and International Communications Business		
Transactions with external customers	545,255	541,791
Inter-segment transactions	24,735	29,476
Sub-total	569,990	571,267
Mobile Communications Business		
Transactions with external customers	1,278,891	1,248,446
Inter-segment transactions	16,247	16,150
Sub-total	1,295,138	1,264,596
Data Communications Business		
Transactions with external customers	494,022	498,972
Inter-segment transactions	27,384	28,992
Sub-total	521,406	527,964
Other Business		
Transactions with external customers	103,270	101,300
Inter-segment transactions	189,688	189,019
Sub-total	292,958	290,319
Elimination of inter-segment transactions	(422,402)	(433,210)
Total	3,055,751	3,002,016

Segment Profit or loss

Nine Months Ended December 31

(Millions of yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Segment income		
Regional Communications Business	307,676	351,352
Long Distance and International Communications Business	80,441	105,097
Mobile Communications Business	855,858	902,019
Data Communications Business	87,365	94,801
Other Business	85,901	83,161
Total	1,417,241	1,536,430
Elimination of inter-segment transactions	(7,630)	(9,304)
Operating profit	1,409,611	1,527,126
Finance income	43,153	17,827
Finance costs	83,347	25,451
Income from arbitration award	147,646	—
Share of profit (loss) of entities accounted for using equity method	11,708	10,919
Profit before taxes	1,528,771	1,530,421

Three Months Ended December 31

(Millions of yen)

	Three Months Ended December 31, 2017 (October 1, 2017 - December 31, 2017)	Three Months Ended December 31, 2018 (October 1, 2018 - December 31, 2018)
Segment income		
Regional Communications Business	19,299	75,048
Long Distance and International Communications Business	311	33,645
Mobile Communications Business	296,253	291,499
Data Communications Business	31,027	34,469
Other Business	27,161	25,814
Total	374,051	460,475
Elimination of inter-segment transactions	(2,790)	(4,101)
Operating profit	371,261	456,374
Finance income	5,270	4,839
Finance costs	43,073	9,975
Income from arbitration award	147,646	—
Share of profit (loss) of entities accounted for using equity method	5,738	865
Profit before taxes	486,842	452,103

There were no operating revenues from transactions with a single external customer amounting to 10% or more of NTT Group's revenues for the nine and three months ended December 31, 2017 and 2018.

Other significant items:

For the nine months ended December 31

(Millions of yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Impairment losses - Goodwill Long distance and international communications business	25,308	—

	Nine Months Ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Impairment losses - Metal cables Regional communications business	124,800	66,003

For the three months ended December 31

(Millions of yen)

	Three Months Ended December 31, 2017 (October 1, 2017 - December 31, 2017)	Three Months Ended December 31, 2018 (October 1, 2018 - December 31, 2018)
Impairment losses - Goodwill Long distance and international communications business	25,308	—

	Three Months Ended December 31, 2017 (October 1, 2017 - December 31, 2017)	Three Months Ended December 31, 2018 (October 1, 2018 - December 31, 2018)
Impairment losses - Metal cables Regional communications business	124,800	66,003

For impairment losses of a portion of metal cables in the telecommunications business, see “Note 9. Property, Plant and Equipment”.

For impairment losses of goodwill, see “Note 10. Goodwill”.

There were no operating revenues from transactions with a single external customer amounting to 10% or more of NTT Group's revenues for the nine and three months ended December 31, 2017 and 2018.

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

The last day of the fiscal year ended March 31, 2018, the nine months ended December 31, 2017 and 2018 fell on a non-business day. As a result the due date for certain bills, including telecommunication service bills, was set to the first business day of the following month. Consequently, the impact on the condensed consolidated financial statements is as follows.

	(Millions of yen)	
	As of March 31, 2018	As of December 31, 2018
(Condensed Consolidated Statement of Financial Position)		
Cash and cash equivalents	(231,929)	(238,159)
Trade and other receivables	231,929	238,159
(Millions of yen)		
	Nine Months Ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 - December 31, 2018)
(Condensed Consolidated Statement of Cash Flows)		
Decrease (increase) in trade and other receivables	(236,668)	(6,230)
Cash and cash equivalents as of April 1	—	(231,929)
Cash and cash equivalents as of December 31	(236,668)	(238,159)

8. Assets held for sale

Sumitomo Mitsui Card Company, Limited.

Overview

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

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

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

Impact on accounting treatment on consolidated financial statements

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

Accumulated other comprehensive income (net of taxes) related to "Assets held for sale" amounted to ¥30,620 million (credit) and was included in "Other components of equity" on the condensed consolidated statement of financial position as of December 31, 2018. All of this amount will not be recognized in profit or loss but will be directly reclassified to "Retained earnings" when the asset is sold.

Due to this conclusion to recover this investment by sale, "Deferred tax liabilities" caused by temporary differences in connection with this investment increased by ¥42,530 million and "Deferred tax assets" on the condensed consolidated statement of financial position was offset in the same amount. As a result, for the nine months ended December 31, 2018, "Income taxes" increased by ¥20,667 million, in the condensed consolidated statements of profit or loss and "Share of other comprehensive income of entities accounted for using equity method (Items that will not be reclassified to profit or loss)" (credit) decreased by ¥21,863 million, in the condensed consolidated statements of comprehensive income respectively.

9. Property, Plant and Equipment

(1) Component of Property, plant and equipment

	Millions of yen		
	As of the Date of Transition to IFRS (April 1, 2017)	As of March 31, 2018	As of December 31, 2018
Telecommunications equipment	11,136,502	11,007,130	10,967,914
Telecommunications service lines	15,991,663	16,183,748	16,303,799
Buildings and structures	5,396,368	5,505,984	5,559,067
Machinery, vessels and tools	2,215,418	2,297,488	2,413,375
Land	639,511	657,746	696,775
Construction in progress	414,398	420,481	421,492
Sub-total	35,793,860	36,072,577	36,362,422
Accumulated depreciation and impairment losses	(27,074,105)	(27,260,403)	(27,503,789)
Property, plant and equipment - total	8,719,755	8,812,174	8,858,633

(2) Impairment loss

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 the decrease in such services is unavoidable going forward.

Based on the changes in the business environment described above, NTT Group determined that a certain unused portion of the metal cables were idle assets with no prospect of future use and thus reduced the carrying amount to the recoverable amount. As a result, in the consolidated results for the three months ended December 31, 2017, NTT Group recorded ¥124,800 million of impairment losses on telecommunications service lines in the regional communications business segment.

The recoverable amount of the metal cables was ¥107,535 million, as measured based on the market valuation approach. The assumptions (inputs) used for measurement of the fair value were classified as Level 3, as defined in "Note 15. Fair value of financial instruments (2) Fair value measurement". With this approach, the recoverable amount was measured by the market price of the metal cables' major materials less the related cost incurred if the metal cables are made available for sale.

In the three months ended December 31, 2018, NTT Group determined that a portion of the metal cables it had been expected to use in the future were also idle assets with no prospect of future use in addition to those recognized as idle assets in the prior fiscal year.

NTT Group has started concrete measures to shift some metal cable subscribers to the use of optical fiber cables, and has simplified the contract procedures for optical cable subscribers (eliminating the system of temporary compulsory use of metal cables when changing from one carrier to another).

In light of these changes in the business environment, NTT Group determined that a certain portion of the metal cables, which have been maintained with wiring to customers remained even after the termination of the related contracts, were unused idle assets with no prospect of future use thus reduce the carrying amount to their recoverable amount. As a result, in the consolidated results for the three months ended December 31, 2018, NTT Group recorded ¥66,003 million of impairment losses on telecommunications service lines in the regional communications business segment. The recoverable amount of the metal cables was ¥47,816 million, based on the market valuation approach. The assumptions (inputs) used for measurement of the fair value were classified as Level 3. With this approach, the recoverable amount was measured by the market price of the metal cables' major materials less the related cost incurred if the metal cables are made available for sale.

10. Goodwill

As a result of the annual impairment test, the impairment loss was recognized for RagingWire Data Centers, Inc. group and NTT America cash-generating units, for the nine months ended December 31, 2017 in the long distance and international communications business segment. The impairment loss were fully allocated to goodwill.

The recoverable amount of the cash-generating unit was based on fair value less cost of disposal and measured by the discounted cash flow method and the guideline public company method using unobservable inputs. The assumptions (inputs) used for measurement of the fair value were classified as Level 3, as defined in “Note 15. Fair value of financial instruments (2) Fair value measurement” .

Impairment losses, recoverable amounts and material assumptions used for estimates of recoverable amounts

Cash-Generating Unit	Raging Wire Data Centers, Inc. Group	NTT America, Inc.
Impairment losses (Millions of yen)	21,348	3,960
Recoverable amount (Millions of yen)	105,789	19,259
Permanent growth rate (%)	2.0	2.0
Weighted average cost of capital (%)	7.5	8.0
EBITDA multiple (x)	15.8	5.6

11. Investments accounted for using equity method

Tata Teleservices Limited

In accordance with a binding arbitration award from the London Court of International Arbitration, NTT DOCOMO received payment of an arbitration award from Tata Sons Limited (“Tata Sons”) on October 31, 2017.

NTT group made an investment in Tata Teleservices Limited (“TTSL”), a telecommunications service operator in India and concluded a shareholders agreement among the three parties of NTT DOCOMO, TTSL and Tata Sons in March 2009. The investment had been accounted for applying the equity method.

On January 3, 2015, pursuant to the shareholders agreement, NTT DOCOMO filed for an arbitration to the London Court of International Arbitration as to Tata Son’s breach regarding execution of an option for sale of stake in TTSL. The London Court of International Arbitration granted an award in NTT DOCOMO’s favor on June 23, 2016.

As a result of this transaction, NTT group recorded the award amount of ¥147,646 million as “income from arbitration award” on its condensed consolidated statement of profit or loss for the three months ended December 31, 2017. Concurrent with the receipt of the above award amount, all shares in TTSL held by NTT DOCOMO were transferred to Tata Sons and companies designated by Tata Sons. Upon the transfer to NTT DOCOMO shares in TTSL, NTT group discontinued the application of the equity method to the investment in TTSL effective October 31, 2017. As a result, NTT Group recorded ¥29,841 million of loss on transfer of investment in an affiliate, equal to the reclassification adjustments of foreign currency translation adjustments, in “Finance costs” on its condensed consolidated statement of profit or loss for the three month ended December 31, 2017.

12. Corporate Bonds

Details of corporate bonds transactions

Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)						
Transaction	Entity	Description	Principal Amount	Interest Rate	Issuance Date	Maturity Date
Redemption	Nippon Telegraph and Telephone Corporation	3rd series of U.S.dollar bonds	U.S.\$750 million	1.40%	July 18, 2012	July 18, 2017
Redemption	Nippon Telegraph and Telephone Corporation	53rd series of NTT bonds	¥70,000 million	1.54%	January 30, 2008	December 20, 2017
Redemption	NTT Finance Corporation	45th series of bonds	¥15,000 million	0.15%	May 27, 2014	June 20, 2017
Redemption	NTT Finance Corporation	1st series of Eurodollar bonds	U.S.\$500 million	1.50%	July 25, 2012	July 25, 2017
Issuance	NTT Finance Corporation	6th series of Euro-denominated bonds	€ 41.7 million	1.30%	May 30, 2017	May 28, 2027
Issuance	NTT Finance Corporation	7th series of Eurodollar bonds	U.S.\$500 million	Three-month U.S.\$ LIBOR + 0.53%	June 29, 2017	June 29, 2020
Issuance	NTT Finance Corporation	8th series of Euro-denominated bonds	€ 35 million	0.85%	July 27, 2017	July 27, 2024
Issuance	NTT Finance Corporation	4th series of bonds	¥10,000 million	0.06%	October 13, 2017	September 20, 2022
Issuance	NTT Finance Corporation	5th series of bonds	¥10,000 million	0.48%	October 13, 2017	September 17, 2032
Issuance	NTT Finance Corporation	9th series of Euro-denominated bonds	€ 60 million	0.85%	October 31, 2017	October 30, 2024

Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)						
Transaction	Entity	Description	Principal Amount	Interest rate	Issuance date	Maturity date
Redemption	NTT DOCOMO	15th series of bonds	¥80,000 million	1.96%	June, 11 2008	June, 20 2018
Redemption	NTT DOCOMO	17th series of bonds	¥30,000 million	1.77%	December, 3 2008	September, 20 2018
Redemption	NTT DATA	22th series of bonds	¥30,000 million	1.78%	December, 11 2008	December, 20 2018
Redemption	NTT Finance Corporation	42th series of bonds	¥20,000 million	0.50%	May, 28 2013	June, 20 2018
Redemption	NTT Finance Corporation	43th series of bonds	¥20,000 million	0.28%	October, 10 2013	December, 20 2018
Issuance	NTT Finance Corporation	11th series of Euro-denominated bonds	€ 60 million	1.27%	May, 22 2018	May, 22 2028
Issuance	NTT Finance Corporation	12th series of Euro-denominated bonds	€ 60 million	0.63%	August, 9 2018	August, 9 2023

13. Equity and Other Equity Items

(1) Issued Shares and Treasury Stock

Reconciliation of the number of issued shares and treasury stock

	(shares)	
	Issued Shares	Treasury Stock
April 1, 2017	2,096,394,470	81,026,959
Purchase of treasury stock under resolution of the Board of Directors	—	44,239,800
Repurchase of shares based on less-than-one-unit share purchase demand	—	54,223
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	—	(2,424)
March 31, 2018	2,096,394,470	125,318,558
Purchase of treasury stock under resolution of the Board of Directors	—	50,251,000
Repurchase of shares based on less-than-one-unit share purchase demand	—	27,101
Disposal of treasury stock based on additional less-than-one-unit share purchase demand	—	(2,862)
Cancellation of treasury stock	(146,000,000)	(146,000,000)
December 31, 2018	1,950,394,470	29,593,797

On December 12, 2016, the Board of Directors resolved that NTT may acquire up to 33 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from December 13, 2016 through June 30, 2017. Based on this resolution, NTT repurchased 21,693,800 shares of its common stock for a total purchase price of ¥106,763 million from December 2016 through March 2017. NTT also repurchased 8,893,400 shares of its common stock for a total purchase price of ¥43,235 million in April 2017 and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

On September 25, 2017, the Board of Directors resolved that NTT may acquire up to 30 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from September 26, 2017 through March 31, 2018. Based on this resolution, NTT repurchased 26,946,400 shares of its common stock for a total purchase price of ¥150,000 million from October, 2017 through December, 2017.

On February 21, 2018, the Board of Directors resolved that NTT may acquire up to 31 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from February 22, 2018 through June 30, 2018. Based on this resolution, NTT repurchased 29,178,000 shares of its common stock for a total purchase price of ¥150,000 million from March, 2018 through May, 2018.

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

On November 6, 2018, the Board of Directors resolved that NTT may acquire up to 36 million shares of its outstanding common stock for an amount in total not exceeding ¥150 billion from November 7, 2018 through March 29, 2019. Based on this resolution, NTT repurchased 29,473,000 shares of its common stock for a total purchase price of ¥134,651 million from November 2018 through December 2018. NTT also repurchased 3,395,000 shares of its common stock for a total purchase price of ¥15,349 million in January 2019 and concluded the repurchase of its common stock authorized by Board of Directors' resolution.

(2) Put Options Granted to Non-Controlling Interests

With regard to written put options for subsidiary shares granted by NTT Group to the owners of non-controlling interests, the amounts deducted from additional paid-in capital were ¥81,900 million, ¥56,546 million and ¥42,615 million, respectively, at the date of transition to IFRS, at the close of the fiscal year ended March 31, 2018, and at the end of the nine months ended December 31, 2018.

(3) Other Components of Equity

(Millions of yen)

	<u>Nine Months Ended December 31, 2017</u>				
	Unrealized Gain or Loss on Securities	Cash flow hedge	Remeasurements of defined benefit plans	Foreign currency translation adjustment	Total
April 1, 2017	129,879	(5,579)	—	55,153	179,453
Other comprehensive income	29,163	1,292	(803)	55,800	85,452
Transfer to retained earnings	—	—	803	—	803
December 31, 2017	159,042	(4,287)	—	110,953	265,708

(Millions of yen)

	<u>Nine Months Ended December 31, 2018</u>				
	Change in the fair value of financial assets measured at fair value through other comprehensive income*1*2	Cash Flow Hedge	Remeasurements of Defined Benefit Plans	Foreign Currency Translation Adjustment	Total
March 31, 2018	146,013	(3,718)	—	58,343	200,638
Cumulative effect of adoption of IFRS 9 "Financial Instruments"	507	(2,939)	—	—	(2,432)
April 1, 2018	146,520	(6,657)	—	58,343	198,206
Other comprehensive income	(1,762)	(2,372)	(214)	(531)	(4,879)
Transfer to retained earnings	(6,856)	—	214	—	(6,642)
Transfer to non-financial assets, etc.	—	3,905	—	—	3,905
December 31, 2018	137,902	(5,124)	—	57,812	190,590

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

*2. The balance of "Change in the fair value of financial assets measured at fair value through other comprehensive income" on December 31, 2018 includes amounts related to "Assets held for sale" under IFRS 5. For details, please see "Note 8. Assets Held for Sale".

(4) Dividends

The amount of dividends paid out in the nine months ended December 31 2017 and the nine months ended December 31 2018.

Resolution	Class of Shares	Source of Dividends	Total Dividend (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
June 27, 2017 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	120,922	60	March 31, 2017	June 28, 2017
November 10, 2017 Board of Directors	Common stock	Retained earnings	150,484	75	September 30, 2017	December 11, 2017
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

(5) Equity transactions with non-controlling interests

Increase (decrease) in additional paid in capital due to equity transactions with non-controlling interests

(Millions of yen)

	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Transfers from (to) non-controlling interests:		
Increase (decrease) in additional paid-in capital attributable to change in NTT's ownership interest by making NTT Urban Development a wholly-owned subsidiary	—	(114,030)
Increase in additional paid-in capital attributable to tax effect of NTT DOCOMO's share repurchase of its common stock	(3,371)	(9,548)
Increase (decrease) in additional paid-in capital attributable to change in NTT's ownership interest by NTT DOCOMO's share repurchase of its common stock	—	62,417
Other	(10,592)	(1,595)
Total increase (decrease) in additional paid in capital due to transactions with non-controlling interests	(13,963)	(62,756)

Making NTT Urban Development Corporation a Wholly-Owned Subsidiary of NTT-SH Corporation

NTT-SH Corporation (“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.

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 of the tender offer, 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 the contribution in kind to NTT-SH of all NTT UD Shares owned by NTT and, on December 13, 2018, completed the transaction. The contribution in kind did not affect NTT Group’s ownership interests in NTT UD.

Demand for Sales of Shares

On December 17, 2018, pursuant to the Companies Act, NTT-SH made the demand to owners of non-controlling interests in NTT UD to sell all of their ownership interests in NTT UD (4.8%) to NTT-SH (total amount: ¥26,517 million). On the same day, the Board of Directors of NTT UD approved the demand. As a result, NTT Group’s ownership interests in NTT UD is accounted for as 100%.

As a result of the series of transactions described above, “Additional paid-in capital” decreased by ¥114,030 million in the three months ended December 31, 2018. NTT-SH completed the acquisition of all of the NTT UD Shares and made NTT UD a wholly-owned subsidiary of NTT-SH on January 11, 2019.

NTT DOCOMO's repurchase of its common stock

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

On November 6, 2018, NTT DOCOMO resolved at a meeting of its Board of Directors to launch a tender offer to repurchase up to 257,953,468 shares of its outstanding common stock for an amount in total not exceeding ¥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 three month ended December 31, 2018.

(6) Other

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

14. Operating Revenues

Relationship between disaggregated revenues and segment revenues

For the Nine Months Ended December 31

(Millions of yen)

Main Services	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	703,791	155,096	—	—	—	858,887
Mobile voice related services	—	—	699,803	—	—	699,803
IP/packet communications services	926,253	300,094	1,598,670	—	3,115	2,828,132
Sales of telecommunication s equipment	55,272	9,409	603,390	—	—	668,071
System integration services	74,644	1,028,866	—	1,408,805	19,135	2,531,450
Other services	149,589	99,435	640,769	—	270,777	1,160,570
Total	1,909,549	1,592,900	3,542,632	1,408,805	293,027	8,746,913

(Millions of yen)

Main Services	Nine Months Ended December 31, 2018 (April 1, 2018 to December 31, 2018)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	664,641	144,658	—	—	—	809,299
Mobile voice related services	—	—	710,222	—	—	710,222
IP/packet communications services	871,394	314,702	1,613,038	—	3,366	2,802,500
Sales of telecommunications equipment	55,182	7,633	649,760	—	—	712,575
System integration services	74,959	1,039,441	—	1,464,993	20,330	2,599,723
Other services	154,936	97,048	632,622	—	276,290	1,160,896
Total	1,821,112	1,603,482	3,605,642	1,464,993	299,986	8,795,215

For the three Months Ended December 31

(Millions of yen)

Main Services	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	235,319	52,528	—	—	—	287,847
Mobile voice related services	—	—	235,692	—	—	235,692
IP/packet communications services	302,450	101,765	533,836	—	1,061	939,112
Sales of telecommunications equipment	17,996	1,509	284,585	—	—	304,090
System integration services	26,404	356,469	—	494,022	7,143	884,038
Other services	52,144	32,984	224,778	—	95,066	404,972
Total	634,313	545,255	1,278,891	494,022	103,270	3,055,751

(Millions of yen)

Main Services	Three Months Ended December 31, 2018 (October 1, 2018 to December 31, 2018)					
	Segment					
	Regional Communications Business	Long Distance and International Communications Business	Mobile Communications Business	Data Communications Business	Other Business	Total
Fixed voice related services	222,409	48,595	—	—	—	271,004
Mobile voice related services	—	—	237,160	—	—	237,160
IP/packet communications services	289,397	106,102	537,394	—	1,175	934,068
Sales of telecommunications equipment	18,650	1,801	259,605	—	—	280,056
System integration services	28,264	350,534	—	498,972	7,095	884,865
Other services	52,787	34,759	214,287	—	93,030	394,863
Total	611,507	541,791	1,248,446	498,972	101,300	3,002,016

NTT Group provides the following six services: fixed voice related services, mobile voice related services, IP/packet communications services, sales of telecommunications equipment, system integration services, and other services, in its five business segments of Regional Communications Business, Long Distance and International Communications Business, Mobile Communications Business, Data Communications Business, and Other Business. For details, see “Note 3. Significant Accounting Policies - (15)Revenue.”

15. Fair Value of Financial Instruments

At the date of transition to IFRS and for the fiscal year ended March 31, 2018, NTT applies the previous accounting standards (U.S. GAAP) pursuant to the exemption provisions of IFRS 7 and IFRS 9 based on IFRS 1, except for financial instruments not included within the scope of application of IFRS 9. NTT has applied IFRS 7 and IFRS 9 for the nine months ended December 31, 2018.

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

As of the Date of Transition to IFRS and March 31, 2018

(excluded not required to disclose the fair value according to previous accounting standards)

(Millions of yen)

	As of the Date of Transition to IFRS (April 1, 2017)		As of March 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans receivable	287,441	287,754	345,048	345,238
Long-term debt (including current portion or balance due for repayment)	3,862,878	3,966,128	3,576,157	3,641,945

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

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

The carrying amounts of loans receivable with floating rates approximate their fair values because such loans receivable reflect market rates of interest in the short term, and credit conditions of counterparties do not significantly change after loan executions. The fair values of loans receivable with fixed interest rates are calculated by discounting contractual cash flows using interest rates currently available to NTT Group for similar transactions.

The fair values of long-term debt referred to above, including the current portion or balance due for repayment, are measured by discounting future cash flows using discount rates for similar debt instruments of comparable maturities currently offered by NTT Group, except for floating rate debt where the carrying amount and fair value are deemed to be almost equivalent.

As of December 31, 2018

(Millions of yen)

	As of December 31, 2018	
	Carrying amount	Fair value
Long-term debt (including current portion or balance due for repayment)	3,465,881	3,568,897

With the exception of the above items, carrying amounts are reasonable approximations to fair value, and so are not included in the table. The measurement method for fair value was unchanged from the date of transition to IFRS and the end of the fiscal year ended March 31, 2018.

(2) Fair Value Measurements

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

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

•Level 1

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

•Level 2

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

•Level 3

Unobservable inputs for assets or liabilities

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

The assets and liabilities measured at fair value

As of the Date of Transition to IFRS(April 1, 2017)

(Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Domestic equity securities	198,482	—	—	198,482
Foreign equity securities	135,913	—	—	135,913
Domestic debt securities	214	58,759	165	59,138
Foreign debt securities	9	37,957	233	38,199
Derivatives:				
Forward exchange contracts	—	1,142	—	1,142
Interest rate swap agreements	—	297	—	297
Currency swap agreements	—	71,930	—	71,930
Total financial assets	334,618	170,085	398	505,101
Derivatives:				
Forward exchange contracts	—	1,399	—	1,399
Interest rate swap agreements	—	3,937	—	3,937
Currency swap agreements	—	12,555	—	12,555
Currency option agreements	—	1,336	—	1,336
Total financial liabilities	—	19,227	—	19,227

As of March 31, 2018

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Domestic equity securities	232,886	—	—	232,886
Foreign equity securities	116,313	—	—	116,313
Domestic debt securities	—	76,340	172	76,512
Foreign debt securities	97	40,210	—	40,307
Derivatives:				
Forward exchange contracts	—	675	—	675
Interest rate swap agreements	—	942	—	942
Currency swap agreements	—	6,721	—	6,721
Total financial assets	349,296	124,888	172	474,356
Derivatives:				
Forward exchange contracts	—	4,543	—	4,543
Interest rate swap agreements	—	3,079	—	3,079
Currency swap agreements	—	27,788	—	27,788
Currency option agreements	—	842	—	842
Total financial liabilities	—	36,252	—	36,252

1. In the fiscal year ended March 31, 2018, there was no material transfer between levels.
2. Level 3 reconciliation is not disclosed, as there had been no material fluctuations among financial instruments classified as Level 3 in the fiscal year ended March 31, 2018.
3. As well as the above financial instruments measured at fair value on a recurring basis, there was no material security which was applied cost method investments (equity securities) where a decline in value was evaluated as other than temporary and the investment was written down to its fair value under U.S. GAAP.

The assets and liabilities measured at fair value

As of December 31, 2018

(Millions of yen)

Classification	Fair Value			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit/loss				
Debt securities	—	90,155	—	90,155
Investments in capital	—	708	30,024	30,732
Loans receivable	—	156,973	—	156,973
Derivatives	—	3,590	—	3,590
Financial assets measured at fair value through other comprehensive income				
Equity securities	333,843	—	70,664	404,507
Hedging instrument used for cash flow hedging				
Derivatives	—	14,500	—	14,500
Total	333,843	265,926	100,688	700,457
Financial liabilities:				
Financial liabilities measured at fair value through profit/loss				
Derivatives	—	1,289	—	1,289
Hedging instrument used for cash flow hedging				
Derivatives	—	17,173	—	17,173
Total	—	18,462	—	18,462

1. In the nine months ended December 31, 2018, there was no material transfer between levels.
2. Level 3 reconciliation is not disclosed, as there had been no material fluctuations among financial instruments classified as Level 3 in the nine months ended December 31, 2018.

Valuation Techniques Used to Measure Fair Value of Financial Instruments

The valuation techniques used in the consolidated statement of financial position to measure fair value of financial instruments classified as Level 2 and Level 3 are as follows:

(i) Debt Securities

Debt securities include corporate bonds and others, and their fair value is measured using underlying conditions that are observable in the market, such as credit ratings and discount rates, based on pricing models developed independently by financial and other institutions.

(ii) Loans Receivable

The fair values of loans receivable are calculated primarily by discounting contractual cash flows using interest rates currently available to NTT Group for similar transactions.

(iii) Derivatives

Derivatives mainly comprise forward exchange contracts, currency swap agreements and interest rate swap agreements. The fair value of forward exchange contracts is measured based on underlying conditions that are observable in the market, such as exchange rates. The fair value of currency swap agreements and interest rate swap agreements is measured using underlying conditions that are observable in the market, such as LIBOR (London Inter-bank Offered Rate), swap rates and exchange rates, discounting future cash flow to present value.

(iv) Equity Securities and Investments in Capital

The fair value of equity securities and investments in capital was measured using an evaluation model that is selected through appropriate processes and that suits the circumstances of the entity that is the target of the investment, including a reasonable estimate of inputs. As a result, these fair value measurements are primarily measured using the adjusted net asset method.

16. Subsequent Events

NTT's repurchase of its common stock

Please see “Note 13.Equity and Other Equity Items” for details on NTT's repurchase of its common stock.

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

(1) Transition to Financial Reporting in Accordance with IFRS

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

IFRS 1 requires that a company adopting IFRS for the first time applies IFRS retrospectively. However, as an exception under IFRS 1, retrospective application is prohibited for certain standards, for which application of IFRS is made from the date of transition to IFRS and thereafter. Additionally, under IFRS 1, certain exemption provisions may be voluntarily applied for certain standards required by IFRS. The effect of applying these provisions has been recognized at the date of transition to IFRS and an adjustment for the impact has been made within “Retained earnings” or “Other components of equity”.

The main voluntary exemption provisions stipulated in IFRS 1 and applied by NTT Group are described below.

(i) Business Combinations

NTT Group has not applied IFRS 3 retrospectively to business combinations arising prior to April 1, 2002. Goodwill resulting from business combinations arising prior to April 1, 2002 has been recognized using the carrying amount based on U.S. GAAP. For goodwill generated by business combinations that occurred prior to the date of transition to IFRS, an impairment test was implemented as of the date of transition to IFRS, regardless of whether there is any indication of impairment.

(ii) Deemed Cost

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

(iii) Operating Revenues

NTT Group has retrospectively applied IFRS 15 through the practical expedient set out in (d) under paragraph C5 of IFRS 15. In accordance with the provisions of the standard, in relation to the amount of consideration for goods or services to be provided from the next fiscal year and the explanation of when this amount is expected to be recognized as revenue, information concerning the date of transition to IFRS and the fiscal year ended March 31, 2018 is omitted.

(iv) Exemption from Restatement of Comparative Information in the Application of IFRS 9

At the date of transition to IFRS and in the fiscal year ended March 31, 2018, items included within the scope of application of IFRS 9 have been recognized and measured in accordance with U.S. GAAP which is previous accounting standards, without restatement in accordance with IFRS 9.

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

Upon transitioning to IFRS, NTT has reconciled the amounts in the consolidated financial statements that were prepared based on U.S. GAAP. The impact on NTT Group as a result of transitioning from U.S. GAAP to IFRS in terms of financial position, results of operations and cash flows is explained in the following reconciliation tables and in the notes to these tables.

In the reconciliation tables, “Reclassification” shows those items that have no impact on equity and comprehensive income, and “Recognition & Measurement Difference” shows those items that have an impact on equity and comprehensive income.

Reconciliation of Equity at the Date of Transition to IFRS (April 1, 2017)

Consolidated Statement of Financial Position

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	925,213	172,176	(21,616)	1,075,773	Cash and cash equivalents
Short-term investments	63,844	103,734	(168)	167,410	Other financial assets
Notes and accounts receivable, trade	2,699,708	932,534	(8,665)	3,623,577	Trade and other receivables
Allowance for doubtful accounts	(48,626)	48,626	—	—	
Accounts receivable, other	505,145	(505,145)	—	—	
Inventories	365,379	(7,767)	(30,894)	326,718	Inventories
Prepaid expenses and other current assets	573,170	(208,786)	19,122	383,506	Other current assets
Deferred income taxes	228,590	(228,590)	—	—	
Total current assets	5,312,423	306,782	(42,221)	5,576,984	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	11,046,115	—	—	—	
Telecommunications service lines	16,064,732	—	—	—	
Buildings and structures	6,147,869	—	—	—	
Machinery, vessels and tools	2,032,389	—	—	—	
Land	1,292,685	—	—	—	
Construction in progress	421,819	—	—	—	
Accumulated depreciation	(27,286,588)	—	—	—	
Net property, plant and equipment	9,719,021	(989,364)	(9,902)	8,719,755	Property, plant and equipment
	—	1,032,675	(40,358)	992,317	Investment property
Investments and other assets					
Investments in affiliated companies	484,596	—	44,385	528,981	Investments accounted for using equity method
Marketable securities and other investments	495,290	517,251	(1,995)	1,010,546	Other financial assets
Goodwill	1,314,645	—	(433,353)	881,292	Goodwill
Software	1,209,485	(1,209,485)	—	—	
Other intangible assets	453,918	1,188,084	(32,404)	1,609,598	Intangible assets
Other assets	1,492,076	(887,552)	56,447	660,971	Other non-current assets
Deferred income taxes	768,871	228,590	245,822	1,243,283	Deferred tax assets
Total investments and other assets	6,218,881	—	—	—	
	15,937,902	(119,801)	(171,358)	15,646,743	Total non-current assets
Total assets	21,250,325	186,981	(213,579)	21,223,727	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term borrowings	227,207	864,726	(12,690)	1,079,243	Short-term debt
Current portion of long-term debt	681,904	(681,904)	—	—	
Accounts payable, trade	1,612,996	181,994	2,554	1,797,544	Trade and other payables
Current portion of obligations under capital leases	14,430	9,527	21,770	45,727	Other financial liabilities
Accrued payroll	443,308	16,147	(9,095)	450,360	Accrued payroll
Accrued taxes on income	239,755	(367)	(5,571)	233,817	Accrued taxes on income
Accrued consumption tax	75,083	(75,083)	—	—	
Advances received	324,342	(324,342)	—	—	
Other	512,368	174,131	272,363	958,862	Other current liabilities
Total current liabilities	4,131,393	164,829	269,331	4,565,553	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	3,168,478	—	11,167	3,179,645	Long-term debt
Obligations under capital leases (excluding current portion)	25,568	116,770	59,451	201,789	Other financial liabilities
Liability for employees' retirement benefits	1,599,381	—	277,464	1,876,845	Defined benefit liabilities
Accrued liabilities for point programs	103,047	(103,047)	—	—	
Deferred income taxes	166,751	7,285	(74,998)	99,038	Deferred tax liabilities
Other	497,132	1,144	(239,848)	258,428	Other non-current liabilities
Total long-term liabilities	5,560,357	22,152	33,236	5,615,745	Total non-current liabilities
Total liabilities	9,691,750	186,981	302,567	10,181,298	Total liabilities
Redeemable non-controlling interests	50,819	—	(50,819)	—	
Equity					Equity
NTT Shareholders' equity					NTT Shareholders' equity
Common stock	937,950	—	—	937,950	Common stock
Additional paid-in capital	2,862,035	—	(451,463)	2,410,572	Additional paid-in capital
Retained earnings	5,626,155	—	(145,516)	5,480,639	Retained earnings
Accumulated other comprehensive income (loss)	1,562	—	177,891	179,453	Other components of equity
Treasury stock	(375,223)	—	—	(375,223)	Treasury stock
Total NTT shareholders' equity	9,052,479	—	(419,088)	8,633,391	Total NTT shareholders' equity
Non-controlling interests	2,455,277	—	(46,239)	2,409,038	Non-controlling interests
Total equity	11,507,756	—	(465,327)	11,042,429	Total equity
Total liabilities and equity	21,250,325	186,981	(213,579)	21,223,727	Total liabilities and equity

Reconciliation of Equity as of December 31, 2017

Consolidated Statement of Financial Position

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	766,581	112,959	12,690	892,230	Cash and cash equivalents
Short-term investments	44,094	86,125	(2,279)	127,940	Other financial assets
Notes and accounts receivable, trade	2,849,652	1,031,024	19,730	3,900,406	Trade and other receivables
Allowance for doubtful accounts	(52,835)	52,835	—	—	
Accounts receivable, other	658,418	(658,418)	—	—	
Inventories	459,442	(7,592)	(55,425)	396,425	Inventories
Prepaid expenses and other current assets	623,302	(104,045)	13,199	532,456	Other current assets
Total current assets	5,348,654	512,888	(12,085)	5,849,457	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	10,991,048	—	—	—	
Telecommunications service lines	14,144,223	—	—	—	
Buildings & structures	6,236,623	—	—	—	
Machinery, vessels and tools	2,118,915	—	—	—	
Land	1,306,405	—	—	—	
Construction in progress	475,577	—	—	—	
Accumulated depreciation	(25,565,588)	—	—	—	
Net property, plant and equipment	9,707,203	(1,012,527)	4,410	8,699,086	Property, plant and equipment
	—	1,043,885	(38,399)	1,005,486	Investment property
Investments and other assets					
Investments in affiliated companies	507,216	—	33,864	541,080	Investments accounted for using equity method
Marketable securities and other investments	552,254	547,832	(145)	1,099,941	Other financial assets
Goodwill	1,355,737	—	(463,946)	891,791	Goodwill
Software	1,197,194	(1,197,194)	—	—	
Other intangible assets	412,118	1,174,672	9,063	1,595,853	Intangible assets
Other assets	1,558,670	(937,483)	14,854	636,041	Other non-current assets
Deferred income taxes	889,024	—	235,836	1,124,860	Deferred tax assets
Total investments and other assets	6,472,213	—	—	—	
	16,179,416	(380,815)	(204,463)	15,594,138	Total non-current assets
Total assets	21,528,070	132,073	(216,548)	21,443,595	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term borrowings	377,194	709,694	26,581	1,113,469	Short-term debt
Current portion of long-term debt	587,451	(587,451)	—	—	
Accounts payable, trade	1,365,246	210,952	(5,677)	1,570,521	Trade and other payables
Current portion of obligations under capital leases	13,011	13,622	23,971	50,604	Other financial liabilities
Accrued payroll	402,755	—	(11,615)	391,140	Accrued payroll
Accrued taxes on income	163,304	—	975	164,279	Accrued taxes on income
Accrued consumption tax	99,517	(99,517)	—	—	
Advances received	389,937	(389,937)	—	—	
Other	516,082	248,004	177,691	941,777	Other current liabilities
Total current liabilities	3,914,497	105,367	211,926	4,231,790	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	3,154,018	—	8,970	3,162,988	Long-term debt
Obligations under capital leases (excluding current portion)	23,680	119,869	60,337	203,886	Other financial liabilities
Liability for employees' retirement benefits	1,645,420	—	266,483	1,911,903	Defined benefit liabilities
Accrued liabilities for point programs	102,115	(102,115)	—	—	
Deferred income taxes	137,675	—	(59,052)	78,623	Deferred tax liabilities
Other	504,835	8,952	(250,391)	263,396	Other non-current liabilities
Total long-term liabilities	5,567,743	26,706	26,347	5,620,796	Total non-current liabilities
Total liabilities	9,482,240	132,073	238,273	9,852,586	Total liabilities
Redeemable non-controlling interests	51,996	—	(51,996)	—	
Equity					Equity
NTT Shareholders' equity					NTT Shareholders' equity
Common stock	937,950	—	—	937,950	Common stock
Additional paid-in capital	2,841,567	—	(456,175)	2,385,392	Additional paid-in capital
Retained earnings	6,092,304	—	(102,523)	5,989,781	Retained earnings
Accumulated other comprehensive income (loss)	73,402	—	192,306	265,708	Other components of equity
Treasury stock	(568,678)	—	—	(568,678)	Treasury stock
Total NTT shareholders' equity	9,376,545	—	(366,392)	9,010,153	Total NTT shareholders' equity
Non-controlling interests	2,617,289	—	(36,433)	2,580,856	Non-controlling interests
Total equity	11,993,834	—	(402,825)	11,591,009	Total equity
Total liabilities and equity	21,528,070	132,073	(216,548)	21,443,595	Total liabilities and equity

Reconciliation of Equity as of March 31, 2018

Consolidated Statement of Financial Position

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Assets					(Assets)
Current assets					Current assets
Cash and cash equivalents	780,300	129,032	(14,329)	895,003	Cash and cash equivalents
Short-term investments	31,641	93,525	(1,822)	123,344	Other financial assets
Notes and accounts receivable, trade	2,976,467	1,055,447	(9,687)	4,022,227	Trade and other receivables
Allowance for doubtful accounts	(52,332)	52,332	—	—	
Accounts receivable, other	662,190	(662,190)	—	—	
Inventories	393,582	(6,550)	(32,851)	354,181	Inventories
Prepaid expenses and other current assets	575,704	(106,416)	5,117	474,405	Other current assets
Total current assets	5,367,552	555,180	(53,572)	5,869,160	Total current assets
Property, plant and equipment					Non-current assets
Telecommunications equipment	10,917,851	—	—	—	
Telecommunications service lines	14,217,566	—	—	—	
Buildings and structures	6,280,584	—	—	—	
Machinery, vessels and tools	2,127,201	—	—	—	
Land	1,307,985	—	—	—	
Construction in progress	438,604	—	—	—	
Accumulated depreciation	(25,468,698)	—	—	—	
Net property, plant and equipment	9,821,093	(1,009,723)	804	8,812,174	Property, plant and equipment
	—	1,040,512	(38,211)	1,002,301	Investment property
Investments and other assets					
Investments in affiliated companies	502,936	—	36,406	539,342	Investments accounted for using equity method
Marketable securities and other investments	525,170	546,481	(2,852)	1,068,799	Other financial assets
Goodwill	1,329,275	—	(487,992)	841,283	Goodwill
Software	1,223,985	(1,223,985)	—	—	
Other intangible assets	394,489	1,201,689	(6,730)	1,589,448	Intangible assets
Other assets	1,590,636	(957,959)	12,314	644,991	Other non-current assets
Deferred income taxes	920,634	—	253,312	1,173,946	Deferred tax assets
Total investments and other assets	6,487,125	—	—	—	
	16,308,218	(402,985)	(232,949)	15,672,284	Total non-current assets
Total assets	21,675,770	152,195	(286,521)	21,541,444	Total assets

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Liabilities and Equity					(Liabilities and Equity)
Current liabilities					Current liabilities
Short-term borrowings	270,743	765,246	(18,245)	1,017,744	Short-term debt
Current portion of long-term debt	624,385	(624,385)	—	—	
Accounts payable, trade	1,613,516	191,794	6,413	1,811,723	Trade and other payables
Current portion of obligations under capital leases	12,567	11,993	26,151	50,711	Other financial liabilities
Accrued payroll	460,357	—	(5,350)	455,007	Accrued payroll
Accrued taxes on income	245,326	—	(4,656)	240,670	Accrued taxes on income
Accrued consumption tax	88,420	(88,420)	—	—	
Advances received	374,444	(374,444)	—	—	
Other	549,263	237,300	260,019	1,046,582	Other current liabilities
Total current liabilities	4,239,021	119,084	264,332	4,622,437	Total current liabilities
Long-term liabilities					Non-current liabilities
Long-term debt (excluding current portion)	2,947,945	—	5,910	2,953,855	Long-term debt
Obligations under capital leases (excluding current portion)	22,587	135,889	31,880	190,356	Other financial liabilities
Liability for employees' retirement benefits	1,619,907	—	240,617	1,860,524	Defined benefit liabilities
Accrued liabilities for point programs	105,037	(105,037)	—	—	
Deferred income taxes	128,833	—	(54,738)	74,095	Deferred tax liabilities
Other	529,959	2,259	(257,695)	274,523	Other non-current liabilities
Total long-term liabilities	5,354,268	33,111	(34,026)	5,353,353	Total non-current liabilities
Total liabilities	9,593,289	152,195	230,306	9,975,790	Total liabilities
Redeemable non-controlling interests	49,930	—	(49,930)	—	
Equity					Equity
NTT Shareholders' equity					NTT Shareholders' equity
Common stock	937,950	—	—	937,950	Common stock
Additional paid-in capital	2,853,613	—	(457,058)	2,396,555	Additional paid-in capital
Retained earnings	6,260,631	—	(122,280)	6,138,351	Retained earnings
Accumulated other comprehensive income (loss)	44,529	—	156,109	200,638	Other components of equity
Treasury stock	(610,742)	—	—	(610,742)	Treasury stock
Total NTT shareholders' equity	9,485,981	—	(423,229)	9,062,752	Total NTT shareholders' equity
Non-controlling interests	2,546,570	—	(43,668)	2,502,902	Non-controlling interests
Total equity	12,032,551	—	(466,897)	11,565,654	Total equity
Total liabilities and equity	21,675,770	152,195	(286,521)	21,541,444	Total liabilities and equity

Reconciliation of Comprehensive Income for the Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)

Consolidated Statement of Profit or Loss

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Operating revenues					Operating revenues
Fixed voice related services	858,886	—	—	—	
Mobile voice related services	706,412	—	—	—	
IP/packet communications services	2,860,996	—	—	—	
Revenues from the sale of telecommunications equipment	641,991	—	—	—	
System integration	2,479,868	—	—	—	
Other	1,173,883	—	—	—	
Total operating revenues	8,722,036	(10,016)	34,893	8,746,913	
Operating expenses					Operating expenses
Cost of services	1,700,865	(1,700,865)	—	—	
Cost of equipment sold	675,388	(675,388)	—	—	
Cost of system integration	1,774,817	(1,774,817)	—	—	
Depreciation and amortization	995,564	(995,564)	—	—	
Impairment losses					Impairment losses
Goodwill	18,864	—	6,444	25,308	Goodwill
Metal cables	124,800	—	—	124,800	Metal cables
Other	744	—	(1)	743	Other
Selling, general and administrative expenses	2,111,441	(2,111,441)	—	—	
	—	1,800,521	192	1,800,713	Personnel expenses
	—	4,160,512	43,759	4,204,271	Expenses for purchase of goods and services and other expenses
	—	995,564	8,104	1,003,668	Depreciation and amortization
	—	97,776	(332)	97,444	Expenses on disposal of fixed assets
	—	178,572	(98,217)	80,355	Taxes and dues
Total operating expenses	7,402,483	(25,130)	(40,051)	7,337,302	Total operating expenses
Operating income	1,319,553	15,114	74,944	1,409,611	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	25,276	57,004	1,067	83,347	Finance costs
Interest income	14,093	27,184	1,876	43,153	Finance income
Income from arbitration award	147,646	—	—	147,646	Income from arbitration award
Other, net	(14,706)	14,706	—	—	
	—	12,050	(342)	11,708	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	121,757	—	—	—	
Income before income taxes and equity in earnings (losses) of affiliated companies	1,441,310	12,050	75,411	1,528,771	Profit (loss) before taxes

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Income tax expense (benefit)	457,585	—	26,417	484,002	Income taxes
Current	421,822	—	—	—	
Deferred	35,763	—	—	—	
Income before equity in earnings (losses) of affiliated companies	983,725	—	—	—	
Equity in earnings (losses) of affiliated companies	12,050	(12,050)	—	—	
Net income	995,775	—	48,994	1,044,769	Profit
NTT	736,590	—	44,760	781,350	Profit attributable to NTT
Non-controlling interests	259,185	—	4,234	263,419	Non-controlling interests

Consolidated Statement of Comprehensive Income

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Net income	995,775	—	48,994	1,044,769	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of taxes)
					Items that will not be reclassified to profit or loss
	—	—	(832)	(832)	Share of other comprehensive income of entities accounted for using equity method
Pension liability adjustments	5,670	—	(6,023)	(353)	Remeasurements of defined benefit plans
	—	—	—	(1,185)	Total of items that will not be reclassified to profit or loss
					Items that may be reclassified to profit or loss
Unrealized gain (loss) on securities	42,466	—	(9,752)	32,714	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	737	—	804	1,541	Cash flow hedge
Foreign currency translation adjustments	61,778	—	(10,052)	51,726	Foreign currency translation adjustments
	—	—	37,477	37,477	Share of other comprehensive income of entities accounted for using equity method
	—	—	—	123,458	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	110,651	—	11,622	122,273	Total other comprehensive income (net of taxes)
Total comprehensive income (loss)	1,106,426	—	60,616	1,167,042	Total comprehensive income
					Comprehensive income attributable to
NTT	811,781	—	55,021	866,802	NTT
Non-controlling interests	294,645	—	5,595	300,240	Non-controlling interests

Reconciliation of Comprehensive Income for the Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)

Consolidated Statement of Profit or Loss

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Operating revenues					Operating revenues
Fixed voice related services	287,847	—	—	—	
Mobile voice related services	238,743	—	—	—	
IP/packet communications services	952,134	—	—	—	
Revenues from the sale of telecommunications equipment	293,476	—	—	—	
System integration	880,035	—	—	—	
Other	405,006	—	—	—	
Total operating revenues	3,057,241	(2,790)	1,300	3,055,751	
Operating expenses					Operating expenses
Cost of services	580,377	(580,377)	—	—	
Cost of equipment sold	295,476	(295,476)	—	—	
Cost of system integration	633,734	(633,734)	—	—	
Depreciation and amortization	335,626	(335,626)	—	—	
Impairment losses					Impairment losses
Goodwill	18,864	—	6,444	25,308	Goodwill
Metal cables	124,800	—	—	124,800	Metal cables
Other	187	—	(186)	1	Other
Selling, general and administrative expenses	723,807	(723,807)	—	—	
	—	612,769	1,408	614,177	Personnel expenses
	—	1,519,026	720	1,519,746	Expenses for purchase of goods and services and other expenses
	—	335,626	3,824	339,450	Depreciation and amortization
	—	35,106	(432)	34,674	Expenses on disposal of fixed assets
	—	59,051	(32,717)	26,334	Taxes and dues
Total operating expenses	2,712,871	(7,442)	(20,939)	2,684,490	Total operating expenses
Operating income	344,370	4,652	22,239	371,261	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	8,703	34,478	(108)	43,073	Finance costs
Interest income	5,131	667	(528)	5,270	Finance income
Income from arbitration award	147,646	—	—	147,646	Income from arbitration award
Other, net	(29,159)	29,159	—	—	
		5,295	443	5,738	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	114,915	—	—	—	

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Income before income taxes and equity in earnings (losses) of affiliated companies	459,285	5,295	22,262	486,842	Profit (loss) before taxes
Income tax expense (benefit)	148,172	—	11,659	159,831	Income taxes
Current	103,049	—	—	—	
Deferred	45,123	—	—	—	
Income before equity in earnings (losses) of affiliated companies	311,113	—	—	—	
Equity in earnings (losses) of affiliated companies	5,295	(5,295)	—	—	
Net income	316,408	—	10,603	327,011	Profit
					Profit attributable to
NTT	209,085	—	8,186	217,271	NTT
Non-controlling interests	107,323	—	2,417	109,740	Non-controlling interests

Consolidated Statement of Comprehensive Income

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Net income	316,408	—	10,603	327,011	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of taxes)
					Items that will not be reclassified to profit or loss
	—	—	(353)	(353)	Share of other comprehensive income of entities accounted for using equity method
Pension liability adjustments	1,989	—	(2,060)	(71)	Remeasurements of defined benefit plans
	—	—	—	(424)	Total of items that will not be reclassified to profit or loss
					Items that may be reclassified to profit or loss
Unrealized gain (loss) on securities	29,359	—	(3,448)	25,911	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	(229)	—	292	63	Cash flow hedge
Foreign currency translation adjustments	27,392	—	(22,582)	4,810	Foreign currency translation adjustments
	—	—	35,650	35,650	Share of other comprehensive income of entities accounted for using equity method
	—	—	—	66,434	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	58,511	—	7,499	66,010	Total other comprehensive income (net of taxes)
Total comprehensive income (loss)	374,919	—	18,102	393,021	Total comprehensive income
					Comprehensive income attributable to
NTT	249,345	—	14,642	263,987	NTT
Non-controlling interests	125,574	—	3,460	129,034	Non-controlling interests

Reconciliation of Comprehensive Income for the Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)

Consolidated Statement of Profit or Loss

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Operating revenues					Operating revenues
Fixed voice related services	1,146,901	—	—	—	
Mobile voice related services	942,183	—	—	—	
IP/packet communications services	3,801,771	—	—	—	
Revenues from the sale of telecommunications equipment	843,548	—	—	—	
System integration	3,443,147	—	—	—	
Other	1,622,037	—	—	—	
Total operating revenues	11,799,587	(7,813)	(9,626)	11,782,148	
Operating expenses					Operating expenses
Cost of services	2,348,541	(2,348,541)	—	—	
Cost of equipment sold	915,540	(915,540)	—	—	
Cost of system integration	2,471,347	(2,471,347)	—	—	
Depreciation and amortization	1,339,423	(1,339,423)	—	—	
Impairment losses					Impairment losses
Goodwill	18,864	—	15,255	34,119	Goodwill
Metal cables	124,800	—	—	124,800	Metal cables
Other	18,505	—	445	18,950	Other
Selling, general and administrative expenses	2,919,724	(2,919,724)	—	—	
	—	2,408,321	(14,963)	2,393,358	Personnel expenses
	—	5,828,968	4,898	5,833,866	Expenses for purchase of goods and services and other expenses
	—	1,339,423	7,508	1,346,931	Depreciation and amortization
	—	153,656	505	154,161	Expenses on disposal of fixed assets
	—	237,269	(2,392)	234,877	Taxes and dues
Total operating expenses	10,156,744	(26,938)	11,256	10,141,062	Total operating expenses
Operating income	1,642,843	19,125	(20,882)	1,641,086	Operating profit
Non-operating income (expenses)					
Interest and amortization of bond discounts and issue costs	32,188	63,283	1,712	97,183	Finance costs
Interest income	19,094	22,387	2,483	43,964	Finance income
Income from arbitration award	147,646	—	—	147,646	Income from arbitration award
Other, net	(21,771)	21,771	—	—	
	—	5,551	(585)	4,966	Share of profit (loss) of entities accounted for using equity method
Total non-operating income (expenses)	112,781	—	—	—	

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Income before income taxes and equity in earnings (losses) of affiliated companies	1,755,624	5,551	(20,696)	1,740,479	Profit (loss) before taxes
Income tax expense (benefit)	541,864	—	(8,084)	533,780	Income taxes
Current	532,525	—	—	—	
Deferred	9,339	—	—	—	
Income before equity in earnings (losses) of affiliated companies	1,213,760	—	—	—	
Equity in earnings (losses) of affiliated companies	5,551	(5,551)	—	—	
Net income	1,219,311	—	(12,612)	1,206,699	Profit
					Profit attributable to
NTT	909,695	—	(11,808)	897,887	NTT
Non-controlling interests	309,616	—	(804)	308,812	Non-controlling interests

Consolidated Statement of Comprehensive Income

(Millions of yen)

U.S. GAAP Accounting Item	U.S. GAAP	Reclassification	Recognition & Measurement Difference	IFRS	IFRS Accounting Item
Net income	1,219,311	—	(12,612)	1,206,699	Profit
Other comprehensive income (loss), net of tax					Other comprehensive income (net of taxes)
					Items that will not be reclassified to profit or loss
	—	—	(432)	(432)	Share of other comprehensive income of entities accounted for using equity method
Pension liability adjustments	23,712	—	8,998	32,710	Remeasurements of defined benefit plans
	—	—	—	32,278	Total of items that will not be reclassified to profit or loss
					Items that may be reclassified to profit or loss
Unrealized gain (loss) on securities	25,720	—	(10,118)	15,602	Unrealized gain (loss) on securities
Unrealized gain (loss) on derivative instruments	1,982	—	275	2,257	Cash flow hedge
Foreign currency translation adjustment	9,419	—	(32,517)	(23,098)	Foreign currency translation adjustment
	—	—	41,258	41,258	Share of other comprehensive income of entities accounted for using equity method
	—	—	—	36,019	Total of items that may be reclassified to profit or loss
Total other comprehensive income (loss)	60,833	—	7,464	68,297	Total other comprehensive income (net of taxes)
Total comprehensive income (loss)	1,280,144	—	(5,148)	1,274,996	Total comprehensive income
					Comprehensive income attributable to
NTT	956,013	—	(5,711)	950,302	NTT
Non-controlling interests	324,131	—	563	324,694	Non-controlling interests

(3) Notes on Adjustment to Equity and Comprehensive Income

(i) Impairment on Non-Financial Assets

As the method of implementing the goodwill impairment test differs between U.S. GAAP and IFRS, a difference emerges in the amount recognized as an impairment loss. The main difference is the implementation unit of the impairment test.

Under U.S. GAAP, goodwill impairment tests are required to be carried out for each reporting unit (business segment or the constituent unit one level lower), whereas under IFRS, impairment tests are required to be carried out for an each cash-generating unit or a group of cash-generating unit. When transitioning to IFRS, NTT Group divided certain reporting units into several cash-generating units.

For goodwill, an impairment test was implemented as of the date of transition to IFRS, regardless of whether there was any indication of impairment or not.

The impact of this change were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Goodwill	(74,972)	(80,955)	(88,019)
Other components of equity	1,454	1,206	(683)
Non-controlling interests	18,815	18,602	21,612
Adjustment to retained earnings	(54,703)	(61,147)	(67,090)

	Millions of yen		
	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Impairment losses - Goodwill	(6,444)	(6,444)	(15,360)
Increase(decrease) in adjustment to pretax income	(6,444)	(6,444)	(15,360)

(ii) Capitalization of Development Expenses

Certain development expenses that form part of R&D-related expenditure, which were recorded as expenses under U.S. GAAP, are recognized as assets in the consolidated statement of financial position and amortized using the straight line method over the estimated useful life as the capitalization requirements under IFRS are fulfilled.

The impact of this change were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	15,998	17,198	19,448
Intangible assets	1,985	2,805	3,069
Deferred tax liabilities	(5,605)	(6,221)	(7,011)
Other components of equity	39	2	11
Non-controlling interests	(697)	(975)	(1,007)
Adjustment to retained earnings	11,720	12,809	14,510

	Millions of yen		
	Nine months ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Expenses for purchase of goods and services and other expenses	6,114	2,616	10,237
Depreciation and amortization	(4,029)	(1,427)	(5,529)
Expenses on disposal of fixed assets	(154)	(53)	(241)
Increase(decrease) in adjustment to pretax income	1,931	1,136	4,467

(iii) Deemed Cost

In the application of IFRS, NTT Group applies the exemption provisions stipulated in IFRS 1, and for certain property, plant and equipment and investment property, uses the fair value as of the date of transition to IFRS as the deemed cost.

At the date of transition to IFRS, the previous carrying amount of “Property, plant and equipment” and “Investment property” was ¥525,178 million, and the fair value was ¥413,281 million.

As a result of the above, at the date of transition to IFRS “Property, plant and equipment” and “Investment property” decreased by ¥66,353 million and ¥45,544 million, respectively. After deducting 34,789 million as an adjustment for deferred taxes, the net effect were included in “Retained earnings” in the amount of ¥55,450 million and “Non-controlling interests” in the amount of ¥21,658 million.

(iv) Revenues

With respect to the costs pertaining to the communications services provided in the Regional Communications Business, Long Distance and International Communications Business, and Mobile Communications Business, sales commissions and other charges were previously capitalized and amortized over the estimated average period of the subscription term, up to the amount of non-recurring upfront fees such as income from installation fees and activation fees under U.S. GAAP, but under IFRS, the full amount of these respective costs regardless of the amount of non-recurring upfront fees will be capitalized. For this reason, part of the sales commissions and other charges that were previously treated as expenses will be recognized as additional assets. In addition, under U.S. GAAP, an allowance was recognized for points earned by customers in line with service usage, but under IFRS, part of the transaction consideration is recognized as contract liabilities and revenue is recognized when the points are used.

In the Mobile Communications Business, non-recurring upfront fees - the sum of income such as activation fees are deferred, and under U.S. GAAP, were recognized as revenues by type of service over the average expected period of subscription, under IFRS, these will be recognized over the period of provision of the "Monthly Support" discount program.

For cases in which it is difficult to make a reasonable estimate on the progress of the construction work, under U.S. GAAP, revenues were recognized upon completion of the contracted services, but under IFRS, revenues are recognized within the range of the costs that arise.

The impact of these changes were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Trade and other receivables	7	2,366	234
Inventories	(24,820)	(54,433)	(27,363)
Other current assets	6,844	29,574	4,784
Property, plant and equipment	—	(396)	(102)
Deferred tax assets	(55,776)	(45,301)	(46,542)
Other non-current assets	105,517	73,239	61,940
Trade and other payables	—	—	(908)
Other current liabilities	(123,295)	(131,600)	(128,301)
Other non-current liabilities	212,543	224,423	236,783
Non-controlling interests	(47,908)	(44,041)	(46,491)
Adjustment to retained earnings	73,112	53,831	54,034

	Millions of yen		
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Operating revenues	7,072	383	(32,357)
Personnel expenses	(13,212)	(3,975)	(5,473)
Expenses for purchase of goods and services and other expenses	(21,121)	(2,567)	10,202
Depreciation and amortization	(2,662)	(449)	(1,841)
Expenses on disposal of fixed assets	(202)	(58)	(260)
Taxes and dues	(11)	(4)	(1)
Increase(decrease) in adjustment to pretax income	(30,136)	(6,670)	(29,730)

(v) Employee Benefits

Under U.S. GAAP, service cost, interest cost and expected return on plan assets associated with post-retirement benefits under the defined benefit plans were recognized as profit or loss. Of the actuarial gains (losses) and prior service cost arising from the defined benefit plans, those that were not recognized as components of current net periodic pension cost recognized as “Other components of equity”, which would be recognized later through profit or loss over a certain future period.

Under IFRS, on the other hand, current service cost and past service cost under the defined benefit plans are recognized as profit or loss, while net interest cost is recognized at an amount calculated by multiplying the net defined benefit liabilities (assets) by discount rates in as profit or loss. Remeasurement of the net defined benefit liabilities (assets) (such as actuarial gains or losses) is recognized as other comprehensive income, which, upon its occurrence, is transferred directly from “Other components of equity” to “Retained earnings”, without going through profit or loss.

The Special Accounting Fund for the NTT CDBP is a social welfare pension plan and is considered a multi-employer plan, and therefore contributions are recognized as expenses under U.S. GAAP. Under IFRS, on the other hand, although the scheme is a social welfare pension scheme, it is considered a defined benefit plan, therefore the defined benefit obligations are recognized at the present value in the consolidated statement of financial position as “Defined benefit liabilities”.

The impact of these changes were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax assets	78,628	76,059	67,643
Other non-current assets	153	(2,505)	(453)
Defined benefit liabilities	(277,371)	(266,335)	(241,746)
Other components of equity	(197,121)	(193,339)	(175,688)
Non-controlling interests	(2,698)	(3,053)	(4,169)
Adjustment to retained earnings	(398,409)	(389,173)	(354,413)

	Millions of yen		
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Personnel expenses	15,769	5,060	20,746
Expenses for purchase of goods and services and other expenses	556	185	741
Increase(decrease) in adjustment to pretax income	16,325	5,245	21,487

(vi) Levies

Under U.S. GAAP, expenditure of levies such as real estate tax was expensed over the relevant accounting period. Under IFRS, however, the amounts of the expenditure is recognized as an expense in full at the time when payment obligation arises.

The impact of this changes were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Other current assets	—	(16,213)	—
Inventories	160	24	136
Deferred tax assets	41,563	10,473	40,505
Other current liabilities	(132,099)	(16,964)	(129,663)
Trade and other payables	(398)	0	(398)
Non-controlling interests	10,874	2,903	10,830
Adjustment to retained earnings	(79,900)	(19,777)	(78,590)

	Millions of yen		
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Taxes and dues	98,388	32,934	2,413
Increase(decrease) in adjustment to pretax income	98,388	32,934	2,413

(vii) Business Combinations

Under U.S. GAAP, with respect to the acquisition of non-controlling interests in a subsidiary that occurred prior to March 31, 2009, the acquisition cost was allocated to identifiable assets acquired and liabilities assumed, which were measured based on estimated fair value, with the excess of the acquisition cost over the net assets acquired recognized as “Goodwill”. With regard to individual investments acquired in stages, the accounting method described above is applied, and the cumulative amount of their acquisition cost is then reflected. Under IFRS, changes in a parent’s ownership interest in a subsidiary that do not result in a loss of the parent’s control over the subsidiary are accounted for as capital transactions and with regard to individual investments acquired in stages, these are remeasured at fair value on the acquisition date entailing acquisition of control.

In addition, under U.S. GAAP, the non-controlling interest in the acquired company at the time of business combination is measured at fair value. Under IFRS, on the other hand, the non-controlling interest in the acquired company at the time of business combination can be measured, for each business combination transaction, at fair value or by proportional share in the acquired company’s identifiable net assets.

The impact of these changes were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Property, plant and equipment	35,958	35,497	35,343
Investments accounted for using equity method	34,133	29,523	30,448
Goodwill	(384,201)	(385,104)	(384,584)
Intangible assets	(5,182)	(3,403)	(3,151)
Deferred tax assets	2,497	4,167	4,210
Deferred tax liabilities	1,734	1,177	1,099
Additional paid-in capital	260,796	261,996	266,166
Other components of equity	25,466	26,656	26,050
Non-controlling interests	70,932	72,463	68,029
Adjustment to retained earnings	42,133	42,972	43,610

	Millions of yen		
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Three Months Ended December 31, 2017 (October 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Profit or Loss)			
Expenses for purchase of goods and services and other expenses	9	3	12
Depreciation and amortization	1,309	255	1,404
Share of profit (loss) of entities accounted for using equity method	(1,317)	(255)	(2,697)
Increase(decrease) in adjustment to pretax income	1	3	(1,281)

(viii) Income Taxes

With respect to taxable temporary differences pertaining to investments in domestic subsidiaries, under U.S. GAAP, unless the tax law provides a means by which the reported amount of that investment can be recovered tax-free and it can be expected that the company will ultimately use that means, “Deferred tax liabilities” are recognized. Under IFRS, on the other hand, in cases where it is probable that the temporary difference will not reverse in a foreseeable future, “Deferred tax liabilities” for taxable temporary differences pertaining to investments in subsidiaries are not recognized.

In addition, under U.S. GAAP, deferred tax liabilities recognized for taxable temporary differences pertaining to investments in affiliates are measured based on the future reversal of the taxable temporary differences resulting from the sale of investments. Under IFRS, on the other hand, the deferred tax liabilities recognized for future taxable temporary differences pertaining to investments in affiliates are measured based on the most probable manner of future reversal, such as the distribution of dividends.

The impact of these changes were as follows. This impact on consolidated statements of income were immaterial and omitted.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Deferred tax liabilities	209,210	212,951	195,476
Additional paid-in capital	130,046	133,417	152,648
Other components of equity	(6,995)	(9,535)	(9,480)
Non-controlling interests	(9,539)	(11,052)	(11,409)
Adjustment to retained earnings	322,722	325,781	327,235

(ix) Put Options Granted to Non-Controlling Interests

Under U.S. GAAP, with respect to written put options on subsidiary shares granted to the holders of certain non-controlling interests, as redemption of the non-controlling interests was not solely in the control of NTT Group, the estimated redemption amount was considered as “Redeemable non-controlling interests” and was presented in between liabilities and equity in the consolidated balance sheets. Changes in the estimated redemption amount were recognized as changes in “Retained earnings”.

Under IFRS, on the other hand, as a general rule, the present value of the redemption amount of these options is recognized at first as “Other financial liabilities”, and an equivalent amount is deducted from “Additional paid-in capital”. After this initial recognition, they are measured at amortized cost based on the effective interest rate method, and their subsequent change is recognized as “Additional paid-in capital.”

The impact of this change were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Redeemable non-controlling interests	50,819	51,996	49,930
Other financial liabilities (current)	(21,906)	(24,319)	(26,343)
Other financial liabilities (non-current)	(57,724)	(55,827)	(28,775)
Non-controlling interests	(32,222)	(31,662)	(27,044)
Retained earnings	—	—	(4,778)
Adjustment to additional paid-in capital	(61,033)	(59,812)	(37,010)

The main adjustments to equity and comprehensive income other than (i) to (ix) above are as follows.

Under U.S. GAAP, where the fiscal year-end date of a subsidiary or affiliated company differs from that of the parent company, intervening events that materially affect the financial position or results of operations are disclosed in the notes or adjusted directly in the consolidated financial statements.

Under IFRS, where the fiscal year-end date of a subsidiary or affiliated company and joint venture differs from that of the parent company, the fiscal year-end date is unified or additional financial statements are prepared on the parent company’s fiscal year-end date, except where doing that be impractical. If unifying the fiscal year-end date or preparing additional financial statements is impractical, an adjustment is made for the material events or transactions occurring within the different periods.

The impact of this change were as follows.

	Millions of yen		
	As of the Date of Transition to IFRS April 1, 2017	As of December 31, 2017	As of March 31, 2018
(Consolidated Statement of Financial Position)			
Retained earnings	(687)	(4,131)	(1,816)
Other components of equity	(9,118)	6,738	(12,183)
Non-controlling interests	(2,464)	307	(1,185)

(4) Note on Changes in Presentation of Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss

(i) Presentation of Deferred Tax Assets and Deferred Tax Liabilities

Under U.S. GAAP, “Deferred tax assets” and “Deferred tax liabilities” at the date of transition to IFRS (April 1, 2017) are shown as current assets and current liabilities, or as non-current assets and non-current liabilities. Under IFRS, all deferred tax assets and deferred tax liabilities are shown as non-current assets and non-current liabilities. At the end of the nine months ended December 31, 2017 and the end of the fiscal year ended March 31, 2018, there was no difference in this standard between U.S. GAAP and IFRS.

(ii) Classification of Financial Assets and Financial Liabilities

Under IFRS, “Other financial assets” and “Other financial liabilities” are presented separately, based on the rules of presentation.

(iii) Offsetting of Financial Assets and Financial Liabilities

Under U.S. GAAP, financial assets are presented offset against financial liabilities, under the certain requirements are met, even if the right of offset is conditional. Under IFRS, however, financial assets are not presented offset against financial liabilities, except in the situations in which an unconditional and legally enforceable right to offset exists at the end of the reporting period, and intention exists either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iv) Presentation of Operating Expenses

Under U.S. GAAP, “Operating expenses” are presented using the function of expense method, whereby expenses are classified as cost of sales, selling expenses, or other categories of expenses based on their function. Under IFRS expenses are presented using the nature of expense method, whereby expenses are classified as “Personnel expenses,” “Expenses for purchase of goods and services and other expenses,” “Depreciation and amortization,” or other categories of expenses based on their nature.

(5) Adjustment to Consolidated Statement of Cash Flows

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

	(Millions of yen)	
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) operating activities	(97,805)	(96,277)
Net cash provided by (used in) investing activities	72,192	95,592
Net cash provided by (used in) financing activities	(6,691)	(36,621)

The key adjustments are the two points described below.

① Under U.S. GAAP, cash flows relating to loans and the collection of loans are recorded under cash flows from investing activities. Under IFRS, however, cash flows related to loans and collection of loans that are related to principal operating activities are recorded under cash flows from operating activities. The impact of this change were as follows.

	(Millions of yen)	
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) operating activities	(47,270)	(47,544)
Net cash provided by (used in) investing activities	47,270	47,544

② Due to the changes in the consolidated statement of financial position described under section (4)(iii) above, under IFRS, certain short-term debt and cash and cash equivalents are presented in a gross basis. The impact of this change were as follows.

	(Millions of yen)	
	Nine Months Ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Fiscal Year Ended March 31, 2018 (April 1, 2017 to March 31, 2018)
(Consolidated Statement of Cash Flows)		
Net cash provided by (used in) financing activities	(59,013)	(43,105)