

## Operating and Financial Review and Prospects

During the consolidated fiscal year ended March 31, 2009, turmoil in the international financial markets gave rise to a global economic crisis and the Japanese economy underwent a rapid downturn including substantial drops in exports and production and declines in corporate profits and employment.

In the information and telecommunications fields, as the roll-out of broadband and ubiquitous services progresses, the use of optical services is increasing in the fixed-line communications market and conventional fixed-line telephony is transitioning to optical IP telephone services. In the mobile communications market, services and handsets are becoming more diverse and advanced while rate competition and entry into the market by new MVNOs are giving rise to increasingly fierce competition. Many other dramatic changes are occurring in conjunction with the increased use of IP, including the integration of and collaboration between fixed-line and mobile communications and communications and broadcasting services, and the creation of diverse new network-based businesses.

The effects of the intensification of competition and the economic downturn are also being felt within NTT Group, in areas such as orders for solutions services and sales of FLET'S Hikari services and mobile phone handsets. Under these difficult circumstances, NTT Group is working to expand broadband and ubiquitous services pursuant to its new Medium-Term Strategy adopted in May 2008 entitled "Road to Service Creation Business Group."

In the fixed-line communications market, NTT Group expanded the coverage area for the NGN that is now being used to provide commercial services such as FLET'S Hikari Next as of March 2008, and worked to expand and enhance services that capitalize on the unique characteristics of the NGN, such as Hikari TV. NTT Group also took steps to enhance the quality of customer service, such as reducing the lead time between a customer's application and the start of FLET'S Hikari service and enhancing support services. As a result of these efforts, the number of FLET'S Hikari subscriptions reached 11.13 million.

In the mobile communications market, NTT Group deployed new mobile phone handsets tailored to customer preferences and lifestyles and offered new services that support customers' day-to-day lives such as "i-concier," which delivers information at times and through delivery methods suited to a customer's interests and preferences. NTT Group continued its efforts to firmly establish business models tailored to changes in the market environment, including the new discount services and new handset purchase methods that were introduced during the previous fiscal year. NTT

Group also worked to raise customer satisfaction by conducting a comprehensive review extending from customer relations to handsets and network structures. As a result of these efforts, the number of mobile phone subscriptions reached 54.60 million, of which 49.04 million are FOMA service subscriptions, accounting for 90% of all subscriptions.

With regard to services for corporate customers, NTT Group worked to provide high value-added solutions according to customer industries and business categories and to raise support capabilities adapted to the global business activities of its customers. In the area of SaaS, which reduces customer information system installation and operation burdens, NTT Group collaborated with its business partners to develop safe and secure SaaS platforms and provide a wide range of services.

In its global businesses, NTT Group used its comprehensive capabilities to provide ICT solutions. Overseas business sites were expanded, acquisitions of interests in SI businesses in Europe and the Americas were made to provide solution services and data centers were improved. With respect to international roaming services for mobile phones, the lineup of compatible handsets was expanded and tie-ups with overseas carriers were strengthened to increase the number of countries and territories where services are offered and to provide more convenient services.

In addition, NTT Group is working in concert to undertake CSR activities intended to contribute to the sustainable development of society. NTT Group has positioned the prevention of global warming as a top-priority of its environmental agenda, and is implementing a variety of measures to reduce carbon dioxide emissions from the business activities of individual group companies and, through the provision of goods and services, to reduce carbon emissions of society as a whole. "Green NTT," a policy encouraging the development and use of clean energy such as solar power, was launched in May 2008, and NTT Green LLP was established in August 2008 through joint investments by individual group companies to promote solar power generation.

As a result of these efforts, NTT Group's consolidated operating revenues for the fiscal year ended March 31, 2009 were 10,416.3 billion yen (a decrease of 2.5% from the previous fiscal year) and consolidated operating expenses were 9,306.6 billion yen (a decrease of 0.7% from the previous fiscal year). Consolidated operating income was 1,109.8 billion yen (a decrease of 14.9% from the previous fiscal year), consolidated income before income taxes was 1,105.2 billion yen (a decrease of 16.4% from the previous fiscal year), and consolidated net income was 538.7 billion yen (a decrease of 15.2% from the previous fiscal year).

## Factors Affecting the Company's Financial Condition and Operating Results

### Interconnection Rates

Under the Telecommunications Business Law, NTT East and NTT West, as telecommunications businesses having Type I designated telecommunications facilities, establish their interconnection rates and conditions for interconnection in their articles of interconnection agreements (fixed forms of contract that are subject to the approval of the Minister of Internal Affairs and Communications) entered into with other carriers. Among other things, the minister's approval is subject to the condition that the interconnection rates be fair and proper in light of costs computed according to a method stipulated by the MIC as the method for computing proper costs under efficient management.

### Telephone Connection Rates

In May 1998, in a joint status report on deregulation and competition policy issued by the governments of Japan and the United States, the Japanese government stated its intention to introduce an LRIC Methodology, and in May 2000, the Telecommunications Business Law was amended to include the introduction of an LRIC Methodology. Since then, the LRIC Methodology has brought about decreases in interconnection charges.

The subsequent shift from dial-up access to ADSL access services brought about a significant decline in communication traffic, and in order to avoid an increase in communication rates through the increase of interconnection charges it was decided that NTS costs (costs not included in the communications fee) would be gradually removed over five years from interconnection rate costs and be recovered instead through base rates (October 2004 report of the Telecommunications Council). As a result, the interconnection charges for NTT East and NTT West for the fiscal year ended March 31, 2008 were set at GC interconnection charges of ¥4.69 (a decrease of approximately 7.1% from the previous fiscal year) and IC interconnection charges of ¥6.55 (a decrease of approximately 4.2% from the previous fiscal year) (in each case for three minutes).

With respect to the treatment of NTS costs, when the USF was reviewed from the standpoint of restricting cost increases for users, it was decided that for interconnection charges for the three years commencing with the fiscal year ended March 31, 2009, the cost burden resulting from narrowing the scope of USF

subsidies would not be borne only by NTT East and NTT West, but would be recovered in a fair and equitable manner from other carriers, and that a portion of NTS costs would be reintroduced in stages as interconnection rate costs (September 2007 report of the Telecommunications Council). However, the interconnection charges for NTT East and NTT West for the fiscal year ended March 31, 2009, were set at GC interconnection charges of ¥4.53 (a decrease of approximately 3.4% from the previous fiscal year) and IC interconnection charges of ¥6.41 (a decrease of approximately 2.1% from the previous fiscal year) (in each case for three minutes). As a result, interconnection charge revenues declined for NTT East and NTT West for the fiscal year ended March 31, 2009.

The interconnection charges for NTT East and NTT West for the fiscal year ending March 31, 2010 were set at GC interconnection charges of ¥4.52 (a decrease of approximately 0.2% from the previous fiscal year) and IC interconnection charges of ¥6.38 (a decrease of approximately 0.5% from the previous fiscal year) (in each case for three minutes). As a result, interconnection charge revenues for NTT East and NTT West for the fiscal year ending March 31, 2010 are also expected to decline from the prior fiscal year.

### Optical Fiber Line Interconnection Charges

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

With regards to the calculation of subscriber optical fiber interconnection charges, in order to enable more customers to enjoy optical broadband services, NTT Group intends to employ a forward-looking cost method that accounts for prospective demand expansion and greater efficiency in facility costs for the three-year computation period, from the fiscal year ended March 31, 2009 through the fiscal year ending March 31, 2011. NTT Group received approval for this method on June 24, 2008. For these interconnection charges, NTT Group has introduced a cost difference adjustment system under which adjustments are made by adding to interconnection charges for the following year and onwards, the difference between the actual revenue from interconnection charges and anticipated cost, which should eliminate the risk of unrecoverable amounts so long as actual costs do not exceed anticipated costs.

With regards to the issue of setting per-unit interconnection charges for optical bifurcated lines in a passive optical network ("GE-PON"(Gigabit Ethernet-Passive Optical Network), a point-to-multipoint fiber to the premises network architecture in which unpowered optical splitters are used to enable a single optical fiber to serve multiple premises) system, in the deliberations of the Telecommunications Council that started in the Fall of 2007 there were a large number of requests for provision of optical bifurcated lines by other carriers in discussions relating to the regulation of interconnection rules for the NGN, and the debate continued over a number of sessions. In its report dated March 27, 2008, the Telecommunications Council concluded that it would be appropriate to reconsider this issue after reviewing future changes in the market environment and the technologies relating to point-to-multipoint architecture. Depending on future technological changes, this debate may be revived, and the direction and effects of any such review on NTT Group remain uncertain at this time.

## Universal Service Fund

NTT East and NTT West have an obligation to provide universal service (telephone services essential to the public) throughout Japan in accordance with the NTT Law.

Subsequent to the establishment of the USF in June 2002, as other carriers started to use dry copper lines to provide direct subscriber telephone services, competition intensified for conventional fixed-line telephone services. As a result, the USF system was amended, and NTT East and NTT West received an aggregate of ¥15.2 billion in subsidies for the fiscal year ended March 31, 2008 (¥7 per month per phone number).

It was initially anticipated that the amount of subsidies from the fund would rise each year as NTS costs were set to be removed in stages over the five years subsequent to the fiscal year ended March 31, 2006 from interconnection rate costs and recovered through base rates for universal service telephones. Accordingly, it was initially assumed that the costs paid by users would increase each year, as most telecommunications carriers would pass the costs of the universal service on to their customers. For these reasons, the Telecommunications Council deliberated restricting the increase in USF-related costs paid for by users, in the fiscal year ended March 31, 2009. The Telecommunications Council indicated its determination that it would be appropriate to maintain the per phone number cost for universal service at roughly the same level as the previous fiscal year (¥7 per month per phone number) for the fiscal year ended March 31, 2009 and for the three years thereafter, to recover the resulting cost burden of decreased subsidies

from NTT East and NTT West and to recover NTS costs from other carriers in a fair and equitable manner (i.e., as a portion of transmission line costs between a feeder point remote terminal and GC). As a result, the unit cost per phone number for the fiscal year ended March 31, 2009 was set at ¥6 per month and the amount of subsidies paid from the USF for the fiscal year was approximately ¥13.6 billion. The unit cost per phone number for the fiscal year ending March 31, 2010 has been set at ¥8 per month, and the amount of subsidies from the USF for the fiscal year is expected to be approximately ¥18.0 billion.

Furthermore, in the fiscal year ended March 31, 2008, deliberations were held regarding the future direction of the USF system, and a study group report released in December 2007 concluded as follows: (i) in principle, the current system framework will be maintained (Phase 1) through the first years of the decade beginning 2010, a period in which a majority of voice telephone users will remain as Public Switched Telephone Network ("PSTN") users; (ii) in Phase 2 when the PSTN and IP networks co-exist and the transition to full IP network telephone gets underway and is then completed, there is a certain reasonableness to adopting the approach of a "universal access" system under which a distinction is made between voice services as applications and broadband access networks as infrastructure, and a portion of the costs for maintaining access networks in unprofitable regions will be eligible for subsidies; and (iii) the conclusions reached in (i) and (ii) above are based on circumstances as anticipated at the point in time that such conclusions were reached, and additional issues will be considered and policy directions will be clarified through more detailed future deliberations.

Since April 2008, the Telecommunications Council has been deliberating on the appropriate structure for the USF system for the fiscal year ending March 31, 2010 and beyond, focusing on the design of a specific system for Phase 1. Modifications of the USF system were made on the basis of an assumption that the current structure will be maintained between the fiscal years ending March 31, 2010 and March 31, 2012. In particular, subsidies were adjusted by adding the number of subscriptions transferred to fiber-optic IP telephony services. This was because, under the current structure, the amount of USF subsidies would decrease due to progressive migration of users to IP services, through a decrease in subscriptions for fixed-line telephone services and a significant increase in subscriptions for fiber-optic IP telephony services. According to the Telecommunications Council, subsidies are expected to be in amounts ranging from ¥14.0 to ¥15.0 billion.

## Measures to Strengthen Competitiveness in the Mobile Communications Business

In the mobile communications market, during the fiscal year ended March 31, 2007, due to expanded discount services and expanded application of fixed rate packet transmission plans, ARPU continued to decline. This decline was offset by an increase of subscribers and the recognition as revenue of the portion of "Nikagetsu Kurikoshi" (two-month carry over) allowances that had been projected to expire, resulting in a slight increase in mobile telephone revenues. In addition, the introduction of mobile number portability led to an increase in handsets sold and thus an increase in handset sales revenues. For these reasons, the mobile communications business segment saw operating revenues increase 0.5% over the previous fiscal year, reaching ¥4,788.1 billion.

In the fiscal year ended March 31, 2008, while revenues in handset sales increased with the introduction of a new handset purchase method called "Value Course" in November 2007, revenues from mobile voice related services decreased as a result of the introduction of new discount services such as "Fami-wari MAX 50" and "Hitoridemo Discount 50," and due to the recognition as deferred income in the fiscal year ended March 31, 2007 of the portion of "Nikagetsu Kurikoshi" (two-month carry over) allowances that had been projected to expire. As a result, operating revenues in the mobile communications business segment decreased 1.6% from the previous fiscal year, to ¥4,711.8 billion.

During the fiscal year ended March 31, 2009, NTT DOCOMO revamped the NTT DOCOMO brand and declared four "New DOCOMO Commitments" that express a vision for NTT DOCOMO's transformation in April 2008. In November 2008, the handset lineup was modified to include four new series, and with the introduction of Mobile Number Portability, significant improvement was made to stem the decline in subscribers. As a result, the number of net new subscriptions showed signs of recovery. Meanwhile, handset sales in unit terms decreased as the use of new handset purchase methods introduced during the previous fiscal year became established. Furthermore, due to such factors as a continued decline in ARPU as a result of a rising ratio of subscriptions with new discount services and a drop in access charge income from other providers, operating revenues in the mobile communications business segment fell 5.6% from the previous fiscal year to ¥4,448.0 billion.

In the fiscal year ending March 31, 2010, as changes in the economic environment begin to have an impact on the decline in handset sales in unit terms, it is expected that the impact of revenue reductions resulting from the further spread of the new discount services will continue to offset the effect of increasing revenue

associated with higher packet communications revenue and the mild growth in subscriptions. As a result, mobile telephone revenues are projected to decline from the previous fiscal year's level.

## Impact of the New Business Model on the Mobile Communications Business

In November 2007, NTT DOCOMO terminated its handset sales incentives program, which constitutes a part of the commissions paid to resellers, and introduced a new handset purchase method, "Value Course," and a new discount rate plan, "Value Plan." Securing subscribers through low-priced handset sales using a handset sales incentive program was a business model suitable for expanding the subscription base during a period of growth, but now that the market has matured, this subscription strategy raises several issues such as the lack of cost transparency, cost unfairness among subscribers depending on their handset usage periods, and costs associated with sales decreasing the profits of mobile communications providers.

Value Course is a purchase method in which subscribers pay the costs of purchasing handsets without discounts from a handset sales incentive program but enjoy the Value Plan which is a plan with reduced basic monthly charges. When a subscriber chooses the installment payment option, NTT DOCOMO pays for the handset on behalf of the customer and directly bills the subscriber for the handset costs, together with monthly communication charges, over the installment payment period. Because income associated with handset sales is recognized at the time of delivery to sales agencies, handset payments to sales agencies on behalf of customers and collection of handset payments from subscribers have no impact on revenues. Although NTT DOCOMO concurrently introduced Basic Course, in which markdowns on handset sale prices are directly offered by NTT DOCOMO to subscribers but basic monthly charges are not discounted, the rate at which customers buying new models choose the Value Course has remained above 90% and Value Course customers exceeded 20 million as of March 31, 2009. In August and September 2007, NTT DOCOMO introduced "Fami-wari MAX 50," "Hitoridemo Discount 50" and "Office-wari MAX 50" (collectively, "new discount services") that offer subscribers committing to a two-year contract an immediate 50% discount on basic monthly charges, and these new discount services accounted for more than 60% of all contracts as of March 31, 2009. Through the introduction of these new handset purchase methods and new discount services, NTT Group will endeavor to win longer contracts from existing subscribers and reduce customer turnover.

Although the fiscal year ended March 31, 2009 saw an increase in the number of mobile phone subscriptions, mobile phone revenues for the fiscal year decreased due to a decline in ARPU resulting from the widespread adoption of Value Course and the new discount services. At the same time, even though the number of handsets sold to sales agencies decreased, the introduction of Value Course led to a decline in handset sales commissions deducted from handset equipment sales revenues, thus resulting in an increase in handset equipment sales revenues. The increase in handset sales revenues was not enough, however, to offset a decrease in mobile phone revenues, and operating revenues attributable to NTT Group's mobile communications business segment fell. Meanwhile, operating expenses decreased more sharply than the drop in operating revenues. This was due in part to a decline in handset equipment costs associated with lower handset sales in unit terms and the drop in costs associated with sales in conjunction with the widespread adoption of Value Course. Consequently, operating income attributable to NTT Group's mobile communications business segment increased.

## Overseas Investments

In the fiscal year ended March 31, 2008, NTT DOCOMO purchased additional shares in the Philippines telecommunications company Philippine Long Distance Telephone Company ("PLDT") in order to strengthen its partnership with PLDT and its subsidiary Smart Communications, Inc. and to promote joint studies of services and technology. This additional investment by NTT DOCOMO was made at a cost of ¥91.4 billion, giving NTT DOCOMO a 14.2% ownership interest in PLDT. Including the PLDT shares held by NTT Communications, NTT Group now has a 20.9% equity stake in PLDT, as a result of which PLDT is now an affiliated company of NTT accounted for by the equity method of accounting. This change to equity method accounting for NTT Group's stake in PLDT resulted in ¥6.3 billion being recorded on NTT Group's consolidated statement of income for the fiscal year ended March 31, 2009 as "equity in earnings of affiliated companies."

In November 2008, NTT DOCOMO reached an agreement on a capital alliance with Tata Sons Limited ("Tata Sons"), the holding company for India's Tata Group, and its subsidiary, the Indian telecommunications carrier Tata Teleservices Limited ("TTSL"). Pursuant to the terms of this agreement, NTT DOCOMO acquired approximately 26.5% of the outstanding shares of TTSL for

roughly 128.1 billion Indian rupees (roughly ¥252.3 billion) in March 2009. That same month, NTT DOCOMO also made a tender offer for shares of Tata Teleservices Maharashtra Limited ("TTML"), a TTSL affiliate, and acquired approximately 12.1% of TTML shares for a price of roughly 5.7 billion Indian rupees (roughly ¥11.1 billion). Through this strategic investment and alliance, the three companies are aiming to promote sustained growth, and to expand their business in the Indian market, which has high potential for rapid economic growth.

## Sale of Underutilized Real Estate

To improve asset efficiency, NTT Group has been moving forward with the sale of real estate. In the fiscal year ended March 31, 2007, consolidated non-operating income of ¥60.1 billion was recorded through such sales by NTT East and NTT West. NTT Group continued to move forward with the sale of real estate during the fiscal years ended March 31, 2008 and 2009, and consolidated non-operating income of ¥58.5 billion was recorded through such sales by NTT East and NTT West in the fiscal year ended March 31, 2008 and ¥78.2 billion in the fiscal year ended March 31, 2009.

## Buy-back of Company Shares

From 1999 to 2005 NTT engaged in a series of Share repurchases through transactions executed on the TSE in accordance with applicable Japanese law, and in certain cases the Minister of Finance sold some of the Shares it held in NTT to NTT. As a result of these transactions, together with the purchase by NTT of its Shares acquired to fulfill requests for purchase of fractional Shares, the number of outstanding Shares as of March 31, 2006 was reduced to 13,821,853.

At the ordinary general meeting of the shareholders held on June 28, 2006, NTT's shareholders approved an amendment to NTT's articles of incorporation to permit the repurchase by NTT of its Shares in market transactions by resolution of the board of directors and to permit the sale by NTT of fractional Shares to its shareholders upon the request of holders of fractional Shares. During the fiscal year ended March 31, 2007, NTT purchased and sold fractional Shares to fulfill requests by holders of fractional Shares. As a result, the number of outstanding Shares as of March 31, 2007 was reduced to 13,819,669.

At the board of directors' meeting held on November 9, 2007, the board of directors approved a resolution for the

repurchase by NTT of up to 200,000 of its Shares from time to time at an aggregate cost not to exceed ¥100 billion, during the period between November 12, 2007 and March 24, 2008. In accordance with this resolution, during the periods between December 1, 2007 and December 28, 2007 and between March 1, 2008 and March 24, 2008, NTT acquired 178,698 Shares at an aggregate cost of ¥94,429 million. As a result of these transactions, together with the purchase by NTT of its Shares acquired to fulfill requests for purchase of fractional Shares, the number of outstanding Shares as of March 31, 2008 was reduced to 13,638,738.

In connection with the implementation of the new electronic central clearing system for shares of listed companies on January 5, 2009, NTT, pursuant to a resolution of its board of directors adopted on May 13, 2008, carried out a 100-for-1 stock split in order to convert any fractional shares into full Shares with an effective date of January 4, 2009, the day immediately preceding the introduction of the electronic share certificate system. At the same board of directors' meeting, the board of directors approved a resolution for the repurchase by NTT of up to 450,000 of its Shares (equivalent to 45,000,000 Shares after the stock split) from time to time at an aggregate cost not to exceed ¥200 billion during the period between May 14, 2008 and March 24, 2009. After the stock split on January 4, 2009, the maximum number of Shares to be repurchased pursuant to this resolution was adjusted to equal a number calculated by first subtracting the number of Shares acquired before the stock split from 450,000 Shares, multiplying the remainder by 100, and then adding the number of Shares acquired before the stock split.

Pursuant to this resolution, NTT repurchased 341,307 Shares of its common stock at an aggregate cost of ¥169.767 billion from June 27 2008 to August 20, 2008 and from December 1, 2008 to December 22, 2008. After the stock split described in the preceding paragraph, NTT repurchased 6,386,800 Shares of its common stock at an aggregate cost of ¥30.232 billion from January 5, 2009 to January 14, 2009. None of these Shares were purchased from the Minister of Finance. As a result of the stock split and these stock repurchases, together with the purchase and sale by NTT of fractional Shares and Shares constituting less than one whole unit to fulfill requests by holders of fractional Shares or Shares constituting less than one whole unit, the total number of outstanding Shares as of March 31, 2009 was 1,323,276,733.

## Transfer of the Substitutional Portion of the Employee Pension Fund

In September 2003, NTT Welfare Pension Fund (*NTT Kosei Nenkin Kikin*) ("Employee Pension Fund") received approval from the Minister of Health, Labor and Welfare, pursuant to the Law Concerning Defined Benefit Corporate Pension Plans, for relief from its future obligations to disburse the plan benefits representing the substitutional portion of the Employee Pension Fund. In July 2007, the Employee Pension Fund received approval from the Minister of Health, Labor and Welfare for the transfer of the past obligations to the Government, and the Employee Pension Fund converted to NTT's corporate defined benefit pension plan, *NTT Kigyuu-Nenkin-Kikin* ("NTT Corporate Defined Benefit Pension Plan"). The transfer of the substitutional portion of the Employee Pension Fund benefit obligations and related plan assets to the Government was completed in February 2008. As a result of the foregoing, a ¥317,556 million "Gain from transfer of substitutional portion of Employee Pension Fund" was recorded as a reduction in operating expenses in the consolidated statement of income for the fiscal year ended March 31, 2008.

## Consolidation of UDX TMK (tokutei mokuteki kaisha)

In March 2008, NTT Urban Development acquired an additional 10% of the preferred equity shares of UDX TMK, a special purpose company established to develop property located in front of Akihabara Station. As NTT Urban Development holds 60% of the preferred equity of UDX TMK and became the primary beneficiary of UDX TMK, UDX TMK was consolidated as a variable interest entity ("VIE"). In March 2009, NTT Urban Development acquired an additional 6% of the preferred equity shares of UDX TMK, raising its holding of the preferred equity to 66%.

As a result, approximately ¥200 billion in total assets of this VIE were recorded in NTT's consolidated balance sheet as of March 31, 2009.

## Plans of NTT East and NTT West to Update Old Equipment

Due to the implementation by NTT East and NTT West of plans to update a portion of their telecommunications equipment, such as old telephone switchboards, operating expenses, including depreciation costs for the fiscal year ended March 31, 2008 increased by ¥53.5 billion compared to the base value in the prior fiscal year.

## Accelerated Depreciation of NTT DOCOMO's mova Assets

Given the decline in subscribers to the second-generation mobile phone (mova) service, NTT DOCOMO plans to terminate mova services on March 31, 2012, and to concentrate its resources on the third-generation mobile phone (FOMA) service. In accordance with this plan, NTT DOCOMO started reducing the estimated useful lives of long-term mova assets in the fiscal year ended March 31, 2009. As a result, operating expenses (depreciation charges) for the fiscal year ended March 31, 2009 increased approximately ¥60 billion. NTT DOCOMO will continue to encourage mova customers to switch to FOMA services.

## The Impact of the Global Economic Downturn

The Japanese economy weakened rapidly amid the global economic recession. There are signs of a decline and suspension of production resulting from adjustments to prior excess inventory and the risk of further economic decline is still apparent in the decline in personal consumption due to the deterioration of employment and in the effect of the prolonged economic recession and other factors. As a result, it is expected that the economy may continue to worsen.

The information and telecommunications fields have also been affected by the slowdown in consumer spending and reduction in corporate capital investment. While the information services industry is seeing demand for system investments directed at augmenting security measures and compliance-related systems, the slowdown in software investment is accelerating as IT investments in new projects are being curbed and service unit prices are falling. Moreover, demands by customers for lower prices, speedier deliveries and higher quality are growing even stronger.

While it is difficult to quantify the impact which the economic environment has had on NTT Group's results of operations for the fiscal year ended March 31, 2009, it is believed that the economic down-turn has affected NTT Group's businesses to a measurable degree, with the impact being manifested in various ways including a deterioration in profits from the systems integration business for corporate customers, an increase in doubtful accounts expenses in the finance business due to a rapid increase in bankruptcies caused by the credit crunch, the slowing of the real estate market and increased write-downs in the residential property sales business and on inventory assets, and an increase in write-downs of a portion of owned marketable securities due to the decline in the stock markets.

## Application of New Accounting Standards and Recent Pronouncements

### Application of New Accounting Standards

#### Fair Value Measurements

Effective April 1, 2008, NTT Group adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements, for fair value measurements of financial assets and financial liabilities. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The definition of fair value retains the exchange price notion and SFAS 157 clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. SFAS 157 emphasizes that fair value is a market-based measurement and not an entity-specific measurement. SFAS 157 also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. The adoption of SFAS 157 did not have a material impact on the results of operations or financial position of NTT Group.

In February 2008, the Financial Accounting Standards Board ("FASB") issued the FASB Staff Position ("FSP") FAS 157-2, "Effective Date of FASB Statement No. 157" and delayed the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. NTT Group elected a partial deferral of SFAS 157 under the provision of FSP FAS 157-2 related to the measurement of fair value of nonfinancial assets and nonfinancial liabilities such as long-lived assets and goodwill.

#### The Fair Value Option for Financial Assets and Financial Liabilities

Effective April 1, 2008, NTT Group adopted Statement of Financial Accounting Standards No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of the FASB Statement No. 115." SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items will be required to be reported in earnings in the current period. SFAS 159 also establishes presentation and

disclosure requirements for similar types of assets and liabilities measured at fair value. NTT Group has not elected the fair value option upon adoption of SFAS 159 for the fiscal year ended March 31, 2009.

### **Disclosures about Derivative Instruments and Hedging Activities**

Effective January 1, 2009, NTT Group adopted Statement of Financial Accounting Standards No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133.” SFAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. SFAS 161 also requires entities to disclose additional information about the amounts and location of derivatives within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedging activities have on an entity’s financial position, financial performance, and cash flows. The additional SFAS 161 disclosures about NTT Group’s use of derivatives and hedging activities are included in Note 21 to the consolidated financial statements.

### **The Hierarchy of Generally Accepted Accounting Principles**

Effective November 15, 2008, NTT Group adopted Statement of Financial Accounting Standards No. 162 (“SFAS 162”), “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 makes the hierarchy of generally accepted accounting principles explicitly and directly applicable to the preparers of financial statements, a step that recognizes the preparers’ responsibilities for selecting the accounting principles for their financial statements. The adoption of SFAS 162 did not have an impact on the results of operations or the financial position of NTT Group.

### **Recent Pronouncements**

In December 2007, the FASB revised Statement of Financial Accounting Standards No. 141 (“SFAS 141R”), “Business Combinations.” SFAS 141R established principles and requirements regarding the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. This statement is effective for business combinations or transactions entered into

for fiscal years beginning on or after December 15, 2008. The impact of the adoption of SFAS No. 141R will depend on future business combination transactions.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 (“SFAS 160”), “Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin (“ARB”) No. 51.” SFAS 160 establishes accounting and reporting standards for the noncontrolling interest (previously referred to as minority interests) in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the presentation that noncontrolling interest should be reclassified to equity and consolidated net income should be adjusted to include net income attributed to the noncontrolling interest in the consolidated financial statements. SFAS 160 also requires single method of accounting as equity transactions for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 will have an impact on the presentation of noncontrolling interests in the consolidated financial statements including retrospective reclassification; however, management does not believe the adoption of SFAS 160 will have a material impact on the results of operations or financial position of NTT Group.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163 (“SFAS 163”), “Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60.” SFAS 163 prescribes accounting for insurers of financial obligations, bringing consistency to recognizing and recording premiums and to loss recognition. SFAS 163 also requires expanded disclosures about financial guarantee insurance contracts. Except for some disclosures, SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of SFAS 163 will not have an impact on the results of operations or financial position of NTT Group.

### **Critical Accounting Policies**

NTT Group’s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. Note 2 to the consolidated financial statements includes a summary of significant accounting policies used in the preparation of these financial statements. The preparation of these financial statements requires management to make estimates and

judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments, including those related to revenue recognition, estimated useful lives and impairments of property, plant and equipment, software and certain other intangibles with finite useful lives, goodwill and indefinite life intangible assets, investments, employees' retirement benefits and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. NTT believes that of its significant accounting policies, the following may involve a higher degree of judgment or complexity.

### Revenue Recognition

Revenue arising from fixed voice related services, mobile voice related services, IP/packet communications services and other services are recognized at the time these services are provided to customers. Within revenues from mobile voice related services, non-recurring upfront fees, such as activation fees, are deferred and recognized as revenue over the estimated average period of the contracts with customers for each service. The related direct costs are deferred only to the extent of the upfront fee amount and are amortized over the same period. While this policy does not have a material impact on net income, the reported amounts of revenue and cost of services are affected by the level of upfront fees and related direct costs and the estimated average customer relationship period over which such fees and costs are amortized. Factors that affect management's estimate of the average customer relationship period over which such fees and costs are amortized include subscriber churn rates, newly introduced or anticipated products, services and technologies. The current amortization periods are based on an analysis of historical trends and the experience of NTT and its subsidiaries adjusted for the estimated impact of future events and circumstances. Sales of telecommunications equipment less certain amounts of agency commissions are recognized as income upon delivery of the equipment to agent resellers, which is considered to have occurred when the agent resellers have taken title to the product, and the risks and rewards of ownership have been substantially transferred. Revenues from system integration are recognized

upon completion of each project. In connection with revenues from system integration projects, provision for estimated losses, if any, is made in the period in which the loss first becomes probable and reasonably quantifiable. NTT Group recognizes such losses based on estimates of total expected contract revenues and costs upon completion. NTT Group follows this method since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made. Recognized losses are subject to revisions as the contract progresses to completion. Revisions in loss estimates are charged to income in the period in which the facts that give rise to the revision become known.

### Estimated Useful Lives and Impairments of Property, Plant and Equipment, Software and Certain Other Intangibles

NTT Group estimates the useful lives and the residual values of property, plant and equipment, software and certain other intangibles with finite useful lives, in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. NTT Group's total depreciation and amortization expenses in the fiscal years ended March 31, 2007, 2008 and 2009 were ¥2,097.3 billion, ¥2,161.9 billion and ¥2,139.2 billion, respectively. The useful lives and the residual values are estimated at the time the assets are acquired and are based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect the write-down in value of the assets. NTT Group also reviews for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flow is less than the carrying amount of the asset, an impairment loss is recognized for the difference between the carrying value of the asset and its fair value as measured through various valuation techniques, including discounted cash flow models, quoted market value and third-party independent appraisals, as considered necessary. NTT Group's total "Impairment losses" in the fiscal years ended March 31, 2007, 2008 and 2009 were ¥3.6 billion, ¥5.0 billion and ¥4.3 billion, respectively.

## Goodwill and Indefinite Life Intangible Assets

Goodwill is tested for impairment by reporting unit that is either at the operating segment level or one level below such segment, at least annually and more frequently if there are indications of impairment, using a two-step process that begins with an estimation of the fair value of the reporting unit. The determinants used for the fair value measurement include quoted market prices, management's estimate of the reporting unit's continuing ability to generate income from operations and cash flows in future periods, and the strategic significance of the reporting unit to NTT's business objectives and if the fair value is less than the carrying amount of goodwill, an impairment loss is recognized for the difference between the carrying value of the goodwill and its implied fair value. NTT Group has determined that no intangible assets have indefinite lives. NTT Group's total "Goodwill and other intangible assets impairments" in the fiscal years ended March 31, 2007, 2008 and 2009 were ¥15.8 billion, ¥2.9 billion and ¥9.2 billion, respectively.

## Investments

NTT Group holds investments in other companies, which NTT Group accounts for under either the cost method or equity method of accounting. NTT Group recognizes an impairment loss when the decline in value below the carrying amounts of the investment is other than temporary, which then establishes a new cost basis in the investment. When determining if the decline in value is other than temporary, NTT Group considers, among other items, the magnitude of the decline in value below carrying value, the length of time the value has been below the carrying value, the financial condition of the investee company, the strength of the industry in which it operates, and NTT Group's ability or intent to retain the investment. If the financial condition of the investee company or the strength of the industry in which it operates were to be materially different than its expectations, NTT Group would recognize a loss to reflect the other than temporary decline in the value of the investment. Further, NTT Group utilizes a variety of information, including cash flow projections, independent valuations and, if applicable, stock price analyses in performing its evaluations. Such projections and valuations necessarily require

estimates involving, among others, demographics (e.g., population, penetration rates and speed, churn rates, etc.), technology changes, capital investments, market growth and share, ARPU and terminal values. NTT Group's total impairment loss for "Marketable securities and other investments" in the fiscal years ended March 31, 2007, 2008 and 2009 were approximately ¥9.0 billion, ¥25.0 billion and ¥65.0 billion, respectively. While NTT Group believes the carrying values of its equity method and cost method investments are realizable, actual results or changes in circumstances could require additional charges to be recorded.

## Employees' Retirement Benefits

The total costs for employees' retirement benefits and pension plans represented approximately (2.2)% (including gain on transfer of the substitutional portion of the Employee Pension Fund) and 1.2% of NTT Group's total operating expenses for the fiscal years ended March 31, 2008 and 2009, respectively. The amounts recognized in the consolidated financial statements related to employees' retirement benefits and pension plans are determined on an actuarial basis, which utilize certain assumptions in the calculation of such amounts. The assumptions used in determining net periodic costs and liabilities for retirement benefits and pension plans include expected long-term rate of return on plan assets, discount rate, rate of increase in compensation levels, average remaining years of service, and other factors. Specifically, the expected long-term rate of return on assets and the discount rate are two critical assumptions. Assumptions are evaluated at least annually, and events may occur or circumstances change that may have a significant effect on the critical assumptions. In accordance with accounting principles generally accepted in the United States, actual results that differ from the assumptions are accumulated and amortized over future periods, thereby reducing the year-to-year volatility in pension expenses. As of March 31, 2009, the total amount of net actuarial loss was ¥679.8 billion. The net actuarial loss exceeding 10% of the greater of the projected benefit obligation or the market-related value of plan assets will be amortized over the average remaining years of employee service (approximately 10 years). That amortization will increase future pension costs.

For the fiscal years ended March 31, 2008 and 2009, NTT Group used an expected long-term rate of return on pension plan assets of 2.5%. In determining the expected long-term rate of return on pension plan assets, NTT considers the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of the plan assets based on NTT's analysis of historical results. The projected allocation of the plan assets is developed in consideration of the expected long-term investment returns for each category of the plan assets. For lump-sum retirement allowances and for the contract-type corporate pension plan, approximately 45.0%, 25.0%, 10.0%, 15.0% and 5.0% of the plan assets will be allocated to domestic bonds, domestic stocks, international bonds, international stocks and other financial instruments, respectively, and for the NTT Kigyounenkin-Kikin (NTT Corporate Defined Benefit Pension Plan), approximately 61.5%, 17.9%, 7.6%, 10.3% and 2.7% (weighted-average) of the plan assets will be allocated to domestic bonds, domestic stocks, international bonds, international stocks and other financial instruments, respectively, to moderate the level of volatility in pension plan asset returns and reduce risks. As of

March 31, 2009, the actual allocations of assets were generally consistent with the projected allocations stated above. The actual returns for the fiscal years ended March 31, 2008 and 2009 were approximately (7)% and (14)%, respectively. The actual returns on pension plan assets may vary in future periods, depending on market conditions. The market-related value of plan assets is measured using fair values on the plan measurement date.

Another critical assumption is the discount rate used in the annual actuarial valuation of net periodic costs and benefit obligations. In determining the net periodic costs, NTT Group used a discount rate of 2.2% as of March 31, 2008 and of 2.3% as of March 31, 2009. In determining the benefit obligations, NTT Group used a discount rate of 2.3% as of March 31, 2008 and of 2.2% as of March 31, 2009. In determining the appropriate discount rate, NTT considers available information about the current yield on high-quality fixed-income investments that are currently available and are expected to be available during the period corresponding to the expected duration of the pension benefit obligations ("PBO").

The following table illustrates the sensitivity to changes in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for NTT Group's pension plans as of March 31, 2009:

Change in Assumption	Billions of yen		
	Change in PBO	Change in Pre-Tax Pension Expenses	Change in Equity (Net of Tax)
50 basis point increase/decrease in discount rate	-/+210.0	+/-8.0	+/-130.0
50 basis point increase/decrease in expected return on assets	—	-/+11.0	—

## Income Taxes

NTT Group recognizes deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts and the tax bases of assets or liabilities and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates, which are expected to be applicable during the periods in which existing temporary differences reverse and loss carryforwards are utilizable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expenses in the period that includes the enactment date. A one percentage point change in the effective tax rate would increase or decrease income tax expense by approximately ¥24.5 billion.

NTT Group recognizes a valuation allowance on deferred tax assets to reflect the amount of future tax benefits that are not expected to be realized. In determining the appropriate valuation allowance, NTT Group takes into account the level of expected future taxable income and available tax planning strategies. If future taxable income is lower than expected or if expected tax-planning strategies are not available as anticipated, NTT Group may recognize an additional valuation allowance through income tax expense in the period such judgment is made. As of March 31, 2009, NTT Group had gross deferred tax assets of ¥1,718.5 billion, which included a valuation allowance of ¥248.5 billion. The valuation allowance mainly related to deferred tax assets of NTT and certain subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized.

## Liquidity and Capital Resources

### Financing and Capital Resources and Use of Funds

Net cash provided by operating activities in the fiscal year ended March 31, 2009 amounted to ¥2,514.1 billion, a decrease of ¥576.7 billion from ¥3,090.8 billion in the fiscal year ended March 31, 2008. This decrease was due in part to the effects of an increase in phone charge payments collected during the fiscal year ended March 31, 2008, as the last day of the previous fiscal year, March 31, 2007, was a bank holiday, and advances on installment sales, which caused the year-over-year increase in the accounts receivable amount to increase by ¥359.6 billion to ¥69.9 billion. Other factors contributing to this decrease were an increase of ¥166.5 billion in corporate and other taxes (net) to ¥403.9 billion in the fiscal year ended March 31, 2009, which was attributable to the fact that NTT Group was allowed to recognize impairment losses from its investment in shares of Hutchinson 3G UK Holdings Limited as tax deductible losses in the fiscal year ended March 31, 2008, and a year-over-year increase of ¥123.6 billion in the decrease in accounts payable, trade and others amount to ¥204.5 billion as a result of the payment of expenses incurred as a result of revisions to secondment programs.

NTT Group used net cash provided by operating activities mainly to acquire property, plant and equipment, repay interest-bearing debt, pay for long-term investments, acquire its own Shares, acquire Shares from minority shareholders and pay dividends.

Net cash used in investing activities in the fiscal year ended March 31, 2009 amounted to ¥2,269.7 billion, an increase of ¥279.0 billion from ¥1,990.6 billion in the fiscal year ended March 31, 2008. This increase was due to an increase of ¥193.7 billion in cash outflows for long-term investments to ¥393.5 billion, including the acquisition of shares of TTSL, and capital investments in property, plant and equipment and intangible and other assets computed on a cash basis in the fiscal year ended March 31, 2009 totaling ¥2,029.0 billion, an increase of ¥40.7 billion from the fiscal year ended March 31, 2008. This increase in capital investments is mainly attributable to an increase in investments accompanying the proactive deployment of the NGN, despite a decrease in investments related to the FOMA network and a decrease in investments for the fiber-optic conversion of access networks, due to the effective utilization of existing fiber-optic facilities. On an accrual basis for the fiscal year ended March 31, 2009, capital investments amounted to ¥2,145.1 billion, of which ¥960.2 billion

was invested by NTT East, NTT West and NTT Communications and ¥737.6 billion was invested by NTT DOCOMO Group.

Net cash used in financing activities in the fiscal year ended March 31, 2009 amounted to ¥353.3 billion, a decrease of ¥373.0 billion from ¥726.4 billion in the fiscal year ended March 31, 2008. The decrease was primarily due to an increase in expenditures for the acquisition by NTT of its own Shares of ¥104.9 billion to ¥200.5 billion in total while capital raised from the issuance of long-term debt increased by ¥398.7 billion to ¥907.6 billion. The capital raised in the fiscal year ended March 31, 2009 from the issuance of long-term debt includes ¥653.6 billion funded from corporate bond offerings denominated in yen and loans from financial institutions amounting to ¥254.0 billion.

As of March 31, 2009, the interest-bearing debt of NTT Group was ¥4,899.3 billion, an increase of ¥222.1 billion in the fiscal year ended March 31, 2009, compared with a decrease of ¥93.6 billion for the fiscal year ended March 31, 2008, and the ratio of interest-bearing debt to shareholders' equity stood at 67.1% on March 31, 2009, compared with 63.1% as of March 31, 2008. Interest-bearing debt comprised short-term borrowings and long-term debt, shown in Note 10 to the Consolidated Financial Statements, as well as deposits received pursuant to depositary agreements, totaling ¥216.5 billion.

NTT Group believes net cash from operating activities, borrowings NTT Group makes from banks and other financial institutions or offerings of equity or debt securities in the capital markets will provide the requisite financial resources to meet NTT Group's currently anticipated capital and other expenditure requirements and to satisfy NTT Group's debt service requirements. Although the environment for raising capital has been deteriorating due to the global financial crisis, NTT Group believes it has sufficient capacity to handle the difficult capital environment while maintaining high creditworthiness and concurrently securing diverse means of raising capital. For the fiscal year ending March 31, 2010, NTT Group expects capital investments totaling ¥2,020.0 billion on an accrual basis, a decrease of ¥125.1 billion from the fiscal year ended March 31, 2009 despite a continued increase from the fiscal year ended March 31, 2009 in investments accompanying the proactive expansion of the NGN, due to the limitations on investment in existing IP networks and the further streamlining of investments in the fiber-optic conversion of access networks as well as the declining trend of FOMA network investments which have passed their peak period. The total amount of capital investments include approximately ¥973.0 billion in investments by NTT East, NTT West and

NTT Communications and approximately ¥690.0 billion by NTT DOCOMO Group. The actual amount of capital investments may vary from expected levels, since capital investments may be influenced by trends in demand, the competitive environment and other factors. Also, the actual amount of NTT Group's funding will depend on its future performance, market conditions and other factors, and is therefore difficult to predict with certainty. For details of capital raising made after the completion of fiscal year ended March 31, 2009, please see the description of subsequent events in Note 23 to the Consolidated Financial Statements.

## Liquidity

As of March 31, 2009, NTT Group had cash, cash equivalents and short-term investments with principal maturities of less than three months of ¥1,052.8 billion compared with ¥1,169.6 billion as of March 31, 2008. Cash equivalents represent a temporary cash surplus used to repay debts and make capital investments and are used for working capital. Accordingly, the balance of cash equivalents fluctuates each fiscal year depending on particular funding and working capital requirements.

## Contractual Obligations

The following table summarizes NTT Group's existing contractual obligations as of March 31, 2009:

	Payments Due by Period				
	Total	Millions of yen			
		1 year or less	After 1 year through 3 years	After 3 years through 5 years	After 5 years
Contractual Obligations					
Long-term debt <sup>(1)</sup>					
Bonds	2,709,483	297,645	959,160	672,829	779,849
Bank loans	1,585,246	305,396	503,372	537,159	239,319
Capital lease obligations <sup>(2)</sup>	84,318	25,956	25,209	8,587	24,566
Operating leases	61,030	18,103	26,769	3,345	12,813
Purchase obligations <sup>(3)</sup>	343,783	305,389	28,242	6,251	3,901
Other long-term obligations <sup>(4)</sup>	–	–	–	–	–
<b>Total contractual obligations</b>	<b>4,783,860</b>	<b>952,489</b>	<b>1,542,752</b>	<b>1,228,171</b>	<b>1,060,448</b>

(1) Please see Note 10 to the Consolidated Financial Statements for details.

(2) Capital lease obligations include interest.

(3) Purchase obligations include outstanding commitments for the purchase of property, plant and equipment and other assets.

(4) The amount of other long-term obligations is not shown in the above table since some obligations are immaterial or the timing of payments is uncertain.

In addition, NTT Group expects to contribute a total amount of ¥76,045 million to its pension plans in the fiscal year ending March 31, 2010 (see Note 11 to the Consolidated Financial Statements).

As of March 31, 2009, NTT Group had outstanding commitments for the purchase of property, plant and equipment and other assets of approximately ¥343.8 billion, principally reflecting capital investments for the fiscal year ended March 31, 2009. NTT Group expects to fund such commitments with cash provided by operating activities.

## Off-Balance Sheet Arrangements

As of March 31, 2009, contingent liabilities for loans guaranteed under FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" amounted to ¥9.9 billion.

## Information on Market and Operation Trends (Trend Information)

In the information and communications market, the transformation to IP-based networks and broadband and ubiquitous communications continues to advance, and the convergence of fixed and mobile services and collaboration between telecommunications and broadcasting services are accelerating.

The resulting diversification of customer demands is expected to intensify competition even further.

Major trends anticipated in the fiscal year ending March 31, 2010 are as follows:

Consolidated operating revenues for the fiscal year ending March 31, 2010 are expected to decrease as a result of decreased revenues mainly from fixed and mobile voice-related services, although this decrease in revenues will become less pronounced due to the declining effects of NTT DOCOMO's new discount services and other factors.

Trends in subscriptions for major services are as follows:

- Subscriptions to fiber-optic access services such as FLET'S Hikari are expected to show a net increase in the fiscal year ending March 31, 2010, exceeding the net increase in the fiscal year ended March 31, 2009. NTT Group will work to increase sales by providing services tailored to the needs of customers, expanding its service areas and taking measures to reduce customer turnover.
- Fixed-line telephone and ISDN subscriptions are expected to continue to decline in the fiscal year ending March 31, 2010 as seen in the fiscal year ended March 31, 2009, as customers continue to migrate to optical IP telephone services including Hikari Phone.

- While NTT Group anticipates that an increase in new mobile phone subscriptions will be limited due to the high mobile phone penetration rate, we expect to acquire a similar net increase in the number of subscriptions in the fiscal year ending March 31, 2010 as that in the fiscal year ended March 31, 2009, by taking measures such as lowering the churn rate through our marketing aimed at upgrading brand loyalty and improving the satisfaction of existing customers. NTT Group expects overall mobile subscriptions to increase. Furthermore, NTT Group expects the proportion of FOMA subscriptions to increase to approximately 95% of total mobile phone subscriptions due to the ongoing migration of mova subscribers to FOMA services.

The foregoing contains forward-looking statements reflecting the expectations and perceptions of NTT Group's current management based on the various factors described above, market and industry-related circumstances, and NTT Group's performance under such circumstances. These statements are "Forward-looking Statements" for purposes of the cautionary risk disclaimer appearing on the inside cover.