

To Shareholders:

**INTERNET DISCLOSURE INFORMATION IN CONNECTION WITH
THE NOTICE OF CONVOCATION OF THE 35TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

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Pursuant to applicable laws and regulations, and Article 16 of NTT's Articles of Incorporation, the above matters are deemed to be provided to the shareholders by posting them on NTT's website.

June 8, 2020

NIPPON TELEGRAPH AND TELEPHONE CORPORATION

Business Report

Outline of the Business of NTT Group

Main Businesses

| Category | Main businesses |
|---|---|
| Mobile Communications Business | Communications services including mobile telephones, smart life services, and other services |
| Regional Communications Business | Domestic intra-prefectural communication services and related ancillary services |
| Long Distance and International Communications Business | Domestic inter-prefectural communication services, international communication services, solutions services, and related services |
| Data Communications Business | System integration, network system services, and related services |
| Other Business | Real estate business, finance business, power business, system development business, and other businesses |

Main Locations, etc.

1. NTT

- **Head Office**

Chiyoda-ku, Tokyo

- **Laboratories**

○ Laboratory Groups

- Service Innovation Laboratory Group (Yokosuka-shi, Kanagawa)
- Information Network Laboratory Group (Musashino-shi, Tokyo)
- Science & Core Technology Laboratory Group (Atsugi-shi, Kanagawa)

○ Total number of laboratories*:12

* The 12 laboratories are internal sections of the 3 Laboratory Groups.

2. Subsidiaries

| Category | Name of Main Company | Main Location |
|--|---|---------------------------|
| Mobile Communications Business | NTT DOCOMO, INC. | Chiyoda-ku, Tokyo |
| Regional Communications Business | Nippon Telegraph and Telephone East Corporation | Shinjuku-ku, Tokyo |
| | Nippon Telegraph and Telephone West Corporation | Chuo-ku, Osaka-shi, Osaka |
| Long Distance and International Communications Business / Data Communications Business | NTT, Inc. | Chiyoda-ku, Tokyo |
| Long Distance and International Communications Business | NTT Communications Corporation | Chiyoda-ku, Tokyo |
| | NTT Ltd. | United Kingdom |
| | NTT Security Corporation | Chiyoda-ku, Tokyo |
| Data Communications Business | NTT DATA CORPORATION | Koto-ku, Tokyo |
| Other Business | NTT Urban Solutions, Inc. | Chiyoda-ku, Tokyo |
| | NTT URBAN DEVELOPMENT CORPORATION | Chiyoda-ku, Tokyo |
| | NTT FACILITIES, INC. | Minato-ku, Tokyo |
| | NTT FINANCE CORPORATION | Minato-ku, Tokyo |
| | NTT Anode Energy Corporation | Chiyoda-ku, Tokyo |
| | NTT COMWARE CORPORATION | Minato-ku, Tokyo |

Employment

Number of employees (as of March 31, 2020): 319,039 (an increase of 11,145 from the previous fiscal year)

| Category | Number of Employees |
|---|----------------------------|
| Mobile Communications Business | 27,558 |
| Regional Communications Business | 74,754 |
| Long Distance and International Communications Business | 51,580 |
| Data Communications Business | 133,196 |
| Other Business | 31,951 |

Note: The total number of employees subject to being included in this count has expanded to include employees at some overseas subsidiaries, and that is included in the year-on-year comparison.

Changes in Consolidated Assets and Consolidated Profit or Loss

| Category | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|----------------------------------|----------------------------------|----------|----------------------------------|----------------------------------|
| | U.S. GAAP | U.S. GAAP | IFRS | IFRS | IFRS |
| Operating revenues (billions of yen) | 11,391.0 | 11,799.6 | 11,782.1 | 11,879.8 | 11,899.4 |
| Operating income / operating profit (billions of yen) | 1,539.8 | 1,642.8 | 1,641.1 | 1,693.8 | 1,562.2 |
| Income before income taxes / profit before taxes (billions of yen) | 1,527.8 | 1,755.6 | 1,740.5 | 1,671.9 | 1,570.1 |
| Net income / profit (billions of yen) | 800.1 | 909.7 | 897.9 | 854.6 | 855.3 |
| Net income per share / earnings per share (yen) | 190.47 | 227.89 | 224.93 | 220.13 | 231.21 |
| Total assets (billions of yen) | 21,250.3 | 21,675.8 | 21,541.4 | 22,295.1 | 23,014.1 |
| Shareholders' equity (billions of yen) | 9,052.5 | 9,486.0 | 9,050.4 | 9,264.9 | 9,061.1 |
| Shareholders' equity per share (yen) | 2,245.86 | 2,406.30 | 2,295.79 | 2,416.01 | 2,492.60 |

- Notes: 1. Commencing with the fiscal year ended March 31, 2019, the consolidated financial statements of NTT Group have been prepared in accordance with IFRS with the amounts of the fiscal year ended March 31, 2018, being retroactively restated to IFRS for comparison purposes. For the fiscal years before the application of IFRS, consolidated financial statements were prepared in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP").
2. When a forward slash is shown in the categories listed above, the category is presented as "U.S. GAAP term / IFRS term."
3. Net income / profit reflects net income / profit attributable to NTT (excluding the portion attributable to non-controlling interests).
4. Net income per share / earnings per share reflects net income / profit per share attributable to NTT (excluding the portion attributable to non-controlling interests).
5. Net income per share / earnings per share is calculated based on the average number of shares outstanding, excluding treasury stock, during the fiscal year. Shareholders' equity per share is calculated based on the number of shares outstanding, excluding treasury stock, at the end of the fiscal year.
6. NTT implemented a 2-for-1 stock split of its common stock, with an effective date of January 1, 2020. Net income per share and shareholders' equity per share have been adjusted to reflect the impact of this stock split.

Changes in Non-consolidated Assets and Non-consolidated Income of NTT

| Category | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Operating revenues (billions of yen) | 474.3 | 663.1 | 750.7 | 649.7 |
| Operating income (billions of yen) | 339.6 | 530.5 | 613.8 | 510.3 |
| Recurring profit (billions of yen) | 334.9 | 528.1 | 612.8 | 508.8 |
| Net income (billions of yen) | 288.1 | 724.9 | 1,192.7 | 480.7 |
| Net income per share (yen) | 70.39 | 181.60 | 307.25 | 129.96 |
| Total assets (billions of yen) | 6,681.0 | 6,710.4 | 7,098.8 | 6,834.0 |
| Net assets (billions of yen) | 4,383.5 | 4,602.5 | 5,222.2 | 4,845.2 |
| Net assets per share (yen) | 1,087.52 | 1,167.53 | 1,361.81 | 1,332.87 |

- Notes:
1. The non-consolidated financial statements of NTT are prepared in accordance with Japanese Generally Accepted Accounting Principles.
 2. Net income per share is calculated based on the average number of shares outstanding, excluding treasury stock, during the fiscal year. Net assets per share is calculated based on the number of shares outstanding, excluding treasury stock, at the end of the fiscal year.
 3. NTT implemented a 2-for-1 stock split of its common stock, with an effective date of January 1, 2020. Net income per share and net assets per share have been adjusted to reflect the impact of this stock split.

Matters Regarding Corporate Officers

Agreements Limiting Liability

NTT has concluded agreements with outside Members of the Board and Audit & Supervisory Board Members to limit their personal liability as provided in Article 423(1) of the Companies Act and in accordance with Article 427(1) of that act. The limitation of liability is the lowest amount permitted by Article 425(1) of the Companies Act.

Matters Regarding Independent Auditors

1. Name of Independent Auditor

KPMG AZSA LLC

2. Compensation to Independent Auditor

| Independent Auditor | Amount |
|---------------------|--------------|
| KPMG AZSA LLC | ¥333 million |

Notes:

1. The audit engagement agreements between NTT and the independent auditor do not distinguish between compensation for audits performed pursuant to the Companies Act and compensation for audits performed pursuant to the Financial Instruments and Exchange Act, and since it is not practically possible to make such a distinction, the above amount represents the total figure for both audits.
2. The Audit & Supervisory Board consented to the compensation of the independent auditor pursuant to Article 399(1) of the Companies Act after confirming and examining the details of the audit plan, the status of performing duties of financial audits, the basis for the calculation of the estimate of compensation of the independent auditor and other factors.

3. Total Monetary and Other Financial Benefits Payable by NTT and its Subsidiaries

| Independent Auditor | Amount |
|---------------------|----------------|
| KPMG AZSA LLC | ¥2,940 million |

Notes:

1. The non-audit services for which NTT pays compensation to KPMG AZSA LLC are the provision of guidance and advice and other services in relation to International Financial Reporting Standards (IFRS).
2. Of NTT's material subsidiaries, those overseas were audited by firms other than KPMG AZSA LLC.

4. Policies Concerning Decisions to Discharge or Not Reappoint Independent Auditor

In the event that the circumstances set forth in any item of Article 340(1) of the Companies Act apply to the independent auditor, the independent auditor may be discharged by a unanimous resolution of the Audit & Supervisory Board.

In addition, if it is determined that it would be difficult for the independent auditor to perform proper audits, the Audit & Supervisory Board may propose a resolution to the Ordinary General Meeting of Shareholders that the independent auditor be discharged or that the independent auditor not be reappointed.

Content of Resolutions Concerning the Development of Systems to Ensure the Propriety of NTT's Business

The Board of Directors made the resolution with respect to the "Basic Policies Concerning the Development of the Internal Control Systems for NTT Group." The contents of the resolution are set out below.

Basic Policies Concerning the Development of Internal Control Systems

- I. Basic Policy for the Development of the Internal Control Systems
 1. NTT shall develop a system of internal controls through taking measures for the prevention and minimization of losses, with the objectives of ensuring compliance with legal requirements, managing risks, and achieving appropriate and efficient business operations.
 2. NTT shall establish the Internal Control Office which oversees the establishment of internal control rules and frameworks. The Internal Control Office shall evaluate the effectiveness of the internal control systems based on internal audits regarding high risk matters affecting the entire NTT Group, and shall make sure that necessary corrective measures and improvements are implemented.
 3. NTT shall also take appropriate measures to ensure the reliability of its internal control systems for financial reporting based on the Financial Instruments and Exchange Act.
 4. As a chief executive officer, the president shall be responsible for ensuring the development and operation of the internal control systems.
- II. Development of the Internal Control Systems
 1. Systems to ensure that the performance of duties by Members of the Board and employees conform with laws and regulations and NTT's Articles of Incorporation
NTT shall implement the following measures with the objective of ensuring that its business is conducted in compliance with laws and regulations and in accordance with high ethical standards:
 - (1) NTT shall establish the Employment Rules which require employees to adhere faithfully to applicable laws, regulations and official notices, and to devote all their efforts to the performance of their duties so that business activities are appropriately and effectively carried out.
 - (2) NTT shall adopt the NTT Group Corporate Ethics Charter setting forth specific conduct guidelines concerning corporate ethics for all NTT Group officers and employees.
 - (3) NTT shall establish the Corporate Ethics Committee, chaired by the Senior Executive Vice President, to clarify the structure of responsibilities for corporate ethics. It addresses promotion of corporate ethics, improvement of compliance awareness and maintenance of corporate discipline, and investigates whistleblowers' allegation.
 - (4) NTT shall establish an internal Corporate Ethics Help Line at each NTT Group company and a group-wide external Corporate Ethics Help Line handled by an independent law firm in order to foster a more open corporate culture. Whistleblower reports may be made on an anonymous or identified basis. NTT shall ensure that whistleblowers do not suffer disadvantage as a result of using these help lines.
 - (5) Corporate ethics training shall be conducted as part of continuous educational activities for officers and employees. In addition, surveys on awareness of corporate ethics shall be conducted to check the effectiveness of these activities.
 2. Rules and other systems concerning business risk management
NTT shall take the following measures to appropriately manage business risks:

- (1) NTT shall establish the Risk Management Rules to prescribe fundamental rules concerning risk management and to promote appropriate and efficient business operations.
 - (2) NTT shall establish the Business Risk Management Committee, chaired by the Senior Executive Vice President, to clarify responsibilities concerning management of business risks and to perform crisis management in response to new business risks affecting corporate operations.
 - (3) In order to address group-wide coordination of risk management, NTT shall also formulate the Business Risk Management Manual to focus on preventing and preparing for risks, and positioning NTT Group to respond appropriately and rapidly as risks materialize.
3. Systems for ensuring that Members of the Board efficiently perform their duties
- NTT shall take the following measures to ensure that its business activities are managed efficiently through allocating responsibilities appropriately among Members of the Board and maintaining an appropriate oversight structure to monitor such matters:
- (1) NTT shall adopt the Organization Rules governing the functions and operations of internal organizational groups, and the Authority Matrix setting forth the allocation of responsibilities among the various organizational groups.
 - (2) NTT shall adopt the Rules for the Board of Directors governing the function and responsibilities of the Board of Directors. In principle, the Board of Directors shall hold meetings once each month, and be responsible for decisions on important managerial matters on the basis of applicable laws and regulations, business judgment principles, and other considerations including the duty of care. Members of the Board shall report regularly to the Board of Directors the status of implementation of their duties.
 - (3) The Board of Directors shall include outside Members of the Board with independent perspectives to reinforce the oversight function for ensuring the impartial performance of duties.
 - (4) As a holding company that oversees and coordinates NTT Group, NTT shall establish the Executive Officers Meeting and subcommittees for the purpose of considering and deciding important managerial matters of NTT and NTT Group, with the objective of promoting efficient and effective group management. NTT Group shall also establish a reporting structure for matters regarding business operations of group companies.
4. Systems for retaining and managing information related to the performance of duties of Members of the Board
- NTT shall adopt the following measures to facilitate appropriate and efficient conduct of business activities through appropriate management of information on the performance of duties by Members of the Board:
- (1) NTT shall adopt the Document Management Rules and the Rules for Information Security Management to manage documents (including related materials and information recorded on electronic media; referred to as "Documents") and other information properly.
 - (2) Documents shall be retained for the periods required by law and/or as necessary for business operations.
5. Systems for ensuring the propriety of the business activities of NTT Group
- NTT shall ensure that transactions among NTT group companies are conducted appropriately and in compliance with laws and regulations, and that all group companies adopt following measures to conduct their business operations appropriately and to contribute to the growth and development of NTT Group:
- (1) Establishing a crisis communication system to notify the parent company,

- (2) Conducting employee education and training to prevent fraud or misconduct,
 - (3) Establishing systems for information security and protection of personal information,
 - (4) Reporting regularly to the parent company on their financial condition, and
 - (5) Accepting audits by the parent company's internal audit division, etc.
6. Employees who assist Audit & Supervisory Board Members in the performance of their duties and the independence of those employees from Members of the Board
- NTT shall adopt the following measures with respect to employees who assist Audit & Supervisory Board Members in the performance of their duties to ensure the effective performance of audits by Audit & Supervisory Board Members:
- (1) Office of Audit & Supervisory Board Members shall be established as an integral part of NTT's corporate organization under the Companies Act. Office of Audit & Supervisory Board Members shall be staffed with dedicated personnel who work full time in assisting Audit & Supervisory Board Members in the performance of their duties.
 - (2) Personnel assigned to Office of Audit & Supervisory Board Members perform their responsibilities at the instruction and direction of Audit & Supervisory Board Members.
 - (3) Decisions on transfer of personnel assigned to Office of Audit & Supervisory Board Members, evaluations of such personnel shall be made with due regard for the opinion of the Audit & Supervisory Board.
7. Systems for reporting to Audit & Supervisory Board Members by Members of the Board and employees and systems for ensuring effective implementation of audits by Audit & Supervisory Board Members
- In order to ensure the effective implementation of audits by Audit & Supervisory Board Members, NTT shall adopt the following measures, including reports to Audit & Supervisory Board Members on material matters concerning the performance of duties by Members of the Board and employees:
- (1) Members of the Board and other personnel report the following matters concerning the performance of their duties:
 - (a) Matters resolved at Executive Officers Meeting;
 - (b) Matters that caused or may cause substantial damage to NTT;
 - (c) Monthly financial reports;
 - (d) Results of internal audits;
 - (e) Matters that pose a risk of violation of laws and regulations or NTT's Articles of Incorporation;
 - (f) Whistleblowing;
 - (g) Material matters reported by group companies; and
 - (h) Other material compliance matters.
 - (2) Representative Members of the Board, the independent auditor, and the internal audit division shall report to and exchange ideas and opinions with Audit & Supervisory Board Members periodically or as needed upon request from Audit & Supervisory Board Members.
 - (3) Audit & Supervisory Board Members have the right to attend meetings of the Board of Directors and other important meetings.
 - (4) Audit & Supervisory Board Members may contract independently with and seek advice from external experts with respect to the performance of audit operations.
 - (5) Audit & Supervisory Board Members may request prepayment or reimbursement of expenses incurred in the execution of their duties. NTT shall provide prepayment or reimbursement upon such requests.

Outline of Operations of the Systems to Ensure the Propriety of NTT's Business

The following section provides an outline of operations of the systems to ensure the propriety of NTT's business on the basis of the Basic Policies for the Development of the Internal Control Systems for NTT Group.

1. Systems to ensure that the performance of duties by Members of the Board and employees conforms with laws and regulations and NTT's Articles of Incorporation

NTT strives to maintain and heighten awareness regarding corporate ethics and compliance with the objective of ensuring that its business is conducted in compliance with laws and regulations and in accordance with high ethical standards.

With respect to corporate ethics, the NTT Group Corporate Ethics Charter and the Employment Rules are disseminated via NTT's intranet. Also, the Corporate Ethics Committee held two meetings during the fiscal year under review, and was tasked with investigating matters reported to the Corporate Ethics Help Line for whistleblowing, and then reporting such matters to the Board of Directors, along with the status of actions taken to address such matters. During the fiscal year under review, NTT Group's external Corporate Ethics Help Line received 342 reports. NTT stipulates and appropriately implements regulations on Corporate Ethics Help Line operating procedures to ensure that whistleblowers will not suffer disadvantage as a result of using these help lines.

NTT aims to maintain and heighten compliance awareness through its efforts geared to improving the level of understanding of such issues among officers and employees. To that end, NTT offers training sessions on corporate ethics to its officers and employees, and also provides them with detailed explanations on case studies involving corporate ethics issues through NTT's intranet. NTT also conducts surveys of employee attitudes regarding corporate ethics, which it draws on in its efforts to further instill increasingly widespread awareness of corporate ethics.

2. Rules and other systems concerning business risk management

With respect to business risk management, NTT has established Risk Management Rules stipulating fundamental policies on risk management with the aims of, among other things, anticipating and preventing materialization of potential risks, and also minimizing losses if any risk materializes. Chaired by the Senior Executive Vice President, the Business Risk Management Committee spearheads efforts to develop and operate a PDCA cycle for managing risk. During the fiscal year under review, the committee held one meeting during which discussions involved identifying risks that could potentially have a company-wide impact, policies for managing such risks, and other such matters.

NTT has also formulated the NTT Group Business Risk Management Manual, and distributed it to each group company, in order to facilitate group-wide risk management initiatives. On the basis of the manual, which stipulates matters that include proactive measures for potential risks, collaborative group-wide approaches and policies for addressing risks that materialize, and pathways for communicating information, systems have been developed and implemented that enable swift action to be taken.

3. Systems for ensuring that Members of the Board efficiently perform their duties

NTT executes operations on the basis of the Organization Rules governing the functions and operations of internal organizational groups, and under the supervision of the Board of Directors, makes decisions on the basis of the Authority Matrix setting forth the allocation of responsibilities among the various organizational groups.

The Board of Directors makes decisions on matters stipulated in the Rules for the Board of Directors, including those required by laws and regulations, as well as those involving other important matters related to both corporate and Group management. Moreover, the Board of Directors supervises Members of the Board in performing their duties through such means as receiving periodic status reports from the Members of the Board with respect to performance

of their duties. The Board of Directors, which comprises 15 members including four outside independent Members of the Board, met 11 times during the fiscal year under review.

Important NTT decisions are deliberated and decided in principle at the Executive Officers Meeting, which is made up of the president, Senior Executive Vice Presidents, full-time directors, and the heads of the staff organization, and was held 35 times during the fiscal year under review. Under the Executive Officers Meeting, NTT has also established subcommittees that deliberate on issues pertaining to both corporate management strategy and Group management strategy, and which convene as necessary. The major subcommittees and the number of times that meetings of the respective subcommittees were held during the fiscal year under review are as follows.

- Technology Strategy Committee (R&D vision, technology development strategy, R&D alliance strategy): 1
- Investment Strategy Committee (Investment strategy related to large investment projects, etc.): 27
- Finance Strategy Committee (Basic strategies related to finance, policies for addressing financial issues): 8

NTT obtains necessary information regarding business operations of group companies including business planning and financial reporting of these companies. To that end, NTT has established systems for obtaining reports from each group company, and otherwise gets such information by gaining access to business reports, temporarily dispatching officers from NTT, and through other such means geared to the size and characteristics of its each group company.

4. Systems for retaining and managing information related to the performance of duties of Members of the Board

NTT has established the Document Management Rules and the Rules for Information Security Management with respect to its management of information, including information related to the performance of duties by Members of the Board. Those rules are disseminated via NTT's intranet. NTT retains documents (including those recorded on electronic media) for periods determined according to document type, as required by laws and regulations, and as necessary for business operations. NTT appropriately organizes and retains documents through initiatives that include assigning information managers to each division and adopting systems that make it possible to manage documents (computer files) in accordance with the regulations.

5. Systems for ensuring the propriety of the business activities of NTT Group

In the event of a crisis that could affect the overall group, NTT has established and appropriately implements a system for communicating with the parent company, stipulated in the Business Risk Management Manual. With the aim of maintaining and heightening compliance awareness across the entire NTT Group, NTT provides guidance to group companies on offering corporate ethics training sessions, and monitors progress of those training sessions.

In terms of ensuring information security across the entire NTT Group, NTT has established the NTT Group Information Security Policy and disseminated via NTT's corporate website. Further, NTT has established the Group CISO Committee, whose membership consists of Chief Information Security Officers (CISOs) of each group company, as a forum for deliberating on issues pertaining to information security. The committee met three times during the fiscal year under review.

Group companies appropriately report their financial status, including their quarterly and monthly results, to the parent company. Those results are reported as the monthly monitoring status to NTT's Executive Officers Meeting and its Board of Directors.

Moreover, NTT's Internal Control Office, which is responsible for internal audit activities, and the internal audit divisions of major group companies uniformly conducted audits of group

companies and their respective affiliates, with such audits designed to reflect material risks common throughout NTT Group as well as those risks inherent to the respective companies.

6. Employees who assist Audit & Supervisory Board Members in the performance of their duties and the independence of those employees from Members of the Board

NTT has established Office of Audit & Supervisory Board Members to act as a system for supporting audits performed by Audit & Supervisory Board Members. The office comprises four dedicated personnel who appropriately perform their responsibilities at the instruction and direction of Audit & Supervisory Board Members. Personnel matters of these staff members, such as transfers and evaluations, are coordinated with the Audit & Supervisory Board.

7. Systems for reporting to Audit & Supervisory Board Members by Members of the Board and employees and systems for ensuring effective implementation of audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings. During the fiscal year under review, the Audit & Supervisory Board Members Preliminary Deliberation Meeting was held 28 times. Audit & Supervisory Board Members also hold periodic meetings for exchanges of ideas and opinions with Representative Members of the Board, and otherwise engage in discussions with Members of the Board on various topics. Through such forums, they gain access to status reports on matters such as performance of duties as indicated by NTT's Basic Policies, and also provide suggestions when necessary.

Audit & Supervisory Board Members also engage in initiatives that include: exchanging ideas and opinions with the independent auditor and internal audit divisions; gaining access to reports containing explanations of audit plans, the status of internal control systems and other such content; and providing suggestions when necessary.

Audit & Supervisory Board Members have contracted independently with attorneys and other external experts in order to seek advice with respect to the performance of audit operations, and NTT appropriately covers required costs incurred in that regard, along with other costs necessary for performing audits.

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

(from April 1, 2019 to March 31, 2020)

(Millions of yen)

| | NTT shareholders' equity | | | | | Total | Non-controlling interests | Total equity |
|---|--------------------------|----------------------------|-------------------|------------------|----------------------------|------------------|---------------------------|--------------------|
| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock | Other components of equity | | | |
| At beginning of year | 937,950 | 2,341,206 | 5,954,305 | (150,635) | 182,087 | 9,264,913 | 2,539,877 | 11,804,790 |
| Comprehensive income | | | | | | | | |
| Profit | — | — | 855,306 | — | — | 855,306 | 256,040 | 1,111,346 |
| Other comprehensive income | — | — | — | — | (111,855) | (111,855) | (29,900) | (141,755) |
| Total comprehensive income | — | — | 855,306 | — | (111,855) | 743,451 | 226,140 | 969,591 |
| Value of transactions with shareholders etc. | | | | | | | | |
| Dividends of surplus | — | — | (354,827) | — | — | (354,827) | (151,414) | (506,241) |
| Transfer to retained earnings | — | — | 46,324 | — | (46,324) | — | — | — |
| Purchase and disposal of treasury stock | — | 1 | — | (502,734) | — | (502,733) | — | (502,733) |
| Changes in ownership interest in subsidiaries | — | (104,613) | — | — | — | (104,613) | (210,163) | (314,776) |
| Share-based compensation transactions | — | (1,386) | — | — | — | (1,386) | 7 | (1,379) |
| Put options granted to non-controlling interests | — | 19,392 | — | — | — | 19,392 | (1,916) | 17,476 |
| Other | — | (1,928) | (1,166) | — | — | (3,094) | (1,007) | (4,101) |
| Total value of transactions with shareholders etc. | — | (88,534) | (309,669) | (502,734) | (46,324) | (947,261) | (364,493) | (1,311,754) |
| At end of year | 937,950 | 2,252,672 | 6,499,942 | (653,369) | 23,908 | 9,061,103 | 2,401,524 | 11,462,627 |

Note: Amounts are rounded off to the nearest million yen.

Notes to Consolidated Financial Statements

Basis for the Preparation of Consolidated Financial Statements

Principal Accounting Policies

1. Standards for preparation of consolidated financial statements

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") under Article 120, Paragraph 1 of the Regulation on Corporate Accounting. However, certain supplementary material and notes required under IFRS are omitted pursuant to the second sentence of the same paragraph.

2. Financial Assets

Recognition, classification and measurement

NTT Group recognizes these assets on the dates when NTT Group becomes party to the contract. Financial assets are classified as (a) financial assets measured at amortized cost, (b) financial assets measured at fair value through other comprehensive income, or (c) financial assets measured at fair value through profit or loss. If the contractual rights to the cash flows of the financial asset expire, or if the contractual rights to receive the cash flows of the financial asset are transferred and substantially all the risks and rewards of ownership of the financial asset are thereby transferred, the financial asset is derecognized and excluded from the consolidated statement of financial position.

(a) Financial Assets Measured at Amortized Cost

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

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

On initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. Based on the timing of the payment of consideration for goods and services provided, the effect of the time value of money is immaterial, and trade receivables that do not include any significant financial elements are initially measured at their transaction price without adjustment of the effect of the time value of money.

After initial recognition, they are measured at amortized cost by deducting loss allowance from the gross carrying amount calculated applying the effective interest method.

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

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

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

At the time of initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. After initial recognition, they are measured at fair value and any subsequent changes in the fair value are recognized in other comprehensive income. Cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss when the asset is derecognized due to sales and other reasons.

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

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

At the time of initial recognition, these financial assets are measured at fair value plus any transaction costs directly attributable to the acquisition of the financial asset. After initial recognition, they are measured at fair value and any subsequent changes in the fair value are recognized in other comprehensive income. Cumulative other comprehensive income recognized in "Other components of equity" is transferred to retained earnings and not to profit or loss, when these financial assets are derecognized. Dividends are recognized in profit or loss.

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

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

At the time of initial recognition, these financial assets are measured at fair value, and any transaction costs directly attributable to the acquisition of the financial asset are recognized in profit or loss when incurred. After initial recognition, they are measured at fair value, with any subsequent changes in the fair value recognized in profit or loss.

Impairment

NTT Group determines the amount of impairment loss (loss allowance) for financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income (debt instruments), lease receivables, contract assets, financial guarantee contracts, and loan commitments, based on the expected credit losses measured as below:

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

Notwithstanding the above, the amounts of loss allowance for trade receivables and contract assets that do not include significant financial elements and lease receivables are always measured using the amount of the lifetime expected credit losses.

3. Inventories

Valuation standard

Inventories consist of telecommunications terminal equipment, materials to be sold, work in progress, and supplies, which are measured at the lower of cost and net realizable value (net realizable value is the estimated selling price in the ordinary course of business less estimated costs to sell).

Valuation method

The costs of telecommunications terminal equipment and materials to be sold are determined on a first-in, first-out basis. The cost of work in progress is mainly attributable to software production pursuant to contracts with customers and construction of real estate held for sale, including labor and subcontractors' costs. The cost of supplies is determined by the average cost method or the specific identification method.

4. Goodwill

Goodwill is not amortized, but tested for impairment whenever there is an indication of impairment in cash-generating units or group of units to which goodwill is allocated, and at the same time every year irrespective of whether there is any indication of impairment. Goodwill is accounted for at the carrying amount determined by deducting the accumulated impairment losses from the cost.

5. Property, Plant and Equipment, Intangible Assets and Investment Property

Measurement method

NTT Group chooses the cost model which deducts accumulated depreciation and accumulated impairment losses from cost.

Depreciation and amortization method

(1) Property, Plant and Equipment

Principally straight-line method

(2) Intangible Assets

Straight-line method, except that intangible assets with indefinite lives are not amortized, but are tested for impairment at the same time every year.

(3) Investment Property

Principally straight-line method

6. Lease

Accounting treatment as a lessee

(1) Lease liabilities

Lease liabilities are initially measured at the present value of unpaid lease payments at the commencement date of the contract, discounted using NTT Group's incremental borrowing rate*. Lease payments are accounted as payments for interest calculated applying the effective interest method and payments for principal. Payments for interest are presented as finance cost in the consolidated statement of profit or loss.

* As interest rate implicit in the lease cannot be readily determined, NTT Group uses incremental borrowing rate as discount rate.

(2) Right-of-use assets

Right-of-use assets are initially measured at cost, which comprises the amount of the initial measurement of the lease liabilities, adjusted for any initial direct costs incurred, prepaid lease payments, etc. After the initial measurements, right-of-use assets are depreciated over the useful life or the lease term of the underlying asset, whichever is shorter, from the commencement date of the contract. The estimated useful life of right-of-use assets is determined as same as owned property, plant and equipment. Right-of-use assets are deducted by impairment if identified, and adjusted at remeasurement of the specific lease liabilities. A part of right-of-use assets, which satisfies the definition of investment property, is presented as investment property in the consolidated statements of financial position.

7. Provisions

Provisions are recognized in cases where NTT Group has present legal or constructive obligations as a result of past events, as well as where it is probable that the obligations will be required to be settled and when it is possible to reliably estimate the amount of the obligation.

Using a pre-tax interest rate that reflects the time value of money, provisions are measured by discounting the estimated future cash flows to the present value, taking into account the risks and uncertainties related to the obligation as of the fiscal year end. The provisions that NTT Group recognizes are primarily asset retirement obligations, provisions for environmental measures, and provisions for points programs.

8. Employee Benefits

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

Remeasurements of the net amount of assets and liabilities in the defined benefit plans consist of actuarial gains and losses and the return on plan assets (excluding amounts included in interest). They are recognized in other comprehensive income, with the cumulative amount being promptly reclassified from "Other components of equity" to retained earnings.

9. Revenue

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.

Regarding these services, 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.

10. Consumption Taxes

Consumption tax is separately accounted for by excluding it from each transaction amount.

Scope of Consolidated Subsidiaries and Application of Equity Method Investments

As of March 31, 2020, NTT Group comprised 979 consolidated subsidiaries and 130 equity method affiliates.

Notes on Changes in Accounting Policy

Application of IFRS 16, "Lease"

NTT Group has applied IFRS 16, "Lease" ("IFRS 16") from the beginning of the current fiscal year.

(a) Accounting treatment as a lessee

Lease transactions as a lessee were classified as finance leases when the lessor transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, while other lease transactions were classified as operating leases under IAS 17 "Leases" for the year ended March 2019.

As a result of the application of IFRS 16, when NTT Group assesses that a contract is, or contains, a lease at the inception of the contract, NTT Group recognizes lease liabilities and right-of-use assets in the consolidated statements of financial position at the commencement date of the contract without classifying finance leases or operating leases except for leases with a lease term of 12 months or less or when the underlying assets are of low value. NTT Group does not apply IFRS 16 to leases of intangible assets.

(b) Accounting treatment as a lessor

For leases in which NTT Group is the lessor, excluding subleases, NTT Group is not required to make any adjustments at the time of the application of IFRS 16.

Regarding the subleases in which NTT Group is intermediate lessor, NTT Group reassessed subleases by referencing right-of-use assets recognized from head leases in which NTT Group is the lessee rather than the underlying asset that is the subject of a lease, then some sublease contracts classified as operating leases in or prior to the previous fiscal year are classified as finance leases. As a result, NTT Group derecognizes right-of-use assets and recognizes trade and other receivables (lease receivables) in the consolidated statements of financial position.

(c) Transitional measures

NTT Group applies IFRS 16 using the modified retrospective approach, under which recognizing the cumulative effect of applying the standard as an adjustment to the beginning balance of retained earnings at the date of initial application. For the assessment of whether a contract that was concluded in or prior to the previous fiscal year is, or contains, a lease, the NTT Group has applied the practical expedient of maintaining its previous assessment.

(d) The impact of the changes in accounting policies

The impact of the application of IFRS 16 is described below.

The amounts newly recognized as right-of use assets, etc. and lease liabilities regarding the lease transactions classified as operating leases in the previous fiscal year

(Millions of yen)

| | The beginning balance based on IFRS 16 (April 1, 2019) |
|---|--|
| <u>(Consolidated Statement of Financial Position)</u> | |
| Assets | |
| Right-of-use assets | 434,216 |
| Trade and other receivables (Lease receivables) | 54,594 |
| Investment property | 35,572 |
| Liabilities | |
| Lease liabilities (Current and non-current) | 517,384 |

There were no material impacts on retained earnings at the beginning of the current fiscal year.

The amounts of depreciation and amortization newly recognized from right-of-use assets and investment property

(Millions of yen)

| | Fiscal year ended March 31, 2020 (April 1, 2019 - March 31, 2020) |
|---|---|
| <u>(Consolidated Statement of Profit or Loss)</u> | |
| Depreciation and amortization | 148,501 |

Despite depreciation and amortization is newly recognized, lease payments for operating leases, which used to be recognized as expenses for purchase of goods and services and other expenses for the previous fiscal year, is not recognized. As a result, the impact on "Profit" and "Basic earnings per share" for the fiscal year ended March 31, 2020 are not material.

Notes on Change in Accounting Estimates

Estimates of useful lives of property, plant and equipment

NTT Group revised its estimate of the expected useful lives of optical cables (a part of Cables in Telecommunications service lines) and extended expected useful life based on current actual utilization. This change in estimate has been accounted for prospectively. Regarding to the impact from this change in accounting estimate in the consolidated statement of profit or loss for the fiscal year ended March 31, 2020, "Depreciation and amortization" was decreased by ¥44,020 million, and "Profit attributable to NTT" and "Basic earnings per share" were increased by ¥30,396 million, ¥8.22, respectively. Per share information for the fiscal year ended March 31, 2020 reflects the impact of the two-for-one stock split. The details are presented in "Notes to Consolidated Statement of Changes in Equity."

Notes to Consolidated Statement of Financial Position

1. Other components of equity includes the change in the fair value of financial assets measured at fair value through other comprehensive income, cash flow hedge, remeasurements of defined benefit plans, and Foreign currency translation adjustment.
2. In accordance with the provisions of Article 9 of the "Act on Nippon Telegraph and Telephone Corporation, Etc.," NTT has pledged all of its assets as general collateral for corporate bonds issued.
3. Outstanding guarantees and others ¥87,966 million
4. Loss allowance deducted directly from assets

| | |
|--------------------------------------|-----------------|
| Trade and other receivables | ¥76,343 million |
| Other financial assets (Non-current) | ¥19,487 million |
5. Component of Property, plant and equipment

(Millions of yen)

| | Value reported on consolidated statement of financial position |
|--|--|
| Telecommunications equipment | 10,895,484 |
| Telecommunications service lines | 16,502,388 |
| Buildings and structures | 5,611,601 |
| Machinery, vessels and tools | 2,350,900 |
| Land | 705,456 |
| Construction in progress | 441,836 |
| Sub-total | 36,507,665 |
| Accumulated depreciation and impairment losses | (27,420,202) |
| Property, plant and equipment - total | 9,087,463 |

6. Accumulated depreciation and impairment losses of right-of-use assets ¥164,993 million
7. Accumulated depreciation and impairment losses of investment property ¥469,380 million

Notes to Consolidated Statement of Changes in Equity

1. Number and type of shares issued and outstanding as of the end of the fiscal year ended March 31, 2020 *1

Common stock: 3,900,788,940 shares

2. Dividends

- (1) Payment of dividends

| Resolution | Type of Shares | Total Dividends (Millions of yen) | Dividends per Share (Yen) *2 | Record Date | Effective Date |
|---|----------------|--------------------------------------|------------------------------------|-----------------------|---------------------|
| June 25, 2019 Ordinary general meeting of shareholders | Common stock | 182,153 | 95 | March 31, 2019 | June 26, 2019 |
| November 5, 2019 Board of Directors meeting | Common stock | 172,674 | 95 | September 30, 2019 | December 5, 2019 |

- (2) Dividends for which the record date fell in the fiscal year ended March 31, 2020 with an effective date falling in the following fiscal year

| Proposed Resolution | Type of Shares | Source of Funding for Dividend | Total Dividends (Millions of yen) | Dividends per Share (Yen) *3 | Record Date | Effective Date |
|---|----------------|--------------------------------------|--------------------------------------|------------------------------------|-------------------|------------------|
| June 23, 2020 Ordinary general meeting of shareholders | Common stock | Retained earnings | 172,672 | 47.5 | March 31, 2020 | June 24, 2020 |

*1 NTT implemented a two-for-one stock split of its common stock (the "Stock Split") with an effective date of January 1, 2020, and the number of shares represents the total number after the Stock Split.

*2 For dividends per share based on the resolutions of the June 25, 2019 ordinary general meeting of shareholders and the November 5, 2019 Board of Directors meeting, figures are the amounts before the Stock Split.

*3 For dividends per share based on the resolution of the June 23, 2020 ordinary general meeting of shareholders, figures have been adjusted to reflect the Stock Split.

Notes Concerning Financial Instruments

1. Qualitative information on financial instruments

NTT Group owns financial instruments mainly listed in "2. Fair value of financial instruments" below and is exposed to financial risks (credit risk, liquidity risk, and market risk) in conducting business activities. In order to avoid or reduce such risks, it manages risks based on certain policies. In addition, NTT Group reports on the status of major financial risk management to its management.

NTT Group has established risk management policies to alleviate market risk and is conducting derivative transactions, such as forward foreign exchange contracts, interest rate swaps, and currency swaps. NTT Group does not conduct derivative transactions for speculative purposes.

2. Fair value of financial instruments

(Millions of yen)

| | Carrying amount on consolidated statement of financial position | Fair value | Difference |
|--|---|-------------|------------|
| Financial liabilities measured at amortized cost | | | |
| Long-term debt (including current portion or balance due within 1 year) | (2,640,564) | (2,697,274) | (56,710) |
| Liabilities directly associated with assets held for sale | | | |
| Long-term debt (including current portion or balance due within 1 year) | (479,651) | (478,696) | 955 |
| Financial assets and financial liabilities measured at fair value | | | |
| Other financial assets (Current / Non-current) | | | |
| Investments in capital | 39,725 | 39,725 | — |
| Equity securities | 434,782 | 434,782 | — |
| Assets held for sale | | | — |
| Investments in capital | 6,990 | 6,990 | — |
| Equity securities | 434 | 434 | — |
| Debt securities | 100,923 | 100,923 | — |
| Loans receivable | 129,566 | 129,566 | — |
| Other financial assets / Other financial liabilities (Current / Non-current) | | | |
| Derivatives | (14,492) | (14,492) | — |
| Liabilities directly associated with assets held for sale | | | — |
| Derivatives | (1,573) | (1,573) | — |

*1 Amounts of assets and liabilities related to derivatives are presented in net amounts.

*2 Amounts reported as liabilities are shown in parentheses.

Notes:

- Assets and liabilities with carrying amounts that approximate fair values, such as cash and cash equivalents, trade and other receivables, short-term borrowings, trade and other payables, and accrued payroll, are not included in the above table.
- Methods of calculating fair values of financial instruments and matters relating to marketable securities and derivative transactions
 - Long-term debt (including current portion or balance due within 1 year)

The fair value of long-term debt is measured by discounting future cash flows using discount rates for similar debt instruments of comparable maturities currently offered to NTT Group.

- (2) Debt securities
Debt securities include corporate bonds and others. Their fair value is measured based on the pricing models developed independently by financial and other institutions using underlying conditions that are observable in markets, such as credit ratings and discount rates.
- (3) Equity securities and investments in capital
The fair values of equity securities and investments in capital are measured using an evaluation model that is selected through appropriate processes and that suits the circumstances of the investee, including reasonable estimates of inputs. As a result, these fair values are primarily measured using the adjusted net asset method.
- (4) Loans Receivable
The fair value of loans receivable is calculated primarily by discounting the total principal and interest using interest rates assumed for similar new transactions.
- (5) Derivatives
Derivatives mainly comprise forward exchange contracts, currency swap agreements and interest rate swap agreements. The fair value of forward exchange contracts is measured using underlying conditions that are observable in markets, such as exchange rates. The fair values of currency swap agreements and interest rate swap agreements are measured by using underlying conditions that are observable in markets, such as London Inter-bank Offered Rate (LIBOR), swap rates, and exchange rates, and by discounting future cash flows to present value.

Notes Concerning Investment Property

1. Investment property
NTT Group maintains investment properties, including office buildings.
2. Fair value of investment property

| (Millions of yen) | |
|--|---------------|
| Carrying amount on consolidated statement of financial position *1 | Fair value *2 |
| 1,106,145 | 2,437,430 |

*1 Carrying amount on consolidated statement of financial position represents the original acquisition cost reduced by the accumulated depreciation and accumulated impairment losses.

*2 Fair value is mainly an appraisal value by an independent real estate appraisal expert, and is based on an evaluation by the discount cash flow method or observable market prices of similar assets.

Notes Concerning Financial Data Per Share

| | |
|---|-----------|
| Shareholders' equity per share: | ¥2,492.60 |
| Basic earnings per share attributable to NTT: | ¥231.21 |

Note: NTT implemented a two-for-one stock split of its common stock, with an effective date of January 1, 2020, and the figures for shareholders' equity per share and basic earnings per share attributable to NTT have been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the fiscal year ended March 31, 2020.

Other

Assets held for sale

Capital and Business Tie-up Agreement with Tokyo Century Corporation

Overview

NTT resolved to form a capital and business tie-up (hereinafter referred to as "the capital and business tie-up") with Tokyo Century Corporation (hereinafter referred to as "Tokyo Century") at a meeting of the Board of Directors held on February 6, 2020 and entered into an agreement regarding the capital and business tie-up.

As part of the capital and business tie-up, the new company (NTT TC Leasing Co., Ltd.) established by NTT Finance Corporation (hereinafter referred to as "NTT Finance") will first succeed to part of the leasing business and global business of NTT Finance by the method of absorption-type split upon spin-off, and then NTT Group will transform the new company into a joint venture by selling shares equivalent to 50% of the total number of outstanding shares of the new company to Tokyo Century in order to bolster and augment leasing and financial business in Japan and other countries for NTT Group and Tokyo Century.

In addition to the above, NTT acquired shares of Tokyo Century's common stock equivalent to 10% of the total outstanding shares after the third-party allocation implemented by Tokyo Century by underwriting part of the allocation.

Impact on accounting treatment and on the consolidated financial statements

In accordance with this completion of share transfer, the new company is expected to be a joint venture company accounted for using the equity method for NTT Group. As a result, assets related to part of the leasing business and global business of NTT Finance and liabilities directly associated with the assets, that are included in "Other Business" segment, are expected to be classified as assets held for sale and liabilities directly associated with assets held for sale, respectively, until the completion of the share transfer.

Component of disposal groups classified as assets held for sale or liabilities directly associated with assets held for sale

| | | (Millions of yen) | |
|--------------------------------------|-------------------------|---|-------------------------|
| Accounting item | As of March 31, 2020 | Accounting item | As of March 31, 2020 |
| Assets | | Liabilities | |
| Trade and other receivables | 817,249 | Short-term debt | 32,148 |
| Other financial assets (Current) | 291,988 | Trade and other payables | 17,373 |
| Property, plant and equipment | 115,057 | Lease liabilities (Current) | 4,858 |
| Other financial assets (Non-current) | 114,678 | Other current liabilities | 11,348 |
| Other | 8,335 | Long-term debt | 447,503 |
| | | Lease liabilities (Non-current) | 26,538 |
| | | Other financial liabilities (Non-current) | 18,357 |
| | | Other | 1,307 |
| Total | 1,347,307 | Total | 559,432 |

The impact on other components of equity related to "Assets held for sale" is immaterial.

In addition, the impact on the consolidated statement of profit or loss from the share transfer transaction is expected to be immaterial.

Notes Concerning Significant Subsequent Events

Acquisition of Toyota Motor Corporation's Shares and Disposal of Treasury Stock by Way of Third-party Allotment

On March 24, 2020, the Board of Directors resolved that NTT would enter into a memorandum of understanding for a business and capital alliance (the "Alliance") with Toyota Motor Corporation ("Toyota") and entered into the Alliance on the same day. On April 9, 2020, Toyota and NTT mutually executed a comprehensive underwriting agreement for a third-party allotment based on this memorandum of understanding. NTT acquired Toyota's shares and conducted a disposition of shares of the NTT's treasury stock through a third-party allotment with Toyota as the subscriber for the shares on the same day.

1. Overview of acquisition of Toyota's share

| | |
|---|--|
| (1) Acquisition date | April 9, 2020 |
| (2) Type and number of shares acquired | 29,730,900 shares of Toyota's common stock |
| (3) Acquisition price per share | ¥6,727 per share |
| (4) Total amount of acquisition | ¥199,999,764,300 |
| (5) Percentage to the total number of issued and outstanding shares held by NTT | 0.90% of Toyota's common stock |

2. Overview of a disposition of shares of the NTT's treasury stock through a third-party allotment, with Toyota as the subscriber for the shares

| | |
|--|--|
| (1) Disposition date | April 9, 2020 |
| (2) Type and number of shares disposed | 80,775,400 shares of the NTT's common stock |
| (3) Disposition price | ¥2,476 per share |
| (4) Amount of funds raised | ¥199,999,890,400 |
| (5) Percentage to the total number of issued and outstanding shares held by Toyota | 2.07% of the NTT's issued and outstanding common stock |

Non-consolidated Financial Statements

Non-consolidated Statement of Changes in Shareholders' Equity and Other Net Assets (from April 1, 2019 to March 31, 2020)

(Millions of yen)

| | Shareholders' equity | | | | | | | | Unrealized gains (losses), translation adjustments, and others | | Total net assets | |
|---|----------------------|----------------------------|-----------------------|-----------------------|----------------------------|----------------------|----------------------|------------------|--|---|------------------|--|
| | Common stock | Capital surplus | | | Legal reserve | Earned surplus | | Treasury stock | Total shareholders' equity | Net unrealized gains (losses) on securities | | Total unrealized gains (losses), translation adjustments, and others |
| | | Additional paid-in capital | Other capital surplus | Total capital surplus | | Other earned surplus | Total earned surplus | | | | | |
| | | | | | Accumulated earned surplus | | | | | | | |
| At beginning of year | 937,950 | 2,672,826 | - | 2,672,826 | 135,333 | 1,625,957 | 1,761,290 | (150,634) | 5,221,432 | 816 | 816 | 5,222,248 |
| Net change during the annual period | | | | | | | | | | | | |
| Cash dividends | - | - | - | - | - | (354,826) | (354,826) | - | (354,826) | - | - | (354,826) |
| Net income | - | - | - | - | - | 480,768 | 480,768 | - | 480,768 | - | - | 480,768 |
| Payments to acquire treasury stock | - | - | - | - | - | - | - | (502,747) | (502,747) | - | - | (502,747) |
| Resale of treasury stock | - | - | 1 | 1 | - | - | - | 13 | 15 | - | - | 15 |
| Others, net | - | - | - | - | - | - | - | - | - | (198) | (198) | (198) |
| Total net change during the annual period | - | - | 1 | 1 | - | 125,942 | 125,942 | (502,733) | (376,790) | (198) | (198) | (376,988) |
| At end of year | 937,950 | 2,672,826 | 1 | 2,672,827 | 135,333 | 1,751,899 | 1,887,233 | (653,368) | 4,844,641 | 617 | 617 | 4,845,259 |

Note: Amounts are rounded down to the nearest million yen.

Notes to Non-consolidated Financial Statements

Notes Concerning Significant Accounting Policies

1. Valuation standard and method for certain assets

(1) Valuation standard and method for securities

[1] Investments in subsidiaries and affiliated companies

Investments in subsidiaries and affiliated companies are stated at cost, which is determined by the moving average method.

[2] Other securities

(a) Marketable securities

The securities are stated at fair value, which includes market price, as of the balance sheet date, with valuation differences directly reported as a separate component of net assets. The cost of securities sold is determined by the moving average method.

(b) Non-marketable securities

The securities whose fair values are not readily determinable are stated at cost, which is determined by the moving average method.

(2) Valuation standard and method for inventories

Supplies are stated at cost, which is determined by the last purchase cost method (balance sheet amount is computed by devaluing the book price to reflect declines in profitability).

2. Depreciation and amortization of fixed assets

(1) Property, plant and equipment (except lease assets)

Property, plant and equipment are depreciated using the straight-line method.

The useful life of assets is primarily as follows, and the residual values are calculated based on real residual values.

| | |
|------------|---------------|
| Buildings: | 4 to 56 years |
|------------|---------------|

| | |
|--------------------------------|---------------|
| Tools, furniture and fixtures: | 3 to 26 years |
|--------------------------------|---------------|

(2) Intangible fixed assets (except lease assets)

Intangible assets (except lease assets) are amortized using the straight-line method.

Internal-use software is amortized using the straight-line method over its estimated useful life (within 5 years).

(3) Lease assets

Financial leases other than those deemed to transfer ownership of properties to lessees

The useful lives of the assets are the terms of leases, and the residual values are calculated based on real residual values using the straight-line method.

3. Accounting standard for allowances

(1) Allowance for doubtful accounts

To cover expected losses from bad debts, estimated uncollectible amounts are accrued for general claims on the basis of historical bad-debt ratios, and for specific claims, including doubtful accounts, on the basis of their recoverability.

No allowance was accrued as of the end of the fiscal year ended March 31, 2020.

(2) Liability for employees' retirement benefits

To provide for employees' retirement benefits, benefit obligations and plan assets are estimated and accrued as of the end of the fiscal year ended March 31, 2020.

[1] Period allocation method of projected retirement benefits

When calculating retirement benefit obligations, the benefit formula method is used in determining the amount of the expected retirement benefit obligations attributed to the period up to the end of the fiscal year ended March 31, 2020.

[2] Method of recognizing actuarial differences and prior service costs

The amount of a prior service cost is accounted for as an expense in the fiscal year during which it arises, and calculated by using the straight-line method based on the average remaining service period of the employees in service.

Actuarial differences are accounted for as an expense from the fiscal year following the fiscal year in which such gains or losses are incurred, and calculated by using the straight-line method based on the average remaining service period of the employees in service.

4. Other material matters relating to the preparation of financial statements

(1) Accounting for hedging activities

Hedging activities are principally accounted for under "deferral hedge accounting." The designation "hedge accounting" is applied to forward exchange contracts and other foreign exchange contracts, and the designation "exceptional accounting" is applied to interest-rate swaps that qualify for "exceptional accounting" (Accounting Standards for Financial Instruments, Footnote 14).

(2) Accounting for consumption tax

Consumption tax is separately accounted for by excluding it from each transaction amount.

(3) Adoption of consolidated taxation system

NTT applies for the consolidated taxation system.

Notes to Non-Consolidated Balance Sheet

1. Assets offered as security and secured liabilities

In accordance with the provisions of Article 9 of the Act on Nippon Telegraph and Telephone Corporation, Etc., NTT has pledged all of its assets as general collateral for corporate bonds issued.

| | |
|--|------------------|
| Corporate bonds (including those maturing within one year) | ¥339,975 million |
| 2. Accumulated depreciation on property, plant and equipment: | ¥309,848 million |
| 3. Accounts receivable from and payable to affiliates are as follows (excluding those otherwise classified): | |
| Short-term accounts receivable: | ¥253,394 million |
| Long-term accounts receivable: | ¥1,243 million |
| Short-term accounts payable: | ¥386,227 million |
| Long-term accounts payable: | ¥2,306 million |

Notes to Non-Consolidated Statement of Income

1. Transactions with affiliated companies

Balance of operating transactions

| | |
|--------------------|------------------|
| Operating revenues | ¥133,009 million |
| Operating expenses | ¥54,255 million |

Balance of non-operating transactions ¥30,423 million

Notes to Non-Consolidated Statement of Changes in Shareholders' Equity and Other Net Assets

Number of shares of treasury stock outstanding as of the end of the fiscal year ended March 31, 2020.

Treasury stock: 265,592,712 shares

Notes Concerning Tax Effect Accounting

The major causes of the occurrence of deferred tax assets were "securities" and "liability for employees' retirement benefits." The major causes of occurrence of deferred tax liabilities were "assets adjusted for gains or losses on transfer" and "prepaid pension costs."

Deferred tax assets exclude ¥49,909 million in valuation allowance.

(Additional Information)

With regard to the transition to the Group Tax Sharing System established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and the items for which the taxation system to each separate entity was revised in line with the transition to the Group Tax Sharing System, in accordance with the treatment of Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (Practical Solution No. 39, March 31, 2020), the provisions of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018) are not applied, and the amounts of deferred tax assets and deferred tax liabilities are in accordance with the provisions of the Tax Act before the revision.

Notes Concerning Related Party Transactions Subsidiaries

(Millions of yen)

| Affiliation | Name | Voting Rights Ownership Ratio | Relationship with Affiliated Party | Transaction Details | Transaction Amount | Category | Balance at End of Term |
|-------------|---|---|--|---|--|---|------------------------|
| Subsidiary | Nippon Telegraph and Telephone East Corporation | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Loan of capital ¹ | — | Short-term loans receivable | 20,000 |
| | | | | | | Long-term loans to subsidiaries | 138,400 |
| | | | | Receipt of interest ¹ | 1,576 | Other current assets | 46 |
| | | | | Receipt of expenses relating to basic research and development ² | 32,939 | — | — |
| | | | Lease of land and buildings ³ | 5,674 | Advances received | 504 | |
| Subsidiary | Nippon Telegraph and Telephone West Corporation | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Loan of capital ¹ | 135,000 | Short-term loans receivable | 160,000 |
| | | | | | | Long-term loans to subsidiaries | 401,000 |
| | | | | Receipt of interest ¹ | 2,916 | Other current assets | 257 |
| | | | | Receipt of expenses relating to basic research and development ² | 34,620 | — | — |
| Subsidiary | NTT COMWARE CORPORATION | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Lease of land and buildings ³ | 1,914 | Advances received | 155 |
| Subsidiary | NTT URBAN DEVELOPMENT CORPORATION | 100% indirect ownership | Offering intermediary advice and other support | Lease of land and buildings ³ | 1,978 | Advances received | 207 |
| Subsidiary | NTT Finance Corporation | 92% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Borrowing of capital ⁴ | 362,618 ⁵ | Current portion of long-term borrowings from subsidiaries | 50,000 |
| | | | | | | Short-term borrowings | 336,775 |
| | | 7% indirect ownership | | | Long-term borrowings from subsidiaries | 385,000 | |
| | | Payment of interest ⁴ | | 379 | Accrued expense | 35 | |
| | | Transfer of capital among NTT Group companies | | 97,379 | Accounts receivable, other | 5,423 | |
| Subsidiary | NTT, Inc. | 100% direct ownership | Exercise of rights as shareholder, offering intermediary advice, and other support | Underwriting of capital increase ⁶ | 347,986 | — | — |

Transaction amounts do not include consumption taxes. Balance amounts at end of term include consumption taxes.

Transaction Conditions and Standards for Determining Transaction Conditions

Notes:

- 1 Loan conditions are the same as those for procurement of capital by NTT. No security is provided.
- 2 Payment of expenses for basic research and development is apportioned among those companies that continuously use the results of such research and development. Comprehensive determinations are made taking into consideration the expenses necessary for conducting basic research and development. Furthermore, settlement of funds for such transactions is conducted using intra-group companies' accounting systems.
- 3 With respect to leases of land and buildings, rents are set through periodic negotiations based on appraisals obtained from third parties and actual transactions involving nearby comparables. Furthermore, transfer of capital pursuant to such transactions takes place by means of group companies' accounting systems.
- 4 Interest on borrowing of capital is set taking into consideration market rates. No security is provided.
- 5 The transaction amount for borrowings from the CMS (Cash Management System) is the average balance during the fiscal year. The transaction amount for borrowings from other than the CMS is the total amount.
- 6 The Company underwrote a capital increase of NTT, Inc. through an investment of ¥347,986 million in long-term loans to subsidiaries.

Notes Concerning Financial Data per Share

| | |
|----------------------|-----------|
| Net assets per share | ¥1,332.87 |
| Net income per share | ¥129.96 |

Note: NTT implemented a two-for-one stock split of its common stock, with an effective date of January 1, 2020, and the figures for net assets per share and net income per share have been adjusted to reflect the impact of the stock split as if the stock split had occurred at the beginning of the fiscal year ended March 31, 2020.

Notes Concerning Significant Subsequent Events

(Acquisition of Toyota Motor Corporation's Shares and Disposal of Treasury Stock by Way of Third-party Allotment)

On March 24, 2020, the Board of Directors resolved that NTT would enter into a memorandum of understanding for a business and capital alliance (the "Alliance") with Toyota Motor Corporation ("Toyota") and entered into the Alliance on the same day. On April 9, 2020, Toyota and NTT mutually executed a comprehensive underwriting agreement for a third-party allotment based on this memorandum of understanding. NTT acquired Toyota's shares and conducted a disposition of shares of the NTT's treasury stock through a third-party allotment with Toyota as the subscriber for the shares on the same day.

1. Overview of acquisition of Toyota's share
 - (1) Acquisition date April 9, 2020
 - (2) Type and number of shares acquired 29,730,900 shares of Toyota's common stock
 - (3) Acquisition price per share ¥6,727 per share
 - (4) Total amount of acquisition ¥199,999,764,300
 - (5) Percentage to the total number of issued and outstanding shares held by NTT 0.90% of Toyota's common stock

2. Overview of a disposition of shares of the NTT's treasury stock through a third-party allotment, with Toyota as the subscriber for the shares

| | |
|--|--|
| (1) Disposition date | April 9, 2020 |
| (2) Type and number of shares disposed | 80,775,400 shares of the NTT's common stock |
| (3) Disposition price | ¥2,476 per share |
| (4) Amount of funds raised | ¥199,999,890,400 |
| (5) Percentage to the total number of issued and outstanding shares held by Toyota | 2.07% of the NTT's issued and outstanding common stock |