3. BUSINESS OPERATION POLICY

(1) Basic Business Operation Policy and Medium-Term Management Objectives

For over 100 years, NTT Group has been the mainstay behind the growth and development of Japanese telecommunications; this track record, the confidence that comes with it, and one of the world’s leading R&D capabilities serve as the foundation from which we will “continue to provide safe and secure services, and continue to always earn the trust of our customers and stakeholders.” In order to do so, we will fulfill the legal responsibilities and social mission demanded of each of our businesses in a market environment characterized by intense competition, and at the same time move proactively to develop our businesses to meet the needs of the diversifying and expanding ICT industry. Our aim is for sustainable development backed always by a high level of trust from both our customers and our shareholders.

In furtherance of this basic business operation policy, NTT Group has worked to expand its provision of broadband and ubiquitous services pursuant to the Medium-Term Strategy, adopted in May 2008, entitled “Road to Service Creation Business Group.” The fiscal year ended March 31, 2013 marked the final year of this Medium-Term Strategy. In November 2012, NTT Group formulated its new Medium-Term Strategy, entitled “Towards the Next Stage,” in order to respond to the increasingly faster globalization of the market and the development of cloud services. Based on this new Medium-Term Management Strategy, NTT Group will make global cloud services, which are expected to grow going forward, the cornerstone of its efforts to accelerate global business development, support the transformation of the business models of its corporate customers and to provide support for the various lifestyles of individual customers. Through these efforts, NTT Group will endeavor to become the “valued partner” that customers continue to select, and contribute to the development of society.

(2) Issues Facing the Corporate Group

Despite lingering uncertainty, a mild overall recovery of the global economy is expected to stem from the recovery of the U.S. economy and of the economic policies of emerging countries. The Japanese economy is expected to improve as a result of favorable export conditions, and the positive effects from Japanese economic and fiscal policies.

A number of both domestic and foreign companies have entered the information and telecommunications market. In addition, the variety and sophistication of services and devices has increased and changes in the market, centered on cloud services, are expected to accelerate going forward. Moreover, fierce market competition above and beyond existing business sector boundaries is expected to further intensify.

In November, 2012, NTT Group released its new Medium-Term Management Strategy, “Toward the Next Stage,” aiming to become the “valued partner” that customers continue to select, by seeking to grow and transform itself.

Specifically, NTT Group will implement the following initiatives.

- Expansion of Global Cloud Services

In order to strengthen its individual services and to swiftly respond to a variety of customers’ needs, NTT Group will bolster its service structure by taking advantage of its ability as a group company to provide comprehensive and integrated cloud services from the information and telecommunications platforms stage, such as data centers and IP backbone, to the ICT management and applications stage.

In addition, in order to accelerate research and development in the cloud and the security sectors, NTT Group established a new company, NTT Innovation Institute, Inc. (NTT I³) in the leading-edge and fiercely competitive North American market. Based on the technology developed at NTT I³, NTT Group will offer North America-based cloud services globally, including Japan. In particular, in the security sector, global security platforms (i.e., shared platforms) will be built and deployed. At the same time, NTT Group will promote efforts to provide services with further improvements in customer safety and security, by working to strengthen its ability to operate under diverse legal systems that differ by country and region.

As a result of the above, NTT aims to reach US$20 billion in overseas sales by the fiscal year ending March 31, 2017 and to increase the proportion of corporate sales represented by overseas sales to 50% or more by setting “Global Cloud Services” as the cornerstone of NTT’s business operations going forward.
- Strengthening Network Service Competitiveness

NTT Group will work to further improve the effectiveness of its network equipment-assets which NTT Group has built up to date by controlling capital investment as appropriate according to the changes in business models and the market. Additionally, by expanding construction projects that do not require the dispatch of NTT employees, NTT Group has cut costs associated with initiating optical transmission lines and has further improved the efficiency in its maintenance and operational business. NTT Group will work to establish simple and highly efficient business operations while taking into account future business environment changes.

As a result of the above efforts, NTT Group expects to reduce costs related to fixed-line/mobile communications service by at least ¥400 billion by the end of the fiscal year ending March 31, 2015 (compared with the fiscal year ended March 31, 2012), and will comprehensively strengthen the competitiveness of its existing network services.

Furthermore, NTT aims to further expand fiber-optic access by creating new ICT use scenarios and develop a smartphone user platform by improving the quality of LTE service.

In addition, NTT Group aims to reduce its Capex to Sales ratio to 15% by the fiscal year ending March 31, 2016 through drastic streamlining of capital investments. Further, NTT Group plans to increase M&A activity with a focus on cloud-related businesses with the goal of enhancing shareholder returns.

Through these efforts, NTT Group will work towards EPS growth of 60% or more (compared with the fiscal year ended March 31, 2012) by the fiscal year ending March 31, 2016.

- Responding to Environmental Issues

○ With respect to environmental issues, which are a global concern, NTT Group will bolster its efforts to reduce its environmental burden through the three initiatives below.

  • “Green of ICT”
  This initiative is aimed at reducing the environmental burden resulting from ICT, through measures such as energy conservation at NTT Group’s data centers and communication facilities, and promoting natural energy generation.

  • “Green by ICT”
  This initiative promotes the use of ICT, such as telecommuting and teleconferencing, to help reduce the environmental burden on society as a whole.

  • “Green with Team NTT”
  Under this initiative, each NTT Group employee’s action will help reduce the environmental burden at the workplace, at home and in the community.

○ Through the adept use of ICT, NTT will contribute to the realization of environmentally friendly and smart communities (next generation energy, social systems) by promoting a power visualization service for customers’ power consumption in office buildings and condominium complexes to support the reduction of electric power consumption and energy saving.

- Initiatives for Secure and Safe Networks

○ Based on experience gained from the Great East Japan Earthquake and other disasters, NTT Group will continue to work towards the development of disaster-resistant facilities. Additionally, with respect to the disaster message dial and other support services, NTT Group will strive to achieve further growth and increased convenience and participate in drills through collaboration with external institutions, such as the national and local governments, and work to bolster its disaster countermeasures.

○ In light of the dramatic increase of smartphone users, NTT Group will continue to provide stable operation of its network environment through appropriate enhancement of its facilities and further improvement of its reliability.

○ NTT Group will build necessary security countermeasures to handle wide-scale and diversified cyberattacks.