

3. BUSINESS OPERATION POLICY

(1) Basic Business Operation Policy and Medium- and Long-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, in May 2015, NTT Group formulated and announced its Medium-Term Management Strategy "Towards the Next Stage 2.0." NTT Group has worked to place the entire NTT Group on a profit growth track accelerating its self-transformation as a "Value Partner" and has been executing new initiatives to further promote the B2B2X Model.

(2) Issues Facing the Corporate Group

In the information and telecommunications market, in addition to the further use of cloud services, IoT, and big data, the development of new technologies such as the evolution of AI is also expected. Furthermore, with the entrance of new players, market competition that surpasses existing business sector boundaries is expected to further intensify, and collaborative coordination and cooperation among businesses working to create new added value should also progress. From these changes, the required role of information and telecommunications should both expand and become more important.

- **Business Developments Pursuant to the Medium-Term Management Strategy**

In line with its Medium-Term Management Strategy "Towards the Next Stage 2.0," NTT Group will continue to work to reform its business structure.

- **Initiatives to Expand Global Business and Increase Overseas Profit Generation**

To realize solid sales growth in our overseas business, we will work to further enhance our global business promotion system as well as our services and products. Furthermore, by expanding our global accounts and promoting up-selling and cross-selling, we will work to enhance our sales and marketing. Additionally, we will work to maximize cost efficiency and strengthen group governance and risk management.

- **Initiatives to Improve Efficiency and Enhanced Profitability of Domestic Network Business**

In the highly competitive domestic fixed-line communications market and mobile communications market, we are making efforts toward profit generation through increased efficiency in capital investment and cost reductions.

Specifically, in relation to the increased efficiency in capital investment, we will work to make networks simplified and streamlined, to utilize the results of research and development including software control technology, to further increase the usage efficiency of existing facilities, and to unify specifications of procured goods and narrow down model types in order to cut procurement costs. Additionally, we will work to make our IT systems more efficient through the use of the latest technology, including virtualization as well as shared platforms.

With regard to cost reductions, we will continue to reduce marketing costs through the development of the "Hikari Collaboration Model" and to strengthen our efforts. We will boost the competitiveness of our products and services and improve our user service through cost reductions, while simultaneously working to establish simple, efficient business operations based on our transition to the B2B2X model and other initiatives.

- **Initiatives to Expand B2B2X Business**

We are currently supporting the communications services field as a Gold Partner (Telecommunications Services) for the Tokyo 2020 Olympic and Paralympic Games promoted through a public-private partnership, and we will see "Vitalization of Local Economies" as a great opportunity to utilize our collective strength and organically use our national-scale fixed-line and mobile broadband networks, as well as our technology, know-how, and assets in the information systems field. In particular, through collaborations with businesses in other fields and local governments, we will promote the transition to the B2B2X model and work to create high value-added services. Through the above efforts, we aim to create services that will be inherited as the standard of the next generation and connect to sustained growth in our domestic business.

In addition to continuing and strengthening initiatives pursuant to its Medium-Term Management Strategy “Towards the Next Stage 2.0,” we reviewed the financial targets of our medium-term management strategies to reflect the impact of adopting the straight-line method, effective beginning the fiscal year ending March 31, 2017, as the method for depreciating property, plant and equipment, which previously, as a general rule, had been depreciated by the declining balance method.

Through these efforts, while focusing mainly on profit growth, by continuing to increase our capital efficiency through stock repurchases, we aim to grow our EPS (Earnings Per Share) to 400 yen or more by the fiscal year ending March 31, 2018.

Review of financial targets of Medium-Term Management Strategy “Towards the Next Stage 2.0”

| Category | Financial Target for the fiscal year ending March 31 2018 |
|---|--|
| EPS growth (Net Income per share) | At least ¥350 → At least ¥400 |
| Overseas Sales/Overseas Operating Income | \$22.0 billion/ \$1.5 billion |
| Streamlining Capital Investment (Domestic Network Business) [compared against the fiscal year ended March 31 2015] | At least ¥200.0 billion decrease |
| Cost Reductions (fixed-line/mobile access-related) [compared against the fiscal year ended March 31 2015] | At least ¥600.0 billion decrease → At least ¥800.0 billion decrease |

Notes:

1. Overseas operating income excludes M&A-related temporary expenses, such as depreciation costs of intangible fixed assets.
2. Streamlining capital investment (domestic network business) excludes NTT Communications’ data centers and certain other assets.
3. Cost reductions (fixed-line/mobile access-related) excludes the impact of the change of depreciation method for property, plant and equipment.
4. The financial targets for overseas sales, overseas operating income and streamlining capital investment (domestic network business) have not been revised.

●Promotion of Fundamental Research & Development

We will develop the core technologies required for the achievement of our Medium-Term Management Strategy, including cloud, security, AI, and IoT, and in order to contribute to the acceleration of profit creation, we will also develop technology to create common parts for network equipment and reduce the time required for network building, maintenance, and operations, contributing to cost reductions. Simultaneously, through the promotion of collaboration with other companies toward the creation of new value, we will consistently transform output of research and development into new businesses and proactively expand both in Japan and abroad.

●Promotion of Corporate Social Responsibility (CSR)

In order to help resolve the many social issues that exist both in and outside Japan, we will continue to make a collective effort to promote CSR in accordance with the guidelines set out in the “NTT Group CSR Charter,” and will also work to increase management transparency by further enhancing the content of, for example, our Annual Report and Sustainability Report, and by promoting information disclosure.

With respect to environmental issues, which are a global concern, we will contribute to reducing the environmental burden on society as a whole through the utilization of ICT services and the services and technology provided by NTT Group, and work to reduce the environmental burden across all of our business activities. At the same time, we will promote initiatives, such as those for environmental protection, that engage the cooperation of all stakeholders, such as NTT Group employees, business partners and local communities.

Furthermore, to secure high levels of stability and reliability in our communications services, we will work to provide even safer and more secure services through the implementation of disaster drills based on our collaborative framework with external agencies. In addition, in order to counter increasingly diverse and large-scale cyber-attacks, we are promoting the introduction of research and development results as well as strengthening training efforts to produce cybersecurity experts that possess more advanced skills.

Additionally, we respect and utilize personnel with diverse values and individuality, creating a work environment that ensures a broad range of personnel can demonstrate their talents, irrespective of gender, age, race, nationality, disability status, sexual orientation, or gender identity.

4. BASIC APPROACH TO THE SELECTION OF ACCOUNTING STANDARDS

NTT Group is considering adopting International Financial Reporting Standards (“IFRS”) beginning with the three months ending June 30, 2018 in order to, among other things, improve the international comparability of its financial information in the capital markets and increase the efficiency of its financial reporting.