

NTT
NIPPON TELEGRAPH AND TELEPHONE
CORPORATION



NTT ANNUAL REPORT 2002

NIPPON TELEGRAPH AND TELEPHONE
CORPORATION

ANNUAL REPORT 2002
FOR THE YEAR ENDED MARCH 31, 2002



FINANCIAL HIGHLIGHTS

Nippon Telegraph and Telephone Corporation and its subsidiaries
Years ended March 31

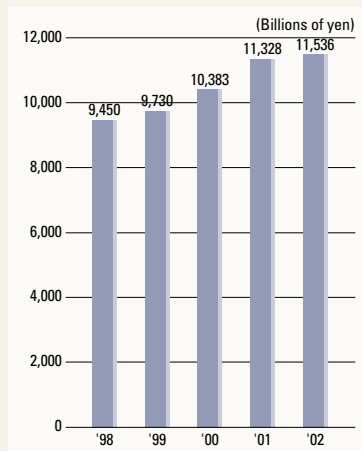
	Billions of yen		Percent change 2001/2002	Millions of U.S. dollars
	2001	2002		2002
For the year:				
Operating revenues	¥ 11,328	¥ 11,536	1.8%	\$86,734
Operating income	835	62	(92.6)	462
Net income (loss)	534	(835)	—	(6,276)
Capital investment	2,666	2,292	(14.0)	17,233
Research and development expenses	406	391	(3.7)	2,939
At year-end:				
Total assets	¥ 21,759	¥ 21,425	(1.5)%	\$161,089
Total liabilities (including minority interest in consolidated subsidiaries)	15,003	15,560	3.7	116,991
Long-term debt	4,447	5,445	22.4	40,941
Total shareholders' equity	6,756	5,865	(13.2)	44,098

	Yen		Percent change	U.S. dollars
	2001	2002		2002
Per share of common stock:				
Net income (loss)	¥ 33,466	¥(51,731)	—	(389)
Cash dividends, applicable to earnings of the year	5,000	5,000	0.0	38

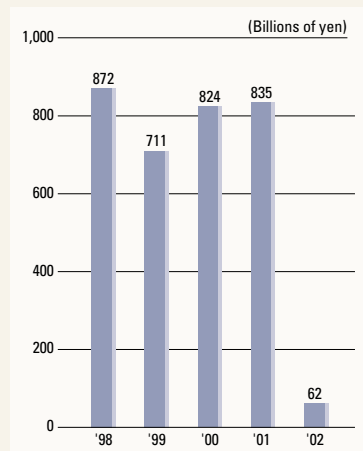
Notes: 1. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥133 = US\$1, the approximate exchange rate at March 31, 2002.
2. Fiscal years herein are designated as the calendar year in which the business term ended. Thus, the fiscal year ended March 31, 2002, is noted as fiscal year 2002.
3. Billion is used in the American sense of one thousand million.

	2001	2002	2001/2002
Employees (thousands)	222	213	(4.1)

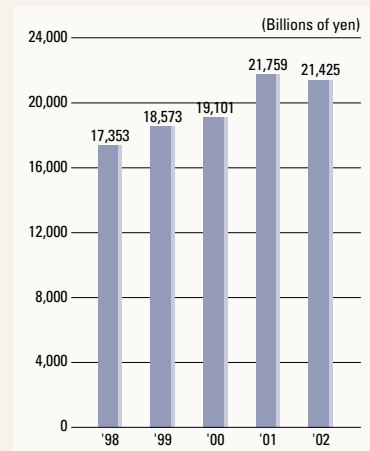
Operating revenues



Operating income



Total assets



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Note: In this annual report, "NTT" refers to Nippon Telegraph and Telephone Corporation and "NTT Group" refers to NTT and its subsidiaries.

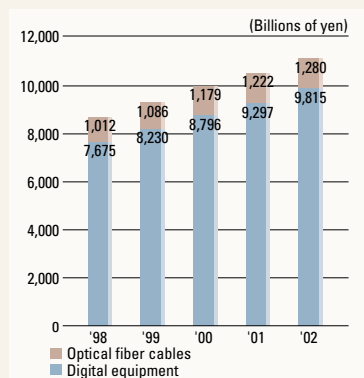
Please see cautionary statement regarding forward-looking statements on page 39.

Operating revenue by segment

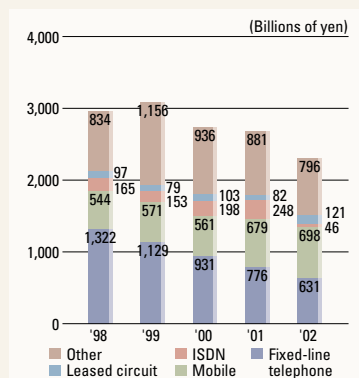
	Billions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Wireline services	¥ 6,174	¥ —	¥ —	\$ —
Regional communication services	—	5,391	4,943	37,163
Long distance communications and international services	—	1,362	1,282	9,642
Wireless services	3,730	4,669	5,167	38,851
Data communication services	716	787	802	6,030
Other	1,961	2,129	2,053	15,435
Elimination	(2,198)	(3,010)	(2,711)	(20,387)
Consolidated total	¥ 10,383	¥ 11,328	¥ 11,536	\$86,734

Other figures

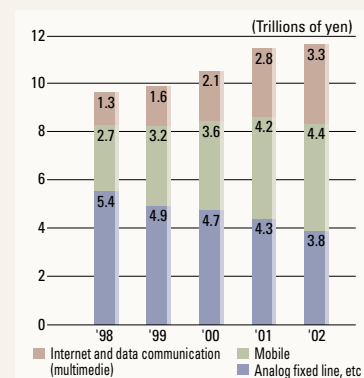
Digital-related assets



Capital investment



Changes in revenue structure

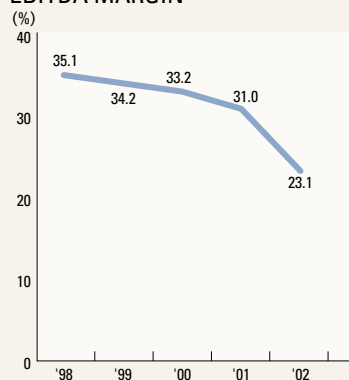


Managerial Indices

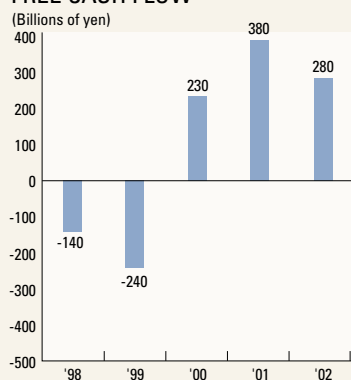
NTT Group aims to optimize corporate value (share value) of the entire Group by boosting business and management efficiency throughout the Group.

To improve management efficiency, the three management indices of "EBITDA margin", "free cash flow" and "ROCE" are introduced for the current NTT Group.

EBITDA MARGIN

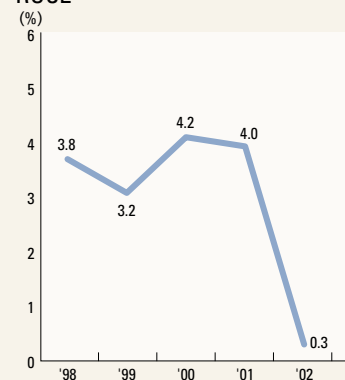


FREE CASH FLOW



* Excluding large overseas investments

ROCE



To our shareholders



Norio Wada
President and Chief Executive Officer

During fiscal 2002, NTT was beset with continuing sluggishness in the IT market, as well as tough pricing competition among other daunting business conditions both at home and abroad. Although we are in the forbidding business climate, we will be congruent with shareholder expectations through offering a wide range of broadband services and establishing the financial base supporting them.

Business Achievements in Fiscal Year 2002

During fiscal 2002, we expanded our revenue base with further inroads on the broadband market, while making an all-out effort to cut costs by structural reform, paving the way to future business development.

NTT DoCoMo Group increased its revenue by broadening its i-mode customer base, and although the three fixed-line business companies, Nippon Telegraph and Telephone East Corporation ("NTT East"), Nippon Telegraph and Telephone West Corporation ("NTT West") and NTT Communications Corporation ("NTT Communications"), suffered revenue decreases owing to rate reductions and increasingly severe competition, the operating revenue of NTT Group as a whole remained approximately the same as that of the previous financial year at 11,535.6 billion yen.

On the other hand, due to a write-off of goodwill on overseas investments, together with retirement and severance benefits associated with structural reforms, net consolidated income dropped dramatically to a net consolidated loss of 834.7 billion yen.

We continued to pursue business primarily in the grow-

ing areas of IP and mobile multimedia in overseas markets. But owing to worsening conditions in IT and severe changes in the business environment, we reassessed the value of our investment operations. Expenditure due to employees' retirement and severance benefits is something that accompanied the structural reform of NTT East and NTT West, which will be described later in the report. We believe that restructuring of the companies should signal a return to form in their business achievements in and after the next fiscal year.

Broadband Businesses

While fixed-line telephone services--the mainstay of our business in the past--experienced a further decline in revenue, NTT Group assured itself a new revenue source in broadband businesses.

As businesses signed up for FLET'S ADSL at a low price, NTT expanded its service area, added higher-speed services and lowered prices to bolster competitiveness. The B-FLET'S service with optical fiber access that we began offering commercially in fiscal year 2002 was given a new menu as well as a strategic pricing plan. At the same time, we focused infrastructure arrangements in areas of predicted demand, and established a system capable of answering increased demand immediately, and improving the efficiency of capital investment.

From the beginning, NTT Group has offered optical, wireless LAN and other access means to promote the distribution of audio/video and other media content. The

entire Group has worked in concert to intensify broadband interests through expanded content distribution services. Additionally, the Broadband Promotion Office was newly established recently at the holding company for the purpose of generating demand for new broadband services and systems. The basic strategy will be to develop cooperative relations among Group companies, as well as to involve outside companies in proliferating specific applications and uses that take advantage of the unique characteristics of broadband systems.

Structural Reform

Owing to the severe business climate surrounding NTT Group, it has become a matter of urgency to establish a strong financial foundation.

To this end, in May 2002, NTT East and NTT West set about a restructuring of their business organization. The companies outsourced operations such as order-taking, product sales, repairs, equipment operations, general affairs and accounting to companies throughout Japan specializing in such areas as management and marketing, facilities and equipment, and administrative functions. At the same time, with an aim to dramatically reducing personnel expenses, NTT Group reallocated approximately 100,000 employees (employees aged 51 and over retired and re-employed with the wage levels adjusted to specific regional and industry standards). Furthermore, as a positive step towards developing new businesses, each of the outsourcing companies is applying its specialist technological capabilities to satisfy regional IT-related needs.

Additionally, in the wake of structural changes in the telecommunications market, the Group, as a rule, has suspended investment in the fixed-line telephone network as part of the Group's overall reduction in the level of capital investment, and is implementing revisions such as curtailing non-profit-making services including public telephones.

Assessment of Holding Company Functions

Over three years have elapsed since NTT reformed as an association of companies under the administration of a holding company. During this period, we have seen the emergence of new businesses hinging on data and IP system services in the information communication market, and the advent of intense competition with the emergence of new business rivals. This situation calls for the holding company to stimulate NTT Group through the

self-determination and flexibility of each Group member, while exerting its leadership in order to maximize the value of NTT Group as a whole. Also, we have to deal with major changes in the legal system surrounding the holding company such as the introduction of the consolidated taxation system. With the advent of these kinds of changes in the business environment, we quickly took stock of the functions of the holding company, including R&D, and clarified the steps the holding company should take to thoroughly strengthen itself, as well as the measures that should be entrusted to each Group member, with a view to bolstering the power of the entire Group.

Establishing Long-Term Vision

Although we are moving ahead to achieve the goals of the "NTT Group Three-Year Business Plan" (FY2003-FY2005) formulated in April 2002, we are also looking to establish a further long-term vision for the Group. By this we mean the kind of future information communications society NTT envisages to deal with such issues as the kind of services that will be technically feasible as well as the problems of society's rapidly aging population resulting from the decline in the birthrate, and energy problems.

Shareholder-Value Oriented Management

With the release of shares previously held by the government, general shareholders now represent the majority of the NTT Group's shareholders. Against this background, NTT Group is adopting a basic management policy emphasizing shareholder value.

To this end, we are making a positive effort to study plans that will benefit shareholders, such as the buy-back of shares.

NTT Group will endeavor to improve the quality and the quantity of information provided to investors, and will aim for greater management transparency. As a step towards achieving this, NTT Group began the disclosure of quarterly business information (number of principal service contracts and average monthly charges per user).

Under the new organization resulting from the Structural Reforms of NTT Group, we will venture into the broadband market and set about establishing a financial base for our operations in that market, through which means we are looking to increase the value of the Group.

Within a contracting market for fixed-line services, NTT Group is turning its focus toward the business domain of Internet Protocol (IP) services, with the aim being to provide an improved range of information distribution offerings to respond to the major shift toward discounted Internet access services and the arrival of broadband. At the same time, NTT Group is devoting efforts to the creation of new sources of revenues through the development of platforms that can make use of increasingly advanced content and applications.

Broadband access services

Business environment

Against a backdrop of fierce competition among a wide variety of competing suppliers, the curtain has now risen on the broadband age in Japan as the swift take-up of ADSL services has led to a rapid expansion in the market for broadband access services. However, in the ADSL market segment, prices have dropped sharply as a succession of new entrants has offered their services to consumers at extremely low rates. In the market for optical access services, competition has started to heat up as various companies have entered the fray, including electric utilities.

Business development plans

FLET'S services

NTT East and NTT West continued to extend service areas for FLET'S ISDN and FLET'S ADSL while implementing price reductions for these services, which are offered entirely at flat-rate tariffs. In December 2001, to cater to demand for higher-speed connections, the regional companies began offering FLET'S ADSL plans with an 8Mbps connection speed in addition to the existing 1.5Mbps service. As of the end of July 2002, area coverage with all these services

had expanded to cover nearly all Japanese cities (defined as those parts of Japan that fall inside designated municipal boundaries).

In August 2001, the regional companies began offering a flat-rate broadband Internet access service under the brand name B-FLET'S. Featuring an expanded service menu available at a significantly reduced prices, this high-speed Internet connection service provides subscribers with their own optical fiber connection, and was the result of a test-marketing program that originally commenced in December 2000 as "optical IP Connection Service". The regional companies are gradually expanding area coverage for the B-FLET'S service to gain greater penetration for optical services. With a full line-up of broadband Internet access services spanning copper to optical fiber connections, NTT Group has tried aggressively to stimulate demand. With regard to optical services, while offering an attractive menu of new services and strategically priced tariffs, NTT Group is moving ahead with the provision of optical network facilities in strategic locations in areas where demand is anticipated so that customers can be connected as soon as possible after subscribing.

Wireless LAN access services

Company	Service	Features	Period
NTT East	M FLET'S 	<ul style="list-style-type: none"> * Enables use of FLET'S outside without the need to change FLET'S Series settings in the home or office. * Service for both the user (M FLET'S Mate) and the spot provider (M FLET'S Host) 	Trials from June 2002
NTT West	FLET'S Spot 	<ul style="list-style-type: none"> * Best effort type connecting to ISP at a max. speed of 11Mbps via optical access lines and regional IP networks. * Enables selection between a Standard Plan using IEEE802.11b and a High-Security Plan using IEEE802x. * In and around stations, hotels, restaurants etc. 	From July 2002
NTT Communications	Hot Spot 	<ul style="list-style-type: none"> * Enabling IEEE802.11a/b dual use for the first time in the world. (Best effort type) * Fast food restaurants, hotels etc. 1,000 sites (Scheduled for the end of March 2003) 	From May 2002
NTT DoCoMo	Mzone 	<ul style="list-style-type: none"> * Offers total mobile solutions by complementing FOMA, PHS and other existing services. * Convention centers, hotels, restaurants etc. * Initially aimed at business users. 	From July 2002
NTT-ME	Neo Mobile Service 	<ul style="list-style-type: none"> * ISP Free and International Standard Roaming. * Wireless broadband + PDA + VoIP * Station and store portals focusing on PDA and kiosk content. 	Trials from August 2002
NTT BroadbandPlatform	Musen LAN Club 	<ul style="list-style-type: none"> * Spot development for facilities in and around stations that take into account people's lifestyles. * Focusing on PDA with exceptional mobility as the terminal used. * Enables simple push-button downloading of previously registered contents at stations, and provides a Contents Synchro Service enabling people to enjoy the downloaded contents while on a train. * Neomobile compatibility 	Trials from August 2002

Wireless LAN access services

NTT Group is set to respond to the growing need for on-the-move broadband access. The resources and innovative ideas of the Group's fixed-line and mobile communication companies will be tapped in order to develop new businesses through wireless LAN-based integration of fixed-line and wireless systems.

Regional IP network-based services

NTT Group continues to make progress in providing various services that take advantage of the unique characteristics of regional IP networks. In terms of content distribution services, which exploit the network functions of

regional IP networks, NTT East introduced a "FLET'S On Demand Service" and NTT West began offering a "FLET'S Square Service" from November 2001. In October 2001, NTT East began trials of a "FLET'S Connect Service" that offers visual data communication services which can also be used by TV phone type terminals. The full service was launched in August 2002 at the same time that NTT West began offering a "FLET'S Communication Service". In addition, in March 2002, NTT East began offering "FLET'S Group Access Service", a type of CUG (Closed User Group) service designed to facilitate internal corporate broadband communications.

New Services Using Regional IP Networks

Company	Service	Outline
NTT East NTT West	FLET'S On Demand FLET'S Square	Enables content providers using a server etc. installed on a regional IP network to distribute moving images and other content to users of B-FLET'S, FLET'S ADSL and other services.
NTT East NTT West	FLET'S Connect FLET'S Communication	Enables users of B-FLET'S, FLET'S ADSL and other services to receive and transmit image, audio, text and other data to each other.
NTT East	FLET'S Group Access	Through the construction of private groups, enables users of B-FLET'S, FLET'S ADSL and other services to easily communicate within a group.

Networks, platforms, content applications

In line with its active development of broadband (HIKARI) access, NTT Group will utilize its proprietary technologies for management and protection of copyrights, and for verification and settlement to promote the creation of platforms to facilitate the massive exchange of data consisting of content, commerce and communications. The Group will also solicit the cooperation of a wide range of content holders and business partners to actively expand related businesses.

NTT Broadband Initiative Inc. ("NTT-BB"), which launched nationwide service in April 2002, has created high-quality content delivery networks (CDNs) with high-security functions. Utilizing these CDNs, NTT-BB will promote the development of new business models while taking active measures to promote its broadband portal business ("BROBA") which offers high-definition, high-quality content delivery services at a maximum speed of 6Mbps and bi-directional visual communication services for wide ranging community creation and collaboration via networks. The company is also cooperating with corporate broadband businesses through outsourcing services providing corporate users with its customized CDN. In the above ways, NTT-BB is taking full advantage of broadband

features to create new business models. NTT Group companies are now effectively utilizing the high-quality CDNs developed by NTT-BB as a basic tool supporting their platform businesses.

With six providers including OCN, NTT Group has a strong business presence in the ISP (Internet Service Provider) field in Japan. Each company has maximized its own advantages while responding to demand for broadband services at reduced prices. However, services provided by competing companies at lower tariffs have sparked a price-cutting war of attrition in this area. Moreover, in view of the need to enlarge the scale of operations in preparation for the anticipated growth in peer-to-peer (PtoP) communications, NTT Group companies will pursue gradual integration of the services they each currently offer. The overall aim remains to maintain growth in the total number of customers serviced by NTT Group ISPs.

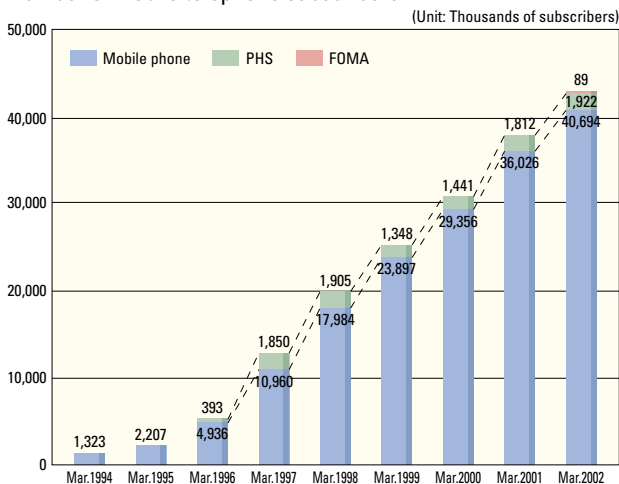


BROBA

Business environment

The mobile telecommunications services market has entered a period of major change characterized by numerous capital tie-ups, ventures and alliances between carriers at home and abroad as they attempt to promote global business development. Having expanded vigorously for a number of years, the Japanese mobile telecommunications market is now experiencing much lower growth in net subscriber contracts as mobile phone penetration has reached a high plateau. Handsets with Internet connection capabilities such as i-mode now account for the majority of mobile phones in Japan. In the future, NTT Group expects fresh growth with the diverse range of advanced data communications services such as the distribution of visual data and other information, and services based on mobile e-commerce (m-commerce) enabled by the high-speed data communications capabilities of NTT's third-generation mobile phone system.

Number of mobile telephone subscribers



Business development plans

NTT DoCoMo Group is responding to changes in the structure of the mobile telecommunications market. Such initiatives include the improvement of business efficiency, and the accelerated development of mobile multimedia services utilizing the features of "FOMA," NTT DoCoMo Group's third-generation mobile phone system.

As of April 2002, the population coverage ratio of the FOMA system stood at 60%. NTT DoCoMo Group is committed to expanding this coverage to 97% by the end of March 2004, and will also work toward raising the functionality of terminals, including TV phone type and PDA type terminals. It will also improve and diversify the menu of available services to include moving-video and information transmission.

To develop Mobile Portal Platform Businesses and Solutions Businesses, NTT DoCoMo Group will utilize the FOMA visual transmission platform to engage in rapidly expanding the wireless video communications market. As part of its mobile multimedia services, NTT DoCoMo Group will create business alliances with companies in related fields, such as ITS and mobile EC, to pioneer in the establishment of new businesses. It will also pursue an active program of expanding the scope of its solutions businesses targeting corporate users.



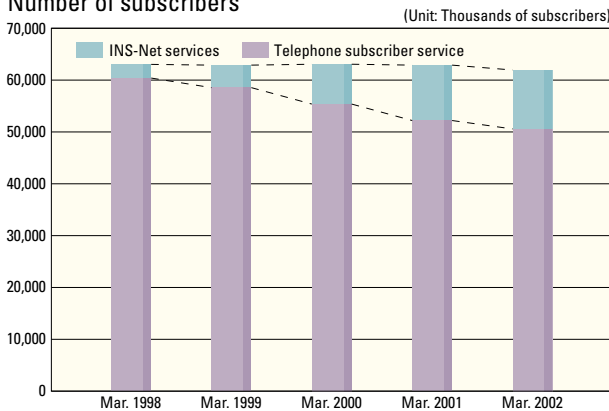
FOMA SH2101V set

Fixed-Line Telephone Services

Business environment

The fixed-line telephone market contracted further in the year ended March 2002 amid an ongoing demand shift toward flat-rate services such as ADSL and mobile services, and price competition intensified as call tariffs fell following the introduction of the MYLINE presubscription service. NTT Group expects fixed-line voice traffic to continue to switch over to IP communications amid the general shift in demand from voice to data and the accelerating transition toward expanded flat-rate services and the development of broadbandization.

Number of subscribers



Business development plans

The number of telephone subscribers fell by 1,351 thousand, with the number of subscribers at the year-end totaling 50,738 thousand. Over the same period, the number of ISDN subscribers increased by 323 thousand, raising the number of related subscribers to 11,150 thousand. With the continued market penetration of ADSL, NTT Group expects that in the coming years the decline in the number of telephone subscribers will level off, while the trend for ISDN will reverse resulting in a net fall in the number of ISDN subscribers. The decline in the number of fixed-line subscribers is expected to continue.

Consequently, as a rule, all new investments in fixed-line telephone networks and fixed-line operation systems will be halted and funds will be re-directed towards accelerating the development of IP networks. This strategy will be aimed at using IP technologies to promote the integration of networks. Appropriate measures will also be taken to ensure the quality of transmission and the solution of other technical issues related to integration.

For the immediate future, NTT Group will continue to respond to price competition from IP telephones by taking every available step to reduce the cost of fixed-line telephone systems. However, more fundamental measures will be required to improve competitiveness in preparation for the advent of a full-fledged IP age. Specific steps will include the transfer of voice telephone functions to ISP services, and the provision of IP-VPN systems to corporate customers.

Examples of ISP Services with Voice Communication Functions

Company	Service	Start of full-scale service
NTT East	FLET'S Connect	From August 2002
NTT West	FLET'S Communication	From August 2002
NTT Communications	Videophone	From August 2001
NTT-ME	WAKWAK Call Go Go	From October 2001

Business environment

The worsening IT slump and skyrocketing third-generation mobile phone system fees in Europe made business conditions particularly challenging in international telecommunications markets. NTT Group now confronts much more drastic change in the business environment than it had previously projected. Despite the harshness of operating conditions, the group believes the underlying current of change toward IP and mobile services remains unaltered. In view of the dramatic changes occurring in the global conditions surrounding these businesses, NTT Group is applying a "choose-and-concentrate" approach to its investments in line with a business stance that emphasizes "return on investment."

Business development plans

NTT Communications will implement the following measures in response to the global recession in IT businesses and the subsequent changes in its management environment. With regard to Verio Inc. ("Verio") of the United States, non-profitable businesses will be thoroughly rationalized and management resources will be concentrated in high value-added hosting businesses. Similarly, Arcstar services will undergo thorough cost-cutting to ensure an early return to profitability. The integration of these two

businesses will be promoted in a program to establish a more efficient business and operating system.

NTT DoCoMo will make concerted efforts to bolster the corporate value of its overseas partners and investments. For the achievement of this objective, NTT DoCoMo will provide its overseas partners with technologies and business know-how concerning third-generation mobile communication services for mobile multimedia and W-CDMA services. This process has started with the launching in Europe of i-mode service. These measures are designed to ensure access to new growth opportunities, while also upgrading the company's global competitive position. In line with this approach, rather than simply relying on strategic tie-ups resulting from conventional investment, NTT DoCoMo will henceforth diversify its overseas investment and alliance strategies to include licensing agreements without equity participation.

To facilitate timely and appropriate responses to future changes in the business environment, the holding company will undertake as detailed monitoring as possible of businesses in which NTT Group companies have invested and will promote implementation of thorough risk management and business control. Within a testing international business climate, NTT Group plans to move forward to develop its overseas operations steadily, making an all out effort to improve financial strength and increase the competitiveness of the group's international business.

Verio Restructuring Plan (Restructuring and Progress Status)

		Before rationalization (2001)	Plan as of September 2001 (2002 Goals)	Plan as of January 2002 (2002 Goals)	Progress until April 2002
Elimination and reduction of unprofitable businesses			* Dial-up access * DSL	* Access (1.5Mbps) * Collocation	Complete elimination of dial-up/DSL businesses
POP Consolidation		187 POP	Reduction of 25% or more		86 POP
Data Center Consolidation		46 locations	Reduction of 50% or more	9 locations	15 locations
Headcount Reduction		Approx. 3,250	Approx. 2,600	Approx. 1,700	Approx. 1,900
Capex Reduction		Approx. US\$250 million/year	50% reduction	Approx. US\$60 million/year	As planned
Developments	Area of Concentration		* Shared hosting business for SME * Managed hosting business for medium and large size companies * IP network/high-speed access business(45Mbps or more)		Implemented
	Reinforcement of Sales/Service Capability		* Marketing under "NTT/VERIO" brand * Joint marketing with NTT America and NTT Europe * Introduction of business unit system		



NTT/VERIO is the global product brand covers global IP service products and Arcstar services. We combine the power and global communication expertise of NTT Communications to provide the world's best data delivery services.

NTT Group Structural Reforms

Strengthening cost competitiveness

NTT Group will continue to pursue a fundamental structural reform of its businesses. Along with a program for thorough outsourcing, NTT Group will adopt a more diversified range of employment arrangements featuring retirement and re-employment packages, and implementation of wage levels consistent with those of specific regional and industry standards. Terms of employment will be fundamentally reconsidered, including a review of current employee allowances. Moreover, approximately 100,000 employees will be reallocated. Continued efforts will be made to strengthen the Group's financial foundations through a program for new group-formation, including outsourcing companies.

On May 2002, NTT East and NTT West launched a new management and operations system made possible by structural reform efforts. The two regional companies will continue to endeavor to reduce personnel costs through retirement and re-employment packages. On their part, the outsourcing companies will aggressively pursue new orders from both within and outside the NTT Group in order to effectively reduce the cost of the functions consigned to them by the regional companies and to thus contribute to boosting the total price competitiveness of NTT East and NTT West as a whole.

Given the continued shrinkage of fixed-line telephone markets and the maturation of the mobile telephone market, NTT Group will reduce its overall capital investment levels. Most importantly, while significantly increasing investments in optical access networks, NTT East and NTT West will, as a rule, halt all new investments in fixed-line telephone networks and fixed-line telephone operating systems. As result of these efforts, total capital investment

levels will be reduced and maintained at roughly one-half of peak levels.

Shut-Down and Integration of Non-Profitable Services

For this purpose, further steps will be taken for the elimination of low-usage public telephones. The NTT Group is working to improve the cost profile of the public telephone network through reductions in its size. The group has also undertaken a general review of other unprofitable services such as "quick-cast" services (formerly called pager services) and PHS (Personal Handyphone System), and plans to consolidate and merge these operations in due course.

Liquidation of Non-Core Assets for Realization of Value and Streamlining of Balance Sheet

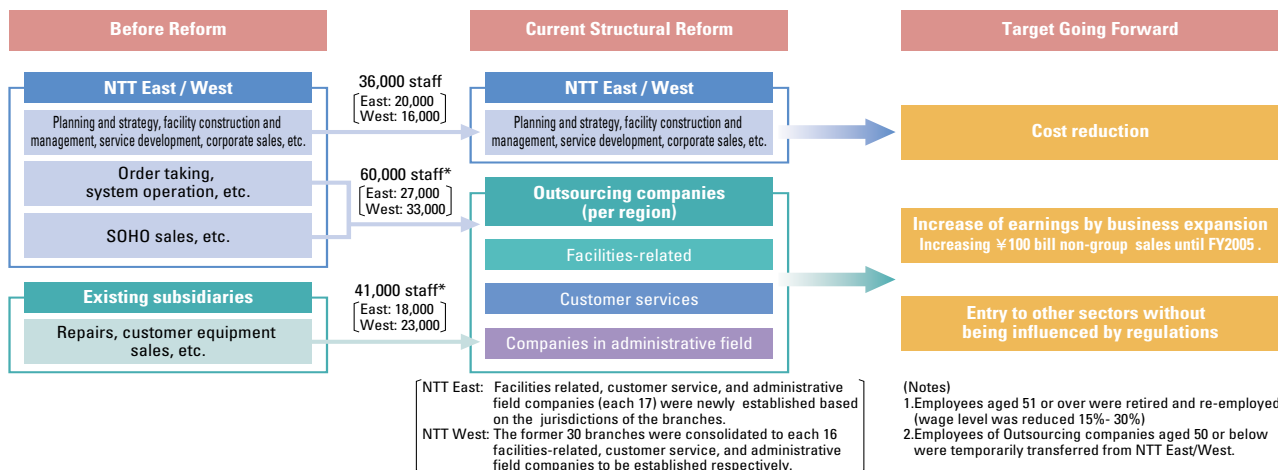
Public Offering of Outstanding Non-Core Businesses

Concerted efforts will be made to realize the latent values of the entire NTT Group and to streamline balance sheets. As part of this endeavor, non-core businesses which are fully competitive and reporting strong performances will be reviewed for the possibility of public listing in light of market conditions.

Promoting the Liquidation of Real Estate Assets of Regional Companies

Structural reforms have generated considerable idle real estate assets held by NTT East and NTT West. Active efforts will be taken to promote the sale of these real estate assets in order to improve the efficiency of asset utilization as well as to cut back on real estate holding costs.

Drastic Outsourcing of Operation and Target Going Forward



Flexible Review of Group-Formation under Holding Company System

In the course of the ongoing restructuring program, NTT Group has shifted to a new paradigm of group-formation encompassing outsourcing companies. In order to respond effectively to future changes in the market environment, the Group will adopt a more flexible and dynamic approach to the review of group-formation strategies. Should these efforts be hampered by any existing laws and regulations, it is the intent of NTT Group to take up the matter with the responsible authorities and to gain their understanding for implementing the necessary revisions.

From the viewpoint of maximizing shareholders' profits, the Group will continue to review issues such as the size of the equity stake held by the holding company in NTT Communications and NTT DoCoMo, as well as that of concurrent executive positions.

Responses to Regulatory Control

In order for the broadband (HIKARI) markets to be energized by the entry of numerous competitive enterprises, it will be necessary to generate greater incentives for invest-

ment in broadband (HIKARI) infrastructures. For this purpose, NTT Group intends to request the responsible authorities to undertake a fundamental review of current competition policies predicated on conventional (copper-base) telephone systems, and to press for the early abolition of the LRIC model in the determination of interconnection charges.

NTT Group considers that the market for broadband (HIKARI) services in Japan remains in an early phase of development in which entrants have only begun to develop their diverse businesses based on a plethora of differing business models. As such, we believe that a framework of free competition in which players can maximally leverage their separate originality and creative ingenuity will best contribute to the market's vigorous development, rather than the establishment of new regulations such as layer regulation. In addition, due to the significant number of problems (such as the lack of incentives for wholesale firms to invest in advanced infrastructure improvements and the obstacle created by the need to maintain universal services) that are involved in the proposed regulatory separation of the wholesale and retail parts of the telecommunications sector, NTT Group does not believe that such action represents an appropriate solution.

Regulatory Status in Japan and Overseas

(As of January 2002)

Main Items		Japan	U.S.	U.K.	France	Germany
Unbundling of Subscriber Lines	Metal	○	○	○	○	○
	Fiber	○	○	×	×	○
LRIC Introduction Not applied to interstate or intrastate long distance calls, which are the majority		○	△	△ ^{*1}	△ ^{*1}	× ^{*2}
Local Preferred Connection		○	×	○	○	×
Resale Carrier's rate provided for leased circuit service		△	○	×	×	×
OSS Opening For DSL, fiber, address information, MYLINE, number information database		△	○ (RBOC in interstate business only)	△ (Carrier pre-selection and provision through resale)	×	×
Local, Long Distance Separation		○	○	×	×	×

*1 Determined the connection rate by top down model considering real networks as well as by bottom up model.

*2 Determined the connection rate through international comparison (RegTP announced connection rates based on LRIC, but then sentenced to stop by court)

FINANCIAL SECTION

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FIVE-YEAR FINANCIAL SUMMARY

Nippon Telegraph and Telephone Corporation and its subsidiaries
Years ended March 31

	Billions of yen					Millions of U.S. dollars
	1998	1999	2000	2001	2002	2002
For the year:						
Operating revenues	¥9,450	¥9,730	¥10,383	¥11,328	¥11,536	\$86,734
Operating expenses	8,578	9,018	9,560	10,493	11,474	86,272
Operating income	872	711	824	835	62	462
Other expenses (income)	217	(1,403)	135	(470)	152	1,142
Income (loss) before income taxes	656	2,114	689	1,305	(90)	(680)
Income tax expenses (benefit)	418	1,082	285	592	(73)	(552)
Minority interest in consolidated subsidiaries	(32)	(24)	(115)	(161)	1	7
Extraordinary loss	—	(463)	—	—	—	—
Equity in earnings (losses) of affiliated companies (including write-down of ¥653,751 million (\$4,915 million)) net of income taxes, in affiliates in 2002	9	9	10	(18)	(669)	(5,028)
Income (loss) before cumulative effect of accounting changes	—	—	299	534	(685)	(5,149)
Cumulative effect of accounting changes (net of income taxes of ¥108,534 million (\$816 million))	—	—	—	—	(150)	(1,127)
Net income (loss)	¥214	¥554	¥299	¥534	¥(835)	\$(6,276)
At year-end:						
Property, plants and equipment (net)	¥12,005	¥12,162	¥11,864	¥11,792	¥11,498	\$86,449
Total assets	17,352	18,573	19,101	21,759	21,425	161,089
Current liabilities	3,446	3,744	3,858	4,852	4,132	31,068
Long-term liabilities	8,307	8,125	8,319	8,665	9,918	74,574
Capital Stock (common stock plus additional paid in capital)	3,326	3,326	3,326	3,608	3,608	27,125
Shareholders' equity	¥5,464	¥5,911	¥6,015	¥6,756	¥5,865	\$44,098

	(Yen, except share amount)					U.S. dollars
	1998	1999	2000	2001	2002	2002
Per share of common stock:						
Income (loss) before cumulative effect of accounting changes	¥13,478	¥34,844	¥18,837	¥33,466	¥(42,442)	\$(319)
Cumulative effect of accounting changes	—	—	—	—	(9,289)	(70)
Net income (loss)	13,478	34,844	18,837	33,466	(51,731)	(389)
Cash dividends, applicable to earnings for the year	¥5,000	¥5,000	¥10,000	¥5,000	¥5,000	\$38
Average number of Shares outstanding (adjusted to reflect changes in capital)	15,911,936	15,911,959	15,873,762	15,951,286	16,134,538	

	Billions of Yen					Millions of U.S. dollars
Adjusted EBITDA ⁽¹⁾	¥3,319	¥3,326	¥3,451	¥3,511	¥2,669	\$20,068
Adjusted EBITDA margin ⁽¹⁾⁽²⁾	35.1%	34.2%	33.2%	31.0%	23.1%	
Net income margin ⁽²⁾	2.3	5.7	2.9	4.7	—	
Return on equity ⁽³⁾	3.97	9.75	5.01	8.36	(13.23)	
Return on assets ⁽⁴⁾	5.16	3.96	4.37	4.09	0.28	

(1) Adjusted EBITDA refers to operating income before deducting depreciation and amortization expenses and losses on sale and disposal of property, plant and equipment.

(2) Calculated as a percentage of operating revenues.

(3) Calculated as net income as a percentage of average total shareholders' equity.

(4) Calculated as operating income as a percentage of average total assets.

Employees (thousands)	226	224	224	222	213
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Introduction

In recent years, Japan has undergone, and continues to undergo, significant changes in the legislative and regulatory framework for telecommunications. These changes include the implementation of telecommunications reform laws aimed at promoting competition in the telecommunications services market.

In June 1997, the Japanese Diet revised the Telecom Business Law in an attempt to promote transparent, fair, prompt and reasonable interconnection. Under this revised Telecom Business Law, it became the responsibility of NTT East and NTT West, as Type I Carriers having Type I “designated telecommunications facilities,” to establish their connection rates and conditions for interconnection in their articles of agreement, provided such rates are deemed to be fair and proper in light of costs computed according to a method determined by the MPHPT and approved by the Minister of PHPT.

In the joint status report on deregulation issued by the governments of Japan and the United States in May 1998, the Japanese Government stated its intention to introduce a LRIC Methodology for the calculation of interconnection rates. As a result, a LRIC Methodology has become the official policy in Japan.

In May 2000, a technical model for LRIC Methodology was prepared by a study group at what was then the MPT, and then reviewed and accepted by the Telecommunications Council. The 2001 amendment to the Telecom Business Law stipulated the adoption of a LRIC Methodology based on the conclusions of this technical model for LRIC Methodology.

In the U.S.-Japan discussions on deregulation held in July 2000, the Japanese and U.S. governments agreed that interconnection rates would be reduced in the three years ending fiscal 2003. The reductions would be retroactive to the beginning of fiscal 2001. The changes would include the reduction of GC connection charges by 22.5%.

As a result of these discussions, in December 2000, NTT East and NTT West applied for approval of the reduction of interconnection rates for the three years ending fiscal 2003. In February 2001, they received required approvals from the Minister of PHPT.

Also, based on agreements between the Japanese and U.S. governments, a MPHPT study group considered a revised LRIC Methodology model. This model was made public in March 2002. Based on this LRIC Methodology model, the Council is currently studying how interconnection rates should be treated. The Japanese Government has indicated that it expects to discuss with the U.S. Government no later than October 2002 whether the revised LRIC Methodology model should be applied. During 2002, the governments have also indicated that they expect to agree on the rates for fiscal 2003.

These and other regulatory developments may increase competition in the Japanese telecommunications industry, and a more competitive environment may affect NTT Group’s results of operations. NTT Group believes that competition in the telecommunications industry is based primarily on the cost, quality and variety of services provided. To compete more effectively, NTT has enhanced operational efficiency, thereby increasing customer satisfaction, upgraded network and R&D activities, and has introduced a range of new services, including Internet and data communications-related services, as well as discount services designed to provide optional calling plans to different customer segments.

NTT DoCoMo Offerings

In February 2001, NTT DoCoMo issued and sold 460,000 new shares in the form of shares or ADSs in the

United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act and outside of the United States to investors in reliance on Regulation S under the Securities Act. As a result of the new offering, NTT's stake in NTT DoCoMo was reduced from 67.1% to 64.1%.

The resulting pretax gains on these issuances of subsidiary stock amounting to ¥516,599 million are recognized in the consolidated statement of income for fiscal 2001, together with the applicable deferred taxes thereon. In the consolidated statement of cash flows for fiscal 2001, the gains on issuance of subsidiary stock are excluded from the cash flows from operating activities, and the related cash proceeds of ¥930,005 million are included in the cash flows from financing activities.

In January 2002, NTT DoCoMo's board of directors resolved to conduct a five-for-one split of its shares (new shares were issued on May 15, 2002), as well as to apply to list its shares on the New York Stock Exchange and London Stock Exchange. NTT DoCoMo's shares were listed on the two exchanges on March 1, 2002.

Employee Reduction

NTT and its consolidated subsidiaries had approximately 213,000 employees at March 31, 2002.

In September 2000, NTT, NTT East and NTT West decided to implement a voluntary early retirement program covering a total of approximately 6,500 employees in fiscal 2001 and fiscal 2002 as part of a rationalization of their management. This rationalization is a response to adverse business conditions resulting from intense competition and other factors in the telecommunications industry. In fiscal 2001, approximately 6,500 employees applied for this program and in fiscal 2002, another approximately 14,500 employees applied, of which approximately 4,400 will retire in fiscal 2003.

Structural Reform

NTT Group continues to pursue a fundamental structural reform of its businesses. Along with a program for thorough outsourcing, NTT Group adopted a more diversified range of employment arrangements featuring retirement and re-employment packages, and implementation of wage levels consistent with those of specific localities and businesses. Terms of employment will be fundamentally reconsidered, including a review of current employee allowances. Moreover, approximately 100,000 employees were reallocated in May 2002. Continued efforts will be made to strengthen the Group's financial foundations through a program for new group formation, including outsourcing companies.

For fiscal 2002, NTT recorded restructuring charges totaling ¥556,156 million primarily associated with the implementation of the structural reform of NTT East and NTT West in the regional communications services segment. These charges consisted of a curtailment loss of the severance indemnity plan of ¥322,736 million and additional lump-sum severance payments of ¥233,420 million. The remaining balances of these two charges as of March 31, 2002 were ¥322,736 million, included in "Liability for employees' severance payments," and ¥196,090 million, included in "Accrued payroll."

NTT also recorded restructuring charges totaling ¥83,058 million associated with the downsizing of Verio's business and the implementation of restructuring plans in certain domestic subsidiaries other than NTT East and NTT West, which are included in the Other segment. These charges consisted of non-cash charges for asset write-downs of ¥32,430 million, additional lump-sum severance payments of ¥25,330

million and costs related to facility shutdowns of ¥25,298 million. The remaining reserve balance as of March 31, 2002 was ¥19,907 million, which is included in "Accrued payroll", and ¥61,281 million, which is included in "Current liabilities — Other" in the consolidated balance sheet as of March 31, 2002.

Investments

NTT Group has been actively seeking to enter into joint ventures, alliances and collaborations with companies and organizations outside Japan focusing on the high-growth areas of mobile communications, IP networks and IP service platforms. NTT Group has invested in overseas operators such as Verio, KPN Mobile N.V. ("KPN Mobile"), Hutchison 3G UK Holdings Limited ("Hutchison 3G UK"), AT&T Wireless Services, Inc ("AT&T Wireless") and KG Telecommunications Co.,Ltd ("KG Telecom").

Effective April 1, 2001, NTT Group adopted SFAS 142 and ceased amortization of goodwill associated with its investments. During fiscal 2002, NTT completed the transitional impairment test for existing goodwill as required by SFAS 142 and determined that the fair value of Verio, which includes goodwill, was below its carrying amount. Accordingly, NTT recorded a net-of-tax transitional impairment loss for goodwill of ¥149,180 million in the cumulative effect of accounting changes in the consolidated statement of income. NTT continues to review its investments and goodwill for impairment.

Recently, telecommunications companies and wireless operators, including companies NTT Group has invested in, have experienced a variety of negative developments, including increased competition, the collapse of the dot-com bubble economy, increasing debt burdens from network build outs, expensive 3G spectrum auctions and significant volatility in share prices.

Verio reported that its revenues would be lower than expected in 2001. Based on that trend, Verio revised its business plan, including a change of the sales strategy and a reduction of operating costs. As a result, NTT recorded write-downs of goodwill and intangible assets of ¥203,367 million in the operating expenses of the consolidated statement of income for fiscal 2002 under SFAS 142 and an additional ¥28,437 million impairment loss of intangible assets under SFAS 121. NTT continues to monitor Verio's performance monthly. If the current difficult business environment continues and Verio's revenue continues to be below expectation, there is a risk that it may not be able to achieve its business plan for 2002 and positive EBITDA and operating cash flow in 2003. In that case, Verio may need to revise significantly its business structure and NTT may need to make further write-downs.

NTT expects that equity in net losses of its affiliates will continue to be affected by many factors including NTT Group's overseas investments. NTT includes its pro rata portion of the net income or net losses of these companies as investments that are accounted for by the equity method. Additionally, in the past, NTT's investment costs have exceeded NTT Group's underlying equity in net assets of the investee at the date of investment by a significant amount.

In addition to write-downs to operating expenses associated with NTT's investment in Verio discussed above, because of the economic and financial environment surrounding the telecommunications industry and resultant declines in equity values of telecommunication companies on a global basis, NTT recently reviewed the business outlook of certain other affiliates to determine if any decline in investment value was other than temporary. NTT utilized cash flow projections, independent valuations and information, and, in certain cases, stock price analysis in performing its reviews and estimating investment values. As a

result, NTT Group determined that the decline in values of certain investments were other than temporary and recorded impairment charges aggregating ¥653,751 million, net of deferred taxes of ¥474,305 million, for fiscal 2002. These gross impairment charges were ¥664,493 million for AT&T Wireless, ¥320,481 million for KPN Mobile, ¥36,461 million for KG Telecom, ¥56,444 million for Hutchison 3G UK and ¥50,177 million for other companies. These impairment charges are included in equity in earnings (loss) of affiliated companies in the consolidated statements of income.

In addition to recording the portion of the income and losses of NTT's overseas affiliates, NTT also regularly tests the value of its overseas investments. As a result and to the extent there is impairment, NTT has had and may in future periods have write-downs related to the impaired value of these investments.

New Accounting Pronouncements

In November 2001, the Emerging Issues Task Force ("EITF") reached a consensus on various related issues collectively referred to as "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" ("EITF 01-09"). EITF 01-09 codified and replaced several earlier consensuses covering the same matters as well as reached additional conclusions regarding the scope and application of these issues. As it relates to NTT Group, the basic conclusion of the EITF is that sales incentives or other consideration from a vendor to a reseller of the vendor's products is presumed to be a reduction of the selling price of the vendor's products and, therefore, should be characterized as a reduction of revenue when the sale to the reseller is recognized in the vendor's income statement. That presumption can be overcome in certain circumstances based on specific criteria. NTT Group will adopt EITF 01-09 effective April 1, 2002. EITF 01-09 will have no impact on reported financial position or results of operations for periods prior to the date of adoption. However, it will result in the reclassification of certain amounts previously classified in operating expenses as a reduction of operating revenues. The adoption of EITF 01-09 may also result in an adjustment as of April 1, 2002 for the cumulative effect of changes in accounting principles.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations." SFAS 143 is effective for NTT on April 1, 2003. SFAS 143 requires that legal obligations associated with the retirement of tangible long-lived assets to be recorded as a liability, measured at fair value, when those obligations are incurred if a reasonable estimate of fair value can be made. Upon initially recognizing a liability for asset retirement obligations, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. NTT is in the process of determining the impact, if any, that the adoption of SFAS 143 will have on its results of operations and financial position.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, superceding that part of SFAS 121, and SFAS 144 addresses and supercedes accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," regarding the disposal of a segment of a business (as previously defined in APB 30). SFAS

144 also amends Accounting Research Bulletins Opinion No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of SFAS 144 generally are to be applied prospectively. NTT believes that the adoption of SFAS 144 will not have a material impact on its results of operations and financial position.

In April 2002, FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which updates and clarifies existing accounting pronouncements. Specifically it rescinds Statement of Financial Accounting Standards No. 4 ("SFAS 4") and Statement of Financial Accounting Standards No. 64 which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result of the new statement, the criteria in APB 30 will now be used to classify those gains and losses. SFAS 145 also amends Statement of Financial Accounting Standards No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS 145 is to be applied, on a retroactive basis, in fiscal years beginning after May 15, 2002 with earlier adoption of provisions related to the rescission of SFAS 4. NTT is in the process of determining the impact, if any, that the adoption of SFAS 145 will have on its results of operations and financial position.

Critical Accounting Policies

NTT's consolidated financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. Note 2 to its consolidated financial statements includes a summary of significant accounting policies used in the preparation of these financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management continually evaluates its estimates and judgments, including those related to revenue recognition, estimated useful lives and impairments of property, plant and equipment, software and certain other intangibles with finite useful lives, goodwill and indefinite life intangible assets, investments, use of equity method of accounting, employees' severance payments and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. NTT believes that of its significant accounting policies, the following may involve a higher degree of judgment or complexity.

Revenue recognition

Telephone service revenue and ISDN services revenue are recorded based on seconds of traffic processed plus basic fees at March 31. Beginning April 1, 2000, NTT and its subsidiaries revised its revenue recognition policy to defer upfront activation fees and to recognize them as revenues over the expected term of the customer relationship, which ranges from two to six years depending on the type of service. Related

direct incremental customer acquisition costs, to the extent of the activation fee amount are also being deferred and amortized over the same periods. While this policy does not have a material impact on net income, the reported amounts of revenue and cost of services are affected by the level of activation fees and related direct costs and the estimated length of the customer relationship period over which such fees and costs are amortized. Factors that affect its estimate of the customer relationship period over which such fees and costs are amortized include subscriber churn rates, newly introduced or anticipated products, and services and technologies. The current amortization periods are based on an analysis of historical trends and the experience of NTT and its subsidiaries adjusted for the estimated impact of future events and circumstances.

Revenue from system development and system integration projects, included in miscellaneous operating income, are recorded when the projects are completed. Provision for estimated losses, if any, is made in the period in which the loss first becomes probable and is reasonably estimable. NTT recognizes such losses based on estimates of total expected contract revenue and costs upon completion. NTT follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Recognized losses are subject to revisions as the contract progresses to completion. Revisions in loss estimates are charged to income in the period in which the facts that give rise to the revision become known.

Estimated useful lives and impairments of property, plant and equipment, software and certain other intangibles

NTT and its subsidiaries estimate the useful lives of property, plant and equipment, software and certain other intangibles with finite useful lives, in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. NTT's total depreciation and amortization expenses in fiscal 2000, 2001 and 2002 were ¥2,418,331 million, ¥2,468,956 million and ¥2,435,587 million, respectively. The useful lives are estimated at the time the assets are acquired and are based on historical experience with similar assets as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of an impairment charge to reflect the write-down in value of the asset. NTT Group also reviews for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset. During fiscal 2002, NTT recorded, in accordance with SFAS 121, an impairment loss on intangible assets amounting to ¥28,437 million, which is included in "Operating expenses—Write-down of goodwill and intangible assets" in the consolidated statements of income.

Goodwill and indefinite life intangible assets

Beginning April 1, 2001, in accordance with the provisions of SFAS 142, NTT Group no longer amortizes goodwill, including excess basis related to equity-method investments, but tests these assets for impair-

ment at least annually using a two-step process that begins with an estimation of the fair value of a reporting unit and also between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below its carrying amount. Upon the adoption of this new statement, NTT Group reconsidered classification between existing goodwill and intangible assets in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" and reclassified assembled workforce with immaterial amounts, from intangible assets to goodwill at April 1, 2001. NTT Group also reassessed the useful lives of its intangible assets, adjusted the remaining amortization periods and determined that no intangible assets have indefinite lives.

During fiscal 2002, NTT Group completed the transitional impairment test for existing goodwill as required by SFAS 142 and determined that the fair value of Verio, which includes goodwill, was below its carrying amount. Accordingly, upon the adoption of SFAS 142, NTT recorded a net-of-tax of transitional impairment loss for goodwill of ¥149,180 million in the cumulative effect of an accounting change in the consolidated statement of income. In addition to the transitional goodwill impairment test, NTT Group has also completed impairment tests as certain events or changes in circumstances indicated that goodwill of Verio might be impaired. As a result, NTT recorded a goodwill impairment loss of ¥203,367 million which is included in "Operating expenses—Write-down of goodwill and intangible assets" in the consolidated statement of income for the year ended March 31, 2002 under SFAS 142. The determinants used for the fair value measurement include management's estimate of the reporting unit's continuing ability to generate income from operations and cash flow in future periods, as well as the strategic significance of the reporting unit to NTT's business objectives.

Investments

NTT Group holds investments in other companies which NTT Group accounts for under either the cost method or equity method of accounting. NTT Group evaluates whether declines in value are temporary or other than temporary. Temporary declines are reflected in other comprehensive income, and other than temporary declines are recorded as a realized loss with a new cost basis in the investment being established. When determining an other than temporary decline, NTT Group considers, among other items, the length of time the trading price has been below its carrying value, the financial condition of the investee company, including the industry in which it operates, and its ability or intent to retain the investment. If the financial condition of the investee company or the industry in which it operates were to be materially different than its expectations, NTT Group would record an expense to reflect the other than temporary decline in the value of the investment. At March 31, 2002, unrealized losses on "available-for-sale" securities included in "Other comprehensive income" as a component of shareholders' equity were immaterial. Further, NTT Group utilized a variety of information, including cash flow projections, independent valuations and, if applicable, stock price analysis in performing its evaluations. Such projections and valuations necessarily require estimates involving, among others, demographics (e.g. population, penetration rates and speed, churn rates, etc.), technology changes, capital expenditures, market growth and share, ARPU and terminal values. Because of the economic and financial environment surrounding the telecommunications industry and resultant significant declines in equity values of telecommunications companies on a global basis during fiscal 2002, NTT and NTT DoCoMo reviewed the business outlook of their affiliates in

order to determine if the value of any of their investments in such affiliates had suffered a decline that was other than temporary. NTT and NTT DoCoMo utilized cash flow projections, independent valuations and other financial information and, as applicable, stock price analysis in performing their reviews and estimating investment values. As a result of such evaluations, NTT determined that there were other than temporary declines in the values of several of its investee affiliates, including its two largest, KPN Mobile and AT&T Wireless, and recorded impairment charges aggregating ¥653,751 million, net of deferred income taxes of ¥474,305 million for fiscal 2002. While NTT and its subsidiaries believe the remaining carrying values of their affiliate investments are realizable, actual results or changes in circumstances could require additional charges to be recorded.

Use of equity method of accounting

In addition to its domestic operating subsidiaries, NTT and NTT DoCoMo have made strategic investments in other affiliate companies, primarily foreign entities, to position themselves for the continued development of the wireless communications industry on a regional geographic and global basis. Such investments were intended to give NTT and NTT DoCoMo the ability to influence the business activities, such as choices of technologies, of these affiliates. In a majority of cases, NTT and NTT DoCoMo's investments are of a size (i.e., 20%-50% voting interest) that, in their opinions, provides them the ability to significantly influence the operating or financial policies of the investees. However, in the case of KPN Mobile and AT&T Wireless, NTT and NTT DoCoMo's investments represent only 15% and 16% of the voting interests, respectively. NTT and NTT DoCoMo have evaluated the scope and terms of their investments in these two entities and have concluded that additional factors, including, among others, board representation, technology agreements, and other factors such as financing arrangements, provide them with the appropriate ability to exercise significant influence over the operating and financial policies of these investees also. NTT and NTT DoCoMo reflect their influence with these investee affiliates by accounting for their interests in them using the equity method of accounting, which prescribes that NTT and NTT DoCoMo currently record their share of earnings and losses of such investees. NTT and NTT DoCoMo periodically review each of their affiliate investee relationships to determine if they continue to have the influence necessary to account for them according to the equity method. Based on such assessment, a future event or change in the facts or circumstances of a particular investee, may lead NTT and NTT DoCoMo to determine that they no longer have the ability to continue to exercise significant influence over an investee and would require them to cease recording their share of the earnings or losses of such investee affiliates in their income statement and to change their accounting treatment to either a cost or mark-to-market basis, depending on the circumstances.

Employees' severance payments

The amounts recognized in the consolidated financial statements related to employees' severance payments are determined on an actuarial basis, which utilizes many assumptions in the calculation of such amounts. The assumptions used in determining net periodic cost for severance payments include the expected long-term rate of return on plan assets, the discount rate, the rate of increase in compensation levels and average remaining years of service. NTT Group uses long-term historical actual return informa-

tion and estimated future long-term investment returns by reference to external sources to develop its expected rate of return on plan assets. The discount rate is assumed based on the rates available on high-quality fixed-income debt instruments with the same period to maturity as the estimated period to maturity of the pension benefit. NTT Group assumes the rate of increase in compensation levels and average remaining years of service based on its historical data. Any changes in these assumptions will impact NTT Group's net periodic pension cost. For example, a significant assumption used in determining net periodic cost for severance payments is the expected long-term rate of return on plan assets. At March 31, 2002, NTT Group assumed an expected long-term rate of return on plan assets of 3.0%. On average, the plan's assets have experienced rates of return substantially lower than 3.0% for fiscal 2002. At March 31, 2002, NTT Group lowered its expected long-term rate of return assumption from 3.0% to 2.5%, reflecting the generally expected moderation of long-term rates of return in the financial markets. NTT Group expects a 0.5% decrease in its expected long-term rate of return and expects that such decrease would reduce operating income by approximately ¥10 billion.

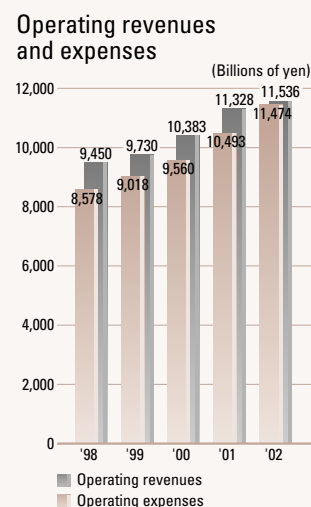
Income taxes

NTT Group records deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between the book and tax bases of assets and liabilities. If enacted tax rates changed, NTT Group would adjust its deferred tax assets and liabilities, through the provision for income taxes in the period of change, to reflect the enacted tax rate expected to be in effect when the deferred tax items reverse. A one percentage point change in the enacted tax rates of the deferred tax assets and liabilities would increase or decrease net income by approximately ¥44 billion. NTT Group records a valuation allowance on deferred tax assets to reflect the expected future tax benefits to be realized. In determining the appropriate valuation allowance, NTT Group takes into account the level of expected future taxable income and available tax planning strategies. If future taxable income was lower than expected or if expected tax planning strategies were not available as anticipated, NTT Group may record an additional valuation allowance through income tax expense in the period such determination was made. At March 31, 2002, NTT had gross deferred tax assets of ¥2,631 billion, which included a valuation allowance of ¥20 billion.

Results of Operations

In fiscal 2002 and fiscal 2001, NTT's operating revenues increased 1.8% and 9.1%, respectively. In fiscal 2002, NTT DoCoMo's sales volume increased as a result of the expansion of mobile multimedia services such as i-mode. However, the reduction of fees by NTT East, NTT West and NTT Communications due to increased competition resulted in only a slight increase in NTT's revenue on a consolidated basis. In fiscal 2002, growth in cellular telephone services and data-related demand, including ISDN services, frame relay services and OCN services caused by increased demand for Internet access, overcame the negative impact of a decline in the number of telephone subscriber lines and a reduction in interconnection charges paid by certain competing NCCs for network access.

In fiscal 2002 and fiscal 2001, operating expenses increased 9.3% and 9.8%, respec-



tively. In fiscal 2002, operating expenses increased as a result of structural reform related expenses of NTT East and NTT West, costs relating to the restructuring of Verio, and write-downs of goodwill and other intangible assets primarily with respect to investments in Verio. For a further discussion on structural reform related expenses, see “— Structural Reform.” Among the factors that led to a significant increase in overall operating expenses in fiscal 2001 were an increase in personnel costs due to the recording of special lump sum payments for voluntary retirement, an increase in amortization charges due to the commencement from this term of amortization of goodwill and increases in fees paid to agents and handset marketing costs resulting from the sharp increase in NTT DoCoMo Group subscribers.

Due to the foregoing factors, operating income decreased ¥773 billion to ¥62 billion in fiscal 2002. NTT Group suffered a net loss of ¥835 billion in fiscal 2002 primarily due to retirement allowance related expenses from structural reforms of NTT East, NTT West and other companies and expenses resulting from the write-downs of NTT Group’s overseas investments.

Rate reductions are affecting revenues of NTT Group. In addition, reduction in interconnection rates has had, and will continue to have, an adverse impact on interconnection revenue.

NTT Group implemented the following rate reductions for telephone subscriber service and ISDN service from fiscal 1997 through May 2002:

Effective Date	Company	Area	Estimated annual impact on NTT Group companies’ revenue based on the volume of services at the effective date (Billions of yen)
February 1997	NTT	Inter-prefecture	¥60
February 1998	NTT	Inter-prefecture	¥80
April 2000	NTT Communications	Inter-prefecture and International	¥50
October 2000	NTT East and NTT West	Intra-prefecture, Inter-city	¥30
January 2001	NTT East	Local	¥39
March 2001	NTT Communications	Inter-prefecture	¥42
May 2001	NTT East and NTT West	Local	¥76
May 2001	NTT Communications	Intra-prefecture	¥12

As the effective dates have not coincided with the beginning of fiscal years, the estimated impact does not fully correspond with the impact for the fiscal years in which the changes went into effect. In addition, demand is affected by such factors as the marketing strategies of competitors and general economic conditions.

The following table sets forth a breakdown by category of NTT Group’s operating revenues for fiscal 2000, fiscal 2001 and fiscal 2002:

	Years ended March 31,			2002	Percent increase (decrease)	
	2000	2001	2002		Years ended March 31,	
	(Billions of yen)			(Billions of U.S. dollars)	2001	2002
Operating Revenues						
Telephone	¥6,394	¥6,172	¥5,867	\$44	(3.5%)	(4.9%)
Telegraph	83	79	68	1	(4.5)	(14.1)
Leased Circuit	500	494	524	4	(1.1)	6.1
Data communications facility	397	388	381	3	(2.3)	(1.9)
ISDN	819	1,082	1,109	8	32.1	2.6
Sale of telecommunications equipment	1,138	1,477	1,376	10	29.8	(6.8)
Other	1,052	1,636	2,211	17	55.5	35.1
	¥ 10,383	¥11,328	¥11,536	\$87	9.1%	1.8%

Fiscal 2002 compared with fiscal 2001

Operating Revenues

NTT Group's operating revenues are divided into the following seven service categories: telephone services, telegraph services, leased circuit services, data communications facility services, ISDN services, sale of telecommunications equipment and other services.

NTT Group's results are also segmented according to its five primary lines of business: regional communications services, long distance communications and international services, wireless services, data communications services and other services. See Footnote 16 to the Notes to the Consolidated Financial Statements attached hereto and "—SFAS 131 Segment Information" below.

In fiscal 2002, NTT Group's operating revenues increased 1.8% to ¥11,536 billion. Operating revenue, from regional communications services decreased 8.3% to ¥4,943 billion as data-related demand, including ISDN services, and internet access services such as FLET'S ADSL, caused by increased demand for Internet access could not offset the decline in the number of telephone subscriber lines, a reduction in interconnection charges paid by NCCs and rate reductions arising from the introduction of MYLINE services. Operating revenues from long distance communications and international services decreased 5.9% to ¥1,282 billion due to the decreased rates of telephone services. Operating revenues from wireless services increased 10.7% to ¥5,167 billion due to a steady increase in the number of cellular telephone subscribers which was led mainly by strong demand for mobile internet access through services such as i-mode. Operating revenues from data communications services increased 1.9% to ¥802 billion and operating revenues from other services decreased 3.6% to ¥2,053 billion, respectively.

Telephone Services

Operating revenues from telephone services decreased 4.9% in fiscal 2002 to ¥5,867 billion, or 50.9% of operating revenues. NTT Group's telephone services include certain items in the regional communications services segment and long distance communications and international services segment, such as telephone subscriber, public telephones and other related services; certain items in the wireless services segment, such as cellular telephone, PHS and other related services; and certain other services. Subscribers for cellular telephone services increased, leading to an increase in overall network traffic. However, the continuing trend towards an increase in ISDN subscribers caused the number of fixed-line telephone subscribers to decline.

(i) Telephone Subscriber Services

Telephone subscriber services are NTT Group's principal business activities and part of its regional communications services segment and long distance communications and international services segment. Due to an increase in sales of ISDN services and cellular telephones and the sluggish economy in Japan, the number of NTT Group's telephone subscriber lines in use decreased 1.3 million from the previous fiscal year to 50.6 million subscriber lines at the end of fiscal 2002.

	Years ended March 31,		
	2000	2001	2002
Telephone subscriber lines (thousands)	55,318	51,981	50,640

Interconnection rates were further reduced in fiscal 2002, with reductions applicable to calls made starting in April 2001. The adverse effect of such reduction on telephone subscriber and ISDN service interconnection charge revenues of NTT East and NTT West during fiscal 2002 was approximately ¥130 billion, representing a decrease in revenues of ¥69 billion and ¥61 billion for NTT East and NTT West, respectively.

In fiscal 2002, NTT Group implemented the following rate reductions for telephone subscriber services and ISDN services. On May 1, 2001, NTT East and NTT West reduced charges for local calls from ¥9 per 3 minutes to ¥8.5 per 3 minutes and from ¥10 per 3 minutes to ¥8.5 per 3 minutes, respectively. These reductions are expected to have an annual impact of ¥19 billion and ¥57 billion on NTT East's and NTT West's operating revenues, respectively.

NTT Group is promoting greater utilization of telephones through marketing and promotion of telephone subscriber services and other network services. Also, NTT Group will provide a wide range of discounted services in response to the heightened level of competition which began with the introduction of the MYLINE service.

(ii) Cellular Services

Cellular services are part of NTT Group's wireless services segment. During fiscal 2002, in addition to "mova 211i" series with enhanced e-mail functions and "i-appli"-compatible "mova 503iS" series, NTT DoCoMo Group increased the variety of products by releasing new model "mova F671i," or Raku Raku Phone II, a model especially tailored for use by senior customers, in a bid to disseminate i-mode service to a broader range of age groups. At the same time, the group started "DoCoMo Point Service" as part of its efforts to improve customer services.

As a result, NTT DoCoMo Group's cellular services subscribers grew to approximately 40.7 million subscribers as of March 31, 2002, a 13.0% increase over fiscal 2001.

(iii) PHS Services

PHS services are part of NTT's wireless services segment. During fiscal 2002, NTT DoCoMo Group released various new products including "P-in m@ster", a data card capable of handling both PHS and 9600bps cellular connections. At the same time, NTT DoCoMo Group started "P-p@c", a new tariff discount service for data communications, and increased the availability of content for music/video distribution services on PHS in order to facilitate the use of data services. As a result, the number of PHS subscribers rose 6.0% over the previous fiscal year to 1.9 million.

The following table sets forth information regarding NTT DoCoMo Group's PHS subscribers and its estimated market share:

	Years ended March 31,		
	2000	2001	2002
PHS telephone subscribers (thousands).....	1,441	1,812	1,922
Estimated market share	25.2%	31.0%	33.7%

The PHS businesses operated at a loss in fiscal 2002. NTT Group expects that the PHS businesses will improve in the near future, but there can be no assurance that this will be the case.

Telegraph Services

Operating revenues from telegraph services fell 14.1% to ¥68 billion in fiscal 2002, accounting for 0.6% of operating revenues. This service category includes both telegram and telex services. Telegram and telex services are included in NTT's regional communications services segment and long distance communications and international services segment, respectively.

The total number of telegrams sent decreased 7.3% in fiscal 2002, from 31.1 million to 28.8 million. Telegram services continue to decline due to the simplification of exchange of courtesies (i.e., telegrams sent for weddings and funerals).

The following table sets forth information regarding the number of telegrams sent and telex subscribers:

	Years ended March 31,				
	1998	1999	2000	2001	2002
Telegrams (thousands).....	37,564	36,180	34,078	31,119	28,835

Leased Circuit Services

Operating revenues from leased circuit services increased 6.1% in fiscal 2002 to ¥524 billion accounting for 4.5% of operating revenues. This service category includes conventional leased circuits, high-speed digital circuits, ATM Mega Link, ATM Share Link and other services included in NTT's regional communications services segment and long distance communications and international services segment.

The number of subscribers for conventional leased circuits of NTT East and NTT West decreased while the number of subscribers for high-speed digital circuits increased, owing to a demand shift to digital

access services. The number of subscribers for leased circuits of NTT Communications decreased due to a service shift to new and cost effective IP-related services such as IP-VPN.

The following table sets forth information regarding NTT Group's leased circuit services:

	Years ended March 31,				
	1998	1999	2000 ⁽¹⁾	2001	2002
Conventional circuits (thousands)					
NTT	902	822	—	—	—
NTT East	—	—	448	386	342
NTT West	—	—	394	344	306
NTT Communications	—	—	35	27	21
High-speed digital circuits (thousands)					
NTT	169	228	—	—	—
NTT East	—	—	244	287	310
NTT West	—	—	205	238	261
NTT Communications	—	—	40	47	48
ATM Circuit					
NTT	1,254	1,509	—	—	—
NTT East	—	—	3,662	7,754	11,195
NTT West	—	—	2,218	4,631	7,850
NTT Communications	—	—	1,549	3,236	4,640

(1) The calculation method for determining the number of leased circuit services was changed on July 1, 1999 when NTT's business activities were transferred to NTT East, NTT West and NTT Communications.

Data Communications Facility Services

Operating revenues from data communications facility services, which is included in NTT Group's data communications services segment and which represents 3.3% of operating revenues, decreased by 1.9% in fiscal 2002 to ¥381 billion. This decrease was mainly due to the completion of fee collection in certain large systems.

Integrated Services Digital Network (ISDN)

Operating revenues from ISDN services, which is included in NTT Group's regional communications segment and long distance communications and international services segment, increased 2.6% in fiscal 2002 to ¥1,109 billion, or 9.6% of operating revenues. NTT Group's ISDN services comprise INS-Net 64 and INS-Net 1500.

Due to the growing number of fixed rate Internet services in the home, the amount of INS-Net 64 subscribers increased in fiscal 2002. The number of INS-Net 64 subscribers increased 6.9% to approximately 10.2 million, and the number of INS-Net 1500 subscribers decreased 27.0% to approximately 93,000.

The following table sets forth information regarding NTT Group's ISDN subscribers:

	Years ended March 31,				
	1998	1999	2000	2001	2002
INS-Net 64 (thousands).....	2,286	3,955	6,598	9,562	10,224
INS-Net 64 Light (thousands)	86	242	486	812	973
INS-Net 1500 (thousands).....	34	48	82	126	93

Sale of Telecommunications Equipment

Operating revenues from the sale of telecommunications equipment fell 6.8% in fiscal 2002 to ¥1,376 billion, accounting for 11.9% of operating revenues. The sale of telecommunications equipment is included in NTT Group's regional communications services segment, long distance communications and international services segment, wireless services segment and other services segment.

Sales of fixed telephone equipment suffered as a result of, among other factors, a decline in sale prices caused by the sluggish economic conditions and increased competition in the telecommunications equipment market. Due to demand for cellular telephones, the Japanese mobile communications market showed expansion during the fiscal year. However, sales of cellular telephone terminals decreased 2.8% while sales of PHS terminals decreased 6.4% from the previous fiscal year.

Other Services

Operating revenues from other services rose 35.1% in fiscal 2002 to ¥2,211 billion, accounting for 19.2% of operating revenues. The other services category consists of certain regional communications services segment businesses, including FLET'S ISDN, FLET'S ADSL and other related services; certain long distance communications and international services segment businesses including digital data exchange, F-Net, OCN services and other related services; certain wireless services segment businesses including i-mode, pocket pager and other related services; certain data communications services segment businesses which include system development services; and certain other services.

The following table sets forth information regarding NTT Group's subscribers to other services:

	Years ended March 31,				
	1998	1999	2000	2001	2002
FLET'S ISDN (thousands).....	—	—	3	721	1,304
FLET'S ADSL (thousands).....	—	—	—	27	968
Packet exchange services (thousands)	477	463	460	790	820
Frame relay ⁽¹⁾ (thousands).....	16	44	75	94	93
Cell relay ⁽¹⁾	4	6	301	851	1,209
Facsimile network subscribers (thousands)	1,127	1,212	1,307	1,351	1,345
OCN services (thousands)	159	478	1,147	2,302	3,039
i-mode ⁽²⁾ (thousands).....	—	48	5,603	21,695	32,156
Pocket pager subscribers (thousands).....	3,908	2,111	1,444	1,098	827

(1) The calculation method for determining the number of frame relay services and cell relay services was changed in fiscal 2002.

(2) The number of i-mode subscribers includes subscribers to both cellular telephones (32,075 thousand) and FOMA (81 thousand).

Reflecting an increase in Internet usage, the total number of OCN subscribers increased by 32% to approximately 3,039,000 at the end of fiscal 2002.

During fiscal 2002, NTT Communications developed an improved line-up of OCN services. It responded to the launch of B-FLET'S, began to offer "OCN Voice Mode" services that can integrate voice and data communications, and launched "Super OCN DSL Access" services targeted at the corporate market to provide high-quality, low-cost broadband access. NTT Communications also boosted competitiveness by offering less expensive rates. OCN service subscribers totaled more than 3 million at the end of fiscal 2002.

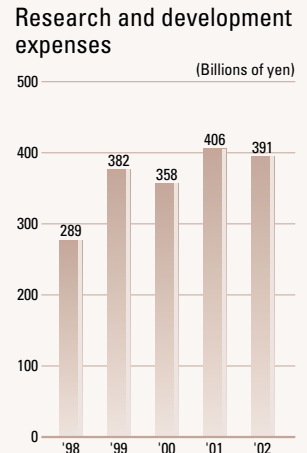
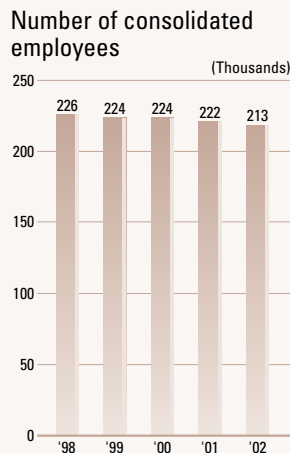
During fiscal 2002, NTT East and NTT West expanded their flat-rate Internet access services and lowered their charges in order to respond effectively to Internet-access needs generated by the rapid shift to broadband and continued price cutting. Specifically, the coverage areas of the current FLET'S ISDN and FLET'S ADSL services have been extended and charges have been lowered. Furthermore, FLET'S ADSL service was expanded in December 2001 with the introduction of a maximum 8 Mbps service. At the end of March 2002, the number of subscribers of FLET'S ISDN and FLET'S ADSL are approximately 1,304,000 and 968,000, respectively.

In fiscal 2002, NTT DoCoMo Group launched new services such as its AOLi service, which links the mail services of i-mode and AOL, and "i-area," a service that enables users to retrieve information easily pertaining to the customer's neighborhood or location. The total number of i-mode subscribers increased by 48.2% to approximately 32,156,000 at the end of fiscal 2002.

Operating Expenses

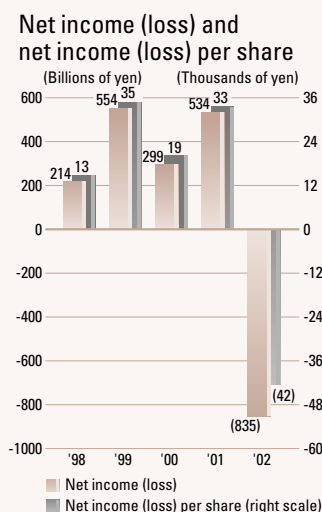
Operating expenses increased 9.3% in fiscal 2002 to ¥11,474 billion. This increase was primarily due to the write-downs of goodwill and intangible assets associated with Verio's review of its business plan (¥232 billion) and restructuring charges associated with the structural reforms of NTT Group companies such as NTT East and NTT West (¥639 billion).

As a result of the above factors, operating income decreased ¥773 billion to ¥62 billion.



Net Income

NTT Group suffered a net loss of ¥835 billion in fiscal 2002 primarily due to employees severance payments related expenses from structural reforms of NTT East and NTT West and expenses resulting from the write-downs of NTT Group's overseas investments.



Fiscal 2001 compared with fiscal 2000

Operating Revenues

Telephone Services

Operating revenues from telephone services decreased 3.5% in fiscal 2001 to ¥6,172 billion, or 54.5%, of operating revenues. Subscribers for cellular telephone services increased, leading to an increase in overall network traffic. However, the continuing trend towards an increase in ISDN subscribers caused the number of fixed-line telephone subscribers to decline.

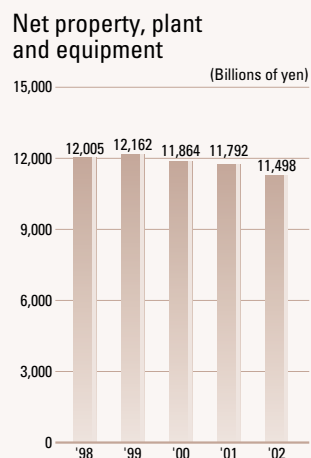
(i) Telephone Subscriber Services

Due to an increase in sales of ISDN services and cellular telephones and the sluggish economy in Japan, the number of NTT Group's telephone subscriber lines in use decreased 3.34 million from the previous fiscal year to 51.98 million subscriber lines at the end of fiscal 2001. However, the aggregate number of telephone and ISDN subscribers increased slightly in fiscal 2001.

Interconnection rates were further reduced in February 2001, with reductions applicable to calls made starting in April 2000. The adverse effects of such reduction on telephone subscriber and ISDN service interconnection charge revenues of NTT East and NTT West during fiscal 2001 were approximately ¥120 billion representing a decrease in revenues of ¥60 billion for each of NTT East and NTT West.

In fiscal 2001, NTT Group implemented the following rate reductions for telephone subscriber services and ISDN services:

- On April 3, 2000, NTT Communications simultaneously reduced charges for inter-prefectural long-distance calls and international phone calls. In fiscal 2001, this reduction had an impact of ¥50 billion on NTT Communications' operating revenue.
- On October 1, 2000, NTT East and NTT West reduced telephone subscriber services and ISDN usage charges for intra-prefectural, inter-city calls in excess of 20 kilometers. In fiscal 2001, this reduction had an impact of ¥8 billion and ¥7 billion on NTT East's and NTT West's operating revenues, respec-



tively.

- (c) On January 10, 2001, NTT East reduced charge for local call from ¥10 per 3 minutes to ¥9 per 3 minutes. In fiscal 2001, this reduction had an impact of ¥9 billion on NTT East's operating revenues.
- (d) On March 1, 2001, NTT Communications reduced charges for inter-prefectural long-distance calls. In fiscal 2001, this reduction had an impact of ¥3 billion on NTT Communications' operating revenues.

(ii) Cellular Services

During fiscal 2001, the market in Japan for cellular telephones continued to expand and the total number of cellular telephone subscribers increased by 19.2% to reach a new high of 60.9 million. NTT DoCoMo Group's cellular services subscribers grew to approximately 36 million subscribers as of March 31, 2001, a 22.7% increase over fiscal 2000.

(iii) PHS Services

Due to NTT DoCoMo Group's strategy such as the marketing of the data transmission capabilities and the introduction of data-card PHS "P-in," the number of PHS subscribers rose 25.8% over the previous fiscal year to 1.81 million.

The PHS businesses operated at a loss in fiscal 2001.

Telegraph Services

Operating revenues from telegraph services fell 4.5% to ¥79 billion in fiscal 2001, accounting for 0.7% of operating revenues.

The total number of telegrams sent dropped 8.7% in fiscal 2001, from 34.1 million to 31.1 million. Telegram services continue to decline due to the decrease in the use of telegrams for weddings and condolences.

Leased Circuit Services

Operating revenues from leased circuit services decreased 1.1% in fiscal 2001 to ¥494 billion accounting for 4.4% of operating revenues.

The number of high-speed digital circuits of NTT East and NTT West was approximately 287,000 and 238,000, respectively, at the end of fiscal 2001, and the number of conventional leased circuits of NTT East and NTT West was approximately 386,000 and 344,000, respectively.

On October 1, 2000, NTT East and NTT West introduced discount plans and reduced usage charges for certain high speed digital transmission and ATM leased circuit services. These reductions resulted in declines of ¥3 billion and ¥2 billion on NTT East's and NTT West's operating revenues, respectively.

In February 2001, interconnection rates for leased circuits were approved by the Minister of PHPT and applied retroactively to April 2000. The adverse effects of such reduction on interconnection charge revenues of NTT East and NTT West during the fiscal 2001 were approximately ¥19 billion and ¥14 billion, respectively.

On February 10, 2001, NTT East and NTT West introduced discount rates for carriers for intra-prefecture

leased-circuit services interconnected at subscriber line ends. The discount rate is based on user tariffs reflecting variations in the cost of promotional activities aimed at ordinary subscribers and carriers. The discount rate for analog leased circuits and high-speed digital circuits are 3.5% and 8.6%, respectively.

Data Communications Facility Services

Operating revenues from data communications facility services decreased by 2.3% in fiscal 2001 to ¥388 billion. This decrease was due to fee reductions in services such as "ANSER," by NTT DATA CORPORATION ("NTT DATA") and also completion of fee collection in certain large systems.

Integrated Services Digital Network (ISDN)

Operating revenues from ISDN services increased 32.1% in fiscal 2001 to ¥1,082 billion, or 9.6% of operating revenues. NTT Group's ISDN services comprise INS-Net 64 and INS-Net 1500.

Due to the growing number of fixed rate Internet services in the home, the amount of ISDN subscribers increased in fiscal 2001. The number of INS-Net 64 subscribers soared 44.9% to approximately 9.6 million, and the number of INS-Net 1500 subscribers increased 53.7% to approximately 126,000.

Sale of Telecommunications Equipment

Operating revenues from the sale of telecommunications equipment rose 29.8% in fiscal 2001 to ¥1,477 billion, accounting for 13.0% of operating revenues.

However, sales of cellular and PHS terminals equipment decreased 2.8% and 6.4%, respectively.

Other Services

Operating revenues from other services rose 55.5% in fiscal 2001 to ¥1,636 billion, accounting for 14.4% of operating revenues.

Reflecting an increase in Internet usage, the total number of OCN subscribers increased by 100.7% to approximately 2,302,000 at the end of fiscal 2001.

During fiscal 2001, NTT Communications added a flat rate plan for unlimited Internet access to its OCN Dial Access Service. NTT Communications also launched OCN ADSL Access, an Internet access service which ensures speedy downloading of large-volume video, music and game-content with the use of an ADSL access network. In addition, a new lineup was added to OCN PC Pack and OCN Dial Access Komi de Plan, an affordable plan that packages both Internet and dial-up charges.

Within frame relay services, NTT Communications expanded large-scale user discount schemes for its Super Relay FR during fiscal 2001. As a result, the number of subscribers increased 32.0% to approximately 99,000 at the end of fiscal 2001.

Operating Expenses

Operating expenses increased 9.8% in fiscal 2001 to ¥10,493 billion. The total number of employees continued to decrease 0.8% to approximately 222,000 in fiscal 2001. However, an increase in the recording of special lump sum payments for voluntary retirement led to an increase in personnel expenses of ¥69 billion to ¥2,470 billion.

Depreciation, amortization and maintenance costs increased by 2.3% or ¥77 billion to ¥3,471 billion. This is mainly due to an increase in amortization charges due to the commencement during this term of amortization of goodwill including the amortization of the goodwill related to the acquisition of Verio.

Other operating expenses increased ¥788 billion to ¥4,552 billion due mainly to an increase in fees paid to agents and handset marketing costs resulting from the sharp increase in NTT DoCoMo Group subscribers.

As a result of the above factors, operating income increased ¥11 billion, or 1.3%, to ¥835 billion.

Net Income

Net income in fiscal 2001 showed a substantial increase of 78.5% to ¥534 billion. The primary factors were the recording of fluctuations in equity accompanying NTT DoCoMo's public subscription capital increases as income from sale of shares in NTT DoCoMo and the proceeds from the sale of shares in Photonic Integration Research, Inc. Net income in fiscal 2000 decreased 46.1% to ¥299 billion from the previous fiscal year as a result of the sale of NTT DoCoMo shares in fiscal 1999 partially offset by the one-time loss of ¥462 billion stemming from NTT's discontinuation of its application of SFAS 71 in fiscal 1999.

Liquidity and Capital Resources

Fiscal 2002 compared with fiscal 2001

Financing and Capital Resources

Net cash provided by operating activities in fiscal 2002 amounted to ¥2,313 billion compared with ¥3,009 billion in fiscal 2001, reflecting, in part, a decrease in deferred taxes in fiscal 2002.

Net income decreased ¥1,368 billion from ¥534 billion in fiscal 2001 to a loss of approximately ¥835 billion in fiscal 2002, but after considering non-cash items such as cumulative effect of accounting changes, write-downs of goodwill and intangible assets and equity in losses of affiliated companies, the decrease in net income was not as significant.

NTT Group used cash provided by operating activities to acquire property, repay interest-bearing debt, make investments in affiliates and pay dividends. Net cash used in investing activities in fiscal 2002 was ¥2,376 billion compared with ¥5,067 billion in fiscal 2001. This decrease was primarily from a decrease in payments for purchase of investments and capital investments for fixed-line telephone services.

Cash provided by financing activities amounted to ¥457 billion in fiscal 2002 compared with ¥1,774 billion in fiscal 2001. This decrease was primarily from a decrease in equity financing in fiscal 2002. The total amount of capital raised in fiscal 2002 from issues of long-term debt was ¥1,752 billion. This sum included corporate bond offerings denominated in both yen and U.S. dollars. There was also a net decrease in short-term borrowings and other of ¥371 billion in fiscal 2002. For a further description of NTT Group's debt, see Note 10 to the Consolidated Financial Statements.

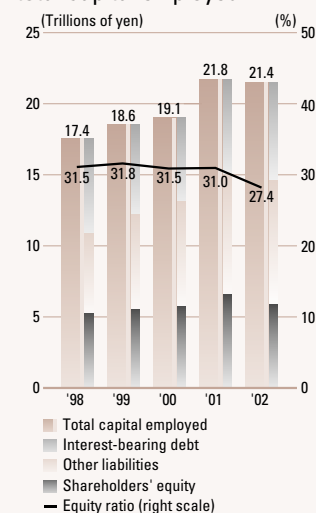
The ratio of interest-bearing debt (short-term borrowings and long-term debt) to shareholder's equity stood at 116.0% on March 31, 2002 compared with 91.8% at the previous fiscal year-end.

NTT Group believes available cash from operations, future borrowings NTT Group will make from banks and other financial institutions, or future offerings of equity capital or debt securities in the capital markets will provide sufficient financial resources to meet NTT Group's currently anticipated capital and other expenditure requirements and to satisfy NTT Group's debt service requirements. The actual amount of NTT Group's financing requirements will depend on its future performance, market conditions and other factors, many of which are beyond NTT's control and therefore cannot be predicted with certainty. NTT Group believes that even if cash flow from operating activities is temporarily reduced, it will still have sufficient liquidity from cash flow and other sources.

Liquidity

As of March 31, 2002, NTT Group had cash, cash equivalents and short-term investments with principal maturities of less than three months of ¥1,319 billion compared with ¥901 billion a year earlier. Cash equivalents represent a temporary cash surplus used to repay debts and make capital investments, and are used for working capital. Accordingly, the balance of cash equivalents fluctuates each fiscal year depend-

Composition of total capital employed



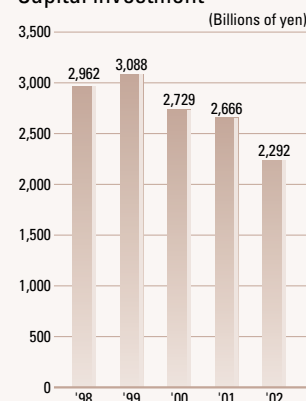
ing on particular funding and working capital requirements.

Capital Investments

Capital investments for property, plants and equipment and intangible assets computed on the basis of cash and other consideration paid during fiscal 2002 were ¥2,292 billion compared with ¥2,666 billion in fiscal 2001, reflecting, primarily, a decrease in investments for fixed-line telephone services. Investments consisted principally of opticalization of access networks and the expansion and upgrading of IP services such as ADSL or OCN, and mobile communications including i-mode and the 3G system.

As a rule, all new investments in fixed-line telephone networks and fixed-line operation systems will be halted and funds will be redirected towards accelerating the development of IP networks. This strategy will be aimed at using IP technologies to promote the integration of networks.

Capital investment



Contractual Obligations

The following table summarizes NTT's existing contractual obligations for future debt repayments as of March 31, 2002:

Contractual Obligations	Total	Payments Due by Period			
		(in millions yen)			
		Less than 1 years	1-3 years	4-5 years	After 5 years
Long-Term Debt	¥6,200,278	¥755,112	¥1,879,310	¥1,070,028	¥2,495,828
Bonds	3,073,064	344,577	454,699	596,432	1,677,356
Unsecured Bank Loans	3,127,214	410,535	1,424,611	473,596	818,472
Total	¥6,200,278	¥755,112	¥1,879,310	¥1,070,028	¥2,495,828

As of March 31, 2002, NTT Group had outstanding commitments for the purchase of property, plants and equipment of approximately ¥290 billion, principally reflecting capital investments for fiscal 2003. NTT Group expects to fund such commitments with cash provided by operating activities.

Fiscal 2001 compared with fiscal 2000

Financing and Capital Resources

Net cash provided by operating activities in fiscal 2001 amounted to ¥3,009 billion compared with ¥2,796 billion in fiscal 2000, reflecting, in part, an increase in net income due to the increase in gains on sales of subsidiary stock which amounted to ¥517 billion and a decrease in accrued consumption tax in fiscal 2001. NTT Group used this cash to acquire property, repay interest-bearing debt, make investments in affiliates and pay dividends. Net cash used in investing activities in fiscal 2001 was ¥5,067 billion compared with

¥2,934 billion in fiscal 2000. Net cash used in investments activities in fiscal 2001 was affected by the purchase by NTT Communications of Verio in a transaction valued at approximately U.S.\$5.2 billion, the investments by NTT DoCoMo in: (i) KPN Mobile in a transaction valued at approximately U.S.\$3.8 billion, (ii) Hutchison 3G UK in a transaction valued at approximately U.S.\$1.7 billion, (iii) AT&T Wireless in a transaction valued at approximately U.S.\$9.8 billion, and (iv) KG Telecom in a transaction valued at U.S.\$520 million.

In fiscal 2000, NTT paid a special dividend of ¥5,000 per Share in conjunction with NTT's sale of a portion of its interest in NTT DoCoMo and repurchased 77,410 Shares of its common stock at an aggregate cost of approximately ¥120 billion. Net cash provided by financing activities also reflected an increase of ¥497 billion in short-term borrowings in fiscal 2001 versus an increase of ¥144 billion in short-term borrowings in fiscal 2000, and proceeds from issuance of stock of NTT DoCoMo amounting to ¥281 billion. A major part of the increase of short-term borrowing was due to the investment in Verio by NTT Communications and in AT&T Wireless by NTT DoCoMo. NTT's policy is to control outstanding debt while realizing more efficient sources of funds in domestic and overseas capital markets.

The total amount of capital raised in fiscal 2001 from issues of long-term debt was ¥1,015 billion. This sum included corporate bond offerings denominated in both yen and euros.

The ratio of interest-bearing debt (short-term borrowings and long-term debt) to shareholder's equity stood at 91.8% on March 31, 2001 compared with 91.7% at the previous fiscal year-end.

Liquidity

As of March 31, 2001, NTT Group had cash, cash equivalents and short-term investments with principal maturities of less than three months of ¥901 billion compared with ¥1,155 billion a year earlier.

Capital Investments

Capital investments for property, plants and equipment and intangible assets computed on the basis of cash and other consideration paid during fiscal 2001 were ¥2,666 billion compared with ¥2,729 billion in fiscal 2000. Investments consisted principally of the expansion and upgrading of ISDN, OCN, frame relay and mobile communications including i-mode, the 3G system and other multimedia services and the optimization of access networks, and international investments.

As of March 31, 2001, NTT had outstanding commitments for the purchase of property, plants and equipment of approximately ¥465 billion (\$3,782 million), principally reflecting capital investment expenditures for fiscal 2002.

Research and Development

NTT believes that its investment in R&D and development is important to allow it to develop new products and services and to remain competitive. For the fiscal 2002, fiscal 2001 and fiscal 2000 R&D expenses amounted to ¥390.9 billion, ¥406.0 billion and ¥357.6 billion or 3.4%, 3.6% and 3.4% of operating revenues, respectively.

In line with the growth in demand for Internet access, both via cellular telephones and personal computers, and amid rising demand for broadband communications using ADSL technology or optical fiber, the information sharing market continues to expand rapidly. Against such a backdrop, NTT has conducted fundamental R&D programs into technologies that are the foundation for information sharing.

SFAS 131 Segment Information

On April 1, 1998, NTT adopted SFAS 131. SFAS 131 requires public business enterprises to report certain information about operating segments in their financial statements and also requires that they report certain information about their products and services, the geographic areas in which they operate and their major customers. As a result of the application of SFAS 131, NTT's results are now segmented according to five primary lines of business: regional communications services, long distance communications and international services, wireless services, data communications services and other services.

The regional communications services segment include:

- (i) intra-prefectural telephone services (excluding cellular services and PHS services);
- (ii) telegraph services;
- (iii) leased circuit services;
- (iv) ISDN services; and
- (v) other related services (including Internet access services).

The long distance communications and international services segment includes:

- (i) inter-prefectural and international telephone services (excluding cellular services and PHS services);
- (ii) telegraph services;
- (iii) leased circuit services;
- (iv) ISDN services; and
- (v) other related services (including OCN and frame relay services).

The wireless services segment, provided by NTT DoCoMo Group, includes:

- (i) cellular services;
- (ii) PHS services;
- (iii) pocket pager services; and
- (iv) other related services.

The data communications services segment, provided by NTT DATA, includes:

- (i) data communications facility services;

- (ii) system integration services; and
- (iii) other related services.

The other services segment, provided by NTT and other NTT consolidated subsidiaries, primarily within NTT Group itself includes:

- (i) fundamental research activities;
- (ii) the management of telecommunications facilities;
- (iii) the sale and maintenance of telecommunications equipment;
- (iv) the rental of real estate;
- (v) the sale of telephone cards; and
- (vi) certain other services.

See Note 16 to the Notes to the Consolidated Financial Statements.

The following is a summary of information for each segment in fiscal 2002 compared with fiscal 2001.

Regional Communications Services Segment

Operating revenues from the regional communications services segment decreased 8.3% to ¥4,943 billion. Data-related demand, including ISDN services, and internet access services such as FLET'S ADSL, generated by increased demand for Internet access could not offset the decline in the number of telephone subscriber lines, a reduction in interconnection charges paid by NCCs, intensified competition and rate reductions generated by the introduction of MYLINE services. The fixed-line telephone market contracted amid the shift toward fixed-price services such as ADSL and mobile services, intensified price competition and the sluggish Japanese economy.

Operating income from the regional communications services decreased ¥620 billion to a loss of ¥728 billion primarily because of restructuring charges associated with the structural reform plan and similar charges. For fiscal 2002, NTT recorded restructuring charges totaling ¥556 billion primarily associated with the implementation of the structural reform of NTT East and NTT West in the regional communications services segment.

Long Distance Communications and International Services Segment

Operating revenues from long distance communications and international services decreased 5.9% to ¥1,282 billion because of the decreased rates of telephone services. Despite decreases in access charges and other charges, operating income from long distance communications and international services decreased 33.0% to ¥56 billion primarily due to decreased rates for telephone services and increased marketing costs relating to MYLINE.

Wireless Services Segment

Operating revenues from the wireless services segment increased 10.7% to ¥5,167 billion. Operating income from the wireless services segment increased 27.5% to ¥1,014 billion. These increases were due to an increase in the number of cellular telephone subscribers caused by demand for multimedia services,

such as i-mode.

Data Communications Services Segment

Operating revenues from the data communications services segment increased 1.9% to ¥802 billion as a result of the growth in operation and maintenance services for logged data communication systems purchased by financial and telecom businesses in fiscal 2001. This growth was partially offset by the fact that while there were orders for large scale systems in fiscal 2001, there were no such orders in fiscal 2002. Operating income from the data communications services segment decreased 3.7% to ¥54 billion because of no large scale systems being completed and no new orders in connection with financial reorganizations in fiscal 2002.

Other Services Segment

Operating revenues from the other services segment decreased 3.6% to ¥2,053 billion. Operating income from other services decreased from a loss of ¥142 billion to a loss of ¥447 billion due to Verio's write-down of its goodwill and restructuring charges and other factors.

Forward-Looking Statements

The consolidated financial results forecasts above are forward-looking statements about the future performance of NTT which are based on the assumptions, estimates, judgments, projections and beliefs of the management of the Company in light of the information currently available to it. The projected numbers in this report were derived using certain assumptions that are indispensable for making projections in addition to historical facts that have been acknowledged accurately. Risks and uncertainties inherent in future projections, the Company's future business operation, the state of the economy in Japan and abroad, possible fluctuations in the securities markets and other changes in circumstances could cause the Company's actual results to differ materially from the projected figures above.

CONSOLIDATED BALANCE SHEETS

Nippon Telegraph and Telephone Corporation and its subsidiaries
Year ended March 31

	Millions of yen		Millions of U.S. dollars (Note 3)
	2001	2002	2002
ASSETS			
Current assets:			
Cash and cash equivalents (Note 5)	¥900,555	¥1,319,185	\$9,919
Notes and accounts receivable, trade (Note 4)	2,176,199	2,164,991	16,278
Allowance for doubtful accounts	(42,220)	(43,005)	(323)
Inventories (Note 6)	221,965	193,685	1,456
Prepaid expenses and other current assets (Note 13)	601,625	652,899	4,909
Total current assets	3,858,124	4,287,755	32,239
Property, plant and equipment (Notes 10 and 17):			
Telecommunications equipment	12,827,057	13,503,215	101,528
Telecommunications service lines	11,972,442	12,102,031	90,993
Buildings and structures	5,350,158	5,403,192	40,626
Machinery, vessels and tools	1,934,672	1,964,070	14,767
Land	779,327	802,083	6,031
Construction in progress	458,354	391,023	2,940
	33,322,010	34,165,614	256,885
Accumulated depreciation	(21,529,642)	(22,667,928)	(170,436)
	11,792,368	11,497,686	86,449
Investments and other assets:			
Investments in affiliated companies (Note 7)	1,028,153	1,258,663	9,464
Marketable securities and other investments (Note 8)	1,387,719	182,771	1,374
Intangibles, net (Note 9)	1,542,224	1,471,149	11,061
Goodwill, net (Note 9)	567,375	106,209	799
Other assets	533,408	550,793	4,141
Deferred income taxes (Note 13)	1,050,031	2,069,780	15,562
	6,108,910	5,639,365	42,401
	¥21,759,402	¥21,424,806	\$161,089

The accompanying notes are an integral part of these statements.

	Millions of yen		Millions of U.S. dollars (Note 3)
	2001	2002	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 10)	¥946,009	¥600,505	\$4,515
Current portion of long-term debt (Notes 10 and 21)	810,246	755,112	5,678
Accounts payable, trade (Note 4)	1,708,817	1,415,306	10,641
Accrued payroll (Note 12)	649,043	674,867	5,074
Accrued interest	36,123	31,176	234
Accrued taxes on income	329,512	343,485	2,583
Accrued consumption tax (Note 14)	119,758	74,580	561
Advances received	61,971	50,884	383
Other (Notes 12 and 13)	190,610	186,077	1,399
Total current liabilities	4,852,089	4,131,992	31,068
Long-term liabilities:			
Long-term debt (Notes 10 and 21)	4,446,835	5,445,166	40,941
Obligations under capital leases (Note 17)	338,425	329,689	2,479
Liability for employees' severance payments (Notes 11 and 12)	3,023,851	3,264,791	24,547
Other (Note 13)	856,307	878,755	6,607
	8,665,418	9,918,401	74,574
Minority interest in consolidated subsidiaries	1,485,741	1,509,361	11,349
Shareholders' equity (Note 15):			
Common stock, 2001- ¥50,000 par value, 2002			
– no par value -			
Authorized - 62,322,590 shares			
Issued and outstanding -			
16,134,590 shares in 2001 and 2002	937,950	937,950	7,052
Additional paid-in capital	2,669,736	2,669,736	20,074
Retained earnings	3,096,836	2,181,491	16,402
Accumulated other comprehensive income	51,641	75,974	571
Treasury stock, at cost -			
12 shares in 2001 and 215 shares in 2002	(9)	(99)	(1)
	6,756,154	5,865,052	44,098
Commitments and contingent liabilities (Note 22)	¥21,759,402	¥21,424,806	\$161,089

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Nippon Telegraph and Telephone Corporation and its subsidiaries
Year ended March 31

	Millions of yen			Millions of U.S. dollars (Note 3)
	2000	2001	2002	2002
Operating revenues (Note 4):				
Telephone	¥6,394,562	¥6,171,979	¥5,866,859	\$44,112
Telegraph	82,631	78,903	67,769	509
Leased circuit	499,891	494,264	524,326	3,942
Data communication facility	397,107	388,083	380,589	2,862
ISDN services	818,833	1,081,623	1,109,317	8,341
Sale of telecommunication equipment	1,138,369	1,477,143	1,376,351	10,348
Miscellaneous	1,051,946	1,636,103	2,210,426	16,620
	10,383,339	11,328,098	11,535,637	86,734
Operating expenses (Notes 4 and 18):				
Personnel (Note 11)	2,401,056	2,470,289	2,371,695	17,832
Depreciation, amortization and maintenance costs (Note 9)	3,394,343	3,470,847	3,471,909	26,105
Write-down of goodwill and intangible assets (Note 9)	—	—	231,804	1,743
Restructuring charge (Note 12)	—	—	639,214	4,806
Other	3,764,150	4,552,156	4,759,481	35,786
	9,559,549	10,493,292	11,474,103	86,272
Operating income	823,790	834,806	61,534	462
Other expenses (income):				
Interest and amortization of bond discounts and issue costs	175,081	165,934	142,280	1,070
Interest income	(32,382)	(33,383)	(30,684)	(231)
Gains on sales of subsidiary stock (Note 19)	—	(516,599)	—	—
Gains on sales of investments in affiliated company (Note 7)	—	(76,100)	—	—
Other, net (Notes 8 and 20)	(7,881)	(10,203)	40,396	303
	134,818	(470,351)	151,992	1,142
Income (loss) before income taxes	688,972	1,305,157	(90,458)	(680)
Income tax expense (benefit) (Note 13):				
Current	444,363	524,933	544,625	4,095
Deferred	(159,521)	67,273	(618,004)	(4,647)
	284,842	592,206	(73,379)	(552)
Income (loss) before minority interest, equity in earnings (losses) of affiliated companies and cumulative effect of accounting changes	404,130	712,951	(17,079)	(128)
Minority interest in consolidated subsidiaries	(115,210)	(161,324)	977	7
Equity in earnings (losses) of affiliated companies (including write-down of ¥653,751 million (\$ 4,915 million), net of income taxes, in affiliates in 2002) (Note 7)	10,090	(17,808)	(668,688)	(5,028)
Income (loss) before cumulative effect of accounting changes	299,010	533,819	(684,790)	(5,149)
Cumulative effect of accounting changes (net of income taxes of ¥108,534 million (\$ 816 million)) (Note 2)	—	—	(149,882)	(1,127)
Net income (loss)	¥299,010	¥533,819	¥(834,672)	\$(6,276)
		Yen		U.S. dollars (Note 3)
	2000	2001	2002	2002
Per share of common stock:				
Income (loss) before cumulative effect of accounting changes	¥18,837	¥33,466	¥(42,442)	\$(319)
Cumulative effect of accounting changes	—	—	(9,289)	(70)
Net income (loss)	18,837	33,466	(51,731)	(389)
Cash dividends, applicable to earnings for the year (Note 15)	10,000	5,000	5,000	38

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Nippon Telegraph and Telephone Corporation and its subsidiaries
Year ended March 31

	Millions of yen			Millions of U.S. dollars (Note 3)
	2000	2001	2002	2002
Common stock (Note 15):				
At beginning of year	¥795,600	¥795,600	¥937,950	\$7,052
Issuance of common stock	—	142,350	—	—
At end of year	795,600	937,950	937,950	7,052
Additional paid-in capital (Note 15):				
At beginning of year	2,530,476	2,530,476	2,669,736	20,074
Issuance of common stock	—	139,260	—	—
At end of year	2,530,476	2,669,736	2,669,736	20,074
Retained earnings (Note 15):				
At beginning of year	2,628,272	2,648,286	3,096,836	23,284
Appropriations -				
Cash dividends	(119,339)	(39,587)	(40,336)	(303)
Interim distribution -				
Cash dividends	(39,658)	(39,586)	(40,337)	(303)
Net income (loss)	299,010	533,819	(834,672)	(6,276)
Purchase and retirement of common stock	(119,999)	—	—	—
Other change	—	(6,096)	—	—
At end of year	2,648,286	3,096,836	2,181,491	16,402
Accumulated comprehensive income (loss) (Note 15):				
At beginning of year	(43,578)	40,262	51,641	388
Other comprehensive income	83,840	11,379	24,333	183
At end of year	40,262	51,641	75,974	571
Treasury stock, at cost				
At beginning of year	(131)	(51)	(9)	(0)
Net change in treasury stock	80	42	(90)	(1)
At end of year	(51)	(9)	(99)	(1)
Shareholders' equity at end of year	¥6,014,573	¥6,756,154	¥5,865,052	\$44,098
Summary of total comprehensive income (loss):				
Net income (loss)	¥299,010	¥533,819	¥(834,672)	\$(6,276)
Other comprehensive income	83,840	11,379	24,333	183
Comprehensive income (loss)	¥382,850	¥545,198	¥(810,339)	\$(6,093)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Nippon Telegraph and Telephone Corporation and its subsidiaries
Year ended March 31

	Millions of yen			Millions of U.S. dollars (Note 3)
	2000	2001	2002	2002
Cash flows from operating activities:				
Net income (loss)	¥299,010	¥533,819	¥(834,672)	\$(6,276)
Adjustments to reconcile net income (loss) to net cash provided by operating activities -				
Depreciation and amortization	2,418,331	2,468,956	2,435,587	18,313
Deferred taxes	(159,521)	67,273	(618,004)	(4,647)
Minority interest	115,210	161,324	(977)	(7)
Cumulative effect of accounting changes	—	—	149,882	1,127
Write-down of goodwill and intangible assets (Note 9)	—	—	231,804	1,743
Loss on sale or disposal of property, plant and equipment	209,147	207,244	171,918	1,293
Gains on sales of subsidiary stock (Note 19)	—	(516,599)	—	—
Gains on sales of investments in affiliated company (Note 7)	—	(76,100)	—	—
Equity in (earnings) losses of affiliated companies	(10,090)	17,808	668,688	5,028
(Increase) decrease in notes and accounts receivable, trade	(218,923)	(479,274)	25,200	189
(Increase) decrease in inventories	5,993	(26,885)	28,436	214
Decrease in other current assets	216,529	156,104	21,224	160
Increase (decrease) in accounts payable, trade and accrued payroll	121,558	427,463	(248,815)	(1,871)
Increase (decrease) in accrued consumption tax	69,644	25,556	(46,029)	(346)
Decrease in accrued interest	(4,196)	(4,100)	(4,956)	(37)
Increase (decrease) in advances received	11,596	(21,681)	(14,169)	(107)
Increase (decrease) in accrued taxes on income	(384,336)	(24,470)	9,326	70
Increase (decrease) in other current liabilities	25,865	59,161	(38,227)	(287)
Increase (decrease) in liability for employees' severance payments, net of deferred pension costs	107,653	(43,059)	199,911	1,503
Increase (decrease) in other long-term liabilities	(1,696)	62,086	53,280	400
Other (Note 8)	(25,786)	14,177	123,622	929
Net cash provided by operating activities	¥2,795,988	¥3,008,803	¥2,313,029	¥17,391
Cash flows from investing activities:				
Payments for property, plant and equipment	(2,349,969)	(2,518,785)	(2,051,676)	(15,426)
Proceeds from sale of property, plant and equipment	35,196	25,866	14,810	111
Payments for purchase of investments	(166,430)	(1,922,849)	(128,713)	(968)
Proceeds from sale of marketable equity securities and other investments (Note 8)	25,285	169,847	38,927	293
Acquisition of intangible and other assets	(478,388)	(329,031)	(249,068)	(1,872)
Purchase of subsidiary net of cash acquired (Note 9)	—	(491,573)	—	—
Net cash used in investing activities	¥(2,934,306)	¥(5,066,525)	¥(2,375,720)	¥(17,862)

The accompanying notes are an integral part of these statements.

	Millions of yen			Millions of U.S. dollars (Note 3)
	2000	2001	2002	2002
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	¥677,822	¥1,015,206	¥1,751,665	\$13,170
Payments for settlement of long-term debt	(916,246)	(871,018)	(842,471)	(6,334)
Dividends paid	(158,997)	(79,173)	(80,673)	(607)
Proceeds from issuance of common stock	—	281,610	—	—
Purchase and retirement of common stock	(119,999)	—	—	—
Proceeds from minority shareholders' payments	10,183	930,005	—	—
Net increase (decrease) in short-term borrowings and other	144,157	497,286	(371,138)	(2,790)
Net cash provided by (used in) financing activities	(363,080)	1,773,916	457,383	3,439
Effect of exchange rate changes on cash and cash equivalents	—	29,087	23,938	180
Net increase (decrease) in cash and cash equivalents	(501,398)	(254,719)	418,630	3,148
Cash and cash equivalents at beginning of year	1,656,672	1,155,274	900,555	6,771
Cash and cash equivalents at end of year	¥1,155,274	¥900,555	¥1,319,185	\$9,919
Cash paid during the year for:				
Interest	¥156,196	¥169,189	¥145,858	\$1,097
Income taxes	831,109	303,427	530,663	3,990
Capital lease obligations incurred during the year	10,011	3,647	23,034	173

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nippon Telegraph and Telephone Corporation and its subsidiaries

1. Nature of operations:

Nippon Telegraph and Telephone Corporation (hereinafter referred to as “NTT”) is primarily engaged in the provision of nationwide telecommunications services in Japan. NTT and its subsidiaries’ (“NTT Group’s”) services fall into seven major classes: telephone services, telegraph services, leased circuit services, data communication facility services, ISDN (Integrated Services Digital Network) services, sale of telecommunication equipment and other services.

Pursuant to the Nippon Telegraph and Telephone Corporation Law (“NTT Law”) as approved by the Japanese Diet, NTT was incorporated on April 1, 1985, upon which all the assets and liabilities of the Public Corporation were transferred to NTT. As provided for in the supplementary provisions of the NTT Law, all the new shares held by the Public Corporation were transferred to the Japanese Government upon the dissolution of the Public Corporation on April 1, 1985. The NTT Law specifies, however, that such government ownership may eventually be reduced to one-third. Since incorporation, the Government of Japan has sold 7,416 thousand shares of NTT’s common stock to the public. As a normal part of its business operations, NTT provides various telecommunications and other services to the Government of Japan.

On May 10, 1999, NTT applied for approval from the Minister of Posts and Telecommunications (now the Minister of Public Management, Home Affairs, Posts and Telecommunications) for “the Implementation Plans Concerning the Transfer of the Business Activities and Succession of the Rights and Obligations of Nippon Telegraph and Telephone Corporation”, which were prepared in accordance with “the Basic Principles Concerning the Transfer of the Business Activities and Succession of the Rights and Obligations of Nippon Telegraph and Telephone Corporation” as drawn up in accordance with the provisions of the law Concerning Partial Revision to the Nippon Telegraph and Telephone Corporation Law (the “Revision Law”). On May 21, 1999, NTT received the Minister of Posts and Telecommunications’ approval for the plans. In conjunction with these approved implementation plans that set out how the business transfer would occur, reorganization was implemented in which NTT became a holding company holding all the shares in two regional companies (Nippon Telegraph and Telephone East Corporation and Nippon Telegraph and Telephone West Corporation) and one long-distance company (NTT Communications Corporation).

The transfers of businesses were accomplished by transferring on July 1, 1999, NTT’s relevant business activities to the respective wholly owned subsidiaries, Nippon Telegraph and Telephone East Corporation (“NTT East”), Nippon Telegraph and Telephone West Corporation (“NTT West”), and NTT Communications Corporation (“NTT Communications”).

NTT East inherited the intra-prefectural telecommunications and related services in the Hokkaido, Tohoku, Kanto, Tokyo and Shinetsu regions. NTT West inherited the intra-prefectural telecommunications and related services in the Tokai, Hokuriku, Kansai, Chugoku, Shikoku and Kyushu regions.

NTT Communications inherited all the business activities comprising the domestic inter-prefecture telecommunications and multimedia network services and related services and was allowed to enter the international market.

2. Summary of significant accounting policies:

NTT and its consolidated subsidiaries (“NTT Group”) in Japan maintain their records and prepare their statutory financial statements in accordance with the Japanese Commercial Code by applying accounting principles generally accepted in Japan (“Japanese GAAP”), and its foreign subsidiaries in conformity with those countries of their domicile. NTT, as a regulated company, also follows the “NTT Law”, the Telecommunications Business Law (the “Telecom Business Law”) and other related accounting regulations for preparing such financial statements.

The accompanying consolidated financial statements incorporate certain adjustments and reclassifications to conform with accounting principles generally accepted in the United States of America. These adjustments were not recorded in the statutory books of account.

Significant accounting policies, after reflecting adjustments for the above, are as follows:

Basis of consolidation and accounting for investments in affiliated companies —

The consolidated financial statements include the accounts of NTT and those of its majority-owned subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

The fiscal years of certain foreign subsidiaries end on December 31 and any significant subsequent transactions for the period from January 1 to March 31 were reflected in the result of operations of NTT Group.

Investments in affiliated companies where NTT Group owns an aggregate of 20 to 50 percent, and/or if NTT exercises significant influence over the affiliated companies, are stated at cost plus equity in undistributed earnings. Investments of less than 20% in which NTT Group does not have significant influence are recorded using the cost method of accounting.

Under Accounting Principles Board Opinion No. 18 (“APB 18”), “The Equity Method of Accounting for Investments in Common Stock”, NTT evaluates its investments in affiliates for impairment due to declines in value considered to be other than temporary. In performing its evaluations, NTT utilizes various information, as available, including cash flow projections, independent valuations and, if applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

On occasion, a subsidiary may issue its shares to third parties at amounts per share in excess of or less than NTT’s average per share carrying value. With respect to such transactions, the resulting gains or losses arising from a change in interest are recorded in income for the year in which the change in interest transaction occurs.

Use of estimates —

The preparation of NTT’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of

the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition —

Telephone service revenue and ISDN services revenue are recorded based on seconds of traffic processed plus basic fees.

Prior to April 1, 2000, activation fees for these services were recognized as revenue when received and the related direct incremental customer acquisition costs were expensed as incurred. Base monthly service and airtime revenues were recognized as service was provided to customers.

Effective April 1, 2000, NTT Group adopted the provisions of the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 101 (“SAB 101”), “Revenue Recognition in Financial Statements”. The impact to NTT Group pertains to the treatment of non-recurring upfront fees, such as activation fees, and the related direct incremental customer acquisition costs. NTT Group has revised its accounting policy to defer such activation fees of wireless line service and to recognize them as revenues over the expected term of the customer relationship, which ranges from approximately two to six years depending on the service. The related direct incremental customer acquisition costs are being deferred only to the extent of the upfront fee amount and are being amortized over the same period. This change has been adopted effective April 1, 2000. The effect on both revenues and expenses for prior periods was insignificant and had no effect on related results of operations.

Sales of telecommunication equipment are recognized upon delivery, which is considered to have occurred when the customer has taken title to the product and the risk and rewards of ownership have been substantively transferred. Revenue from system development and system integration projects, included in miscellaneous operating income, are recorded when the projects are completed. Provision for estimated losses, if any, is made in the period in which the loss first becomes probable and reasonably estimable. Other telecommunications services revenues, including telegraph service, leased circuit service and data communication facility services, are recorded when the services are rendered to customers. Revenues from miscellaneous services, mainly consisting of i-mode services (wireless Internet access services) and OCN services (ISP services), are also recorded when the services are rendered to customers.

Cash and cash equivalents —

Cash in excess of daily requirements is invested in temporary cash equivalents mainly consisting of time deposits and marketable bonds of the Government of Japan, commercial paper and certificates of deposit purchased under agreements to resell, all of which are low-risk, short-term financial instruments readily convertible to known amounts of cash and having an original maturity of three months or less. Such instruments are deemed to be cash equivalents for the purpose of the consolidated statement of cash flows.

Foreign currency translation —

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of transactions. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

NTT Group transacts limited business in foreign currencies. The effect of exchange rate fluctuations from the initial transaction date to the settlement date is recorded as exchange gain or loss in the accompanying consolidated statements of income.

Marketable securities —

Unrealized gains and losses on equity securities designated as available-for-sale, whose fair values are readily determinable, are reported as a component of accumulated other comprehensive income, net of applicable taxes. Equity securities, whose fair values are not readily determinable, are carried at cost. NTT periodically reviews the carrying amounts of its marketable securities for impairments that are other than temporary. If this evaluation indicates there is an impairment that is other than temporary, the security is written down to its estimated fair value. Debt securities designated as held-to-maturity are carried at amortized cost and are reduced to net realizable value for declines in market value unless such declines are temporary. Realized gains and losses, which are determined on the average cost method, are reflected in income.

Inventories —

Inventories consist of telecommunication equipment to be sold, projects in progress and materials and supplies. Telecommunication equipment to be sold is stated at cost, not in excess of market value with cost being determined on a first-in first-out basis. Projects in progress, which mainly relate to software production based on contracts with customers, are stated at the lower of cost or estimated realizable value with cost being determined as the accumulated production cost for contract items. Materials and supplies are valued at cost, not in excess of market value with cost being determined by the average cost basis.

Property, plant and equipment and depreciation —

Property, plant and equipment are stated at cost (including contract price, direct labor charges and other related overhead), which is determined in accordance with applicable accounting regulations. Depreciation is computed principally using a declining-balance method at rates based on estimated useful lives of the assets with the exception of buildings for which the straight-line method is generally used. With minor exceptions, the estimated useful lives of depreciable properties are as follows:

Telecommunications equipment	5 to 42 years
Telecommunications service lines	10 to 27 years
Buildings and structures	3 to 75 years
Machinery, vessels and tools	2 to 17 years

Maintenance and repairs, including minor renewals and betterments, are charged to income as incurred.

Included as property, plant and equipment as of March 31, 2002 is approximately ¥597,000 million (\$4,489 million) in assets of NTT DoCoMo, Inc. ("NTT DoCoMo") related to the construction of its so called third generation ("3G") service, FOMA. NTT DoCoMo started the FOMA service during the year ended March 31, 2002 with a plan to expand geographic coverage in Japan over the next several years. The realizability of such assets is dependent on the successful deployment and expansion of the FOMA network and service, which is currently not determinable given the newness of such service. However, based on its current estimates and projections, management believes such assets are realizable.

Capitalized interest —

Interest is capitalized where it relates to the construction of property, plant and equipment over the period of construction. NTT Group also capitalizes interest associated with the development of internal-use software. NTT Group amortizes such capitalized interest over the estimated useful lives of the related assets. Total interest costs incurred, including in interest and amortization of bond discounts and issue costs, were ¥99,458 million, ¥103,659 million, and ¥82,643 million (\$621 million), of which ¥4,173 million, ¥6,906 million and ¥4,169 million (\$31 million) were capitalized for the years ended March 31, 2000, 2001 and 2002, respectively.

Accounting for the impairment of long-lived assets —

Long-lived assets, including property, plant and equipment, software and certain other intangibles with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Intangibles, goodwill and other assets —

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Prior to April 1, 2001, NTT Group amortized such goodwill on a straight-line basis over the periods to be benefited, not to exceed 20 years.

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Accounting for Goodwill and Intangible Assets". This statement supersedes Accounting Principles Board Opinion No. 17 ("APB 17"), "Intangible Assets". SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition and the provisions of SFAS 142 will be effective for fiscal years beginning after December 15, 2001. The most significant changes made by SFAS 142 are: (1) goodwill and indefinite life intangible assets will no longer be amortized, (2) goodwill, excluding goodwill related to equity investments, will be tested for impairment at least annually at the reporting unit level, (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually, (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years and (5) goodwill related to equity method investees will continue to be tested for other than temporary impairment in accordance with existing standards under APB 18. As permitted, NTT Group has elected to adopt SFAS 142 beginning on April 1, 2001. As a result of the adoption of SFAS 142, NTT Group ceased amortization of all goodwill on April 1, 2001, including embedded goodwill created through the acquisition of its investments accounted for under equity method, and recorded a net-of-tax transitional impairment loss for goodwill of ¥149,180 million (\$1,122 million) relating to Verio Inc. ("Verio"), a subsidiary in the "Other" business segment, in the cumulative effect of an accounting change in the consolidated statement of income. The fair value of that reporting unit was determined based on discounted cash flow.

Intangible and other assets primarily consist of computer software and the right to use utility facilities.

NTT Group capitalizes the cost of internal-use software, which has a useful life in excess of one year in accordance with Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are amortized on a straight-line basis over a period of 5 years.

Income taxes —

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Derivative financial instruments —

NTT Group uses several types of derivative financial instruments to manage foreign currency exchange rate and interest rate risks. NTT Group does not use derivative instruments for trading or speculative purposes.

Effective April 1, 2001, NTT Group adopted Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for

Derivative Instruments and Hedging Activities” as amended by Statement of Financial Accounting Standards No.138 “Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of Statement 133”, which establishes accounting and reporting and reporting standards for derivative instruments, including certain derivative financial instruments embedded in other contracts, and for hedging activities. The adoption of SFAS 133 as of April 1, 2001 resulted in a net-of-tax decrease of ¥8,250 million (\$62 million) to accumulated other comprehensive income in the consolidated balance sheets, as well as net-of-tax loss of ¥702 million (\$5 million) in the cumulative effect of accounting changes in the consolidated statements of income.

In accordance with SFAS 133, all derivatives are recognized as either assets or liabilities in the balance sheet at fair value and are reported in “Prepaid expenses and other current assets”, “Other assets”, “Current liabilities - Other” and “Long-term liabilities - Other” in the consolidated balance sheets. Classification of each derivative as current or non-current is based upon whether the maturity of each instrument is less than or greater than 12 months. Changes in fair value of derivative financial instruments are either recognized in income or shareholders’ equity (as a component of accumulated other comprehensive income), depending on whether the derivative financial instrument qualifies as a hedge and the derivative is being used to hedge changes in fair value or cash flows.

For derivatives classified as fair value hedges, changes in the fair value of derivatives designated and effective as fair value hedges for recognized assets or liabilities or unrecognized firm commitments are recognized in earnings as offsets to changes in the fair value of the related hedged assets or liabilities.

For derivatives classified as cash flow hedges, changes in the fair value of derivatives designated and effective as cash flow hedges for forecasted transactions or exposures associated with recognized assets or liabilities are initially recorded in other comprehensive income and reclassified into earnings when the hedged transaction affects earnings.

From time to time, however, NTT Group may enter into derivatives that economically hedge certain of its risks, even though hedge accounting does not apply under SFAS 133. In these cases, the fair values of these derivatives are recognized in current period earnings.

NTT Group formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. NTT Group also assesses (both at the hedge’s inception and on an ongoing basis at least quarterly) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not highly effective as a hedge, NTT Group discontinues hedge accounting. The amounts that representing hedges’ ineffectiveness and the component of derivative instruments’ gain or loss excluded from the assessment of hedge effectiveness are reported as “Other, net” in the consolidated statements of income.

Cash flows from financial instruments accounted for as hedges are classified in the consolidated statements of cash flows under the same category as the items being hedged.

Net income per share —

Basic net income per share (“EPS”) is computed based on the average number of shares outstanding during the year and is appropriately adjusted for any free distribution of common stock. Diluted EPS assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Distribution of common stock —

On occasion, NTT may make a free distribution of common stock, which is accounted for by a transfer from additional paid-in capital to the common stock account. Under the Japanese Commercial Code, a stock dividend can be affected by an appropriation of retained earnings to the common stock account by a resolution of the general shareholders’ meeting and the free share distribution with respect to the amount as appropriated by a resolution of the Board of Directors’ Meeting.

Comprehensive income —

Comprehensive income is defined in Statement of Financial Accounting Standards No. 130 (“SFAS 130”), “Reporting Comprehensive Income”, as a total change in shareholders’ equity, excluding capital transactions. NTT’s comprehensive income comprises net income plus other comprehensive income representing changes in foreign currency translation adjustments, unrealized gains/losses on securities, minimum pension liability adjustments and unrealized gains/losses on derivative instruments. NTT Group has elected to disclose comprehensive income in the consolidated statements of shareholders’ equity and its components in Note 15.

Recent pronouncements —

In November 2001, the Emerging Issues Task Force (“EITF”) reached a consensus on various related issues collectively referred to as “Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor’s Products” (“EITF 01-09”). EITF 01-09 codified and replaced several earlier consensus covering the same matters as well as reached additional conclusions regarding scope and application of these issues. As it relates to NTT Group, the basic conclusion of the EITF is that sales incentives or other consideration from a vendor to a reseller of the vendor’s products is presumed to be a reduction of the selling price of the vendor’s products and, therefore, should be characterized as a reduction of revenue when the sale to the reseller is recognized in the vendor’s income statement. That presumption can be overcome in certain circumstances based on specific criteria. NTT Group will adopt EITF 01-09 effective April 1, 2002. EITF 01-09 will have no impact on reported financial position or results of operations for periods prior to the date of adoption. However, it will result in the reclassification of certain amounts previously classified in operating expenses as a reduction of operating revenues. The adoption of EITF 01-09 may also result in an adjustment as of April 1, 2002 for the cumulative effect of changes in accounting principles.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143 ("SFAS 143"), "Accounting for Asset Retirement Obligations". SFAS 143 is effective for NTT on April 1, 2003. SFAS 143 requires that legal obligations associated with the retirement of tangible long-lived assets to be recorded as a liability, measured at fair value, when those obligations are incurred if a reasonable estimate of fair value can be made. Upon initially recognizing a liability for asset retirement obligations, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. NTT is in the process of determining the impact, if any, that the adoption of SFAS 143 will have on its results of operations and financial position.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144") "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Statement supersedes Statement of Financial Accounting Standards No. 121 ("SFAS 121"), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 ("APB 30"), "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions", for the disposal of a segment of a business (as previously defined in that Opinion). This Statement also amends Accounting Research Bulletin Opinion No. 51 ("ARB 51"), "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The provisions of this Statement generally are to be applied prospectively. NTT believes that the adoption of SFAS 144 will not have a material impact on its results of operations and financial position.

In April 2002, FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" which updates and clarifies existing accounting pronouncements. Specifically, it rescinds SFAS 4 and SFAS 64, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result of the new statement, the criteria in APB 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," will now be used to classify those gains and losses. SFAS 145 also amends SFAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS 145 is to be applied, on a retroactive basis, in fiscal years beginning after May 15, 2002 related to the rescission of SFAS 4. NTT is in the process of determining the impact, if any, that the adoption of SFAS 145 will have on its results of operations and financial position.

Reclassifications —

Certain items for prior years' financial statements have been reclassified to conform to the presentation for the year ended March 31, 2002.

3. U.S. dollar amounts:

U.S. dollar amounts are included solely for convenience. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, the rate of ¥133 = US\$1, the approximate current rate at March 29, 2002, has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Related party transactions:

NTT Group has entered into a number of different types of transactions with affiliated companies, the most significant of which are the sales of telecommunications equipment, the purchases of terminal equipment and materials and the receipt of certain services.

Transactions with affiliated companies for each of the three years in the period ended March 31, 2002 and the related balances at March 31, 2001 and 2002 were as follows:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Sales	¥ 97,552	¥100,956	¥ 85,676	\$ 644
Purchases	¥485,563	¥682,240	¥615,094	\$4,625
Receivables		¥ 56,242	¥ 98,373	\$ 740
Payables		¥194,808	¥161,654	\$1,215

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 2000, 2001 and 2002 were ¥808 million, ¥691 million and ¥6,247 million (\$47 million), respectively.

5. Cash and cash equivalents:

Cash and cash equivalents at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Cash	¥598,039	¥1,110,630	\$8,351
Certificates of deposit, commercial paper and marketable securities purchased under agreements to resell	123,139	29,190	219
Time deposits, certificates of deposit and other	179,377	179,365	1,349
	¥900,555	¥1,319,185	\$9,919

Certificates of deposit, commercial paper and securities, including marketable bonds of the Government of Japan, are purchased under agreements to resell and are to be sold back to financial institutions at predetermined selling prices and dates. Such certificates of deposit, commercial paper and securities and other deposits are stated at amounts, which approximate fair value.

6. Inventories:

Inventories at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Telecommunication equipment to be sold	¥131,025	¥119,651	\$899
Projects in progress	58,466	51,431	387
Materials and supplies	32,474	22,603	170
	¥221,965	¥193,685	\$1,456

7. Investments in affiliated companies:

NTT Group's main investments in the following entities are accounted for on the equity method as of March 31, 2001 and 2002.

Company name	NTT Group's ownership percentage	
	2001	2002
Hutchison 3G UK Holdings Limited ("3GUK")	20.0%	20.0%
Hutchison 3G HK Holdings Limited ("3GHK")	N/A	25.4%
KPN Mobile N.V. ("KPNM")	15.0%	15.0%
KG Telecommunications Co., Ltd. ("KGT")	20.0%	21.4%
Hutchison Telephone Company Limited ("HTCL")	19.0%(*1)	25.4%
DoCoMo AOL, Inc.	42.3%	42.3%
AT&T Wireless Services, Inc. ("AT&T Wireless")	N/A	16.0%

(*1) The initial 19% investment in HTCL was made in fiscal year 2000.

All of the above investments are privately held companies with the exception of AT&T Wireless. NTT DoCoMo's recorded investment in AT&T Wireless was ¥601,040 million (\$4,519 million) as of March 31, 2002 and based on quoted market prices at that date, the related market value was ¥514,248 million (\$3,867 million). NTT DoCoMo reflects its investments in KPNM and AT&T Wireless on an equity method basis due to its ability to exercise significant influence over operating and financial policies primarily through board representation, technology alliances and/or financing agreements, appointment of key management positions, approval rights and rights to require repurchase of investment under certain circumstances.

AT&T Wireless —

On July 9, 2001 AT&T Corp. ("AT&T") completed the planned split-off of its wireless group ("AT&T Wireless Group"). In connection with the split-off, all the assets and liabilities of AT&T Wireless Group were transferred to AT&T Wireless, a wholly owned subsidiary of AT&T. The split-off was then effected by redeeming all the outstanding shares of AT&T Wireless Group tracking stock in exchange for shares of AT&T Wireless common stock and distributing additional shares of AT&T Wireless common stock to holders of AT&T common stock, resulting in AT&T Wireless becoming an independent, publicly-traded company. NTT DoCoMo's investment in AT&T Wireless preferred tracking stock was converted into AT&T Wireless common stock resulting in approximately 16% voting interest in AT&T Wireless. As a result, DoCoMo began to account for its common stock investment in AT&T Wireless using the equity method based on its ownership percentage and ability to exercise significant influence and reclassified this investment to "investments in affiliated companies" from "marketable equity securities and other investments" at the split-off date.

Under terms of the investment agreement, in certain circumstances, if AT&T Wireless fails to meet specific 3G wireless technology benchmarks in the United States by June 30, 2004, NTT DoCoMo may require the repurchase of its investment in stock and warrants (See Note 8), at the original purchase price plus interest at a predetermined rate. In addition, NTT DoCoMo has agreed to certain standstill provisions for

five years, which include that it will not acquire or agree to acquire any additional voting shares of AT&T Wireless, except in connection with the exercise of its existing preemptive rights or warrants. The standstill provisions will continue in effect after the five-year period as long as NTT DoCoMo has the right to nominate at least one director to the board.

As part of its agreements with AT&T Wireless, NTT DoCoMo has a preemptive right to acquire additional shares of AT&T Wireless in order to maintain its current ownership interest, if such interest would otherwise be diluted. In December 2001, AT&T Wireless announced its intention to acquire a U.S. regional wireless operator, TeleCorp PCS, Inc. (TeleCorp), through an exchange of shares. In connection therewith, on December 28, 2001, NTT DoCoMo agreed, subject to the completion of the TeleCorp acquisition, to exercise its preemptive right to maintain its 16% ownership in AT&T Wireless at a price of \$14.28 per share. The purchase of approximately 26.7 million additional shares of AT&T Wireless common stock for approximately \$382 million was completed in February 2002.

KPNM —

In connection with its investment in KPNM, NTT DoCoMo entered into various agreements with KPNM and its parent-Royal KPN N. V. ("KPN"). Key provisions include NTT DoCoMo's right to approve a fundamental change in the business of KPNM and restrictions on NTT DoCoMo's ability to buy or sell shares of KPNM during certain periods through August 2, 2004. In addition, NTT DoCoMo is restricted from making investments and alliances, obtaining licenses or otherwise directly competing with KPNM in the Netherlands, United Kingdom, Belgium, Ukraine, Hungary, and the Czech Republic. Similarly, KPNM is restricted from engaging in such activities in Brazil, Japan or Hong Kong. Further, for the most part neither KPN nor its affiliates may own, operate, manage or otherwise hold, directly or indirectly, any interest in any mobile telecommunications infrastructure operator or a mobile virtual network operator within Europe other than through KPNM.

Impairment —

Because of the economic and financial environment surrounding the telecommunication industry and resultant significant declines in equity values of telecommunications companies on a global basis, NTT and NTT DoCoMo reviewed the business outlook of its affiliates in order to determine if any decline in investment values was other than temporary. NTT and NTT DoCoMo utilized cash flow projections, independent valuations and information and, if applicable, stock price analysis in performing its reviews and estimating investment values. As a result of such evaluations, NTT and NTT DoCoMo determined that the decline in values of certain investments were other than temporary and has recorded impairment charges aggregating ¥653,751 million (\$4,915 million), net of deferred income taxes of ¥474,305 million (\$3,566 million) for the year ended March 31, 2002. The pre-tax gross impairment charges are mainly consisting of ¥664,493 million (\$4,996 million) for AT&T Wireless, ¥320,481 million (\$2,410 million) for KPNM, ¥36,461 million (\$274 million) for KGT, ¥56,444 million (\$424 million) for 3GUK and ¥50,177 million (\$377 million) for others. The impairment charges are included with equity in earnings (losses) of affiliated companies in the accompanying consolidated statements of income.

NTT and NTT DoCoMo believe the remaining carrying value for its investments in affiliated companies approximates their fair values.

PIRI —

In May 2000, NTT agreed to the sale of all shares it owned of Photonic Integration Research Inc. ("PIRI"), an affiliated company of NTT, to SDL Inc. in exchange for SDL stocks. In connection with this transaction, NTT recognized a gain on sales of investments in an affiliated company of ¥76,100 million. The gain was based on a valuation for the 4,830 thousand shares of SDL stock received by NTT minus the book value of PIRI's stock and related expenses.

Summarized financial information—

The following represents summarized financial information for AT&T Wireless and KPNM. There were no individual significant investees in the fiscal year ended March 31, 2001.

	2002			
	Millions of yen		Millions of U.S. dollars	
	AT&T Wireless	KPNM	AT&T Wireless	KPNM
Balance sheet data:				
Current assets	¥830,889	¥100,660	\$6,247	\$757
Noncurrent assets	4,674,329	4,034,564	35,145	30,335
Current liabilities	452,852	1,649,764	3,405	12,404
Noncurrent liabilities	1,490,903	1,192,530	11,210	8,966
Minority interest	6,070	—	46	—
Mandatorily redeemable common stock	1,011,265	—	7,603	—
Income statement data:				
Revenues	¥1,655,499	¥506,330	\$12,447	\$3,807
Operating income (loss)	72,740	(28,304)	547	(213)
Income from continuing operations	24,328	100,252	183	754
Net income (loss)	(107,893)	84,468	(811)	635

NTT's share of undistributed earnings of affiliated companies included in consolidated retained earnings were earnings of ¥15,602 million, ¥13,720 million and ¥21,905 million (\$165 million) as of March 31, 2000, 2001 and 2002, respectively.

The aggregate difference between the carrying value of NTT's investment in affiliates and its underlying equity in net assets of such affiliates is ¥197 million (\$1 million) as of March 31, 2002 and the latter is greater than the former.

8. Marketable securities and other investments:

Marketable securities and other investments include available-for-sale securities and held-to-maturity securities. The aggregate carrying amounts, gross unrealized holding gains, gross unrealized holding losses and fair value by major security type at March 31, 2001 and 2002 are as follows:

	Millions of yen			
	2001			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥112,408	¥40,567	¥4,816	¥148,159
Held-to-maturity:				
Debt securities	39,502	624	127	39,999
Total	¥151,910	¥41,191	¥4,943	¥188,158

	Millions of yen			
	2002			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Equity securities	¥ 59,513	¥12,453	¥ 946	¥ 71,020
Debt securities	1,984	128	—	2,112
Held-to-maturity:				
Debt securities	40,580	487	353	40,714
Total	¥102,077	¥13,068	¥1,299	¥113,846

	Millions of U.S. dollars			
	2002			
	Carrying amounts	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Equity securities	\$447	\$94	\$ 7	\$534
Debt securities	15	1	—	16
Held-to-maturity:				
Debt securities	305	4	3	306
Total	\$767	\$99	\$10	\$856

Proceeds from sales of available-for-sale securities for the year ended March 31, 2000 was immaterial. Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 and 2002 were ¥167,373 million, which primarily consist of sale of SDL stocks of ¥145,835 million, and ¥19,450 million (\$146 million), which primarily consist of sale of KDDI stocks of ¥15,913 million (\$120 million), respectively. On those sales, gross realized gains computed on the average cost basis for each fiscal year ended March 31, 2001 and 2002 were ¥38,885 million and ¥1,120 million (\$8 million), respectively and gross realized losses for each of the related periods were ¥39 million and ¥35,496 million (\$267 million), respectively. These amounts are included in "Other, net" in the accompanying consolidated statements of income and in "Cash flows from operating activities: Other" in the accompanying consolidated statements of cash flows.

The amount of net losses reclassified out of accumulated other comprehensive income into earnings for the year ended March 31, 2002 was ¥2,686 million (\$20 million).

Maturities of debt securities classified as held-to-maturity at March 31, 2002 are as follows:

	Millions of yen		Millions of U.S. dollars	
	2002		2002	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Due within 1 year	¥ 9,201	¥ 9,237	\$ 69	\$ 69
Due after 1 year through 5 years	24,895	25,251	187	190
Due after 5 years through 10 years	4,484	4,234	34	32
Due after 10 years	2,000	1,992	15	15
Total	¥40,580	¥40,714	\$305	\$306

As discussed in Note 7, on January 22, 2001, NTT DoCoMo invested \$9.8 billion in AT&T Wireless Group. The \$9.8 billion cost was allocated based on estimated fair values at date of investment to AT&T preferred tracking stock \$9.5 billion and warrants \$0.3 billion and were accounted for on the cost basis. On July 9, 2001 upon the split-off of AT&T Wireless and automatic conversion of its investment into AT&T Wireless common stock and warrants, NTT DoCoMo began to account for its investment in AT&T Wireless common stock on the equity method, while the warrants began to be carried on a mark to market basis. In this regard, a market value write-down of ¥28,534 million (\$215 million) has been included in "Other, net" in the accompanying consolidated statement of income for the year ended March 31, 2002 and in "Cash flows from operating activities: Other" in the accompanying consolidated statement of cash flows for the year ended March 31, 2002. The warrants continue to be included in "Marketable securities and other investments" in the accompanying consolidated balance sheets. Market value of the warrants was computed using the Black-Scholes option pricing methodology.

In the ordinary course of business, NTT maintains long-term investment securities, included in marketable securities and other investments, issued by a large number of privately held companies and an investment in AT&T Wireless Group of ¥1,142,548 million at March 31, 2001. The aggregate carrying amounts of the investments in privately held companies other than an investment in AT&T Wireless Group, were ¥60,936 million and ¥69,797 million (\$525 million) at March 31, 2001 and 2002, respectively. The corresponding fair values at those dates were not readily determinable. Other investments excluding the previously described securities are stated at the lower of cost and recoverable value.

9. Goodwill and Other intangible assets:

Goodwill -

On September 8, 2000, NTT Communications completed its acquisition of Verio. The acquisition, recorded under the purchase method of accounting, included the purchase of Verio's outstanding shares for a total purchase price of ¥529,639 million. A portion of the purchase price has been allocated to assets and liabilities assumed based on estimated fair value at the date of acquisition while the balance of \$5,199 million was recorded as goodwill and its being amortized over ten years.

The allocation of the purchase on September 8, 2000 was as follows:

	Millions of U.S. dollars
Common shares	\$4,427
Preferred shares	449
Warrants	74
Merger costs	27
Other	43
Gross purchase consideration	\$5,020
Current assets	\$681
Net equipment and leasehold improvements	320
Goodwill	5,199
Other intangible acquired	595
In-process research and development	80
Other assets	54
Liabilities assumed and other	(1,909)
	\$5,020

NTT Communications recognized purchase of Verio net of cash acquired of ¥491,573 million on the accompanying consolidated statement of cash flows, based on a net purchase consideration of \$4,950 million, net of related expenses, and cash and cash equivalents acquired from Verio.

As discussed in Note 2, NTT decided to early adopt SFAS 142. Upon the adoption of this new statement, NTT reconsidered classification between existing goodwill and intangible assets in accordance with SFAS 141 and reclassified assembled workforce from intangible assets to goodwill at April 1, 2001.

In addition to the transitional goodwill impairment test as discussed in Note 2, which resulted in a pre-tax transitional impairment loss of ¥257,799 million (\$1,938 million) relating to Verio, a reporting unit of the other segment, NTT has also completed the impairment test as certain events or changes in circumstances indicated that goodwill of a reporting unit might be impaired.

Due to increased competition, collapse of the dot-com bubble economy, increasing debt burdens and significant volatility in share prices in the telecommunications and internet related companies in the U.S. market, Verio reported that its revenues would be lower than expected in their fiscal year ended December 31, 2001. Based on that trend, Verio revised its business plan, including a change of the sales strategy and a reduction of operating costs. As a result, NTT recorded a pre-tax goodwill impairment loss of ¥203,367 million (\$1,529 million) included in "Write-down of goodwill and intangible assets" in the consolidated statement of income for the year ended March 31, 2002 under SFAS 142. The fair value of that reporting unit was determined based on discounted cash flow.

The changes in the carrying amount of goodwill by operating segment for the years ended March 31, 2001 and 2002 are as follows:

	Millions of yen		
	2001		
	Wireless services	Other	Total
Balance at March 31, 2000	¥7,969	¥ —	¥7,969
Goodwill acquired during year	—	596,878	596,878
Amortization of goodwill	(2,657)	(34,815)	(37,472)
Balance at March 31, 2001	¥5,312	¥562,063	¥567,375

	Millions of yen		
	2002		
	Wireless services	Other	Total
Balance at March 31, 2001	¥5,312	¥562,063	¥567,375
Cumulative effect of an accounting change (Transitional impairment losses)	—	(257,799)	(257,799)
Goodwill acquired during year	—	—	—
Impairment losses	—	(203,367)	(203,367)
Balance at March 31, 2002	¥5,312	¥100,897	¥106,209

	Millions of U.S. dollars		
	2002		
	Wireless services	Other	Total
Balance at March 31, 2001	\$40	\$4,226	\$4,266
Cumulative effect of an accounting change (Transitional impairment losses)	—	(1,938)	(1,938)
Goodwill acquired during year	—	—	—
Impairment losses	—	(1,529)	(1,529)
Balance at March 31, 2002	\$40	\$759	\$799

Prior to the adoption of SFAS 142, accumulated amortization for goodwill as of March 31, 2001 was ¥42,784 million. Goodwill amortization expenses, included in operating expenses - "Depreciation and amortization and maintenance costs", were ¥2,656 million and ¥37,472 million for each year ended March 31, 2000 and 2001, respectively.

Other intangible assets —

Intangible assets subject to amortization comprise the following:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Computer software	¥2,553,983	¥2,901,880	\$21,819
Rights to use utility facilities	304,651	309,137	2,324
Other	86,032	86,318	649
Accumulated amortization	(1,402,442)	(1,826,186)	(13,731)
Total	¥1,542,224	¥1,471,149	\$11,061

In above table, the net carrying amounts of Computer software as of March 31, 2001 and 2002 are ¥1,337,691 million and ¥1,310,315 million (\$9,852 million), respectively.

Upon adoption of SFAS 142, NTT reassessed the useful lives of its intangible assets, adjusted the remaining amortization periods, and determined that no intangible assets have indefinite lives.

The aggregate amortization expense for intangible assets for the years ended March 31, 2000, 2001 and 2002 were ¥376,359 million, ¥423,163 million and ¥495,884 million (\$3,728 million), respectively.

In addition, as Verio revised its business plan, NTT recorded, in accordance with SFAS 121, a pre-tax impairment loss of intangible assets amounting to ¥28,437 million (\$214 million) for the year ended March 31, 2002, which is included in operating expenses - "Write-down of goodwill and intangible assets" in the consolidated statement of income for the year ended March 31, 2002.

Computer software is recorded at cost and is amortized on a straight-line basis over an estimated useful life, which is generally five years. Rights to use utility facilities are acquired for lump-sum cash payments and mainly consist of cable tunnel and public use joint tunnels. Such rights are recorded at cost and are amortized on a straight-line basis over their estimated useful lives of eighteen years. Other intangibles are also recorded at cost and amortized on a straight-line basis over their estimated useful lives averaging twelve years.

The estimated aggregate amortization expense for intangible assets during each of the five years in the period ending March 31, 2007 are as follows:

Year ending March 31	Millions of yen	Millions of U.S. dollars
	2002	2002
2003	¥447,857	\$3,367
2004	370,374	2,785
2005	261,809	1,968
2006	186,360	1,401
2007	114,802	863

The following table reflects the NTT's comparative net income (loss) and earnings per share before goodwill and intangible amortization under SFAS 142:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Reported income (loss) before cumulative effect of accounting changes	¥299,010	¥533,819	¥(684,790)	\$(5,149)
Add back:				
Goodwill amortization	2,656	37,472	—	—
Embedded goodwill amortization related to equity method investments	2,652	12,265	—	—
Adjust:				
Customer base amortization	—	(1,148)	—	—
Adjusted income (loss) before cumulative effect of accounting changes	¥304,318	¥582,408	¥(684,790)	\$(5,149)
Reported net income (loss)	¥299,010	¥533,819	¥(834,672)	\$(6,276)
Add back:				
Goodwill amortization	2,656	37,472	—	—
Embedded goodwill amortization related to equity method investments	2,652	12,265	—	—
Adjust:				
Customer base amortization	—	(1,148)	—	—
Adjusted net income (loss)	¥304,318	¥582,408	¥(834,672)	\$(6,276)

	yen			U.S. dollars
	2000	2001	2002	2002
Basic and diluted earnings per share:				
Reported income (loss) before cumulative effect of accounting changes	¥18,837	¥33,466	¥(42,442)	\$(319)
Add back				
Goodwill amortization	167	2,349	—	—
Embedded goodwill amortization related to equity method investments	167	769	—	—
Adjust:				
Customer base amortization	—	(72)	—	—
Adjusted income (loss) before cumulative effect of accounting changes	¥19,171	¥36,512	¥(42,442)	\$(319)
Basic and diluted earnings per share:				
Reported net income (loss)	¥18,837	¥33,466	¥(51,731)	\$(389)
Add back -				
Goodwill amortization	167	2,349	—	—
Embedded goodwill amortization related to equity method investments	167	769	—	—
Adjust:				
Customer base amortization	—	(72)	—	—
Adjusted net income (loss)	¥19,171	¥36,512	¥(51,731)	\$(389)

10. Short-term borrowings and long-term debt:

Short-term borrowings at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Borrowing denominated in Japanese yen:			
Unsecured short-term bank loans bearing interest at weighted average rates of 0.44% and 0.32% per annum at March 31, 2001 and 2002, respectively	¥592,647	¥319,160	\$2,400
Commercial paper of 0.16% and 0.11% per annum at March 31, 2001 and 2002, respectively	161,000	265,100	1,993
Borrowing denominated in U.S. dollar:			
Unsecured short-term bank loans bearing interest at weighted average rates of 5.21% and 2.14% per annum at March 31, 2001 and 2002, respectively	192,362	16,245	122
	¥946,009	¥600,505	\$4,515

Long-term debt at March 31, 2001 and 2002 comprised the following:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Debt denominated in Japanese yen:			
0.41% - 4.9% coupon bonds due 2002 - 2011	¥1,985,164	¥2,450,700	\$18,426
0.07% - 2.5% Euro yen notes due 2002 - 2007	154,000	153,000	1,150
0.3% (weighted average) floating rate domestic bonds due 2005-2007	3,000	3,000	23
0.2% (weighted average) floating rate Euro yen notes due 2004-2007	5,000	25,000	188
Unsecured indebtedness to banks -			
1.8% (weighted average) loans due 2002 - 2022	2,546,844	2,761,827	20,766
0.3% (weighted average) floating rate loans due 2002 - 2008	82,396	350,772	2,637
	4,776,404	5,744,299	43,190
Debt denominated in foreign currencies:			
6.0% - 6.75% U.S. dollar notes due 2002- 2008	287,270	268,500	2,019
0.6821% floating rate U.S. dollar notes due 2007	—	10,740	81
4.0% - 5.125% Swiss franc bonds and notes due 2002 - 2006	24,709	27,224	205
7.375% Sterling pound bonds due 2003	63,392	48,463	364
3.75% Euro notes due 2006	83,123	88,230	663
Unsecured indebtedness to banks -			
2.4% (weighted average) U.S. dollar floating rate loans due 2002 - 2006	24,163	14,615	110
	482,657	457,772	3,442
Total long-term debt principal	5,259,061	6,202,071	46,632
Less - Deferred bond discounts	(1,980)	(1,793)	(13)
	5,257,081	6,200,278	46,619
Less - Current maturities	(810,246)	(755,112)	(5,678)
Total long-term debt	¥4,446,835	¥5,445,166	\$40,941

Interest rates and due dates are in the above table stated at March 31, 2002.

At March 31, 2002, buildings and land of certain consolidated subsidiaries, with a book value of ¥13,534 million (\$102 million), were mortgaged as collateral for certain loans.

All the holders of the bonds and notes issued by NTT referred to in the above table generally have a preferential right under the NTT Law to be paid prior to other unsecured indebtedness, subject to certain general preferential rights provided for in the Japanese Civil Code, such as preferential rights of employees to wages.

The bond and note agreements relating to NTT's long-term debt at March 31, 2002 stipulate, among other things, that certain of the bonds and notes are redeemable at the option of NTT, generally at the principal amount. Additionally, such agreements generally provide that the bonds and notes may be purchased by NTT at the current value.

In February and November 1996, debts totaling ¥50,000 million and ¥50,000 million, respectively, were removed from the balance sheet

by an in-substance defeasance. The principal and interest of the funds deposited in a trust fund with the bank will be sufficient to fund the scheduled principal and interest payments of these debt issues. The balance of these outstanding debts at March 31, 2001 and 2002 were ¥100,000 million and nil, respectively

In April and May 2001, NTT DoCoMo refinanced a portion of its short-term borrowings with long-term facilities. As such, ¥290,000 million of short-term borrowings have been classified as long-term debt as of March 31, 2001 in the above table and accompanying consolidated financial statements.

The aggregate amounts of annual maturities of long-term debt at March 31, 2002 during each of the five years in the period ending March 31, 2007 and thereafter are as follows:

	Millions of yen	Millions of U.S. dollars
2003	¥ 755,112	\$ 5,678
2004	984,330	7,401
2005	894,980	6,729
2006	536,188	4,031
2007	533,840	4,014
Thereafter	2,495,828	18,766
	¥6,200,278	\$46,619

At March 31, 2002, NTT's subsidiaries had unused committed lines of credit amounting to ¥1,367 billion (\$10,280 million) and can borrow up to generally 90 days from the banks with whom NTT's subsidiaries have committed line contracts.

11. Employees' severance payments:

Employees whose services with NTT Group are terminated are normally entitled to lump-sum severance payments or pension payments as described below, determined by reference to the current basic rate of pay, length of service and conditions under which the termination occurs. Under normal circumstances, the minimum payment is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement.

In the fiscal year ended March 31, 1993, NTT and certain subsidiaries established a non-contributory funded pension plan with insurance companies and trust companies. The benefits under the plan cover 28 percent of the indemnities under existing regulations to employees who are more than 50 years old and will be retiring after twenty or more years of service. Retirement benefits are payable, at the option of the employee, in monthly installments or in a lump sum. In 2000, NTT revised the severance indemnity plan, which resulted in the reduction of the projected benefit obligation. The effect of such a reduction in the projected benefit obligation has been reflected as an offset of unrecognized prior service cost.

On November 9, 2001, NTT and its seven consolidated subsidiaries such as NTT East and NTT West agreed with the labor union to implement the Structural Reform Plan, which results in the reduced expected years of future services of current employees of NTT East and NTT West. The effect of this change in the actuarial assumption of employees' expected years of future services increased the projected benefit obligation and has been reflected as an actuarial loss. This plan includes reducing personnel costs, through adopting a fundamental outsourcing strategy and diversifying employment types, and further reductions in various other costs. Under this plan, NTT East and NTT West will move their order-taking, SOHO sales, equipment maintenance and operations, repair work, etc. to newly-established outsourcing companies (to be consolidated for the fiscal year ending March 31, 2003) in each region (prefecture or block of prefectures) and will introduce a plan whereby transferred employees age 51 or over will be retired from NTT East and NTT West and rehired by the outsourcing companies. On May 1, 2002, upon the implementation of this plan, a total of approximately 60,000 employees of NTT East and NTT West were retired from these companies and rehired by the outsourcing companies, which resulted in a curtailment of the severance indemnity plan, that significantly reduced the expected years of future services of current employees of NTT East and NTT West.

The following table presents reconciliation of the changes in the plan's benefit obligations and fair value of assets of the NTT Severance Payment Plan during the years ended March 31, 2001 and 2002:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Change in benefit obligations:			
Benefit obligation, beginning of year	¥3,760,492	¥3,771,242	\$28,355
Service cost	132,152	130,725	983
Interest cost	110,874	110,567	831
Actuarial loss (gain)	29,167	15,915	120
Curtailments	—	258,752	1,945
Benefit payments	(261,443)	(328,474)	(2,469)
Benefit obligation, end of year	3,771,242	3,958,727	29,765
Change in fair value of plan assets:			
Fair value of plan assets, beginning of year	665,207	767,870	5,773
Actual return on plan assets	(36,692)	(22,287)	(167)
Employer contributions	163,335	166,654	1,253
Benefits payments	(23,980)	(32,827)	(247)
Fair value of plan assets, end of year	767,870	879,410	6,612
At March 31:			
Funded status	(3,003,372)	(3,079,317)	(23,153)
Unrecognized net actuarial loss	76,608	135,183	1,016
Unrecognized transition obligation	213,643	14,886	112
Unrecognized prior service cost (*1)	(216,620)	(119,756)	(900)
Net amount recognized	¥(2,929,741)	¥(3,049,004)	\$(22,925)

(*1) Unrecognized prior service cost has been amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

The following table provides the amounts recognized in NTT's consolidated balance sheets:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
At March 31:			
Liability for employees' severance payments	¥(2,939,134)	¥(3,065,921)	\$(23,052)
Accumulated other comprehensive loss	9,393	16,917	127
Net amount recognized	¥(2,929,741)	¥(3,049,004)	\$(22,925)

The charges to income for employees' severance indemnities for each of the three years in the period ended March 31, 2002 included the following components:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Service cost	¥138,450	¥132,152	¥130,725	\$983
Interest cost on projected benefit obligation	124,910	110,874	110,567	831
Expected return on plan assets	(22,159)	(20,380)	(24,997)	(188)
Net amortization and deferral	83,096	41,288	42,123	317
	324,297	263,934	258,418	1,943
Curtailment loss	—	—	322,736	2,427
Total cost for employees' severance indemnities as recorded in the consolidated statements of income	¥324,297	¥263,934	¥581,154	\$4,370
Assumptions in determination of net pension cost:				
Discount rate	3.0%	3.0%	2.5%	
Long-term rate of salary increases	3.0%	3.0%	2.0-4.7%	
Long-term rate of return on funded assets	3.0%	3.0%	3.0%	

As part of the Japanese social insurance scheme restructuring, the Japanese Welfare Pension Insurance Law was amended effective April 1, 1997 to convert the NTT Mutual Aid Plan, which was administered by the Public Corporation Employee Mutual Aid Association Law, into a government-sponsored welfare pension plan under the Japanese Welfare Pension Insurance Law. At the same time, NTT established welfare pension plans or NTT Kosei Nenkin Kikin, a defined benefit pension plan to which both NTT and the employees make contributions and

which is regulated by the Japanese Welfare Pension Insurance Law. The NTT Severance Payment Plan was not affected.

In March 2000, there were revisions of the Japanese Welfare Pension Insurance Law, which reduced the projected benefit obligation of the contributory defined benefit pension plans for NTT and certain subsidiaries in Japan. Following these revisions, NTT Group in Japan amended the plan, NTT Kosei Nenkin Kikin, that the beginning date of giving benefits to its employees has been deferred from 60 years old to 65 years old for the year ended March 31, 2002. The amendment also reduced its projected benefit obligation.

The following table presents a reconciliation of the changes in NTT's welfare pension plans' benefit obligations and fair value of assets of NTT's welfare pension plans at March 31, 2001 and 2002:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Change in benefit obligations:			
Benefit obligation, beginning of year	¥1,104,677	¥1,272,946	\$9,571
Service cost	131,889	139,736	1,051
Interest cost	32,717	38,081	286
Plan amendment	—	(36,411)	(274)
Actuarial loss (gain)	4,868	122,126	918
Other	—	(5,544)	(42)
Benefit payments	(1,205)	(2,590)	(19)
Benefit obligation, end of year	1,272,946	1,528,344	11,491
Change in fair value of plan assets:			
Fair value of plan assets, beginning of year	991,261	987,087	7,422
Actual return on plan assets	(75,968)	(33,483)	(252)
Employer contributions	41,271	39,567	297
Employee contributions	31,728	31,273	235
Benefits payments	(1,205)	(2,590)	(19)
Fair value of plan assets, end of year	987,087	1,021,854	7,683
At March 31:			
Funded status	(285,859)	(506,490)	(3,808)
Unrecognized net actuarial loss	217,370	391,522	2,944
Unrecognized prior service cost (*1)	(14,672)	(49,686)	(374)
Net amount recognized	¥(83,161)	¥(164,654)	\$(1,238)

(*1) Unrecognized prior service cost has been amortized on the straight-line method over the average remaining service period of employees expected to receive benefits under the plan.

The following table provides the amounts recognized in NTT's consolidated balance sheets:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Liability for employee's severance payments	¥(84,717)	¥(198,870)	\$(1,495)
Accumulated other comprehensive loss	1,556	34,216	257
Net amount recognized	¥(83,161)	¥(164,654)	\$(1,238)

The charges to income for employees' severance indemnities for each of the three years in the period ended March 31, 2002 included the following components:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Service cost	¥132,471	¥131,889	¥139,736	\$1,051
Interest cost on projected benefit obligation	30,591	32,717	38,081	286
Expected return on plan assets	(35,064)	(30,464)	(30,629)	(230)
Net amortization and deferral	—	1,339	6,437	48
Employee contributions	(32,865)	(31,728)	(31,273)	(235)
Total cost for employees' severance indemnities as recorded in the consolidated statements of income	¥95,133	¥103,753	¥122,352	\$920
Assumptions in determination of net pension cost:				
Discount rate	3.0%	3.0%	2.5%	
Long-term rate of salary increases	3.0%	3.0%	1.6-4.2%	
Long-term rate of return on funded assets	3.0%	3.0%	3.0%	

12. Restructuring charges:

For the year ended March 31, 2002, NTT and certain subsidiaries undertook several restructuring activities including the implementation of the Structural Reform Plan as discussed in Note 11 and that of restructuring plan of Verio, a subsidiary in other segment.

Significant restructuring charges incurred from these activities are as follows:

NTT recorded restructuring charges totaling ¥556,156 million (\$4,182 million) mainly associated with the implementation of the Structural Reform Plan of NTT East and NTT West in the regional communication segment. These charges consisted of a curtailment loss of the severance indemnity plan of ¥322,736 million (\$2,427 million) and additional lump-sum severance payments of ¥233,420 million (\$1,755 million). The remaining balances of these two charges as of March 31, 2002 were included in ¥322,736 million (\$2,427 million) in "Liability for employees' severance payments" and ¥196,090 million (\$1,474 million) in "Accrued payroll", respectively.

NTT recorded restructuring charges totaling ¥83,058 million (\$624 million) associated with the downsizing of Verio's business and the implementation of restructuring plans in certain domestic subsidiaries other than NTT East and NTT West in the other segment. These charges consisted of non-cash charges of asset write-down of ¥32,430 million (\$244 million), additional lump-sum severance payments of ¥25,330 million (\$190 million) and costs related to facility shutdowns of ¥25,298 million (\$190 million). The remaining reserve balance as of March 31, 2002 was included in ¥19,907 million (\$150 million) in "Accrued payroll" and in ¥61,281 million (\$461 million) in Current liabilities "Other" in the consolidated balance sheet as of March 31, 2002

13. Income taxes:

NTT is subject to a number of different taxes, based on income with an aggregate normal statutory tax rate in Japan of approximately 42 percent. Reconciliation of the difference of the effective tax rates of NTT and the normal statutory tax rates are as follows:

	Percent of income before income taxes		
	2000	2001	2002
Normal statutory tax rate	41.82%	41.96%	(41.99)%
Net tax effect of write-down of investments and recognition of temporary difference (*1)	—	—	(16.16)
Net change in valuation allowance	—	3.16	(23.60)
Other	(0.48)	0.25	0.63
Effective tax rate	41.34%	45.37%	(81.12)%

(*1) NTT Group has recognized impairment losses which were not deducted in determining current taxes payable in the fiscal year ended March 31, 2001. However, the temporary difference between the written-down book basis and the tax basis of those investments has been recognized as a deferred tax asset. The excess of the amount of the recognized temporary difference over the tax effect of the losses, resulted in a net benefit in determining income tax expense (benefit) in the fiscal year ended March 31, 2002.

Significant components of the deferred tax assets and liabilities at March 31, 2001 and 2002 are as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Liability for employees' severance payments	¥923,565	¥1,115,755	\$8,389
Accrued enterprise tax	31,585	31,420	236
Depreciation	159,218	178,342	1,341
Payable for additional lump-sum severance payments	—	89,153	670
Impairment of investments in foreign companies	—	725,203	5,453
Compensated absences	97,357	93,660	704
Accrued bonus	24,905	35,341	266
Unamortized purchases of the leased assets	42,679	48,719	366
Operating loss carryforward	86,946	101,416	763
Other	97,464	211,792	1,592
Total gross deferred tax assets	1,463,719	2,630,801	19,780
Less - Valuation allowance	(41,232)	(19,887)	(149)
Total deferred tax assets	1,422,487	2,610,914	19,631
Deferred tax liabilities:			
Unrealized gains on securities	10,557	2,534	19
Special reserve for tax purposes	23,373	13,791	104
Gains on sales of subsidiary stocks	591,789	591,789	4,449
Foreign currency translation adjustments	1,807	91,917	691
Other	87,372	51,995	391
Total gross deferred tax liabilities	714,898	752,026	5,654
Net deferred tax assets	¥707,589	¥1,858,888	\$13,977

The valuation allowance at March 31, 2001 and 2002 mainly relates to deferred tax assets of consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized. The net changes in the total valuation allowance for the fiscal years ended March 31, 2000 and 2001 were an increase of ¥2,287 million and ¥38,945 million, respectively, and for the year ended March 31, 2002 was decrease of ¥21,345 million (\$160 million). During the year ended March 31, 2002, approximately ¥28,352 million (\$213 million) of tax benefits have been realized through utilization of operating loss carryforwards.

Net deferred tax assets at March 31, 2001 and 2002 are included in the consolidated balance sheet as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Prepaid expenses and other current assets	¥172,664	¥274,760	\$2,066
Deferred income taxes(investments and other assets)	1,050,031	2,069,780	15,562
Other current liabilities	—	(5,400)	(40)
Other long-term liabilities	(515,106)	(480,252)	(3,611)
	¥707,589	¥1,858,888	\$13,977

Operating loss carryforwards for tax purposes of consolidated subsidiaries at March 31, 2002 amounted to approximately ¥241,524 million (\$1,816 million) and are available as an offset against future taxable income of such subsidiaries. These carryforwards expire mainly in five years. Realization is dependent on such subsidiaries generating sufficient taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets, less valuation allowance, will be realized. The amount of such net deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

14. Consumption tax:

The consumption tax rate, with minor exceptions, for all taxable goods and services is 5 percent. Consumption tax payable or receivable is determined based on consumption taxes levied on operating revenues offset by consumption taxes directly incurred by the company when purchasing goods and services.

15. Shareholders' equity:

According to the NTT Law, NTT must obtain authorization from the Minister of Public Management, Home Affairs, Posts and Telecommunications for certain financial matters including (1) any new issue of shares, convertible debentures or debentures with preemptive rights to acquire new shares; (2) any resolution for (i) a change in the Articles of Incorporation, (ii) an appropriation of profits or (iii) any merger or dissolution; and (3) any disposition of major telecommunications trunk lines and equipment or providing mortgages on such properties.

On November 24, 1995, based upon the resolution of the Board of Directors' Meeting held on April 28, 1995, NTT capitalized the aggregate amount of ¥15,600 million of its additional paid-in capital to the common stock account and made a free share distribution of 312,000 shares to shareholders of record at September 30, 1995 representing 2 percent of outstanding shares. Under generally accepted accounting principles in Japan, no accounting entry is required for such a free share distribution. Had the distribution been accounted for in the manner adopted by companies in the United States of America, ¥234,624 million would have been transferred from retained earnings to the applicable capital accounts.

On June 29, 1999, the shareholders of NTT approved a stock repurchase plan. Under the plan, NTT was authorized to repurchase up to ¥120,000 million for a one year period. In accordance with the plan, NTT repurchased and retired 77,410 shares of its common stock for a total purchase price ¥119,999 million during the year ended March 31, 2000. Repurchases of common stock are accounted for in accordance with Japanese Commercial Code and customary practices in Japan as a reduction to retained earnings for the cost of the repurchase.

On November 10, 2000, based upon the resolution of the Board of Directors' Meeting held on September 29, 2000 and October 23, 2000, NTT issued 300,000 shares of common stock at a price of ¥949 thousand per share. NTT recorded ¥142,350 million in common stock and of ¥139,260 million in additional paid-in capital.

The Japanese Commercial Code provides that (i) all appropriations of retained earnings, including dividends, require approval at an ordinary general meeting of shareholders, (ii) interim cash dividends can be distributed upon the approval of the board of directors, if the Articles of Incorporation provide for such interim cash dividends, subject to some restrictions in the amount, and (iii) an amount equal to at least 10 percent of cash dividends and other appropriations paid in cash be appropriated from retained earnings to a legal reserve until the reserve equals 25 percent of stated capital computed in accordance with generally accepted accounting principles in Japan.

The amount of statutory retained earnings of NTT available for the payments of dividends to shareholders as of March 31, 2002 was ¥1,442,276 million (\$10,844 million).

In accordance with customary practice in Japan, the appropriations are not accrued in the financial statements for the period to which they relate but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings in the accompanying consolidated financial statements at March 31, 2002 includes amounts representing final cash dividends of ¥40,336 million (\$303 million), ¥2,500 (\$19) per share, which were approved at the shareholders' meeting held on June 27, 2002.

Prior to the recent amendments to the Japanese Commercial Code, purchase and retirement by NTT of its own shares could be made at any time by resolution of the Board of Directors' Meeting up to the number of shares and total purchase price as described above. However,

following such amendments, purchase by NTT of its own shares is subject to the prior approval of shareholders at the Ordinary General Meeting of Shareholders, which includes the maximum number of shares purchased and the maximum total purchase amount. Once such approval of shareholders is obtained, NTT may purchase its own shares at any time during the period up to the conclusion of next Ordinary General Meeting of Shareholders.

On May 14, 2002, the Board of Directors of NTT resolved the following proposals in accordance with the modified Japanese Commercial Code. The proposals, which were discussed by the General Meeting of Shareholders held on June 27, 2002, resolve that NTT may acquire up to a total not exceeding 200 thousand outstanding shares of its common stock at an amount in a total not exceeding ¥100 billion (\$752 million) until the conclusion of the General Meeting of Shareholders to be held for the year ending March 31, 2003.

Accumulated other comprehensive income (loss) —

An analysis of the changes for the years ended March 31, 2000, 2001 and 2002 in accumulated other comprehensive income (loss) is shown below:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Unrealized gain (loss) on securities:				
At beginning of year	¥(22,181)	¥75,321	¥21,743	\$163
Change during the year	97,502	(53,578)	(1,036)	(8)
At end of year	¥75,321	¥21,743	¥20,707	\$155
Unrealized gain (loss) on derivative instruments:				
At beginning of year	¥ —	¥ —	¥ —	\$ —
Cumulative effect of an accounting change	—	—	(8,250)	(62)
Change during the year (*1)	—	—	(1,467)	(11)
At end of year	¥ —	¥ —	¥(9,717)	\$(73)
Foreign currency translation adjustments:				
At beginning of year	¥(261)	¥(11,924)	¥34,048	\$256
Change during the year	(11,663)	45,972	56,788	427
At end of year	¥(11,924)	¥34,048	¥90,836	\$683
Minimum pension liability adjustment:				
At beginning of year	¥(21,136)	¥(23,135)	¥(4,150)	\$(31)
Change during the year	(1,999)	18,985	(21,702)	(163)
At end of year	¥(23,135)	¥(4,150)	¥(25,852)	\$(194)
Total accumulated other comprehensive income (loss):				
At beginning of year	¥(43,578)	¥40,262	¥51,641	\$388
Cumulative effect of an accounting change	—	—	(8,250)	(62)
Change during the year	83,840	11,379	32,583	245
At end of year	¥40,262	¥51,641	¥75,974	\$571

(*1) Net change in Unrealized gain (loss) on derivative instruments (net of tax):

	Millions of yen	Millions of U.S. dollars
	2002	2002
Unrealized gain arising during the period	¥17,438	\$131
Less - Reclassification adjustment for gain included in net income	(18,905)	(142)
Net change in Unrealized gain (loss) on derivative instruments	¥(1,467)	\$(11)

Tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2000, 2001 and 2002 is shown below:

	Millions of yen		
	Pre-tax amount	Tax expense / (benefit)	Net-of-tax amount
For the year ended March 31, 2000:			
Unrealized gain on securities	¥155,476	¥(57,974)	¥97,502
Foreign currency translation adjustments	(12,511)	848	(11,663)
Minimum pension liability adjustment	(3,941)	1,942	(1,999)
Other comprehensive income (loss)	¥139,024	¥(55,184)	¥83,840
For the year ended March 31, 2001:			
Unrealized gain on securities	¥(112,192)	¥58,614	¥(53,578)
Foreign currency translation adjustments	48,808	(2,836)	45,972
Minimum pension liability adjustment	32,614	(13,629)	18,985
Other comprehensive income (loss)	¥(30,770)	¥42,149	¥11,379
For the year ended March 31, 2002:			
Unrealized gain on securities	¥(746)	¥(290)	¥(1,036)
Unrealized loss on derivative instruments	(16,276)	6,559	(9,717)
Foreign currency translation adjustments	146,898	(90,110)	56,788
Minimum pension liability adjustment	(39,953)	18,251	(21,702)
Other comprehensive income (loss)	¥89,923	¥(65,590)	¥24,333
	Millions of U.S. dollars		
	Pre-tax amount	Tax expense / (benefit)	Net-of-tax amount
For the year ended March 31, 2002:			
Unrealized gain on securities	\$(6)	\$(2)	\$(8)
Unrealized loss on derivative instruments	(122)	49	(73)
Foreign currency translation adjustments	1,104	(677)	427
Minimum pension liability adjustment	(300)	137	(163)
Other comprehensive income (loss)	\$676	\$(493)	\$183

16. Business segment and geographic area:

As a result of the adoption of Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information", NTT Group's results had been segmented according to its four primary lines of business since the beginning of fiscal 1999: wireline services, wireless services, data communications services and other services. The NTT's reorganization program effected in July 1999 allowed NTT management to report additional reportable segment information for its wireline services and assess performance on five reporting segments instead of four segments. In effect, the existing wireline services segment was divided into two reportable segments: the regional communications services that NTT East and NTT West provide and the long distance communications and international services that NTT Communications provides.

The two new segments, the regional communications services and the long distance communications and international services, had not been separately reported in the part and prior period results in wireline services have not been restated to reflect these segments changes.

The new regional communications services segment is mainly comprised of intra-prefectural telephone services (excluding cellular services and PHS services), telegraph services, leased circuit services, ISDN services and other related services including Internet access services.

The new long distance communications and international services segment is mainly comprised of inter-prefectural and international telephone services (excluding cellular services and PHS services), telegraph services, leased circuit services, ISDN services and other related services including OCN and frame relay services.

NTT Group's wireless services segment, provided by NTT DoCoMo, includes cellular services, PHS services and other related services.

NTT Group's data communications services segment, provided by NTT DATA CORPORATION ("NTT DATA"), includes data communications facility services, system integration services and other related services.

The other services segment includes fundamental research activities, the management of telecommunications facilities, the sale and maintenance of telecommunications equipment, the rental of real estate, the sale of telephone cards and certain other services, primarily within the NTT Group itself.

Reflecting our business, we continuously review our management model and structure, which may result in additional adjustments to our operating segments in the future.

**Business segments —
Sales and operating revenue:**

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Sales and operating revenue:				
Wireline services -				
Customers	¥5,715,235	¥ —	¥ —	\$ —
Intersegment	459,153	—	—	—
Total	6,174,388	—	—	—
Regional communication services -				
Customers	—	4,416,942	4,177,850	31,412
Intersegment	—	973,967	764,807	5,751
Total	—	5,390,909	4,942,657	37,163
Long distance communications and international services -				
Customers	—	1,170,483	1,105,515	8,312
Intersegment	—	191,841	176,825	1,330
Total	—	1,362,324	1,282,340	9,642
Wireless services -				
Customer	3,722,470	4,653,402	5,154,879	38,759
Intersegment	7,252	15,964	12,259	92
Total	3,729,722	4,669,366	5,167,138	38,851
Data communication services -				
Customers	641,761	680,755	699,795	5,262
Intersegment	74,669	105,974	102,172	768
Total	716,430	786,729	801,967	6,030
Other -				
Customers	303,873	406,516	397,598	2,989
Intersegment	1,656,996	1,722,695	1,655,348	12,446
Total	1,960,869	2,129,211	2,052,946	15,435
Elimination	(2,198,070)	(3,010,441)	(2,711,411)	(20,387)
Consolidated total	¥10,383,339	¥11,328,098	¥11,535,637	\$86,734

Segment profit or loss:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Operating income (loss):				
Wireline services -	¥195,030	¥ —	¥ —	\$ —
Regional communication services	—	(107,524)	(727,628)	(5,471)
Long distance communications and international services	—	84,278	56,472	424
Wireless services	522,692	795,407	1,013,874	7,623
Data communication services	38,913	55,840	53,759	404
Other	(10,027)	(142,082)	(446,793)	(3,359)
Total	746,608	685,919	(50,316)	(379)
Elimination	77,182	148,887	111,850	841
Consolidated operating income	823,790	834,806	61,534	462
Other income	135,441	763,546	135,539	1,019
Other expenses	270,259	293,195	287,531	2,161
Consolidated income (loss) before income taxes	¥688,972	¥1,305,157	¥(90,458)	\$(680)
Equity in earnings (losses) of affiliated companies:				
Wireline services -	¥ (2,700)	¥ —	¥ —	\$ —
Regional communication services	—	3,555	28,336	213
Long distance communications and international services	—	(5,455)	(28,191)	(212)
Wireless services	8,988	(18,221)	(645,341)	(4,852)
Data communication services	1,970	(558)	(3,249)	(25)
Other	1,832	2,871	(20,243)	(152)
Consolidated total	¥10,090	¥(17,808)	¥(668,688)	\$(5,028)

Assets:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Total Assets:				
Wireline services -	¥12,179,514	¥ —	¥ —	\$ —
Regional communication services	—	10,485,598	10,358,216	77,881
Long distance communications and international services	—	2,184,983	3,229,589	24,283
Wireless services	3,642,231	6,016,505	6,056,354	45,536
Data communication services	1,082,623	1,076,076	1,116,155	8,392
Other	10,332,733	10,392,112	10,982,949	82,579
Total	27,237,101	30,155,274	31,743,263	238,671
Elimination	(8,135,863)	(8,395,872)	(10,318,457)	(77,582)
Consolidated total	¥19,101,238	¥21,759,402	¥21,424,806	\$161,089

Other significant items:

	Millions of yen			Millions of U.S. dollars
	2000	2001	2002	2002
Depreciation and amortization:				
Wireline services -	¥1,393,550	¥ —	¥ —	\$ —
Regional communication services	—	1,251,904	1,182,286	8,890
Long distance communications and international services	—	136,875	146,440	1,101
Wireless services	591,431	593,219	638,055	4,797
Data communication services	143,543	145,922	154,702	1,163
Other	289,807	341,036	314,104	2,362
Consolidated total	¥2,418,331	¥2,468,956	¥2,435,587	\$18,313
Capital expenditures for segment assets:				
Wireline services -	¥1,427,203	¥ —	¥ —	\$ —
Regional communication services	—	1,097,833	766,323	5,762
Long distance communications and international services	—	171,601	144,957	1,090
Wireless services	876,057	1,012,795	1,032,256	7,761
Data communication services	211,189	164,372	170,577	1,283
Other	214,346	219,249	177,813	1,337
Consolidated total	¥2,728,795	¥2,665,850	¥2,291,926	\$17,233

The capital expenditures in the above table represent the additions to fixed assets of each segment.

Transfers between reportable businesses are made at arms-length prices. Operating income is sales and operating revenue less costs and operating expenses.

Geographic information is not presented due to immateriality of revenue attributable to international customers.

There have been no sales and operating revenue from transactions with a single external customer amounting to 10 percent or more of NTT's revenues for the years ended March 31, 2000, 2001 and 2002.

17. Leases:

NTT Group leases certain office space, employees' residential facilities and other assets. Leases qualifying as capital leases at March 31, 2001 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Buildings	¥341,693	¥323,019	\$2,429
Machinery, vessels and tools	258,929	251,179	1,889
Accumulated depreciation	(261,583)	(265,162)	(1,994)
	¥339,039	¥309,036	\$2,324

Future minimum lease payments by year under capital leases together with the present value of the net minimum lease payments at March 31, 2002 are as follows:

Year ending March 31	Millions of yen	Millions of U.S. dollars
2003	¥34,785	\$262
2004	33,615	252
2005	32,291	243
2006	31,234	235
2007	28,292	213
Later years	890,838	6,698
Total minimum lease payments	1,051,055	7,903
Less - Amount representing interest	710,485	5,342
Present value of net minimum lease payments	340,570	2,561
Less - Current obligation	10,881	82
Long-term capital lease obligations	¥329,689	\$2,479

Rental expenses under operating leases for land, buildings and equipment under cancellable leases, which are generally renewed upon expiration, for the years ended March 31, 2000, 2001 and 2002 were ¥153,376 million, ¥170,470 million and ¥189,487 million (\$1,425 million), respectively.

Certain consolidated subsidiaries undertake direct financing lease operations. Direct financing leases consist of full-payout leases relating to various equipment, including office equipment, medical equipment, transport equipment and other equipment. The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income to be taken into income over the lease term. The estimated residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated. Amortization of unearned lease income is computed using the interest method.

Finance lease receivables at March 31, 2001 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Investment in financing leases:			
Total minimum lease payments receivable	¥464,425	¥464,132	\$3,490
Unearned income	(56,260)	(51,252)	(385)
Estimated residual values	5,626	6,545	49
	413,791	419,425	3,154
Less - Allowance for doubtful accounts	(3,562)	(3,326)	(25)
	410,229	416,099	3,129
Less - Current portion	(112,795)	(118,332)	(890)
	¥297,434	¥297,767	\$2,239

At March 31, 2002, the contractual maturities of minimum lease payments of the investment in financing leases are as follows:

Year ending March 31	Millions of yen	Millions of U.S. dollars
2003	¥155,573	\$1,170
2004	121,493	913
2005	86,966	654
2006	55,719	419
2007	28,466	214
Thereafter	15,915	120
	¥464,132	\$3,490

Allowance for doubtful accounts is based upon past loss experience and an estimation of mortgaged asset values.

18. Research and development expenses and advertising costs:

Research and development expenses —

Research and development expenses are charged to income as incurred and such amounts charged to income for the years ended March 31, 2000, 2001 and 2002 were ¥357,626 million, ¥406,018 million and ¥390,892 million (\$2,939 million), respectively.

Advertising costs —

Advertising costs are expensed as incurred. Advertising costs included in other operating expenses were ¥113,077 million, ¥136,479 million and ¥120,565 million (\$907 million) for the years ended March 31, 2000, 2001 and 2002, respectively.

19. Gains on sales of subsidiary stock:

On February 23, 2001, NTT DoCoMo issued 460,000 new shares of stock for total proceeds of ¥930,005 million, net of related expenses. As a result of the issuance, NTT's stake in NTT DoCoMo has been reduced from 67.13 percent to 64.06 percent.

The resulting pretax gains on these issuances of subsidiary stock amounting to ¥516,599 million are recognized in the consolidated statement of income for the year ended March 31, 2001 together with applicable deferred taxes thereon. In the consolidated statement of cash flows for the year ended March 31, 2001, the gains on issuance of subsidiary stock are excluded from the cash flows from operating activities and the related cash proceeds of ¥930,005 million are included in the cash flows from financing activities.

20. Foreign exchange gain and loss:

Foreign exchange results (mainly arising from foreign currency borrowings) for the years ended March 31, 2000, 2001 and 2002 were gains of ¥918 million, ¥2,764 million and loss of ¥16,129 million (\$121 million), respectively.

21. Financial instruments:

Derivative instruments and hedging activities —

In the normal course of business, NTT and certain subsidiaries have certain financial instruments including long-term debt and other financial assets and liabilities incurred. Such financial instruments are exposed to the market risk of interest rate changes and foreign currency fluctuations. In applying a consistent risk management strategy for the purpose of reducing such risk, NTT Group uses derivative financial instruments, such as forward exchange contracts, interest rate swap agreements, currency swap agreements and interest rate option contracts. NTT Group does not use derivative financial instruments for trading or speculative purposes.

NTT Group from time to time enters into forward foreign exchange contracts and currency swap agreements to hedge the risk of fluctuations in foreign currency exchange rates associated with long-term debt issued by NTT Group denominated in foreign currencies. Such contracts and agreements have the same maturity as the underlying debt.

NTT Group's exposure to market risk for changes in interest rates relates principally to its debt obligations. NTT Group has long-term debt primarily with fixed rates. Interest rate swap agreements are entered into from time to time to convert floating rate underlying debt or assets into fixed rate debt or assets, or vice versa. Interest rate option contracts are entered into from time to time to hedge the risk of a rise in the interest rate of underlying debt. These instruments are executed with creditworthy financial institutions.

The derivatives designated as fair value hedges include interest rate swap agreements that are used for reducing the risk arising from the changes in the fair value of fixed rate debt. As discussed in Note 10, NTT Group issues a variety of long-term debt bearing several types of interest and denominated in several currencies. NTT Group has a strategy to fix the anticipated cash flow related to those debts. From time to time, however, NTT Group enters into pay floating receive fixed rate swaps, to protect the fair value of certain debts in asset liability management. Both the derivatives designated as fair value hedge and hedged items are reflected at fair value in the consolidated balance sheet. Changes in the fair value of the derivatives that are highly effective as - and that are designated and qualify as- fair value hedges, along with changes in the fair value of the hedged items that are attributable to the hedged risk, are recognized in income currently. The amount of ineffectiveness of these fair value hedges, which were reflected in earnings, was not material for the year ended March 31, 2002. In addition, there were no amounts excluded from the assessment of hedge effectiveness of fair value hedges.

The derivatives designated as cash flow hedges include forward exchange contracts, currency swap agreements and interest rate swap agreements. As discussed in Note 10, NTT Group has foreign currency exposures related to its long-term debt denominated in other than yen. In accordance with NTT Group's strategy, NTT Group fixes the anticipated cash flows of paying interest and principal amounts by entering into foreign currency contracts and foreign currency swaps, to ensure its cash flows are fixed in yen. This ensures that NTT Group is not exposed to fluctuations of foreign exchange rates. Also, as discussed in Note 10, NTT Group has floating rate debt exposures related to its long-term debt. In accordance with NTT Group strategy, NTT Group fixes the anticipated cash flows of interest payment by entering into pay fixed receive floating rate swaps. This ensures that NTT Group is not exposed to fluctuations of interest rates. Changes in the fair value of derivatives that are highly effective as, and that are designated and qualify as cash flow hedges are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction. For the year ended March 31, 2002, these cash flow hedges were effective and the amount that representing hedges' ineffectiveness was not material. In addition, there were no material amounts excluded from the assessment of hedge effectiveness of cash flow hedges. As of March 31, 2002, approximately ¥11,712 million (\$88 million) of deferred net gains on derivative instruments accumulated in other comprehensive income are expected to be reclassified as earnings during the next twelve months.

Fair value of financial instruments —

The table that follows provides the estimated fair value of financial instruments. The following table excludes cash and cash equivalents, notes and accounts receivable, trade, short-term borrowings, accounts payable, trade and accrued payroll that are carried at amounts which approximate fair value. Because such instruments have the short maturities. The table also excludes debt and equity securities that are disclosed in Note 8. In the following table, the fair values of long-term debt, including the current portion, are estimated based on the discounted amounts of future cash flows using NTT Group's current incremental rates of borrowings for similar liabilities. The fair values of forward exchange contracts, interest rate swap agreements, currency swap agreements are estimated based on the amounts NTT Group would receive or pay to terminate the contracts at March 31, 2001 and 2002 with discounted amounts of net future cash flows.

	Millions of yen				Millions of U.S. dollars	
	2001		2002		2002	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Long-term debt including current portion	¥(5,257,081)	¥(5,707,703)	¥(6,200,278)	¥(6,417,637)	\$(46,619)	\$(48,253)
Forward exchange contracts	4,426	(6,838)	(24)	(24)	(0)	(0)
Interest rate and currency swap agreements	10,073	(18,767)	4,288	4,288	32	32

The table below shows the notional principal amounts of those derivative financial instruments at March 31, 2001 and 2002:

	Millions of yen		Millions of U.S. dollars
	2001	2002	2002
Forward exchange contracts	¥146,204	¥79,797	\$600
Interest rate and currency swap agreements	870,807	938,567	7,057

Concentrations of credit risk—

NTT Group does not have any significant concentration of business transacted with an individual counter party or groups of counter parties that could, if suddenly eliminated, severely impact its operations at March 31, 2002.

22. Commitments and contingent liabilities:

Commitments outstanding at March 31, 2002 for the purchase of property, plant and equipment and other assets approximated ¥290,371 million (\$2,183 million).

Contingent liabilities at March 31, 2002 for loans guaranteed amounted to ¥21,242 million (\$160 million).

At March 31, 2002, NTT Group had no material litigation or claims outstanding, pending or threatened against it, which would have a material adverse effect on NTT's consolidated financial position or results of operations.

23. Subsequent events:

Subsequent to March 31, 2001, NTT issued four series of coupon bonds with an aggregate principal amount of ¥40,000 million (\$301 million) bearing interest at rates of 0.1475%, 0.19%, 0.2412% and 0.2925% due 2003, 2004, 2004 and 2005, respectively, and NTT DoCoMo issued 0.67% coupon bonds with an aggregate principal amount of ¥100,000 million (\$752 million) due 2007.

NTT DoCoMo entered into memoranda of understanding (MOU), dated May 8, 2002, with its eight regional subsidiaries (NTT DoCoMo Hokkaido, Inc., NTT DoCoMo Tohoku, Inc., NTT DoCoMo Tokai, Inc., NTT DoCoMo Hokuriku, Inc., NTT DoCoMo Kansai, Inc., NTT DoCoMo Chugoku, Inc., NTT DoCoMo Shikoku, Inc. and NTT DoCoMo Kyushu, Inc. (collectively, the "Regional Subsidiaries")) which provide that the Regional Subsidiaries shall become wholly-owned subsidiaries of NTT DoCoMo by way of share exchange. The purpose of the share exchange is to prepare for the possible adoption of consolidated tax reporting, upon enactment of the Consolidated Tax System in Japan, which is expected in the current fiscal year ending March 31, 2003 and to increase the NTT DoCoMo group's overall value by unifying its business and financing strategies. The expected date of the share exchange is November 1, 2002 and it will be carried out based on share exchange ratios determined using the valuation of both the NTT DoCoMo's and Regional Subsidiaries' common shares obtained from qualified independent third parties. NTT DoCoMo intends to purchase treasury shares (approximately 860,000 shares after the five-for-one stock split) and utilize them for the share exchanges.



PricewaterhouseCoopers
Kasumigaseki Bldg., 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku
Tokyo 100-6088, Japan
Telephone 03-5532-2100
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To the Shareholders and Board of Directors of
Nippon Telegraph and Telephone Corporation
(Nippon Denshin Denwa Kabushiki Kaisha)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows, expressed in yen, present fairly, in all material respects, the financial position of Nippon Telegraph and Telephone Corporation and its subsidiaries at March 31, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of NTT DoCoMo, Inc., a 64%-owned subsidiary, which statements reflect total assets of ¥6,016,505 million and ¥6,067,225 million (\$45,618 million) at March 31, 2001 and 2002, respectively, and total revenues of ¥4,669,366 million and ¥5,167,138 million (\$38,851 million) for each of the two years in the period ended March 31, 2002. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for NTT DoCoMo, Inc., is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed its methods of accounting for derivatives instruments and hedging activities and for goodwill and other intangible assets.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

July 23, 2002

CONSOLIDATED SUBSIDIARIES

As of March 31, 2002

Company	Capital (Millions of yen)	Ownership (%)	Main line(s) of business
REGIONAL TELECOMMUNICATIONS OPERATIONS			
Nippon Telegraph and Telephone East Corporation	335,000	100.0	Regional telecommunications services in eastern Japan
Nippon Telegraph and Telephone West Corporation	312,000	100.0	Regional telecommunications services in western Japan
LONG DISTANCE AND INTERNATIONAL TELECOMMUNICATIONS OPERATIONS			
NTT Communications Corporation ⁽¹⁾	211,650	100.0	Long distance and international telecommunications services, multimedia network services
NTT USA, Inc. ⁽²⁾	US\$7,720.95 million	100.0 (100.0)	Investment and management administration for firms providing Arcstar services in North America
NTT America, Inc. ⁽³⁾	US\$252.69 million	100.0 (100.0)	Provision of Arcstar services in the U.S.
TELETECHNO, INC.	US\$3 million	100.0 (100.0)	Investing venture capital in start-up businesses
Milletechno, Inc.	US\$18 million	100.0 (100.0)	Investing venture capital in start-up businesses
NTT MULTIMEDIA COMMUNICATIONS LABORATORIES, INC.	US\$4.65 million	100.0 (100.0)	Commercialization of R&D operations in the U.S.
NTT A&A Investment, Inc.	US\$11.20 million	100.0 (100.0)	Investing in Internet-related companies in the U.S.
NTT COMMUNICATIONS GLOBAL PROFESSIONAL SERVICES GROUP LLC	US\$3 million	100.0 (100.0)	Business related to the development of global professional services
NTT A&T Investment, Inc.	US\$100 million	100.0 (100.0)	Investing in Internet-related companies in the U.S.
Autoweb Communications, Inc.	US\$0.33 million	80.0 (80.0)	Provision of file transmission services to the automobile industry
NTT EUROPE LTD.	66.16 million Pounds sterling	100.0 (100.0)	Provision of Arcstar services in Europe
NTT (HONG KONG) LTD.	830.33 million HK\$	100.0 (100.0)	Investment and management administration for firms providing Arcstar services in Hong Kong
NTT COM ASIA LTD.	269.24 million HK\$	100.0 (100.0)	Provision of Arcstar services in Hong Kong
NTT MSC SDN, BHD.	94 million Malaysian ringgits	100.0 (100.0)	Provision of Arcstar services in Malaysia
NTT SINGAPORE PTE, LTD.	47.20 million Singapore dollars	100.0 (100.0)	Provision of Arcstar services in Singapore
NTT AUSTRALIA PTY, LTD.	A\$203.40 million	100.0 (100.0)	Provision of Arcstar services in Australia
NTT WORLDWIDE TELECOMMUNICATIONS CORPORATION	200	100.0 (100.0)	Provision of clearinghouse service
NTT TAIWAN LTD.	250.00 million New Taiwan dollars	100.0 (100.0)	Provision of Arcstar services in Taiwan
NTT Korea Co., Ltd.	7,430 million won	100.0 (100.0)	Provision of Arcstar services in Korea
NTT Comunicações do Brasil Participações Ltda.	R\$10.859 million	100.0 (100.0)	Holding company of Arcstar business companies in Brazil
NTT do Brasil Telecomunicações Ltda.	R\$10.692 million	100.0 (100.0)	Provision of Arcstar services in Brazil
MOBILE COMMUNICATIONS OPERATIONS			
NTT DoCoMo, Inc.	949,679	64.1	Mobile telecommunications services, development, maintenance and sales of mobile telecommunications systems
NTT DoCoMo Hokkaido, Inc.	15,630	96.4 (96.4)	Same as above
NTT DoCoMo Tohoku, Inc.	14,981	92.9 (92.9)	Same as above
NTT DoCoMo Tokai, Inc.	20,340	91.2 (91.2)	Same as above
NTT DoCoMo Hokuriku, Inc.	3,406	94.2 (94.2)	Same as above
NTT DoCoMo Kansai, Inc.	24,458	88.3 (88.3)	Same as above
NTT DoCoMo Chugoku, Inc.	14,732	84.2 (84.2)	Same as above
NTT DoCoMo Shikoku, Inc.	8,412	97.3 (97.3)	Same as above
NTT DoCoMo Kyushu, Inc.	15,834	93.8 (93.8)	Same as above
DATA COMMUNICATIONS SERVICES			
NTT DATA CORPORATION	142,520	54.2	Systems integration, network systems services
OTHERS			
NTT FACILITIES, INC.	12,400	100.0	Design, management and maintenance of buildings, equipment and electric power facilities
NTT URBAN DEVELOPMENT CO.	26,292	100.0	Acquisition, construction, management and rental of real estate
NTT COMWARE CORPORATION	20,000	100.0	Development, operation and maintenance of telecommunications systems and software

Company	Capital (Millions of yen)	Ownership (%)	Main line(s) of business
NTT LEASING CO., LTD.	6,773	57.8 (11.5)	Leasing and installment sales of communications equipment, office equipment, and other non-fixed equipment
NTT FINANCE JAPAN CO., LTD.	100	100.0	By lending to affiliated companies, NTT guarantees the liabilities of NTT Finance Japan Co., Ltd.
NTT AUTO LEASING CO., LTD.	300	68.2 (18.7)	Leasing and maintenance of automobiles; non-life insurance agency sales
NTT Electronics Corporation	8,707	90.0 (11.0)	Development, design, manufacture and sales of custom LSIs and optical components for communications applications, plus related electronic installations and systems
NTT Software Corporation	500	100.0	Systems development; systems integration; total solutions and e-commerce consulting; product development and sales; development of advanced technologies
NTT Advanced Technology Corporation	470	61.3 (0.6)	Technology transfer; design and development of hardware, software and computing / telecommunications systems; analytical research on technical trends; technical consulting
NTT-IT CORPORATION	300	53.0	Development/sales of products and systems related to artificial intelligence (AI) and machine-human interfaces
NTT Broadband Initiative Inc.	30,000	100.0	Distribution of broadband content
NTT-ME HOKKAIDO CORPORATION ⁽⁴⁾	160	100.0 (100.0)	Facility operation/management; sales of telecommunications equipment/terminals
NTT-ME TOHOKU CORPORATION	160	100.0 (100.0)	Same as above
NTT-ME CORPORATION	16,460	100.0 (100.0)	Same as above
NTT-ME TOKAI CORPORATION ⁽⁵⁾	200	100.0 (100.0)	Same as above
NTT-ME HOKURIKU CORPORATION ⁽⁵⁾	100	100.0 (100.0)	Same as above
NTT-ME KANSAI CORPORATION ⁽⁵⁾	160	100.0 (100.0)	Same as above
NTT-ME CHUGOKU CORPORATION ⁽⁵⁾	200	100.0 (100.0)	Same as above
NTT-ME SHIKOKU CORPORATION ⁽⁵⁾	100	100.0 (100.0)	Same as above
NTT-ME KYUSHU CORPORATION ⁽⁵⁾	262	100.0 (100.0)	Same as above
NTT-DO CO., LTD.	60	100.0 (100.0)	Facility operation/management; sales of telecommunications equipment/terminals; telemarketing operations
NTT DIRECTORY SERVICES CO.	3,500	100.0 (100.0)	Publishing of telephone directories; directory assistance and related services
NTT TELECA CORPORATION	648	84.5 (84.5)	Planning/sales of telephone cards and prepaid cards; encoding operations
Verio Inc. ⁽⁶⁾	US\$7,229.28 million	100.0 (100.0)	Provision of Internet solution services in the U.S.
NTT WORLD ENGINEERING MARINE CORPORATION	1,400	66.7 (66.7)	Laying, maintenance, repair and management of underwater cabling
DoCoMo Service Inc.	120	100.0 (100.0)	Collection of mobile phone fees
DoCoMo Engineering Inc.	120	100.0 (100.0)	Construction, maintenance and operation of telecommunications equipment
DoCoMo Mobile Inc	30	100.0 (100.0)	Repair of mobile telecommunications terminals and peripherals
DoCoMo Support Inc.	20	100.0 (100.0)	Sale of telecommunications terminals
DoCoMo Sentsu Inc.	1,300	90.7 (90.7)	Provision of mobile telecommunications services for ships and aircraft
DoCoMo Technologies Inc.	100	100.0 (100.0)	Research and development of telecommunications systems
DoCoMo Systems, Inc.	652	100.0 (100.0)	Development and operation of information systems, software and equipment

Company	Capital (Millions of yen)	Ownership (%)	Main line(s) of business
NTT DATA SYSTEM TECHNOLOGIES INC.	100	100.0 (75.0)	Design of data telecommunications systems and software development
NTT System Service, Inc. ⁽⁷⁾	70	90.0 (65.0)	Design of data telecommunications systems and software development
NTT DATA FINANCIAL CORPORATION	200	74.0(74.0)	Provision and sale of financial information
DREAM NET Corporation	546	100.0 (100.0)	Provision of services related to connection to the Internet
NTT DATA TOKYO SMS CORPORATION	30	100.0 (100.0)	Operation and maintenance of data telecommunications systems.
NTT DATA CUSTOMER SERVICE CORPORATION	2,000	100.0 (100.0)	Maintenance of data telecommunications systems
Other, 57 companies			

(1) On October 1, 2001, NTT Communications Corporation and NTT WORLDWIDE TELECOMMUNICATIONS CORPORATION merged, with NTT Communications Corporation as the surviving company.

(2) On April 2, 2001, NTT America, Inc. changed its company name to NTT USA, Inc.

(3) On April 2, 2001, ntt.com, Inc. changed its company name to NTT America, Inc.

(4) On May 1, 2002, NTT-ME HOKKAIDO CORPORATION changed its company name to NTT-ME HOKKAIDO Network Solutions Corporation.

(5) On May 1, 2002, NTT-ME TOKAI CORPORATION, NTT-ME HOKURIKU CORPORATION, NTT-ME KANSAI CORPORATION, NTT-ME CHUGOKU CORPORATION, NTT-ME SHIKOKU CORPORATION and NTT-ME KYUSHU CORPORATION changed their company names to NTT NEOMEIT NAGOYA CORPORATION, NTT NEOMEIT HOKURIKU CORPORATION, NTT NEOMEIT KANSAI CORPORATION, NTT NEOMEIT CHUGOKU CORPORATION, NTT NEOMEIT SHIKOKU CORPORATION and NTT NEOMEIT KYUSHU CORPORATION, respectively.

(6) On March 20, 2002, Verio Inc. and Rocky, Inc. merged, with Verio Inc. as the surviving company.

(7) On April 1, 2002, NTT System Service, Inc. changed its company name to NTT DATA System Service, Inc.

DIRECTORS AND AUDITORS

As of October 1, 2002



Norio Wada, President and CEO



Haruki Matsuno, Senior Executive Vice President



Hiromi Wasai, Senior Executive Vice President



Toyohiko Takabe, Senior Executive Vice President and CFO

REPRESENTATIVE DIRECTORS

President and Chief Executive Officer

Norio Wada

Senior Executive Vice Presidents

Haruki Matsuno

Hiromi Wasai

Toyohiko Takabe (Chief Financial Officer)

DIRECTORS

Executive Vice President

Satoru Miyamura

Senior Vice Presidents

Yuji Inoue

Shin Hashimoto

Masaki Mitsumura

Hiroo Unoura

Jun-ichiro Miyazu

Takashi Imai

Yotaro Kobayashi

CORPORATE AUDITORS

Takao Nakajima

Masao Iseki

Keisuke Sada

Hideaki Toda

Notes:

1. Mr. Takashi Imai and Mr. Yotaro Kobayashi are outside Directors assigned in accordance with Paragraph 2, Item 7-2 of Article 188 of the Commercial Code.

2. Mr. Takao Nakajima and Mr. Hideaki Toda are outside Corporate Auditors assigned in accordance with Paragraph 1 of Article 18 of the Law of Special Exceptions to the Commercial Code regarding corporate audits.

CORPORATE DATA

Nippon Telegraph and Telephone Corporation
As of March 31, 2002

DATE OF ESTABLISHMENT

April 1, 1985

PAID-IN CAPITAL

¥ 937,950,000,000

THE NTT LAW

The NTT Law requires the government to own at least one-third of the total number of shares outstanding. Pursuant to the NTT Law, the proportion of voting rights of foreign nationals and foreign corporations is limited to less than one-third of the total voting rights. As of the end of March 2002, the number of shares owned by foreign nationals and foreign corporations was 2,187,752 or 13.59% of the 16,134,590 shares outstanding.

TRANSFER AGENT

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku,
Tokyo 105-8574, Japan
Telephone: 81 (3) 3323-7111

DEPOSITARY FOR NTT AMERICAN DEPOSITARY RECEIPTS ("ADRS")

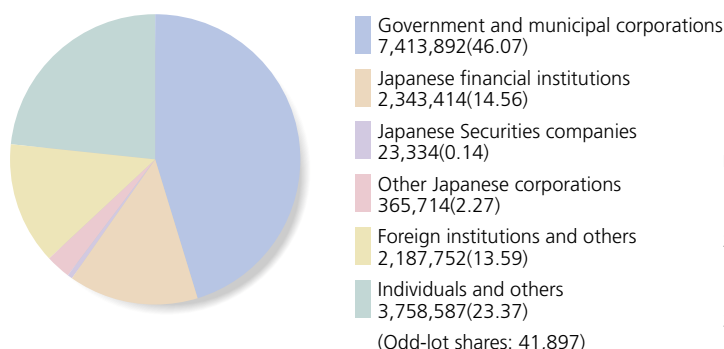
JPMorgan Chase Bank of New York
ADR Department
60 Wall Street, 36th Floor, New York,
NY 10260-0060, U.S.A.
Telephone: 1-(781)575-4328

Investor Information as of March 31, 2002

- Total number of shares authorized to be issued by NTT: 62,322,590 shares
- Total number of shares issued: 16,134,590 shares
- Number of shareholders (including holders of odd-lot shares): 1,902,832
- Principal shareholders:

Name	Number of shares held	Ratio of the number of shares held to the total number of shares issued (%)
The Minister of Finance	7,413,823.26	45.95
Japan Trustee Services Bank, Ltd.	378,148.00	2.34
The Mitsubishi Trust and Banking Corporation	340,604.00	2.11
Moxley and Company	250,612.00	1.55
The Chase Manhattan Bank, N.A. London	240,976.00	1.49
UFJ Trust Bank Limited	191,093.00	1.18
State Street Bank and Trust Company	163,479.00	1.01
NTT Employee Share-Holding Association	133,381.22	0.83
Nippon Life Insurance Company	112,297.68	0.70
Boston Safe Deposit BSDT Treaty Client Omnibus	111,956.00	0.69

- Distribution of Ownership among Shareholders (% of total in parenthesis)



Notes:

1. "Other corporations" and "Odd-lot shares" include 5,151 and 0.72 custody transfer system titled shares respectively.
2. "Individuals and others" and "Odd-lot shares" include 239 and 0.54 treasury stocks respectively. Essentially, 214.54 shares are currently held as of the end of the fiscal year.
3. There are 277,926 odd-lot shareholders who hold only odd-lot shares.

ADDITIONAL INFORMATION

For further information, please contact:

Nippon Telegraph and Telephone Corporation, Investor Relations Group,
3-1, Otemachi 2-chome, Chiyoda-ku, Tokyo 100-8116, Japan

Telephone: 81 (3) 5205-5581 E-mail: investors@hco.ntt.co.jp

www: <http://www.ntt.co.jp/ir/e/index.html>

NTT files annual reports on Form 20-F and current reports on Form 6-K with the United States Securities and Exchange Commission. This report is not transmitted in connection with the sale of any security or offer to sell or buy any security.