



News Release

November 10, 2006

FOR IMMEDIATE RELEASE

Interim Settlement for Fiscal Year Ending March 31, 2007

The results of Nippon Telegraph and Telephone East Corporation (NTT East) for the interim period of fiscal 2006 are presented in the following attachments.

(Attachments)

1. Overview of Interim Financial Status
2. Non-Consolidated Comparative Balance Sheets
3. Non-Consolidated Comparative Statements of Income
4. Non-Consolidated Statements of Changes in Shareholders' Equity and Other Net Assets
5. Business Results (Non-Consolidated Operating Revenues)
6. Non-Consolidated Comparative Statements of Cash Flows

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1. Overview of Interim Financial Status

(1) Summary of Results

① Overall Business Conditions

During the interim period ended September 30, 2006, the Japanese economy continued its steady recovery, as evidenced by rising corporate [earnings], growth in domestic personal consumption and expanding improvement in the employment situation despite the persistence of some difficulties.

In the information and communications sector, formation of the ubiquitous broadband society, aimed for in government initiatives such as the u-Japan Policy and IT New Reform Strategy, is becoming a reality with surging demand for optical, IP, and mobile services. Against this backdrop, the market is undergoing rapid structural change, as seen in the rise in mergers and acquisitions among communications companies, the [emergence] of fixed-mobile convergence (FMC) services,^(Note 1) and the convergence or linking of communications and broadcasting. These trends are creating a situation of intensified service competition for customers.

In the regional communications markets, as demand for optical access services and other broadband access continues to expand at an accelerated rate, the net increase in the number of new optical access service subscribers has exceeded the net increase in the number of new DSL subscribers since the fourth quarter of the fiscal year ended March 31, 2005. This rich network infrastructure has become fertile territory for the growth of net-related business, including triple-play services that provide Internet access, IP telephony and video services on a single broadband line, social networking services,^(Note 2) and blogging services. Meanwhile, direct subscriber telephone service using dry copper lines and optical access is now widely available, bringing about full-scale market restructuring and competition for subscribers to metal, optical, and other types of access line services.

Within this business environment, Nippon Telegraph and Telephone East Corporation (NTT East) has endeavored to provide high-quality and affordable universal service, while striving to achieve the goal defined in the NTT Group's Medium-Term Management Strategy of bringing optical access services to 30 million customers by 2010 which was announced in November 2004. To this end, NTT East has devoted its energies toward meeting its target for this fiscal year of attracting 1.5 million new subscribers to B FLET'S service, and toward living up to its responsibilities as a telecommunications carrier in the IP era by providing safe, reliable, and attractive services and products. In these ways, NTT East has worked to promote the expansion of broadband communications in line with customer needs. Furthermore, NTT East has taken steps to ensure a long-term relationship with its customers, through comprehensive and on-going support of

customers in their information communications environment, with the aim of becoming a familiar, all-around ICT corporation.^(Note 3) As a result of efforts like these, the total number of subscribers to B FLET'S optical access service surpassed the 2.5 million mark in September of this year. NTT East has also worked to build a stable and enhanced management infrastructure and to reduce property expenses and streamline its assets to increase operational efficiency, and has implemented a drastic overhaul of business processes. With measures such as these, NTT East has worked to achieve flexible business operations that are more responsive to changes in the business environment.

NTT East regrets the inconvenience suffered by customers of its Hikari Denwa optical IP telephony service during the period from September 19, 2006 to September 21, 2006, when the service became intermittently unavailable, and has undertaken a thorough investigation of the causes. Measures such as improvements to the call control server software have meant that NTT East is now able to preserve stable operation of the service. Moreover, a working group dedicated to improving the reliability of Hikari Denwa service has been set up within NTT East, and long-term measures are being put in effect to ensure that customers will continue to be able to make use of Hikari Denwa with confidence.

Note 1: Services that combine mobile and fixed-line communications

Note 2: Membership-based community sites that promote and support personal connections

Note 3: ICT: Information and Communication Technology

② Marketing and Sales

(i) Promotion of Optical IP-Based Services

In the rapidly expanding broadband market, NTT East has worked to further upgrade its services to respond to its customers' diverse needs, while continuing to lower rates.

Among the specific measures implemented to enhance services, NTT East has worked with local governments and communities to actively expand the service areas for its B FLET'S optical access service, and added the new B FLET'S Mansion plan (for apartment buildings) to its B FLET'S service lineup. With respect to the Hikari Denwa service, a new addition to the existing Hikari Denwa and Hikari Denwa Business plans for optical IP telephony service is the Hikari Denwa Office plan, which is aimed at business offices and offers up to eight channels and 32 phone numbers. Users of Hikari Denwa and Hikari Denwa Office plans can also choose new optional services like Hikari Denwa A (Ace), which combines in a single package email notification of incoming telephone calls and fax, 6 optional functions such as call waiting and number display, and other options including up to three hours of call charges. By actively introducing new services such as these, NTT East has been working to meet the diverse needs of its customers.

NTT East has also promoted further expansion of the broadband market by enhancing its sales and marketing efforts. For example, NTT East introduced discount plans for monthly charges, installation and other fees, and promoted partnerships with other service providers.

At the same time, NTT East made further efforts to improve customer service, shortening the lead time for installation of B FLET'S and other services, implementing on-the-spot decision-making for installation schedules, and dispatching repair staff even on weekends and national holidays. In order to provide one-stop shopping for a diverse range of customer needs, an "OSA^(Note 4) Promotion Office" was established with the mission of turning the one-stop after-sale service into a commercial operation.

Prior to the full commercial introduction of NTT's next-generation network service, a field trial is planned to begin in December 2006. NTT East announced the interface conditions and conditions for participation in the field trial, and has begun accepting applications from service providers and other carriers that wish to take part.

Note 4: One Stop After Service. A customer support service that provides comprehensive support from Internet setup to post-setup troubleshooting.

(ii) Measures for Fixed-Line Telephone Services

In the fixed-line market, NTT East took positive steps to secure profits in the face of full-scale competition for customers, brought about in part by the introduction of other carriers' direct subscriber telephone services. While NTT East has always endeavored to provide universal service, the situation regarding fixed-line telephone service has made this more difficult than before. Having recently been designated by the Minister of Internal Affairs and Communications as an eligible telecommunications business, NTT East now qualifies for grants under the Universal Service Fund System, enhancing the company's ability to continue ensuring that universal service is available throughout Japan at reasonable rates.

Meanwhile, the L-Mode service for Internet access from fixed-line telephones, which was started in June 2001 with the aim of expanding the number of Internet users, is due to be discontinued. Now that the growing broadband market has increased Internet access by personal computers and the number of L-Mode installations has been decreasing, on the premise that the service will be terminated, new applications for this service will no longer be accepted as of November 30, 2006.

(iii) Development of Solutions Business

In the corporate service sector, NTT East has continued to carry out enhancements in network quality and performance. At the same time, NTT East continues to be involved in a variety of system projects that

leverage its wealth of experience, from designing security measures to building enterprise backbone systems. NTT East has helped local governments and businesses to streamline their operations and implement new business strategies. Specific initiatives include the construction in each region of prefecture-wide high-speed networks to address the digital divide, and the installation of centralized contact centers utilizing computer telephony integration (CTI) ^(Note 5) to enhance the provision of local-government services and improve the ability of municipal governments to respond to inquiries. In addition, for corporate customers, NTT East has developed security, video, data center, CTI/CRM ^(Note 6) and various other solutions for corporate customers.

Note 5: Computer telephony Integration. Technology that integrates telephone and fax functions into computer systems.

Note 6: Customer Relationship Management. Information system methodologies that support businesses to establish long term relationships with their customers

(iv) Sales Performance

As a result of these efforts, as of the end of September 2006 were 2,605,000 B FLET'S subscribers, an increase of 716,000 from the end of March 2006, 2,943,000 FLET'S /ADSL subscribers, a decrease of 57,000 from the end of March 2006, and 1,032,000 Hikari Denwa subscribers.

With respect to NTT East's subscriber telephone services, the total number of lines installed was 22.23 million as of the end of September 2006, a decrease of 2.02 million from the end of March 2006, while the total number of INS-Net 64 lines fell by 360,000 from the end of March 2006 to 3.56 million as a result of migration to broadband access services and other factors.

During the interim period under review, operating revenue totaled 1,013.1 billion yen (down 3.5% from the same period of the previous year); recurring profit came to 51.1 billion yen (down 9.4% from the same period of the previous year); and net profit totaled 35.4 billion yen (up 4.2% from the same period of the previous year).

③ Reorganization of Business Operation Structure

In keeping with the "Promoting NTT Group's Medium-Term Management Strategy" announced in November 2005, NTT Group carried out a review of its business operation structure in August 2006. This review concentrated on upper-layer services and enterprise services, in order to adapt to service convergence resulting from the shift toward IP services and to meet customer demands for one-stop service, and on becoming more competitive by making more effective uses of resources in the NTT Group.

NTT East is affected by this restructuring in several ways. In the area of upper-layer services, the shares owned by NTT East in Plala Networks Inc., which provides mainly Internet access services, were transferred to NTT Communications Corporation. In the area of enterprise services, a restructuring took place with the result that NTT East is responsible for serving local administrations, regional banks, and other customers where close involvement in the local community is needed, while NTT Communications serves customers such as city banks, general trading firms, and central government bureaucracies. The aim is to enhance the ability to offer one-stop services and make more effective use of NTT Group resources, for more efficient operations.

④ Efforts on the CSR Front

NTT East regards CSR (corporate social responsibility) activities as a major pillar of its business operations, and accordingly has promoted initiatives that give serious consideration not only to economic aspects but also to social aspects, such as compliance with legal requirements including the protection of personal data, contributions to society, as well as environmental aspects.

Among the specific initiatives in this area, the "NTT Group CSR Charter" drawn up in June 2006 has been adopted as a basic guideline for corporate activities by NTT East. CSR seminars have been held for the top layers of management aimed at ensuring that the company adheres strictly to laws and at promoting business risk management. Also, efforts have been made to raise awareness of issues such as the importance of reducing alcohol-related driving incidents.

In October 2006, the "NTT East CSR Report 2006" was issued and made available on the company's website, in order to communicate more effectively to stakeholders the company's involvement in CSR activities.

In addition to the above, NTT East has provided a variety of disaster support and relief measures. In order to facilitate the collection of contributions for victims of the May 2006 Java earthquake, the Dial Q² service was provided to broadcasters without charge. This enabled the broadcasters to solicit contributions and have them collected without being charged the service, where as ordinarily information providers pay to have NTT East charge customers on their behalf via the customer's bill from NTT East. In addition, a broadband disaster message service "web171," which uses the Internet to confirm the safety of family members, relatives, and friends in disaster areas, began trial operation in August 2005. After improvements were made to its functions based on feedback from users during the trial service, the service went into full operation in October 2006.

(2) Corporate Governance

Following the effectiveness of the new Corporation Law, at its May 2006 board of directors meeting, NTT East adopted a basic policy relating to the establishment of an internal control system. This policy outlines the corporate governance requirements for ensuring that the company conducts its business affairs properly. The policy also aims to strengthen the internal control functions of NTT East as a whole. Under the policy, the president, as the top officer responsible for carrying out the duties of the company, was made responsible for establishing and implementing an internal control system. In order to achieve the objectives of adhering to legal requirements, managing risk, and managing business properly and efficiently, various measures were put into effect for preventing or minimizing risk. Moreover, an "Audit and Compliance Office" was formed, and was charged with increasing the transparency and soundness of the NTT East Group's management and with evaluating the effectiveness of the internal control system. This office carried out reviews of internal control, and performed audits regarding high-risk matters common to NTT East, and audit items standard throughout the NTT Group as instructed by NTT Corporation, evaluating their effectiveness and taking necessary countermeasures. In addition, a "Business Risk Management Committee" was set up to enhance risk management in company operations, and various other measures were taken to strengthen internal control functions.

2. Non-Consolidated Comparative Balance Sheets

(Based on accounting principles generally accepted in Japan)

(Millions of yen)

	March 31, 2006	September 30, 2006	Increase (Decrease)
<u>ASSETS</u>			
Fixed assets:			
Fixed assets - telecommunications businesses			
Property, plant and equipment	2,958,375	2,917,588	(40,786)
Machinery and equipment	556,601	543,691	(12,910)
Antenna facilities	7,690	7,530	(159)
Terminal equipment	48,220	55,866	7,646
Local line facilities	684,119	694,470	10,351
Long-distance line facilities	9,977	9,271	(705)
Engineering facilities	735,027	717,455	(17,572)
Submarine line facilities	865	776	(88)
Buildings	612,451	591,815	(20,636)
Construction in progress	34,931	35,518	586
Other	268,488	261,191	(7,297)
Intangible fixed assets	99,808	93,410	(6,398)
Total fixed assets - telecommunications businesses	3,058,183	3,010,998	(47,184)
Investments and other assets			
Deferred income taxes	343,198	318,503	(24,695)
Other investments and assets	81,053	77,717	(3,335)
Allowance for doubtful accounts	(2,647)	(2,732)	(84)
Total investments and other assets	421,604	393,488	(28,115)
Total fixed assets	3,479,787	3,404,487	(75,300)
Current assets:			
Cash and bank deposits	118,783	59,842	(58,940)
Notes receivable	37	65	27
Accounts receivable, trade	329,798	355,151	25,352
Supplies	30,165	32,910	2,745
Other current assets	69,119	79,844	10,724
Allowance for doubtful accounts	(3,125)	(3,640)	(514)
Total current assets	544,779	524,173	(20,605)
TOTAL ASSETS	4,024,566	3,928,660	(95,906)

(Millions of yen)

	March 31, 2006	September 30, 2006	Increase (Decrease)
<u>LIABILITIES</u>			
Long-term liabilities:			
Long-term borrowings from parent company	777,785	688,170	(89,615)
Liability for employees' retirement benefits	582,104	554,974	(27,129)
Other long-term liabilities	7,554	7,433	(120)
Total long-term liabilities	1,367,444	1,250,579	(116,865)
Current liabilities:			
Current portion of long-term borrowings from parent company	141,096	154,785	13,689
Accounts payable, trade	117,095	84,655	(32,439)
Short-term borrowings	42,000	70,000	28,000
Accounts payable, other	330,063	220,461	(109,602)
Accrued taxes on income	1,068	946	(121)
Other current liabilities	84,781	206,922	122,140
Total current liabilities	716,105	737,771	21,665
TOTAL LIABILITIES	2,083,550	1,988,350	(95,199)
<u>SHAREHOLDERS' EQUITY</u>			
Common stock	335,000	—	—
Capital surplus			
Additional paid-in capital	1,499,726	—	—
Total capital surplus	1,499,726	—	—
Earned surplus			
Unappropriated retained earnings for the period	101,261	—	—
Total earned surplus	101,261	—	—
Net unrealized gains (losses) on securities	5,028	—	—
TOTAL SHAREHOLDERS' EQUITY	1,941,016	—	—
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,024,566	—	—

(Millions of yen)

	March 31, 2006	September 30, 2006	Increase (Decrease)
<u>NET ASSETS</u>			
Shareholders' equity			
Common stock	—	335,000	—
Capital surplus			
Additional paid-in capital	—	1,499,726	—
Total capital surplus	—	1,499,726	—
Earned surplus			
Other earned surplus	—	103,175	—
Accumulated earned surplus	—	103,175	—
Total earned surplus	—	103,175	—
Total shareholders' equity	—	1,937,902	—
Unrealized gains (losses), translation adjustments, and others			
Net unrealized gains (losses) on securities	—	2,407	—
Total unrealized gains (losses), translation adjustments, and others	—	2,407	—
TOTAL NET ASSETS	—	1,940,309	—
TOTAL LIABILITIES AND NET ASSETS	—	3,928,660	—

3. Non-Consolidated Comparative Statements of Income

(Based on accounting principles generally accepted in Japan)

(Millions of yen)

	Six months ended September 30, 2005	Six months ended September 30, 2006	Increase (Decrease)	Year ended March 31, 2006
Telecommunications businesses				
Operating revenues	983,387	946,827	(36,560)	1,967,812
Operating expenses	934,312	911,492	(22,819)	1,898,156
Operating income from telecommunications businesses	49,075	35,334	(13,740)	69,656
Supplementary businesses				
Operating revenues	66,606	66,346	(259)	157,520
Operating expenses	68,562	63,653	(4,909)	161,227
Operating income (losses) from supplementary businesses	(1,956)	2,692	4,649	(3,707)
Operating income	47,118	38,027	(9,091)	65,948
Non-operating revenues:	30,800	30,192	(608)	63,269
Interest income	25	15	(9)	45
Lease and rental income	27,133	27,771	637	55,685
Miscellaneous income	3,641	2,405	(1,236)	7,538
Non-operating expenses:	21,485	17,090	(4,394)	45,005
Interest expenses	8,278	6,962	(1,315)	16,406
Lease and rental expenses	11,647	9,242	(2,405)	24,086
Miscellaneous expenses	1,559	885	(673)	4,512
Recurring profit	56,434	51,129	(5,304)	84,212
Special profits and losses	878	8,710	7,832	2,442
Income before income taxes	57,312	59,840	2,527	86,654
Corporation, inhabitant, and enterprise taxes	(1,812)	(2,342)	(530)	31,411
Deferred tax expenses (benefits)	25,096	26,713	1,617	3,989
Net income	34,028	35,469	1,440	51,253
Unappropriated retained earnings brought forward	50,008	—	—	50,008
Unappropriated retained earnings for the period	84,036	—	—	101,261

4. Non-Consolidated Statements of Changes in Shareholders' Equity and Other Net Assets

(Based on accounting principles generally accepted in Japan)

[Six months ended
September 30,2006]

(Millions of yen)

	Shareholders' equity						Unrealized gains (losses), translation adjustments, and others		Total net assets
	Common stock	Capital surplus		Earned surplus		Total shareholders' equity	Net unrealized gains (losses) on securities	Total unrealized gains (losses), translation adjustments, and others	
		Additional paid-in capital	Total capital surplus	Other earned surplus Accumulated earned surplus	Total earned surplus				
March 31,2006	335,000	1,499,726	1,499,726	101,261	101,261	1,935,988	5,028	5,028	1,941,016
Net change during this semi-annual period									
Cash dividends				(33,500)	(33,500)	(33,500)			(33,500)
Bonuses paid to directors and corporate auditors				(55)	(55)	(55)			(55)
Net income				35,469	35,469	35,469			35,469
Others, net							(2,620)	(2,620)	(2,620)
Total net change during this semi-annual period	—	—	—	1,913	1,913	1,913	(2,620)	(2,620)	(706)
September 30,2006	335,000	1,499,726	1,499,726	103,175	103,175	1,937,902	2,407	2,407	1,940,309

5. Business Results (Non-Consolidated Operating Revenues)

(Based on accounting principles generally accepted in Japan)

(Millions of yen)

	Six months ended September 30, 2005	Six months ended September 30, 2006	Increase (Decrease)	Percent Increase (Decrease)	Year ended March 31, 2006
Voice transmission services revenues (excluding IP services revenues)	661,986	593,736	(68,250)	(10.3%)	1,294,098
Monthly charge revenues*	406,335	376,123	(30,211)	(7.4%)	801,186
Call rates revenues*	96,224	79,812	(16,411)	(17.1%)	183,977
Interconnection call revenues*	109,726	94,119	(15,606)	(14.2%)	213,119
IP services revenues	127,182	165,445	38,263	30.1%	270,799
Leased circuit services revenues (excluding IP services revenues)	98,548	95,880	(2,668)	(2.7%)	198,061
Telegram services revenues	12,774	11,909	(864)	(6.8%)	25,961
Other telecommunications services revenues	82,895	79,854	(3,040)	(3.7%)	178,890
Telecommunications total revenues	983,387	946,827	(36,560)	(3.7%)	1,967,812
Supplementary business total revenues	66,606	66,346	(259)	(0.4%)	157,520
Total operating revenues	1,049,993	1,013,173	(36,820)	(3.5%)	2,125,333

*Partial listing only

6. Non-Consolidated Comparative Statements of Cash Flows

(Based on accounting principles generally accepted in Japan)

(Millions of yen)

	Six months ended September 30, 2005	Six months ended September 30, 2006	Increase (Decrease)	Year ended March 31, 2006
I Cash flows from operating activities:				
Income before income taxes	57,312	59,840	2,527	86,654
Depreciation and amortization	254,686	212,727	(41,958)	467,256
Loss on disposal of property, plant and equipment	8,711	9,416	704	23,391
Increase (decrease) in liability for employees' retirement benefits	(15,498)	(27,129)	(11,631)	(73,899)
(Increase) decrease in accounts receivable	57,044	(25,452)	(82,497)	40,204
(Increase) decrease in inventories	(3,343)	(2,745)	598	(689)
Increase (decrease) in accounts payable and accrued expenses	(99,346)	(91,828)	7,518	22,455
Increase (decrease) in accrued consumption tax	607	5,242	4,634	(1,173)
Other	(70,956)	9,953	80,909	(45,166)
Sub-total	189,218	150,024	(39,194)	519,034
Interest and dividends received	354	358	4	392
Interest paid	(9,243)	(8,116)	1,126	(16,591)
Income taxes received (paid)	21,196	(31,484)	(52,680)	21,195
Net cash provided by (used in) operating activities	201,526	110,782	(90,744)	524,031
II Cash flows from investing activities:				
Payments for property, plant and equipment	(207,723)	(201,354)	6,368	(420,613)
Proceeds from sale of property, plant and equipment	2,399	12,214	9,815	5,022
Payments for purchase of investment securities	(543)	(8,059)	(7,515)	(1,867)
Proceeds from sale of investment securities	412	5,155	4,742	5,365
Other	(785)	(513)	272	9,711
Net cash provided by (used in) investing activities	(206,239)	(192,556)	13,682	(402,380)
III Cash flows from financing activities:				
Proceeds from issuance of long-term debt	35,000	—	(35,000)	35,000
Payments for settlement of long-term debt	(50,643)	(75,926)	(25,282)	(144,171)
Net increase (decrease) in short-term borrowings	55,000	113,000	58,000	42,000
Dividends paid	(33,500)	(33,500)	—	(33,500)
Net cash provided by (used in) financing activities	5,856	3,573	(2,282)	(100,671)
IV Net increase (decrease) in cash and cash equivalents	1,144	(78,200)	(79,344)	20,979
V Cash and cash equivalents at beginning of period	121,055	142,034	20,979	121,055
VI Cash and cash equivalents at end of period	122,199	63,834	(58,365)	142,034