



# *News Release*

NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION

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FOR IMMEDIATE RELEASE

## **Interim Settlement for Fiscal Year Ending March 31, 2007**

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

(Attachments)

1. Summary of Results
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. Summary of Results

During the six months ended September 30, 2006, the Japanese economy continued to exhibit an overall recovery, with improved corporate earnings and increased capital expenditure.

The telecommunications market is undergoing drastic environmental changes. As customer needs grow more sophisticated and diverse, the market becomes more global and optical fiber broadband access services proliferate, the development of "Triple Play" services that integrate Internet, IP phone, and video capabilities all in one and the convergence of fixed-line communications with mobile communications and telecommunications with broadcasting are accelerating rapidly.

In the dramatically growing broadband market, the first quarterly net decrease in the number of ADSL contracts ever was one of the indications that optical fiber broadband networks are becoming more widespread, and many users are switching from ADSL to the optical fiber broadband access services that deliver large volumes of content at high speeds.

Meanwhile, the business environment in the fixed-line telephone market has become harsher than ever before. Traffic continues to decrease due to the ongoing shift toward mobile phones, the use of optical fiber IP phones has increased significantly, and major developments occur in direct subscriber phone services using dry copper lines.

Against the backdrop of drastic changes in the market and the competitive environment, Nippon Telegraph and Telephone West Corporation (NTT West) has designated fiscal 2006 as a critical year for achieving the NTT West Group Medium-Term Vision, with the goal of "providing optical access services to 15 million users in 2010." The businesses of NTT West and its subsidiaries ("NTT West Group") have been restructured to position optical fiber broadband as NTT West's core business. In an effort to further expand optical fiber broadband services, NTT West has been enhancing the lineup of access line services, developing attractive applications services and content, expanding solution businesses aimed at contributing to the revitalization and development of local communities, and expanding the operations of the entire NTT West Group. In order to facilitate these reforms, NTT West has implemented the following specific measures:

## 1. Development of the Broadband Business

### (1) Expansion of Broadband Access Services

NTT West started its full-scale optical fiber access services in August 2001 with the launch of B-FLET'S. In March 2005, NTT West began offering "FLET'S *HIKARI PREMIUM*", a service that provides high-quality video-telephony using IPv6 technology and security protection as its basic functions. Since then, NTT West has been marketing its Triple Play service, which combines "*HIKARI DENWA*" with video capabilities, in an effort to boost sales.

In order to offer FLET'S services to a wider variety of customers, NTT West has made proactive efforts to expand its lineup of services, including launching "FLET'S *HIKARI PREMIUM Enterprise Type*" in a limited area of Osaka Prefecture. This service, geared toward institutional clients such as corporations, not only responds to user demands for handling increasingly large volumes of data at high speeds but also enables stress-free use of high-quality broadband applications.

In addition, NTT West has implemented a variety of discount programs such as "*HIKARI GUTTO* (significant) DISCOUNT"\*, which offers a special rate for a maximum of one year, and a campaign which offers a free month of service for new customers who sign up for "FLET'S *HIKARI PREMIUM*" or B-FLET'S. Also, customers who sign up for FLET'S ADSL are offered a discount of up to 50% for their first year of service.

To facilitate the connection of large numbers of lines, NTT West has also made efforts to enhance and strengthen its installation system to achieve shorter lead time (from application to line connection) by using the Administrative Quick Response for Optical Service (AQROS) system.

As a result of these efforts, together with increasing demand for security features and video content that can be viewed using "FLET'S *HIKARI PREMIUM*", the number of FLET'S *HIKARI* (a generic term for FLET'S *HIKARI PREMIUM* and B-FLET'S) subscriber lines installed since the service was launched in western Japan exceeded two million. This milestone was achieved just one year after the one million mark had been reached, and five years since the service was launched.

\* "FLET'S *HIKARI PREMIUM* Family Type" is available in Shizuoka, Aichi, Kyoto, Osaka, Hyogo, Hiroshima, and Fukuoka Prefectures.

## (2) Expansion of Broadband Application Services

### (i) Optical IP Phone Services

NTT West has launched "*HIKARI DENWA* Office Type", the newest addition to its existing service lineup of "*HIKARI DENWA*" and "*HIKARI DENWA* Business Type". This service, geared toward small and medium sized offices, offers the use of up to 8 channels and 32 phone numbers.

NTT West has also begun offering a new service called "FAX Notification Email" to "*HIKARI DENWA*" and "*HIKARI DENWA* Office Type" subscribers which notifies subscribers of incoming faxes at their previously designated email addresses and allows them to download and view the faxed content over the Internet. This is a special feature of the IP phone service that takes advantage of the convergence of IP and telephony which would not have been possible using fixed-line telephones.

For "*HIKARI DENWA* Business Type" subscribers, NTT West has launched a service called "Message Recording Function" which operates like an answering machine, allowing callers to leave messages when their calls are not answered. These recorded messages are then sent to the subscriber's email address.

### (ii) IPv6-enabled Application Services

NTT West has introduced the Group Communications Function as a part of the videophone feature of "FLET'S *HIKARI PREMIUM*" and "FLET'S v6 Appli." With this function, the number of possible videophone sites has increased from a maximum of two to four, enabling videophone conferencing across multiple locations.

In response to the growing threat by computer viruses and spyware, NTT West has also stepped up the security features of "FLET'S HIKARI PREMIUM" and "FLET'S v6 Appli", and taken other measures to ensure that users can enjoy the use of their broadband environments with peace of mind.

(iii) Broadband Content Services

In the field of broadband content distribution, NTT West has continued to make efforts to deliver appealing content exclusive to FLET'S services on its "FLET'S SQUARE" website, in collaboration with entertainment companies such as the Takarazuka Revue Company, The Walt Disney Company Japan, Ltd., and The Pokemon Company.

NTT West has also worked at expanding its Triple Play Service for "FLET'S HIKARI PREMIUM" subscribers by forming ongoing alliances with companies such as OptiCast Marketing Inc., which markets a multichannel broadcasting service called "HIKARI PerfectTV!", and On Demand TV, Inc., which offers a video distribution service called "On Demand TV".

(3) Efforts to Improve Optical Fiber Broadband Service Quality

NTT West has set up the "Optical Fiber Broadband Service Quality Improvement Project" at its head office with the objectives of increasing reliability and decreasing response time for troubleshooting of its FLET'S services to ensure that its customers can enjoy the use of optical fiber broadband services with peace of mind. This project involves implementing measures such as installing additional servers and other equipment in order to decentralize the processing function and deliver information to customers in a timely manner.

2. Development of the Solution Business

NTT West has made efforts to further develop its solution business for small and medium sized businesses, in which IT investment is expected to grow rapidly in the future. Many small and medium sized businesses today are concerned about issues such as reducing their communications costs and reinforcing their information security systems. In addition, they face difficulties in setting up and operating information systems due to lack of personnel with adequate IT skills and knowledge. To address these issues, NTT West has begun offering a "Business Solution Package" and set up a "Solution Business Promotion System" at its head and branch offices in order to carry out more proactive development of the solution business.

Thus far, solutions for ensuring business continuity in unforeseen circumstances such as natural disasters or exposure to computer viruses have been developed on an individual basis. In response to the growing interest in BCP (Business Continuity Planning) among corporations and local governments in recent years, NTT West has begun offering a "BCP Total Solution" service for corporations and local governments, in which it sets up an entire system from planning BCP efforts, to implementing systems to managing operations. In addition, NTT West has set up a "BCP Solution Business Promotion System" at its head and branch offices in order to respond to customer needs with higher quality service.

NTT West has also formed an alliance with Tokio Marine & Nichido Fire Insurance Co., Ltd. to offer “Data Center Solution” service which addresses customer needs related to information systems outsourcing and security measures for corporations, local governments and other organizations. The alliance has also launched “Housing Service with Risk Compensation” for clients utilizing housing services at the data centers. This service compensates clients for repair expenses in the event their information systems (hardware) are damaged, and is the first of its kind in the industry.

In addition, NTT West has implemented efforts to help bridge the digital divide. While there are still many areas where demand for optical fiber access services is low, particularly in mountainous areas and remote islands, NTT West has been actively involved in national and local government activities. For example, NTT West has helped to introduce IT in local areas and has proposed ways to utilize IRU\* and subsidies.

In order to create a broadband and ubiquitous society with infinite possibilities to make people’s lives and business more convenient, NTT West has set up the “V6 Premium Forum”. This forum aims to encourage interaction among IT industry businesses and academic institutions in order to develop services of superior quality using IPv6 networks and to establish new markets. Through the forum, NTT West plans to work on creating new business models and markets that utilize the IPv6 network with the aim of contributing to the revitalization and development of western Japan.

\* IRU (Indefeasible Right of User): a long-term usage right which cannot be nullified or terminated without the agreement of the parties involved in the contract or agreement.

### 3. Expansion of NTT West Group Operations

NTT NEOMEIT CORPORATION has begun selling recycled computers on its direct sales website, NEOSTYLE SHOP. The idea behind this business is to prevent data leakage by deleting all data remaining in the hard disks of previously used computers using the “Neo’z NEODELETE” service, and to promote global environmental protection by recycling computers.

NTT NEOMEIT also established its third PC Security Center in western Japan, the Okinawa PC Security Center, in a joint project with NTT-DO (renamed to NTT WEST-OKINAWA CORPORATION). At the PC Security Centers, two of which are already open and operating in Osaka and Shizuoka Prefectures, the complete process of deleting data remaining in IT equipment such as previously leased computers and recycling used computers is carried out in a high security environment.

Meanwhile, NTT MARKETING ACT CORPORATION has formed a business alliance with Japan Staff Leasing Co., Ltd. and Aso Humaney Center Corporation to expand the service area of the job placement support service for members of the business-based SNS (social networking site) called “CA-RA-REER”. Up until now, the service was only available in the Tokyo metropolitan area and Osaka Prefecture, but it has been extended to include all areas of western Japan in response to requests from members located outside the service areas.

NTT SOLMARE CORPORATION has provided services such as a mobile phone comic distribution site called “Comic I”, which allows users to view comics published in weekly and monthly magazines on their mobile phones. Since the introduction of

packet flat-rate services for 3G\* phones, the number of paid content downloads has increased dramatically, reaching 50 million downloads in September 2006, approximately two years after the service was launched.

\* 3G phones: Third generation mobile phones which feature improved sound quality, global roaming, and high-speed data communications capabilities.

#### 4. Review of Business Operations Structure

Anticipating the full-fledged arrival of the age of optical fiber broadband, NTT West conducted a review of its business operations structure from the perspectives of achieving complete market orientation and upgrading service quality. Based on the current trend toward service and network integration in the telecommunications market, the head office has been reorganized according to a function-based business promotion structure that is appropriate for the full-fledged optical fiber and IP era and can handle the optical fiber broadband market in a specialized manner. In addition, organization-wide projects headed up by the Strategy Project Promotion Headquarters were established in order to deal with critical issues flexibly and promptly. At the branch level, a review of the current branch office structure consisting of 16 branches was conducted in order for branches to promote community-based business operations aimed at the further proliferation of optical fiber services. As a result, the number of branches was increased to 30 branches—one for every prefectural zone in the west Japan region. In order to deal with issues related to the dispersed multiple market structure unique to western Japan, Regional Headquarters were also established in Kansai, Tokai, Hokuriku, Chugoku, Shikoku, and Kyushu to carry out appropriate strategies and make adjustments for each area block. In addition, the three local companies (for sales, equipment, and administration) that were located at each of the original 16 branches were integrated into one new local company in order to further improve customer service, including the implementation of flow-through operation for optical fiber-related services.

Looking ahead toward its vision of developing a next-generation network, NTT West has contracted all network business from network construction to operations and maintenance to NTT NEOMEIT CORPORATION. This will make it possible to expand and reinforce the operations and maintenance systems for IP-related services, handle diversified employment styles, and provide improved specialization. In addition, NTT West has outsourced all business related to the Broadband Concierge Center and the 104 (Directory Assistance) Center to NTT MARKETING ACT CORPORATION in order to further improve customer service.

#### 5. Main CSR Promotion Efforts

The NTT West Group places high priority on the implementation of CSR activities. The NTT West Group aims to take advantage of its technology, resources, and Knowledge in the field of telecommunications services to create “social value” for customers, the global environment, and communities; “economic value” for shareholders; and “human value” for employees. In accordance with its basic policy to enhance each of these types of value in order to contribute to the realization of a sustainable society, NTT West has forged ahead with implementing efforts in which all employees strive to raise the overall value of the NTT West Group. In order to promote and establish CSR policies, a CSR Promotion Office and CSR Promotion Committee were set up, executive seminars aimed at raising awareness of CSR as a management strategy were organized, CSR pamphlets and various CSR tools were distributed to all employees, and CSR caravan campaigns were conducted in all regions.

As part of NTT West's CSR efforts, activities aimed at achieving complete compliance and promoting business risk management were conducted. These activities included the implementation of measures to raise awareness of CSR in top management and among employees, such as training sessions for all employees including executives. The NTT West Group also implemented a full-scale campaign to eliminate drunken driving, making all-out efforts to ensure that the policy, "I'll never drive drunk and I'll never allow anyone else to drive drunk" is complied with. The campaign involved activities such as distributing warning information and leaflets to all employees, and asking them to submit pledges.

Since the Law Concerning the Protection of Personal Information went into full effect last year, the need for proper handling of customer information has become more significant than ever. NTT West Group's efforts to enhance protection of customer information have included implementing training sessions for NTT West Group companies on complete data management, checking system logs and access authorization status, conducting sweeping inspections of whether employees' personal home-use computers and other equipment contain company data, and checking employees' level of understanding of the risks of file transfer software through web-based self-evaluation tests.

Furthermore, in order to deepen stakeholders' understanding of NTT West's CSR policies and efforts as well as foster better communication with customers, NTT West Group issued the NTT WEST Group CSR Report 2006 and posted it on the NTT West official website in October 2006.

In addition to the above efforts, the Broadband Disaster Message Board (web 171), which was launched on a trial basis in August 2005 as an Internet version of the Disaster Emergency *Dengon* (Message) Dial (171) service, was put into full operation in October 2006 following the completion of functional improvements based on customer comments and other information obtained during the trial phase. This service is a tool to help people to confirm the safety of their families, relatives, and friends located in affected regions during major disasters.

In addition, NTT West waived the basic telephone charges per day for customers who were unable to use their telephones for over 24 hours due to building damage caused by heavy rains and for customers who had no access to their telephones for over 24 hours due to evacuation orders or advisories. NTT West also waived telephone installation charges such as reinstallation fees for customers who were forced to move from damaged buildings to temporary housing.

NTT West has provided universal service in accordance with the NTT Law [define]. Although the business conditions for fixed-line telephone services have become increasingly harsh, NTT West plans to continue to make efforts to offer fair and stable universal service in the future.

As a result of the above measures, the results of our principal services as of September 30, 2006 were as follows: the number of FLET'S HIKARI lines installed totaled 2.12 million; the number of FLET'S ADSL installations came to 2.64 million; in INS-Net services, the number of INS-Net 64 lines installed totaled 3.38 million; and the number of subscriber telephone lines installed stood at 22.84 million.

Operating revenue, recurring profit, and net profit for the first six-month of the fiscal year ended September 30, 2006 amounted to 959.8 billion yen, 19.3 billion yen, and 12.6 billion yen, respectively.

## **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)
<b><u>ASSETS</u></b>			
<b>Fixed assets:</b>			
Fixed assets-telecommunications businesses			
Property, plant and equipment	2, 920, 831	2, 908, 237	(12, 594)
Machinery and equipment	606, 429	620, 470	14, 040
Antenna facilities	10, 514	10, 268	(246)
Terminal equipment	29, 877	28, 420	(1, 456)
Local line facilities	829, 435	837, 306	7, 870
Long-distance line facilities	7, 198	6, 729	(468)
Engineering facilities	631, 497	626, 356	(5, 141)
Submarine line facilities	4, 542	4, 096	(445)
Buildings	520, 264	506, 588	(13, 675)
Construction in progress	37, 085	28, 905	(8, 180)
Other	243, 986	239, 095	(4, 891)
Intangible fixed assets	99, 788	104, 224	4, 436
Total fixed assets-telecommunications businesses	3, 020, 619	3, 012, 461	(8, 157)
Investments and other assets			
Deferred income taxes	360, 666	335, 863	(24, 803)
Other investments and assets	83, 449	86, 344	2, 894
Allowance for doubtful accounts	(1, 638)	(1, 569)	68
Total investments and other assets	442, 478	420, 638	(21, 840)
Total fixed assets	3, 463, 098	3, 433, 100	(29, 997)
<b>Current assets:</b>			
Cash and bank deposits	90, 274	65, 624	(24, 650)
Notes receivable	4	92	87
Accounts receivable, trade	333, 158	347, 038	13, 880
Supplies	39, 094	37, 534	(1, 559)
Other current assets	58, 431	93, 726	35, 294
Allowance for doubtful accounts	(2, 233)	(2, 495)	(262)
Total current assets	518, 729	541, 521	22, 791
<b>TOTAL ASSETS</b>	<b>3, 981, 828</b>	<b>3, 974, 621</b>	<b>(7, 206)</b>



(Millions of yen)

	March 31, 2006	September 30, 2006	Increase (Decrease)
<b><u>LIABILITIES</u></b>			
Long-term liabilities:			
Long-term borrowings from parent company	1, 058, 132	1, 142, 410	84, 277
Liability for employees' retirement benefits	632, 917	607, 639	(25, 277)
Other long-term liabilities	12, 690	12, 776	86
Total long-term liabilities	1, 703, 740	1, 762, 826	59, 086
Current liabilities:			
Current portion of long-term borrowings from parent company	193, 746	130, 608	(63, 138)
Accounts payable, trade	133, 973	87, 638	(46, 335)
Short-term borrowings	—	30, 000	30, 000
Accrued taxes on income	1, 101	860	(240)
Other current liabilities	396, 702	429, 048	32, 346
Total current liabilities	725, 524	678, 155	(47, 368)
<b>TOTAL LIABILITIES</b>	<b>2, 429, 264</b>	<b>2, 440, 982</b>	<b>11, 717</b>
<b><u>SHAREHOLDERS' EQUITY</u></b>			
Common stock	312, 000	—	—
Capital surplus			
Additional paid-in capital	1, 170, 054	—	—
Total capital surplus	1, 170, 054	—	—
Earned surplus			
Unappropriated retained earnings for the period	70, 112	—	—
Total earned surplus	70, 112	—	—
Net unrealized gains (losses) on securities	396	—	—
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1, 552, 563</b>	<b>—</b>	<b>—</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3, 981, 828</b>	<b>—</b>	<b>—</b>

(Millions of yen)

	March 31, 2006	September 30, 2006	Increase (Decrease)
<b><u>NET ASSETS</u></b>			
Shareholders' equity			
Common stock	—	312,000	—
Capital surplus			
Additional paid-in capital	—	1,170,054	—
Total capital surplus	—	1,170,054	—
Earned surplus			
Other earned surplus	—	51,460	—
Accumulated earned surplus	—	51,460	—
Total earned surplus	—	51,460	—
Total shareholders' equity	—	1,533,514	—
Unrealized gains (losses), translation adjustments, and others			
Net unrealized gains (losses) on securities	—	124	—
Total unrealized gains (losses), translation adjustments, and others	—	124	—
<b>TOTAL NET ASSETS</b>	—	1,533,639	—
<b>TOTAL LIABILITIES AND NET ASSETS</b>	—	3,974,621	—

### 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	933, 491	895, 641	(37, 850)	1, 860, 339
Operating expenses	905, 843	882, 747	(23, 095)	1, 823, 115
Operating income from telecommunications businesses	27, 648	12, 894	(14, 754)	37, 223
Supplementary businesses				
Operating revenues	71, 508	64, 206	(7, 301)	169, 287
Operating expenses	73, 080	64, 186	(8, 893)	174, 470
Operating income (losses) from supplementary businesses	(1, 571)	20	1, 592	(5, 183)
Operating income	26, 076	12, 914	(13, 162)	32, 040
Non-operating revenues:	26, 528	26, 304	(223)	66, 633
Interest income	2	2	0	6
Lease and rental income	23, 417	23, 679	262	46, 459
Miscellaneous income	3, 108	2, 622	(485)	20, 168
Non-operating expenses:	21, 930	19, 845	(2, 084)	42, 173
Interest expenses	8, 399	8, 941	541	17, 273
Lease and rental expenses	10, 937	8, 923	(2, 013)	21, 239
Miscellaneous expenses	2, 593	1, 980	(612)	3, 660
Recurring profit	30, 674	19, 373	(11, 300)	56, 500
Special profits and losses	2, 674	1, 532	(1, 141)	18, 188
Income before Income taxes	33, 348	20, 906	(12, 442)	74, 689
Corporation, inhabitant, and enterprise taxes	(23, 764)	(17, 809)	5, 955	10, 534
Deferred tax expenses (benefits)	37, 994	26, 112	(11, 881)	31, 456
Net income	19, 118	12, 602	(6, 516)	32, 697
Unappropriated retained earnings brought forward	37, 415	—	—	37, 415
Unappropriated retained earnings for the period	56, 534	—	—	70, 112

#### 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	Total earned surplus				
				Accumulated earned surplus					
March 31, 2006	312,000	1,170,054	1,170,054	70,112	70,112	1,552,166	396	396	1,552,563
Net change during this semi-annual period									
Cash dividends				(31,200)	(31,200)	(31,200)			(31,200)
Bonuses paid to directors and corporate auditors				(55)	(55)	(55)			(55)
Net income				12,602	12,602	12,602			12,602
Others,net							(271)	(271)	(271)
Total net change during this semi-annual period	—	—	—	(18,652)	(18,652)	(18,652)	(271)	(271)	(18,924)
September 30, 2006	312,000	1,170,054	1,170,054	51,460	51,460	1,533,514	124	124	1,533,639

## **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)	643, 377	583, 844	(59, 533)	(9. 3%)	1, 259, 541
Monthly charge revenues*	395, 162	368, 569	(26, 593)	(6. 7%)	780, 312
Call rates revenues*	93, 506	77, 722	(15, 784)	(16. 9%)	179, 099
Interconnection call revenues*	108, 223	96, 888	(11, 335)	(10. 5%)	210, 827
IP services revenues	108, 744	140, 470	31, 726	29. 2%	229, 572
Leased circuit services revenues (excluding IP services revenues)	85, 057	82, 348	(2, 708)	(3. 2%)	171, 695
Telegram services revenues	14, 391	13, 222	(1, 169)	(8. 1%)	29, 806
Other telecommunications services revenues	81, 921	75, 756	(6, 165)	(7. 5%)	169, 721
Telecommunications total revenues	933, 491	895, 641	(37, 850)	(4. 1%)	1, 860, 339
Supplementary business total revenues	71, 508	64, 206	(7, 301)	(10. 2%)	169, 287
Total operating revenues	1, 005, 000	959, 848	(45, 151)	(4. 5%)	2, 029, 626

\*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
<b>I Cash flows from operating activities:</b>				
Income before income taxes	33,348	20,906	(12,442)	74,689
Depreciation and amortization	215,325	222,813	7,488	435,236
Loss on disposal of property, plant and equipment	14,905	9,204	(5,700)	27,308
Increase (decrease) in liability for employees' retirement benefits	(14,870)	(25,277)	(10,407)	(77,173)
(Increase) decrease in accounts receivable	66,218	(19,448)	(85,667)	49,638
(Increase) decrease in inventories	(378)	1,559	1,938	(4,261)
Increase (decrease) in accounts payable and accrued expenses	(137,342)	(81,659)	55,683	(48,685)
(Increase) decrease in accounts consumption tax receivable	62	2,805	2,743	(2,743)
Increase (decrease) in accrued consumption tax	1,693	2,979	1,285	—
Other	(19,977)	(18,156)	1,821	8,416
Sub-total	158,984	115,727	(43,257)	462,426
Interest and dividends received	162	125	(37)	14,267
Interest paid	(8,955)	(9,021)	(66)	(17,326)
Income taxes received (paid)	57,480	(8,012)	(65,493)	54,661
Net cash provided by (used in) operating activities	207,673	98,818	(108,854)	514,029
<b>II Cash flows from investing activities:</b>				
Payments for property, plant and equipment	(241,052)	(235,796)	5,255	(476,274)
Proceeds from sale of property, plant and equipment	3,717	12,563	8,845	15,264
Payments for purchase of investment securities	(1,165)	(2,913)	(1,748)	(49,646)
Proceeds from sale of investment securities	2,148	339	(1,808)	2,244
Other	253	(750)	(1,004)	(2,375)
Net cash provided by (used in) investing activities	(236,098)	(226,557)	9,540	(510,787)
<b>III Cash flows from financing activities:</b>				
Proceeds from issuance of long-term debt	96,707	120,000	23,292	196,685
Payments for settlement of long-term debt	(68,043)	(98,861)	(30,817)	(200,090)
Net increase (decrease) in short-term borrowings	23,000	105,000	82,000	3,000
Dividends paid	(31,200)	(31,200)	—	(31,200)
Net cash provided by (used in) financing activities	20,463	94,938	74,475	(31,605)
<b>IV Net increase (decrease) in cash and cash equivalents</b>	(7,961)	(32,800)	(24,839)	(28,364)
<b>V Cash and cash equivalents at beginning of period</b>	128,920	100,556	(28,364)	128,920
<b>VI Cash and cash equivalents at end of period</b>	120,959	67,756	(53,203)	100,556

## Non-Consolidated Semi-annual Financial Results for the Year Ending March 31, 2007

April 1, 2006 — September 30, 2006  
(Based on accounting principles generally accepted in Japan)

### 【Operating Results】

(Billions of Yen)

Details	Six Months Ended Sept. 30, 2006	Six Months Ended Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Operating Revenues	959.8	1,005.0	(45.1)	(4.5%)
Operating Expenses	946.9	978.9	(31.9)	(3.3%)
Operating Income	12.9	26.0	(13.1)	(50.5%)
Non-Operating Income	6.4	4.5	1.8	40.5%
Recurring Profit	19.3	30.6	(11.3)	(36.8%)
Special Profits	1.5	2.6	(1.1)	(42.7%)
Income before Income Taxes	20.9	33.3	(12.4)	(37.3%)
Income Taxes	8.3	14.2	(5.9)	(41.6%)
Net Income	12.6	19.1	(6.5)	(34.1%)

### 【Forecasts for the Year Ending March 31, 2007】

(Billions of Yen)

Details	Operating Revenues	Operating Income	Recurring Profit	Net Income
Forecasts for the Year Ending March 31, 2007	1,974.0	22.0	30.0	17.0

## 【Breakdown of Operating Revenues and Operating Expenses】

### (1) Operating Revenues

(Billions of Yen)

Service	Six Months Ended Sept. 30, 2006	Six Months Ended Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Voice Transmission Services Revenues (excluding IP Services Revenues)	583.8	643.3	(59.5)	(9.3%)
Monthly Charge Revenues*	368.5	395.1	(26.5)	(6.7%)
Call Rates Revenues*	77.7	93.5	(15.7)	(16.9%)
Interconnection Call Revenues*	96.8	108.2	(11.3)	(10.5%)
IP Services Revenues	140.4	108.7	31.7	29.2%
Leased Circuit Services Revenues (excluding IP Services Revenues)	82.3	85.0	(2.7)	(3.2%)
Telegram Services Revenues	13.2	14.3	(1.1)	(8.1%)
Other Telecommunications Services Revenues	75.7	81.9	(6.1)	(7.5%)
Supplementary Business Total Revenues	64.2	71.5	(7.3)	(10.2%)
<b>Total</b>	<b>959.8</b>	<b>1,005.0</b>	<b>(45.1)</b>	<b>(4.5%)</b>

\* Partial listing only

Note: "Voice Transmission Services Revenues" represent the total of telephone revenues and ISDN revenues.

### (2) Operating Expenses

(Billions of Yen)

Details	Six Months Ended Sept. 30, 2006	Six Months Ended Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Personnel	68.5	90.5	(21.9)	(24.3%)
Purchase of goods and services	604.1	618.8	(14.6)	(2.4%)
Depreciation and amortization	218.8	210.5	8.2	3.9%
Retirement of fixed assets	19.1	22.6	(3.4)	(15.3%)
Miscellaneous Taxes	36.1	36.3	(0.1)	(0.4%)
<b>Total</b>	<b>946.9</b>	<b>978.9</b>	<b>(31.9)</b>	<b>(3.3%)</b>



**【Assets, Liabilities and Shareholders' Equity】**

(Billions of Yen)

Details	Sept. 30, 2006	March. 31, 2006	Increase (Decrease)	Percent Increase (Decrease)
Fixed Assets	3,433.1	3,463.0	(29.9)	(0.9%)
Current Assets	541.5	518.7	22.7	4.4%
Total Assets	3,974.6	3,981.8	(7.2)	(0.2%)
Long-Term Liabilities	1,762.8	1,703.7	59.0	3.5%
Current Liabilities	678.1	725.5	(47.3)	(6.5%)
Total Liabilities	2,440.9	2,429.2	11.7	0.5%
Interest-Bearing Debts*	1,423.0	1,296.8	126.1	9.7%
Total Net Assets	1,533.6	1,552.5	(18.9)	(1.2%)
Total of Liabilities and Net Assets	3,974.6	3,981.8	(7.2)	(0.2%)

\* Partial listing only

**【Cash Flows】**

(Billions of Yen)

Details	Six Months Ended Sept. 30, 2006	Six Months Ended Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Cash Flows from Operating Activities	98.8	207.6	(108.8)	(52.4%)
Cash Flows from Investing Activities	(226.5)	(236.0)	9.5	4.0%
Cash Flows from Financing Activities	94.9	20.4	74.4	363.9%
Cash and Cash Equivalents at Beginning of Period	100.5	128.9	(28.3)	(22.0%)
Cash and Cash Equivalents at End of Period	67.7	120.9	(53.2)	(44.0%)

## 【Reference】

### 1.Number of Subscriber Lines

Details		Sept. 30, 2006	Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
	Number of Telephone Subscriber Lines (1,000)	22,866	24,742	(1,877)	(7.6%)
	Number of ISDN Subscriber Lines (1,000)	3,589	3,898	(308)	(7.9%)
Number of Subscriber Lines		26,455	28,640	(2,185)	(7.6%)

Notes: 1. "Number of Telephone Subscriber Lines" is the total of individual lines and central station lines (Analog Lite Plan is included).

2. Since, in terms of number of channels, transmission rate, and line use rate (base rate), INS-Net 1500 is in all cases roughly ten times greater than INS-Net 64, one INS-Net 1500 subscriber is calculated as ten INS-Net 64 subscribers (INS-Net 64 Lite Plan is included).

### 2.Number of IP-related Services Subscribers

Details		Sept. 30, 2006	Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Number of FLET'S HIKARI Subscribers (1,000)		2,118	1,055	1,063	100.8%
Number of Hikari Denwa Channel (1,000)		934	40	895	23.5 times
Number of FLET'S ADSL Subscribers (1,000)		2,643	2,605	38	1.5%

### 3.Number of Employees

(Employees)

Details		Sept. 30, 2006	Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Number of Employees		5,900	13,050	(7,150)	(54.8%)

### 4.Capital Investments

(Billions of Yen)

Details		Six Months Ended Sept. 30, 2006	Six Months Ended Sept. 30, 2005	Increase (Decrease)	Percent Increase (Decrease)
Capital Investments		227.1	216.0	11.0	5.1%