

### Exchange Rate Data

The following table shows the exchange rates for Japanese yen per \$1.00 based upon the noon buying rate in New York City for cash transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

<u>Fiscal Year ended March 31,</u>	<u>High</u>	<u>Low</u>	<u>Average (1)</u>	<u>Period-end</u>
2001	¥125.54	¥104.19	¥ 110.60	¥ 125.54
2002	134.77	115.89	125.64	132.70
2003	133.40	115.71	121.10	118.07
2004	120.55	104.18	112.94	104.18
2005	114.30	102.26	107.28	107.22
<u>Calendar Year 2004</u>				
December	105.59	102.56	103.81	102.68
<u>Calendar Year 2005</u>				
January	104.93	102.26	103.34	103.55
February	105.84	103.70	104.94	104.25
March	107.49	103.87	105.25	107.22
April	108.67	104.64	107.19	104.64
May	108.17	104.41	106.60	107.97
June (through June 21, 2005)	109.58	106.64	108.34	108.52

(1) For fiscal years, calculated from the average of the exchange rates on the last day of each month during the period. For calendar year months, calculated based on the average of daily closing exchange rates.

We have translated selected Japanese yen amounts presented in this annual report solely for your convenience. The rate we used for such translations was \$1.00 = ¥107.22, which was the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2005. The noon buying rate for Japanese yen on June 21, 2005 was \$1.00 = ¥108.52.

#### B. Capitalization and Indebtedness.

Not applicable.

#### C. Reasons for the Offer and Use of Proceeds.

Not applicable.

#### D. Risk Factors

##### Risks Relating to Our Business and the Japanese Wireless Telecommunications Industry

***Increasing competition from other service providers and other technologies may limit our acquisition of new subscribers and retention of existing subscribers, may suppress ARPU and may increase our costs and expenses.***

We are experiencing increasing competition from other service providers. For example, other cellular service providers have also introduced new products and new services, including 3G handsets, global-positioning system compatible handsets and global roaming services. Also, there are other cellular service providers that provide communication services based on technologies different from W-CDMA, which we have adopted for our 3G FOMA service, that currently provide faster data transmission speeds than our 3G services. Also, there are providers that now offer or may in the future offer services, such as combined billing and aggregated point

programs in conjunction with fixed line communications, which may be more convenient for customers. Furthermore, other companies may enter the cellular service industry, in which case more severe competition may arise.

On the other hand, there may be increased competition due to the introduction of other new services and technologies, especially low priced and flat-rate services, fixed line or mobile IP phones, high-speed fixed line broadband Internet service and digital broadcasting and wireless LAN or an integration of these services.

In addition to competition from other service providers and technologies, there are other factors increasing competition among mobile communications providers in Japan, such as saturation in the Japanese cellular market, changes in the regulatory environment and increased rate competition. Recently, there have been changes in the regulatory environment such as the granting of rate setting rights to intermediate communication providers (including fixed line service providers) for calls from fixed line to mobile phones, and with the amendment of the Telecommunications Business Law, rate setting by individual contract, as opposed to fixed form contracts, in the corporate market. As a result, rate competition may increase.

Under such circumstances, the number of new subscribers we acquire may continue to decline in the future and may not reach the number we expect. Also, in addition to difficulty in acquiring new subscribers, we may not be able to maintain existing subscribers at expected levels, due to increased competition among cellular service providers in the areas of rates and services. Furthermore, as a result of severe competition for acquisition of subscribers, we may need to incur higher costs than we expected, such as commissions paid to sales agents and other expenses.

In this severely competitive environment, in order to provide various advanced services and increase user convenience, we have made various rate revisions, such as the expansion of "family discounts" from April 1, 2004 and the introduction of Pake-Hodai, meaning "as much as you want", a flat-rate packet communication service for 3G subscribers. However, we cannot be certain whether these measures will enable us to acquire new and maintain existing subscribers. Furthermore, if the trend of subscribers using "family discounts" and switching to flat-rate services increases more than we expect, our ARPU may decrease more than we expect, which may have a material adverse affect on our financial condition and results of operation.

***If the new services and forms of usage which we propose and introduce are not successful, our growth may be constrained.***

We view the expansion of AV traffic such as TV phone via 3G handsets, the development and penetration of new services useful in everyday life and business through i-mode FeliCa and other services and technologies and increased revenue through the expansion of data communications as important to our future growth. However, a number of uncertainties may arise to prevent the development of these services and constrain our growth. In particular, we cannot be certain that:

- we will be able to find the partners or content providers needed to provide the new services and forms of usage we are introducing and persuade a sufficient number of shops to use i-mode FeliCa readers;
- we will be able to provide planned new services and forms of usage as scheduled and keep costs needed for the penetration and expansion of such services within budget;
- the services we offer and plan to offer will be attractive to current and potential subscribers and there will be sufficient demand for such services;
- manufacturers and content providers will create and offer products, including handsets for our 3G system and handsets and contents for our 3G i-mode service at an appropriate price and on a timely basis;
- our current or future data communication services including i-mode and other services will be attractive to existing and potential subscribers and achieve continued or new growth;

## Table of Contents

- demand in the market for mobile handset functionality will be as we expect and as a result, our handset procurement costs will be reduced; and
- we will be able to commence services with improved data communication speed enabled by HSDPA (High Speed Downlink Packet Access, a high speed packet communication technology utilizing W-CDMA) technology as we plan.

If the development of our new services or forms of usage is limited, it may have a material affect on our financial condition and results of operations.

***The introduction or change of various laws or regulations or the application of such laws or regulations to us could have an adverse effect on our financial condition and results of operations.***

The Japanese telecommunications industry has been undergoing regulatory reform in many areas including rate regulation. Because we operate on radio spectrum allocated by the government, the mobile telecommunications industry in which we operate is particularly affected by the regulatory environment. Various governmental bodies have been recommending or considering changes that could affect the mobile telecommunications industry, and there may be continued reforms including the introduction or revision of laws or regulations that could have an adverse effect on us. These include:

- revision of the spectrum allocation system such as reallocation of spectrum and introduction of an auction system;
- measures to open up Internet platforms and segment platform functions such as authentication and payment collection to other operators;
- rules that could require us to open our i-mode service to all content providers and Internet service providers or that could prevent us from setting or collecting i-mode content fees or putting i-mode service on cellular phone handsets as an initial setting;
- measures to enhance competition that would restrict our business operations in the mobile telecommunications industry;
- regulation to prohibit or restrict certain content or transactions, or mobile Internet services such as i-mode; and
- measures which would introduce new costs such as the designation of mobile phone communications as a universal service which would require us to provide service in all regions in Japan and other changes to the current universal service fund system.

It is difficult to predict with certainty if any of the above changes will be proposed to the relevant laws and regulations and, if they are made, the extent to which our business will be affected. However, the implementation of one or more of the changes described above, or other changes to laws and regulations, could materially affect our financial condition and results of operations.

***The introduction of mobile number portability in Japan may increase our expenses, and may lead to a decrease in the number of our subscribers if our subscribers choose to switch to other cellular service providers.***

According to a report by a working group under the Ministry of Internal Affairs and Communications (formerly known as Ministry of Public Management, Home Affairs, Posts and Telecommunications, or MPHPT,), or MIC, issued in April 2004, many overseas countries have already introduced number portability for mobile phones with the purpose of improving convenience for users and promoting competition among mobile telecommunications providers. In those countries, as subscribers to mobile telephones can switch operators without changing their phone numbers, they can switch operators more easily. The report and guidelines indicated by MIC in May 2004 suggested that number portability for mobile phones be introduced in Japan by around fiscal 2006.

---

## Table of Contents

It is very difficult to predict at present what effect the introduction of number portability for mobile phones would have on our number of subscribers and revenue and expense, as it will depend on the services and rates set by each cellular service provider before and after the introduction. It will be an opportunity to acquire new subscribers due to increased fluidity of subscribers, while on the other hand, it may lead to a decrease in our subscribers if some of our subscribers decide to switch to another operator. We may not be able to recover the costs we estimated for the introduction of number portability for mobile telephones, we may experience increased costs in relation to the acquisition and maintenance of subscribers and our ARPU may decrease with further rate competition, which could materially affect our financial condition and results of operations.

***Limitations on the amount of frequency spectrum and facilities available to us may make it difficult for us to maintain and improve the quality of our services and the level of our customer satisfaction.***

One of the principal limitations on a cellular communication network's capacity is the available radio frequency spectrum it can use. We have limited spectrum and facilities available to us to provide our services. As a result, in certain parts of metropolitan Tokyo and Osaka, such as areas near major train stations, our cellular communication network operates at or near the maximum capacity of its available spectrum during peak periods, which may cause reduced service quality. In addition, the quality of the services we provide may also decrease due to the limited processing capacity of our base stations and switching facilities during peak usage periods, if our subscriber base dramatically increases or the volume of content such as images and music provided through our i-mode service is significantly expanded. Also, in relation to our 3G service and packet communication flat fee service for 3G i-mode, an increase in the number of subscribers and traffic volume by such subscribers may go substantially beyond our projections, we may not be able to process such traffic with our existing facilities and our quality of service may decline.

Furthermore, with an increasing number of subscribers and traffic volume, our quality of service may decline if we cannot get the necessary allocation of spectrum from the government for the smooth operation of our business.

We may not be able to avoid reduced quality of services despite our continued efforts to improve the efficiency of our use of spectrum through technology and to acquire new spectrum. If we are not able to successfully address such problems in a timely manner, we may experience constraints on the growth of our mobile communications services or lose subscribers to our competitors, which may materially affect our financial condition and results of operations.

***We cannot guarantee overseas operators will introduce the W-CDMA technology and mobile multimedia services we currently use in our 3G system, which would adversely affect our ability to offer our international services to our subscribers.***

For our 3G system, we currently use Wideband Code Division Multiple Access, or W-CDMA, technology. W-CDMA technology is one of the global standards for cellular telecommunications technology approved by the International Telecommunications Union, or ITU, as part of its efforts to standardize 3G cellular technology through the issuance of guidelines known as IMT-2000. We may be able to offer our services, such as global roaming, on a worldwide basis if enough other mobile operators adopt handsets and network facilities based on W-CDMA standard technology which are compatible with ours. We expect that the companies we have invested in overseas, our overseas strategic partners and many other mobile operators will adopt this technology.

Also, we have technology alliances with overseas operators in relation to i-mode service and we are aggressively promoting the spread and expansion of i-mode service by overseas operators.

However, if a sufficient number of other mobile operators do not adopt W-CDMA technology or there is a delay in the introduction of W-CDMA technology, we may not be able to offer global roaming services as expected and we may not be able to offer our subscribers the convenience of overseas service.

## Table of Contents

If, in addition to insufficient expansion of W-CDMA technology abroad, the number of i-mode subscribers among our strategic partners and usage of i-mode service overseas does not advanced sufficiently, we may not realize the benefits of economies of scale we currently expect in terms of timely production of handsets and contents designed for our services at appropriate prices and purchasing power for network facilities. Also, we cannot be sure that handset manufacturers or manufacturers of network equipment will be able to appropriately and promptly adjust their handsets and network equipment if we need to change the handsets or network we currently use due to a change in W-CDMA technology as a result of activities conducted by standard-setting organizations.

If W-CDMA technology and i-mode services do not develop as we expect, and we are not able to improve the quality of our overseas services or enjoy the benefits of global economies of scale, that may have an adverse effect on our financial condition and results of operations.

***We cannot guarantee that our domestic and international investments, alliances and collaborations and investments in new businesses will produce sufficient opportunities or returns.***

One of the major components of our strategy is to increase our corporate value through domestic and overseas investments, alliances and collaborations. We have entered into alliances and collaborations with other companies and organizations overseas which we believe could help us achieve this objective. We are also promoting this strategy by investing, entering into alliances with and collaborating with domestic companies and investing in new business areas. However, there can be no assurance that we will be able to maintain or enhance the value or performance of our past or future investments, or that we will receive the returns or benefits we expect from these investments, alliances and collaborations. Our investments in new business areas outside of the mobile telecommunication business may be accompanied by challenges beyond our expectations, as we have little experience in such new areas of business.

In recent years, telecommunications companies, mobile operators, and the companies in which we have invested have experienced a variety of negative developments, including severe competition, increased debt burdens, significant volatility in share prices and financial difficulties. To the extent that these investments are accounted for by the equity method and to the extent that the investee companies have net losses, our financial results will be adversely affected by our pro rata portion of these losses. If there is a loss in the value of our investment in any investee company and such loss in value is other than a temporary decline, we may be required to adjust the book value and recognize an impairment loss for such investment. Also, a business combination or other similar transaction involving any of our investee companies could require us to realize impairment loss for any decline in the value of investment in such investee company. In either event, our financial condition or results of operations could be materially adversely affected.

***Our PHS business, which is expected to operate a loss until the termination of services, may incur greater losses than we project.***

As our PHS business continued to lose subscribers and experienced increasing operating losses, we ceased accepting new PHS subscribers at the end of April 2005 in order to concentrate our management resources on our "FOMA" services. We will consider termination of PHS services while monitoring usage by subscribers. Also, taking into account the trends in our PHS business, we recognized an impairment loss of ¥60.4 billion related to the business for the year ended March 31, 2005.

We expect continued operating losses from the PHS business. However, PHS service related losses may be greater than we expect as we are offering incentives for existing PHS subscribers to transfer to our "FOMA" service and the trend of contracts transferring to "FOMA" service or another operator may adversely affect the results of our PHS business, with adverse effects on our financial condition and results of operations.

***As electronic payment capabilities and many other new features are built into our cellular handsets, and the services of third parties are provided through our cellular handsets, problems may arise in the event that handsets malfunction, contain defects, are lost or fail to complete services provided by other operators.***

Various functions are mounted on the mobile handsets we provide, and if we cannot appropriately deal with technological problems that may arise with respect to current or future handsets or the malfunction or loss of handsets, our credibility may decline and our corporate image may be damaged, leading to an increase in contract cancellations or an increase in expenses for indemnity payments to subscribers and our financial condition or results of operations may be affected. New issues may arise which are different from those related to mobile communications services which we have been providing, especially with i-mode handsets with FeliCa capabilities that can be used for electronic payment transactions. Events that may lead to a decrease in our credibility and corporate image include the following:

- Breakdown, defect and malfunction of our handsets;
- Loss of information, e-money or points due to a breakdown of handsets or other factors;
- Illegal use of information, e-money and points by third parties due to a loss or theft of handsets;
- Illegal access to and use of user records and balances accumulated on handsets by third-parties; and
- Inadequate and inappropriate management of e-money or points by companies with which we make alliances or collaborate.

***Social issues that may arise from misuse or misunderstanding of our products and services may adversely affect our credibility or corporate image.***

We may face an increase in cancellations of existing subscriptions and difficulty in acquiring new subscribers, due to decreased credibility of our products and services and damaged corporate image caused by inappropriate use of our products and services by unscrupulous subscribers.

Unsolicited bulk e-mail, for instance, is a problem for our i-mode service. Despite our extensive efforts to address this issue to protect our subscribers from incurring any economic disadvantage caused by unsolicited bulk e-mails, including providing i-mode subscribers with up to 400 packets per month of free packet-data communication and pursuing actions against companies which distribute large amounts of such unsolicited bulk emails, the problem has not yet been rooted out. Also, recently, a different kind of unsolicited bulk e-mail using "short-mail" and "SMS" services we provide in addition to i-mode, is becoming an issue. If our subscribers receive a large amount of unsolicited e-mails, it may cause a decrease in customer satisfaction and damage our corporate image, leading to a reduction in the number of our i-mode subscribers.

Recently, there has been an increase in the use of mobile phones in crimes such as "it's me" fraud, in which callers request an emergency bank remittance pretending to be a relative. To combat these misuses of our services, we have introduced various measures such as more strict identification confirmation at points of purchase and ended new contracts for pre-paid mobile phones as of the end of March 2005 because pre-paid mobile phones are easier to use in crimes. However, in the event criminal usage increases, mobile phones may be regarded as a problem and lead to an increase in cancellation of contracts.

In addition, as our handsets and services become more sophisticated, new issues may arise when subscribers are charged fees for packet communication at levels higher than they are aware of as a result of using handsets without fully recognizing over use of packet communication in terms of frequency and volume. Also, inappropriate use of our mobile handsets with built-in camera has become a social issue such as taking photos of an article from a magazine in a bookstore or taking pictures at art galleries and museums where picture taking is prohibited. Furthermore, there are issues concerning manners for phone usage in public places such as in trains and an increase in car accidents caused by the use of mobile phones while driving. These issues may similarly damage our corporate image.

---

## Table of Contents

To date, we believe we have properly addressed these social issues surrounding mobile phones. However, it is uncertain whether we will be able to continue addressing those issues appropriately in the future as well and when we fail to do so, we may experience an increase in cancellation of existing subscriber contracts or fail to acquire new subscribers as expected and it may affect our financial condition and results of operations.

***Inappropriate handling of subscriber information by our employees or subcontractors would damage our credibility and corporate image.***

In April 2005, the Law Concerning the Protection of Personal Information (the "Personal Information Protection Law") came into force and protection of personal information became an important issue at companies which handle personal information. We hold information on our millions of subscribers, and to appropriately and promptly address the Personal Information Protection Law, we have set up an "information security department" to put in place comprehensive security management across the company, such as thorough management of subscriber information, employee education, supervision of subcontractors and by strengthening technological security.

However, in the event an information leak occurs despite these security measures, our credibility may be significantly damaged and we may experience an increase in cancellation of subscriber contracts, an increase in indemnity cost and slower increase in additional subscribers and our financial condition and results of operations may be adversely affected.

***Earthquakes, power shortages, malfunction of facilities, software bugs and viruses or cyberattacks may cause system failures in our cellular network, handsets or other networks required for the provision of service, disrupting our ability to offer our services to our subscribers.***

We have built a nationwide network including base stations, antennas, switching centers and transmission lines and provide mobile communication service using this network. In order to operate our network systems in a safe and stable manner, we have various measures in place, such as duplicate systems. However, despite these measures, our system could fail for various reasons including hardware problems, network damage caused by earthquakes, power shortages, typhoons, floods, terrorism and similar phenomenon and events. These system failures can require an extended time for repair and as a result, it may lead to decreased revenue and increased repair costs and our financial condition and results of operations may be adversely affected.

There have been instances in which millions of computers worldwide were infected by viruses through the Internet. Similar incidents could occur on our mobile communications network. If such a virus entered our network or handsets, our system could fail and our mobile phones become unusable. In such an instance, the credibility of our network and customer satisfaction could decrease significantly. Although we have enhanced our security system to block unauthorized access and remote downloading in order to provide for unexpected events, such precautions may not make our system fully prepared for every event.

In the event we are unable to properly respond to any such events, our credibility may be reduced, and we may experience a decrease in revenues as well as significant repair cost expenses which may affect our financial condition and results of operations. Additionally, our network could be affected by software bugs or human errors which are not the result of malfeasance, but also result in a system failure.

***Concerns about adverse effect on health by wireless telecommunications may increase.***

Media and other reports have suggested that electric wave emissions from wireless handsets and other wireless equipment may adversely affect the health of mobile phone users and others, including by causing cancer and vision loss and interfering with various electronic medical devices, including hearing aids and pacemakers, and also may present increased health risks for users who are children. While these reports have not been conclusive, and although the findings in such reports are disputed, the actual or perceived risk of wireless

telecommunications devices to the health of users could adversely affect us through increased cancellation by existing subscribers, reduced subscriber growth, reduced usage per subscriber, reduced financing available to us or litigation, and may also potentially adversely affect our corporate image, financial condition and results of operations. The perceived risk of wireless devices may have been elevated by certain wireless carriers and handset manufactures affixing labels to their handsets showing levels of electric wave emissions or warnings about possible health risks. Research and studies are ongoing and we are actively attempting to confirm the safety of wireless telecommunications, but there can be no assurance that further research and studies will not demonstrate a relation between electric wave emissions and health problems.

Furthermore, although the electric wave emissions of our cellular handsets and base stations comply with the electromagnetic safety guidelines of Japan, including guidelines regarding the specific absorption rate of electric waves, and the International Commission on Non-Ionizing Radiation Protection, the guidelines of which are regarded as an international safety standard, the Electromagnetic Compatibility Conference of Japan has confirmed that some electronic medical devices are affected by the electromagnetic interference from cellular phones as well as other portable radio transmitters. As a result, Japan has adopted a policy to restrict the use of cellular services inside medical facilities. We are working to ensure that our subscribers are aware of these restrictions when using cellular phones. There is a possibility that further regulations or restrictions could limit our ability to expand our market or our subscriber base or otherwise adversely affect us.

***Our parent, NTT, could exercise influence that may not be in the interests of our other shareholders.***

As of March 31, 2005, NTT owns 62.99% of our outstanding voting shares. While being subject to the conditions for fair competition established by the Ministry of Posts and Telecommunications, or MPT, in April 1992, NTT retains the right to control our management as a majority shareholder, including the right to appoint our directors. Currently, although we conduct our day-to-day operations independently of NTT and its other subsidiaries, certain important matters are discussed with, or reported to, NTT. As such, NTT could take actions that are in its best interests, which may not be in the interests of our other shareholders.

#### **Risks Relating to the Shares and the ADSs**

***Future sales of our shares by NTT or by us may adversely affect the trading price of our shares and ADSs.***

As of March 31, 2005, NTT owned 62.99% of our outstanding voting shares. Under Japanese law, NTT, like any other shareholder, generally is able to dispose of our shares freely on the Tokyo Stock Exchange or otherwise. In addition, various governmental bodies have recommended that NTT be required to decrease its ownership percentage in our company. NTT's position announced in its release in October 2001 was that decisions on NTT's investment ratio of our company would continue to be considered from the standpoint of maximizing its shareholders profits, taking into account operational necessities and stock market trends. Additionally, our Board of Directors is authorized to issue 141,320,000 additional shares generally without any shareholder approval. The sale or issuance or the potential for sale or issuance of such shares could have an adverse impact on the market price of our shares.

***There are restrictions on your ability to withdraw shares from the depositary receipt facility.***

Each ADS represents the right to receive 1/100th of a share of common stock. Therefore, pursuant to the terms of the deposit agreement with our depositary, The Bank of New York, in order to withdraw any shares, a holder of ADSs must surrender for cancellation and withdrawal of shares, ADRs evidencing 100 ADSs or any integral multiple thereof. Each ADR will bear a legend to that effect. As a result, holders of ADSs will be unable to withdraw fractions of shares from the depositary or receive any cash settlement in lieu of withdrawal of fractions of shares. In addition, although the ADSs themselves may be transferred in any lots pursuant to the deposit agreement, the ability to trade the underlying shares may be limited.