

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>
1999	¥147.14	¥108.83	¥ 128.19	¥118.43
2000	124.45	101.53	111.35	102.73
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
<u>Calendar Year 2003</u>				
December	109.61	106.93	107.74	107.13
<u>Calendar Year 2004</u>				
January	107.17	105.52	106.27	105.84
February	109.59	105.36	106.71	109.26
March	112.12	104.18	108.52	104.18
April	110.37	103.70	107.66	110.37
May	114.30	108.50	112.20	110.18
June (through June 21, 2004)	111.27	108.57	109.96	108.57

(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 = ¥104.18, 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, 2004. The noon buying rate for Japanese yen on June 21, 2004 was \$1.00 = ¥108.57.

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

The successful development of our 3G services, including the introduction of new services and forms of usage, is subject to market demand and scheduling difficulties.

We have invested and plan to continue to invest significantly in the research and development, construction, implementation and expansion of our third generation, or 3G, wireless services.

We have experienced various technical and scheduling difficulties, including delays in the establishment of our network and technical problems with and delays in the sale of handsets. We have resolved many of these problems, but we cannot be certain that we will not encounter new problems or will be able to successfully

resolve such problems when they arise. From time to time, technical issues continue to cause delays in new developments in our 3G services, such as the introduction of new handsets, which could prevent us from realizing expected 3G revenues and profits in future periods.

As the competition for 3G services in Japan grows more intense, there are a number of uncertainties that may delay the development of our 3G services. In particular, we cannot be certain that:

- we will be able to provide all planned 3G services, including introduction of new services and forms of usage we currently plan, as we currently schedule, or that expanding such services will not be more costly than expected;
- the 3G services we offer and plan to offer will be attractive to current and potential subscribers;
- our alliances with partners such as manufacturers and content providers, designed to provide new 3G services including the introduction of new services and forms of usage, will develop as expected;
- manufacturers and content providers will create and offer products, including handsets for our 3G system and contents specifically for our 3G i-mode service, on a timely basis;
- there will be sufficient demand for 3G services, including new services and forms of usage, to offer these services profitably;
- competitors' 3G services or similar services or 3G service handsets will not be more popular among potential subscribers than ours; or
- our services with improved data communication speed enabled by HSDPA (High Speed Downlink Packet Access) technology can be commenced as we plan.

If we experience substantial problems with our 3G services, or if we fail to introduce new handsets and services according to our schedule, it may impair the success of our 3G services, delay our service or decrease our revenues and profits and therefore may hinder our growth or our recovery of our significant capital investments in 3G services.

The introduction or change of various laws or regulations 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 and competition with competitors within and outside Japan may increase. For example, recently, with regard to fixed to mobile calling, fixed line operators and intermediate operators have been given the right to set rates on calls to cellular phones from fixed line phones and also, with the revision of Telecommunications Business Law, for the corporate market, it became possible to base rates on negotiated contract terms rather than pre-determined tariffs. These regulatory reforms further increase rate competition and may affect our financial position or results of operations. If the number of fixed line users choosing intermediate telecommunication carriers is more than we expected, it may have an adverse effect on our financial condition or results of operations as it may decrease our revenue.

Various governmental bodies have recommended or considered 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 radio frequency spectrum allocation system, including reallocation of spectrum to ensure the use by the fourth generation, or 4G, system and by the 5GHz-band wireless access system and the possible implementation of an auction system in which, in the future, additional spectrum would be allocated to the highest bidder;
- further protection of privacy;
- measures to open up Internet platforms and segment platform functions such as authentication and payment collection where dominant carriers are assumed to have market power;

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- 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 putting i-mode service on our cell phone handsets as an initial setting;
- measures to insure more fair competition in the telecommunications service market;
- regulations to prohibit or restrict certain content or transactions, or mobile Internet services such as i-mode; and
- measures requiring us to incur more costs than anticipated, for instance, a measure requiring us to develop handsets that incorporate a GPS function for emergency calls.

It is difficult to predict with certainty if any of the above changes will be made 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 a number portability system for mobile phones in Japan may, in addition to burdening us with the expenses associated with introducing the system, lead to a decrease in the number of our subscribers due to transition to other mobile operators from us, which may adversely affect our financial condition and results of operations.

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

It is very difficult to predict at present what effect the introduction of a number portability system for mobile phones would have on our number of subscribers, revenue and expenses, as it will depend on the services and rates set by each cellular service provider before and after the introduction of such system. 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. Therefore, we may not be able to recover the costs we estimated for the introduction of such system, we may experience increased costs in relation to the acquisition and maintenance of subscribers and there may be further rate competition, which could adversely affect our financial condition and results of operations.

Increasing competition from other cellular service providers or other technologies, or rapid changes in market trends, could have an adverse effect on our financial condition and results of operations.

We are experiencing increasing competition from other cellular service providers which have introduced new products and new services such as 3G handsets, 3G phones equipped with global-positioning systems and global roaming services. Also, there are other cellular service providers which provide communication services for 3G with technologies different from W-CDMA, which we have adopted. Currently, for example, they provide flat-rate packet communication services with faster communication speeds than our 3G services. Furthermore, other companies may enter the cellular service industry with other technologies for 3G services, and in such an event, there will be severe competition.

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

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Furthermore, the effect of emerging and future technological changes on the viability or competitiveness of our services cannot be predicted with certainty. Current technologies or technologies under development or new services by other companies mentioned above may increase competition against our products in the future, lead to decreased rates and numbers of subscribers and decreased ARPU due to decreased frequency of usage by subscribers and may materially affect our financial condition and results of operations.

Our acquisition of new subscribers, retention of existing subscribers and revenue per unit may not be as high as we expect.

In the year ended March 31, 2004, we acquired approximately 2.07 million new subscribers, down from 3.08 million new subscribers in the year ended March 31, 2003, and 4.76 million in the year ended March 31, 2002. Our future subscriber acquisitions may continue to decrease and may not meet our expectations due to a number of factors, such as saturation of the Japanese cellular market, changes in regulatory environment, increased rate competition and increased service selection for the subscribers of other cellular service providers.

In addition to difficulty in acquiring new subscribers, we may not be able to maintain existing subscribers at the levels we expect due to increased competition among other 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 more cost than we expected to maintain existing subscribers.

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, decreased prices for 3G packet packs from May 1, 2004 and the introduction of Pake-Houdai, 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. If the trend of subscribers switching to flat-rate systems does not occur as we expect our ARPU may decrease more than we expect, which may have a material effect on our financial condition and results of operations.

We view the expansion of AV traffic such as video phone via 3G handsets, development of new services useful in everyday life and business and increased revenue through the expansion of data communication as important factors for our future growth. However, our growth may be limited if:

- our new and existing handsets suffer from technical problems;
- the wireless telecommunications industry is not successful in capturing a significant portion of the data transmission market in a timely manner;
- our current and future i-mode, data transmission and other services fail to be attractive to present and potential subscribers, and fail to achieve continued or new growth;
- our FOMA business does not grow as fast as we expect or we experience technical or customer satisfaction problems with FOMA system and services;
- competition increases significantly and results in our losing significant numbers of subscribers or capturing a significantly lower market share of new subscribers; or
- our retention costs rise as a result of increased competition or increased sales commissions paid to agents who sign up subscribers.

We may not be able to maintain our ability to avoid reduced quality of services to maintain customer satisfaction because we have only a limited amount of spectrum and facilities available for our services.

One of the principal limitations on a cellular network's capacity is the amount of radio frequency spectrum it can use. We have limited spectrum 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 network operates at or near the current 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 capacity of our base stations and switching centers during peak usage periods or if our subscriber base dramatically increases. In addition, an increase in data transmission traffic may go substantially beyond our projections due to an increased number of FOMA subscribers as a result of the introduction of a flat-rate plan effective June 1, 2004, and we may not be able to process such traffic with our existing facilities, which may result in a reduced quality of services.

We may not be able to avoid reduced quality of services despite our continued efforts to improve the efficiency of our use of spectrum and to acquire new spectrum. In addition, as our competitors are not experiencing capacity problems to the same extent, if we are not able to successfully address such problems in a timely manner, we may experience constraints on the growth of our wireless services or lose subscribers to our competitors in areas where quality problems occur, which may materially affect our group's financial conditions and results of operations.

Overseas operators may not 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 are currently using Wideband Code Division Multiple Access, or W-CDMA, technology that is one of the global cellular telecommunications standards 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, worldwide if enough other mobile operators introduce W-CDMA standard technology compatible with ours. We believe that our other international affiliates, strategic allies and a significant number of other wireless operators will do so. However, if enough other wireless operators do not adopt W-CDMA standard technology, we may not be able to offer global roaming and other services as expected and we may not be able to realize the benefits of economies of scale, including in terms of purchasing power for handsets and network equipment, that we currently anticipate. Also, we cannot be sure that handset manufacturers or manufacturers of network equipment will be able to successfully and promptly adapt their handsets and network equipment if we need to change the handsets or network equipment we currently use due to a change in W-CDMA standard technology as a result of activities conducted by standard-setting organizations.

Our international investments, alliances and collaborations may not produce the returns or provide the opportunities we expect.

One of the major components of our overall strategy is to increase our corporate value through overseas investments, alliances and collaborations. We have entered into alliances and collaborations with other companies and organizations outside Japan which we believe could help us achieve this objective. In order to promote this strategy, to date, we have invested approximately ¥1.9 trillion and acquired minority equity stakes in overseas operators, including AT&T Wireless Services, Inc., KG Telecommunications Co., Ltd., Hutchison Telephone Company Limited and others. However, the current value of these investments has not yet met our expectations. There can be no assurance that we will be able to maintain or enhance the value or performance of overseas operators in which we have invested or may invest in the future, or that we will achieve the returns or benefits expected from these investments, alliances or collaborations.

In general, acquiring minority equity stakes gives us substantially less influence over our partner overseas carriers than establishing or acquiring subsidiaries in those markets. If another company acquires control of management in one of our strategic partners or if we decide to dissolve, exit or reduce our interest in a strategic partnership, we might not realize the anticipated benefits of our investment in and strategic alliance with such partner. Furthermore, we might lose our ability to participate in the strategic development of the telecommunications industry in the affected country or region.

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Telecommunications companies and wireless operators, including our investee companies, have experienced a variety of negative developments in recent years, including increased competition, increased debt burdens (from, among other factors, the cost of 3G spectrum licenses purchased at auction), 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 a loss in the value of our investment in any investee company takes place and such loss in value is other than a temporary decline, we may be required to adjust the carrying 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 a loss for any decline in the value of our investment in such investee company. In either event, our financial condition or results of operations could be significantly and adversely affected.

We monitor and review the value of our overseas investments from time to time as required by relevant accounting principles, which require us to consider, among other things, declines in earning capacity, and with respect to publicly listed companies in which we have invested, such as AT&T Wireless Services, Inc., reported market price. We recognized impairment losses equal to ¥319.6 billion, net of deferred taxes of ¥225.5 billion, with respect to our interests in some of our overseas affiliates in fiscal 2002, and ¥624.6 billion, net of deferred taxes of ¥453.2 billion in fiscal 2001.

We plan to further monitor and review the value of our investments in all of our overseas affiliates in light of any future developments and may be required to recognize further impairment charges for investments in any of our overseas investee companies.

The shareholders of AT&T Wireless Services, Inc. have approved the acquisition of AT&T Wireless by Cingular Wireless LLC, and we expect our shares of AT&T Wireless common stock will be exchanged for cash in due course in accordance with the agreement. However, the acquisition is subject to government approval, and if the shares are not exchanged for cash as expected, it may adversely affect our financial condition and results of operations in the current fiscal year.

The performance of our PHS business may not improve as we expect and the business may continue to operate at a loss in the future.

On December 1, 1998, we took over the Personal Handyphone System, or PHS, businesses operated by other subsidiaries of NTT and began to integrate them with our existing businesses. There were 1.59 million PHS subscribers as of March 31, 2004, 1.69 million as of March 31, 2003, and 1.92 million as of March 31, 2002. The PHS businesses have operated at a loss, including losses of ¥35.5 billion in fiscal 2003, ¥28.3 billion in fiscal 2002 and ¥59.8 billion in fiscal 2001 on a U.S. GAAP basis (see Note 14 of the Notes to the Financial Statements).

In April 2003, we introduced a flat-rate plan for data communication using PHS and we saw a net increase in the number of data-card-type PHS subscribers as a result of our initiatives to focus on an increase in usage of a flat-rate service for data communications. We plan to focus our PHS business on data communications and will continue our efforts to streamline our PHS business operation. However, there may be no assurance that we will achieve the number of subscribers we expect, or that we will be able to reduce the operating losses incurred by our PHS businesses.

We may not be able to successfully address social issues arising from inappropriate use of our products and services by our subscribers, which adversely affect our credibility or corporate image.

We may face an increase in cancellations by existing subscribers and difficulty in acquiring new subscribers, the credibility of our products and services may decline and our corporate image may become

damaged if our products and services are used inappropriately 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 e-mails, including providing i-mode subscribers with up to 400 packets per month of free packet-data communication and pursuing actions against companies who distribute such unsolicited bulk emails through our i-mode system, the problem has not yet been rooted out. If our subscribers receive a large amount of unsolicited e-mails through our i-mode system, it may cause our subscribers to be less satisfied with our service, and our corporate image may be damaged, which could reduce the number of our i-mode subscribers as a result.

In addition, as our handsets and our services become more sophisticated, new concerns in relation to mobile phone usage arise, including, for example, the fact that our subscribers were charged higher amounts of packet fees than they were aware of due to their overuse of our data communication service as a result of using new advanced handsets and sophisticated services, and that subscribers wrongfully shot pictures of pages of books sold at bookstores or art works at art galleries and museums where taking photos is prohibited, using one of our handsets with a built-in camera. Such inappropriate uses of mobile phones are being taken up as social issues. Furthermore, we are experiencing a deterioration of public manners by using mobile phones in trains and public spaces, and an increase of traffic accidents caused by use of mobile phones while driving cars. These issues may adversely affect our corporate image as well.

We believe we have properly addressed these social issues to date. However, it is uncertain whether we will be able to continue addressing those issues in the future as well, and if we fail to do so, we may not be able to avoid an increase in cancellations of subscriptions or to acquire as many new subscribers as we expect, which may have a material adverse effect on our financial condition and results of operations.

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

As of March 31, 2004, NTT owns 63.58% of our issued and 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.

Concerns about wireless telecommunications health risks and our inability to properly respond to such concerns may adversely affect our financial condition and results of operations.

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 manufacturers 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 relationship 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

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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.

System failures caused by earthquakes, power shortages, malfunction of software and devices, and our inability to properly respond to such failures may adversely affect our financial condition and results of operations.

We are dependent on our nationwide networks in order to provide our mobile communication and packet services to our subscribers. We have invested trillions of yen in our network, which includes base stations, antennas, switching centers and transmission lines. Our systems could fail due to a number of reasons, including hardware and software problems and damage to our network as a result of earthquakes, power shortages, typhoons, floods, terrorism or similar events. System failures may take extended periods of time to repair and could result in lost revenues and large repair expenses, both of which may adversely affect our financial condition and results of operations.

Our inability to properly respond to viruses and cyber attacks which adversely affect communications through our network system or wireless phones may adversely affect our financial condition and results of operations.

There have been instances where millions of computers worldwide were affected by being infected by viruses through the Internet. Similar incidents could occur on our mobile communication network. If such viruses enter our network or terminals, our system or mobile phones could fail. In such an instance, our network's credibility and our customer's satisfaction might significantly decrease. Although we have enhanced our security system to block unauthorized accesses and remote downloading, and we provide functions intended to cope with unexpected events, such functions may not be fully prepared for every eventuality.

In the event we are unable to properly respond to any such unexpected events, our group's credibility may be reduced, and we may experience lost revenues and large repair expenses, all of which may adversely affect our financial condition and results of operations.

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, 2003, NTT owned 63.58% of our issued and 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