

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>
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
2006	120.93	104.41	113.15	117.48
2007	121.81	110.07	116.92	117.56

Calendar Year 2006

December	119.02	114.98	117.32	119.02
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Calendar Year 2007

January	121.81	118.49	120.45	121.02
February	121.77	118.33	120.50	118.33
March	118.15	116.01	117.26	117.56
April	119.84	117.69	118.93	119.44
May	121.79	119.77	120.77	121.76
June (through June 15, 2007)	123.55	121.08	121.98	123.55

(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 = ¥117.56, 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, 2007. The noon buying rate for Japanese yen on June 15, 2007 was \$1.00 = ¥123.55.

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

As competition in the market becomes more fierce due to changes in the business environment caused by the Mobile Number Portability, new market entrants, competition from other cellular service providers or other technologies, and other factors, could limit our acquisition of new subscriptions, retention of existing subscriptions and ARPU, or may lead to an increase in our costs and expenses.

Market changes such as the introduction of Mobile Number Portability (MNP) and the emergence of new service providers are resulting in increasing competition with other service providers in the telecommunications industry. For example, other mobile service providers have introduced new products and services including 3G handsets, music player handsets, music distribution services, and fixed-rate services for voice communications

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limited to specified recipients, e-mail and the like. There are also 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.

At the same time, there may be increased competition resulting from 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, wireless LAN, and so on or an integration of the 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, the entry of new competitors in the market, changes to business and market structures, changes in the regulatory environment, an increased rate competition.

Under these circumstances, the number of net new subscriptions we acquire may continue to decline in the future and may not reach the number we expect. Also, in addition to difficulty acquiring new subscriptions, we may not be able to maintain existing subscriptions at expected levels due to increased competition among cellular service providers in the areas of rates and services. Furthermore, as a result of intense competition for acquisition of subscriptions, we may need to incur higher than expected costs such as distributor commissions and other expenses. In this fiercely competitive environment, in order to provide advanced services and increase convenience to our customers, we have made various rate revisions such as the introduction in June 2004 of "Pake-hodai", which is a flat-rate packet transmission service for FOMA i-mode, the introduction of a new unified rate plan for FOMA services and mova services in November 2005 that users find simple and easy to understand, the introduction in March 2006 of a new rate plan that enables users to apply Pake-hodai to all FOMA services, the introduction in March 2007 of "Pake-hodai Full", a service that enables subscribers with full-browser handsets to view not only i-mode but also PC websites and video for a flat monthly rate. However, we cannot be certain that these measures will enable us to acquire new and maintain existing subscribers. Furthermore, these rate revisions are expected to lead to a certain decline in ARPU, but 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 effect on our financial condition and results of operations.

The new services and usage patterns introduced by our corporate group may not develop as planned, which could limit our growth.

We view the expansion of AV traffic such as video phones using 3G handsets, the development and expansion of new services such as credit services useful in everyday life and business through i-mode FeliCa, 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 and content providers needed to provide the new services and forms of usage we are introducing and persuade a sufficient number of vendors and other establishments 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 deployment 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 programming for our 3G i-mode services at appropriate prices and on a timely basis;

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- Our current and future data communications services including i-mode and other services will be attractive to existing and potential subscribers and achieve continued or new growth;
- 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 speeds enabled by HSDPA (High Speed Downlink Packet Access, a high-speed packet transmission technology utilizing W-CDMA) technology planned.

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

The introduction or change of various laws or regulations or the application of such laws and regulations to our corporate group could restrict our business operations, which may adversely affect 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;
- Regulations to prohibit or restrict certain content or transactions or mobile Internet services such as i-mode;
- Measures which would introduce new costs such as the designation of mobile phone communications as a universal service and other changes to the current universal service fund system;
- Regulations to increase handset competition such as the abolishment of financial incentives for sales of mobile handsets and SIM (*1) regulations;
- Fair competition measures relating to MVNO(*2) such as the compulsory lease of networks; and
- Introduction of new measures to promote competition based on a review of the designated telecommunications facilities system (dominant carrier regulation);
- Other measures to enhance competition that would restrict our business operations in the telecommunications industry.

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.

(*1) SIM: Subscriber Identity Module. An IC card inserted into a handset on which subscriber information is recorded, used to identify user.

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(*2) MVNO: Mobile Virtual Network Operator, a business that borrows wireless communication licenses from other companies to provide services.

Limitations in the amount of frequency spectrum or facilities made available to us could negatively affect our ability to maintain and improve our service quality and level of 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 subscriptions base dramatically increases or the volume of content such as images and music provided through our i-mode service significantly expands. Also, in relation to our 3G service, packet transmission flat fee service for 3G i-mode, and our flat-rate service that enables subscribers to view full-browser PC websites and video, an increase in the number of subscriptions and traffic volume of our 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 subscriptions and traffic volume, our quality of service may decline if we cannot obtain 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.

The W-CDMA technology that we use for our 3G system and/or mobile multimedia services may not be introduced by other overseas operators, which could limit our ability to offer 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 (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 that is 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 services and we are aggressively promoting the spread and expansion of i-mode services 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. Also, if adoption of W-CDMA technology abroad is not conducted sufficiently and the number of i-mode subscribers among our strategic partners and the usage of i-mode service by those subscribers does not increase sufficiently, we may not realize the benefits of economies of scale we currently expect in terms of purchasing network facilities and offering handsets and contents developed for our services at appropriate prices. 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, this may have an adverse effect on our financial condition and results of operations.

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

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, 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.

As electronic payment capability and many other new features are built into our cellular phones, and services of parties other than those belonging to our corporate group are provided through our cellular handsets, potential problems resulting from malfunctions, defects or loss of handsets, or imperfection of services provided by such other parties may arise, which could have an adverse effect on our financial condition and results of operations.

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, defect or loss of handsets, our credibility may decline and our corporate image may be damaged, leading to an increase in cancellations of subscription 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 and credit transactions. Events that may lead to a decrease in our credibility and corporate image, or an increase in cancellations of subscriptions and indemnity payments for subscribers 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, credit functions and points by third parties due to a loss or theft of handsets;

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- Illegal access to and use of user records and balances accumulated on handsets by third-parties; and
- Inadequate and inappropriate management of e-money, credit functions or points by companies with which we make alliances or collaborate.

Social problems that could be caused by 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 subscriber contracts and difficulty in acquiring new subscriptions 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 by protecting our subscribers from incurring any economic disadvantage caused by unsolicited bulk e-mails including notifying our subscribers via various brochures, providing unsolicited bulk e-mail filtering functions with our handsets and pursuing actions against companies which distribute large amounts of such unsolicited bulk e-mails, the problem has not yet been rooted out. Also, recently, a different kind of unsolicited bulk e-mail using "short-mail" and "SMS (short message service)" we provide in addition to i-mode, is becoming an issue. If our subscribers receive a large amount of unsolicited e-mail, it may cause a decrease in customer satisfaction and damage our corporate image, leading to a reduction in the number of i-mode subscriptions.

Mobile phones have been used in crimes such as the "it's me" fraud, whereby 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 criminal activities. 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 transmission at levels higher than they are aware of as a result of using handsets without fully recognizing over use of packet transmission in terms of frequency and volume. Also, inappropriate use of our mobile handsets with built-in cameras 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 photography is prohibited. Furthermore, there are issues concerning manners for phone usage in public places such as in trains and aircraft and the occurrence of car accidents caused by the use of mobile phones while driving. These issues may similarly damage our corporate image.

To date, we believe that we have properly addressed the social issues involving mobile phones. However, it is uncertain whether we will be able to continue addressing those issues appropriately in the future as well and if 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 this may affect our financial condition and results of operations.

Inadequate handling of confidential business information including personal information by our corporate group, contractors and other factors, may adversely affect our credibility or 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 that handle personal information. We possess information on numerous subscribers in the telecommunications, credit, and other businesses, 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 costs and slower increase in additional subscriptions, and our financial condition and results of operations may be adversely affected.

Owners of intellectual property rights that are essential for our business execution may not grant us the right to license or otherwise use such intellectual property rights on acceptable terms or at all, which may limit our ability to offer certain technologies, products and/or services, and we may also be held liable for damage compensation if we infringe the intellectual property rights of others.

For the Group to carry out its business, it is necessary to obtain licenses and other rights to use the intellectual property rights of third parties. Currently, the group is obtaining licenses from the holders of the rights concerned by concluding license agreements. We will obtain the licenses from the holders of the rights concerned if others have the rights to those intellectual property rights which are necessary for us to operate our business in the future. However, if we cannot come to agreement with the holders of the rights concerned or mutual agreement concerning the granted rights cannot be maintained afterwards, there is a possibility that we will not be able to provide specific technologies, products or services of the group. Also, if the group receives claims of violation of intellectual property rights from others, we may be forced to expend considerable time and cost in reaching a resolution, and if such claims are recognized, we may be liable to pay damages for infringement of the rights concerned, which may adversely affect our financial condition and results of operations.

Earthquakes, power shortages, malfunctioning of equipment, and software bugs, computer viruses, cyber attacks, hacking, unauthorized access and other problems could cause systems failures in the networks required for the provision of service, disrupting our ability to offer services to our subscribers and may adversely affect our credibility or corporate image.

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 redundant 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 phenomena and events. These system failures can require an extended time for repair and as a result, may lead to decreased revenues 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 through such means as hacking, unauthorized access, or otherwise, 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 systems 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 addition, our network could be affected by software bugs, incorrect equipment settings and human errors which are not the result of malfeasance, but also cause system failures or breakdowns.

In the event we are unable to properly respond to any such events, our credibility or corporate image may be reduced, and we may experience a decrease in revenues as well as significant repair costs, which may affect our financial condition and results of operations.

Concerns about wireless telecommunications health risks 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 such as 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 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 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 modifications to regulations, new regulations or restrictions could limit our ability to expand our market or our subscription base or otherwise adversely affect us.

Our parent company, Nippon Telegraph and Telephone Corporation (NTT), could exercise influence that may not be in the interests of our other shareholders.

As of March 31, 2007, NTT owned 63.4% of our outstanding voting shares. While being subject to the conditions for fair competition established by the Ministry of Posts and Telecommunications ("MPT", currently the Ministry of Internal Affairs and Communications, or "MIC") in April 1992, NTT retains the right to control our management as a majority shareholder, including the right to appoint 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, 2007, NTT owned 63.4% 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 the company. NTT's position announced in its release in October 2001 was that decisions on NTT's investment ratio of the 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 142,250,000 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.