

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

Special Note Regarding Forward-looking Statements.

This annual report contains forward-looking statements about our industry, our business, our plans and objectives, our financial condition and our results of operations that are based on our current expectations, assumptions, estimates and projections. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “anticipate”, “estimate”, “plan” or similar words. These statements discuss future expectations, identify strategies, discuss market trends, contain projections of results of operations or of our financial condition, or state other forward-looking information. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those contained in or suggested by any forward-looking statement. We cannot promise that our expectations, projections, anticipated estimates or other information expressed in these forward-looking statements will turn out to be correct. Potential risks and uncertainties include, without limitation:

- our ability to continue to attract and retain subscribers to our services in a wireless communications market experiencing slowing growth;
- our ability to add capacity to our existing wireless networks;
- our ability to successfully expand our 3G services, which are our third generation wireless services, and to attract customers to these services;
- our ability to successfully expand internationally through international alliances and investments outside of Japan;
- regulatory developments and changes, in particular in the areas of telecommunications and radio wave transmissions, and our ability to respond and adapt to those changes;
- our ability to continue to win acceptance of our services and products, which are offered in highly competitive markets characterized by the continuous introduction of new services and products, rapid developments in technology and subjective and changing consumer preferences; and
- our ability to maintain minutes of use and average monthly revenue per unit at the expected levels.

Our actual results could be materially different from and worse than as described in the forward-looking statements. Important risks and factors that could cause our actual results to be materially different from as described in the forward-looking statements are set forth in this Item 3.D. and elsewhere in this annual report.

Risks Relating to Our Business and the Japanese Wireless Telecommunications Industry

Subscribers may experience congestion, interruptions or reduced quality of services because we have only a limited amount of spectrum 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 on which to offer 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

Table of Contents

the current capacity of its available spectrum during peak periods, causing congestion, interruptions and reduced service quality. We are also experiencing similar problems in certain other large metropolitan areas in Japan.

We have made improvements to our network's capacity and in the technology we use, including the introduction of dual-band handsets for our 800 MHz and 1.5 GHz networks, and we expect these efforts will enable us to use our existing spectrum more efficiently. However, in light of the growth in our subscriber base, there can be no assurance that these efforts will result in reduced levels of congestion or improved service quality. 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 such problems occur.

The successful development and introduction of our 3G network and services 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. As of March 31, 2002, we offered 3G services to approximately 89,000 subscribers, a smaller number of subscribers than we had anticipated when we started 3G commercial services on October 1, 2001.

As is common with undertakings of this scale and complexity, we have experienced various difficulties, including software, network, handset and other technical problems. In November 2001, we recalled and replaced approximately 1,500 3G handsets due to a software malfunction in these handsets. We expect to be able to resolve these problems, but we cannot be certain that we will be able to fully resolve the current problems or that we will not encounter new problems. Additionally, we cannot be certain that:

- our 3G network and services will deliver the quality and levels of services currently anticipated;
- we will be able to provide all planned 3G services, or that we will be able to provide such services on schedule, and that developing and providing such services will not be more costly than 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;
- we will be able to reach our goal of 1.38 million 3G subscribers by March 31, 2003;
- there will be sufficient demand for 3G services to offer these services profitably; or
- competitors' 3G services or similar services will not be more popular among potential subscribers than ours.

If we experience substantial problems with our third generation services, it may impair the success of our 3G services and therefore may hinder our growth or our recovery of our significant capital investments in 3G services.

The W-CDMA technology that we use for our 3G system may not be adopted by other operators, or if adopted might be terminated, which could limit our ability to offer 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 third generation cellular technology through the issuance of guidelines known as IMT-2000. We will have an opportunity to offer our services, such as global roaming, worldwide if enough other wireless operators adopt W-CDMA technology compatible with ours and we believe that our international partners and a significant number of other wireless operators will do so. However, if enough other wireless operators do not adopt W-CDMA compatible 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

economics of scale, including in terms of purchasing power and of access to content, 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 make changes in the 3G technology we use or if the ITU recommends changes to the specifications for W-CDMA.

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 been actively seeking to enter into alliances and collaborations with other companies and organizations outside Japan that can help us achieve this objective. To date we have invested approximately ¥1.9 trillion in overseas operators with which we seek to establish such alliances and collaborations including AT&T Wireless Services, Inc., KPN Mobile N.V., Hutchison 3G UK Holdings Ltd, KG Telecommunications Co., Ltd. and Hutchison Telephone Company Limited. 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.

Our strategy of acquiring only minority equity stakes also gives us substantially less influence over our partner overseas carriers than if we established or acquired 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.

Recently, telecommunications companies and wireless operators, including our investee companies, have experienced a variety of negative developments including increased competition, increased debt burdens (from, among other factors, the cost of 3G spectrum licenses purchased at auction) and significant volatility in share prices, and have experienced 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 position 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 ¥624.6 billion, net of deferred taxes of ¥453.2 billion, with respect to our interests in some of our overseas affiliates in fiscal 2001. The gross impairment charges were ¥664.5 billion for AT&T Wireless Services, Inc., ¥320.5 billion for KPN Mobile N.V., ¥36.5 billion for KG Telecommunications Co., Ltd., and ¥56.4 billion for Hutchison 3G UK Holdings Ltd. 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.

Regulatory changes could negatively affect our business.

The Japanese telecommunications industry has been undergoing regulatory reform in many areas, including the reorganization of NTT and its consolidated subsidiaries, elimination of foreign ownership restrictions (except

in the case of NTT) and tariff regulation. This may intensify competition from both domestic and international competitors.

Various governmental bodies have recommended or considered changes that could affect the mobile telecommunications industry. These include:

- the 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;
- protection of privacy;
- an expectation that NTT will promote competition through a voluntary action plan, including realization of competition within the NTT group by decreasing NTT's ownership percentage in our company;
- allowing users who shift services between cellular phone carriers to take their cellular telephone number with them when they switch to a new cellular phone carrier;
- measures to open up mobile Internet platforms and segment platform functions such as authentication and payment collection where dominant carriers are assumed to have market power; and
- 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 content fees for i-mode service and from putting i-mode service on our cell phone handsets as an initial setting. See "Regulation of the Mobile Telecommunications Industry in Japan—Recent Discussions on the Telecommunications Business Law and the Radio Law" under Item 4.B.

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, if any of the above changes are implemented, we do not believe that we will be significantly disadvantaged relative to our competitors, although there can be no assurance that this will be the case.

Our revenue growth may not be as high as we expect.

Average monthly revenue per unit, or ARPU, has been steadily declining each year for the past four fiscal years, from aggregate ARPU of ¥9,270 in fiscal 1998 to ¥8,480 in fiscal 2001, and may further decline because of, among other reasons, reductions in rates, wider penetration into lower usage subscriber segments, some subscribers using i-mode e-mails instead of voice calls and Japan's stagnant economy. ARPU is a combination of revenues from voice services and revenues from i-mode services. Declines in voice ARPU have been partially offset by increases in i-mode ARPU. In order to offset declines in voice ARPU, we are planning to introduce new services such as i-shot which will help to continue the growth of i-mode ARPU and will help attract new customers. However, even if these services are introduced in accordance with our plans and our customer base continues to grow, there is no assurance that revenues from i-mode services or new customers will be able to offset declines in voice ARPU.

We believe that one key to our future growth will be the increase in traffic generated by data transmission and related increases in revenues. However, our future growth may be limited if:

- the wireless telecommunications industry is not successful in capturing a significant portion of the data transmission market in a timely manner;
- our i-mode or other data transmission services fail to achieve continued or new growth;
- we are not successful in expanding our services for person-to-machine and machine-to-machine communications;

Table of Contents

- our 3G system does not grow as fast as we expect or we experience technical or customer satisfaction problems with our 3G system and services; or
- competition increases significantly and results in our losing significant numbers of subscribers or capturing a significantly lower market share of new subscribers.

Increasing competition from other cellular service providers or other technologies could have an adverse effect on our financial condition and results of operations.

We are experiencing increasing competition from other cellular service providers like J-Phone and KDDI which are introducing popular new products such as 3G phones and cellular phones equipped with built-in cameras and global-positioning systems. In addition, new technologies, such as Wireless LANs which allow users to quickly and efficiently send and receive data, are adding users and thereby increasing competition for us. Furthermore, the effect of emerging and future technological changes on the viability or competitiveness of our services cannot be predicted with certainty. Though we launched our Wireless LAN services on a commercial basis in July 2002, and believe that we can attain synergy by offering both 3G phones and Wireless LANs, there is no assurance that Wireless LANs or other similar technologies currently existing or being developed for the future will not increase competition for our products in the future, decrease our customer base and have an adverse effect on our financial condition and results of operations.

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. Since then, the PHS businesses have operated at a loss, including losses of ¥58.7 billion in fiscal 2001, ¥91.7 billion in fiscal 2000 and ¥99.7 billion in fiscal 1999 on a Japanese GAAP basis (see Note 14 of the Notes to the Financial Statements).

Our PHS customers dropped from 1.9 million subscribers as of March 31, 1998 to 1.3 million subscribers as of March 31, 1999. In an attempt to counter this trend, we introduced new service plans and pricing, and have been focusing on services aimed at data transmission, such as our 64 kbps transmission service and music and video distribution services. PHS subscribers were 1.8 million as of March 31, 2001 and 1.9 million as of March 31, 2002. There can be no assurance, however, that subscriber numbers will continue to increase or remain stable, that customers will continue to use PHS services or that these services will not become outmoded with the introduction of 3G services by us or others.

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

NTT currently owns 64.1% of our issued and outstanding shares. While being subject to the conditions for fair competition established by the Ministry of Posts and Telecommunications, or MPT, in April 1992, NTT will retain 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 may adversely affect usage levels and our ability to attract and retain subscribers.

Media and other reports have suggested that radio frequency emissions from wireless handsets and other wireless equipment may adversely affect the health of wireless 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 reduced subscriber growth, reduction in subscribers, reduced usage per subscriber, reduced financing available to us or litigation and may also potentially adversely affect our results of operations and our stock price. 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 radio frequency emissions or warnings about possible health risks. Additionally, 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 link between radio frequency emissions and health problems.

Furthermore, although the electromagnetic wave emissions of our cellular handsets and base stations comply with the electromagnetic safety guidelines of Japan 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, and 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 i-mode system is subject to large amounts of unsolicited bulk e-mail, which could decrease customer satisfaction with our service, congest our system, and adversely affect our financial results.

Unsolicited bulk e-mail is a problem for our i-mode service. Our customers who have i-mode cellular phones are able to send and receive text messages on their phones. However, this function also means that they are subject to receiving a large number of unsolicited bulk e-mail messages. Not only does unsolicited bulk e-mail congest our system, it is a great inconvenience to our customers and may decrease customer satisfaction, causing a reduction of our i-mode subscribers. It also costs our company money to enact countermeasures. For example, we have invested in technology that enables i-mode users to block all e-mails sent from particular addresses or domains, started to block any e-mails sent to large numbers of invalid e-mail addresses, and provided PDC i-mode users with up to 400 packets (worth ¥120) of free packet-data communication. The countermeasures cost our company approximately ¥30 billion in lost revenues in fiscal 2001. We are also incurring expenses related to modifying our system to help screen unsolicited bulk e-mail as well as expenses related to stopping this problem through legal proceedings. While our countermeasures have succeeded in preventing our churn rate from increasing, we cannot be certain that we will continue to be successful in the future.

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, 2002, NTT owned 64.1% of our issued and outstanding 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 $\frac{1}{100}$ th 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