

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 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, 2003, we offered 3G services to approximately 330,000 subscribers, a smaller number of subscribers than we had expected to have by that date when we started 3G commercial services in October 2001.

As is common with undertakings of this scale and complexity, we have experienced various technical and scheduling difficulties, including software, network and handset technical problems and delays. 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 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:

- 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 our current schedule, and that developing and providing 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;
- 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 1.46 million 3G subscribers by March 31, 2004;
- there will be sufficient demand for 3G services to offer these services profitably;
- competitors' 3G services or similar services will not be more popular among potential subscribers than ours; or
- the release of 3G global handsets will not be delayed or our 3G global roaming services will not experience technical problems.

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 or decrease our revenues 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, 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.

Table of Contents

Various governmental bodies have recommended or considered changes that could affect the mobile telecommunications industry, and the government continues to consider future legal and regulatory changes that could have an adverse affect 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;
- 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;
- 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 and collecting content fees for i-mode service and from putting i-mode service on our cell phone handsets as an initial setting;
- measures to insure fair competition in the telecommunications service market; and
- government prohibition of or restrictions on certain content, transactions or mobile Internet services such as i-mode.

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 changes described above, or other changes to laws and regulations, could seriously affect our financial condition and results of operations.

Changes in the current system for setting tariffs and forms of communications between the telecommunications carriers may negatively affect our profitability.

In 2002, in a dispute between Heisei Denden Co., Ltd., a new local telephone operator, and us, the government ordered that the right to set prices for calls made from fixed line phones of Heisei Denden to our cell phones be transferred from us to Heisei Denden. This principle will be applied to other interconnections among other local operators, except NTT East and NTT West, and mobile operators. In addition, the Ministry of Public Management, Home Affairs, Posts and Telecommunications recently conducted a study regarding which entity should have the right to set prices when calls are made to cell phones from fixed line phones and from Internet phones. As a result of its study, the MPHPT determined that intermediate operators should have the right to set prices for calls made to cell phones from fixed line phones using NTT East or NTT West when the caller selects an intermediate operator for those calls. These developments may have a substantial adverse effect on our results of operations as we may only be able to charge interconnection charges for those calls for which we do not retain the right to set the price. Even if we do not lose our right to set prices for calls made to cell phones from fixed line phones using NTT East or NTT West when callers do not select an intermediate operator, we may suffer from increased price competition for the calls for which we continue to hold the pricing right as other operators with newly acquired rights begin to lower their prices. In addition, if callers use Internet phones rather than fixed-line phones to place calls to cell phones, this will also decrease our profitability as we do not receive any revenues other than interconnection charges from calls made to cell phones from Internet phones.

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 like J-Phone and KDDI which have introduced popular new products such as 3G phones and cellular phones equipped with built-in cameras, global-positioning systems and global roaming services. In April 2003, KDDI began trial service of a new high-speed 3G cell phone system called EV-DO in the fifteen wards of Tokyo to augment its 3G cell phone service. 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. Other new services and technologies, particularly new low price and fixed price services, such as prepaid phones and calling cards, IP cellular and fixed line phones, MVNOs (mobile virtual network operators), fixed line broadband ADSL high-speed Internet services and optical fiber services may take customers away from us, cause us to lower our prices in order to retain existing customers and telecommunication traffic or result in lower average revenue per unit as customers use our services less frequently than in the past.

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 will not increase competition for our products in the future, cause us to lower prices, decrease our customer base and have an adverse effect on our financial condition and results of operations. In addition, prepaid cell phones, which are easy to purchase and prevent overuse, may become popular in the current economic environment in Japan, which may decrease our revenues.

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, 2003, we acquired approximately 3.08 million new subscribers, down from 4.76 million new subscribers in the year ended March 31, 2002, and 6.67 million in the year ended March 31, 2001. Our future subscriber acquisitions may continue to decrease and may not meet our expectations due to a number of factors, such as increasing price competition and service selection from other cellular phone carriers and other technologies, saturation of the Japanese cellular market and regulatory changes.

In addition to acquiring new subscribers, we may be unable to maintain existing subscribers at expected levels. Over the past five fiscal years, we have maintained a low churn rate by implementing certain measures, including offering discounts for long-term subscribers as well as incentives provided for handset replacement, introducing i-mode, i-shot, which allows users to take and send pictures using camera-equipped cell phones, and other new services and products, and maintaining a high level of customer confidence in our network and services. However, there is no assurance that we will be able to continue to retain subscribers at expected high levels due to factors such as increasing price and service competition from other cellular phone carriers, particularly if Japan eventually follows the trend toward number portability that has affected cellular phone carriers in other countries such as the United States. Also, we may have to spend more on subscriber retention than we anticipate as a result of increased competition for subscribers.

Furthermore, 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 ¥8,120 in fiscal 2002, 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 have introduced new services such as i-shot, and supported the growth of existing services such as i-motion mail, which enables users to attach video files to e-mails. We hope such efforts will promote the growth of i-mode ARPU and help attract new customers. However, even if these services are introduced in accordance with our

Table of Contents

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 increasing data transmission traffic, video-phone traffic on our 3G handsets and related increases in revenues. However, our future 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 3G services fail to become popular;
- we are not successful in expanding our services for person-to-machine and machine-to-machine communications;
- 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;
- 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.

Subscribers may experience reduced quality of services 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.

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 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 quality problems occur.

The W-CDMA technology that we use for our 3G system may not be introduced by other operators, 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 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 wireless operators introduce W-CDMA 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 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

[Table of Contents](#)

economies 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 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., Hutchison 3G UK Holdings Ltd., KG Telecommunications Co., Ltd., Hutchison Telephone Company Limited and others. However, the current value of these investments is disappointing. 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.

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 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 ¥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. The gross impairment charges were ¥284.1 billion for AT&T Wireless Services, Inc., ¥117.9 billion for KPN Mobile N.V., ¥9.6 billion for KG Telecommunications Co., Ltd. and ¥123.2 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.

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 ¥28.3 billion in fiscal 2002, ¥59.8 billion in fiscal 2001 and ¥93.2 billion in fiscal 2000 on a U.S. GAAP basis (see Note 14 of the Notes to the Financial Statements).

There were 1.7 million PHS subscribers as of March 31, 2003, 1.9 million as of March 31, 2002, and 1.8 million as of March 31, 2001. We have recently introduced fixed price PHS services for wireless computer connections. There can be no assurance, however, that we will be able to increase our subscriber numbers to expected levels through new product and service introductions such as "WRISTOMO", a wristwatch PHS mobile phone, that our fixed price PHS business will achieve the results we expect, that operating losses will decrease, that customers will continue to use PHS services or that these services will not become obsolete with the introduction of 3G, i-shot camera-equipped cell phones or other products and services by us or our competitors.

Our i-mode system is subject to various fraudulent and inappropriate uses, such as 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. For example, many of our customers receive unsolicited e-mail inviting customers to on-line dating services, or receive other unlawful contents such as fraudulent claims demanding immediate payment for services that were not provided. Such unsolicited e-mail is annoying to many of our customers and may cause them to be less satisfied with our service, either of which could adversely affect our financial results. In addition, we may be subject to lawsuits from customers claiming that they were damaged by their use of third-party websites that they used after receiving unsolicited e-mail through our i-mode system or claiming that they were damaged by disclosure of personal information.

Furthermore, we spend money to enact countermeasures to prevent unsolicited e-mail from reaching our subscribers. 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 per month (worth ¥120 per month) of free packet-data communication. The countermeasures cost our company approximately ¥42 billion in lost revenues in fiscal 2002. 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 so far in preventing our churn rate from increasing, we cannot be certain that we will continue to be successful in the future.

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

NTT currently owns 63.0% 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 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 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 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 link 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.

System failures may adversely affect our financial condition and results of operations.

We are dependent on our nationwide PDC, PHS and 3G networks in order to provide our voice 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 damage from earthquakes, which are common in Japan, and power shortages, which may occur in the greater Tokyo area during the summer of 2003 as a result of problems at Japanese nuclear power plants. Additional causes of potential system failures include hardware and software problems and damage to our network as a result of 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.

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 63.0% 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 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