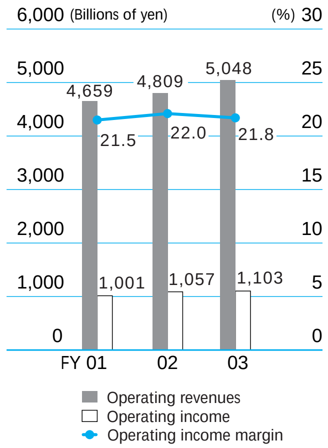
OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Operating Results

You should read the following discussion of our financial condition and results of operations together with our consolidated financial statements and information included in this annual report. Fiscal 2003 herein refers to the fiscal year ended March 31, 2004, and other fiscal years are referred to in a corresponding manner.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under "Risk Factors". and elsewhere in this annual report.

Operating revenues & Operating income



Overview

Our Business

We are the largest provider of cellular services in Japan with an aggregate subscriber base of approximately 45.9 million as of March 31, 2004, which represented approximately 56.3% of all cellular subscribers in Japan. Of these subscribers, 41.1 million were also subscribers to our i-mode data communications service. We also provide Personal Handyphone System, or PHS, and Quickcast (paging) services throughout Japan with aggregate subscriber bases of approximately 1.6 million and 0.5 million, respectively, as of March 31, 2004.

We earn revenues and generate operating cash flow through fees for wireless voice and data communications services and sales of wireless communications equipment. Our operating revenues increased to ¥5,048,065 million in fiscal 2003 from ¥4,809,088 million in fiscal 2002. Operating income increased to ¥1,102,918 million in fiscal 2003 from ¥1,056,719 million in fiscal 2002. Net income increased to ¥650,007 million in fiscal 2003 from ¥212,491 million in fiscal 2002. For fiscal 2003, our operating margin was 21.8% and our net income per share was ¥13,099. Our balance sheet had total debt as of March 31, 2004 of ¥1,091,596 million, representing approximately 0.64x net cash provided by operating activities for fiscal 2003.

Our Results in Fiscal 2003

As of March 31, 2004, the number of FOMA subscribers reached 3.05 million, substantially exceeding our earlier expectations, due to brisk sales of the latest "FOMA 900i" series handsets. At the same time, the number of our 2G cellular (mova) subscribers decreased for the first time to 42.88 million, down 1.5% year-on-year. This demonstrates that we have been making progress in migrating subscribers to FOMA, and our target is to increase the number of FOMA subscribers to 10.6 million by March 31, 2005.

The subscriber base for i-mode also increased, reaching 41.08 million as of March 31, 2004, accounting for approximately 90% of our total cellular subscribers. The uptake of cellular phones compatible with infrared data transmission capability, two-dimensional bar code readers and other external interface technologies is also expanding steadily.

Operating revenues totaled ¥5,048,065 million, up 5.0% year-on-year.

- Cellular (mova) services revenues decreased to ¥3,156.5 billion, down 4.0% year-on-year. Although we strengthened our lineup of handsets with sophisticated features and provided new services, the number of subscribers decreased mainly due to progress in the migration of subscribers from mova services to FOMA services.
- Cellular (FOMA) services revenues increased to ¥153.0 billion, up 1023.8% year-on-year, due to a significant increase in the number of subscribers through improvement of the coverage area and active sales promotion in line with introduction of "FOMA 900i" series handsets, and an increase in the usage of packet communications services such as "i-motion."
- Packet communications services revenues increased to ¥1,020.7 billion, up 15.2% year-on-year, as a result of an increase in the number of i-mode services subscribers mainly due to wider penetration of handsets equipped with i-appli, built-in cameras, infrared data transmission capability and a QR code reader function, and an increase in the usage of i-mode services boosted mainly through a further increase of content utilizing the new functions.

Breakdown of operating revenues

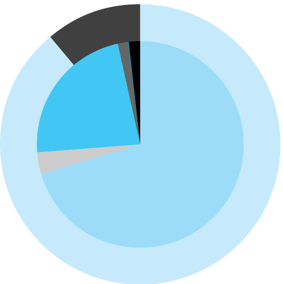
	Billions of yen		
	Fiscal 2002	Fiscal 2003	Increase (Decrease)
Wireless services	¥4,350.9	¥4,487.9	3.1%
Cellular (mova) services revenues (a)	3,286.4	3,156.5	(4.0%)
Cellular (FOMA) services revenues (a)(b)	13.6	153.0	1023.8%
Packet communications services revenues (a)	886.3	1,020.7	15.2%
PHS services revenues	79.3	70.4	(11.3%)
Quickcast services revenues	7.7	5.8	(24.8%)
Other revenues	77.6	81.5	5.0%
Equipment sales (c)	458.2	560.2	22.2%
Total operating revenues	¥4,809.1	¥5,048.1	5.0%

(a) Due to a new billing arrangement called "Nikagetsu Kurikoshi," ¥28.0 billion and ¥4.3 billion were deferred from cellular (mova) services revenues and cellular (FOMA) services revenues for fiscal 2003, respectively.
(b) Cellular (FOMA) services revenues include packet communications services revenues from FOMA subscribers, which amounted to ¥4.7 billion and ¥49.9 billion for fiscal 2002 and 2003, respectively.
(c) Due to the application of Emerging Issue Task Force No. 01-09 ("EITF 01-09"), "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," equipment sales for fiscal 2002 and 2003, decreased by ¥558.9 billion and ¥605.5 billion, respectively.

Operating expenses were ¥3,945,147 million, up 5.1% year-on-year.

- Cost of equipment sold increased to ¥1,094.3 billion, up 15.1% year-on-year, due to an increase in the number of handsets sold, especially an increase in sales of FOMA handsets, which have been comparatively more expensive than mova handsets.
- Depreciation and amortization expenses decreased to ¥721.0 billion, down 3.8% year-on-year, primarily because for fiscal 2002, we upgraded our platform facilities for i-mode services and accelerated depreciation of the retired facilities, while for fiscal 2003, we decreased capital expenditures as a result of our efforts to make capital expenditures more efficient and less costly.
- Selling, general and administrative expenses increased to ¥1,417.2 billion, up 5.4% year-on-year, primarily due to an increase in sales commissions paid to agent resellers and costs related to point loyalty programs.
- Aggregated personnel expenses included in cost of service and selling, general and administrative expenses for the fiscal years 2002 and 2003 were ¥243.3 billion and ¥248.4 billion, respectively.

Breakdown by Operating Revenues



- Wireless services (88.9%)
  - Cellular (mova) services (62.5%)
  - Cellular (FOMA) services (3.0%)
  - Packet communication (20.2%)
  - PHS services (1.4%)
  - Quickcast services (0.1%)
  - Other revenues (1.7%)
- Equipment sales (11.1%)

Breakdown of Operating Expenses

- Cost of services (18.1%)
- Cost of equipment sold (27.7%)
- Depreciation and amortization (18.3%)
- Selling general and administrative (35.9%)

Breakdown of operating expenses

	Billions of yen		
	Fiscal 2002	Fiscal 2003	Increase (Decrease)
Cost of services	¥ 707.3	¥ 712.6	0.8%
Cost of equipment sold	950.7	1,094.3	15.1%
Depreciation and amortization	749.2	721.0	(3.8%)
Selling, general and Administrative (a)	1,345.2	1,417.2	5.4%
Total operating expenses	¥3,752.4	¥3,945.1	5.1%

(a) Due to the application of EITF 01-09, selling, general and administrative for fiscal 2002 and 2003 decreased by ¥571.2 billion and ¥593.9 billion, respectively.

Industry and Operating Trends

The Mobile communications market in Japan continued to grow in fiscal 2003, adding 5.54 million cellular and PHS subscribers to the total of over 86.65 million subscribers by the end of the period, with the subscriber penetration rate in the Japanese population reaching 67.9%. As a result of the high penetration rate, however, the subscriber growth rate in the Japanese mobile communications market has been slowing down. In fiscal 2003, the Japanese mobile communications industry subscriber growth rate was 7.7%, compared with 9.5% in fiscal 2002, 13.4% in fiscal 2001 and 19.2% in fiscal 2000. With fewer new subscribers to add, the competition between the mobile carriers in Japan is intensifying, leading to competition to meet variety of customer demands. Mobile carriers in Japan are competing to offer handsets with more features: e.g. handsets equipped with camera and handsets capable of using new services offered on 3G networks. The carriers are competing on price and are offering discounted tariff plans, with some offering flat-rate tariff plans for mobile data communications services. Also, the carriers are competing to bring in subscribers to their 3G services. We expect the intense competition to continue, but at the same time, we see opportunities for developing new revenue and cash flow from new service developments enabled by high-speed data communications through 3G networks combined with flat-rate and lowered tariff plans.

Regulatory changes have also increased competition and put pressure on tariff rates for mobile communications carriers in Japan in recent years. In fiscal 2003, the introduction of new systems for setting tariffs for calls between fixed line and cellular phones, allowing fixed line operators to fix and collect fees instead of mobile operators in some cases has decreased our revenues from such calls. The MPHPT is planning to introduce mobile number portability in Japan by fiscal 2006. If number portability is introduced, we will incur costs associated with system changes designed to make number portability technically possible. It is too early to determine at this time what effect number portability might have on our revenues.

Although our results in fiscal 2003 showed continued growth of our business, they also showed a slowdown in the pace of our growth. Basically, our cellular services revenues, which represent a significant portion of our revenues, are a function of the number of our subscribers times average monthly revenue per unit, or ARPU. In the past, growth in the number of our subscribers more than offset declines in our ARPU, resulting in the net growth of our revenues. We now expect, at least in the short term, slower net subscriber growth, we do not believe such slower subscriber growth will cover expected declines in ARPU.

In the fiscal year ending March 31, 2005, we expect our operating revenues and operating income to decline as we have decided to carry out rate cuts—including the expansion of our “Family Discount” package to offer steeper discounts, effective April 1, 2004, reduction of FOMA’s “Packet Pack” monthly charges, effective May 1, 2004, and introduction of flat-rate tariff plans for i-mode access via FOMA, effective June 1, 2004 to reinforce our competitiveness and propel further growth in the future. We also expect to incur additional expenses associated with the sale of FOMA handsets as our subscribers migrate from our mova cellular services to our FOMA services. Finally, we believe the mobile communications market in Japan has entered a new transition phase, and our key growth driver has changed from a rapid increase in the number of subscribers to the creation of revenues through new high value-added services. We also believe the potential of the industry and our business opportunities remain strong.

Going forward, in addition to our business models centered on revenues from metered communication charges, we intend to create new services through linkage with brick-and-mortar services using the external interfaces of cellular phones —i.e., the convergence of mobile multimedia services with various types of commerce activities—with an aim to evolve our cellular service into a “life infrastructure” offering useful solutions for people’s daily lives and businesses. Thus, we seek to achieve revenue, new value creation and income growth in the future by:

- expanding A/V (Audio and Visual) traffic through promoting A/V compatible handsets;
- increasing non-traffic revenues by developing businesses linked with brick-and-mortar services using handsets’ external interface;

• boosting traffic of low-usage customers by stimulating usage through creating new services;
• further developing global businesses by promoting use of international dialing/roaming services and by overseas deployment of i-mode; and
• reducing cost through efforts such as lowering procurement cost, reducing distributor commissions, and cutting costs of our network.

Factors Affecting Results of Operations

Revenues

Our two principal sources of revenues are our wireless services and equipment sales. Our wireless services include mobile phone services, PHS services, Quickcast (paging) services and other miscellaneous services. Mobile phone services currently include 2G cellular (mova) services, packet communications services, 3G cellular (FOMA) services, satellite mobile communications services and in-flight telephone services, and accounted for approximately 96.6%, 96.4% and 96.1% of wireless services revenues for fiscal years 2003, 2002 and 2001, respectively. Revenues from PHS services represented 1.6%, 1.8% and 2.2% of wireless services revenues for fiscal years 2003, 2002 and 2001, respectively. Revenues from Quickcast services have steadily declined since fiscal 1996, contributing only 0.1% to wireless services revenues for fiscal 2003, and 0.2% for both fiscal 2002 and fiscal 2001.

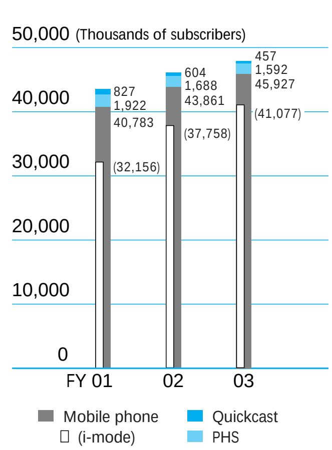
Wireless Services

We earn our wireless services revenues principally from fixed monthly plan charges, usage charges for outgoing calls, revenues from incoming calls and charges for optional value-added services and features. Cellular (FOMA) services revenues include voice revenues and packet revenues. Cellular (mova) services revenues include voice revenues only and packet revenues are included in the packet communications services revenues. Our packet communications services revenues, which are currently dominated by i-mode revenues, represented 22.7% of wireless services revenues for fiscal 2003, and 20.4% and 17.2% of such revenues for fiscal 2002 and fiscal 2001, respectively. i-mode revenues, which are included in the packet communication services and cellular (FOMA) services portion of mobile phone services revenues, include monthly and usage charges. For mova subscribers, the monthly charge for i-mode services is ¥300 and the charge for data transmission is ¥0.2–¥0.3 per packet. For FOMA subscribers, who may send more packets per minutes to take advantage of FOMA's advanced technology services, the monthly charge for i-mode services is ¥150 and the charge for data transmission is ¥0.02–¥0.2 per packet.

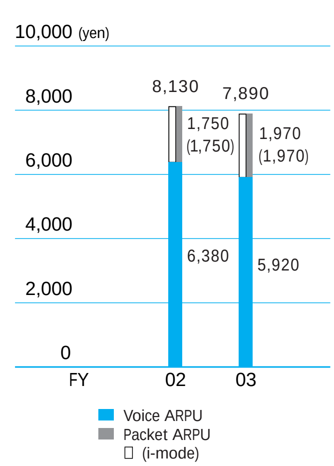
Our cellular services subscribers increased by 4.7% to 45.93 million at March 31, 2004, from 43.86 million at March 31, 2003, and by 7.5% to 43.86 million at March 31, 2003, from 40.78 million at March 31, 2002. These numbers include the numbers of FOMA services subscribers, which reached 3.05 million at March 31, 2004, from 330,000 at March 31, 2003 and 90,000 at March 31, 2002. This increase of FOMA subscribers resulted mostly from the decrease in mova subscribers, which decreased for the first time to 42.88 million at March 31, 2004, down 1.5% from March 31, 2003. We expect this migration of subscribers from mova services to FOMA services to accelerate. We also expect the growth of our cellular subscribers as a whole to slowdown, due to the saturation of the Japanese cellular services market. Total i-mode subscribers, including both existing cellular subscribers signing up for i-mode services and new subscribers signing up for i-mode services, increased by 8.8% to 41.08 million at March 31, 2004, and by 17.4% to 37.76 million at March 31, 2003, from 32.16 million at March 31, 2002. Our PHS subscribers decreased to 1.59 million at March 31, 2004, from 1.69 million at March 31, 2003, and 1.92 million at March 31, 2002. Our Quickcast subscribers have continuously declined, with a decrease to 0.46 million subscribers at March 31, 2004, from 0.6 million at March 31, 2003, and 0.83 million at March 31, 2002.

The average minutes of usage, or MOU, per month per cellular (mova) subscriber decreased year-on-year to 158 minutes per month for fiscal 2003 from 168 minutes for fiscal 2002 and 178 minutes for fiscal 2001. The average minutes of usage per month per cellular (FOMA and mova) subscriber decreased year-on-year to 159 minutes per month for fiscal 2003 from 167 minutes for fiscal 2002. The decrease was primarily due to wider penetration into lower usage subscriber segments and a large number of subscribers using i-mode e-mail instead of voice calls.

Subscribers by service



FOMA+mova ARPU



We use average monthly revenue per unit, or ARPU, to measure average monthly operating revenues attributable to designated services on a per user basis. ARPU is calculated by dividing various revenue items included in operating revenues from our wireless services, such as monthly charges, voice transmission charges and packet transmission charges, from designated services by number of active subscribers to the relevant services. Accordingly, the calculation of ARPU excludes revenues that are not representative of monthly average usage such as activation fees. We believe that our ARPU figures calculated in this way provide useful information regarding the monthly average usage of our subscribers. The revenue items included in the numerators of our ARPU figures are based on our U.S. GAAP results of operations.

Increases in the number of cellular subscribers have offset declines in aggregate ARPU, and declines in PHS and Quickcast revenues. Voice ARPU has fallen over the past few years, due primarily to cellular rate reductions, an increase in subscribers using discounted plans, wider penetration into lower usage subscriber segments, a large number of subscribers using i-mode e-mail instead of voice calls and a general reduction in subscriber usage due to Japan's stagnant consumer spending. Our aggregate ARPU (mova) in fiscal 2003 decreased by 3.8% to ¥7,830 from ¥8,140 in fiscal 2002, and from ¥8,470 in fiscal 2001. One of the primary reasons that aggregate ARPU (mova) has not decreased more is that increases in i-mode ARPU (mova) have partially offset the declines in voice ARPU (mova). Voice ARPU (mova) in fiscal 2003 decreased by 7.8% to ¥5,890 from ¥6,390 in fiscal 2002 and from ¥6,930 in fiscal 2001. However, i-mode ARPU (mova), ARPU for i-mode handsets multiplied by a fraction, the numerator of which is the number of i-mode subscribers and the denominator of which is the total number of cellular subscribers, in fiscal 2003 increased by 10.9% to ¥1,940 from ¥1,750 in fiscal 2002 compared with ¥1,540 for fiscal 2001. We expect that cellular ARPU (mova) rates will decline further and the average minutes of usage per month per subscriber will decline over the next few years. These trends adversely affecting voice ARPU had been partially compensated for by subscriber growth and increases in i-mode ARPU. However, after April 2004, in a bid to reinforce our competitiveness, we increased the discount rates of our "Family Discount" package, effective April 1, 2004, lowered FOMA's "Packet Pack" monthly charges, effective May 1, 2004, and introduced flat-rate tariff plans for i-mode access via FOMA, effective June 1, 2004. These measures will lower i-mode ARPU. Also, migration of subscribers from mova to FOMA will lower i-mode ARPU (FOMA+mova), because per packet charges for FOMA services are lower. Consequently, we expect the rate discounts and flat-rate tariff plans will lead to a migration of subscribers and acquisition of new subscribers for our FOMA services, which in turn will induce creation of new businesses, e.g. expansion of content business.

Equipment Sales

Revenue from equipment sales, primarily the sale of handsets and other telecommunications equipment, accounted for 11.1% of total operating revenues for fiscal 2003, and 9.5% and 10.9% for fiscal 2002 and fiscal 2001, respectively. In fiscal 2003, we experienced strong sales of our handsets with features such as application downloads and mega-pixel camera, and new series of FOMA handsets. However, revenues from equipment sales do not contribute significantly to operating income as such revenues are offset by the costs of and expenses relating to sales of telecommunications equipment, particularly in the case of handsets. From fiscal 2002, we adopted EITF 01-09 and therefore account for a portion of the sales commission that we pay to agent resellers as a reduction of equipment sales revenues. Our equipment sales revenues increased from fiscal 2002 to fiscal 2003 primarily due to an increase in sales of FOMA handsets. The decrease in equipment sales revenues from fiscal 2001 to fiscal 2002 reflected the fact that there has been an increase in handset replacement sales as a percentage of total equipment sales and under EITF 01-09 the percentage of reduction in revenues related to replacement sales is greater than that for new sales.

Our average monthly churn rate for cellular subscribers was 1.21% for fiscal 2003 and 1.22% and 1.18% for fiscal 2002 and fiscal 2001, respectively. In order to keep our churn rates low, we have been focusing on subscriber retention by implementing certain measures including offering discounts for long-term subscribers as well as incentives provided for handset replacement. We believe that a portion of our churn is attributable to subscribers who voluntarily terminated contracts in order to upgrade or change handsets but remained our subscribers and therefore had less adverse impact on our financial results than churn attributable to the termination of a subscriber's relationship with us. We also believe that due to various factors, such as the introduction of i-mode, customer confidence in our network and services and the introduction of new services, our churn rate has been lower than other operators, although no assurance can be given that this will continue to be the case.

Expenses

Our principal operating expenses are costs of services, which consist primarily of network operation costs and interconnection charges, the costs of handsets and other equipment sold, and selling, general and administrative expenses including sales agent commission costs, distribution costs, advertising and promotional expenses and customer service costs. Sales agent commission costs account for approximately 40% of selling, general and administrative expenses. In addition, our operating expenses include depreciation and amortization charges relating to capital expenditures, including the cost of constructing our network.

Cost of Services

In order to accommodate the substantial increase in cellular traffic volume over the last several years, we have been maintaining and enhancing our 2G (mova) networks, as well as introducing the 3G cellular telecommunication system utilizing Wideband Code Division Multiple Access, or W-CDMA, (FOMA) network. We expect that our mova service subscribers, who presently outnumber our FOMA service subscribers by a wide margin, will migrate to FOMA service gradually. Although the expansion of the geographic coverage area of our current 2G (mova) network is virtually complete and the coverage area of our 3G (FOMA) network spreads almost nationwide in Japan, the continuation of network capacity expansion and enhancement in heavy traffic areas, maintenance of our existing networks, the construction, expansion and enhancement of the 3G (FOMA) network and research and development for 4G and other projects has required and will continue to require significant capital expenditures. We also expect that a certain amount of costs and expenses will be continuously required to administer the two different networks together. See "Capital Expenditures"

For the use of our spectrum, we pay a usage fee in accordance with the Radio Law, which is based on a number of factors including the number of base stations and handsets. In fiscal 2003, we paid total usage fees to the government of approximately ¥27.1 billion, compared to approximately ¥25.0 billion for fiscal 2002 and approximately ¥24.0 billion for fiscal 2001. The usage fees for our 3G spectrum allocation are calculated in accordance with a formula, which is similar to the formula that is used for our current fees for 2G spectrum allocation as determined in accordance with the Radio Law. The usage fee for 3G spectrum of approximately ¥1.6 billion was included in the amount of payment in fiscal 2003.

Cost of Equipment Sold

We purchase handsets from various manufacturers for resale to new subscribers and as replacement handsets for sale to existing subscribers who wish to upgrade their equipment. The average period between handset replacements is approximately 2.5 years. We believe that this is due in large part to subscribers selecting new handsets to take advantage of continuing improvements in handsets' function such as performance of cameras and battery life and to take advantage of new services such as i-mode, i-appli and i-shot. Additionally, particularly successful models of handsets also generated increased handset sales. In fiscal 2001, sales of handsets to new subscribers were lower than fiscal 2000, resulting in a decrease in related handset acquisition costs. In fiscal 2002, cost of equipment sold increased slightly primarily due to costs associated with the disposal of unsold early-model FOMA handsets. During fiscal 2003, sales of new series of FOMA and mova handsets were good. Accordingly, the cost of equipment sold and commissions paid to agents increased. We are expecting rapid growth in the number of FOMA subscribers. Because procurement costs for FOMA handsets are higher than that of mova handsets, resulting in higher selling expenses with FOMA handsets, it will have an adverse effect on our earnings. We expect the situation to continue for the short term. The cost of FOMA handsets may decline as the volume of procurement increases.

Selling, General and Administrative Expenses

The primary expenses included in our selling, general, and administrative expenses are expenses related to acquiring new subscribers, the most significant of which are commissions paid to sales agents. The main components of the commissions that we pay to agents who sign up new subscribers are a closing commission for each new subscriber and volume incentives that vary depending on the number of new subscribers per agent per month. In addition, we pay agents a commission in the form of handset sales incentives depending on the type of handset a subscriber purchases. Commissions differ from region to region due to such factors as the competitive and economic environments in the various regions. Average commissions we paid when acquiring a new subscriber who also purchased a handset were approximately ¥30 thousand per subscriber for fiscal 2003, 2002 and 2001. As with the costs of acquiring new subscribers, sales of replacement handsets to existing subscribers and the related activation of the handsets also generally result in average commissions paid to agents of approximately ¥30 thousand per subscriber. Aggregate commissions paid for FOMA subscriber acquisitions or FOMA handset sales were not significant in this fiscal year, but the average FOMA commission per subscriber acquisition or handset sale was approximately ¥10 thousand higher than that for a mova acquisition or handset sale. We adopted EITF 01-09 from April 1, 2002, and therefore the portion of the commissions paid to agent resellers for equipment, including handsets, are recognized as a reduction of equipment sales revenues.

Beginning in the second half of fiscal 2002, we have been investing in the development of FOMA handsets being developed by various handset manufacturers. The amounts of our investment in the development of FOMA handsets during the fiscal 2003, and 2002, were approximately ¥23.5 billion and approximately ¥17.5 billion, respectively, and included in selling, general, and administrative expenses.

Operating Income

Our ability to continue to generate profits will be substantially affected by a number of factors affecting all cellular operators, including, among others, our ability to maintain high levels of aggregate ARPU, our ability to attract and retain new subscribers, the rate of growth of subscribers, the level of subscriber usage, the level and structure of tariffs, competition, the rate of churn of subscribers, spectrum availability and allocation, fees for interconnection among telecommunications operators, network capital expenditure requirements and research and development expenditures.

Equity in Net Losses of Affiliates

We expect that equity in net income/losses of affiliates will continue to be affected primarily by our overseas investments. First, we include our pro-rata portion of the net income or net losses of these companies as the investments are accounted for by the equity method. Effective as of April 1, 2001, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142 "Goodwill and Other Intangible Assets" and ceased amortization of equity method goodwill associated with our investments. We have reviewed our investments and equity method goodwill for impairment based on an other than temporary decline in value and have recognized several impairments, as described below. As of March 31, 2004, we had approximately ¥45.2 billion of equity method goodwill remaining from our overseas investee affiliates.

On February 17, 2004, AT&T Wireless entered into a merger agreement with Cingular Wireless LLC ("Cingular"), a mobile carrier in the US, and certain of its affiliates. See also "Liquidity and Capital Resources", and footnotes to the consolidated financial statements 5.

In addition to recording our portion of the income and losses of our equity method affiliates, we also regularly test the value of our equity method investments. As a result and to the extent there is impairment, we have had and may in future periods have write-downs related to other than temporary declines in value of these investments. In recent years, telecommunications companies and wireless operators, including the companies we invested in, have experienced a variety of negative developments, including increased competition, increasing debt burdens from network build outs, expensive 3G spectrum auctions and other factors. As a result, these companies have experienced financial difficulties and significant volatility in share prices. In light of the effects of these negative developments and related declines in the reported market prices or market values of our overseas affiliates and other affiliates, we recognized impairment losses equal to ¥319,564 million, net of deferred taxes of ¥225,535 million, in fiscal 2002, and ¥624,644 million, net of deferred taxes of ¥453,235 million, in fiscal 2001, with respect to our interests in some of our affiliates. We believe the estimated fair values of our investments in affiliates at March 31, 2004 equaled or exceeded the related carrying values as a result of these impairments.

Results of Operations

The following tables set forth selected income statement data in yen amounts and expressed as a percentage of total operating revenues for the periods indicated:

	Fiscal		
	2001	2002	**2003**
	(in millions)		
Operating revenues:			
Wireless services	¥4,153,459	¥4,350,861	**¥4,487,912**
Equipment sales (1)	505,795	458,227	**560,153**
	4,659,254	4,809,088	**5,048,065**
Operating expenses:			
Cost of services	710,305	707,253	**712,571**
Cost of equipment sold	927,483	950,699	**1,094,332**
Depreciation and amortization	640,505	749,197	**720,997**
Selling, general, and administrative (1)	1,380,074	1,345,220	**1,417,247**
	3,658,367	3,752,369	**3,945,147**
Operating income	1,000,887	1,056,719	**1,102,918**
Other expenses, net	44,496	13,751	**1,795**
Income before income taxes, equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries	956,391	1,042,968	**1,101,123**
Income taxes	399,643	454,487	**429,116**
Income before equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries	556,748	588,481	**672,007**
Equity in net losses of affiliates (2)	(643,962)	(324,241)	**(21,960)**
Minority interests in earnings of consolidated subsidiaries	(28,977)	(16,033)	**(40)**
Income (loss) before cumulative effect of accounting change	(116,191)	248,207	**650,007**
Cumulative effect of accounting change (3)	—	(35,716)	**—**
Net income (loss)	¥ (116,191)	¥ 212,491	**¥ 650,007**

	Fiscal		
	2002	2003	**2004**
Operating revenues:			
Wireless services	89.1%	90.5%	**88.9%**
Equipment sales	10.9	9.5	**11.1**
	100.0	100.0	**100.0**
Operating expenses:			
Cost of services	15.3	14.7	**14.1**
Cost of equipment sold	19.9	19.8	**21.7**
Depreciation and amortization	13.7	15.5	**14.3**
Selling, general, and administrative	29.6	28.0	**28.1**
	78.5	78.0	**78.2**
Operating income	21.5	22.0	**21.8**
Other expenses, net	1.0	0.3	**0.0**
Income before income taxes, equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries	20.5	21.7	**21.8**
Income taxes	8.6	9.5	**8.5**
Income before equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries	11.9	12.2	**13.3**
Equity in net losses of affiliates	(13.8)	(6.7)	**(0.4)**
Minority interests in earnings of consolidated subsidiaries	(0.6)	(0.3)	**(0.0)**
Income (loss) before cumulative effect of accounting change	(2.5)	5.2	**12.9**
Cumulative effect of accounting change	—	(0.8)	**—**
Net income (loss)	(2.5)	4.4	**12.9**

(1) We adopted EITF 01-09 from April 1, 2002. Therefore, equipment sales and selling, general and administrative expenses in fiscal 2001 have been reclassified. Equipment sales and selling, general and administrative expenses in fiscal 2003 were decreased by ¥605,472 million and ¥593,939 million, respectively. And, in fiscal 2002, they were decreased by ¥558,923 million and ¥571,223 million, respectively. As required, selling, general and administrative expenses, amounting to ¥507,884 million in fiscal, 2001 have also been reclassified as a reduction of equipment sales.
(2) Includes write-downs in investment in affiliates of ¥319,564 million, net of deferred taxes of ¥225,535 million, and ¥624,644 million, net of deferred taxes of ¥453,235 million, in fiscal 2002 and 2001, respectively.
(3) This relates to the adoption of EITF 01-09 and the timing for recognizing commissions payable to agents.

Comparison of Fiscal 2003 with Fiscal 2002

Operating revenues increased by 5.0% to ¥5,048,065 million in fiscal 2003 from ¥4,809,088 million in fiscal 2002. Wireless services accounted for 88.9% of revenue in fiscal 2003 compared to 90.5% in the prior year. The increase in wireless services revenues was due primarily to a 3.4% growth in mobile phone services revenues, including i-mode and other packet communication services, to ¥4,337,035 million in fiscal 2003. Although our cellular (mova) services revenues decreased to ¥3,156,467 million in fiscal 2003 from ¥3,286,372 million in fiscal 2002, the growth in our cellular (FOMA) services revenues which increased to ¥152,986 million in fiscal 2003 from ¥13,613 million in fiscal 2002, and the growth in i-mode services that resulted in packet communications services revenues increasing to ¥1,020,650 million in fiscal 2003 from ¥886,337 million in fiscal 2002, lead to the increase in mobile phone services revenues. This shows that our continuous efforts to migrate the subscriber base from mova to FOMA, and to expand other than voice usage through data communications services more than offset the decrease of revenues from voice traffic over cellular (mova) services. PHS revenues, representing 1.6% of wireless services, decreased by 11.3% from prior fiscal year while Quickcast revenues, representing 0.1% of wireless services, declined significantly, reflecting decreases in the subscriber base and usage for pagers. The 22.2% increase in equipment sales revenues compared to the prior period was primarily due to brisk sales of both new mova handsets and new series of FOMA handsets introduced in the fourth quarter.

Operating expenses increased by 5.1% to ¥3,945,147 million in fiscal 2003 from ¥3,752,369 million in fiscal 2002. This increase was largely due to a 15.1% increase in cost of equipment sold, while depreciation and amortization decreased 3.8%. The increase in the handset sales lead to the increase in cost of equipment sold. The decrease in depreciation and amortization expense was primarily because for the prior fiscal year we upgraded our platform facilities for i-mode services and shortened depreciation periods of the retired facilities, while for fiscal 2003, we have decreased capital expenditures as a result of our efforts to make capital expenditures more efficient and less costly. Cost of services slightly increased from the previous fiscal year by 0.8%. Selling, general and administrative expenses increased from the previous fiscal year by 5.4% primarily because the aggregate commissions paid to reseller increased as a result of the increase in handset sales. Operating expenses increased as a percentage of operating revenues to 78.2% in fiscal 2003 from 78.0% in fiscal 2002. This was primarily because the increase in operating expenses, including selling, general and administrative expenses was larger than the increase in cellular (FOMA) revenues and in packet communications services revenues.

As a result of the foregoing, our operating income for fiscal 2003 was ¥1,102,918 million, representing a 4.4% increase.

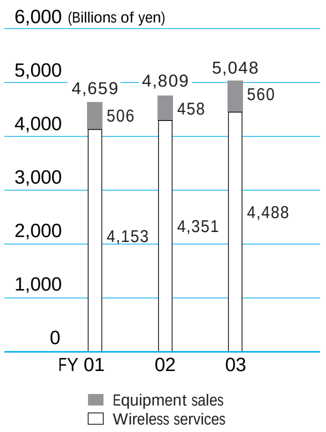
Other expenses, net, which include such items as interest expense, interest income, foreign exchange gains and losses and gains and losses on marketable securities, decreased by 86.9% to ¥1,795 million in fiscal 2003 from ¥13,751 million in fiscal 2002, primarily due to a decrease in interest expense caused by a decrease in interest bearing liabilities aiming to strengthen our financial position, and the fact that we recognized an evaluation gain of approximately ¥2,665 million on a share-exchange right related to our investment in KG Telecommunications Co., Ltd. (“KGT”), a former affiliate.

Income before income taxes, equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries was ¥1,101,123 million and ¥1,042,968 million for fiscal 2003 and fiscal 2002, respectively. Income taxes were ¥429,116 million in fiscal 2003 and ¥454,487 million fiscal 2002, representing effective tax rates of approximately 39% for fiscal 2003 and 44% for fiscal 2002. We are subject to a number of different taxes in Japan, including corporate income tax, enterprise tax and inhabitant income taxes, which, in the aggregate, amounted to a statutory tax rate of approximately 42% for both fiscal 2003 and 2002. For fiscal 2003, the Japanese government introduced special tax treatment to promote growth of information technology related industry, which enabled part of the investments to certain IT related assets to be deducted from taxable income. This lead to the difference between the effective tax rate and the statutory tax rate.

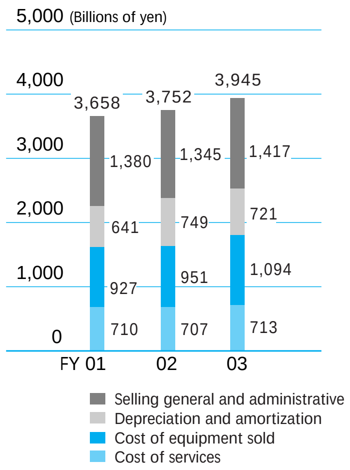
Equity in net losses of affiliates, net of taxes, decreased to ¥21,960 million in fiscal 2003 from ¥324,241 million in fiscal 2002, mainly because there were no write-downs of investments in affiliates in fiscal 2003, and there were write-downs of investments in affiliates of ¥319,564 million, net of deferred taxes of ¥225,535 million in fiscal 2002.

As a result of the foregoing, we recorded net income of ¥650,007 million in fiscal 2003 compared to net income of ¥212,491 million in fiscal 2002.

Operating Revenues



Operating Expenses



Comparison of Fiscal 2002 with Fiscal 2001

Operating revenues increased by 3.2% to ¥4,809,088 million in fiscal 2002 from ¥4,659,254 million in fiscal 2001. Wireless services accounted for 90.5% of revenue in fiscal 2002 compared to 89.1% in the prior year. The increase in wireless services revenues was due primarily to a 5.1% growth in mobile phone services revenues, including i-mode and other packet communication services, to ¥4,193,625 million in fiscal 2002. This increase in mobile phone services revenues reflects growth in the cellular subscriber base and the strong performance of i-mode services, which offset declining voice ARPU which was due to rate reductions, an increase of subscribers using discounted plans, wider penetration into lower usage subscriber segments, a large number of subscribers using i-mode e-mails instead of voice calls and a general reduction in subscriber usage due to Japan's stagnant consumer spending. The growth in i-mode resulted in packet communications services revenues increasing to ¥886,337 million in fiscal 2002 from ¥716,091 million in fiscal 2001. PHS revenues, representing 1.8% of wireless services, decreased by 10.8% while Quickcast revenues, representing 0.2% of wireless services, declined significantly, reflecting decreases in the subscriber base and usage for pagers. The 9.4% decrease in equipment sales revenues from the prior period was primarily due to the fact that there has been an increase in replacements as a percentage of total equipment sales and under EITF 01-09 the percentage of reduction in revenues related to replacement sales is greater than for new sales.

Operating expenses increased by 2.6% to ¥3,752,369 million in fiscal 2002 from ¥3,658,367 million in fiscal 2001. This increase was largely due to a 2.5% increase in cost of equipment sold, and a 17.0% increase in depreciation and amortization. The increase in cost of equipment sold was due primarily to costs associated with the disposal of unsold early-model FOMA handsets. The increase in depreciation and amortization expense was primarily due to an increase in telecommunications facilities used for FOMA and the purchase of systems hardware and software for our enterprise information system. Cost of services and selling, general and administrative expenses decreased from the previous fiscal year by 0.9% and 2.2%, respectively. Cost of services decreased primarily because interconnection charges for calls utilizing other telecommunication networks decreased due to a reduction in unit prices. The decrease in selling, general and administrative expenses was primarily as a result of a decrease in sales commissions of approximately 10.6% related to new subscriber additions due to a decrease in new subscriber additions.

Operating expenses decreased as a percentage of operating revenues to 78.0% in fiscal 2002 from 78.5% in fiscal 2001. This was primarily because the increase in packet communications services revenues was larger than the increase in operating expenses, including depreciation and amortization.

As a result of the foregoing, our operating income for fiscal 2002 was ¥1,056,719 million, representing a 5.6% increase.

Other expenses, net, which include such items as interest expense, interest income, foreign exchange gains and losses and gains and losses on marketable securities, decreased by 69.1% to ¥13,751 million in fiscal 2002 from ¥44,496 million in fiscal 2001. This decrease was primarily due to a market value write-down adjustment in fiscal 2001 for our warrants to purchase AT&T Wireless common stock, which we carry on a marked to market basis.

Income before income taxes, equity in net losses of affiliates and minority interests in earnings of consolidated subsidiaries was ¥1,042,968 million and ¥956,391 million for fiscal 2002 and fiscal 2001, respectively. Income taxes were ¥454,487 million in fiscal 2002 and ¥399,643 million fiscal 2001, representing effective tax rates of approximately 44% for fiscal 2002 and 42% for fiscal 2001. We are subject to a number of different taxes in Japan, including corporate income tax, enterprise tax and inhabitant income taxes, which, in the aggregate, amounted to a statutory tax rate of approximately 42% for both fiscal 2002 and 2001.

In March 2003, the Japanese government approved the amendments to the tax law, which is to reduce the standard Japanese Enterprise Tax rates based on the size of income as well as levy an additional Japanese Enterprise Tax based on the size of the business. It will be effective for the year beginning April 1, 2004. As a consequence, the combined statutory income tax rate will be lowered to approximately 40.7% for deferred tax assets and liabilities expected to be settled or realized commencing April 1, 2004. The effect of the change in rates on net deferred tax assets was a reduction of ¥18,213 million and was charged to income taxes in the year ended March 31, 2003.

Equity in net losses of affiliates, net of taxes, decreased to ¥324,241 million in fiscal 2002 from ¥643,962 million in fiscal 2001, mainly because write-downs of investments in affiliates decreased to ¥319,564 million, net of deferred taxes of ¥225,535 million, in fiscal 2002 from ¥624,644 million, net of deferred taxes of ¥453,235 million, in fiscal 2001.

EITF 01-09 requires that reduction of revenue and corresponding expenses be recognized at the time of equipment sales to the agent resellers, instead of the date of sale to the end-user customer. Consequently, the cumulative effect of this accounting change was recognized and net income decreased by ¥35,716 million, net of taxes.

As a result of the foregoing, we recorded net income of ¥212,491 million in fiscal 2002 compared to net loss of ¥116,191 million in fiscal 2001.

Segment Information

General

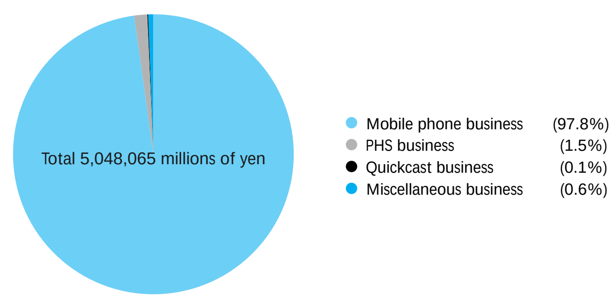
We conform to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 requires us to report about our operating segments in our financial statements. In applying SFAS No. 131, we currently have four primary business segments: mobile phone business, PHS business, Quickcast business and miscellaneous business. As required by SFAS No. 131, we present our business segment information in the accompanying consolidated financial statements as it is presented in reports to our management.

Our chief operating decision maker monitors and evaluates the performance of our segments based on the information that follows, as derived from our management reports. From fiscal 2002, we changed our disclosure of consolidated financial information in Japan from Japanese GAAP to U.S. GAAP. Accordingly, our management reports, which were prepared in accordance with Japanese GAAP in previous years, are prepared in accordance with U.S. GAAP from fiscal 2002. Segment information in accordance with Japanese GAAP continues to be presented for fiscal 2001 in Note 14 of the notes to our consolidated financial statements, but we have also included U.S. GAAP information in Note 14 to provide comparability of the segment information and for the convenience of the users of the financial statements.

Our mobile phone business segment includes:

- mova services,
- FOMA services,
- packet communications services,
- satellite mobile communications services,
- in-flight telephone services, and
- equipment sales related to these services.

Operating Revenues by Segment (FY 2003)



We ceased providing in-flight telephone services on March 31, 2004.

Our Personal Handyphone System, or PHS, business segment includes PHS service and related equipment sales. Our Quickcast business segment includes Quickcast service and related equipment sales. Our miscellaneous business segment includes international dialing and roaming service and other miscellaneous services, which in the aggregate are not significant.

Mobile phone business segment

In fiscal 2003, our operating revenues increased 5.0% to ¥5,048,065 million, our operating expenses increased 5.1% to ¥3,945,147 million and our operating income increased 4.4% to ¥1,102,918 million.

Operating revenues from our mobile phone business segment increased 5.3% to ¥4,937,666 million. Cellular (mova) service revenues, which are revenues from voice traffic of mova services decreased because of rate reductions, increase in subscribers using discounted plans, wider penetration into lower usage subscriber segments, increased subscribers using i-mode e-mails instead of voice calls, and migration of subscriber base from mova to FOMA. The decrease was more than offset by the growth of FOMA revenues and the continued growth of i-mode services. In addition, introduction of new mova series handsets with better data communication capabilities, and improved FOMA series handsets with comparable battery life and weight with mova handsets, that offer enhanced application handling capabilities together with high speed data access, showed strong sales. As a result, associated service revenues contributed to the increase in the mobile phone business segment revenues. Revenues from our mobile phone business segment represented 97.8% of total revenues in fiscal 2003, up slightly from 97.5% in fiscal 2002. Operating expenses in our mobile phone business segment increased 5.4% to ¥3,798,785 million primarily due to increased subscriber retention costs primarily related to our point service program. As a result, operating income from our mobile phone business segment increased 4.8% to ¥1,138,881 million from 1,087,187 million in fiscal 2002.

We expect that FOMA will become an increasingly important component of the mobile phone business segment in the years to come. The migration of our subscriber base to FOMA showed steady progress and the number of subscribers for FOMA grew more than expected to 3.05 million at Mar. 31, 2004. For fiscal 2003, FOMA service operating revenues, excluding FOMA handset sales, increased to ¥153.0 billion from ¥13.6 billion in fiscal 2002, thus covering the decrease of mova service revenues. We believe the increase in FOMA subscribers is due to improvements in the FOMA handsets, as can be seen from the popularity of FOMA 900i series handsets and the construction of a network with a service area that is almost the same as the service area for mova services covering 99% of the population as of March 31, 2004. We believe FOMA revenues will be able to cover FOMA service costs as a result of continuous growth of FOMA revenues in the near future.

PHS business segment

Operating revenues in our PHS business segment decreased by 11.0% to ¥75,702 million in fiscal 2003 from ¥85,038 million in fiscal 2002, primarily due to a decrease in the number of PHS subscribers. Operating expenses in the PHS business segment decreased by 1.9% to ¥111,224 million in fiscal 2003 from ¥113,332 million in fiscal 2002. The introduction of data-card-type PHS terminals for @FreeD, a fixed-fee service for data communications, led to an increase in sales commissions for new subscriber additions, and it offset a decrease in depreciation and amortization due to reduced capital expenditures for PHS business facilities and our cost reduction efforts. Our PHS business segment operating loss increased by 25.5% to ¥35,522 million in fiscal 2003 from ¥28,294 million in prior fiscal year. As the number of PHS subscribers in the Japanese market continues to decrease, the number of PHS subscribers as of March 31, 2004, decreased to 1.59 million (down 5.7% year-on-year). However, 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 fixed-fee service for data communications. We will focus on the data communications and continue our efforts to streamline our PHS business operation.

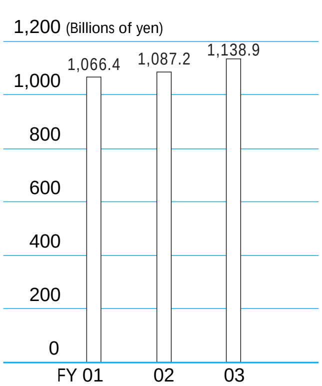
Quickcast business segment

Operating revenues in our Quickcast business segment decreased by 26.1% to ¥5,981 million in fiscal 2003 from ¥8,088 million in fiscal 2002 as a result of the continuing decline of Quickcast subscribers and lower levels of usage as the market for pager services in Japan continued to shrink. Operating revenues from the Quickcast business segment now represent only 0.1% of total operating revenues. Operating expenses decreased by 46.2% to ¥7,832 million in fiscal 2003 from ¥14,546 million in fiscal 2002 due to our cost reduction efforts for communication network charges and other costs. Our operating loss from our Quickcast business segment decreased from ¥6,458 million in the prior year by 71.3% to a loss of ¥1,851 million. We continuously strive for cost reduction regarding our Quickcast business. At the same time, we are considering to replacing the service with the other services we provide.

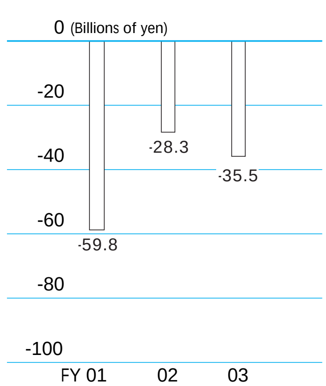
Miscellaneous business segment

Operating revenues from our miscellaneous business increased by 12.5% to ¥28,716 million in fiscal 2003 from ¥25,518 million in fiscal 2002. The increase was mainly due to an increase in international dialing and roaming services revenues. Operating expense from our miscellaneous business increased by 28.6% to ¥27,306

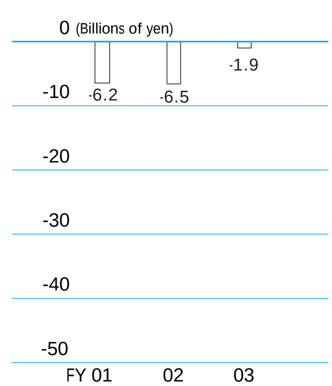
Mobile Phone Business (Operating Income)



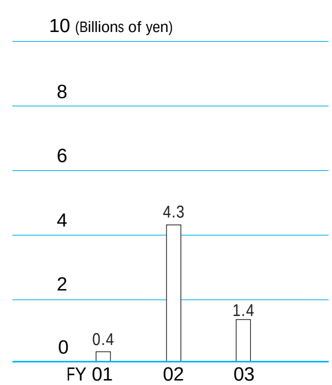
PHS Business (Operating Loss)



Quickcast Business (Operating Loss)



Miscellaneous Business (Operating Income)



million in fiscal 2003 from ¥21,234 million in fiscal 2002, because the costs and expenses of new services such as our wireless LAN service increased. As a result, operating income from our miscellaneous business decreased by 67.1% to ¥1,410 million in fiscal 2003 from ¥4,284 million in fiscal 2002.

Accounting Developments

In May 2003, Financial Accounting Standards Board (“FASB”) issued SFAS No. 150, “Financial Statement on Certain Financial Instruments with Characteristics of Liabilities and Equity.” SFAS No. 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous guidance, could be classified as equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS No. 150 is generally to be applied to all financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 does not have any impact on our results of operations and financial position.

In November 2002, EITF reached a consensus on Issue No. 00-21 (“EITF 00-21”), “Accounting for Revenue Arrangements with Multiple Deliverables.” This Issue provides guidance on when and how to separate elements of an arrangement that may involve the delivery or performance of multiple products, services and rights to use assets into separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The transition provision allows either prospective application or a cumulative effect adjustment upon adoption. The adoption of EITF 00-21 does not have a significant impact on our results of operations and financial position.

In May 2003, EITF reached a consensus on Issue No. 01-08 (“EITF 01-08”), “Determining Whether an Arrangement Contains a Lease.” This Issue provides guidance on how to determine whether an arrangement contains a lease that is within the scope of SFAS No. 13, “Accounting for Leases.” The guidance in the consensus is effective for arrangements entered into, agreed to, modified or acquired in business combinations in fiscal periods beginning after May 28, 2003. We are in the process of determining the impact, if any, that the adoption of EITF 01-08 will have on its results of operations and financial position.

In March 2004, EITF reached a consensus on Issue No. 03-01 (“EITF 03-01”), “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” This Issue provides guidance which should be used to determine the meaning of other-than-temporary impairment and its application to debt and equity securities within the scope of SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” certain debt and equity securities within the scope of SFAS No. 124, “Accounting for Certain Investments Held by Not-for-Profit-Organization,” and equity securities that are not subject to the scope of SFAS 115 and not accounted for under the equity method of accounting. The guidance also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. We applied the new disclosure requirement as of March 31, 2004. The recognition and measurement guidance in the consensus should be applied to other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004 and the disclosure requirement for cost method investments are effective for annual financial statements for the years ending after June 15, 2004. We are in the process of determining the impact, if any, that adoption of this guidance will have on its result of operations and financial position.

Critical Accounting Policies

The preparation of our consolidated financial statements requires our management to make estimates about expected future cash flows and other matters that affect the amounts reported in our financial statements in accordance with accounting policies established by our management. Note 2 of the notes to our consolidated financial statements includes a summary of the significant accounting policies used in the preparation of our consolidated financial statements. Certain accounting policies are particularly sensitive because of their significance to our reported results and because of the possibility that future events may differ significantly from the conditions and assumptions underlying the estimates used and judgments relating thereto made by our management in preparing our financial statements. Our senior management have discussed the selection and development of the accounting estimates and the following disclosure regarding the critical accounting policies with our independent public accountants as well as our corporate auditors. The corporate auditors attend meetings of the Board of Directors and certain executive meetings to express their opinion and are under a statutory duty to oversee the administration of our affairs by our Directors and to examine our financial statements. Our critical accounting policies are as follows.

Useful lives of property, plant and equipment, internal use software and other intangible assets

The values of our property, plant and equipment, such as the base stations, antennas, switching centers and transmission lines used by our cellular, PHS and Quickcast businesses, our internal use software and our other intangible assets are recorded in our financial statements at acquisition or development cost, and are depreciated or amortized over their estimated useful lives. We estimate the useful lives of property, plant and equipment, internal use software and other intangible assets in order to determine the amount of depreciation and amortization expense to be recorded in each fiscal year. Our total depreciation and amortization expenses in fiscal 2003, 2002 and 2001 were ¥720,997 million, ¥749,197 million and ¥640,505 million, respectively. We determine the useful lives of our assets at the time the assets are acquired and base our determinations on expected use, experience with similar assets, established laws and regulations as well as taking into account anticipated technological or other changes. The estimated useful lives of our wireless telecommunications equipment are generally set at six to 15 years. The estimated useful life of our internal use software is set at five years. If technological or other changes were to occur more rapidly or in a different form than anticipated or new laws or regulations are enacted or the intended use changes, the useful lives assigned to these assets may need to be shortened, resulting in recognition of increased depreciation and amortization expense or losses in future periods.

Impairment of long-lived assets

We perform an impairment review for our long-lived assets to be held and used, including fixed assets, such as our property, plant and equipment, and certain identifiable intangibles, such as software for telecommunications network, internal-use software, and rights to use telecommunications facilities of wireline carriers, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. This analysis is separate from our analysis of the useful lives of our assets, but it is affected by some similar factors. Factors that we consider important which could trigger an impairment review include, but are not limited to, the following trends or conditions related to the business that utilizes a particular asset:

- significant decline in the market value of an asset;
- current period operating cash flow loss;
- introduction of competing technologies and services;
- significant underperformance of expected or historical cash flows;
- significant or continuing decline in subscribers;
- changes in the manner of use of an asset; and
- other negative industry or economic trends.

When we determine that the carrying amount of specific assets may not be recoverable based on the existence or occurrence of one or more of the above or other factors, we estimate the future cash inflows and outflows expected to be generated by the assets over their expected useful lives. We estimate the sum of expected undiscounted future net cash flows based upon historical trends adjusted to reflect our best estimate of future market and operating conditions. If the sum of the expected undiscounted future net cash flows is less than the carrying value of the assets, we record an impairment loss based on the fair values of the assets. Such fair values may be based on established markets, independent appraisals and valuations or discounted cash flows. If actual market and operating conditions under which assets are used are less favorable or subscriber numbers are less than those projected by management, resulting in reduced cash flows, additional impairment charges for assets not previously written-off may be required.

No write-downs of our long-lived assets have been recorded in the last three fiscal years. We are monitoring our Quickcast (paging) business operation due to a previous impairment charge, decline in subscribers and decline in cash flows. We are also monitoring our PHS business operations due to current and historical operating losses. We currently estimate that the carrying values for paging assets, which were approximately ¥11.7 billion as of March 31, 2004, and PHS assets, which were approximately ¥112.3 billion as of March 31, 2004, will be recoverable.

Impairment of Goodwill

We review goodwill for impairment based on the requirements of SFAS No. 142, “Goodwill and Other Intangible Assets.” Under this standard, an impairment testing process for goodwill is required to be performed at least annually or on an interim basis if an event occurs or circumstances change that would indicate the asset might be impaired. These events or circumstances include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business and other factors.

Our goodwill totaled ¥133,354 million as of March 31, 2004, and was recorded, based on valuation results, primarily as a result of the acquisition of minority interests in our eight regional subsidiaries through share exchanges in November 2002. The impairment test requires us to first compare the fair value of the reporting units to which our goodwill is assigned with their carrying amounts. The estimate of the fair value of the reporting units is primarily based on a present value technique using discounted cash flows. Significant estimates used in our cash flow projections include, among others, market growth and market share, churn rates, ARPU (average monthly revenue per unit) and capital expenditures for our mobile phone business. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment compares the implied fair value of goodwill of that reporting unit with its carrying amount. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The use of different estimates or assumptions in our discounted cash flows may result in different values for our goodwill and any related impairment charge.

Impairment of investments in affiliates

We have made investments in certain entities, which are accounted for on the equity method, the total carrying value for which was ¥324,155 million as of March 31, 2004. Equity method accounting requires that we assess if a decline in value of any such investment has occurred and, if so, whether such decline is other than temporary. We perform a review for impairment whenever events or changes in circumstances indicate that the carrying amount of an investment may not be recoverable. Factors that we consider important which could trigger an impairment review include, but are not limited to, the following:

- significant or continuing declines in the market values of telecommunications industry companies;
- current period operating cash flow losses of the investee;
- significant underperformance of historical cash flows of the investee;
- significant impairment losses or write-downs recorded by the investee;
- significant changes in the quoted market price of public investee affiliates;
- negative results of competitors of investee affiliates; and
- other negative industry or economic trends.

In performing our evaluations, we utilize various information including cash flow projections, independent valuations and, if applicable, stock price analysis. Such projections and valuations necessarily require estimates involving, among other things, demographics such as population, penetration rates and churn rates, technology changes, capital expenditures, market growth and share, ARPU and terminal values.

Because of the economic and financial environment surrounding the telecommunication industry and resultant significant declines in equity values of telecommunications companies on a global basis in recent years, we review the business outlook of our affiliates in order to determine if the value of any of our investments in them have suffered a decline that was other than temporary. We utilize cash flow projections, independent valuations and other financial information and, as applicable, stock price analysis in performing our reviews and estimating investment values.

As a result of such evaluations, we determined that there were other than temporary declines in the values of several of our investee affiliates and recorded impairment charges aggregating ¥624,644 million, net of deferred income taxes of ¥453,235 million, for the year ended March 31, 2002. The gross impairment charges were ¥664,493 million for AT&T Wireless, ¥320,481 million for KPN Mobile N.V. (“KPNM”), ¥36,461 million for KGT and ¥56,444 million for Hutchison 3G UK Holdings Limited (“H3G UK”). We also recorded impairment charges aggregating ¥319,564 million, net of deferred income taxes of ¥225,535 million, for the year ended March 31, 2003. The gross impairment charges were ¥284,078 million for AT&T Wireless, ¥117,898 million for KPNM, ¥9,619 million for KGT, ¥123,245 million for H3G UK and ¥10,259 million for DoCoMo AOL, Inc. The impairment charges are included in equity in earnings (losses) of affiliates in our income statement. For the year ended March 31, 2004, we determined that there was no other than temporary declines in the values of our investee affiliates. While we believe the remaining carrying values of our affiliate investments are realizable, actual results or changes in circumstances, including cash flow projections or valuations, could require additional charges to be recorded.

Deferred tax assets

We record deferred tax assets and liabilities using enacted tax rates for the estimated future tax effects of carryforwards and temporary differences between the tax basis of an asset or liability and the amount reported in the balance sheet. In determining the amount of the deferred tax asset or liability, we have to estimate the tax rates expected to be in effect during the carryforward periods or when the temporary differences reverse. We also may need to record a valuation allowance against certain deferred tax assets to reflect the likelihood that the future tax benefits will be realized. In determining the valuation allowance, we must estimate expected future taxable income and the timing for claiming and realizing tax deductions, and assess available tax planning strategies. If future taxable income is lower than expected or tax planning strategies are not available as anticipated, the valuation allowance may need to be recorded in the future in the period such determination is made.

Pension liabilities

We sponsor a non-contributory defined benefit pension plan which covers almost all of our employees. Calculation of the amount of pension cost and liabilities for retirement allowances requires us to make various judgments and assumptions including the discount rate, long-term rate of return on funded assets, long-term rate of salary increases and expected remaining service lives of our plan participants. We believe the most significant of these assumptions in the calculations are the discount rates and the expected long-term rate of return on funded assets. We determine an appropriate discount rate based on current market interest rates on high-quality, fixed-rate debt securities for maturity periods that match the remaining service lives of our plan participants. In determining the expected long-term rate of return on plan assets, we consider the current and projected asset allocations, as well as expected long-term investment returns and risks for each category of the plan assets based on analysis of historical results. The rates are reviewed annually, and if an event occurs that would have significant influence on the rates or the investment environment changes dramatically, we review the assumptions, as necessary.

	Fiscal		
	2001	2002	2003
Discount rate	2.5%	2.0%	2.0%
Long-term rate of return on funded assets	3.0	2.5	2.5

We also participate in a contributory defined benefit welfare pension plan sponsored by NTT. The amount of our total projected benefit obligations for both of the non-contributory defined benefit pension plan and the contributory defined benefit welfare pension plan as of the end of the fiscal 2002 and 2003 were ¥283.5 billion and ¥289.2 billion, respectively. The amount is subject to change due to differences in actual experience or changes in assumptions, and the effect of such differences can be substantial. The differences between estimates and the actual benefit obligations are amortized over the expected average remaining service life of participants. For example, our projected benefit obligation in fiscal 2002 increased by ¥22.5 billion as a result of our changing the discount rate from 2.5% to 2.0%, which contributed to the increase in unrecognized actuarial losses during the year. We believe that if there is a similar change of the discount rate in the future with no other changes, it would have the same level of impact on the amount of our total projected benefit obligations.

Revenue recognition

Beginning April 1, 2000, we revised our revenue recognition policy to defer upfront activation fees and to recognize them as revenues over the expected term of the customer relationship, which ranges from two to seven years depending on the type of service. Related direct costs, to the extent of the activation fee amount, are also being deferred and amortized over the same periods. While this policy does not have any material impact on net income, the reported amounts of revenue and cost of services are affected by the level of activation fees and related direct costs and the estimated length of the customer relationship period over which such fees and costs are amortized. Factors that affect our estimate of the customer relationship period over which such fees and costs are amortized include subscriber churn rates, newly introduced or anticipated competing products, services and technologies. The current amortization periods are based on an analysis of historical trends and our experience. In fiscal 2003, 2002 and 2001, we amortized deferred activation fees of ¥3,982 million, ¥3,945 million and ¥4,409 million, respectively, as well as corresponding amounts of related deferred costs. As of March 31, 2004, remaining unamortized deferred activation fees were ¥121,265 million.

Reconciliations of the Disclosed Non-GAAP Financial Measures to the Most Directly Comparable GAAP Financial Measures

Capital expenditures

We define capital expenditures as purchases of property, plant and equipment, intangible and other assets on an accrual basis which reflects the effects of timing differences between acquisition dates and payment dates. We have included the information concerning capital expenditures because our management uses this accrual basis measure to manage our capital expenditures and believes that it is useful to investors to present accrual basis capital expenditures in addition to the cash basis information in our consolidated cash flow statement. Capital expenditures, as we have defined it, may not be comparable to a similarly titled measure used by other companies.

The following table shows a reconciliation of capital expenditures to purchases of property, plant and equipment and intangible and other assets.

	Fiscal				
	1999	2000	2001	2002	2003
	(millions of yen)				
Capital expenditures	¥876,058	¥1,012,795	¥1,032,256	¥853,956	¥805,482
Effects of timing difference between acquisition dates and payment dates	62,533	(55,319)	30,445	10,750	(2,553)
Purchases of property, plant and equipment	(745,002)	(803,397)	(863,184)	(700,468)	(625,284)
Purchases of intangible and other assets	(193,589)	(154,079)	(199,517)	(164,238)	(177,645)