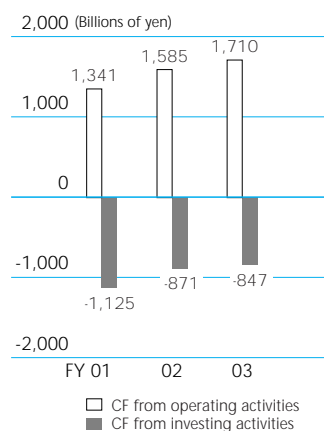


## Liquidity and Capital Resources

### Cash Requirements

Our cash requirements for fiscal 2004, include money needed to make payments related to interest bearing liabilities and other contractual obligations, to expand our 3G FOMA infrastructure around Japan and to invest in other facilities. The sources of our funds are cash from current and future operations as well as future borrowings from banks and other financial institutions and the issuance of debt or equity securities in the capital markets. We believe that available cash reserves and expected cash from operations and future borrowings or issuance of debt or equity securities will provide sufficient financial resources to meet our currently anticipated capital and other expenditure requirements and to satisfy our debt service requirements. We also expect to obtain external financing if necessary for other opportunities, such as new business activities, acquisitions, joint ventures or other investments, through additional borrowing or the issuance of additional debt or equity securities. However, if we have underestimated our capital or other expenditure requirements or overestimated future cash

### Cash Flows



flows, additional debt, equity or other financing may be required. There can be no assurance that such financing will be available on commercially acceptable terms or in a timely manner.

### Long-term Debt and other Contractual Obligations

As of March 31, 2004, we had ¥1,091,596 million in long-term debt, including current maturities, primarily in loans from banks and other financial institutions and corporate bonds, while we had ¥1,338,368 million of long-term debt as of March 31, 2003. We did no long-term financing in fiscal 2003, while we actively reduced our long-term debt and repaid ¥245,411 million of long-term debt. In fiscal 2002, we issued five-year euro-dollar bonds in the aggregate amount of \$100 million (¥11.8 billion at issuance) in March 2003, four-year domestic straight corporate bonds in the aggregate amount of ¥50 billion in January 2003 and five-year domestic straight corporate bonds in the aggregate amount of ¥100 billion in April 2002, for the purpose of refinancing existing long-term debt. In fiscal 2001 we issued long-term debt with an aggregate face amount of ¥397,000 million. In fiscal 2002 and 2001, we made payments for the settlement of long-term debt of ¥212,934 million and ¥177,686 million, respectively.

Of our long-term debt at March 31, 2004, ¥330,537 million, including current portion, was unsecured indebtedness to banks, insurance companies and others at fixed interest rates of 0.5%–4.9% and with maturities currently from fiscal 2004 through fiscal 2012. As of March 31, 2004, we also had ¥761,059 million in unsecured bonds due from fiscal 2004 to fiscal 2011 with coupon rates of 0.3%–3.5%. We have been seeking to level out our repayment requirements.

The following table summarizes our long-term debt and lease payment obligations (including current portion) over the next several years.

## Long Term Debt, Lease Obligations and other Contractual Obligations

Category of Obligations	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
(millions of yen)					
Long-Term Debt					
Unsecured Bonds	¥ 761,059	¥ 8,000	¥266,200	¥157,969	¥328,890
Unsecured Loans	330,537	128,642	77,866	47,029	77,000
Capital Leases	8,855	4,015	4,090	705	45
Operating Leases	27,053	1,424	2,848	2,848	19,933
Other Contractual Obligations	192,925	191,329	1,596	—	—
Total	¥1,320,429	¥333,410	¥352,600	¥208,551	¥425,868

Our other contractual obligations as of March 31, 2004, principally consisted of commitments to purchase property and equipment for our cellular network, and commitments to purchase inventories, mainly handsets. As of March 31, 2004, we had committed ¥89,371 million for property and equipment, ¥40,993 million for inventories and ¥62,561 million for the other purchase commitments.

In addition to our existing commitments, we expect to make significant capital expenditures on an ongoing basis for our 3G and 2G networks and for other purposes. See “Capital Expenditures” below. Also, we consider potential opportunities to enter new areas of business, make acquisitions or enter into joint ventures, equity investments or other arrangements primarily in wireless communications businesses from time to time. Currently, we have no contingent liabilities related to litigation or guarantees that could have a material adverse effect on our financial position.

### Capital Expenditures

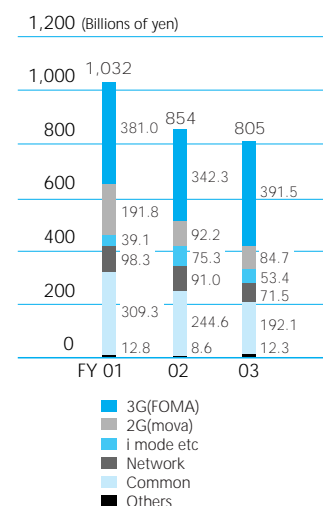
The wireless telecommunications industry is highly capital intensive and significant capital expenditures are required for the construction of wireless telecommunications networks. Our capital requirements for our networks are determined by the timing and requirements of new systems, such as the 3G system, the nature and the area of coverage desired, the number of subscribers served in an area and the expected traffic. Network construction costs depend on the number of cells in the service area, the number of radio channels in the cell and the switching equipment required. Capital expenditures are also required for such areas as information technology, research and development for 4G services and for servers for Internet-related services.

Our capital expenditures in fiscal 2003 decreased from fiscal 2002. In fiscal 2003, we reduced our capital expenditures for the 2G network and actively made capital expenditures for the 3G (FOMA) network to make it more efficient, while in fiscal 2001 and fiscal 2000, we made capital expenditures for expansion of the 2G network and for construction of the 3G (FOMA) network. Specifically, in fiscal 2002, we made capital expenditures to further

build the 3G (FOMA) network in order to expand the FOMA service area nationwide and to further improve communication quality in existing service areas. We also tried to make network expenditures more efficient by introducing smaller and less expensive base station equipment and decreasing equipment acquisition costs.

Total capital expenditures on an accrual basis were ¥805,482 million for fiscal 2003, ¥853,956 million for fiscal 2002 and ¥1,032,256 million for fiscal 2001. In fiscal 2003, 48.6% of capital expenditures were used for construction of our 3G (FOMA) network, 23.8% for general capital expenditures, 10.5% for construction of the 2G network, 8.9% for construction of transmission lines and 6.6% for i-mode related expenditures. By comparison, in fiscal 2002, 40.1% of capital expenditures were used for construction of our 3G network, 28.6% for general capital expenditures, 10.8% for construction of the 2G network, 10.7% for construction of transmission lines and 8.8% for i-mode related expenditures.

### Capital Expenditures



In fiscal 2004, we expect total capital expenditures to be approximately ¥796.0 billion (on an accrual basis), of which approximately 59% will be for construction of our 3G (FOMA) network, approximately 22% for general capital expenditures, approximately 9% for construction of transmission lines, approximately 6% for construction of the 2G network and approximately 4% for i-mode related expenditures, which we expect to finance with internal cash flows. These capital investments will take place in Japan. Our 3G population coverage was approximately 99% of Japan as of the end of March 2004, and according to our current 3G construction schedule we will not only expand outdoor coverage efficiently but also reinforce indoor coverage roll-out. For example, we expanded the coverage area of FOMA to all subway stations in Tokyo in June 2004.

We currently expect capital expenditures for each of the next few fiscal years will be at approximately the same level as this fiscal year primarily because increased capital expenditures relating to expanding, maintaining and upgrading our 3G (FOMA) system will be largely offset by decreasing capital expenditures related to our current 2G network.

Our level of capital expenditures may vary significantly from expected levels for a number of reasons. Capital expenditures for

expansion and enhancement of our existing cellular network may be influenced by the growth in subscribers and traffic, which is difficult to predict with certainty, the ability to identify and procure suitably located base station sites on commercially reasonable terms, competitive environments in particular regions and other factors. The nature, scale and timing of capital expenditures to reinforce our 3G network may be materially different from current plans due to demand (either higher or lower than anticipated) for the services, delays in the construction of the network or in the introduction of services and changes in the variable costs of components for the network. We expect that these capital expenditures will be affected by market demand for our mobile multimedia services, including i-mode, and other data transmission services, and by schedule of ongoing expansion of the existing networks to meet the demand.

#### Sources of Cash

As described above, we will continue to require significant capital expenditures to further develop our operations, including further construction of our 3G network. We will also require funds for repayment of our debt. Our primary source of funds to finance our capital expenditures and other capital requirements has been cash flow from operating activities and financing activities.

The following table sets forth certain information about our cash flows during fiscal 2003, fiscal 2002 and fiscal 2001:

	Fiscal		
	2001	2002	2003
	(millions of yen)		
Net cash provided by operating activities . . . . .	¥ 1,341,088	¥1,584,610	<b>¥1,710,243</b>
Net cash used in investing activities . . . . .	(1,125,093)	(871,430)	<b>(847,309)</b>
Net cash used in financing activities . . . . .	(33,372)	(333,277)	<b>(705,856)</b>
Net increase in cash and cash equivalents. . . . .	182,623	379,903	<b>157,079</b>
Cash and cash equivalents at beginning of period . . . . .	118,425	301,048	<b>680,951</b>
Cash and cash equivalents at end of period . . . . .	¥ 301,048	¥ 680,951	<b>¥ 838,030</b>

For fiscal 2003, our net cash provided by operating activities was ¥1,710,243 million, an increase of 7.9% over ¥1,584,610 million for fiscal 2002. The increase was primarily due to a slight increase in operating income excluding depreciation and amortization, and a decrease in income tax payments and increase in tax refunds, owing to realization of deferred tax asset from the impairment of investment in KPNM.

For fiscal 2002, our net cash provided by operating activities was ¥1,584,610 million, an increase of 18.2% over fiscal 2001. The increase in cash provided by operating activities in fiscal 2002 was primarily due to higher operating income, excluding depreciation and amortization, despite an increase in income taxes, and telephone bill receivables totaling approximately ¥244.0 billion for fiscal 2001 which were collected in fiscal 2002 because the last day of fiscal 2001 coincided with a bank holiday.

In fiscal 2003, net cash used in investing activities was ¥847,309 million, a decrease of 2.8%, compared to ¥871,430 million in the

prior fiscal year. Although we used ¥38,242 million as a shareholder loan against H3G UK, net cash used in investing activities decreased primarily due to a decrease in capital expenditures for the acquisition of property, plant and equipment. We expect to continue to make significant capital expenditures in our networks and for other purposes and expect to fund such expenditures primarily from net cash provided by operating activities.

In fiscal 2002, net cash used in investing activities was ¥871,430 million, a decrease of 22.5%, compared to ¥1,125,093 million in fiscal 2001. The decrease in net cash used in investing activities was due primarily to a decrease in capital expenditures for the acquisition of property, plant and equipment, and intangible and other assets as well as a decrease in purchase of investments.

Net cash used in financing activities was ¥705,856 million in fiscal 2003, an increase of 111.8%, compared to ¥333,277 million in fiscal 2002. We paid dividend of ¥49,813 million and repurchased our own shares totaling ¥394,903 million to increase our

capital efficiency, and reduced interest bearing liabilities totaling ¥255,411 million to strengthen our financial position.

Net cash used in financing activities was ¥333,277 million in fiscal 2002 compared to ¥33,372 million in fiscal 2001. In fiscal 2002, we paid dividend of ¥10,036 million, repurchased our own shares totaling ¥234,462 million, which we mostly used to acquire the remaining minority interests in our eight regional subsidiaries in share exchanges, and a reduced ¥81,710 million in interest bearing liabilities to strengthen our financial position.

Cash and cash equivalents at March 31, 2004, amounted to ¥838,030 million, representing an increase of ¥157,079 million from ¥680,951 million at March 31, 2003.

Cash and cash equivalents at March 31, 2003, amounted to ¥680,951 million, representing an increase of ¥379,903 million from ¥301,048 million at March 31, 2002.

As for our sources of cash for fiscal 2004, we expect our cash flow from operating activities to decrease from the prior year, because of a decrease in operating income excluding depreciation and amortization, and an increase in corporate tax payment compared to the prior year when there was less tax payment due to the realization of deferred tax asset from the impairment of our investment in KPNM. On the other hand, if the sale of our AT&T Wireless shares took place and approximately US\$6,495 million of cash flow from investing activities realized, there will be a net positive effect on our total cash flow compared to the prior year.

## Hedging Activities

### Derivative Transactions

We enter into certain interest rate swap contracts to manage exposure to fluctuations in interest rates on our debt. We employ for-

foreign currency forward transactions to hedge risks related to foreign currency denominated transactions which exceed a certain amount. We had no foreign exchange forward contracts outstanding at March 31, 2004 or March 31, 2003. We do not hold or issue derivatives for trading purposes. We enter into derivative transactions only with major financial institutions. We maintain and comply with an internal regulation that specifies the type of derivative transactions we can enter into and the procedures to approve and monitor such transactions. Our participation in such transactions has not had, and our management believes that it will not have, a material adverse effect on our financial position or results of operations.

The total notional amount of interest rate swap contracts outstanding at March 31, 2004 to which we were a party was ¥51,500 million.

### Other Hedging Activities

We are also subject to foreign exchange rate risk with respect to our foreign investments because those investments are denominated in foreign currencies. On March 5, 2003, we issued \$100 million in unsecured corporate bonds in order to hedge a portion of our investment in AT&T Wireless. This financial instrument is effective as a hedge against fluctuations in currency exchange rates. Translation gains or losses from this instrument, which offset translation gains or losses on the investment in AT&T Wireless, are recorded as a foreign currency translation adjustment in other comprehensive income (loss). The translation loss as of March 31, 2004, from this instrument was ¥712 million and was recorded as a foreign currency translation adjustment for fiscal 2003.

## Research and Development, Patents and Licenses, etc.

Our research and development activities embrace three key efforts: development of new products and services such as handsets and applications for 3G systems, research and development related to fourth-generation systems and upgrading the functions of 2G systems. Research and development expenses are charged to income as incurred. We spent ¥124,514 million, ¥126,229 million and ¥99,454 million as research and development in fiscal 2003, 2002 and 2001, respectively.

Beginning in the second half of the fiscal year ended March 31, 2003, we have been investing in the development of FOMA phones being developed by various handset manufacturers. The amounts of our investment in the development of FOMA phones during fiscal 2003 and 2002, were ¥23.5 billion and ¥17.5 billion, respectively.

### R&D Expenses

