

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NTT DoCoMo, INC. AND SUBSIDIARIES

## 1. Nature of operations:

NTT DoCoMo, Inc. and subsidiaries (the “Company” or “DoCoMo”) is a joint stock corporation that was incorporated under the laws of Japan in August 1991 as the wireless telecommunications arm of Nippon Telegraph and Telephone Corporation (“NTT”). NTT, which is 45.96% owned by the Japanese government, owns 61.57% of DoCoMo’s outstanding stock as of March 31, 2004.

DoCoMo provides subscribers with wireless telecommunications services such as mova (2G wireless services), FOMA (3G wireless services), packet communications services (2G wireless

data communications services using packet switching), Personal Handyphone System (“PHS”) services (a wireless data and voice platform that enables customers to access the internet, as well as to make calls), Quickcast (paging) services, satellite mobile communications services and in-flight telephone services, primarily on its own nationwide networks. In addition, DoCoMo sells handsets, pagers and related equipment primarily to agent resellers who in turn sell such equipment to end user customers.

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

## 2. Summary of significant accounting and reporting policies:

DoCoMo maintains its books and records, and prepares statutory financial statements in conformity with the Japanese Telecommunications Business Law and the related accounting regulations and accounting principles generally accepted in Japan (“Japanese GAAP”), which differ in certain respects from accounting principles generally accepted in the United States (“U.S. GAAP”).

The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP and, therefore, reflect certain adjustments to DoCoMo’s books and records.

Significant accounting policies are as follows:

### (1) Adoption of new accounting standards

#### Accounting for Asset Retirement Obligations

Effective April 1, 2003, DoCoMo adopted Statement of Financial Accounting Standards (“SFAS”) No. 143, “Accounting for Asset Retirement Obligations.” SFAS No. 143 requires that legal obligations associated with the retirement of tangible long-lived assets be recorded as a liability and measured at fair value when those obligations are incurred, if a reasonable estimate of fair value can be made. Upon initially recognizing a liability for an asset retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. DoCoMo’s asset retirement obligations subject to SFAS No. 143 primarily relate to its obligations to restore certain leased land and buildings used for DoCoMo’s wireless telecommunications equipment to their original state. DoCoMo estimates the fair value of a liability for an asset retirement obligation as the amount at which that liability could be settled in a current transaction between willing parties. The adoption of SFAS No. 143 did not have a significant impact on the results of operations or the financial position of DoCoMo.

#### Amendment of SFAS No. 133 on derivative instruments and hedging activities

Effective July 1, 2003, DoCoMo adopted SFAS No. 149,

“Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The adoption of SFAS No. 149 did not have a significant impact on the results of operations or the financial position of DoCoMo.

#### Revision of Employers’ Disclosures about Pensions and other Postretirement Benefits

In December 2003, Financial Accounting Standards Board (“FASB”) revised SFAS No. 132, “Employers’ Disclosures about Pensions and other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106.” This new SFAS No. 132 retains all of the disclosure requirements of SFAS No. 132; however, it also requires additional annual disclosures describing types of plan assets, investment strategy, measurement date(s), expected employer contributions, plan obligations, and expected benefit payments of defined benefit pension plans and other defined benefit postretirement plans. In accordance with the transition provisions of new SFAS No. 132, DoCoMo expanded its foot notes to include the new disclosures required as of March 31, 2004.

#### Accounting for Variable Interest Entities

In December 2003, FASB revised Interpretation No. 46 (“FIN 46-R”), “Consolidation of Variable Interest Entities (“VIEs”).” FIN 46-R retains many of the basic concepts introduced in FIN 46; however, it also introduces a new scope exception for certain types of entities that qualify as a “business” as defined in FIN 46-R, revises the method of calculating expected losses and residual returns for determination of the primary beneficiary, includes new guidance for assessing variable interests, and codifies certain FASB Staff Positions (“FSPs”) on FIN 46. FIN 46-R is to be applied no

later than the end of the first reporting period that ends after March 15, 2004. DoCoMo has adopted the provisions of FIN 46 effective from April 1, 2003 and also adopted FIN 46-R, effective from April 1, 2003. At March 31, 2004, DoCoMo had no VIEs to be consolidated or disclosed; therefore, the adoption of this interpretation had no impact on the result of operations or the financial position of DoCoMo.

#### **Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities**

DoCoMo adopted Emerging Issue Task Force No. 03-02 (“EITF 03-02”), “Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.” This Issue provides a consensus that Japanese employers should account for the entire separation process as a single settlement event upon completion of the transfer to the Japanese government of the substitutional portion of the benefit obligations and related plan assets. Under the Law Concerning Defined-Benefit Corporate Pension Plans, NTT/Employee Pension Fund, in which DoCoMo participates, applied to the Japanese government for permission that NTT/Employee Pension Fund be released from future obligation to disburse the NTT Plan benefits covering the substitutional portion, and the application was approved on September 1, 2003. However, in accordance with EITF 03-02, no accounting should occur until the completion of the entire transfer. It is undetermined when the transfer of the benefit obligations and related plan assets will take place and what the net settlement will be.

## **(2) Significant accounting policies**

#### **Principles of consolidation—**

The consolidated financial statements include the accounts of DoCoMo and its majority-owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

#### **Use of estimates—**

The preparation of DoCoMo’s consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. DoCoMo has identified the following areas where it believes estimates and assumptions are particularly critical to the financial statements. These are determination of useful lives of property, plant and equipment, internal use software and other intangible assets, impairment of long-lived assets, impairment of goodwill,

other than temporary impairment of investments in affiliates, realization of deferred tax assets, pension liabilities and revenue recognition.

#### **Cash and cash equivalents—**

DoCoMo considers cash in banks and short-term highly liquid investments with an original maturity of three months or less at date of purchase to be cash and cash equivalents.

#### **Allowance for doubtful accounts—**

The allowance for doubtful accounts is principally computed based on the historical bad debt experience plus the estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

#### **Inventories—**

Inventories are stated at the lower of cost or market. The cost of equipment sold is determined by the first-in, first-out method. Inventories consist primarily of handsets and accessories. DoCoMo evaluates its inventory for obsolescence on a periodic basis and records adjustments as required. Due to the rapid technological changes associated with the wireless communications business, DoCoMo disposed of obsolete handsets during the years ended March 31, 2002, 2003 and 2004 totaling ¥9,527 million, ¥22,383 million and ¥5,295 million (\$50,825 thousand), respectively, which are included in “cost of equipment sold” in the accompanying consolidated statements of operations and comprehensive income (loss).

#### **Property, plant and equipment—**

Property, plant and equipment is stated at cost and includes interest cost incurred during construction in progress periods, as discussed below in “Capitalized interest.” Depreciation is computed by the declining-balance method at rates based on the estimated useful lives of the respective assets with the exception of buildings that are depreciated on a straight-line basis. Useful lives are determined at the time the asset is acquired and are based on expected use, experience with similar assets and anticipated technological or other changes. If technological or other changes occur more or less rapidly or in a different form than anticipated or the intended use changes, the useful lives assigned to these assets are adjusted, as appropriate.

The estimated useful lives of major depreciable assets are as follows:

Major wireless telecommunications equipment	6 to 15 years
Steel towers and poles for antenna equipment	30 to 40 years
Reinforced concrete buildings	38 to 50 years
Tools, furniture and fixtures	4 to 15 years

Depreciation expense for the years ended March 31, 2002, 2003 and 2004 was ¥540,762 million, ¥606,233 million, and ¥570,324 million (\$5,474,409 thousand), respectively.

When depreciable telecommunications equipment is retired or abandoned in the normal course of business, the amount of such telecommunications equipment is deducted from the respective telecommunications equipment and accumulated depreciation accounts. Any remaining balance is charged to expense immediately.

Expenditures for replacements and betterments are capitalized, while expenditures for maintenance and repairs are expensed as incurred. Assets under construction are not depreciated until placed in service.

#### **Capitalized interest—**

DoCoMo capitalizes interest related to the construction of property, plant and equipment over the period of construction. DoCoMo also capitalizes interest associated with the development of internal-use software. DoCoMo amortizes such capitalized interest over the estimated useful lives of the related assets. Total interest costs incurred amounted to ¥20,285 million, ¥19,545 million, and ¥15,466 million (\$148,454 thousand) of which ¥3,056 million, ¥2,675 million, and ¥2,250 million (\$21,597 thousand) was capitalized during the years ended March 31, 2002, 2003 and 2004, respectively.

#### **Investments in affiliates—**

The equity method of accounting is applied to investments in affiliates where DoCoMo owns an aggregate of 20% to 50% and/or is able to exercise significant influence over the affiliate. Under the equity method of accounting, DoCoMo records its share of earnings and losses of the affiliate and adjusts its investment amount. For investments of less than 20%, DoCoMo periodically reviews the facts and circumstances related thereto to determine whether or not it can exercise significant influence over the operating and financial policies of the affiliate and, therefore should apply the equity method of accounting to such investments. Investments of less than 20% in which DoCoMo does not have significant influence are recorded using the cost method of accounting if they are non-marketable securities. For investees accounted for under the equity method whose year end is December 31, DoCoMo records its share of income or losses of such investees on a three months lag basis in its consolidated statements of operations and comprehensive income (loss).

DoCoMo evaluates its investments in affiliates for impairment due to declines in value considered to be other than temporary. In performing its evaluations, the Company utilizes various information, as available, including cash flow projections, independent valuations and, as applicable, stock price analysis. In the event of a determination that a decline in value is other than temporary, a

charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

#### **Marketable securities—**

Marketable securities consist of debt and equity securities. DoCoMo accounts for such investments in debt and equity securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of its investment securities at the time of purchase.

Equity securities held by DoCoMo, whose fair values are readily determinable, are classified as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains or losses, net of applicable taxes, included as a component of accumulated other comprehensive income in shareholders' equity. Equity securities, whose fair values are not readily determinable, are carried at cost. Other than temporary declines in value are charged to earnings. Realized gains and losses are determined using the average cost method and are reflected in earnings.

For debt securities classified as held-to-maturity securities at March 31, 2003 and 2004, DoCoMo has the intent and ability to hold such securities to maturity. Held-to-maturity securities are carried at amortized cost and are reduced to fair value by a charge to earnings for other than temporary declines in fair value below cost.

DoCoMo did not hold or transact activity in any trading securities during the years ended March 31, 2002, 2003 and 2004.

#### **Goodwill and other intangible assets—**

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Other intangible assets primarily consist of software for telecommunications network, internal-use software, customer related assets and rights to use certain telecommunications assets of wireline carriers.

DoCoMo accounts for goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Accordingly, DoCoMo does not amortize both goodwill, including embedded goodwill created through the acquisition of investments accounted for under the equity method, and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life, but instead, (1) goodwill, excluding goodwill related to equity method investments, and (2) intangible assets that have indefinite useful lives are tested for impairment at least annually. Intangible assets that have finite useful lives, consisting primarily of software for telecommunications network, internal-use software, customer related assets and rights to use telecommunications facilities of wireline are amortized over their useful lives.

Goodwill related to equity method investments is tested for other than temporary impairment in accordance with existing

standards under Accounting Principles Board (“APB”) Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” See Note 5.

DoCoMo capitalizes the cost of internal-use software which has a useful life in excess of one year in accordance with Statement of Position 98-1, “Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.” Computer software acquired to be used in the manufacture of handsets is capitalized if the technological feasibility of the handset to be ultimately marketed has been established at the time of purchase in accordance with SFAS No. 86, “Accounting for the costs of Computer Software to Be Sold, Leased, or Otherwise Marketed.” Subsequent costs for additions, modifications or upgrades to internal-use software are capitalized only to the extent that the software is able to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Capitalized computer software costs are being amortized on a straight-line basis over a period of 5 years.

Customer related assets principally consist of contractual customer relationships in the mobile phone business of ¥47,411 million and ¥38,919 million (\$373,575 thousand) as of March 31, 2003 and 2004 that were recorded in the year ended March 31, 2003 in connection with the acquisition of minority interests of the regional subsidiaries in November 2002 through the process of identifying separable intangible assets apart from goodwill. The customer related assets are amortized over the expected term of customer relationships in mobile phone business, which is 6 years.

Amounts capitalized related to rights to use certain telecommunications assets of wireline carriers, primarily NTT, are being amortized over 20 years.

#### **Impairment of long-lived assets—**

DoCoMo’s long-lived assets other than goodwill, including property, plant and equipment, software and intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of the asset with future undiscounted cash flows expected to be generated by the asset. If the asset is determined to be impaired, the loss recognized is the amount by which the carrying value of the asset exceeds its fair value as measured by discounted cash flows, salvage value or expected net proceeds, depending on the circumstances.

Information relating to goodwill is disclosed in “Goodwill and other intangible assets”.

#### **Hedging activities—**

DoCoMo uses derivative financial instruments, including interest rate swap, foreign exchange forward contracts and non-derivative financial instruments to manage its exposure to fluctuations in interest rates and foreign exchange rates. These financial instruments are effective in meeting the risk reduction objectives of DoCoMo by generating either cash flows which offset the cash flows related to the underlying position in respect of amount and timing or transaction gains and losses which offset transaction gains and losses of the hedged item. DoCoMo does not hold or issue derivative financial instruments for trading purposes. Interest rate swap contracts are designated as hedges of the financial risk associated with market interest rate changes. Foreign currency risk associated with certain foreign investment was hedged through non-derivative financial instruments.

DoCoMo accounts for derivative instruments and other hedging activities in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended by SFAS No. 138 and No. 149. All derivative instruments are recorded on the balance sheet at fair value, with the change in the fair value recognized either in other comprehensive income (loss) or in net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes, and if so, the nature of hedging activity. Exchange rate gains and losses on non-derivative financial instruments designated to hedge the foreign currency risk of a net investment in a foreign operation are reported, net of applicable income taxes, in other comprehensive income (loss) in the same manner as the translation adjustments of the hedged investment, to the extent of effectiveness.

Cash flows from derivative instruments are classified in the consolidated statements of cash flows under the same categories as the cash flows from the related assets, liabilities or anticipated transactions.

#### **Employee benefit plans—**

Pension benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

#### **Revenue recognition—**

DoCoMo primarily generates its revenues from two sources—wireless services and equipment sales. These revenue sources are separate and distinct earnings processes. Wireless service is sold to the ultimate subscriber directly or through third-party retailers who act as agents, while equipment, including handsets, are sold principally to primary distributors.

DoCoMo sets its wireless services rates in accordance with the Japanese Telecommunications Business Law and government guidelines, which currently allow wireless telecommunications operators to set their own tariffs without government approval. Wireless service revenues primarily consist of base monthly service, airtime and fees for activation.

Base monthly service and airtime are recognized as revenues as service is provided to the subscribers. DoCoMo's monthly rate plans for cellular (FOMA and mova) services generally include a certain amount of allowances (free minutes and/or packets), and the used amount of the allowances is subtracted from total usage in calculating the airtime revenue from a subscriber for the month. Prior to November 1, 2003, the total amount of the base monthly charges was recognized as revenues in the month they were charged as the subscribers could not carry over the unused allowances to the following months. On November 1, 2003, DoCoMo introduced a new billing arrangement, called "Nikagetsu Kurikoshi" (two-month carry over), in which the unused allowances are automatically carried over up to the following two months. This arrangement was available to substantially all existing subscribers of cellular (FOMA and mova) services. With the introduction of this new billing arrangement, DoCoMo has started to defer revenues based on the portion of unused allowances that are estimated to be utilized prior to expiration. As the arrangement has just been established and DoCoMo does not have sufficient empirical evidence to reasonably estimate such amounts, DoCoMo currently deducts and defer all unused allowances from revenues. The deferred revenues are recognized as revenues as the subscribers make calls or data communica-

Deferred revenue and deferred charges as of March 31, 2003 and 2004 comprised the following:

	Millions of yen	Thousands of U.S. dollars	
	2003	2004	2004
Current deferred revenue . . . . .	¥49,459	¥81,724	\$784,450
Long-term deferred revenue . . . . .	67,822	71,841	689,585
Current deferred charges . . . . .	49,459	49,424	474,410
Long-term deferred charges . . . . .	67,822	71,841	689,585

#### **Selling, general and administrative expenses—**

Selling, general and administrative expenses primarily include commissions paid to agents for new service contracts, expenses associated with DoCoMo's customer loyalty programs, advertising costs, as well as other expenses such as payroll and related benefit costs of personnel not directly involved in the operations and maintenance process. Commissions paid to agents for new service contracts represent the largest portion of selling, general and administrative expenses.

Property tax, city planning tax and road occupation fee, which were included in selling, general and administrative expenses before April 1, 2003, are recognized by DoCoMo as costs to maintain its

tions, similar to the way airtime revenues are recognized.

Effective April 1, 2002, DoCoMo adopted EITF 01-09, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The adoption has resulted in the reclassification of certain amounts of commissions paid to agent resellers, previously included in selling, general and administrative expenses, as a reduction of equipment sales. EITF 01-09 also requires that reduction of revenue and corresponding expenses for such commissions be recognized at the time of equipment sales to the agent instead of the date of resale to the end user customer. Consequently, net equipment sales and selling, general and administrative expenses for the year ended March 31, 2003 were decreased by ¥558,923 million and ¥571,223 million, respectively. As required, selling, general and administrative expenses, amounting to ¥507,884 million for the year ended March 31, 2002 have been reclassified as a reduction of equipment sales. The adoption also resulted in an adjustment as of April 1, 2002 for the cumulative effect of accounting change in DoCoMo's statement of operations and comprehensive income (loss) of ¥(35,716) million, net of taxes of ¥25,852 million, related to the timing of recognizing the commissions to be paid. The pro forma effects of retroactive application change have not been provided because the necessary information was not previously maintained.

Non-recurring upfront fees such as activation fees are deferred and recognized as revenues over the estimated average period of the customer for each service. The related direct costs are deferred only to the extent of the upfront fee amount and are amortized over the same period.

telecommunication services, and are reclassified in cost of services in this financial statement for the year ended March 31, 2002, 2003 and 2004. The reclassification amounted to ¥25,905 million, ¥29,313 million and ¥31,374 million (\$301,152 thousand) for the year ended March 31, 2002, 2003 and 2004, respectively.

#### **Income taxes—**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

#### **Earnings (loss) per share—**

Basic earnings (loss) per share includes no dilution and is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding for the period. Diluted earnings (loss) per share assumes the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock. DoCoMo has no dilutive securities outstanding at March 31, 2002, 2003 and 2004, and therefore there is no difference between basic and diluted earnings (loss) per share.

#### **Foreign currency translation—**

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at rates that approximate those rates prevailing at the time of the transactions. The resulting translation adjustments are included as a component of accumulated other comprehensive income.

Foreign currency receivables and payables of DoCoMo are translated at appropriate year-end current rates and the resulting translation gains or losses are included in earnings currently.

DoCoMo transacts limited business in foreign currencies. The effects of exchange rate fluctuations from the initial transaction date to the settlement date are recorded as exchange gain or loss in the accompanying statements of operations and comprehensive income (loss).

#### **(3) Recent accounting pronouncements—**

In May 2003, 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 DoCoMo's 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 DoCoMo's 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. DoCoMo is 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. DoCoMo 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 requirements for cost method investments are effective for annual financial statements for the years ending after June 15, 2004. DoCoMo is in the process of determining the impact, if any, that adoption of this guidance will have on its result of operations and financial position.

#### **(4) Reclassifications—**

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2004.

### 3. U.S. dollar amounts:

The consolidated financial statements are stated in Japanese yen. Translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers by using the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank

of New York on March 31, 2004, which was ¥104.18 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 4. Inventories:

Inventories as of March 31, 2003 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Telecommunications equipment to be sold . . . . .	¥65,910	¥125,007	\$1,199,914
Materials and supplies . . . . .	512	499	4,790
Other . . . . .	893	1,763	16,922
Total . . . . .	¥67,315	¥127,269	\$1,221,626

### 5. Investments in affiliates:

DoCoMo's investments in the following entities are accounted for on the equity method as of March 31, 2003 and 2004 except for KG Telecommunications Co., Ltd. and DoCoMo AOL, Inc. as explained below for 2004:

Company name	Ownership Percentage	
	2003	2004
AT&T Wireless Services, Inc. ("AT&T Wireless") . . . . .	15.97%	15.89%
Hutchison 3G UK Holdings Limited ("H3G UK") . . . . .	20.00%	20.00%
Hutchison Telephone Company Limited ("HTCL") . . . . .	24.10%	24.10%
Hutchison 3G HK Holdings Limited ("H3G HK") . . . . .	24.10%	24.10%
KG Telecommunications Co., Ltd. ("KGT") . . . . .	21.42%	N.A.
DoCoMo AOL, Inc. ("DoCoMo AOL") . . . . .	43.23%	N.A.

All of the above investments are privately held companies with the exception of AT&T Wireless. DoCoMo's recorded investment in AT&T Wireless was ¥252,077 million (\$2,419,629 thousand) as of March 31, 2004 and based on quoted market prices at that date, the related market value was ¥613,933 million (\$5,893,000 thousand).

#### AT&T Wireless—

On July 9, 2001, AT&T Corp. ("AT&T") completed the planned split-off of its wireless group ("AT&T Wireless Group"). In connection with the split-off, all the assets and liabilities of AT&T Wireless Group were transferred to AT&T Wireless, a wholly owned subsidiary of AT&T. The split-off was then effected by redeeming all the outstanding shares of AT&T Wireless Group

tracking stock in exchange for shares of AT&T Wireless common stock and distributing additional shares of AT&T Wireless common stock to holders of AT&T common stock, resulting in AT&T Wireless becoming an independent, publicly-traded company. DoCoMo's investment in AT&T Wireless preferred tracking stock was converted into AT&T Wireless common stock resulting in approximately 16% voting interest in AT&T Wireless. DoCoMo accounts for its common stock investment in AT&T Wireless using the equity method due to its ability to exercise significant influence over operating and financial policies primarily through board representation, appointment of key management positions, approval rights and rights to require repurchase of the investment under certain circumstances.

Under terms of the investment agreement, amended on December 26, 2002, in certain circumstances, if AT&T Wireless fails to launch 3G wireless services based on Wideband Code Division Multiple Access, or W-CDMA, technology in Seattle, San Francisco, San Diego, and Dallas, or certain other specified substitute markets in the United States by December 31, 2004, DoCoMo may require the repurchase of its investment in stock and warrants (See Note 6) at original purchase price plus interest at a predetermined rate.

In its agreements with AT&T Wireless, the Company has a preemptive right to acquire additional shares of AT&T Wireless in order to maintain its current ownership interest, if such interest would otherwise be diluted. In December 2001, AT&T Wireless announced its intention to acquire a U.S. regional wireless operator, TeleCorp PCS, Inc. (TeleCorp), through an exchange of shares. In connection therewith, on December 28, 2001, the Company agreed, subject to the completion of the TeleCorp acquisition, to exercise its preemptive right to maintain its 16% ownership in AT&T Wireless at a price of \$14.28 per share. The purchase of approximately 26.7 million additional shares of AT&T Wireless common stock for approximately \$382 million was completed in February 2002.

On February 17, 2004, AT&T Wireless entered into a merger agreement with Cingular Wireless LLC (“Cingular”), a mobile operator in the United States of America, and certain of its affiliates. Under the terms of the merger agreement, Cingular agreed to acquire all the outstanding shares of common stock of AT&T Wireless for \$15 per share in cash. On May 19, 2004, shareholders of AT&T Wireless approved the company’s merger agreement with Cingular in its Annual Shareholder Meeting.

If the transaction is consummated pursuant to the merger agreement, DoCoMo would receive approximately \$6,495 million in cash and cease the equity method of accounting for its investment in AT&T Wireless. The transaction is subject to approval by regulatory authorities, and other closing conditions and therefore its impact on DoCoMo’s result of operations is currently not determinable.

#### **H3G UK—**

On May 27, 2004, DoCoMo agreed to sell its entire 20% shareholding in H3G UK to Hutchison Whampoa Limited (“HWL”) for a total consideration of £120 million in a Sale and Purchase Agreement signed between DoCoMo and HWL. DoCoMo will receive payment in three installments either in cash, or subject to the listing of Hutchison Telecommunications International Limited (“HTIL”), a subsidiary company of HWL that has applied for a listing on the Stock Exchange of Hong Kong, in shares of HTIL. The third and final installment will be made in December 2006. DoCoMo’s right to receive £120 million as of the time of

completion of the transaction in February 2007 is secured by the Sale and Purchase Agreement. As a result of the agreement, DoCoMo waived certain of its minority shareholder’s rights, including voting right and supervisory board representation. As we no longer have the ability to exercise significant influence over H3G UK, we ceased to account for our investment in H3G UK using the equity method at that time.

No recognition of gain or loss should occur until the completion of the entire transaction. In addition, the share price of HTIL and the related currency-exchange rates on a day of the completion are unforeseeable. Therefore, the impact of the transaction on DoCoMo’s result of operations is currently not determinable.

As part of the agreement, the £200 million shareholder loan provided by DoCoMo to H3G UK in May 2003 was transferred for value to Hutchison Europe Telecommunications S.à r.l., a HWL subsidiary company, on the same day, and the payment was completed.

#### **KGT—**

On October 7, 2003, KGT entered into a stock purchase agreement with Far Eastone Telecommunications Co., Ltd. (“FET”), a mobile operator in Taiwan, by which KGT agreed to become a wholly owned subsidiary of FET. Simultaneously, DoCoMo signed a memorandum of understanding with FET to collaborate on the promotion of third-generation (3G) mobile phone business and i-mode business in Taiwan.

Pursuant to the stock purchase agreement, KGT merged into a subsidiary of FET and ceased to exist on January 1, 2004. DoCoMo ceased the equity method of accounting for its investment in KGT at that time. On April 29, 2004, the entire transaction was completed and the former shareholders of KGT received 0.46332 FET shares plus NTS6.72 for each KGT share they owned. As a result, DoCoMo became an approximately 5% shareholder of FET, and received approximately NTS2.5 billion (approximately ¥8 billion). The transaction did not have a material impact on DoCoMo’s results of operations.

#### **DoCoMo AOL—**

On December 17, 2003, DoCoMo entered into a stock sales agreement with America Online, Inc. (“AOL”). Pursuant to the stock sales agreement, DoCoMo sold all the shares it owned and ceased the equity method of accounting for its investment in DoCoMo AOL at that time.

#### **KPNM—**

On November 15, 2002, DoCoMo was requested by KPN Mobile N.V. (“KPNM”) to subscribe for additional shares of KPNM as DoCoMo had a right to subscribe for additional shares of KPNM for maintaining its portion of voting right. In December 2002,

DoCoMo decided not to exercise its right to subscribe for additional shares of KPNM. As a result, DoCoMo's ownership interest in KPNM decreased from 15% to approximately 2.2% and DoCoMo lost certain of its minority shareholder's rights under the shareholders' agreement, including supervisory board representation. As a result, DoCoMo no longer has the ability to exercise significant influence over KPNM, and ceased to account for its investment in KPNM using the equity method.

Because of the economic and financial environment surrounding the telecommunications industry and resultant significant declines in equity values of telecommunications companies on a global basis in recent years, the Company reviewed the business outlook of its affiliates in order to determine if any decline in investment values was other than temporary. The Company utilized cash flow projections, independent valuations and other financial information and, as applicable, stock price analysis in performing its reviews and estimating investment values. As a result of such evaluations, the Company determined that there were other than temporary decline in values of certain investments and has 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 KPNM, ¥56,444 million for H3G UK and ¥36,461 million for KGT. The Company 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, ¥123,245 million for H3G UK, ¥9,619 million for KGT and ¥10,259 million for DoCoMo AOL, Inc. The Company did not record impairment charges for the year ended March 31, 2004. The impairment charges are included with equity in net losses of affiliates in the accompanying statement of operations and comprehensive income (loss).

The Company believes the estimated fair values of its investments in affiliates at March 31, 2004 equal or exceed the related carrying values.

The following represents summarized financial information for DoCoMo's investments in equity method investees for the years ended March 31, 2002, 2003 and 2004. All affiliates are included in each of the fiscal years disclosed except for KPNM for the fiscal year ended March 31, 2003 and 2004, and DoCoMo AOL and KGT for the fiscal year ended March 31, 2004 as they are no longer equity method investees. The investee information for 2004 is presented in total below, as there was no individual significant investee.

	Millions of yen				
	2002				
	AT&T Wireless	KPNM	H3G UK	KGT	Others
Balance sheet data:					
Current assets . . . . .	¥ 830,889	¥ 100,660	¥ 14,477	¥ 37,221	¥ 57,722
Noncurrent assets . . . . .	4,674,329	4,034,564	930,574	176,125	127,493
Current liabilities . . . . .	452,852	1,649,764	25,503	44,836	55,934
Noncurrent liabilities . . . . .	1,490,903	1,192,530	84,332	55,891	138,561
Minority interest . . . . .	6,070	—	—	—	—
Mandatorily redeemable common stock . . . . .	1,011,265	—	—	—	—
Income statement data:					
Revenues . . . . .	¥1,655,499	¥ 506,330	¥ —	¥ 56,726	¥109,652
Operating income (loss) . . . . .	72,740	(28,304)	(9,621)	2,887	(15,645)
Income (loss) from continuing operations . . . . .	24,328	100,252	(10,422)	2,634	(6,929)
Net income (loss) . . . . .	(107,893)	84,468	(10,422)	2,488	(7,914)

	Millions of yen			
	2003			
	AT&T Wireless	H3G UK	KGT	Others
Balance sheet data:				
Current assets	¥ 633,192	¥ 34,100	¥ 26,695	¥ 60,757
Noncurrent assets	4,858,948	1,100,016	170,634	125,832
Current liabilities	370,851	64,214	35,156	62,515
Noncurrent liabilities	1,816,845	269,100	62,358	116,330
Minority interest	5,755	—	—	—
Mandatorily redeemable preferred stock	18,105	—	—	—
Mandatorily redeemable common stock	918,914	—	—	—
Income statement data:				
Revenues	¥1,956,689	¥ —	¥ 78,982	¥ 97,959
Operating income (loss)	(32,296)	(31,498)	(3,584)	(8,595)
Income (loss) from continuing operations	(276,022)	(37,474)	(6,422)	1,373
Net income (loss)	(290,918)	(37,474)	(4,332)	787

	Millions of yen		Thousands of U.S. dollars	
	2004		2004	
	Total	Total	Total	Total
Balance sheet data:				
Current assets	¥ 987,955		\$ 9,483,154	
Noncurrent assets	5,486,170		52,660,491	
Current liabilities	501,898		4,817,604	
Noncurrent liabilities	2,287,029		21,952,668	
Minority interest	3,214		30,850	
Mandatorily redeemable preferred stock	18,962		182,012	
Mandatorily redeemable common stock	821,044		7,881,014	
Income statement data:				
Revenues	¥2,028,519		\$19,471,290	
Operating income (loss)	(26,211)		(251,593)	
Income (loss) from continuing operations	(126,921)		(1,218,286)	
Net income (loss)	(126,921)		(1,218,286)	

DoCoMo's share of undistributed earnings of affiliates included in consolidated retained earnings were ¥1,930 million, ¥3,369 million and ¥2,532 million (\$24,304 thousand) as of March 31, 2002, 2003 and 2004, respectively. Dividends received from affiliates were ¥20 million, ¥20 million and ¥20 million (\$192 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively. DoCoMo does not have significant business transactions with its affiliates.

The total carrying value of DoCoMo's investments in affiliates in the accompanying consolidated balance sheet at March 31, 2003 and 2004 was lower than its aggregate underlying equity in net assets of such affiliates as of the date of the most recent available financial statements of the investees by ¥341,710 million and ¥304,085 million (\$2,918,842 thousand), respectively.

## 6. Marketable securities and other investments:

Marketable securities and other investments as of March 31, 2003 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Marketable securities:			
Available-for-sale	¥ 5,524	¥22,395	\$214,964
Held-to-maturity	20	20	192
Other investments	15,587	39,776	381,801
Total	¥21,131	¥62,191	\$596,957

The aggregate fair value, gross unrealized holding gains and losses and cost by type of marketable security at March 31, 2003 and 2004 are as follows:

	Millions of yen			
	March 31, 2003			
	Cost / Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale:				
Equity securities	¥4,384	¥1,354	¥767	¥4,971
Debt securities	500	53	—	553
Held-to-maturity:				
Debt securities	20	0	—	20

	Millions of yen			
	March 31, 2004			
	Cost / Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale:				
Equity securities	¥4,546	¥17,476	¥50	¥21,972
Debt securities	400	23	—	423
Held-to-maturity:				
Debt securities	20	0	—	20

	Thousands of U.S. dollars			
	March 31, 2004			
	Cost / Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value
Available-for-sale:				
Equity securities	\$43,636	\$167,748	\$480	\$210,904
Debt securities	3,839	221	—	4,060
Held-to-maturity:				
Debt securities	192	0	—	192

The proceeds and gross realized gains (losses) from the sale of available-for-sale securities and other investments for the years ended March 31, 2002, 2003 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Proceeds	¥2,718	¥2,278	¥1,831	\$17,575
Gross realized gains	1,369	103	1,444	13,861
Gross realized losses	(0)	(2)	—	—

Maturities of debt securities classified as held-to-maturity at March 31, 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004		2004	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Due after 1 year through 5 years . . . . .	¥20	¥20	\$192	\$192
Due after 5 years through 10 years . . . . .	—	—	—	—
Total . . . . .	¥20	¥20	\$192	\$192

Maturities of debt securities classified as available-for-sale at March 31, 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004		2004	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Due after 1 year through 5 years . . . . .	¥423	¥423	\$4,060	\$4,060
Due after 5 years through 10 years . . . . .	—	—	—	—
Total . . . . .	¥423	¥423	\$4,060	\$4,060

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations.

Gross unrealized holding losses on available-for-sale securities and the fair value of the related securities at March 31, 2004, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	Millions of yen					
	March 31, 2004					
	Less than 12 months		12 months or longer		Total	
Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	
Available-for-sale:						
Equity securities . . . . .	¥1,710	¥47	¥14	¥3	¥1,724	¥50
Debt securities . . . . .	—	—	—	—	—	—
Held-to-maturity:						
Debt securities . . . . .	—	—	—	—	—	—

  

	Thousands of U.S. dollars					
	March 31, 2004					
	Less than 12 months		12 months or longer		Total	
Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	Fair value	Gross unrealized holding losses	
Available-for-sale:						
Equity securities . . . . .	\$16,414	\$451	\$134	\$29	\$16,548	\$480
Debt securities . . . . .	—	—	—	—	—	—
Held-to-maturity:						
Debt securities . . . . .	—	—	—	—	—	—

Other investments includes long-term investments in various privately held companies and, as discussed below, warrants in AT&T Wireless.

On January 22, 2001, DoCoMo invested \$9.8 billion (¥1,142.5 billion) in AT&T Wireless Group. The \$9.8 billion cost was allocated based on estimated fair values at date of investment to AT&T preferred tracking stock \$9.5 billion (¥1,111.8 billion) and warrants \$0.3 billion (¥30.7 billion) and were accounted for on the cost basis. As discussed in Note 5, on July 9, 2001 upon the split-off of AT&T Wireless and automatic conversion of its investment into AT&T Wireless common stock and warrants, DoCoMo began to account for its investment in AT&T Wireless common stock on the equity method, while the warrants began to be carried on a mark to market basis. Market Value of the warrants was computed using the Black-Scholes option pricing methodology

through the year ended March 31, 2003. In February 2004, AT&T Wireless entered into a merger agreement with Cingular and its subsidiaries. Under the terms of the merger agreement, per share purchase price of the outstanding common stock of AT&T Wireless is \$15 and is below the exercise price of the warrant of \$35 per share. In addition, the price movement of AT&T Wireless shares shows that capital market expects that the merger will go through, although transaction is subject to approval by regulatory authorities, and other closing conditions. Consequently, DoCoMo reduced the book value of the warrant as of March 31, 2004 to zero. In this regard, a market value write-down of ¥28,534 million, ¥599 million and ¥1,706 million (\$16,376 thousand) has been included in "Other, net" in the accompanying consolidated statement of operations and comprehensive income (loss) for the years ended March 31, 2002, 2003 and 2004, respectively.

## 7. Goodwill and other intangible assets:

### Goodwill—

On November 1, 2002, DoCoMo purchased all the remaining minority interests in its eight regional subsidiaries through share exchanges and made these subsidiaries wholly owned. On August 1, 2003, DoCoMo also made its subsidiary wholly owned through the same processes. These share exchanges were accounted for using the purchase method, in accordance with SFAS No. 141. In accordance therewith, the acquisition costs of the subsidiaries' stocks which exceed the net assets of each of the subsidiaries are

assigned to DoCoMo's pro rata share of assets acquired and liabilities assumed based on estimated fair value at the date of the share exchanges, and deferred tax liabilities or assets are recognized for differences between the assigned values and the tax bases of the recognized assets acquired and liabilities assumed. The aggregate amount of acquisition costs that exceed the related determinable assets including intangible assets less liabilities is recorded as goodwill, which is exclusively attributable to the mobile phone business segment, on the consolidated balance sheet.

The changes in the carrying amount of goodwill, which is all related to the mobile phone segment, for the years ended March 31, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	For the year ended March 31, 2003	For the year ended March 31, 2004	For the year ended March 31, 2004
Balance at beginning of year . . . . .	¥ 5,312	¥133,196	\$1,278,518
Goodwill acquired during the year . . . . .	127,884	158	1,517
Balance at end of year . . . . .	¥133,196	¥133,354	\$1,280,035

**Other intangible assets—**

The following table displays the intangible assets, all of which are subject to amortization, at March 31, 2003 and 2004.

	Millions of yen		
	March 31, 2003		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Software for telecommunications network	¥344,741	¥192,792	¥151,949
Internal-use software	487,939	244,129	243,810
Customer related assets	50,949	3,538	47,411
Rights to use telecommunications facilities of wireline carriers	48,290	17,221	31,069
Other	14,588	1,011	13,577
	¥946,507	¥458,691	¥487,816

  

	Millions of yen		
	March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Software for telecommunications network	¥ 402,686	¥227,747	¥174,939
Internal-use software	576,121	321,437	254,684
Customer related assets	50,949	12,030	38,919
Rights to use telecommunications facilities of wireline carriers	48,366	19,613	28,753
Other	10,925	1,443	9,482
	¥1,089,047	¥582,270	¥506,777

  

	Thousands of U.S. dollars		
	March 31, 2004		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Software for telecommunications network	\$ 3,865,291	\$2,186,091	\$1,679,200
Internal-use software	5,530,054	3,085,400	2,444,654
Customer related assets	489,048	115,473	373,575
Rights to use telecommunications facilities of wireline carriers	464,254	188,261	275,993
Other	104,866	13,852	91,014
	\$10,453,513	\$5,589,077	\$4,864,436

Amortization of intangible assets for the year ended March 31, 2002, 2003 and 2004 was ¥99,743 million, ¥142,964 million and ¥150,673 million (\$1,446,276 thousand), respectively. Estimated amortization of intangible assets for fiscal years ending March 31, 2005, 2006, 2007, 2008 and 2009 is ¥145,618 million, ¥125,348

million, ¥95,540 million, ¥59,419 million, and ¥24,553 million, respectively. The weighted-average amortization period of the intangible assets acquired for the year ended March 31, 2004 is 5.8 years.

## 8. Other assets:

Other assets at March 31, 2003 and 2004 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deposits . . . . .	¥ 69,325	¥ 68,505	\$ 657,564
Deferred customer activation costs . . . . .	67,822	71,841	689,585
Loan to an affiliate . . . . .	—	38,618	370,685
Other . . . . .	13,125	16,442	157,823
	¥150,272	¥195,406	\$1,875,657

Loan to an affiliate represents the loan for H3G UK, an affiliate of DoCoMo.

In March 2003, DoCoMo received a funding call notice from H3G UK, seeking a shareholders loan advancement of £200 million from DoCoMo, pursuant to a provision of the H3G UK shareholders agreement between HWL, the parent company of H3G UK, and DoCoMo. In May 2003, DoCoMo advanced H3G

UK a 10-year shareholders loan of £200 million. On May 27, 2004, the shareholder loan provided by DoCoMo was transferred for value to Hutchison Europe Telecommunications S.à r.l., a HWL subsidiary company, and the payment was completed (See Note 5). DoCoMo believes the estimated fair value of the loan as of March 31, 2004 approximated to the carrying value.

## 9. Short-term borrowings and long-term debt:

DoCoMo's borrowings are denominated in Japanese yen and U.S. dollars.

Short-term borrowings, excluding the current portion of long-term debt, at March 31, 2003 and 2004 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Denominated in Japanese yen:			
Unsecured short-term bank loans and commercial paper at March 31, 2003 and 2004, bearing interest at a weighted average rate of 0.17% per annum at March 31, 2003 . . . . .	¥10,000	¥ —	\$ —

As of March 31, 2004, DoCoMo has unused overdraft accounts amounting to ¥407,432 million (\$3,910,847 thousand).

Long-term debt at March 31, 2003 and 2004 is comprised of the following:

	Interest rate	Maturities	Millions of yen		Thousands of U.S. dollars
			2003	2004	2004
Debt denominated in Japanese Yen:					
Unsecured corporate bonds . . . . .	0.3% – 2.7%	2004 – 2011	¥ 777,000	¥ 750,490	\$ 7,203,782
Unsecured indebtedness to banks and insurance companies . . . . .	0.5% – 4.9%	2004 – 2012	549,348	330,537	3,172,749
Debt denominated in U.S. dollars:					
Unsecured corporate bonds . . . . .	3.5%	2008	12,020	10,569	101,449
Sub-total . . . . .			1,338,368	1,091,596	10,477,980
Less: Current portion . . . . .			(126,741)	(136,642)	(1,311,595)
Total Long-term debt . . . . .			¥1,211,627	¥ 954,954	\$ 9,166,385

Interest rates on most of DoCoMo's borrowings are fixed in nature. Interest costs related specifically to short-term borrowings and long-term debt for the years ended March 31, 2003 and 2004 totaled ¥19,199 million and ¥15,045 million (\$144,414 thousand), respectively.

DoCoMo made a shelf registration that DoCoMo may issue up to ¥1,000 billion of general domestic corporate bonds during the two-year period starting April 3, 2002. As of March 31, 2004, DoCoMo had the unused line of credit amounting to ¥850 billion.

DoCoMo applied for a shelf registration that DoCoMo may issue up to ¥1,000 billion of general domestic corporate bonds during the two-year period starting April 3, 2004.

On November 11, 2003, DoCoMo established a Euro Medium Term Note Program ("EMTN Program"), which permit issuance of Notes up to \$10 billion or the equivalent in other currencies. As of March 31, 2004, DoCoMo has the unused line of credit amounting to \$10 billion regarding the EMTN Program.

The aggregate amounts of annual maturities of long-term debt at March 31, 2004, were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005 .....	¥ 136,642	\$ 1,311,595
2006 .....	150,324	1,442,926
2007 .....	193,742	1,859,685
2008 .....	129,788	1,245,805
2009 .....	75,210	721,924
Thereafter .....	405,890	3,896,045
	¥1,091,596	\$10,477,980

## 10. Shareholders' equity:

The Commercial Code of Japan (the "Code") provides that (i) all appropriations of retained earnings, including dividends, require approval at an ordinary general meeting of shareholders, (ii) interim cash dividends can be distributed upon the approval of the board of directors if the articles of incorporation provide for such interim cash dividends, subject to some restrictions in the amount, and (iii) an amount equal to at least 10 percent of cash dividends and other appropriations paid in cash be appropriated as a legal reserve until the aggregated amount of capital surplus and legal reserve equals 25% of stated capital.

The capital surplus and legal reserve, up to 25% of stated capital, are not available for dividends but may be used to reduce a deficit or may be transferred to stated capital. The capital surplus and legal reserve, exceeding 25% of stated capital, are available for distribution upon approval of the shareholders' meeting.

The amount of statutory retained earnings of the Company available for the payments of dividends to shareholders as of March 31, 2004 was ¥1,091,557 million (\$10,477,606 thousand).

Cash dividends and transfers to the legal reserve charged to retained earnings during the three years ended March 31, 2004 represent dividends paid out during the periods and related appropriations to the legal reserve.

Previously the Company had to have pre-approval of the shareholders in order to change the number of authorized shares of capital. However, the Code was amended in October 2001 to permit

an increase in the number of authorized shares of capital by resolution of the Board of Directors, if it were a result of a stock split.

On January 25, 2002, the DoCoMo Board of Directors approved an increase in the number of authorized shares to 191,500,000 and declared a five-for-one common stock split. The record date for the split was on March 31, 2002, with distribution of the split shares on May 15, 2002. The amount of common stock did not increase by this stock-split. All historical share and per share data included in these financial statements have been adjusted to reflect this stock split.

The shareholders' meeting on June 18, 2004, approved cash dividends of ¥48,596 million (\$466,462 thousand), ¥1,000 per share, payable to shareholders of record as of March 31, 2004, which were declared by the Board of Directors on April 22, 2004.

### Share repurchase and share exchanges for converting subsidiaries into wholly-owned subsidiaries—

On May 8, 2002, DoCoMo entered into memoranda of understanding with the eight regional subsidiaries which provide that the eight regional subsidiaries shall become wholly-owned subsidiaries of DoCoMo by way of share exchanges in order to increase the DoCoMo group's overall value by unifying its business and financing strategies.

In July and August 2002, DoCoMo repurchased 870,000 shares of its common stock, or 1.73% of the total issued shares

of DoCoMo, for ¥234,462 million in the stock market. In July 2002, 551,000 shares of DoCoMo stock were sold by NTT in the market.

On November 1, 2002, DoCoMo completed the share exchanges. The treasury stock amount of ¥234,462 million (870,000 shares), which had been acquired before the share exchanges, was decreased to ¥2,585 million (9,594 shares) as a result of the share exchanges and the subsequent purchase of odd lot equal to ¥8 million (34 shares) from the former minority shareholders of the regional subsidiaries.

On May 13, 2003, DoCoMo entered into memorandum of understanding with DoCoMo Sentsu, Inc. ("Sentsu") which provide that Sentsu shall become wholly-owned subsidiary of DoCoMo by

way of share exchanges in order to increase the DoCoMo group's overall value by unifying its business and financing strategies. On August 1, 2003, DoCoMo completed the share exchange. Treasury stock amount of ¥587 million (2,180 shares) was allocated and transferred for the former minority shareholders of Sentsu as a result of the share exchange.

On June 19, 2003, the shareholders' meeting approved a stock repurchase plan under which DoCoMo may repurchase up to 2,500,000 shares at an aggregate amount not to exceed ¥600,000 million in order to improve capital efficiency and to implement flexible capital policies in accordance with the business environment. Also, DoCoMo repurchased its fractional shares.

Class, aggregate number and price of shares repurchased for the year ended March 31, 2004, were as follows:

Class of shares repurchased:	Shares of common stock of the Company
Aggregate number of shares repurchased:	1,576,222 shares (3.1% of issued shares)
Aggregate price of shares repurchased:	¥ 394,903 million

Of the total shares repurchased, 698,000 shares were purchased from NTT.

In May 2004, based on a resolution of the Board of Directors on March 24, 2004, DoCoMo repurchased 43,000 shares of its common stock (0.09% of issued shares) for ¥8,447 million in the stock market.

On June 18, 2004, the shareholders' meeting approved a stock repurchase plan under which the Company may repurchase up to 2,500,000 shares at an aggregate amount not to exceed ¥600,000 million in order to improve capital efficiency and to implement flexible capital policies in accordance with the business environment.

### Accumulated other comprehensive income:

The table that follows presents the change in accumulated other comprehensive income:

	Millions of yen				
	Unrealized gains (losses) on available-for-sale securities	Net revaluation of financial instruments	Foreign currency translation adjustment	Minimum pension liability adjustment	Accumulated other comprehensive income
Balance at March 31, 2001	¥ 3,335	¥ —	¥ 25,621	¥ (5,847)	¥ 23,109
2002 change	(2,136)	(90)	105,147	(3,398)	99,523
Balance at March 31, 2002	¥ 1,199	¥ (90)	¥130,768	¥ (9,245)	¥122,632
2003 change	(727)	257	(39,315)	(19,910)	(59,695)
Balance at March 31, 2003	¥ 472	¥167	¥ 91,453	¥(29,155)	¥ 62,937
<b>2004 change</b>	<b>12,238</b>	<b>(13)</b>	<b>(9,862)</b>	<b>16,055</b>	<b>18,418</b>
<b>Balance at March 31, 2004</b>	<b>¥12,710</b>	<b>¥154</b>	<b>¥ 81,591</b>	<b>¥(13,100)</b>	<b>¥ 81,355</b>

  

	Thousands of U.S. dollars				
	Unrealized gains (losses) on available-for-sale securities	Net revaluation of financial instruments	Foreign currency translation adjustment	Minimum pension liability adjustment	Accumulated other comprehensive income
Balance at March 31, 2003	\$ 4,530	\$1,603	\$877,837	\$(279,852)	\$604,118
<b>2004 change</b>	<b>117,470</b>	<b>(125)</b>	<b>(94,663)</b>	<b>154,108</b>	<b>176,790</b>
<b>Balance at March 31, 2004</b>	<b>\$122,000</b>	<b>\$1,478</b>	<b>\$783,174</b>	<b>\$(125,744)</b>	<b>\$780,908</b>

## 11. Research and development expenses, and advertising cost:

### Research and development expenses

Research and development expenses are charged to expense as incurred.

For the year ended March 31, 2003 and 2004, DoCoMo expended funds for research and development of new FOMA 3G handsets manufactured by handset vendors. The move is part of a strategy to promote the rapid development of FOMA handset technology and stimulate market demand for FOMA services. Under the agreements with manufacturers, they are required to develop new FOMA handsets, featuring advanced applications and longer battery life. DoCoMo shares ownership rights for FOMA handset patented technologies and know-how with the manufacturers.

The total amount invested by DoCoMo in the development of FOMA handsets by handset manufacturers for the year ended

March 31, 2003 and 2004 is ¥17.5 billion and ¥23.5 billion (\$225,571 thousand), respectively.

Research and development expenses are included primarily in selling, general and administrative expenses, and amounted to ¥99,454 million, ¥ 126,229 million and ¥124,514 million (\$1,195,181 thousand) for the year ended March 31, 2002, 2003, and 2004, respectively.

### Advertising costs

Advertising costs are also expensed as incurred. Such costs are included in selling, general and administrative expenses and amounted to ¥63,480 million, ¥58,738 million and ¥58,434 million (\$560,895 thousand) for the years ended March 31, 2002, 2003 and 2004, respectively.

## 12. Other (income) expense:

Components of (income) expense included in "other, net" in the financial statement for the year ended March 31, 2002, 2003 and 2004 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Realized holding gains (net of losses) on marketable securities and other investments . . . . .	¥ (1,369)	¥ (101)	¥(1,444)	\$(13,861)
Foreign exchange gains . . . . .	(829)	(228)	(483)	(4,636)
Rental revenue received . . . . .	(1,885)	(2,666)	(2,744)	(26,339)
Write-down of warrants related to AT&T Wireless . . . . .	28,534	599	1,706	16,376
Gain on share-exchange right related to investment in KGT . . . . .	—	—	(2,665)	(25,581)
Other—net . . . . .	2,970	(623)	(3,874)	(37,185)
	¥27,421	¥(3,019)	¥(9,504)	\$(91,226)

### 13. Related party transactions:

As previously noted, DoCoMo is majority-owned by NTT, which is a holding company for more than 400 companies comprising the NTT group.

DoCoMo has entered into a number of different types of transactions with NTT, its other subsidiaries and its affiliated companies in the ordinary course of business. DoCoMo's transactions with NTT group companies include purchases of wireline telecommunications services (i.e. for DoCoMo's offices and operations facilities, including its PHS business) based on actual usage, leasing of various telecommunications facilities and sales of DoCoMo's various wireless communications services.

Receivables include primarily customer accounts receivables related to DoCoMo's sales of wireless communications services to customers, which NTT collects on behalf of DoCoMo. These sales

are recorded as revenue from each third-party customer receiving the services and are not included in the amount of sales to related parties. During the years ended March 31, 2002, 2003 and 2004, DoCoMo purchased capital equipment from NTT Group companies in the amount of ¥121,555 million, ¥123,473 million and ¥100,994 million (\$969,418 thousand), respectively.

DoCoMo has entered into cost-sharing and construction and maintenance contracts with In-Tunnel Cellular Association, chairman of which is also one of DoCoMo's directors. The contracts were entered into on terms similar to those made with third parties. Income from such contracts was ¥10,552 million and ¥11,970 million (\$114,897 thousand) for the year ended March 31, 2003 and 2004, respectively.

### 14. Business segments:

From a resource allocation perspective, DoCoMo views itself as having four primary business segments. The mobile phone business segment includes cellular services, FOMA services, packet communications services, satellite mobile communications services, in-flight telephone services and the equipment sales related to these services. The PHS business segment includes PHS services and the related equipment sales for such service. The Quickcast business segment includes paging services and related equipment sales for such service. The miscellaneous business segment includes international dialing and roaming services and other miscellaneous services, which in the aggregate are not significant. The "Corporate" column in the tables below is not an operating segment but is included to reflect the recorded amounts of common assets which cannot be allocated to any business segment.

DoCoMo identified its reportable segments based on the nature of services included, as well as the characteristics of the telecommunications networks used to provide those services. DoCoMo's chief operating decision maker monitors and evaluates the performance of its segments based on the information that follows as derived from the Company's management reports. Beginning with

the year ended March 31, 2003, DoCoMo has elected to change the basis of the consolidated financial information filed in Japan from Japanese GAAP to U.S. GAAP. Consistent therewith, the Company's management reports, which were prepared in accordance with Japanese GAAP in the year ended March 31, 2002, have also been changed to a U.S. GAAP basis for the years ended March 31, 2003 and 2004. Therefore, segment information for the years ended March 31, 2003 and 2004 is presented on the basis of U.S. GAAP, while such information for the year ended March 31, 2002 in the tables below are primarily in accordance with Japanese GAAP.

Assets by segment are not included in the management reports, however, they are included herein only for the purpose of disclosure. Depreciation and amortization is shown separately, as well as included as part of operating expenses. Corporate assets include primarily cash, deposits, securities, loans and investments in affiliates. With respect to other common assets such as buildings for telecommunications purposes and common facilities, the amounts of such assets and related depreciation and amortization are allocated to each segment on a systematic and rational basis.

[Japanese GAAP basis]		Millions of yen					
Year ended March 31, 2002	Mobile phone business	PHS business	Quickcast business	Miscellaneous business	Corporate	Consolidated	
Operating revenues . . . . .	¥5,022,109	¥114,512	¥10,977	¥23,949	—	¥5,171,547	
Operating expenses . . . . .	3,954,523	173,223	17,370	23,578	—	4,168,694	
Operating income (loss) . . . . .	¥1,067,586	¥ (58,711)	¥ (6,393)	¥ 371	—	¥1,002,853	
Assets . . . . .	¥4,422,508	¥134,310	¥15,771	¥ 3,656	¥1,336,337	¥5,912,582	
Depreciation and amortization . . . . .	¥ 585,619	¥ 35,118	¥ 6,839	¥ 1,144	—	¥ 628,720	
[U.S. GAAP basis]		Millions of yen					
Year ended March 31, 2003	Mobile phone business	PHS business	Quickcast business	Miscellaneous business	Corporate	Consolidated	
Operating revenues . . . . .	¥4,690,444	¥ 85,038	¥ 8,088	¥25,518	—	¥4,809,088	
Operating expenses . . . . .	3,603,257	113,332	14,546	21,234	—	3,752,369	
Operating income (loss) . . . . .	¥1,087,187	¥ (28,294)	¥ (6,458)	¥ 4,284	—	¥1,056,719	
Assets . . . . .	¥4,818,323	¥134,900	¥15,653	¥ 4,823	¥1,084,308	¥6,058,007	
Depreciation and amortization . . . . .	¥ 712,726	¥ 27,668	¥ 7,934	¥ 869	—	¥ 749,197	
[U.S. GAAP basis]		Millions of yen					
<b>Year ended March 31, 2004</b>	Mobile phone business	PHS business	Quickcast business	Miscellaneous business	Corporate	Consolidated	
Operating revenues . . . . .	<b>¥4,937,666</b>	<b>¥ 75,702</b>	<b>¥ 5,981</b>	<b>¥28,716</b>	—	<b>¥5,048,065</b>	
Operating expenses . . . . .	<b>3,798,785</b>	<b>111,224</b>	<b>7,832</b>	<b>27,306</b>	—	<b>3,945,147</b>	
Operating income (loss) . . . . .	<b>¥1,138,881</b>	<b>¥ (35,522)</b>	<b>¥ (1,851)</b>	<b>¥ 1,410</b>	—	<b>¥1,102,918</b>	
Assets . . . . .	<b>¥4,847,982</b>	<b>¥127,224</b>	<b>¥13,531</b>	<b>¥ 8,644</b>	<b>¥1,264,885</b>	<b>¥6,262,266</b>	
Depreciation and amortization . . . . .	<b>¥ 693,102</b>	<b>¥ 23,508</b>	<b>¥ 2,643</b>	<b>¥ 1,744</b>	—	<b>¥ 720,997</b>	
[U.S. GAAP basis]		Thousands of U.S. dollars					
<b>Year ended March 31, 2004</b>	Mobile phone business	PHS business	Quickcast business	Miscellaneous business	Corporate	Consolidated	
Operating revenues . . . . .	<b>\$47,395,527</b>	<b>\$ 726,646</b>	<b>\$ 57,410</b>	<b>\$275,639</b>	—	<b>\$48,455,222</b>	
Operating expenses . . . . .	<b>36,463,669</b>	<b>1,067,614</b>	<b>75,177</b>	<b>262,104</b>	—	<b>37,868,564</b>	
Operating income (loss) . . . . .	<b>\$10,931,858</b>	<b>\$ (340,968)</b>	<b>\$ (17,767)</b>	<b>\$ 13,535</b>	—	<b>\$10,586,658</b>	
Assets . . . . .	<b>\$46,534,671</b>	<b>\$1,221,194</b>	<b>\$129,881</b>	<b>\$ 82,972</b>	<b>\$12,141,342</b>	<b>\$60,110,060</b>	
Depreciation and amortization . . . . .	<b>\$ 6,652,928</b>	<b>\$225,648</b>	<b>\$ 25,370</b>	<b>\$ 16,739</b>	—	<b>\$ 6,920,685</b>	

DoCoMo does not disclose geographical segments, since operating revenues generated outside Japan are immaterial.

The tables that follow present reconciliations of segment operating revenues, operating expenses, operating income, assets and

depreciation and amortization for the year ended March 31, 2002 from the management reports information shown above, to U.S. GAAP amounts on a consolidated basis.

An explanation of the significant reconciling items is as follows:

**Activation fees—**

Activation fees were recorded as revenue when billed in the management reports, while related direct incremental acquisition costs were expensed as incurred. Under U.S. GAAP such amounts should be deferred and recognized over the period of the customer relationship (See Note 2).

**Commissions paid to agent resellers—**

Commissions paid to agent resellers were included in selling, general and administrative expenses in the management reports. Under U.S. GAAP, certain amounts of the commissions are recorded as a reduction of equipment sales. (See Note 2)

**Classification of loss on inventory writedown—**

DoCoMo classified the cost of inventory writedowns as part of “other income (expense)” for management reporting purposes. Under U.S. GAAP, such expenses are recorded as operating expenses.

**Compensated absences—**

The Company did not specifically account for compensated absences nor does it recognize a related liability in its management reports until such amounts were paid. Under U.S. GAAP, an employer shall accrue a liability for employees’ compensation for future absences if certain conditions are met.

**Employee retirement benefits—**

Represents the effect of differences in accounting for costs of employee retirement benefits between U.S. GAAP and management reporting due to actuarial calculations and timing recognition of components thereof including primarily transition adjustment, prior service costs and actuarial gains and losses.

**Lease transactions—**

The Company accounted for certain finance leases as operating leases in its management reports. Under U.S. GAAP, such leases are accounted for as capital leases under certain conditions.

**Capitalization of intangible assets—**

Amounts paid to acquire infeasible rights to use certain telecommunications facilities were expensed by the Company as incurred in its management reports. Under U.S. GAAP, amounts paid for such rights to use are to be capitalized in certain circumstances.

**Capitalized interest—**

DoCoMo did not capitalize interest costs on borrowings for the construction of facilities in its management reports. Under U.S. GAAP, actual interest costs incurred to bring qualified assets to their intended use that theoretically could have been avoided if the expenditures for the assets had not been made, must be capitalized.

**Investments in affiliates—**

Represents differences in the Company’s management reports for amortization periods and carrying values of equity method goodwill and other miscellaneous accounting items for equity method affiliates.

**Translation of investments in foreign affiliates—**

Foreign investments were translated at year end exchange rates for management reporting purposes, except for embedded goodwill which is translated at historical rates. Under U.S. GAAP, investments that are carried at cost are translated at historical rates and investments in equity affiliates are translated at the exchange rate as of the date of the most recent available financial statements of the investee. Translation adjustments for management reporting purposes were reversed for impairment write-downs or sales of the investments. Under U.S. GAAP, reversals of translation adjustments are only reflected for sale or substantial liquidation of the investment.

**Impairment write-down of investments in affiliates—**

As noted above, translation adjustments are not reversed for impairment write-downs of investments in affiliates under U.S. GAAP.

	Millions of yen
	Year ended March 31, 2002
Adjustments to reconcile segment operating revenues to U.S. GAAP operating revenues	
Segment operating revenues	¥5,171,547
1) Activation fees	(4,409)
2) Commissions paid to agent resellers	(507,884)
Consolidated operating revenue under U.S. GAAP	¥4,659,254
	Millions of yen
	Year ended March 31, 2002
Adjustments to reconcile segment operating expenses to U.S. GAAP operating expenses	
Segment operating expenses	¥4,168,694
1) Activation fees	(4,409)
2) Commissions paid to agent resellers	(507,884)
3) Classification of loss on inventory writedown	9,527
4) Compensated absences	2,694
5) Employee retirement benefits	(14,184)
6) Lease transactions	(2,194)
7) Amortization of intangible assets	1,368
8) Depreciation for capitalized interest costs	2,406
9) Other	2,349
Consolidated operating expenses under U.S. GAAP	¥3,658,367
	Millions of yen
	Year ended March 31, 2002
Adjustments to reconcile segment operating income to U.S. GAAP operating income	
Segment operating income	¥1,002,853
1) Classification of loss on inventory writedown	(9,527)
2) Compensated absences	(2,694)
3) Employee retirement benefits	14,184
4) Lease transactions	2,194
5) Amortization of intangible assets	(1,368)
6) Depreciation for capitalized interest costs	(2,406)
7) Other	(2,349)
Consolidated operating income under U.S. GAAP	¥1,000,887
	Millions of yen
	Year ended March 31, 2002
Adjustments to reconcile segment assets to U.S. GAAP assets	
Segment assets	¥5,912,582
1) Deferred costs related to activation fees	113,334
2) Lease transactions	13,201
3) Capitalization of intangible assets	20,192
4) Capitalized interest	10,102
5) Investments in affiliates	75,999
6) Translation of investments in foreign affiliates	222,497
7) Impairment write-down of investments in affiliates	(264,983)
8) Other	1,776
9) Deferred taxes related to reconciling items	(37,475)
Consolidated assets under U.S. GAAP	¥6,067,225

	Millions of yen
	Year ended March 31, 2002
Adjustments to reconcile segment depreciation and amortization to U.S. GAAP depreciation and amortization	
Segment depreciation and amortization . . . . .	¥628,720
1) Lease transactions . . . . .	6,224
2) Amortization of intangible assets . . . . .	1,368
3) Depreciation for capitalized interest costs . . . . .	2,406
4) Other . . . . .	1,787
Consolidated depreciation and amortization under U.S. GAAP . . . . .	¥640,505

The following supplemental table presents segment information for the year ended March 31, 2002 in accordance with U.S. GAAP adjusted from those in accordance with Japanese GAAP, to provide

comparability of the segment information and for the convenience of the users of the financial statements.

[U.S. GAAP basis] Year ended March 31, 2002	Millions of yen					
	Mobile phone business	PHS business	Quickcast business	Miscellaneous business	Corporate	Consolidated
Operating revenues . . . . .	¥4,523,989	¥100,186	¥11,130	¥23,949	—	¥4,659,254
Operating expenses . . . . .	3,457,554	159,990	17,307	23,516	—	3,658,367
Operating income (loss) . . . . .	¥1,066,435	¥ (59,804)	¥ (6,177)	¥ 433	—	¥1,000,887
Assets . . . . .	¥4,519,389	¥157,642	¥16,214	¥ 3,698	¥1,370,282	¥6,067,225
Depreciation and amortization . . . . .	¥ 595,372	¥ 36,967	¥ 7,019	¥ 1,147	—	¥ 640,505

### 15. Employee benefits:

DoCoMo participates in a contributory defined benefit welfare pension plan sponsored by the NTT group (“NTT/Employee Pension Fund”). The number of DoCoMo’s employees covered by the contributory plan represented approximately 9.6% and 9.8% of the total people covered by such plan as of March 31, 2003 and 2004, respectively. The amount of expense allocated in DoCoMo’s consolidated statements of operations and comprehensive income (loss) related to the contributory plan for the years ended March

31, 2002, 2003 and 2004 was ¥ 7,962 million, ¥8,661 million and ¥7,808 million (\$74,947 thousand), respectively. The liability for employees’ benefits covered by such contributory plan was ¥26,149 million and ¥25,499 million (\$244,759 thousand) as of March 31, 2003 and 2004, respectively. Such amounts were allocated by NTT and are based on actuarial calculations related to DoCoMo’s covered employees.

DoCoMo also sponsors a non-contributory defined benefit pension plan covering substantially all employees. DoCoMo uses a measurement date of March 31 for its non-contributory pension plan. The following tables present reconciliations of the changes in the non-contributory pension plan's projected benefit obligations and fair value of plan assets at March 31, 2003 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Change in benefit obligations:			
Projected benefit obligation, beginning of year	¥ 161,006	¥ 177,238	\$ 1,701,267
Service cost	9,354	10,715	102,851
Interest cost	3,953	3,631	34,853
Benefit payments	(8,478)	(9,263)	(88,913)
Plan amendment	(3,039)	(11,774)	(113,016)
Transfer of liability from NTT non-contributory funded pension plan	4,097	5,686	54,578
Actuarial loss (gain)	10,345	(3,703)	(35,544)
Projected benefit obligation, end of year	¥ 177,238	¥ 172,530	\$ 1,656,076
Change in fair value of plan assets:			
Fair value of plan assets, beginning of year	¥ 44,382	¥ 45,934	\$ 440,910
Actual return on plan assets	(5,797)	6,714	64,446
Employer contributions	6,728	5,310	50,970
Benefits payments	(801)	(1,233)	(11,835)
Transfer of plan assets from NTT non-contributory funded pension plan	1,422	1,634	15,684
Fair value of plan assets, end of year	¥ 45,934	¥ 58,359	\$ 560,175
At March 31:			
Funded status	¥(131,304)	¥(114,171)	\$(1,095,901)
Unrecognized net losses	62,965	50,110	480,995
Unrecognized transition obligation	2,477	1,786	17,143
Unrecognized prior service cost	(16,242)	(25,976)	(249,338)
Net amount recognized	¥ (82,104)	¥ (88,251)	\$ (847,101)

The following table provides the amounts recognized in DoCoMo's consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
At March 31:			
Liability for employees' retirement benefits	¥(123,551)	¥(108,455)	\$(1,041,035)
Intangible assets	790	470	4,512
Accumulated other comprehensive income	40,657	19,734	189,422
Net amount recognized	¥ (82,104)	¥ (88,251)	\$ (847,101)
Liability for employees' retirement benefits covered by the NTT Group contributory defined benefit welfare pension plan			
	¥ (26,149)	¥ (25,499)	\$ (244,759)
Total liability for employees' retirement benefits	¥(149,700)	¥(133,954)	\$(1,285,794)

The accumulated benefit obligation for the non-contributory pension plan was ¥167,671 million and ¥166,454 million (\$1,597,754 thousand) at March 31, 2003 and 2004, respectively.

The charges to income for the non-contributory pension plan for the years ended March 31, 2002, 2003 and 2004, included the following components:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Service cost . . . . .	¥ 8,567	¥ 9,354	¥10,715	\$102,851
Interest cost on projected benefit obligation . . . . .	4,380	3,953	3,631	34,853
Expected return on plan assets . . . . .	(1,201)	(1,180)	(1,181)	(11,336)
Amortization of prior service cost . . . . .	(1,235)	(1,217)	(1,465)	(14,062)
Amortization of actuarial loss . . . . .	2,413	2,188	3,063	29,401
Amortization of transition obligation . . . . .	633	637	637	6,114
Other . . . . .	411	—	—	—
Net pension cost . . . . .	¥13,968	¥13,735	¥15,400	\$147,821

The assumptions used in determination of the pension plan's projected benefit obligations at March 31, 2003 and 2004 are as follows:

	March 31, 2003	March 31, 2004
Discount rate . . . . .	2.0%	2.0%
Long-term rate of salary increases . . . . .	2.1	2.1

The assumptions used in determination of the net pension costs for the years ended March 31, 2002, 2003 and 2004 are as follows:

	2002	2003	2004
Discount rate . . . . .	3.0%	2.5%	2.0%
Long-term rate of salary increases . . . . .	3.0	2.1	2.1
Long-term rate of return on funded assets . . . . .	3.0	2.5	2.5

In determining the expected long-term rate of return on plan assets, the non-contributory pension plan considers 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 non-contributory pension plan weighted-average asset allocations at March 31, 2003 and 2004 by asset category are as follows:

	March 31, 2003	March 31, 2004
Domestic stocks . . . . .	26.6%	26.4%
Domestic bonds . . . . .	35.8	28.7
International stocks . . . . .	17.4	14.4
International bonds . . . . .	15.5	17.2
Other . . . . .	4.7	13.3
Total . . . . .	100.0%	100.0%

The non-contributory pension plan's policy toward plan assets management is formulated with the ultimate objective of ensuring the steady disbursement of pension benefits in future periods. The long-term objective of asset management, therefore, is to secure the total profits deemed necessary to ensure financial soundness of plan assets. To achieve this, DoCoMo selects various investments and takes into consideration their expected returns and risks and the correlation among the investments. DoCoMo then sets a target allocation ratio for the plan assets and endeavors to maintain that

ratio. The target ratio is formulated from a mid- to long-term perspective and reviewed annually. In the event that the investment environment changes dramatically, DoCoMo will review the asset allocation, as necessary. The target ratio in March 2004 is: domestic stocks, 25.0%; domestic bonds, 30.0%; international stocks, 15.0%; international bonds, 20.0%; and other financial instruments 10.0%.

Domestic stocks include DoCoMo common stocks in the amount of ¥527 million (1.1% of total plan assets) and ¥346

million (0.6% of total plan assets), NTT common stocks in the amount of ¥308 million (0.7% of total plan assets) and ¥314 million (0.5% of total plan assets), and NTT DATA Corporation, a subsidiary of NTT, common stocks in the amount of ¥458 million (1.0% of total plan assets) and ¥164 million (0.3% of total plan assets) at March 31, 2003 and 2004, respectively.

Prior service cost and unrecognized net losses in excess of 10% of the greater of the projected benefit obligation or the fair value of plan assets are being amortized over the expected average remaining service life of employees, while the unrecognized transition obligation is being amortized over 15 years on a straight-line basis.

From time to time, employees of NTT transfer to DoCoMo. Upon such transfer, NTT transfers the related vested pension obligation for each employee, along with a like amount of plan assets and cash. Therefore, the difference between the pension

obligation and related plan assets transferred from NTT to DoCoMo, included in the above reconciliation, represents cash paid by NTT to DoCoMo, which has not been invested in plan assets.

DoCoMo expects to contribute ¥6,623 million (\$63,573 thousand) to the non-contributory pension plan in the year ending March 31, 2005.

Certain of DoCoMo's employees participate in an employee stock purchase plan, pursuant to which a plan administrator makes open market purchases of DoCoMo shares for the accounts of participating employees on a monthly basis. Such purchases are made out of amounts deducted from each participating employee's salary, with a small contribution from DoCoMo. The expense recorded by DoCoMo for contributions made toward employee stocks purchases was not material to its results of operations for the years ended March 31, 2002, 2003 and 2004, respectively.

## 16. Income taxes:

Total income taxes for the years ended March 31, 2002, 2003 and 2004 were allocated as follows:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Income from continuing operations . . . . .	¥ 399,643	¥ 454,487	¥429,116	\$4,118,986
Equity in net losses of affiliates . . . . .	(470,278)	(226,450)	4,527	43,454
Cumulative effect of accounting change . . . . .	—	(25,852)	—	—
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities . . . . .	(1,013)	(476)	6,711	64,417
Less: Reclassification adjustments for				
net gains included in net income (loss) . . . . .	(520)	(41)	(106)	(1,017)
Revaluation of financial instruments . . . . .	(65)	176	53	509
Foreign currency translation adjustment . . . . .	75,048	(28,779)	(23,752)	(227,990)
Minimum pension liability adjustment . . . . .	(2,482)	(13,637)	11,104	106,584
	¥ 333	¥ 159,428	¥427,653	\$4,104,943

Virtually all income or loss before income taxes and income tax expenses or benefit are domestic.

The Company and its domestic subsidiaries are subject to a National Corporate Tax of 30%, an Inhabitant Tax of approximately 6% and a deductible Japanese Enterprise Tax of approximately 10%. The Inhabitant Tax rate and the Japanese Enterprise Tax rate vary by local jurisdiction. The aggregate statutory income tax rate was approximately 42% for the years ended March 31, 2002, 2003 and 2004. The effective income tax rate for the years ended March 31, 2002, 2003 and 2004 was approximately 42%, 44% and 39% respectively. The difference between the effective income tax rates and the statutory income tax rates for the year

ended March 31, 2003 was principally related to the effect of enacted income tax rate changes. The difference for the year ended March 31, 2004 is principally related to the special tax treatment applied to IT and research and development investment, which lowered the effective tax rate by 3.0 points.

In March 2003, the Japanese government enacted the amendments to the tax law, which was to reduce the standard Japanese Enterprise Tax rates based on the size of income as well as additionally levy Japanese Enterprise Tax based on the size of the business. The new statutory income tax rates are effective for the years beginning after March 31, 2004. As a result of the change in tax laws, with a new combined statutory income tax rate reduced to

40.7%, DoCoMo recalculated deferred tax assets and liabilities for temporary differences scheduled to reverse after March 31, 2004. The effect of the change in the 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. During the year ended March 31, 2004, a change to the Japanese Enterprise Tax rates was enacted in

the local jurisdictions. The combined statutory income tax rate was raised to approximately 40.9% effective April 1, 2004. The effect of the change in the rates on net deferred tax assets was an increase of net income by ¥3,447 million (\$33,087 thousand) in the year ended March 31, 2004.

Deferred income taxes result from temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Significant components of deferred tax assets and liabilities at March 31, 2003 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Investments in affiliates . . . . .	¥510,190	¥487,234	\$4,676,848
Property, plant and equipment due to differences in depreciation . . . . .	38,513	39,163	375,917
Accrued enterprise tax . . . . .	11,637	30,954	297,120
Liability for employee benefits . . . . .	52,048	49,484	474,986
Allowance for loyalty programs . . . . .	38,144	40,013	384,076
Deferred revenues regarding Nikagetsu Kurikoshi . . . . .	—	13,139	126,118
Compensated absences . . . . .	6,658	7,415	71,175
Accrued bonus . . . . .	5,893	6,648	63,813
Marketable securities and other investments . . . . .	15,811	16,382	157,247
Accrued commissions to agent resellers . . . . .	20,693	24,886	238,875
Other . . . . .	10,578	11,783	113,101
Total gross deferred tax assets . . . . .	¥710,165	¥727,101	\$6,979,276
Deferred tax liabilities:			
Intangible assets . . . . .	19,272	25,064	240,584
Unrealized gains on available-for-sale securities . . . . .	542	6,872	65,963
Property, plant and equipment due to differences in capitalized interest . . . . .	4,171	4,056	38,933
Foreign currency translation adjustment . . . . .	56,717	38,377	368,372
Other . . . . .	1,807	7,509	72,076
Total gross deferred tax liabilities . . . . .	82,509	81,878	785,928
Net deferred tax assets . . . . .	¥627,656	¥645,223	\$6,193,348

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that DoCoMo will realize the

benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

#### Other taxes—

The consumption tax rate for all taxable goods and services, with minor exceptions, is 5 percent. Consumption tax payable or receivable is determined based on consumption taxes levied on operating revenues offset by consumption taxes directly incurred by the Company when purchasing goods and services.

## 17. Commitments and contingencies:

### Leases—

DoCoMo leases certain facilities and equipment in the normal course of business. Assets covered under capital leases at March 31, 2003 and 2004 are as follows:

Class of property	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Tools, furniture and fixtures	¥ 27,501	¥ 20,515	\$ 196,919
Computer software	1,978	1,881	18,055
	29,479	22,396	214,974
Accumulated depreciation	(21,167)	(15,714)	(150,835)
	¥ 8,312	¥ 6,682	\$ 64,139

Tools, furniture and fixtures are classified as part of property, plant and equipment while computer software is classified as part of intangible assets.

Future minimum lease payments by year under capital leases together with the present value of the net minimum lease payments as of March 31, 2004 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥4,015	\$38,539
2006	2,888	27,721
2007	1,202	11,538
2008	536	5,145
2009	169	1,622
Thereafter	45	432
Total minimum lease payments	8,855	84,997
Less—Amount representing interest	(486)	(4,665)
Present value of net minimum lease payments	8,369	80,332
Less—Amounts representing estimated executory costs	(918)	(8,812)
Net minimum lease payments	7,451	71,520
Less—Current obligation	(3,824)	(36,705)
Long-term capital lease obligations	¥3,627	\$34,815

The above obligations are classified as part of other current and long-term liabilities, as appropriate.

The minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at March 31, 2004 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,424	\$ 13,669
2006	1,424	13,669
2007	1,424	13,669
2008	1,424	13,669
2009	1,424	13,669
Thereafter	19,933	191,331
Total minimum future rentals	¥27,053	\$259,676

The following schedule shows total rental expense for all operating leases for the years indicated except those with terms of one month or less that were not renewed:

	Millions of yen			Thousands of U.S. dollars
	2002	2003	2004	2004
Minimum rentals	¥59,958	¥41,653	¥76,879	\$737,944

**Collateral pledge of shares of an affiliate—**

On December 12, 2002, pursuant to a syndicated loan agreement that HTCL had entered into with financial institutions, DoCoMo pledged as collateral certain of HTCL shares owned by DoCoMo. The summary of the share pledge is as follows:

- |                                      |  |
|--------------------------------------|--|
| (1) Total number of shares pledged   | 4,793 (3.8% of the total number of outstanding shares of HTCL) |
| (2) Carrying value of shares pledged | ¥6,980 million (\$66,999 thousand)                             |
| (3) Period of pledge                 | Until full repayment (Scheduled on March 31, 2006)             |
| (4) Enforcement of security          | In case of default defined in the loan agreement               |

These shares are included in investments in affiliates on the consolidated balance sheets.

On May 31, 2004, HTCL terminated the syndicated loan agreement as it made early repayment of the syndicated loan. As a result, the pledge of the HTCL shares to financial institutions was terminated.

**Litigation—**

At March 31, 2004, DoCoMo had no litigation or claims outstanding, pending or threatened against it, which in the opinion of management would have a material adverse effect on the results of operations or the financial position.

**Purchase commitments—**

DoCoMo has entered into various contracts for the purchase of property, plant and equipment and inventories (primarily handsets). Commitments outstanding at March 31, 2004 amounted to ¥89,371 million (\$857,852 thousand) (of which ¥9,623 million (\$92,369 thousand) are with related parties) for property, plant and equipment and ¥40,993 million (\$393,482 thousand) (of which none are with related parties) for inventories.

**Guarantees—**

In November 2002, FASB issued FASB Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” FIN 45 requires that if a company issues or modifies a

guarantee on or after January 1, 2003, the company must recognize an initial liability for the fair value of the obligations it has undertaken in issuing and must disclose that information in its financial statements.

DoCoMo enters into agreements in the normal course of business that provide for guarantees of counterparties. These counterparties include customers, related parties and other business partners. Although the most of guarantees provided for customers are for cellular phone handsets DoCoMo sold, DoCoMo is provided the same kind of guarantees by the handset vendors. Though the guarantees or indemnifications provided in other transactions than with the customers are different in each contracts, the likelihood of almost all of the performance of these guarantees or indemnifications are remote and amount of payments DoCoMo could be required is not specified in almost all of the contract. Historically, DoCoMo has not made any significant guarantee or indemnification payments under such agreements. DoCoMo estimates the estimated fair value of the obligations related to these agreements is not significant. Accordingly, DoCoMo has no liabilities recorded for the obligations as of March 31, 2004.

**18. Fair value of financial instruments:**

All cash and temporary investments, current receivables, current payables, and certain other short-term financial instruments are short-term in nature, and therefore their carrying amount approximates fair values. Information relating to investments in affiliates and marketable securities and other investments are disclosed in Notes 5, 6 and 8, respectively.

**Long-term debt, including current portion—**

The fair value of long-term debt is estimated based on the discounted amounts of future cash flows using DoCoMo’s current incremental borrowings rates for similar liabilities.

The carrying amounts and the estimated fair values of long-term debt, including current portion at March 31, 2003 and 2004 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2003		2004		2004	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Long-term debt, including current portion . . . . .	¥1,338,368	¥1,387,556	¥1,091,596	¥1,106,339	\$10,477,980	\$10,619,495

#### Risk management—

DoCoMo's earnings and cash flows may be negatively impacted by fluctuating interest and foreign exchange rates. DoCoMo enters into interest rate swap contracts and uses non-derivative financial instruments to manage these risks. The derivative financial instruments are executed with creditworthy financial institutions, and DoCoMo management believes there is little risk of default by these counterparties.

On March 5, 2003, DoCoMo issued \$100 million unsecured corporate bonds in order to hedge a portion of its 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 ¥145 million and ¥712 million (\$6,834 thousand) and recorded as a foreign currency translation adjustment for the years ended March 31, 2003 and 2004, respectively.

#### Interest rate swap agreements—

The table below shows the notional principal amounts and fair value of those derivative financial instruments at March 31, 2003 and 2004:

Term	Weighted average rate		Millions of yen		Thousands of U.S. dollars	
	Receive floating	Pay fixed	March 31, 2003		March 31, 2004	
			Notional amounts	Fair value	Notional amounts	Fair value
1995–2005	0.3%	2.9%	¥2,500	¥(129)		
Term	Weighted average rate		Millions of yen		Thousands of U.S. dollars	
	Receive floating	Pay fixed	March 31, 2004		March 31, 2004	
			Notional amounts	Fair value	Notional amounts	Fair value
1995–2005	0.4%	3.2%	¥ 1,500	¥(66)	\$ 14,398	\$(634)
	Receive fixed	Pay floating	Notional amounts	Fair value	Notional amounts	Fair value
2003–2011	1.5%	0.1%	¥50,000	¥ 90	\$479,939	\$ 864

The interest rate swap agreements have remaining terms to maturity ranging from 6 months to 7 years and 6 months.

The fair value of interest rate swaps was obtained from counterparty financial institutions and represents the amounts that DoCoMo could have settled with the counterparties to terminate the swaps outstanding at March 31, 2003 and 2004.

#### Concentrations of risk—

As of March 31, 2004, DoCoMo did not have any significant concentration of business transacted with an individual counterparty or groups of counterparties that could, if suddenly eliminated, severely impact its operations.

## 19. Subsequent events:

#### Revisions in tariffs—

DoCoMo made the following revisions in tariffs after March 31, 2004:

- DoCoMo offers a billing arrangement, called Family Discount, for families with two or more DoCoMo subscriptions (up to ten) to discount base monthly charges for all subscriptions and dialing charges on calls between the subscribers in each family. From April 1, 2004, DoCoMo raised the discount rates of Family Discount for DoCoMo's cellular (FOMA and mova) services.
- DoCoMo offers tariff plans, called "FOMA Packet Pack," for DoCoMo's cellular (FOMA) services subscribers to discount per-packet rates by paying certain additional monthly charges (including the same amount of allowances). From May 1, 2004, the additional monthly charges for the plans were revised and lowered.
- On June 1, 2004, DoCoMo introduced flat rate tariff plans that offer DoCoMo's cellular (FOMA) i-mode subscribers unlimited i-mode access, called "pake-hodai," as an additional billing arrangement to certain tariff plans for high-end users.