JAPAN TELECOM

Annual Report
For the year ended March 31, 2002

Sharpen Focus, Manage for Results

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Prepared by the management of JAPAN TELECOM HOLDINGS CO., LTD.

JAPAN TELECOM HOLDINGS Group Structure (As of August 1, 2002)

JAPAN TELECOM HOLDINGS CO., LTD.

With effect from August 1, 2002, the JAPAN TELECOM Group implemented a new holding company structure under which JAPAN TELECOM CO., LTD. (JAPAN TELECOM), was renamed JAPAN TELECOM HOLDINGS CO., LTD. (JAPAN TELECOM HOLDINGS), and operates its fixed-line, mobile, and other businesses as separate, peer subsidiaries. In addition to supervising the consolidated operations of the JAPAN TELECOM Group, JAPAN TELECOM HOLDINGS concentrates much of its efforts on realizing synergies and facilitating business efficiencies among its subsidiaries. For more information, please visit www.telecom-holdings.co.jp

J-PHONE Co., Ltd.

J-PHONE Co., Ltd. (J-PHONE), is a leading mobile operator in Japan and a member of the Vodafone Group Plc, the world's largest mobile community. J-PHONE offers sophisticated mobile services, including high-quality voice telephony, Sha-mail (picture messaging), Movie Sha-mail (video messaging), J-SKY (Internet and e-mail access), and Java™ applications. As of October 1, 2002, the company had more than 13 million customers, of which more than 85% are J-SKY subscribers. J-PHONE was awarded one of three licenses to operate 3G mobile services in Japan and is currently at an advanced stage of deploying a 3G W-CDMA network. For more information, please visit www.j-phone.com

JAPAN TELECOM CO., LTD.

JAPAN TELECOM CO., LTD. (JAPAN TELECOM), started operations in 1986 as a carrier providing long-distance services throughout Japan. It delivers voice and data transmission services to its customers through a 10,000-kilometer fiber-optic network that spans Japan. In 1997, JAPAN TELECOM merged with INTERNATIONAL TELECOM JAPAN INC. and launched global network services that made it Japan's first carrier operating both at home and around the world. In 1998, JAPAN TELECOM introduced Japan's first domestic nationwide IP backbone network. In addition to its distinction as an IP service leader, the company and its eight subsidiaries are active across a range of operations in the telecommunications sector, from data center operations to network solutions. As part of the implementation of the new holding company structure, the core fixed-line business of JAPAN TELECOM (including its eight subsidiaries) was transferred to a new wholly owned subsidiary of JAPAN TELECOM HOLDINGS, JAPAN TELECOM CO., LTD. (New JAPAN TELECOM). Its predecessor's eight subsidiaries are now New JAPAN TELECOM's subsidiaries. For more information, please visit www.japan-telecom.co.jp

Additional Group Companies

Additional JAPAN TELECOM HOLDINGS subsidiaries include: Telecom Express Co., Ltd., which conducts mobile sales agency businesses; Japan System Solution Co., Ltd., which provides billing services to J-PHONE; Japan Telecom Max Co., Ltd., which runs telemarketing services and recruitment services for call centers; Japan Telecom Information Service Co., Ltd., which undertakes telemarketing services; and Asahi Telecom Co., Ltd., which conducts telephone resale services and mobile phone sales.

Contents

Fiscal 2001 JAPAN TELECOM Company Structure

This annual report, presented by JAPAN TELECOM HOLDINGS CO., LTD., covers fiscal 2001, ended March 31, 2002, when the parent company was JAPAN TELECOM CO., LTD. The JAPAN TELECOM Group structure for fiscal 2001 is as illustrated below.

Parent Company
Vodafone Group Plc

JAPAN TELECOM CO.,LTD.

Consolidated Subsidiaries
J-PHONE vodafone
JAPAN TELECOM NETWORK INFORMATION SERVICE CO., LTD.
JENS Corporation
Telecom Service Co., Ltd.
Japan Telecom Max Co., Ltd.
Asahi Telecom Co., Ltd.
Japan Telecom Create Co., Ltd.
Japan Telecom Networks Co., Ltd.
Japan Telecom Information Service Co., Ltd.
JAPAN TELECOM AMERICA, INC.

Affiliated Companies
eAccess Ltd.
Arukikata.Com Inc.
KITA CABLE NETWORK Inc.
Cable Networks Akita Co., Ltd.
HINO CABLE TELEVISION INC.

Non-Consolidated Subsidiaries
J-PHONE Tokai Hanbai Co., Ltd.
J-PHONE SERVICE CO., LTD.
Japan Telecom Engineering Tokyo Co., Ltd., and 7 other engineering companies
J-PHONE West Support Service Co., Ltd.
JAPAN TELECOM UK LIMITED
JAPAN TELECOM SINGAPORE PTE LTD
TOSHIMA CABLE NETWORK CO., LTD.

Consolidated Financial Highlights

JAPAN TELECOM CO., LTD. and Subsidiaries March 31, 2001 and 2002

	Billions of Yen		Thousands of U.S. Dollars	
	2002	2001	**2002**	2001
Operating Revenues	**¥ 1,704.0**	¥ 1,465.3	**$ 12,788**	$ 10,996
Voice Transmission	**206.8**	251.4	**1,551**	1,886
Data Transmission and Leased Circuit	**133.6**	116.1	**1,002**	871
Mobile Telecommunications Business	**1,344.5**	1,083.6	**10,090**	8,132
Other Business	**19.0**	14.1	**142**	105
Operating Income	**89.1**	111.8	**668**	839
Net Income (Loss)	**(65.9)**	17.5	**(495)**	131
Total Assets	**1,856.3**	2,489.0	**13,931**	18,679
Total Shareholders' Equity	**391.3**	528.4	**2,937**	3,965
EBITDA	**341.8**	325.7	**2,565**	2,444
EBITDA Margin	**20.1%**	22.2%		
	Yen		U.S. Dollars	
Net Income (Loss) per Share	**¥ (20,646)**	¥ 5,491	**$(154.94)**	$ 41.20
Shareholders' Equity per Share	**122,494**	165,394	**919.27**	1,241.23
Dividends per Share	**600**	1,200	**45.02**	90.05

Notes: 1. On August 20, 2001, a 5 for 1 share split became effective. The net loss per share for fiscal 2001 was calculated as if the share split occurred at the beginning of the year.
2. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1.00.

Forward-Looking Statements

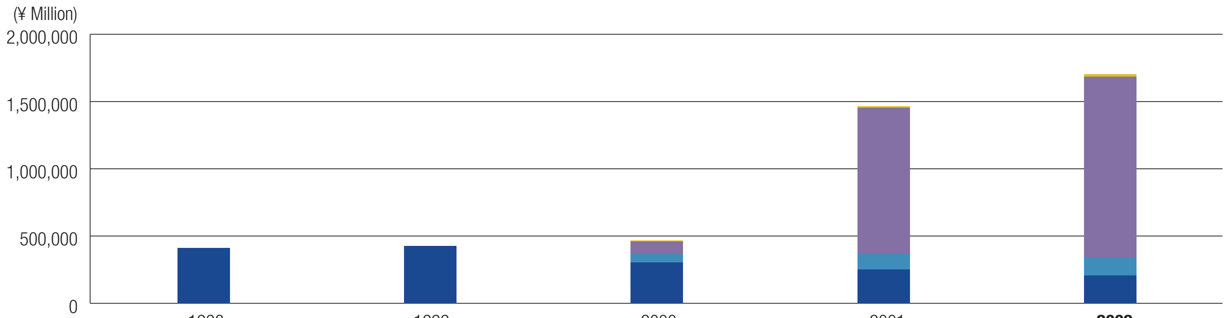
This annual report contains certain forward-looking statements concerning the strategy of JAPAN TELECOM HOLDINGS CO., LTD. ("JAPAN TELECOM HOLDINGS," references to which in this disclaimer shall include, as appropriate, JAPAN TELECOM CO., LTD.) and its expectations concerning its financial and operating results, in particular its targets for cash flow by fiscal 2004, EBIT margin by fiscal 2004, capital expenditures in fiscal 2002, reduction in capital expenditures by fiscal 2004, and its fiscal 2002 performance forecasts (including consolidated operating revenue, ordinary income, and net income and non-consolidated operating revenue, ordinary income, and net income), as well as expectations for trends in the Japanese fixed-line and wireless telecommunications markets. This annual report also contains certain forward-looking statements concerning J-PHONE Co., Ltd. ("J-PHONE")'s operations and strategy and its expectations concerning financial and operating results, in particular its targets for new customers, turnover, service revenue, ARPU, and capital expenditure in fiscal 2002, and its fiscal 2002 performance forecasts (including operating income, net income and EBITDA performance), as well as expectations for the launch of full commercial 3G services and 3G-area coverage. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future.

There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: changes in economic conditions that would adversely affect demand for JAPAN TELECOM HOLDINGS' and J-PHONE's services; greater than anticipated competitive activity; slower customer growth or reduced customer retention; the impact on capital spending from investment in network capacity and the deployment of new technologies, including 3G technology; the possibility that technologies will not perform according to expectations or that vendors' performances will not meet JAPAN TELECOM HOLDINGS' or J-PHONE's requirements; changes in projected growth rates in the telecommunications industry; the accuracy of and any changes in JAPAN TELECOM HOLDINGS' and J-PHONE's projected revenue models; future revenue contributions of data services offered by JAPAN TELECOM HOLDINGS or J-PHONE; JAPAN TELECOM HOLDINGS' and J-PHONE's ability to successfully introduce new services, in particular 3G services, and the delivery and performance of key products; the success of JAPAN TELECOM HOLDINGS in achieving disposals of non-core assets; changes in the regulatory framework in which JAPAN TELECOM HOLDINGS and J-PHONE operate; and the impact of legal or other proceedings involving JAPAN TELECOM HOLDINGS or J-PHONE or other companies in the telecommunications industry.

All written or verbal forward-looking statements attributable to JAPAN TELECOM HOLDINGS and J-PHONE or persons acting on their behalf made in this annual report or subsequent hereto are expressly qualified in their entirety by the factors referred to above.

Financial Indicators

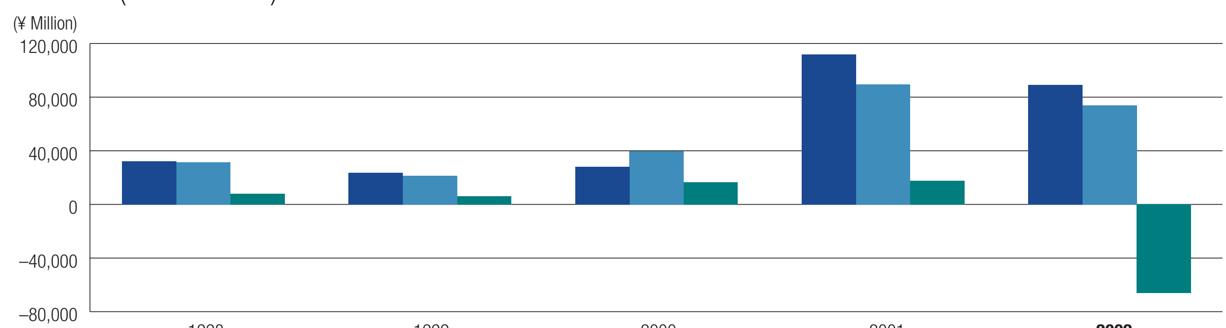
● Composition of Operating Revenues (Consolidated)



Years ended March 31	1998		1999		2000		2001		**2002**	
Total operating revenues	¥411,765	—	¥428,077	4.0%	¥468,977	9.6%	¥1,465,384	212.5%	**¥1,704,039**	**16.3%**
Voice transmission	—	—	—	—	302,460	—	251,434	(16.9)%	**206,803**	**(17.8)%**
Data transmission and leased circuit	—	—	—	—	65,244	—	116,111	78.0%	**133,611**	**15.1%**
Mobile telecommunication business	—	—	—	—	90,166	—	1,083,664	1,102.0%	**1,344,551**	**24.1%**
Others	—	—	—	—	11,105	—	14,175	27.6%	**19,074**	**34.6%**

Note: The segment breakdown has changed since 2001, figures for 2000 have been changed retroactively, and those for 1998 and 1999 are not available. Also, the rates of change for 1998, 1999, and 2000 are not available.

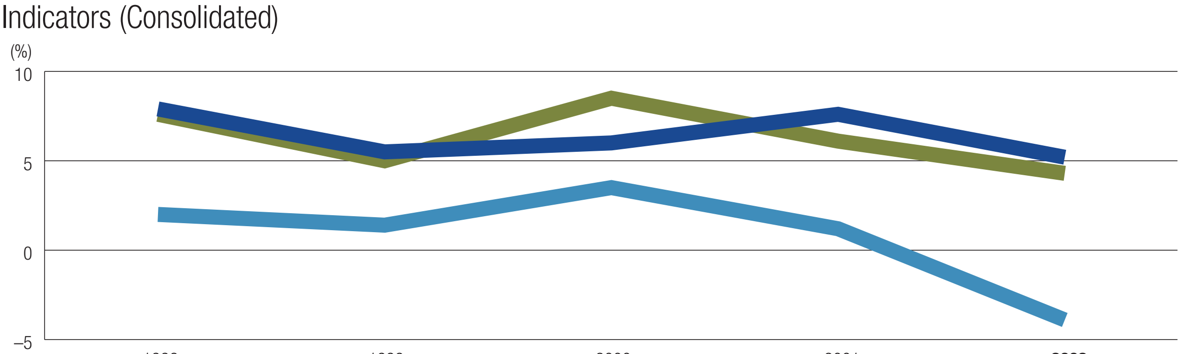
● Income (Loss) Information (Consolidated)



Years ended March 31	1998	1999	2000	2001	**2002**
Operating income	¥32,232	¥23,730	¥28,167	¥111,852	**¥ 89,134**
	—	(26.6)%	18.7%	297.1%	**(20.3)%**
Ordinary income	31,429	21,541	39,664	89,477	**74,030**
	—	(31.5)%	84.1%	125.6%	**(17.3)%**
Net income (loss)	8,114	6,028	16,417	17,546	**(65,969)**
	—	(25.7)%	172.3%	6.9%	**—**

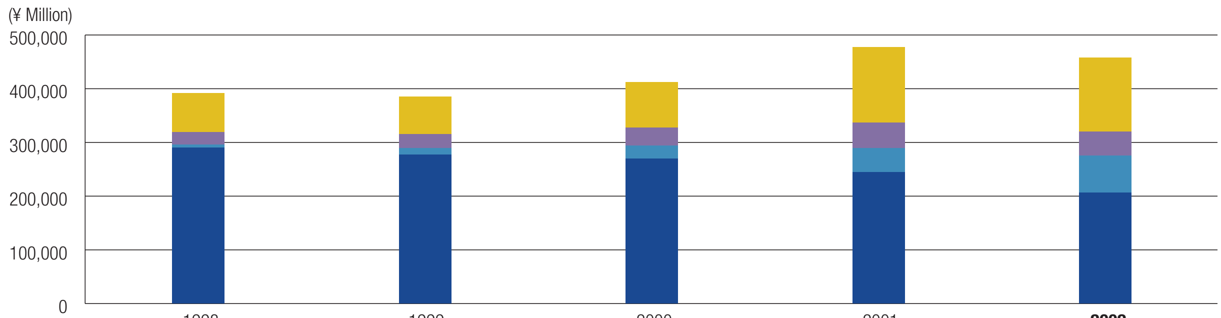
Note: Due to a net loss in 2002, change in net income is not provided.

● Major Management Indicators (Consolidated)



Years ended March 31	1998	1999	2000	2001	**2002**
Operating income-to-turnover ratio	7.9%	5.5%	6.0%	7.6%	**5.2%**
Ordinary income-to-turnover ratio	7.6%	5.0%	8.5%	6.1%	**4.3%**
Net income-to-turnover ratio	2.0%	1.4%	3.5%	1.2%	**(3.9)%**

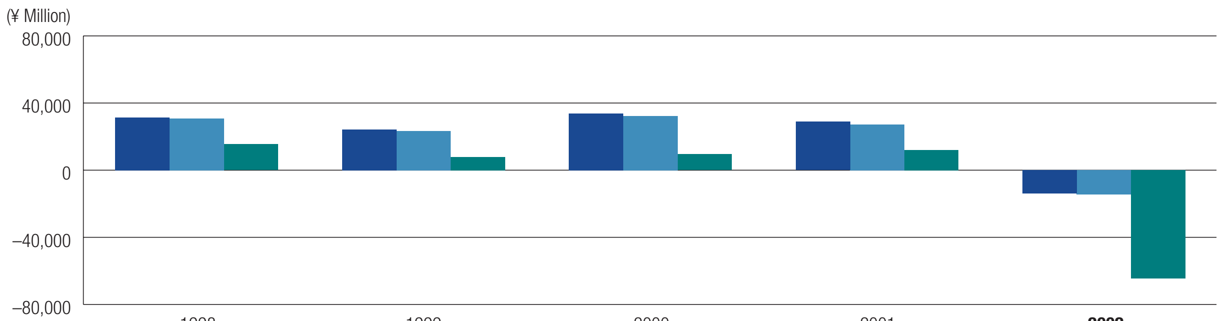
● Composition of Operating Revenues (Non-Consolidated)



Years ended March 31	1998		1999		2000		2001		**2002**	
Total operating revenues	¥391,999	4.3%	¥385,273	(1.7)%	¥412,433	7.0%	¥477,529	15.8%	**¥457,443**	**(4.2)%**
■ Voice transmission	290,182	4.0%	277,346	(4.4)%	269,736	(2.7)%	244,198	(9.5)%	**206,152**	**(15.6)%**
(International)	38,903	—	60,405	55.3%	44,183	(26.9)%	33,507	(24.2)%	**26,866**	**(19.8)%**
■ Data transmission	5,637	227.2%	12,399	120.0%	24,378	96.6%	44,814	83.8%	**69,663**	**55.5%**
(International)	87	—	258	196.5%	337	30.6%	209	(38.0)%	**108**	**(48.1)%**
■ Leased circuit services	23,235	20.0%	25,372	9.2%	33,330	31.4%	47,507	42.5%	**44,453**	**(6.4)%**
(International)	2,802	—	6,316	125.3%	5,803	(8.1)%	6,630	14.3%	**5,102**	**(23.0)%**
■ Supplementary	72,997	(3.5)%	70,154	(3.9)%	84,988	21.1%	141,010	65.9%	**137,173**	**(2.7)%**

Notes: International revenues for 1998 include only those for the second half of the fiscal period.

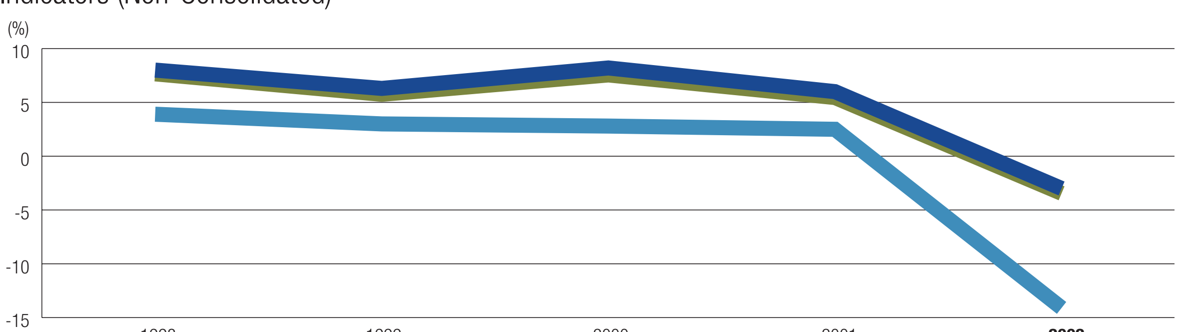
● Income (Loss) Information (Non-Consolidated)



Years ended March 31	1998	1999	2000	2001	**2002**
■ Operating income (loss)	¥31,467	¥24,132	¥33,771	¥28,848	**¥(13,812)**
	(30.7)%	(23.3)%	39.9%	(14.6)%	**—**
■ Ordinary income (loss)	30,843	23,260	32,321	27,112	**(14,498)**
	(30.7)%	(24.5)%	39.0%	(16.1)	**—**
■ Net income (loss)	15,469	7,853	9,531	11,993	**(64,544)**
	(39.2)%	(49.2)%	21.4%	25.8%	**—**

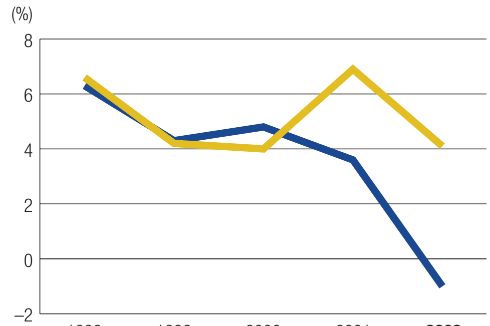
Notes: Due to an operating loss, an ordinary loss, and a net loss in 2002, rates of change are not provided.

● Major Management Indicators (Non-Consolidated)



Years ended March 31	1998	1999	2000	2001	**2002**
■ Operating income-to-turnover ratio	8.0%	6.3%	8.2%	6.0%	**(3.0)%**
■ Ordinary income-to-turnover ratio	7.9%	6.0%	7.8%	5.7%	**(3.2)%**
■ Net income-to-turnover ratio	3.9%	3.0%	2.8%	2.5%	**(14.1)%**

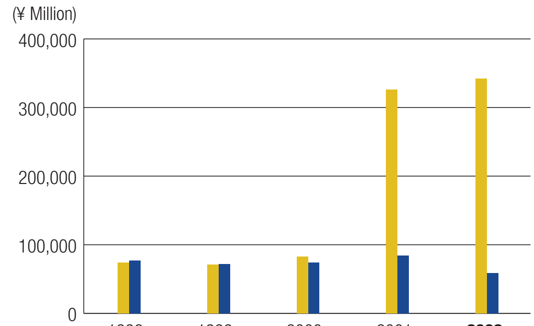
● Return on Assets



Years ended March 31	1998	1999	2000	2001	**2002**
Return on assets (consolidated)	6.6	4.2	4.0	6.9	**4.1**
Return on assets (non-consolidated)	6.3	4.3	4.8	3.6	**(1.0)**

Note: Return on assets = (Operating income + Interest income on deposits and dividends + Interest income on securities) / Average total assets) x 100

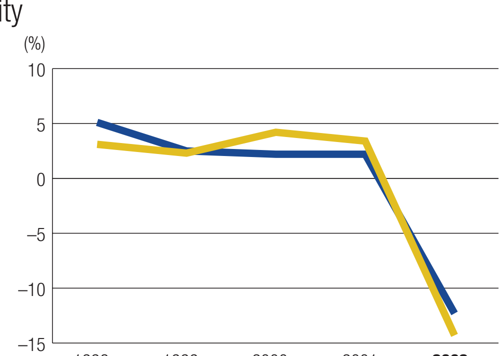
● Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA)



Years ended March 31	1998	1999	2000	2001	**2002**
EBITDA (consolidated)	74,035	71,269	82,886	325,764	**341,815**
EBITDA (non-consolidated)	77,110	72,109	74,331	84,407	**58,332**

Notes: 1. EBITDA = Operating income + Depreciation and amortization + Loss on disposal of fixed assets
2. EBITDA was based on Net income + Financial costs + Taxes + Depreciation and Amortization until 2000.

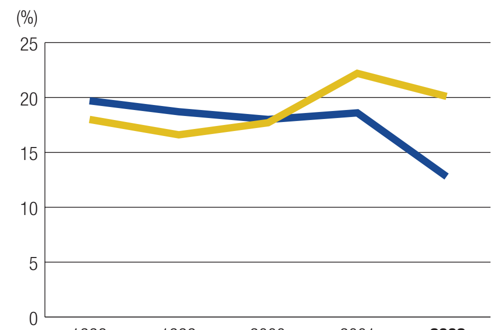
● Return on Equity



Years ended March 31	1998	1999	2000	2001	**2002**
Return on equity (consolidated)	3.1	2.3	4.2	3.4	**(14.3)**
Return on equity (non-consolidated)	5.1	2.5	2.2	2.2	**(12.3)**

Note: Return on equity = Net income / Average net assets x 100

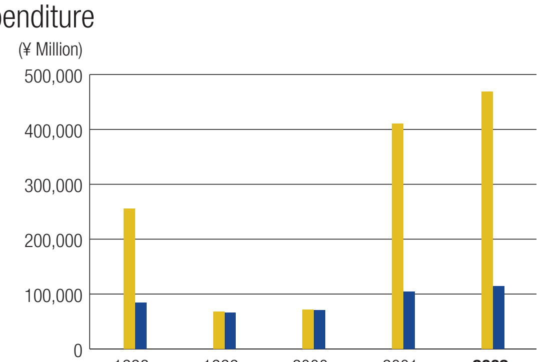
● EBITDA Margin



Years ended March 31	1998	1999	2000	2001	**2002**
EBITDA margin (consolidated)	18.0	16.6	17.7	22.2	**20.1**
EBITDA margin (non-consolidated)	19.7	18.7	18.0	18.6	**12.8**

Note: EBITDA margin = EBITDA / Operating revenues

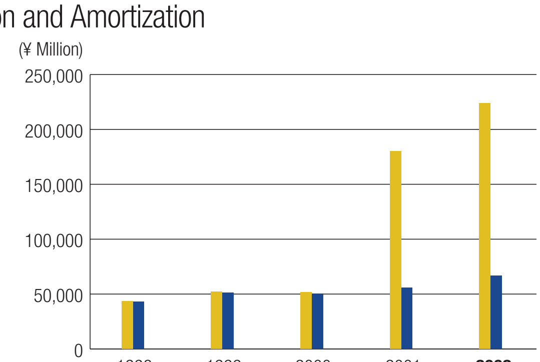
● Capital Expenditure



Years ended March 31	1998	1999	2000	2001	**2002**
Capital expenditure (consolidated)	255,583	67,864	71,493	410,250	**468,400**
Capital expenditure (non-consolidated)	84,651	65,661	70,282	103,956	**114,463**

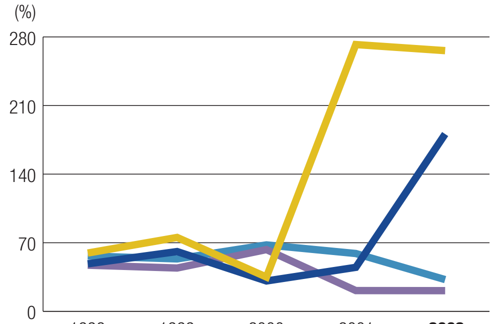
Note: Capital expenditure figures for 2002 are based not on an accounting basis but a payment basis.

● Depreciation and Amortization



Years ended March 31	1998	1999	2000	2001	**2002**
Depreciation and amortization (consolidated)	43,374	52,089	51,751	180,345	**223,678**
Depreciation and amortization (non-consolidated)	42,840	51,351	50,557	55,692	**66,571**

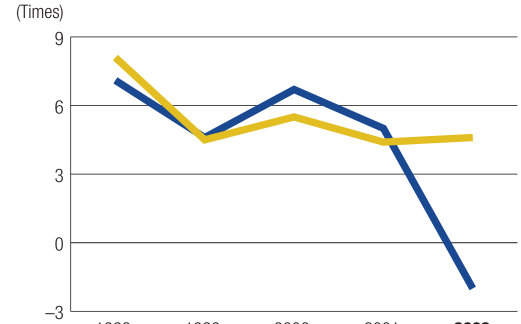
● Debt-to-Equity Ratio and Equity Ratio



Years ended March 31	1998	1999	2000	2001	**2002**
Debt-to-equity ratio (consolidated)	59.5	75.4	35.0	272.2	**266.0**
Debt-to-equity ratio (non-consolidated)	48.5	61.0	31.0	44.9	**180.9**
Equity ratio (consolidated)	47.1	44.2	63.0	21.2	**21.1**
Equity ratio (non-consolidated)	56.5	53.5	67.8	59.0	**32.4**

Notes: 1. Debt-to-equity ratio = Interest-bearing debt (year-end) / Net assets (year-end) x 100
2. Interest-bearing debt (year-end) = Long-term borrowings + Long-term accounts payable-other + Bonds + Short-term borrowings + Current portion of long-term liabilities

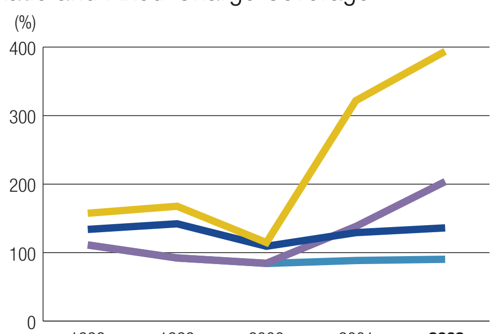
● Interest Coverage



Years ended March 31	1998	1999	2000	2001	**2002**
Interest coverage (consolidated)	8.1	4.5	5.5	4.4	**4.6**
Interest coverage (non-consolidated)	7.1	4.6	6.7	5.0	**(2.0)**

Note: Interest coverage = (Operating income + Interest income on deposits and dividends + Interest income on securities) / (Interest expenses + Bonds interest) x 100

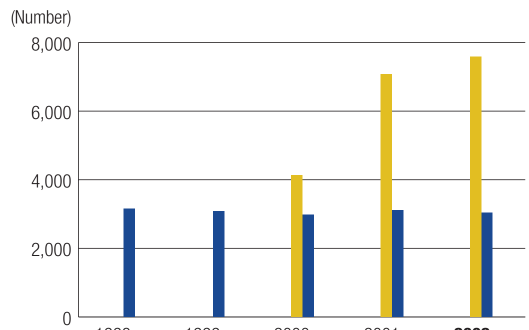
● Fixed-Charge Ratio and Fixed-Charge Coverage



Years ended March 31	1998	1999	2000	2001	**2002**
Fixed-charge ratio (consolidated)	157.5	167.7	114.7	321.8	**393.8**
Fixed-charge ratio (non-consolidated)	133.9	142.1	109.3	129.2	**136.1**
Fixed-charge coverage (consolidated)	111.3	92.1	84.5	138.2	**203.7**
Fixed-charge coverage (non-consolidated)	111.1	92.3	84.2	88.5	**90.3**

Notes: 1. Fixed-charge ratio = Fixed assets (year-end) / Net assets (year-end) x 100
2. Fixed charge coverage = Fixed assets (year-end) / (Fixed liabilities (year-end) + Net assets (year-end) x 100

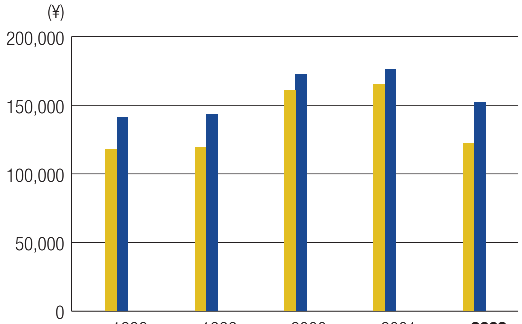
● Employees



Years ended March 31	1998	1999	2000	2001	**2002**
Employees (consolidated)	—	—	4,132	7,076	**7,593**
Employees (non-consolidated)	3,156	3,078	2,977	3,113	**3,036**

Note: Temporary employees are not included in above employees.

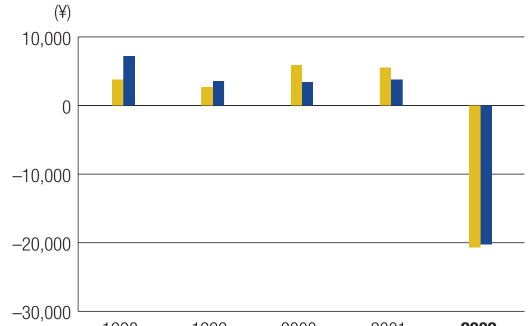
● Total Assets per Share



Years ended March 31	1998	1999	2000	2001	**2002**
Total assets per share (consolidated)	118,146	119,273	161,296	165,394	**122,494**
Total assets per share (non-consolidated)	141,701	143,650	172,470	176,047	**152,162**

Note: A one-to-five stock split took place on August 20, 2001, and treasury stocks were deducted from shareholders' equity in accordance with the amendment of Financial Statements Principles. The computation of net assets per share is calculated after the deduction of treasury stocks from the number of outstanding shares.

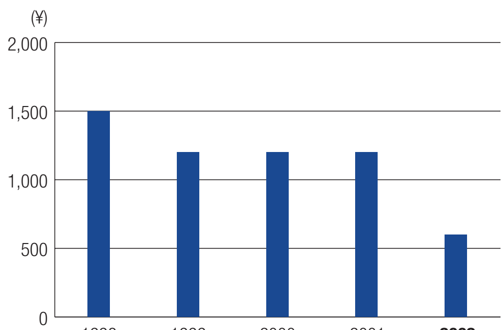
● Net Income (Loss) Per Share



Years ended March 31	1998	1999	2000	2001	**2002**
Net income (loss) per share (consolidated)	3,769	2,695	5,875	5,491	**(20,646)**
Net income (loss) per share (non-consolidated)	7,184	3,511	3,411	3,753	**(20,200)**

Note: The computation of net income per share for 2002 is calculated as if a one-to-five stock split took place at the beginning of the period, and treasury stocks were deducted from shareholders' equity in accordance with the amendment of Financial Statements Principles. The computation of net assets per share is calculated after the deduction of treasury stocks from the number of outstanding shares.

● Dividend Data



Years ended March 31	1998	1999	2000	2001	**2002**
Dividends per share	1,500	1,200	1,200	1,200	**600**
Dividend payout ratio (%)	21.0	34.2	35.2	32.0	**—**

Note: The dividend payout ratio for 2002 is not available due to a net loss.

Message from Management

(From left) Haruo Murakami, Chairman & Representative Director; William T. Morrow, President & Representative Director

Fiscal 2001, ended March 31, 2002, was a critical year of transformation for JAPAN TELECOM CO., LTD. (JAPAN TELECOM). In the period under review, we instituted new leadership and infused our people with the energy needed to tackle the challenges of a rapidly changing and competitive marketplace. This report outlines those fiscal 2001 accomplishments and additionally sets forth a vision for the years ahead.

In fiscal 2001, telecommunications companies in Japan and around the world faced an array of competitive and economic challenges: price competition increased significantly, the needs of customers evolved, and critical investments in future technologies were needed to preserve market position. To succeed, telecommunications providers needed to adopt not simply strategic visions but, of equal importance, concrete plans of action aimed at securing growth. JAPAN TELECOM met these challenges across a host of levels.

Vodafone Group Plc increased its shareholding in JAPAN TELECOM during the fiscal year under review, and, by October 2001, the Vodafone Group owned 66.7% of JAPAN TELECOM. Upon assuming control, one of the Vodafone Group's first tasks was to appoint new boards for both JAPAN TELECOM and its mobile subsidiary, J-PHONE Co., Ltd. (J-PHONE). New senior- and mid-level management teams and flatter corporate structures—aimed at speeding decision making and at enhancing profitability and efficiency—were also introduced.

JAPAN TELECOM committed itself to establishing the sustainable financial health of the organization. Following up on this commitment, JAPAN TELECOM took the difficult but necessary step of recognizing an impairment in the carrying value of its investments and a one-time charge to refinance debt. Accordingly, despite achieving solid gains in annual operating revenues, JAPAN TELECOM recorded a consolidated net loss for the fiscal year. Management is confident that this shoring up of its balance sheet finances enables the consolidated organization to move forward into fiscal 2002 from a position of strength.

Fiscal 2001 Performance

Fiscal 2001 consolidated operating revenues grew 16.3% from the previous fiscal year, to ¥1,704 billion. This growth primarily reflected strong market demand for J-PHONE's J-SKY (Internet and e-mail access), Sha-mail (picture messaging), and Movie Sha-mail (video messaging) services. J-PHONE secured a 30.1% share of net customer additions in the second half of the fiscal year and a 27.6% share for the year overall. By comparison, in fiscal 2000, net customer additions averaged a 16.7% share in the second half and 18.5% for the year overall.

JAPAN TELECOM's non-consolidated operating revenues, meanwhile, decreased 4.8% from the previous year, to ¥320.2 billion, reflecting declining voice transmission services revenues due to lower customer numbers. However, this was partially offset by strong revenue contribution from data transmission services, which increased 55.4%, to ¥69.6 billion.

Consolidated operating expenses totaled ¥1,614 billion in fiscal 2001, compared with ¥1,353 billion in the previous fiscal year. Within this category, the mobile telecommunications business operating expenses reached ¥1,213 billion, a 22.4% increase from the previous fiscal year, which included recognition of liabilities stemming from retention and upgrade costs linked to the J-Points loyalty award program. The increase in mobile telecommunications operating expenses was partially offset by a ¥7.2 billion decline in customer acquisition costs due to the better management of dealer incentives and strong demand for handsets.

Fixed-line operating expenditures reached ¥406.5 billion, a 9.0% increase from the previous fiscal year, primarily due to a one-time ¥25.7 billion expense incurred for carrier pre-selection (Myline) marketing costs.

After conducting a thorough review of capital, we reduced consolidated capital expenditures by 36.7% from fiscal 2001 forecasts. Capital expenditures at J-PHONE totaled ¥354 billion in fiscal 2001, a 19.0% increase from the previous fiscal year due to additional investment in its 2G network and an initial investment in 3G technology. Meanwhile, capital expenditures for the fixed-line business totaled ¥114.4 billion, a 48.1% increase over the previous year on a cash basis, but 41.0% below original forecasts.

Consolidated ordinary income decreased 17.3%, to ¥74.0 billion. JAPAN TELECOM recorded one-time write-downs and charges during the period, including a ¥16.7 billion write-down of excess and obsolete handset inventories at J-PHONE, a ¥75.0 billion impairment on the carrying value of investments, and a one-time ¥12 billion extraordinary charge for Group debt refinancing. A consolidated net loss of ¥65.9 billion was posted, versus a fiscal 2000 consolidated net income of ¥17.5 billion.

On a non-consolidated basis, JAPAN TELECOM also recorded one-time write-downs and charges during the period, including an impairment in the carrying value of its investments of ¥76.8 billion, and costs related to the unanticipated retirement of network facilities. JAPAN TELECOM recorded an ordinary loss of ¥14.4 billion and a net loss of ¥64.5 billion in fiscal 2001, compared with an ordinary income of ¥27.1 billion and a net income of ¥11.9 billion in fiscal 2000.

Key Business Highlights

In fiscal 2001, we implemented several management initiatives and achieved marketing successes critical to the current and future performance of the fixed-line and mobile telecommunications businesses.

Mobile Telecommunications Highlights

On the mobile telecommunications side, the four independent J-PHONE companies were merged on November 1, 2001, into a nationwide single entity, J-PHONE Co., Ltd. J-PHONE continued to grow its customer base markedly in fiscal 2001, adding 2.3 million customers during the period to bring total customers served to 12.3 million as at March 31, 2002.

J-PHONE achieved strong revenue growth in fiscal 2001 due largely to introductions of innovative technologies and services. Of particular note, its proprietary Sha-mail service was a runaway success, as were non-voice communication services like J-SKY and messaging data. We are gratified to report that these introductions, combined with enhanced marketing efforts, drove J-PHONE to the number two mobile carrier position in Japan for the first time as at March 31, 2002.

Other improvements in J-PHONE performance were primarily driven by tight cost controls throughout the organization and the realization of lower customer acquisition costs.

Fixed-Line Telecommunications Highlights

On the fixed-line side, JAPAN TELECOM achieved strong growth in its corporate Internet Protocol (IP) data services. JAPAN TELECOM also benefited from rising demand for broadband Internet services as high-speed, always-on connectivity took root in Japan. Despite these gains, the implementation of the telephone carrier pre-selection service (Myline) accelerated many changes in the domestic telecommunications industry. Chief among these were intensified price competition for customer registrations and the resulting impact this had on financial models of traditional voice services. JAPAN TELECOM's fixed-line revenues in fiscal 2001 were thus notably impacted.

Responding to a rapidly changing environment, in December 2001, JAPAN TELECOM's new management team unveiled "Project V," an enterprise-wide transformation plan that seeks to increase the competitiveness of the fixed-line business. After completing an initial 100-day diagnostic period, Project V entered into its next phase at the close of the fiscal period with emphases on four key pillars: a refocusing on core business areas; the growth of profits in those core areas; a reduction of JAPAN TELECOM's cost base; and an alignment of a corporate structure that will enable JAPAN TELECOM to undertake these initiatives. JAPAN TELECOM's three core customer-facing businesses were identified as the Enterprise Business Unit (Corporate Customers), the Consumer Business Unit, and the International and Wholesale Business Unit.

As part of the Project V study, we also identified a number of businesses that we believe are not core to the future of the fixed-line business. We intend to divest these businesses or manage them quite differently to maximize their value. On May 28, 2002, following the period under review, we announced an agreement to transfer our DSL operations to eAccess Ltd. This arrangement allows us to grow our DSL subscribers and revenue at market prices and to do so in a way that keeps the offering profitable on a stand-alone base. We took similar steps in subsequent months in relation to our engineering subsidiaries, the Japan Telecom Engineering companies, and our printing subsidiary, Japan Telecom Create Co., Ltd.

Fiscal 2002 and Beyond

New Corporate Structure

Throughout the latter half of fiscal 2001, we reviewed various options to improve organizational focus and realign our business structure to better match the way the business is run. On May 28, 2002, the board of JAPAN TELECOM approved a plan to create a new holding company structure. Accordingly, with effect from August 1, 2002, JAPAN TELECOM was renamed JAPAN TELECOM HOLDINGS CO., LTD. (JAPAN TELECOM HOLDINGS), and operates its fixed-line, mobile, and other businesses as separate, peer subsidiaries.

JAPAN TELECOM created the holding company structure through the *kaisha bunkatsu,* or corporate split, procedure provided for under the Commercial Code of Japan.

Under this process, the business lines operated by JAPAN TELECOM prior to August 1, 2002, have been transferred to three new wholly owned subsidiaries. JAPAN TELECOM CO., LTD. (New JAPAN TELECOM), which maintains the fixed-line business, Telecom Express Co., Ltd., which operates the mobile sales agency business formerly operated by JAPAN TELECOM, and Japan System Solution Co., Ltd., which handles the mobile billing system and other IT-related functions also formerly operated by JAPAN TELECOM.

J-PHONE, JAPAN TELECOM's 45.08% owned mobile telecommunications subsidiary, remains a 45.08% held subsidiary of JAPAN TELECOM HOLDINGS.

Notwithstanding the implementation of the new holding company structure and its change of name, JAPAN TELECOM HOLDINGS retains JAPAN TELECOM's preexisting listings on the Tokyo Stock Exchange and on the Osaka Securities Exchange. Haruo Murakami and William T. (Bill) Morrow are Chairman and President, respectively, of both JAPAN TELECOM HOLDINGS and the new JAPAN TELECOM. Yoshiro Hayashi and Darryl E. Green are Chairman and President, respectively, of J-PHONE. John Durkin, in addition to his role as Chief Financial Officer of J-PHONE, also serves as Executive Vice President and Chief Financial Officer of JAPAN TELECOM HOLDINGS.

We believe that this new structure will notably boost management focus, corporate efficiency, and transparency for shareholders.

Fiscal 2002 Financial Forecasts

Management is pleased to report that it expects performance in fiscal 2002, ending March 31, 2003, to improve markedly compared with the most-recent fiscal period. JAPAN TELECOM HOLDINGS has done much to secure its financial stability and the JAPAN TELECOM Group continues to build on its technological leads and customer focus. Of equal importance, JAPAN TELECOM HOLDINGS has entered fiscal 2002 on a solid organizational footing that will enable it to further challenge the competition.

In fiscal 2002, J-PHONE expects to achieve growth in both customer numbers and turnover. Improvements in channel management, as well as tight controls on operating costs, are expected to result in improved operating income, net income, and EBITDA performance from the most recent period. Average Revenue Per User is expected to be stable, with increased data transmission services revenue offsetting slight declines in voice transmission services revenue.

J-PHONE furthermore expects to expand its substantial base of Sha-mail and Movie Sha-mail customers through the introduction of innovative handsets and marketing campaigns focused on consumer benefits. J-PHONE launched 3G commercial test services in June 2002 and is targeting December 2002 for the initiation of full commercial services. J-PHONE plans to accelerate 3G-area coverage using an innovative approach with lower build-out costs and the introduction of new 3G micro base stations.

J-PHONE expects to reduce its operating costs further by maximizing merger benefits and efficiencies. Capital expenditures, including 3G build-out, should decline to ¥300 billion in fiscal 2002. J-PHONE, moreover, targets greater capital expenditure efficiency as it lowers equipment costs by further leveraging Vodafone Group global buying agreements.

Fixed-line business performance, meanwhile, is expected to improve through the continued implementation of Project V, including realizing cost efficiencies and enhancing focus on revenue growth and profitable business opportunities. A key driver of growth in fiscal 2002 is expected to be the enterprise, or corporate, business where JAPAN TELECOM seeks to enhance its service offerings to corporate customers. JAPAN TELECOM also expects to continue to foster growth in data services and to manage its consumer business for value.

In our fixed-line business, we expect to reduce planned capital expenditures during the fiscal 2002-2004 period approximately 30% compared with previous plans. In fiscal 2002 alone, capital expenditures, on a cash basis, are expected to decline to ¥80 billion, from ¥114.4 billion in the most-recent fiscal year. Also, in our fixed-line business, we forecast significant positive cash flow and an EBIT margin in excess of 10% by fiscal 2004.

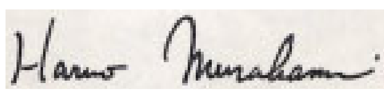
In fiscal 2002, JAPAN TELECOM HOLDINGS will concentrate much of its efforts on enhancing business efficiencies throughout the Group. It will place much of its emphasis on continuing restructuring initiatives and on the divestment of non-core assets.

In line with the above plans, as well as an analysis of the current business environment, we expect to achieve ¥1,770 billion in consolidated operating revenue in fiscal 2002. Consolidated ordinary income and net income are expected to total ¥183 billion and ¥48 billion, respectively.

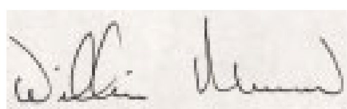
Non-consolidated forecasts for fiscal 2002 were revised in August 2002 to reflect the faster-than-expected contribution of Project V improvements to our business. Although this revision had no material impact on consolidated forecasts, non-consolidated forecasts currently expect operating revenues of ¥155 billion, which consist of the forecasted operating revenues of JAPAN TELECOM until July 31, 2002 (during which period it was the operating company for the fixed-line and certain other businesses) and that of JAPAN TELECOM HOLDINGS thereafter until March 31, 2002. On the same basis, we expect ordinary income of ¥8.0 billion and net income of ¥10.0 billion for fiscal 2002.

We are excited by both the challenges and the opportunities ahead. We have the leadership, people, and products and will to become Japan’s number two telecommunications provider. Most importantly, we have the vision and the momentum needed to bring this organization to an entirely new level of competitiveness.

We look forward to the support of our shareholders, employees, and business partners as we strive to achieve our goals.



Haruo Murakami
Chairman & Representative Director
JAPAN TELECOM HOLDINGS CO., LTD.



William T. Morrow
President & Representative Director
JAPAN TELECOM HOLDINGS CO., LTD.

Outline of JAPAN TELECOM HOLDINGS

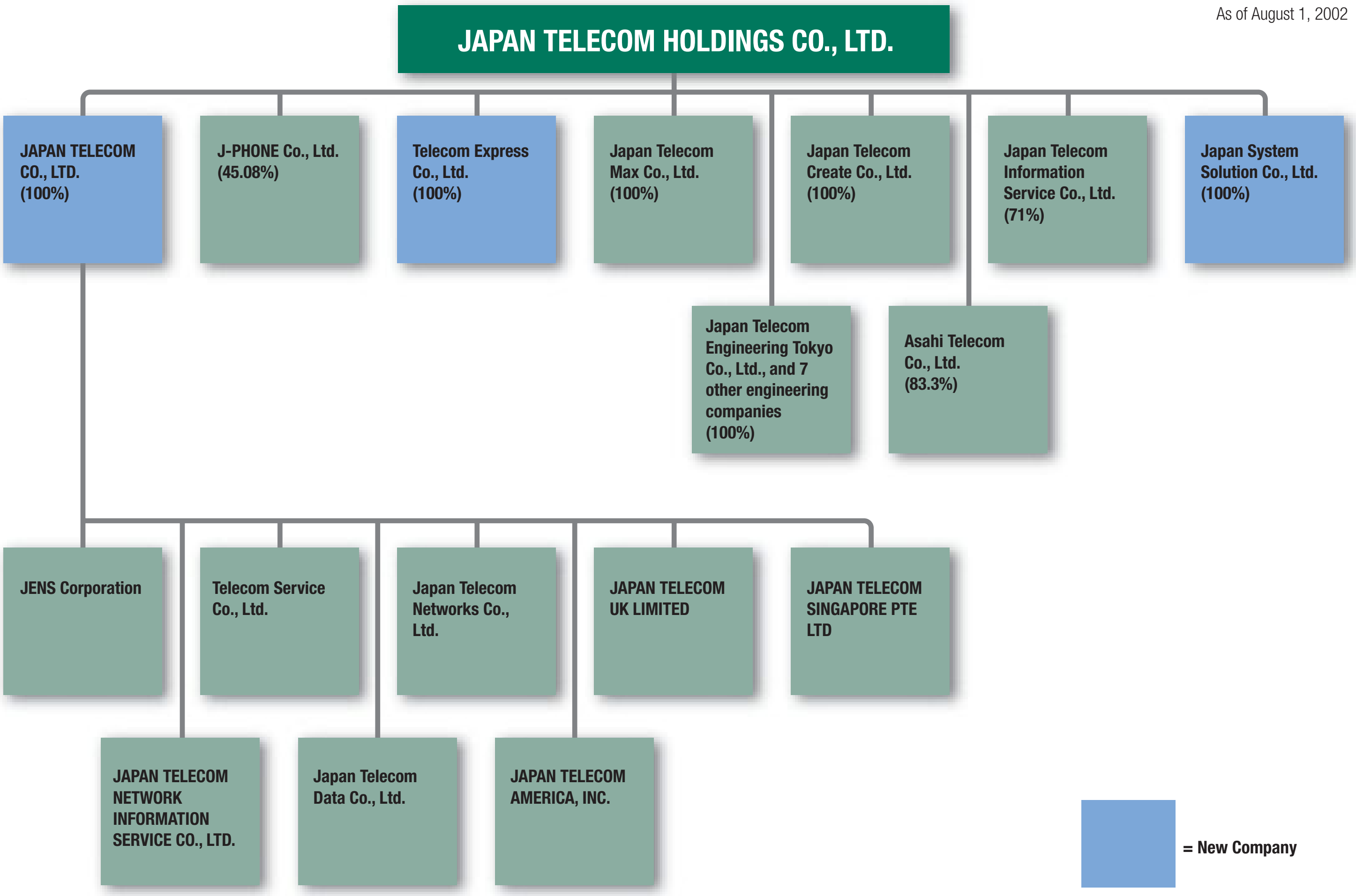
(From left) Haruo Murakami, Chairman & Representative Director; William T. Morrow, President & Representative Director

As of August 1, 2002

Name	JAPAN TELECOM HOLDINGS CO., LTD.		
Head Office	7-1, Hatchobori 4-chome, Chuo-ku, Tokyo 104-8508, Japan		
History	October 1984	Former JAPAN TELECOM CO., LTD., is established	
	December 1986	Railway Telecommunication Co., Ltd., is established	
	May 1989	Railway Telecommunication merges with JAPAN TELECOM CO., LTD.	
	September 1994	JAPAN TELECOM lists on the Second Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange	
	September 1996	JAPAN TELECOM lists on the First Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange	
	October 1997	JAPAN TELECOM and ITJ merge	
	October 2001	Vodafone Group Plc obtained management control of JAPAN TELECOM CO., LTD.	
	August 2002	Company name is changed to JAPAN TELECOM HOLDINGS CO., LTD., and the new JAPAN TELECOM CO., LTD., is established through a corporate split procedure	
Paid-in Capital	¥177,251 million		
Number of Employees	30		
URL	http://www.telecom-holdings.co.jp/		
Business	The holding company consolidating the Group		
Board of Directors	Chairman & Representative Director	Haruo Murakami	
	President & Representative Director	William T. Morrow	
	Managing Director, Executive Vice President & CFO	John Durkin	(Senior Managing Director & CFO, J-PHONE Co., Ltd.)
	External Directors	William L. Keever	(CEO, Asia Region of Vodafone International, Inc.)
		Darryl E. Green	(President & Representative Director, J-PHONE Co., Ltd.)
		Yoshiro Hayashi	(Chairman & Representative Director, J-PHONE Co., Ltd.)
		Michael Benner	(Director, Asia Region of Vodafone International, Inc.)
		Hironori Aihara	(Member of the Board, Senior Executive Vice President, Regional CEO for the Americas, Mitsubishi Corporation)
		Tetsuo Shimura	(Deputy President, Bank of Tokyo-Mitsubishi, Ltd.)
		Kazuyasu Hakata	(Executive Vice President & CFO, JAPAN TELECOM CO., LTD.)
		Tatsuya Tamura	(President, Global Management Institute Inc.)
	Full-time Auditor	Syunsuke Kimura	
	External Auditors	Teruhiko Ikeda	(Vice President, Mizuho Corporate Bank, Ltd.)
		Bruce Weitzenhoffer	(Director, Asia Region of Vodafone International, Inc.)

JAPAN TELECOM HOLDINGS Structure

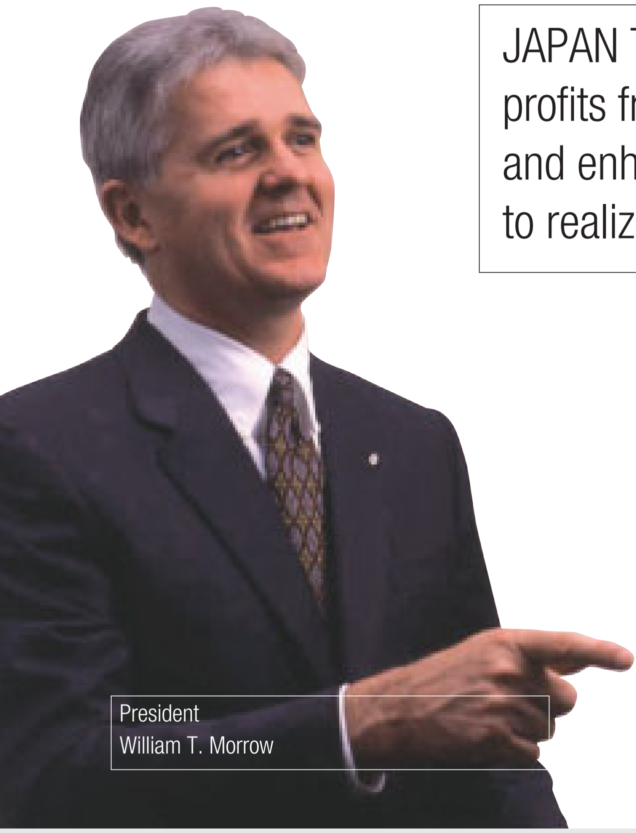
As of August 1, 2002



Note: JAPAN TELECOM HOLDINGS has announced plans to sell the construction division of the Japan Telecom Engineering companies to Bovis Lend Lease Japan Inc. while retaining the maintenance divisions of these companies within the JAPAN TELECOM Group. JAPAN TELECOM HOLDINGS has also announced plans to sell certain assets of Japan Telecom Create Co., Ltd., to Toppan Forms Co., Ltd. Both transactions are expected to be completed by November 1, 2002.

Focus and Innovation at JAPAN TELECOM

JAPAN TELECOM bolstered efforts to focus on and increase profits from core businesses, cut costs across the Company, and enhance corporate governance in line with its strategy to realize the vision set out in Project V.



President
William T. Morrow

JAPAN TELECOM CO., LTD.—Financial Highlights

March 31, 2002 and 2001

	Billions of Yen		Thousands of U.S. Dollars	
	2002	2001	**2002**	2001
Total Operating Revenues	**¥ 457.4**	¥ 477.5	**$3,432,968**	$3,583,714
Telecommunications Service Revenues	**320.2**	336.5	**2,403,520**	2,525,475
Total Operating Income (Loss)	**(13.8)**	28.8	**(103,660)**	216,495
Net Income (Loss)	**(64.5)**	11.9	**(484,384)**	90,005
Total Assets	**1,501.8**	953.6	**1,127,120**	7,156,923
Total Shareholders' Equity	**486.1**	562.5	**3,648,717**	4,221,472
	Yen		U.S. Dollars	
Net Income (Loss) per Share	**¥ (20,200)**	¥ 3,753	**$ (151.59)**	$ 28.16
Shareholders' Equity per Share	**152,162**	176,046	**(1,141.92)**	1,321.17

Notes: 1. On August 20, 2001, a 5 for 1 share split became effective. The net loss per share for fiscal 2001 was calculated as if the share split occurred at the beginning of the year.
2. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1.00.

Message from the President

Since beginning as a New Common Carrier in 1986, JAPAN TELECOM CO., LTD., has attracted a large number of customers across an array of markets. They have chosen JAPAN TELECOM services for reliability, quality, and cost-effectiveness. Moreover, customers recognize that our first-class offerings are supported by state-of-the-art research and development capabilities, as well as a comprehensive nationwide infrastructure.

Our business continues to be affected by a transformation of the Japanese telecommunications market that is being spurred by industry deregulation, the emergence of new technologies, and severe price competition. Once our new management team assumed their positions in the second half of fiscal 2001, we launched Project V to devise a new corporate structure for the JAPAN TELECOM GROUP that will enable us to respond to these challenging times.

We are delighted to report that our efforts are already delivering results. In our core businesses, our focus on profits has sharpened and we have been able to cut unnecessary costs while focusing our use of capital. In addition, JAPAN TELECOM now has a new management structure, based on the diagnostic phase of Project V.

Our vision is to become Japan's preferred network service partner, preferred telecommunications investment, and preferred employer. Our customers will choose us because we understand their current and future business needs better than our competitors and deliver more valuable, innovative, and timely products and services. We will realize this vision by leveraging technology, by empowering our people, by perfecting our business processes, and by focusing on specific services and segments.

We have defined our core business segments as those in which we enjoy a competitive edge. Specifically, we have focused our sights on three key customer-facing units: the Enterprise or Corporate Business Unit; the Consumer Business Unit; and the International and Wholesale Business Unit. To strengthen our efforts in each of these core areas, we have introduced a new marketing system and are working to improve the skills of our salespeople. At the same time, we are shifting our strategic objectives from expanding market share to enhancing customer value. We have also introduced a new system of values that centers on our Passion for Customers, our Passion for our People, our Passion for Results, and our Passion for the World around Us.

We expect JAPAN TELECOM to return to profitability by reaffirming its market position through the implementation of these new initiatives. We have an exciting new management team with unparalleled domestic and international experience. We are ready to set challenging goals. And we are committed to working with our teams of dedicated people to realize our vision.

Some of our goals have already been achieved, well ahead of schedule, and we are committed to furthering these advances in the months and years ahead.

Performance Highlights of the Year Ended March 31, 2002

●●● JAPAN TELECOM initiated Project V—an enterprise-wide initiative aimed at revitalizing and refocusing the Company going forward. The resulting transformation plan has set forth a strategy to divest non-core businesses, refocus the fixed-line business on core growing segments such as the enterprise division, and return the business to profitability by reducing costs and increasing efficiency across the organization.

The analysis, planning, and execution of this plan, which was achieved in roughly three months, reflects JAPAN TELECOM's new focus on prompt action with optimized results.

●●● JAPAN TELECOM reorganized its senior- and mid-level management, centered around three customer-facing business units. This new structure, which became effective on April 1, 2002, is designed to lead to greater customer focus, a speedier and more effective decision-making process, and a performance-oriented employee culture.

●●● During the year, JAPAN TELECOM launched a number of innovative data services, which drove 55% growth in data transmission service revenues compared with the previous fiscal year. SOLITERIA, the first commercial IP-VPN service in Japan, has significantly enhanced the Company's service lineup and responded to customers' expanding needs. The Company also implemented Wide-Ether services aimed at better meeting network requirements of corporate customers. JAPAN TELECOM was the industry leader in providing 10-gigabit network services using optical cross connect technology. This was designed for Super SINET, the Science Information Network operated by the National Institute of Information.

Progress in Project V, Company Transformation Program

In December 2001, the transformation program "Project V" was launched to develop and accelerate the implementation of a turnaround plan for JAPAN TELECOM. After completing a 100-day initial study, in April 2002 Project V entered into the next stage of extensive and thorough study under four key pillars: refocus on the core businesses, grow profits in the new core, drive to the lowest cost base, and align and enable the organization. To realize these aims, Project V established 12 task forces and a program office to coordinate functions. The task forces examine their focused areas of initiative, and the program office coordinates and monitors the progress of the task forces' activities.

Refocusing on Core Fixed-Line Businesses

In April 2002, JAPAN TELECOM announced that it would focus on the provision of voice and data services to the enterprise and consumer markets. JAPAN TELECOM realigned its capital allocation to support the above business objectives. Some businesses were no longer regarded as the areas of focus for the Company, and studies were made to examine how to maximize their value. Thanks to these initiatives, we expect that capital expenditure can be reduced by 30% from the originally planned budget for FY 2002, ending March 31, 2003. Certain areas of non-core business activities were reviewed for disposal, one of which, consumer DSL assets and operations, was sold to eAccess in June.

Enhancing Our Market Position in the Enterprise and Consumer Segments

JAPAN TELECOM is enhancing its market position in both the enterprise and consumer segments. In the enterprise segment, JAPAN TELECOM takes advantage of customers' increasing use of data and managed network services. JAPAN TELECOM intends to grow revenues in its core fixed-line businesses by expanding data products such as SOLTERIA and Wide-Ether, providing managed network services

to support data products, and deploying value-added voice services. JAPAN TELECOM will also further meet the needs of metropolitan customers in geographically densely populated areas by enhancing access lineups for effective use of data products.

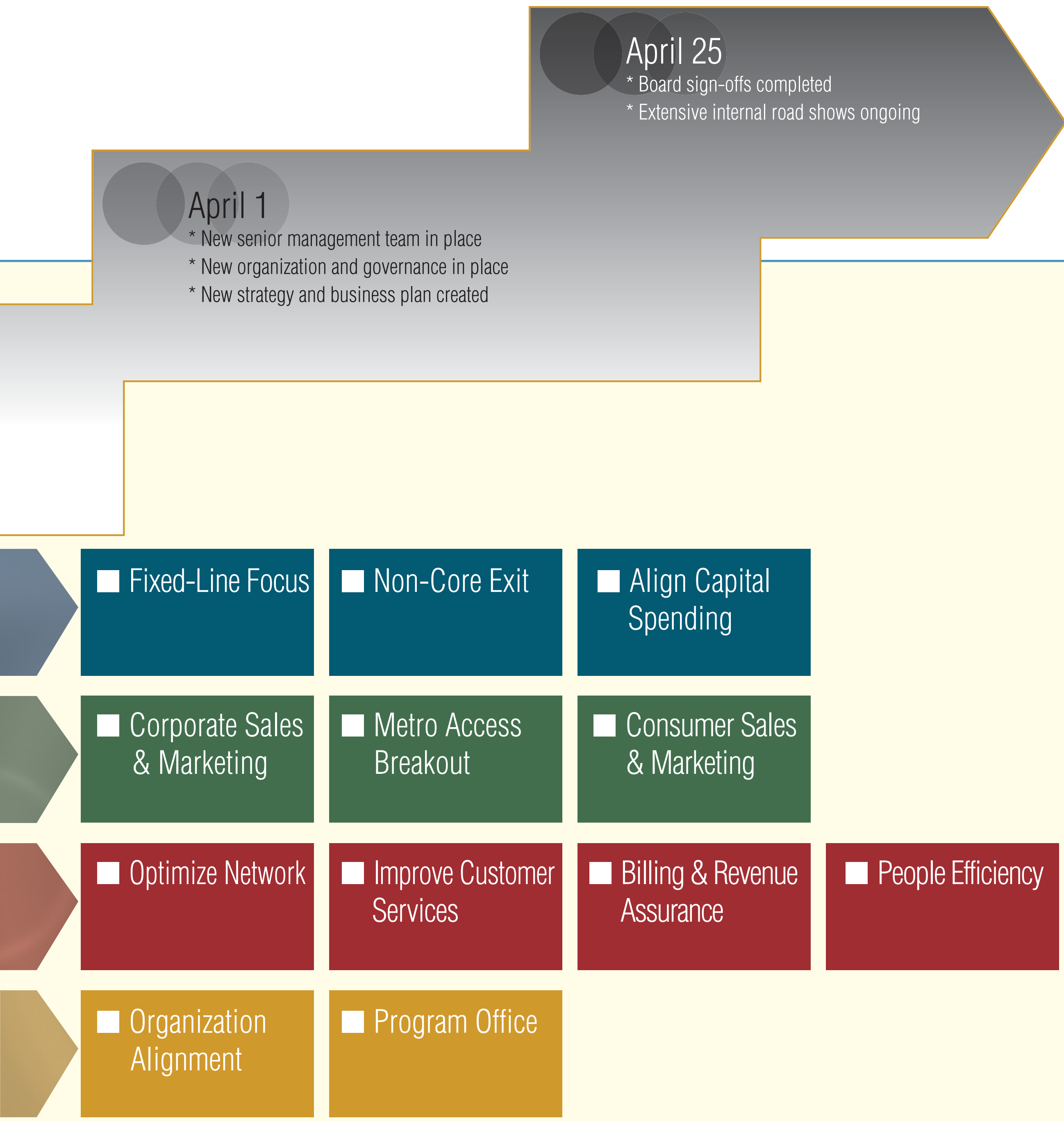
In the consumer segment, JAPAN TELECOM concentrates on value rather than overall growth in subscriber numbers, targeting high-value customers to retain and acquire these customers. A comprehensive program was implemented in July and some initiatives to reduce costs are also under way simultaneously in this segment.

Driving to the Lowest Cost Base

JAPAN TELECOM has intensified efforts to improve its cost structure. Project V has already produced several successful outcomes that reinforced financial conditions. Further initiatives are being taken to optimize network costs and to reduce customer service and billing costs while maintaining current levels of quality and not impacting customers.

Improving the Enterprise Value

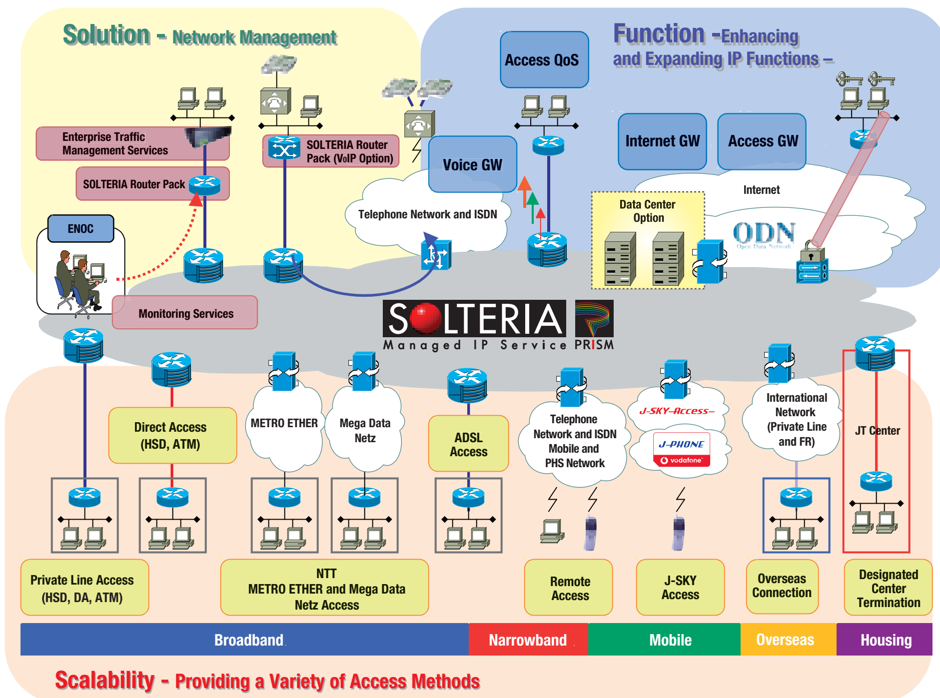
Effective as of August 1, 2002, a new holding company structure was put in place, changing the existing company's name to JAPAN TELECOM HOLDINGS CO., LTD., and establishing a new wholly owned subsidiary JAPAN TELECOM CO., LTD., to improve enterprise value based on the execution of management efficiency and mobility throughout the JAPAN TELECOM Group. The fixed-line telecommunications business was smoothly transferred to this newly established subsidiary.



Enterprise Services

Enterprise telecommunications services are entering a period of transition as society changes in line with technological advances in telecommunications and the evolution of Information Technology (IT). JAPAN TELECOM, a leader in industry innovation, commercialized the first Multi-Protocol Label Switching (MPLS)-based IP-Virtual Private Network (IP-VPN) service in Japan, SOLTERIA, and the Company is leveraging its experience as a pioneer in network services and its strong customer support to aggressively develop data telecommunications services for enterprise, or corporate, customers.

Telecommunications services and related technologies are becoming highly developed, and their complexity is increasing. Amid this environment, JAPAN TELECOM aspires to be the best network solutions partner by ensuring that all its enterprise customers' telecommunications needs are met so that they can concentrate on their business. The Company's customer relationships are built on trust, and JAPAN TELECOM is working to enhance its sales techniques through such activities as the aggressive promotion of tailor-made service packages.



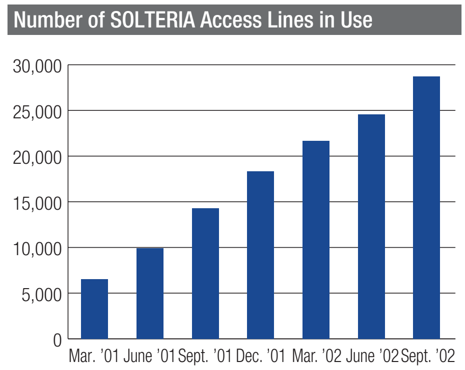
Network Services

JAPAN TELECOM provides network services via a high-capacity, high-quality, reliable optical fiber network that covers all of Japan and access networks with approximately 160 Points of Interconnection (POI) throughout the nation. JAPAN TELECOM offers leased circuit services and data transmission services, which include telephone services, leased lines, frame relays, cell relays, IP-VPN, and Internet services.

IP-VPN Service—SOLTERIA

JAPAN TELECOM's SOLTERIA is the first IP-VPN service in Japan that uses MPLS to guarantee users high levels of security and high cost performance. SOLTERIA offers all the features a corporation requires: outstanding economic efficiency (uniform nationwide rates), extendability, flexibility, and multimedia compatibility. Since SOLTERIA's launch in April 2000, JAPAN TELECOM has enhanced its service lineup to meet customer needs. As of August 2002, the number of corporations subscribing to this service was approximately 1,200, with upward of 27,000 access lines in use.

Number of SOLTERIA Access Lines in Use



J-Session, a teleconferencing service

Broadband Ethernet Service: Wide-Ether

JAPAN TELECOM's Wide-Ether is a network building service based on Ethernet technology that offers the flexible integration of LANs at customers' offices. Wide-Ether's compatibility with a variety of protocols and Ethernet interface make it an all-purpose connection, and, because it is a virtual LAN, security is ensured. JAPAN TELECOM helps customers lower their telecommunications costs by providing a wide array of moderately priced services. JAPAN TELECOM also offers a comprehensive support system that includes a maintenance management system that operates 24 hours a day, 365 days a year, defines service levels, and reports on Internet traffic. JAPAN TELECOM will continue to enhance its access capability and product lineup to provide fine-tuned services that meet customers' needs.

ODN Internet Service: ODN

ODN is an Internet provider service offered via JAPAN TELECOM's directly managed domestic and international seamless, high-capacity, ultrahigh-speed backbone network. ODN provides an Internet environment with superior reliability and redundancy through ultrahigh-speed connections at major connection points (IX), direct connections with dominant telecommunications carriers in the United States and Asia, multiplexed lines and equipment, and a 24-hours-a-day, 365-days-a-year maintenance system. ODN offers a wide range of services designed to meet the needs of a variety of customers, from ISPs, ASPs, and other large-scale Internet users to SOHO users. A large number of enterprise customers use ODN as an Internet backbone line.

Voice Transmission/ISDN Services

The high quality and reliability of JAPAN TELECOM's telephone services have earned the Company constant customer support. In addition to traditional telephone services, JAPAN TELECOM offers value-added voice services, including Free Call Super, a toll-free call service in which the receiving party pays the call charges, and J-Net, a virtual private network that enables clients to realize an internal network without using private leased circuits. In September 2002, JAPAN TELECOM introduced its Flat Fee Plan for Businesses as part of efforts to offer services that are more in tune with the needs and budgets of small and medium-sized companies.

In February 2002, JAPAN TELECOM launched J-Session, a teleconferencing service. J-Session can be used for a wide range of purposes as it accommodates teleconference participation from several or several hundred locations using ISDN or telephone lines. The use of this service is on the rise in line with the recent decline in corporate business trips.

J-Sky Access Secured Networks

J-Sky Access Secured Networks provide advanced security for mobile telecommunications conducted while accessing the Internet through J-Sky. These closed networks are completely blocked off from the Internet, which makes them useful in such security critical areas as e-commerce and business reporting.

Video Transmission Services

JAPAN TELECOM's video transmission services are designed mainly for the domestic and international broadcasting industry. JAPAN TELECOM leads the world in providing video transmission services that incorporate cutting-edge technologies to meet and exceed diversified customer needs. JAPAN TELECOM will continue its efforts to develop and provide low-cost services of superior quality through the introduction of such state-of-the-art technologies as uncompressed high-definition digital transmission technologies.

Video and Content Distribution Business Department

Solutions Services

Network Management and Security Management Services: eNetwork Aid, eSecurity Aid

As telecommunications network systems come to play an increasingly significant role in business, they are becoming complex and diversified. In this context, many enterprise customers have come to require network operation and management services, and the need to ensure the security of these services has heightened. JAPAN TELECOM meets these customer needs with eNetwork aid, a network management service that provides network operation and management, and eSecurity aid, a comprehensive security management service to bolster network security.

JAPAN TELECOM uses eNetwork aid to operate and manage customers' networks through such services as the Customer Network Integrated Monitoring Service, which is used to monitor corporate network operations, and the SOLTERIA Router Pack, which monitors and maintains an optimal network router environment for the IP-VPN SOLTERIA.

eSecurity aid comprises four services—Security Management, Security Diagnosis and Inspection, Security Policy Consulting, and Firewall Pack—to protect e-commerce sites from damage arising from attacks, intruders, and viruses.

JAPAN TELECOM's Enterprise Network Operation Center (ENOC) is a state-of-the-art facility where the strictest security is maintained and experienced technicians work around the clock to provide these customer network services—from monitoring, to operation, to maintenance.

JAPAN TELECOM Employees Holding Major National Technical Certifications, etc., in Japan

August 1, 2002

Certification	Number
Type 1 telecommunications chief transmission and switching engineer	963
Telecommunications chief line engineer	469
First-class technical radio operator for on-the-ground services	394
On-the-ground I-category special radio operator	744
Fundamental information technology engineer	274
Technical engineer (network)	82
First-class managing engineer for execution of electrical works	103
First-class architect	5
Installation technician (Analog and digital, general)	284
Installation technician (Analog type 1)	809
Installation technician (Digital type 1)	957
CCNA (Cisco Certified Network Associate)	335
Total	5,419

Platform and Application Solutions

Call Center and CRM Solutions-NBCS and Voizi Enterprise Solution

JAPAN TELECOM's Network Based Call-Center Solution (NBCS) uses a network with such value-added features as Interactive Voice Recognition (IVR) and database referencing to process calls for call centers.

In August 2002, JAPAN TELECOM began offering the full-fledged Voizi Enterprise Solution service, Japan's first voice Internet solution, which uses VoiceXML. JAPAN TELECOM's network enables around-the-clock unmanned call center services to reduce costs, enhance customer satisfaction, and improve management efficiency.

Enterprise International Telecommunications Services

In collaboration with overseas telecommunications carriers, JAPAN TELECOM offers a wide array of international telecommunications services for enterprise customers to meet diversified customer needs. In response to strong customer demand for high-capacity international network services, JAPAN TELECOM is working to expand services to SOLTERIA subscribers' overseas bases and design optimal networks. As of August 1, 2002, JAPAN TELECOM's international telephone service covered 233 countries and regions, and the Company is currently negotiating with its partner carriers to provide customers with even higher quality services at even better prices. JAPAN TELECOM also offers whole-sale services, providing its international telephone and other telecommunications services to other telecommunications carriers.

In response to the needs of customers overseas, JAPAN TELECOM has established overseas affiliates and representative offices in key markets, including the United States (New York and Los Angeles), the United Kingdom (London), Singapore, and China (Beijing and Shanghai).

Consumer Services

Trends in the Consumer Fixed-Line Telecommunications Market

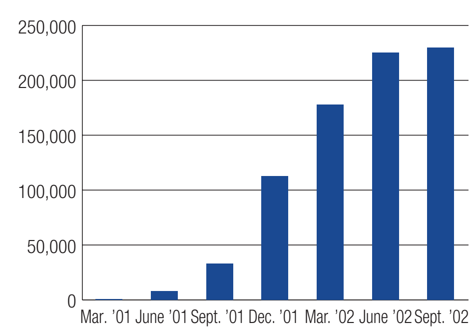
The market environment for fixed-line voice and Internet communications underwent significant changes during the year. For voice services, ARPU (Average Revenue Per User) as well as the overall size of the market saw a gradual decline, as users migrated to alternative modes of communication such as mobile phones and e-mail, a trend that was aggravated by price and discount wars unleashed by the fierce competition to acquire Myline customers. On the other hand, the number of broadband Internet service users, including for ADSL, has vastly increased since last autumn, fuelled by extremely attractive low pricing levels.

Given these changes to our market environment, we have endeavoured to adapt our strategy for the two core pillars of our business—voice and data—to the one most appropriate for prevailing conditions.

●●● Fixed-Line Voice Operations: Once the intense phase of the Myline competition settled down, we shifted our focus to managing this business, where we provide intraprefecture, interprefecture, and international services, for profit rather than growth. This has meant a greater concentration on driving our operations to the lowest cost base to elicit the highest possible value.

●●● Data Operations: As a reputable ISP, our ODN service boasts a highly reliable, extensive backbone network. This year we managed to obtain further economies of scale and coverage by selling our ADSL assets to eAccess, an affiliate company.

Number of ADSL Personal Subscribers



This enables us to outsource our ADSL subscriber line services at lower prices, even for higher speed such as the upcoming 12Mbps service, without the need to risk additional capital expenditures and operational costs, while allowing us to concentrate on improving our ISP services to end users.

Consumer Services Business Strategies for 2002

Consumer Voice Services

We have identified and are targeting those customers who are, or would be, heavy users of our fixed-line voice services and aim to retain and grow this particular segment with various promotions and superior service offerings. As a first step, we established a customer support desk exclusively for loyal customers in July 2002.

Consumer Data Services

In line with the increasing penetration of broadband, our ODN will be able to offer comprehensive access based on the most up-to-date technologies thanks to our ADSL wholesale agreement with eAccess. We are also reviewing all our sales channels and strengthening our Web promotion capability to derive optimum profitability.

Content Services

Recognizing the need to have superior broadband content, JAPAN TELECOM has invested, along with three other major ISPs, in a broadband service planning company that aims to jointly develop content as part of a proactive partnership.

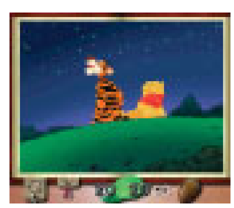
In order to delight customers and increase customer satisfaction, we have introduced popular applications such as "Pooh-san Mail 2." So that customers can be assured of security and privacy, we will be launching various features such as virus prevention, e-mail, and content filtering. Moreover, we are progressing plans to offer FTTH (Fiber-to-the Home), IP-Phone/VoIP, and IPV6-based services for the convenience of our customers.

Customer Services

In line with our goal to manage for profit, we are reviewing all our costs, particularly those related to customer services, which form a big component. There is a major initiative within Project V to rationalize these operations while retaining customer satisfaction.

●●● Call Center Operations: In order to maximize efficiency, we are consolidating our call centers and deploying IT solutions. One such solution is the IVR system, which is already contributing significantly to this initiative by handling 15% of all calls from customers automatically.

●●● Billing Operations: In response to many customer requests for consolidated invoices, we have started merging some of our bills with those of NTT East and West. In addition, we are able to give customers with Internet connections access to Web invoices while at the same time strengthening our communications with them using this channel and Customer Relationship Management (CRM) technology. This has the dual benefit of increasing customer satisfaction while at the same time reducing billing costs. The aforementioned services are some examples of how JAPAN TELECOM is striving to develop a dynamic business which, as a result, improves customer satisfaction and yields maximum profit.



Pooh-san Mail 2

Earning Customer Trust through a Complete Value Proposition

Backbone Networks

JAPAN TELECOM's domestic backbone network is made up of two layers: trunk loops and POI (Point of Interconnection) access loops. The Trunk Loop Network consists of four rings located in Hokkaido and eastern, central, and western Japan. JAPAN TELECOM is working to ensure higher speed, greater capacity, and enhanced security and reliability with the introduction of Wavelength Division Multiplexing (WDM) systems capable of handling maximum transmission speeds of 800 Gbps over two optical fiber cable cores.

JAPAN TELECOM's POI Access Network connects its POIs with NTT and other carriers. The network is independent of the Trunk Loop Network and links POIs, which exceed 150 in number, in 12 regional loops. Through the POI Access Network, JAPAN TELECOM plans to ensure the reliability and capability required to "go the extra mile" in providing service over its access network in the coming broadband era.

JAPAN TELECOM's international backbone network is acquiring cable capacity in the form of undersea cables connecting Japan to major parts of the world through participation in numerous cable projects and the purchase of IRUs (Indefeasible Rights of Use).

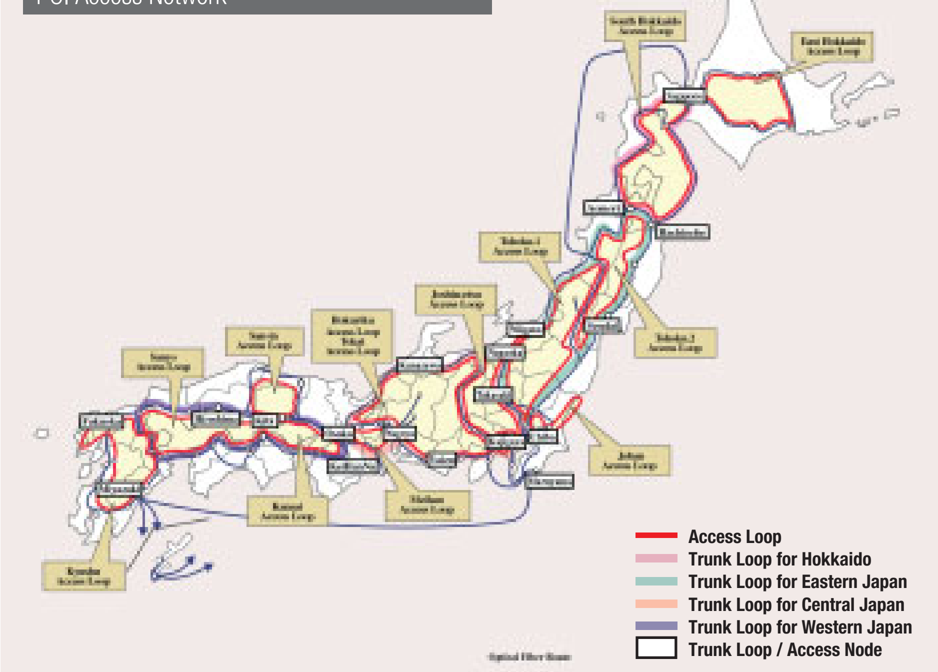
Access Network

The POI Access Network branches off from the Trunk Loop Network to deliver services direct to customers. JAPAN TELECOM is constructing a variety of access options to provide customers with high-quality, economical telecommunications services, including direct-access connections that will use anything from fiber optics to wireless telecommunications facilities to directly connect customers to its network while also utilizing NTT's interoffice and local access-type unbundled optical fiber.

Wide-Ether

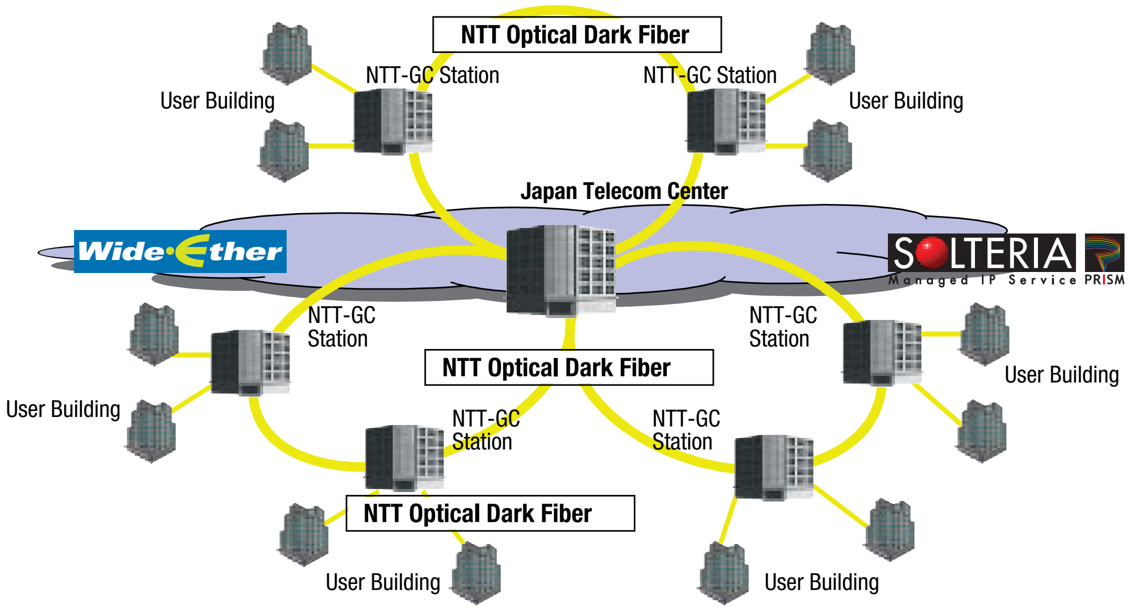
Wide-Ether is a layer-2 service on the Ethernet platform (IEEE802.3). Wide-Ether can be used in conjunction with existing networks thanks to its compatibility with a variety of LAN protocols, including such higher-layer protocols as IP, IPX, and AppleTalk. JAPAN TELECOM's Wide-Ether services are available throughout Japan. Users do not need to worry about the distance between offices, even, for example, between Hokkaido and Kyushu, because the service's high quality makes it seem as if you are in the same office.

POI Access Network



International Network

Metro Access Network



JAPAN TELECOM is actively developing its information system capabilities to deliver superior services quickly and securely to customers. In addition, the Company is proactively developing systems that are most suitable to the services it is offering, further enhancing customer communications, and increasing customer satisfaction.

Providing Even Higher Quality Services

To provide customers with reliable services, JAPAN TELECOM's information system headquarters drew up a Service Level Agreement (SLA) with in-house users that establishes targets for system operating time slots, operating rates, response times, and other service-related items. The Company is working to improve the operating quality of its services based on this SLA. In May 2002, the Company received ISO 9001 accreditation from the Japan Quality Assurance Organization for its quality management activities.

JAPAN TELECOM aims to further improve the quality of its systems development through process management practices by creating a model based on both business flow and the system itself and interrelating both of these aspects in building the system.

Making the Most of IT

JAPAN TELECOM is aggressively promoting the utilization of IT to swiftly respond to dramatic changes in the operating environment. The Enterprise Resource Planning (ERP) package was adopted with the introduction of the Group management system in April 2002 to accelerate decision making and the acquisition of information.

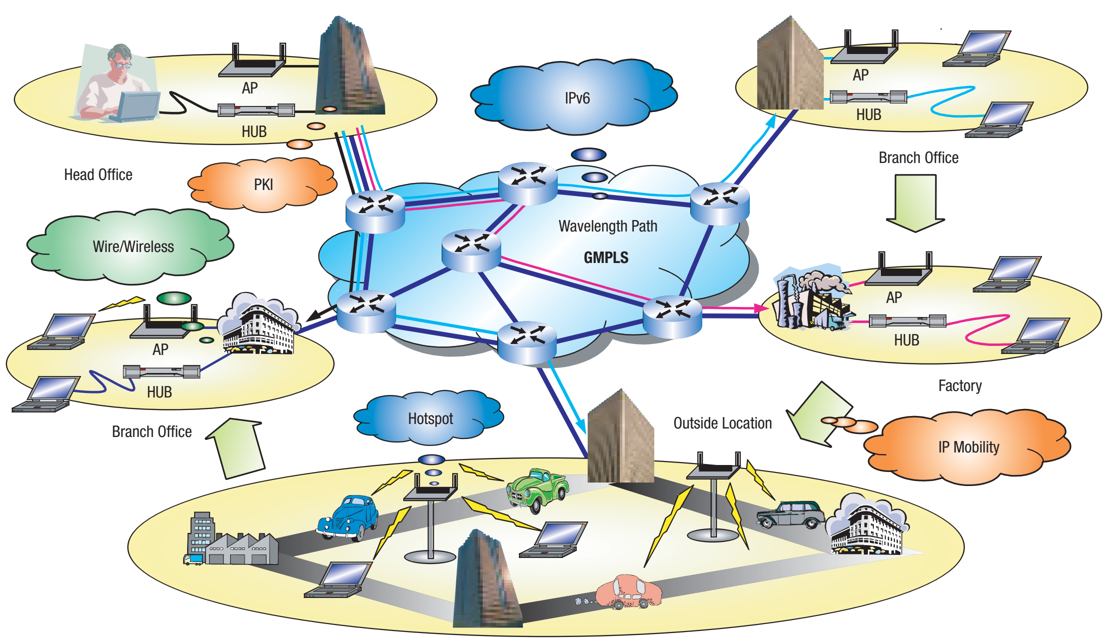
In addition, the Company introduced a Storage Area Network (SAN) to warehouse information more efficiently and Enterprise Application Integration (EAI) to strengthen the coordination between core systems and thereby upgrade its IT platform.

Enhancing Customer Communications

JAPAN TELECOM is pushing ahead with CRM as part of efforts for the further improvement of customer communications. CRM-related systems created to enhance the customer convenience of JAPAN TELECOM services include Computer Telephony Integration (CTI), which was introduced in May 2000, and the WEB e-Billing Service, an invoice service that allows customers to view their account statements via the Internet that was launched in May 2001.

JAPAN TELECOM Sales System (JTSS), a Sales Force Automation (SFA) package, was introduced in July 2002 as part of efforts to improve the productivity of sales activities and innovate the Company's sales style.

Service/Network Configuration Model



Leadership in Service Development

JAPAN TELECOM has formed a market-oriented structure to better meet customer requirements. It accelerated the decision-making process and enhanced its strategic capabilities through the provision of three fundamental functions in offering telecommunications services—Network, Information System, and Service Development—by each Supplier Unit independently. At the same time, by creating internal customer and vendor relationships, the Company continues to achieve further improvements in service quality.

In the dramatically changing telecommunications market, it is becoming more important than ever to provide services that meet customer needs in a timely manner.

In April 2002, JAPAN TELECOM established its Service Development Headquarters to integrate R&D functions and comprehensively reinforce the Company's capabilities from service development through provision. The Company also contributes to the overall development of the telecommunications industry by actively participating in such international standardization organizations as the International Telecommunication Union (ITU), the Internet Engineering Task Force (IETF), and the Third Generation Partnership Project (3GPP), giving presentations at academic conferences, and participating in overseas technological cooperation activities.

Ubiquitous Network

JAPAN TELECOM is conducting research in the areas of mobility technology and next-generation wireless technology to create a ubiquitous network—a single system that is compatible with low-speed through high-speed transmission and that can be used anywhere, from confined areas through spacious, open areas.

The Next-Generation Network

The Company is conducting research related to Generalized Multiprotocol Label Switching (GMPLS), which enables the uniform control of paths at the physical and network levels, allowing for the construction of a flexible, low-cost network. GMPLS technology will allow us to offer customers such high-value-added services as line installation on both an on-demand basis and by appointment. In addition, the Company is pursuing R&D related to high-level security technology for incorporation in next-generation networks. JAPAN TELECOM can also expect to lower service rates through the practical application of its R&D in 40Gbit/s Wavelength Division Multiplexing (WDM) transmission.

HDTV Broadcasting

The Company developed a media converter for video transmission that enables non-compressed High-Definition Television (HDTV) broadcasting. This technology was used during the June 2002 FIFA World Cup™, earning commendations from broadcasting companies.

Broadband Access Development

The Company conducted a trial provision of wireless Internet services at ten major train stations in collaboration with the East Japan Railway Company and nine ISPs. The Company also implemented a Fixed Wireless Access (FWA) system in conjunction with a Wireless Local Area Network (WLAN) to conduct an experimental trial of wireless Internet access for local communities in collaboration with Shiojiri City in Nagano Prefecture.

JAPAN TELECOM aims to intricately link technologies arising from R&D to Ipv6 and next-generation VPN technologies, using the resulting synergies to further leverage service development achievements.

Passion for the World around Us

JAPAN TELECOM Sponsors Japanese Female Tennis Ace Ai Sugiyama

JAPAN TELECOM entered into a contract to sponsor Japan's number one female tennis player— Ai Sugiyama. An active tennis player, Ai Sugiyama advanced to the Ladies' Doubles semifinal at Wimbledon last year. The promotion of sports is a part of JAPAN TELECOM's corporate cultural activities.

SAVE THE AFRICA

JAPAN TELECOM supports SAVE THE AFRICA, a non-governmental organization that provides ongoing assistance through various projects in thirteen areas in the west African country of Mauritania. The organization's activities include providing medical services and hygiene education.

These projects have helped to secure communications via solar-powered radios and establish a means of transportation through the provision of public vehicles. One project included the construction of a deep well to secure the residents' lifeline—water. The well was finally completed after a year and a half of excruciatingly difficult construction conducted in an unimaginably harsh environment where temperatures during the day soar to over 60ºC. The residents were overjoyed and grateful for the well as it meant that they no longer had to struggle to obtain water. As JAPAN TELECOM develops its global telecommunications operations, it will continue to support SAVE THE AFRICA.

After drilling 78 meters, water finally appeared! A large crowd of residents watched and the instant water appeared voices were raised in sheer joy.

Outline of JAPAN TELECOM

(From left) Haruo Murakami, Chairman;
William T. Morrow, President & Representative Director;
Kazuyasu Hakata, Executive Vice President, CFO & Representative Director

As of August 1, 2002

Name	JAPAN TELECOM CO., LTD.
Head Office	7-1, Hatchobori 4-chome, Chuo-ku, Tokyo 104-8508, Japan
Year of Establishment	August 2002
History	October 1984 — JAPAN TELECOM CO., LTD., established December 1986 — RAILWAY TELECOMMUNICATION CO., LTD., established May 1989 — JAPAN TELECOM CO., LTD., and RAILWAY TELECOMMUNICATION CO., LTD., merged to form JAPAN TELECOM CO., LTD. October 1997 — JAPAN TELECOM CO., LTD., and INTERNATIONAL TELECOM JAPAN INC. merged to form JAPAN TELECOM CO., LTD. October 2001 — Vodafone Group Plc obtained management control of JAPAN TELECOM CO., LTD. August 2002 — Company name was changed to JAPAN TELECOM HOLDINGS CO., LTD., and the new JAPAN TELECOM CO., LTD., the fixed-line business operator, was established through a corporate split procedure
Paid-in Capital	¥50,000 million
Number of Employees	3,300
Business Activities	• Providing telecommunications services in Japan and abroad • Contracting for the construction of telecommunications facilities and related facilities • Developing, maintaining, selling, and leasing telecommunications facilities • Performing consulting services related to telecommunications • Providing cable-television and cable-radio broadcasting services and related consulting services • Contracting for the construction of cable-television broadcasting facilities and related incidental facilities and developing, maintaining, selling, and leasing related equipment • Drafting architectural designs for and providing supervision of construction • Preparing printing plates as well as printing, binding, and selling printed materials • Dispatching temporary staff • Performing the duties of a non-life insurance agency and recruiting new life-insurance customers • Performing any and all business related to the above articles
Board of Directors	Chairman — Haruo Murakami President & Representative Director — William T. Morrow Executive Vice President, CFO & Representative Director — Kazuyasu Hakata Executive Vice President — Ted T. Katagi External Directors — William L. Keever (CEO, Asia Region of Vodafone International, Inc.) John Durkin (Senior Managing Director & CFO, J-PHONE Co., Ltd.) Darryl E. Green (President & Representative Director, J-PHONE Co., Ltd.) Yoshiro Hayashi (Chairman & Representative Director, J-PHONE Co., Ltd.) Teruo Kunizawa (Executive Vice President, Chief Regional Affairs Officer/ Kansai Branch President, J-PHONE Co., Ltd.) Michael Benner (Director, Asia Region of Vodafone International, Inc.) Peter Newbound (Director, Vodafone Japan Co., Ltd.) Auditor — Tadao Kondo External Auditors — Tetsuro Tomita (Managing Director, East Japan Railway Company) Bruce Weitzenhoffer (Director, Asia Region of Vodafone International, Inc.)

Focus and Innovation at J-PHONE

J-PHONE has transformed itself by integrating the former three regional J-PHONE companies into a single entity and by becoming a member of Vodafone Group Plc—the world's mobile communications leader.

J-PHONE is committed to being at the forefront of advanced technology and services and will continue its proud tradition of market innovation.

President
Darryl E. Green

J-PHONE Co., Ltd.—Financial Highlights

March 31, 2002 and 2001

	Billions of Yen		Millions of U.S. Dollars	
	2002	2001	**2002**	2001
Total Operating Revenues	**¥1,351.0**	¥1,106.4	**$10,138**	$ 8,303
Operating Revenues from Telecommunications	**1,026.0**	838.3	**7,699**	6,291
Operating Revenues from Supplementary Services	**325.0**	268.1	**2,439**	2,012
Total Operating Income	**107.2**	88.6	**804**	664
Ordinary Income	**97.3**	72.5	**730**	544
Net Income	**—**	40.2	**—**	301
Total Assets	**1,219.2**	2,223.6	**9,149**	16,687
Total Shareholders' Equity	**56.6**	713.1	**424**	5,351
Capital Investment	**354.0**	297.5	**2,656**	2,232
Depreciation	**164.0**	137.2	**1,230**	1,029
Subscribers (Internet) (thousands)	**12,232**	9,978	**—**	—
J-SKY (Internet)-Enabled Terminals (thousands)	**10,130**	6,156	**—**	—
Percentage of J-SKY-Enabled Terminals (%)	**82.81%**	61.7%	**—**	—
Average Revenue Per User (¥ per month per unit)	**¥ 7,600**	¥ 7,700	**$ 57.03**	$ 57.78
Voice Revenues	**6,450**	7,100	**48.40**	53.28
Non-Voice Services Revenues	**1,150**	600	**8.63**	4.50
Employees	**3,138**	2,988	**—**	—

Notes: 1. For the fiscal year ended March 31, 2001, total assets include investment of ¥695.6 billion from J-PHONE COMMUNICATIONS CO., LTD., in the three J-PHONE companies and other internal transactions, which are recorded both in the total assets of J-PHONE COMMUNICATIONS CO., LTD., and the shareholders' equity of the three J-PHONE companies.
2. U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥133.25=U.S.$1.00.

Message from the President

J-PHONE embraced a new motto, "Aim to Gain," in January 2002. This slogan embodies three missions for J-PHONE that are crucial to future growth.

The first mission is the fostering of a "Global Sky"—multimedia communications that go beyond mobile phones and personal computers to further enrich and enliven users' lives.

The second mission is to bring about an "Internal Revolution." This refers to changes in J-PHONE's corporate culture and the sharing of common values, goals, and strategies by management and employees alike.

The third mission is to continue to be a company synonymous with "Market Innovation." J-PHONE is committed to being at the forefront of advanced technology and services and has a proud history of pioneering products and services, as the success of Sha-mail (picture messaging) and Movie Sha-mail (video messaging) demonstrates.

J-PHONE has transformed itself by integrating the former three regional J-PHONE companies into a single entity and by becoming a member of Vodafone Group Plc—the world's mobile communications leader.

J-PHONE has also implemented a number of effective cash flow management methods by taking greater control over sales channels and inventories. At the same time, capital expenditure has been reduced to a sustainable level in line with revenues.

With a firm foundation in place, J-PHONE is set to launch its commercial third-generation (3G) mobile phone services in December 2002. With merits of scale and compelling services, J-PHONE's 3G services hold promise for contributing to increased revenues and sustaining growth for years to come.

Performance Highlights of the Year Ended March 31, 2002

●●● The number of Sha-mail (picture messaging) subscribers surged to more than four million and a new video messaging service called Movie Sha-mail was introduced in March 2002, attracting 115,000 customers in its first month of operation.

●●● Net customer churn decreased to 2.1% on an average monthly basis compared with 2.7% in the previous fiscal year. Market share climbed to 17.7% compared with 16.4% in the previous year.

●●● Average Revenue Per User (ARPU) on an average monthly basis totaled ¥7,600, down 1.3% from the previous period. Data ARPU contributed to 15.1% of ARPU for the year, reflecting increasing usage of J-PHONE's innovative services, such as the mobile Internet service J-SKY, Sha-mail, and Movie Sha-mail.

●●● The November 1, 2001, merger of the regional J-PHONE operating companies and J-PHONE COMMUNICATIONS into J-PHONE enabled the Company to aggressively pursue consolidation synergies. Examples include operating cost savings due to the consolidation of advertising agencies and merits of scale obtained through centralized purchasing.

●●● Capital spending was reduced 41.0%, to ¥354 billion, from original estimates for the year ended March 31, 2002, due to a realignment and prioritization of spending combined with purchasing synergies related to joining the Vodafone Group.

J-PHONE History

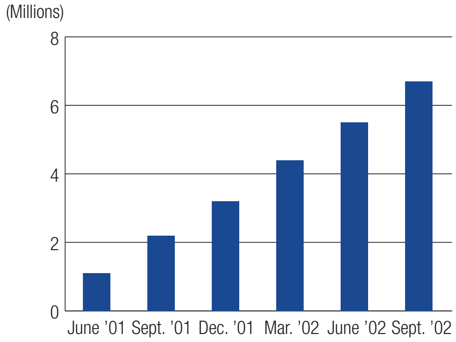
J-PHONE's predecessors—the Tokyo, Tokai, and Kansai Digital Phone companies—set up a succession of joint ventures during 1991 and 1992 with AirTouch International (currently part of the Vodafone Group), JAPAN TELECOM CO., LTD., and JR Group companies, and began providing mobile phone services using the Personal Digital Cellular (PDC) standard in April 1994. In February 1997, J-PHONE established a nationwide network through a tie-up with the Digital Contents Group, which also provides PDC format services. The Company then worked to expand this network and develop new services while promoting capital integration. In October 1999, the three Digital Phone companies and the six Digital TU-KA companies adopted the J-PHONE name and were integrated under a single national brand.

To promote efficiency in their operations, the nine J-PHONE companies merged into three in October 2000: J-PHONE EAST Co., Ltd., J-PHONE CENTRAL Co., Ltd., and J-PHONE WEST Co., Ltd. In October 2001, J-PHONE became a member of the Vodafone Group through capital integration. In November 2001, these three companies and J-PHONE COMMUNICATIONS Co., Ltd., were merged into a single entity with the objective of boosting management efficiency even further and strengthening marketing capabilities, and a new operating structure was implemented.

Since the days of its Digital Phone predecessors, J-PHONE has worked to provide customers with high-quality connectivity as well as clarity and stability in voice transmission as the essential core of its services. Accordingly, the Company has made aggressive efforts to introduce a variety of new services to make mobile phone use more enjoyable.

J-PHONE has led other mobile phone operators in being first-to-market in Japan with innovative services, including short messaging services, e-mail services, ring tone melody downloads, and information delivery services. These services together comprise the operations of J-SKY—J-PHONE's mobile Internet service. Moreover, Sha-mail and Movie Sha-mail, picture and video messaging services on sophisticated handsets with built-in digital cameras and high-definition LCD screens, have greatly contributed to J-PHONE's brand recognition.

Number of Sha-mail Subscribers



Overview of J-PHONE Operations and Strategies

Sha-mail subscribers reached more than seven million in October 2002, a number equivalent to more than half of total subscribers.

J-PHONE's operating revenues grew substantially in the year ended March 31, 2002, due to steady subscriber growth, reduced customer churn, and increased revenues from data messaging services thanks in part to the popularity of Sha-mail. Going forward, J-PHONE expects to continue to enhance profitability by cutting distribution costs through strict inventory control, reduce costs by leveraging consolidated procurement and scale merits gained from the Company's integration in November 2001, and comprehensively overhaul capital investment plans. J-PHONE is also working to cut back on sales incentives through the more effective management of sales channels.

In October 2002, the number of Sha-mail users reached the seven million mark and further growth is expected. In addition, revenues from packet data-enabled handsets continue to increase steadily. J-PHONE is also working to improve the churn rate, a crucial indicator of customer satisfaction. J-PHONE will continue to follow market trends closely and introduce new, innovative services.

In December 2002, J-PHONE plans to go forward with the introduction of the third-generation (3G) mobile phone services that are expected to become a core business.

J-PHONE is striving to boost its operating efficiency and improve its financial management while fully leveraging the benefits of being a member of the Vodafone Group.

J-PHONE's Firsts

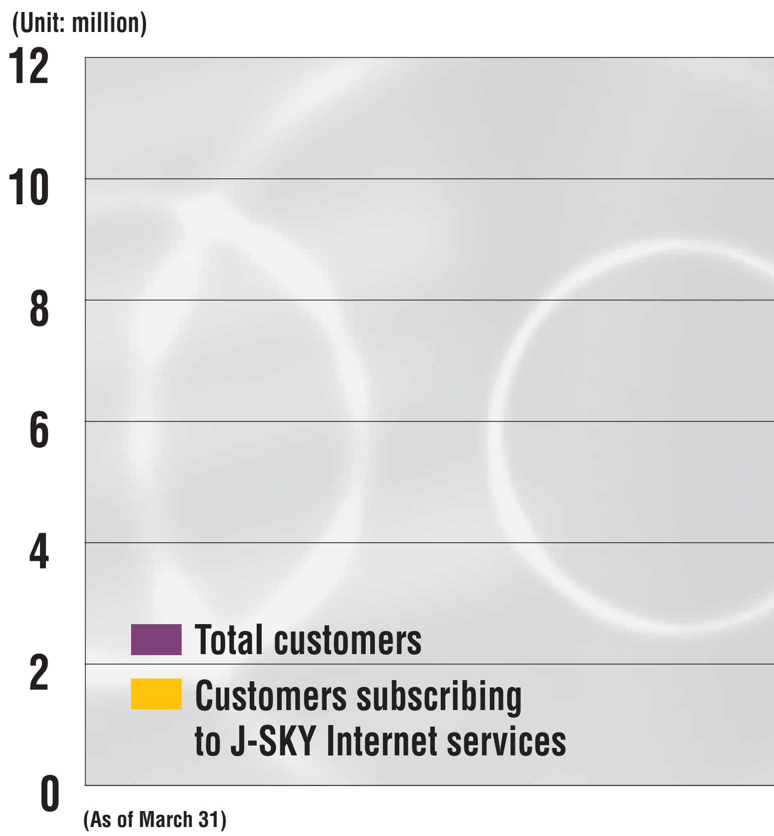
November 1997	Full mobile phone e-mail service begins	**First in Japan**
November 1998	Ring tone melody download service SkyMelody begins	**First in mobile phones**
December 1998	Text information delivery service SkyWeb begins	**First in mobile phones**
October 2000	Area-specific information service Station begins	**First in Japan**
November 2000	Phones with built-in digital cameras launched	**First in mobile phones**
December 2000	TFT color display phones launched	**First in the world**
June 2001	Mobile phones with 3D polygon engines launched	**First in the world**
December 2001	World's first 3G international roaming call completed using 3GPP standard	**First in the world**

J-PHONE's Innovative Services

J-PHONE has been, and continues to be, a market-oriented company that puts customer satisfaction first. Although advanced technology has enabled J-PHONE to be first-to-market with a vast range of services, what really matters most to J-PHONE is pleasing its customers. In other words, for J-PHONE there is no point in launching a new technology unless it can make a difference to customers' lives by providing them even greater enjoyment and convenience.

Movie Sha-mail

The Growing World of J-PHONE: 12 Million Customers and Counting



Station

A J-PHONE original: up-to-date, location-specific information

Java™ Application

Downloadable 3D graphics for customized screen displays, games, and high-tech applications

Web

Content-rich, Internet-connected world of graphics, ring tone melodies, and information

Mail

Full 6,000-character e-mail service allowing photo, movie, and melody attachments

Powered by JBlend. Java™ is a trademark of Sun Microsystems, Inc. JBlend is a trademark of Aplix Corporation.

Sha-mail and Movie Sha-mail for Richer Communications

One example of J-PHONE's compelling and innovative services is J-PHONE's picture messaging service called Sha-mail. The service provides an entirely new style of self-expression that allows users to send a picture at any given moment with high-quality built-in digital cameras and bright color screens. With Sha-mail, customers can express themselves in ways that go beyond simple text messages.

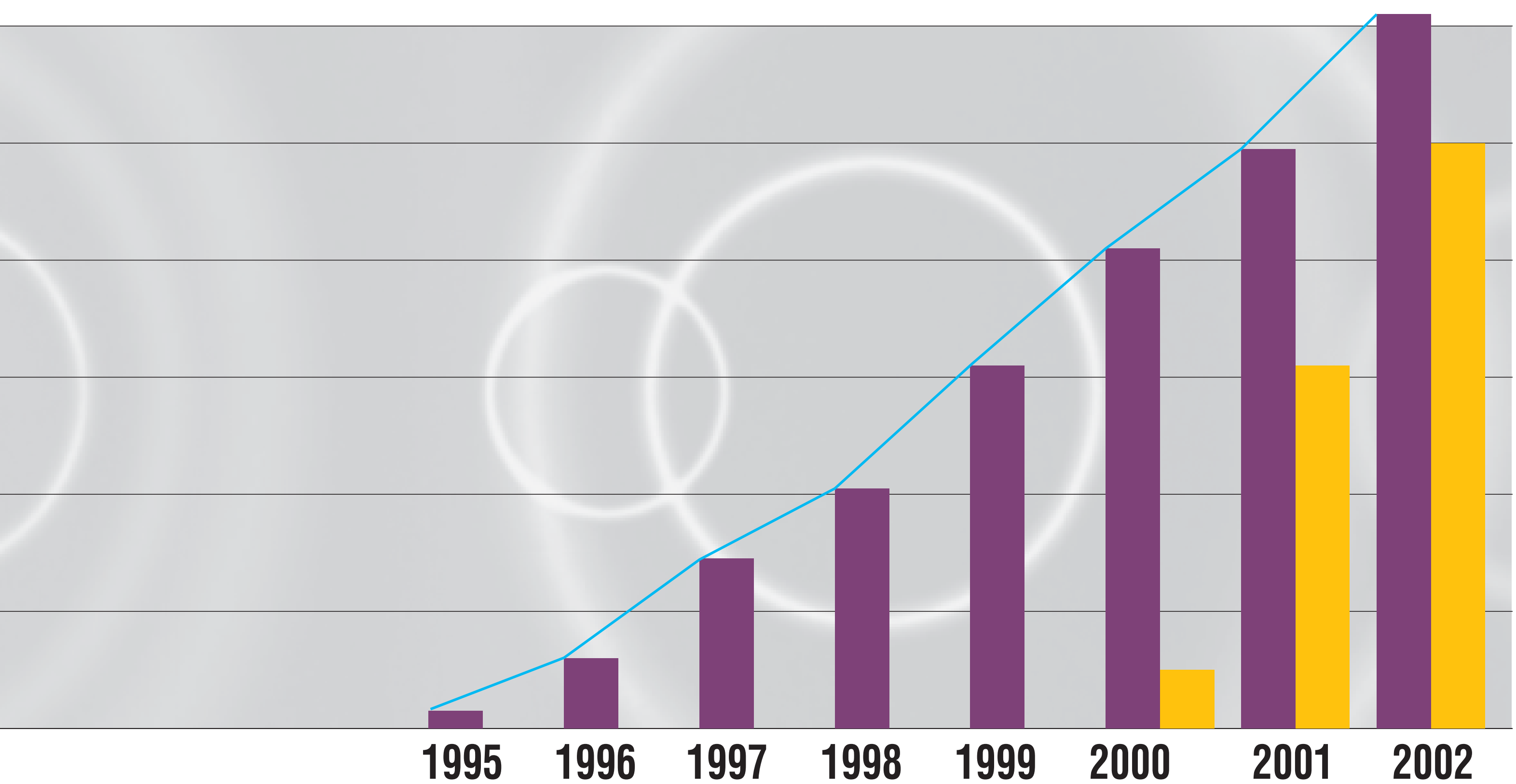
J-PHONE took Sha-mail to the next level in March 2002 with a video messaging service called Movie Sha-mail. The service allows users to send a video clip of up to five seconds, including sound.

J-PHONE is the leader in Japan with camera phones. As of October 2002, customers can choose from an extensive lineup of 13 Sha-mail capable phones, of which six are both Sha-mail and Movie Sha-mail capable. With more than seven million Sha-mail subscribers and counting, J-PHONE has the highest number of picture messaging subscribers in Japan. Customers with Sha-mail handsets can also take advantage of a wide range of mobile services on J-SKY, J-PHONE's mobile Internet platform.

J-SKY: J-PHONE's Mobile Internet Service

J-SKY is J-PHONE's mobile Internet service that enables users to access a vast range of services including Web browsing, ring tone melody downloads, games, location-specific information, text messaging, and photo messaging. A comprehensive choice of downloadable applications cater to every interest, and, with SKY CHECK, users can browse among vendors and shop on-line. These types of services have led to significant increases in Internet and data usage among J-PHONE users.

J-PHONE has also created environments for developing J-SKY Web sites and Java™ applications as open content, and is tying up with other companies to provide Internet services that are even more enjoyable and convenient.



Earning Trust through Passion for Customers

Call center operators provide rapid, expert response.

Customers: The Focal Point

J-PHONE's business starts and finishes with superior customer service. The shops in the network of J-PHONE outlets have solid roots in the communities they serve, while call centers provide detailed assistance for customers on the move. Representatives are more than just listeners, they are entrusted with the critical responsibility of channeling customer feedback regarding all J-PHONE operations. By keeping the entire organization close to the people, J-PHONE is always learning how to serve its customers better.

Comprehensive Consulting for Total Business Solutions

J-PHONE offers innovative and powerful business tools that integrate mobile phone services with business applications. From linking groupware or short messaging services through to Java™-enabled SFA (Sales Force Automation)*, staff resource tracking systems, and screen display systems incorporating Sha-mail, J-PHONE works closely with clients to create customized, practical, and technically advanced solutions.

J-PHONE also uses call charge simulation to pinpoint the best fee plan and service options for each client. The result is a total solutions package that combines optimum technology with individualized service to give our clients a business edge.

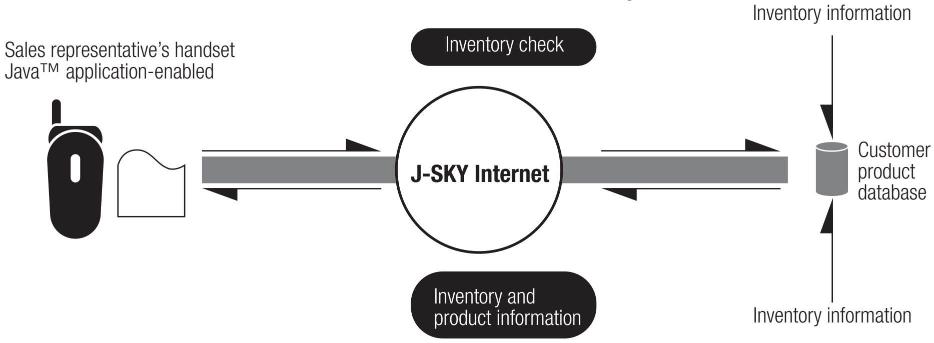
* An IT system that connects PCs and other devices to create new information synergies and sales solutions

Development partner: SUNMORETEC Co., Ltd.

Product labels can be brought up on screen.

SFA in Action—Wine Company Boosts Sales Efficiency with Java™ Application

The system allows sales personnel to directly access their company's database from J-PHONE handsets to obtain information on a wine's wholesale price, area of production, characteristics, and inventory. The Java™ application reduces the number of server connections and connection fees while shortening connection time.



Powered by JBlend. Java is a trademark of Sun Microsystems, Inc. JBlend is a trademark of Aplix Corporation.

Recycling boxes at J-PHONE shops are part of our comprehensive recycling initiatives.

Passion for the World around Us

Towards a Barrier-Free Mobile Environment and Beyond

J-PHONE customer services are now allowing hearing-impaired customers to access the Internet and communicate via e-mail with greater ease. In November 2001, the J-PHONE Hands-Sign Center in Tokyo was opened to enhance services for hearing-impaired customers. Staff communicate with hearing-impaired customers by sign language or writing, introducing the latest J-PHONE models and new services as well as offering advice for handling new contracts, model changes, and troubleshooting. In addition, J-PHONE has several staff at other locations with sign language skills.

J-PHONE is also a part of the Mobile Recycling Network. All J-PHONE shops and outlets accept mobile phones and components for recycling, regardless of brand or maker.

J-PHONE actively makes social contributions by sponsoring various cultural events in communities and provides mobile handsets free of charge for use in times of emergencies. J-PHONE recently offered such assistance during the Great Hanshin-Awaji Earthquake.

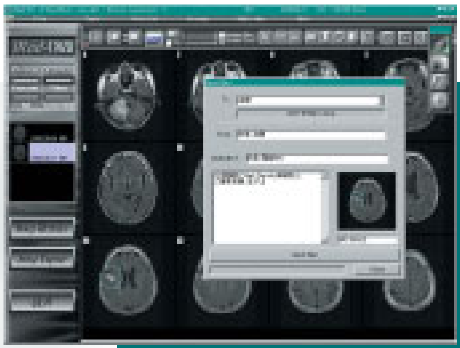
The J-PHONE Hands-Sign Center in Shibuya, Tokyo, serves upwards of 600 customers a month from around the region.

Vodafone's Global Standard Social and Environmental Activities

The 28 Vodafone Group companies throughout the world are actively pursuing social and environmental activities, and J-PHONE operates within this framework. In line with the Group's efforts, J-PHONE established a telephone number for making contributions to the United Nations World Food Programme (WFP), an international organization established with the goal of eliminating starvation. Users dial a designated number from a mobile handset and listen to an approximately three-minute introduction of WFP's activities and contribution system. Almost all of the entire calling fee automatically goes toward food aid. J-PHONE is the sole provider of this service in the mobile phone industry.

J-PHONE's Emergency Medical Solutions

Emergency medical care is a race against time. J-PHONE has developed an emergency medical system that converts images generated by CT and MRI equipment into a digital format that can be directly transmitted by mobile phones from distant locations. This revolutionary system is gaining considerable attention as written messages can be sent with the images, enabling proper instructions to be delivered to the site.



Passion for Our People

Higher Standards with Staff Qualification System

J-PHONE has introduced a qualification certification system for J-PHONE Shop staff. Instruction at training centers enables staff to cultivate a specialized knowledge of rate plans, model information, and services in addition to helping them to improve their skills to provide customers with higher levels of understanding.

Maximizing Employee Satisfaction

An internal recruitment policy was introduced to give all employees opportunities for developing fulfilling careers within J-PHONE. By fostering talent and offering stimulating challenges to motivate employees, J-PHONE is further investing in one of its greatest assets—its people. And that translates into even higher standards of customer care.

J-PHONE's 3G Activities

J-PHONE expects to launch its commercial 3G Wideband Code Division Multiple Access (W-CDMA) mobile phone service in December 2002 with the fundamental goal of providing superior services that conform to international standards, thereby adding a new dimension to mobile communications.

Rapid Area Coverage

J-PHONE recognizes that area coverage is crucial to making its 3G services a success. Approximately 3,500 base stations are scheduled to be ready in time for the planned December 2002 launch of network coverage in high-population areas. By September 2003, plans call for approximately 13,000 3G base stations, which means that coverage will be equivalent to that of current second-generation (2G) services.

To achieve rapid coverage in outlying areas, micro base stations are playing an important role. As they can be installed on the outer wall of existing 2G base stations, micro base stations provide the perfect solution for the efficient expansion of services in regions where high-capacity lines are not necessary, which translates into accelerated construction and reduced costs.

Global Standards

J-PHONE's 3G technology is based on global standards laid out by the 3G Partnership Project (3GPP), a global communications technology standards initiative. From a cost standpoint, using equipment conforming to global standards is expected to prove beneficial as the Company will be able to select equipment from competing manufacturers around the globe. Being a member of the Vodafone Group, which has considerable purchasing power, J-PHONE will be in an advantageous position to procure equipment. J-PHONE is also planning to introduce dual-mode mobile phones that can use GSM, the current-generation mobile communication transmission method widely used in Europe and other overseas locations, as well as the 3G W-CDMA global standard. This will enable J-PHONE users to take advantage of unprecedented global connectivity when they leave Japan.

3G Trial Service

J-PHONE began its 3G trial service in June 2002, based on the latest international 3GPP standard being adopted by mobile carriers and vendors around the world. In preparation for the official launch of 3G commercial services scheduled for December 2002, exhaustive testing of system and handset functionality incorporates feedback from customer monitors.

Handsets for the June 2002 trial service

Outline of J-PHONE

Yoshiro Hayashi, Chairman & Representative Director (left);
Darryl E. Green, President & Representative Director

As of August 1, 2002

Name	J-PHONE Co., Ltd.		
Head Office	5-1, Atago 2-chome, Minato-ku, Tokyo 105-6205		
Start of Services	April 1, 1994		
Year of Establishment	November 30, 1998*	*Establishment date of J-PHONE Co., Ltd., the surviving post-merger entity	
Paid-in Capital	¥26,791.8 million		
Number of Employees	3,100		
Business Activities	• Type 1 telecommunications business • Provision of high-quality mobile and automobile communications and related services		
Board of Directors	Chairman & Representative Director	Yoshiro Hayashi	
	President & Representative Director	Darryl E. Green	
	Executive Vice President, Chief Regional Affairs Officer/ Kansai Branch President	Teruo Kunizawa	
	Senior Managing Directors		
	Chief Financial Officer	John Durkin	
	Chief Marketing and Sales Officer	Rick Timmons	
	Chief Information Systems Officer	Goichi Yoshizawa	
	Chief Corporate Strategy Officer	Shohei Matsunuma	
	Chief Service Development Officer	Kyoichiro Kouri	
	External Directors		
	Chairman of Board of Directors	William L. Keever	(CEO, Asia Region of Vodafone International, Inc.)
		Haruo Murakami	(Chairman & Representative Director, JAPAN TELECOM HOLDINGS CO., LTD.; Chairman, JAPAN TELECOM CO., LTD.)
		William T. Morrow	(President & Representative Director, JAPAN TELECOM HOLDINGS CO., LTD., JAPAN TELECOM CO., LTD.)
		Masanori Arita	(Vice President, JAPAN TELECOM CO., LTD.)
		Miyuki Suzuki	(Executive Vice President, JAPAN TELECOM CO., LTD.)
		Yukio Kubota	(Counsellor, Sony Corporation)
		Peter Newbound	(Director, Vodafone Japan Co., Ltd.)
		Jeffrey D. Clark	(Senior Vice President, Vodafone Americas)
		Michael Benner	(Director, Asia Region of Vodafone International, Inc.)
	Auditor	Masayuki Hayakawa	
	External Auditors	Teruhiko Ikeda	(Vice President, Mizuho Corporate Bank, Ltd.)
		Bruce Weitzenhoffer	(Director, Asia Region of Vodafone International, Inc.)

Financial Section

Contents

Consolidated Balance Sheets

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries As of March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Assets			
Current Assets:			
Cash and cash equivalents (Notes 3, 9)	**¥ 16,276**	¥ 259,534	**$ 122,145**
Short-term investments (Note 4)	**31**	225,414	**233**
Notes and accounts receivable-trade	**209,757**	184,745	**1,574,162**
Less: allowance for doubtful accounts	**(11,988)**	(13,372)	**(89,965)**
Inventories (Note 5)	**27,761**	48,249	**208,336**
Deferred tax assets (Note 12)	**13,402**	19,605	**100,575**
Prepaid expenses and other current assets	**59,725**	64,167	**448,221**
Total current assets	**314,964**	788,342	**2,363,707**
Property, plant and equipment:			
Telecommunications equipment (Notes 6, 9)	**1,555,983**	1,339,839	**11,677,168**
Buildings and structures (Note 9)	**128,202**	114,996	**962,114**
Machinery and tools	**114,120**	103,481	**856,438**
Land (Note 9)	**27,364**	27,451	**205,362**
Construction in progress	**175,514**	101,532	**1,317,180**
	2,001,183	1,687,299	**15,018,262**
Less: Accumulated depreciation	**(800,130)**	(673,170)	**(6,004,729)**
Total property, plant and equipment	**1,201,053**	1,014,129	**9,013,533**
Investments and other assets:			
Investments in securities (Note 4)	**24,615**	50,350	**184,728**
Investments in unconsolidated subsidiaries and affiliated companies	**6,795**	3,279	**50,993**
Software	**178,159**	158,001	**1,337,031**
Goodwill (Note 7)	**51,324**	393,059	**385,168**
Deferred tax assets (Note 12)	**20,425**	6,968	**153,285**
Other assets (Note 8)	**59,001**	74,965	**442,781**
Total investments and other assets	**340,319**	686,622	**2,553,986**
Total assets	**¥1,856,336**	¥2,489,093	**$13,931,226**

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 9)	**¥ 638,100**	¥ 608,132	**$ 4,788,743**
Current portion of long-term debt (Note 9)	**88,698**	162,040	**665,646**
Accounts payable-trade	**61,816**	56,869	**463,910**
Accounts payable-other	**183,459**	146,917	**1,376,802**
Accrued expenses	**63,639**	78,237	**477,591**
Accrued income taxes	**18,324**	18,085	**137,521**
Allowance for point mileage (Note 2.n.)	**300**	—	**2,251**
Allowance for losses on guarantees of liabilities (Note 2.m.)	**3,175**	—	**23,827**
Other current liabilities	**10,139**	4,104	**76,093**
Total current liabilities	**1,067,650**	1,074,384	**8,012,384**
Long-term liabilities:			
Long-term debt (Note 9)	**309,857**	668,338	**2,325,384**
Accrued retirement benefits (Note 10)	**16,337**	16,609	**122,601**
Retirement allowances for directors and corporate auditors	**353**	1,378	**2,646**
Allowance for point mileage	**31,280**	—	**234,747**
Other	**7,418**	16,790	**55,668**
Total long-term liabilities	**365,245**	703,115	**2,741,046**
Minority interests in consolidated subsidiaries	**32,043**	183,122	**240,475**
Commitments and contingencies (Note 17)			
Shareholders' equity (Note 11):			
Common stock	**177,251**	177,251	**1,330,216**
Authorized—12,780,000 shares			
Issued			
2002—3,195,236.65 shares			
2001—639,047.33 shares			
Additional paid-in capital	**265,508**	265,508	**1,992,555**
Land revaluation difference, net of tax (Note 2.h.)	**(7,720)**	—	**(57,936)**
Retained earnings (Deficit)	**(46,011)**	82,560	**(345,298)**
Unrealized gains on available-for-sale securities, net of tax	**2,351**	3,293	**17,643**
Foreign currency translation adjustments	**25**	(132)	**188**
Treasury stock-at cost (2002 --- 15.35 shares and 2001 --- 17.95 shares)	**(6)**	(8)	**(47)**
Total shareholders' equity	**391,398**	528,472	**2,937,321**
Total liabilities and shareholders' equity	**¥1,856,336**	¥2,489,093	**$13,931,226**

Consolidated Statements of Operations

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries For the years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Operating revenues (Note 19):	**¥1,704,039**	¥1,465,384	**$12,788,286**
Operating expenses (Notes 14, 19):			
Selling and marketing expenses	**624,634**	562,612	**4,687,680**
Depreciation and amortization	**223,232**	180,346	**1,675,288**
Fees for utilization of telecommunication lines and facilities	**267,574**	189,403	**2,008,059**
Cost of sales of telecommunication equipment and other	**343,305**	274,501	**2,576,400**
Other	**156,160**	146,670	**1,171,933**
	1,614,905	1,353,532	**12,119,360**
Operating income	**89,134**	111,852	**668,926**
Other expenses (income):			
Interest expense	**19,652**	25,976	**147,475**
Interest income	**(595)**	(1,575)	**(4,466)**
Lease and rental income	**(522)**	(1,261)	**(3,916)**
Stock issue costs	**67**	2,509	**504**
Loss on write-down of investments in securities	**—**	1,774	**—**
Gain on transfer of business	**—**	(372)	**—**
Gain on sales of investments in subsidiaries	**—**	(40)	**—**
Gain on sales of investments in affiliated companies	**(17,648)**	—	**(132,439)**
Cumulative effect of accounting change for retirement benefits to directors and corporate auditors	**—**	883	**—**
Loss on revaluation of memberships	**100**	379	**753**
Loss on disposal of fixed assets	**415**	5,758	**3,112**
Cumulative effect on point mileage (Note 2.n.)	**25,831**	—	**193,853**
Transitional amount for accrued retirement benefits	**—**	3,142	**—**
Amortization of prior service cost	**447**	—	**3,357**
Lump-sum amortization of consolidated goodwill	**39,002**	—	**292,699**
Other, net (Note 13)	**34,411**	(3,274)	**258,246**
	101,160	33,899	**759,178**
Income (loss) before income taxes and minority interests	**(12,026)**	77,953	**(90,252)**
Income taxes (Note 12):			
Current	**39,236**	32,398	**294,455**
Deferred	**(4,572)**	4,555	**(34,310)**
	34,664	36,953	**260,145**
Minority interests in income of consolidated subsidiaries	**19,279**	23,454	**144,680**
Net income (loss)	**¥ (65,969)**	¥ 17,546	**$ (495,077)**

	Yen		U.S. Dollars (Note 1)
	2002	2001	**2002**
Per share of common stock (Note 2.v.):			
Net income (loss)	**¥ (20,646)**	¥ 5,491	**$ (154.94)**
Cash dividends applicable to the year	**¥ 600**	¥ 1,200	**$ 4.50**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries For the years ended March 31, 2002 and 2001

	Thousands	Millions of Yen						
	Issued number of shares of common stock	Common stock	Additional paid-in capital	Land revaluation difference	Retained earnings (Deficit)	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at April 1, 2000	639	¥177,251	¥265,508	—	¥72,653	—	—	¥(42)
Net income	—	—	—	—	17,546	—	—	—
Cash dividends	—	—	—	—	(3,834)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	(134)	—	—	—
Effect of merger of consolidated subsidiaries	—	—	—	—	(3,671)	—	—	—
Unrealized gain on available-for-sale securities	—	—	—	—	—	¥3,293	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	¥(132)	—
Net decrease in treasury stock	—	—	—	—	—	—	—	34
Balance at March 31, 2001	639	¥177,251	¥265,508	—	¥82,560	¥3,293	¥(132)	¥ (8)
Stock split 5:1 at August 20, 2001	**2,556**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net loss	**—**	**—**	**—**	**—**	**(65,969)**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**(2,876)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**—**	**(176)**	**—**	**—**	**—**
Increase resulting from the merger of a consolidated subsidiary with non-consolidated subsidiaries	**—**	**—**	**—**	**—**	**190**	**—**	**—**	**—**
Effect of merger of consolidated subsidiaries	**—**	**—**	**—**	**—**	**(59,740)**	**—**	**—**	**—**
Reversal of land revaluation loss (Note 2.h.)	**—**	**—**	**—**	**¥(7,720)**	**—**	**—**	**—**	**—**
Decrease in unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(942)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**157**	**—**
Net decrease in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2**
Balance at March 31, 2002	**3,195**	**¥177,251**	**¥265,508**	**¥(7,720)**	**¥(46,011)**	**¥2,351**	**¥ 25**	**¥ (6)**

	Thousands of U.S. Dollars (Note 1)						
	Common stock	Additional paid-in capital	Land revaluation difference	Retained earnings (Deficit)	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2001	$ 1,330,216	$1,992,555	—	$ 619,585	$24,714	$ (998)	$(57)
Net loss	**—**	**—**	**—**	**(495,077)**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(21,581)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(1,322)**	**—**	**—**	**—**
Increase resulting from the merger of a consolidated subsidiary with non-consolidated subsidiaries	**—**	**—**	**—**	**1,428**	**—**	**—**	**—**
Effect of merger of consolidated subsidiaries	**—**	**—**	**—**	**(448,331)**	**—**	**—**	**—**
Reversal of land revaluation loss (Note 2.h.)	**—**	**—**	**$(57,936)**	**—**	**—**	**—**	**—**
Decrease in unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**(7,071)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**1,186**	**—**
Net decrease in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**10**
Balance at March 31, 2002	**$1,330,216**	**$1,992,555**	**$(57,936)**	**$(345,298)**	**$17,643**	**$ 188**	**$(47)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries For the years ended March 31, 2002 and 2001

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	**2002**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ (12,026)**	¥ 77,953	**$ (90,252)**
Adjustments for:			
Income taxes paid	**(39,033)**	(42,959)	**(292,931)**
Depreciation and amortization	**222,517**	180,346	**1,669,919**
Reserve for retirement benefits	**(298)**	16,609	**(2,241)**
Reserve for accrued severance indemnities	**—**	(11,214)	**—**
Amortization of consolidation goodwill (including lump-sum amortization of consolidated goodwill)	**53,901**	25,458	**404,512**
Decrease in liabilities due to applying equity method	**—**	(17,937)	**—**
Loss on write-down of investments in securities	**19,461**	1,774	**146,048**
Gain on sale of investments in affiliated companies	**(17,648)**	—	**(132,439)**
Loss on disposal of fixed assets	**15,572**	9,161	**116,861**
Increase in allowance for point mileage	**31,580**	—	**236,997**
Changes in assets and liabilities:			
Increase in trade receivables	**(24,964)**	(1,580)	**(187,346)**
(Increase) decrease in inventories	**20,509**	(28,306)	**153,916**
Increase (decrease) in other payables	**36,417**	(35,064)	**273,301**
Increase in trade payables	**4,943**	5,402	**37,093**
Increase (decrease) in accrued expenses	**(14,102)**	16,991	**(105,831)**
Other	**2,667**	(37,844)	**20,016**
Net cash provided by operating activities	**299,496**	158,790	**2,247,623**
Cash flows from investing activities:			
Payments for purchase of property and equipment	**(450,822)**	(318,906)	**(3,383,276)**
Proceeds from sale of property and equipment	**3,452**	690	**25,905**
Increase in investments in unconsolidated subsidiaries and affiliates	**—**	(74,032)	**—**
Purchase of investment securities	**(6,988)**	(10,192)	**(52,440)**
Proceeds from sale of investment securities	**8,236**	918	**61,805**
Proceeds from sale of investments in subsidiaries	**68,355**	—	**512,982**
Increase in time deposits with maturity more than 3 months	**—**	(81,400)	**—**
Decrease in time deposits with deposit term of more than 3 months	**20,023**	61,400	**150,266**
Payment for purchase of marketable securities	**(9,869)**	(72,054)	**(74,062)**
Proceeds from sale of marketable securities	**19,964**	62,314	**149,821**
Proceeds from transfer of business	**—**	703	**—**
Other	**(4,581)**	(5,117)	**(34,380)**
Net cash used in investing activities	**(352,230)**	(435,676)	**(2,643,379)**
Cash flows from financing activities:			
Proceeds from long-term debt	**3,000**	102,301	**22,514**
Repayment of long-term debt	**(434,859)**	(109,842)	**(3,263,484)**
Increase in short-term borrowings, net	**29,844**	566,043	**223,968**
Dividends paid	**(2,876)**	(3,834)	**(21,581)**
Paid-in capital from minority shareholders	**4,349**	—	**32,636**
Other	**(1,024)**	(1,514)	**(7,679)**
Net cash provided by (used in) financing activities	**(401,566)**	553,154	**(3,013,626)**
Effect of exchange rate changes on cash and cash equivalents	**69**	121	**515**
Cash and cash equivalents increased by merger (Note 2.a.)	**180**	—	**1,354**
Net increase (decrease) in cash and cash equivalents	**(454,051)**	276,389	**(3,407,513)**
Cash and cash equivalents of newly consolidated subsidiaries beginning of year	**—**	75,167	**—**
Cash and cash equivalents at beginning of year (Note 3)	**470,327**	118,771	**3,529,658**
Cash and cash equivalents at end of year (Note 3)	**¥ 16,276**	¥470,327	**$ 122,145**
Non-cash investing and financing activities:			
Assets increased by consolidation of subsidiaries previously unconsolidated	**¥ 495**		**$ 3,717**
Liabilities increased by consolidation of subsidiaries previously unconsolidated	**¥ 260**		**$ 1,954**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries

For the years ended March 31, 2002 and 2001

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and the Accounting Regulations for the Telecommunications Business, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which JAPAN TELECOM CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133.25 to $1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

a. Consolidation—The consolidated financial statements as of March 31, 2002 include the accounts of the Company and its 11 significant (16 in 2001) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in the unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Effective October 1, 2001, Telecom Service Co., Ltd. which has been consolidated by the Company, merged with Intelligent Telecom Inc. which has also been consolidated by the Company, Japan Telecom Kansai Hanbai Co., Ltd. and Japan Telecom International Service Promotion Inc. which had also been unconsolidated by the Company, because they were immaterial.

b. Fiscal periods of consolidated subsidiaries—The accounts of the consolidated subsidiaries except JAPAN TELECOM AMERICA, INC. (whose fiscal year end is December 31) are prepared as of the same date as the consolidated financial statements. Inclusion of the subsidiary referred to above into the consolidated financial statements is made based on its accounts as of December 31, and necessary adjustments for significant transactions during the period between its fiscal year end and the date of the consolidated financial statements are reflected in the consolidated financial statements.

c. Cash equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within 3 months of the date of acquisition.

d. Allowance for doubtful accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

e. Inventories—Inventories are stated at cost substantially determined by the moving-average method for merchandise, and by the first-in, first-out method for other.

f. Marketable and investments in securities—Marketable and investments in securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and ii) available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investments in securities are reduced to net realizable value by a charge to income.

g. Property, plant and equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed substantially by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 6 to 9 years for machinery and equipment and from 10 to 40 years for air cable facilities.

h. Land revaluation—Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Company applied a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting "Reduction in carrying value" represents unrealized depreciation of land and is stated as a component of shareholders' equity. There is no effect on the statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the reduction in carrying value account and related deferred tax assets. The details of the one-time recalculation as of March 31, 2002 were as follows:

Land before revaluation:	¥31,028 million
Land after revaluation:	¥23,308 million
Reduction in carrying value:	¥ 7,720 million

i. Intangible assets—Utilization rights for telecommunication circuits and facilities are stated at cost and amortized on a straight-line method.

Goodwill on purchase of a specific business is carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 years.

Cost in excess of the net assets of subsidiaries acquired arising from the mobile telecommunications business, the data transmission business and "other" business are amortized on a straight-line basis over a period of 20, 10 and 5 years, respectively.

Expenditures related to computer software development for internal use are capitalized as an intangible asset and amortized on a straight-line method over the estimated useful life of the software (5 years).

j. Stock and bond issue costs—Stock and bond issue costs are charged to income as incurred.

k. Employees' retirement benefits—Employees serving with the Company and subsidiaries are generally entitled to lump-sum severance. In certain subsidiaries, certain of the employees are entitled to annuity payments on retirement, based on the rates of pay at the time of termination, years of service and certain other factors. Such benefits are principally provided by funded, defined benefit pension plan.

Effective April 1, 2000, the Company and domestic consolidated subsidiaries adopted a new accounting standard for employees' retirement benefits which accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The full amount of the transitional obligation of ¥3,142 million determined as of April 1, 2000, was charged to income and presented in other expenses in the income statement.

The full amount of prior service cost of ¥447 million determined as of April 1, 2002, was also charged to net periodic benefit cost.

l. Retirement allowances for directors and corporate auditors—Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required, based on the Company's practices, in the event that all directors and corporate auditors retired at each balance sheet date.

m. Allowance for losses on guarantees of liabilities—Allowance for losses on guarantees of liabilities is stated in amounts considered to be appropriate based on an evaluation of financial position of guarantees.

n. Allowances for point mileage—Allowances for point mileage are recorded to state the estimated future obligation arising from "Telecom Club" and "J-Point", based on past experience.

Prior to April 1, 2001, no provisions were recorded for point mileage. Effective April 1, 2001, the Company adopted the accrual basis for such point mileage. The effect of this adoption was to increase loss before income tax and minority interests for the year ended March 31, 2002 by ¥31,579 million ($236,997 thousand).

o. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

p. Revenue recognition—Telecommunication service is recognized as revenues as service is provided to customers, based on seconds of traffic processed plus basic fees, on a monthly billings cycle basis. Sales of telecommunications equipment are recognized when products are delivered. Revenues from rentals and other services are recognized proportionately over the contract or as services are performed. Until the year ended March 31, 2001, the Company had excluded the interconnection sales and costs associated with transactions among mobile communication dealers. Effective from fiscal year ended March 31, 2002, the Company included such sales in "operating revenues" and the costs in "operating expenses". The effect of this change was to increase operating revenues and operating expenses by ¥71,182 million ($534,199 thousand) respectively, compared with the old method. However, this change did not affect income before income taxes and minority interests.

q. Income taxes—The provision for income taxes is computed based on the pre-tax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets where it is considered more likely than not that they will not be realized.

r. Appropriations of retained earnings—Appropriations of retained earnings are reflected in the financial statements of the following year upon shareholders' approval.

s. Foreign currency transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

t. Foreign currency financial statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at applicable current exchange rates at the year end.

u. Derivatives and hedging activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and interest rate caps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statements of operations and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge currency exposures in procurement of telecommunications equipment from overseas suppliers. Payables denominated in foreign currencies are translated at the contract rates if the forward contracts qualify for hedge accounting.

The interest rate swap and interest rate caps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market values but the differential paid or received under the swap and cap agreements are recognized and included in interest expense or income.

v. Per share information—The computation of net income (loss) per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The weighted average number of common shares used in the computation was 3,195,225.08 shares for 2002 and 3,195,211.62 shares for 2001.

The Company has no dilutive securities outstanding at March 31, 2002 and 2001, and therefore there is no difference between basic and diluted net income per share.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits.

3. Cash and cash equivalents

Cash and cash equivalents at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Cash and bank deposits	**¥16,276**	¥259,534	**$122,145**
Time deposits with deposit term of more than 3 months	**—**	(10,023)	**—**
Cash equivalents included in “short-term investments”	**—**	215,316	**—**
Cash equivalents included in “prepaid expenses and other current assets”	**—**	5,500	**—**
Cash and cash equivalents	**¥16,276**	¥470,327	**$122,145**

4. Short-term investments and investments in securities

Short-term investments and investments in securities classified as held-to-maturity debt securities and available-for-sale securities at March 31, 2002 and 2001 were as follows:

(1) Held-to-maturity debt securities (market value applicable)

	Millions of Yen					
	2002			2001		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities for which market value exceeds carrying amount:						
Other	**—**	**—**	**—**	¥ 999	¥ 999	—
	—	**—**	**—**	999	999	—
Securities for which market value does not exceed carrying amount:						
Debt securities	**—**	**—**	**—**	5,009	5,000	¥ (9)
Other	**—**	**—**	**—**	21,716	21,710	(6)
	—	**—**	**—**	26,725	26,710	(15)
	—	**—**	**—**	¥27,724	¥27,709	¥(15)

(2) Available-for-sale securities (market value applicable)

	Millions of Yen					
	2002			2001		
	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference
Securities for which market value exceeds cost:						
Equity securities	**¥11,658**	**¥15,675**	**¥4,016**	¥11,649	¥17,402	¥5,753
Debt securities	**147**	**184**	**37**	12,250	12,333	83
	11,805	**15,859**	**4,053**	23,899	29,735	5,836
Securities for which market value does not exceed carrying amount:						
Equity securities	**210**	**178**	**(32)**	677	534	(143)
Debt securities	**—**	**—**	**—**	4,999	4,994	(5)
	210	**178**	**(32)**	5,676	5,528	(148)
	¥12,015	**¥16,037**	**¥4,021**	¥29,575	¥35,263	¥5,688

	Thousands of U.S. Dollars		
	2002		
	Cost	Fair value (Carrying amount)	Difference
Securities for which market value exceeds cost:			
Equity securities	**$87,492**	**$117,633**	**$30,141**
Debt securities	**1,106**	**1,383**	**277**
	88,598	**119,016**	**30,418**
Securities for which market value does not exceed carrying amount:			
Equity securities	**1,573**	**1,336**	**(237)**
Debt securities	**—**	**—**	**—**
	1,573	**1,336**	**(237)**
	$90,171	**$120,352**	**$30,181**

(3) Major securities for which market quotations are unavailable

	Millions of Yen	
	2002	2001
	Carrying amount	Carrying amount
Held-to-maturity debt securities:		
Commercial paper	**—**	¥94,957
Available-for-sale securities:		
Money market funds	**—**	68,839
Commercial paper	**—**	23,795
Equity securities of nonpublic companies	**¥8,558**	25,134
Other	**51**	52

	Thousands of U.S. Dollars
	2002
	Carrying amount
Held-to-maturity debt securities:	
Commercial paper	**—**
Available-for-sale securities:	
Money market funds	**—**
Commercial paper	**—**
Equity securities of nonpublic companies	**$64,227**
Other	**383**

(4) Debt securities with maturity and redemption dates

	Millions of Yen					
	2002			2001		
	Within 1 year	1-5 years	More than 5 years	Within 1 year	1-5 years	More than 5 years
Government bonds and local bonds	**¥31**	**—**	**¥153**	¥ 5,002	¥6,044	—
Debentures	**—**	**—**	**—**	5,009	—	—
Other	**—**	**—**	**—**	122,769	997	—
	¥31	**—**	**¥153**	¥132,780	¥7,041	—

	Thousands of U.S. Dollars		
	2002		
	Within 1 year	1-5 years	More than 5 years
Government bonds and local bonds	**$233**	**—**	**$1,150**
Debentures	**—**	**—**	**—**
Other	**—**	**—**	**—**
	$233	**—**	**$1,150**

5. Inventories

Inventories at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Merchandise	**¥23,878**	¥44,773	**$179,196**
Supplies	**3,883**	3,476	**29,140**
	¥27,761	¥48,249	**$208,336**

6. Property, plant and equipment

Telecommunications equipment at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Machinery and equipment, (principally transmitters and exchangers)	**¥1,130,400**	¥ 959,259	**$ 8,483,304**
Air cable facilities	**194,239**	165,845	**1,457,703**
Line connector facilities	**4,645**	3,956	**34,861**
Local line facilities	**5,863**	4,124	**43,998**
Long-distance line facilities	**80,974**	78,969	**607,683**
Civil construction facilities	**91,594**	88,999	**687,386**
Ocean cable facilities	**48,268**	38,687	**362,233**
	¥1,555,983	¥1,339,839	**$11,677,168**

7. Goodwill

Goodwill at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Goodwill on purchase of specific business	**¥36,854**	—	**$276,576**
Consolidation goodwill	**14,470**	¥393,059	**108,592**
	¥51,324	¥393,059	**$385,168**

8. Other assets

Other assets at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Rights for utilization of telecommunication circuits and facilities	**¥10,028**	¥ 8,439	**$ 75,253**
Other	**48,973**	66,526	**367,528**
	¥59,001	¥74,965	**$442,781**

9. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Loans from banks and other financial institutions with weighted average interest rate of 0.45% for the year ended March 31, 2002			
—Unsecured	**¥638,100**	¥608,132	**$4,788,743**
	¥638,100	¥608,132	**$4,788,743**

Long-term debt at March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Loans from banks and other financial institutions with weighted average interest rate of 2.73% for the year ended March 31, 2002			
—Secured	**¥ 12,716**	¥ 18,280	**$ 95,430**
—Unsecured	**185,839**	612,098	**1,394,664**
Subtotal	**198,555**	630,378	**1,490,094**
Unsecured 2.575% yen bonds due April, 2008	**25,000**	25,000	**187,617**
Unsecured 1.775% yen bonds due April, 2003	**25,000**	25,000	**187,617**
Unsecured 2.500% yen bonds due August, 2010	**25,000**	25,000	**187,617**
Unsecured 1.930% yen bonds due August, 2005	**25,000**	25,000	**187,617**
Unsecured 2.000% yen bonds due August, 2010	**25,000**	25,000	**187,617**
Unsecured 1.270% yen bonds due August, 2005	**25,000**	25,000	**187,617**
Unsecured 2.280% yen bonds due September, 2010	**25,000**	25,000	**187,617**
Unsecured 1.780% yen bonds due September, 2006	**25,000**	25,000	**187,617**
Subtotal	**200,000**	200,000	**1,500,936**
Total	**398,555**	830,378	**2,991,030**
Less current portion	**(88,698)**	(162,040)	**(665,646)**
Long-term debt, less current portion	**¥309,857**	¥668,338	**$2,325,384**

Annual maturities of long-term debt as of March 31, 2002 for the next five years and thereafter were as follows:

	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 88,698	$ 665,646
2004	97,699	733,200
2005	12,381	92,913
2006	54,826	411,452
2007	37,696	282,896
2008 and thereafter	107,255	804,923
	¥398,555	$2,991,030

Assets pledged as collateral for short-term loans and long-term debt at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Cash and cash equivalents	**—**	¥ 103	**—**
Property, plant and equipment, net of accumulated depreciation:			
Telecommunications equipment	**¥ 7,355**	8,407	**$ 55,197**
Buildings and structures	**7,803**	8,368	**58,562**
Land	**1,275**	2,468	**9,571**
Subtotal	**16,433**	19,243	**123,330**
Total	**¥16,433**	¥19,346	**$123,330**

10. Retirement benefit plan

Most of the employees of the Company are covered by a non-contributory trusteed pension plan. The plan provides for a lump-sum payment to terminated employees.

Certain subsidiaries have contributory defined benefit pension plans and non-contributory defined benefit tax-qualified pension plans. Additional benefits may be granted to employees according to the conditions under which their termination occurs.

The liability for employees' retirement benefits at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Projected benefit obligation	**¥(16,967)**	¥(17,372)	**$(127,331)**
Fair value of plan assets	**630**	747	**4,730**
Unrecognized actuarial gain	**—**	16	**—**
Net liability	**¥(16,337)**	¥(16,609)	**$(122,601)**

The components of net periodic pension benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Service cost	**¥1,920**	¥1,699	**$14,408**
Interest cost	**497**	423	**3,729**
Expected return on plan assets	**(5)**	(4)	**(36)**
Recognized actuarial loss (gain)	**16**	(34)	**117**
Lump-sum amortization of transitional obligation	**—**	3,142	**—**
Additional benefits granted to employees	**2,173**	—	**16,308**
Lump-sum amortization of prior service cost	**447**	—	**3,357**
Net periodic benefit costs	**¥5,048**	¥5,226	**$37,883**

Assumptions used for the years ended March 31, 2002 and 2001 were set forth as follows:

	2002	2001
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	mainly 4.4%	2.3%~5.5%
Amortization period of prior service cost	mainly 1 year	—
Recognition period of actuarial gain / loss	mainly 1 year	mainly 1 year
Amortization period of transitional obligation	—	1 year

11. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001. Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds

25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥8,302 million ($62,307 thousand) and ¥8,097 million as of March 31, 2002 and 2001, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50,000. The revised Code eliminated this restriction.

On August 20, 2001, the Company made a stock split by way of a free share distribution at the rate of 5 shares for each outstanding share and 2,556,189.32 shares were issued to shareholders of record on July 10, 2001.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriate retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semi-annual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2002, retained earnings recorded on the Company's books were ¥32,791 million ($246,087 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

12. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Deferred tax assets:			
Allowance for point mileage	**¥13,264**	—	**$ 99,539**
Write-down of investments in securities	**10,116**	¥ 2,333	**75,920**
Inventories	**7,142**	162	**53,595**
Accrued retirement benefits	**6,485**	5,401	**48,666**
Loss on disposal of fixed assets	**3,215**	—	**24,129**
Accrued bonuses	**2,228**	1,392	**16,721**
Accrued enterprise taxes	**1,627**	1,459	**12,207**
Allowance for losses on guaranty of liabilities	**1,333**	—	**10,007**
Unrecognized gain on fixed assets sold	**1,108**	—	**8,315**
Unearned revenue	**1,088**	—	**8,162**
Allowance for doubtful accounts	**—**	1,069	**—**
Depreciation	**—**	1,394	**—**
Net operating loss carried forward	**3,474**	18,190	**26,073**
Revaluation difference	**3,242**	—	**24,333**
Other	**3,830**	3,445	**28,745**
Gross deferred tax assets	**58,152**	34,845	**436,412**
Valuation allowance	**(19,737)**	(5,526)	**(148,122)**
Total deferred tax assets	**38,415**	29,319	**288,290**
Deferred tax liabilities:			
Unrealized gains on securities	**(1,698)**	(2,447)	**(12,740)**
Retained earnings appropriated to tax allowable reserves	**(1,027)**	(279)	**(7,709)**
Other	**(1,863)**	(20)	**(13,981)**
Total deferred tax liabilities	**(4,588)**	(2,746)	**(34,430)**
Net deferred tax assets	**¥33,827**	¥26,573	**$253,860**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Normal effective statutory tax rate	**(42.0)%**	42.0%
Amortization of consolidation goodwill	**188.2**	13.7
Reduction of liabilities due to applying equity method	**—**	(9.7)
Valuation allowance	**91.2**	—
Adjustment for gain on sales of affiliated companies	**76.6**	—
Amortization of goodwill	**(35.3)**	—
Reduction of allowance for doubtful accounts for consolidated subsidiary	**—**	(1.8)
Increase in valuation allowance	**—**	1.2
Revaluation of assets and liabilities in newly consolidated subsidiaries	**—**	1.1
Retained earnings due to mergers between consolidated subsidiaries	**—**	(0.9)
Expenses not deductible for income tax purpose	**3.8**	0.5
Per capital levy of local resident income taxes	**1.5**	0.2
Other	**4.2**	1.1
Effective income tax rate	**288.2%**	47.4%

At March 31, 2002, certain subsidiaries have tax loss carryforwards aggregating approximately ¥7,210 million ($54,108 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 39	$ 292
2004	775	5,813
2005	1,051	7,888
2006	687	5,157
2007	4,658	34,958
Total	¥7,210	$54,108

13. Other expenses (income)

Other expenses (income)—net for the years ended March 31, 2002 and 2001 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Provision for losses on business restructuring:			
Loss on write-down of investments in securities	**¥17,836**	—	**$133,852**
Loss on write-down of investments in unconsolidated subsidiaries and affiliated companies	**1,226**	—	**9,202**
Penalty for advanced redemption of borrowings	**11,230**	—	**84,279**
Allowance for losses on guaranty of liabilities	**3,175**	—	**23,827**
Penalty for cancellation of construction agreement	**3,161**	—	**23,724**
Incremental payment for early retirement	**2,170**	—	**16,291**
Other	**354**	—	**2,650**
	39,152	—	**293,825**
Other	**(4,741)**	¥(3,274)	**(35,579)**
Other, net	**¥34,411**	¥(3,274)	**$258,246**

14. Research and development costs

Research and development costs charged to income were ¥1,616 million ($12,129 thousand) and ¥1,836 million for the years ended March 31, 2002 and 2001, respectively.

15. Leases

As Lessee

The Group leases certain machinery, equipment, tools, furniture, fixtures and other assets. Total rental expenses for the year ended March 31, 2002 were ¥53,093 million ($398,447 thousand), including ¥17,340 million ($130,128 thousand) of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2002 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Machinery and equipment	**¥67,754**	¥67,735	**$508,474**
Tools, furniture and fixtures	**16,422**	13,874	**123,241**
Other	**11,064**	14,146	**83,036**
	95,240	95,755	**714,751**
Less: Accumulated depreciation	**(50,360)**	(43,014)	**(377,939)**
	¥44,880	¥52,741	**$336,812**

Obligations under finance leases at March 31, 2002 and 2001 were:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within 1 year	**¥18,419**	¥15,347	**$138,231**
Due after 1 year	**26,461**	37,394	**198,581**
	¥44,880	¥52,741	**$336,812**

The amount of acquisition cost and obligations under finance leases include the imputed interest expense portion.

Depreciation expense, which was not reflected in the accompanying consolidated statements of operations computed by the straight-line method, was ¥17,340 million ($130,128 thousand) and ¥18,563 million for the years ended March 31, 2002 and 2001, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within 1 year	**¥1,637**	¥ 62	**$12,283**
Due after 1 year	**8,024**	43	**60,221**
	¥9,661	¥105	**$72,504**

As Lessor

Total rental revenue for the year ended March 31, 2002 was ¥91 million ($680 thousand).

Pro forma information of leased property such as acquisition cost, accumulated depreciation, receivable under finance lease, depreciation expense, interest income of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2002 and 2001 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Machinery and equipment	**¥5,634**	—	**$42,282**
Less: Accumulated depreciation	**(5,632)**	—	**(42,264)**
	¥ 2	—	**$ 18**

Future rental revenues under finance leases at March 31, 2002 and 2001 were:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	**2002**
Due within 1 year	**¥2**	—	**$19**
Due after 1 year	**—**	—	**—**
	¥2	—	**$19**

The amount of acquisition cost and obligations under finance leases include the imputed interest income portion.

Depreciation of assets leased under finance leases accounted for as operating leases amounted to ¥91 million ($680 thousand) for the year ended March 31, 2002.

16. Derivative financial instruments

The Group enters into derivative financial instruments ("derivatives"), including foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest swap contracts and interest rate caps to manage their interest rate exposure on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading or speculative purposes. Because the counterparties to those derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Forward exchange contracted amounts which are assigned to associated assets are reflected on the consolidated balance sheet at year-end and are not subject to disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the following table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

	Millions of Yen					
	2002			2001		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:						
Payables:						
U.S. Dollars	**¥ 945**	**¥994**	**¥ 49**	—	—	—
Total	**¥ 945**	**¥994**	**¥ 49**	—	—	—
Interest rate cap agreements:						
Purchased	**¥4,500**	**¥ 0**	**¥(97)**	¥ 5,000	¥ 1	¥ (46)
Interest rate swap agreements:						
Floating rate to fixed rate	—	—	—	10,000	(165)	(165)
Fixed rate to floating rate	—	—	—	5,000	17	17
Floating rate to floating rate	—	—	—	1,000	(36)	(36)
Total	**¥4,500**	**¥ 0**	**¥(97)**	¥21,000	¥(183)	¥(230)

	Thousands of U.S. Dollars		
	2002		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:			
Payables:			
U.S. Dollars	**$ 7,095**	**$7,459**	**$ 364**
Total	**$ 7,095**	**$7,459**	**$ 364**
Interest rate cap agreements:			
Purchased	**$33,771**	**$ 1**	**$(725)**
Interest rate swap agreements:			
Floating rate to fixed rate	—	—	—
Fixed rate to floating rate	—	—	—
Floating rate to floating rate	—	—	—
Total	**$33,771**	**$ 1**	**$(725)**

17. Contingent liabilities

At March 31, 2002, guarantees and similar items include joint guarantees of ¥5,349 million ($40,143 thousand), and the allocation to the Company was ¥3,692 million ($27,706 thousand).

18. Subsequent events

(1) Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2002 were approved at the Company's shareholders' meeting held on June 27, 2002:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥300 ($2.25) per share	¥959	$7,194

(2) Creation of holding company structure

The Company announced plans to divide its information processing business in the field of mobile communication services and its mobile phone sales agency business and to establish wholly owned companies, "Telecom Express Co., Ltd." and "Japan System Solution Co., Ltd." as of July 1, 2002. Also, the Company announced plans to divide the existing fixed line businesses (excluding part of its investments in subsidiaries and affiliates) and establish a wholly owned company, "JAPAN TELECOM CO., LTD." (new JAPAN TELECOM) as of August 1, 2002. After which, JAPAN TELECOM will be renamed JAPAN TELECOM HOLDINGS CO., LTD. The aforementioned plans were approved by the Board of Directors on May 28, 2002 and approved by the shareholders at the general shareholders' meeting on June 27, 2002. The descriptions are as follows:

a. Description of JAPAN TELECOM CO., LTD.
Representative: William T. Morrow
Address: Chuo-ku, Tokyo, Japan
Common stock: ¥50,000 million ($375,235 thousand)
Descriptions of business: Type I carriers (Under the law, telecommunication carriers were divided into two broad categories based on their business models. Type I carriers provide services through their own transmission facilities.)
Date: August 1, 2002
Shares to be issued: 1,000,000 shares that will be owned by JAPAN TELECOM HOLDINGS CO., LTD.
Transferred rights and duties: All rights and duties regarding the existing fixed line businesses except a part of investments in subsidiaries and affiliates

b. Description of Japan System Solution Co., Ltd.
Representative: Masahiro Fujioka
Address: Chuo-ku, Tokyo, Japan
Common stock: ¥450 million ($3,377 thousand)
Descriptions of business: Planning, designing, development, maintenance, sales and lease of information processing systems for mobile phone business
Date: July 1, 2002
Shares to be issued: 9,000 shares that will be owned by JAPAN TELECOM HOLDINGS CO., LTD.
Transferred rights and duties: All assets and liabilities regarding the information processing business in the field of mobile communication services and everything appertaining to its rights and duties

c. Description of Telecom Express Co., Ltd.
Representative: Yoshitaka Matsuzaki
Address: Chuo-ku, Tokyo, Japan
Common stock: ¥100 million ($750 thousand)
Description of business: Sales agent for mobile phones
Date: July 1, 2002
Shares to be issued: 2,000 shares that will be owned by JAPAN TELECOM HOLDINGS CO., LTD.
Transferred rights and duties: All assets and liabilities regarding the mobile phone sales agency business and everything appertaining to its rights and duties

19. Segment information

Information about industry and geographic segments and sales to foreign customers for the years ended March 31, 2002 and 2001 is as follows:

(1) Segment information by business category

	Millions of Yen		Thousands of U.S. Dollars
Year ended March 31	**2002**	2001	**2002**
I. Operating revenues and operating income (loss)			
Operating revenues			
(1) Outside customers			
Voice transmission	**¥ 206,803**	¥ 251,434	**$ 1,551,996**
Data transmission and leased circuit	**133,611**	116,111	**1,002,710**
Mobile telecommunication business	**1,344,551**	1,083,664	**10,090,437**
Other business	**19,074**	14,175	**143,143**
Total	**1,704,039**	1,465,384	**12,788,286**
Elimination or corporate	**—**	—	**—**
Consolidated	**1,704,039**	1,465,384	**12,788,286**
(2) Inter-segment			
Voice transmission	**28,414**	21,230	**213,235**
Data transmission and leased circuit	**—**	204	**—**
Mobile telecommunication business	**81**	84	**612**
Other business	**416**	—	**3,125**
Total	**28,911**	21,518	**216,972**
Elimination or corporate	**(28,911)**	(21,518)	**(216,972)**
Consolidated	**—**	—	**—**
Operating revenues total			
Voice transmission	**235,217**	272,664	**1,765,231**
Data transmission and leased circuit	**133,611**	116,315	**1,002,710**
Mobile telecommunication business	**1,344,632**	1,083,748	**10,091,049**
Other business	**19,490**	14,175	**146,268**
Total	**1,732,950**	1,486,902	**13,005,258**
Elimination or corporate	**(28,911)**	(21,518)	**(216,972)**
Consolidated	**1,704,039**	1,465,384	**12,788,286**
Operating expenses			
Voice transmission	**261,340**	248,877	**1,961,277**
Data transmission and leased circuit	**145,221**	124,235	**1,089,841**
Mobile telecommunication business	**1,213,308**	990,884	**9,105,502**
Other business	**21,799**	12,677	**163,590**
Total	**1,641,668**	1,376,673	**12,320,210**
Elimination or corporate	**(26,763)**	(23,141)	**(200,850)**
Consolidated	**1,614,905**	1,353,532	**12,119,360**
Operating income (loss)			
Voice transmission	**(26,123)**	23,787	**(196,046)**
Data transmission and leased circuit	**(11,610)**	(7,920)	**(87,131)**
Mobile telecommunication business	**131,323**	92,864	**985,547**
Other business	**(2,308)**	1,498	**(17,322)**
Total	**91,282**	110,229	**685,048**
Elimination or corporate	**(2,148)**	1,623	**(16,122)**
Consolidated	**¥ 89,134**	¥ 111,852	**$ 668,926**

Year ended March 31	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars 2002
II. Assets, depreciation and capital expenditure			
Assets			
Voice transmission	**¥ 312,649**	¥ 297,413	**$ 2,346,331**
Data transmission and leased circuit	**278,803**	294,541	**2,092,331**
Mobile telecommunication business	**1,261,476**	1,896,009	**9,466,990**
Other business	**3,986**	2,186	**29,914**
Total	**1,856,914**	2,490,149	**13,935,566**
Elimination or corporate	**(578)**	(1,056)	**(4,340)**
Consolidated	**1,856,336**	2,489,093	**13,931,226**
Depreciation			
Voice transmission	**30,669**	21,036	**230,159**
Data transmission and leased circuit	**29,034**	21,965	**217,893**
Mobile telecommunication business	**162,366**	136,814	**1,218,502**
Other business	**448**	531	**3,365**
Total	**222,517**	180,346	**1,669,919**
Elimination or corporate	**—**	—	**—**
Consolidated	**222,517**	180,346	**1,669,919**
Capital expenditure			
Voice transmission	**32,503**	46,892	**243,924**
Data transmission and leased circuit	**66,074**	46,874	**495,866**
Mobile telecommunication business	**370,413**	315,313	**2,779,839**
Other business	**2,307**	1,171	**17,311**
Total	**471,297**	410,250	**3,536,940**
Elimination or corporate	**—**	—	**—**
Consolidated	**¥ 471,297**	¥ 410,250	**$ 3,536,940**

(2) Segment information by geographic area

Segment information classified by geographic area is omitted since the domestic share of the total of all segment operating revenues and assets is over 90%.

(3) International operating revenues

International operating revenues were less than 10% of consolidated sales and such information was therefore omitted from presentation.

20. Related party transactions

The balances of accounts with the affiliated companies at March 31, 2002 and 2001 were as follows:

	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars 2002
Short-term borrowings	**¥638,100**	—	**$4,788,743**
Accrued expenses	**285**	—	**2,143**
	¥638,385	—	**$4,790,886**

Transactions with affiliated companies for the years ended March 31, 2002 and 2001 were as follows:

	Millions of Yen 2002	Millions of Yen 2001	Thousands of U.S. Dollars 2002
Interest expense	**¥221**	—	**$1,655**
Other	**100**	—	**757**
	¥321	—	**$2,412**

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Deloitte
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Independent Auditors' Report

JAPAN TELECOM CO., LTD. and Consolidated Subsidiaries For the year ended March 31, 2002

To the Board of Directors of
JAPAN TELECOM CO., LTD.:

We have examined the consolidated balance sheet of JAPAN TELECOM CO., LTD. and consolidated subsidiaries as of March 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese yen. Our examination was made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of JAPAN TELECOM CO., LTD. and consolidated subsidiaries for the year ended March 31, 2001 were examined by other auditors whose report, dated June 28, 2001, expressed an unqualified opinion on those statements and included explanatory paragraphs that described the changes in the method of accounting for (1) rental revenue from telecommunication facilities and the corresponding costs, (2) retirement benefits payable to directors and corporate auditors and (3) the business categories for presenting segment information, and included explanatory paragraphs that described adoption of new Japanese accounting standards for foreign currency translation, financial instruments and retirement benefits.

In our opinion, such 2002 consolidated financial statements present fairly the financial position of JAPAN TELECOM CO., LTD. and consolidated subsidiaries as of March 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan applied on a basis consistent with that of the preceding year.

Our examination also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2002

Non-Consolidated Balance Sheets (Reference Information)

JAPAN TELECOM CO., LTD. As of March 31, 2002, 2001 and 2000

	Millions of Yen		
	2002	2001	2000
Assets			
Fixed assets:			
Fixed assets for telecommunication services	**¥ 449,059**	¥426,102	¥377,115
Tangible fixed assets:			
Machinery and equipment	**146,791**	132,493	117,854
Long-distance line facilities	**22,065**	24,192	25,025
Civil construction facilities	**62,394**	63,638	63,788
Ocean cable facilities	**35,854**	28,523	29,383
Buildings	**59,907**	54,908	52,930
Tools, furniture and fixtures	**15,901**	18,151	17,714
Land	**23,307**	23,658	19,982
Construction in progress	**24,666**	24,262	15,079
Others	**15,400**	14,424	13,173
	406,289	384,255	354,933
Intangible fixed assets:			
Software	**21,721**	18,723	10,671
Goodwill	**10,982**	14,643	—
Others	**10,066**	8,479	11,510
	42,770	41,846	22,182
Fixed assets for supplementary services	**31,297**	28,422	17,093
Tangible fixed assets:			
Tools, furniture and fixtures	**18,105**	17,379	13,492
Others	**6,085**	5,490	2,711
	24,190	22,870	16,203
Intangible fixed assets	**7,107**	5,552	889
Total fixed assets	**661,553**	726,617	602,106
Investments and advances:			
Investments in securities	**24,297**	36,966	31,991
Investments in subsidiaries and affiliates	**137,409**	212,666	154,277
Deferred income tax assets	**2,918**	5,045	6,352
Deposits	**9,464**	9,115	8,452
Others	**7,189**	8,515	8,253
Allowance for doubtful accounts	**(82)**	(217)	(1,430)
Total investments and advances	**181,196**	272,091	207,896
Current assets:			
Cash on hand and in banks	**3,461**	15,687	111,993
Accounts receivable-trade	**72,587**	71,590	64,710
Accounts receivable-other	**14,845**	30,164	9,959
Marketable securities	**31**	—	11,020
Treasury stocks	**—**	7	41
Short-term loans	**746,406**	105,440	9,153
Deferred income tax assets	**3,340**	2,055	2,986
Others	**6,546**	5,321	3,753
Allowance for doubtful accounts	**(7,069)**	(3,592)	(2,727)
Total current assets	**840,150**	226,676	210,891
Deferred charges	**183**	366	184
Total assets	**¥1,501,887**	¥953,660	¥813,182

	Millions of Yen		
	2002	2001	2000
Liabilities and shareholders' equity			
Fixed liabilities:			
Bonds	**¥ 200,000**	¥200,000	¥100,000
Long-term borrowings	**32,202**	41,521	51,661
Reserve for retirement benefits	**13,070**	14,610	10,796
Others	**1,521**	2,163	1,317
Total fixed liabilities	**246,795**	258,296	163,776
Current liabilities:			
Current-portion of long-term liabilities	**9,318**	10,139	16,358
Accounts payable-trade	**5,001**	4,514	8,416
Short-term borrowings	**638,100**	837	2,739
Accounts payable-other	**43,757**	49,726	14,303
Accrued expenses	**54,291**	59,192	35,323
Income taxes payable	**7,316**	1,074	12,498
Others	**11,114**	7,365	8,684
Total current liabilities	**768,900**	132,852	98,323
Total liabilities	**1,015,696**	391,148	262,100
Shareholders' equity:			
Common stock	**177,251**	177,251	177,251
Additional paid-in capital	**265,508**	265,508	265,508
Legal reserve	**8,302**	8,097	7,702
Revaluation of land for business	**(7,720)**	—	—
Earnings surplus:	**40,517**	108,275	100,620
Retained earnings	**102,384**	94,518	85,737
Special tax-purpose reserve	**384**	518	737
Voluntary reserves	**102,000**	94,000	85,000
Unappropriated retained earnings	**(61,867)**	13,756	14,883
Revaluation of investments in marketable securities	**2,338**	3,379	—
Treasury stock	**(6)**	—	—
Total shareholders' equity	**486,191**	562,511	551,082
Total liabilities and shareholders' equity	**¥1,501,887**	¥953,660	¥813,182

Non-Consolidated Statements of Operations

JAPAN TELECOM CO., LTD. For the years ended March 31, 2002, 2001 and 2000

	Millions of Yen		
	2002	2001	2000
Ordinary income/Loss section			
(Operating income/Loss section)			
Telecommunication services:			
Operating revenues:			
Voice transmission services	**¥206,152**	¥244,198	¥269,736
Data transmission services	**69,663**	44,814	24,378
Leased circuit services	**44,453**	47,507	33,330
	320,269	336,519	327,444
Operating costs and expenses:			
Selling and promotional expenses	**112,543**	106,230	86,795
Operation of international telecommunication services	**238**	184	135
Facilities maintenance expenses	**29,762**	28,653	27,189
Common expenses	**1,628**	2,065	1,965
Administrative expenses	**10,934**	10,387	11,654
Research and development expenses	**1,642**	1,819	4,221
Depreciation and amortization	**54,505**	45,532	42,101
Loss on disposal of fixed assets	**4,486**	4,319	7,628
Fees for utilization of other companies' network facilities	**126,010**	113,155	113,319
Miscellaneous taxes and dues	**3,466**	2,899	3,052
	345,218	315,246	298,064
Operating income (loss) on telecommunication services	**(24,949)**	21,272	29,380
Supplementary services:			
Operating revenues	**137,173**	141,010	84,988
Operating costs and expenses	**126,037**	133,435	80,597
Operating income on supplementary services	**11,136**	7,575	4,390
Total operating income (loss)	**(13,812)**	28,848	33,771
(Non-operating income/Loss section)			
Non-operating revenues:			
Interest income on deposits	**700**	1,959	305
Interest income on securities	**7**	27	17
Dividends received	**1,065**	819	129
Lease rental income	**—**	—	2,359
Miscellaneous income	**4,282**	2,643	2,874
	6,056	5,449	5,686
Non-operating expenses:			
Interest expenses	**1,879**	3,170	2,925
Bond interest	**4,027**	3,212	2,199
Amortization of bond-issuance expenses	**183**	368	184
Amortization of new stock-issuance expenses	**—**	—	1,108
Loss on sale of securities	**1**	54	7
Miscellaneous expenses	**651**	380	711
	6,742	7,185	7,136
Ordinary income (loss)	**(14,498)**	27,112	32,321

	Millions of Yen		
	2002	2001	2000
Extraordinary gain/Loss section			
Extraordinary gain:			
Gain on sales of fixed assets	**¥ 1,424**	¥ 47	¥ 1,553
Governmental subsidies	**—**	—	457
Gain on sales of investments in securities	**2**	—	—
Gain on sales of subsidiary securities	**39,388**	—	—
	40,815	47	2,010
Extraordinary loss:			
Loss from special tax-purpose provision for deferral of capital gains	**183**	47	2,010
Loss on disposal of fixed assets	**414**	—	—
Loss from revaluation of securities	**—**	1,714	7,683
Addition to reserve for accrued employees' retirement benefits	**—**	—	5,758
Transition amount for accrued retirement benefits	**—**	2,791	—
Cumulative effect of change for retirement benefit plan	**447**	—	—
Addition to reserve for accrued officers' retirement benefits	**—**	883	—
Loss from revaluation of golf securities, etc.	**43**	376	—
Allowance for losses on guarantee of liabilities	**—**	—	547
Addition to allowance for losses on liquidation of the investee	**—**	—	322
Loss from reconstruction of business organization	**77,437**	—	—
	78,526	5,813	16,321
Income (loss) before income taxes	**(52,209)**	21,345	18,010
Provision for income taxes	**10,740**	9,550	15,178
Adjustment for income taxes	**1,594**	(197)	(6,699)
Net income (loss)	**(64,544)**	11,993	9,531
Balance carried forward from preceding period	**3,635**	3,872	3,757
Prior year adjustment of tax effect	**—**	—	2,639
Adjustment of special tax-purpose reserve to tax-effect accounting	**—**	—	533
Interim dividends	**958**	1,917	1,436
Legal reserve due to interim dividends	**—**	191	143
Balance at the end of the period	**¥(61,867)**	¥13,756	¥14,883

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