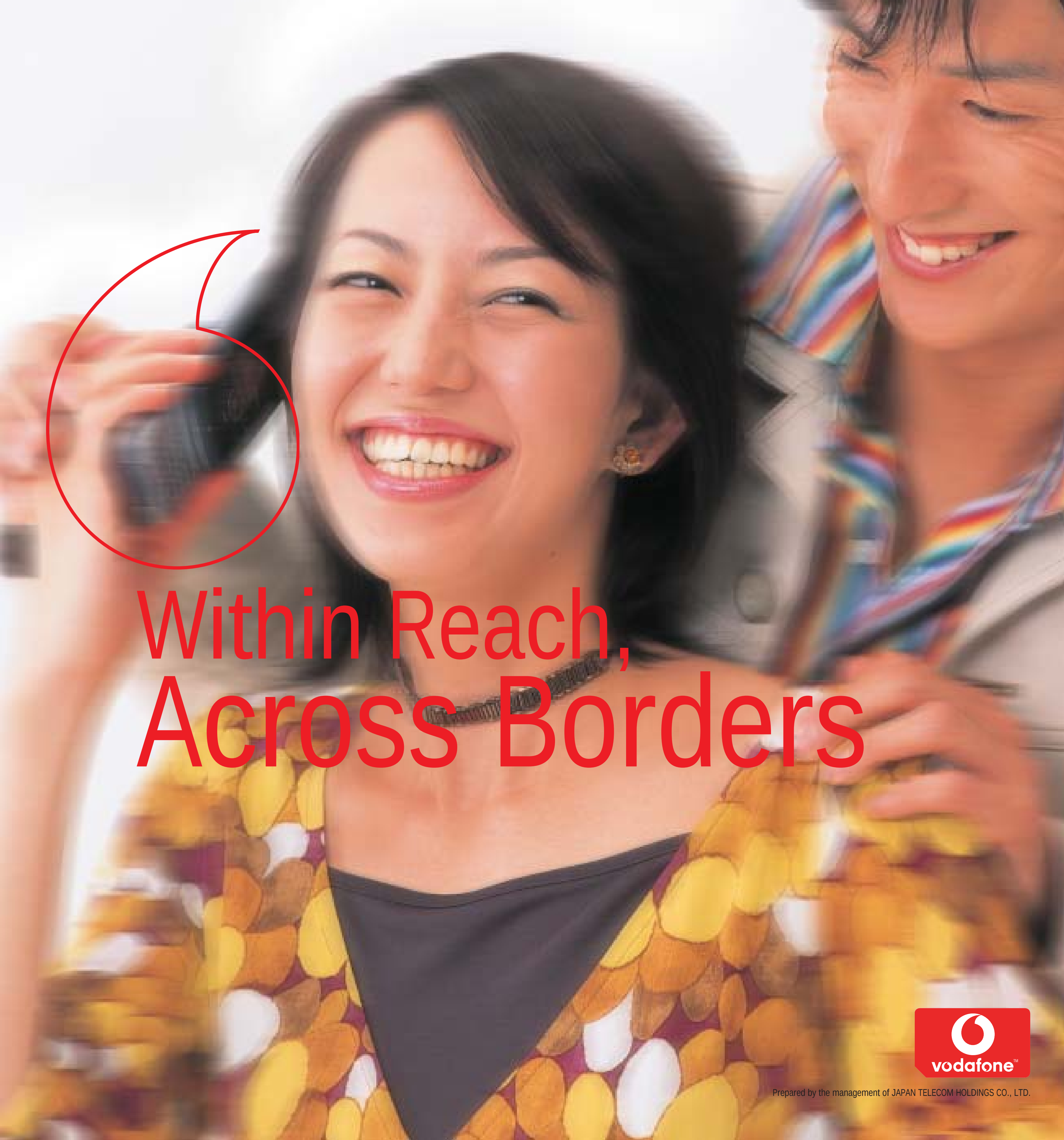
JAPAN TELECOM HOLDINGS CO., LTD.

Annual Report

For the year ended March 31, 2003



Within Reach, Across Borders

vodafone™

Prepared by the management of 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 (JAPAN TELECOM), mobile (J-PHONE Co., Ltd. [J-PHONE]), 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 realising synergies and facilitating business efficiencies among its subsidiaries. For more information, please visit www.telecom-holdings.co.jp

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Forward-Looking Statements

This annual report contains forward-looking statements concerning the operations and 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 as to its financial and operating results, in particular, its targets for cash flow by fiscal 2004, EBITDA margin by fiscal 2004, capital expenditures in fiscal 2003, reduction in capital expenditures by fiscal 2004, and its fiscal 2003 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 as to its financial and operating results, in particular, its targets for new customers, turnover, service revenue, ARPU, and capital expenditures in fiscal 2003, and its fiscal 2003 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 and speculative, and they 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, the following: 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 the 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; 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 subsequent written or oral forward-looking statements attributable to JAPAN TELECOM HOLDINGS and J-PHONE or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. Neither JAPAN TELECOM HOLDINGS nor any of its affiliates intends to update these forward-looking statements.


STORE
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JAPAN TELECOM HOLDINGS CO., LTD. and Subsidiaries Years ended March 31, 2003 and 2002

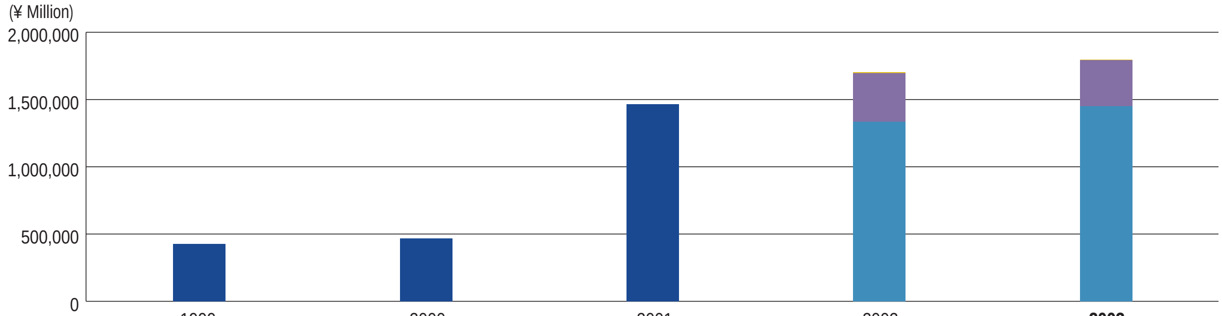
	Billions of Japanese Yen		Millions of U.S. Dollars	
	2003	2002	**2003**	2002
Operating Revenues	**¥1,796.9**	¥1,704.0	**$14,949**	$14,176
Mobile Business	**1,450.9**	1,336.5	**12,071**	11,119
Fixed-Line Business	**340.5**	360.5	**2,833**	2,999
Others	**5.4**	6.8	**45**	57
Operating Income	**275.6**	89.1	**2,293**	741
Ordinary Income	**271.8**	74.0	**2,261**	616
Net Income (Loss)	**79.5**	(65.9)	**661**	(548)
EBITDA	**544.1**	341.8	**4,527**	2,844
EBITDA Margin	**30.3%**	20.1%	**30.3%**	20.1%
Depreciation	**252.4**	223.6	**2,100**	1,860
Capital Expenditures—Cash Flow Statement Basis	**355.6**	450.8	**2,958**	3,750
Capital Expenditures—Fixed Assets Addition Basis	**279.2**	471.2	**2,323**	3,920
Total Assets	**1,839.8**	1,856.3	**15,306**	15,443
Interest-Bearing Debt	**878.6**	1,036.6	**7,309**	8,624
Total Shareholders' Equity	**466.0**	391.3	**3,877**	3,255
	Japanese Yen		U.S. Dollars	
Net Income (Loss) per Share	**¥ 24,855**	¥ (20,646)	**$ 206.78**	$ (171.76)
Shareholders' Equity per Share	**145,828**	122,494	**1,213.21**	1,019.08
Dividends per Share	**1,200**	600	**9.98**	4.99

Notes: 1. On August 20, 2001, a 5 for 1 share split became effective. Per share figures for March 31, 2002, were calculated as if the share split occurred at the beginning of the year.
2. U.S. Dollar amounts are converted from yen, for convenience only, at the fiscal year-end exchange rate of ¥120.20 = US$1.00.

CONSOLIDATED FINANCIAL INDICATORS

Note: JAPAN TELECOM HOLDINGS added J-PHONE to its wholly owned consolidated subsidiaries in 2001, resulting in significant increases in revenue, income, and assets, etc. (J-PHONE was an affiliated company accounted for by the equity method until 2000.)

● Composition of Operating Revenues (Consolidated)

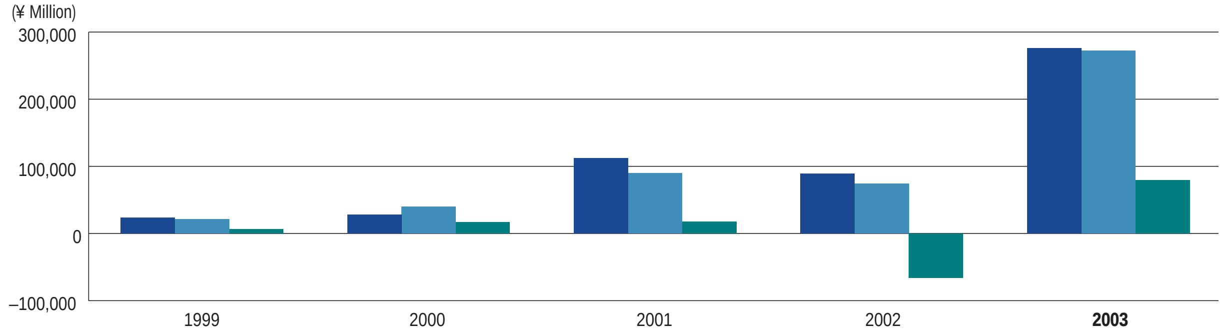


Years ended March 31	1999		2000		2001		2002		**2003**	
Operating revenues	¥428,077	—	¥468,977	9.6%	¥1,465,384	212.5%	¥1,704,039	16.3%	**¥1,796,915**	**5.5%**
Mobile business	—	—	—	—	—	—	1,336,579	—	**1,450,962**	**8.6%**
Fixed-line business	—	—	—	—	—	—	360,565	—	**340,548**	**(5.6)%**
Others	—	—	—	—	—	—	6,894	—	**5,405**	**(21.6)%**

Operating revenues (from 1999 to 2001)—No segment breakdown available

Notes: 1. As a new segment breakdown was introduced in 2003, figures for 2002 have been introduced retroactively.
2. Mobile business   Consolidated operating revenues of mobile business subsidiaries, including J-PHONE.
3. Fixed-line business   Consolidated operating revenues of fixed-line business subsidiaries, including JAPAN TELECOM.

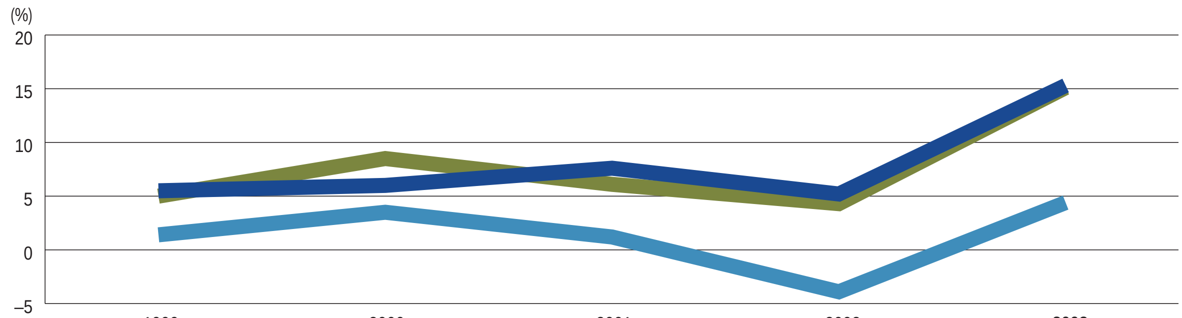
● Income (Loss) Information (Consolidated)



Years ended March 31	1999		2000		2001		2002		**2003**	
Operating income	¥23,730	(26.6)%	¥28,167	18.7%	¥111,852	297.1%	¥ 89,134	(20.3)%	**¥275,606**	**209.2%**
Ordinary income	21,541	(31.5)%	39,664	84.1%	89,477	125.6%	74,030	(17.3)%	**271,869**	**267.2%**
Net income (loss)	6,028	(25.7)%	16,417	172.3%	17,546	6.9%	(65,969)	—	**79,502**	**—**

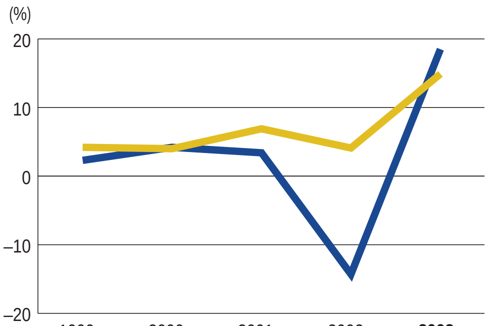
Note: Due to a net loss in 2002, the rate of change in net income for 2002 and 2003 is not available.

● Major Management Indicators (Consolidated)



Years ended March 31	1999	2000	2001	2002	**2003**
Operating income-to-turnover ratio	5.5%	6.0%	7.6%	5.2%	**15.3%**
Ordinary income-to-turnover ratio	5.0%	8.5%	6.1%	4.3%	**15.1%**
Net income-to-turnover ratio	1.4%	3.5%	1.2%	(3.9)%	**4.4%**

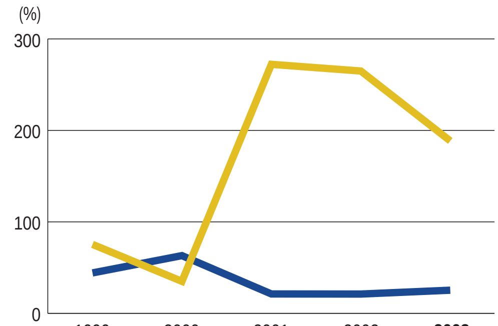
● Return on Assets (ROA) and Return on Equity (ROE)



Years ended March 31	1999	2000	2001	2002	**2003**
ROA	4.2%	4.0%	6.9%	4.1%	**14.9**%
ROE	2.3%	4.2%	3.4%	(14.3)%	**18.5**%

Notes: 1. ROA = (Operating income + Interest income on deposits and dividends + Interest income on securities) / Average total assets x 100.
2. ROE = Net income / Average net assets x 100.

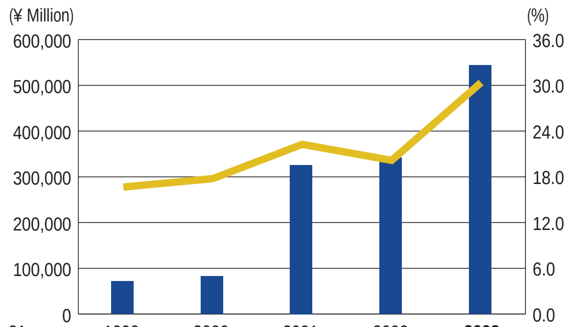
● Debt/Equity Ratio and Shareholders' Equity Ratio



Years ended March 31	1999	2000	2001	2002	**2003**
Debt/equity ratio	75.4%	35.0%	272.2%	264.9%	**188.5%**
Shareholders' equity ratio	44.2%	63.1%	21.2%	21.1%	**25.3%**

Notes: 1. Debt/equity ratio = Interest-bearing debt (year-end) / Shareholders' equity (year-end).
2. Interest-bearing debt = Bonds + Long-term borrowings + Short-term borrowings + Current portion of long-term liabilities.
3. Shareholders' equity ratio = Shareholders' equity (year-end) / Total assets (year-end).

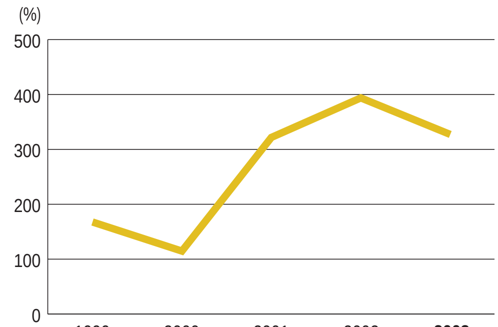
● EBITDA and EBITDA Margin



Years ended March 31	1999	2000	2001	2002	**2003**
EBITDA	¥71,269	¥82,886	¥325,764	¥341,815	**¥544,180**
EBITDA margin	16.6%	17.7%	22.2%	20.1%	**30.3%**

Notes: 1. EBITDA = Operating income + Depreciation and amortization + Loss on disposal of fixed assets.
2. EBITDA margin = EBITDA / Operating revenues X 100.

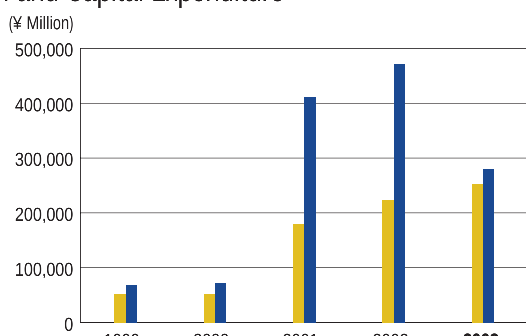
● Fixed Assets to Net Worth Ratio



Years ended March 31	1999	2000	2001	2002	**2003**
Fixed assets to net worth ratio	167.7%	114.7%	321.8%	393.8%	**327.2%**

Note: Fixed assets to net worth ratio = Fixed assets (year-end) / Shareholders' equity (year-end) X 100.

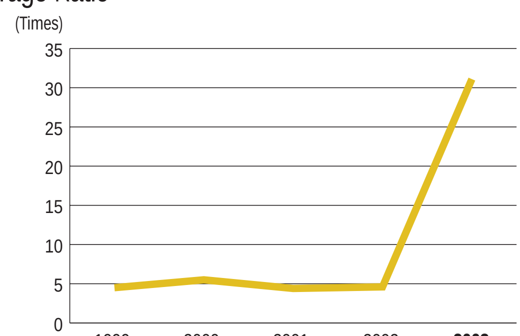
● Depreciation and Capital Expenditure



Years ended March 31	1999	2000	2001	2002	**2003**
Depreciation	¥52,089	¥51,751	¥180,345	¥223,678	**¥252,416**
Capital expenditure	67,864	71,493	410,250	471,297	**279,259**

Note: Capital expenditure figures are based on a consolidated fixed assets addition basis.

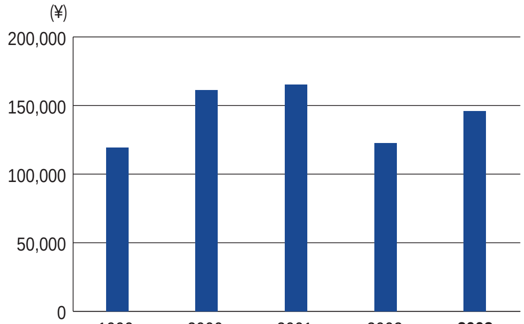
● Interest Coverage Ratio



Years ended March 31	1999	2000	2001	2002	**2003**
Interest coverage ratio	4.5	5.5	4.4	4.6	**31.1**

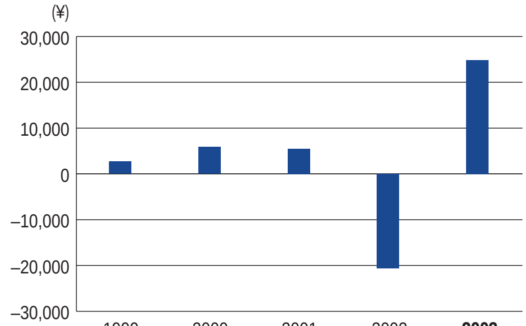
Note: Interest coverage ratio = (Operating income + Interest received + Dividends received) / Interest paid.

● Total Assets per Share



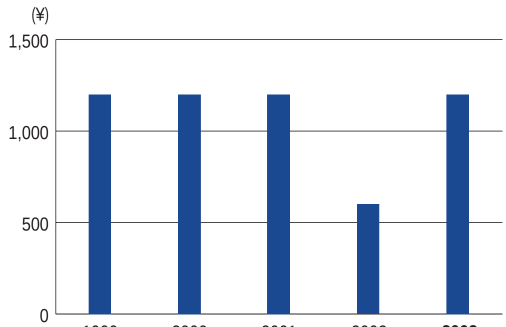
Years ended March 31	1999	2000	2001	2002	**2003**
Total assets per share	¥119,273	¥161,296	¥165,394	¥122,494	**¥145,828**

● Net Income (Loss) per Share



Years ended March 31	1999	2000	2001	2002	**2003**
Net income (loss) per share	¥2,695	¥5,875	¥5,491	¥(20,646)	**¥24,855**

● Dividend Data



Years ended March 31	1999	2000	2001	2002	**2003**
Dividends per share	¥1,200	¥1,200	¥1,200	¥600	**¥1,200**
Dividend payout ratio (%)	34.2%	35.2%	32.0%	—%	**39.4**%

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

William T. Morrow
Director, President, Representative Executive Officer

Fiscal 2002, ended March 31, 2003, was a key year for JAPAN TELECOM HOLDINGS, CO., LTD., as it marked the company's first full year under the new management team.

The new management team is completely aware of the expectations JAPAN TELECOM HOLDINGS' various stakeholders have regarding its performance. Accordingly, we sharpened our focus on business basics, such as productivity, profitability, cash generation, market share gains, and customer orientation, during the year under review while staying abreast of technological innovation in an increasingly competitive and challenging economic environment.

It is with great pride that we are able to report that fiscal 2002 was a clear success, both financially and operationally, in our mobile and fixed-line businesses. We exceeded our financial forecasts and were able to achieve positive free cash flow.

Recognising the necessity to speed up decision making and achieve enhanced profitability and efficiency, we established a holding company structure in August 2002 to allow management to focus on key strategic areas and for continued collaboration across subsidiaries. We also identified and divested ourselves of businesses that we believed were not vital to our future as rationalising what had become our overly broad portfolio of businesses was essential for us to regain our emphasis on core businesses.

Equipped with a revitalised and streamlined structure, a strong new management team, and very capable and hard-working employees, we realised significant operating results in fiscal 2002 that were reflected in our financial results for the year. The JAPAN TELECOM HOLDINGS Group overall delivered a tremendous performance during the year under review.

Going forward, we realise the companies that can respond fastest to ever-changing market conditions will emerge as winners in their fields. The telecommunications business in Japan is no exception. We are confident that JAPAN TELECOM HOLDINGS and its group companies are poised for further growth in their respective competitive environments.

Fiscal 2002 Consolidated Highlights

On August 1, 2002, JAPAN TELECOM HOLDINGS was founded as a holding company through the *kaisha bunkatsu,* or "corporate split," procedure provided for under the Commercial Code of Japan. The holding company now operates its fixed-line and mobile businesses as separate subsidiaries. JAPAN TELECOM CO., LTD. (JAPAN TELECOM), operates the fixed-line business and is a wholly owned subsidiary of JAPAN TELECOM HOLDINGS. J-PHONE Co., Ltd. (J-PHONE), operates the mobile communications business and is 45.08% owned by JAPAN TELECOM HOLDINGS. Other wholly owned subsidiaries are Telecom Express Co., Ltd., the mobile sales agency business, and Japan System Solution Co., Ltd., the mobile billing system and other IT-related business. Both of these businesses were operated by JAPAN TELECOM in its previous form.

Throughout fiscal 2002, we disposed of a number of non-core businesses to refocus our attention on our core mobile and fixed-line telecommunications operations. Disposals included: Japan Telecom Engineering companies; JAPAN TELECOM CREATE CO., LTD., a wholly owned bill printing subsidiary; JAPAN TELECOM MAX CO., LTD., a wholly owned telemarketing and call centre operations subsidiary; and JAPAN TELECOM HOLDINGS' equity investments in approximately 10 local CATV operating companies. We also decided in fiscal 2002 to merge or liquidate JAPAN TELECOM NETWORKS, Japan Telecom Data Co., Ltd., and Asahi Telecom Co., Ltd.

The result of this fiscal 2002 programme of divestitures, mergers, and liquidations was an extraordinary gain of ¥9 billion in cash proceeds. Even more important is that the new corporate structure that we have achieved in part by this programme has significantly improved management focus and, we believe, contributed to enhanced transparency for shareholders.

It also contributed to consolidated financial results for fiscal 2002 that exceeded JAPAN TELECOM HOLDINGS' forecasts. Consolisdated operating revenues increased 5.5% compared with the previous fiscal year, to ¥1,797 billion.

J-PHONE's operating revenues increased 8.1%, to ¥1,461 billion, based mainly on a 12.7% increase in telecommunications service revenues, to ¥1,157 billion. J-PHONE continued to increase its market share, as Sha-mail-enabled picture-messaging handsets (which include Movie Sha-mail-enabled video-messaging handsets) registered strong demand.

Revenues at JAPAN TELECOM, by contrast, decreased 2.2%, to ¥340 billion, on a pro forma basis.* This decline notwithstanding, JAPAN TELECOM's results mark a strong performance relative to other companies in the competitive and mature fixed-line business environment. Its achievement in this area can be attributed to continued growth in demand for its data services and to contributions from JAPAN TELECOM's managed services, which helped to compensate for declining voice revenues. Data service revenues accounted for 25.7% of JAPAN TELECOM's revenues, up 5.7 percentage points from the previous fiscal year.

JAPAN TELECOM HOLDINGS, meanwhile, saw consolidated operating costs and expenses decline 5.8%, to ¥1,521 billion, in fiscal 2002. This achievement is attributable to decreased costs and increased efficiencies in the Group's mobile and fixed-line businesses. It also contributed to an expanded consolidated operating margin of 15.3%, up 10.1 percentage points from fiscal 2001.

J-PHONE's operating expenditures totalled ¥1,217 billion, a 2.1% decrease from the previous fiscal year despite J-PHONE's increased sales. This improvement was driven by more efficient cost and inventory management, lower customer acquisition and retention costs resulting from better-managed dealer incentives, and the improved management of operating expenses compared with the previous year.

JAPAN TELECOM, too, notably improved its cost structure in fiscal 2002. Fixed-line operating expenses declined ¥55 billion (or ¥29 billion when one-time Myline expenses incurred in fiscal 2001 are excluded). JAPAN TELECOM's operating profit totalled ¥26 billion, compared with an operating loss of ¥21 billion in fiscal 2001. The subsidiary's EBITDA margin, meanwhile, climbed 14.2 percentage points, to 27.2%. These achievements by the fixed-line business resulted from a series of steps stemming from Project V, an enterprise-wide initiative aimed at revitalising and refocusing the fixed-line business. In addition to substantially improving JAPAN TELECOM's EBITDA margin, these steps also had a positive effect on the subsidiary's free cash position in fiscal 2002.

The cumulative effect of the Group's various achievements during the fiscal year was year-on-year growth in consolidated ordinary income of more than three times, to ¥272 billion. Fiscal 2002 consolidated net income thus totalled ¥80 billion, compared with a net loss of ¥66 billion one year ago. Consolidated net income per share totalled ¥24,855. Operating revenue, ordinary profit, and net income exceeded the revised full-year forecasts issued on November 12, 2002, by 1.5%, 11.0%, and 22.0%, respectively.

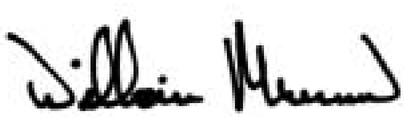
Consolidated capital expenditures for JAPAN TELECOM HOLDINGS totalled ¥279 billion on a fixed assets addition basis, a decrease of ¥192 billion from fiscal 2001. On a cash flow basis, capital expenditures were ¥356 billion, of which ¥306 billion were J-PHONE-related. Capital expenditure plans were thoroughly reviewed for the mobile and the fixed-line operations based on necessity, rollout efficiency, and operating effectiveness. This enabled a significant decrease in actual outlays from the prior budgets without sacrificing investments needed for the future, such as for J-PHONE's continued 3GPP-based W-CDMA rollout.

Stepping Ahead

Upon entering a new fiscal year, JAPAN TELECOM HOLDINGS and its group companies are implementing additional measures to further improve managerial and operational efficiencies. JAPAN TELECOM HOLDINGS' decision in April 2003 to shift to a new executive committee corporate governance structure as advocated by recent changes to the Commercial Code of Japan is an important step. It will add to the strength of our corporate governance, improve managerial transparency and objectivity, and speed decision making.

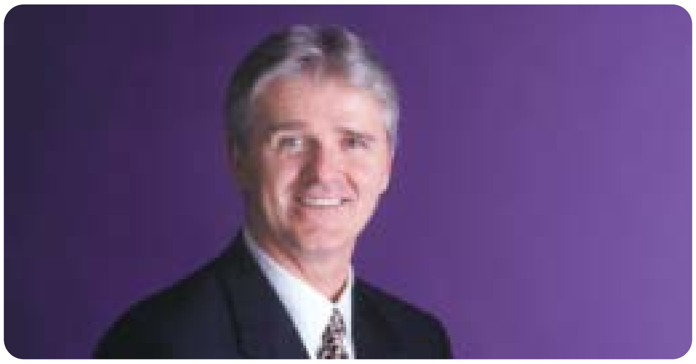
J-PHONE and JAPAN TELECOM have followed the lead of the holding company by applying executive committee corporate governance structures to their respective operations. They and other operating companies are also fostering growth by continuously working to improve and expand the scope of their products and services, always gauging the market potential for new applications. The membership, moreover, of our operating companies in Vodafone Group Plc. provides ample potential for sharing costs, experience, and opportunities. More detail on the opportunities ahead and on the products, services, and people that are the pillars of our ever-strengthening business operations are outlined in the sections on J-PHONE and JAPAN TELECOM.

Although significant challenges lie ahead, we are confident that we can face and overcome them. We are aware that it is difficult to earn the trust of our stakeholders—shareholders, employees, and business partners—and easy to lose it. Be assured that J-PHONE and JAPAN TELECOM are committed to strengthening their market positions and will execute and deliver to repay your trust.



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

* Due to the change to the holding company structure in August 2002, JAPAN TELECOM's statutory financial statements for fiscal 2001 and 2002 are not directly comparable. The pro forma figures are offered so changes in the fixed-line business can be compared across the periods.



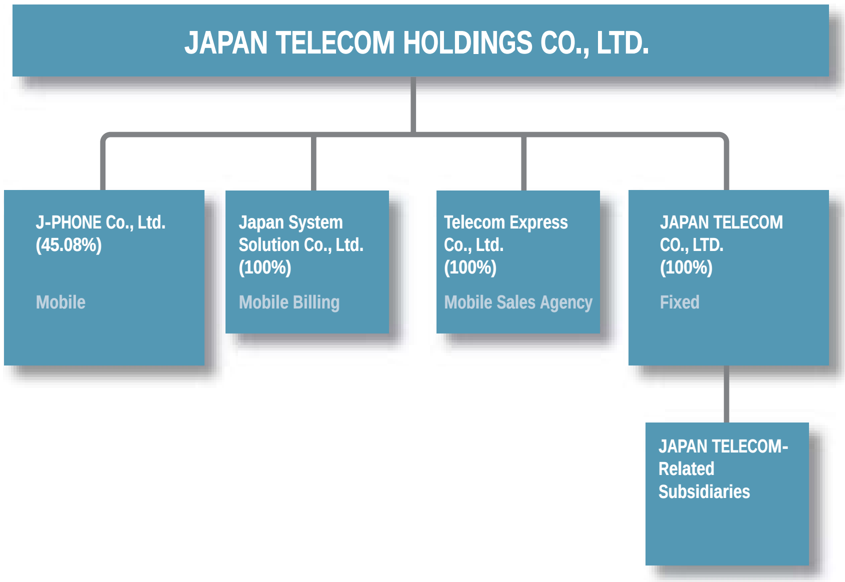
William T. Morrow
Director, President, Representative Executive Officer

John Durkin
Director, CFO, Representative Executive Officer

As of June 27, 2003

Name	JAPAN TELECOM HOLDINGS CO., LTD.		
Head Office	7-1, Hatchobori 4-chome, Chuo-ku, Tokyo 104-8508, Japan		
History	October 1984	JAPAN TELECOM CO., LTD., established	
	December 1986	Railway Telecommunication Co., Ltd., established	
	May 1989	Railway Telecommunication merges with JAPAN TELECOM to form 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 INTERNATIONAL TELECOM JAPAN INC. merge to form JAPAN TELECOM CO., LTD.	
	October 2001	Vodafone Group Plc obtains management control of JAPAN TELECOM CO., LTD.	
	August 2002	Company name changes to JAPAN TELECOM HOLDINGS CO., LTD., and the new JAPAN TELECOM CO., LTD., the fixed-line business operator, established through a corporate split procedure	
	June 2003	JAPAN TELECOM HOLDINGS introduces the executive committee corporate governance structure	
Paid-in Capital	¥177,251 million		
Number of Employees	46		
URL	http://www.telecom-holdings.co.jp/		
Business	Serving as holding company supervising consolidated group operations		
Board of Directors	Chairman of the Board, Director	J. Brian Clark	(CEO, Asia Pacific Region, Vodafone Group Plc)
	Director, Senior Executive Advisor	Haruo Murakami	
	Director, President, Representative Executive Officer	William T. Morrow	
	Director, CFO, Representative Executive Officer	John Durkin	(Representative Executive Officer, CFO, J-PHONE Co., Ltd.)
	Directors	Darryl E. Green	(Representative Executive Officer, President & CEO, J-PHONE Co., Ltd.)
		Michael J. Pitt	(Financial Director, Group Operations, Vodafone Group Service Ltd.)
		Charles Butterworth	(Director of Group Corporate Finance, Vodafone Group Plc)
		Peter Newbound	(Director of HR, Group Services, Vodafone Group Plc)
		Yoshiro Hayashi	(Executive Officer, Chairman, J-PHONE Co., Ltd.)
		Hironori Aihara	(Senior Executive Vice President, Executive Officer, Mitsubishi Corporation)
		Tetsuo Shimura	(Representative Vice President of the Bank of Tokyo-Mitsubishi, Ltd.)
		Tatsuya Tamura	(President, Global Management Institute Inc.)

JAPAN TELECOM HOLDINGS STRUCTURE



As of June 27, 2003

J-PHONE Co., Ltd. (J-PHONE), is a leading mobile operator in Japan and a member of Vodafone Group Plc, the world's largest mobile telecommunications 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 March 31, 2002, the company had more than 13.9 million customers, of which more than 87% were J-SKY subscribers. J-PHONE was awarded one of three licences to operate 3G mobile services in Japan and launched a commercial 3G W-CDMA Service, Vodafone Global Standard, on December 20, 2002. For more information, please visit www.j-phone.com

Financial Highlights

J-PHONE Co., Ltd. and Subsidiaries Years ended March 31, 2003 and 2002

	Billions of Japanese Yen		Millions of U.S. Dollars	
	2003	2002	**2003**	2002
Operating Revenues	**¥1,461.0**	¥1,351.0	**$12,155**	$11,240
Operating Revenues from Telecommunications	**1,156.6**	1,026.0	**9,622**	8,536
Operating Revenues from Supplementary Services	**304.4**	325.0	**2,532**	2,704
Operating Income	**243.6**	107.2	**2,027**	892
Ordinary Income	**239.5**	97.3	**1,993**	809
Net Income	**137.8**	35.9	**1,146**	299
Total Assets	**1,288.8**	1,219.2	**10,722**	10,143
Total Shareholders' Equity	**191.6**	56.6	**1,594**	471
Capital Investment—Cash Flow Basis	**306.0**	354.0	**2,546**	2,945
Depreciation	**187.0**	164.0	**1,556**	1,364
	Thousands			
Subscribers	**13,963**	12,232	**—**	—
J-SKY (Internet)-Enabled Terminals (thousands)	**12,162**	10,130	**—**	—
Percentage of J-SKY-Enabled Terminals (%)	**87.1%**	82.8%	**—**	—
	Yen per Month per Unit		Dollars per Month per Unit	
Average Revenue per User (ARPU)	**¥7,260**	¥7,600	**$60.40**	$63.23
Voice Revenues	**5,785**	6,450	**48.13**	53.66
Non-Voice Services Revenues	**1,475**	1,150	**12.27**	9.57
	Number			
Employees	**3,063**	3,138	**—**	—

Note: U.S. dollar amounts are converted from yen, for convenience only, at the fiscal year-end exchange rate of ¥120.20 = US$1.00.

Darryl E. Green
Representative Executive Officer, President & CEO

Message from the President

Despite a challenging market environment, J-PHONE managed to achieve outstanding results in the fiscal year ended March 31, 2003. J-PHONE brought highly innovative products and services to consumers in Japan, and the market rewarded us with solid telecommunications service revenue growth of 12.7%, net income of ¥137.8 billion, compared with ¥35.9 billion a year ago, and an increased market share of 18.5%.

J-PHONE focused on the cost side as well, as shown by the more than 9 percentage point improvement in our EBITDA margin, to 30%. We also continued to streamline handset inventory management and showed continued progress in bringing new subscriber incentives to desired levels.

To further expand profit growth, J-PHONE is integrating its equipment procurement process and introducing a comprehensive supply chain management system, made possible by the merger of former regional operations. J-PHONE will aim for additional reductions in primary costs through Vodafone Group joint purchasing and by ensuring effective capital expenditures and keeping new subscriber incentives at proper levels.

Fiscal 2002 proved to be another year of innovative services for J-PHONE. In December, we marked a milestone by launching Vodafone Global Standard, the world's first 3G service based on the 3GPP standard, bringing unparalleled global connectivity to consumers in Japan. With Vodafone Global Standard, J-PHONE will strive to offer more exciting value-added customer propositions and high-speed data services while working towards continued improvement in customer satisfaction, increased ARPU, and lower churn rates.

J-PHONE pioneered a new and untapped market segment in February 2003 with the introduction of the enjorno handset developed especially for the prepaid market. By targeting entry-level users, such as young parents and the elderly, and by greatly expanding sales channels nationwide, we believe our new prepaid business model represents a unique growth opportunity.

J-PHONE recently made significant management changes to meet the needs of a changing business environment. In April 2003, a new organisational structure was implemented to speed up our decision-making process, and, in June 2003, a resolution to adopt an executive committee structure was passed at our annual general meeting to ensure greater transparency and high standards of corporate governance. I expect these changes to increase J-PHONE's managerial effectiveness going forward.

Following our introduction of the J-PHONE/Vodafone dual brand in December 2001, we have since worked towards the goal of using the single Vodafone brand and will complete our transition in October 2003. The J-PHONE brand has served us well with its renowned reputation for pioneering services like Sha-mail picture messaging. However, by combining the strengths of the J-PHONE brand with the Vodafone's brand reputation for seamless global connectivity and reliability, we expect to have an even stronger presence in the Japanese market.

The year ahead will unquestionably see many exciting developments for J-PHONE. I am confident that these changes will sustain long-term growth at J-PHONE for years to come.

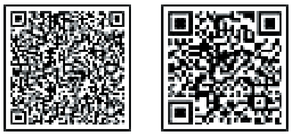
Darryl E. Green
Representative Executive Officer, President & CEO
J-PHONE Co., Ltd.

Innovative Mobile Handsets

World's First Mobile Handset with Bar Code Reading Functions

J-PHONE launched the world's first handset capable of reading bar codes, the J-SH09 by Sharp, in August 2002 and as of June 2003 had a total of five compatible handsets with over 1.6 million users. The bar code scanner is smart enough to read two bar code formats, JAN codes and QR codes, enabling customers to quickly access URLs and other data. One common application is for a person with a compatible handset to instantly access a relevant URL for more informaton using the bar codes placed in magazines and posters by advertisers.

1



Sample bar code scanner of QR codes (2D codes)

World's First QVGA Colour Display Handset

In December 2002, J-PHONE launched the J-T08 by Toshiba, the world's first mobile handset to feature a QVGA (QuarterVGA, or 240 x 320 pixel) display. With its Super Fine Poly-Silicon™ TFT LCD screen and 2.2-inch display, the J-T08 offers customers unprecedented clarity and vivid colour reproduction. J-PHONE has since added more QVGA display handsets to its lineup to enhance the visual experience.

Industry's First Mirror Display

The J-SA05 by Sanyo, released in November 2002, can do a lot more than just send picture messages. By simply pressing the star key, the handset's 65,536 colour screen instantly turns into a mirror, which is perfect for last-minute grooming before sending off a Sha-mail picture message. The J-SA05 also features functions that prevent one-ring nuisance calls.

2

3

First to Market with Megapixel Camera Phone

J-PHONE marked another milestone as a visual communications pioneer on May 22, 2003, by offering the J-SH53 by Sharp, the world's first true megapixel-class mobile handset. With its built-in CCD mobile camera capable of photographing one million effective pixels, the J-SH53 gives users access to powerful functions comparable to those found on digital still cameras. By saving high-resolution photos to SD memory cards, users can view their photos on a PC or make high-quality prints at a later time.

The J-SH53 flagship model also comes with expanded Movie Sha-mail capabilities (MPEG-4 support for video clips of up to 10 seconds) and offers expanded Java™ storage of 256K for rich data applications and mobile games comparable to those found on home consoles.

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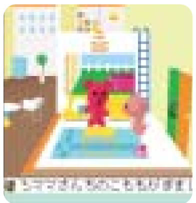

©1996–2003 Sony Communication Network Corporation

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A New Market Segment with Prepaid

In February 2003, J-PHONE launched the enjorno, a simple and easy-to-use handset designed specifically for the prepaid market. Targeted at entry-level users, such as young families and the elderly, J-PHONE's prepaid enjorno service is pioneering a completely new market segment—one that offers opportunities because it has low market penetration traditionally.

With the introduction of the enjorno, J-PHONE has also greatly increased the number of sales channels for its prepaid services. The product is available at many convenience stores nationwide.

Super Fine Poly-Silicon™ is a registered trademark of Toshiba Corporation.
Java™ and Java™-based trademarks and logos are trademarks or registered trademarks of Sun Microsystems, Inc., in the United States and other countries.

Fun and Convenient J-SKY Mobile Internet Services

@Sha-mail Album

In July 2002, J-PHONE launched @Sha-mail Album. This service allows users to save and upload their Sha-mail photos to create and display original picture albums online.

J-PHONE Online

For greater customer convenience, J-PHONE began offering J-PHONE Online services to all users nationwide in September 2002. J-PHONE Online is a service that lets customers check via J-SKY their account information details and modify their price plans and optional services.

Weather Indicator

With J-PHONE's Weather Indicator service, handset users can stay abreast of the latest weather forecast so they are never caught by surprise. Introduced in March 2003 for the J-SH010 by Sharp, the Weather Indicator service uses content from J-PHONE's location-based station service to automatically deliver weather information directly to a user's mobile handset screen. The service has since been expanded to more handsets in the J-PHONE lineup.

Loco Guide

To enable J-SKY mobile Internet users to search for local area information more quickly and easily, J-PHONE introduced the Loco Guide portal in March 2003. Loco Guide searches for location-specific content so users can quickly obtain information on public transportation, restaurants, leisure spots, banks, hospitals, and other services. Previously, users had to individually search different J-SKY content services to obtain location-specific information. But with Loco Guide, users can access the content of multiple sites simultaneously, eliminating the inconvenience of searching different sites to find relevant information.

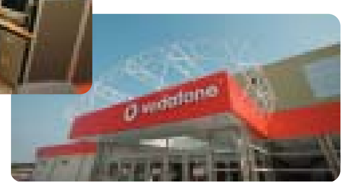
Integration of Customer Service Centres in Eastern Japan

J-PHONE continues to improve customer service and to increase operating efficiencies. In April 2003, J-PHONE began integrating the functions of its call, billing, and registration centres in the four cities of Sapporo, Sendai, Tokyo, and Kanazawa into a new customer service centre in Tomiya, Miyagi Prefecture, to better serve eastern Japan.

The new customer centre is helping J-PHONE expand services to customers and better allocate resources for the streamlining of administrative and technical processes. In addition, the integration is enabling greater consistency in customer response by eliminating regional disparities.

The large-scale Tomiya-based customer centre has 1,000 desks on a single floor and uses the latest customer relationship management (CRM) systems. By combining the formerly separate functions of the call, billing, and registration centres, the new customer service centre is realising enhanced productivity, quicker response times, and greater consistency owing to its flat and organic organisational structure. Employees are also benefiting from an improved work environment.

With the aim of driving further efficiencies, J-PHONE is studying the feasibility of integrating its call, billing, and registration centres in the Tokai, Kansai, Chugoku, Shikoku, and Kyushu regions of western Japan.



Measures to Combat Spam Mail

To ensure that subscribers can use e-mail services more comfortably, J-PHONE introduced various measures to reduce the volume of spam mail. In August 2002, J-PHONE introduced an anti-spam function designed to block the delivery of mail marked 'unsolicited advertisement' in the subject line. The function was offered following the enactment of Japan's Law on Topics Including the Appropriateness of Sending Specified E-mail Messages and the Law for Partial Amendment to the Specific Commercial Transaction Law on July 1, 2002.

In addition, in March 2003, J-PHONE began to issue written warnings based on the J-PHONE Telephone Contract Stipulations to subscribers who sent bulk e-mail indiscriminately from J-PHONE handsets from February 2003. And, in May 2003, J-PHONE began offering an e-mail header information viewer function that allows users to inspect the header information of received e-mails on a PC, helping them determine the source and routing of spam mail.

J-PHONE will continue to step up measures to combat spam mail to make its Internet services more convenient for customers.

Strong Customer Growth

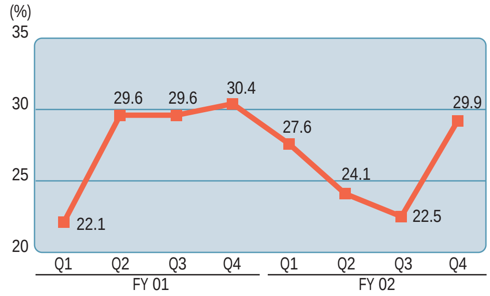
J-PHONE increased its market share during the year ended March 31, 2003, boosted by the strength of its product offerings. New market share was captured on a monthly basis, with net customer additions totalling 1,731,000, representing a 26.5% share of market net additions.

Data content revenues continued to improve and, in March 2003, accounted for 21.7% of total service revenues. This growth was driven by the continued popularity of the J-SKY mobile Internet, Sha-mail photo messaging, and Movie Sha-mail video messaging products. At the end of March 2003, 87.1% of J-PHONE's customer base subscribed to the J-SKY service.

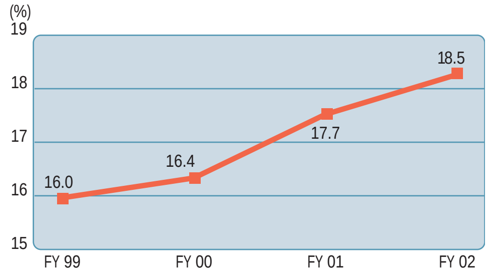
Sha-mail and Movie Sha-mail-enabled handsets continued to register strong demand. By the end of fiscal 2002, there were 9.1 million such handsets in use, compared with 4.4 million one year before, representing 65.3% of J-PHONE's customer base.

Movie Sha-mail-enabled handsets, which also have Sha-mail capability, numbered 1.7 million by the end of fiscal 2002, up from 115,300 handsets when the service was first launched at the end of fiscal 2001. Customers with these handsets represented about 12.3% of J-PHONE's customer base at the end of March 2003.

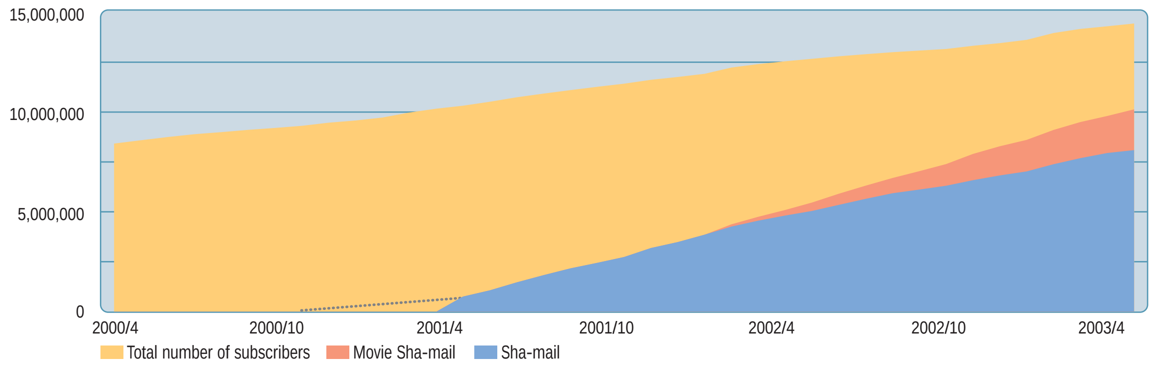
Share of Net Additions



Cumulative Market Share



Over Nine Million Sha-mail Users in March 2003



Note: As there was only one Sha-mail handset manufacturer between November 2000 and April 2001, subscriber figures are not disclosed for this period. The dotted graph line covering this period therefore represents only an indication of when the Sha-mail service began and does not indicate actual subscriber numbers.

Vodafone Global Standard Areas

●···Service areas as of July 2003

World's First 3G Service Based on International Standards

On December 20, 2002, J-PHONE launched Vodafone Global Standard, the world's first 3G commercial service based on 3GPP (3G Partnership Project), the international W-CDMA standard. This allows customers with an enabled handset to use 3G services not only within Japan but also internationally by roaming on 2G GSM networks. Customers who take advantage of the international capabilities also have the convenience of being able to use the same telephone number as they do at home. As of July 1, 2003, J-PHONE had concluded roaming agreements with 95 operators in 75 countries and regions, offering unsurpassed global connectivity to customers in Japan.

J-PHONE considers high population coverage essential to the success of its 3G services. To that end, it is using micro-cell technology to deploy the network rapidly and cost-effectively. As of March 31, 2003, J-PHONE's 3G base stations covered an estimated 71% of the domestic population. J-PHONE aims to expand the network to cover approximately 95% of the population by the end of September 2003.

J-PHONE offers the NEC V-N701, the Sanyo V-SA701, and the Nokia 6650 in its Vodafone Global Standard 3G lineup. The V-N701 and Nokia 6650 are dual-mode W-CDMA/GSM-enabled handsets. In addition to being able to access international voice and SMS roaming services while abroad, Vodafone Global Standard users can enjoy 64K circuit switched videotelephony and downlink packet data speeds of up to 384Kbps while using the W-CDMA network in Japan. Later in 2003, J-PHONE plans to expand the handset lineup and to offer more exciting data services designed especially for the increased capacity and higher data transmission speeds of 3G.

Migration to the Vodafone Single Brand

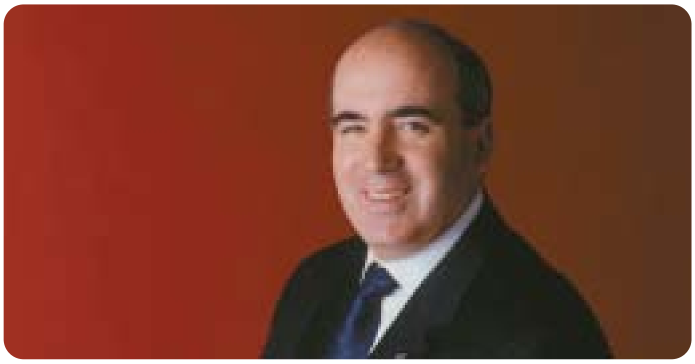
Stronger Brand Presence

Since December 2001, J-PHONE has used the J-PHONE/Vodafone dual logo to visually promote its membership in the Vodafone Group. The decision has now been made, however, to adopt the single Vodafone logo and design as of October 2003. Combining the strengths of the J-PHONE brand with the Vodafone brand's reputation for seamless global connectivity and reliability will help J-PHONE establish an even stronger and more competitive brand presence in the Japanese market.

Retail Revolution

As part of its migration to the Vodafone brand, in March 2003, J-PHONE began remodelling its shops into Vodafone shops, a transformation that it expects to complete by October 2003. The remodelling is not just about changing the signage. The shops have been redesigned for a friendlier, revitalised retail approach, with more space and increased opportunities for customers to interact with products.

Darryl E. Green
Representative Executive Officer, President & CEO



John Durkin
Representative Executive Officer, CFO

As of June 27, 2003

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	3,063		
Business Activities	• Type 1 telecommunications business • Provision of high-quality mobile and automobile communications and related services		
Board of Directors	Executive Officer, Chairman	Yoshiro Hayashi	
	Representative Executive Officer, President & CEO	Darryl E. Green	
	Representative Executive Officer, CFO	John Durkin	
	External Directors		
	Chairman of the Board	J. Brian Clark	(CEO, Asia Pacific Region, Vodafone Group Plc)
	Directors	William T. Morrow	(Director, President, Representative Executive Officer, JAPAN TELECOM HOLDINGS CO., LTD., Director, President, Representative Executive Officer, JAPAN TELECOM CO., LTD.)
		Michael J. Pitt	(Financial Director, Group Operations, Vodafone Group Services Ltd.)
		Charles Butterworth	(Director of Group Corporate Finance, Vodafone Group Plc)
		Peter Newbound	(Director of HR, Group Services, Vodafone Group Plc)
		Hiroshi Aihara	(Senior Executive Vice President, Executive Officer, Mitsubishi Corporation)

JAPAN TELECOM CO., LTD. (JAPAN TELECOM), started operations in 1984 as a carrier providing long-distance services throughout Japan. It delivers voice and data transmission services to its customers through a 10,000-kilometer fibre-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 is active across a range of operations in the telecommunications sector, from data centre operations to network solutions. As part of the implementation of the new holding company structure, the core fixed-line business of JAPAN TELECOM was transferred to a new wholly owned subsidiary of JAPAN TELECOM HOLDINGS, JAPAN TELECOM CO., LTD. For more information, please visit www.japan-telecom.co.jp

Financial Highlights

JAPAN TELECOM CO., LTD.   Years ended March 31, 2003 and 2002

	Billions of Japanese Yen		Millions of U.S. Dollars	
	2003	2002	**2003**	2002
Operating Revenues	**¥340.1**	¥347.8	**$2,829**	$2,894
Voice Revenues	**182.5**	206.2	**1,518**	1,715
Data Revenues	**87.5**	69.7	**728**	580
Leased Line Revenues	**37.5**	44.5	**312**	370
Managed Service & Other Revenues	**32.6**	27.6	**271**	230
Operating Income (Loss)	**25.6**	(21.4)	**213**	(178)
Ordinary Income	**28.7**	(19.2)	**239**	(160)
Net Income	**15.7**	(77.0)	**131**	(641)
Total Assets	**527.2**	560.8	**4,386**	4,666
Total Shareholders' Equity	**425.5**	460.1	**3,540**	3,828
Capital Investment—Fixed Assets Addition Basis	**43.0**	99.2	**358**	825
Depreciation	**60.7**	60.5	**505**	503

	Thousands	
Number of Subscriber Lines		
SOLTERIA	**33.2**	21.7
Wide-Ether	**3.2**	0.4
ADSL	**353.0**	221.0

Notes: 1. All figures on a pro-forma adjustment basis for the fixed-line telecommunication business.
2. U.S. dollar amounts are converted from yen, for convenience only, at the fiscal year-end exchange rate of ¥120.20 = US$1.00.

William T. Morrow
Director, President, Representative Executive Officer

Message from the President

Fiscal 2002 was a decisive year for JAPAN TELECOM Co., Ltd. We turned around a ¥21.4 billion operating loss in fiscal 2001 to earn a ¥25.6 billion operating income and grew our EBITDA margin from 12.9% to 27.2% in the process. These results clearly demonstrate how management and employees have worked together over the last 18 months to reveal the dynamism and innovation inherent in the company.

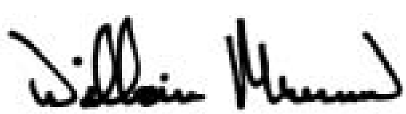
To realise the objectives of the Project V initiative as soon and as effectively as possible, JAPAN TELECOM introduced a customer-focused business unit structure in fiscal 2002. Management also conducted rigorous cost reviews and implemented market-oriented procurement practises and other effective solutions. For example, by selling our ADSL network assets to eAccess Ltd., we minimised our direct costs by sourcing this service from a dedicated service provider.

Amid change and challenge, it is always the company's employees who carry the company to new levels of success. Our renewed focus and revised structure arms us with a speedier, more effective decision-making process and an even more prominent performance-oriented employee culture. This combination has revitalised the company's business and put the company in a strong position.

The tangible impact of change at JAPAN TELECOM is clear from the company's improved financial results. Unseen behind our realisation of progress in our figures, however, is our drive to deliver the products and services that meet our customers' increasingly sophisticated needs. Key to this drive are our attributes of flexibility and innovation.

Our 'Exceeds Your Needs' branding initiative is designed to capture the essence of our commitment to our customers, our employees, and our shareholders. To build on our fiscal 2002 achievements and to further our commitment to exceed in every aspect of our operations, we are also emphasising heightened corporate governance by putting in place an executive committee structure that was approved at our annual general meeting. This structure will further accelerate decision making by company officers and ensure a greater degree of management transparency for our stakeholders. In addition, it will facilitate an emphasis on corporate value.

Going forward, we face new competitive and regulatory challenges but I am nonetheless certain that our resolve to implement new measures and our ongoing commitment to achieving results will show fiscal 2003 to be another step toward JAPAN TELECOM's long-term growth.



William T. Morrow
Director, President, Representative Executive Officer
JAPAN TELECOM CO., LTD.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Japan Telecom in Outline

Demand is expanding for fast, low-cost data communications services for enterprises and for Internet broadband services for individuals. The changing composition of demand and the shift from conventional to lower-cost services are combining with intensified price competition to create an exciting but challenging business environment.

In response, JAPAN TELECOM introduced a revitalisation programme in December 2001. This programme, known as Project V, is helping us to review the focus of our business activities. Most importantly, it is helping us look for opportunities to expand our profitability in new core business areas while aiding us in lowering our cost base and enhancing our organisational consistency and capabilities. Twelve task forces have been formed to implement JAPAN TELECOM's strategies in these areas.

Since October 2002, JAPAN TELECOM has been addressing a range of issues. These include building a superior position in data services for enterprises, raising network efficiency, enhancing marketing support systems, confirming that corporate governance structures and systems meet global standards, and strengthening internal controls. As a result, JAPAN TELECOM saw a marked improvement in its EBITDA margin and free cash flow in fiscal 2002.

JAPAN TELECOM now is in the process of designing a programme to underscore and relay its commitment to its customers. Effective April 2003, we began building our 'Exceeds Your Needs' brand statement.

Enterprise Services

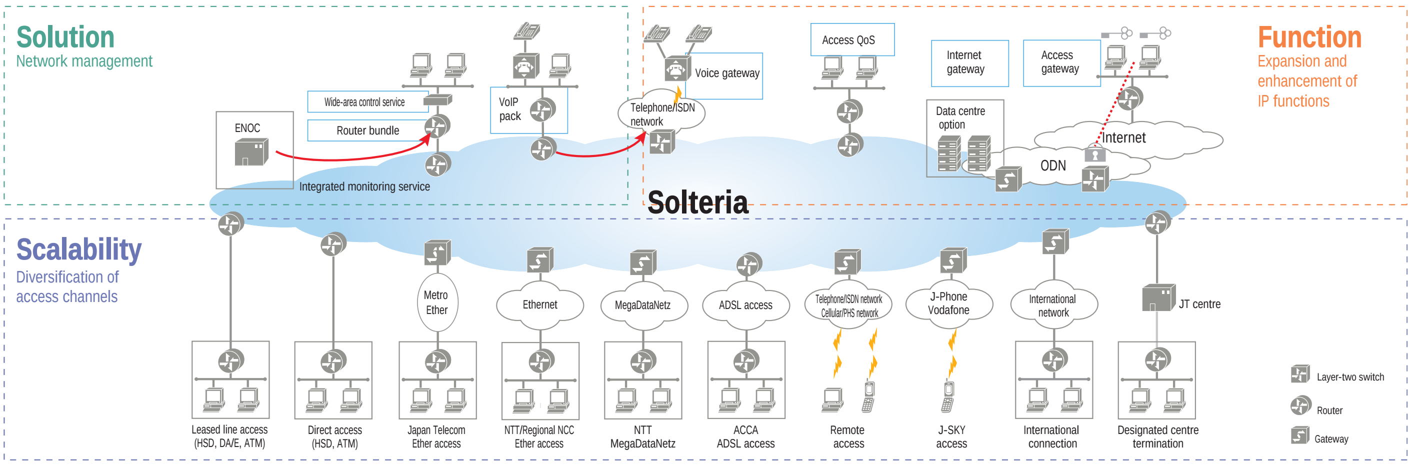
The challenges of ongoing advances in telecommunications and information technology (IT) are stimulating an exciting period in enterprise telecommunications services. And JAPAN TELECOM is bringing together its experience in network services and customer focus to deliver leading data telecommunications services that overcome increasing levels of complexity.

Network Services

IP-VPN Service: Solteria

JAPAN TELECOM's Solteria is based on the PRISM high-speed backbone network and is the first IP-VPN service in Japan to guarantee users high levels of security and cost performance. Solteria offers all the features needed in a corporate network: outstanding economic efficiency, extendability, and flexibility.

Since Solteria's launch in April 2000, JAPAN TELECOM has enhanced the product's service quality, access menu, and option services to better meet customer needs. In particular, in April 2002, JAPAN TELECOM introduced the Solteria Access Gateway, which makes it possible to make intranet connections from anywhere using the Internet. This new service has been well received by customers.



Wide-Area Ethernet Service: Wide-Ether

Wide-Ether is a network-building service based on Ethernet technology. It offers the flexible integration of LANs at customers' offices. Wide-Ether's compatibility with a variety of protocols and with the Ethernet interface make it an all-purpose connection, and, because it is a virtual LAN, its security is ensured.

Wide-Ether provides a broad service menu featuring excellent cost performance and assists customers in lowering their total cost of ownership. As a result of the introduction in 2002 of a Category II menu through a broadband backbone network offering high reliability and quality, the access menus of JAPAN TELECOM and electric power company affiliated New Common Carriers have been expanded.

JAPAN TELECOM, moreover, has expanded its high-value-added option services. Those services now include Wide-Ether Managed CPE, which provides a full set of equipment on the customers' premises (routers, switches, and so on) and allows them to outsource the management of these systems and the IP-Option Service, a gateway service that enables Internet access. JAPAN TELECOM also has introduced a service-level agreement (SLA) that promises to provide high-quality, reliable services.

Going forward, JAPAN TELECOM will work to further differentiate itself through quality of service (QoS). It also will seek to increase usage rates by expanding its range of gateway services. At the same time, it will strive to provide a broader range of managed services for corporate communications networks.

Internet Service: ODN-Biz

ODN-Biz is an Internet provider service for corporations offered through JAPAN TELECOM's directly managed domestic and international seamless, high-capacity, ultrahigh-speed backbone network. ODN-Biz provides an Internet environment with superior reliability and redundancy through ultrahigh-speed connections at primary connection points (Internet exchanges); through direct connections with major telecommunications carriers in the United States and Asia; through multiplexed lines and equipment; and through a 24-hour-a-day, 365-day-a-year maintenance system. ODN-Biz 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-Biz as an Internet backbone.

In fiscal 2002, JAPAN TELECOM took steps to expand its access menu, make additions to its service menu, and strengthen its backbone network. At the same time, it introduced its ODN-Biz Managed VPN, an Internet VPN service, and launched its ODN-Biz Hosting Service, which strengthens existing corporate-use hosting services. Looking ahead, JAPAN TELECOM will continue to expand its access menu and to increase the functions available through its Internet VPN and hosting services. Plans also call for broadening the services handling IPv6.

MPLS Network Services: mpls ASSOCIO

In November 2002, JAPAN TELECOM began to offer mpls ASSOCIO. This MPLS network-based Internet exchange service features the world's first wide-area IX functions that enable the exchange of Internet traffic between ISPs, CSPs, and other service providers.

Voice Network Services

JAPAN TELECOM is focusing on expanding its service menu to support customers who aim to cut costs while emphasising quality. 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 voice network that enables clients to implement an internal network using existing public switched telephone networks. For Free Call Super, we introduced the Free Call Super GOLD Plan (a toll-free service providing flat rates for calls from fixed-line and discounts from mobile users) in December 2002. It has been well received by customers. Moreover, in September 2002, JAPAN TELECOM introduced its Flat Fee Plan for Businesses, which features a flat fee discount for corporate telephone services for a specified period, as part of efforts to offer services that are more in tune with the needs and budgets of small and medium-sized companies.

VoIP Solutions for Businesses: IP-One

JAPAN TELECOM has installed an IP centrex server. This server performs the roles of a private branch exchange (PBX) in JAPAN TELECOM's network centre. In July 2003, JAPAN TELECOM began offering its IP-One IP Centrex Service, which provides in-house telephone services for businesses, and its IP-One IP Phone Service, which supplies IP telephone services for businesses.

These new services do away with the need for companies to install a PBX. So, companies can now save on the periodic expense of having to replace their PBXs and thereby reduce their related maintenance and operating costs. In its IP-One IP Centrex service, JAPAN TELECOM offers customers VoIP services that completely eliminate the PBX and the Migration Pass (transitional) service that uses existing PBXs under lease until expiration, at which time JAPAN TELECOM efficiently transfers customers in stages to its IP Centrex service.

Video Transmission Services

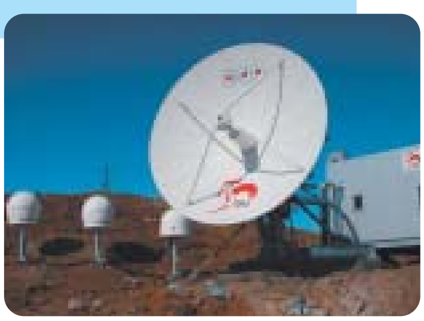
JAPAN TELECOM leads the world in providing video transmission services. Designed primarily for use by domestic and international broadcasters, these services incorporate cutting-edge technologies to meet and exceed diversified customer needs.

During the 2002 FIFA World Cup™ soccer matches, JAPAN TELECOM transmitted the coverage of the 64 matches to a cumulative 60 billion viewers. These transmissions were the first to use optical fibre cable networks. The broadcasts, which included regular and high-definition TV images, were transmitted from the playing fields without problems of any kind, proving the high quality of these services.

JAPAN TELECOM also participated in NHK's Year 2003/50th Anniversary of TV Broadcasting—the New Age of TV project. For this project, we provided a total high-definition TV transmission network, from the construction of an earth station at the High Vision Broadcast Centre in Antarctica to satellite image transmission systems and the operation of the systems in Japan.

JAPAN TELECOM will continue its efforts to develop and provide low-cost services of superior quality. It will do so through the introduction of such state-of-the-art technologies as uncompressed high-definition digital transmission technologies.

JAPAN TELECOM's high-definition TV transmission network



Satellite communication antenna at the South Pole for broadcasts celebrating NHK's 50th anniversary

Managed Services

JAPAN TELECOM is fully aware that customers' network environments are a key tool in today's challenging economy. As a group of network professionals, we are constantly aiming to contribute to the success of our customers. JAPAN TELECOM seeks to offer its customers optimal network services in each phase of the network life cycle, from planning to design, creation, and operation.

Network Management Services

JAPAN TELECOM's network management services, which are offered to support the operation and administration of networks, include the Enterprise Network Monitoring service, which provides network supervisory functions; the Solteria Managed CPE, which provides the surveillance and maintenance of routers optimised for IP-VPN Solteria services; and the Wide-Ether Managed CPE, a service similar to the Solteria Managed CPE, for broadband Internet Wide-Ether services. In November 2002, JAPAN TELECOM began to provide its ODN-Biz Managed VPN service. This offers VPN equipment, together with installation and maintenance, bundled with Internet connections to assist customers in creating Internet VPN networks.

Security Management Services

To help customers prevent damage to their electronic commerce sites from attacks by the likes of hackers and viruses, JAPAN TELECOM offers security management services that help create a safe network environment. Three services are offered, namely Security Diagnosis and Inspection, Security Policy Consulting, and Firewall Pack. Through these services, JAPAN TELECOM provides customers with a full package of network monitoring, operating, and maintenance functions that are carried out from its Enterprise Network Operation Centre (ENOC). This centre, manned by experienced technicians on a 24-hour-a-day basis, features state-of-the-art equipment and a highly secure environment.

JAPAN TELECOM's ENOC offers network monitoring, operating, and maintenance services on a 24-hour-a-day basis.

Data Centre Services

JAPAN TELECOM's data centre services offer a stable operating environment for customers' systems and are of two types. The first is the Co-Location Service, under which JAPAN TELECOM provides an area and rack within its data centre with a dedicated server for each customer. The second is the Dedicated Hosting Service, which provides customers with systems outsourcing services. Especially in the hosting service area, JAPAN TELECOM is expanding its applications menu for strengthening security by offering such services as the HTTP Virus Check Service (from August 2002) and the RADIUS Service (launched in February 2003).

Enterprise International Telecommunications Services

Through its partnership with a variety of overseas telecommunications carriers, JAPAN TELECOM offers a number of international telecommunications services to meet the diversified needs of its enterprise customers in and out of Japan. One example is our work to extend our Solteria services and to optimise our networks.

In March 2003, JAPAN TELECOM became the first Japan-based telecommunications company to offer international data telecommunications services through a direct interconnection with China Netcom Corporation Limited. And, in October 2002, JAPAN TELECOM developed a partnership with American carrier Equant that, in addition to British Telecom's global service, enables JAPAN TELECOM to provide international data services to more than 130 countries.

As of June 2003, JAPAN TELECOM's international telephone service covered 233 countries and regions. The company is negotiating with its partner carriers to provide customers with even higher-quality services at even better prices. JAPAN TELECOM also offers wholesale services that provide its international telephone and other telecommunications services to other telecommunications carriers.

JAPAN TELECOM's customers outside Japan benefit from its network of overseas affiliates and representative offices in key markets. This network includes operations in the United States (New York and Los Angeles), the United Kingdom (London), Singapore, and China (Beijing and Shanghai).

Consumer Services

Data Services

JAPAN TELECOM's ODN Internet services draw on the capabilities of its strong backbone network and include an array of high-quality, reliable service offerings, such as dial-up, ADSL, and optical access offerings. In fiscal 2002, following the sale of its DSL facilities business to an affiliated company, eAccess Ltd., JAPAN TELECOM proceeded with efforts to ensure efficiency in its business operations in this area.

In October 2002, in response to customer requests for high-speed service menus, JAPAN TELECOM began its ODN ADSL12M Plan services. And, in March 2003, the company commenced ODN TEPCO Hikari Plan services that access the transmission services of The Tokyo Electric Power Company, Incorporated. Similarly, in August 2003, the company introduced ODN Access Comufa Plan services with access to the transmission services of Chubu Electric Power Company, Incorporated.

To begin simplified ADSL services for less-experienced customers and to expand its subscriber base JAPAN TELECOM introduced its Easy ADSL Set-Up Service in December 2002. The service provides the set up of the ADSL equipment and customers' PCs at their homes. As a complementary service, in March 2003, JAPAN TELECOM began offering its ODN IP Phone service for customers using ADSL services.

JAPAN TELECOM has also introduced a number of application services since October 2002. They include its Mail Virus Check service and, since December, its Pooh Bear Mail 2 Plus, which adds new functions to the popular Pooh Bear Mail 2 service. To heighten users' net surfing enjoyment without security fears, in March 2003, the company added two new security services—Mail Filter Plus and WEB Filter—increasing the convenience of its ODN services.

The ODN IP Phone utilises IP technology to offer straightforward, low-cost voice services to consumers.

Consumer Voice Services

JAPAN TELECOM offers four types of fixed-line telephone services: local call, in-prefecture long distance, out-of-prefecture long distance, and international. Once the intensive phase of competition for Myline subscriptions settled down, we shifted our focus to managing this business 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.

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

Customer Services

In line with our goal to manage for profit, we are reviewing our costs, particularly those related to customer services. The principal issues under Project V involve reviewing customer service operations and maintaining customer satisfaction.

To maximize efficiency in customer support activities, we are consolidating our call centres and moving forward with the development of IT solutions. Among these, interactive voice response (IVR) systems contribute to better services by making improvements in efficiency and 24-hour-a day responses possible.

Network

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 800Gbps over two optical fibre cable cores.

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

Diverse 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. Among those services are direct-access connections that will use a variety of media from fibre optics to wireless telecommunications facilities to directly connect customers to our network while also utilising NTT's inter-office and local access-type unbundled optical fibre. JAPAN TELECOM's Ether Access, which began operations in March 2003, is a high-speed, broadband Ethernet access circuit using a ring-configuration fibre-optic network built by JAPAN TELECOM to cover the 23 wards and other administrative units of the Tokyo metropolitan area. Using Ether Access, customers can structure flexible corporate networks economically to meet their usage needs and other requirements by combining Ether Access with JAPAN TELECOM's principal data telecommunications network services.

POI Access Network

Service Network

JAPAN TELECOM's Enterprise Network Monitoring Service, which was introduced in September 2002, provides for the real-time surveillance of terminals at customer sites and gives immediate warning when problems occur. This service reduces the operating burden on customers, provides early warning when problems arise, and makes the early restoration of service possible. In addition, JAPAN TELECOM is ensuring a high degree of reliability through its Solteria service, which, since December 2002, has been providing backup solutions utilising longest match technology. Through these services, JAPAN TELECOM is providing networks with functions and capabilities for greater customer satisfaction.

Leadership in Service Development

JAPAN TELECOM has formed a market-oriented structure to better meet customer requirements. It is working to accelerate the decision-making process and to enhance its strategic capabilities through the provision of three fundamental functions in offering telecommunications services—network, information systems, and service development—by independent supplier units.

R&D for the Next-Generation Network

The company is conducting research related to Generalised Multi-Protocol Label Switching (GMPLS). GMPLS enables the uniform control of light wavelength paths and IP paths, allowing for the construction of a flexible, low-cost network. In fiscal 2003, JAPAN TELECOM succeeded in developing a prototype for the GMPLS Wavelength Path Service. The results of this R&D project were included in a report included in the records of OFC (Optical Fibre Communication) 2003, the world's largest optical fibre conference, which was held in Atlanta, the United States, in March 2003.

GMPLS technology will allow us to offer customers such high-value-added services as line installation on demand and by appointment. In addition, we are pursuing R&D related to high-level security technology for incorporation in next-generation networks. Specifically, this will involve the creation of Public Key Infrastructure (PKI) systems, and work is under way to perform trials aimed at a commercialisation of technology that will permit secure access from an unspecified location to a specified communications node. JAPAN TELECOM can also expect to lower service rates through the practical application of its R&D in 40 Gbit/s Wavelength Division Multiplexing (WDM) transmission.

Broadband Access Development

The company is conducting trials for wireless LAN services at 14 major train stations. In so doing, we are working in collaboration with the East Japan Railway Company and 14 ISPs.

Next-Generation Internet Protocol: IPv6 Services

JAPAN TELECOM began to offer an experimental IPv6 service for corporate customers in July 2001. We have been providing regular IPv6 Tunnel Services since April 2002. ODN ADSL IPv6 Experimental Services have been available for individual customers since February 2003. As a follow-up to these introductions, beginning in May 2003, JAPAN TELECOM has initiated an IPv6 application trial service, Chiervo, an information-sharing, real-time communications service based on IPv6. These services are expected to support the broader use of IPv6 in the years ahead.

JAPAN TELECOM will organically combine the IPv6 technologies developed through these R&D efforts with next-generation VPN technologies. By doing so, we seek to enhance the value of our R&D results and to realise further potential synergies.

JAPAN TELECOM's trial service with Japan Railways is already providing valuable practical information on wireless LAN technology and its marketability.

William T. Morrow
Director, President, Representative Executive Officer

Kazuyasu Hakata
Director, CFO, Representative Executive Officer

As of June 27, 2003

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	Former JAPAN TELECOM CO., LTD., established	
	December 1986	Railway Telecommunication Co., Ltd., established	
	May 1989	JAPAN TELECOM CO., LTD., and Railway Telecommunication Co., Ltd., merge to form JAPAN TELECOM CO., LTD.	
	October 1997	JAPAN TELECOM CO., LTD., and INTERNATIONAL TELECOM JAPAN INC. merge to form JAPAN TELECOM CO., LTD.	
	October 2001	Vodafone Group Plc obtains management control of JAPAN TELECOM CO., LTD.	
	August 2002	Company name changes to JAPAN TELECOM HOLDINGS CO., LTD., and the new JAPAN TELECOM CO., LTD., the fixed-line business operator, established through a corporate split procedure	
	June 2003	JAPAN TELECOM introduces an executive committee corporate governance structure	
Paid-in Capital	¥49,950 million		
Number of Employees	3,300		
Business Activities	• Telecommunications services in Japan and other countries • Contracting for the construction of telecommunications facilities and related facilities • Developing, maintaining, selling, and leasing telecommunications facilities and related facilities • Consulting services related to telecommunications • Cable-television and cable-radio broadcasting facilities 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 • Non-life insurance agency and selling life insurance • Any and all business incidental or related to the above items		
Board of Directors	Chairman of the Board, Director	J. Brian Clark	(CEO, Asia Pacific Region, Vodafone Group Plc)
	Director, Chairman of the Company, Executive Officer	Haruo Murakami	
	Director, President, Representative Executive Officer	William T. Morrow	
	Director, CFO, Representative Executive Officer	Kazuyasu Hakata	
	Directors	Darryl E. Green	(Representative Executive Officer, President & CEO, J-PHONE Co., Ltd.)
		Michael J. Pitt	(Financial Director, Group Operations, Vodafone Group Services Ltd.)
		Charles Butterworth	(Director of Group Corporate Finance, Vodafone Group Plc)
		Peter Newbound	(Director of HR, Group Services, Vodafone Group Plc)
		John Durkin	(Representative Executive Officer, CFO, J-PHONE Co., Ltd.)

Save Africa—JAPAN TELECOM

JAPAN TELECOM supports Save the Africa, a non-governmental organisation that provides ongoing assistance through various projects in 13 areas in the west African country of Mauritania. The organisation'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.

Charity Dial—J-PHONE

J-PHONE further strengthened its commitment to corporate social responsibility as a member of the Vodafone Group with the launch of a new recycling scheme and a service called Charity Dial in April 2003.

J-PHONE Charity Dial is a recorded message charity service available to J-PHONE subscribers. By following voice guidance, callers can select from one of three international relief organisations (WFP, UNICEF, or the Japan Red Cross Society), each of which has a recorded message program that introduces its latest activities. All call charges billed to the customer are then donated to the corresponding organisation.

Handset Recycling Scheme That Helps Customers Help Children—J-PHONE

Marking a first in Japan among mobile communication operators, J-PHONE began donating all profits derived from handset recycling to UNICEF Japan, an organisation that helps children in developing countries. To collect greater numbers of unneeded handsets, J-PHONE placed newly designed recycle boxes in all of its approximately 2,000 shops nationwide and is actively marketing the new scheme by displaying posters and including information in catalogues and billing statements.

Contents

Consolidated Balance Sheets

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and Consolidated Subsidiaries As of March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 8,114**	¥ 16,276	**$ 67,506**
Short-term investments (Note 3)	**—**	31	**—**
Notes and accounts receivable–trade	**209,587**	209,757	**1,743,650**
Less: allowance for doubtful accounts	**(11,658)**	(11,988)	**(96,987)**
Inventories (Note 4)	**28,274**	27,761	**235,222**
Deferred tax assets (Note 11)	**25,257**	13,402	**210,123**
Prepaid expenses and other current assets	**55,586**	59,725	**462,447**
Total current assets	**315,160**	314,964	**2,621,961**
Property, plant and equipment:			
Telecommunications equipment (Notes 5, 8)	**1,779,341**	1,555,983	**14,803,169**
Buildings and structures (Note 8)	**133,832**	128,202	**1,113,410**
Machinery and tools	**115,591**	114,120	**961,657**
Land (Note 8)	**24,058**	27,364	**200,152**
Construction in progress	**92,911**	175,514	**772,974**
Total	**2,145,733**	2,001,183	**17,851,362**
Less: Accumulated depreciation	**(945,379)**	(800,130)	**(7,865,050)**
Net property, plant and equipment	**1,200,354**	1,201,053	**9,986,312**
Investments and other assets:			
Investments in securities (Notes 3, 8)	**19,738**	24,615	**164,212**
Investments in unconsolidated subsidiaries and associated companies	**2,558**	6,795	**21,279**
Software	**191,815**	178,159	**1,595,797**
Goodwill (Note 6)	**35,461**	51,324	**295,020**
Deferred tax assets (Note 11)	**26,271**	20,425	**218,562**
Other assets (Note 7)	**48,464**	59,001	**403,190**
Total investments and other assets	**324,307**	340,319	**2,698,060**
Total assets	**¥1,839,821**	¥1,856,336	**$15,306,333**

The accompanying notes are an integral part of these financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 8)	**¥ 568,836**	¥ 638,100	**$ 4,732,414**
Current portion of long-term debt (Note 8)	**97,699**	88,698	**812,803**
Accounts payable–trade	**64,465**	61,816	**536,313**
Accounts payable–other	**92,429**	183,459	**768,959**
Accrued expenses	**41,874**	63,639	**348,368**
Accrued income taxes	**108,963**	18,324	**906,514**
Allowance for point mileage	**234**	300	**1,947**
Allowance for losses on guarantees of liabilities	**4,128**	3,175	**34,345**
Other current liabilities	**28,286**	10,139	**235,328**
Total current liabilities	**1,006,914**	1,067,650	**8,376,991**
Long-term liabilities:			
Long-term debt (Note 8)	**212,159**	309,857	**1,765,046**
Accrued retirement benefits (Note 9)	**19,463**	16,337	**161,925**
Retirement allowances for directors and corporate auditors	**308**	353	**2,562**
Allowance for point mileage	**24,691**	31,280	**205,414**
Other	**3,817**	7,418	**31,757**
Total long-term liabilities	**260,438**	365,245	**2,166,704**
Minority interests in consolidated subsidiaries	**106,432**	32,043	**885,460**
Commitments and contingencies (Note 16)			
Shareholders' equity (Note 10):			
Common stock	**177,251**	177,251	**1,474,636**
Authorized—12,780,000 shares			
Issued (2003 and 2002)—3,195,236.65 shares			
Capital surplus	**265,508**	265,508	**2,208,886**
Retained earnings (Deficit)	**22,165**	(46,011)	**184,404**
Land revaluation difference (Note 2.h.)	**—**	(7,720)	**—**
Unrealized gains on available-for-sale securities, net of tax	**1,095**	2,351	**9,105**
Foreign currency translation adjustments	**27**	25	**224**
Treasury stock—at cost (2003—23.60 shares and 2002—15.35 shares)	**(9)**	(6)	**(77)**
Total shareholders' equity	**466,037**	391,398	**3,877,178**
Total liabilities and shareholders' equity	**¥1,839,821**	¥1,856,336	**$15,306,333**

Consolidated Statements of Operations

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and Consolidated Subsidiaries For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Operating revenues (Note 18):	**¥1,796,915**	¥1,704,039	**$14,949,383**
Operating expenses (Notes 13, 18):			
Selling and marketing expenses	**541,019**	624,634	**4,500,987**
Depreciation and amortization	**244,471**	223,232	**2,033,872**
Fees for utilization of telecommunication lines and facilities	**246,728**	267,574	**2,052,646**
Cost of sales of telecommunication equipment and other	**314,190**	343,305	**2,613,895**
Other	**174,901**	156,160	**1,455,084**
Total operating expenses	**1,521,309**	1,614,905	**12,656,484**
Operating income	**275,606**	89,134	**2,292,899**
Other expenses (income):			
Interest expense	**8,872**	19,652	**73,807**
Interest income	**(40)**	(595)	**(336)**
Lease and rental income	**(755)**	(522)	**(6,280)**
Revenue from contribution for installation of telecommunications equipment	**(1,100)**	—	**(9,151)**
Stock issue costs	**—**	67	**—**
Loss on write-down of investments in securities	**1,887**	—	**15,697**
Gain on sales of investments in associated companies	**(902)**	(17,648)	**(7,508)**
Loss on write-down of investments in unconsolidated subsidiaries and associated companies	**3,608**	—	**30,013**
Loss on revaluation of memberships	**—**	100	**—**
Loss on disposal of fixed assets	**4,534**	415	**37,723**
Loss on sales of fixed assets	**1,121**	—	**9,326**
Cumulative effect on point mileage (Note 2.n.)	**—**	25,831	**—**
Allowance of losses on guarantees of liabilities	**953**	—	**7,931**
Incremental payment for early retirement	**1,607**	—	**13,367**
Amortization of prior service cost	**—**	447	**—**
Lump-sum amortization of consolidated goodwill	**—**	39,002	**—**
Other, net (Note 12)	**(2,507)**	34,411	**(20,844)**
Other expenses—net	**17,278**	101,160	**143,745**
Income (loss) before income taxes and minority interests	**258,328**	(12,026)	**2,149,154**
Income taxes (Note 11):			
Current	**119,688**	39,236	**995,744**
Deferred	**(16,756)**	(4,572)	**(139,398)**
Total income taxes	**102,932**	34,664	**856,346**
Minority interests in income of consolidated subsidiaries	**75,893**	19,279	**631,389**
Net income (loss)	**¥ 79,503**	¥ (65,969)	**$ 661,419**

	Yen		U.S. Dollars (Note 1)
	2003	2002	**2003**
Per share of common stock (Note 2.v.):			
Net income (loss)	**¥ 24,855**	¥ (20,646)	**$ 206.78**
Cash dividends applicable to the year	**¥ 1,200**	¥ 600	**$ 9.98**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and Consolidated Subsidiaries As of March 31, 2003 and 2002

	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 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)
Net income	**—**	**—**	**—**	**—**	**79,503**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**—**	**(2,877)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**—**	**(27)**	**—**	**—**	**—**
Decrease resulting from changes in the scope of consolidation	**—**	**—**	**—**	**—**	**(703)**	**—**	**—**	**—**
Reversal of land revaluation loss (Note 2.h.)	**—**	**—**	**—**	**7,720**	**(7,720)**	**—**	**—**	**—**
Decrease in unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**—**	**(1,256)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**2**	**—**
Net increase in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3)**
Balance at March 31, 2003	**3,195**	**¥177,251**	**¥265,508**	**—**	**¥ 22,165**	**¥1,095**	**¥ 27**	**¥ (9)**

	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, 2002	$1,474,636	$2,208,886	$(64,227)	$(382,787)	$19,558	$208	$(52)
Net income	**—**	**—**	**—**	**661,419**	**—**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(23,925)**	**—**	**—**	**—**
Bonuses to directors and corporate auditors	**—**	**—**	**—**	**(227)**	**—**	**—**	**—**
Decrease resulting from changes in the scope of consolidation	**—**	**—**	**—**	**(5,849)**	**—**	**—**	**—**
Reversal of land revaluation loss (Note 2.h.)	**—**	**—**	**64,227**	**(64,227)**	**—**	**—**	**—**
Decrease in unrealized gain on available-for-sale securities	**—**	**—**	**—**	**—**	**(10,453)**	**—**	**—**
Foreign currency translation adjustments	**—**	**—**	**—**	**—**	**—**	**16**	**—**
Net increase in treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(25)**
Balance at March 31, 2003	**$1,474,636**	**$2,208,886**	**—**	**$ 184,404**	**$ 9,105**	**$224**	**$(77)**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and Consolidated Subsidiaries For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	**2003**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥258,328**	¥ (12,026)	**$2,149,154**
Adjustments for:			
Income taxes paid	**(40,386)**	(39,033)	**(335,991)**
Depreciation and amortization	**252,416**	222,517	**2,099,970**
Reserve for retirement benefits	**3,237**	(298)	**26,932**
Amortization of consolidation goodwill (including lump-sum amortization of consolidated goodwill)	**3,505**	53,901	**29,156**
Loss on write-down of investments in securities	**1,887**	19,461	**15,697**
Loss on write-down of investments in unconsolidated subsidiaries and associated companies	**3,608**	1,226	**30,013**
Loss on disposal of fixed assets	**13,848**	15,572	**115,207**
Increase (decrease) in allowance for point mileage	**(6,655)**	31,580	**(55,367)**
Changes in assets and liabilities:			
Increase in trade receivables	**(2,710)**	(24,964)	**(22,547)**
(Increase) decrease in inventories	**(1,815)**	20,509	**(15,099)**
Decrease (increase) in other payables	**(11,277)**	36,417	**(93,819)**
Increase in trade payables	**3,202**	4,943	**26,640**
(Decrease) in accrued expenses	**(22,670)**	(14,102)	**(188,603)**
Other	**41,806**	(16,207)	**347,812**
Net cash provided by operating activities	**496,324**	299,496	**4,129,155**
Cash flows from investing activities:			
Payments for purchase of property and equipment	**(355,687)**	(450,822)	**(2,959,123)**
Proceeds from sale of property and equipment	**9,052**	3,452	**75,310**
Purchase of investment securities	**(1,003)**	(6,988)	**(8,343)**
Proceeds from sale of investment securities	**2,067**	8,236	**17,193**
Proceeds from sale of investments in subsidiaries	**—**	68,355	**—**
Decrease in time deposits with deposit term of more than 3 months	**—**	20,023	**—**
Payment for purchase of marketable securities	**—**	(9,869)	**—**
Proceeds from sale of marketable securities	**—**	19,964	**—**
Other	**3,845**	(4,581)	**31,983**
Net cash used in investing activities	**(341,726)**	(352,230)	**(2,842,980)**
Cash flows from financing activities:			
Proceeds from long-term debt	**—**	3,000	**—**
Repayment of long-term debt	**(88,301)**	(434,859)	**(734,621)**
Increase (decrease) in short-term borrowings, net	**(69,623)**	29,844	**(579,230)**
Dividends paid	**(2,876)**	(2,876)	**(23,926)**
Paid-in capital from minority shareholders	**—**	4,349	**—**
Other	**(1,475)**	(1,024)	**(12,266)**
Net cash used in financing activities	**(162,275)**	(401,566)	**(1,350,043)**
Effect of exchange rate changes on cash and cash equivalents	**72**	69	**600**
Cash and cash equivalents increased by merger (Note 2.a.)	**—**	180	**—**
Net decrease in cash and cash equivalents	**(7,605)**	(454,051)	**(63,268)**
Decrease in cash and cash equivalents due to exclusion of subsidiaries	**(557)**	—	**(4,632)**
Cash and cash equivalents at beginning of year	**16,276**	470,327	**135,406**
Cash and cash equivalents at end of year	**¥ 8,114**	¥ 16,276	**$ 67,506**
Non-cash investing and financing activities:			
Assets decreased due to decrease of previously consolidated subsidiaries	**¥ 1,172**	—	**$ 9,747**
Liabilities decreased due to decrease of previously consolidated subsidiaries	**¥ 469**	—	**$ 3,900**
Assets increased by consolidation of subsidiaries previously unconsolidated	**—**	¥ 495	**—**
Liabilities increased by consolidation of subsidiaries previously unconsolidated	**—**	¥ 260	**—**

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.)
and Consolidated Subsidiaries   For the years ended March 31, 2003 and 2002

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 as to the application and disclosure requirements of International Financial Reporting 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. Certain reclassifications and rearrangements have been made in the 2002 financial statements to conform to the classifications used in 2003.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which JAPAN TELECOM HOLDINGS 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 ¥120.20 to $1, the approximate rate of exchange at March 31, 2003. 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, 2003 include the accounts of the Company and its 12 significant (11 in 2002) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, 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.

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 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.

Under certain conditions, such as exchanges of similar fixed assets and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing a special reserve in shareholders' equity. Acquisition costs of the government grants for the year ended March 31, 2003 were reduced by ¥10,315 million ($85,815 thousand).

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 "land revaluation difference" 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 land revaluation difference account. The details of the one-time recalculation as of March 31, 2003 were as follows:

Land before revaluation:	¥31,028 million
Land after revaluation:	¥23,308 million
Land revaluation difference:	¥ 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 data transmission business and "other" business are amortized on a straight-line basis over a period of 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 issue costs are charged to income as incurred. Bond issue costs are principally capitalized and amortized over a period of three years.

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 a funded, defined benefit pension plan.

The Group accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

l. Retirement allowances for directors and corporate auditors— Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code. The Group 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 the 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 changed its method of accounting for such point mileage to the accrual basis. The effect of this change was to increase loss before income tax and minority interests for the year ended March 31, 2002 by ¥31,579 million.

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.

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 the 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 the 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—**Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The waited-average numbers of common shares used in the computation were 3,195,217 shares for 2003 and 3,195,225.08 shares for 2002.

Basic net income for the years ended March 31, 2003 and 2002 is computed in accordance with the new standard. Diluted net income per share is not presented in the accompanying consolidated financial statements as the Group does not have any dilutive securities.

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. Short-term investments and investments in securities

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003 and 2002 were as follows:

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

	Millions of Yen					
	2003			2002		
	Cost	Fair value (Carrying amount)	Difference	Cost	Fair value (Carrying amount)	Difference
Securities for which market value exceeds cost:						
Equity securities	**¥ 3,283**	**¥ 5,655**	**¥2,372**	¥11,658	¥15,675	¥4,016
Debt securities	**117**	**153**	**36**	147	184	37
Sub-total	**3,400**	**5,808**	**2,408**	11,805	15,859	4,053
Securities for which market value does not exceed carrying amount:						
Equity securities	**8,466**	**8,180**	**(286)**	210	178	(32)
Sub-total	**8,466**	**8,180**	**(286)**	210	178	(32)
Total	**¥11,866**	**¥13,988**	**¥2,122**	¥12,015	¥16,037	¥4,021

(2) Major securities for which market quotations are unavailable

	Millions of Yen	
	2003	2002
	Carrying amount	Carrying amount
Available-for-sale securities:		
Equity securities of nonpublic companies	**¥5,700**	¥8,558
Other	**50**	51

(3) Sales of available-for-sale securities

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥1,822 million ($15,250 thousand) and ¥20,269 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥436 million ($3,627 thousand) and ¥144 million ($1,198 thousand), respectively, for the year ended March 31,2003 and ¥5 million and ¥243 million, respectively, for the year ended March 31, 2002.

(4) Debt securities with maturity and redemption dates

	Millions of Yen					
	2003			2002		
	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	**¥153**	**—**	**—**	¥31	—	¥153
	¥153	**—**	**—**	¥31	—	¥153

4. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen	
	2003	2002
Merchandise	**¥25,783**	¥23,878
Work-in-process	**27**	—
Supplies	**2,464**	3,883
Total	**¥28,274**	¥27,761

5. Property, plant and equipment

Telecommunications equipment at March 31, 2003 and 2002 comprised the following:

	Millions of Yen	
	2003	2002
Machinery and equipment, (principally transmitters and exchangers)	**¥1,300,756**	¥1,130,400
Air cable facilities	**237,157**	194,239
Line connector facilities	**5,268**	4,645
Local line facilities	**6,628**	5,863
Long-distance line facilities	**87,493**	80,974
Civil construction facilities	**94,813**	91,594
Ocean cable facilities	**47,226**	48,268
Total	**¥1,779,341**	¥1,555,983

6. Goodwill

Goodwill at March 31, 2003 and 2002 comprised the following:

	Millions of Yen	
	2003	2002
Goodwill on purchase of specific business	**¥24,569**	¥36,854
Consolidation goodwill	**10,892**	14,470
Total	**¥35,461**	¥51,324

7. Other assets

Other assets at March 31, 2003 and 2002 comprised the following:

	Millions of Yen	
	2003	2002
Utilization rights for telecommunication circuits and facilities	**¥ 7,566**	¥10,028
Other	**40,898**	48,973
Total	**¥48,464**	¥59,001

8. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2003 and 2002 comprised the following:

	Millions of Yen	
	2003	2002
Loans from banks and associated companies with a weighted average interest rate of 0.26% for the year ended March 31, 2003		
—Unsecured	**¥568,836**	¥638,100
	¥568,836	¥638,100

Long-term debt at March 31, 2003 and 2002 comprised the following:

	Millions of Yen	
	2003	2002
Loans from banks and other financial institutions with a weighted average interest rate of 2.71% for the year ended March 31, 2003		
—Secured	**¥ 32,000**	¥ 12,716
—Unsecured	**77,858**	185,839
Sub-total	**109,858**	198,555
Unsecured 2.575% yen bonds due April 2008	**25,000**	25,000
Unsecured 1.775% yen bonds due April 2003	**25,000**	25,000
Unsecured 2.500% yen bonds due August 2010	**25,000**	25,000
Unsecured 1.930% yen bonds due August 2005	**25,000**	25,000
Unsecured 2.000% yen bonds due August 2010	**25,000**	25,000
Unsecured 1.270% yen bonds due August 2005	**25,000**	25,000
Unsecured 2.280% yen bonds due September 2010	**25,000**	25,000
Unsecured 1.780% yen bonds due September 2006	**25,000**	25,000
Sub-total	**200,000**	200,000
Total	**309,858**	398,555
Less current portion	**(97,699)**	(88,698)
Long-term debt, less current portion	**¥212,159**	¥309,857

Annual maturities of long-term debt as of March 31, 2003 for the next five years and thereafter were as follows:

	Millions of Yen
2004	¥ 97,699
2005	12,381
2006	54,826
2007	37,696
2008	4,256
2009 and thereafter	103,000
	¥309,858

Assets pledged as collateral for short-term loans and long-term debt at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Investments in securities	**—**	¥ 21
Property, plant and equipment, net of accumulated depreciation:		
Telecommunications equipment	**¥37,269**	7,355
Buildings and structures	**6,978**	7,803
Land	**581**	1,275
Sub-total	**44,828**	16,433
Total	**¥44,828**	¥16,454

9. 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, 2003 and 2002 consisted of the following:

	Millions of Yen	
	2003	2002
Projected benefit obligation	**¥(20,149)**	¥(16,967)
Fair value of plan assets	**686**	630
Net liability	**¥(19,463)**	¥(16,337)

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

	Millions of Yen	
	2003	2002
Service cost	**¥2,831**	¥1,920
Interest cost	**322**	497
Expected return on plan assets	**(4)**	(5)
Recognized actuarial loss	**2,245**	16
Additional benefits granted to employees	**1,652**	2,173
Lump-sum amortization of prior service cost	**1,315**	447
Net periodic benefit costs	**¥8,361**	¥5,048

Assumptions used for the years ended March 31, 2003 and 2002 were set forth as follows:

	2003	2002
Discount rate	**1.5~2.0%**	2.5%
Expected rate of return on plan assets	**mainly 4.4%**	mainly 4.4%
Amortization period of prior service cost	**mainly 1 year**	mainly 1 year
Recognition period of actuarial gain/loss	**mainly 1 year**	mainly 1 year

10. Shareholders' equity

Japanese companies are subject to the Japanese Commercial Code (the "Code"), to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥39,532 million ($328,883 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

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.

11. 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, 2003 and 2002.

The tax effects of significant temporary differences and loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Deferred tax assets:		
Allowance for point mileage	**¥10,221**	¥13,264
Write-down of investment in associated companies	**1,918**	—
Write-down of investments in securities	**805**	10,116
Inventory	**3,287**	7,142
Accrued retirement benefits	**7,632**	6,485
Depreciation	**3,787**	—
Loss on disposal of fixed assets	**1,365**	3,215
Accrued bonuses	**3,398**	2,228
Accrued enterprise taxes	**9,622**	1,627
Allowance for losses on guaranty of liabilities	**1,734**	1,333
Unrecognized gain on fixed assets sold	**—**	1,108
Corporate split assets	**2,815**	—
Unearned revenue	**2,752**	1,088
Allowance for doubtful accounts	**5,194**	—
Net operating loss carried forward	**26,772**	3,474
Revaluation difference	**—**	3,242
Other	**4,652**	3,830
Gross deferred tax assets	**85,954**	58,152
Valuation allowance	**(34,426)**	(19,737)
Total deferred tax assets	**51,528**	38,415
Deferred tax liabilities:		
Unrealized gains on securities	**—**	(1,698)
Retained earnings appropriated to tax allowable reserves	**—**	(1,027)
Other	**—**	(1,863)
Total deferred tax liabilities	**—**	(4,588)
Net deferred tax assets	**¥51,528**	¥33,827

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, 2003 and 2002 were as follows:

	2003	2002
Normal effective statutory tax rate:	**42.0%**	(42.0)%
Amortization of consolidation goodwill	**0.6**	188.2
Valuation allowance	**6.8**	91.2
Adjustment for gain on sales of affiliated companies	**—**	76.6
Amortization of goodwill	**(0.6)**	(35.3)
Permanently non-taxable income	**(8.7)**	—
Expenses not deductible for income tax purpose	**0.2**	3.8
Per capital levy of local resident income taxes	**0.1**	1.5
Other	**(0.6)**	4.2
Effective income tax rate	**39.8%**	288.2%

At March 31, 2003, certain subsidiaries have tax loss carryforwards aggregating approximately ¥70,140 million ($583,524 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
2004	¥ —
2005	977
2006	1,140
2007	4,227
2008	63,796
Total	¥70,140

12. Other expenses (income)

Other expenses (income)—net for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen	
	2003	2002
Provision for losses on business restructuring:		
Loss on write-down of investments in securities	**¥ —**	¥17,836
Loss on write-down of investments in unconsolidated subsidiaries and associated companies	**—**	1,226
Penalty for advanced redemption of borrowings	**—**	11,230
Allowance for losses on guaranty of liabilities	**—**	3,175
Penalty for cancellation of construction agreement	**—**	3,161
Incremental payment for early retirement	**—**	2,170
Other	**—**	354
Sub-total	**—**	39,152
Other	**(2,507)**	(4,741)
Other, net	**¥(2,507)**	¥34,411

13. Research and development costs

Research and development costs charged to income were ¥859 million ($7,149 thousand) and ¥1,616 million for the years ended March 31, 2003 and 2002, respectively.

14. Leases

As Lessee

The Group leases certain machinery, equipment, tools, furniture, fixtures and other assets. Total rental expenses for the year ended March 31, 2003 were ¥53,139 million ($442,088 thousand), including ¥17,254 million ($143,546 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, and 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, 2003 and 2002 is as follows:

	Millions of Yen	
	2003	2002
Machinery and equipment	**¥56,911**	¥67,754
Tools, furniture and fixtures	**16,049**	16,422
Other	**8,123**	11,064
Total	**81,083**	95,240
Less: Accumulated depreciation	**(52,914)**	(50,360)
Net leased property	**¥28,169**	¥44,880

Obligations under finance leases at March 31, 2003 and 2002 were:

	Millions of Yen	
	2003	2002
Due within 1 year	**¥18,714**	¥18,419
Due after 1 year	**9,455**	26,461
Total	**¥28,169**	¥44,880

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 ¥17,254 million ($143,546 thousand) and ¥17,340 million for the years ended March 31, 2003 and 2002, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Due within 1 year	**¥2,483**	¥1,637
Due after 1 year	**6,819**	8,024
Total	**¥9,302**	¥9,661

As Lessor

Total rental revenue for the year ended March 31, 2002 was ¥91 million ($754 thousand).

Pro forma information of leased property such as acquisition cost, accumulated depreciation, receivables under finance leases, 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, 2003 and 2002 is as follows:

	Millions of Yen	
	2003	2002
Machinery and equipment	**—**	¥ 5,634
Less: Accumulated depreciation	**—**	(5,632)
Net leased property	**—**	¥ 2

Future rental revenues under finance leases at March 31, 2003 and 2002 were:

	Millions of Yen	
	2003	2002
Due within 1 year	**—**	¥2
Due after 1 year	**—**	—
Total	**—**	¥2

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 ($754 thousand) for the year ended March 31, 2002.

15. 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 its 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					
	2003			2002		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:						
Payables:						
U.S. Dollars	**¥ 428**	**¥427**	**¥ (1)**	¥ 945	¥994	¥ 49
Total	**¥ 428**	**¥427**	**¥ (1)**	¥ 945	¥994	¥ 49
Interest rate cap agreements:						
Purchased	**¥1,000**	**¥ 0**	**¥(42)**	¥4,500	¥ 0	¥(97)
Total	**¥1,000**	**¥ 0**	**¥(42)**	¥4,500	¥ 0	¥(97)

16. Contingent liabilities

At March 31, 2003, guarantees and similar items include joint guarantees of ¥2,968 million ($24,695 thousand), and the allocation to the Company was ¥2,653 million ($22,071 thousand).

17. Subsequent event

Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2003 were approved at the Company's shareholders' meeting held on June 27, 2003:

	Millions of Yen
Year-end cash dividends, ¥600 ($4.99) per share	¥1,917

18. Segment information

Information about industry and geographic segments and sales to foreign customers for the years ended March 31, 2003 and 2002 is as follows:

(1) Segment information by business category

	Millions of Yen	
	2003	2002
I. Operating revenues and operating income (loss)		
Operating revenues		
(1) Outside customers		
Fixed-line telecommunications	**¥ 340,548**	¥ 360,565
Mobile telecommunication business	**1,450,962**	1,336,579
Other business	**5,405**	6,895
Total	**1,796,915**	1,704,039
Elimination or corporate	**—**	—
Consolidated	**1,796,915**	1,704,039
(2) Inter-segment		
Fixed-line telecommunications	**¥ 44,306**	¥ 49,595
Mobile telecommunication business	**9,406**	10,994
Other business	**10,938**	23,541
Total	**64,650**	84,130
Elimination or corporate	**(64,650)**	(84,130)
Consolidated	**—**	—
Operating revenues total		
Fixed-line telecommunications	**¥ 384,854**	¥ 410,161
Mobile telecommunication business	**1,460,368**	1,347,573
Other business	**16,343**	30,435
Total	**1,861,565**	1,788,169
Elimination or corporate	**(64,650)**	(84,130)
Consolidated	**1,796,915**	1,704,039
Operating expenses		
Fixed-line telecommunications	**¥ 356,661**	¥ 428,637
Mobile telecommunication business	**1,213,223**	1,261,342
Other business	**16,337**	30,544
Total	**1,586,221**	1,720,523
Elimination or corporate	**(64,912)**	(105,618)
Consolidated	**1,521,309**	1,614,905
Operating income (loss)		
Fixed-line telecommunications	**¥ 28,193**	¥ (18,476)
Mobile telecommunication business	**247,145**	86,231
Other business	**6**	(109)
Total	**275,344**	67,646
Elimination or corporate	**262**	21,488
Consolidated	**¥ 275,606**	¥ 89,134

	Millions of Yen	
	2003	2002
II. Assets, depreciation and capital expenditure		
Assets		
Fixed-line telecommunications	**¥ 530,927**	¥ 614,053
Mobile telecommunication business	**1,743,820**	1,249,707
Other business	**2,570**	9,647
Total	**2,277,317**	1,873,407
Elimination or corporate	**(437,496)**	(17,071)
Consolidated	**1,839,821**	1,856,336
Depreciation		
Fixed-line telecommunications	**¥ 60,234**	¥ 59,618
Mobile telecommunication business	**192,214**	162,365
Other business	**151**	534
Total	**252,599**	222,517
Elimination or corporate	**(183)**	—
Consolidated	**252,416**	222,517
Capital expenditure		
Fixed-line telecommunications	**¥ 33,107**	¥ 100,398
Mobile telecommunication business	**266,584**	370,356
Other business	**151**	543
Total	**299,842**	471,297
Elimination or corporate	**(20,582)**	—
Consolidated	**¥ 279,260**	¥ 471,297

The change in categorization of business segments:

Effective April 2002, the Company created new segments called Fixed-line telecommunications and Mobile telecommunication business by combining and recategorizing the former Voice transmission, Data transmission and leased circuit, and Mobile telecommunication business in order to better clarify the operations of each business segment in line with creating a new holding company and improving the organization of consolidated subsidiaries. Certain historical segment data has been reclassified to conform with these internal organizational changes.

(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.

19. Related party transactions

The balances of accounts with the associated companies at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Short-term borrowings	**¥568,437**	¥638,100
Accrued expenses	**199**	285
	¥568,636	¥638,385

Transactions with associated companies for the years ended March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Interest expense	**¥2,240**	¥221
Other	**174**	100
	¥2,414	¥321

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Independent Auditors' Report

JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and Consolidated Subsidiaries For the years ended March 31, 2003 and 2002

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

We have audited the accompanying consolidated balance sheets of JAPAN TELECOM HOLDINGS CO., LTD. (formerly JAPAN TELECOM CO., LTD.) and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of JAPAN TELECOM HOLDINGS CO., LTD. and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 19 to the consolidated financial statements, the Company and subsidiaries changed the categorization of business segment.

Our audits 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, 2003

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