KDDI CORPORATION

ANNUAL REPORT 2003

For the year ended March 31, 2003

The Ubiquitous Solution Company

REACHING OUR GOALS ➡ ➡ ➡

PROFILE ➡ DDI Corporation, one of the forerunners of KDDI Corporation, was established in June 1984 as Dai-ni Denden Planning Company. From the beginning, DDI was distinguished by technical advancement, affordability and high-quality features that have become defining characteristics of today's KDDI in the Japanese telecommunications market. In October 2000, DDI Corporation merged with KDD Corporation and IDO Corporation to form the new DDI Corporation, known unofficially since the merger as KDDI. On April 1, 2001, DDI Corporation changed its name officially to KDDI Corporation. KDDI merged with au Corporation on October 1, 2001 to serve as the core retail service brand of KDDI. KDDI enables customers to realize comprehensive voice and data communication by seamlessly integrating fixed-line telephone, IP and cellular phone services.

KDDI has adopted "Designing The Future" as our corporate slogan. Based on this vision, we are tackling network infrastructure improvements aimed at the arrival of the ubiquitous network society. At the same time, we are working to become a "Ubiquitous Solution Company" that provides secure, convenient value-added solutions.

Meeting All the Needs, All the

Contents ➡

Just what is a ubiquitous network society? It's a society that doesn't stop with communications that connect "people with people," but goes beyond—with networks that connect "people with things" and "things with things." It's a society that goes beyond space and time in delivering any information anywhere any time—with safety and efficiency designed to improve the quality of people's lives.

Time and Everywhere

Disclaimer Regarding Forward-Looking Statements

Statements contained in this annual report concerning plans, strategies, beliefs, expectations or projections about the future, and other statements other than those of historical fact, are forward-looking statements based on management' s assumptions in light of information currently available and involve risks and uncertainties. Actual results may differ materially from these statements.

Potential risks and uncertainties include, but are not limited to, domestic and overseas economic conditions; fluctuations in currency exchange rates, particularly those affecting the U.S. dollar, euro and other overseas currencies in which KDDI or KDDI Group companies do business; and the ability of KDDI and KDDI Group companies to continue developing and marketing services that enable them to secure new customers in the communications market—a market characterized by rapid technological advances, the steady introduction of new services and intense price competition.

Selected Financial Data

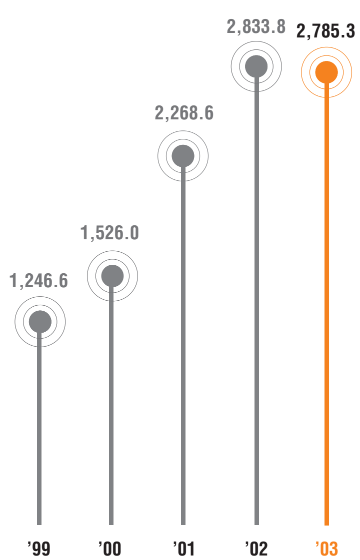
Years ended March 31, 2003–1999	2003	2002	2001	2000	1999	2003
	Millions of yen					Millions of U.S. dollars
Consolidated Statements of Income:						
Total operating revenues	¥2,785,343	¥2,833,799	¥2,268,646	¥1,525,953	¥1,246,582	$23,173
Operating income	140,653	102,297	88,783	19,614	69,874	1,170
Income (loss) before income taxes and minority interests (loss)	110,726	20,885	45,902	(42,786)	49,715	921
Net income (loss)	57,359	12,979	13,427	(10,468)	17,061	477
Consolidated Balance Sheets (as of March 31,):						
Total assets	¥2,782,039	¥3,203,441	¥3,639,364	¥1,999,008	¥1,585,848	$23,145
Interest-bearing debt	1,497,020	1,746,784	2,097,627	1,433,128	1,068,616	12,454
Total shareholders' equity	894,711	857,081	845,091	228,574	231,208	7,444
Per Share Data (yen and U.S. dollars)						
Net income (loss)	¥ 13,561	¥ 3,061	¥ 4,467	¥ (4,603)	¥ 7,501	$ 112.82
Cash dividends	2,095	1,790	1,790	1,790	1,790	17.43

Notes: 1. U.S.dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the rate of ¥120.20=$1, the approximate exchange rate on March 31, 2003.

2. Interest-bearing debt consists of short-term loans and current portion of long-term loans, long-term loans, bonds and long-term accounts payable.

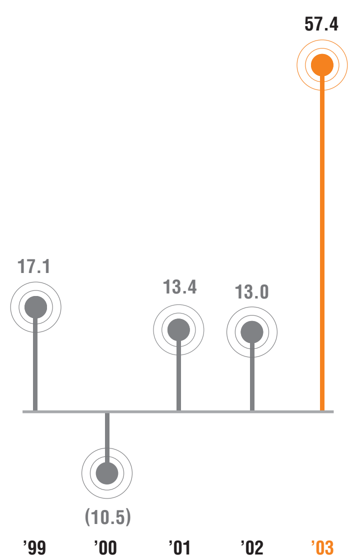
TOTAL OPERATING REVENUES

(Billions of yen)



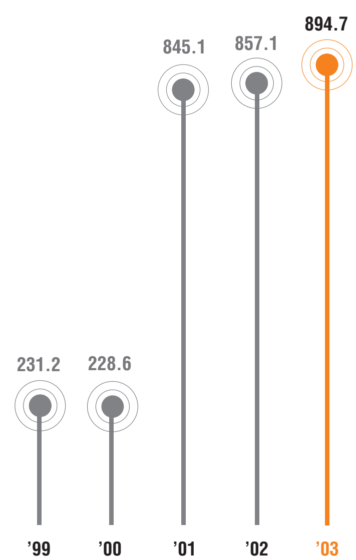
NET INCOME

(Billions of yen)



TOTAL SHAREHOLDERS' EQUITY

(Billions of yen)



Mitsuo Igarashi (left)
Chairman, Member of the Board

Tadashi Onodera (right)
President, Member of the Board

Momentum

Fulfilling Our Commitment through the Building of Solid Brands

BUSINESS ENVIRONMENT

The telecommunications market remained extremely stagnant for the year ended March 31, 2003 (fiscal 2003), following a telecommunications slump emanating from the European and North American markets, and repeated delays in the launch of 3G mobile services.

This was the situation during our third post-merger year. However, KDDI was able to attract 6.8 million subscribers based on pursuit of customer satisfaction in the first year of operation of its CDMA2000 1x system, while operating income increased by ¥38.4 billion compared with the results of the previous fiscal year. In a year in which the true value of the new KDDI was put to the test, we are pleased to report to shareholders that your company achieved solid results.

In terms of our business environment, fiscal 2003 was, first of all, a turning point for change in the Japanese telecommunications market. In the cellular-phone market, highly-functional handsets and diversification of services, especially centering on data communications, made further progress, and all companies introduced camera-equipped handsets. In the fixed-line telephone market, IP telephone services began in earnest, and there was increased collaboration among ISPs, including telephone companies, which gives a different insight for the future of the fixed-line telephone market.

A second feature of trends during the year was wide-ranging debate with telephone companies about regulations. NTT East and NTT West had been moving toward the reduction of connection charges, but the outcome for connecting carriers was the first price increase since deregulation, by a decision of the Ministry of Public Management, Home Affairs Posts and Telecommunications. We need to respond with a sense of crisis to actions such as these, which run counter to the goal of encouraging competition policies. Some of the current debates about the right to set charges for calls from fixed-line phones to mobile phones have the potential to cause dramatic changes in the profitability structures.

Third, an analysis of the competitive environment shows that in the cellular-phone market, with the entry of J-Phone into the 3G market, all three operators were in the same playing field. The 3G market is expected to start expanding in earnest in the coming fiscal year. We are currently the leading player in the Japanese 3G market. However, we must accept that competition is about to intensify in the market. New ADSL providers like Yahoo!BB made significant inroads in the market for consumer Internet services. We are thinking that the development of a broadband strategy will be a major management issue for KDDI.

A rapid change is expected to continue in the market. The telecommunications industry as a whole, however, is likely to enjoy sustained growth driven by the shift to broadband technology for both wired and wireless services, and by the growth of new businesses, such as IP services and solutions. Telecommunications carriers will inevitably face a transition away from their traditional infrastructure-based profit structures. KDDI views this period of change as a time of opportunity. We will move aggressively into areas with growth potential, and we will target our management and business activities toward our future, to improve business performance even under the severe economic environment.

STRENGTHENING MANAGEMENT INFRASTRUCTURE

We have implemented wide-ranging reforms since the merger in October 2000. From a service perspective, we have also enhanced the potential of our au brand through the provision of exciting services, such as GPS, *Movie Mail* and *Chaku-Uta*™ (downloadable ringtone songs). In addition, KDDI has started to offer distinctive services based on FMC (Fixed & Mobile Convergence), such as *GPS MAP*. On the other hand, from a cost perspective, first of all, in au business, at the end of March 2003, we terminated our old PDC cellular-phone service, so we evolved business operations based on concentration on the CDMA system. Another priority has been the integration of our systems and operational systems so that we can reap the benefits of the merger as quickly as possible. Our asset restructuring is almost complete, and the only task remaining is the retirement plan of our microwave systems in the year ending March 31, 2004 (fiscal 2004). By integrating our services and support systems and discontinuing unprofitable divisions, we have strengthened our management bases. As a result of these efforts, we are now able to concentrate our management resources into areas offering future growth so that we can keep sustainable profitability even in a deflated economy. Two years have now passed since the merger, and this process is in its final stage.

We will put the finishing touch to the merger process with our office integration project. In Tokyo, our head office functions had been spread among three buildings, located in Shinjuku, Hanzomon and Shiba-Koen. From May 2003, we brought our head office operations together in one location, the Garden Air Tower in Iidabashi. With this integration, the merger processes are completed. From now on, we are heading toward becoming a KDDI which is always a step ahead of the current era.

In keeping with our role as a telecommunications carrier, we aim to create an intelligent new head office with the most advanced information technology (IT). We are reforming our business operations and corporate culture and improving our operational efficiency. The know-how and advanced IT gained in this process will be actively applied to our marketing operations.

For the purpose of accumulating and enhancing skills and know-how essential for success in these new business areas, in April 2003 we established the Competency Enhancement Division. Employees who have enhanced their skills through seminar training there will play a central role in the establishment of new business activities, such as business development in broadband, mobile, solutions and overseas services and in product development using new technologies.

The Garden Air Tower

This building stands as a model building for solutions services, which KDDI developed in its aim to become a truly "ubiquitous solution company" from the perspective of corporate customers. By actually using its solutions in everyday business situations, KDDI is preparing an environment from which to propose apropos business solutions to customers.

UBIQUITOUS SOLUTION COMPANY

In fiscal 2003, KDDI adopted the concept of "Ubiquitous Solution Company" as the future direction for its corporate group. This phrase means the creation and provision of an information-sharing environment in which any information can be accessed any time, anywhere. The successful realization of this concept will require not only the improvement of the telecommunications environment, but also the use of handsets, applications, content and other assets to provide services that offer enhanced added value from the user's perspective. The basic focus in all cases will be on customer satisfaction.

KDDI has 3G mobile technology in the form of its CDMA2000 1x system, as well as a highly reliable, high-quality fixed-line network. This combination will be a major advantage in terms of the development of the "ubiquitous-network society," encompassing seamless access to all types of telecommunications services. For corporate users, KDDI will develop and supply a variety of proposals for seamless-service solutions, including mobile solutions based on GPS, wireless modules and BREW™.

In the "ubiquitous-network society" of the future, mobile handsets will absorb the functions of wallets, credit cards, keys and train passes. KDDI also plans to incorporate remote control functions for smart appliances, such as refrigerators and air conditioners. For consumers, these mobile handsets will be personal gateways to the "ubiquitous-network society." Through these terminals, KDDI will offer easy-to-use solutions that will become an integral part of day-to-day living.

Ubiquitous Solution Company

CUSTOMER-FIRST PRINCIPLE

Toward realizing a "ubiquitous solution company," the Company will continuously implement activities as the starting point of the "customer-first principle" and "a commitment to optimal customer satisfaction" as the most fundamental components of KDDI's management policies. In September 2002, KDDI established a Customer Satisfaction Committee, which is now developing company-wide activities under the slogan "Quick & Quality." As a result, various customer satisfaction surveys are already showing dramatic improvements. Starting in fiscal 2004, KDDI will go beyond its traditional focus on customer satisfaction toward the realization of a new concept contained in the phrase "Total Customer Satisfaction" (TCS).

The definition of "customer" in this concept has been expanded to include not only users of KDDI services, but also all business counterparts. We have gone back to the basics of business activities: customer satisfaction in all contexts. As a company in the service industry, KDDI relies on total customer satisfaction to drive its profitability, so any improvement in customer satisfaction translates into enhanced corporate value. KDDI's customer satisfaction activities will not be limited to concepts and perceptions. Every division will be required to produce tangible results based on numerical targets.

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITIES

Among the many initiatives for TCS, we think our very important responsibility is to enhance our corporate value for shareholders, so we endeavored for efficiency and enhancement of transparency of management.

We have disclosed quarterly results since the third quarter of fiscal 2003. We believe that timely disclosure is vital in order to enhance the understanding of shareholders and investors of the Company's financial position.

Another important change in fiscal 2003 was the introduction of a stock option system. The aim of this scheme is to give directors and other officers of the Company an incentive to maximize performance. Directors, managing officers, general managers, auditors and employees in managerial positions were eligible to receive options. The Company has acquired treasury stock for allocation when the options are exercised.

On the other hand, we see compliance and protection of the global environment as important responsibilities for business corporations. Last year a number of corporate scandals came to light, causing investors to lose confidence in major telecommunications carriers, especially in the United States. As a result, several companies filed for protection under Chapter 11.

In January of this year, KDDI adopted "Corporate Behavior Guidelines." It also established a help-line for people inside or outside of the organization to report issues relating to corporate ethics. This system is designed to facilitate early detection of problems and prompt remedial action.

As part of its contribution to the solution of environmental problems and the creation of a recycling society, KDDI is using next-generation information technology to develop environment-friendly services. A particular priority is the reduction of the environmental load associated with mass-consumption items, especially cellular-phone handsets. KDDI will continue to foster corporate culture that allows it to earn the trust and support of the community.

Addressing Each Facet of Customer Satisfaction to Enhance Corporate Value and Competitiveness. By Securing a Sustainable Competitive Advantage, KDDI Will Earn the Support of all Stakeholders.

STRATEGIES FOR MEDIUM- AND LONG-TERM GROWTH

Finally we will briefly explain our medium- and long-term strategies for new growth. Our primary focus since the merger has been the reinforcement of our management infrastructure and the rapid creation of a solid and streamlined structure under which we can maximize the benefits of the merger. The internal merger process was completed in fiscal 2003. From now on we can devote 100% of our resources to the market, to the tasks that will allow us to beat the competition.

We have two key priorities. First, we will clearly identify our markets and clarify our approach to customers. To achieve this we have established a new market-oriented organization effective from April 2003. Under the operation system, the au Business Sector and Broadband Consumer Business Sector focus on individual users, while the Solutions Business Sector integrates all KDDI services for corporate users. Second, we will steadily secure a sustainable competitive advantage so that we can withstand price competition in the fiercely competitive telecommunications industry. We will break free of the traditional view that market share expansion and profitability are mutually exclusive goals in an environment of intense competition. Our vision for the future sees KDDI as a company that earns market support by steadily reinforcing its advantages, including its product competitiveness, technology development capability and marketing capability.

In fiscal 2004 it will apply all available resources to strategic introduction and deployment of next-generation products, including CDMA2000 1x EV-DO and FTTH (Fiber To The Home) services. As in the past, KDDI will continue to scrutinize every investment carefully under its selection and concentration policy, to ensure the expected returns. Based on this scheme, management fully recognizes the need for capital for future growth.

At present we are steadily building the fundamental strength needed to generate cash flows from our core business activities. Even as we continue to invest in the future growth of KDDI, we are confident that we can achieve our goal of reducing interest-bearing debt to within ¥1 trillion in the year ending March 31, 2005 (fiscal 2005). Though the present deflationary trend has created a harsh economic environment, we are determined to achieve the profit targets that we have committed to each year.

We thank our shareholders for their confidence in the future of KDDI. We look forward to your continuing support.

M. Igarashi

Chairman, Member of the Board
Mitsuo Igarashi

T. Onodera

President, Member of the Board
Tadashi Onodera

Fixed and Mobile Convergence and Synergy

KDDI provides a comprehensive lineup of services from the Internet to fixed and mobile communications and more. Based on the high-quality communications networks and advanced technology that support these services, we are working to build a ubiquitous network environment.

The au Business

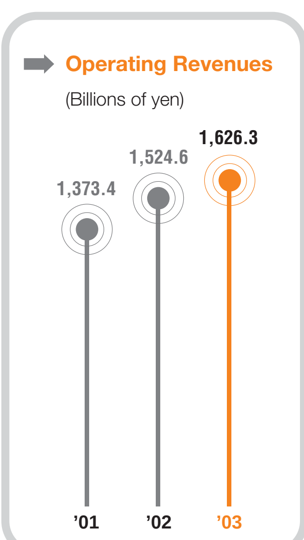
- Successfully Acquiring the Dominant Share in the Japanese 3G Market
- *Movie Mail* Represents a New Stage in the Evolution of Communications

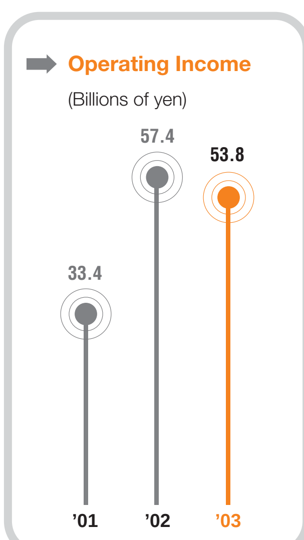
3G STRATEGY FOR au

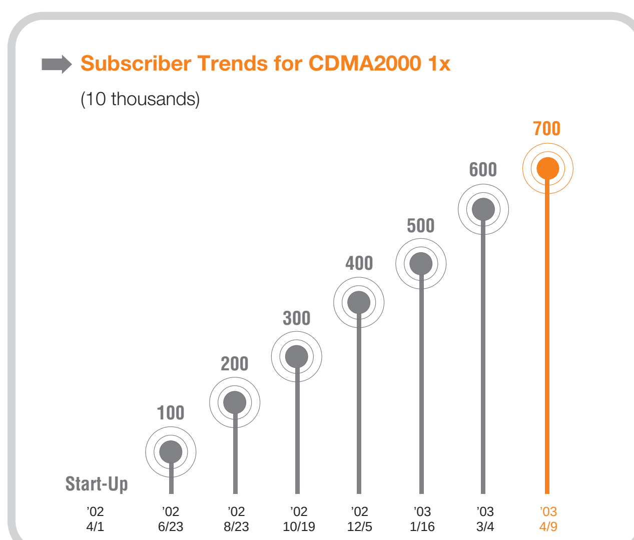
In April 2002, KDDI launched its third-generation (3G) cellular-phone service, CDMA2000 1x. With this new technology, au subscribers enjoy high-speed access to a wide range of data services at 144Kbps. Enhanced mail functions include *Movie Mail* and *Photo Mail*, which allow customers to record and mail video clips or still images from their cellular-phone handsets. Other exciting new content includes a positioning information service based on GPS technology, and the *Chaku-Uta*™ ringtone service, which can download CD-quality music data.

Since the Japanese telecommunications market is shifting from voice to data communications, including e-mail, these services are helping to boost au's Data ARPU (average revenue per user per month).

CDMA2000 1x handsets have backward compatibility with the 2G cdmaOne system. This allows customers to communicate







using 2G technology when outside of 3G coverage areas. KDDI has also established an infrastructure conversion system that allows existing 2G base stations to be upgraded merely by replacing panels. The extreme simplicity of this system will ensure rapid coverage expansion with fewer investments. By December 2002, just nine months after the launch of the CDMA2000 1x, the coverage ratio had reached 90% on a population basis.

These 3G strategies allowed KDDI to attract 6,806,000 subscribers for the new service in the first year of operation. This means that almost one-half of the total au subscriber base, which stood at 14,049,000 as of March 31, 2003, has migrated to 3G services. KDDI now has a dominant share of the Japanese 3G market.

フォトメール

[*PHOTO MAIL*]

Though KDDI was not the first telephone company to offer camera-equipped handsets, it has now become a major player in this area. The first au mobile handset with camera functions was the A3012CA, which was launched at the same time as the CDMA2000 1x system. The *Photo Mail* service, which allows customers to attach pictures taken on their handsets to e-mail messages, was also introduced at the same time. Various features, including the ability to attach up to five pictures to a single e-mail item, differentiate KDDI's service from those of its competitors. To enhance user convenience, KDDI has established *Photo Mail Bin*, which allows customers who cannot view attached pictures on non-au handsets or old au handsets to see them on the Internet. Innovations such as this are helping to attract subscribers to the CDMA2000 1x system. Since the initial launch, au has introduced a string of handsets with high-quality digital cameras. Efforts to promote sales of these handsets have helped to revitalize the Japanese mobile market, the growth of which had slowed as the penetration rate rose.

ムービーメール

[*MOVIE MAIL*]

In September 2002, KDDI launched the A5301T, the first au handset with video recording capabilities. It simultaneously introduced the *Movie Mail* service, which allows customers to attach video clips of up to 15 seconds, which are created on cellular-phone handsets, to e-mail messages. *Movie Mail* represents a new stage in the evolution of communications via camera-equipped cellular-phone handsets. Sales of the new handsets have increased steadily since the launch, reaching 1.44 million units on March 31, 2003. By the end of March 2003, only six models were available. KDDI aims to expand data communications by making *Movie Mail* available on most handsets.

[*CHAKU-UTA*™ (DOWNLOADABLE RINGTONE SONGS)]

In December 2002, KDDI introduced the new *Chaku-Uta*™ service, which allows customers to download 15–30 second clips of the latest hit songs in CD-quality from compatible sites on EZweb. These can either be used as they are, as ringtones of singer's voices, or enjoyed simply for playback through a mobile handset. Download traffic has expanded steadily since the launch of the new system, which is now au's leading service in terms of access numbers. Initially a range of 300 songs was offered, but this was increased to 3,500 songs in March 2003. At the end of March 2003, the service was supported on five handset models. As with *Movie Mail*, KDDI intends to provide this capability on most of its handsets in the future.

With ringtone-melody services, royalties are paid only to composers. For its new *Chaku-Uta*™ service, KDDI has established a system under which royalties are distributed to the record companies and artists that provide the content. In addition to creating a new market, KDDI has also established a new business model different from ringtone-melody services.

[*PACKET DISCOUNT*]

Packet Discount, a new packet charge discount system, has been introduced to allow customers to enjoy the various innovative data services offered by au at a reduced cost. For a monthly charge of ¥1,200, customers can access data for a charge of ¥0.1 per packet, compared with the existing rate of ¥0.27. By offering cheaper access, this led to stimulation of increased use of data communications by attracting customers who have made little use of data services in the past.

[ENHANCING THE au BRAND CAPABILITY]

In the year ended March 31, 2003 (fiscal 2003), KDDI significantly enhanced the image of the au brand through measures focusing on 3G services and charges. As a result of these efforts, the number of new subscribers was raised substantially above the initial target, and au's share of net increase was 28.1%. The cumulative share of subscriber numbers increased by 0.9 points over the previous fiscal year's level to 18.6%.

[TERMINATION OF PDC SERVICES]

KDDI terminated cellular-phone services based on the old PDC system at the end of March 2003. Enrollment of new contract subscribers was halted at the end of March 2002, and at the end of June 2002, KDDI also stopped accepting new subscribers for prepaid PDC cellular-phone services. At the same time, to prevent PDC subscribers from moving over to other carriers, KDDI undertook schemes to encourage subscribers to switch from PDC handsets to cdmaOne and CDMA2000 1x models. Approximately 70% of customers made the shift to au CDMA services. The termination of the PDC service involved substantial costs in fiscal 2003. However, we created a system to concentrate management resources by using CDMA technology exclusively. au will be able to provide customers with enhanced services, while improving the efficiency of its business operations.

[BREW™ AND CORPORATE STRATEGY]

The BREW™-capable A5304T handset went on sale in February 2003. BREW™, which was developed by Qualcomm, is an application platform for cellular telephones. Customers can extend the functionality of their cellular telephones simply by downloading suitable applications. Compared with JAVA, BREW™ applications start and run more quickly and consume less power. Because the load needed to operate BREW™ is relatively small, it can be incorporated into cellular-phone handsets at low cost. KDDI plans to install BREW™ in all handsets, from low-end to high-end models.

BREW™ can create applications that make use of data stored in handset hardware, including address books and other files, so that, while previously, customers had to use the e-mail software as originally installed in the handset, with BREW™ content providers can provide their original e-mail applications. On the other hand, BREW™ also allows instruction data to be pushed to cellular-phone handsets from centers. This means that a variety of sophisticated applications can be provided for both consumers and corporate users. By customizing individual BREW™ applications, KDDI will be able to offer corporate mobile solutions based on close integration of cellular telephones into corporate operating systems.

[CONTINUING FOCUS ON 3G STRATEGY]

In fiscal 2003, three carriers lined up to provide 3G services in Japan. Though au still has a dominant share of the Japanese 3G market, it must continually keep one step ahead of competitors. In the fall of 2003 it will launch CDMA2000 1x EV-DO, which will provide a sector throughput averaging 600kbps and peaking at 2.4Mbps. The new system will also have backward compatibility with CDMA2000 1x, and all backbone operations will be based on the IP network. Hence, costs will be low, which means lower packet charges for data communications. KDDI will boost the potential of its 3G strategy by offering customers the ability to enjoy low-cost access to a wide range of interesting content that is not available on conventional cellular telephones.

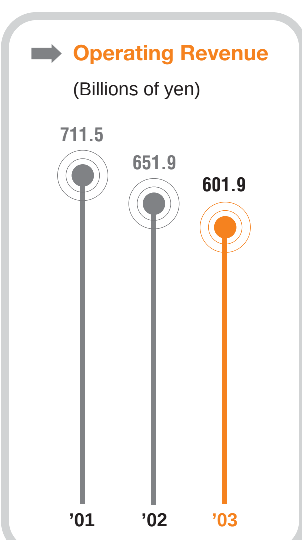
BBC & Solutions Business

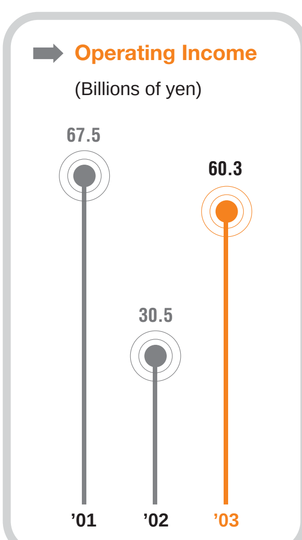
➡ **Advantages in Its Ability to Provide Both Fixed-line and Mobile Services**

➡ **Aiming to Provide a Wide Range of Solutions Services in a Shrinking Market**

TRENDS IN THE FIXED-LINE TELEPHONE BUSINESS

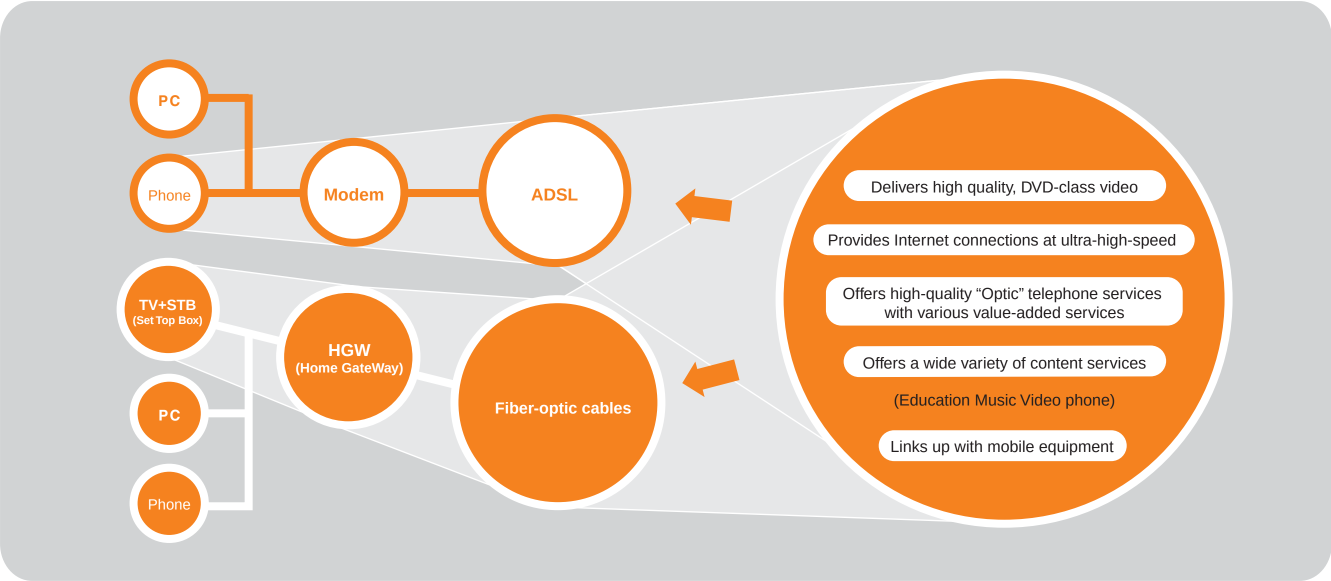
The introduction of the MYLINE service, which allows customers to select their preferred carriers, has triggered an upsurge of competition in the fixed-line telephone market as carriers vie to attract customers. The market itself is shrinking because of economic stagnation, and also because of a decline in traffic resulting from the shift to mobile and e-mail. In the year ended March 31, 2003 (fiscal 2003), competition to attract new customers intensified as IP telephone services (VoIP) became widely available. Yahoo!BB began to offer VoIP to ADSL customers in April, which was followed by other ISPs and existing telecommunication carriers. KDDI introduced a trial service for corporate users of its DION Internet service in July and switched to full-scale services in November. A trial service for DION ADSL consumers began in December, in preparation for the launch of full-scale services in April 2003.





VoIP networks can be established for a lower cost than conventional switch-based telephone networks, so call charges can also be lower. Currently, all providers are offering free calls between their VoIP customers and charges of ¥7–¥8 for three-minute calls to fixed-line telephones anywhere in Japan. Fixed-line telephone revenues are expected to drop as customers shift to VoIP services. However, KDDI is determined to retain the customers that it has attracted away from other carriers through the MYLINE system by aggressively marketing its unique capabilities to link VoIP and mobile services to differentiate its products.

In December 2002, the Ministry of Public Management, Home Affairs, Posts and Telecommunications assigned the prefix number "050" for use with VoIP services. At present, VoIP customers cannot receive calls from non-VoIP telephones. Competition is expected to escalate still further when this becomes possible with the completion of upgrades of NTT switches after the summer of 2003.



BROADBAND AND ADSL

In the year ended March 31, 2003 (fiscal 2003), the shift from dial-up Internet services to broadband services with 24-hour connection accelerated, especially the move to ADSL. KDDI initially lagged behind other carriers in recruiting ADSL customers. However, it launched a major ADSL campaign, *Omakase ADSL* (absolute ADSL) in July 2002 and has since recorded strong growth in its subscriber base by offering better customer support than its competitors, including free installation and a 24-hour/365-day helpdesk service. By the end of March 2003, approximately 500,000 customers had signed up for the ADSL service. Because KDDI does not have its own ADSL network facilities, it has expanded its service area and improved line speeds under a flexible strategy based on alliances with various companies. The maximum line speed is 12Mbps at present, but KDDI plans to keep pace with future improvements. ADSL lines also play an important role as infrastructure for VoIP services. To differentiate its services from those offered by competitors, KDDI plans to offer ADSL services and VoIP services at a package rate from April 2003.

MEGA-CONSORTIUM AND PROVIDER ALLIANCES

ISPs with ADSL services are forming a variety of alliances in readiness for a major shift to IP telephone services. In June 2002, KDDI formed a mega-consortium in which the other major participants are NEC, Matsushita Electric Industrial and Japan Telecom. These companies are now considering various approaches, including joint development of broadband content, and platform sharing. Eleven companies, including the mega-consortium members, have also formed an alliance in the area of VoIP services. The aim is to enhance customer convenience by increasing the number of subscribers available for VoIP among member subscribers.

FTTH STRATEGY

KDDI DION Internet service offers optical fiber access using the B-Flets system operated by NTT-East and NTT-West, and Tokyo Electric Power’s TEPCO Hikari system. Further, in March 2002, KDDI began to offer the “Optical Fiber Condo” service, whereby KDDI installs fiber-optic cables in condominium buildings in readiness for the provision of broadband services throughout each building. The number of condominium buildings which have signed up is increasing steadily.

Under a FTTH trial service launched in March 2002, KDDI offered a variety of services, including video streaming and *karaoke*, link-up services with au system, and on-line English-conversation lessons, as well as high-speed Internet access service. The trial ended in August 2002, and the valuable data gathered will be applied to the fulfilled broadband services launching in the autumn of 2003.

CORPORATE DATA MARKET

KDDI's IP-VPN services remained popular in the corporate data market, since businesses value the ability to build secure, simple in-house networks on a platform provided by KDDI. KDDI was also able to attract new intranet customers, including small offices that previously relied on access via ISDN or other systems. By the end of March 2003, the number of access lines had risen to 54,000. KDDI continues to expand its menu of corporate data services, which now also include the Ether-VPN wide-area Ethernet services for companies linking large numbers of PCs into nationwide networks.

MOBILE SOLUTIONS

One of KDDI's advantages is its ability to provide both fixed-line and mobile services. In its corporate solutions business, KDDI aims to strengthen the linkage with mobile services, such as the au system. In October 2002, it launched the *GPS MAP* service, a positioning information management service based on au's unique *GPS Keitai* cellular-phone. By sending a request from an office PC, managers can ascertain the locations of sales or delivery personnel carrying *GPS Keitai* handsets. With advantages that include ease of implementation and the precision of GPS data, the service has attracted interest across the entire business spectrum. In the first six months almost 200 companies placed orders. KDDI will continue to provide a wide range of solutions to realize "Fixed & Mobile Convergence," including the use of GPS and BREW™ applications.

G-BOOK AND *AirNavi*

In October 2002, Toyota Motor Corporation launched the *Will CYPHA*, a passenger car with a built-in CDMA2000 1x communications module. A variety of information content can be downloaded through the au cellular-phone network onto an integrated communications terminal called the *G-BOOK*. By working with KDDI, Toyota aims to differentiate its products in the telematics market. For KDDI, the introduction of telematics-related services offers a way to make effective use of infrastructure, since the frequent hours of traffic for vehicles are in the daytime, which differs from the normal peak hours for conventional cellular-phone services. Around the same time, Pioneer Electronic Corporation launched the *AirNavi* automobile navigation system, which has a built-in CDMA2000 1x communications module. There are many potential telematics services. KDDI intends to strengthen its presence in the telematics market and gain a large market share by introducing the CDMA2000 1x EV-DO system.

TK22

TU-KA Business

➡ Emphasizing Simplicity in Handset Functions and Charge Plans

TU-KA SIMPLE STRATEGY

In the second half of the year ended March 31, 2002 (fiscal 2002), TU-KA began to focus its marketing efforts under an improved management structure toward a specific user profile. The target customers are people who mainly use voice services and e-mail. This strategy was given a more concrete form in the year ended March 31, 2003 (fiscal 2003). While competitors were preoccupied with high-end products, such as built-in cameras, TU-KA was able to create the world's thinnest cellular-phone handset by eliminating the camera. The new handset is 15mm thick, and though its functions are simple, its ease of use and attractive design have made it very popular.

TU-KA also emphasized simplicity in its charge structure with the introduction of the new "Simple Charge Series." Under these plans, all basic charges are covered by call charges, and customers on two-year contracts enjoy even lower rates. The aim of this simple strategy is to attract and keep subscribers, especially people in their thirties and forties who are not especially interested in 3G services.

The total number of TU-KA subscribers declined, in part because of the increase in cancellations of pre-paid handsets. However, there has been a sustained reduction in the churn rate for post-paid handsets, and TU-KA is moving toward a business structure that will allow it to produce steady cash flows by keeping its customer base.

AH-S101S

Pocket (PHS) Business

➡ Building Sales Through a Winning Focus on Data

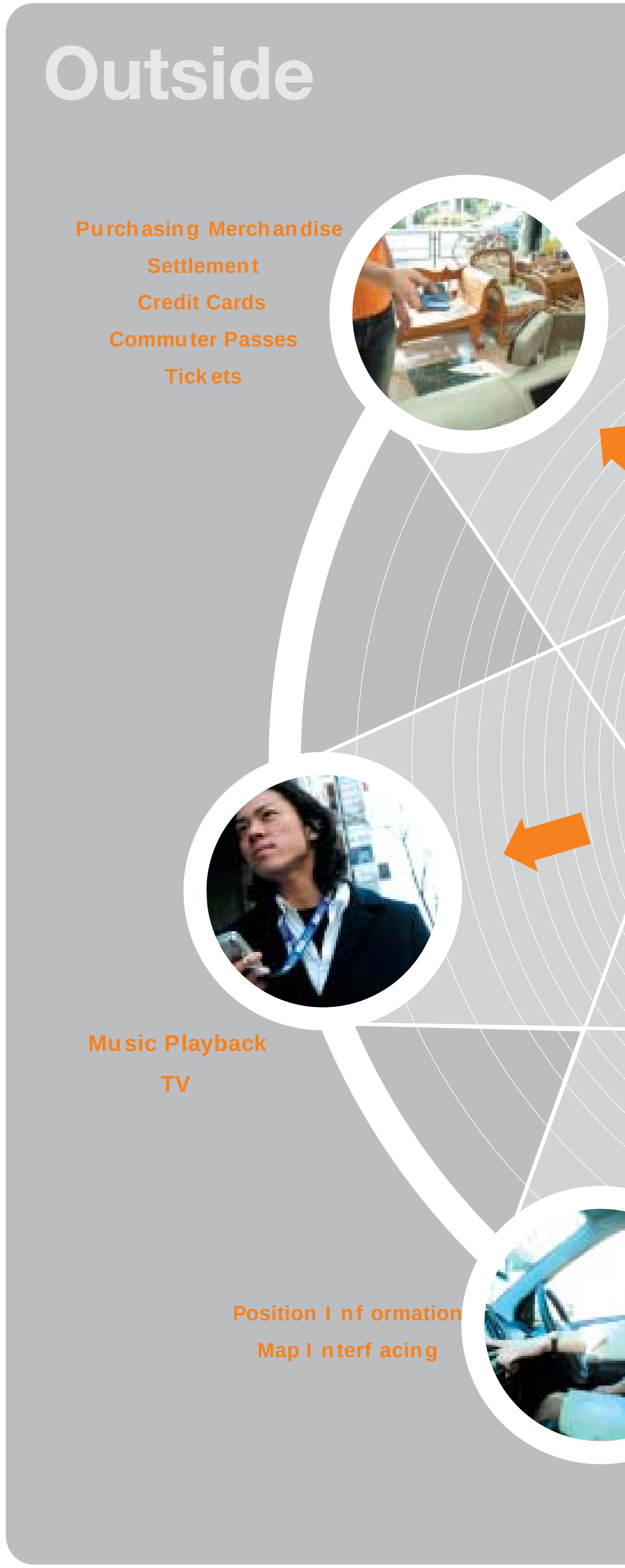
DATA STRATEGY EXTENDED

As in the previous year, DDI Pocket continued to implement a data communications strategy based on the *AirH",* terminals for the flat-rate data service. There was a year-on-year increase in the *AirH"* sales ratio, and the percentage of data users increased to 47% of all subscribers. In addition to the existing PCMCIA-card type and compact flash type, the variety of data card terminals was further expanded with the introduction of SDIO and USB types. The SDIO card is designed for use in the SD card slots of PDAs, and the USB type is intended for PC users and can be plugged into a USB port. These ultra-compact applications open the potential to create new markets, including promoting installation in other equipment, such as digital cameras. With regard to PHS, which is an infrastructure contributing to the realization of a ubiquitous society, DDI Pocket is also expanding its sales channels for MVNO (Mobile Virtual Network Operation) business, and it now deals with wholesale services to a total of six companies. As a result of these initiatives, the number of subscribers as of the end of March 2003 rose to 2,975,000, the first net increase in the last five years. Though other PHS companies are expected to move into the flat-rate data service market from the year ending March 31, 2004 (fiscal 2004), DDI Pocket has an overwhelming advantage in terms of its coverage area and lineup of handsets.

➡ **Ubiquitous Landscape**

MOBILE PHONES BECOMING “PERSONAL GATEWAYS” ➡

Means of communication using mobile phones are becoming more advanced year in, year out. E-mail, for one, has already become an indispensable function for millions of users. And today, with camera functions built in, mail attachments like pictures and moving images are becoming the rule, not the exception. However, the role of mobile phones in the ubiquitous network society will go far beyond that of a communication tool. The models of the not-so-distant future will feature wallet, credit card, key and commuter pass functions, not to mention remote-control functions to control electrical home appliances and other electrical products. KDDI positions the mobile phone as consumers’ “personal gateway” to the ubiquitous network society of tomorrow. And we’ll continue to provide new and convenient solution services for all customers in making it an integral part of their daily lives.




Residence
Remote Control
Merchandise Settlement
Sharing Data
Transferring Data
Personal Gateway
Download and Upgrade of Applications/ Software
Individual Gateway

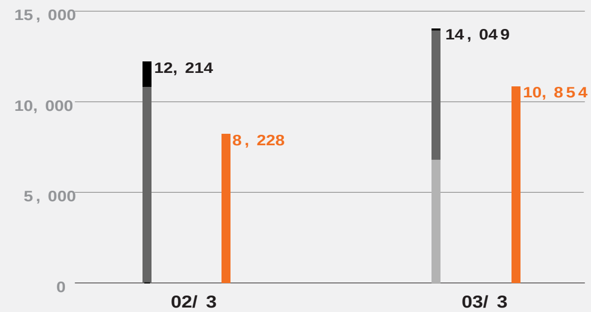
Mobile Subscriber Trends

au

(Thousands)

		2002/3	2003/3
au	CDMA2000 1x	–	6,806
	cdmaOne	10,822	7,208
	PDC	1,392	35
	Total	12,214	14,049
EZweb		8,228	10,854

CDMA2000 1x　cdmaOne　PDC　EZweb

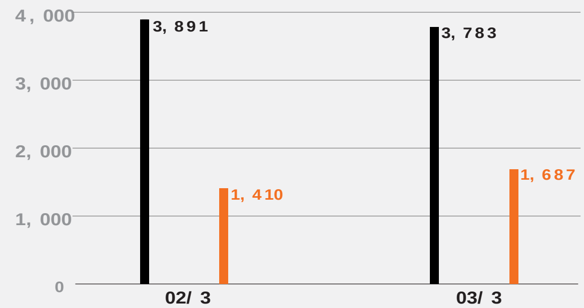


TU-KA

(Thousands)

		2002/3	2003/3
TU-KA	PDC	3,891	3,783
EZweb		1,410	1,687

TUKA　EZweb

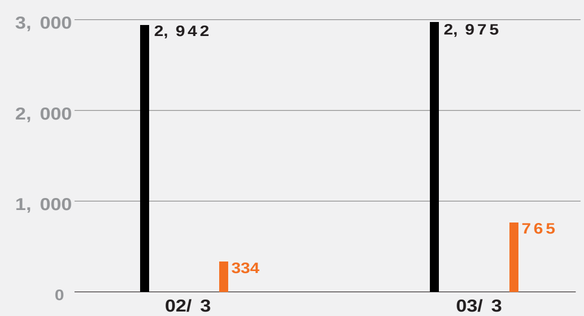


Pocket

(Thousands)

	2002/3	2003/3
Pocket	2,942	2,975
AirH"	334	765

Pocket　AirH"



ARPU

			2002/3	2003/3
au	ARPU	(¥)	8,080	7,570
	Voice ARPU	(¥)	7,190	6,400
	Data ARPU	(¥)	890	1,170
	MOU	(minutes)	189	182
	Churn rate	(%)	2.6	1.8
TU-KA	ARPU	(¥)	5,790	5,330
	MOU	(minutes)	149	152
	Churn rate	(%)	3.1	2.4
Pocket	ARPU	(¥)	5,330	5,010
	MOU	(minutes)	185	177
	Churn rate	(%)	3.2	2.7

ARPU (Average Revenue Per User)
MOU (Minutes Of Usage)

Contents

FINANCIAL REVIEW

KDDI Corporation and Consolidated Subsidiaries

Based on the reorganization of the Company implemented on April 1, 2003, the former "Network & Solutions business" segment is renamed and shown as the "BBC & Solutions business" segment from the year ending March 31, 2004. BBC stands for Broadband Consumers. In this section, the businesses operated by domestic consolidated subsidiaries, other than cellular-phone and PHS services, and overseas consolidated subsidiaries are all aggregated under other businesses. As a result, the figures for BBC & Solutions business and other businesses do not match the segment data shown in the notes to the financial statements.

Consolidated Financial Review

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2003 and 2002	**2003**	2002	Change	%	**2003**
Operating revenues	**¥2,785,343**	¥2,833,799	¥(48,456)	(1.7)%	**$23,172**
Telecommunications business	**2,191,887**	2,247,145	(55,258)	(2.5)	**18,235**
Voice communications	**1,574,509**	1,767,730	(193,221)	(10.9)	**13,099**
Digital data transmission services and other	**617,378**	479,415	137,963	28.8	**5,136**
Other business	**593,456**	586,654	6,802	1.2	**4,937**
Operating income	**140,653**	102,297	38,356	37.5	**1,170**
Extraordinary income (loss)	**(2,485)**	(57,871)	55,386	—	**(21)**
Net income	**57,359**	12,979	44,380	341.9	**477**
Free cash flows	**305,335**	290,600	14,734	5.1	**2,540**
EBITDA	**563,491**	544,805	18,686	3.4	**4,688**
EBITDA margin	**20.2%**	19.2%	1.0%	—	**20.2%**

[Operating Revenues]

Operating revenues decreased by ¥48.5 billion to ¥2,785.3 billion compared with the previous fiscal year. While the revenues from digital data transmission services (including dedicated line services) increased by ¥138.0 billion to ¥617.4 billion from the previous fiscal year, the revenues from voice communication services in all businesses decreased to ¥1,574.5 billion in the aggregate, a decrease of ¥193.2 billion. As a result, the operating revenues from telecommunication businesses decreased by ¥55.3 billion to ¥2,191.9 billion compared with the previous fiscal year. As regards revenues from other businesses, the revenues from au business increased by ¥6.8 billion to ¥593.5 billion mainly due to an increase in the number of cellular-phone handsets shipped to distributors. Revenues by business segment show an increase in au services but decreases in BBC & Solutions business, TU-KA business and Pocket (PHS) business.

[Income]

Operating income drastically increased by ¥38.4 billion to ¥140.7 billion, compared with the previous fiscal year. The business segments of BBC & Solutions, TU-KA and Pocket businesses marked increases in their operating income, while the operating income of au business decreased mainly due to the costs incurred from termination of PDC services. Details for each business segment are described in the following section. Net extraordinary items amounted to the losses of ¥2.5 billion. The total extraordinary losses of ¥23.2 billion includes ¥6.8 billion of reserve for point service program for past fiscal years. On the other hand, the total extraordinary gains were ¥20.7 billion, including ¥10.4 billion of gains on sales of investment in a real-estate management subsidiary (KDDI Development Corporation). As a result, the net income recorded ¥57.4 billion, a ¥44.4 billion increase from the previous fiscal year. For your reference, the previous fiscal year's total extraordinary losses were ¥202.6 billion, including ¥185.4 billion of business restructuring costs, while the gains on the sales of buildings for securitization and other extraordinary gains were ¥144.8 billion, resulting in net extraordinary losses of ¥57.9 billion.

[Free Cash Flows/EBITDA]

Free cash flows increased by ¥14.7 billion to ¥305.3 billion from the previous fiscal year. This increase was achieved through operating activities and efforts for cost cutting such as strict control over capital expenditures, and exceeds the ¥187.4 billion cash-in effect of securitization of buildings in the previous fiscal year. This increase proves that our cash-flow-based management is on track.

EBITDA as well increased by ¥18.7 billion to ¥563.5 billion from the previous fiscal year, and the EBITDA margin ratio hit 20.2%, showing steady improvement.

Segment Financial Reviews

[au Business]

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Operating revenues	**¥1,626,273**	¥1,524,554	¥101,719	6.7%	**$13,529**
Telecommunications business	**1,197,244**	1,155,657	41,587	3.6	**9,960**
Voice communications	**844,225**	928,833	(84,608)	(9.1)	**7,023**
Digital data transmission services and other	**353,019**	226,824	126,195	55.6	**2,953**
Other business	**429,029**	368,897	60,132	16.3	**3,569**
Operating income	**53,786**	57,396	(3,610)	(6.3)	**447**
Extraordinary income (loss)	**(4,250)**	(155,071)	150,821	—	**(35)**
Net income	**21,005**	(58,713)	79,718	—	**175**
Free cash flows	**96,571**	15,643	80,928	517.3	**803**
EBITDA	**245,092**	269,127	(24,035)	(8.9)	**2,039**
EBITDA margin	**15.1%**	17.7%	(2.6)%	—	**15.1%**

The operating revenues from the au business increased by ¥101.7 billion to ¥1,626.3 billion compared with the previous fiscal year. The strong demand for the third-generation cellular-phone "CDMA2000 1x" introduced in April 2002 boosted the number of subscribers and thus contributed to the increase of revenues.

However, the average revenue per user (ARPU) is on a decreasing trend. The form of usage in particular has been shifting from voice communication to e-mails, reducing the voice communication revenues by ¥84.6 billion to ¥844.2 billion compared with the previous fiscal year. In such circumstances, au provided various digital data transmission services that utilize high-speed data communications at maximum 144kbps, such as *Photo Mail*, *Movie Mail* and *Chaku-Uta™,* downloadable ringtone songs, to raise users' data communications frequency. As a result, the revenues from digital data transmission services increased by ¥126.2 billion to ¥353.0 billion from the previous fiscal year. The revenues from other business marked a drastic increase of ¥60.1 billion from the previous fiscal year to ¥429.0 billion. This increase is caused by an increase in the number of cellular-phone handsets shipped to distributors due to strong demand for CDMA2000 1x as well as promotion for handset model changes upon termination of PDC services as of March 31, 2003.

The operating income decreased by ¥3.6 billion to ¥53.8 billion compared with the previous fiscal year. Even stronger efforts for cost cutting have been maintained continuously from the previous fiscal year, including reduction of handset procurement costs through strengthening of the purchase function and reduction of sales commissions by letting customers pay fair charges for the handsets. However, the total expenses of ¥55.6 billion incurred upon termination of PDC services, which consist of ¥27.4 billion for removal of facilities and ¥28.2 billion for the promotion of handset model changes to CDMA models, increased the total operating expenses as a result. These expenses relating to PDC services will not incur in the next fiscal year. Net extraordinary items amounted to the losses of ¥4.3 billion, mainly due to the reserve for point service program for past fiscal years. As a result of these factors, the net income increased by ¥79.7 billion to ¥21.0 billion compared with the previous fiscal year. The bottom-line number improved substantially, as there were ¥155.1 billion extraordinary losses including a one-time write-off of PDC facilities in the previous fiscal year.

Free cash flows increased by ¥80.9 billion to ¥96.6 billion compared with the previous fiscal year. Meanwhile, EBITDA decreased by ¥24.0 billion to ¥245.1 billion, with an EBITDA margin ratio of 15.1%.

[BBC & Solutions Business]

(former Network & Solutions Business)

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Operating revenues	¥601,874	¥651,929	¥(50,055)	(7.7)%	$5,007
Telecommunications business	556,047	607,664	(51,617)	(8.5)	4,626
Voice communications	371,248	425,062	(53,814)	(12.7)	3,089
Digital data transmission services and other	184,799	182,602	2,197	1.2	1,537
Other business	45,827	44,265	1,562	3.5	381
Operating income	60,290	30,525	29,765	97.5	502
Extraordinary income (loss)	(3,071)	(17,526)	14,455	—	(26)
Net income	32,264	4,137	28,127	679.9	268
Free cash flows	116,927	55,485	61,442	110.7	973
EBITDA	176,809	157,467	19,342	12.3	1,471
EBITDA margin	29.4%	24.2%	5.2%	—	29.4%

The operating revenues of BBC & Solutions business decreased by ¥50.1 billion to ¥601.9 billion compared with the previous fiscal year. As regards fixed-line telephone services, voice communications traffic has been steadily decreasing due to the shift to cellular-phone services and e-mail services. As a result, the revenue from voice communications services out of telecommunications business decreased by ¥53.8 billion to ¥371.2 billion. On the other hand, the digital data transmission services could maintain an increase in the revenue of ¥2.2 billion to ¥184.8 billion, as a result of sales promotion of DION ADSL services to personal users and IP-VPN services which provide intranet environment to corporate users. The revenue from other businesses stayed at ¥45.8 billion, a ¥1.6 billion increase from the previous fiscal year, as mobile solution services for corporate users were still on a development phase.

The operating income recorded a drastic increase of ¥29.8 billion to ¥60.3 billion. This is a result of cost reduction, such as a large decrease in expenses to acquire users, which were substantial but necessary for implementation of MYLINE services in the previous fiscal year. The net extraordinary items totaled to the losses of ¥3.1 billion, which include ¥0.4 billion of provision for reserve for point service program for past fiscal years. As a result, the net income increased by ¥28.1 billion to ¥32.3 billion. Free cash flows also increased by ¥61.4 billion to ¥116.9 billion compared with the previous fiscal year. The increase in the net income affected EBITDA, which increased by ¥19.3 billion to ¥176.8 billion. The EBITDA margin ratio also marked a good improvement of 5.2% to reach 29.4%.

[TU-KA Business]

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Operating revenues	¥318,070	¥358,260	¥(40,190)	(11.2)%	$2,646
Telecommunications business	255,412	286,278	(30,866)	(10.8)	2,125
Voice communications	234,981	283,717	(48,736)	(17.2)	1,955
Digital data transmission services and other	20,431	2,560	17,871	698.1	170
Other business	62,658	71,982	(9,324)	(13.0)	521
Operating income	6,200	3,784	2,416	63.8	52
Extraordinary income (loss)	(1,713)	(40)	(1,673)	—	(14)
Net income	(3,227)	(3,276)	49	—	(27)
Free cash flows	52,137	14,831	37,306	251.5	434
EBITDA	66,471	63,400	3,071	4.8	553
EBITDA margin	20.9%	17.7%	3.2%	—	20.9%

The operating revenues from the TU-KA business decreased by ¥40.2 billion to ¥318.1 billion compared with the previous fiscal year. The revenue from telecommunications business dropped by ¥30.9 billion to ¥255.4 billion, due to decreases in the number of subscribers as well as in the average revenues per user (ARPU). However, the revenue from digital data transmission services out of the telecommunications business, which has been shown separately from voice communication services since the previous fiscal year, recorded an increase. As regards the other business, the revenue decreased by ¥9.3 billion to ¥62.7 billion due to a decrease in the number of cellular-phone handsets shipped to distributors.

The operating income increased by ¥2.4 billion to ¥6.2 billion. In accordance with the revised sales strategy, acquiring new subscribers by expensive promotion means has been abandoned, and the churn rate has been improved by establishing two-year contract charge plans. As a result, the business structure has been changed to a profit-making one. The net extraordinary losses recorded ¥1.7 billion mainly due to reserve for point service program for past fiscal years. As a result, the net loss increased slightly to ¥3.2 billion.

Free cash flows marked a large increase of ¥37.3 billion from the previous fiscal year, resulting in ¥52.1 billion. A strict control over capital expenditures largely contributed to this achievement. EBITDA increased by ¥3.1 billion to ¥66.5 billion, and the EBITDA margin ratio also increased by 3.2% to 20.9%.

[Pocket (PHS) Business]

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Operating revenues	¥197,579	¥211,008	¥(13,429)	(6.4)%	$1,644
Telecommunications business	181,991	195,870	(13,879)	(7.1)	1,514
Other business	15,588	15,138	450	3.0	130
Operating income	20,267	6,660	13,608	204.4	169
Extraordinary income (loss)	(649)	11,678	(12,327)	(105.6)	(5)
Net income	17,030	14,658	2,372	16.2	142
Free cash flows	43,015	14,429	28,586	198.1	358
EBITDA	62,248	47,548	14,700	30.9	518
EBITDA margin	31.5%	22.5%	9.0%	—	31.5%

The operating revenues from Pocket (PHS) business dropped by ¥13.4 billion to ¥197.6 billion. Although the decrease in the average revenues per user (ARPU) affected the revenue from telecommunications business, which decreased by ¥13.9 billion to ¥182.0 billion, the business has a more steadily earning structure, as the users have shifted their subscribing services to *AirH"*, a data communication service with a monthly fixed charge system. The revenue from other business increased by ¥0.5 billion to ¥15.6 billion.

The operating income reached ¥20.3 billion, with a ¥13.6 billion increase from the previous fiscal year. The profitability has been drastically improved because of an increase in the percentage of *AirH"* over entire sales, which resulted in decreases in sales commission, purchase costs and costs for handset model changes due to extension of model change cycles. Net extraordinary losses were ¥0.6 billion, including reserve for point service program for past fiscal years. Free cash flows increased greatly by ¥28.6 billion to ¥43.0 billion compared with the previous fiscal year. EBITDA also increased by ¥14.7 billion to ¥62.2 billion, with an EBITDA margin ratio of 31.5%, the highest in the KDDI Group.

[Other Businesses]

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Operating revenues	¥196,656	¥276,974	¥(80,318)	(29.0)%	$1,636
Telecommunications business	96,496	101,692	(5,196)	(5.1)	803
Other business	100,160	175,282	(75,122)	(42.9)	833
Operating income	(1,002)	4,063	(5,065)	(124.7)	(8)
Extraordinary income (loss)	(3,007)	(12,921)	9,914	—	(25)
Net income	(9,868)	(11,578)	1,710	—	(82)

Other businesses recorded the operating revenues of ¥196.7 billion, a ¥80.3 billion decrease, and the operating loss of ¥1.0 billion, a ¥5.1 billion decrease. As regards SCS (KDDI Submarine Cable System), the decrease in orders for new projects led to a large decline in the operating revenues as well as a decrease in the operating income. For other domestic consolidated subsidiaries, although both the aggregate operating revenues and operating income decreased, the operating income stayed in a profit. The aggregate operating revenues and operating income of all overseas consolidated subsidiaries succeeded to increase and to record a profit.

[Capital Expenditures]

Years ended March 31, 2003 and 2002	Millions of yen 2003	2002	Change	%	Millions of U.S. dollars 2003
Capital expenditures (cash flow basis)	**¥246,200**	¥374,522	¥(128,322)	(34.3)%	**$2,048**
au	**167,300**	226,350	(59,050)	(26.1)	**1,392**
BBC & Solutions	**40,800**	86,400	(45,600)	(52.8)	**339**
TU-KA	**16,200**	39,176	(22,976)	(58.6)	**135**
Pocket (PHS)	**11,700**	17,050	(5,350)	(31.4)	**97**
Depreciation	**388,968**	423,981	(35,013)	(8.3)	**3,236**
au	**175,968**	199,380	(23,412)	(11.7)	**1,464**
BBC & Solutions	**105,397**	122,850	(17,453)	(14.2)	**877**
TU-KA	**59,979**	59,237	742	1.3	**499**
Pocket (PHS)	**39,583**	38,890	693	1.8	**329**
Balance of interest-bearing debt	**1,497,020**	1,746,784	(249,764)	(14.3)	**12,454**
au + BBC & Solutions	**937,230**	1,066,466	(129,236)	(12.1)	**7,797**
TU-KA	**317,821**	370,712	(52,891)	(14.3)	**2,644**
Pocket (PHS)	**182,690**	225,719	(43,029)	(19.1)	**1,520**
Net debt	**1,375,165**	1,678,188	(303,023)	(18.1)	**11,441**

The actual (cash-flow based) capital expenditures on a consolidation basis resulted in ¥246.2 billion. A thorough application of "selection and concentration" policy on capital expenditures has set a number-one priority on strategic businesses with a possibility of high growth and profitability, while changes in external business environment such as demands for products and services have been flexibly and promptly coped with. As a result, total capital expenditures decreased by ¥128.3 billion compared with the previous fiscal year.

The depreciation on a consolidation basis was ¥389.0 billion, a ¥35.0 billion decrease from the previous fiscal year. Due to the one-time write-off of PDC system in the previous fiscal year as well as to the write-off of a part of fixed-line network facilities, the depreciation of au business and BBC & Solutions businesses largely dropped.

As to the interest-bearing debt, the Company succeeded to substantially reduce its consolidated balance continuously from the previous fiscal year, resulting in ¥1,497.0 billion as of this fiscal year end. The free cash flows earned by business activities have been used for the repayment of the debt, which is different from the previous fiscal year where the cash obtained by the securitization of real estate largely contributed to the reduction of the debt. The debt reduction plan is proceeding steadily, aiming at a ¥1,000.0 billion balance as of March 31, 2005.

CONSOLIDATED BALANCE SHEETS

KDDI Corporation and Consolidated Subsidiaries

March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Millions of U.S. dollars (Note 1) 2003
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 121,855**	¥ 68,596	**$ 1,014**
Accounts receivable	**388,047**	481,064	**3,228**
Allowance for doubtful accounts	**(20,302)**	(25,793)	**(169)**
Inventories	**55,851**	97,797	**465**
Deferred income taxes (Note 11)	**28,861**	32,860	**240**
Prepaid expenses and other current assets	**22,736**	36,628	**189**
Total Current Assets	**597,048**	691,152	**4,967**
Property, Plant and Equipment (Note 4)**:**			
Telecommunications equipment	**2,925,119**	2,830,078	**24,335**
Buildings and structures	**437,511**	480,666	**3,640**
Machinery and tools	**121,912**	129,927	**1,014**
Land	**52,513**	64,334	**437**
Construction in progress	**66,532**	144,080	**554**
Other property, plant and equipment	**14,798**	18,649	**123**
	3,618,385	3,667,734	**30,103**
Accumulated depreciation	**(1,929,990)**	(1,716,479)	**(16,056)**
Total Property, Plant and Equipment	**1,688,395**	1,951,255	**14,047**
Investments and Other Assets:			
Investments in securities (Note 3)	**54,739**	65,186	**455**
Deposits and guarantee money	**40,145**	39,773	**334**
Intangible assets	**223,654**	244,310	**1,861**
Goodwill	**57,272**	61,271	**476**
Deferred income taxes (Note 11)	**20,378**	50,402	**170**
Other assets	**111,382**	112,050	**926**
Allowance for loss on investments and other assets	**(10,974)**	(11,958)	**(91)**
Total Investments and Other Assets	**496,596**	561,034	**4,131**
Total Assets	**¥2,782,039**	¥3,203,441	**$23,145**

The accompanying notes are an integral part of these statements.

March 31, 2003 and 2002	Millions of yen 2003	2002	Millions of U.S. dollars (Note 1) 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	**¥ 281,240**	¥ 403,309	**$ 2,340**
Accounts payable	**250,126**	417,277	**2,081**
Accrued income taxes	**10,433**	53,339	**87**
Accrued expenses	**19,889**	24,532	**165**
Allowance for bonuses	**12,687**	12,220	**106**
Other current liabilities	**21,611**	32,746	**179**
Total Current Liabilities	**595,986**	943,423	**4,958**
Non-Current Liabilities:			
Long-term loans (Note 4)	**851,838**	970,395	**7,087**
Bonds (Note 4)	**355,925**	354,800	**2,961**
Reserve for point service program	**15,711**	–	**131**
Other non-current liabilities (Note 4)	**53,656**	67,136	**446**
Total Non-Current Liabilities	**1,277,130**	1,392,331	**10,625**
Total Liabilities	**1,873,116**	2,335,754	**15,583**
Minority Interests	**14,212**	10,606	**118**
Contingent Liabilities (Note 5)			
Shareholders' Equity (Note 9)**:**			
Common stock			
Authorized—7,000,000 shares			
Issued and outstanding—4,240,880.38 shares	**141,852**	141,852	**1,180**
Capital surplus	**304,190**	304,190	**2,531**
Retained earnings	**456,827**	407,043	**3,801**
Net unrealized gains on securities	**1,455**	2,896	**12**
	904,324	855,981	**7,524**
Foreign Currency Translation Adjustments	**(4)**	1,140	**0**
Treasury stock, at cost	**(9,609)**	(40)	**(80)**
Total Shareholders' Equity	**894,711**	857,081	**7,444**
Total Liabilities and Shareholders' Equity	**¥2,782,039**	¥3,203,441	**$23,145**

CONSOLIDATED STATEMENTS OF INCOME

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Millions of U.S. dollars (Note 1) 2003
Operating Revenues:			
Voice communications	**¥1,574,509**	¥1,767,730	**$13,099**
Digital data transmission services	**450,658**	310,101	**3,749**
Leased circuits	**93,941**	87,980	**782**
Telegraph and other telecommunications services	**72,779**	81,334	**605**
Sales of terminal equipment and other	**593,456**	586,654	**4,938**
Total Operating Revenues	**2,785,343**	2,833,799	**23,173**
Operating Expenses:			
Sales expenses	**963,250**	981,240	**8,014**
Depreciation	**378,778**	408,929	**3,151**
Charges for use of telecommunications services of third parties	**419,716**	467,358	**3,492**
Cost of sales of terminal equipment and other	**554,771**	577,481	**4,615**
Other	**328,175**	296,494	**2,731**
Total Operating Expenses	**2,644,690**	2,731,502	**22,003**
Operating Income	**140,653**	102,297	**1,170**
Other Expenses (Income):			
Interest expense	**35,891**	44,068	**299**
Interest income	**(735)**	(1,077)	**(6)**
Loss (gain) on sales of securities	**(9,412)**	2,986	**(78)**
Loss on devaluation of securities	**5,270**	720	**44**
(Gain) loss on sales of property, plant and equipment (Note 6)	**284**	(139,544)	**2**
Equity in loss (profit) of affiliates	**(1,170)**	(437)	**(10)**
Dividend income from anonymous association	**(5,055)**	–	**(42)**
Gain on delinquency charges from constructor	**–**	(9,328)	**–**
Gain on reversal of allowance for doubtful accounts	**(4,227)**	–	**(35)**
Cumulative effect of new method of accounting for point service program	**6,772**	–	**56**
Impairment and business restructuring charges	**–**	185,406	**–**
Bad debt expense for specific credits	**–**	7,550	**–**
Loss from amendments to submarine cable construction contracts	**678**	–	**6**
Loss from cancellation of cable contracts	**–**	687	**–**
Other, net	**1,631**	(9,619)	**13**
Total Other Expenses	**29,927**	81,412	**249**
Income before Income Taxes and Minority Interests	**110,726**	20,885	**921**
Income Taxes:			
Current	**14,831**	66,037	**123**
Deferred	**35,524**	(56,193)	**296**
Total Income Taxes	**50,355**	9,844	**419**
Minority Interests in Consolidated Subsidiaries	**3,012**	(1,938)	**25**
Net Income	**¥ 57,359**	12,979	**$ 477**
		Yen	U.S. dollars (Note 1)
Per Share Data:			
Net income	**¥13,561**	¥3,061	**$112.82**
Cash dividends	**2,095**	1,790	**17.43**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KDDI Corporation and Consolidated Subsidiaries

	Thousands	Millions of yen					
Years ended March 31, 2003 and 2002	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2001	4,241	¥141,852	¥304,096	¥401,442	¥ –	¥(2,290)	¥ (9)
Net income for the year				12,979			
Cash dividends (Note 9)				(7,148)			
Directors' and corporate auditors' bonuses				(5)			
Decrease in retained earnings due to merger			94	(225)			
Net unrealized gains on securities					2,896		
Foreign currency translation adjustments						3,430	
Net changes in treasury stock							(31)
Balance, March 31, 2002	4,241	¥141,852	¥304,190	¥407,043	¥2,896	¥ 1,140	¥ (40)
Net income for the year				57,359			
Cash dividends (Note 9)				(7,570)			
Directors' and corporate auditors' bonuses				(5)			
Loss on disposal of treasury stocks				(0)			
Net unrealized gains on securities					(1,441)		
Foreign currency translation adjustments						(1,144)	
Net changes in treasury stock							(9,569)
Balance, March 31, 2003	**4,241**	**¥141,852**	**¥304,190**	**¥456,827**	**¥1,455**	**¥ (4)**	**¥(9,609)**

	Thousands	Millions of U.S. dollars (Note 1)					
Years ended March 31, 2003	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2002	4,241	$1,180	$2,531	$3,387	$24	$9	$ (0)
Net income for the year				477			
Cash dividends (Note 9)				(63)			
Directors' and corporate auditors' bonuses				(0)			
Loss on disposal of treasury stocks				(0)			
Net unrealized gains on securities					(12)		
Foreign currency translation adjustments						(9)	
Net changes in treasury stock							(80)
Balance, March 31, 2003	**4,241**	**$1,180**	**$2,531**	**$3,801**	**$12**	**$0**	**$(80)**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Millions of U.S. dollars (Note 1) 2003
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥110,726**	¥ 20,885	**$ 921**
Adjustments for:			
Depreciation and amortization	**392,855**	427,885	**3,268**
(Gain) loss on sales of property, plant and equipment	**284**	(138,411)	**2**
Loss on disposal of property, plant and equipment	**33,879**	164,210	**282**
Increase (decrease) in allowance for doubtful accounts	**(6,294)**	16,009	**(52)**
Increase in reserve for retirement benefits	**7,634**	2,567	**64**
Interest and dividend income	**(1,463)**	(1,790)	**(12)**
Interest expenses	**35,891**	44,068	**299**
Equity in (gain) of affiliates	**(1,170)**	(437)	**(10)**
Investment securities write off	**5,270**	720	**44**
Increase in reserve for point services	**15,711**	–	**131**
Changes in assets and liabilities:			
Increase in prepaid pension cost	**(4,314)**	(7,636)	**(36)**
Decrease in notes and accounts receivable	**92,343**	71,305	**768**
Decrease in inventories	**50,214**	12,821	**418**
Decrease in notes and accounts payable	**(97,330)**	(85,763)	**(810)**
Other, net	**(15,157)**	609	**(127)**
Sub total	**619,079**	527,042	**5,150**
Interest and dividend income received	**2,881**	1,759	**24**
Interest expenses paid	**(37,298)**	(45,207)	**(310)**
Income taxes paid	**(57,775)**	(23,062)	**(481)**
Net cash provided by operating activities	**526,887**	460,532	**4,383**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	**(159,536)**	(276,464)	**(1,327)**
Proceeds from sale of property, plant and equipment	**23,911**	201,880	**199**
Payments for other intangible assets	**(84,607)**	(82,527)	**(704)**
Acquisition of investment securities	**(1,023)**	(10,339)	**(9)**
Proceeds from sale of investment securities	**1,755**	1,505	**15**
Payments for investment in affiliates	**(333)**	(570)	**(3)**
Proceeds from sale of subsidiaries	**11,315**	–	**94**
Increase in long-term prepayment	**(14,538)**	(15,532)	**(121)**
Other, net	**1,504**	12,115	**13**
Net cash used in investing activities	**(221,552)**	(169,932)	**(1,843)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	**3,221**	(36,114)	**27**
Proceeds from issuance of long-term loans	**142,855**	129,986	**1,188**
Repayment of long-term loans	**(357,459)**	(396,362)	**(2,974)**
Repayment of long-term accounts payable	**(19,205)**	(18,758)	**(160)**
Proceed from new bond issue	**21,500**	–	**179**
Payment for redemption of bonds	**(25,000)**	(30,000)	**(208)**
Payments for acquisition of treasury stocks	**(9,567)**	–	**(80)**
Dividends paid	**(7,649)**	(7,206)	**(64)**
Payments received from minority shareholders	**103**	407	**1**
Other, net	**(162)**	134	**0**
Net cash used in financing activities	**(251,363)**	(357,913)	**(2,091)**
Translation Adjustments on Cash and Cash Equivalents	**(713)**	1,160	**(6)**
Net Increase (Decrease) in Cash and Cash Equivalents	**53,259**	(66,153)	**443**
Cash and Cash Equivalents at Beginning of Year	**68,596**	134,670	**571**
Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated	**–**	133	**–**
Decrease in Cash and Cash Equivalents due to Deconsolidation of Subsidiaries	**–**	(54)	**–**
Cash and Cash Equivalents at End of Year	**¥121,855**	¥ 68,596	**$1,014**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued in Japan for domestic reporting purposes.

KDDI Corporation (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the Japanese Commercial Code and Japanese Telecommunications Business Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Its foreign subsidiaries maintain their accounts in conformity with the generally accepted accounting principles and practices of each country of their domicile.

No harmonization of accounting principles adopted by the Company and its consolidated subsidiaries has been made for the preparation of the accompanying consolidated financial statements.

The Company's consolidated financial statements for the year ended March 31, 2003, include 59 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., DDI POCKET Inc., KCOM Corporation, KDDI AMERICA INC. and 52 other subsidiaries.

During the year ended March 31, 2003, significant changes in the scope were incurred as follows;

(Consolidated)

KDDI Guangzhou Corporation	Established
KDDI BRAZIL HOLDINGS LTDA.	Established

(Removed)

Naruko Development Co., Ltd.	Liquidation

The above corporation was liquidated on May 10, 2002.

KDDI Shoji Co., Ltd.	Merger
K Tourist Co., Ltd.	Merger

The above corporations were merged with KDDI Sogo Service Co., Ltd. on July 1,2002.

KDD Internet Solutions Co., Ltd.	Liquidation

The above corporation was liquidated on August 9, 2002.

KDDI Academy Inc.	Liquidation

The above corporation was liquidated on December 26, 2002.

KDDIS Corporation	Liquidation

The above corporation was liquidated on March 25, 2003.

KDDI Development Corporation	Disposal of investment in subsidiary

The investment in the above corporation was sold on March 26, 2003.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into United States dollars at the rate of ¥120.20=$1, the approximate exchange rate on March 31, 2003. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

2. Significant Accounting Policies

a. Basis of Consolidation and Accounting for Investments in Affiliated Companies

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries.

All significant intercompany transactions and accounts are eliminated.

Investments in certain affiliates are accounted for by the equity method, whereby a consolidated group includes in net income its share of the profits or losses of these companies, and records its investments at cost adjusted for such share of profits or losses. Exceptionally, investments in 2 unconsolidated subsidiaries and 3 affiliates for which the equity method have not been applied are stated at cost because the effect of application of the equity method would be immaterial.

b. Revenue Recognition

For telecommunications services, revenues are recorded mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized upon fulfillment of contractual obligations, which is generally upon shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed.

c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term highly liquid investments with an original maturity of three months or less at the time of purchase and which represent a minor risk of fluctuations in value.

d. Inventories

Inventories are stated at cost. Cost is determined by the moving-average method.

e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. The resulting differences in yen amounts are presented as minority interests and foreign currency translation adjustments in shareholders' equity.

f. Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Assets are depreciated over their estimated useful lives by applying the declining-balance method to machinery and equipment used for network business held by the Company, and by the straight-line method to machinery and equipment used for mobile communications business and other assets held by the Company, and most of depreciated assets held by its subsidiaries. The main depreciation periods are as follows.

Machinery and equipment used for network and mobile communications business:	6–15 years
Telecommunication service lines, engineering equipment, submarine cable system and buildings:	2–65 years

g. Financial Instruments

(1) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as hedging instruments.

(2) Securities

Held-to-maturity debt securities, which the Company and its subsidiaries have intended to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, and are amortized over the period to maturity.

Investments of the Company in equity securities issued by affiliates are accounted for by the equity method.

Other securities for which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gains and losses, net of applicable deferred tax assets/liabilities, directly reported as a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method.

Other securities for which market quotations are not available are valued at cost mainly determined by the moving-average method.

(3) Hedge Accounting

Gains or losses arising from changes in fair value of the derivatives designated as hedging instruments are deferred as assets or liabilities and included in net profit or loss in the same period during which the gains or losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally interest swaps and forward exchange contracts. The related hedged items are foreign currency-denominated transactions and long-term bank loans.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest and exchange rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates the effectiveness of its hedging activities by quarterly comparing the accumulated gains or losses on the hedging instruments and the gains or losses on the related hedged items.

h. Research and Development Expenses and Software

Research and development expenses are charged to income when incurred. Software for internal use included in intangible assets is amortized using the straight-line method over the estimated useful lives (five years).

i. Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. The Company and its domestic subsidiaries have adopted the deferred tax accounting method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Leases

Finance leases, other than those leases deemed to transfer the ownership of the leased assets to lessees, are accounted for using a method similar to that applicable to operating leases.

k. Other Assets

Goodwill is amortized over five and/or 20 years. Amortization of goodwill is included in operating expenses in the accompanying consolidated statements of income.

l. Net Income per Share

Net income per share is computed based on the average number of shares outstanding during each year.

Effective from the fiscal year ended March 31, 2003, "Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan Statement 2, issued on September 25, 2002) and "Implementation Guidance for Accounting Standard for Earnings per Share" (Accounting Standards Board of Japan Implementation Guidance 4, issued on September 25, 2002) have been applied.

The effect of adopting this standard on per share information in the financial statement of the previous year was immaterial.

m. Allowance for Doubtful Accounts

To prepare for uncollectible credits, the Company and its subsidiaries based an allowance for general credits on the actual bad debt ratio, and appropriated an estimated unrecoverable amount for specific credits deemed to be uncollectible after considering possible losses on collection.

n. Retirement Benefits

To prepare for future payments of employee retirement benefits, the reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets and the retirement benefit trust assets, except that unrecognized actuarial differences are amortized on a straight-line basis over a period of 14 years from the year following that in which they arise, and prior service cost is amortized on a straight-line basis over a period of 14 years from the year in which it arises.

o. Point Service Programs

Effective from the fiscal year ended March 31, 2003, the Company adopted a new method of accounting for its point service program in order to prepare for the future cost of customer's redeeming the points they have earned under the "au" Point Program. A reserve for point service program is established at an amount considered appropriate based on the past experience of the Company, plus an additional amount deemed necessary to cover possible redemption of the points during or after the next consolidated fiscal year. This treatment is implemented mainly due to the nationwide development of point service programs for au businesses as well as the enrichment of the service content of the whole KDDI group.

As a result of the above adoption, operating expenses increased by ¥8,939 million ($74 million), operating income decreased by ¥8,939 million ($74 million), other expenses increased by ¥6,772 million ($56 million), and income before income taxes and minority interests decreased by ¥15,711 million ($131 million).

p. Accounting for Treasury Stock and Reversal of Legal Reserves

Effective from the fiscal year ended March 31, 2003, "Accounting Standard on Treasury Stock and Reversal of Legal Reserves" (Accounting Standards Board of Japan Statement 1, issued on February 21, 2002) has been applied. The effect of adopting this standard in the financial statement of the previous year was immaterial.

Shareholders' equity in the balance sheet as of March 31, 2003 is based on the revised rules for financial statements. Shareholders' equity for the previous year has been revised according to this method and indicated in the balance sheet.

3. Market Value Information

At March 31, 2003, book value, market value and net unrealized gains or losses of quoted securities were as follows:

Bonds intended to be held to maturity that have market value.

	Millions of yen			Millions of U.S. dollars		
2003	Book value	Market value	Unrealized gain (loss)	Book value	Market value	Unrealized gain (loss)
Bonds for which market value exceeds book value of consolidated balance sheets	¥ –	¥ –	¥ –	$ –	$ –	$ –
Bonds for which market value does not exceed book value of consolidated balance sheets	36	36	–	0	0	–
Total	¥36	¥36	¥ –	$ 0	$ 0	$ –

Other securities that have market prices

	Millions of yen			Millions of U.S. dollars		
2003	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥ 3,310	¥19,070	¥15,760	$ 28	$159	$131
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	34,560	21,168	(13,392)	287	176	(111)
Total	¥37,870	¥40,238	¥ 2,368	$315	$335	$ 20

Other securities sold during the current consolidated fiscal year

	Millions of yen			Millions of U.S. dollars		
2003	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Other securities sold	¥1,597	¥54	¥1,072	$13	$0	$9

Type and book value of securities whose market value is not determinable

	Millions of yen	Millions of U.S. dollars
2003	Book value	Book value
Other securities		
Unlisted equity securities	¥14,469	$120

Among other securities, scheduled redemption amount of bonds intended to be held to maturity and of instruments that have maturities.

	Millions of yen			Millions of U.S. dollars		
	Within one year	One to five years	Five to 10 years	Within one year	One to five years	Five to 10 years
Bonds						
Corporate bonds	¥ –	¥305	¥ –	$ –	$2	$ –
Other	16	100	–	0	1	–
Other securities	–	–	–	–	–	–
Total	¥16	¥405	¥ –	$ 0	$3	$ –

4. Short-Term Loans and Long-Term Debt

Short-term bank loans are represented as short-term loans in the accompanying consolidated balance sheets. The annual average interest rate applicable to short-term bank loans at March 31, 2003 was 2.77%.

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

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Domestic unsecured straight bonds due 2003 through 2010 at rates of 0.435% to 2.57% per annum	**¥ 236,500**	¥ 240,000	**$ 1,968**
General secured bonds due 2005 through 2017 at rates of 2.30% to 3.20% per annum (*)	**139,800**	139,800	**1,163**
Total bonds	**¥ 376,300**	¥ 379,800	**$ 3,131**
Loans from banks:			
Maturing through 2020 at average rates of 2.04% per annum	**¥1,099,924**	¥1,316,423	**$ 9,151**
Other interest-bearing debt	**15,045**	36,172	**125**
	¥1,114,969	¥1,352,595	**$ 9,276**
Total bonds, loans and other interest-bearing debt	**¥1,491,269**	¥1,732,395	**$12,407**
Less, amount due within one year	**275,455**	388,881	**2,292**
	¥1,215,814	¥1,343,514	**$10,115**

(*)The Company has offered overall assets as general collateral for the above corporate bonds.

Aggregate annual maturities of long-term debt subsequent to March 31, 2003 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	**2003**	**2003**
2004	**¥ 275,455**	**$ 2,292**
2005	**319,312**	**2,657**
2006	**257,601**	**2,143**
2007	**235,761**	**1,961**
2008 and thereafter	**403,140**	**3,354**
	¥1,491,269	**$12,407**

At March 31, 2003, assets pledged as collateral for long-term loans were as follows:

	Millions of yen	Millions of U.S. dollars
	2003	**2003**
Long-term loans	**¥15,115**	**$126**
Current portion of long-term loans	**3,514**	**29**
Performance bond for cable contracts	**4,138**	**34**
	¥22,767	**$189**
Mortgage on factory foundation	**29,000**	**$241**
Land	**1,317**	**11**
Term deposits	**4,139**	**35**
	¥34,456	**$287**

5. Contingent Liabilities

At March 31, 2003 and 2002, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
As a guarantor for:			
Loans of affiliated companies	**¥ 215**	¥ 419	**$ 2**
System supply contract of KDDI Submarine Cable Systems Inc.	**146,526**	186,817	**1,219**
Office lease contract of KDDI AMERICA, INC.	**765**	1,008	**6**
	¥147,506	¥188,244	**$1,227**

6. Gain and Loss on Sales of Property, Plant and Equipment

Gain and loss on sales of property, plant and equipment, at March 31, 2003, was as follows:

	Millions of yen	Millions of U.S. dollars
	2003	**2003**
(Gain) on sales of Komuro Training Center	**¥(3,757)**	**$(31)**
(Gain) on sales of Uchisaiwaicho Dai Building	**(1,460)**	**(12)**
Loss on sales of land and other in Kobe	**2,968**	**25**
Loss on sales of Chofu Dormitory	**2,455**	**20**
Other	**78**	**0**

7. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value at March 31, 2003 and 2002 were summarized as follows:

	Millions of yen						Millions of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	2003			2002			**2003**		
Tools, furniture and fixtures	**¥151,043**	**¥89,285**	**¥61,757**	¥165,205	¥79,207	¥85,998	**$1,257**	**$743**	**$514**
Other	**4,671**	**675**	**3,996**	1,051	750	301	**38**	**5**	**33**
	¥155,714	**¥89,960**	**¥65,753**	¥166,256	¥79,957	¥86,299	**$1,295**	**$748**	**$547**

Future lease payments as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Within one year	**¥26,391**	¥30,168	**$220**
Over one year	**39,362**	56,131	**327**
	¥65,753	¥86,299	**$547**

Lease payments and assumed depreciation charges for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Lease payments	**¥29,966**	¥28,641	**$249**
Assumed depreciation charges	**29,966**	28,641	**249**

Depreciation charges were computed using the straight-line method over lease terms assuming no residual value.

Operating leases

Obligation under non-cancelable operating leases as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Within one year	**¥ 20,154**	¥ 17,404	**$ 168**
Over one year	**100,282**	103,854	**834**
	¥120,436	¥121,258	**$1,002**

Lessor side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value at March 31, 2003 and 2002 were summarized as follows:

	Millions of yen						Millions of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
	2003			2002			**2003**		
Tools, furniture and fixtures	**¥2,972**	**¥1,755**	**¥1,217**	¥3,427	¥1,480	¥1,947	**$25**	**$15**	**$10**
Other	**347**	**193**	**155**	130	84	46	**3**	**1**	**1**
	¥3,319	**¥1,948**	**¥1,372**	¥3,557	¥1,564	¥1,993	**$28**	**$16**	**$11**

Future lease receipts as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Within one year	**¥ 636**	¥ 788	**$ 5**
Over one year	**841**	1,369	**7**
	¥1,477	¥2,157	**$12**

Lease receipts and assumed depreciation charges for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	**2003**
Lease receipts	**¥781**	¥742	**$6**
Assumed depreciation charges	**728**	685	**6**

8. Derivatives

For the purpose of minimizing risks of foreign exchange or interest rate fluctuations, the Company and certain of its subsidiaries have entered into particular financial agreements.

Information on such financial arrangements outstanding as of March 31, 2003 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2003	National amount	Market value	Unrealized gain	National amount	Market value	Unrealized gain
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥2,000	¥200	¥200	$17	$2	$2
Variable rate into fixed rate obligations	4,000	(127)	(127)	33	(1)	(1)

9. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distribution paid out of retained earnings by the parent company and its Japanese subsidiaries be appropriated as a legal reserve which is included in retained earnings in the consolidated balance sheets. No further appropriation is required when the legal reserve equals 25 percent of their respective stated capital. This reserve amounted to ¥12,167 million ($101 million) and ¥12,130 million at March 31, 2003 and 2002, respectively. This reserve is not available for dividend payment but may be capitalized by resolution of the Board of Directors or compensated for deficits by approval of the shareholders.

Under the Commercial Code, 100% of the issue price of new shares is required to be designated as stated capital, however, by resolution of the Board of Directors, less than or equal to 50% of the issued price of new shares may be designated as additional paid-in capital. Also, an amount up to the excess of (i) the portion of the issue price of new shares accounted for as common stock over (ii) the sum of the par value of such new shares and additional paid-in capital may be distributed, by resolution of the Board of Directors, in the form of free share distributions to shareholders.

10. Research and Development Expenses

Research and development expenses charged to income were ¥10,459 million ($87 million) and ¥8,954 million, for the years ended March 31, 2003 and 2002, respectively.

11. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2003 was 41.9%.
At March 31, 2003 and 2002, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Depreciation and amortization	¥ 5,194	¥ 2,666	$ 43
Allowance for doubtful accounts	8,377	9,135	70
Disposal of fixed assets	3,765	47,560	31
Inventory write down	4,497	10,586	37
Reserve for retirement benefits (lump-sum)	18,548	16,179	154
Reserve for retirement benefits (pension)	3,696	4,594	31
Allowance for bonus payment	5,639	3,588	47
Accrued expenses	13,167	4,054	110
Accrued enterprise taxes	–	4,742	–
Net operating loss carried forward	54,534	49,649	454
Unrealized profits	7,363	11,137	61
Reserve for point service program	6,434	–	54
Other	7,476	5,446	62
Gross deferred tax assets	138,690	169,336	1,154
Valuation allowance	(65,752)	(61,310)	(547)
Net deferred tax assets	¥ 72,938	¥108,026	$ 607
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,476)	¥ (1,312)	$ (12)
Gain on establishment of retirement benefit trust	(20,367)	(21,020)	(170)
Net unrealized gains on securities	(936)	(2,085)	(8)
Retained earnings for overseas affiliates	(1,409)	(587)	(12)
Other	(1,695)	(1,408)	(14)
Total deferred tax liabilities	¥(25,883)	¥ (26,412)	$(216)
Net deferred tax assets	¥ 47,055	¥ 81,614	$ 391

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2003.

Statutory tax rate	41.9%
Valuation allowance	6.4%
Amortization of goodwill	1.4%
Appropriation of net operating loss carried forward	(6.7)%
Other	2.4%
Effective tax rate	45.4%

Note: For the year ending March 31, 2005, a corporation size-based enterprise tax will be introduced which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ended March 31, 2005 will change from 41.9% to 40.6%. The newly enacted rates were used in calculating the future expected tax effects of temporary differences as of March 31, 2003. Consequently, the impact on "Deferred income taxes" (after offsetting deferred income tax liabilities) as of March 31, 2003 was the decrease of ¥377 million. Also, the impact on "Income taxes–Deferred" for the year ended March 31, 2003 and "Net unrealized gains on securities" as of March 31, 2003 were the increase of ¥409 million and ¥31 million, respectively.

12. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of welfare pension plan, a qualified pension plan, a retirement lump-sum plan and a retirement benefit trust scheme. Substantially all employees of the Company and its domestic subsidiaries are covered by these retirement benefit plans.

The reserve for retirement benefits as of March 31, 2003 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2003	2003
Projected benefit obligations	**¥(287,794)**	**$(2,394)**
Plan assets	**140,776**	**1,171**
Retirement benefit trust	**5,007**	**42**
	¥(142,011)	**$(1,181)**
Unrecognized prior service cost	**(2,834)**	**(24)**
Unrecognized actuarial differences	**137,321**	**1,142**
Prepaid pension cost	**(24,711)**	**(205)**
Reserve for retirement benefits	**¥ (32,235)**	**$ (268)**

Net pension expense related to the retirement benefits for the year ended March 31, 2003 was as follows:

	Millions of yen	Millions of U.S. dollars
	2003	2003
Service cost	**¥10,106**	**$ 84**
Interest cost	**6,558**	**55**
Expected return on plan assets	**(3,959)**	**(33)**
Amortization of prior service cost	**(221)**	**(2)**
Amortization of actuarial differences	**6,917**	**57**
Net pension cost	**¥19,401**	**$161**

Assumptions used in calculation of the above information were as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.5% (Mainly)
Expected rate of return concerning retirement benefit trust	0%
Method of attributing the projected benefits to periods of services	straight-line basis
Amortization of actuarial differences	14 years from the year following that in which they arise
Amortization of prior service cost	14 years from the year ending March 31, 2003

Note: In conjunction with the implementation of the defined benefit enterprise pension plan law, the Company and some of its domestic subsidiaries received approval from the Minister of Health, Labour and Welfare on April 1, 2003 to relinquish the entrusted portion of the future retirement benefit obligations of the employee pension fund. Consequently, the Company will apply transitional measures as specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants).

Following approval, the Company and some of its domestic subsidiaries will be released from the retirement payment obligation relating to the entrusted portion. As a result, the Company expects to include consolidated gains of approximately ¥3,961 million as part of its “Extraordinary profit” for fiscal year 2003.

On April 1, 2003, the Company and its subsidiaries established a new defined benefit enterprise pension plan called “Corporation Pension Fund of KDDI” in order to combine three individual Qualified Pension Plans, formerly held by KDD, IDO and au, which had been maintained separately after the merger in October 2000.

Additionally, most of the Employee Pension Funds, which have also been maintained separately, will be combined after the above relinquishment.

13. Segment Information

Segment Information by business category for the years ended March 31, 2003 and 2002 is as follows:

Millions of yen

Year ended March 31, 2003	Network & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (loss):							
Outside sales	¥ 606,783	¥1,925,253	¥194,332	¥58,975	¥2,785,343	¥ –	¥2,785,343
Intersegment sales	89,255	12,163	3,247	31,613	136,278	(136,278)	–
Total	696,038	1,937,416	197,579	90,588	2,921,621	(136,278)	2,785,343
Operating expenses	632,345	1,883,725	177,312	92,813	2,786,195	(141,505)	2,644,690
Operating income (loss)	¥ 63,693	¥ 53,691	¥ 20,267	¥ (2,225)	¥ 135,426	¥ 5,227	¥ 140,653
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥1,292,590	¥1,476,959	¥226,016	¥61,954	¥3,057,519	(¥275,480)	¥2,782,039
Depreciation	108,923	241,012	39,583	6,880	396,398	(7,429)	388,969
Capital expenditures	48,713	191,489	12,922	1,723	254,847	(854)	253,993

Millions of yen

Year ended March 31, 2002	Network & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (loss):							
Outside sales	¥655,393	¥1,863,566	¥207,813	¥107,027	¥2,833,799	–	¥2,833,799
Intersegment sales	94,796	5,889	3,195	45,696	149,576	(149,576)	–
Total	750,189	1,869,455	211,008	152,723	2,983,375	(149,576)	2,833,799
Operating expenses	719,556	1,812,321	204,348	149,473	2,885,698	(154,197)	2,731,501
Operating income (loss)	¥ 30,633	¥ 57,134	¥ 6,660	¥ 3,250	¥ 97,677	¥ 4,621	¥ 102,298
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥1,392,249	¥1,722,448	¥261,458	¥132,432	¥3,508,587	¥(305,146)	¥3,203,441
Depreciation	125,913	259,094	38,890	7,844	431,741	(7,760)	423,981
Capital expenditures	92,550	198,411	20,533	4,366	315,860	(1,599)	314,261

Millions of U.S. dollars

Year ended March 31, 2003	Network & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income:							
Outside sales	$ 5,048	$16,017	$1,617	$491	$23,173	$ –	$23,173
Intersegment sales	743	101	27	263	1,134	(1,134)	–
Total	5,791	16,118	1,644	754	24,307	(1,134)	23,173
Operating expenses	5,261	15,672	1,475	772	23,180	(1,177)	22,003
Operating income	$ 530	$ 446	$ 169	$ (18)	$ 1,127	$ 43	$ 1,170

Ⅱ. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	$10,754	$12,288	$1,880	$515	$25,437	$(2,292)	$23,145
Depreciation	906	2,005	329	58	3,298	(62)	3,236
Capital expenditures	405	1,593	108	14	2,120	(7)	2,113

Notes: 1. Business category and Principal Services/Operations of Each Category, Effective from the year ended March 31, 2002

Business category	Principal services/operations
Network & Solution	Domestic and international telecommunications services, Internet services, telehousing services
au, TU-KA	au and TU-KA phone services, sale of au and TU-KA phone terminals
PHS	PHS services, sale of PHS terminals
Other	Construction of communications facilities, sale of information communications equipment and systems, research and development of advanced technology

2. As described in the note 2o, effective from the fiscal year ended March 31, 2003, the Company adopted a new method of accounting for its point service program in order to prepare for the future cost of customer's redeeming the points they have earned under the 'au' Point Program. A reserve for point service program is established at an amount considered appropriate based on the past experience of the Company, plus an additional amount deemed necessary to cover possible redemption of the points during or after the next consolidated fiscal year. As a result, operating expenses of "Network & Solution," "au and TU-KA" and "PHS" increased by ¥472 million ($4 million), ¥8,392 million ($70 million) and ¥75 million ($1 million), respectively, and the total operating expenses and consolidated operating expenses increased by ¥8,939 million ($74 million), resulting in decreases by the same amounts in respective operating incomes.

3. Information by geographic area and overseas sales is not shown since overseas sales were not material compared to consolidated net sales.

14. Subsequent Events

(1) The appropriation of retained earnings of the Company with respect to the year ended March 31, 2003, proposed by the Board of Directors and approved at the shareholder's meeting held on June 24, 2003, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥1,200 = US$9.98)	¥5,059	$42
Bonuses to directors and statutory auditors	67	1

(2) On June 24, 2003, the Company's shareholders approved the acquisition of common stocks as treasury stocks mainly for the implementation of warrant option plans set forth in the provisions of the Japanese Commercial Code. The maximum number of the Company's common stocks to be acquired is 1,800, and that of the total acquisition costs is ¥1,080 million ($9 million).

REPORT OF INDEPENDENT ACCOUNTANTS

KDDI Corporation and Consolidated Subsidiaries

Report of Independent Accountants

To the Board of Directors of
KDDI CORPORATION

We have audited the accompanying consolidated balance sheets of KDDI CORPORATION and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 KDDI CORPORATION and its 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 (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Kyoto, Japan
June 24, 2003

CORPORATE OVERVIEW

(As of March 31, 2003)

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Type I Telecommunications business
Principal Office:	KDDI Bldg., 3-2, Nishi-shinjuku 2-chome, Shinjuku-ku, Tokyo 163-8003, Japan (Iidabashi Office) Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
President:	Tadashi Onodera
Capital:	¥141,851 million
Number of Employees:	13,341 (consolidated)

DIRECTORS, AUDITORS AND VICE PRESIDENTS

(As of July 1, 2003)

Directors

Chairman, Member of the Board
Mitsuo Igarashi

President, Member of the Board
Tadashi Onodera

Executive Vice President, Member of the Board
Masahiro Yamamoto

Members of the Board, Senior Vice Presidents
Nobuhiko Nakano
Yasuhiko Ito
Satoshi Nagao

Members of the Board, Associate Senior Vice Presidents
Nobuo Nezu
Hirofumi Morozumi

Members of the Board
Jiro Ushio
Yasuo Nishiguchi
Hiroshi Okuda

Auditors

Standing Statutory Auditors
Akira Hioki
Toshiaki Terui
Osamu Ando

Statutory Auditor
Atsushi Mori

Vice Presidents

Senior Vice President
Toshio Okihashi

Associate Senior Vice Presidents
Masaru Takahashi
Kaoru Tachibana
Kazuyuki Tsukada

Vice Presidents
Hitomi Murakami
Tomoyoshi Kaneko
Yuji Tsuda
Hiroshi Kitagawa
Yuzo Ishikawa
Seikichi Sakakibara
Hisashi Fujishita
Seiji Hamada
Toshiyuki Fujino
Shunsuke Oyama
Yuji Fujimoto
Yutaka Yasuda
Yoshiharu Shimatani
Hideo Okinaka
Takahito Shigeno
Hideo Yuasa
Toru Kawai
Takashi Tanaka
Makoto Takahashi
Hiromu Naratani

CORPORATE HISTORY

	DDI	IDO	KDD	TWJ	Telecommunications sector
1953			established		
1961			listed on the Second Section of the Tokyo Stock Exchange		
1964			joined in the INTELSAT the TPC-1 launched		
1970			listed on the First Section of the Tokyo Stock Exchange		
1973			International Direct Dialing service launched		
1976			the TPC-2 launched		
1977			joined in the INMARSAT		
1984	established			established	
1985					liberalization of the telecommunication sector
1987	domestic telephone service launched			domestic telephone service launched	
1988	cellular companies established	established			
1989	analog cellular telephone service launched				
1990					
1991					
1992			the TPC-4 launched		
1993	listed on the Second Section of the Tokyo Stock Exchange				
1994	digital cellular telephone service “PDC” launched				liberalization of sales of cellular telephones
	PHS Company (DDI Pocket) established				
1995	PHS service launched				
	listed on the First Section of the Tokyo Stock Exchange				
1996			the TPC-5 launched		
1997	Internet service “DION” launched				
1998	digital cellular telephone service “cdmaOne” launched		Merger of KDD and TWJ		the KDD law abolished
1999	Acquisition of TU-KA Group		the JIH launched		
2000	Merger of DDI, KDD and IDO				
2001	au Corporation merged to KDDI				the MYLINE registration started
2002	the Third-Generation cellular telephone service “CDMA2000 1x” launched				
2003	VoIP (Voice over IP) service launched				

Notes 1) TPC : Trans Pacific Cable
2) INTELSAT : International Telecommunications Satellite Organization
3) INMARSAT : International Mobile Satellite Telecommunications Organization
4) TWJ : Teleway Japan Corporation
5) JIH : Japan Information Highway (the submarine fiber-optic cable that encircles the Japanese archipelago in a loop configuration.)

ORGANIZATION

(As of July 1, 2003)

- Shareholder's Meeting
- Board Meeting — Office of Corporate Auditors
- Chairman
- Vice Chairman
- President
- Corporate Management Committee
  - HOKKAIDO Regional Office
  - TOHOKU Regional Office
  - KITA-KANTO Regional Office
  - Shinjuku Office
  - MINAMI-KANTO Regional Office
  - CHUBU Regional Office
  - HOKURIKU Regional Office
  - KANSAI Regional Office
  - CHUGOKU Regional Office
  - SHIKOKU Regional Office
  - KYUSHU Regional Office
    - Office of Corporate Auditors
  - Corporate Communications Division
  - Corporate Strategy Division
  - Business Administration Division
  - General Administration Division
  - Legal & Intellectual Property Division
  - Competency Enhancement Division
  - Corporate Purchasing Division
  - IT Development Division
  - Information Systems Division
  - Customer Service Division
  - Technology Division
  - Telecommunication Operations Sector
    - Planning Division
    - Telecommunication Service Operations Division
    - Engineering Division
  - Solution Business Sector
    - Solution Business Management Division
    - Solution Domestic Sales Division
    - Global Business Division
      - Toyota Project Department
    - Solution Product Development Division
    - Content Business Division
  - Broadband & Consumer Business Sector
    - Consumer Business Planning Division
    - Consumer Sales Division
    - Broadband Business Division
  - “au” Business Sector
    - “au” Business Development Division
    - “au” Engineering Division
    - “au” Sales Division

MAJOR CONSOLIDATED SUBSIDIARIES

(As of March 31, 2003)

Mobile Communication Businesses

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
OKINAWA CELLULAR TELEPHONE COMPANY	Jun. 91	¥1,414	51.5%	CDMA cellular phone services under the "au" brand
Tu-Ka Cellular Tokyo Inc.	Jul. 91	¥6,000	61.2%	PDC cellular phone service
Tu-Ka Cellular Tokai Inc.	Feb. 92	¥3,000	60.7%	PDC cellular phone service
Tu-Ka Phone Kansai Inc.	Oct. 91	¥6,000	54.0%	PDC cellular phone service
DDI Pocket Inc.	Jul. 94	¥75,251	80.9%	PHS service

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
HOLA Paraguay S.A.	Sep. 98	GS 288,650	69.6%	Cellular service in Paraguay

Broadband & Consumer and Solutions-related Businesses

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KCOM Corporation	May 90	¥1,921	100.0%	Internet services, data transmission services, etc.
KMN Corporation	Jun. 98	¥626	90.0%	Internet provider service through CATV

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI AMERICA, INC.	Jul. 89	US$ 84	100.0%	Telecommunications services in the U.S.
KDDI EUROPE LTD.	Jul. 89	£ 43	100.0%	Telecommunications services in Europe
KDDI FRANCE SAS.	Oct. 96	EUR 4	100.0%	Telecommunications services in France
KDDI DEUTSCHLAND GMBH.	Apr. 92	EUR 1	100.0%	Telecommunications services in Germany
KDDI HONGKONG LIMITED	Jan. 89	HK$ 101	100.0%	Telecommunications services in Hong Kong
KDDI SINGAPORE Pte. Ltd.	Sep. 89	S$ 4	100.0%	Telecommunications services in Singapore
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	A$ 16	100.0%	Telecommunications services in Australia
KDDI do Brasil Ltda.	Apr. 96	R$ 4	67.8%	Internet provider and IT-related business in Brazil
TELEHOUSE INTERNATIONAL CORPORATION OF AMERICA LTD.	Jun. 87	US$ 45	55.9%	Secure IT housing, telecommunications facilities management in the U.S.
TELEHOUSE INTERNATIONAL CORPORATION OF EUROPE LTD.	Mar 88	£ 47	80.0%	Secure IT housing, telecommunications facilities management in Europe
KDDI China	Oct. 01	RMB 13	80.0%	Telecommunications consulting services in China

Telecom Infrastructure Construction

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Submarine Cable Systems Inc.	May 92	¥5,686	69.2%	Consulting, integration, construction, and technological development of optical-fiber submarine cable
KOKUSAI CABLE SHIP CO., LTD.	Mar. 66	¥135	100.0%	Construction and maintenance of submarine cables
Japan Telecommunication Engineering Service Co., Ltd.	Jun. 99	¥470	54.5%	Construction and maintenance of optical fiber network along highways

Sales of IT Equipment and Systems

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
K-Solutions Inc.	Jul. 96	¥672	85.2%	Planning, development, equipment, and sales and support of communications infrastructure and systems
KDDI Technology Corporation	Aug. 88	¥494	100.0%	Development and consulting of image data processing system
OSI Plus Corporation	Sep. 87	¥490	100.0%	Designing, consulting and sales of OSI software
KDDI Media Will Corporation	Aug. 99	¥80	81.9%	Research, development, production and sales of digital imaging products

Other Services

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI R&D Laboratories, Inc.	Apr. 98	¥2,238	91.7%	Research and development of new technologies and sales of developed products
KDDI Telemarketing Inc.	May. 96	¥200	100.0%	Call center services
KDDI Msat, Inc.	Apr. 77	¥300	100.0%	Consulting and sales of Inmarsat satellite communications services
KDDI TELESERVE Inc.	Sep. 87	¥100	100.0%	Temporary staff placement, recruitment consultancy and language service
a1adnet corporation	Dec. 00	¥490	51.0%	Planning, producing and distribution of advertisements on mobile Internet
KDDI SOGO SERVICE CO., LTD.	Apr. 74	¥160	100.0%	Security services; operation and administration of buildings and peripheral facilities

STOCK INFORMATION

(As of March 31, 2003)

Total Number of Shares Authorized:	7,000,000
Total Number of Shares Issued and Outstanding:	4,240,880.38
Number of Shareholders:	141,237

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Voting Right Percentage
Kyocera Corporation	572,675.87	13.62%
Toyota Motor Corporation	497,425.23	11.83%
The Master Trust Bank of Japan, Ltd. (Trust Account)	265,508.00	6.31%
Japan Trustee Services Bank, Ltd. (Trust Account)	241,864.00	5.75%
The Chase Manhattan Bank N.A. London	116,264.00	2.76%
UFJ Trust Bank Limited (Trust Account A)	104,233.00	2.47%
State Street Bank & Trust Co.	102,362.00	2.43%
Ministry of Posts and Telecommunications Mutual Aid Association	76,641.45	1.82%
JP Morgan Chase Oppenheimer Funds JASDEC Account	64,184.00	1.52%
The Tokyo Electric Power Company, Incorporated	56,340.55	1.33%

Distribution of Shares

	Number of Shareholders	Number of Shares Held	Percentage of Total Shares
Financial institutions	233	1,449,739.27	34.19%
Securities firms	47	19,693.65	0.46%
Foreign corporations, etc.	636	782,910.58	18.46%
Individuals and other	138,600	369,974.51	8.72%
Other corporations	1,721	1,618,562.37	38.17%

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