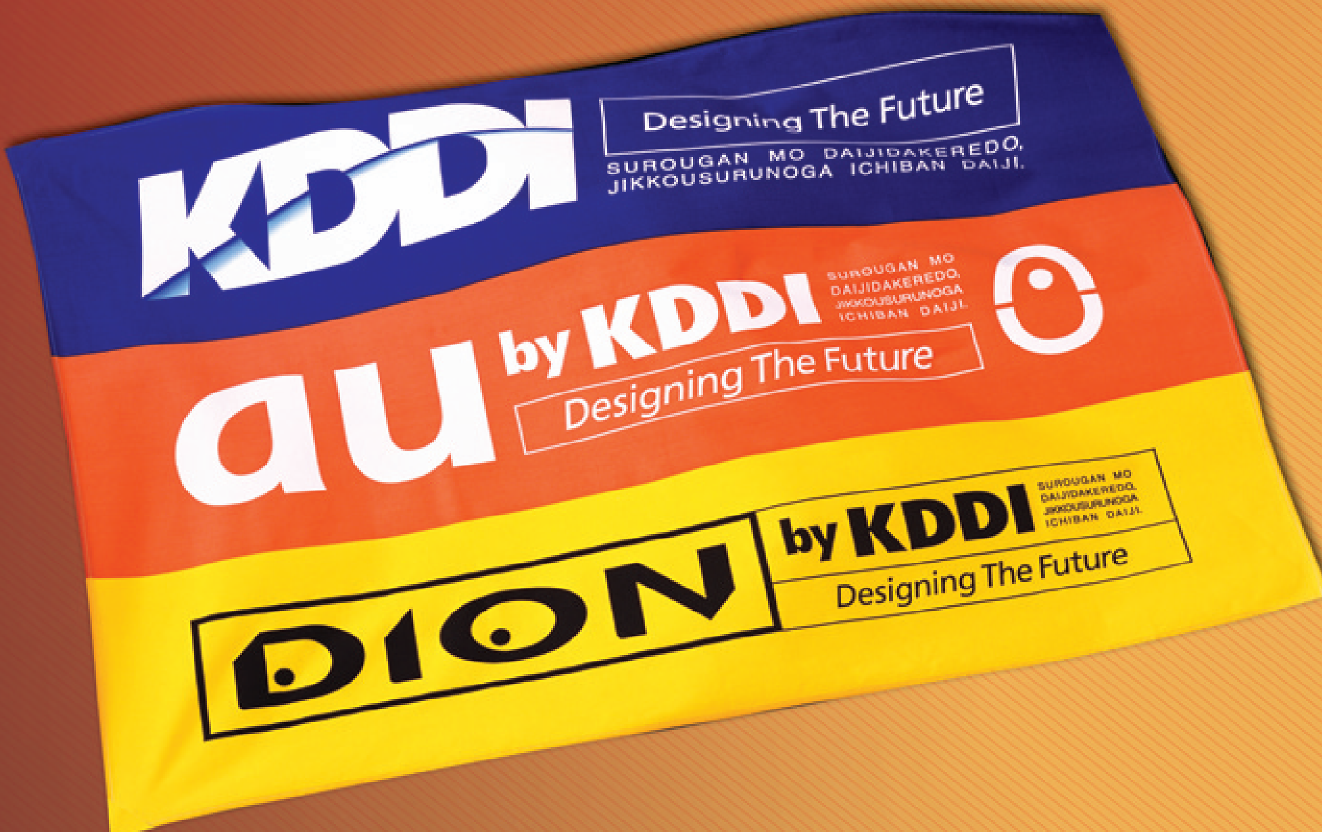
Annual Report 2001

For the year ended March 31, 2001



Profile

KDDI Corporation was established in June 1984 as the Dai-ni Denden Planning Company, changing its name to DDI Corporation in April 1985. In June 1985, in the wave of liberalization sweeping the telecommunications sector, DDI received permission to operate as a Type 1 Telecommunications Carrier. DDI began to provide leased circuits in October 1986 and long-distance telephone services in September 1987, thus introducing competition into the Japanese telecommunications market for the first time. In 1989, the companies of the DDI CELLULAR Group—which, excluding OKINAWA CELLULAR TELEPHONE Co., have since merged to form au Corporation—began offering cellular phone services. In 1995, the DDI POCKET Group companies—which have since merged to form DDI POCKET, Inc.,—launched personal handyphone system (PHS) services.

In October 2000, DDI Corporation merged with KDD Corporation and IDO Corporation to form the new DDI Corporation (KDDI*). On April 1, 2001, the Company changed its name officially to KDDI Corporation. In line with its "Mobile and IP" strategy, which prioritizes mobile communications and IP businesses, KDDI is maximizing its predecessors' accumulated expertise in domestic, international and mobile telecommunications, as well as their extensive R&D capabilities and management resources, notably a sophisticated optical fiber network-based infrastructure. Through these efforts, the Company is contributing to the advancement of telecommunications and reinforcing its position as a provider of comprehensive communications services that satisfy the needs of its customers.

** References to KDDI in this report in the context of fiscal 2000, ended March 31, 2001, refer to DDI Corporation, which was unofficially known as KDDI from the time of the merger and officially became KDDI Corporation on April 1, 2001.*

Contents

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 it 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.

Note: All references to fiscal years in this annual report refer to the fiscal period ended, or ending, March 31.

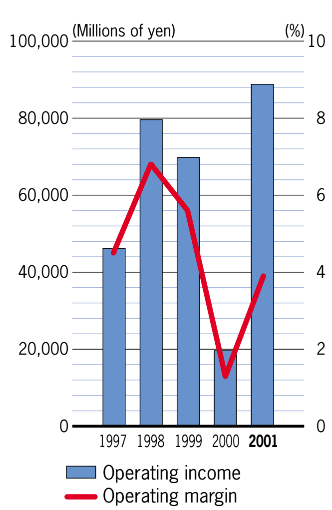
Selected Financial Data

KDDI Corporation and Consolidated Subsidiaries

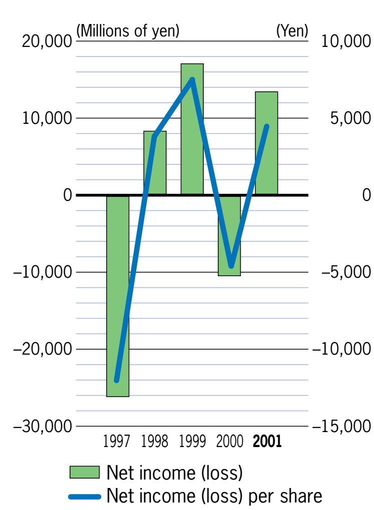
Years ended March 31, 1997–2001	2001	2000	1999	1998	1997	2001
					Millions of yen	Millions of U.S. dollars
Consolidated Statements of Income:						
Total operating revenues	**¥2,268,646**	¥1,525,953	¥1,246,582	¥1,178,345	¥1,016,398	**$18,310**
Operating income	**88,783**	19,614	69,874	79,611	46,194	**717**
Income (loss) before income taxes and minority interests	**45,902**	(42,786)	49,715	65,018	37,880	**370**
Net income (loss)	**13,427**	(10,468)	17,061	8,310	(26,161)	**108**
Consolidated Balance Sheets:						
Total assets	**¥3,639,364**	¥1,999,008	¥1,585,848	¥1,296,747	¥1,005,673	**$29,373**
Interest-bearing debt	**2,097,627**	1,433,128	1,068,616	779,786	614,537	**16,930**
Total shareholders' equity	**845,091**	228,574	231,208	218,321	175,556	**6,821**
Per Share Data (Yen):						
Net income (loss)	**¥4,467**	¥(4,603)	¥7,501	¥3,807	¥(12,031)	**$36.05**
Cash dividends	**1,790**	1,790	1,790	1,790	1,790	**14.45**
Other:						
Return on equity (%)	**2.5%**	–4.6%	7.6%	4.2%	–13.7%	
Return on assets (%)	**0.5**	–0.6	1.2	0.7	–2.8	
Depreciation and amortization	**¥334,647**	268,447	199,176	159,767	115,476	**2,701**
Capital expenditure	**442,040**	395,164	395,366	331,187	326,604	**3,568**
Number of shares issued and outstanding (thousands)	**4,241**	2,274	2,274	2,274	2,174	
Number of employees	**6,812**	2,586	2,990	2,927	2,796	

Notes: 1. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the rate of ¥123.90=$1, the approximate exchange rate on March 31, 2001.
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.

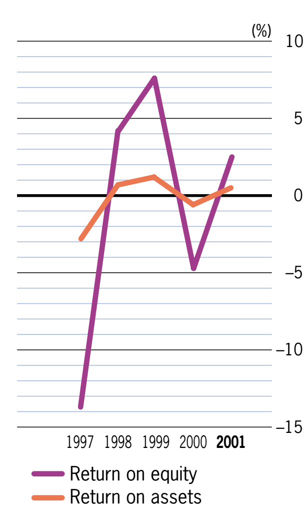
Operating Income and Operating Margin



Net Income (Loss) and Net Income (Loss) per Share



Return on Equity and Return on Assets



To Our Shareholders

From DDI to KDDI

DDI's merger with KDD and IDO on October 1, 2000, marked the debut of the new DDI—now KDDI—a new core telecommunications provider with an extensive customer base and global network, and substantial resources in fixed, mobile, domestic, international, voice, data and IP services.

During fiscal 2001, ended March 31, 2001, KDDI focused on integrating the accumulated cutting-edge technological capabilities of its three predecessors, as well as on consolidating personnel and organizational systems and enhancing the efficiency of capital investment. Prior to the merger, in June 2000, IDO and the DDI CELLULAR Group acquired a license to offer cellular phone services based on IMT-2000, and the following month adopted *au* as the integrated brand name for jointly provided seamless mobile communications services. Since then, KDDI has focused on expanding these services nationwide and establishing the *au* brand. To enhance the efficiency of *au* services, in November 2000 seven of the eight DDI CELLULAR Group companies (excluding OKINAWA CELLULAR) merged to form au Corporation. On March 31, 2001, an exchange of shares with au Corporation made the company a wholly owned subsidiary of KDDI.

In network and IP services, we began offering a number of attractive new discount services in preparation for the May 2001 launch of the MYLINE preferred carrier selection service. We worked to integrate and enhance the DION Internet access service and NEWEB, a similar service previously offered by KDD. In November 2000, we commenced operations at the newly completed Odaiba Data Center in Tokyo. This large-scale facility will play a crucial role in our efforts to expand e-business services. Prior to this, in October 2000 we began construction of PERSEUS, a next-generation terabit-level IP network, and introduced its first PERSEUS service, ANDROMEGA IP-VPN, which allows customers to create Internet-based private internal telecommunications networks.

We also promoted selective cultivation of operations, in line with which we concentrated investment in high-growth KDDI Group businesses and divested Brazilian cellular phone services affiliate GLOBAL TELECOM S.A.

Our efforts in fiscal 2001 contributed to a 48.7% increase in consolidated operating revenues, to ¥2,268.6 billion. Operating income soared 352.7%, to ¥88.8 billion, while net income climbed ¥23.9 billion from a loss in fiscal 2000, to ¥13.4 billion.

The Mobile and IP Strategy

Deregulation and technological progress are transforming Japan's telecommunications industry, intensifying cross-border and cross-industry competition. At the same time, revolutionary advances in information technology (IT) and the rapid diffusion of cellular phones and the Internet are spurring demand for increasingly personalized and diverse communications options, as well as accelerating the shift to multimedia services combining voice-, data- and image-based communications. In the area of mobile communications and data transmission, various new rate plans and services have been introduced. We also see the launch of next-generation mobile communications services in fiscal 2002 as an important new opportunity for us to expand operations.

To capitalize on this opportunity and ensure sustained growth in corporate value, we have set forth concrete numerical targets for fiscal 2005, namely, total operating revenues of ¥3,900.0 billion and earnings before interest, taxes, depreciation and amortization (EBITDA) of ¥900.0 billion. To facilitate achievement of these targets, we have launched a new management restructuring program, which will run from fiscal 2002 through fiscal 2005.

In line with this program, which identifies our *au* and IP businesses as key focus areas, we are pursuing our Mobile and IP strategy, which calls for the concentrated investment of management resources in high-growth mobile telecommunications and IP services. We have already announced several key moves. These include the merger of au Corporation into KDDI on October 1, 2001, which will reinforce and consolidate mobile communications services, and the introduction of CDMA2000 1x, a next-generation cellular phone system, which will enable us to expand our share of the next-generation mobile multimedia communications market, in the second half of fiscal 2002. To enhance IP services, we will emphasize assertive marketing of our data center services under the integrated brand name *dotsquare* and broaden our focus to include e-business platforms for small and medium-sized companies as well as major Internet service providers (ISPs) and application service providers (ASPs).

Strategies for noncore businesses focus on cultivating businesses that maximize existing strengths—such as DDI POCKET's PHS data transmission services. At the same time, we will also undertake a drastic reorganization of noncore businesses by, for example, consolidating the

From left to right: *Jiro Ushio, Tadashi Onodera, Yusai Okuyama*

operations of affiliates and certain businesses overseas and divesting unpromising businesses.

Another crucial goal is to increase the efficiency of capital investment. To this end, we will maintain total consolidated capital investment below total depreciation and amortization, while at the same time concentrate more than 90% of investment in our core *au* and IP businesses. Finally, we will endeavor to lower interest-bearing debt, which has ballooned owing to the merger, to ¥1.0 trillion by fiscal 2005, by improving free cash flow, securitizing real estate assets and selling assets.

Management System Reform

Effective June 26, 2001, former president Yusai Okuyama assumed the position of vice chairman, and former vice president Tadashi Onodera took over as president. These new appointments were accompanied by a drastic reform of the Company's management system and the establishment of a new management structure. To accelerate decision making and implementation, we have reduced the number of directors on the board to 13, from 53.

We have also made structural reforms, replacing our conventional, business division-led order with a flatter organization in which divisions and departments are answerable directly to the president. As part of this reorganization, we have established a system whereby six directors on the board oversee 16 division general managers who are responsible for supervising day-to-day operations.

Toward Higher Corporate Value

The change of our name to KDDI on April 1, 2001, marked the real debut of the new company created through the merger of DDI, KDD and IDO. We recognize, however, that the real test of its corporate value is still ahead. Accordingly, we intend to allocate the resources necessary to ensure its ability to provide innovative, exclusive services that respond to the needs of customers, thereby securing the trust of shareholders, business partners and other stakeholders, and facilitating communications that contribute to the advancement of the global community. In these and all our endeavors, we look forward to the support and encouragement of our shareholders.

August 2001

Jiro Ushio

Jiro Ushio
Chairman, Member of the Board, Representative Director

Y. Okuyama

Yusai Okuyama
Vice Chairman, Member of the Board, Representative Director

T. Onodera

Tadashi Onodera
President, Member of the Board, Representative Director

Interview with the President

Rebuilding *au* and IP Services

Q: Nine months have passed since the merger of DDI, KDD and IDO and the debut of KDDI. The original merger announcement and the creation of a new company in December 1999 was accompanied by the introduction of the Mobile and IP strategy. What does this strategy involve?

As you know, Japan's telecommunications industry is experiencing particularly sharp growth in the subscriber base for mobile telecommunications. The number of cellular phone and PHS subscribers surpassed that of fixed-line telephone service subscribers in March 2000, and continued rising to almost 66.8 million as of March 31, 2001. We are also seeing rapid growth in Internet services, with 47.1 million users in Japan as of December 31, 2000, and more than 87.2 million expected to be online by the end of 2005. The Mobile and IP strategy positions these two high-growth fields as the new company's core businesses, to be cultivated through intensive, focused investment of management resources to enhance the company's profitability and growth potential, thereby contributing to continuous growth in corporate value. Specifically, this means we will focus investment of resources—people, facilities, funds and technologies—to the development of our *au* and IP businesses.

Among noncore businesses, we will concentrate on high-speed data transmission services that capitalize on the features of DDI POCKET's PHS systems. We will also continue to promote TU-KA personal digital cellular (PDC) system services by focusing on reasonably priced voice-transmission and low-speed data-transmission services. For the businesses of affiliated companies, we will apply the concept of selective, concentrated investment. We have divided these companies into three categories: candidates for initial public offerings (IPOs) in the foreseeable future, low-profit earners, and those that are unprofitable and likely to remain that way. We will make forward-looking investments in companies in the first category. We will restructure companies in the latter two categories, and divest businesses when appropriate.

We have set concrete numerical targets for the Mobile and IP strategy. As a consequence of the measures I have just outlined, we are aiming to achieve total operating revenues of ¥3,900.0 billion and EBITDA of ¥900.0 billion in fiscal 2005.

Q: What measures have you implemented to date in line with this strategy?

In June 2000, prior to the merger, we acquired a license to offer cellular phone services based on IMT-2000, recognized as the global standard for the next generation of mobile telecommunications services. The following month, IDO and the DDI CELLULAR Group adopted *au* as the integrated brand name for nationwide jointly provided seamless mobile telecommunications services offered—a brand name we have worked to establish in the year since. Following the merger, in November 2000 we significantly improved the e-mail function of the EZweb mobile Internet access service. Also in November, seven of the eight DDI CELLULAR Group companies—excluding OKINAWA CELLULAR, which is already listed on the over-the-counter market—merged to form au Corporation, in a move aimed at enhancing the efficiency of the *au* business and facilitating the rapid expansion of services. The company became a wholly owned subsidiary of KDDI after an exchange of shares on March 31, 2001.

In the IP business, we integrated the DION and NEWEB Internet access services under the DION name. In November 2000, we completed construction of, and commenced services at, the Odaiba Data Center in Tokyo, a large-scale facility that will play a crucial role in our efforts to expand e-business services.

To reinforce noncore businesses, we promoted selective and concentrated investment. Of note, we divested GLOBAL TELECOM of Brazil.

Q: How do you evaluate your achievements so far?

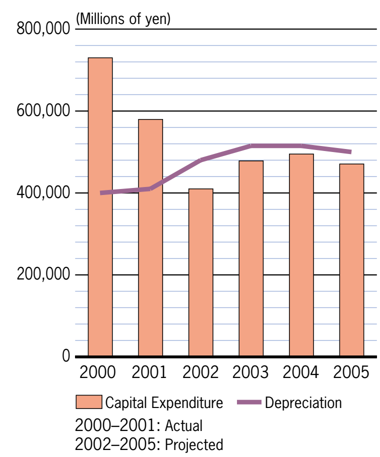
We have taken several key steps to increase the appeal of *au* services, including introducing Japan's first discount rate plan for students—called *Gakuwari*—in November 2000, enhancing EZweb's color content and offering attractively colored terminals. As a consequence, the number of *au* service subscribers as of March 31, 2001, reached approximately 11.0 million, 8.5% higher than the combined *au* subscriber bases of IDO and the DDI CELLULAR Group on March 31, 2000. Subscribers for the DION dial-up Internet access service exceeded 1.8 million on March 31, 2001, approximately double the number a year earlier. Such achievements contributed to total operating revenues of ¥2,268.6 billion and net income of ¥13.4 billion, so I think we have been fairly successful. Many tasks remain, however, including reducing interest-bearing debt, which increased as a result of the merger; integrating the mobile, fixed-line and IP services of the three original companies; and reforming our management system to expedite decision making.

Implementing Management Reform

Q: Was the new management reform plan you announced immediately following your appointment as president of KDDI intended as a concrete scheme to address these remaining tasks?

Yes. Before the merger, we announced a target for interest-bearing debt for fiscal 2005 that required us to shave close to ¥1,000 billion. Immediately after the merger, interest-bearing debt amounted to ¥2,240.9 billion. By the end of fiscal 2001, we had reduced this to ¥2,097.6 billion. The new management reform plan takes this effort one step further by outlining a strategic focus that emphasizes stability and growth as well as the reduction of interest-bearing debt. Specifically, the plan calls for maintaining Groupwide capital investment within the bounds of depreciation and amortization and concentrating investment in core businesses. It also calls for using free cash flow generated by *au* and other core services and the securitization of real estate and sale of assets to reduce interest-bearing debt by ¥600.0 billion and ¥400.0 billion, respectively.

Capital Expenditure and Depreciation
(As of March 31)



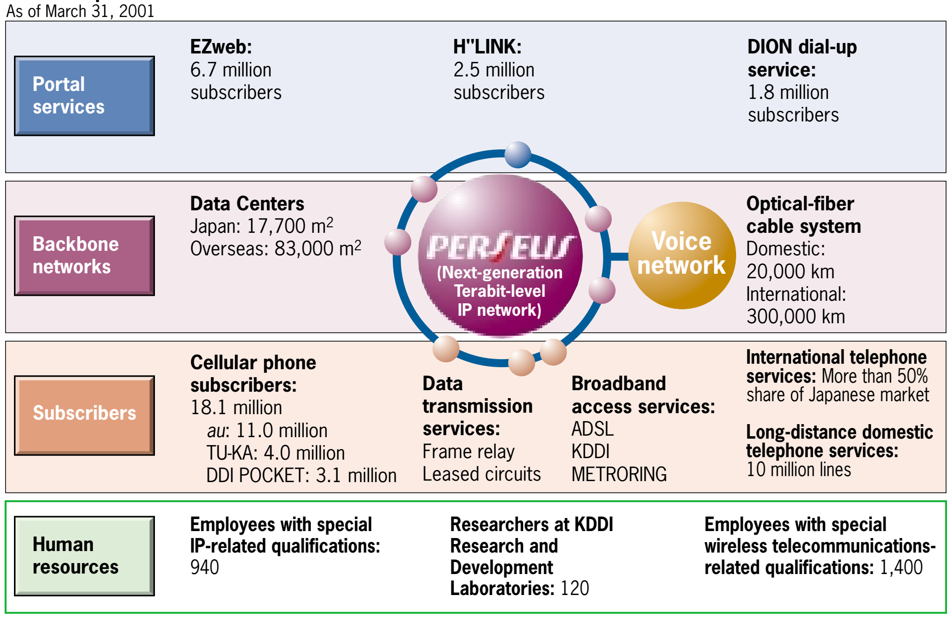
Q: Is it possible to grow core businesses, such as *au* and IP services—especially when you are looking at launching next-generation cellular phone systems—and lower interest-bearing debt at the same time?

Yes, I think it is. We will introduce our first next-generation cellular phone service in the current period, but will focus initially on systems operating in the 800MHz bandwidth, enabling us to use the existing cdmaOne infrastructure and therefore maximize profitability. We expect to spend only ¥200.0 billion for capital investment in new systems—the 2GHz CDMA2000 1x and the 800MHz CDMA2000 1xEV—between fiscal 2002 and fiscal 2004, as well as a maximum of ¥780.0 billion to expand facilities for 800MHz CDMA2000 1x, to accommodate an increased number of subscribers. In contrast, other carriers launching 2GHz wideband CDMA (W-CDMA) systems are likely to require a minimum of ¥1,000.0 billion—in addition to the capital investment they are committed to for their existing 800MHz or 1.5GHz PDC systems. In other words, we will be able to maximize our forward-looking investment in cdmaOne infrastructure.

Q: What resources does KDDI have to ensure achievement of the medium-term strategic goals it has set ?

We offer three Internet portal services: EZweb, H"LINK and DION. As of March 31, 2001, subscribers to EZweb reached 6.7 million, while subscribers to H"LINK and DION dial-up services numbered 2.5 million and 1.8 million, respectively. We have fiber-optic cable backbone networks of more than 20,000 kilometers in Japan and over 300,000 kilometers overseas, as well as data center space of 17,700 square meters in Japan and 83,000 square meters overseas. The combined subscriber base for our three mobile telecommunications services—*au*, TU-KA and DDI POCKET—is 18.1 million. We command more than 50% of Japan's international telephone services market and have more than 10.0 million long-distance domestic subscriber lines. To corporate users, we offer frame relay services and leased circuits, as well as asynchronous digital subscriber line (ADSL) services, KDDI METRORING (local optical fiber networks) and other broadband access options. Finally, we have highly trained people to support these services, including 940 IP specialists and 1,400 mobile telecommunications experts, as well as KDDI Research and Development Laboratories, Inc., a world-renowned R&D facility staffed by 120 top-flight researchers working in such leading-edge areas as video transmission and voice recognition technology, and Internet Protocol Version 6 (IPV6), which will play a major role in the future expansion of our mobile and IP businesses.

KDDI Group Resources
As of March 31, 2001



Q: Are you also investing management resources in MYLINE preferred carrier selection services?

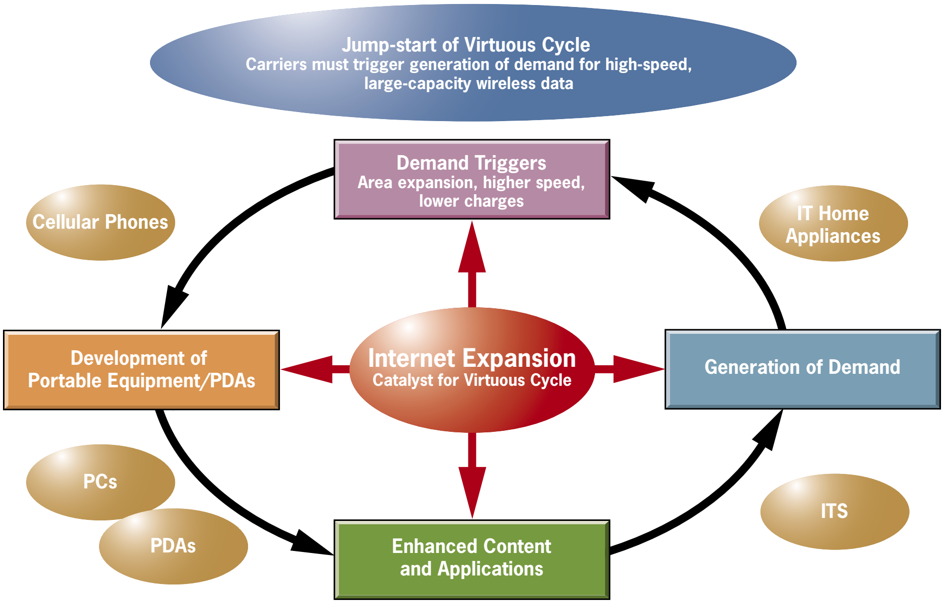
Yes, we are allocating considerable resources to MYLINE services at the moment, primarily because we believe any loss of our share of the markets for domestic long-distance and international fixed-line telephone services would weaken the foundation of our network operations. We are aiming for 10 million MYLINE subscriber lines by the end of October 2001, and will continue to market services intensively until then, after which we will shift human and financial resources to our *au* and IP businesses. As of July 2001, we had achieved approximately 60% of our MYLINE target, indicating we will have no trouble reaching 10 million by October 2001. Of course, our primary focus remains on domestic long-distance and international services. We are newcomers in the market for local services; nonetheless, we recognize the importance of this business to our future marketing capabilities and will continue to approach it from this angle.

Q: What strategies will you implement in the *au* business?

We are targeting a market share in excess of 20% and more than 17 million *au* subscribers by the end of fiscal 2005. We see the coming months—prior to the full-scale launch of W-CDMA services—as a crucial opportunity to increase our market share. We will take advantage of this opportunity by taking decisive steps to differentiate our services from W-CDMA, particularly by launching innovative new services that maximize the features of CDMA2000 1x and CDMA2000 1xEV. We expect to make CDMA2000 1x services available nationwide in the second half of fiscal 2003. We also launched Bluetooth-compatible terminals in June 2001 and Java-compatible terminals in July. Later on, we will also introduce terminals that are compatible with wireless application protocol version 2.0 (WAP2.0), enabling us to offer Java-based data exchange, gpsOne location positioning services, music downloading, video playing and other attractive new functions. We will enjoy a particular advantage in the area of gpsOne services: whereas W-CDMA subscribers will require a special terminal to use gpsOne, subscribers to CDMA2000 1x will be able to use the service from standard terminals.

After the launch of CDMA2000 1xEV, we will emphasize initiatives aimed at maximizing our capabilities as a carrier to expand our service area, further increase transmission speeds and reduce rates. Through such initiatives, we will encourage efforts to develop mobile telecommunications and personal digital assistant (PDA) terminals and to enhance content and applications. We will also strive resolutely to cultivate new demand for high-speed, high-capacity wireless data transmission services encompassing such concepts as intelligent transportation systems (ITS) and networked household appliances. In the area of content and applications development, we expect to see increased use of new development schemes, such as revenue sharing, in addition to more conventional approaches, such as providing funding and lending server and transmission routes. New development approaches have already yielded considerable results in the realization of new services and business models, such as mobile virtual network operator (MVNO) services, which are mobile telecommunications services provided by firms leasing network capacity from other carriers. For example, in April 2001 SECOM Co., Ltd., Japan's leading security services provider, launched Coco-Secom, a positioning system that incorporates *au's* cdmaOne network. This is similar to an MVNO service.

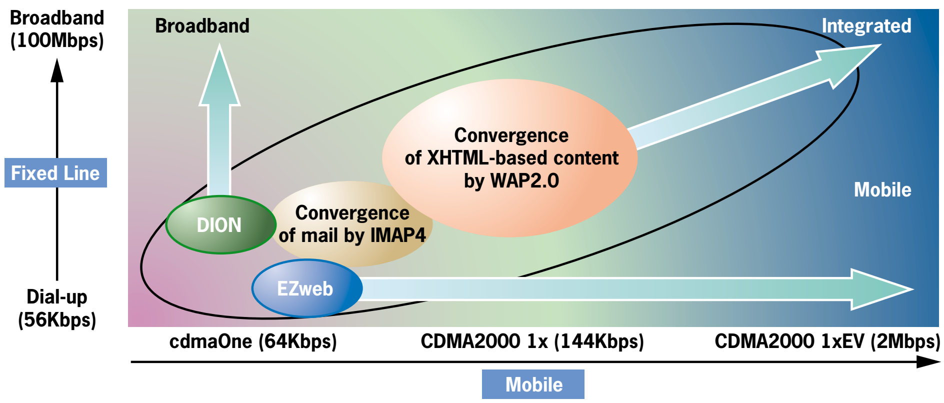
Creation of New Markets—CDMA2000 1xEV



Q: How do you plan to improve the profitability of *au* services?

Approximately 80% of *au* subscribers have already shifted from PDC to cdmaOne. This is expected to boost average revenue per user (ARPU), particularly for data transmission services. Moreover, efforts by our purchasing department to integrate purchasing of terminals have also lowered terminal-related costs, enabling us to factor costs into the selection of suppliers and choose manufacturers in, for example, the Republic of Korea. We achieved further reductions by introducing Binary Runtime Environment for Wireless (BREW), which will significantly reduce software development costs, the largest component of terminal development costs. Such strategies are helping us eliminate the considerable cost burden of *au* services, and we expect, therefore, to see a steady recovery in profitability.

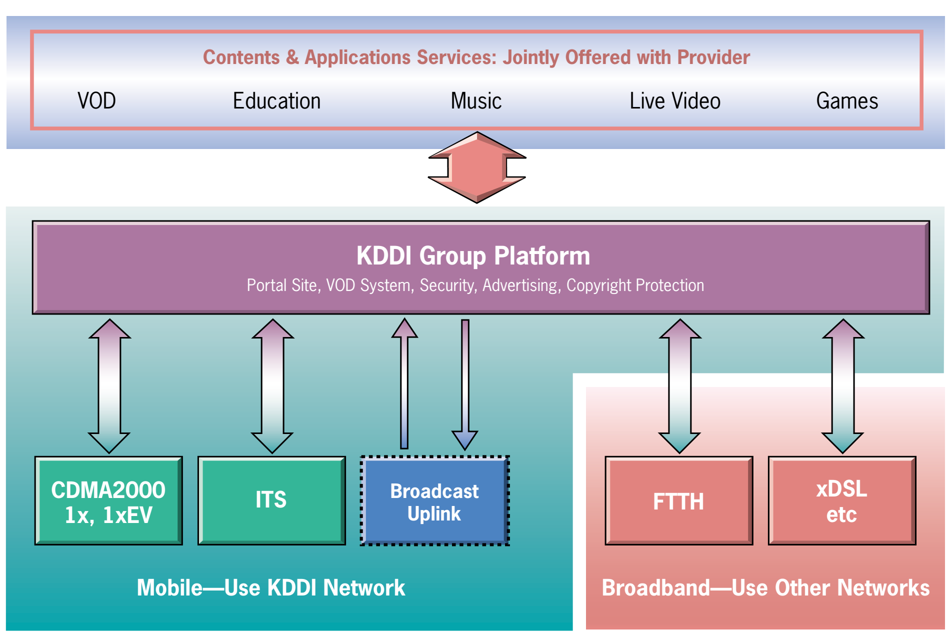
Integration of Mobile and Fixed-Line Internet Use



Q: What is your outlook for the IP business?

First, we will continue to take decisive steps toward integration of EZweb and H"LINK with DION and other fixed-line IP services. In November 2000, we introduced Internet Messaging Access Protocol version 4 (IMAP4), enabling us to consolidate the e-mail functions of these services. In the coming months, we will introduce WAP2.0, and

IP Business Domains



launch intensive efforts to consolidate XHTML-based content. In the area of ADSL, fiber-to-the-home (FTTH), fixed wireless access (FWA) and other broadband access services, our efforts will focus on applications, rather than speed. In March 2002, we plan to launch FTTH services on a trial basis in Tokyo and Nagoya. To this end, we will work with local content developers, household electronics manufacturers and broadband service-related firms to offer high-quality IP-based telephone services and high-speed Internet access with a view to eventual coordination with mobile telecommunications services. The results of this trial will serve as the basis for a new commercial service in the future.

We will also broaden the focus of our data center business beyond large-scale ISP and ASP services to include the provision of common platforms for portal sites, video-on-demand (VOD) systems and security, advertising and certification services for small and medium-sized corporations. In the solutions business, we will expand operations by offering services that make use of fixed-line and mobile telecommunications. ITS development will focus on constructing a new business model through ongoing, cooperative research with Toyota Motor Corporation, as well as trials using the CDMA2000 1x and CDMA2000 1xEV cellular telephone systems.

Q: What time frame have you set for realizing the strategic goals you have outlined?

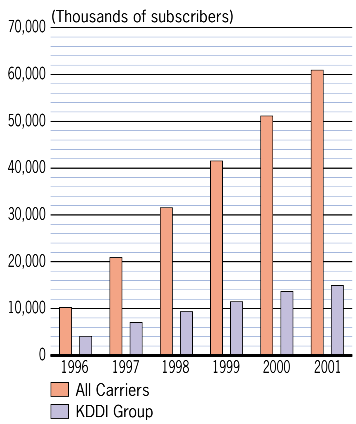
Until recently, KDDI had 53 directors, a fact that understandably gave rise to questions about the efficiency of decision making. Top management addressed this problem by establishing a 10-person management committee and a management strategy development department, and, at the annual shareholders' meeting on June 26, 2001, voters approved a management system reform program that reduced the number of directors on the board to 13. This number includes five non-standing directors, so decision-making authority actually rests with the eight standing directors. We also made major structural modifications, replacing our top-down divisional organization with a flatter configuration under which operations departments and divisions are answerable directly to the president. In line with this change, we decreased the number of division general managers to 16, from 22. We are confident these reforms have positioned us better to respond to a rapidly changing operating environment.

Q: In closing, what are your views on having been appointed to guide the new KDDI?

Despite the fact that my background is in engineering, I believe that all three of the original companies—DDI, KDD and IDO—have traditionally placed too much emphasis on technology. This has carried over to the new company. To date, we have put too little effort into ascertaining customer needs and how we might best meet them. Simply having networks will not be enough to ensure the success of the Mobile and IP strategy or the generation of sufficient profits. Moving away from the traditional telecommunications carrier mentality—that is, the idea that our business is to sell units of time, speed and line capacity—and toward a mentality that focuses on the efficient provision of attractive applications and content will be essential to improving our profitability. KDDI's ultimate goal is to provide a full range of telecommunications services that facilitate the transmission of voice, text and video data, using fixed-line and mobile systems, from the office, the home and eventually—using ITS—from vehicles. While leading-edge technology will certainly be necessary, our success will depend on our ability to understand the market and provide services that respond to customer needs. By narrowing our focus to highly profitable, high-growth services that maximize our specific capabilities, we will continue striving to ensure customer satisfaction and, by doing so, to achieve solid growth in corporate value.

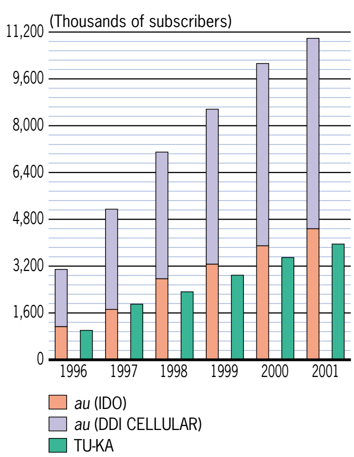
Review of Operations

Total Cellular Phone Subscribers: All Carriers and KDDI Group
(As of March 31)



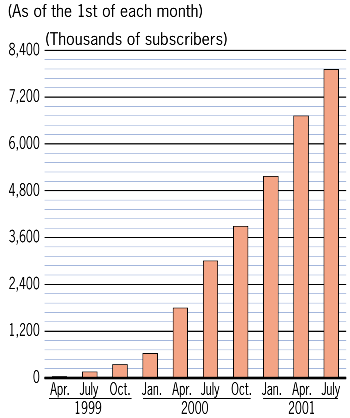
Note: Figures prior to the October 2000 merger are combined totals based on totals for DDI CELLULAR, IDO and TU-KA

Total *au* and TU-KA Subscribers
(As of March 31)



Note: In light of the October 2000 merger, fiscal 2001 figures for *au* (IDO) show the number of subscribers to *au* services provided by KDDI. Fiscal 2001 figures for *au* (DDI CELLULAR) show the number of subscribers to *au* services provided by au Corporation and OKINAWA CELLULAR.

Total EZweb Subscribers
(As of the 1st of each month)



Expanding mobile telecommunications for individual users

Designing the future of mobile telecommunications with a wide range of technologies and advanced systems

Japan's telecommunications market totaled an estimated ¥17.5 trillion in fiscal 2001, an increase of 7.3% from fiscal 2000. Mobile telecommunications accounted for approximately ¥7.4 trillion of the total, rising 8.8% from the previous period. As of March 31, 2001, the number of subscribers for cellular phone contracts amounted to 60.9 million, up 19.2% and equivalent to 48.0% of the country's population.

A major player in the rapidly growing mobile telecommunications market, KDDI offers a full range of services encompassing *au* and TU-KA cellular phone services and DDI POCKET's PHS services. We are working to respond to the needs of customers by maximizing the distinguishing features of each of these systems. We are also expanding our share of this market by offering mobile Internet connection services, such as EZweb, available with *au* and TU-KA, and DDI POCKET's H"LINK.

au Services

Subsequent to receiving approval for the future operation of IMT-2000 services, IDO and the DDI CELLULAR Group adopted the integrated *au* brand name and began working to expand operations nationwide and encourage brand recognition. In November 2000, seven of the eight DDI CELLULAR Group companies merged to form au Corporation, which was made a wholly owned subsidiary of KDDI in March 2001 through a share exchange.

During the period under review, efforts to expand *au* services focused specifically on young cellular phone users. We developed new terminals featuring color liquid crystal (LC) displays, fold-up models, memory sticks and a host of other exciting features. In November 2000, we introduced *Gakuwari*, Japan's first discount cellular phone service plan for students. Also in November, we sought to increase the attractiveness of EZweb by launching a new, easier-to-use e-mail service, dubbed @mail.

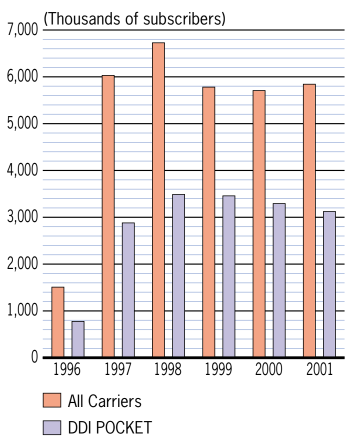
To enhance content, we launched an advertising service and EZnavigation, a road and rail navigating service using a location finding function. We also introduced EZportal, which enables users to choose their own first-page default setting. New features and services have also facilitated greater access to lifestyle- and entertainment-related web sites, bringing the total number of official sites accessible from an *au* phone to 752 as of March 31, 2001.


Bluetooth-compatible handset

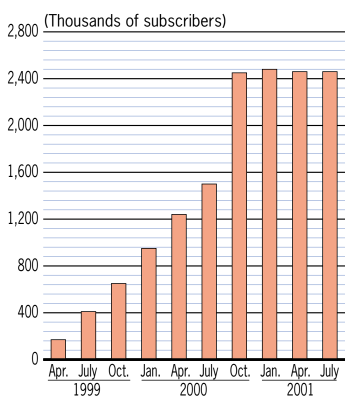

ezplus-compatible handset

On the sales front, we expanded our nationwide network of *au* Shops, which numbered 2,360 at the end of the period. We also stepped up training for our own marketing staff and shop salespeople. In another move aimed at reinforcing sales capabilities, we cooperated with Toyota to post information on *au* services via Toyota's 750 PiPit Information Corners, which are located in dealerships. To enhance cdmaOne-based services, we introduced GLOBAL PASSPORT, a global roaming service that currently enables subscribers to use their *au* phones and phone numbers for voice communications in six countries overseas, as well as in Japan.

Total PHS Subscribers:
All Carriers and DDI POCKET
(As of March 31)



Total H"LINK Subscribers
(As of the 1st of each month)



As of March 31, 2001, there were approximately 11.0 million *au* subscribers in Japan. We will continue to take steps to enhance *au* services and increase our market share. In July 2001, we introduced ezplus, a Java-based Internet access service. In autumn 2001, we will launch gpsOne, a high-precision geographical information system based on GPS, and in fiscal 2002, we will commence CDMA2000 1x services. At the same time, we will work to make *au* Japan's leading cellular phone service brand.

TU-KA

The three companies comprising the TU-KA Group provide PDC-system cellular phone services in the 1.5GHz bandwidth. Basic, reasonably priced services, plus access to EZweb, have helped make TU-KA one of the most popular services among young cellular phone users. As of March 31, 2001, there were nearly four million TU-KA subscribers nationwide.

In July 2000, we introduced CM Call, which enables users to call up a specified number and listen to commercial advertisements, thereby earning a specified period of free calling time. To enhance TU-KA's appeal to noncore users, in January 2001 we launched new rate schemes for families and businesses. We will continue to reinforce the popularity of TU-KA by maximizing the innovative features of the PDC system to expand EZweb access to entertainment-related sites and improve e-mail functions.

DDI POCKET

As of March 31, 2001, DDI POCKET's PHS services had approximately 3.1 million subscribers, or more than 50% of Japan's PHS services market. DDI POCKET's H" (pronounced "edge") hybrid mobile terminal offers excellent sound quality, high resistance to call dropout and high-speed 64Kbps data transmission, earning it a particularly solid following among corporate users.

In August 2000, DDI POCKET began offering H"LINK, an innovative package combining Internet access, e-mail, ASP, e-business, high-capacity content downloading and other attractive services. In November 2000, DDI POCKET launched Feel H", which enables users to enjoy simple graphics and music as well as the system's basic features, thereby attracting considerable attention as a new download medium suited to the demands of the multimedia telecommunications age. In the years ahead, we will work to maximize the high speed of PHS to offer more attractive data transmission-oriented services. At the same time, we will bolster profitability by raising the efficiency of personnel and sales costs and capital investment.

CDMA2000 1x and CDMA2000 1xEV

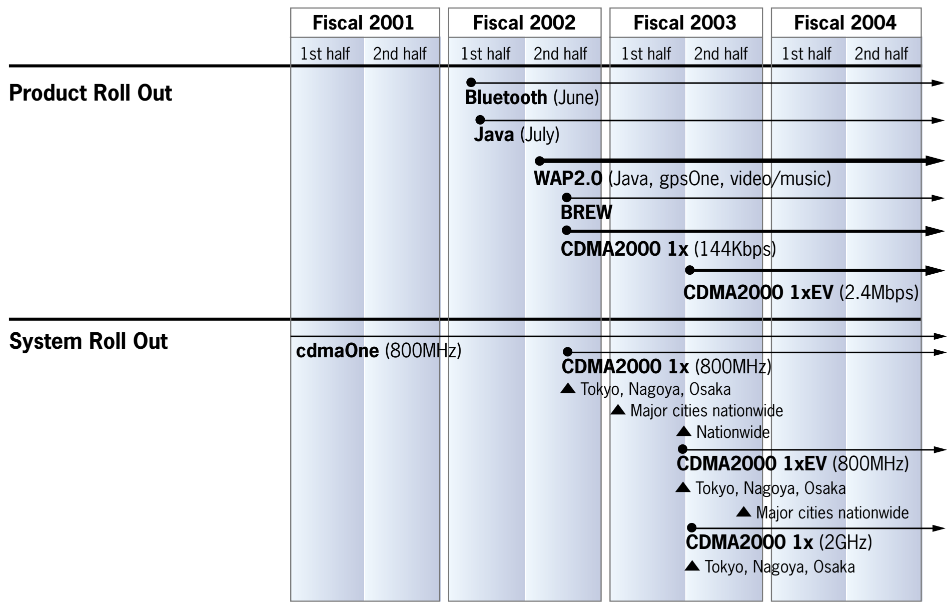
The IMT-2000 system is attracting attention worldwide as the global standard for the next generation of mobile telecommunications systems. In fiscal 2002, KDDI will launch *au* cellular telephone services based on CDMA2000 1x—an IMT-2000-based system that supports communications at a maximum of 144Kbps—in major metropolitan areas. In autumn 2002, we plan to launch CDMA2000 1xEV, a high-capacity system capable of supporting data transmission at a maximum of 2.4Mbps.

CDMA2000 1x is an enhanced version of cdmaOne. Accordingly, the necessary infrastructure is already in place, enhancing the efficiency of capital investment. CDMA2000 1xEV is a mobile data transmission system optimized for Internet communications with an average data throughput per frequency 2.4 times that of standard

Next-generation mobile telecommunications service concept models

W-CDMA. We will take advantage of the shift toward next-generation mobile telecommunications services to promote the integration of mobile telecommunications and data transmission services and expand our share of this new, multimedia telecommunications market.

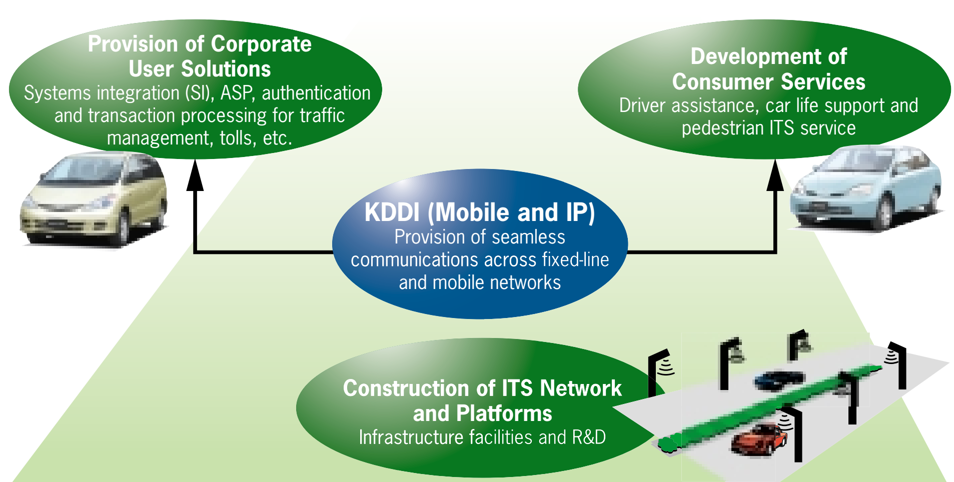
CDMA2000 Launch Plan



ITS

ITS refers to new transport and road management systems that are comprised of an advanced information and telecommunications network for motor vehicle users, roads and vehicles. ITSs already in use include the Vehicle Information and Communication System (VICS), launched in April 1996, which transmits real-time information on slowdowns, accidents and other traffic problems to drivers, and the Electronic Toll Collection (ETC) system, launched in March 2000, which enables drivers to make automatic payments at tollgates, as well as several other systems. Furthermore,

KDDI (Mobile and IP)



ITS Business Foundation of KDDI
- Mobile phone services (cdmaOne, CDMA2000), DSRC, digital broadcasting, etc.
- Highway optical-fiber network, next-generation basic network, broadband platforms
- R&D (wireless, image, network management, mobile IP and mobile commerce technologies)

Dedicated Short-Range Communications (DSRC) system technologies are expected to be put into practical use by 2005.

With 9,000 kilometers of optical-fiber cable paralleling the nation's expressways and advanced wireless technologies honed in the competitive mobile telecommunications market, we are particularly well positioned to play a key role in this effort. In the belief that ITS will ultimately require the development of new vehicle steering systems, we are currently working with Toyota to develop related technologies.

The ITS market, including communications, content, equipment and infrastructure segments, is estimated to amount to ¥60.0 trillion between 2000 and 2016. We will continue to push forward with the aim of securing the top share of communications aspects of this market.

As part of our ITS development efforts, we recently developed a road information service for pedestrians. The Pedestrian ITS Portal Service enables pedestrians to ask for directions and receive answers verbally via cellular telephone. We intend to begin sales of this service in fiscal 2002.

Capitalizing on a superior infrastructure and state-of-the-art technologies to promote advanced network and IP services

Using our high-capacity global optical fiber network to increase this segment's share of operating income

While the number of fixed-line telephone subscribers in Japan continues to decline, the number of Internet users is rising steadily, reaching 47.1 million as of December 31, 2000.

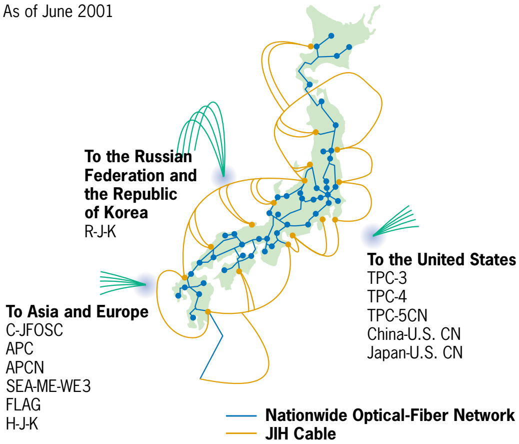
Yamaguchi Satellite Earth Station

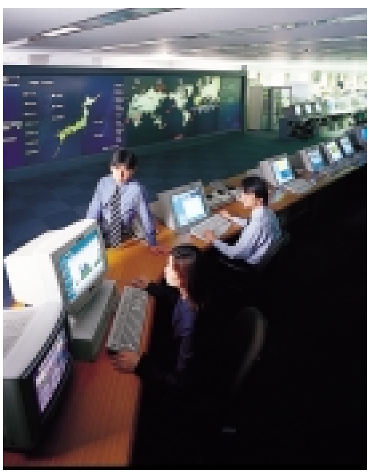
Chikura Cable Landing Station

Our 20,000-kilometer domestic optical-fiber cable network enables us to offer advanced, integrated domestic and international telecommunications services. Since the early days of the Internet in Japan, we have cooperated with leading research institutes to establish an infrastructure and promote Internet use. By building on expertise gained through such efforts, we have developed a broad range of cost-effective Internet services for private and corporate users. We have also established a data center business and a built a next-generation IP network, positioning us to provide total solutions to customer needs.

During the period under review, we began offering a number of attractive new discount services in preparation for the May 2001 launch of the MYLINE preferred carrier selection service. In January 2001, we introduced DYNATALK II PLAN DX, a discount plan combining domestic long-distance and international calling for fixed-line subscribers. To our cellular phone, PHS and DION Internet access service customers, we offered the KDDI Discount Set, which is essentially DYNATALK II PLAN DX without the monthly subscription fee. We integrated the DION Internet access service with NEWEB, a similar service previously offered by KDD, with the aim of enhancing services. In January 2001, we launched Mighty Course, a new Internet service lineup for medium-volume users. We also introduced new rate schedules and implemented across-the-board fee reductions. In November 2000, we commenced operations at the newly completed Odaiba Data Center in Tokyo. This large-scale facility will play a crucial role in our efforts to expand e-business services. Prior to this, we began construction of PERSEUS, a next-generation terabit-level IP network, and in October 2000 introduced its first PERSEUS service, ANDROMEGA IP-VPN.

KDDI's Optical-Fiber Cable Networks
As of June 2001





Network Center (KDDI Building, Shinjuku)

KDDI's Networks

KDDI boasts one of Japan's largest backbone networks. Approximately 30,000 kilometers in total length, this network includes the Japan Information Highway (JIH), a submarine cable system approximately 10,000 kilometers in length that encircles the archipelago in a loop configuration; an optical-fiber cable system encompassing 9,000 kilometers of cable laid along the nation's expressways; and a microwave network of about 7,000 kilometers. Through cooperation with telecommunications carriers overseas, we have also built one of the world's largest global communications networks, comprising approximately 300,000 kilometers of submarine optical-fiber cable. These two massive high-speed cable networks enable us to provide seamless domestic and international telecommunications services.

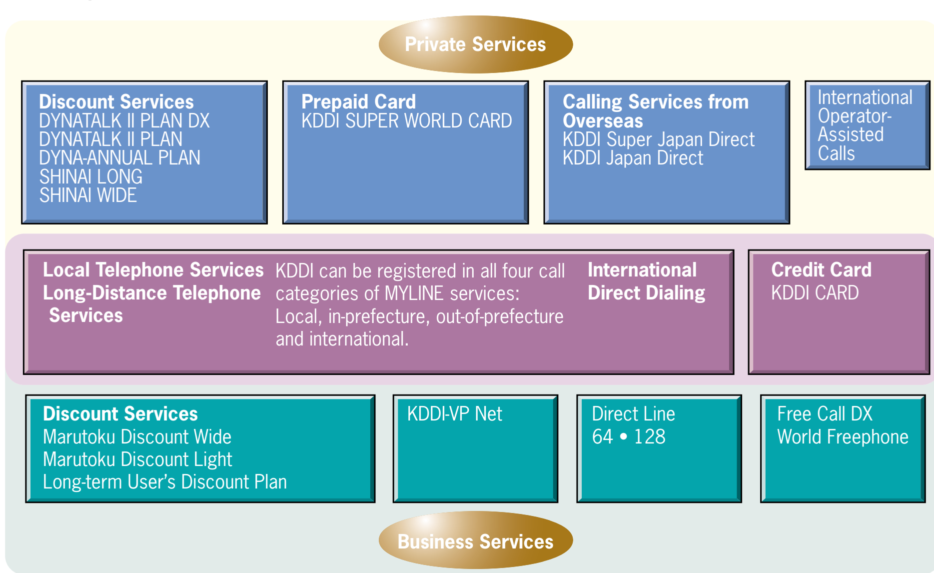
Our network centers nationwide form the nucleus of our domestic telecommunications system. These facilities, which are staffed by specialists, provide around-the-clock, real-time surveillance and maintenance. We have also established a back-up system and taken other precautions to ensure network safety.

Our network centers are linked with overseas carriers, facilitating around-the-clock monitoring of our global network and control of telecommunications routes. The KDDI Group has two specialized cable-laying and cable-maintenance ships that respond promptly in the event of unforeseen problems.

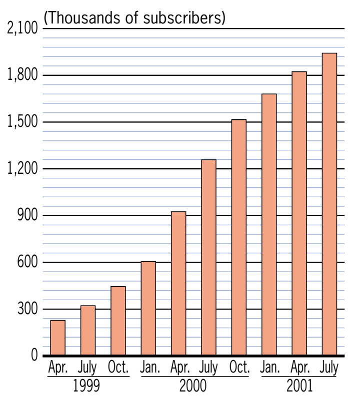
Domestic and International Telephone Services

KDDI launched local telephone services in May 2001, enabling it to offer its customers throughout Japan seamless local, domestic long-distance and international services. We have developed an extensive range of convenient and reasonably priced domestic and international services tailored to the needs of private and corporate users.

KDDI Telephone Services



Total DION Dial-up Subscribers
(At the 1st of each month)



Note: Figures prior to the integration of DION and NEWEB Internet access services in October 2000 have been combined.

In response to rising demand for lower-priced services, we have taken decisive steps to reduce costs. These efforts enabled us to implement steady rate cuts throughout fiscal 2001. We currently offer international telephone services to 237 countries and territories, more than any other Japanese carrier, and command more than 50% of Japan's international telephone services market. In addition to maximizing our superb networks and our accumulated expertise to ensure stable services, we will continue to cut costs to further reinforce competitiveness.

Global Services

The KDDI Group has operations in 20 countries and offers an extensive range of global network services via its optical-fiber cable network. We offer a variety of support services overseas under the KDDI brand name, including telecommunications services in Europe, the United States and Australia, telecommunications-related consulting, sales and maintenance of telecommunications facilities, and data center services.

Our international services also include telecommunications services offered through joint ventures with local carriers. We offer cellular telephone services in Paraguay and Mongolia, and fixed-line telecommunications services in Russia. In line with the rapid globalization of the telecommunications market, we will continue to push forward with active efforts to expand our presence in the global market.

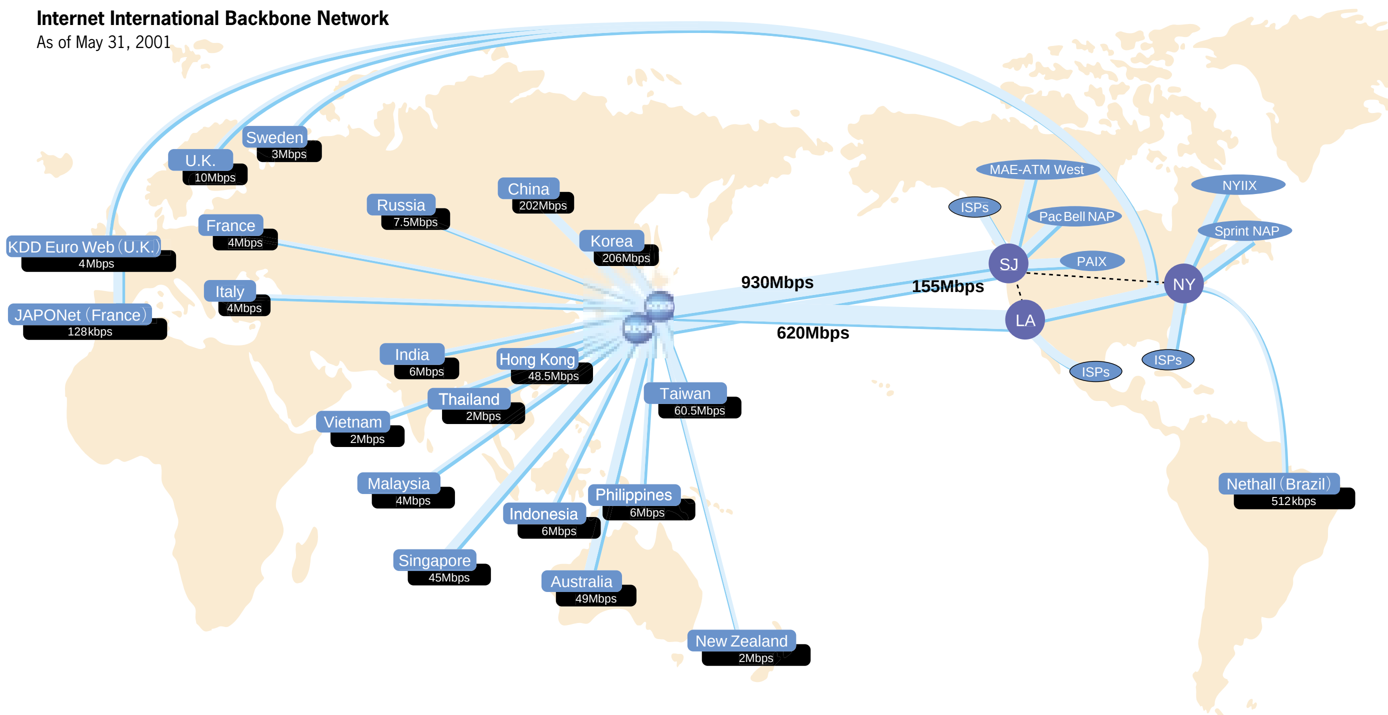
DION

DION is the brand name of KDDI's Internet access service. With the merger, in October 2000, we integrated the DION Internet access service with NEWEB, a similar service previously offered by KDD. This move enabled us to improve the capacity and quality of the service, as well as improve the diversity of contents and support services and offer reasonable rates. As of March 31, 2001, the number of subscribers for DION dial-up service exceeded 1.8 million. DION services for corporate users use KDDI's backbone network to offer high-speed connection of up to 135Mbps. We also offer complementary services, such as server hosting and local-area network (LAN) connection, allowing us to design Internet environments to meet the needs of customers. We will continue to enhance broadband DION services to accommodate the full range of digital subscriber line (DSL) services, FTTH networks and other technologies. We will also promote integration with EZweb mobile Internet connection services, as well as the development of more attractive content, in an effort to further increase the number of DION subscribers.

ANDROMEGA

KDDI offers a comprehensive range of solutions to the telecommunications needs of corporate customers under the ANDROMEGA brand name. Designed to respond to all conceivable needs in the areas of voice and data transmission and IP services, the ANDROMEGA lineup offers the best possible solution, whether the customer needs to build a global network linking multiple overseas business centers or simply raise intranet efficiency to lower transmission costs.

Internet International Backbone Network
As of May 31, 2001



KDDI Data Centers

As of March 31, 2001

Data Center Site	Floor space (m²)
Japan	
Shinjuku (Tokyo)	5,400
Otemachi (Tokyo)	3,700
Odaiba (Tokyo)	2,200
Other	6,400
	17,700
Overseas	
Europe	
United Kingdom	27,400
France	15,100
Switzerland	2,300
Germany	10,700
Americas	
United States	25,900
Brazil	200
Asia	
Hong Kong	1,400
	83,000
TOTAL	**100,700**

dotsquare and Telehouse

Data center services, offered under the *dotsquare* name in Japan and the Telehouse name overseas, are a key component of KDDI's IP business. These services focus on colocation (space and rack rental) and server hosting (server maintenance and operation and server capacity rental). At present, we offer approximately 17,700 square meters of space in 13 cities in Japan and 83,000 square meters of space in 12 cities overseas. Our data center facilities feature a large-capacity telecommunications infrastructure, uninterruptible power and air-conditioning systems, highly effective security and sophisticated monitoring, thus enabling us to respond to rising demand for services spurred by the expansion of e-business. In November 2000, we commenced operations at the newly completed Odaiba Data Center in Tokyo, a large-scale facility that will play a crucial role in our efforts to expand e-business services. We are currently constructing a building to house a 14,700-square-meter data center in Tokyo's Shibuya area, which is scheduled to commence operations in fiscal 2003. We will also enhance services by adding such functions as streaming, settlements, customer management and ASP to our data centers, as well as promote ties and cooperative ventures with partners in other fields, including content providers and broadcasters.

Interior of colocation room
(KDDI Building, Shinjuku)

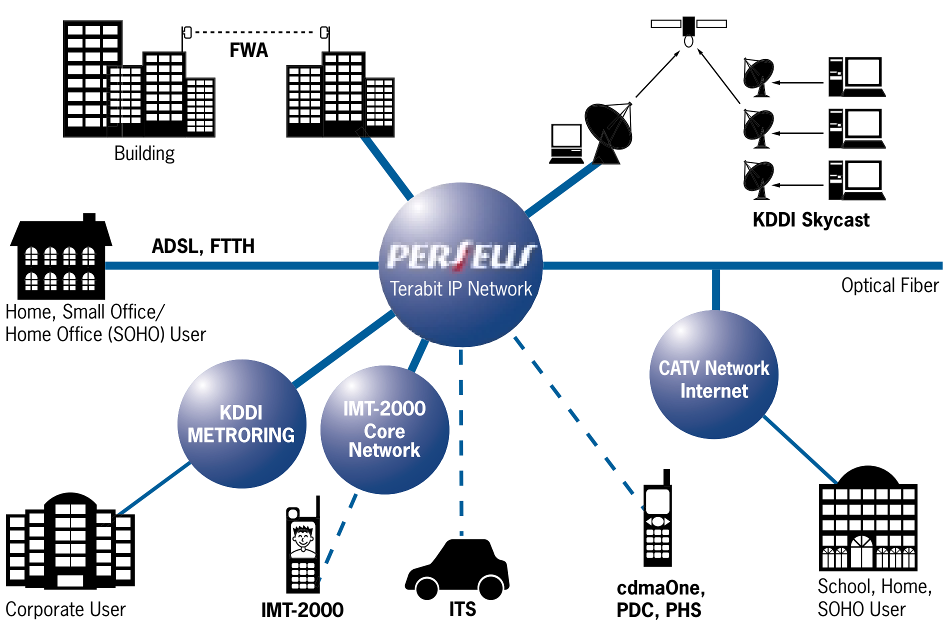
New data center, Shibuya
(Scheduled for completion in 2003)

PERSEUS

KDDI is capitalizing on its state-of-the-art IP technologies to build PERSEUS, a next-generation terabit-level IP network that will realize terabit-level—that is, one trillion bit-per-second—ultrahigh-speed transmission at considerably less cost than is currently possible. We are also developing high-value-added services for the PERSEUS network. In the period under review, we introduced the first of these services, ANDROMEGA IP-VPN, which enables corporate customers to construct intranets that are entirely IP-based. We will continue to expand applications to include e-commerce, VOD and high-resolution videophones.

To further enhance the attractiveness of the PERSEUS network, we also offer a variety of access options, including fixed wireless access (FWA); KDDI Skycast, an interactive satellite-based IP service; and KDDI METRORING, a low-cost optical-fiber network access service. PERSEUS is also accessible from cdmaOne cellular phones and PHS terminals, and will offer a variety of other access options, including next-generation CDMA2000 1xEV phones and ITS terminals.

PERSEUS Terabit IP Network



Management Discussion and Analysis

The following discussion and analysis of KDDI's performance in fiscal 2001 is based on management's assumptions as of June 26, 2001.

Overview

Deregulation and the resulting entry into the market of companies from other industries and other countries, are transforming Japan's telecommunications industry, intensifying competition. At the same time, revolutionary advances in IT and the rapid diffusion of mobile telecommunications and the Internet are spurring demand for increasingly personalized and diverse communications options, as well as accelerating the shift in customer needs to multimedia services combining voice-, data- and image-based communications. In the area of fixed communications, the lead-up to the launch of the MYLINE preferred carrier selection service on May 1, 2001, brought new carriers into the market and significantly lowered rates, intensifying competition. In mobile telecommunications, improved terminal functions spurred the introduction of new services and the expansion of content, enhancing convenience while at the same time exacerbating competition. With the launch of next-generation mobile telecommunications services in fiscal 2002, this sector promises to offer exciting new opportunities in the years ahead.

On October 1, 2000, DDI Corporation merged with KDD Corporation and IDO Corporation to form KDDI. Reflecting the impact of the merger, KDDI's total operating revenues in fiscal 2001 rose strongly. Solid revenue growth was also attributable to:

- the establishment of a discount cellular phone service plan for students and the introduction of attractive new terminals, which bolstered the number of young subscribers to *au* cellular phone services, and the addition of e-mail functions and enhanced color content to the EZweb Internet connection service, prompting a sharp rise in revenues from data transmission services
- an increase in the number of subscribers to the DION dial-up Internet access service
- solid contributions over the entire year from TU-KA PDC-system cellular phone services, provided by TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., and TU-KA Phone Kansai, Inc.

Operating Revenues

KDDI recorded a 48.7%, or ¥742.7 billion, increase in consolidated total operating revenues in the period under review, to ¥2,268.6 billion. Merger-related factors contributing to revenue growth included the addition of IDO's cellular phone services in the Kanto and Tokai regions, firm growth in the use of mobile Internet services, and the addition of network and IP services previously offered by KDD, notably fixed-line international and domestic long-distance telephone services and the NEWEB Internet access service. As a consequence of these factors, operating revenues from voice communications advanced 27.8%, or ¥341.5 billion, while those from digital data transmission services soared 4.8 times, or ¥117.1 billion.

	Millions of yen			Millions of U.S. dollars
	2001	2000	Change	**2001**
Telecommunications business operating revenues	**¥1,805,819**	¥1,275,349	¥530,470	**$14,575**
Voice communications	**1,567,658**	1,226,181	341,477	**12,653**
Digital data transmission services	**148,081**	30,954	117,127	**1,195**
Leased circuits	**55,677**	18,214	37,463	**449**
Telegraph and other telecommunications services	**34,403**	—	34,403	**278**
Sales of terminal equipment and other	**462,827**	250,604	212,223	**3,735**
Total operating revenues	**¥2,268,646**	¥1,525,953	¥742,693	**$18,310**

Expenses and Income

Total operating expenses climbed 44.7%, or ¥673.5 billion, to ¥2,179.9 billion, as the merger prompted a sharp increase in sales expenses, particularly advertising costs related to the introduction of new brands. Nonetheless, owing to efforts to restrain outlays, operating expenses accounted for 96.1% of total operating revenues, down 2.6 percentage points from the previous year. Effective from the period under review, subsidiaries au Corporation and OKINAWA CELLULAR adopted new accounting standards for depreciation. As a consequence, depreciation was ¥38.2 billion lower than it would have been had the former standards been employed.

	Millions of yen			Millions of U.S. dollars
Operating Expenses	**2001**	2000	Change	**2001**
Telecommunications business operating expenses	**¥1,731,047**	¥1,263,844	¥467,203	**$13,971**
Percentage of telecommunications business operating revenues	**95.9%**	99.1%	–3.2	
Sales of terminal equipment and other operating expenses	**448,815**	242,494	206,321	**3,622**
Percentage of sales of terminal equipment and other operating revenues	**97.0%**	96.8%	0.2	
Total operating expenses	**¥2,179,863**	¥1,506,339	¥673,524	**$17,593**
Percentage of total operating revenues	**96.1%**	98.7%	–2.6	

Operating income jumped 4.5 times, or ¥69.2 billion, to ¥88.8 billion, and represented 3.9% of total operating revenues, up 2.6 percentage points from fiscal 2000.

Operating Income	Millions of yen 2001	2000	Change	Millions of U.S. dollars 2001
Operating income	**¥88,783**	¥19,614	¥69,169	**$717**
Percentage of total operating revenues	**3.9%**	1.3%	2.6	

Results by Segment

Segment sales herein include intersegment sales. For more information on segment results, please see Note 12 of the Notes to Consolidated Financial Statements.

Network & IP

The merger of DDI, KDD and IDO spurred a 74.9%, or ¥235.8 billion, increase in total sales in the Network & IP segment, to ¥550.5 billion, reflecting the addition of fixed-line international and domestic long-distance telephone services, NEWEB Internet access services, ANDROMEGA-brand comprehensive telecommunications solutions for corporate customers, and data center services. Segment operating income advanced 21.1%, or ¥9.8 billion, to ¥56.1 billion.

With the aim of enhancing services, we took advantage of the merger to integrate KDD's NEWEB with the DION Internet access service. We also introduced new rate schedules and expanded our menu of services for medium-volume users. As a consequence, the number of subscribers for dial-up services exceeded 1.8 million as of March 31, 2001, up 880,000 from the combined number at fiscal 2000 year-end.

au, TU-KA

Total sales in the au, TU-KA segment advanced 50.7%, or ¥502.8 billion, to ¥1,495.0 billion. This gain is largely attributable to solid contributions for the full year from TU-KA cellular phone services, provided by three companies that became consolidated subsidiaries in September 1999; the addition of IDO's cellular phone services as a result of the merger; an increase in the number of subscribers, particularly young people, to *au* cellular phone services; and firm growth in the number of subscribers to EZweb mobile Internet connection services. Operating income amounted to ¥36.5 billion, compared with a ¥6.3 billion loss in fiscal 2000.

The establishment of a discount cellular phone service plan for students and attractive new terminals, as well as the improvement of e-mail functions and enhanced color content to the EZweb mobile Internet connection service, contributed to an increase in the number of young subscribers to *au* cellular phone services. As of the end of the period, the number of *au* subscribers totaled 11.0 million, up 8.5% from the combined total for IDO and the DDI CELLULAR Group at the end of fiscal 2000. Moreover, despite the introduction of a discount plan for students that offers a maximum of 50% off standard rates, increased use of e-mail and content browsing services boosted data transmission service revenues. Accordingly, ARPU for *au* services in fiscal 2001 was ¥8,200, down only ¥440 from the average for IDO and the DDI CELLULAR Group in fiscal 2000. As a consequence, *au* services generated revenues of ¥1,126.5 billion in the period under review, an increase of 38.6%.

Revenues from TU-KA services climbed 105.1%, to ¥367.5 billion, in fiscal 2001, reflecting solid gains over the entire year. Although the number of subscribers rose 13.2%, or 460,000, to nearly 4.0 million, the rising popularity of prepaid TU-KA phones prompted a ¥1,100 decline in the ARPU for these services, to ¥6,400.

PHS

We expanded PHS services during fiscal 2001 by launching PRIN, a new Internet access service requiring no application, in May 2000, and adding H" features, thereby facilitating the November 2000 launch of Feel H", which enables users to enjoy simple graphics and music as well as basic PHS features. Despite these efforts, the number of PHS subscribers fell 5.2%, or 170,000, to 3.1 million, while the ARPU for these services slipped ¥300, to ¥6,100. As a consequence, the PHS segment generated total sales of ¥251.9 billion, a decline of 10.3%, or ¥28.9 billion, and an operating loss of ¥12.9 billion, an improvement from fiscal 2000's ¥18.6 billion operating loss.

Other

This segment comprises telecommunications-related construction, sales of information and telecommunications equipment systems, and research and terminal development. Owing to the impact of the merger, total sales of the segment amounted to ¥107.2 billion in fiscal 2001, compared with ¥4.0 billion in fiscal 2000, while operating income reached ¥5.0 billion, up from an operating loss of ¥3.5 billion.

		Millions of yen 2001	2000	Change	Millions of U.S. dollars 2001
Network & IP	Total sales	**¥ 550,477**	¥314,684	¥235,793	**$ 4,443**
	Operating expenses	**494,330**	268,304	226,026	**3,990**
	Operating income	**56,147**	46,380	9,767	**453**
au, TU-KA	Total sales	**¥1,494,945**	¥992,172	¥502,773	**$12,065**
	Operating expenses	**1,458,447**	998,425	460,022	**11,770**
	Operating income (loss)	**36,498**	(6,253)	42,751	**295**
PHS	Total sales	**¥ 251,884**	¥280,736	¥ (28,852)	**$ 2,033**
	Operating expenses	**264,783**	299,377	(34,594)	**2,137**
	Operating income (loss)	**(12,899)**	(18,641)	5,742	**(104)**
Other	Total sales	**¥ 107,204**	¥ 4,018	¥103,186	**$ 865**
	Operating expenses	**102,164**	7,508	94,656	**825**
	Operating income (loss)	**5,040**	(3,490)	8,530	**40**

Note: Sales include intersegment sales and transfers.

Other Expenses

Total other expenses fell 31.3%, or ¥19.5 billion, to ¥42.9 billion. A ¥16.7 billion gain on sales of securities was countered by a 39.0% jump in interest expense; a ¥10.6 billion loss from amendments to submarine cable construction contracts—in this case, for the TAT-14 cable—posted by subsidiary KDD Submarine Cable Systems Inc.; ¥6.7 billion in equity in loss of affiliates, namely, GLOBAL TELECOM of Brazil; and ¥6.0 billion in retirement benefit expenses, owing to the adoption of new accounting standards effective from fiscal 2001.

Net Income

Income before income taxes and minority interests was ¥45.9 billion, an increase of ¥88.7 billion from a loss of ¥42.8 billion in fiscal 2000. Owing to the adoption of new accounting standards for retirement benefits and financial instruments, income before income taxes and minority interests was ¥8.9 billion less and ¥3.1 billion less, respectively, than would have been the case had previous accounting standards been applied. As a consequence, net income in fiscal 2001 totaled ¥13.4 billion, an increase of ¥23.9 billion from a net loss of ¥10.5 billion in fiscal 2000, and represented 0.6% of total operating revenues. Net income per share was ¥4,467, an increase of ¥9,070, while return on equity was 2.5%, an improvement of 7.1 percentage points.

	Millions of yen			Millions of U.S. dollars
	2001	2000	Change	**2001**
Income (loss) before income taxes and minority interests	**¥45,902**	¥(42,786)	¥88,688	**$ 370**
Percentage of total operating revenues	**2.0%**	–2.8%	4.8	
Net income (loss)	**13,427**	(10,468)	23,895	**108**
Percentage of total operating revenues	**0.6%**	–0.7%	1.3	
Net income (loss) per share (Yen/U.S. dollars)	**¥ 4,467**	¥ (4,603)	¥ 9,070	**$36.05**
Return on equity	**2.5%**	–4.6%	7.1	
Return on assets	**0.5%**	–0.6%	1.1	

Financial Position

Owing to the merger, total assets of KDDI at the close of fiscal 2001 amounted to ¥3,639.4 billion, up 82.1%, or ¥1,640.4 billion, from the same point a year earlier. Total property, plant and equipment was ¥2,245.1 billion, up ¥925.6 billion, or 70.2%, reflecting investment in data transmission facilities and cdmaOne switching equipment and base stations. Total investments and other assets reached ¥539.9 billion, up 84.9%, or ¥247.9 billion, from ¥292.0 billion, as an increase in software boosted intangible assets. Total current assets were ¥854.4 billion, up 125.3%, or ¥475.1 billion.

Owing to the impact of the merger, total liabilities expanded 61.2%, to ¥2,782.9 billion. Despite falling ¥55.2 billion in the second half of the period, interest-bearing debt increased ¥664.5 billion, to ¥2,097.6 billion, from the combined total for DDI, KDD and IDO in fiscal 2000.

Total shareholders' equity reached ¥845.1 billion, an increase of 269.7%, or ¥616.5 billion. This was primarily attributable to DDI's third-party offering of shares to Toyota on September 30, 2000; increases in common stock, additional paid-in capital and retained earnings as a consequence of the merger of KDD, DDI and IDO on October 1, 2000; and the transformation of au Corporation into a wholly owned consolidated subsidiary through a share exchange, on March 31, 2001, which also boosted common stock, additional paid-in capital and retained earnings. The equity ratio was 23.2%, an increase of 11.8 percentage points, while shareholders' equity per share was ¥199,273, up 98.3%, or ¥98,776.

	Millions of yen			Millions of U.S. dollars
Summary of Consolidated Balance Sheets	**2001**	2000	Change	**2001**
Total assets	**¥3,639,364**	¥1,999,008	¥1,640,356	**$ 29,373**
Total current assets	**854,429**	379,320	475,109	**6,896**
Total property, plant and equipment	**2,245,068**	1,319,457	925,611	**18,120**
Total investments and other assets	**539,867**	291,989	247,878	**4,357**
Total current liabilities	**1,113,953**	595,665	518,288	**8,991**
Interest-bearing debt	**2,097,627**	1,433,128	664,346	**16,930**
Total shareholders' equity	**845,091**	228,574	616,517	**6,821**
Equity ratio	**23.2%**	11.4%	11.8	
Shareholders' equity per share (Yen/U.S. dollars)	**¥ 199,273**	¥ 100,497	¥ 98,776	**$1,608.34**

Cash Flows

Despite income before income taxes and minority interests of ¥45.9 billion, the merger prompted an increase in adjustments for depreciation and amortization, as well significant increases in trade receivables and inventories. As a consequence, net cash provided by operating activities in fiscal 2001 shrank 5.7%, or ¥17.4 billion, to ¥286.7 billion.

Net cash used in investing activities edged up 0.2%, or ¥0.7 billion, to ¥372.3 billion, as investment in data transmission and cdmaOne-related facilities contributed to payments for purchase of property, plant and equipment. Net cash used in financing activities amounted to ¥25.4 billion, compared with ¥7.7 billion provided by such activities in fiscal 2000, as an improved financial position facilitated ¥250.3 billion in repayment of long-term loans, countering ¥183.8 billion in proceeds from issuance of long-term loans and ¥120.0 billion in proceeds from new share issue to Toyota.

Despite a ¥110.5 billion net decrease in cash and cash equivalents generated by KDDI's operating, investing and financing activities in fiscal 2001, a ¥166.9 billion increase in cash and cash equivalents due to merger and newly consolidated subsidiaries resulted in cash and cash equivalents at end of year of ¥134.7 billion.

	Millions of yen			Millions of U.S. dollars
Summary of Consolidated Statements of Cash Flows	**2001**	2000	Change	**2001**
Net cash provided by operating activities	**¥ 286,736**	¥ 304,097	¥(17,361)	**$ 2,314**
Income (loss) before income taxes and minority interests	**45,902**	(42,786)	88,688	**370**
Depreciation and amortization	**338,366**	270,211	68,155	**2,732**
Net cash used in investing activities	**(372,263)**	(371,564)	(699)	**(3,005)**
Free cash flow	**(85,527)**	(67,467)	(18,060)	**(690)**
Net cash (used in) provided by financing activities	**(25,352)**	7,664	(33,016)	**(205)**
Repayment of long-term loans	**(250,289)**	(254,702)	4,413	**(2,020)**

Strategies and Outlook

The following statements regarding KDDI's strategies and outlook for fiscal 2002 are forward-looking statements as specified in the Disclaimer Regarding Forward-Looking Statements on the inside front cover of this annual report.

Strategies

To facilitate flexible responses to the increasingly sophisticated and diverse needs of its customers and rapid changes in the operating environment, KDDI is building on its management base and extensive global network to add value to its fixed-line, mobile, domestic, international, voice, data and IP service businesses. Through these efforts, the Company is working to provide high-quality, reasonably priced services, thereby contributing to social progress, ensuring customer satisfaction and reaffirming its position as a provider of comprehensive telecommunications services. KDDI's basic management strategy places a high priority on improving cash flow and financial position to ensure the Company's appeal to investors.

Following the merger of DDI, KDD and IDO in October 2000, resulting in the creation of KDDI, the Company launched its Mobile and IP strategy, a medium- to long-term effort emphasizing the cultivation of the high-growth mobile communications and IP businesses. In line with this strategy, KDDI is promoting the concentrated investment of management resources in selected key areas. At the same time, the Company is taking decisive steps to enhance efficiency with the aim of reducing capital investment and administrative expenses and rationalizing support departments, thereby improving cash flow and lowering interest-bearing debt—achievements that will enhance the soundness of its financial position.

In fiscal 2002, KDDI expects the operating environment to remain challenging. In the mobile telecommunications and data transmission businesses, the proliferation of new rate plans and the launch of services using new technologies is also expected to intensify competition. Conditions are expected to be particularly harsh in the mobile telecommunications market, owing to the launch of next-generation cellular telephone services by several carriers. KDDI is responding effectively to these challenges. In May 2001, KDDI launched local fixed-line telephone services, while in the second half of the period, the Company plans to introduce services based on the CDMA2000 1x system. In the IP business, we will implement an innovative business development strategy that emphasizes assertive marketing of our data center services under the integrated brand name *dotsquare*, as well as promotion of the selective, concentrated allocation of management resources in core businesses Groupwide.

As a consequence of these projections and strategies, KDDI expects to achieve consolidated total operating revenues of ¥3,100.0 billion, operating income of ¥110.0 billion and net income of ¥64.0 billion in fiscal 2002.

Dividend Policy

Operating in a market characterized by intense, global competition, KDDI, as the parent company of the KDDI Group, remains committed to reinforcing its competitiveness and enhancing corporate value, and to ensuring a fair return to its shareholders. Accordingly, the Company will continue to make effective use of internal reserves to fund R&D and capital investment and ensure stable, sustainable growth for the entire Group.

At the annual general meeting of shareholders on June 26, 2001, a proposal to pay cash dividends of ¥895 per share of common stock was submitted and approved by voters. Together with the interim dividend, this brings dividends for fiscal 2001 to ¥1,790 per share.

Consolidated Financial Highlights

KDDI Corporation and Consolidated Subsidiaries

Activities of Principal Consolidated Subsidiaries

Millions of yen

Years ended March 31, 2001, 2000 and 1999		2001	2000	1999
KDDI	Total operating revenues	**¥1,151,553**	¥632,665	¥605,510
	Telecommunications business operating revenues	**689,531**	293,813	242,434
	Voice communications	**526,787**	246,829	226,702
	Digital data transmission services	**105,616**	30,535	10,884
	Leased circuits	**52,730**	16,449	4,848
	Telegraph and other telecommunications services	**4,398**	—	—
	Sales of terminal equipment and other	**462,022**	338,852	363,076
	Operating income	**57,010**	62,273	34,788
	Income (loss) before income taxes	**41,771**	(47,187)	33,648
	Net income (loss)	**26,541**	(27,509)	16,867
au	Total operating revenues	**¥ 848,057**	¥817,825	¥690,606
	Voice communications	**580,526**	615,839	541,021
	Digital data transmission services	**56,327**	1,660	22
	Sales of terminal equipment and other	**211,204**	200,326	149,563
	Operating income (loss)	**29,836**	(29,629)	30,338
	Income (loss) before income taxes	**22,785**	(44,129)	21,546
	Net income (loss)	**15,325**	(43,317)	9,128
TU-KA	Total operating revenues	**¥ 368,997**	¥356,687	¥ —
	Voice communications	**292,189**	288,115	—
	Sales of terminal equipment and other	**76,808**	68,572	—
	Operating income	**8,308**	24,246	—
	Income before income taxes	**2,621**	19,439	—
	Net income	**2,172**	14,479	—
DDI POCKET	Total operating revenues	**¥ 251,884**	¥280,736	¥331,300
	Voice communications	**237,345**	264,260	317,209
	Sales of terminal equipment and other	**14,539**	16,476	14,091
	Operating income (loss)	**(12,899)**	(18,641)	9,972
	Income (loss) before income taxes	**(18,119)**	50,836	1,013
	Net income (loss)	**(18,191)**	49,087	942
Others	Total operating revenues	**¥ 147,292**	¥ 4,114	¥ 1,651
	Operating income (loss)	**2,531**	(4,033)	(2,972)
	Income (loss) before income taxes	**(23,055)**	(34,264)	(2,607)
	Net income (loss)	**(25,903)**	(38,841)	(2,731)

Consolidated Accounts

Millions of yen

Years ended March 31, 2001, 2000 and 1999		2001	2000	1999
KDDI Consolidated	Total operating revenues	**¥2,268,646**	¥1,525,953	¥1,246,582
	Telecommunications business operating revenues	**1,805,819**	1,275,349	1,084,547
	Voice communications	**1,567,658**	1,226,181	1,066,009
	Digital data transmission services	**148,081**	30,954	10,842
	Leased circuits	**55,677**	18,214	7,696
	Telegraph and other telecommunications services	**34,403**	—	—
	Sales of terminal equipment and other	**462,827**	250,604	162,035
	Operating income	**88,783**	19,614	69,874
	Income (loss) before income taxes and minority interests	**45,902**	(42,786)	49,715
	Net income (loss)	**13,427**	(10,468)	17,061

Depreciation and Capital Expenditure

Billions of yen

Years ended March 31, 2001, 2000 and 1999		2001	2000	1999
KDDI	Depreciation	**¥201.4**	¥ 58.4	¥ 52.5
	Capital expenditure	**306.7**	100.3	66.5
au	Depreciation	**96.1**	139.5	108.2
	Capital expenditure	**127.9**	216.9	273.8
TU-KA	Depreciation	**49.1**	40.9	—
	Capital expenditure	**100.8**	57.4	—
DDI POCKET	Depreciation	**61.5**	54.4	43.4
	Capital expenditure	**27.3**	47.3	61.1

Note: The KDDI Group states capital expenditure as the value of completed projects. This means capital expenditure first appears in the accounts when services based on the facilities in question are initiated.

Comparative Financial Statements

The following are comparisons of balance sheets and statements of income before and after the merger of DDI Corporation (DDI), KDD Corporation (KDD) and IDO Corporation (IDO).

On May 15, 2000, DDI concluded a merger agreement which was approved at the shareholders' meeting held on June 28, 2000. Under the terms of the merger agreement, the effective date of merger was October 1, 2000, and the operations of KDD and IDO were merged into DDI on that date.

Therefore, comparative statements of income are calculated by simply adding up the three companies' operating results for the prior fiscal year and by adding the three companies' operating results in the first half of fiscal 2001 (before the merger) to operating results in the second half (after the merger).

March 31, 2001 and 2000	Millions of yen			Millions of U.S. dollars		
	2001 (KDDI)	2000 (DDI, KDD, IDO)	Change	2001 (KDDI)	2000 (DDI, KDD, IDO)	Change
ASSETS						
Current assets	¥ 854,429	¥ 955,020	¥(100,591)	$ 6,896	$ 7,708	$ (812)
Total property, plant and equipment	2,245,068	2,117,228	127,840	18,120	17,088	1,032
Investments and other assets	539,867	562,895	(23,028)	4,357	4,543	(186)
Foreign currency translation adjustments	—	10,871	(10,871)	—	88	(88)
Total assets	¥3,639,364	¥3,646,014	¥ (6,650)	$29,373	$29,427	$ (54)
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities	¥1,113,953	¥1,119,200	¥ (5,247)	$ 8,991	$ 9,033	$ (42)
Non-current liabilities	1,668,968	1,806,928	(137,960)	13,470	14,584	(1,114)
Total liabilities	2,782,921	2,926,128	(143,207)	22,461	23,617	(1,156)
Minority interests	11,352	48,685	(37,333)	91	393	(302)
Shareholders' equity:						
Common stock	141,852	203,153	(61,301)	1,145	1,640	(495)
Additional paid-in capital	304,096	126,164	177,932	2,454	1,018	1,436
Retained earnings	401,442	341,892	59,550	3,240	2,759	481
Foreign currency translation adjustments	(2,290)	0	(2,290)	(18)	0	(18)
Treasury stock, at cost	(9)	(8)	(1)	(0)	(0)	(0)
Total shareholders' equity	845,091	671,201	173,890	6,821	5,417	1,404
Total liabilities and shareholders' equity	¥3,639,364	¥3,646,014	¥ (6,650)	$29,373	$29,427	$ (54)

Note: Transactions before the merger of the three companies have not been eliminated.

Years ended March 31, 2001 and 2000	Millions of yen				
	2001 First Half (DDI, KDD, IDO)	2001 Second Half (KDDI)	2001 Total	2000 Total (DDI, KDD, IDO)	Change
Operating revenues	¥1,406,589	¥1,409,792	¥2,816,381	¥2,602,494	¥213,887
Operating expenses	1,348,781	1,368,806	2,717,587	2,542,369	175,218
Operating income	57,808	40,986	98,794	60,125	38,669
Total other expenses	9,537	23,189	32,726	98,207	(65,481)
Income (loss) before income taxes and minority interests	48,271	17,797	66,068	(38,082)	104,150
Total income taxes	30,201	11,995	42,196	(12,536)	54,732
Minority interests in consolidated subsidiaries	1,229	975	2,204	(21,393)	23,597
Net income (loss)	¥ 16,841	¥ 4,827	¥ 21,668	¥ (4,153)	¥ 25,821

Years ended March 31, 2001 and 2000	Millions of U.S.dollars				
	2001 First Half (DDI, KDD, IDO)	2001 Second Half (KDDI)	2001 Total	2000 Total (DDI, KDD, IDO)	Change
Operating revenues	$ 11,353	$ 11,378	$ 22,731	$ 21,005	$ 1,726
Operating expenses	10,886	11,048	21,934	20,520	1,414
Operating income	467	330	797	485	312
Total other expenses	77	187	264	793	(529)
Income (loss) before income taxes and minority interests	390	143	533	(308)	841
Total income taxes	244	97	341	(101)	442
Minority interests in consolidated subsidiaries	10	8	18	(173)	191
Net income (loss)	$ 136	$ 38	$ 174	$ (34)	$ 208

Note: Transactions before the merger of the three companies have not been eliminated.

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Millions of U.S. dollars (Note 1) 2001
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 134,670	¥ 78,300	$ 1,087
Accounts receivable	547,202	234,266	4,416
Allowance for doubtful accounts	(13,473)	(7,725)	(109)
Inventories	110,044	32,945	888
Deferred income taxes (Note 10)	12,381	29,235	100
Prepaid expenses and other current assets	63,605	12,299	514
Total Current Assets	854,429	379,320	6,896
Property, Plant and Equipment (Note 4)**:**			
Telecommunications equipment	3,079,812	1,837,410	24,856
Buildings and structures	540,528	230,828	4,363
Machinery and tools	133,640	41,719	1,079
Land	88,249	53,052	712
Construction in progress	127,211	48,307	1,027
Other property, plant and equipment	15,440	—	125
	3,984,880	2,211,316	32,162
Accumulated depreciation	(1,739,812)	(891,859)	(14,042)
Total Property, Plant and Equipment	2,245,068	1,319,457	18,120
Investments and Other Assets:			
Investments in securities (Note 3)	62,061	2,452	501
Deposits and guarantee money	41,691	25,238	336
Intangible assets	261,727	129,480	2,112
Goodwill	65,982	64,598	533
Deferred income taxes (Note 10)	15,355	9,289	124
Other assets	101,205	67,491	817
Allowance for loss on investments and other assets	(8,154)	(6,559)	(66)
Total Investments and Other Assets	539,867	291,989	4,357
Foreign Currency Translation Adjustments	—	8,242	—
Total Assets	¥3,639,364	¥1,999,008	$29,373

The accompanying notes are an integral part of these statements.

March 31, 2001 and 2000	Millions of yen 2001	2000	Millions of U.S. dollars (Note 1) 2001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	¥ 457,790	¥ 300,832	$ 3,695
Accounts payable	552,307	231,987	4,458
Accrued income taxes	10,258	4,321	83
Accrued expenses	31,620	43,057	255
Allowance for bonuses	14,393	5,641	116
Other current liabilities	47,585	9,827	384
Total Current Liabilities	1,113,953	595,665	8,991
Non-Current Liabilites:			
Long-term loans (Note 4)	1,205,380	936,497	9,728
Bonds (Note 4)	380,000	160,000	3,067
Other non-current liabilities (Note 4)	83,588	34,092	675
Total Non-Current Liabilities	1,668,968	1,130,589	13,470
Total Liabilities	2,782,921	1,726,254	22,461
Minority Interests	11,352	44,180	91
Contingent Liabilities (Note 5)			
Shareholders' Equity (Note 8)**:**			
Common stock, ¥5,000 par value:			
Authorized—7,000,000 shares			
Issued and outstanding—4,240,880.38 shares	141,852	72,635	1,145
Additional paid-in capital	304,096	87,920	2,454
Retained earnings	401,442	68,019	3,240
	847,390	228,574	6,839
Foreign Currency Translation Adjustments	(2,290)	—	(18)
Treasury stock, at cost	(9)	(0)	(0)
Total Shareholders' Equity	845,091	228,574	6,821
Total Liabilities and Shareholders' Equity	¥3,639,364	¥1,999,008	$29,373

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Millions of U.S. dollars (Note 1) 2001
Operating Revenues:			
Voice communications	**¥1,567,658**	¥1,226,181	**$12,653**
Digital data transmission services	**148,081**	30,954	**1,195**
Leased circuits	**55,677**	18,214	**449**
Telegraph and other telecommunications services	**34,403**	—	**278**
Sales of terminal equipment and other	**462,827**	250,604	**3,735**
Total Operating Revenues	**2,268,646**	1,525,953	**18,310**
Operating Expenses:			
Sales expenses	**866,545**	574,246	**6,994**
Depreciation	**329,474**	268,276	**2,659**
Charges on use of telecommunications services of third party	**311,370**	269,101	**2,513**
Cost of sales of terminal equipment and other	**448,816**	242,494	**3,622**
Other	**223,658**	152,222	**1,805**
Total Operating Expenses	**2,179,863**	1,506,339	**17,593**
Operating Income	**88,783**	19,614	**717**
Other Expenses (Income):			
Interest expense	**40,923**	29,449	**331**
Interest income	**(1,077)**	(361)	**(9)**
Gain on sales of securities	**(16,723)**	—	**(135)**
Bond issue cost	**—**	310	**—**
Equity in loss of affiliates	**6,674**	1,383	**54**
Retirement benefit expenses	**5,983**	—	**48**
Loss from amendments to submarine cable construction contracts	**10,594**	—	**86**
Loss on discontinuance of Iridium telecommunications services	**—**	37,415	**—**
Other, net	**(3,493)**	(5,796)	**(28)**
Total Other Expenses	**42,881**	62,400	**347**
Income (Loss) before Income Taxes and Minority Interests	**45,902**	(42,786)	**370**
Income Taxes:			
Current	**10,843**	6,035	**88**
Deferred	**17,444**	(24,245)	**140**
Total Income Taxes	**28,287**	(18,210)	**228**
Minority Interests in Consolidated Subsidiaries	**4,188**	(14,108)	**34**
Net Income (Loss)	**¥ 13,427**	¥ (10,468)	**$ 108**

	Yen 2001	Yen 2000	U.S. dollars (Note 1) 2001
Per Share Data:			
Net income (loss)	**¥ 4,467**	¥ (4,603)	**$ 36.05**
Cash dividends	**1,790**	1,790	**14.45**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2001 and 2000	Thousands Number of shares of common stock	Millions of yen Common stock	Additional paid-in capital	Retained earnings	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 1999	2,274	¥ 72,635	¥ 87,920	¥ 70,653	¥ —	¥—
Prior years' tax effect				11,999		
Net loss for the year				(10,468)		
Cash dividends				(4,071)		
Directors' and corporate auditors' bonuses				(94)		
Net changes in treasury stock						(0)
Balance, March 31, 2000	2,274	¥ 72,635	¥ 87,920	¥ 68,019	¥ —	¥ (0)
New share issue to Toyota Motor Corporation (Note 8)	124	60,002	60,002			
Merger with KDD and IDO (Note 8)	1,345	6,726	115,780	324,182		
New share issue to au Corporation for exchange of shares (Note 8)	498	2,489	40,394			
Net income for the year				13,427		
Cash dividends (Note 8)				(4,182)		
Directors' and corporate auditors' bonuses				(4)		
Foreign currency translation adjustments					(2,290)	
Net changes in treasury stock						(9)
Balance, March 31, 2001	**4,241**	**¥141,852**	**¥304,096**	**¥401,442**	**¥(2,290)**	**¥(9)**

Year ended March 31, 2001	Thousands Number of shares of common stock	Millions of U.S. dollars (Note 1) Common stock	Additional paid-in capital	Retained earnings	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2000	2,274	$ 587	$ 710	$ 549	$ —	$—
New share issue to Toyota Motor Corporation (Note 8)	124	484	484			
Merger with KDD and IDO (Note 8)	1,345	54	934	2,616		
New share issue to au Corporation for exchange of shares (Note 8)	498	20	326			
Net income for the year				108		
Cash dividends (Note 8)				(33)		
Directors' and corporate auditors' bonuses				(0)		
Foreign currency translation adjustments					(18)	
Net changes in treasury stock						(0)
Balance, March 31, 2001	**4,241**	**$1,145**	**$2,454**	**$3,240**	**$(18)**	**$(0)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2001 and 2000	Millions of yen 2001	Millions of yen 2000	Millions of U.S. dollars (Note 1) 2001
Cash Flows from Operating Activities:			
Income (loss) before income taxes and minority interests	¥ 45,902	¥ (42,786)	$ 370
Adjustments for:			
Depreciation and amortization	338,366	270,211	2,732
Loss on disposal of property, plant and equipment	13,677	32,093	110
Increase (decrease) in allowance for doubtful accounts	(3,360)	152	(27)
Increase in reserve for retirement benefits	7,777	97	63
Interest and dividend income	(2,547)	(362)	(21)
Interest expenses	40,923	29,449	330
Equity in loss of affiliates	6,674	1,383	54
Investment securities write-off	115	100	1
Loss on discontinuance of Iridium telecommunication services	—	33,641	—
Loss from amendments to submarine cable construction contracts	10,594	—	86
Changes in assets and liabilities:			
(Increase) in notes and accounts receivable	(37,110)	(17,729)	(300)
(Increase) decrease in inventories	(69,074)	9,691	(558)
Increase (decrease) in notes and accounts payable	(24,482)	29,781	(197)
Other, net	579	305	5
Subtotal	328,034	346,026	2,648
Interest and dividend income received	2,213	359	18
Interest expenses paid	(36,738)	(25,126)	(297)
Income taxes paid	(6,773)	(17,162)	(55)
Net cash provided by operating activities	286,736	304,097	2,314
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(339,209)	(263,978)	(2,737)
Proceeds from sale of property, plant and equipment	8,329	—	67
Payments for other intangible assets	(76,059)	(57,700)	(614)
Acquisition of investment securities	(2,298)	(4,119)	(19)
Proceeds from sale of investment securities	24,015	—	194
Payments for investment in affiliates	(8,592)	(13,833)	(69)
Acquisition of shares in subsidiaries newly consolidated	—	(5,427)	—
Proceeds from sale of shares in subsidiaries excluded from consolidation	28,421	—	229
Increase in long-term prepayment	(15,805)	(28,206)	(128)
Other, net	8,935	1,699	72
Net cash used in investing activities	(372,263)	(371,564)	(3,005)
Cash Flows from Financing Activities:			
Decrease in short-term loans	(76,546)	(26,106)	(618)
Proceeds from issuance of long-term loans	183,776	232,400	1,483
Repayment of long-term loans	(250,289)	(254,702)	(2,020)
Proceeds from bond issue	—	60,000	—
Proceeds from new share issue	120,004	—	969
Dividends paid	(4,288)	(4,265)	(35)
Payments received from minority shareholder	632	337	5
Payments for bounty of merger	(2,000)	—	(16)
Other, net	3,359	—	27
Net cash (used in) provided by financing activities	(25,352)	7,664	(205)
Translation Adjustments on Cash and Cash Equivalents	365	(273)	3
Net (Decrease) in Cash and Cash Equivalents	(110,514)	(60,076)	(893)
Cash and Cash Equivalents at Beginning of Year	78,300	138,376	633
Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated	166,884	—	1,347
Cash and Cash Equivalents at End of Year	¥ 134,670	¥ 78,300	$ 1,087

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

KDDI Corporation and Consolidated Subsidiaries

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. DDI Corporation (the "Company"—now KDDI) 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.

Since KDD Corporation and IDO Corporation were merged to the Company on October 1, 2000, the Company's consolidated statements of income cover the operating results of KDD and IDO in the second half of fiscal 2001. Also, in accounting for the merger, all assets and liabilities held by KDD and IDO as of September 30, 2000 were taken over by the Company at their fair value.

The Company's consolidated financial statements for the year ended March 31, 2001, include 76 consolidated subsidiaries. These are: au Corporation, OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., DDI POCKET Inc., HOLA PARAGUAY S.A. and 69 other subsidiaries.

During the year ended March 31, 2001, significant changes in the scope were incurred as follows:

Added:

(Consolidated)

KCOM Corporation	Merger with KDD and IDO
KDDI Winstar Corporation	Merger with KDD and IDO
KMN Corporation	Merger with KDD and IDO
Telecomet International Inc.	Merger with KDD and IDO
KDDI Research and Development Laboratories, Inc.	Merger with KDD and IDO
KDD Submarine Cable Systems Inc.	Merger with KDD and IDO
KDDI Development Corporation	Merger with KDD and IDO
KDDI AMERICA, INC.	Merger with KDD and IDO
KDDI EUROPE LTD.	Merger with KDD and IDO
TELEHOUSE INTERNATIONAL CORPORATION OF AMERICA	Merger with KDD and IDO
TELEHOUSE INTERNATIONAL CORPORATION OF EUROPE LTD.	Merger with KDD and IDO
and 54 subsidiaries	Merger with KDD and IDO
a1 adnet Corporation	Established

(Equity Method)

MINEX Corporation	Merger with KDD and IDO
Fandango Inc.	Merger with KDD and IDO
Japan Internet Exchange Co., Ltd.	Merger with KDD and IDO
@KNOWLEDGE Corporation	Merger with KDD and IDO
MOBICOM CORPORATION	Merger with KDD and IDO
and five affiliated companies	Merger with KDD and IDO

Removed:

(Consolidated)

KANSAI CELLULAR TELEPHONE Co.	Merger
KYUSHU CELLULAR TELEPHONE Co.	Merger
CHUGOKU CELLULAR TELEPHONE Co.	Merger
TOHOKU CELLULAR TELEPHONE Co.	Merger
HOKURIKU CELLULAR TELEPHONE Co.	Merger
HOKKAIDO CELLULAR TELEPHONE Co.	Merger
SHIKOKU CELLULAR TELEPHONE Co.	Merger

The above DDI CELLULAR Group companies were merged to KANSAI CELLULAR TELEPHONE Co., which changed its name to au Corporation on November 1, 2000.

DDI COMMUNICATIONS AMERICA CORPORATION	Merger

The above corporation was merged to KDD AMERICA, INC., which changed its name to KDDI AMERICA, INC., on December 31, 2000.

DDI NETWORK SYSTEMS CORPORATION	Merger

The above corporation was merged to KDD Communications Inc., which changed its name to KCOM Corporation on January 1, 2001.

DAINI DO BRASIL S.A.	Sale of equity holding

DDI DO BRASIL LTDA. changed its name to DAINI DO BRASIL S.A. on February 1, 2001.

(Equity Method)

IRIDIUM SOUTH PACIFIC PTY Ltd.	Withdrawal from business
IRIDIUM SOUTHEAST ASIA Co., Ltd.	Withdrawal from business
GLOBAL TELECOM S.A.	Sale of DAINI DO BRASIL S.A.'s stock held by the Company

GLOBAL TELECOM S.A. was an affiliated company of DAINI DO BRASIL S.A.

In 2000, KDDI Research and Development Laboratories, Inc., changed its fiscal year-end to March 31, from December 31. Accordingly, this company's fiscal 2001 includes only nine months of operations.

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 ¥123.90=$1, the approximate exchange rate on March 31, 2001. 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 unconsolidated subsidiaries and 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 sale 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 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 average method for the Company, and by the moving-average method for its subsidiaries.

e. Foreign Currency Translation
Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, all 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. The adoption of the new method had no material impact on the accompanying consolidated financial statements.

The new standard also amended the method of translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen. Under the new standard, 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 foreign currency translation adjustments in shareholders' equity. Also, foreign currency translation adjustments appropriated to assets in the prior consolidated fiscal year are included in minority interests (¥2,290 million) and shareholder's equity (¥624 million).

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 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
Submarine cable system, buildings, engineering equipment and telecommunications service lines:	2–65 years

Change of Depreciation Method
Effective from the year ended March 31, 2001, au Corporation and OKINAWA CELLULAR TELEPHONE Co. changed the depreciation method of their tangible fixed assets to straight-line, from declining-balance, for the proper recognition of revenues and expenses, taking the adoption of the new *au* brand and the merger of DDI CELLULAR Group companies into consideration.

Change of Estimated Useful Lives
Effective from the year ended March 31, 2001, au Corporation and OKINAWA CELLULAR TELEPHONE Co. changed the estimated useful lives of their wireless facilities to six years, from nine years, to match the rapid technological innovation of mobile communications business.

As a result of the above changes, depreciation expense in fiscal 2001 decreased by ¥38,201 million and income before income taxes and minority interests increased by the same amount.

Interest incurred is not capitalized with respect to constructed assets.

g. Financial Instruments
Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adopting the new standard, income before income taxes for the year ended March 31, 2001 decreased by ¥3,070 million, compared with the amount which would have been reported if the previous standard had been applied consistently.

(1) Derivatives
Under the new standard, 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
Under the new standard, securities are classified into four categories. These are: Trading securities; held-to-maturity debt securities; investments in equity securities issued by unconsolidated subsidiaries and affiliates; and other securities. The company and its domestic subsidiaries hold three types of securities—that is, all except for trading 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 unconsolidated subsidiaries and affiliates are accounted for by the equity method.

Other securities are valued at cost, whether listed on stock exchanges or not. The cost of securities is mainly determined by the moving-average method.

Change of Valuation Method
Other securities had been valued at cost determined by the overall-average method, but in order to hasten the recognition of profits and losses, the Company changed over to the moving-average method from fiscal 2001.

(3) Hedge Accounting
Under the new standard, 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 trade accounts receivable and payable, long-term bank loans and debt securities issued by the Company.

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 semiannually 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 Computer Software
Research and development expenses are charged to income when incurred. Computer software for internal use included in intangible assets is amortized using the straight-line method over the estimated useful lives (five years) except if the software contributes to the generation of income or to future cost savings.

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, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

j. Leases
Leases, other than those leases deemed to transfer the ownership of the leased assets to lessees, are accounted for as 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. New Share Issue Costs
New share issue costs are charged to income as incurred.

m. Net Income and Cash Dividends per Share
Net income and cash dividends per share are computed based on the weighted average number of shares of common stock outstanding during each year. The amounts of cash dividends used for the above calculation are the total of interim cash dividends paid and dividends declared and paid during the respective periods.

n. 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.

o. Retirement Benefits
Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the reserve for retirement benefits as of March 31, 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets and the retirement benefit trust which KDD had established and the Company took over. The unrecognized transition amount of ¥5,983 million at April 1, 2000 was then charged to income for the year ended March 31, 2001, and unrecognized actuarial differences of ¥47,873 million are amortized on a straight-line basis over 14 years from the year ending March 31, 2002. As a result of adopting the new standard, net pension expense for the year ended March 31, 2001 increased by ¥8,628 million, and income before income taxes and minority interests decreased by ¥8,628 million, compared with the amounts that would have been reported if the previous standard had been applied consistently.

3. Market Value Information

At March 31, 2001, 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 prices

2001	Millions of yen			Millions of U.S.dollars		
	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	¥5,217	¥5,244	¥ 27	$42	$42	$ 0
Bonds for which market value does not exceed book value of consolidated balance sheets	3,956	3,714	(242)	32	30	(2)
Total	¥9,173	¥8,958	¥(215)	$74	$72	$(2)

Other securities sold during the fiscal year

2001	Millions of yen			Millions of U.S.dollars		
	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	¥405	¥199	¥0	$3	$2	$0

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	¥ 597	¥ 200	¥—	$ 5	$ 2	$—
Other	7,250	1,107	19	58	9	0
Other securities	99	300	—	1	2	—
Total	¥7,946	¥1,607	¥19	$64	$13	$ 0

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, 2001 was 1.70%.

Long-term debt at March 31, 2001 consisted of the following:

	Millions of yen 2001	2000	Millions of U.S. dollars 2001
Domestic unsecured straight bonds due 2002 through 2010 at rates of 1.55% to 2.57% per annum	**¥ 240,000**	¥ 160,000	**$ 1,937**
General secured bonds due 2001 through 2017 at rates of 2.20% to 3.20% per annum	**170,000**	—	**1,372**
Total bonds	**¥ 410,000**	¥ 160,000	**$ 3,309**
Loans from banks:			
Secured loans, maturing through 2020 at average rates of 2.30% per annum	**¥1,583,109**	¥1,183,245	**$12,777**
Other interest-bearing debt	**54,457**	35,798	**440**
	¥1,637,566	¥1,219,043	**$13,217**
Total bonds and loans	**¥2,047,566**	¥1,379,043	**$16,526**
Less amount due within one year	**426,282**	252,914	**3,441**
	¥1,621,284	¥1,126,129	**$13,085**

Note: 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, 2001 were as follows:

Years ending March 31	Millions of yen 2001	Millions of U.S. dollars 2001
2002	¥ 426,282	$ 3,441
2003	388,521	3,136
2004	275,530	2,224
2005	286,904	2,315
2006 and thereafter	670,329	5,410
	¥2,047,566	$16,526

At March 31, 2001, assets pledged as collateral for long-term loans were as follows:

	Millions of yen 2001	Millions of U.S. dollars 2001
Long-term loans	¥ 24,849	$ 201
Current portion of long-term loans	9,786	79
	¥ 34,635	$ 280
Mortgage on factory foundation	¥265,758	$2,145
Buildings	1,745	14
Land	3,927	32
	¥271,430	$2,191

5. Contingent Liabilities

At March 31, 2001 and 2000 the Company was contingently liable as follows:

	Millions of yen 2001	2000	Millions of U.S. dollars 2001
As a guarantor for:			
Loans of affiliated companies	**¥ 12,514**	¥6,031	**$ 101**
System supply contract of KDD Submarine Cable Systems Inc.	**122,965**	—	**992**
Office lease contract of KDDI AMERICA, INC.	**1,082**	—	**9**
	¥136,561	¥6,031	**$1,102**

6. Lease Payments

Lessee Side

Finance leases without transfer of ownership

Assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2001 and 2000 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
	2001			2000			2001		
Tools, furniture and fixtures	**¥151,570**	**¥64,392**	**¥87,178**	¥28,826	¥16,020	¥12,806	**$1,223**	**$520**	**$703**
Other	**960**	**538**	**422**	179	101	78	**8**	**4**	**4**
	¥152,530	**¥64,930**	**¥87,600**	¥29,005	¥16,121	¥12,884	**$1,231**	**$524**	**$707**

Future lease payments as of March 31, 2001 and 2000 were as follows:

	Millions of yen 2001	2000	Millions of U.S. dollars 2001
Within one year	**¥25,981**	¥ 5,913	**$210**
Over one year	**61,619**	6,971	**497**
	¥87,600	¥12,884	**$707**

Lease payments and assumed depreciation charges for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2000	2001
Lease payments	¥17,367	¥6,311	$140
Assumed depreciation charges	17,367	6,311	140

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

Operating leases

Obligations under non-cancelable operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2000	2001
Within one year	¥1,293	¥ 325	$10
Over one year	8,587	853	69
	¥9,880	¥1,178	$79

Lessor Side

Finance leases without transfer of ownership

Assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2001 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
			2001			2001
Tools, furniture and fixtures	¥2,369	¥1,030	¥1,339	$19	$8	$11
Other	207	125	82	1	1	0
	¥2,576	¥1,155	¥1,421	$20	$9	$11

Future lease receipts as of March 31, 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2000	2001
Within one year	¥ 563	¥—	$ 4
Over one year	982	—	8
	¥1,545	¥—	$12

Lease receipts and assumed depreciation charges for the years ended March 31, 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2000	2001
Lease receipts	¥298	¥—	$2
Assumed depreciation charges	275	—	2

7. 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, 2001 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2001	Notional amount	Market value	Unrealized loss	Notional amount	Market value	Unrealized loss
Forward exchange contracts (to sell U.S. dollars)	¥13,628	¥14,709	¥(1,081)	$110	$119	$ (9)
Foreign currency options:						
Selling contracts:						
U.S. dollar call options	33,453 <665>	3,003	(2,338)	270 <5>	24	(19)
Buying contracts:						
U.S. dollar put options	12,390 <383>	9	(374)	100 <3>	0	(3)

	Millions of yen			Millions of U.S. dollars		
2001	Notional amount	Market value	Unrealized gain (loss)	Notional amount	Market value	Unrealized gain (loss)
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥2,000	¥283	¥283	$16	$2	$2
Variable rate into fixed rate obligations	5,750	(227)	(227)	46	(2)	(2)

Note: The amount in brackets (< >) are options premiums which are presented in the consolidated balance sheets.

8. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distribution from retained earnings paid by the parent company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriation is required when the legal reserve equals 25 percent of their respective stated capital. This reserve amounted to ¥11,477 million ($92 million) and ¥2,300 million at March 31, 2001 and 2000, respectively. This reserve is not available for dividend payment but may be capitalized by resolution of the Board of Directors or used to reduce a deficit by approval of the shareholders.

During the year ended March 31, 2001, the Company increased its capital as a result of the following events.

(1) New share issue to Toyota Motor Corporation

This new share was issued by a private placement on September 30, 2000 in accordance with the resolution of the Board of Directors on April 5, 2000. Toyota Motor Corporation confirms that its equity will be held for at least two years from the issued date.

(2) Merger with KDD and IDO

The merger took place on October 1, 2000 in accordance with the approval of the shareholders of the Company at the general meeting held on June 28, 2000.

The merger ratios are: DDI:KDD=9.21:1, DDI:IDO=29:1

(3) New share issue to au Corporation for exchange of shares

This new share was issued on March 31, 2001 in accordance with the approval of the shareholders of the Company at the extraordinary meeting held on February 22, 2001.

The exchange ratio is: KDDI:au=1.000:2.015

The Company and its subsidiaries also paid out an interim dividend.

Under the Commercial Code, the entire amount of the issue price of new shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of such new shares 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.

9. Research and Development Expenses

Research and development expenses charged to income were ¥5,122 million ($41 million) and ¥874 million ($7 million) for the years ended March 31, 2001 and 2000, respectively.

10. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2001 was 41.9%.

At March 31, 2001 and 2000, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Reserve for retirement benefits (lump sum)	¥ 15,713	¥ —	$ 127
Reserve for retirement benefits (pension)	7,196	—	58
Unrealized profits	12,525	8,253	101
Depreciation and amortization	1,816	—	15
Retirement costs of fixed assets	—	11,240	—
Inventory write down	—	2,164	—
Allowance for bonus payment	3,147	785	25
Allowance for doubtful accounts	948	1,317	8
Accrued expenses	2,420	2,639	20
Accrued enterprise taxes	824	—	7
Net operating loss carried forward	58,027	96,117	468
Other	7,708	4,812	62
Gross deferred tax assets	110,324	127,327	891
Valuation allowance	(60,568)	(87,942)	(489)
Net deferred tax assets	¥ 49,756	¥ 39,385	$ 402
Deferred tax liabilities:			
Special depreciation reserve	¥ (914)	¥ (857)	$ (7)
Tax allowance for acquisition of fixed assets	—	(4)	—
Gain on establishment of retirement benefit trust	(21,091)	—	(171)
Retained earnings for overseas affiliates	(507)	—	(4)
Other	(988)	—	(8)
Total deferred tax liabilities	¥ (23,500)	¥ (861)	$(190)
Net deferred tax assets	¥ 26,256	¥ 38,524	$ 212

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, 2001.

Statutory tax rate	41.9%
Valuation allowance	26.7%
Amortization of goodwill	3.3%
Gain on sale of investment securities	(9.5%)
Differences concerning tax effect of acquired corporations (KDD, IDO)	(5.1%)
Other	4.3%
Effective tax rate	61.6%

11. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of welfare pension funds, 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, 2001 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2001	2001
Projected benefit obligations	¥(241,527)	$(1,949)
Plan assets	154,738	1,249
Retirement benefit trust	29,634	239
	¥ (57,155)	$ (461)
Unrecognized actuarial differences	47,873	386
Prepaid pension cost	(12,761)	(103)
Reserve for retirement benefits	¥ (22,043)	$ (178)

Net pension expense related to the retirement benefits for the year ended March 31, 2001 was as follows:

	Millions of yen	Millions of U.S. dollars
	2001	2001
Service cost	¥ 5,842	$ 47
Interest cost	4,313	35
Expected return on plan assets	(2,741)	(22)
Amortization of transition amount	5,982	48
Net pension cost	¥13,396	$108

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

Discount rate	3.0% (Mainly)
Expected rate of return on plan assets	3.5%–4.6%
Expected rate of return concerning retirement benefit trust	0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization of unrecognized actuarial differences	14 years from the year ending March 31, 2002
Amortization of transition amount	Charged to income for the year ended March 31, 2001

12. Segment Information

Segment information by business category for the years ended March 31, 2001 and 2000 was as follows:

Millions of yen

Year ended March 31, 2001	Network & IP	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):							
Outside sales	¥ 460,392	¥1,491,081	¥248,683	¥ 68,490	¥2,268,646	¥ —	¥2,268,646
Intersegment sales	90,085	3,864	3,201	38,714	135,864	(135,864)	—
Total	550,477	1,494,945	251,884	107,204	2,404,510	(135,864)	2,268,646
Operating expenses	494,330	1,458,447	264,783	102,164	2,319,724	(139,861)	2,179,863
Operating income (loss)	¥ 56,147	¥ 36,498	¥ (12,899)	¥ 5,040	¥ 84,786	¥ 3,997	¥ 88,783
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥1,783,001	¥1,814,749	¥298,343	¥198,327	¥4,094,420	¥(455,056)	¥3,639,364
Depreciation	93,232	185,834	61,513	4,136	344,715	(10,068)	334,647
Capital expenditures	105,137	301,630	27,320	10,466	444,553	(2,513)	442,040

Millions of yen

Year ended March 31, 2000	Network & IP	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):							
Outside sales	¥ 258,260	¥ 989,018	¥ 277,728	¥ 947	¥ 1,525,953	¥ —	¥ 1,525,953
Intersegment sales	56,424	3,154	3,008	3,071	65,657	(65,657)	—
Total	314,684	992,172	280,736	4,018	1,591,610	(65,657)	1,525,953
Operating expenses	268,304	998,425	299,377	7,508	1,573,614	(67,275)	1,506,339
Operating income (loss)	¥ 46,380	¥ (6,253)	¥ (18,641)	¥ (3,490)	¥ 17,996	¥ 1,618	¥ 19,614
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥ 788,863	¥ 1,175,391	¥ 316,437	¥ 16,508	¥ 2,297,199	¥ (298,191)	¥ 1,999,008
Depreciation	56,814	162,638	54,371	1,178	275,001	(6,554)	268,447
Capital expenditures	89,204	265,537	47,344	195	402,280	(7,116)	395,164

Millions of U.S. dollars

Year ended March 31, 2001	Network & IP	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):							
Outside sales	$ 3,716	$ 12,034	$ 2,007	$ 553	$ 18,310	$ —	$ 18,310
Intersegment sales	727	31	26	312	1,096	(1,096)	—
Total	4,443	12,065	2,033	865	19,406	(1,096)	18,310
Operating expenses	3,990	11,770	2,137	825	18,722	(1,129)	17,593
Operating income (loss)	$ 453	$ 295	$ (104)	$ 40	$ 684	$ 33	$ 717
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	$ 14,390	$ 14,647	$ 2,408	$ 1,601	$ 33,046	$ (3,673)	$ 29,373
Depreciation	752	1,500	496	33	2,781	(81)	2,700
Capital expenditures	849	2,434	220	84	3,587	(20)	3,567

Notes: 1. Business Category and Principal Services/Operations of Each Category, Effective from the Year ended March 31, 2001

Business category	Principal services/operations
Network & IP	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. Change of Depreciation Method
As described in Note 2f to the consolidated financial statements, au Corporation and OKINAWA CELLULAR TELEPHONE Co. changed the depreciation method of their tangible fixed assets from the declining-balance method to the straight-line method, effective from the year ended March 31, 2001. As a result, operating expenses in “au, TU-KA,” “Total” and “Consolidation” for the period under review each decreased by ¥55,269 million, and operating income increased by the same amount, compared with the previous period.
3. Change of Estimated Useful Lives
As described in Note 2f to the consolidated financial statements, au Corporation and OKINAWA CELLULAR TELEPHONE Co. changed the estimated useful lives of their wireless facilities from nine years to six years, effective from the year ended March 31, 2001. As a result, operating expenses in “au, TU-KA,” “Total” and “Consolidation” for the period under review each increased by ¥17,068 million, and operating income decreased by the same amount, compared with the previous period.
4. Information by geographic area and overseas sales is not shown since overseas sales were not material compared with consolidated net sales.

13. Subsequent Event

The appropriation of retained earnings of the Company with respect to the year ended March 31, 2001, proposed by the Board of Directors and approved by the shareholders of the Company at the general meeting held on June 26, 2001, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥895=US$7.22)	¥3,353	$27

Report of Independent Accountants

The Board of Directors
KDDI CORPORATION

We have audited the accompanying consolidated balance sheets of KDDI CORPORATION and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KDDI CORPORATION and its consolidated subsidiaries as of March 31, 2001 and 2000, 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) applied on a consistent basis, except for the changes described in the next paragraph.

As described in Note 2f. and 2g. to the accompanying consolidated financial statements, effective from the year ended March 31, 2001, au CORPORATION and OKINAWA CELLULAR TELEPHONE COMPANY changed the depreciation method and the Company changed the valuation method of securities.

As described in Note 2g. and 2o. to the accompanying consolidated financial statements, effective from the year ended March 31, 2001, KDDI CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments and retirement benefits.

Also, as described in Note 2h. and 2i. to the accompanying consolidated financial statements, effective from the year ended March 31, 2000, KDDI CORPORATION and its consolidated subsidiaries have adopted new Japanese accounting standards for the preparation of consolidated financial statements, research and development costs and income taxes.

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 26, 2001

Corporate Data

(As of June 26, 2001)

Company Name:	KDDI Corporation
Date of Establishment:	June 1, 1984
Business Objective:	Type I Telecommunications business
Principal Office:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo, Japan
Representative Director:	Tadashi Onodera (President)
Capital:	¥141,851 million
Total Employees:	Approximately 6,800 (excluding seconded employees)

Directors, Auditors and Managing Officers

(As of June 26, 2001)

Directors

Chairman, Member of the Board, Representative Director
Jiro Ushio

Vice Chairman, Member of the Board, Representative Director
Yusai Okuyama

President, Member of the Board, Representative Director
Tadashi Onodera

Executive Vice Presidents, Members of the Board, Representative Directors
Shinji Sakai
Mitsuo Igarashi
Masahiro Yamamoto
Haruo Taneno

Member of the Board, Senior Executive Managing Officer
Yasuo Hirata

Members of the Board
Yasuo Nishiguchi
Hiroshi Okuda

Members of the Board, Senior Corporate Advisers
Tadashi Nishimoto
Masao Doi
Akira Hioki

Auditors

Standing Statutory Auditors
Masahiro Mino
Toshiaki Terui
Osamu Ando

Statutory Auditor
Atsushi Mori

Managing Officers

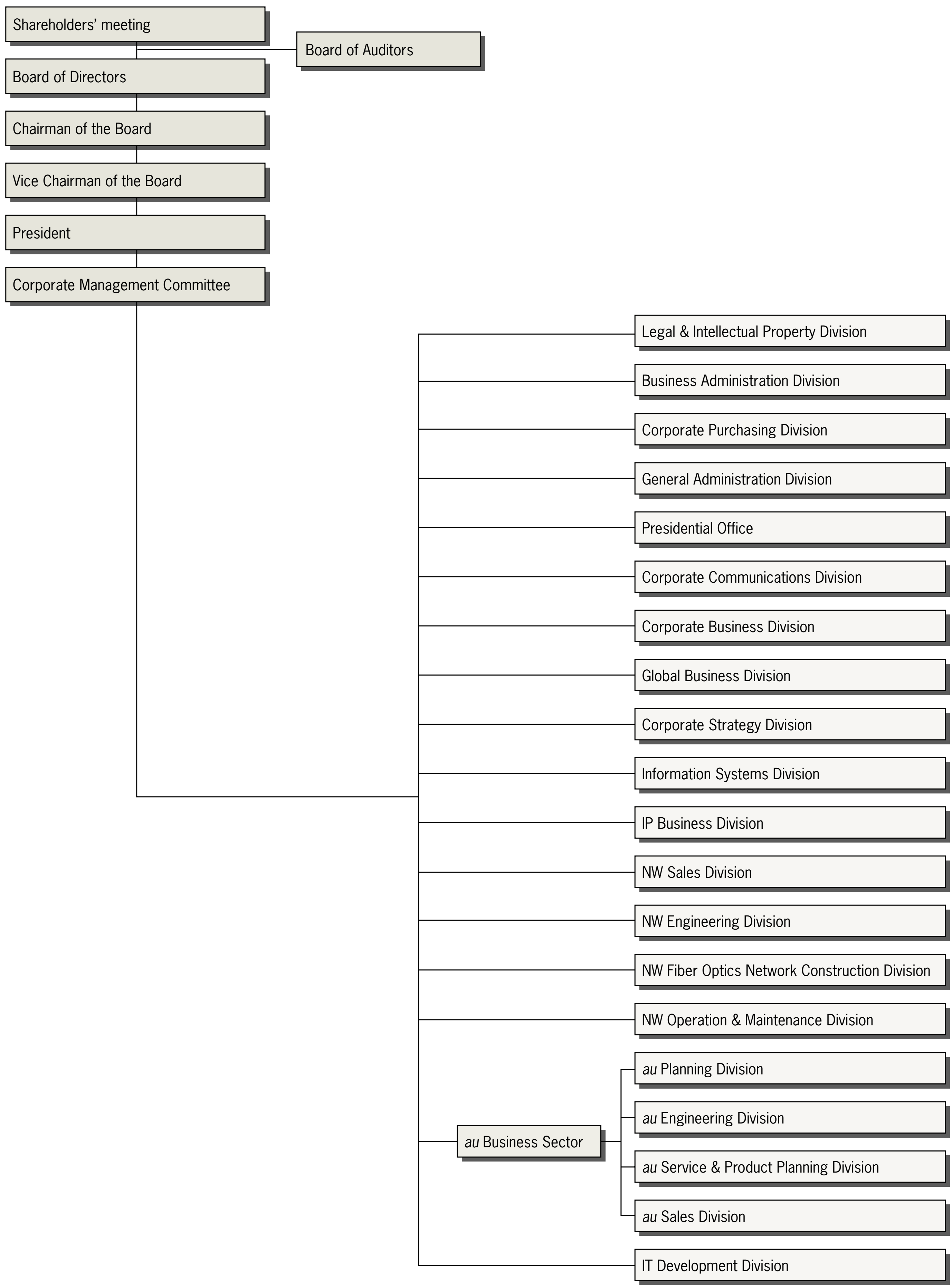
Senior Executive Managing Officers
Hiroshi Ohashi
Kiyohide Shirai
Toshio Okihashi

Executive Managing Officers
Takeshi Okada
Tadashi Kasiwamura
Yoshinori Nakagaki
Ryuichi Kinoshita
Nariyoshi Tanaka
Nobuhiko Nakano
Ryoichi Shimojima
Seiichiro Oshima
Satoshi Nagao
Kaoru Tachibana
Yasuhiko Ito

Managing Officers
Kazuyuki Tsukada
Hirofumi Morozumi
Nobuo Nezu
Hitomi Murakami
Akira Itoh
Tadashi Kitasako
Hajime Nomura
Osamu Tateno
Tomoyoshi Kaneko
Yuji Tuda
Noriyuki Kandori
Hiroshi Kitagawa
Yuzou Ishikawa
Yutaka Shono

Organization

(As of June 26, 2001)



Corporate History

1953 Mar.	KDD:	Kokusai Denshin Denwa Co., Ltd. (KDD), is founded.
1960 Feb.	KDD:	KDD R&D laboratories begin operations.
1961 Oct.	KDD:	KDD is listed on the Second Section of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange.
1964 June	KDD:	Ninomiya Cable Landing Station opens in Naka-gun, Kanagawa Prefecture.
	KDD:	No.1 Trans-Pacific Cable (TPC-1) enters service.
Aug.	KDD:	KDD joins INTELSAT (International Telecommunications Satellite Organization).
1966 Dec.	KDD:	Ibaraki Earth Station in Takahagi, Ibaraki Prefecture, enters service, and TV transmission between Japan and the United States begins.
1969 May	KDD:	Yamaguchi Earth Station in Yamaguchi Prefecture enters service, launching a satellite circuit between Japan and Europe.
1970 Feb.	KDD:	KDD is listed on the First Section of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange.
1973 Mar.	KDD:	International Direct Dialing (IDD) service is launched.
1974 July	KDD:	Construction of the KDD Building in Shinjuku, Tokyo is completed.
1976 Jan.	KDD:	No. 2 Trans-Pacific Cable (TPC-2) enters service.
1977 Mar.	KDD:	KDD joins INMARSAT (International Maritime Satellite Organization).
1984 June	DDI:	Dai-ni Denden Planning Company is established.
Nov.	KDD:	Teleway Japan Corporation (TWJ) is founded.
1985 Apr.	DDI:	DDI Corporation (DDI) launches operations.
June	DDI:	DDI is approved as a Type I Telecommunications business, and receives a provisional wireless license.
Aug.	KDD:	Oyama International Network Operations Center launches operations.
Dec.	DDI:	DDI is assigned 0077 as its domestic long-distance service access number.
1986 Oct.	DDI:	Tokaido Route (Tokyo-Nagoya-Osaka) leased circuit service begins.
1987 Mar.	IDO:	IDO Corporation is established.
Aug.	KDD:	Completed R&D laboratories in Kami-Fukuoka, Saitama Prefecture, commence operations.
Sep.	DDI:	Domestic long-distance service along the Tokaido Route begins.
1988 Feb.	IDO:	IDO is approved as a Type I Telecommunications business.
Dec.	IDO:	IDO launches car telephone service using the Hi-Cap analog cellular system.
1989 Apr.	KDD:	No.3 Trans-Pacific Cable (TPC-3) enters service.
May.	IDO:	Handy-Phone service (a compact lightweight cellular phone) is launched.
1990 Sep.	IDO:	Handy-Phone Minimo service (at the time, the world's lightest cellular phone) is launched.
1991 Oct.	IDO:	TACS-based service is launched.
1992 Nov.	KDD:	No.4 Trans-Pacific Cable (TPC-4) enters service.
Dec.	DDI/IDO:	TACS-based nationwide roaming and interconnection is introduced.
1993 Sep.	DDI:	DDI is listed on the Second Section of the Tokyo Stock Exchange.
	KDD:	Asia-Pacific Cable (APC) enters service.
Dec.	KDD:	China-Japan Fiber-Optic Submarine Cable (C-JFOSC) enters service.
1994 June	IDO:	PDC service is launched.
1996 Dec.	KDD:	No.5 Trans-Pacific Cable Network (TPC-5CN) enters service.
1997 Jan.	KDD:	Asia Pacific Cable Network (APCN) enters service.
June	KDD:	KDD Law is amended.
July	DDI:	DION Service is launched.
	KDD:	Domestic telecommunications service is launched.
1998 July	KDD:	KDD Law is abolished.
	DDI:	DDI acquires approval to operate as an International Type I Telecommunications business.
Oct.	DDI:	International telephone service is launched.
Dec.	KDD:	Kokusai Denshin Denwa Co., Ltd. (KDD), and TWJ merge to create KDD Corporation.
1999 Apr.	KDD:	Japan Information Highway (JIH) enters service.
	DDI/IDO:	cdmaOne nationwide seamless network is completed.
	DDI/IDO:	Mobile Internet connection service EZweb is launched.
Dec.	KDD:	SEA-ME-WE3 Cable enters service.
2000 Jan.	DDI/IDO:	PacketOne, a packet communications service with a maximum rate of 64Kbps, is launched.
Apr.	DDI/IDO:	GLOBAL PASSPORT, an international roaming service, is launched.
June	DDI/IDO:	DDI and IDO are granted a revision to their business licenses to accommodate IMT-2000 service provision.
July	DDI/IDO:	*au*, a uniform nationwide mobile communications brand, is launched.
	DDI/IDO:	The nationwide cumulative total number of cdmaOne subscribers reaches six million.
Oct.	DDI/IDO/ KDD:	DDI Corporation, KDD Corporation and IDO Corporation merge and form a new company. The trade name of the new entity is DDI Corporation, and it operates under the new KDDI corporate brand.
2001 Apr.	DDI:	The new DDI Corporation changes its name to KDDI Corporation.

Stock Information

(As of March 31, 2001)

Total Number of Shares Authorized: 7,000,000

Total Number of Shares Issued and Outstanding: 4,240,880.38

Number of Shareholders: 130,435

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Proportion of Capital (%)
Kyocera Corporation	572,675.87	13.50
Toyota Motor Corporation	497,425.23	11.72
The Kansai Electric Power Co., Inc.	161,200.00	3.80
The Chase Manhattan Bank N.A. London	108,255.00	2.55
Mizuho Trust & Banking Co., Ltd.	94,622.00	2.23
Japan Trustee Services Bank, Ltd.	84,418.00	1.99
Ministry of Posts and Telecommunications Mutual Aid Association	76,641.45	1.80
Nippon Telegraph and Telephone Corporation	69,747.12	1.64
Kyushu Electric Power Co., Inc.	69,662.78	1.64
The Mitsubishi Trust and Banking Corporation	62,020.00	1.46

Distribution of Shares

	Number of Shareholders	Number of Shares Held	Percentage of Total Shares
Federal and local government	1	3	0.00
Financial institutions	290	1,096,224	25.92
Securities firms	95	37,778	0.89
Other corporations	1,651	2,169,032	51.30
Foreign corporations, etc	577	597,071	14.12
Individuals and other	127,821	328,424	7.77
Total	130,435	4,228,532	100.00

Investor Information

(As of March 31, 2001)

Term End: March 31

Annual Shareholders' Meeting: June

Dividends

Dividends shall be paid to shareholders recorded in the list of shareholders as of the end of each term (including the list of beneficial shareholders) and to initial shareholders recorded in the original stock register.

Interim Dividends

When an interim dividend distribution is implemented by resolution of the Board of Directors, it shall be paid to shareholders recorded in the list of shareholders as of September 30 of each year (including the list of beneficial shareholders) and to initial shareholders recorded in the original stock register.

Public Notices: Nihon Keizai Shimbun, Tokyo edition

Transfer of Stock Title

(1) *Agent for transfer of stock title:*
The Toyo Trust & Banking Co., Ltd.
4-3, Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-0005, Japan

(2) *Title transfer processing center:*
The Toyo Trust & Banking Co., Ltd.
Corporate Agency Department
10-11 Higashi-Suna 7-chome, Koto-ku,
Tokyo 137-8081, Japan
Tel: +81-3-5683-5111
Web Site: http//www.toyotrustbank.co.jp

(3) *Broker:*
The Toyo Trust & Banking Co., Ltd. (All branches nationwide)

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