FINANCIAL SECTION

CONTENTS

FINANCIAL REVIEW (Unaudited)

KDDI Corporation and Consolidated Subsidiaries

This section attempts to avoid fluctuations resulting from the merger and provide a basis for real comparisons of the financial position by adjusting the figures for the years ended March 31, 2001 and 2002. For this reason, the statistics may differ from those shown in the audited financial statements.

1) Year ended March 31, 2001

The results for KDD and IDO in the first half of the year ended March 31, 2001 were simply added to the consolidated results. In the same way, the results for IDO were added to the au business results, and the results for KDD to the results for network and solutions businesses. The figures have not been adjusted for consolidation elimination.

2) Treatment of Consolidated Subsidiaries

Domestic consolidated subsidiaries, other than cellular-phone and PHS businesses, and overseas consolidated subsidiaries are all aggregated under other businesses. As a result, the figures for Network & Solutions businesses and other businesses do not match the segment data shown in the notes to the financial statements.

Consolidated Financial Review

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2002 and 2001	2002	2001	Change	%	2002
Operating revenues	¥ 2,833,799	¥ 2,816,381	¥ 17,418	0.6%	$ 21,267
Telecommunications business	2,247,145	2,192,637	54,508	2.5	16,864
Voice communications	1,767,730	1,871,737	(104,007)	(5.6)	13,266
Digital data transmission services and other	479,415	320,900	158,515	49.4	3,598
Other business	586,654	623,744	(37,090)	(5.9)	4,403
Operating income	102,297	98,794	3,503	3.5	768
Extraordinary income (loss)	(57,871)	6,498	(64,369)	—	(434)
Net income	12,979	21,668	(8,689)	(40.1)	97
Free cash flows	290,600	(170,002)	460,602	—	2,181
Depreciation expenses	423,981	407,615	16,366	4.0	3,182
Capital expenditures (payments)	374,522	560,174	(185,652)	(33.1)	2,811
EBITDA	544,805	513,853	30,952	6.0	4,089
EBITDA margin	19.2%	18.2%	1.0 %	—	19.2%
Balance of interest-bearing debt	1,746,784	2,097,627	(350,843)	(16.7)	13,109
Net debt	1,678,188	1,962,957	(284,769)	(14.5)	12,594

Operating Revenues

Operating revenues increased by ¥17.4 billion to ¥2,833.8 billion compared with the previous fiscal year. Under the new accounting standards adopted in April 2001, we introduced an “End-to-End Rate System” for calls between cellular phones. This change resulted in a ¥101.9 billion increase in operating revenues from cellular-phone services (au, TU-KA). Without this factor, operating revenues would have declined by ¥84.5 billion to ¥2,731.9 billion. However, since there was an equivalent increase in operating expenses, there is no effect on income. Revenues from voice communications services decreased by ¥104 billion to ¥1,767.7 billion, but revenues from digital data transmission services increased by ¥158.5 billion to ¥479.4 billion.

Income

Operating income increased by ¥3.5 billion compared with the previous year’s result to ¥102.3 billion, but net income decreased by ¥8.7 billion to ¥13.0 billion. The reduction in net income reflects extraordinary loss of ¥185.4 billion due to restructuring costs. Total extraordinary losses amounted to ¥202.6 billion. Extraordinary income totaled ¥144.8 billion, including a ¥143.7 billion gain from the securitization and sale of four buildings at the Shinjuku headquarters in the second half of the period. After seven years, KDDI has a first-refusal right to buy back the property that was sold.

Cash Flows

There was a dramatic increase in free cash flows, which expanded by ¥460.6 billion to ¥290.6 billion. This resulted in part from a ¥187.4 billion cash inflow resulting from the securitization of real estate. Another factor was cost-cutting efforts, including restraints on capital investment, in all business areas.

Capital Expenditures

Capital expenditures amounted to ¥374.5 billion, a decrease of ¥185.7 billion from the previous year's level. This reflects the completion of cdmaOne investment for the au service, as well as a policy of reducing total investment through stringent appraisals of investment projects from the viewpoint of profitability. Depreciation increased by ¥16.4 billion to ¥424.0 billion. EBITDA increased by ¥31.0 billion to ¥544.8 billion, while the EBITDA margin increased by 1.0% to 19.2%.

Interest-Bearing Debt

The balance of interest-bearing debt decreased by ¥350.8 billion to ¥1,746.8 billion. The cash inflow from the aforementioned securitization of real estate, free cash flows from business activities, and part of cash and deposits were used to retire debt. The debt reduction plan is proceeding steadily, and debt has already been cut by ¥494.1 billion compared with level at the time of the merger of DDI, KDD and IDO.

These results are indicative of an improvement in KDDI's income and expenditure position.

Segment Financial Reviews

au services

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2002 and 2001	2002	2001	Change	%	2002
Operating revenues	¥ 1,524,554	¥ 1,373,428	¥ 151,126	11.0%	$ 11,441
Telecommunications business	1,155,657	1,024,480	131,177	12.8	8,673
Voice communications	928,833	943,088	(14,255)	(1.5)	6,971
Digital data transmission services	226,824	81,392	145,432	178.7	1,702
Other business	368,897	348,948	19,949	5.7	2,768
Operating income	57,396	33,361	24,035	72.0	431
Extraordinary income (loss)	(155,071)	(935)	(154,136)	—	(1,164)
Net income	(58,713)	6,976	(65,689)	—	(441)
Free cash flows	15,643	(124,400)	140,043	—	117
Depreciation expenses	199,380	173,707	25,673	14.8	1,496
Capital expenditures (payments)	226,350	318,108	(91,758)	(28.8)	1,699
EBITDA	269,127	216,620	52,507	24.2	2,020
EBITDA margin	17.7%	15.8%	1.9%	—	17.7%

Operating revenues from the au services increased by ¥151.1 billion year-on-year to ¥1,524.6 billion. The introduction of "End-to-End Rate system" added ¥84.8 billion to au revenues, but even without this factor there would have been income growth of ¥66.3 billion. Revenues from voice communications services declined by ¥14.3 billion to ¥928.8 billion. The reduction reflects the impact of discount services, such as "Family Discount". Revenues from digital data transmission services showed a ¥145.4 billion increase to ¥226.8 billion. This substantial growth reflects the spread of the "ЄZweb@mail" e-mail service and the contribution from next-generation services introduced in December 2001.

Operating income increased by ¥24.0 billion to ¥57.4 billion. The operating income ratio improved thanks to cost cutting that included the reduction of incentives based on examination of handset prices and market-making sales accompanying the strengthening of the purchasing function. The net loss of ¥58.7 billion was attributable to extraordinary losses of ¥155.1 billion due to restructuring costs for the au service. The total breaks down into ¥128.3 billion for the one-off write-off of PDC facilities, and ¥26.8 billion due to the disposal of cellular handsets and valuation losses. The EBITDA margin improved by 1.9% to 17.7% because of the aforementioned cost reductions.

Capital expenditures decreased by ¥91.8 billion to ¥226.4 billion. This substantial reduction reflects the completion of cdmaOne investment.

Network & Solutions Businesses

Years ended March 31, 2002 and 2001	Millions of yen 2002	2001	Change	%	Millions of U.S. dollars 2002
Operating revenues	¥ 651,929	¥ 711,456	¥ (59,527)	(8.4%)	$ 4,892
Telecommunications business	607,664	671,520	(63,856)	(9.5)	4,560
Voice communications	425,062	477,574	(52,512)	(11.0)	3,190
Digital data transmission services and other	182,602	193,946	(11,344)	(5.8)	1,370
Other business	44,265	39,936	4,329	10.8	332
Operating income	30,525	67,484	(36,959)	(54.8)	229
Extraordinary income (loss)	(17,462)	(917)	(16,545)	—	(131)
Net income	4,137	38,396	(34,259)	(89.2)	31
Free cash flows	55,485	(20,900)	76,385	—	416
Depreciation expenses	122,850	123,882	(1,032)	(0.8)	922
Capital expenditures (payments)	86,400	116,700	(30,300)	(26.0)	648
EBITDA	157,467	202,969	(45,502)	(22.4)	1,182
EBITDA margin	24.2%	28.5%	(4.3%)	—	24.2%

Operating revenues from the Network & Solutions businesses declined by ¥59.5 billion to ¥651.9 billion. There was a ¥63.9 billion decrease in operating revenues from telecommunications. This includes a ¥13.4 billion decline due to the transfer of operating revenues from such areas as solutions and service contracting to other business.

Operating revenues from voice communications decreased by ¥52.5 billion to ¥425.1 billion. This reflects increased competition, especially in the long-distance market, following the introduction of the MYLINE system. Participation in the local telephone market brought revenue growth of ¥52.1 billion, but there was an even bigger decline in revenues from long-distance and international services. Operating revenues from digital data transmission services and other non-voice services were ¥11.3 billion below the previous year's level at ¥182.6 billion, but this was mainly the result of the aforementioned transfer of revenues to other categories. Revenues from data services showed strong growth, especially in the area of IP-VPN services.

Operating income declined by ¥37.0 billion to ¥30.5 billion. The decline resulted in part from temporary costs, including special commissions resulting from the introduction of the MYLINE system. Net income declined by ¥34.3 billion to ¥4.1 billion. This reflects extraordinary expenses totaling ¥17.5 billion, which resulted from facility write-offs due to network integration. The lower income figure also affected EBITDA, which declined by ¥45.5 billion year-on-year to ¥157.5 billion. The EBITDA margin was 4.3% lower at 24.2%.

Capital expenditures were reduced by ¥30.3 billion from the previous year's level to ¥86.4 billion. Depreciation remained static at ¥122.9 billion.

TU-KA

Years ended March 31, 2002 and 2001	Millions of yen 2002	2001	Change	%	Millions of U.S. dollars 2002
Operating revenues	¥ 358,260	¥ 368,997	¥ (10,737)	(2.9%)	$ 2,688
Telecommunications business	286,278	292,189	(5,911)	(2.0)	2,148
Other business	71,982	76,808	(4,826)	(6.3)	540
Operating income	3,784	8,307	(4,523)	(54.4)	28
Extraordinary income (loss)	—	(1,161)	—	—	—
Net income	(3,276)	2,171	(5,447)	—	(25)
Free cash flows	14,831	(80,882)	95,713	—	111
Depreciation expenses	59,237	49,149	10,088	20.5	445
Capital investment (payments)	39,176	102,241	(63,065)	(61.7)	294
EBITDA	63,400	58,320	5,080	8.7	476
EBITDA margin	17.7%	15.8%	1.9%	—	17.7%

Operating revenues from the TU-KA business declined by ¥10.7 billion over the previous year's level to ¥358.3 billion. This result reflects declines in both the number of subscribers and average revenues per user (ARPU). The introduction of "End-to-End Rate system" added ¥17.1 billion, and revenues would have shown a ¥27.8 billion decline under the previous system. Operating income declined by ¥4.5 billion to ¥3.8 billion, and there was a net loss for the year. However, sales systems were restructured in the second half of the year, and cost controls were significantly tightened, including the reduction of incentives through a review of sales policies, and a curb on new capital expenditures. As a result of these measures, free cash flows were sharply higher at ¥14.8 billion, an increase of ¥95.7 billion over the previous year's level. The EBITDA margin improved by 1.9% to 17.7%. Capital expenditures were reduced by ¥63.1 billion compared with the previous year's total to ¥39.2 billion through a curb on the construction of new base stations.

PHS (DDI Pocket)

Years ended March 31, 2002 and 2001	2002	2001	Millions of yen Change	%	Millions of U.S. dollars 2002
Operating revenues	¥ 211,008	¥ 251,883	¥ (40,875)	(16.2%)	$ 1,584
Telecommunications business	195,870	237,344	(41,474)	(17.5)	1,470
Other business	15,138	14,539	599	4.1	114
Operating income	6,659	(12,898)	19,557	—	50
Extraordinary income (loss)	11,678	(376)	12,054	—	88
Net income	14,658	(18,190)	32,848	—	110
Free cash flows	14,429	11,791	2,638	22.4	108
Depreciation expenses	38,890	61,512	(22,622)	(36.8)	292
Capital expenditures (payments)	17,050	32,948	(15,898)	(48.3)	128
EBITDA	47,548	49,893	(2,345)	(4.7)	357
EBITDA margin	22.5%	19.8%	2.7%	—	22.5%

Operating revenue from the Pocket (PHS) business declined by ¥40.9 billion to ¥211.0 billion. Operating income increased by ¥19.6 billion to ¥6.7 billion. Among the factors that contributed to this result were improved profitability thanks to the success of the data specialization strategy, and a reduction in depreciation following the extension of the base station service life from six to nine years to reflect actual conditions of use. Net income amounted to ¥14.7 billion. This resulted from extraordinary income in the DDI Pocket account due to a decision by the parent company, KDDI, to write off a ¥20 billion loan that KDDI had provided to DDI Pocket. The cancellation of this debt restored Pocket to a position of solvency. A ¥7.7 billion valuation loss on PHS handsets was shown in the accounts as an extraordinary expense. There were improvements in both free cash flows and the EBITDA margin.

Under the data specialization strategy, the focus of investment has shifted from base stations to packet servers. As a result, capital expenditure was 48% below the previous year's level at ¥17.1 billion. Depreciation declined by ¥22.6 billion to ¥38.9 billion, reflecting the aforementioned change in the service life of base stations.

Other Businesses

Years ended March 31, 2002 and 2001	2002	2001	Millions of yen Change	%	Millions of U.S. dollars 2002
Operating revenues	¥ 276,974	¥ 316,369	¥ (39,395)	(12.5%)	$ 2,078
Telecommunications business	101,692	73,466	28,226	38.4	763
Other business	175,282	242,903	(67,621)	(27.8)	1,315
Operating income	4,063	(465)	4,528	—	30
Extraordinary income (loss)	(12,921)	(11,910)	(1,011)	—	(97)
Net income (loss)	(11,578)	(31,318)	19,740	—	(87)

Operating revenues from other businesses decreased by ¥39.4 billion to ¥277.0 billion compared with the previous year's result. Operating income increased by ¥4.5 billion to ¥4.1 billion. Revenues from the KDDI Submarine Cable System (SCS) remained on a downward trend due to a worldwide decline in demand for undersea cable capacity. However, losses were reduced thanks to tighter control of project contract acceptance and the completion of loss-making projects. There was further progress toward the liquidation and amalgamation of subsidiaries with poor income performance or future prospects, resulting in growth in both revenues and income from domestic and overseas subsidiaries.