



Contents →

FINANCIAL SECTION

FINANCIAL REVIEW →	22
CONSOLIDATED BALANCE SHEETS →	28
CONSOLIDATED STATEMENTS OF INCOME →	30
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY →	31
CONSOLIDATED STATEMENTS OF CASH FLOWS →	32
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS →	33
REPORT OF INDEPENDENT ACCOUNTANTS →	44

FINANCIAL REVIEW

KDDI Corporation and Consolidated Subsidiaries

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

Consolidated Financial Review

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

[Operating Revenues]

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

[Income]

Operating income drastically increased by ¥38.4 billion to ¥140.7 billion, compared with the previous fiscal year. The business segments of BBC & Solutions, TU-KA and Pocket businesses marked increases in their operating income, while the operating income of au business decreased mainly due to the costs incurred from termination of PDC services. Details for each business segment are described in

the following section. Net extraordinary items amounted to the losses of ¥2.5 billion. The total extraordinary losses of ¥23.2 billion includes ¥6.8 billion of reserve for point service program for past fiscal years. On the other hand, the total extraordinary gains were ¥20.7 billion, including ¥10.4 billion of gains on sales of investment in a real-estate management subsidiary (KDDI Development Corporation). As a result, the net income recorded ¥57.4 billion, a ¥44.4 billion increase from the previous fiscal year. For your reference, the previous fiscal year's total extraordinary losses were ¥202.6 billion, including ¥185.4 billion of business restructuring costs, while the gains on the sales of buildings for securitization and other extraordinary gains were ¥144.8 billion, resulting in net extraordinary losses of ¥57.9 billion.

[Free Cash Flows/EBITDA]

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

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

Segment Financial Reviews

[au Business]

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

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

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

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

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

[BBC & Solutions Business]

(former Network & Solutions Business)

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

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

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

[TU-KA Business]

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

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

The operating income increased by ¥2.4 billion to ¥6.2 billion. In accordance with the revised sales strategy, acquiring new sub-

scribers by expensive promotion means has been abandoned, and the churn rate has been improved by establishing two-year contract charge plans. As a result, the business structure has been changed to a profit-making one. The net extraordinary losses recorded ¥1.7 billion mainly due to reserve for point service program for past fiscal years. As a result, the net loss increased slightly to ¥3.2 billion.

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

[Pocket (PHS) Business]

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

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

The operating income reached ¥20.3 billion, with a ¥13.6 billion increase from the previous fiscal year. The profitability has been

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

[Other Businesses]

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

Other businesses recorded the operating revenues of ¥196.7 billion, a ¥80.3 billion decrease, and the operating loss of ¥1.0 billion, a ¥5.1 billion decrease. As regards SCS (KDDI Submarine Cable System), the decrease in orders for new projects led to a large decline in the operating revenues as well as a decrease in the operating income.

For other domestic consolidated subsidiaries, although both the aggregate operating revenues and operating income decreased, the operating income stayed in a profit. The aggregate operating revenues and operating income of all overseas consolidated subsidiaries succeeded to increase and to record a profit.

[Capital Expenditures]

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

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

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

of au business and BBC & Solutions businesses largely dropped.

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