CONSOLIDATED BALANCE SHEETS

KDDI Corporation and Consolidated Subsidiaries

March 31, 2002 and 2001	Millions of yen 2002	Millions of yen 2001	Millions of U.S. dollars (Note 1) 2002
ASSETS			
Current Assets:			
Cash and cash equivalents	**¥ 68,596**	¥ 134,670	**$ 515**
Accounts receivable	**481,064**	547,202	**3,610**
Allowance for doubtful accounts	**(25,793)**	(13,473)	**(194)**
Inventories	**97,797**	110,044	**734**
Deferred income taxes (Note 12)	**32,860**	12,381	**247**
Prepaid expenses and other current assets	**36,628**	63,605	**275**
Total Current Assets	**691,152**	854,429	**5,187**
Property, Plant and Equipment (Note 4)**:**			
Telecommunications equipment	**2,830,078**	3,079,812	**21,239**
Buildings and structures	**480,666**	540,528	**3,607**
Machinery and tools	**129,927**	133,640	**975**
Land	**64,334**	88,249	**483**
Construction in progress	**144,080**	127,211	**1,081**
Other property, plant and equipment	**18,649**	15,440	**141**
	3,667,734	3,984,880	**27,526**
Accumulated depreciation	**(1,716,479)**	(1,739,812)	**(12,882)**
Total Property, Plant and Equipment	**1,951,255**	2,245,068	**14,644**
Investments and Other Assets:			
Investments in securities (Note 3)	**65,186**	62,061	**489**
Deposits and guarantee money	**39,773**	41,691	**298**
Intangible assets	**244,310**	261,727	**1,833**
Goodwill	**61,271**	65,982	**460**
Deferred income taxes (Note 12)	**50,402**	15,355	**378**
Other assets	**112,050**	101,205	**842**
Allowance for loss on investments and other assets	**(11,958)**	(8,154)	**(90)**
Total Investments and Other Assets	**561,034**	539,867	**4,210**
Total Assets	**¥3,203,441**	¥3,639,364	**$24,041**

The accompanying notes are an integral part of these statements.

March 31, 2002 and 2001	Millions of yen 2002	2001	Millions of U.S. dollars (Note 1) 2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	**¥ 403,309**	¥ 457,790	**$ 3,027**
Accounts payable	**417,277**	552,307	**3,132**
Accrued income taxes	**53,339**	10,258	**400**
Accrued expenses	**24,532**	31,620	**184**
Allowance for bonuses	**12,220**	14,393	**92**
Other current liabilities	**32,746**	47,585	**245**
Total Current Liabilities	**943,423**	1,113,953	**7,080**
Non-Current Liabilities:			
Long-term loans (Note 4)	**970,395**	1,205,380	**7,283**
Bonds (Note 4)	**354,800**	380,000	**2,663**
Other non-current liabilities (Note 4)	**67,136**	83,588	**502**
Total Non-Current Liabilities	**1,392,331**	1,668,968	**10,448**
Total Liabilities	**2,335,754**	2,782,921	**17,528**
Minority Interests	**10,606**	11,352	**80**
Contingent Liabilities (Note 5)			
Shareholders' Equity (Note 10)**:**			
Common stock			
Authorized—7,000,000 shares			
Issued and outstanding—4,240,880.38 shares	**141,852**	141,852	**1,064**
Additional paid-in capital	**304,190**	304,096	**2,283**
Retained earnings	**407,043**	401,442	**3,055**
Net unrealized gains on securities	**2,896**	—	**22**
	855,981	847,390	**6,424**
Foreign Currency Translation Adjustments	**1,140**	(2,290)	**9**
Treasury stock, at cost	**(40)**	(9)	**(0)**
Total Shareholders' Equity	**857,081**	845,091	**6,433**
Total Liabilities and Shareholders' Equity	**¥3,203,441**	¥3,639,364	**$24,041**

CONSOLIDATED STATEMENTS OF INCOME

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2002 and 2001	Millions of yen 2002	Millions of yen 2001	Millions of U.S. dollars (Note 1) 2002
Operating Revenues:			
Voice communications	**¥1,767,730**	¥1,567,658	**$13,266**
Digital data transmission services	**310,101**	148,081	**2,327**
Leased circuits	**87,980**	55,677	**660**
Telegraph and other telecommunications services	**81,334**	34,403	**610**
Sales of terminal equipment and other	**586,654**	462,827	**4,404**
Total Operating Revenues	**2,833,799**	2,268,646	**21,267**
Operating Expenses:			
Sales expenses	**981,240**	866,545	**7,364**
Depreciation	**408,929**	329,474	**3,069**
Charges for use of telecommunications services of third parties	**467,358**	311,370	**3,507**
Cost of sales of terminal equipment and other	**577,481**	448,816	**4,334**
Other	**296,494**	223,658	**2,225**
Total Operating Expenses	**2,731,502**	2,179,863	**20,499**
Operating Income	**102,297**	88,783	**768**
Other Expenses (Income):			
Interest expense	**44,068**	40,923	**331**
Interest income	**(1,077)**	(1,077)	**(8)**
Loss (Gain) on sales of securities	**2,986**	(16,723)	**22**
Loss on devaluation of securities	**720**	—	**5**
Gain on sales of property, plant and equipment (Note 6)	**(139,544)**	—	**(1,047)**
Equity in loss (profit) of affiliates	**(437)**	6,674	**(3)**
Gain on delinquency charges from constructor	**(9,328)**	—	**(70)**
Impairment and business restructuring charges (Note 7)	**185,406**	—	**1,391**
Bad debt expense for specific credits	**7,550**	—	**57**
Loss from cancellation of cable contracts	**687**	—	**5**
Retirement benefit expenses	**—**	5,983	**—**
Loss from amendments to submarine cable construction contracts	**—**	10,594	**—**
Other, net	**(9,619)**	(3,493)	**(72)**
Total Other Expenses	**81,412**	42,881	**611**
Income before Income Taxes and Minority Interests	**20,885**	45,902	**157**
Income Taxes:			
Current	**66,037**	10,843	**496**
Deferred	**(56,193)**	17,444	**(422)**
Total Income Taxes	**9,844**	28,287	**74**
Minority Interests in Consolidated Subsidiaries	**(1,938)**	4,188	**(14)**
Net Income	**12,979**	13,427	**97**

	Yen 2002	Yen 2001	U.S. dollars (Note 1) 2002
Per Share Data:			
Net income	**¥3,061**	¥4,467	**$22.97**
Cash dividends	**1,790**	1,790	**13.43**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KDDI Corporation and Consolidated Subsidiaries

	Thousands	Millions of yen					
Years ended March 31, 2002 and 2001	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2000	2,274	¥ 72,635	¥ 87,920	¥ 68,019	¥ —	¥ —	¥ (0)
New share issue to Toyota Motor Corporation	124	60,002	60,002				
Merger with KDD and IDO	1,345	6,726	115,780	324,182			
New share issue to au Corporation for exchange of shares	498	2,489	40,394				
Net income for the year				13,427			
Cash dividends				(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)
Net income for the year				12,979			
Cash dividends (Note 10)				(7,148)			
Directors' and corporate auditors' bonuses				(5)			
Decrease in retained earnings due to merger			94	(225)			
Net unrealized gains on securities					2,896		
Foreign currency translation adjustments						3,430	
Net changes in treasury stock							(31)
Balance, March 31, 2002	**4,241**	**¥141,852**	**¥314,190**	**¥407,043**	**¥2,896**	**¥1,140**	**¥(40)**

	Thousands	Millions of U.S. dollars (Note 1)					
Years ended March 31, 2002	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2001	4,241	$1,064	$2,282	$3,013	$ —	$(17)	$(0)
Net income for the year				97			
Cash dividends (Note 8)				(54)			
Directors' and corporate auditors' bonuses				(0)			
Decrease in retained earnings due to merger			1	(1)			
Net unrealized gains on securities					22		
Foreign currency translation adjustments						26	
Net changes in treasury stock							(0)
Balance, March 31, 2002	**4,241**	**$1,064**	**$2,283**	**$3,055**	**$ 22**	**$ 9**	**$(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, 2002 and 2001	Millions of yen 2002	2001	Millions of U.S. dollars (Note 1) 2002
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	**¥ 20,885**	¥ 45,902	**$ 157**
Adjustments for:			
Depreciation and amortization	**427,885**	338,366	**3,211**
Gain on sales of property, plant and equipment	**(138,411)**	—	**(1,039)**
Loss on disposal of property, plant and equipment	**164,210**	13,677	**1,232**
(Increase) decrease in allowance for doubtful accounts	**16,009**	(3,360)	**120**
Increase in reserve for retirement benefits	**2,567**	7,777	**19**
Interest and dividend income	**(1,790)**	(2,547)	**(13)**
Interest expenses	**44,068**	40,923	**331**
Equity in (gain) loss of affiliates	**(437)**	6,674	**(3)**
Investment securities write off	**720**	115	**5**
Loss from amendments to submarine cable construction contracts	**—**	10,594	**—**
Changes in assets and liabilities:			
(Increase) in prepaid pension cost	**(7,636)**	—	**(57)**
(Increase) decrease in notes and accounts receivable	**71,305**	(37,110)	**535**
(Increase) decrease in inventories	**12,821**	(69,074)	**96**
(Decrease) in notes and accounts payable	**(85,763)**	(24,482)	**(644)**
Other, net	**609**	579	**5**
Sub total	**527,042**	328,034	**3,955**
Interest and dividend income received	**1,759**	2,213	**13**
Interest expenses paid	**(45,207)**	(36,738)	**(339)**
Income taxes paid	**(23,062)**	(6,773)	**(173)**
Net cash provided by operating activities	**460,532**	286,736	**3,456**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	**(276,464)**	(339,209)	**(2,075)**
Proceeds from sale of property, plant and equipment	**201,880**	8,329	**1,515**
Payments for other intangible assets	**(82,527)**	(76,059)	**(619)**
Acquisition of investment securities	**(10,339)**	(2,298)	**(78)**
Proceeds from sale of investment securities	**1,505**	24,015	**11**
Payments for investment in affiliates	**(570)**	(8,592)	**(4)**
Proceeds from sale of shares in subsidiaries excluded from consolidation	**—**	28,421	**—**
Increase in long-term prepayment	**(15,532)**	(15,805)	**(117)**
Other, net	**12,115**	8,935	**92**
Net cash used in investing activities	**(169,932)**	(372,263)	**(1,275)**
Cash Flows from Financing Activities:			
Decrease in short-term loans	**(36,114)**	(76,546)	**(271)**
Proceeds from issuance of long-term loans	**129,986**	183,776	**976**
Repayment of long-term loans	**(396,362)**	(250,289)	**(2,975)**
Repayment of long-term accounts payable	**(18,758)**	—	**(141)**
Payment for redemption of bonds	**(30,000)**	—	**(225)**
Proceeds from new share issue	**—**	120,004	**—**
Dividends paid	**(7,206)**	(4,288)	**(54)**
Payments received from minority shareholders	**407**	632	**3**
Payments for bounty of merger	**—**	(2,000)	**—**
Other, net	**134**	3,359	**1**
Net cash used in financing activities	**(357,913)**	(25,352)	**(2,686)**
Translation Adjustments on Cash and Cash Equivalents	**1,160**	365	**9**
Net (Decrease) in Cash and Cash Equivalents	**(66,153)**	(110,514)	**(496)**
Cash and Cash Equivalents at Beginning of Year	**134,670**	78,300	**1,010**
Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated	**133**	166,884	**1**
(Decrease) in Cash and Cash Equivalents due to Deconsolidation of Subsidiaries	**(54)**	—	**0**
Cash and Cash Equivalents at End of Year	**¥ 68,596**	¥134,670	**$ 515**

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.

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

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

The Company's consolidated financial statements for the year ended March 31, 2002, include 64 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., DDI POCKET Inc., KCOM Corporation, HOLA PARAGUAY S.A. and 57 other subsidiaries.

During the year ended March 31, 2002, significant changes in the scope were incurred as follows;

Added:

(Consolidated)

KDDI CHINA Corporation Established

(Equity Method)

Fiberlabs Inc. Change from "Consolidated"

Removed:

(Consolidated)

DDI Engineering Corporation Merger

The above corporation was merged to Kyocera Communication Systems Co., Ltd on April 1, 2001.

TELECOMET, Inc. Merger

The above corporation was merged to KDDI AMERICA, INC. on June 30,2001.

KDDI Creative Corporation Merger

The above corporation was merged to KCOM Corporation on July 1, 2001.

KDD (Tokyo Central) Sales Inc. Merger
KDD (Tokyo South) Sales Inc. Merger
KDD (Tokyo West) Sales Inc. Merger
KDD (Osaka) Sales Inc. Merger

The above four distributors were merged to the Company on September 26, 2001.

au Corporation Merger

The above corporation was merged to the Company on October 1, 2001.

Kokusai Marine Engineering Corporation Merger

The above corporation was merged to Kokusai Cable Ship Co., Ltd on October 1, 2001.

TELECOMET International, Inc. Merger

The above corporation was merged to KDD Network Systems Corporation, which changed its name to K-Solutions Inc. on October 1, 2001.

KDD West Co., Ltd Liquidation

The above corporation was liquidated on December 31, 2001.

KDDI WinStar Corporation Merger

The above corporation was merged to the Company on February 1, 2002.

Fiberlabs Inc. Change to "Equity Method"

The percentage of equity holding of the Company toward the above corporation decreased because of the new share issuance of its corporation.

(Equity Method)

Kyocera DDI Institute of Future Telecommunication Inc. Merger

The above corporation was merged to KDDI Research and Development Laboratories, Inc. on April 1, 2001.

In 2001, KCOM Corporation, KDDI Development Corporation and 13 subsidiaries changed their fiscal year-end to March 31, from December 31. Accordingly, these companies' fiscal 2002 include fifteen 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 ¥133.25 =$1, the approximate exchange rate on March 31, 2002. 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 sales of products and systems are recognized upon fulfillment of contractual obligations, which is generally upon shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed.

c. Cash and Cash Equivalents

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

d. Inventories

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

Change of Valuation Method

Effective from the year ended March 31, 2002, the Company changed its accounting method for inventory valuation from the average method to the moving-average method in order to speed-up the recognition of revenues and expenses and to harmonize its method of the group accounting method for inventory valuation, following the merger with au Corporation. The adoption of the new method had immaterial impact on “Operating income” and “Income before taxes and minority interests”, compared with the amounts that would have been reported if the previous method had been applied consistently.

e. Foreign Currency Translation

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.

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

f. Property, Plant and Equipment and Depreciation

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

Machinery and equipment used for network and mobile communications business :	6-15 years
Submarine cable system, buildings, engineering equipment and telecommunication service lines :	2-65 years

Change of Estimated Useful Lives

Effective from the year ended March 31, 2002, DDI POCKET Inc. changed the estimated useful lives of their wireless base stations to nine years, previously from six years, for the proper recognition of revenues and expenses.

As a result of the above change, depreciation expense in fiscal 2002 decreased by ¥23,637 million and income before income taxes and minority interests increased by the same amount, compared with the amounts that would have been reported if the previous estimated useful lives had been applied consistently.

Interest incurred is not capitalized with respect to constructed assets.

g. Financial Instruments

(1) Derivatives

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

(2) Securities

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

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

Other securities had been valued at cost, whether listed on stock exchanges or not, but in accordance with adopting the new Japanese accounting standard, effective from the year ended March 31, 2002, other securities which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gains and losses, net of applicable deferred tax assets/liabilities, not reflected in earnings, but directly reported as a separate component of shareholder's equity. The cost of securities sold is determined by the moving-average method. As a result of this change, net unrealized gains on securities are appropriated to shareholder's equity (¥2,895 million) and net deferred tax liabilities are appropriated (¥2,083 million).

On the other hand, other securities which market quotations are not available are valued at cost mainly determined by the moving-average method.

(3) Hedge Accounting

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

The derivatives designated as hedging instruments by the Company are principally interest swaps and forward exchange contracts. The related hedged items are 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 it 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. 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.

m. Allowance for Doubtful Accounts

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

n. Retirement Benefits

The reserve for retirement benefits as of March 31, 2002 represents the estimated present value of projected benefit obligations in excess of the fair value of plan assets and the retirement benefit trust. The unrecognized prior service cost of ¥3,055 million are amortized on a straight-line basis over a period of 14 years from the year ending March 31, 2002, and unrecognized actuarial differences of ¥93,015 million are amortized on a straight-line basis over a period of 14 years from the year following that in which they arise.

o. Introduction of the "End-to-End Rate System" for Interconnected Calls among Mobile Phone Carriers

From April 1, 2001, an the Company introduced an "End-to End Rate System." Under this new rate system, only one end-user rate is set to cover the entire mobile communications service, and it includes not only the part of the service provided by the Company's carrier, but also the part of the service provided by third-party carriers.

In line with the introduction of the new rate system, the Company and its domestic subsidiaries (OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai) recognize the total revenue from the entire service as "Voice communications" within operating revenues and charge the costs of the service provided by third party carriers as "Charges for use of telecommunications services of third parties" within operating expenses.

As a result of this change, both 'Voice communications' and Charges for use of telecommunications service of third parties for the year ended March 31,2002 increased by ¥101,904 million, compared with the amounts that would have been reported if the previous rate system had remained in force. The adoption of the new rate system had no impact on "Operating income" and "Income before taxes and minority interests".

3. Market Value Information

At March 31, 2002, 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

	Millions of yen			Millions of U.S. dollars		
2002	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	¥118	¥121	¥3	$1	$1	$0
Bonds for which market value does not exceed book value of consolidated balance sheets	571	568	(3)	4	4	(0)
Total	¥689	¥689	¥0	$5	$5	$0

Other securities that have market prices

	Millions of yen			Millions of U.S. dollars		
2002	Historical cost	Book value	Unrealized gain (loss)	Historical cost	Book value	Unrealized gain (loss)
Securities for which book value of consolidated balance sheets exceeds historical cost	¥3,097	¥14,943	¥11,846	$23	$112	$89
Securities for which book value of consolidated balance sheets does not exceed historical cost	37,132	28,500	(8,632)	279	214	(65)
Total	¥40,229	¥43,443	¥3,214	$302	$326	$24

Other securities sold during the current consolidated fiscal year

	Millions of yen			Millions of U.S. dollars		
2002	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	¥124	¥0	¥3,052	$1	$0	$23

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

	Millions of yen	Millions of U.S. dollars
2002	Book value	Book value
Other securities		
Unlisted equity securities	¥21,672	$163

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	¥99	¥ —	¥—	$1	$—	$ —
Other	514	65	—	4	0	—
Other securities	311	214	29	2	2	0
Total	¥924	¥279	¥29	$7	$ 2	$ 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 31,2002 was 2.59%.

Long-term debt at March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Domestic unsecured straight bonds due 2002 through 2010 at rates of 1.55% to 2.57% per annum	¥ 240,000	¥ 240,000	$ 1,801
General secured bonds due 2006 through 2017 at rates of 2.30% to 3.20% per annum (*)	139,800	170,000	1,049
Total bonds	¥ 379,800	¥ 410,000	$ 2,850
Loans from banks:			
Maturing through 2020 at average rates of 2.18% per annum	¥1,316,423	¥1,583,109	$ 9,879
Other interest-bearing debt	36,172	54,457	271
	¥1,352,595	¥1,637,566	$10,150
Total bonds and loans	¥1,732,395	¥2,047,566	$13,001
Less, amount due within one year	388,881	426,282	2,918
	¥1,343,514	¥1,621,284	$10,083

(*)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, 2002 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	2002	2002
2003	¥ 388,881	$ 2,919
2004	278,018	2,086
2005	323,590	2,429
2006	256,424	1,924
2007 and thereafter	485,482	3,643
	¥1,732,395	$13,001

At March 31, 2002, assets pledged as collateral for long-term loans were as follows:

	Millions of yen	Millions of U.S. dollars
	2002	2002
Long-term loans	¥20,149	$151
Current portion of long-term loans	5,650	42
	¥25,799	$193
Mortgage on factory foundation	¥63,150	$474
Buildings	1,637	12
Land	3,927	29
	¥68,714	$515

5. Contingent Liabilities

At March 31, 2002 and 2001, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
As a guarantor for:			
Loans of affiliated companies	¥ 419	¥12,514	$ 3
System supply contract of KDDI Submarine Cable Systems Inc.	186,817	122,965	1,402
Office lease contract of KDDI AMERICA, INC.	1,008	1,082	8
	¥188,244	¥136,561	$1,413

6. Gain on Sales of Property,Plant and Equipment

Gain on sales of property, plant and equipment, at March 31, 2002, was as follow.

	Millions of yen	Millions of U.S. dollars
	2002	2002
(Gain) on sales of buildings by assets backed securities	(143,735)	(1,078)
Loss on sales of land of Shibuya Data Center	5,230	39
Other	(1,039)	(8)

7. Impairment and Business Restructuring Charges

Impairment and business restructuring charges, at 31 March 31, 2002, was as follow.

	Millions of yen	Millions of U.S. dollars
	2002	2002
Disposal of digital cellular (PDC system) equipment	128,319	963
Abandonment or write down of cellular phone	26,753	201
Write down of PHS handset	7,749	58
Disposal of equipment for integration of network enterprise	17,464	131
Extra retirement allowance for early retirement	3,768	28
Other	1,353	10

8.Lease Payment

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, 2002 and 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	Acquisition cost	Accumulated depreciation	Net book value
			2002			2001			2002
Tools, furniture and fixtures	**¥165,205**	**¥79,207**	**¥85,998**	¥151,570	¥64,392	¥87,178	**$1,240**	**$594**	**$646**
Other	**1,051**	**750**	**301**	960	538	422	**8**	**6**	**2**
	¥166,256	**¥79,957**	**¥86,299**	¥152,530	¥64,930	¥87,600	**$1,248**	**$600**	**$648**

Future lease payments as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Within one year	**¥30,168**	¥25,981	**$226**
Over one year	**56,131**	61,619	**421**
	¥86,299	¥87,600	**$647**

Lease payments and assumed depreciation charges for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Lease payments	**¥28,641**	¥17,367	**$215**
Assumed depreciation charges	**28,641**	17,367	**215**

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

Operating leases

Obligation under non-cancelable operating leases as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Within one year	¥ 17,404	¥1,293	$131
Over one year	103,854	8,587	779
	¥121,258	¥9,880	$910

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, 2002 and 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	Acquisition cost	Accumulated depreciation	Net book value
			2002			2001			2002
Tools, furniture and fixtures	¥3,427	¥1,480	¥1,947	¥2,369	¥1,030	¥1,339	$26	$11	$15
Other	130	84	46	207	125	82	1	1	0
	¥3,557	¥1,564	¥1,993	¥2,576	¥1,155	¥1,421	$27	$12	$15

Future lease receipts as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Within one year	¥ 788	¥ 563	$ 6
Over one year	1,369	982	10
	¥2,157	¥1,545	$16

Lease receipts and assumed depreciation charges for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	2002
Lease receipts	¥ 742	¥ 298	$ 6
Assumed depreciation charges	685	275	5

9. 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 31,2002 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2002	Notional amount	Market value	Unrealized gain	Notional amount	Market value	Unrealized gain
Forward exchange contracts (to buy Danish Kroner)	¥33	¥34	¥1	$0	$0	$0

	Millions of yen			Millions of U.S.dollars		
2002	Notional amount	Market value	Unrealized gain	Notional amount	Market value	Unrealized gain
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥2,000	¥250	¥250	$15	$2	$2
Variable rate into fixed rate obligations	6,410	(191)	(191)	48	(1)	(1)

10. Shareholder's Equity

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distribution paid out of retained earnings by the parent company and its Japanese subsidiaries be appropriated as a legal reserve which is included in retained earnings in the consolidated balance sheets. No further appropriation is required when the legal reserve equals 25 percent of their respective stated capital. This reserve amounted to ¥12,130 million ($91 million) and ¥11,477 million at March 31, 2002 and 2001, 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.

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.

11.Research and Development Expenses

Research and development expenses charged to income were ¥8,954million (US$67million), ¥5,122million for the years ended March 31, 2002 and 2001, respectively.

12.Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2002 was 41.9%.

At March 31, 2002 and 2001, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2002	2001	**2002**
Deferred tax assets:			
Reserve for retirement benefits (lump-sum)	**¥ 16,179**	¥ 15,713	**$ 121**
Reserve for retirement benefits (pension)	**4,594**	7,196	**34**
Unrealized profits	**11,137**	12,525	**84**
Depreciation and amortization	**2,666**	1,816	**20**
Disposal of fixed assets	**47,560**	—	**357**
Inventory write down	**10,586**	—	**79**
Allowance for bonus payment	**3,588**	3,147	**27**
Allowance for doubtful accounts	**9,135**	948	**69**
Accrued expenses	**4,054**	2,420	**30**
Accrued enterprise taxes	**4,742**	824	**36**
Net operating loss carried forward	**49,649**	58,027	**373**
Other	**5,446**	7,708	**41**
Gross deferred tax assets	**169,336**	110,324	**1,271**
Valuation allowance	**(61,310)**	(60,568)	**(460)**
Net deferred tax assets	**¥108,026**	¥ 49,756	**$ 811**
Deferred tax liabilities:			
Special depreciation reserve	**¥ (1,312)**	¥ (914)	**$ (10)**
Gain on establishment of retirement benefit trust	**(21,020)**	(21,091)	**(159)**
Retained earnings for overseas affiliates	**(587)**	(507)	**(4)**
Net unrealized gains on securities	**(2,085)**	—	**(16)**
Other	**(1,408)**	(988)	**(11)**
Total deferred tax liabilities	**¥(26,412)**	¥(23,500)	**$(200)**
Net deferred tax assets	**¥81,614**	¥ 26,256	**$ 611**

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, 2002.

Statutory tax rate	41.9%
Valuation allowance	53.7%
Amortization of goodwill	7.5%
Appropriation of net operating loss carried forward	(51.6%)
Write down of investment in consolidated subsidiaries	(7.5%)
Other	3.1%
Effective tax rate	47.1%

13. 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, 2002 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2002	**2002**
Projected benefit obligations	**¥(263,401)**	**$(1,977)**
Plan assets	**158,084**	**1,186**
Retirement benefit trust	**11,144**	**84**
	¥ (94,173)	**$ (707)**
Unrecognized prior service cost	**(3,055)**	**(23)**
Unrecognized actuarial differences	**93,015**	**698**
Prepaid pension cost	**(20,397)**	**(153)**
Reserve for retirement benefits	**¥ (24,610)**	**$ (185)**

Net pension expense related to the retirement benefits for the year ended March 31, 2002 was as follows:

	Millions of yen	Millions of U.S. dollars
	2002	**2002**
Service cost	**¥ 9,102**	**$ 68**
Interest cost	**7,267**	**55**
Expected return on plan assets	**(4,645)**	**(35)**
Amortization of prior service cost	**(37)**	**(0)**
Amortization of actuarial differences	**3,491**	**26**
Net pension cost	**¥ 15,178**	**$ 114**

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

Discount rate	2.5% (Mainly)
Expected rate of return on plan assets	3.0%–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 actuarial differences	14 years from the year following that in which they arise
Amortization of prior service cost	14 years from the year ending March 31, 2002

14. Segment Information

Segment Information by business category for the years ended March 31, 2002 and 2001 is as follows;

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

Year ended March 31, 2001	Network & IP	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
							Millions of yen
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

Year ended March 31, 2002	Network & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
							Millions of U.S. dollars
I. Sales and Operating Income:							
Outside sales	$ 4,919	$13,985	$1,560	$ 803	$21,267	$ —	$21,267
Intersegment sales	711	44	24	343	1,122	(1,122)	—
Total	5,630	14,029	1,584	1,146	22,389	(1,122)	21,267
Operating expenses	5,400	13,600	1,534	1,122	21,656	(1,157)	20,499
Operating income	$ 230	$ 429	$ 50	$ 24	$ 733	$ 35	$ 768
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	$10,448	$12,926	$1,962	$ 995	$26,331	$(2,290)	$24,041
Depreciation	945	1,944	292	58	3,239	(58)	3,181
Capital expenditures	695	1,489	153	33	2,370	(12)	2,358

Notes: 1 Effective for the year ended March 31, 2001, “Network and IP” industry segment was renamed as “Network and Solution” industry segment in order to newly set up “Solution Business Sector” instead of “IP Business Sector” under the organizational reformation of the Company in March 2002, which had no impact on the operating results of the industry segment.

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

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

2. Change of Valuation Method
As described in Note 2 d to the consolidated financial statements, the Company changed its accounting method for inventory valuation from the average method to the moving-average method, effective from the year ended March 31, 2002. As a result, the new method had no material impact on the segment information.

3. Change of Estimated Useful Lives
As described in Note 2f to the consolidated financial statements, DDI POCKET Inc. changed the estimated useful lives of their wireless base stations from six years to nine years, effective from the year ended March 31, 2002. As a result, operating expenses in “PHS”, “Total” and “Consolidation” for the period under review each decreased by 23,637 million yen, and operating income increased by the same amount, compared with the amounts if the previous estimated useful lives had been applied.

4. Introduction of “End-to-End Rate System” for interconnected calls between mobile phone carriers
As described in Note 2o to the consolidated financial statements, the Company and its domestic subsidiaries introduced “End-to-End Rate System” for interconnected calls between mobile phone carriers, effective from the year ended March 31, 2002. As a result, operating income in “au, TU-KA”, “Total” and “Consolidation” for the period under review each increased by 101,904 million yen, and operating expenses increased by the same amount, compared with the amounts if the previous rate system had remained in force.

5. As described in Note 1 to the consolidated financial statements, KCOM Corporation, KDDI Development Corporation and 13 subsidiaries changed their fiscal year-end to March 31 from December 31 and these companies' fiscal 2002 included fifteen months of operations, which had no impact on the operating results of the industry segment.

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

15. Subsequent Events

(1) The appropriation of retained earnings of the Company with respect to the year ended March 31, 2002, proposed by the Board of Directors and approved at the shareholder's meeting held on June 25, 2002, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥895 = US$6.72)	¥3,796	$28

(2) On June 25, 2002, the Company's shareholders approved a warrant option plan for the members of the board, managing officers, general managers, statutory auditors and employees of the Company in accordance with the Japanese Commercial Code. Under this plan, the Company is authorized to issue grant warrant options for purchase of the Company's common stock, up to a maximum of 24,000 shares, exercisable between October 1, 2002 and September 29, 2006. On the same date, the shareholders also approved the acquisition of common stock as treasury stock, up to a maximum of 24,000 shares, in accordance with the Japanese Commercial Code.