CONSOLIDATED BALANCE SHEETS

KDDI Corporation and Consolidated Subsidiaries

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

The accompanying notes are an integral part of these statements.

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

CONSOLIDATED STATEMENTS OF INCOME

KDDI Corporation and Consolidated Subsidiaries

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

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

KDDI Corporation and Consolidated Subsidiaries

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

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

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KDDI Corporation and Consolidated Subsidiaries

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

The accompanying notes are an integral part of these statements.

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, 2003, include 59 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., DDI POCKET Inc., KCOM Corporation, KDDI AMERICA INC. and 52 other subsidiaries.

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

(Consolidated)

KDDI Guangzhou Corporation	Established
KDDI BRAZIL HOLDINGS LTDA.	Established

(Removed)

Naruko Development Co., Ltd.	Liquidation

The above corporation was liquidated on May 10, 2002.

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

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

KDD Internet Solutions Co., Ltd.	Liquidation

The above corporation was liquidated on August 9, 2002.

KDDI Academy Inc.	Liquidation

The above corporation was liquidated on December 26, 2002.

KDDIS Corporation	Liquidation

The above corporation was liquidated on March 25, 2003.

KDDI Development Corporation	Disposal of investment in subsidiary

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

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

2. Significant Accounting Policies

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

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

All significant intercompany transactions and accounts are eliminated.

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

b. Revenue Recognition

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

c. Cash and Cash Equivalents

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

d. Inventories

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

e. Foreign Currency Translation

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

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

f. Property, Plant and Equipment and Depreciation

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

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

g. Financial Instruments

(1) Derivatives

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

(2) Securities

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

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

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

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

(3) Hedge Accounting

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

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

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

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

h. Research and Development Expenses and Software

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

i. Income Taxes

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

j. Leases

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

k. Other Assets

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

l. Net Income per Share

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

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

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

m. Allowance for Doubtful Accounts

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

n. Retirement Benefits

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

o. Point Service Programs

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

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

p. Accounting for Treasury Stock and Reversal of Legal Reserves

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

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

3. Market Value Information

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

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

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

Other securities that have market prices

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

Other securities sold during the current consolidated fiscal year

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

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

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

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

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

4. Short-Term Loans and Long-Term Debt

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

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

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

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

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

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

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

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

5. Contingent Liabilities

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

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

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

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

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

7. Lease Payment

Lessee side

Finance leases without transfer of ownership

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

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

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

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

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

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

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

Operating leases

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

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

Lessor side

Finance leases without transfer of ownership

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

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

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

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

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

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

8. Derivatives

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

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

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

9. Shareholders' Equity

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

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

10. Research and Development Expenses

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

11. Income Taxes

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

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

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

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

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

12. Retirement Benefits

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

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

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

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

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

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

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

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

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

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

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

13. Segment Information

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

Millions of yen

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

Millions of yen

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

Millions of U.S. dollars

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

Ⅱ. Identifiable Assets, Depreciation and Capital Expenditures:

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

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

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

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

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

14. Subsequent Events

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

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

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