Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

March 31, 2003 and 2004	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars (Note 1) 2004
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 121,855	¥ 196,518	$ 1,859
Accounts receivable	388,047	405,141	3,833
Allowance for doubtful accounts	(20,302)	(20,366)	(193)
Inventories	55,851	63,400	600
Deferred income taxes (Note 12)	28,861	31,087	294
Prepaid expenses and other current assets	22,736	21,897	208
Total Current Assets	597,048	697,677	6,601
Property, Plant and Equipment (Note 4):			
Telecommunications equipment	2,925,119	2,814,602	26,631
Buildings and structures	437,511	378,536	3,581
Machinery and tools	121,912	117,533	1,112
Land	52,513	50,331	476
Construction in progress	66,532	49,319	467
Other property, plant and equipment	14,798	13,203	125
	3,618,385	3,423,524	32,392
Accumulated depreciation	(1,929,990)	(1,903,746)	(18,012)
Total Property, Plant and Equipment	1,688,395	1,519,778	14,380
Investments and Other Assets:			
Investments in securities (Note 3)	54,739	36,830	348
Deposits and guarantee money	40,145	36,138	342
Intangible assets	223,654	191,192	1,809
Goodwill	57,272	53,479	506
Deferred income taxes (Note 12)	20,378	13,687	130
Other assets	111,382	101,875	964
Allowance for loss on investments and other assets	(10,974)	(11,075)	(105)
Total Investments and Other Assets	496,596	422,126	3,994
Total Assets	¥ 2,782,039	¥ 2,639,581	$ 24,975

The accompanying notes are an integral part of these statements.

March 31, 2003 and 2004	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars (Note 1) 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	¥ 281,240	**¥ 281,320**	**$ 2,662**
Accounts payable	250,126	**249,918**	**2,365**
Accrued income taxes	10,433	**65,771**	**622**
Accrued expenses	19,889	**16,762**	**159**
Allowance for bonuses	12,687	**13,590**	**128**
Other current liabilities	21,611	**23,089**	**218**
Total Current Liabilities	595,986	**650,450**	**6,154**
Non-Current Liabilities:			
Long-term loans (Note 4)	851,838	**567,324**	**5,368**
Bonds (Note 4)	355,925	**328,550**	**3,108**
Reserve for point service program	15,711	**17,860**	**169**
Other non-current liabilities (Note 4)	53,656	**46,149**	**437**
Total Non-Current Liabilities	1,277,130	**959,883**	**9,082**
Total Liabilities	1,873,116	**1,610,333**	**15,236**
Minority Interests	14,212	**19,857**	**188**
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**	**1,342**
Capital surplus	304,190	**304,190**	**2,878**
Retained earnings	456,827	**563,678**	**5,333**
Net unrealized gains on securities	1,455	**11,977**	**114**
	904,324	**1,021,697**	**9,667**
Foreign Currency Translation Adjustments	(4)	**(1,645)**	**(15)**
Treasury stock, at cost	(9,609)	**(10,661)**	**(101)**
Total Shareholders' Equity	894,711	**1,009,391**	**9,551**
Total Liabilities and Shareholders' Equity	¥ 2,782,039	**¥ 2,639,581**	**$ 24,975**

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

March 31, 2003 and 2004	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars (Note 1) 2004
Operating Revenues:			
Voice communications	¥ 1,574,509	**¥ 1,468,961**	**$ 13,899**
Digital data transmission services	450,658	**635,322**	**6,011**
Leased circuits	93,941	**82,502**	**781**
Telegraph and other telecommunications services	72,779	**81,941**	**775**
Sales of terminal equipment and other	593,456	**577,372**	**5,463**
Total Operating Revenues	2,785,343	**2,846,098**	**26,929**
Operating Expenses:			
Sales expenses	963,250	**939,147**	**8,886**
Depreciation	378,778	**359,529**	**3,402**
Charges for use of telecommunications services of third parties	419,716	**393,420**	**3,722**
Cost of sales of terminal equipment and other	554,771	**563,428**	**5,331**
Other	328,175	**298,469**	**2,824**
Total Operating Expenses	2,644,690	**2,553,993**	**24,165**
Operating Income	140,653	**292,105**	**2,764**
Other Expenses (Income):			
Interest expense	35,891	**27,762**	**263**
Interest income	(735)	**(595)**	**(6)**
Loss (gain) on sales of securities	(9,412)	**5,595**	**53**
Loss on devaluation of securities	5,270	**1,438**	**14**
(Gain) loss on sales of property, plant and equipment (Note 6)	284	**(2,028)**	**(19)**
Equity in loss (profit) of affiliates	(1,170)	**(1,439)**	**(14)**
Dividend income from anonymous association	(5,055)	**(5,690)**	**(54)**
Compensation for damage	–	**(2,664)**	**(25)**
Gain on reversal of allowance for doubtful accounts	(4,227)	**–**	**–**
Cumulative effect of new method of accounting for point service program	6,772	**–**	**–**
Gain on return of welfare pension funds to the Government	–	**(3,962)**	**(37)**
Loss on cancellation of lease contracts	–	**4,233**	**40**
Loss from amendments to submarine cable construction contracts	678	**–**	**–**
Loss on disposal of property, plant and equipment (Note 7)	–	**80,106**	**758**
Other, net	1,631	**(2,752)**	**(27)**
Total Other Expenses	29,927	**100,004**	**946**
Income before Income Taxes and Minority Interests	110,726	**192,101**	**1,818**
Income Taxes:			
Current	14,831	**72,063**	**682**
Deferred	35,524	**(2,913)**	**(27)**
Total Income Taxes	50,355	**69,150**	**655**
Minority Interests in Consolidated Subsidiaries	3,012	**5,926**	**56**
Net Income	¥ 57,359	**¥ 117,025**	**$ 1,107**

	Yen 2003	Yen 2004	U.S. dollars (Note 1) 2004
Per Share Data:			
Net income	¥ 13,561	**¥ 27,748**	**$ 262.54**
Cash dividends	2,095	**3,600**	**34.06**

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, 2003 and 2004	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	¥ 141,852	¥ 304,190	¥ 407,043	¥ 2,896	¥ 1,140	¥ (40)
Net income for the year				57,359			
Cash dividends (Note 10)				(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)
Net income for the year				117,025			
Increase due to decrease in equity-method companies				20			
Cash dividends (Note 10)				(10,115)			
Directors' and corporate auditors' bonuses				(71)			
Loss on disposal of treasury stocks				(7)			
Increase due to subsidiaries newly consolidated				(1)			
Net unrealized gains on securities					10,522		
Foreign currency translation adjustments						(1,641)	
Net changes in treasury stock							(1,052)
Balance, March 31, 2004	**4,241**	**¥ 141,852**	**¥ 304,190**	**¥ 563,678**	**¥ 11,977**	**¥ (1,645)**	**¥ (10,661)**

	Thousands	Millions of U.S. dollars (Note 1)					
Year ended March 31, 2004	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, 2003	4,241	$ 1,342	$ 2,878	$ 4,322	$ 14	$ 0	$ (91)
Net income for the year				1,107			
Increase due to decrease in equity-method companies				0			
Cash dividends (Note 10)				(95)			
Directors' and corporate auditors' bonuses				(1)			
Loss on disposal of treasury stocks				(0)			
Increase due to subsidiaries newly consolidated				(0)			
Net unrealized gains on securities					100		
Foreign currency translation adjustments						(15)	
Net changes in treasury stock							(10)
Balance, March 31, 2004	**4,241**	**$ 1,342**	**$ 2,878**	**$ 5,333**	**$ 114**	**$ (15)**	**$ (101)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
Years ended March 31, 2003 and 2004	2003	**2004**	**2004**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests Adjustments for:	¥ 110,726	**¥ 192,101**	**$ 1,818**
Depreciation and amortization	392,855	**369,354**	**3,494**
(Gain) loss on sales of property, plant and equipment	284	**(2,028)**	**(19)**
Loss on disposal of property, plant and equipment	33,879	**100,878**	**954**
Increase (decrease) in allowance for doubtful accounts	(6,294)	**199**	**2**
Increase (decrease) in reserve for retirement benefits	7,634	**(4,029)**	**(38)**
Interest and dividend income	(1,463)	**(723)**	**(7)**
Interest expenses	35,891	**27,762**	**263**
Equity in (gain) of affiliates	(1,170)	**(1,439)**	**(14)**
Loss on sales of investment securities	–	**5,595**	**53**
Investment securities write off	5,270	**1,438**	**14**
Increase in reserve for point services	15,711	**2,149**	**20**
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension cost	(4,314)	**4,856**	**46**
Decrease (increase) in notes and accounts receivable	92,343	**(21,360)**	**(202)**
Decrease (increase) in inventories	50,214	**(10,016)**	**(95)**
Decrease in notes and accounts payable	(97,330)	**(7,763)**	**(73)**
Other, net	(15,157)	**9,982**	**94**
Sub total	619,079	**666,956**	**6,310**
Interest and dividend income received	2,881	**1,170**	**11**
Interest expenses paid	(37,298)	**(28,891)**	**(273)**
Income taxes paid	(57,775)	**(16,537)**	**(156)**
Net cash provided by operating activities	526,887	**622,698**	**5,892**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(159,536)	**(197,594)**	**(1,870)**
Proceeds from sale of property, plant and equipment	23,911	**4,898**	**46**
Payments for other intangible assets	(84,607)	**(48,131)**	**(455)**
Acquisition of investment securities	(1,023)	**(867)**	**(8)**
Proceeds from sale of investment securities	1,755	**29,128**	**275**
Payments for investment in affiliates	(333)	**(893)**	**(8)**
Proceeds from sale of subsidiaries	11,315	**–**	**–**
Increase in long-term prepayment	(14,538)	**(9,121)**	**(86)**
Other, net	1,504	**4,115**	**39**
Net cash used in investing activities	(221,552)	**(218,465)**	**(2,067)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	3,221	**(1,501)**	**(14)**
Proceeds from issuance of long-term loans	142,855	**8,000**	**76**
Repayment of long-term loans	(357,459)	**(284,787)**	**(2,695)**
Repayment of long-term accounts payable	(19,205)	**(7,029)**	**(66)**
Proceed from new bond issue	21,500	**18,000**	**170**
Payment for redemption of bonds	(25,000)	**(50,375)**	**(477)**
Payments for acquisition of treasury stocks	(9,567)	**(1,277)**	**(12)**
Dividends paid	(7,649)	**(10,201)**	**(96)**
Payments received from minority shareholders	103	**1,166**	**11**
Other, net	(162)	**(907)**	**(9)**
Net cash used in financing activities	(251,363)	**(328,911)**	**(3,112)**
Translation Adjustments on Cash and Cash Equivalents	(713)	**(668)**	**(7)**
Net Increase in Cash and Cash Equivalents	53,259	**74,654**	**706**
Cash and Cash Equivalents at Beginning of Year	68,596	**121,855**	**1,153**
Increase in Cash and Cash Equivalents due to Subsidiaries Newly Consolidated	–	**9**	**0**
Cash and Cash Equivalents at End of Year	¥ 121,855	**¥ 196,518**	**$ 1,859**

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 Financial Reporting 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, 2004, include 60 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 53 other subsidiaries.

During the year ended March 31, 2004, significant changes in the scope were incurred as follows;

Consolidated:

KWILL CORPORATION	Established
TU-KA Services, Inc.	Business commenced

The above corporation began business this fiscal period and has grown to have significant material impact.

Removed:

TELEHOUSE SUISSE S.A.	Disposal of investment in subsidiary

The investment in the above corporation was sold.

Equity Method

Added:

Ampersand Broadband Inc.	Business commenced

The above corporation began business this fiscal period and has grown to have significant material impact.

Removed:

NKJ EUROPE LTD.	Liquidation

The above corporation was liquidated.

@Knowledge, Inc.

The equity share in the above corporation decreased through allocation of new shares to a third party.

FiberLabs Inc.

The Company has no major material impact on the above corporation after ceasing the dispatch of directors.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥105.69=$1, the approximate exchange rate on March 31, 2004. 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 1 affiliate 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

The useful life of submarine cable systems has changed from 20 years to 12 years from this fiscal year.

In line with rapid advancements in high-capacitance and multiplexing technologies for submarine fiber-optic cables in recent years, capacity costs and running costs per unit of capacity for submarine cable systems have decreased markedly compared to the beginning of the period.

Consequently, the number of submarine cable systems that ceased operation after 11-14 years increased substantially during the period, leading to the aforementioned change in useful life.

In line with this change, operating expenses of telecommunications business increased by ¥4,466 million ($42 million), resulting in decreases by the same amount in operating income, ordinary income and income before income taxes and minority interests.

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.

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 amount for employee retirement benefits at fiscal 2004 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2004 year-end. Prior service cost is amortized on a straight line basis over the average remaining service life of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

In conjunction with the implementation of the defined benefit enterprise pension plan law, the Company and certain of its domestic subsidiaries received approval from the Ministry of Health, Labour and Welfare on April 1, 2003 to relinquish the entrusted portion of future retirement benefit obligations of the employee pension fund. Consequently, the Company applied 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), and a reduction in benefit obligations related to the entrusted portion was recognized on the aforementioned approval date.

As a result, operating revenues (gain on transfer of entrusted portion of employees' pension funds) and income before income taxes and minority interests both increased by ¥3,962 million ($37 million).

The amount transferred to the government at fiscal 2004 year-end was ¥6,480 million ($61 million).

o. Point Service Programs

In order to prepare for the future cost of the points customers have earned under the "au" Point Program, based on its past experience, the Company reserves an amount considered appropriate to cover possible redemption of the points during or after the next consolidated fiscal year.

3. Market Value Information

At March 31, 2004, 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		
2004	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	18	18	–	0	0	–
Total	¥ 18	¥ 18	¥ –	$ 0	$ 0	$ –

Other securities that have market prices

	Millions of yen			Millions of U.S. dollars		
2004	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	¥ 4,238	¥ 24,932	¥ 20,694	$ 40	$ 236	$ 196
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	441	438	(3)	4	4	(0)
Total	¥ 4,679	¥ 25,370	¥ 20,691	$ 44	$ 240	$ 196

Other securities sold during the current consolidated fiscal year

	Millions of yen			Millions of U.S. dollars		
2004	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	¥ 35,175	¥ 5,589	¥ 10,717	$ 333	$ 53	$ 101

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

	Millions of yen	Millions of U.S. dollars
2004	Book value	Book value
Other securities		
Unlisted equity securities	¥ 6,550	$ 62
Unlisted corporate bonds	5,234	50
Commercial papers	47,495	449
Total	¥ 59,279	$ 561

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	Over 10 years	Within one year	One to five years	Five to 10 years	Over 10 years
Bonds								
Corporate bonds	¥ –	¥ 305	¥ –	¥ 5,234	$ –	$ 3	$ –	$ 50
Other	47,531	49	–	–	450	0	–	–
Other securities	–	–	–	–	–	–	–	–
Total	¥ 47,531	¥ 354	¥ –	¥ 5,234	$ 450	$ 3	$ –	$ 50

4. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2004 were ¥4,277 million (U.S. $40 million), and the annual average interest rate applicable to short-term bank loans at March 31, 2004 was 3.19%.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Domestic unsecured straight bonds due 2004 through 2010 at rates of 0.435% to 2.57% per annum	¥ 236,500	**¥ 234,125**	**$ 2,215**
General secured bonds due 2005 through 2017 at rates of 2.30% to 3.20% per annum (*)	139,800	**109,800**	**1,039**
Total bonds	¥ 376,300	**¥ 343,925**	**$ 3,254**
Loans from banks:			
Maturing through 2020 at average rates of 1.91% per annum	¥ 1,099,924	**¥ 823,439**	**$ 7,791**
Other interest-bearing debt	15,045	**8,124**	**77**
	¥ 1,114,969	**¥ 831,563**	**$ 7,868**
Total bonds, loans and other interest-bearing debt	¥ 1,491,269	**¥ 1,175,488**	**$ 11,122**
Less, amount due within one year	275,455	**277,044**	**2,621**
	¥ 1,215,814	**¥ 898,444**	**$ 8,501**

(*)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, 2004 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	**2004**	**2004**
2005	**¥ 277,044**	**$ 2,621**
2006	**243,220**	**2,301**
2007	**229,078**	**2,168**
2008	**248,433**	**2,351**
2009 and thereafter	**177,713**	**1,681**
	¥ 1,175,488	**$ 11,122**

At March 31, 2004, assets pledged as collateral for long-term loans were as follows:

	Millions of yen		Millions of U.S. dollars	
	2004		2004	
Long-term loans	¥	11,601	$	110
Current portion of long-term loans		3,514		33
Performance bond for cable contracts		47		0
	¥	15,162	$	143
Mortgage on factory foundation	¥	25,518	$	241
Term deposits		47		1
	¥	25,565	$	242

5. Contingent Liabilities

At March 31, 2004 and 2003, the Company was contingently liable as follows:

	Millions of yen				Millions of U.S. dollars	
	2003		2004		2004	
As a guarantor for:						
Loans of affiliated companies	¥	215	¥	45	$	0
System supply contract of KDDI Submarine Cable Systems Inc.		146,526		129,203		1,223
Office lease contract of KDDI AMERICA, INC.		765		533		5
Other		–		1		0
	¥	147,506	¥	129,782	$	1,228

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

Gain and loss on sales of property, plant and equipment, at March 31, 2004, was as follows:

	Millions of yen		Millions of U.S. dollars	
	2004		2004	
(Gain) on sales of Meguro Building	¥	(2,385)	$	(23)
(Gain) on sales of employee apartments and welfare centers		(451)		(4)
Loss on sales of employee apartments and welfare centers		507		5
Other		301		3

7. Loss on Disposal of Fixed Assets

Loss on disposal of fixed assets in fiscal 2004 is mainly attributable to disposal of microwave transmission facilities, as outlined below.

	Millions of yen		Millions of U.S. dollars	
	2004		2004	
Machinery and equipment	¥	18,910	$	179
Antenna facilities		17,434		165
Buildings		24,087		228
Other		17,599		167

8. 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, 2004 and 2003 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			**2004**			**2004**		
Tools, furniture and fixtures	¥ 151,043	¥ 89,285	¥ 61,757	**¥ 112,847**	**¥ 67,885**	**¥ 44,962**	**$ 1,068**	**$ 643**	**$ 425**
Other	4,671	675	3,996	**4,753**	**1,158**	**3,595**	**45**	**11**	**34**
	¥ 155,714	¥ 89,960	¥ 65,753	**¥ 117,600**	**¥ 69,043**	**¥ 48,557**	**$ 1,113**	**$ 654**	**$ 459**

Future lease payments as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 26,391	**¥ 21,273**	**$ 201**
Over one year	39,362	**27,284**	**258**
	¥ 65,753	**¥ 48,557**	**$ 459**

Lease payments and assumed depreciation charges for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Lease payments	¥ 29,966	**¥ 25,856**	**$ 245**
Assumed depreciation charges	29,966	**25,856**	**245**

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, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 20,154	**¥ 19,472**	**$ 184**
Over one year	100,282	**77,199**	**731**
	¥ 120,436	**¥ 96,671**	**$ 915**

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, 2004 and 2003 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			**2004**			**2004**		
Tools, furniture and fixtures	¥ 2,972	¥ 1,755	¥ 1,217	**¥ 2,118**	**¥ 1,404**	**¥ 714**	**$ 20**	**$ 13**	**$ 7**
Other	347	193	155	**203**	**101**	**102**	**2**	**1**	**1**
	¥ 3,319	¥ 1,948	¥ 1,372	**¥ 2,321**	**¥ 1,505**	**¥ 816**	**$ 22**	**$ 14**	**$ 8**

Future lease receipts as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 636	**¥ 443**	**$ 4**
Over one year	841	**437**	**4**
	¥ 1,477	**¥ 880**	**$ 8**

Lease receipts and assumed depreciation charges for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Lease received	¥ 781	**¥ 659**	**$ 6**
Assumed depreciation charges	728	**613**	**6**

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, 2004 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2004	National amount	Market value	Unrealized gain	National amount	Market value	Unrealized gain
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥ 2,000	¥ 133	¥ 133	$ 19	$ 1	$ 1
Variable rate into fixed rate obligations	¥ 4,000	¥ (75)	¥ (75)	$ 38	$ (1)	$ (1)

10. 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 and capital surplus equals 25 percent of their respective stated capital. This reserve amounted to ¥12,676million ($120 million) and ¥12,167million at March 31, 2004 and 2003, respectively. This reserve and capital surplus 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. The capital surplus and legal reserve, exceeding 25 percent of stated capital, are available for distribution upon approval of the shareholders' meeting.

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.

11. Research and Development Expenses

Research and development expenses charged to income were ¥13,340 million ($126 million) and ¥10,459 million, for the years ended March 31, 2004 and 2003, respectively.

12. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2004 was 41.9%.
At March 31, 2004 and 2003, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2004	2004
Deferred tax assets:			
Depreciation and amortization	¥ 5,194	¥ 7,269	$ 69
Allowance for doubtful accounts	8,377	6,858	65
Disposal of fixed assets	3,765	5,350	51
Inventory write down	4,497	1,601	15
Reserve for retirement benefits (lump-sum)	18,548	20,997	199
Reserve for retirement benefits (pension)	3,696	2,644	25
Allowance for bonus payment	5,639	6,007	57
Accrued expenses	13,167	7,700	73
Accrued enterprise taxes	–	6,265	59
Net operating loss carried forward	54,534	44,780	424
Unrealized profits	7,363	5,393	51
Reserve for point service program	6,434	7,316	69
Other	7,476	7,546	71
Gross deferred tax assets	138,690	129,726	1,228
Valuation allowance	(65,752)	(54,635)	(517)
Net deferred tax assets	¥ 72,938	¥ 75,091	$ 711
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,476)	¥ (1,353)	$ (13)
Gain on establishment of retirement benefit trust	(20,367)	(20,367)	(193)
Net unrealized gains on securities	(936)	(8,027)	(76)
Retained earnings for overseas affiliates	(1,409)	(1,066)	(10)
Other	(1,695)	(1,481)	(14)
Total deferred tax liabilities	¥ (25,883)	¥ (32,294)	$ (306)
Net deferred tax assets	¥ 47,055	¥ 42,797	$ 405

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, 2004.

Statutory tax rate	41.9%
Special tax treatment for IT investment	(2.5)%
Appropriation of net operating loss carried forward	(5.1)%
Amortization of goodwill	0.8%
Other	0.9%
Effective tax rate	36.0%

13. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of welfare pension plan, a defined benefit pension system, a retirement lump-sum plan and a retirement benefit trust scheme.
The reserve for retirement benefits as of March 31, 2004 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
Projected benefit obligations	¥ (262,103)	$ (2,480)
Plan assets	168,999	1,599
Retirement benefit trust	8,265	78
	¥ (84,839)	$ (803)
Unrecognized prior service cost	(11,045)	(105)
Unrecognized actuarial differences	87,534	828
Prepaid pension cost	(19,855)	(187)
Reserve for retirement benefits	¥ (28,205)	$ (267)

Net pension expense related to the retirement benefits for the year ended March 31, 2004 was as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
Service cost	¥ 9,063	$ 86
Interest cost	5,179	49
Expected return on plan assets	(2,660)	(25)
Amortization of prior service cost	(822)	(8)
Amortization of actuarial differences	9,965	94
Net pension cost	¥ 20,725	$ 196

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, 2004

Note: On April 1, 2003, the Company and its subsidiaries established a new defined benefit enterprise 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.

Welfare Pension Plans, formerly held by DDI, au (except Kansai Cellular Telephone Company), Okinawa Cellular Telephone Company and DDI Pocket, which had also been maintained separately after the merger, were integrated into the "Corporate Pension Fund of KDDI" on April 1, 2004.

14. Segment Information

Segment Information by business category for the years ended March 31, 2004 and 2003 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

Year ended March 31, 2004	BBC & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
	Millions of yen						
I. Sales and Operating Income (loss):							
Outside sales	¥ 546,498	¥2,087,283	¥ 181,036	¥ 31,281	¥2,846,098	¥ –	¥2,846,098
Intersegment sales	100,228	8,450	2,981	35,319	146,978	(146,978)	–
Total	646,726	2,095,733	184,017	66,600	2,993,076	(146,978)	2,846,098
Operating expenses	629,919	1,844,732	162,924	66,510	2,704,085	(150,092)	2,553,993
Operating income (loss)	¥ 16,807	¥ 251,001	¥ 21,093	¥ 90	¥ 288,991	¥ 3,114	¥ 292,105
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥1,257,154	¥1,440,926	¥ 192,424	¥ 50,523	¥2,941,027	¥ (301,446)	¥2,639,581
Depreciation	88,572	242,565	38,707	3,036	372,880	(7,180)	365,700
Capital expenditures	68,217	198,754	12,308	711	279,990	(811)	279,179

Year ended March 31, 2004	BBC & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
	Millions of yen						
I. Sales and Operating Income (loss):							
Outside sales	$ 5,171	$ 19,749	$ 1,713	$ 296	$ 26,929	$ -	$ 26,929
Intersegment sales	948	80	28	334	1,390	(1,390)	-
Total	6,119	19,829	1,741	630	28,319	(1,390)	26,929
Operating expenses	5,960	17,454	1,542	629	25,585	(1,420)	24,165
Operating income (loss)	$ 159	$ 2,375	$ 199	$ 1	$ 2,734	$ 30	$ 2,764
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	$ 11,895	$ 13,633	$ 1,821	$ 478	$ 27,827	$ (2,852)	$ 24,975
Depreciation	838	2,295	366	29	3,528	(68)	3,460
Capital expenditures	645	1,881	116	7	2,649	(8)	2,641

Notes: 1. Business category and Principal Services/Operations of Each Category, Effective from the year ended March 31, 2004

Business category	Principal services/operations
BBC & 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 in business name
Based on the reorganization of the Company implemented in April, 2003, the former “Network & Solutions business” segment was renamed as the “BBC & Solutions business” in line with the establishment of the “Broadband Consumer (BBC) Business Headquarters.”

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

15. Subsequent Events

a. The appropriation of retained earnings of the Company with respect to the year ended March 31, 2004, proposed by the Board of Directors and approved at the shareholder’s meeting held on June 24, 2004, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥2,400 = US$22.71)	¥ 10,114	$ 96
Bonuses to directors and statutory auditors	73	1

b. It was decided by the Board of Directors on June 21, 2004, that the entire operations of DDI Pocket, a subsidiary of KDDI, will be separated and merged into a Consortium, in which The Carlyle Group (Carlyle), Kyocera Corporation (Kyocera) and KDDI invest. An escrow agreement was concluded on the same day. Details of the transaction follow.

(1) Objectives

DDI Pocket was the first carrier in Japan to introduce flat-rate tariffs for mobile data communications services, thereby securing a powerful position in the market, which is expected to expand further in the future. Besides recording consolidated full-year profits for three consecutive terms since the year ended March 31, 2002 , DDI Pocket has made major contributions to the KDDI Group in terms of generating stable free cash flows.

With an infusion of new resources, DDI Pocket's PHS business is expected to continue growing strongly. Taking into account KDDI Group's limited pool of resources, however, it was decided that the most beneficial course of action for DDI Pocket and its customers would be to aim for business expansion by injecting capital from external sources.

Furthermore, KDDI concluded that the most effective way to create new added value was to strengthen its competitive advantage in the mobile phone market by selecting and focusing management resources into core areas, notable the profitable au business.

Carlyle highly regards DDI Pocket's PHS business, especially in terms of DDI Pocket's medium to long term competitive advantage and growth potential in the corporate mobile data communications market. Carlyle entered into the transaction to provide it the best opportunity to contribute to the further development of PHS technology in Japan through the Consortium with Kyocera, a manufacturer of base stations and terminals.

(2) Outline of Participating Companies

The new company will be 60% owned by Carlyle, 30% by Kyocera and 10% by KDDI.

<Carlyle>

Representative:	Louis Gerstner (Representative in Japan: Tamotsu Adachi)
Head Office:	1001 Pennsylvania Ave. N.W. Suite 220 South, Washington, D.C., U.S.A.
Business Description:	Investment business (Private equity funds)

<Kyocera>

Representative:	Yasuo Nishiguchi
Head Office:	6 Takeda Tobadono-cho, Fushimi-ku, Kyoto, Japan
Business Description:	Fine Ceramic, Electronic Device, Equipments, Other Businesses
Relationship with KDDI:	Owns 13.5% share in KDDI

(3) Subsidiary to be Acquired

<DDI Pocket>

Corporate Name:	DDI Pocket, Inc.
Representative:	Takeo Yamashita
Head Office:	3-4-7, Toranomon, Minato-ku, Tokyo, Japan
Established:	July 1, 1994
Business Description:	Telecommunication Business (PHS Business)
Capital:	¥75,251 million
Shares Outstanding:	250,420
Business Year-end:	March 31
Number of Employees:	818 (as of March 31, 2004)

Three Year Financial Summary

	Millions of yen			Millions of U.S. dollars		
Years ended March31,	2002	2003	**2004**	2002	2003	**2004**
Total operating revenues	¥ 211,008	¥ 197,579	**¥ 184,017**	$ 1,996	$ 1,869	**$ 1,741**
Operating income	6,660	20,267	**21,093**	63	192	**200**
Ordinary income	3,036	17,742	**19,010**	29	168	**180**
Net income	14,658	17,030	**19,064**	139	161	**180**
Total assets	261,458	226,016	**192,424**	2,474	2,138	**1,821**
Total shareholders' equity	¥ 70	¥ 17,023	**¥ 36,216**	$ 1	$ 161	**$ 343**

(4) Transaction Overview

The entire operations of DDI Pocket will be separated and merged into a special purpose company held by the Consortium, in which Carlyle, Kyocera and KDDI invest, in exchange for which the Consortium will pay ¥220.0 billion (US$2.08 billion) in cash (this amount is subject to change upon adjustments in operating capital). Any cash remaining after repayment of net interest-bearing debt of DDI Pocket outstanding at closing will be paid to existing DDI Pocket shareholders.

DDI Pocket Transfer Scheme

1. The entire operations of DDI Pocket's PHS business will be separated and merged into a special purpose company ("SPC") in exchange for the stock of the SPC.
2. A second SPC will issue common stock for the Consortium in exchange for equity capital.
3. DDI Pocket will transfer SPC stock to the second SPC in exchange for the equivalent value in cash.
4. SPC and second SPC will merge.
5. DDI Pocket will be liquidated.

(5) Timetable for the Transaction

June 21, 2004:	Contract signed
October 1, 2004:	Corporate division
Around October 15, 2004:	Trigger escrow agreement
During the year ending March 31, 2005:	Liquidation of DDI Pocket