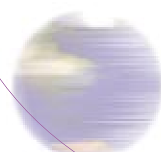
KDD

Bringing People Together

KDD2000



ANNUAL REPORT

For the year ended March 31, 2000

Profile

Established in 1953, KDD has created a communications infrastructure which links Japan with the rest of the world. In the process, the Company has formed tie-ups and alliances with overseas telecommunications providers and given technical support to developing countries. As a result, we have earned worldwide respect for the reliability and the diversity of our communications services.

Today, global competition is intensifying in Japan's information and communications market, in parallel with significant deregulation and technological innovation. Against this challenging operating environment, KDD will merge, as of October 1, 2000, with DDI CORPORATION (DDI) and IDO CORPORATION (IDO) to form new DDI CORPORATION (KDDI), thus solidifying its position.

As a consequence of the merger, Japan's information and communications industry will consolidate with major three common carriers: NTT, JT and the newly created KDDI. In this context, KDDI will be a truly comprehensive global telecommunications provider, with a corporate scale in terms of revenues second only to NTT.

Under its corporate strategy of focusing on mobile and IP businesses, and through the accumulated expertise and the synergies of the three companies, KDDI will construct global backbone networks and launch mobile communications services throughout the nation.

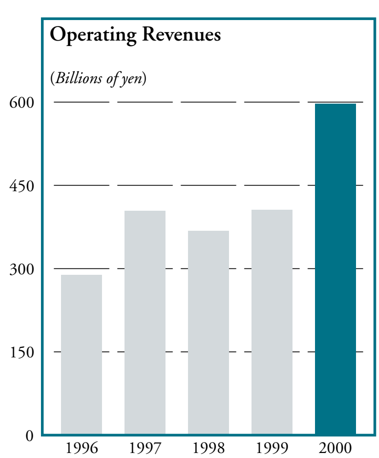
Contents

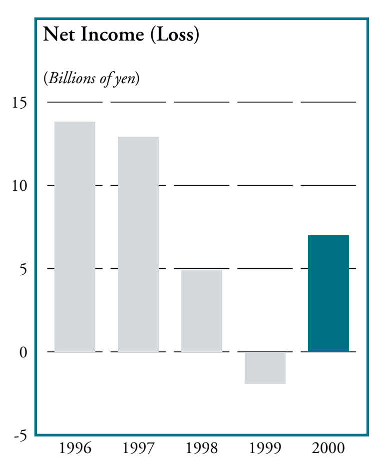
Five-Year Consolidated Summary

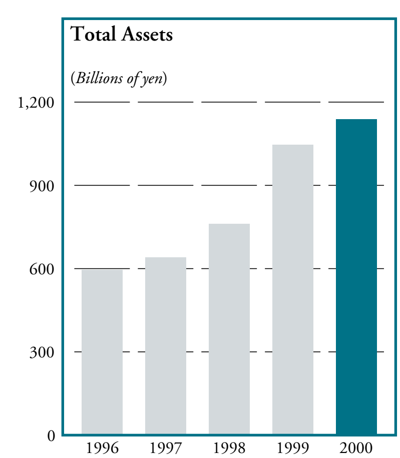
Years ended March 31

	Millions of yen					*Thousands of U.S. dollars (Note 1)*
	2000	1999	1998	1997*	1996	**2000**
Operating revenues:	**¥ 597,306**	¥ 405,721	¥367,772	¥403,966	¥289,289	**$ 5,634,962**
Telecommunications	**381,468**	317,420	315,066	320,144	244,107	**3,598,755**
All other services	**215,838**	88,301	52,706	83,822	45,182	**2,036,207**
Operating expenses	**588,430**	399,698	351,227	372,983	252,754	**5,551,226**
Operating income	**8,876**	6,023	16,545	30,983	36,535	**83,736**
Other income (expenses)	**(3,211)**	(582)	(7,908)	(1,122)	(2,943)	**(30,293)**
Income before income taxes and minority interests	**5,665**	5,441	8,637	29,861	33,592	**53,443**
Income taxes	**5,640**	7,424	3,638	17,108	19,746	**53,207**
Net income (loss)	**¥ 7,310**	¥ (1,929)	¥ 4,933	¥ 12,860	¥ 13,779	**$ 68,962**
Total current assets	**¥ 469,125**	¥ 371,755	¥289,218	¥212,360	¥193,341	**$ 4,425,708**
Property and investments	**670,222**	673,778	471,469	427,618	402,053	**6,322,849**
Total assets	**1,139,347**	1,045,533	760,687	639,978	595,394	**10,748,557**
Total stockholders' equity	**423,755**	359,743	356,249	352,537	343,734	**3,997,689**
Total current liabilities	**288,129**	233,734	130,540	125,132	155,930	**2,718,198**
Total non-current liabilities	**422,959**	443,138	273,898	162,309	95,730	**3,990,179**

* In the year ended March 31, 1997, the Company changed its accounting for payments to telecommunications carriers. The effect of this change was to increase operating revenues by ¥86,098 million and to increase communications network charges by the same amount for the year ended March 31, 1997, although the change had no effect on operating income.







A Message from the Management

The Future of Global Telecommunications

The Year in Review

In fiscal 2000, ended March 31, 2000, Japan's economy remained stagnant, reflecting weak demand as a whole, although a slow recovery was observed, mainly due to the favorable effects of several economic stimulus packages of the government and the recovery of other Asian markets.

Overseas, the U.S. and European economies continued to prosper, and the economies of Asia, which decelerated sharply during the preceding term, rallied strongly.

In Japan's telecommunications market, deregulation has intensified competition and prompted a spate of global corporate alliances and mergers between existing and new carriers, and also between domestic and foreign carriers including cross-industry entries, in addition to an accelerated shift in demand from voice to data communications and from fixed to mobile communications.

Against the background of this business environment, the KDD Group focused on reducing costs and improving the decision-making process by implementing a Corporate Officer system and a system of virtual companies to further enhance management efficiency.

As a result, consolidated operating revenues in fiscal 2000, increased 47.2% to ¥597.3 billion. Consolidated operating income increased 47.4% to ¥8.8 billion, mainly due to a reduced personnel expenses and usage fees of other companies' network facilities, as well as cuts in operating expenses. Consolidated net income was ¥7.3 billion, up ¥9.2 billion from a net loss of ¥1.9 billion for the previous term.

Toward an Advanced, Comprehensive Info-communication Company for the Twenty-first Century

In the Japanese telecommunications arena, the demand for reliable and seamless services that transcend traditional services is rapidly increasing along with the explosive diffusion of Internet services and the start of international roaming services for cellular phone communications, thus intensifying cross-border and cross-industry competition.

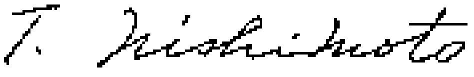
In this changing and challenging operating environment, we must solidify our management base, meet the emerging information needs of our customers, and expand our business content by focusing on fields such as the high-growth IP and mobile communications businesses to keep pace with domestic and overseas mega-carrier competitors.

Powerfully positioned as a core telecommunications provider in the twenty-first century, KDD agreed to merge with DDI CORPORATION (DDI) and IDO CORPORATION (IDO) in October 2000.

With a corporate strategy focusing on mobile and IP business, the newly combined entity, KDDI will aggressively promote the construction of global backbone networks in Japan and overseas and the supply of mobile communications throughout the nation. In the process, KDD's excellent engineering capabilities, communications infrastructure, and established brand will contribute to increasing synergies with the extensive management resources of the other two merging companies in the domestic and mobile communications fields. Through these business activities, therefore, we are confident that the newly created KDDI can fully contribute to the sound development of Japan's telecommunications field as a global carrier.

We look forward to the continued support and encouragement from our stockholders.

June 29, 2000



Tadashi Nishimoto
President

Enhanced Services and Diversified Capabilities

KDDI

KDD, DDI, and IDO will merge as of October 1, 2000, to form the new combined entity, KDDI.

KDDI will be committed to contributing to the development of Japan's telecommunications industry as a leading telecommunications provider in the next century by capitalizing on its enhanced management resources efficiently, with a new corporate strategy focusing on mobile and IP businesses.

Merger agreement signing ceremony

KDDI's logo symbolizes the seamlessly development of the global information and communications industry, and the fusion of the three companies

Fixed Wireless Access

On June 1, 1999, KDD WinStar Corporation began providing digital data transmission services through a fixed wireless access (FWA) system in Tokyo, Nagoya, Osaka, and Okinawa.

The purpose of this joint venture is to offer a high-speed wireless access services mainly in urban areas by installing FWA antennas on users' rooftops. Reduced charges of up to 60% discount is available compared to wired access lines supplied by NTT and other competitors. FWA allows users to choose any service items that match their applications at transmission speeds from 192 kbps to 150 Mbps. As a result, the number of subscribers has increased steadily since operations began.

Joint Venture with Yoshimoto Kogyo on Multimedia Content

On December 27, 1999, the Company and Yoshimoto Kogyo Co., Ltd., Japan's leading entertainment company, agreed to establish a joint venture, Fandango Inc., to supply customers with content such as variety show, sports, and animation produced by Yoshimoto Kogyo via the Internet.

Fandango, established on January 18, 2000, will offer new services such as production and distribution of content, consulting on content and entertainment-based e-commerce.

Many popular celebrities who belong to Yoshimoto Kogyo, Japan's leading entertainment company, perform in programs supplied by Fandango. A lot of funny and exciting content is provided

Matching Service — a Network Service for On-line Competition Games

On March 1, 2000, the Company began offering a network service for on-line competition games called Matching Service. At present, these games are played via wired telephone lines with several participants remotely located. To allow several players to play against each other while ensuring their respective privacy, the intermediary network must have advanced security functions, including an accounting function whereby the game players fairly share communications fees and a function that enables many people to interface while keeping individual information confidential.

The Matching Service meets these requirements and is the world's first innovative network service suitable for on-line real-time games. The service was developed from previously supplied Data On Demand Service. It allows participating players to enjoy competing in real-time to a tolerance of delay of 70 milliseconds.

VoIP Field Trial on CATV Network

On April 1, 2000, the Company initiated the CATV-based wide-area VoIP field trial called VIP 21 jointly with Cisco Systems K.K. VIP 21 allows local CATV subscribers to place domestic and international calls addressed to another subscriber's phone through our Internet service network (NEWEB). This is the Japan's largest scale Internet telephony field test.

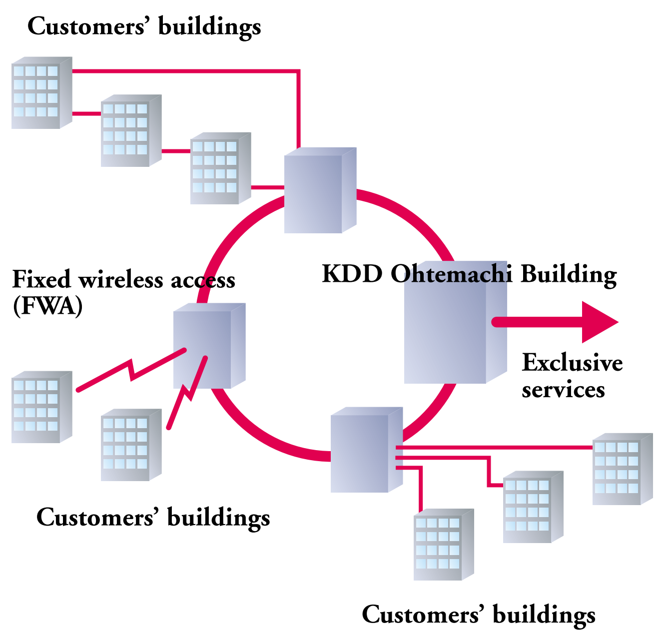
KDD METRORING®

On April 1, 2000, the Company began to provide corporate customers direct optical access, KDD METRORING, to quickly respond to increasing communications and Internet demand.

KDD METRORING is a low-cost communications optical-fiber cable network originating and terminating in the KDD Building in the Ohtemachi and Marunouchi commercial districts of Chiyoda-ku, Tokyo. KDD METRORING is laid in sewage drains, in a ring configuration.

In addition, corporate customers using LANs and WANs in the buildings can access a variety of KDD services by accessing KDD METRORING system. This connects customers with domestic and overseas

Conceptual View of KDD METRORING System



backbone networks, which enables them to make large-capacity data transmissions.

We are studying the potential for deployment of this system in other areas where demand can be expected other than Ohtemachi and Marunouchi.

Deployment of Data Center Business

The Company has actively promoted data center businesses such as co-location services in Japan and overseas.

Domestically, we have 19 housing sites in 13 major cities, with a total floor space exceeding 10,000 square meters. The KDD Ohtemachi Building is regarded as Japan's biggest Internet hub. Overseas, the TELEHOUSE Group supplies co-location services in the United States and Europe, forming Internet hubs in the respective regions.

The Company is working to meet recently increasing demand for new data center services such as Web-site hosting, server housing, and e-commerce platforms. It intends to expand floor space about 4,000 square meters in the Tokyo metropolitan area in the fiscal year ending March 31, 2001.

As a result, a total space of 12,000 square meters will be secured for the data center business solely within Tokyo. Moreover, TELEHOUSE International Corporation of Europe Ltd., headquartered in London, in November 1999 launched construction of the Administration Building and the Second Building adjacent to the Head Office Building, and is increasing co-location space.

Construction of Adminstration Building and Second Building of TELEHOUSE International Corporation of Europe Ltd

KDD's data centers are core Internet hubs in Japan and overseas

NEWEB ADSL Connection Service

In April 10, 2000, the Company began providing the NEWEB ADSL Connection Service on an experimental basis. This is an Internet-based connection service using asymmetric digital subscriber lines (ADSL). The NEWEB ADSL Connection Service enables high-speed transmission at a maximum speed of 512 kbps for down-link and 224 kbps for up-link.

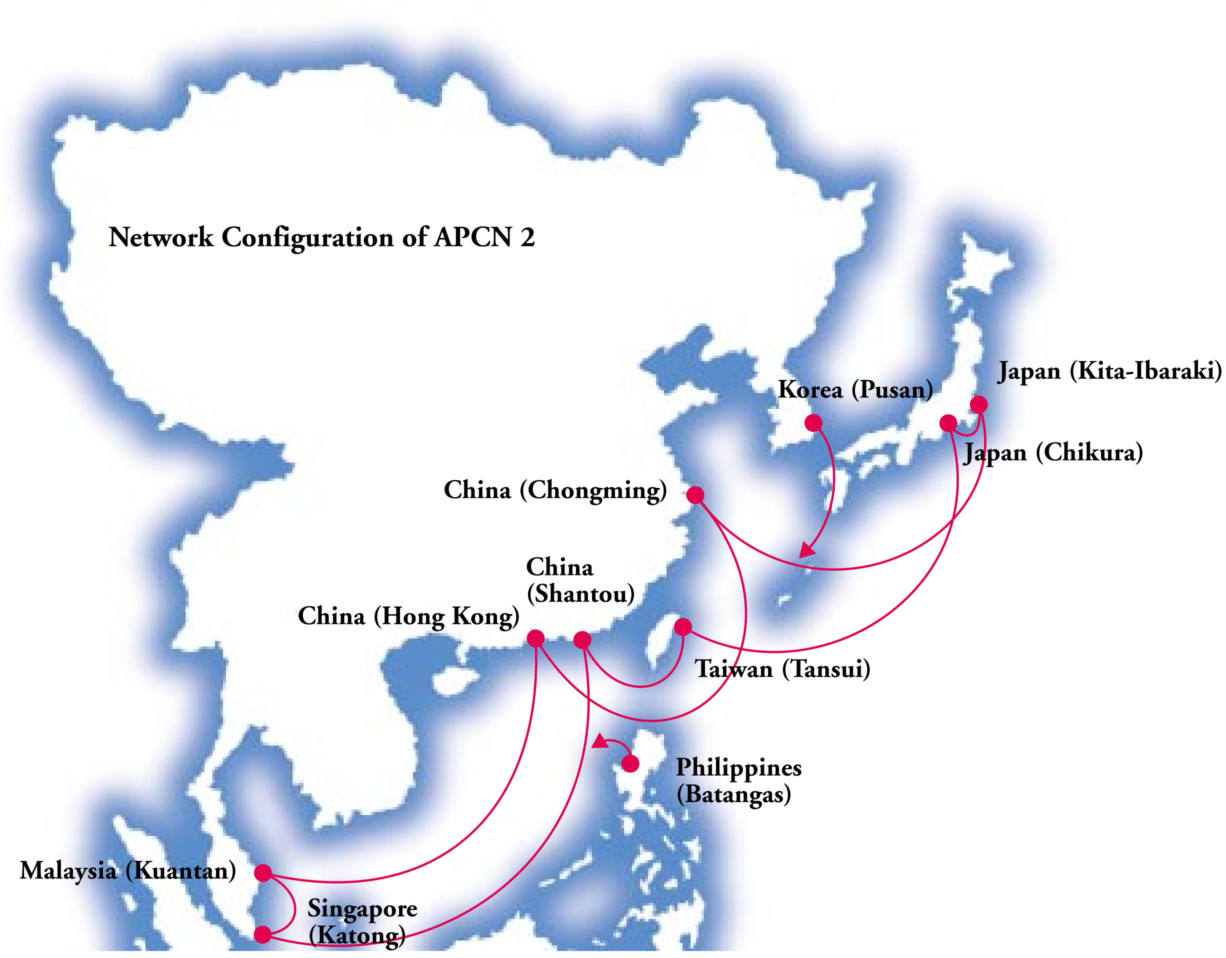
This innovative service began in Minato-ku, Shinjuku-ku, Shibuya-ku, and Toshima-ku in Tokyo, and will be available in Chuo-ku, Tokyo, and Chuo-ku, Kita-ku, and Yodogawa-ku, Osaka-City, in August 2000.

APCN 2 Construction Starts

On April 18, 2000, the Company concluded the Asia Pacific Cable Network 2 (APCN 2) Construction and Maintenance Agreement, together with 45 global telecommunications carriers.

The APCN 2's operations are to start with an initial transmission capacity of 80 Gbps or 160 Gbps, which can be upgraded to 2.56 Tbps by gradually augmenting landing station facilities in the future.

In addition, by interconnecting it with the SEA-ME-WE 3 Cable, the China-U.S. Cable Network, the Japan-U.S. Cable Network currently under construction, and other cable systems, it is possible to create a large-capacity, high-quality, and seamless network not only within the Asia-Pacific region, but also within the United States, Europe, and other areas.



Financial Review

Overview

During the fiscal year-ended March 31, 2000, business in Japan remained stagnant, reflecting weak domestic demand, despite a continuing slow recovery, which was mainly due to the favorable effects of several economic stimulus packages of the government and the recovery of other Asian markets.

Overseas, the U.S. and European economies were generally robust. Economies in Asia, which had decelerated sharply in the previous period, rallied strongly.

Competition in the telecommunications industry increased due to continued technological innovations and deregulation. Meanwhile, market demand is shifting from voice communications to data transmissions, and from fixed to mobile communications.

In the midst of these changes, KDD made the decision to merge, as of October 1, 2000, with DDI CORPORATION (DDI) and IDO CORPORATION (IDO) to form new DDI CORPORATION (KDDI), aiming at solidifying its position as a core telecommunications provider in Japan. As a consequence, Japan's telecommunications industry will consolidate with three major groups: NTT, JT and the newly combined entity (KDDI).

To survive in this business environment, the KDD Group focused on reducing operating costs and improving the decision-making process by establishing a Corporate Officer system and a system of virtual companies. Furthermore, KDD and Singapore Telecommunications Ltd. signed a business tie-up agreement and made equity investments in each other.

Revenues from international telecommunications declined, while revenues from domestic telecommunications steadily increased from the previous fiscal term. As a major step in its operations, KDD began, during the term under review, transmission capacity sales through sales of JIH (Japan Information Highway) cable capacity. Revenues from the construction of communications facilities during the term amounted to ¥157.8 billion.

The real estate business recorded operating revenues of ¥14.0 billion, and other services recorded operating revenues of ¥8.9 billion.

Revenues

During the period under review, KDD posted consolidated operating revenues of ¥597.3 billion, an increase of 47.2% from fiscal 1999. Revenues from telecommunications rose 20.2% to ¥381.5 billion, or 63.9% of total revenues.

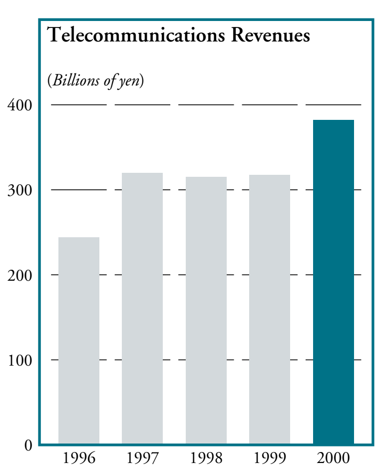
Revenues from transmission capacity sales, mainly consisting of sales of JIH cable capacity, which started during the current fiscal term, totaled ¥35.1 billion, accounting for 5.9% of total revenues.

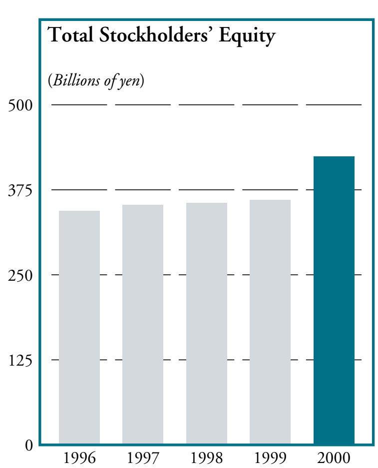
Expenses and Income

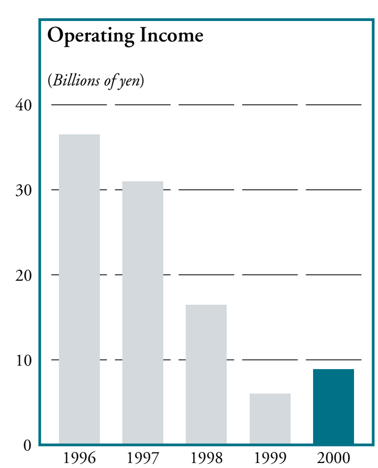
Operating expenses rose 47.2% to ¥588.4 billion, despite company-wide cost-cutting efforts, which included reducing personnel costs and further curtailment of communication network charges. This considerable rise is attributable to a large increase in charges for construction of communications facilities such as the SEA-ME-WE 3 cable network, and the posting of operating expenses in this fiscal year from construction costs related to transmission capacity sales.

As a result, operating income was ¥8.9 billion, up 47.4% from the previous fiscal term.

Income before income taxes and minority interests was ¥5.7 billion, up 4.1%. Major income-related factors were a gain from the sale of NTT DoCoMo's shares of ¥28.5 billion, a gain from the sale of shares of Infonet Services Corporation, a U.S. company, of ¥33.9 billion, and a gain from change in equity from KDD Submarine Cable Systems' shares of ¥5.1 billion associated with the allocation of shares to third parties during the term. Major extraordinary losses included restructuring expenses of ¥21.6 billion, provisions for loss on investment of ¥15.6 billion related to an application filed under Chapter 11 of the U.S. Federal Bankruptcy Reform Act to ICO (U.K.), installments of prior year service cost for the retirement pension fund of ¥18.5 billion, and special retirement







benefits of ¥5.3 billion for early retirees leaving the Company under the early retirement plan.

After deductions for income taxes and minority interests in consolidated subsidiaries, net income totaled ¥7.3 billion, an increase of ¥9.2 billion from a net loss of ¥1.9 billion for the preceding term.

Net income per share of common stock was ¥94.24, up ¥122.50 from fiscal 1999. This net income resulted in a positive return on equity (ROE) of 1.87%, or an improvement of 2.41% from the preceding term. Correspondingly, return on assets (ROA), which was minus 0.21% in fiscal 1999, was a positive 0.67%, or an improvement of 0.88% from the preceding term.

Financial Position

The consolidated total assets of KDD as of March 31, 2000, totaled ¥1,139.3 billion, up 9.0% from the fiscal 1999 year-end.

Property and equipment, less accumulated depreciation, totaled ¥471.3 billion, down 10.3%. The book value of land holdings fell 14.1% to ¥33.0 billion, mainly due to the sale of company housing, land, and other unemployed assets such as Tokyo-Miyazaki microwave network systems. The book value of software increased 42.6% to ¥39.3 billion, due to the introduction of next-generation service support systems including a communications fee-charging system.

Reflecting several submarine cable construction projects completed such as JIH, construction-in-progress fell sharply by 74.4% to ¥29.2 billion.

Current assets increased 26.2% to ¥469.1 billion.

Effective from this fiscal term, deferred tax assets (¥18.5 billion as non-current assets and ¥6.2 billion as current assets) and deferred tax liabilities (¥1.0 billion as non-current liabilities and ¥0.2 billion as current liabilities) were posted for the first time, as a result of the application of the tax-effect accounting method.

The consolidated total liabilities of KDD as of March 31, 2000, amounted to ¥711.1 billion, up 5.1% from the fiscal 1999 year-end.

Total non-current liabilities decreased 4.5% to ¥423.0 billion.

Long-term debt due after one year decreased 4.9% to ¥355.0 billion, including ¥15.4 billion reimbursed by KDD.

Current liabilities rose 23.3% to ¥288.1 billion.

Common stock climbed 52.5% to ¥61.8 billion, reflecting a capital increase allotted to Singapore Telecommunications Ltd., in December 1999.

The current ratio increased from 1.59 to 1.63. Working capital (total current assets minus total current liabilities) totaled ¥181.0 billion, up 31.1% from ¥138.0 billion at the end of fiscal 1999.

Total stockholders' equity increased 17.8% to ¥423.8 billion. As a result, the stockholders' equity ratio increased to 37.19%, up 2.78% from 34.41% the previous year.

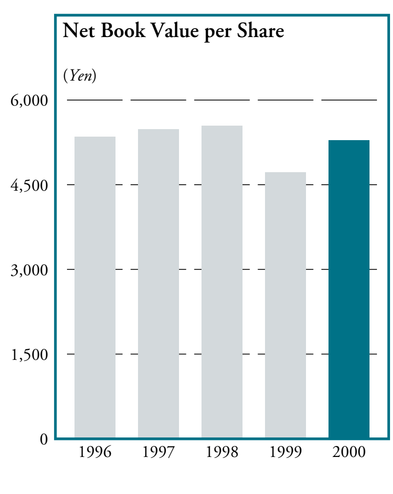
Cash Flows

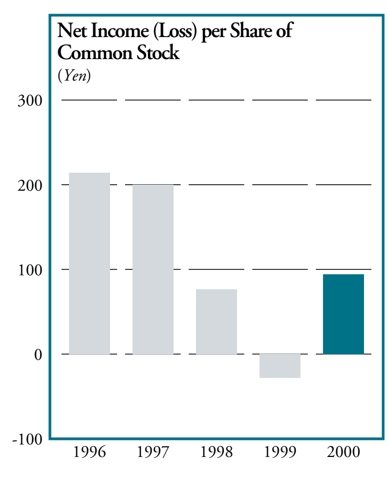
Net cash generated by operations in fiscal 2000 amounted to ¥45.8 billion, down from ¥56.8 billion in the previous year. Major changes in this category included ¥75.2 billion for depreciation and amortization, ¥43.3 billion for the disposal of property and equipment, and a ¥64.9 billion gain on the sale of securities.

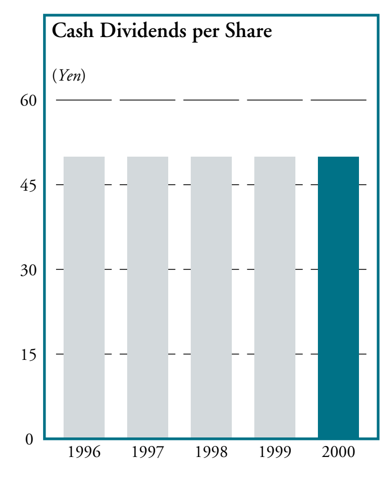
Net cash allocated for investments totaled ¥70.7 billion, mainly related to payments of ¥108.4 billion for the purchase of property and equipment and ¥57.7 billion for the purchase of investment securities.

The issuance of new shares was the most important factor behind the increase in net cash provided by financing activities of ¥54.1 billion, which was less than the increase of ¥79.4 billion in fiscal 1999, mainly because no proceeds from the issuance of bonds were recorded.

KDD's operating, investment, and financing activities resulted in cash and cash equivalents of ¥217.5 billion at the end of fiscal 2000, up from ¥187.5 billion at the beginning of the year.







Consolidated Balance Sheets

KDD Corporation
March 31, 2000 and 1999

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2000	1999	**2000**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 217,527**	¥ 187,476	**$ 2,052,142**
Marketable securities (Note 4)	**35,882**	23,791	**338,509**
Notes and accounts receivable	**189,013**	146,282	**1,783,142**
Allowance for doubtful accounts	**(5,223)**	(4,168)	**(49,274)**
Inventories (Note 5)	**19,566**	10,746	**184,585**
Deferred tax assets-current (Note 10)	**6,153**	—	**58,047**
Other current assets	**6,207**	7,628	**58,557**
Total current assets	**469,125**	371,755	**4,425,708**
Property and equipment (Notes 3 and 7):			
Telecommunications equipment	**321,204**	364,892	**3,030,226**
Telecommunications service lines	**234,545**	195,775	**2,212,689**
Buildings and structures	**236,875**	236,364	**2,234,670**
Machinery, vessels and tools	**96,129**	93,716	**906,877**
Land	**32,950**	38,378	**310,849**
Construction in progress	**29,166**	114,151	**275,151**
	950,869	1,043,276	**8,970,462**
Accumulated depreciation	**(479,592)**	(518,151)	**(4,524,453)**
	471,277	525,125	**4,446,009**
Investments and other assets:			
Investment securities (Note 6):			
Unconsolidated subsidiaries and affiliated companies	**13,467**	12,975	**127,047**
Other (Note 4)	**96,317**	52,062	**908,651**
Reserve for loss on investment (Note 6)	**(15,597)**	—	**(147,142)**
Housing loans to employees	**6,346**	7,440	**59,868**
Rights to use facilities	**12,553**	18,586	**118,425**
Software	**39,320**	27,568	**370,943**
Foreign currency translation adjustment	**2,628**	—	**24,792**
Deferred tax assets-non current (Note 10)	**18,462**	—	**174,170**
Other	**25,449**	30,022	**240,086**
	198,945	148,653	**1,876,840**
	¥1,139,347	¥1,045,533	**$10,748,557**

See accompanying notes.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2000	1999	**2000**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 7)	**¥ 46,190**	¥ 28,979	**$ 435,755**
Long-term debt due within one year (Note 7)	**22,725**	15,108	**214,387**
Notes and accounts payable	**146,622**	97,095	**1,383,226**
Accrued expenses	**24,289**	22,153	**229,142**
Accrued income taxes (Note 10)	**10,576**	3,826	**99,774**
Employees' deposits	**8,153**	9,692	**76,915**
Advances received	**24,806**	53,116	**234,019**
Other current liabilities	**4,768**	3,765	**44,980**
Total current liabilities	**288,129**	233,734	**2,718,198**
Long-term debt due after one year (Note 7)	**355,030**	373,392	**3,349,340**
Reserve for retirement allowances (Note 8)	**46,403**	50,009	**437,764**
Other non-current liabilities	**21,526**	19,467	**203,075**
Foreign currency translation adjustment	**—**	270	**—**
Contingent liabilities (Note 11)			
Minority interests	**4,504**	8,918	**42,491**
Stockholders' equity (Note 9):			
Common stock, par value ¥500 per share;			
Authorized—300,000,000 shares			
Issued—80,236,623 shares (76,224,823 shares in 1999)	**61,777**	40,503	**582,802**
Additional paid-in capital	**38,244**	16,973	**360,793**
Retained earnings	**323,741**	302,274	**3,054,160**
	423,762	359,750	**3,997,755**
Less treasury stock, at cost	**(7)**	(7)	**(66)**
Total stockholders' equity	**423,755**	359,743	**3,997,689**
	¥1,139,347	¥1,045,533	**$10,748,557**

Consolidated Statements of Operations

KDD Corporation
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Operating revenues (Notes 3 and13):				
Telecommunications	**¥381,468**	¥317,420	¥315,066	**$3,598,755**
Construction of communications facilities	**157,844**	67,016	31,165	**1,489,094**
Other services	**57,994**	21,285	21,541	**547,113**
	597,306	405,721	367,772	**5,634,962**
Operating expenses (Notes 3, 13 and 14)	**588,430**	399,698	351,227	**5,551,226**
Operating income (Note 13)	**8,876**	6,023	16,545	**83,736**
Other income (expenses):				
Interest and dividend income	**3,664**	3,473	2,348	**34,566**
Interest expense	**(10,847)**	(7,785)	(4,017)	**(102,330)**
Gain on sale of securities	**64,899**	13,984	—	**612,255**
Gain on sale of land	**2,194**	1,402	1,065	**20,698**
Additional retirement benefits to employees (Note 8)	**(5,293)**	(6,790)	(8,278)	**(49,934)**
Financial assistance to an investee	**—**	(3,960)	—	**—**
Disposal of certain research and development assets	**—**	(2,017)	—	**—**
Loss on liquidation of a subsidiary	**—**	(1,009)	—	**—**
Restructuring expenses (Note 15)	**(21,626)**	—	—	**(204,019)**
Loss on investment (Note 6)	**(15,597)**	—	—	**(147,142)**
Prior year service cost for retirement pension fund (Note 8)	**(18,469)**	—	—	**(174,236)**
Foreign exchange gains (losses)	**281**	(493)	165	**2,651**
Equity in earnings (losses) of affiliated companies	**363**	596	(408)	**3,425**
Other, net	**(2,780)**	2,017	1,217	**(26,227)**
	(3,211)	(582)	(7,908)	**(30,293)**
Income before income taxes and minority interests	**5,665**	5,441	8,637	**53,443**
Income taxes (Note 10):				
Current	**11,540**	7,424	3,638	**108,867**
Deferred	**(5,900)**	—	—	**(55,660)**
	25	(1,983)	4,999	**236**
Minority interests in consolidated subsidiaries	**7,285**	54	(66)	**68,726**
Net income (loss)	**¥ 7,310**	¥ (1,929)	¥ 4,933	**$ 68,962**

	Yen			U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Amounts per share of common stock:				
Net income (loss)	**¥94.24**	¥(28.26)	¥76.75	**$ 0.89**
Cash dividends applicable to the year	**50.00**	50.00	50.00	**0.47**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

KDD Corporation
Years ended March 31, 2000, 1999 and 1998

	Number of shares of common stock (thousand)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	64,273	¥34,527	¥13,927	¥304,086
Net income				4,933
Cash dividends paid				(3,214)
Bonuses to directors and statutory auditors				(140)
Increase due to addition of a consolidated subsidiary				89
Increase due to a consolidated subsidiary's merging with non-consolidated subsidiaries				155
Increase due to adjustment of retained earnings of a consolidated subsidiary				1,890
Balance at March 31, 1998	64,273	34,527	13,927	307,799
Increase due to merger with TWJ	11,952	5,976	3,046	
Net loss				(1,929)
Cash dividends paid				(3,214)
Bonuses to directors and statutory auditors				(71)
Increase due to addition of a consolidated subsidiary				67
Decrease due to addition of consolidated subsidiaries				(585)
Increase due to addition of affiliated companies under the equity method				207
Balance at March 31, 1999	76,225	40,503	16,973	302,274
Cumulative adjustment for applying tax-effect accounting method				17,951
Issuance of new shares (Note 6)	4,012	21,274	21,271	
Net income				7,310
Cash dividends paid				(3,716)
Bonuses to directors and statutory auditors				(11)
Increase due to addition of a consolidated subsidiary				6
Decrease due to addition of a consolidated subsidiary				(40)
Increase due to a consolidated subsidiary's merging with a non-consolidated subsidiary				110
Decrease due to adjustment of retained earnings of a consolidated subsidiary				(143)
Balance at March 31, 2000	**80,237**	**¥61,777**	**¥38,244**	**¥323,741**

		Thousands of U.S. dollars (Note 1)		
Balance at March 31, 1999	76,225	$382,104	$160,123	$2,851,641
Cumulative adjustment for applying tax-effect acccounting method				169,349
Issuance of new shares (Note 6)	4,012	200,698	200,670	
Net income				68,962
Cash dividends paid				(35,057)
Bonuses to directors and statutory auditors				(104)
Increase due to addition of a consolidated subsidiary				57
Decrease due to addition of a consolidated subsidiary				(377)
Increase due to a consolidated subsidiary's merging with a non-consolidated subsidiary				1,038
Decrease due to adjustment of retained earnings of a consolidated subsidiary				(1,349)
Balance at March 31, 2000	**80,237**	**$582,802**	**$360,793**	**$3,054,160**

See accompanying notes.

Consolidated Statements of Cash Flows

KDD Corporation
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			*Thousands of U.S. dollars (Note 1)*
	2000	1999	1998	**2000**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 5,665**	¥ 5,441	¥ 8,637	**$ 53,443**
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	**75,197**	56,457	54,465	**709,406**
Disposal of property and equipment	**43,334**	1,459	3,016	**408,811**
Provision for loss on investment (Note 6)	**15,597**	—	—	**147,142**
Provision for employee's retirement allowances	**(3,606)**	(3,543)	(3,547)	**(34,019)**
Gain from change in equity of a subsidiary	**(5,081)**	—	—	**(47,934)**
Gain on sale of securities	**(64,899)**	(14,063)	—	**(612,255)**
Devaluation of securities	**12,020**	332	1,907	**113,396**
Increase(decrease) in cash from changes in:				
Notes and accounts receivable	**(41,000)**	(19,046)	(2,031)	**(386,792)**
Inventories	**(7,597)**	(1,659)	(159)	**(71,670)**
Accounts payable	**46,200**	9,214	9,317	**435,849**
Advances received	**(15,004)**	33,715	16,675	**(141,547)**
Other	**(2,762)**	(5,131)	(29,971)	**(26,056)**
	58,064	63,176	58,309	**547,774**
Proceeds for interest and dividend income	**3,664**	3,473	2,348	**34,566**
Payments for interest	**(10,906)**	(7,660)	(2,978)	**(102,887)**
Payments for income taxes	**(5,065)**	(2,179)	(3,365)	**(47,783)**
Net cash provided by operating activities	**45,757**	56,810	54,314	**431,670**
Cash flows from investing activities:				
Payments for purchase of marketable securities	**(11,730)**	(42,823)	(51,972)	**(110,660)**
Proceeds from sale of marketable securities	**29,549**	44,389	44,461	**278,764**
Payments for purchase of property and equipment	**(108,401)**	(117,514)	(79,804)	**(1,022,651)**
Proceeds from sale of property and equipment	**30,241**	5,093	1,389	**285,292**
Payment for purchase of investment securities	**(57,697)**	(14,028)	(12,272)	**(544,311)**
Proceeds from sale of investment securities	**42,587**	20,945	6,162	**401,764**
Other	**4,725**	5,925	7,597	**44,576**
Net cash used in investing activities	**(70,726)**	(98,013)	(84,439)	**(667,226)**
Cash flows from financing activities:				
Changes in bank loans	**17,328**	6,341	(11,158)	**163,472**
Proceeds from issuance of bonds	**—**	80,000	110,000	**—**
Proceeds from long-term debt	**4,080**	11,381	3,957	**38,491**
Payments for long-term debt	**(15,427)**	(15,089)	(5,057)	**(145,538)**
Issuance of new shares	**42,545**	—	—	**401,368**
Issuance of new shares to minority	**7,840**	—	—	**73,962**
Cash dividends paid	**(3,716)**	(3,214)	(3,214)	**(35,057)**
Other	**1,417**	—	—	**13,368**
Net cash provided by financing activities	**54,067**	79,419	94,528	**510,066**
Effect of exchange rate changes on cash and cash equivalents	**(1,013)**	—	—	**(9,557)**
Net increase in cash and cash equivalents	**28,085**	38,216	64,403	**264,953**
Cash and cash equivalents at beginning of year	**187,476**	145,070	80,667	**1,768,642**
Increase in cash due to newly consolidated subsidiaries	**1,966**	—	—	**18,547**
Increase in cash due to merger	**—**	4,190	—	**—**
Cash and cash equivalents at end of year	**¥ 217,527**	¥187,476	¥145,070	**$2,052,142**

Notes to Consolidated Financial Statements

KDD Corporation
Years ended March 31, 2000, 1999 and 1998

1. Basis of Presenting Consolidated Financial Statements

KDD Corporation (the "Company"), a Japanese corporation, maintains its records and prepares its financial statements in Japanese yen in conformity with the Telecommunications Business Law and other related accounting regulations, and accounting principles generally accepted in Japan which are different from the accounting and disclosure requirements of International Accounting Standards.

The accompanying consolidated financial statements are basically an English version of those which have been prepared for Japanese domestic purposes in accordance with the provisions of the Securities and Exchange Law of Japan and filed with the Ministry of Finance ("MOF") and stock exchanges in Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF prior to 2000.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106 to US$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (31 subsidiaries in 2000, 24 subsidiaries in 1999 and 14 subsidiaries in 1998). All significant intercompany balances and transactions have been eliminated.

In 1999, KDD Development Corp. and KDD Shoji, Co., Ltd. changed their fiscal year-end to December 31, from March 31. Accordingly, their fiscal 1999 includes only nine months of operations.

Also in 1998, the five subsidiaries listed below changed their fiscal year-end to December 31, from March 31.

KDD Sogo Services Co., Ltd.
KDD Communications Inc.
TELEHOUSE International Corporation of America
TELEHOUSE International Corporation of Europe Ltd.
TELEHOUSE Holdings Ltd.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The differences between costs and net assets acquired in subsidiaries and affiliated companies, consolidated or accounted for by the equity method, are deffered and amortized over 5 years or 20 years.

Equity method

Investments in affiliated companies are accounted for by the equity method and all unconsolidated significant subsidiaries and other affiliated companies are stated at cost since they are considered immaterial in the aggregate. Earnings of unconsolidated subsidiaries and all other affiliated companies are recorded in the Company's books only to the extent that cash dividends are received.

Consolidated Statements of Cash Flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." (the "New Standards"), effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The prior years' consolidated cash flow statements, which were prepared for readers outside Japan although such statements were not required, have been restated to conform to the 2000 presentation.

Construction contracts

Income from construction contracts is recognized by the completed contract method, except that income from long-term contracts in excess of ¥10,000 million ($ 94,340 thousand) and having the contract periods over one year, which are handled by one of the consolidated subsidiaries, is accounted for by the percentage-of-completion method.

Costs incurred on uncompleted contracts are included in inventories and advances received on uncompleted contracts are included in current liabilities.

Securities

Securities listed on stock exchanges are valued at the lower of cost or market. Unlisted securities are valued at cost. The cost of securities is principally determined by the moving average method.

Inventories

Inventories held by the Company are stated at cost determined by the moving average method. Merchandise and supplies held by subsidiaries are mainly stated at cost determined by the annual average method. Work in process held by subsidiaries is stated at cost determined by the specific identification method. Costs incurred on uncompleted contracts held by subsidiaries are stated by the specific cost method.

Property and equipment

Property and equipment is stated at cost.

The Company computes depreciation over the estimated useful lives of the assets as prescribed by Japanese income tax regulations using the declining-balance method for telecommunications equipment, machinery and tools, and the straight-line method for other property and equipment.

Software costs

In accordance with the rule of The Japanese Institute of Certified Public Accoumtants Accounting Committee Report No.12 "Practical Guidance for Accounting for Research and Development Costs, etc."(the "Report"), the Company accounts for software which was included in long-term prepaid expenses in investments and other in the same manner in 2000 as in 1999.

Pursuant to the Report, however, the Company included software in intangible assets in 2000 and depreciated it using the straight-line method over the estimated useful lives (five years). The amount for 1999 has been reclassified to conform to the 2000 presentation.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection.

Translation of foreign currencies

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. Long-term receivables and payables denominated in foreign currencies are translated at the historical exchange rates, except that the long-term debt covered with currency swap contracts are translated at the contracted rates.

Translation of foreign currency financial statements

Financial statements of foreign subsidiaries are translated into Japanese yen on the basis of the year-end rates except that retained earnings are translated at historical rates.

The resulting translation adjustments are reflected in the balance sheets.

Certain leases transaction

Finance leases, which do not transfer titles to lessees, are accounted for in the same manner as operating leases.

Income taxes

The Company provided income taxes at the amounts currently payable for the years ended March 31, 1999 and 1998. Effective April 1, 1999, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The cumulative effect of adopting the new accounting standard at April 1, 1999 was ¥17,951 million ($169,349 thousand), and was directly added to the retained earnings brought forward from March 31, 1999. The effect for the year ended March 31, 2000 was to increase net income by ¥5,675 million ($53,538 thousand). Prior years' financial statements have not been restated.

Amounts per share of common stock

Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.

Diluted net income per share is not shown due to no securities with dilutive effect.

Cash dividends per share represent the cash dividends declared as applicable to respective years including payment after year end.

Reclassifications

Certain prior year amounts have been reclassified to conform to 2000 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in Accounting Policy

(i) Effective from the year ended March 31, 1999, the Company changed its method of depreciation for certain property and equipment (air cable facilities, rail cable facilities, submarine cable facilities and buildings and structures) from the declining-balance method to the straight-line method.

The change was made in order to achieve better matching of period cost against revenue in consideration of the circumstances that those assets are mainly leased to other corporations. The effects of this change were to decrease depreciation by ¥3,874 million and to increase income before income taxes and minority interests by the same amounts for the year ended March 31, 1999.

(ii) In the year ended March 31,2000, the Company changed its accounting for sales of right to use circuit.

Previously, net income (loss) from sales of the right was presented as other income (expenses) on the consolidated statements of operation. The Company changed to present the sale of the right as other services (operating revenue) and the related cost as operating expenses.

The change was made in order to harmonize the fact that the sales of the right have been managed and operated together with the transmission capacity sales which started in the year ended March 31,2000.

The effects of this change were to increase other services (operating revenue), operating expenses and operating income, by ¥2,534 million ($23,906 thousand), ¥1,352 million ($12,755 thousand) and ¥1,182 million ($11,151 thousand), respectively, for the year ended March 31, 2000, although the change had no effect on income before income taxes and minority interests.

4. Market Value Information

A summary of book value, market value and net unrealized gains of quoted securities at March 31, 2000 are as follows:

	Millions of yen			*Thousands of U.S. dollars*		
	2000			2000		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Current assets:						
Shares	¥ 1,951	¥ 55,658	¥ 53,707	$ 18,406	$ 525,076	$ 506,670
Bonds	930	1,190	260	8,773	11,226	2,453
Other	26,110	26,048	(62)	246,321	245,736	(585)
	28,991	82,896	53,905	273,500	782,038	508,538
Non-current assets:						
Shares	53,678	159,472	105,794	506,396	1,504,453	998,057
Bonds	1,327	1,339	12	12,519	12,632	113
Other	714	716	2	6,736	6,754	18
	55,719	161,527	105,808	525,651	1,523,839	998,188
Total	¥84,710	¥244,423	¥159,713	$799,151	$2,305,877	$1,506,726

Market value information of the parent company as of March 31,1999 are as follows:

	Millions of yen		
	1999		
	Book value	Market value	Unrealized gains (losses)
Current assets:			
Shares	¥ 3,035	¥27,482	¥24,447
Bonds	201	202	1
Other	10,753	10,713	(40)
	13,989	38,397	24,408
Non-current assets:			
Shares	2,163	3,367	1,204
Bonds	1,582	1,584	2
	3,745	4,951	1,206
Total	¥17,734	¥43,348	¥25,614

5. Inventories

Inventories at March 31, 2000 and 1999, comprised the following:

	Millions of yen		*Thousands of U.S. dollars*
	2000	1999	**2000**
Merchandise	**¥ 481**	¥ 203	**$ 4,538**
Work in process	**477**	135	**4,500**
Cost incurred on uncompleted contracts	**14,647**	7,272	**138,179**
Supplies	**3,961**	3,136	**37,368**
	¥19,566	¥10,746	**$184,585**

6. Investment securities

(i) On December 6,1999 the Company obtained 221,310,898 shares of Singapore Telecommunications at ¥42,545 million ($401,368 thousand) to form a strategic partnership in Asia and around the world under the share swap agreement which the Company issued 4,011,800 new shares, or 4.99% of its enlarged share capital, to the partner.

(ii) ¥15,597 million ($147,142 thousand) loss on investment in 2000 represents the provision for loss incurred in Satellite Phone Japan Co., Ltd., a consolidated subsidiary, in connection with its investment to ICO, a British company, which filed Chapter 11 of the U.S. Federal Bankruptcy Reform Act.

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings comprised bank loans whose original maturities are within one year. The weighted average interest rates on short-term borrowings were 0.82% at March 31, 2000.
Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		*Thousands of U.S. dollars*
	2000	1999	**2000**
2.2% yen straight bonds due 2001	**¥ 30,000**	¥ 30,000	**$ 283,019**
3.05% yen straight bonds due 2006	**30,000**	30,000	**283,019**
2.7% yen straight bonds due 2009	**20,000**	20,000	**188,679**
3.2% yen straight bonds due 2017	**20,000**	20,000	**188,679**
2.3% yen straight bonds due 2005	**30,000**	30,000	**283,019**
2.65% yen straight bonds due 2008	**40,000**	40,000	**377,358**
2.3% yen straight bonds due 2008	**30,000**	30,000	**283,019**
1.55% yen straight bonds due 2005	**20,000**	20,000	**188,679**
1.825% yen straight bonds due 2008	**10,000**	10,000	**94,340**
2.0% yen straight bonds due 2010	**20,000**	20,000	**188,679**
Secured loans from banks and insurance companies due through 2018 with interest rates ranging from 1.675% to 8.1%	**97,860**	108,452	**923,208**
Unsecured loans from banks and insurance companies due through 2020 with interest rates ranging from 1.056% to 8.1%	**29,895**	30,048	**282,029**
	377,755	388,500	**3,563,727**
Less amount due within one year	**(22,725)**	(15,108)	**(214,387)**
	¥355,030	¥373,392	**$3,349,340**

The annual maturities of long-term debt at March 31, 2000, are as follows:

	Millions of yen	*Thousands of U.S. dollars*
Year ending March 31		
2001	¥ 22,725	$ 214,387
2002	54,394	513,151
2003	20,361	192,085
2004	12,989	122,538
2005	41,531	391,802
2006 and thereafter	225,755	2,129,764

At March 31, 2000, property with book value of ¥50,472 million ($476,151thousand) was pledged as collateral for long-term loans from banks and insurance companies.

The bonds with book value of ¥170,000 million ($1,603,774 thousand) were secured by a statutory preferential right over the Company's entire property.

Assets pledged as collateral for long-term debt (including current portion) at March 31, 2000 were as follows:

	Millions of yen	*Thousands of U.S. dollars*
Buildings	¥ 8,593	$ 81,066
Telecommunications equipment	3,129	29,519
Line facilities	35,888	338,566
Machinery and tools	25	236
Land	2,837	26,764
Total	¥50,472	$476,151

8. Retirement Allowances

Under the terms of retirement benefit plan of the Company, eligible employees are entitled under most circumstances upon reaching mandatory retirement age or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service. Reserve for retirement allowances is stated at 50% of the amount which would be required if all employees covered by the retirement benefit plan voluntarily terminated their employment as of the balance sheet date, and the remaining 50% is covered by a qualified funded pension plan. The policy for the qualified pension plan of the Company is to fund and charge to income normal costs on the basis of an accepted actuarial method.

The prior service cost of the funded plan was ¥58,059 million ($547,726 thousand) at March 31,1999 (the date when the most resent information was available), and had been amortized over 14 years. In the year ended March 31, 2000, the Company made additional contribution of ¥18,469 million ($ 174,236 thousand) in order to shorten the amortization term from 14 years to 3 years.

Most of domestic consolidated subsidiaries of the Company provide for the liability for retirement allowances which would be required if all employees were to retire voluntarily at the balance sheet date.

Charges to income for lump-sum severance payments and the pension plan, including additional retirement benefits paid to the Company's employees on early retirement, for the years ended March 31, 2000, 1999 and 1998, were ¥14,607 million ($137,802 thousand), ¥17,454 million and ¥19,321 million, respectively.

Retirement benefits to directors and statutory auditors are charged to income when paid, subject to the approval of a stockholders' meeting.

9. Stockholders' Equity

Under the Commercial Code of Japan (the "Code"), at lease 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designed as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

10. Income Taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 42%, 48% and 51% for the years ended March 31, 2000, 1999 and 1998, respectively.

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, 2000:

	2000
Statutory tax rate	42.0%
Provision for loss on investment	69.1
Gain from change in equity of a subsidiary	(37.7)
Expenses not deductible for tax purposes	4.4
Per capita inhabitants taxes	2.5
Non-Japanese taxes	2.1
Other	17.2
Effective tax rate	99.6%

Significant components deferred tax assets and liabilities at March 31, 2000 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
Deferred tax assets:		
Retirement benefits	¥ 14,667	$138,368
Tax loss carry-forwards	9,219	86,972
Unrealized profit	5,074	47,868
Provision for loss on investment securities	4,680	44,151
Excess bonuses accrued	2,041	19,255
Depreciation	1,148	10,830
Enterprise taxes	927	8,745
Other	1,744	16,453
Total deferred tax assets	39,500	372,642
Valuation allowance	(10,401)	(98,123)
Net deferred tax assets	29,099	274,519
Deferred tax liabilities:		
Deferred gains on real properties	3,022	28,509
Depreciation	1,596	15,057
Other	1,018	9,604
Total deferred tax liabilities	5,636	53,170
Net deferred tax assets	¥ 23,463	$221,349

11. Contingent Liabilities

The Company and its consolidated subsidiaries had the following outstanding guarantees of certain liabilities of the following companies at March 31, 2000:

	Millions of yen	*Thousands of U.S. dollars*
MINEX Corporation	¥ 633	$ 5,972
KDD Submarine Cable Systems Inc.	99,560	939,245
KDD America Inc.	1,052	9,925
	¥101,245	$955,142

12. Certain Leases

Lease payments under finance leases, which are accounted for in the same manner as operating leases, were ¥6,126 million ($57,792 thousand) and ¥2,164 million for the years ended March 31, 2000 and 1999, respectively. Future lease payments as of March 31, 2000, inclusive of interest, under such leases were ¥20,255 million ($191,085 thousand), including ¥6,280 million ($59,245 thousand) due within one year.

Lease receipts under finance leases, which are accounted for in the same manner as operating leases, were ¥771 million ($7,274 thousand) and ¥200 million for the years ended March 31, 2000 and 1999, respectively. Future lease receipts as of March 31, 2000, inclusive of interest, under such leases were ¥2,268 million ($21,396 thousand), including ¥784 million ($7,396 thousand) due within one year.

13. Segment Information

The primary business activities of the Company and its consolidated subsidiaries include (1) telecommunications, (2) construction of communications facilities, (3) transmission capacity sales which started in the year ended March 31, 2000 (4) real estate and (5) other. As described in Note 2, the Company adopted the new accounting standard in 2000, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

As a result, the assets in the “telecommunications”, “construction of communications facilities”, “real estate”, “other” segments and “elimination or corporate” for the year ended March 31, 2000 increased by ¥17,259 million ($162,821 thousand), ¥1,868 million ($17,623 thousand), ¥167 million ($1,575 thousand), ¥403 million ($3,802 thousand) and ¥4,917 million ($46,387 thousand), respectively, compared with the previous method.

As described in Note 3, the Company changed its method of depreciation for the part of property and equipment, depreciation from the declining-balance method to the straight-line method in 1999.

As a result, operating expenses in telecommunications, construction of communications facilities and other segments for the year ended March 31, 1999 decreased by ¥3,627 million , ¥241 million and ¥7 million , respectively, and operating income in those segments increased by the same amounts, compared with the previous method.

Information by industry segments for the years ended March 31, 2000, 1999 and 1998, is as follows:

	Millions of yen						
2000	Telecommu-nications	Construction of communications facilities	Transmission capacity sales	Real estate	Other	Elimination or corporate	Consolidated
Operating revenues:							
Outside customers	**¥381,468**	**¥157,844**	**¥35,099**	**¥14,042**	**¥ 8,853**	**¥ —**	**¥ 597,306**
Intersegment	**225**	**4,753**	**—**	**5,380**	**12,755**	**(23,113)**	**—**
Total	**381,693**	**162,597**	**35,099**	**19,422**	**21,608**	**(23,113)**	**597,306**
Operating expenses	**386,218**	**165,489**	**25,303**	**14,593**	**21,339**	**(24,512)**	**588,430**
Operating income (loss)	**¥ (4,525)**	**¥ (2,892)**	**¥ 9,796**	**¥ 4,829**	**¥269**	**¥1,399**	**¥8,876**
Assets	**¥926,768**	**¥159,990**	**¥ —**	**¥81,774**	**¥24,238**	**¥(53,423)**	**¥1,139,347**
Depreciation	**67,662**	**2,547**	**—**	**2,980**	**2,641**	**(633)**	**75,197**
Capital expenditures	**86,572**	**9,221**	**—**	**7,671**	**3,455**	**710**	**107,629**
1999							
Operating revenues:							
Outside customers	¥ 317,420	¥ 67,016	¥ —	¥11,570	¥ 9,715	¥ —	¥ 405,721
Intersegment	564	51,981	—	3,289	6,843	(62,677)	—
Total	317,984	118,997	—	14,859	16,558	(62,677)	405,721
Operating expenses	317,146	115,358	—	10,787	16,490	(60,083)	399,698
Operating income	¥ 838	¥ 3,639	¥ —	¥ 4,072	¥ 68	¥ (2,594)	¥ 6,023
Assets	¥ 918,625	¥ 92,195	¥ —	¥76,037	¥19,986	¥ (61,310)	¥1,045,533
Depreciation	50,734	1,819	—	2,723	1,565	(384)	56,457
Capital expenditures	123,120	1,565	—	8,151	3,070	(3,984)	131,922
1998							
Operating revenues:							
Outside customers	¥ 315,066	¥ 31,165	¥ —	¥11,963	¥ 9,578	¥ —	¥ 367,772
Intersegment	77	24,942	—	3,571	7,887	(36,477)	—
Total	315,143	56,107	—	15,534	17,465	(36,477)	367,772
Operating expenses	303,348	54,661	—	10,594	17,563	(34,939)	351,227
Operating income (loss)	¥ 11,795	¥ 1,446	¥ —	¥ 4,940	¥ (98)	¥ (1,538)	¥ 16,545
Assets	¥ 680,238	¥ 56,089	¥ —	¥53,772	¥16,520	¥ (45,932)	¥ 760,687
Depreciation	49,496	1,676	—	1,856	1,779	(497)	54,310
Capital expenditures	96,420	1,817	—	2,450	2,704	(2,594)	100,797

	Thousands of U.S. dollars						
2000	Telecommu-nications	Construction of communications facilities	Transmission capacity sales	Real estate	Other	Elimination or corporate	Consolidated
Operating revenues:							
Outside customers	**$3,598,755**	**$1,489,094**	**$331,123**	**$132,471**	**$ 83,519**	**$ —**	**$ 5.634,962**
Intersegment	**2,122**	**44,840**	**—**	**50,755**	**120,330**	**(218,047)**	**—**
Total	**3,600,877**	**1,533,934**	**331,123**	**183,226**	**203,849**	**(218,047)**	**5,634,962**
Operating expenses	**3,643,566**	**1,561,217**	**238,708**	**137,669**	**201,311**	**(231,245)**	**5,551,226**
Operating income (loss)	**$ (42,689)**	**$ (27,283)**	**$ 92,415**	**$ 45,557**	**$ 2,538**	**$ 13,198**	**$ 83,736**
Assets	**$8,743,094**	**$1,509,340**	**$ —**	**$771,453**	**$228,661**	**$(503,991)**	**$10,748,557**
Depreciation	**638,321**	**24,028**	**—**	**28,113**	**24,916**	**(5,972)**	**709,406**
Capital expenditures	**816,717**	**86,991**	**—**	**72,368**	**32,594**	**6,698**	**1,015,368**

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

The overseas sales for the year ended March 31, 2000, were ¥159,617 million ($1,505,821 thousand) and accounted for 26.7% of consolidated net sales. In 1999 and 1998, overseas sales were ¥67,117 million and ¥28,370 million, and accounted for 16.5% and 7.8% of consolidated net sales, respectively. Overseas sales include offshore sales by the Company and its consolidated subsidiaries.

14. Operating Expenses

Operating expenses for the years ended March 31, 2000, 1999 and 1998, comprised the following:

	Millions of yen			*Thousands of U.S. dollars*
	2000	1999	1998	**2000**
Telecommunications business:				
Traffic and commercial	**¥156,493**	¥105,370	¥ 77,876	**$1,476,349**
Maintenance	**29,998**	25,512	28,028	**283,000**
Administrative	**12,721**	17,151	23,995	**120,009**
Research and development	**8,231**	2,383	3,794	**77,651**
Depreciation (Note 3)	**61,427**	50,354	49,046	**579,500**
Communication network charges	**107,751**	108,612	111,855	**1,016,519**
Other	**5,430**	5,134	7,456	**51,227**
	382,051	314,516	302,050	**3,604,255**
Construction of communications facilities	**156,736**	65,527	31,201	**1,478,642**
Other services	**49,643**	19,655	17,976	**468,329**
	¥588,430	¥399,698	¥351,227	**$5,551,226**

15. Restructuring and Impairment of Assets

In the year ended March 31, 2000, in connection with the plan to improve the management structure, the Company recorded restructuring charges.

The major components of the restructuring charges are as follows:

	Millions of yen	*Thousands of U.S. dollars*
Disposal of property and equipment	¥19,018	$179,415
Write-down of investment securities	724	6,830

16. Subsequent Events

On June 29, 2000, the Company's stockholders approved the payment of a year-end cash dividend of ¥25 per share or a total of ¥2,006 million ($18,925 thousand) to stockholders of record at March 31, 2000.

On May 15, 2000, the Company signed an agreement to merge with DDI Corporation (DDI) and IDO Corporation (IDO) on October 1, 2000, aiming at solidifying its position as a core telecommunications provider in Japan. Both of DDI and IDO are Type-1 Telecommunications Carriers and provide leased circuit services, cellular phone services and other information services.

Outline of merger

1 . Surviving company

DDI Corporation

2 . Merger share ratio

1) Proportional allocation of shares

One share in DDI (par value per share: ¥5,000) will be issued per 92.1 shares in KDD (par value per share: ¥500). One share in DDI (par value per share: ¥5,000) will be issued per 2.9 shares in IDO (par value per share: ¥50,000).

2) Reasons for merger ratios

The merger ratio for DDI and KDD was calculated based on the average closing price on the Tokyo Stock Exchange over the six months up to December 15, 1999 of shares issued by each company. The ratio in the case of IDO, which is not listed, was determined based on the results of valuation by a third-party agency, and finalized by merger agreement among the parties.

3) Number of new shares issued through merger

Par value ordinary shares: 1,345,260.60 (par value per share: ¥5,000)

(Calculated on the basis of the capital stock of KDD and IDO as of December 15, 1999.)

Summarized financial information of DDI and IDO is presented below:

	Millions of yen	
	DDI	IDO
For the year ended March 31, 2000:		
Operating revenues	¥1,525,953	¥479,234
Net loss	(10,468)	(993)
As of March 31, 2000:		
Total assets	¥1,999,008	¥507,657
Total liabilities	1,726,254	488,785

	Thousand of U.S.dollars	
	DDI	IDO
For the year ended March 31, 2000:		
Operating revenues	$14,395,783	$4,521,075
Net loss	(98,755)	(9,368)
As of March 31,2000:		
Total assets	$18,858,566	$4,789,217
Total liabilities	16,285,415	4,611,179

Report of Independent Public Accountants

To the Stockholders and the Board of Directors
of KDD Corporation

We have audited the accompanying consolidated balance sheets of KDD Corporation (a Japanese corporation), and subsidiaries at March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of KDD Corporation and subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except as noted in the following paragraph.

As explained in Notes 2, in the year ended March 31, 2000, KDD Corporation adopted new Japanese accounting standards for consolidation and equity method accounting, income taxes and research and development costs. Also, as referred to in Note 3, KDD Corporation changed the method of accounting for sales of right to use circuit effective April 1, 1999 and the method of depreciation effective April 1, 1998, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

June 29, 2000
Tokyo, Japan

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

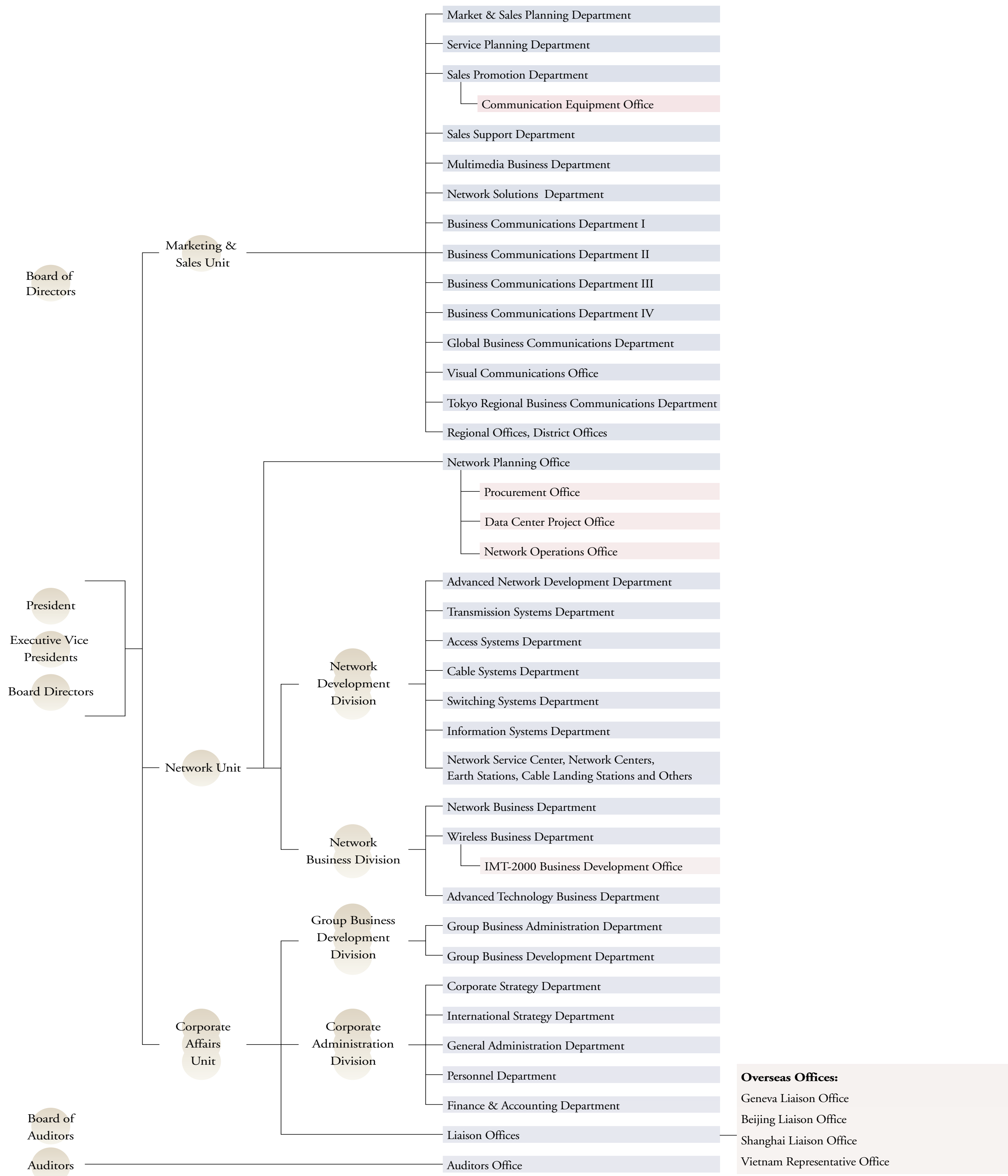
Board of Directors and Auditors

(As of June 29, 2000)

Title	Name	Positions and Areas of Responsibility
President	**Tadashi Nishimoto**	Head of Corporate Affairs Unit
Executive Vice President	**Shinji Sakai**	Head of Marketing & Sales Unit
Executive Vice President	**Kinji Iwasaki**	Head of Network Unit
Board Director	**Tadashi Kashiwamura**	Marketing & Sales Unit - Service Planning Department, Sales Promotion Department, Sales Support Department
Board Director	**Nariyoshi Tanaka**	Network Unit - Head of Network Business Division Corporate Affairs Unit - Head of Corporate Administration Division, Finance & Accounting Department
Board Director	**Yasuo Hirata**	Marketing & Sales Unit - Multimedia Business Department Network Unit - Head of Network Development Division
Board Director	**Ryoichi Shimojima**	Assistant to President - Special Assignments Network Unit - Network Development Department - Cable Systems Department
Board Director	**Kazuyuki Tsukada**	Marketing & Sales Unit - Business Communications Department I-VI, Global Business Communications Department, Visual Communications Office, District Offices
Board Director	**Tsunekazu Matsudaira**	Corporate Affairs Unit - Corporate Administration Division - International Strategy Department
Board Director	**Nobuo Nezu**	Network Unit - Network Development Division - Advanced Network Development Department, Transmission Systems Department, Network Center, Cable Landing Station, Earth Station
Board Director	**Hitomi Murakami**	Network Unit - Network Business Division - Advanced Technology Business Department
Board Director	**Yasuhiko Ito**	Network Unit - Network Development Division - Access Systems Department
Board Director	**Noriyuki Kandori**	Corporate Affairs Unit - Head of Group Business Development Division
Auditor	**Masatsugu Hashiba**	
Auditor	**Hideki Saitoh**	
Auditor	**Toshiaki Terui**	

Organization Chart

(As of June 29, 2000)



Overseas Offices and Consolidated Subsidiaries

(As of June 29, 2000)

Overseas Offices and Subsidiaries

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Level 28, The Chifley Tower, 2 Chifley Square,
Sydney N.S.W. 2000, Australia
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Consolidated Subsidiaries

KDD Development Corp.
Capital: ¥4,404 million
Leasing of offices, stores and homes; development, operation and administration of athletic facilities

Telecomet International Inc. Group
Capital: ¥1,440 million
(Overseas subsidiaries: United States, United Kingdom)
Consulting, development, sales and maintenance of telecommunications and information processing systems and equipment

KDD Communications Inc.
Capital: ¥1,820 million
Internet and other multimedia services

KDD Submarine Cable Systems Inc.
Capital: ¥5,685 million
Consulting; integration, construction and technological development of optical-fiber submarine cables

KDD Sogo Services Co., Ltd.
Capital: ¥160 million
Security services; operation and administration of buildings and peripheral facilities

Kokusai Cableship Co., Ltd.
Capital: ¥100 million
Construction and maintenance of submarine cables

KDD Shoji Co., Ltd.
Capital: ¥300 million
Sales and leasing of office equipment, telecommunications facilities and sundries

Kokusai Marine Engineering Corp.
Capital: ¥50 million
Marine surveying, construction and consulting

TELEHOUSE International Corporation of America
Capital: $45 million
Consulting, maintenance and management of leased floor space for computer equipment

TELEHOUSE International Corporation of Europe Ltd.
Capital: £47 million
Secure IT housing, telecommunications facilities management, and dealing-room and back-office disaster recovery

TELEHOUSE Management Ltd.
Capital: £100
Administration of buildings

TELEHOUSE Holdings Ltd.
Capital: £31 million
Holding company of companies which secure IT housing, telecommunications facilities management, and dealing-room and back-office disaster recovery

TELEHOUSE (Suisse) S.A.
Capital:SF500000
Housing services for communications equipment, management and maintenance of leased floor space for computer equipment

KDD America, Inc.
Capital: $63 million
Marketing of international telecommunications services in America

Satellite Phone Japan Co., Ltd.
Capital: ¥16,000 million
Satellite-based portable telephone services

KDD Europe Ltd.
Capital: £31 million
Marketing of international telecommunications services in Europe

KDD Telemarketing Inc.
Capital: ¥200 million
Telemarketing of telecommunications services; customer services

KDD Research and Development Laboratories Inc.
Capital: ¥2000 million
Research and development of new technologies and sales of products developed

KDD (Tokyo Central) Sales Inc.
Capital: ¥490 million
Telecommunications services sales agency

KDD (Tokyo South) Sales Inc.
Capital: ¥490 million
Telecommunications services sales agency

KDD (Tokyo West) Sales Inc.
Capital: ¥490 million
Telecommunications services sales agency

KDD (Osaka) Sales Inc.
Capital: ¥490 million
Telecommunications services sales agency

KDD TELECOMET Deutschland GmbH
Capital: DM21 million
Consulting, development, sales and maintenance of telecommunications and information processing systems and equipment

KDD France S.A.S.
Capital: FF26 million
Marketing of international telecommunications services

KDD-CONOS A.G.
Capital: DM12 million
International and domestic telecommunications services offered in Germany

Swiftcall Ltd.
Capital: £7 million
International and domestic telecommunications services offered in the United Kingdom and the Republic of Ireland

Swiftcall Centre Ltd.
Capital:IP100
International and domestic telecommunications services in Ireland

Swiftcall Long-Distance Ltd.
Capital:IP2
International and domestic telecommunications services in Ireland

Notes: 1) KDD has four special-purpose subsidiaries: TELEHOUSE International Corporation of Europe Ltd., KDD America, Inc., Satellite Phone Japan Co., Ltd., and KDD Europe Ltd.
2) KDD Belgium S.A/N.V., which was a consolidated subsidiary as of March 31, 2000, is currently in liquidation.
3) KDD Estate Inc. and KDD Telecom Network Co., Ltd., both of which were consolidated subsidiaries as of March 31, 2000, merged with KDD Development Corp. and KDD Network Systems Ltd. respectively.

Corporate Data

(As of March 31, 2000)

Name	KDD Corporation
Head Office	KDD Bldg., 2-3-2 Nishi-Shinjuku, Shinjuku-ku, Tokyo 163-8003, Japan
Telephone	+81-3-3347-7111
Commencement of Operations	April 1, 1953
Capital	¥61,777,196,000
President	Tadashi Nishimoto
Number of Employees	5,289

Trends in Capital

Date	Event	Capital
March 1953	Company established	¥3.3 billion
July 1963	First allocation	¥6.6 billion
October 1972	Second allocation	¥13.2 billion
January 1976	Third allocation	¥16.5 billion
July 1983	Fourth allocation; first public offering	¥33.9 billion
December 1998	Merged with Teleway Japan Corporation	¥40.5 billion
December 1999	Allotment of new shares to third parties	¥61.8 billion

Principal Stockholders (Top 10) (As of March 31, 2000)

Rank	Stockholder's Name	Stockholding (thousand shares)	Percentage of Ownership (%)
1	Ministry of Posts and Telecommunications Mutual Aid Association	7,058	8.79
2	Toyota Motor Corporation	6,425	8.00
3	Nippon Telegraph and Telephone Corp.	6,423	8.00
4	Singapore Telecommunications, Ltd.	4,011	4.99
5	Nippon Life Insurance Company	3,707	4.62
6	The Dai-ichi Mutual Life Insurance Company	2,007	2.50
7	The Industrial Bank of Japan, Ltd.	1,777	2.21
8	The Sakura Bank, Ltd.	1,754	2.18
9	The Dai-Ichi Kangyo Bank, Ltd.	1,719	2.14
10	The Bank of Tokyo-Mitsubishi, Ltd.	1,706	2.12
	Total of Top 10	36,587	45.60

Note: Shares held are truncated to the nearest thousand. Totals for the top 10 stockholders were calculated by including all shares and then truncating to the nearest thousand. Percentage of ownership has been truncated to the nearest hundredth.

KDD Corporation

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