KDDI CORPORATION

Ubiquitous Solution Company

Annual Report 2005. Results for the year ended March 31st, 2005

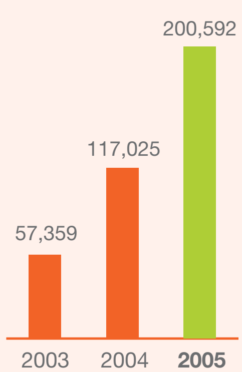
Financial highlights

KDDI Corporation and Consolidated Subsidiaries

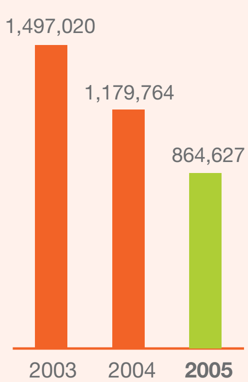
	Millions of Yen			Millions of U.S. dollars
Years ended March 31, 2003 - 2005	2003	2004	**2005**	**2005**
Total operating revenues	¥ 2,785,343	¥ 2,846,098	**¥ 2,920,039**	**$ 27,191**
Operating income	140,653	292,105	**296,176**	**2,758**
Income before income taxes and minority interests	110,726	192,101	**293,531**	**2,733**
Net income	57,359	117,025	**200,592**	**1,868**
Capital expenditure (cash flow basis)	246,200	253,257	**342,391**	**3,188**
(At year end)				
Total assets	2,782,039	2,639,581	**2,472,322**	**23,022**
Interest-bearing debt	1,497,020	1,179,764	**864,627**	**8,051**
Total shareholders' equity	894,711	1,009,391	**1,162,192**	**10,822**
Per share data (yen and U.S. dollars)				
Net income	13,561	27,748	**47,612**	**443.36**
Cash dividends	2,095	3,600	**6,900**	**64.25**

Notes: 1. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the rate of ¥107.39 = $1, the approximate exchange rate on March 31, 2005.
2. Interest-bearing debt consists of short-term loans and current portion of long-term loans, long-term loans, bonds and long-term accounts payable.

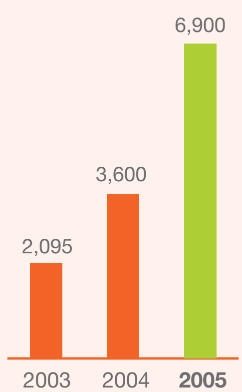
Net income (millions of yen)



Interest-bearing debt (millions of yen)

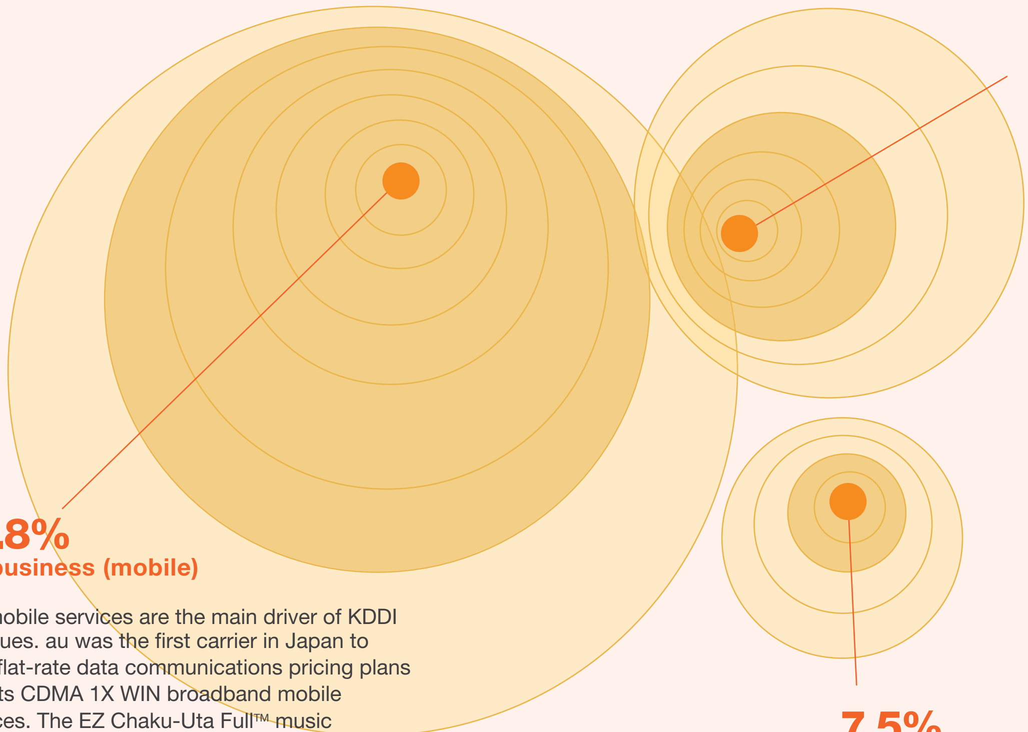


Cash dividends (yen)



Contents

01 Financial highlights
03 Introduction of KDDI
11 Message to shareholders and investors
15 Special feature: Our mid- to long-term FMC strategy
19 Overview of operations
au business
Fixed-line business
TU-KA business
Special topics
29 CSR activities
31 Technology and R&D
33 Financial section
58 Corporate data



19.3%
Fixed-line business

This segment centers on fixed-line telephone and Internet access services. The two main marketed services are KDDI Metal Plus (high-quality discount IP telephony) and KDDI Hikari Plus (fiber-optic broadband services).

67.8%
au business (mobile)

au mobile services are the main driver of KDDI revenues. au was the first carrier in Japan to offer flat-rate data communications pricing plans with its CDMA 1X WIN broadband mobile services. The EZ Chaku-Uta Full™ music download service is especially popular.

7.5%
TU-KA business (mobile)

This segment comprises 2G cellular phone services provided by three wholly owned TU-KA subsidiaries. Targeting seniors in particular, TU-KA offers inexpensive, simplified services based around voice telephony and email.

Percentages refer to simple proportions of total KDDI Group operating revenues attributable to each segment.

The only company in Japan which provides broad-based communications infrastructure based on mobile systems combined with fixed line-networks.

Disclaimer Regarding Forward-Looking Statements

Statements contained in this annual report concerning plans, strategies, beliefs, expectations or projections about the future, and other statements other than those of historical fact, are forward-looking statements based on management's assumptions in light of information currently available and involve risks and uncertainties. Actual results may differ materially from these statements. Potential risks and uncertainties include, but are not limited to, domestic and overseas economic conditions; fluctuations in currency exchange rates, particularly those affecting the U.S. dollar, euro and other overseas currencies in which KDDI or KDDI Group companies do business; and the ability of KDDI and KDDI Group companies to continue developing and marketing services that enable them to secure new customers in the communications market—a market characterized by rapid technological advances, the steady introduction of new services and intense price competition.



Unlock the future

3G handsets by au offer more than just communication and multimedia content on the move.

KDDI pioneered 3G mobile services in Japan, enabling au subscribers to go beyond voice or e-mail and use 3G handsets as advanced communications tools to access varied content. New developments turn the latest models into “personal gateways,” giving phones network-based functions as commuter passes, keys, credit cards or wallets. Soon your au mobile will be totally indispensable!



Capture the mood

Your favorite music is available at the click of a button.

The EZ Chaku-Uta Full™ music download service gives you access to great songs anytime, anywhere—all at CD quality. And music is just for starters: au mobiles can access e-books, games, videos, cartoons and other entertainment. An au mobile is not a handset so much as a lifestyle-enriching accessory.



Get hooked up

KDDI provides highly reliable internet connection services through cutting-edge technology

KDDI's broadband services leverage state-of-the-art IP backbone technology to provide fixed-line subscribers with reliable, high-quality communications at low cost. Based on fiber-optic connections, the ultrafast KDDI Hikari Plus service offers a triple menu of Internet access, telephone services and multichannel TV. The age of broadband has truly arrived.



Smooth communication, anytime, anywhere

Fixed and mobile convergence promises a future of freedom in communications.

KDDI is working to realize the next evolution in telecoms: networks that merge wire and wireless to render the distinction irrelevant. KDDI sees fixed-mobile convergence as a key advance in the development of the ubiquitous network society. As an integrated carrier that can supply fixed-line and mobile services, KDDI aims to be a "Ubiquitous Solution Company," providing high-value-added, low-cost services that afford customers the ultimate in convenience.

Tuned into change

We are forecasting better growth patterns in the coming years with infrastructure that enables ubiquitous technological progress.

The year ended March 2005 marked the completion of the midterm business plan that we formulated in the wake of the merger that formed KDDI. In this sense, we signed off on the post-merger reforms while establishing a clear platform for future growth. In this report, I focus on the strong results we have achieved so far and outline our business strategy.

Post-merger performance targets achieved

KDDI was formed in October 2000 through a three-way merger of the telecom carriers DDI Coporation, KDD Corporation and IDO Corporation. The aim of the merger was to leverage the strengths of each company to forge integrated telecom services spanning all fixed-line and mobile segments. Through the provision of high-value-added information services that combine security and convenience, we aimed to contribute to a more affluent society in every sense.

We formulated a four-year midterm business plan after the merger to allow sufficient time to develop the strong business base that would ensure high earnings plus healthy finances. We set three main structural reform objectives for the KDDI Group to realize this ambition: (1) business concentration and selectivity to create a platform to support sustained growth; (2) construction of a streamlined business structure to realize full merger synergy benefits; and (3) strengthening of the financial base to ensure high profitability and stable growth.

Japan's telecoms industry has changed significantly over the past four years. High ADSL penetration has made broadband Internet access commonplace, while mobile handsets have acquired highly advanced functions amid the launch of 3G services.

The success of our au mobile business has driven our early growth, in part due to our marketing of 3G services ahead of rival carriers. A combination of advanced services plus flat-rate tariffs for data communications has enabled au to generate high rates of subscriber growth since the November 2003 introduction of CDMA 1X WIN mobile broadband handsets. The popularity of these services has made au the leading brand in terms of share of net increase in subscribers in Japan for two years running.

Our focus on concentration and selectivity has prompted us to scrap obsolete equipment, dispose of underutilized assets and institute structural reforms at subsidiaries. In October 2004, we transferred the DDI Pocket PHS-related operations to a consortium that we formed with the Carlyle Group and Kyocera Corporation. This served to focus the mobile operations of the KDDI Group on cellular phone services. In March 2005, we made the three firms in the TU-KA group, which offer 2G cellular phone services, into wholly owned subsidiaries. This move was aimed at creating an organizational structure with stronger and swifter decision making to boost operational efficiency and to realize a more dynamic business strategy. Another significant move was the establishment of KDDI Network & Solutions Inc. in November 2004 through the merger of four subsidiaries to target the corporate sector. We transferred fixed-line service sales functions for small- to medium-sized corporate clients from the parent company to KDDI Network & Solutions to enable the firm to offer a broad range of fixed-line communica-

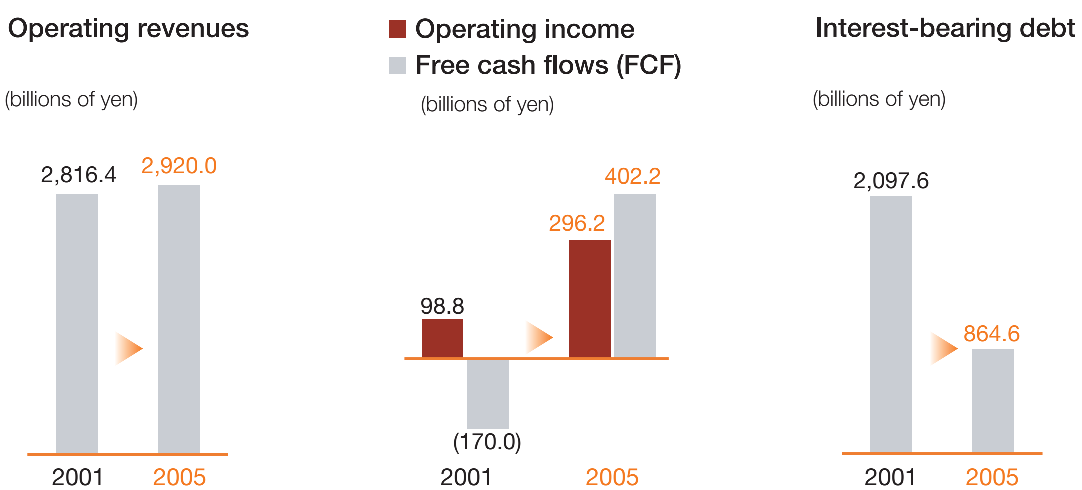
Tadashi Onodera, President and Chairman

tions solutions. Elsewhere, in March 2005 we liquidated KDDI Submarine Cable Systems Inc. in view of the lack of prospective demand for undersea cable-laying services.

We achieved all the financial performance goals in the post-merger midterm business plan. Consolidated revenues and profits established record highs in fiscal 2004 (the year ended March 31, 2005). Operating revenues increased 2.6% year-on-year to ¥2,920.0 billion, and operating income rose 1.4% to ¥296.2 billion. Compared with fiscal 2000 (the year ended March 2001), our operating revenue performance in fiscal 2004 was 3.6% better, but operating income was about three times higher. Free cash flows have also improved substantially since the merger, going from a ¥170.0 billion outflow in fiscal 2000 to a ¥402.2 billion inflow in fiscal 2004. Significant positive cash flows helped us achieve the most important post-merger target, namely debt reduction. By March 2005 we had reduced consolidated interest-bearing debt to ¥864.6 billion, comfortably below the plan's target of ¥1,000 billion.

Based on these results, we increased returns to share-

Post-merger performance



The results for KDD and IDO in the first half of the year ended March 31, 2001 were simply added to each consolidated results.

holders substantially. Including a special dividend of ¥1,000 to commemorate the 20th anniversary of the founding of DDI, we raised total dividends for the year to ¥6,900 per share, compared with ¥3,600 in fiscal 2003. This raised the unconsolidated payout ratio to 21.2%, above the 20% level targeted in our plan. Our policy remains to pay a stable dividend that reflects continued growth.

An intensely competitive market

Since the merger in 2000, we have achieved good operating results, largely by implementing structural reforms even within an intensely competitive business environment. I believe, however, that competition will only intensify.

1) Serious competition in 3G cellular phone services intensifying

Rivalries in 3G mobile services are intensifying just as growth in the Japanese market is begining to taper off. The advent of mobile number portability (MNP) in fiscal 2006 will create a system in which customers will easily be able to switch carriers without having to change numbers. We also expect competition to heat up in the coming years as new market entrants commence operations. For our au operations, these changing conditions represent a good opportunity to reinforce and expand the customer base.

2) Fresh competition in fixed-line market

In February 2005, we launched the KDDI Metal Plus service. This service uses the latest Internet Protocol (IP) technology to create an efficient, low-cost network that offers high-quality phone connections to customers at discounted prices. With KDDI Metal Plus, we have broken NTT's monopoly on the basic monthly fee levied for a fixed-line connection. Other companies are offering similar services, and NTT is trying to preserve its market share by cutting prices. These various developments have injected a serious dose of competition into the fixed-line sector within the Japanese telecoms industry. Subsidiaries of electric power utilities and cable TV companies are also trying to make inroads into the market by offering FTTH (Fiber to The Home) services using fiber-optic connections. In all, it adds up to a highly competitive business environment.

Three key phrases for new growth

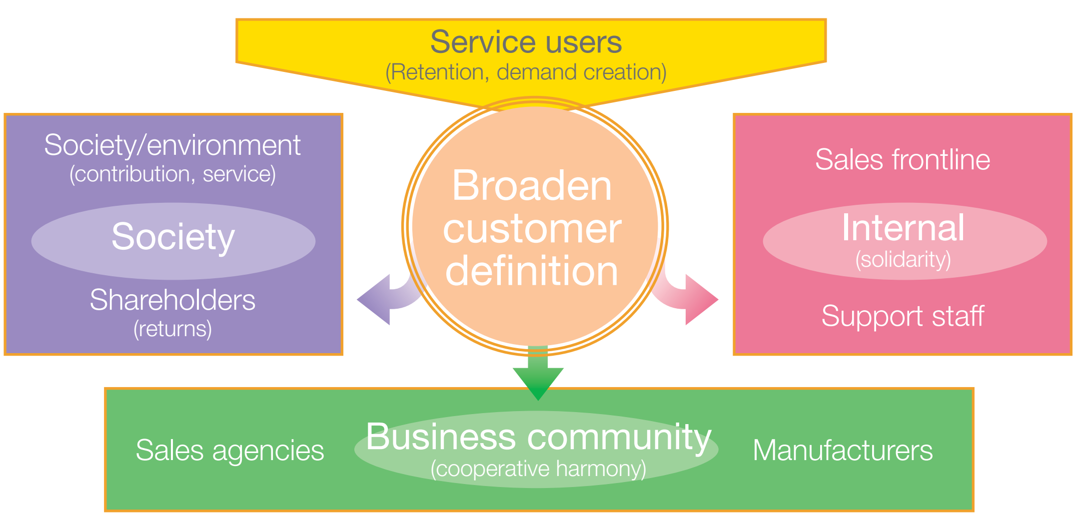
I believe the phase of KDDI's post-merger consolidation is finished. Now we must move on to a new phase of generating new and higher earnings. Three phrases summarize the stance we need to take at KDDI to ensure further growth by expanding the customer base within a harshly competitive business environment.

Realizing TCS

Our first objective is to frame the KDDI service mindset in terms of realizing total customer satisfaction (TCS). In this respect, besides those who use KDDI services, we also include all stakeholders within "customers": shareholders, sales agents, manufacturers, employees and the rest of society. I believe we can engineer major qualitative improvements in our services if we listen to the varied opinions of our customers and take on board what they want.

In an August 2004 survey conducted by "J.D. Power Asia Pacific 2004 Japan Mobile Telephone Service Satisfaction Study^{SM}", KDDI placed first in the mobile phone sector. I believe that our high consumer ranking was the result of a good balance between handsets, content and price and the provision of easy-to-use, convenient services.

Total customer satisfaction (TCS)



The result also showed that KDDI is perceived as a carrier that considers customers important. We must continue to build on this success by offering truly customer-oriented services and by reinforcing a TCS-grounded approach.

Strategy and Speed

In order to raise performance and outstrip our rivals amidst an ever-changing business environment, it is imperative to swiftly implement a specifically targeted strategy for each function and each competitor. In other words, I think we need to become more aggressive in our business stance. DDI, one of the predecessors of KDDI, was from its inception a venture firm whose goal was to shake up the Japanese telecoms industry. I think we need to readopt that pioneering corporate culture to reinvigorate our business. A clear-cut strategy and speed of response are the keys to generating new growth.

Promoting FMC services

With the expansion of the overall market stalled, our strategy for growth at KDDI is focused primarily on capturing greater market share. The strengths of KDDI extend across both the fixed-line and mobile sectors. I believe that we can differentiate our brand most effectively by offering new FMC (Fixed and mobile convergence) services that combine the advantages of both. We are developing this strategy from a number of angles.

The first part of this FMC strategy was unveiled in May 2005, when we began billing customers that subscribe to KDDI fixed-line and au mobile services with a single invoice. We also offered these customers a discount for using the joint-billing service. Based on this example, we plan to offer more combined FMC-style services to individual subscribers. In the corporate market, we also plan to offer telecom solutions that combine fixed-line and mobile coverage. Mobile services for corporate customers remain an underdeveloped segment, and we intend to boost our share of the corporate market through FMC initiatives.

As we move toward the so-called "ubiquitous network society," I believe that the distinction between fixed line and mobile will fade. Convergence will create a unified means of access to digital content and related services. KDDI aims to be a leading carrier in this new world as a single integrated telecoms operator in Japan, offering convenient services for the entire household based on a contract that includes fixed-line and mobile services. I see this strategy helping us to expand market share and to build the KDDI customer base. Please refer to the feature section of this annual report for more details of the possibilities that FMC opens up and of our vision for FMC services from KDDI.

Corporate governance and the TCS mindset

I regard corporate governance as an extremely important topic in the context of our business activities. At KDDI, we have tried to accelerate decision making through the introduction of an executive officer system. We have also promoted efficiency and transparency via the corporate auditor system, which provides effective oversight of senior management. With the April 2005 enactment of the Personal Information Protection Low in Japan, we have tightened up our data management and compliance controls to ensure that the confidentiality of customer records is protected at all times. We also have established the Corporate Risk Management Division to provide coordinated supervision and administration of all the risks we face across the company, and we have stepped up efforts to strengthen related systems. However, what I believe is most critical in all these matters is respect for customers. We must continue to work to create a TCS mindset throughout our organization to build trust in the KDDI name and to increase brand value. I believe that deepening the TCS mindset and strengthening corporate governance are intimately linked as key obligations that will result in our greater competitiveness-not to mention higher enterprise value.

In closing, I want to express my heartfelt and sincere appreciation for the support of all our shareholders and other stakeholders in helping us to achieve so much in the past four years. We will continue working to offer high-quality, convenient services to earn the trust and satisfaction of all our customers. KDDI aims to become Japan's preeminent "Ubiquitous Solution Company." As we strive to achieve this goal, I ask for your continued support and understanding.

July 2005

T. Onodera

Tadashi Onodera
President and Chairman

Toward sustainable growth:

Our mid- to long-term FMC strategy

KDDI's strategy for remaining competitive over the midterm to long term is based on leveraging its strengths as Japan's only integrated carrier to provide services that combine fixed-line and mobile communications. KDDI aims to become Japan's leading supplier of FMC services by developing innovative solutions ahead of the competition. By capturing a large share of this emerging market, KDDI plans to put its business on a strong foundation for sustained growth.

Time to broaden the customer base

Since its establishment by merger in October 2000, KDDI has implemented major structural reforms and focused resources on au mobile operations, in the process generating high earnings growth. But to sustain such growth and expand the scale of the business, the time has come for a new strategy. Rather than focusing on increasing revenues and making operations more profitable, the next phase of growth demands a focus on broadening the customer base.

The next two or three years are projected to be a period of major change in the telecommunications industry, with the introduction of new systems and services. KDDI looks at these market shifts not as a threat but as a significant opportunity to gain customers by developing attractive new services. In other words, the time has come for KDDI to adopt a more aggressive business strategy.

KDDI for the entire household

KDDI sees FMC services as a critical element in achieving its goal. Since KDDI is the only integrated carrier in Japan that has both fixed-line and mobile capabilities, FMC is the logical path for future service development. It could also become an important differentiator for KDDI.

The numbers of subscribers using KDDI's three main consumer services are approximately 19.5 million au mobile users, 8.7 million MYLINE users (fixed-line telephony) and 2.9 million DION users (Internet access). At present, only a small proportion of the KDDI user base subscribes to all three of these services. KDDI aims to expand its customer base by persuading the users of one service to subscribe to the other KDDI services. The strategy is to offer these customers FMC services that combine a fixed-line connection for the home with mobile services. Such a combination would deliver extra convenience plus an attractive mix of content and services. The ultimate aim is make KDDI the core supplier of telecommunications services for the entire household.

FMC development steps

KDDI envisions the development of FMC services in three steps.

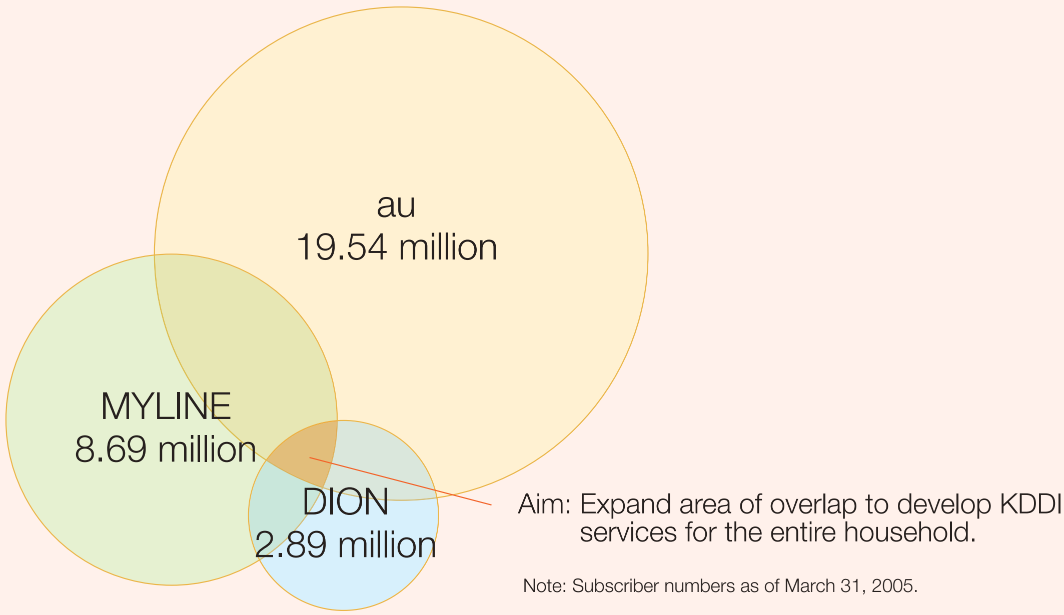
Step 1 (May 2005 —)

The initial stage involves the introduction of optional consolidated billing for au and fixed-line services. KDDI began offering this service to customers in May 2005. Besides receiving a discount, customers who opt for consolidated billing can also accumulate points each month based on total usage. KDDI has offered this service to corporate clients in the past and has since adapted its systems to extend the option to residential customers as well.

KDDI has also begun cross-selling operations between its au and fixed-line networks. Service personnel in au shops are marketing the KDDI Metal Plus fixed-line service and the DION ADSL Internet connection service from over 2,000 retail locations across Japan. This service network is a key point of contact with customers. Cross-selling and marketing activities promise to maximize synergy and to utilize this asset to the best effect.

Step 2 (in planning)

In the second step, KDDI plans to introduce bundled charges. This will involve integrating pricing tariffs and policies across all fixed-line and mobile services. For instance, a household with at least a certain number of au phones might be entitled to discounts on the basic au charge and on the fees for fixed-line and Internet connections. Alternatively, families using both



Note: Subscriber numbers as of March 31, 2005.

au mobile and KDDI fixed-line services could benefit from reduced call charges for the family. KDDI is studying various marketing and policy options based on targeting residential users at the household and family level.

The au service already offers family discounts, and families with multiple handsets receive discounts on basic fees and call charges. With the advent of FMC services, such discounts would be extended to include a household's fixed-line connection, providing families with more incentives to use KDDI for all their telecommunications needs.

Step 3 (in planning)
In the final step, KDDI plans to offer users special handsets and new services that provide a fusion of fixed-line and mobile capabilities. The distinction between the two would disappear, enabling customers to access high-speed data services and high-quality multimedia services anywhere at any time. This ubiquitous broadband solution represents the full incarnation of FMC services. Development work continues.

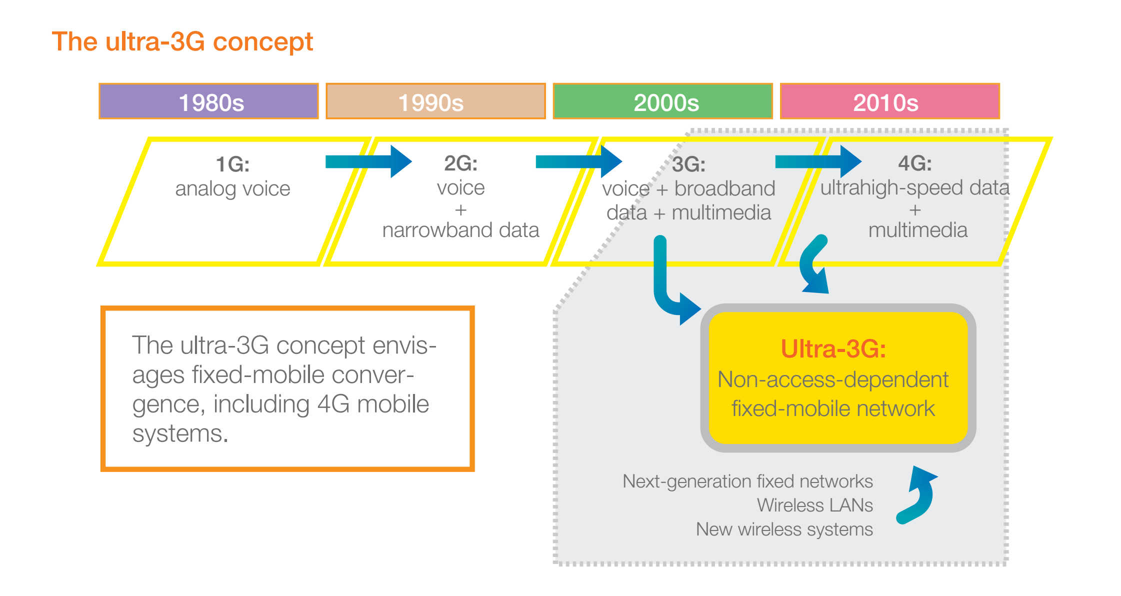
Mobile content and computers linked through Duogate portal

KDDI is already operating an FMC service that provides a computer link to mobile content available on the au network. In April 2005, Duogate Inc., a joint venture between KDDI and Excite Japan Co., Ltd., launched a portal site for PCs under the Duogate name. This is a new kind of portal site that can be accessed through a computer from home or office or through a mobile handset when on the run. It combines the convenience of mobile phone accessibility and the security of a closed network (for electronic payments) with large-screen formats designed for viewing on a computer monitor. By offering users the twin advantages of mobile access and computer-screen viewing, Duogate provides customers with a highly useful and convenient FMC service.

A lot of popular web content accessible using a computer is already available on au EZweb. Besides the main portal sites, EZweb users can access auction, electronic payment and e-commerce services. The main limitation with mobile

FMC development steps

May 05 ~	Step 1	Consolidated fixed-mobile billing, cross selling
(in planning)	Step 2	Bundled fixed-mobile charges
(in planning)	Step 3	Development of FMC handsets and new services



access is the restricted size of the handset screen for viewing web pages. The dual link to the Internet through the Duogate portal site compensates for this.

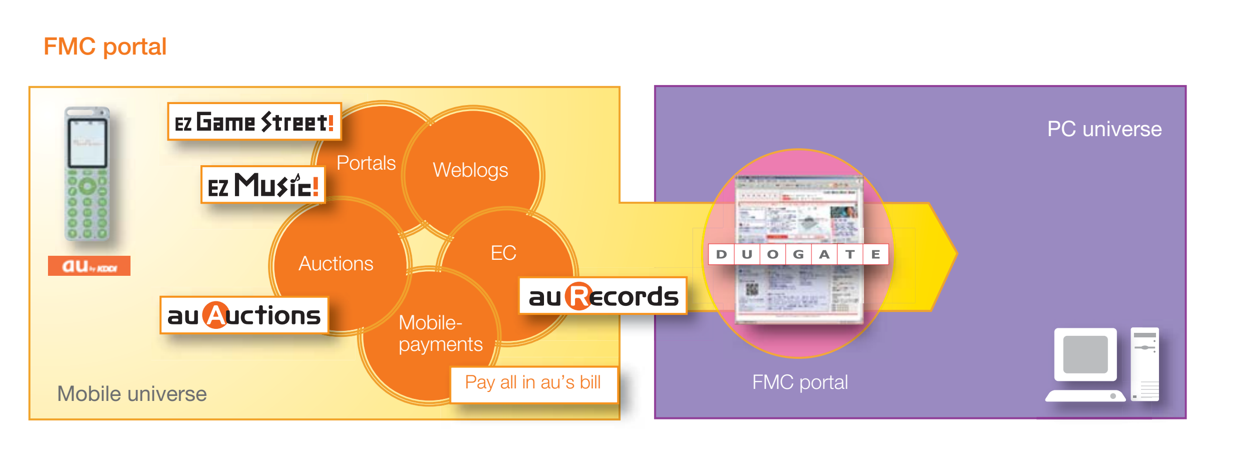
Duogate provides an example of the benefits that FMC services can offer. For instance, suppose you want to participate in an online auction. First, you access the portal site through a computer connection to get the benefit of the larger screen when checking items. Next, you send the auction site your mobile e-mail address so that you can participate in the auction fully by entering bids at any time. Compared with participating purely through a home computer, this service is highly convenient because it ensures you do not miss any bidding opportunity.

A number of other services are also available through the Duogate portal. These include search functions for official EZweb sites, access to special e-mail composition symbols normally restricted to mobile users and the ability for subscribers to create weblogs while on the move.

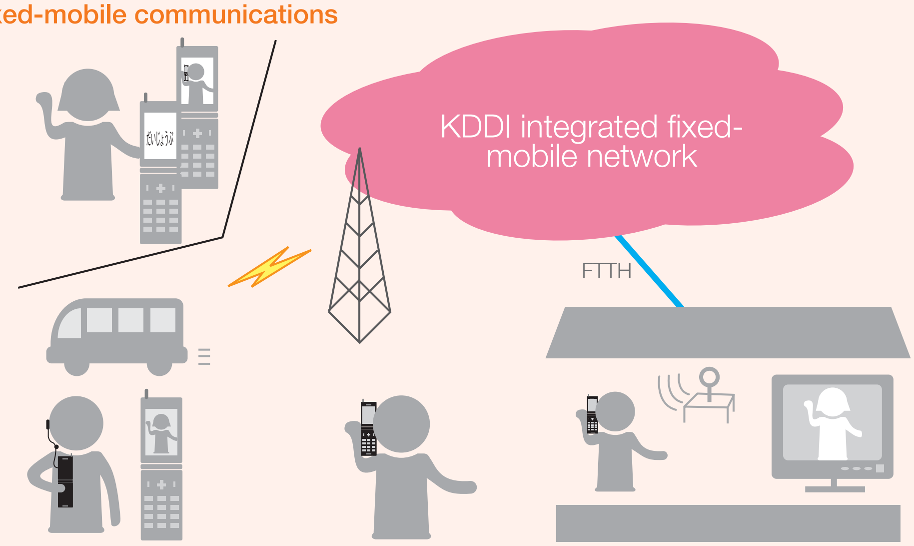
Linking au services with the PC universe through the Duogate portal creates a more attractive package—although the underlying concept is very different from that of other computer portal providers to adapt popular Internet content for mobile access. The value of the Duogate service is further enhanced by the flat-rate data-communication tariffs that au offers users. The application of FMC vision to the development of au content and related services thus promises to create a key point of differentiation while enabling KDDI to gain market share.

Organizational changes to ensure FMC promotion

KDDI has made management and other organizational changes to promote a smooth transition to FMC. The au mobile and fixed-line operations have been managed as completely separate profit centers—an arrangement that naturally makes it difficult to develop services that straddle both seg-



Seamless fixed-mobile communications



Receive a videophone message while on a bus and send a text reply.

Use the same handset at home or outdoors.

Use your TV at home for a videophone connection.

ments. In April 2005, KDDI made a number of far-reaching revisions to create a new system aimed at promoting the development of FMC services.

First, KDDI appointed Nobuhiko Nakano, an executive vice president, who was head of the au business sector, to a new position overseeing sales for both the au and fixed-line operations. Mr. Nakano also leads a new division created to conduct market research and other marketing activities for both the mobile and fixed-line sectors. A department within this division has been established to develop new FMC services.

Similar organizational changes have been made to KDDI's technology division to promote FMC. Executive vice president Yasuhiko Ito has been appointed to a new position overseeing all technical development, including mobile and fixed-line operations. KDDI expects the key to the development of FMC services to lie in the integration of backbone networks, so that the question of whether a service is mobile or fixed line eventually becomes irrelevant. There is also the issue of how to make the best use of important new technologies, such as IPv6. The role of KDDI's technology development is set to increase.

Going beyond 3G

KDDI unveiled its vision of the next stage beyond 3G in June 2005. Based on the company's franchise in fixed-line and mobile services, KDDI's ultra-3G concept revolves around a fully integrated non-access-dependent network system that spans mobile and fixed-line capabilities. This vision is compatible with current 3G mobile and wireless LAN technologies and such new wireless systems as WiMAX, as well as fixed-line technologies as ADSL and FTTH. Its rationale also represents a direct evolution toward 4G mobile services that are faster than 3G. The ultra-3G conceptual framework visualizes the provision of fully integrated FMC services, which will be at the core of KDDI's future lineup. KDDI is preparing for the start of construction of an ultra-3G network, which is scheduled for 2007.

In the ultra-3G world, FMC services will provide seamless communications whether at home or outside—making the fixed-mobile distinction irrelevant. For instance, a person could carry on a conversation on the same handset after leaving home and then getting on a bus. While on the bus, the same handset could be used as a videophone, with the added capability of sending text replies. The conversation could continue without annoying other passengers. At home, the same handset could be linked to a large-screen television for video-phone calls. In effect, fixed-line and mobile services will have morphed into a single communications service.

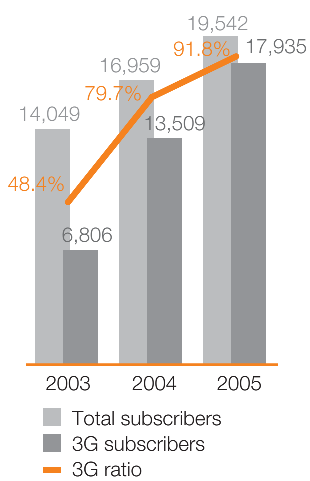
FMC presages the ubiquitous network society

KDDI sees the promotion of FMC leading to highly evolved communications services that provide people with ubiquitous access to other people and content on various networks. KDDI believes that the advent of this "ubiquitous network society" is not that far in the future. And KDDI, in its steadfast position as a ubiquitous solution company, plans to play a leading role in creating this new world of communications.

au business

Leading the way

In tune with the needs of tomorrow, enhanced performance and sleek design bring the future to the now.



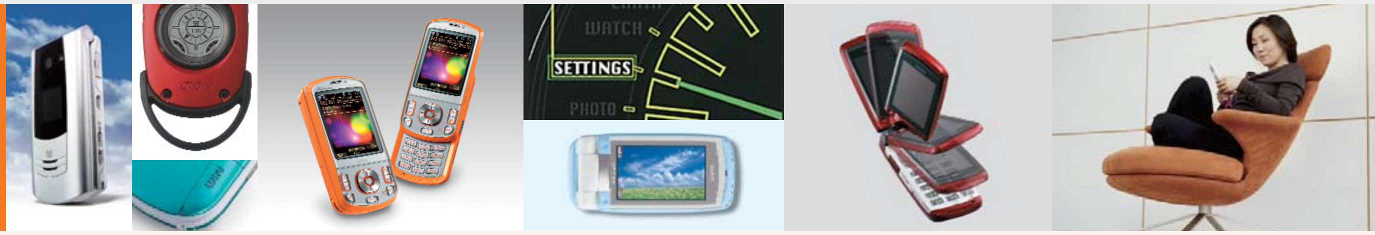
Overview of services

KDDI's au business operates CDMA mobile services throughout Japan. The introduction of 3G services under the CDMA 1X and CDMA 1X WIN brands has underpinned strong au subscriber growth in the past few years. Advanced services and attractive handset design have made au a popular choice of carrier relative to the competition. Over 90% of the au subscriber base had migrated to 3G services by the end of March 2005.

Using connection speeds of up to 2.4Mbps based on CDMA2000 1x EV-DO technology, au has leveraged the efficiency of its network infrastructure to offer EZweb Internet connection services and a series of other advanced data services to CDMA 1X WIN subscribers. In November 2004, au introduced the EZ Chaku-Uta Full™ service, the first in Japan to allow users to download and play entire songs. Total downloads passed the 10 million mark on June 15, 2005.

Flat-rate tariffs for mobile e-mail and EZweb services have been a major factor contributing to the popularity of CDMA 1X WIN. KDDI extended this pricing to all packet-switched data communications, renaming the "EZ Flat" tariff "Double Teigaku." This pricing plan is proving extremely popular with a broader range of users.

For the second consecutive year, au secured the largest share (50.4%) of net additions, with a net rise of 2.58 million subscribers. Total subscriber numbers reached 19.54 million



CDMA2000 1x EV-DO technology is specifically designed to realize high-speed data communications.

at the end of March 2005, increasing au's overall share of users to 22.5%. The number of CDMA 1X WIN subscribers increased steadily to 3.25 million, accounting for one-sixth (16.6%) of the au total by the year-end.

Market trends and strategy

Growth in the Japanese mobile phone market has dwindled in recent years. The net increase in subscribers in the year ended March 2005 was 5.13 million, a fall of 13% compared with the previous year. Competition is set to intensify over the next few years with the introduction of mobile number portability (MNP) in fiscal 2006 . Several firms also have plans to enter the market.

The key to the success of the au business to date has been a carefully cultivated balance between attractive handset design, 3G content and low service usage fees for subscribers. This combination has created competitive products and strong brands. The benefits derived from the technical superiority of CDMA2000 1x EV-DO promise to remain a major point of differentiation for au's CDMA 1X WIN services as the competition starts to heat up.

Connection technology optimized for high-speed data communications

CDMA2000 1x EV-DO technology is specifically designed to handle high-speed data communications. Voice and data traffic are carried on different frequencies with au mobile phone services, in direct contrast to the W-CDMA services of rival carriers, which carry all data over the same frequency bands. This major difference results in extremely high transmission efficiency with au services, enabling users to enjoy the benefits of a system that is optimized for bandwidth.

Fast network construction

CDMA2000 1x EV-DO technology also builds on one of the main strengths of the CDMA protocol: backward compatibility. So the upgrade of the network infrastructure from cdmaOne and CDMA2000 1x to CDMA2000 1x EV-DO only involved the installation of small amounts of new equipment. This allowed KDDI to extend the service area virtually nationwide within a short period after launch, contributing to the swift growth in subscribers numbers.

au business

EZweb contents

EZ「着うたフル」 EZ「着うた」	*EZ Chaku-Uta Full™* *EZ Chaku-Uta®* *(ringtones/songs)*	These services allow downloads of CD-quality songs and music clips. The most popular of all au services, they have boosted au's reputation as a mobile music carrier. The EZ Chaku-Uta Full™ service enables download and handset playback of single tracks by leading recording artists, while EZ Chaku-Uta® enables users to download 15 to 30-second song clips for use as ringtones.
EZチャンネル	*EZ Channel*	With the CDMA 1X WIN service, this feature functions as a broadcasting medium for original programs featuring full audio and video playback, as well as text. Selected programs can be downloaded automatically overnight for customers to view at their leisure. Movie previews, music chart rankings and quiz programs are popular selections from the 30 channels available.
EZムービー	*EZ Movie*	This service allows users to download high-quality short movies onto handsets. The CDMA 1X WIN service permits downloading of movie clips of up to three minutes in length. The service also supplies Flash® animations.
EZアプリ	*EZ Appli*	This service allows users to download games and other software programs. A variety of applications for the BREW™ platform (by Qualcomm) are available to enhance the functionality of handsets.
EZナビウォーク	*EZ Navi Walk* *(GPS navigation)*	This street-navigation service based on GPS technology turns the phone into the portable equivalent of a car navigation system. The screen image scrolls automatically depending on walking speed and can be enlarged or reduced. Users are alerted that they have reached a target destination by an audio signal or handset vibration.
EZブック	*EZ Book*	A service that enables e-books such as novels and manga (comics) to be downloaded onto handsets. With the EZ Book Land! portal, users can search for, download and even purchase books.

Flat-rate prices made possible by EV-DO technology

The technological characteristics also result in a network design with extremely low data communication costs on a per bit basis. This has allowed au to offer CDMA 1X WIN users fixed-rate pricing plans ahead of other carriers.

Technical superiorities have enabled au to offer customers high-value services with the shift to 3G. KDDI plans to maintain these points of differentiation with other mobile carriers by continuing to offer more data-intensive content and related services, such as EZ Chaku-Uta Full™, games, video and books, within a flat-rate pricing system.

Flat-rate tariffs encourage broader range of content

Third-party providers supply all the content offered to au subscribers. The introduction of flat-rate tariffs for CDMA 1X WIN users has encouraged more customers to try content-based services, in the process widening the potential user base for providers. The success of CDMA 1X WIN has, in turn, spawned new content. au receives part of the content-related fees as a commission.

Portal site improvements

Fixed-rate pricing has turned mobile digital content into something that users regularly access on a daily basis. Daily hits have risen dramatically on the portal site for EZweb services through which au subscribers gain Internet access. In response, au has upgraded the portal site to further broaden the usage of content. The improved site features a genre-based menu that uses Flash® animation to give users an attractive and easy-to-navigate way of choosing between content options, along with advertising.

Since searching for the content to download can be time-consuming on the small screen of a mobile handset, KDDI created separate portal sites for the most popular genres. These genre portal sites also feature links that enable users to purchase related merchandise online. For instance, the EZ Book Land! portal site allows users to download portions of electric books to test and compare the contents and then purchase the desired model. Similarly, the EZ Music! site enables users to conduct searches for songs and music clips to download using the EZ Chaku-Uta® or EZ Chaku-Uta Full™ services and to buy music CDs. As with other content-based services, KDDI gives subscribers the option of having the cost of ordered merchandise billed along with au service charges. KDDI sees such features as enhancing the connection between au mobile services and real-world products, thus boosting usage frequency and expanding the non-communications revenue base.

au Design project

Born in 2001, the concept of the au design project was to adopt a completely fresh approach to handset development by leading from a design perspective. The project has yielded a number of concept models and commercial handsets through collaborations with outside designers. The year ended March 2005 saw the release of two new models, talby (October 2004) and PEИCK (February 2005). The project is not merely a design showcase—it also plays a major role in influencing all au handset and product designs, thereby enhancing the value of the product range and the brand. Its mission remains to design the future of the mobile handset.

talby (creative design: Marc Newson)

PEИCK (creative design: Makoto Saito)

Mobile solutions boosting sales to corporate sector

In the consumer market, most people have only one handset. To expand the au subscriber base and build a broader business, KDDI is targeting the corporate market with mobile phones that boast a range of innovative mobile solutions and other special features tailored to the needs of corporate users. In this sector, handsets are sold bundled with the services as part of mobile solutions packages.

The use of the BREW® application platform makes it easy to customize au mobile phones for specific company requirements. Sales are increasing, particularly in those corporate sectors where mobility is a core part of business. For instance, salespeople can use au mobile phones to schedule and manage appointments or to compile and send reports for various administrative purposes by using the BREW® application to design specific report formats. Alternatively, the GPS function is an effective way of determining the location of staff, which could be important in an emergency.In response to the Personal Information Protection Law that came into force in Japan in April 2005, which laid down strict provisions on the obligations of companies to keep all personal information confidential, KDDI introduced a security measure for the personal data recorded in address books on mobile phones. As part of KDDI's Business Convenience package, administrators have the ability to send a message from an office-based PC that erases any address book data on an employee’s phone if the phone is lost. KDDI continues to develop other service functions to boost mobile phone sales to corporate users.

Office Wise provides internal phone solution for corporate customers

KDDI is also aggressively pursuing the large-scale corporate mobile solutions market. Under the Office Wise service launched in November 2004, the installation of equipment in an office building allows all communications on registered au mobile phones inside the building or within a designated area to be charged at a flat rate. The system is compatible with internal PBX exchanges, allowing all conversations between mobile phones and system extensions to be charged at the same flat rate. KDDI is marketing this system to companies with relatively large operating bases. But the system is flexible enough to accommodate individual employees' au phones. Given the low cost barriers for business owners, KDDI expects this service to contribute strongly to its business growth in the corporate sector.

Fixed-line business

Creating greater network efficiencies

In the forefront of the industry, KDDI offers state-of-the-art services and solutions in the fixed-line arena at a price that's hard to beat.

Overview of services

Our fixed-line business includes voice telephony services as well as broadband Internet access and other services delivered to individuals and corporate users over a wire connection.

February 2005 marked the launch of KDDI Metal Plus, a new fixed-line service that uses the latest IP technology to create a high-quality, efficient network at low cost. This combination enables users to benefit from much lower prices than previously available. The service marked an advance for KDDI in that the company supplies the line instead of NTT—although users are still able to use the same phone number assigned to the original NTT line. The service mainly targets customers who need home telephone service only, but it also offers optional ADSL or dial-up Internet connections.

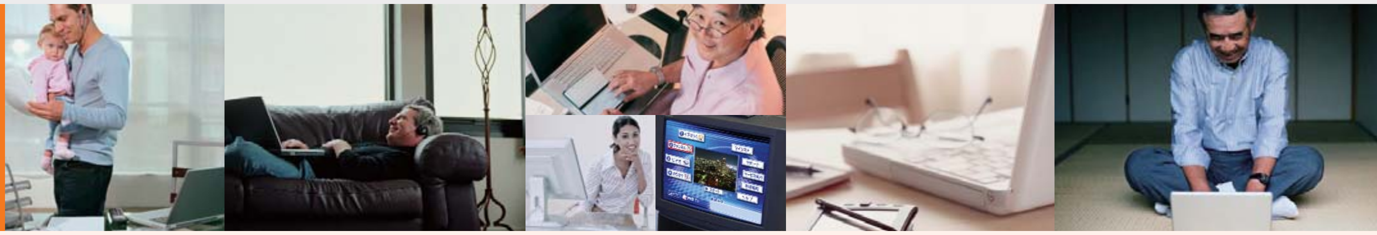
KDDI offers the KDDI Hikari Plus service to customers that want a high-speed Internet access service. Marketed to residential customers in condominiums and detached homes, KDDI Hikari Plus combines Internet access and IP telephone services with multichannel television broadcasts through a single optical fiber connection. Although ADSL has become a popular means in Japan of gaining a broadband Internet connection at home, KDDI sees FTTH as the true future of broadband. KDDI expects the penetration of optical fiber connections to start rising rapidly in Japan within the next few years. As with KDDI Metal Plus, KDDI provides the line instead of NTT for KDDI Hikari Plus, but users can keep the same number.

The KDDI Metal Plus service is also marketed to small businesses. For corporate customers with larger operations that generate substantial voice and data traffic, KDDI provides telecommunications connections with various added functions. The full corporate menu includes data center services, IP-VPN and Ether-VPN services (used for intranet development) and original systems consulting and development. Solution design is optimized to precise requirements.

Market trends and strategy

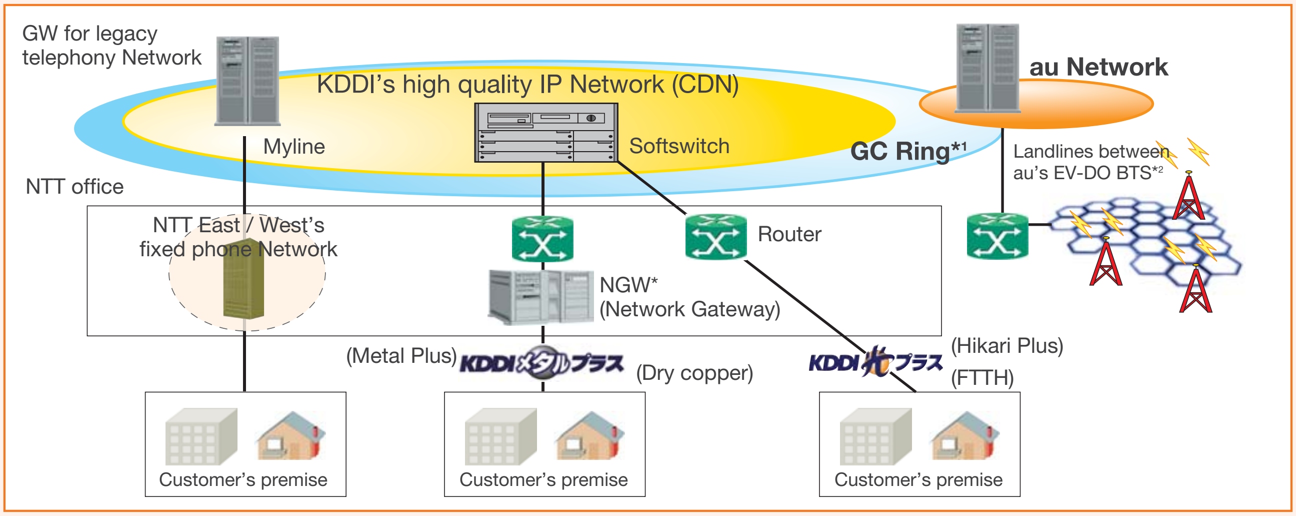
Traditionally, NTT has enjoyed a monopoly in the fixed-line telephone services market, with other carriers being limited to providing relay connections. The introduction of the MYLINE service in May 2001 sparked fierce competition for market share by allowing users to register preferred carriers. However, the share of each carrier became virtually frozen after the service was introduced. Market competition dropped off markedly as a result, and the market dwindled in size further as the usage of mobile phones and e-mail continued to rise. In addition, steep access charges paid to NTT put significant pressure on profit margins.

Deregulation has since opened up new business opportunities in the sector by allowing carriers to lease capacity cheaply from NTT. This, in turn, has enabled carriers other than NTT to offer consumers an alternative fixed-line telephone service featuring lower basic service charges. KDDI Metal Plus is KDDI's version of this. Rivals are responding by



Expand CDN (Content Delivery Network)

CDN: an efficient backbone for KDDI Metal Plus and KDDI Hikari Plus



1. GC Ring: Network of local switch stations 2. BTS: Base Tranceiver Station

developing similar services, while NTT is trying to preserve its market share by reducing the basic monthly fee. These moves have resulted in a revival of competition within a shrinking market.

The broadband market is still undeveloped in Japan. ADSL remains the leading broadband access technology to date, but the penetration of faster FTTH services of higher quality has been delayed by a lack of suitable content. KDDI's strategy is to focus initially on using advanced IP technology services to supply low-priced telephone services (KDDI Metal Plus) to the large base of residential customers who are happy with just a phone connection. KDDI plans to shift greater resources toward the marketing of FTTH services (KDDI Hikari Plus) once the signals indicate that broadband penetration is ready to take off.

KDDI's strengths

The KDDI Metal Plus service primarily targets residential customers who only want a telephone connection. In this respect, it differs little from the traditional model for fixed-line telephony. One major point of differentiation with rival services arises from KDDI's use of the latest IP technology, which results in a highly efficient network that can support high call quality but still keep tariffs low. KDDI has also begun offering consolidated billing for KDDI Metal Plus and au mobile phone services. This is the first stage of a plan to develop greater convergence between fixed-line and mobile services. Such FMC solutions would be unique to KDDI, enabling the company to raise its market share in the fixed-line segment.

The KDDI Metal Plus service makes use of the CDN (Content Delivery Network) backbone, an advanced IP network that was originally constructed to support the development of the KDDI Hikari Plus service. The service area of the CDN is now being extended for KDDI Metal Plus to include the whole of Japan. This network can also support KDDI Hikari Plus services with minimal investment in upgraded equipment. KDDI is therefore able to pursue a flexible sales strategy, since resources can easily be shifted to the increased marketing of KDDI Hikari Plus.

The central importance of the CDN to fixed-line operations is set to increase as KDDI implements its plan to convert the entire network to IP technology by March 2008. KDDI is also promoting a shift toward network sharing between au mobile phone and fixed-line operations. By achieving FMC over the entire network, KDDI plans to create greater network efficiencies that will ultimately translate into more-competitive services.

TU-KA business

Wide-ranging appeal

Simplicity over sophistication. A focus on the basics has uncovered a new market niche that KDDI has cornered.

Overview of services

KDDI's TU-KA business is operated by three cellular-phone subsidiaries that provide PDC-based services in the three Japanese regions of Kanto (Tokyo and surrounding areas); Tokai (central Japan)l and Kansai (Osaka, Kyoto, Kobe). Unlike au, the TU-KA business does not possess a 3G license, and concentrates on supplying low-priced 2G mobile services. TU-KA users also have access to e-mail, Internet, ringtone melody download and other basic content-based data services through EZweb. The service is targeted mainly at those users who are interested in a simple mobile phone service based around voice and e-mail.

In the year ended March 2005, KDDI augmented the TU-KA mobile handset lineup with an ultrasimplified model, the TU-KA S. This handset even does away with the conventional liquid-crystal display in the name of simplicity, providing users with a device that purely functions as a phone. Other TU-KA handset features that target the need for simplicity and clarity in phone-based communication include a bone-conductive speaker system and ultraslim handsets just 15 mm thick (achieved through the elimination of bulky advanced functions). This functional simplicity, aimed at satisfying specific user needs, clearly differentiates the TU-KA business from au.

Market trends and strategy

The Japanese mobile phone market mainly features competition between different 3G services, and most of the handsets on display in shops are 3G models. Convenient, function-packed and fashionable, 3G cellular phones are highly popular among youthful users. For many elderly people, however, such phones offer unnecessary functions that make them difficult to use. Since 2003, TU-KA has adjusted its strategy to target customers who want a simpler mobile communications solution by focusing exclusively on basic models built around 2G phone and e-mail functions. This strategy involves minimizing and simplifying all the aspects of products and services, from billing fee structures and handset operation to the instruction manual.

This change in strategy manifests itself a shift in the TU-KA customer base. The proportion of TU-KA subscribers in the 50 to 69 age bracket is rising compared with other users. While users under 40 years of age have adopted 3G, many older users are embracing the simplicity of TU-KA. And older users tend to want to use the mobile phone handset they buy for a much longer period than the average younger customer, who switches models regularly. This lowers handset costs for KDDI. Capital investment is also lower because there is no

The idea was simple. And it's caught on.

Model	TU-KA S
Dimensions (WxHxD, mm)	48 x 121 x 18 (approx.)
Weight (g)	87 (approx.)
Continual-use battery life (mins.)	240 (approx.)
Standby battery life (hrs.)	840 (approx.)

TU-KA S handset

need to upgrade the network beyond 2G. In the year ended March 2005, TU-KA was able to generate higher profits despite a slight net decline in its subscriber base. By its nature, the TU-KA business acts as a cost-efficient cash cow.

TU-KA S handset designed for seniors

In November 2004, TU-KA launched a new cellular handset that is the epitome of the ultrasimplification strategy. The TU-KA S handset is a portable phone designed for voice communications only. Dispensing even with such commonplace functions as a directory and call register, the specifications include only those things that are strictly necessary for voice telephony. The design concept was to make it as simple to use as a standard home phone—making even an instruction manual unnecessary. The standby battery life is extremely long, at around 840 hours (the typical figure for au WIN handsets is 250–300 hours). Other senior-friendly features include a prominent speaker to make it easy to hear the other person's voice and large buttons to aid in dialing.

Looking completely unlike anything else on the market, the TU-KA S handset has attracted a lot of attention since its launch, contributing to a near doubling in total unit sales volume at TU-KA during the initial sale period. On a net basis, monthly subscriber numbers rose for the first time in three years in the first three months of the new handset being on the market.

In fact, the TU-KA S concept was shelved in the early years of KDDI because it was assumed that such a model would not sell in a function-obsessed market. Extensive market research, including questionnaire surveys in neighborhoods with high elderly residential concentrations, subsequently found that there was strong demand for such a simplified phone. Market development prospects for TU-KA appear good given the low birth rates and steadily growing population of seniors in Japan.

Special topics

2005 Aichi World Exposition

The first world exposition of the 21st century opened in Aichi Prefecture, Japan, on March 25, 2005. Under the theme “Nature’s Wisdom,” the event showcases a vision from Japan of advanced technologies and new systems to support the society of the future, focusing in particular on environmental, IT and social aspects.

Apart from co-sponsoring events at the World Expo 2005 in Aichi, KDDI is playing a central role in providing solutions through IT and ITS technology together with other leading Japanese companies.

Attraction reservations

For the first time ever at an EXPO, visitors are able to reserve pavilion viewing times and events at least a day in advance using a PC or mobile phone. The system also allows same-day reservations on special terminals outside each pavilion. The reservations system developed by KDDI applies to 17 pavilions and a number of related events.

Support navigation

The support navigation service provides visitors that register at the official EXPO site with up-to-the-minute information on traffic, transportation, crowds and events, enabling people to better plan their journey to and from the EXPO. The data provided by visitors is also useful for event managers in coordinating site and local transportation needs. KDDI played a key role in the overall construction and operation of these systems.

AI-MATE hybrid communicator

The AI-MATE is a hybrid communications device that combines phone, e-mail, browser and address book functions. It is used for many purposes at the event, including communications between EXPO staff, guiding visitors, checking event reservations and providing site management information. Demonstrations of advanced IT also feature the product. KDDI’s solution includes a special center for monitoring the on-site usage of the approximately 5,000 AI-MATE handsets (including all downloads to the devices) and controlling handset inventory.

Event sponsorship

KDDI created the official site and information center for the World Expo 2005 in Aichi to transmit important information regarding the event. KDDI operates the futuristic multi-source, multi-device information center by gathering, editing and sending a diverse array of information to various media, such as PCs, mobile phones, large imaging monitors and TVs. Handling admission reservations and providing supporting navigation are other roles that KDDI is undertaking at the expo.

Official site and information center

KDDI operates the official site and information center, providing all EXPO-related information to visitors and the media. This information is fully integrated with the reservation and support navigation services.

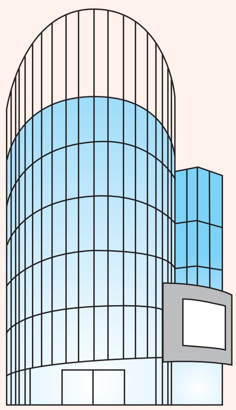


KDDI DESIGNING STUDIO

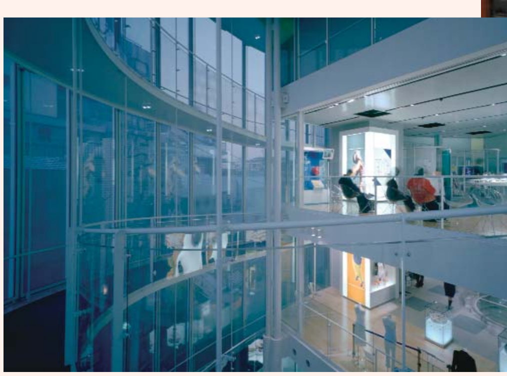
The KDDI DESIGNING STUDIO opened in Harajuku in March 2005 as a central corporate communications facility with marketing and collaborative functions. Housed in a striking building in the capital's bustling center of creative fashion, the studio offers visitors the opportunity to enjoy trying out au and other KDDI services. The choice of location at the cutting edge of youth culture in central Tokyo emphasizes the desire on KDDI's part to discover the future possibilities of communications together with customers. The studio will help to make KDDI's corporate slogan "Designing the Future" a reality.

Floor Introduction

- 5th — Relaxation Studio
  Café on the rooftop with gardening
- 4th — Collaboration Studio
  Room for seminars and workshops
- 3rd — Creation Studio
  A space to experience the future of KDDI that includes virtual videos and next-generation handsets
- 2nd — Presentation Studio
  Showcases various au mobile phones and provides chance to experience content first-hand, such as EZ Chaku-uta®
- 1st — Communication Studio
  Event stage for live talk shows



Exterior


Interior

Corporate governance and social contribution

The KDDI Group aims to increase the level of its satisfaction of customers, including other stakeholders, through a solid commitment to total customer satisfaction (TCS) in the provision of customer-oriented services and other corporate activities. KDDI regards corporate governance as a key issue that underpins the adoption of a TCS mindset within the company, and that itself is supported by ongoing efforts to improve legal and regulatory compliance and strengthen risk management. KDDI also regards environmental protection activities and international cooperation efforts as key elements of its corporate social responsibility (CSR) activities.

Corporate Governance

Corporate governance framework

KDDI has been actively engaged in improving its corporate governance systems since its establishment. The introduction of an executive officer system in June 2001 clarified the separation of management oversight and business execution roles, contributing to faster decision making and more clearly delineated lines of authority and responsibility within a streamlined senior management system.

The Board of Directors has 11 members, including two nonexecutive directors. Its statutory function is to oversee important decisions and the execution of business policies. KDDI adheres to the corporate auditor governance model stipulated in the Japanese Commercial Code. This provides for the additional oversight of management decisions by the Board of Auditors, which has four members, including three external auditors. The corporate auditors attend meetings of the Board of Directors and other important business meetings. Working in cooperation with the independent auditors and the staff of an internal audit division, the corporate auditors conduct audits of KDDI and all major domestic and overseas subsidiaries based on the auditing policies and plans decided by the Board of Auditors. These functions provide a key check on business activities, particularly with respect to the execution of corporate duties by directors.

Compliance

KDDI's business activities rely on the trust of customers in the communications services provided by the company. KDDI views full compliance with laws and regulations as a critical element in the establishment and maintenance of trust with customers, including other stakeholders. The company abides by a strict code of business ethics formulated in January 2003 and aims to improve its levels of compliance and ethical behavior over time through in-house training programs for executives and employees. The company has established a central business ethics committee to oversee compliance-related issues that affect the KDDI Group. A help line for employees to report incidents or discuss such issues has also been set up. Compliance systems aim to ensure the early identification of any problems and to resolve issues quickly and effectively.

Stronger risk management controls to protect customer privacy

KDDI established the Corporate Risk Management Division for the KDDI Group in April 2004. Along with reinforcing the Internal Auditing Division, this move aimed to strengthen internal compliance controls, particularly concerning all matters related to the privacy of customer information. This division works to identify and manage all risks affecting the KDDI Group in an integrated way while improving risk management activities across all divisions through internal training and education programs. Following the enactment of the Personal Information Protection Law in Japan in April 2005, KDDI introduced much stricter controls on the use of personal customer information across all operations, including divisions that have no direct interaction with customers. The Information Security Committee in the Corporate Risk Management Division, a cross-functional internal consultative body, continues to oversee a variety of preventative network security measures designed to stop any security breaches involving customer data. These initiatives include steps to upgrade internal regulations and to revise business processes so that such breaches never occur.

Disclosure and investor relations

KDDI continually aims to upgrade its internal systems to ensure, the accurate and fair disclosure of information for shareholders and investors in a timely manner. In November 2004, KDDI formulated its IR Basic Policy, which it makes available for investors on its web site. This policy describes KDDI's basic stance on IR-related issues and explains the disclosure framework. KDDI's Disclosure Committee's mandate is to boost management transparency and ensure a consistently fair and honest approach to the release of quarterly and annual financial data through intensive deliberation. In February 2005, KDDI submitted a written oath to the Tokyo Stock Exchange committing the company to the accurate and timely disclosure of information for investors.

The effectiveness of KDDI's IR activities was confirmed in fiscal 2004 when KDDI was awarded for the second consecutive year for Excellence in Corporate Disclosure as one of the leading Japanese companies in the telecommunications sector in terms of the quality of disclosure. In particular, this award reflects the proactive stance of senior management on IR issues. Going forward, KDDI plans to focus on upgrading its IR activities to increase further the level and quality of its disclosure.

Social Contribution

Environmental protection activities

The KDDI Group recognizes the importance of fulfilling its duty as a responsible global corporate citizen to protect the Earth's irreplaceable environment so that it can be inherited by future generations.

Environmental oversight and management standards

The KDDI Environment Committee meets regularly to formulate companywide environmental policies and plans. Divisional and site eco-committees have been appointed throughout the company to ensure the smooth implementation of central plans and to oversee day-to-day environmental activities at the local level. The program of ISO 14001 certification under way throughout the KDDI Group is one manifestation of the company's environment-related efforts. The first KDDI site gained ISO 14001certification for its environmental management system in December 2002. A total of 17 divisions had completed certification procedures by March 2005.

Recycling of mobile handsets

As a member of the Mobile Recycling Network (a recycling initiative in Japan that brings together mobile carriers and the manufacturers of handsets and PHS products), KDDI collects and recycles post-use cellular and PHS handsets regardless of brand or manufacturer. It also gathers such related peripherals as batteries and chargers. Despite the fact that there were over 87 million cellular handsets in Japan as of the end of March 2005 (equal to a diffusion rate of around 68%), intense competition between service providers ensures the continual sale of new mobile phones with increasingly advanced functions. Annual unit sales remain in the 40–50 million range, which translates to the replacement of around half of all handsets each year. The eco-friendly disposal of handsets is thus a critical objective to promote Japan's evolution into a fully recycling-oriented society. KDDI's handset recycling service to customers is designed to maximize the effective use of limited resources.

モバイル・リサイクル・ネットワーク
携帯電話・PHSのリサイクルにご協力を。

Logo of the Mobile Recycling Network

Eco-friendly purchasing

KDDI actively promotes purchasing policies that favor eco-friendly products and suppliers. These "green procurement" policies aim to encourage a preferential internal shift in the purchasing of all goods and products and of engineering and other services toward items and companies with minimal environmental impact. Through this program, KDDI hopes to strengthen links with other firms that also value environmental harmony and thus magnify the scale of effects beyond the actions of any single company. KDDI formulated the KDDI Eco-friendly Purchasing Guidelines in February 2003. These apply to all goods, services and suppliers.

Operation of solar power generating systems

KDDI is introducing renewable energy systems in an attempt to reduce overall energy consumption and to lower greenhouse gas emissions due to operating activities. In January 2005, the company commenced the operation of a new solar power generation system at the KDDI Parabola Hall, a visitor center at Yamaguchi Earth Station, the largest satellite telecommunications installation in Japan. Electricity supplied by the solar power generation system powers the lighting and air-conditioning systems at the visitor center. Visitors can also gain a better appreciation of the system through real-time power generation displays.

Since 2003, KDDI has been installing solar-powered base stations in the au mobile network to extend service areas in a more eco-friendly fashion. KDDI is also studying the adoption of other renewable energy forms with low ecoimpact.

A satellite telecommunications facility in Yamaguchi, Japan

International cooperation activities

Telecommunications technologies can play a valuable role in the growth of developing nations. KDDI aims to play an active part in stimulating this process. Besides sending substantial numbers of technical specialists and other personnel to assignments in developing countries to help foster the transfer of technological expertise in the telecommunications field, KDDI has also accepted a cumulative total of more than 5,000 trainees from various countries in Asia, Africa and the Pacific Ocean. Trainees can use the technical knowledge gained during training programs in their home countries, thereby contributing to the development of the local telecommunications sector. KDDI also provides assistance to programs sponsored by international organizations, such as the International Telecommunication Union, that aim to improve communications in developing countries. Another aspect of KDDI's international cooperation efforts is a financial assistance program for employees participating in the overseas volunteer corps organized by the Japan International Cooperation Agency.

Aiming to bridge the digital divide

In the year ended March 2005, KDDI organized 10 international training courses on information and communications technologies, accepting a total of over 80 trainees from 37 countries. KDDI also participated in service field trials and other development projects organized by international bodies that aim to bridge the digital divide in the rural regions of developing countries. Expanding on past successes in Vietnam and Malaysia, one project involved the construction on the island of Lombok in Indonesia of a wireless IP network using the CFO-SS system, which is based on broadband wireless LAN technology developed by researchers at KDDI. This network can support remote education initiatives by providing communications links between schools and universities. The project has attracted attention as a potential model for improving school education in the remote regions of developing nations. It promises to contribute to the ongoing development in such countries of education, medicine and other fields that stand to benefit from the latest information and communications technologies.

Developing life-enhancing wireless connections in Lombok

Technology and R&D activities supporting KDDI's business

Improved technical edge of EV-DO

CDMA 1X WIN services from au make use of a specialized packet-switched data communications protocol known as CDMA2000 1x EV-DO. This technology optimizes the data transmission rate in real time depending on the strength of reception for individual users, thereby enabling high-speed data communications at downstream speeds of up to 2.4Mbps.

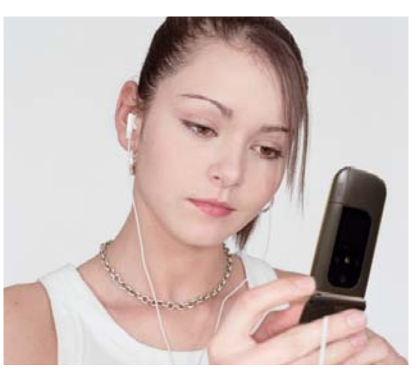
The next-generation upgrade of CDMA2000 1x EV-DO—Revision A (commercial launch planned during 2006)—uses new modulation technology and more-efficient error correction methods to facilitate larger data-transmission capacity while raising downlink and uplink speeds. The improved standard also employs quality assurance technology to allow the quality of the connection to be maintained for specific users and thus realize various two-way real-time communications services, such as multicasting (the simultaneous transmission of video or other data to multiple users). Other new possibilities include the upgrading of such services as music or video downloads or data streaming.

Strengths of 1xEV-DO Rev. A

		Current 1xEV-DO (Rev. 0)	1xEV-DO Rev. A
Peak speed	Downlink	2.4Mbps	3.1Mbps
	Uplink	154kbps	1.8Mbps
QoS (Quality of Service)		Strive for top quality in all packets, irrespective of service type	Priority control of packets possible for respective service types
Applied fields		High-speed data download	Bi-directional realtime transmission

Innovative ringtone research programs

The highly innovative EZ Chaku-Uta Full™ service allows users to download and play entire songs and to set specific portions of a song as a ringtone. KDDI has developed technology that smoothly fades in and out the extracted portion of the song used. Previously, such extraction could result in sudden bursts of music at full volume, which could be a shock for the listener. This technology achieves more natural ringtone playback, further enhancing the value of the service. The fade technology is ideally adapted for mobile phones, which have limited data-processing capabilities, because it realizes high-speed acoustic fade processing on the song data in compressed form. KDDI R&D Laboratories have previously developed a variety of processing technologies for compressed video and audio data, which allowed this special ringtone technology to be developed and marketed in a relatively short period of time.



Ringtone services from au, such as EZ Chaku-Uta Full™ give users access to thousands of songs.

Terrestrial digital broadcasting to handsets

Terrestrial digital TV broadcasts began to households in the Tokyo, Osaka and Nagoya regions in December 2003. Similar broadcasting services for mobile handsets are scheduled to begin at the end of 2005. KDDI has been investing in the development of fusion technologies that integrate communications and broadcasting, thereby allowing mobile handsets to receive digital broadcasts and related content. In May 2004, KDDI unveiled the first handset capable of receiving terrestrial digital broadcasts in Japan.

In addition to receiving such broadcasts, this handset can provide a number of original services due to its advanced communications capabilities. For instance, users can receive extra details on the performers in a program or can use the GPS function to find out program-related details for their locality. In fiscal 2004, KDDI conducted field trials to test the broadcast reception technology and other services offered

A terrestrial digital TV demonstration in Mie Prefecture with this handset. In Mie Prefecture, KDDI was also able to test another service in which information on an earthquake or other natural disaster is broadcast to mobile phones. The tests successfully demonstrated that such a service could allow mobile handsets to be an important means of broadcasting information in the event of a major disaster.

Digital radio broadcasting is also set to become a reality in Japan. At the end of fiscal 2003, KDDI developed a PDA-type terrestrial digital radio receiver. During fiscal 2004, KDDI conducted field trials in conjunction with radio broadcasters in Tokyo and Osaka to test this receiver for use in various new communications and broadcasting services. These range from downloading the music from a certain program to electronic coupons and shopping services for electronic tickets and other items. KDDI plans to continue developing this technology to incorporate such functionalities into future cellular handset models.

Authentication services based on RFID technology

Electronic tags based on RFID (radio frequency identification) technology allow information on the tagged item to be transmitted and read wirelessly. The adoption of RFID technology is expected in many industries and consumer applications, particularly in areas such as logistics, inventory control, distribution record and product labeling. Cellular phones have become the most ubiquitous mobile device in daily life, with many people routinely carrying them around. Incorporating an electronic tag reader function into the mobile phone would open up vast new possibilities by providing a convenient link between various data exchanges over the network and the information stored in RFID tags. Efforts are under way to develop electronic tag reader systems, which are expected to come into widespread use.

KDDI has developed a prototype cellular handset that incorporates an electronic tag reader function. It commenced field trials in March 2005 to test the practical utility of new services designed to link the benefits of such mobile phones and RFID tags. The tests have included the provision of information on stores and products at shopping malls and of street map services in Osaka. In addition, KDDI is researching the potential commercial applications of this technology, including the provision of traceability data (product origin, distribution history) for products, of real-time inventory control for logistics industries, and of specialist technologies for other industries.

A terrestrial digital radio receiver


A cellular phone equipped with
an electronic tag reader


Testing the utility of RFID tags

Financial Review

KDDI Corporation and Consolidated Subsidiaries

(1) Significant Accounting Policies and Estimates

The consolidated financial statements of the KDDI Group have been prepared in conformity with accounting standards generally accepted in Japan. In particular, the significant accounting policies described below had a material impact on the major accounting judgments and estimates by the KDDI Group that were used in the compilation of these consolidated financial statements.

(a) Estimated useful lives of fixed assets

The useful lives of fixed assets are based on reasonable estimates. The estimated useful life of submarine cable systems was reduced in the fiscal year ended March 2004 in recognition of major market shifts and other changes in the telecoms business environment in recent years. Currently, the KDDI Group sees no further need to make any further reductions in the estimated useful lives of fixed assets. However, such need may arise in the future if market, environmental or technological changes occur more rapidly than projected, or in the advent of new legal or regulatory developments.

(b) Impairment of fixed assets

The KDDI Group has made an early adoption of fixed-asset impairment accounting standards from the fiscal year ended March 2005. Impairment losses are calculated based on the grouping of assets into the smallest possible units capable of generating cash flows that are independent of other assets or asset groups. Since it is accepted in the telecoms industry that entire communications networks constitute independent cash flow generators, the asset grouping process has been done on a business segment basis. In line with these considerations, extraordinary losses against asset impairment for submarine cable systems and other idle assets were recorded for the fiscal year ended March 2005 in respect of reductions in book value to those amounts deemed recoverable.

(c) Deferred tax assets

Deferred tax assets and liabilities are stated based on the statutory effective tax rate in recognition of any temporary differences between the carrying values of assets and liabilities and corresponding values listed in filings to tax authorities. Valuation allowances are stated for some subsidiaries against deferred tax assets, based on future likelihood. Evaluations of the necessity of recording such valuation allowances take into account projected future taxable income levels and utilizable tax planning.

(d) Retirement benefits and pension obligations

Retirement benefits and pension obligations are calculated based on actuarial assumptions, which include the discount rate, future remuneration levels, employee turnover rates, mortality rates based on the latest statistics and the expected long-term rate of return on pension plan assets. The discount rate is computed based on market yields of long-term Japanese government bonds. The expected rate of return is computed based on expected long-term rates of return for each asset type within the pension fund portfolio. The effects of any material changes in these assumptions or any differences between actual results and the assumptions would by their nature be cumulative and subject to recognition on a regular basis over future fiscal periods. Hence, such changes and differences could potentially have a material effect on the future values of pension-related expenses and liabilities.

(2) Consolidated Financial Review

Please refer to page 43 for the Consolidated Statements of Income.

Total operating revenues increased by ¥73.9 billion (2.6%) on a year-on-year basis to ¥2,920.0 billion. Revenues from voice communications services fell due to fierce competition between carriers in the market for broadband services and an ongoing shift toward low-priced IP telephony services in the fixed-line market. The au mobile business was the principal contributor to revenue growth in this segment. Higher sales of 3G CDMA 1X WIN mobile handsets enabled au to record the largest net increase in market share for the second year running.

Operating expenses increased by ¥69.8 billion (2.7%) on a year-on-year basis to ¥2,623.8 billion. This was mainly attributable to aggressive marketing efforts to expand sales of CDMA 1X WIN handsets and to promote the KDDI Hikari Plus and KDDI Metal Plus services. Operating income increased by ¥4.0 billion to ¥296.2 billion.

Other expenses declined significantly compared with the previous year, falling by ¥97.4 billion to ¥2.6 billion, due to lower interest expense associated with the steady reduction in interest-bearing debt. Another major factor was the absence of significant losses on the disposal of property, plant and equipment (a loss of ¥78.0 billion was recorded in the previous year due to the lump-sum write-off of microwave transmission systems). In the year ended March 2005, the KDDI Group recorded an extraordinary gain of ¥27.6 billion on the sale of PHS business operations and impairment losses of ¥23.4 billion.

Income before income taxes and minority interests increased by ¥101.4 billion to ¥293.5 billion. Total income taxes increased by ¥18.9 billion to ¥88.1 billion, while minority interests declined by ¥1.0 billion to ¥4.8 billion. Net income increased by ¥83.5 billion to ¥200.6 billion.

(3) Segment Financial Reviews

Notes:
1) Effective the fiscal year ended March 2005, the classification of telecommunications business operating revenues into two categories (voice communications and digital data transmission services) was discontinued.
2) The BBC & Solutions Business was renamed the Fixed-line Business. KDDI Network & Solutions Inc. (KNSL), which was

established in November 2004, was consolidated into the accounts of the Fixed-line Business, and, for the purposes of comparison, the segment results are stated retrospectively using the same standards in the fiscal year ended March 2004.

3) Following its transfer, the Pocket (PHS) Business was removed from the scope of consolidation, effective the second half of the fiscal year ended March 2005.

4) In line with changes to the segment presentation, to make it compatible with that used in the Summary of Financial Statements effective the fiscal year ended March 2005 corporate eliminations for inter-segment transactions within KDDI between the au and Fixed-line Businesses are recorded as double-ledger entries against revenues and expenses (previously these were shown only as a net deduction to expenses). For the purposes of comparison, the results for the fiscal year ended March 2004 are restated using the same standard. This change has no effect on operating income.

5) In line with changes to the segment presentation , effective the fiscal year ended March 2005 the figures for the TU-KA Business and Other Businesses were changed to the consolidated values, rather than simple aggregates of individual company figures.

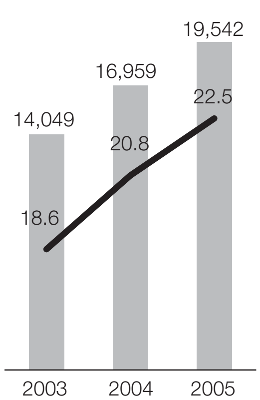
Segment Financial Reviews

[au Business]

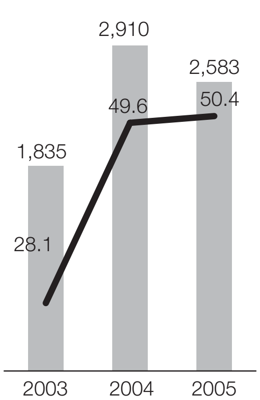
	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2004 and 2005	2004	**2005**	Change	%	**2005**
Operating revenues	¥ 1,831,786	**¥ 2,092,702**	¥ 260,916	14.2%	**$ 19,487**
Operating expenses	1,592,317	**1,819,596**	227,279	14.3%	**16,944**
Operating income	239,469	**273,106**	33,637	14.0%	**2,543**
Free cash flows	207,251	**132,561**	(74,690)	(36.0%)	**1,234**
EBITDA	437,651	**481,387**	43,736	10.0%	**4,483**
EBITDA margin	23.9%	**23.0%**	(0.9%)	—	**—**

Segment operating revenues increased by ¥260.9 billion to ¥2,092.7 billion. This was primarily due to the success of au's advanced 3G mobile services, in which it has been a pioneer in the Japanese market, and the popularity of CDMA 1X and CDMA 1X WIN mobile handsets. Total subscriber numbers posted a net increase of 2.58 million for the year, rising to 19.54 million by the end of March 2005. The au brand secured the leading share (50.4% in fiscal 2004) of the net increase in subscribers within the Japanese market for the second consecutive year. With CDMA 1X WIN services (initiated in November 2003, offering mobile connectivity of up to 2.4Mbps), growth in subscriber numbers accelerated due to an improved handset lineup and upgraded content. The number of CDMA 1X WIN subscribers had reached 3.25 million by the end of March 2005. Although monthly average revenue per user (ARPU) declined for the overall au Business, relatively high ARPU from CDMA 1X WIN services and the strong growth in the subscriber base combined to offset the total decline in ARPU compared with other carriers. Overall, ARPU fell by ¥270 during the year, from ¥7,440 to ¥7,170. The average churn rate dropped from 1.49% to 1.44%, reflecting the overall improvement in the product lineup and higher perceived au brand value.

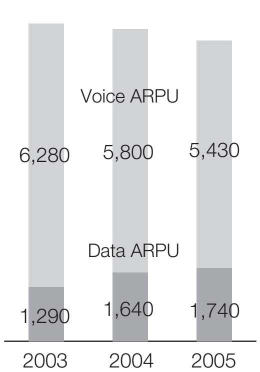
Total au Subscriber Numbers (Thousands)



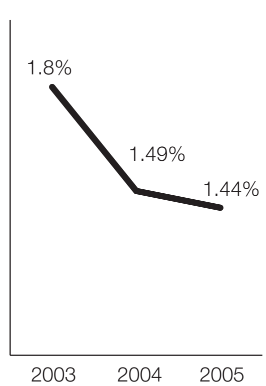
Net Increase in au Subscriber Numbers (Thousands)



ARPU (Yen)



Churn Rate



Segment operating expenses increased by ¥227.3 billion to ¥1,819.6 billion. The cost of sales for cellular-phone handsets rose by ¥57.0 billion, reflecting an increase in new subscribers and upgrades into CDMA 1X WIN models due to enhanced handset design innovation (the au design Project) and lineup of CDMA 1X handsets. Contract-linked sales commissions paid to agency retail outlets increased by ¥60.0 billion to ¥444.0 billion. This reflected greater handset sales volumes (unit sales increased by 1.02 million during the year to 11.59 million) and a ¥2,000 increase in the sales commission level to an average of ¥38,000 per unit. Higher average commissions were partly due to effective measures to boost handset retention by users and partly a reflection of the higher ratio of CDMA 1X WIN handsets in the sales mix, due to their more advanced functions. In other operating expenses, major factors contributing to higher costs were access charges, which rose by ¥8.0 billion in line with the rise in subscribers, and depreciation expenses, which increased by ¥16.8 billion due to investment in base stations and other wireless network infrastructure. Segment operating income increased by ¥33.6 billion to ¥273.1 billion.

[Fixed-line Business]

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2004 and 2005	2004	**2005**	Change	%	**2005**
Operating revenues	¥ 623,104	**¥ 596,041**	¥ (27,063)	(4.3%)	**$ 5,550**
Operating expenses	606,683	**596,351**	(10,332)	(1.7%)	**5,553**
Operating income (loss)	16,421	**(310)**	(16,731)	(101.9%)	**(3)**
Free cash flows	68,559	**(3,066)**	(71,625)	(104.5%)	**(29)**
EBITDA	112,402	**87,494**	(24,908)	(22.2%)	**815**
EBITDA margin	18.0%	**14.7%**	(3.3%)	—	**—**

Segment operating revenues decreased by ¥27.1 billion to ¥596.0 billion. This was mainly due to a significant decline in revenues from voice communications services (local, long-distance and international telephony) amid an ongoing contraction of the Japanese fixed-line market. This was partly offset by strong growth in revenues from data communications services due to rising Internet usage by individuals. Data revenues also increased due to higher demand from the corporate sector, where revenues increased from VPN services that supported the growth in construction of corporate IP networks. KDDI expects to a turnaround in this segment and focusing on an early deployment of the KDDI Metal Plus service launched in February 2005.

Operating expenses fell by ¥10.3 billion to ¥596.4 billion. KDDI strove to raise profitability in a shrinking market by reducing costs. Cost-cutting efforts were sufficiently effective to offset the additional costs of developing and launching the KDDI Metal Plus service. Overall voice telephony access charges fell due to declining voice traffic, though costs in this category partly rose by ¥4.0 billion to ¥12.4 billion as a result of retrospective increases in access charges levied by NTT East and NTT West. The segment recorded an operating loss of ¥0.3 billion, a deterioration of ¥16.7 billion compared with the previous year

[TU-KA Business]

Years ended March 31, 2004 and 2005	Millions of yen 2004	2005	Change	%	Millions of U.S. dollars 2005
Operating revenues	¥ 274,329	**¥ 231,397**	¥ (42,933)	(15.7%)	**$ 2,155**
Operating expenses	258,025	**212,965**	(45,060)	(17.5%)	**1,983**
Operating income	16,304	**18,432**	2,127	13.0%	**172**
Free cash flows	54,951	**58,075**	3,124	5.7%	**541**
EBITDA	72,097	**66,811**	(5,286)	(7.3%)	**622**
EBITDA margin	26.3%	**28.9%**	2.6%	—	**—**

Segment operating revenues declined by ¥42.9 billion to ¥231.4 billion, mainly due to a drop in subscriber numbers combined with lower ARPU. KDDI was able to stabilize the customer base, however, using a sales strategy that targets customers wanting just basic voice and e-mail services rather than phones with advanced functions. Total subscriber numbers as of the end of March 2005 were 3.59 million, a drop of only 40,000 on a year-on-year basis. This was an improvement on the net fall of 150,000 in the subscriber base in the year ended March 2004. The introduction in November 2004 of simplified TU-KA S mobile handsets specifically designed for seniors was another contributing factor.

Operating expenses declined significantly, falling by ¥45.1 billion to ¥213.0 billion. This was primarily due to benefits stemming from the simplification strategy as well as efforts to reduce costs. In particular, the cost of sales of handsets fell by ¥11.5 billion compared with the previous year. This was due to a combination of lower purchasing costs resulting from simplified handset functions with less frequent model changes by existing customers, which resulted in a drop in sales volume. Segment operating income increased by ¥2.1 billion to ¥18.4 billion.

[Pocket (PHS) Business]

Years ended March 31, 2004 and 2005	Millions of yen 2004	2005	Change	%	Millions of U.S. dollars 2005
Operating revenues	¥ 184,017	**¥ 86,873**	¥ (97,144)	(52.8%)	**$ 809**
Operating expenses	162,924	**81,397**	(81,527)	(50.0%)	**758**
Operating income	21,093	**5,476**	(15,617)	(74.0%)	**51**
Free cash flows	47,206	**20,902**	(26,304)	(55.7%)	**195**
EBITDA	61,363	**24,595**	(36,768)	(59.9%)	**229**
EBITDA margin	33.3%	**28.3%**	(5.0%)	—	**—**

As part of the strategy of business concentration and selectivity, and after careful consideration of the best course of action for the PHS business, KDDI transferred the entire operations in October 2004 to a consortium formed with the Carlyle Group, Kyocera Corporation and KDDI.

Segment operating revenues for the period prior to the sale were ¥86.9 billion, a fall of ¥97.1 billion compared with the 12-month total for the previous year. On the same basis, operating expenses decreased by ¥81.5 billion to ¥81.4 billion. Segment operating income fell by ¥15.6 billion to ¥5.5 billion.

[Other Businesses]

Years ended March 31, 2004 and 2005	Millions of yen 2004	2005	Change	%	Millions of U.S. dollars 2005
Operating revenues	¥ 80,371	¥ **81,380**	¥ 1,009	1.3%	$ **758**
Operating expenses	79,826	**80,429**	603	0.8%	**749**
Operating income	545	**951**	406	74.5%	**9**

In other businesses, the KDDI Group focused on responding to rapid changes in operating conditions in telecoms markets by boosting competitiveness through restructuring of Group operations. This involved moves to consolidate business functions between KDDI Group firms to increase efficiency while also strengthening the operational base to foster future growth. In October 2004, consolidated subsidiaries KDDI Telemarketing Inc. and KDDI Sogo Service Co., Ltd. merged. The merged entity changed its name to KDDI Evolva Inc. in December 2004. Due to particularly difficult conditions in the undersea cable construction business and the lack of recovery prospects, KDDI also liquidated consolidated subsidiary KDDI Submarine Cable Systems Inc. in March 2005.

Segment operating revenues rose by ¥1.0 billion to ¥81.4 billion. Operating expenses increased by ¥0.6 billion to ¥80.4 billion. Segment operating income amounted to ¥1.0 billion, a year-on-year improvement of ¥0.4 billion.

(4) Capital Financing and Liquidity

(a) Cash flows

Operating activities +¥538.7bn (-¥84.0bn year-on-year)

Net cash provided by operating activities amounted to ¥538.7 billion, which marked a decrease of ¥84.0 billion compared with the previous year. Although income before income taxes and minority interests increased by ¥101.4 billion to ¥293.5 billion, primarily due to another strong performance from the au Business and a net positive earnings contribution from extraordinary items, income taxes paid increased by ¥98.9 billion. The figure for income taxes paid in fiscal 2003 (¥16.5 billion) reflected a reduction in taxes following the recognition of tax relief in respect of the costs associated with the disposal in fiscal 2001 of digital mobile phone infrastructure (for the PDC cellular network) and the cessation of related services.

Investing activities -¥136.5bn (+¥82.0bn year-on-year)

Net cash used in investing activities amounted to ¥136.5 billion, representing a year-on-year reduction in cash outflow of ¥82.0bn. Investments in property, plant and equipment were higher than in fiscal 2003 as KDDI continued to pursue cost-effective capital spending programs aimed at improving service reliability and boosting customer satisfaction. Major elements of capital spending in the au business included enhancement of the service coverage for CDMA 1X and CDMA 1X WIN networks as well as construction and upgrading of base stations and wireless exchanges. In the Fixed-line Business, KDDI invested in new infrastructure for the KDDI Metal Plus and KDDI Hikari Plus Home services. The main factor in the year-on-year reduction in cash outflow of ¥82.0 billion was proceeds from the sale of PHS operations, which amounted to ¥206.2 billion.

Financing activities -¥376.1bn (-¥47.1bn year-on-year)

Free cash flows, which equal total net cash generated by operating and investing activities, amounted to ¥402.2 billion, a decline of ¥2.1 billion from the previous year. Consolidated interest-bearing debt was reduced by ¥315.1 billion. Dividend payments totaled ¥24.6 billion and payments for the acquisition of treasury stock amounted to ¥24.4 billion. As a result, net cash used in financing activities amounted to ¥376.1 billion, which represented a year-on-year increase in cash outflow of ¥47.1billion.

(b) Liquidity

Consolidated cash and cash equivalents totaled ¥222.5 billion at March 31, 2005, an increase of ¥26.0 billion from the balance of ¥196.5 billion at March 31, 2004. The balance of liquidity was changed due to our operating performance, financing needs and investments.

(c) Financing

Cash flows from operating and investing activities were sufficient to meet all financial needs during fiscal 2004. The KDDI Group did not issue any bonds or procure any long-term borrowings during the year.

(d) Debt repayments

Contracted debt repayment totals by maturity are given below.

(Units: yen in billions)

	Amount	Less than1yr	1-3yrs	3-5yrs	Above 5yrs
Corporate bonds	328.5	60.3	150.3	59.8	58.0
Bank borrowings	533.4	164.5	312.3	45.2	11.2
Other	2.6	2.6	0	—	—
Total	864.6	227.4	462.7	105.0	69.2

(e) Foreign exchange risk

The policy of the KDDI Group is to use forward exchange contracts, currency swaps and other instruments as necessary to hedge foreign exchange risks associated with business transactions denominated in foreign currencies or overseas investment and financing projects, based on the balance of assets and liabilities in each currency.

(f) Financial policies

The basic policy of the KDDI Group is to secure stable, low-cost financing as required, depending on the financial status of the company and the prevailing conditions in financial markets. The company seeks the most effective means of financing wherever possible.

Consolidated interest-bearing debt totaled ¥864.6 billion at March 31, 2005. The ratio of direct to indirect financing was 38:62 and the long-term financing ratio* was 73.7%. Since the merger in 2000, the primary financial goals of the KDDI Group have been reduction of interest-bearing debt and prioritization of long-term debt in order to realize a rapid improvement in financial position.

*Total proportion of interest-bearing debt due to corporate bonds and long-term borrowings

Although domestic and overseas KDDI Group subsidiaries also procure their own funds, the parent company raised 85.1% of consolidated interest-bearing debt. The policy of the KDDI Group has been to shift the financing burden from subsidiaries to the parent company in order to secure a lower cost of financing, and this has resulted in the parent company financing ratio increasing steadily year by year. Going forward, the company plans to maintain this policy.

Rating and Investment Information Inc. (R&I) upgraded KDDI's long-term senior debt rating in July 2004 from A- to A, citing improved earnings and a healthier financial position.

(g) Contingent liabilities

The balance of third-party guaranteed liabilities at March 31, 2005 amounted to ¥126.7 billion.

Business Risks

This section contains an overview of the principal business-related and other risks facing the KDDI Group that could have a material bearing on the decisions of investors. This section also discloses information on a number of other subjects that, while not explicitly considered business risks, could also be materially relevant to investment decisions. KDDI discloses information on possible risks in the interests of greater transparency. The company strives to take all appropriate measures to avoid risk wherever possible and to develop countermeasures to situations as they arise.

This section contains various forward-looking statements that represent the best judgments of the KDDI Group as of March 31, 2005. Investors should note that future developments are also subject to unknown risks and uncertainties that by their nature cannot be covered by the following discussion.

(1) Competitors, Rival Technologies and Rapid Market Shifts

au business

The KDDI Group launched 3G cellular-phone services in Japan in April 2002 with the introduction of CDMA 1X, followed by CDMA 1X WIN in November 2003. These services are subject to competition from rival mobile carriers and competing technologies and to sudden changes in market conditions. The main business-related factors and uncertainties that could have a negative impact on au operations and thereby affect the financial position and performance of the KDDI Group are summarized and listed below.

* Market demand trends out of line with KDDI Group expectations
* Subscriber growth trends out of line with KDDI Group expectations
* Fall in ARPU (Average Revenue Per Unit) due to tariff discounts sparked by fierce price competition, or higher commission-related or promotional costs to maintain customer base
* Decline in ARPU due to drop in service usage frequency by subscribers
* Drop in customer satisfaction with network quality or capacity (irrespective of any unforeseen developments)
* Decline in attractiveness of handsets or supplied content in comparison with offerings of rival carriers
* Increase in handset prices associated with adoption of more advanced functions, or higher sales commissions
* Drop in customer satisfaction caused by spam or other e-mail abuse, plus related increases in network security costs
* Higher costs of 2GHz spectrum ()
* Increase in competition due to new high-speed data wireless technology
* Effects associated with dependence on specific communications protocol, handset or network technologies or software

Fixed-line business

The KDDI Group's marketing efforts in this sector have been focused on the MYLINE registration service in the fixed-line telephony market. In broadband services, the company markets ADSL services under the DION brand. In October 2003, and launched KDDI Hikari Plus as a FTTH service. In February 2005 KDDI introduced KDDI Metal Plus in high-quality IP telephony market and is expanding its sales as one of the mainstay of direct access services. The KDDI Metal Plus service involves the customer paying basic monthly line charges to KDDI rather than to NTT. The market for fixed-line services has changed radically in recent years and now features competition between fixed-line carriers, ADSL providers, cable TV companies and other firms. The main business-related factors and uncertainties that could have a negative impact on fixed-line operations and thereby affect the financial position and performance of the KDDI Group are summarized and listed below.

* Market demand trends out of line with KDDI Group expectations
* Subscriber growth trends out of line with KDDI Group expectations
* Fall in ARPU due to tariff discounts sparked by fierce price competition, or higher commission-related or promotional costs to maintain customer base
* Decline in ARPU due to drop in service usage frequency by subscribers
* Drop in customer satisfaction with network quality or capacity (irrespective of any unforeseen developments)
* Decline in attractiveness of supplied content relative to rival carriers
* Contraction of fixed-line telephony market due to spread of IP telephony
* Increase in NTT access charges

TU-KA Business

The KDDI Group markets 2G cellular-phone services under the TU-KA brand to customers in the Tokyo, Osaka and Nagoya urban areas, focusing on voice and mail services that emphasize simplicity and ease of use. Amid fierce competition in the mobile-phone services market, the main business-related factors and uncertainties that could have a negative impact on TU-KA operations and thereby affect the financial position and performance of the KDDI Group are summarized and listed below.

* 2G mobile demand trends out of line with KDDI Group expectations
* Subscriber base trends out of line with KDDI Group expectations
* Fall in ARPU due to tariff discounts sparked by fierce price competition
* Decline in ARPU due to drop in service usage frequency by subscribers
* Drop in customer satisfaction with network quality or capacity (irrespective of any unforeseen developments)
* Ineffectiveness of sales strategy targeting seniors with brand image that emphasizes simplicity
* Future provision of national service coverage subject to rival carrier

(2) Communications Security and Protection of Customer Privacy

KDDI is legally obliged as a licensed Japanese telecommunications carrier to safeguard the security of communications over its network. The company is also actively engaged in protecting the confidentiality of customer and other personal information. KDDI has established the Corporate Risk Management Division and a committee for privacy and security issues to formulate and implement measures across the entire KDDI Group to prevent internal privacy breaches or other information leaks. KDDI has tightened the control over an access to the relevant systems. The security of customer data is protected in line with the KDDI Privacy Policy. The company has also published and distributed handbooks on customer privacy issues to all employees.

KDDI's policy on general compliance issues is summarized in a charter of ethical corporate behavior. As part of efforts to strengthen internal compliance oversight, KDDI has established a corporate ethics committee to supervise the maintenance and improvement of compliance systems. Despite all these measures and safeguards, however, KDDI cannot guarantee that breaches of privacy or leakage of confidential customer information will never occur. Any such incident could seriously damage the brand image of the KDDI Group. Besides a loss of customer trust, the company could also be forced to pay substantial compensation, which could have a negative impact on the financial position and performance of the KDDI Group. Going forward, the company may also face higher costs to develop or upgrade privacy protection systems.

(3) Telecommunications Sector Regulation

The revision or repeal of laws and ordinances governing telecommunications, together with related government policies, have the potential to exert a negative impact on the financial position and performance of the KDDI Group. The KDDI Group believes that it is taking all appropriate measures to respond to social issues with potentially injurious implications for its brand image and customer trust. However, the financial position and performance of the KDDI Group could be negatively affected if such measures were to prove ineffective in the future. Major regulatory risks are listed below.

au Business/TU-KA Business

* Introduction of a mobile number portability system (MNP)
* Liberalization of rules governing mutual service provision
* Introduction of rights to set charges fees for fixed-to-mobile calls by fixed-line operators.
* Revisions to inter-operator access charge calculation formulae
* Revisions to system governing radio spectrum usage fees
* Reorganization of 800MHz frequency bands
* Entry of new carriers using frequency bands in 1.7GHz or 2GHz spectrum
* New research into the effect of radio waves on health
* Anti-spam systems or related regulatory developments
* Mobile Internet systems or related regulatory developments
* Systems targeting illegal mobile phone use or related regulatory developments

Fixed-line Business

* Liberalization of rules governing mutual service provision
* Revisions to inter-operator access charge calculation formulae
* Revisions to systems governing universal service fund
* Government policy on deregulation of optical fiber and FTTH
* Anti-spam systems or related regulatory developments
* Internet systems or related regulatory developments

(4) System Failures

Provision of voice communication and packet-switched data communication services by the KDDI Group is dependent on the smooth functioning of related communications networks in Japan and overseas. Temporary service outages due to systemic problems cannot be ruled out and could theoretically lead to large-scale billing errors.

Temporary cessation of services due to KDDI Group systems going down is another system-related risk with potentially negative effects on the financial position and performance of the KDDI Group. The major potential causes of such an event are listed below.

* Computer viruses or other form of cyberattack
* System hardware or software crashes
* Power brownouts or blackouts
* Natural disasters such as earthquake, typhoon or flood
* War, terrorism, accidents or other events

(5) Litigation and Patents

Litigation stemming from alleged infringement of intellectual property and other rights associated with KDDI Group products, services and technologies could potentially have a negative impact on financial position and performance.

Note: In April 2005, the Tokyo District Court dismissed a suit brought by KDDI against the revocation of a changes in the contractual terms governing connections with the Class I telecommunications carriers NTT East Corporation and NTT West Corporation that was originally approved by the Minister of Public Management, Home Affairs, Posts and Telecommunications of internal Affairs and communications in April 2003. KDDI decided not to appeal the ruling because, subsequent to the filing of the original suit, it transpired that the key point of contention, which concerned retrospective changes to fee formulae, would be resolved in negotiations scheduled for fiscal 2005-7 to amend access charges with the aim of stimulating competition and providing better services for customers. While dismissing the suit, the court did however affirm the rights of the plaintiff (KDDI) to file a suit on those legal grounds.

(6) Personnel Retention and Training

The KDDI Group invests in companywide personnel training to ensure that it can respond rapidly to technological developments, although the training process takes time for the desired effects to manifest. Going forward, KDDI faces the risk of a substantial increase in personnel development costs.

(7) General Legal and Regulatory Risk

In each of the countries in which it operates, the KDDI Group takes steps to secure the appropriate business and investment permits and licenses, to establish procedures in conformity with national safety and security laws, and to apply various other government regulations. The company also seeks to comply fully with commercial, anti-trust, patent, consumer, tax and labor laws as well as legislation covering foreign exchange transactions and issues related to the environment and recycling. Failure to comply with legislation could result in limitations being placed on the future business activities of the KDDI Group or increases in costs.

(8) Pension Liabilities

Following the merger in 2000, KDDI has undertaken efforts to integrate pension systems. This has involved moves to return the government-sponsored substitutional portion of employee welfare pensions and to cut pension liabilities through revisions of retirement benefit rates. KDDI has also revised its pension asset management policies and methods, based on projections of future liabilities. Going forward, the KDDI Group could post extraordinary losses if a fall in yields on managed pension assets leads to a drop in the market value of the pension fund, or in the event of revisions to the actuarial assumptions (such as the discount rate or expected rate of salary increases) on which planned retirement benefit levels are based. Changes to the pension system could also result in higher expenses arising from amortization of unrecognized prior service cost.

(9) Asset-Impairment Accounting

Following the adoption of asset-impairment accounting standards ahead of the timetable mandated by Japanese law, the KDDI Group posted extraordinary losses against asset impairment for submarine cable systems and other idle assets for the fiscal year ended March 2005. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment.

(10) Telecommunications Sector Consolidation (eg: M&A)

Consolidation within the telecoms industry in Japan and abroad could exert a negative impact on the financial position and performance of the KDDI Group.

Going forward, the KDDI Group may undertake further restructuring measures at some later date. The company cannot guarantee that such action would necessarily have a positive impact on the KDDI Group.

Note: As part of a strategy of business concentration and selectivity, and after careful consideration of the best course of action for the PHS business, KDDI reached the agreement to transfer the entire operations of consolidated subsidiary DDI Pocket Inc. to a consortium formed with the Carlyle Group and Kyocera Corporation and KDDI. The transfer took place in October 2004 The KDDI Group cannot guarantee that future effects of this business transfer will necessarily have a positive impact on its financial position and performance.

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

March 31, 2004 and 2005	Millions of yen 2004	Millions of yen 2005	Millions of U.S. dollars (Note 1) 2005
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 196,518	¥ 222,532	$ 2,072
Accounts receivable	405,141	383,083	3,567
Allowance for doubtful accounts	(20,366)	(17,900)	(167)
Inventories	63,400	48,613	453
Deferred income taxes (Note 12)	31,087	30,407	283
Prepaid expenses and other current assets	21,897	20,678	193
Total Current Assets	697,677	687,413	6,401
Property, Plant and Equipment (Note 4):			
Telecommunications equipment	2,814,602	2,619,605	24,393
Buildings and structures	378,536	383,982	3,576
Machinery and tools	117,533	118,564	1,104
Land	50,331	50,286	468
Construction in progress	49,319	71,439	665
Other property, plant and equipment	13,203	10,255	96
	3,423,524	3,254,131	30,302
Accumulated depreciation	(1,903,746)	(1,841,446)	(17,147)
Total Property, Plant and Equipment	1,519,778	1,412,685	13,155
Investments and Other Assets:			
Investments in securities (Note 3)	36,830	31,846	297
Deposits and guarantee money	36,138	35,298	329
Intangible assets	191,192	149,642	1,393
Goodwill	53,479	48,248	449
Deferred income taxes (Note 12)	13,687	23,682	221
Other assets	101,875	96,048	894
Allowance for loss on investments and other assets	(11,075)	(12,540)	(117)
Total Investments and Other Assets	422,126	372,224	3,466
Total Assets	¥ 2,639,581	¥ 2,472,322	$ 23,022

The accompanying notes are an integral part of these statements.

March 31, 2004 and 2005	Millions of yen 2004	Millions of yen 2005	Millions of U.S. dollars (Note 1) 2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	¥ 281,320	¥ 227,744	$ 2,121
Accounts payable	249,918	260,407	2,425
Accrued income taxes	65,771	65,682	612
Accrued expenses	16,762	9,956	93
Allowance for bonuses	13,590	13,511	125
Other current liabilities	23,089	25,483	237
Total Current Liabilities	650,450	602,783	5,613
Non-Current Liabilities:			
Long-term loans (Note 4)	567,324	368,967	3,436
Bonds (Note 4)	328,550	268,175	2,497
Reserve for point service program	17,860	20,805	194
Other non-current liabilities (Note 4)	46,149	36,171	337
Total Non-Current Liabilities	959,883	694,118	6,464
Total Liabilities	1,610,333	1,296,901	12,077
Minority Interests	19,857	13,229	123
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	1,321
Additional paid in capital surplus	304,190	304,190	2,833
Retained earnings	563,678	739,448	6,885
Net unrealized gains on securities	11,977	9,858	92
	1,021,697	1,195,348	11,131
Foreign Currency Translation Adjustments	(1,645)	(1,650)	(16)
Treasury stock, at cost	(10,661)	(31,506)	(293)
Total Shareholders' Equity	1,009,391	1,162,192	10,822
Total Liabilities and Shareholders' Equity	¥ 2,639,581	¥ 2,472,322	$ 23,022

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
March 31, 2004 and 2005	2004	**2005**	**2005**
Operating Revenues:			
Voice communications	¥ 1,468,961	**¥ 1,405,096**	**$ 13,084**
Digital data transmission services	635,322	**774,576**	**7,213**
Leased circuits	82,502	**62,736**	**584**
Telegraph and other telecommunications services	81,941	**58,158**	**542**
Sales of terminal equipment and other	577,372	**619,473**	**5,768**
Total Operating Revenues	2,846,098	**2,920,039**	**27,191**
Operating Expenses:			
Sales expenses	939,147	**998,403**	**9,297**
Depreciation	359,529	**341,043**	**3,176**
Charges for use of telecommunications services of third parties	393,420	**382,064**	**3,558**
Cost of sales of terminal equipment and other	563,428	**615,539**	**5,732**
Other	298,469	**286,814**	**2,670**
Total Operating Expenses	2,553,993	**2,623,863**	**24,433**
Operating Income	292,105	**296,176**	**2,758**
Other Expenses (Income):			
Interest expense	27,762	**20,949**	**195**
Interest income	(595)	**(701)**	**(7)**
Loss (gain) on sales of securities	5,595	**(3,008)**	**(28)**
Loss on devaluation of securities	1,438	**273**	**3**
Gain on sales of property, plant and equipment (Note 6)	(2,028)	**(205)**	**(2)**
Gain from transfer of PHS business	—	**(27,674)**	**(258)**
Equity in gain of affiliates	(1,439)	**(1,426)**	**(13)**
Dividend income from anonymous association	(5,690)	**(6,418)**	**(60)**
Compensation for damage	(2,664)	**—**	**—**
Gain on return of welfare pension funds to the Government	(3,962)	**—**	**—**
Loss on cancellation of lease contracts	4,233	**—**	**—**
Loss on disposal of property, plant and equipment	80,106	**174**	**2**
Impairment loss (Note 7)	—	**23,449**	**218**
Other, net	(2,752)	**(2,768)**	**(25)**
Total Other Expenses	100,004	**2,645**	**25**
Income before Income Taxes and Minority Interests	192,101	**293,531**	**2,733**
Income Taxes:			
Current	72,063	**96,647**	**900**
Deferred	(2,913)	**(8,541)**	**(80)**
Total Income Taxes	69,150	**88,106**	**820**
Minority Interests in Consolidated Subsidiaries	5,926	**4,833**	**45**
Net Income	¥ 117,025	**¥ 200,592**	**$ 1,868**

	Yen		U.S. dollars (Note 1)
March 31, 2004 and 2005	2004	**2005**	**2005**
Per Share Data:			
Net income	¥ 27,748	**¥ 47,612**	**$ 443.36**
Net income after adjusted the potential stocks	27,708	**47,571**	**442.98**
Cash dividends	3,600	**6,900**	**64.25**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2004 and 2005	Thousands Number of shares of common stock	Millions of yen Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
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 auditor s' bonuses				(71)			
Loss on disposal of treasury stocks				(7)			
Decrease 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)
Net income for the year				200,592			
Cash dividends (Note 10)				(24,460)			
Directors' and corporate auditors' bonuses				(78)			
Loss on disposal of treasury stocks				(284)			
Decrease due to decrease in equity-method companies				(0)			
Net unrealized gains on securities					(2,119)		
Foreign currency translation adjustments						(5)	
Net changes in treasury stock							(20,845)
Balance, March 31, 2005	**4,241**	**¥ 141,852**	**¥ 304,190**	**¥ 739,448**	**¥ 9,858**	**¥ (1,650)**	**¥ (31,506)**

Year ended March 31, 2005	Thousands Number of shares of common stock	Millions of U.S. dollars (Note 1) Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2004	4,241	$ 1,321	$ 2,833	$ 5,249	$ 112	$ (15)	$ (99)
Net income for the year				1,868			
Cash dividends (Note 10)				(228)			
Directors' and corporate auditors' bonuses				(1)			
Loss on disposal of treasury stocks				(3)			
Decrease due to decrease in equity-method companies				(0)			
Net unrealized gains on securities					(20)		
Foreign currency translation adjustments						0	
Net changes in treasury stock							(194)
Balance, March 31, 2005	**4,241**	**$ 1,321**	**$ 2,833**	**$ 6,885**	**$ 92**	**$ (15)**	**$ (293)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2004 and 2005	Millions of yen 2004	Millions of yen 2005	Millions of U.S. dollars (Note 1) 2005
Cash Flows from Operating Activities:			
Income before income taxes and minority interests Adjustments for:	¥ 192,101	¥ **293,531**	$ **2,733**
Depreciation and amortization	369,354	**354,061**	**3,298**
Gain on sales of property, plant and equipment	(2,028)	**(205)**	**(2)**
Loss on disposal of property, plant and equipment	100,878	**18,172**	**169**
Impairment loss	—	**23,449**	**218**
Increase (decrease) in allowance for doubtful accounts	199	**(465)**	**(4)**
Decrease in reserve for retirement benefits	(4,029)	**(640)**	**(6)**
Interest and dividend income	(723)	**(886)**	**(8)**
Interest expenses	27,762	**20,949**	**195**
Equity in gain of affiliates	(1,439)	**(1,426)**	**(13)**
Loss (gain) on sales of investment securities	5,595	**(3,008)**	**(28)**
Investment securities write off	1,438	**273**	**3**
Gain from transfer of PHS business	—	**(27,674)**	**(258)**
Increase in reserve for point services	2,149	**3,698**	**34**
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension cost	4,856	**(1,916)**	**(18)**
Increase in notes and accounts receivable	(21,360)	**(3,840)**	**(36)**
Decrease (increase) in inventories	(10,016)	**10,466**	**97**
Decrease in notes and accounts payable	(7,763)	**(12,256)**	**(114)**
Other, net	9,982	**2,116**	**20**
Sub total	666,956	**674,399**	**6,280**
Interest and dividend income received	1,170	**1,929**	**18**
Interest expenses paid	(28,891)	**(22,233)**	**(207)**
Income taxes paid	(16,537)	**(115,419)**	**(1,075)**
Net cash provided by operating activities	622,698	**538,676**	**5,016**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(197,594)	**(271,926)**	**(2,532)**
Proceeds from sale of property, plant and equipment	4,898	**1,466**	**14**
Payments for other intangible assets	(48,131)	**(56,035)**	**(522)**
Acquisition of investment securities	(867)	**(6,085)**	**(57)**
Proceeds from sale of investment securities	29,128	**10,282**	**96**
Payments for investment in affiliates	(893)	**(5,395)**	**(50)**
Proceeds from sale of subsidiaries excluded from consolidation	—	**206,234**	**1,920**
Increase in long-term prepayment	(9,121)	**(14,058)**	**(131)**
Other, net	4,115	**(991)**	**(9)**
Net cash used in investing activities	(218,465)	**(136,508)**	**(1,271)**
Cash Flows from Financing Activities:			
Net decrease in short-term loans	(1,501)	**(1,351)**	**(13)**
Proceeds from issuance of long-term loans	8,000	**—**	**—**
Repayment of long-term loans	(284,787)	**(293,330)**	**(2,731)**
Repayment of long-term accounts payable	(7,029)	**(5,935)**	**(56)**
Proceed from new bond issue	18,000	**—**	**—**
Payment for redemption of bonds	(50,375)	**(15,375)**	**(143)**
Payments for acquisition of treasury stocks	(1,277)	**(24,436)**	**(228)**
Dividends paid	(10,201)	**(24,594)**	**(228)**
Payments received from minority shareholders	1,166	**164**	**2**
Other, net	(907)	**(11,201)**	**(105)**
Net cash used in financing activities	(328,911)	**(376,058)**	**(3,502)**
Translation Adjustments on Cash and Cash Equivalents	(668)	**(96)**	**(1)**
Net Increase in Cash and Cash Equivalents	74,654	**26,014**	**242**
Cash and Cash Equivalents at Beginning of Year	121,855	**196,518**	**1,830**
Increase in Cash and Cash Equivalents due to Subsidiaries Newly Consolidated	9	**—**	**—**
Cash and Cash Equivalents at End of Year	¥ 196,518	¥ **222,532**	$ **2,072**

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.

In order to make it easier for overseas readers to comprehend, financial statements prepared for disclosure in Japan have been reclassified slightly.

The Company's consolidated financial statements for the year ended March 31, 2005, include 56 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., KDDI Network & Solutions Inc., KDDI Evolva Inc., KMN Corporation, KDDI AMERICA INC. and 48 other subsidiaries.

During the year ended March 31, 2005, significant changes in the scope were incurred as follows;

Consolidated:

Duogate Inc.	Established
CTC Create Inc.	Gain of investment in subsidiariy
Okinawa Callcenter	Gain of investment in subsidiariy

Removed:

Upon approval from the Ministry of Health, Labour and Welfare, the Company and certain of its domestic subsidiaries shifted to a defined benefit enterprise pension plan for their employee pension funds on April 1, 2004.

Removed (Consolidated)

Merger

KDDI Telemarketing Inc.
KDDI Teleserve Inc.

The corporations above merged in April 2004 with the surviving company being KDDI Telemarketing Inc.

Merger

KDDI Telemarketing Inc.
KDDI SOGO SERVICE CO., LTD.

The corporations above merged in October 2004 with the surviving company being KDDI Telemarketing Inc. The company name was changed to KDDI Evolva in December 2004.

Merger

K-Solutions Inc.
KCOM Corporation
KDDI Msat, Inc.
OSI Plus Corporation

The corporations above merged in November 2004 with the surviving company being K-Solutions Inc. The company name has been changed to KDDI Network & Solutions Inc.

Liquidation

DDI Pocket Inc. transferred its entire PHS business in November 2004 and changed its name to Iidabashi Phoenix Co., Ltd. This company was then liquidated in March 2005.

TELEHOUSE DEUTSCHLAND GMBH Disposal of investment in subsidiariy

Equity Method

Added:

EBS Inc.	Gain of investment in subsidiariy

Removed:

Fandango Inc.

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

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 ¥107.39=$1, the approximate exchange rate on March 31, 2005. 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 fixed-line business 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 fixed-line and mobile communications business:	6-15 years
Telecommunication service lines, engineering equipment, submarine cable system and buildings:	2-65 years

g. Financial Instruments

(1) Derivatives

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

(2) Securities

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

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

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

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

(3) Hedge Accounting

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

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

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

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

h. Research and Development Expenses and Software

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

i. Income Taxes

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

j. Leases

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

k. Other Assets

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

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

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 2005 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2005 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.

Upon approval from the Ministry of Health, Labour and Welfare, the Company and certain of its domestic subsidiaries shifted to a defined benefit enterprise pension plan for their employee pension funds on April 1, 2004.

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.

p. Early Adoption of Accounting Standard for Impairment of Fixed Assets
The “Accounting Standard for Impairment of Fixed Assets” was issued on August 9, 2002 by the Business Accounting Council. This standard requires an entity to review its long-lived assets for impairment changes whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss shall be recognized by reducing the carrying amount of impaired assets or asset groups to the recoverable amount to be measured as the higher of net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005. KDDI applied this new standard early for the fiscal year ended March 31, 2005. As a result, KDDI recorded impairment loss of ¥23,449 million (US$218 million) and depreciation decreased by ¥2,726 million (US$25 million) compared with before the change. As a result, operating income and ordinary income increased by ¥2,647 million (US$25 million) and ¥2,726 million (US$25 million), respectively, while income before income taxes decreased by ¥20,722 million (US$193 million).

3. Market Value Information

At March 31, 2005, 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.

No items to be reported.

Other securities that have market prices

2005	Millions of yen: Acquisition cost	Millions of yen: Book value	Millions of yen: Unrealized gain (loss)	Millions of U.S. dollars: Acquisition cost	Millions of U.S. dollars: Book value	Millions of U.S. dollars: Unrealized gain (loss)
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥ 3,355	¥ 19,867	¥ 16,512	$ 31	$ 185	$ 154
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	849	846	(3)	8	8	(0)
Total	¥ 4,204	¥ 20,713	¥ 16,509	$ 39	$ 193	$ 154

Other securities sold during the current consolidated fiscal year

2005	Millions of yen: Amount of sale	Millions of yen: Total gain on sale	Millions of yen: Total loss on sale	Millions of U.S. dollars: Amount of sale	Millions of U.S. dollars: Total gain on sale	Millions of U.S. dollars: Total loss on sale
Other securities sold	¥ 7,301	¥ 3,056	¥ 47	$ 68	$ 28	$ 0

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

2005	Millions of yen Book value	Millions of U.S. dollars Book value
Other securities		
Unlisted equity securities	¥ 9,416	$ 88
Unlisted corporate bonds	2,508	23
Commercial papers	61,988	577
Total	¥ 73,912	$ 688

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	¥ —	¥ 300	¥ —	¥ 2,508	$ —	$ 3	$ —	$ 23
Other	62,032	5	—	—	578	0	—	—
Other securities	—	—	—	—	—	—	—	—
Total	¥ 62,032	¥ 305	¥ —	¥ 2,508	$ 578	$ 3	$ —	$ 23

4. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2005 were ¥3,095 million (U.S. $29 million), and the annual average interest rate applicable to short-term bank loans at March 31, 2005 was 5.14%.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2004	**2005**	**2005**
Domestic unsecured straight bonds due 2004 through 2010 at rates of 0.435% to 2.57% per annum	¥ 234,125	**¥ 218,750**	**$ 2,037**
General secured bonds due 2006 through 2017 at rates of 2.65% to 3.20% per annum (*)	109,800	**109,800**	**1,022**
Total bonds	¥ 343,925	**¥ 328,550**	**$ 3,059**
Loans from banks:			
Maturing through 2020 at average rates of 1.72% per annum	¥ 823,439	**¥ 530,377**	**$ 4,939**
Other interest-bearing debt	8,124	**2,604**	**24**
	¥ 831,563	**¥ 532,981**	**$ 4,963**
Total bonds, loans and other interest-bearing debt	¥ 1,175,488	**¥ 861,531**	**$ 8,022**
Less, amount due within one year	277,044	**224,385**	**2,089**
	¥ 898,444	**¥ 637,146**	**$ 5,933**

(*)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, 2005 were as follows:

Year ending March 31	Millions of yen **2005**	Millions of U.S. dollars **2005**
2006	**¥ 224,386**	**$ 2,089**
2007	**215,251**	**2,004**
2008	**247,503**	**2,305**
2009	**76,518**	**713**
2010 and thereafter	**97,873**	**911**
	¥ 861,531	**$ 8,022**

At March 31, 2005, assets pledged as collateral for long-term loans were as follows:

	Millions of yen		Millions of U.S. dollars	
	2005		2005	
Mortgage on factory foundation	¥	22,550	$	210
Investment in securities		5,934		55
	¥	28,484	$	265
Long-term loans	¥	8,232	$	77
Current portion of long-term loans		3,369		31
Loans of Wilcom Inc.*		166,816		1,553
	¥	178,417	$	1,661

(*) Each investor in said company has provided stock as collateral for these loans.

5. Contingent Liabilities

At March 31, 2005 and 2004, the Company was contingently liable as follows:

	Millions of yen				Millions of U.S. dollars	
	2004		2005		2005	
As a guarantor for:						
Loans of affiliated companies	¥	45	¥	—	$	—
System supply contract of KDDI Submarine Cable Systems Inc.		129,203		125,863		1,172
Office lease contract of Germany Telehouse Deutschland GmbH, etc.		533		892		8
Other		1		—		—
	¥	129,782	¥	126,755	$	1,180

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

Gain and loss on sales of property, plant and equipment, in the year ended March 31, 2005 was as follows:

	Millions of yen		Millions of U.S. dollars	
	2005		2005	
Gain on sales of land for small offices	¥	(519)	$	(5)
Loss on sales of employee apartments and welfare centers		316		3
Other		(2)		(0)
	¥	(205)	$	(2)

7. Impairment Loss

Impairment loss in the year ended March 31, 2005 is outlined below.

	Millions of yen		Millions of U.S. dollars	
	2005		2005	
Machinery and equipment	¥	2,006	$	19
Submarine cable systems		13,717		128
Buildings		946		9
Other		6,780		62
	¥	23,449	$	218

The Company recorded impairment losses mainly on the assets and asset groups below.

	Millions of yen	Millions of U.S. dollars
	2005	2005
Submarine cables and submarine line and mechanical equipment for relay stations of KDDI Corporation	¥ 16,886	$ 157
Utility rights of KDDI Submarine Cable Systems Inc.	2,258	21

* KDDI Group recorded impairment losses on the above assets and asset groups during the fiscal year. To measure impairment loss, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows generated by other assets and asset groups. In the telecommunications business, however, cash flows are generated by the telecommunication network business as a whole, so it is recognized as one asset group.

The Company recorded ¥23,449 million (US$218 million) in extraordinary losses as impairment loss, the amount by which the carrying value exceeds the recoverable value of an idle asset, including certain submarine cables. The recoverable value of assets is estimated after consideration of the net sales price. The market value of assets is determined based on appraisal assessments, while the value of assets difficult to sell or convert for other uses is deemed to be zero.

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, 2005 and 2004 were summarized as follows:

	Millions of yen							Millions of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value
	2004			2005				2005			
Tools, furniture and fixtures	¥112,847	¥ 67,885	¥ 44,962	¥ 99,331	¥ 73,376	¥ 302	¥ 25,653	$ 925	$ 683	$ 3	$ 239
Other	4,753	1,158	3,595	4,970	1,646	—	3,324	46	15	—	31
	¥117,600	¥ 69,043	¥ 48,557	¥104,301	¥ 75,022	¥ 302	¥ 28,977	$ 971	$ 698	$ 3	$ 270

Future lease payments as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Within one year	¥ 21,273	¥ 15,476	$ 144
Over one year	27,284	13,803	129
	¥ 48,557	¥ 29,279	$ 273
Balance of impairment loss on leased asstes		¥ 302	$ 3

Lease payments, assumed depreciation charges and impairment loss for the years ended March 31, 2005 and 2004 were as follows.

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Lease payments	¥ 25,856	¥ 22,315	$ 208
Assumed depreciation charges	25,856	22,315	208
Impairment loss	—	302	3

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, 2005 and 2004 were as follows:

	Millions of yen		Millions of U.S. dollars
	2004	2005	2005
Within one year	¥ 19,472	¥ 17,750	$ 165
Over one year	77,199	56,401	525
	¥ 96,671	¥ 74,151	$ 690

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, 2005 and 2004 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
	2004			**2005**			**2005**		
Tools, furniture and fixtures	¥ 2,118	¥ 1,404	¥ 714	**¥ 1,721**	**¥ 1,304**	**¥ 417**	**$ 16**	**$ 12**	**$ 4**
Other	203	101	102	**176**	**109**	**67**	**2**	**1**	**1**
	¥ 2,321	¥ 1,505	¥ 816	**¥ 1,897**	**¥ 1,413**	**¥ 484**	**$ 18**	**$ 13**	**$ 5**

Future lease receipts as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Millions of U.S. dollars
	2004	**2005**	**2005**
Within one year	¥ 443	**¥ 309**	**$ 3**
Over one year	437	**200**	**2**
	¥ 880	**¥ 509**	**$ 5**

Lease receipts and assumed depreciation charges for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Millions of U.S. dollars
	2004	**2005**	**2005**
Lease received	¥ 659	**¥ 483**	**$ 4**
Assumed depreciation charges	613	**444**	**4**

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, 2005 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2005	National amount	Market value	Unrealized gain	National amount	Market value	Unrealized gain
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥ 2,000	¥ 68	¥ 68	$ 19	$ 1	$ 1
Variable rate into fixed rate obligations	2,000	(38)	(38)	$ 19	$ (0)	$ (0)

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 ¥12,263million ($114 million) and ¥12,676million at March 31, 2005 and 2004, 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 ¥10,963 million ($102 million) and ¥13,340 million, for the years ended March 31, 2005 and 2004, respectively.

12. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2005 was 40.6%.
At March 31, 2005 and 2004, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2004	**2005**	**2005**
Deferred tax assets:			
Depreciation and amortization	¥ 7,269	**¥ 8,325**	**$ 78**
Allowance for doubtful accounts	6,858	**8,547**	**80**
Disposal of fixed assets	5,350	**1,681**	**16**
Inventory write down	1,601	**1,711**	**16**
Impairment loss	—	**7,134**	**66**
Reserve for retirement benefits (lump-sum)	20,997	**20,223**	**188**
Reserve for retirement benefits (pension)	2,644	**2,628**	**24**
Allowance for bonus payment	6,007	**6,003**	**56**
Accrued expenses	7,700	**3,443**	**32**
Accrued enterprise taxes	6,265	**5,084**	**47**
Net operating loss carried forward	44,780	**31,318**	**292**
Unrealized profits	5,393	**3,723**	**35**
Reserve for point service program	7,316	**7,775**	**72**
Other	7,546	**7,991**	**74**
Gross deferred tax assets	129,726	**115,586**	**1,076**
Valuation allowance	(54,635)	**(34,939)**	**(325)**
Net deferred tax assets	¥ 75,091	**¥ 80,647**	**$ 751**
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,353)	**¥ (2,023)**	**$ (19)**
Gain on establishment of retirement benefit trust	(20,367)	**(18,172)**	**(169)**
Net unrealized gains on securities	(8,027)	**(6,702)**	**(62)**
Retained earnings for overseas affiliates	(1,066)	**(1,307)**	**(12)**
Other	(1,481)	**(604)**	**(6)**
Total deferred tax liabilities	¥ (32,294)	**¥ (28,808)**	**$ (268)**
Net deferred tax assets	¥ 42,797	**¥ 51,839**	**$ 483**

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, 2005.

Statutory tax rate	40.6%
Special tax treatment for IT investment	(2.6)%
Appropriation of net operating loss carried forward	(1.9)%
Amortization of goodwill	0.6%
Business transfer	(4.7)%
Other	(2.0)%
Effective tax rate	30.0%

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, 2005 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2005	2005
Projected benefit obligations	¥ (259,579)	$ (2,417)
Plan assets	188,124	1,752
Retirement benefit trust	8,168	76
	¥ (63,287)	$ (589)
Unrecognized prior service cost	(9,539)	(89)
Unrecognized actuarial differences	68,007	633
Prepaid pension cost	(15,127)	(141)
Reserve for retirement benefits	¥ (19,946)	$ (186)

Net pension expense related to the retirement benefits for the year ended March 31, 2005 was as follows:

	Millions of yen	Millions of U.S. dollars
	2005	2005
Service cost	¥ 8,706	$ 81
Interest cost	5,189	48
Expected return on plan assets	(3,366)	(31)
Amortization of prior service cost	(797)	(7)
Amortization of actuarial differences	7,742	72
Net pension cost	¥ 17,474	$ 163

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

Discount rate	2.0%
Expected rate of return on plan assets	2.0% (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, 2005 and 2004 is as follows:

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, 2005	Fixed-line	au	TU-KA	PHS	Other	Total	Elimination	Consolidation
	Millions of yen							
I. Sales and Operating Income (loss):								
Outside sales	**¥494,729**	**¥2,067,843**	**¥225,683**	**¥ 85,387**	**¥ 46,397**	**¥2,920,039**	**¥ —**	**¥ 2,920,039**
Intersegment sales	**101,312**	**24,859**	**5,714**	**1,486**	**34,983**	**168,354**	**(168,354)**	**—**
Total	**596,041**	**2,092,702**	**231,397**	**86,873**	**81,380**	**3,088,393**	**(168,354)**	**2,920,039**
Operating expenses	**596,351**	**1,819,596**	**212,965**	**81,397**	**80,429**	**2,790,738**	**(166,875)**	**2,623,863**
Operating income (loss)	**(310)**	**¥ 273,106**	**¥ 18,432**	**¥ 5,476**	**¥ 951**	**¥ 297,655**	**(1,479)**	**¥ 296,176**
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:								
Identifiable assets	**¥616,415**	**¥1,298,828**	**¥225,947**	**¥ —**	**¥ 82,472**	**¥2,223,662**	**¥ 248,660**	**¥ 2,472,322**
Depreciation	**78,720**	**201,658**	**46,645**	**18,659**	**4,997**	**350,679**	**(771)**	**349,908**
Impairment losses	**17,631**	**—**	**184**	**—**	**5,446**	**23,261**	**188**	**23,449**
Capital expenditures	**90,585**	**243,720**	**7,342**	**8,538**	**2,993**	**353,178**	**(582)**	**352,596**

Year ended March 31, 2005	Fixed-line	au	TU-KA	PHS	Other	Total	Elimination	Consolidation
	Millions of U.S. dollars							
I. Sales and Operating Income (loss):								
Outside sales	**$ 4,607**	**$ 19,255**	**$ 2,102**	**$ 795**	**$ 432**	**$ 27,191**	**$ —**	**$ 27,191**
Intersegment sales	**943**	**232**	**53**	**14**	**326**	**1,568**	**(1,568)**	**—**
Total	**5,550**	**19,487**	**2,155**	**809**	**758**	**28,759**	**(1,568)**	**27,191**
Operating expenses	**5,553**	**16,944**	**1,983**	**758**	**749**	**25,987**	**(1,554)**	**24,433**
Operating income (loss)	**$ (3)**	**$ 2,543**	**$ 172**	**$ 51**	**$ 9**	**$ 2,772**	**$ (14)**	**$ 2,758**
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:								
Identifiable assets	**$ 5,740**	**$ 12,094**	**$ 2,104**	**$ —**	**$ 768**	**$ 20,706**	**$ 2,316**	**$ 23,022**
Depreciation	**733**	**1,878**	**434**	**174**	**46**	**3,265**	**(7)**	**3,258**
Impairment losses	**164**	**—**	**2**	**—**	**51**	**217**	**1**	**218**
Capital expenditures	**844**	**2,269**	**68**	**80**	**28**	**3,289**	**(6)**	**3,283**

Notes: 1. Business category and Principal Services/Operations of Each Category, in 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

The year ended March 31, 2005

Business category	Principal services/operations
Fixed-line	Local, long-distance and international telecommunications services, internet services, solution services, data center services
au	au phone services, sale of au phone terminals, mobile solution services
TU-KA	TU-KA phone services, sale of TU-KA phone terminals
PHS	PHS services, sale of PHS terminals
Other	Telemarketing business, content business, research and pioneering development, other fixed-line services, other mobile phone services, other data center services, etc.

2. Change in business category

Previously, KDDI divided its operations into four business categories: BBC & Solutions, Mobile Phone, PHS and Other. From the year ended Marchi 31, 2005, the Mobile Phone segment has been split into “au” and “TU-KA,” while BBC & Solutions has been renamed Fixed-line Business. Consequently, the Company’s operations are now comprised of the following five business categories: Fixed-line Business, au, TU-KA, PHS and Other. In line with this change, fixed-line services provided by overseas subsidiaries will be changed from BBC & Solutions to Other, and mobile phone services provided by overseas subsidiaries will be changed from Mobile Phone to Other.

KDDI implemented a series of business structuring reforms at the end of the fiscal year to more clearly delineate the orientation of the Group’s businesses. In accord with these reforms, KDDI judged that it could more definitively disclose the business contents of the Group’s businesses by changing the business categories to ones employed by internal management.

Segment information by business type for the previous fiscal year is based on business classification and calculation method of assets used in the current fiscal year.

	Millions of yen							
Year ended March 31, 2004	Fixed-line	au	TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (loss):								
Outside sales	¥ 529,120	¥1,817,333	¥ 267,929	¥ 181,036	¥ 50,680	¥2,846,098	¥ —	¥2,846,098
Intersegment sales	93,984	14,453	6,400	2,981	29,691	147,509	(147,509)	—
Total	623,104	1,831,786	274,329	184,017	80,371	2,993,607	(147,509)	2,846,098
Operating expenses	606,683	1,592,317	258,025	162,924	79,826	2,699,775	(145,782)	2,553,993
Operating income (loss)	¥ 16,421	¥ 239,469	¥ 16,304	¥ 21,093	¥ 545	¥ 293,832	¥ (1,727)	¥ 292,105
II. Identifiable Assets, Depreciation and Capital Expenditures:								
Identifiable assets	¥ 614,959	¥1,203,217	¥ 277,493	¥ 192,424	¥ 89,027	¥2,377,120	¥ 262,461	¥2,639,581
Depreciation	83,914	184,857	53,826	38,707	6,431	367,735	(2,035)	365,700
Capital expenditures	65,574	185,734	12,830	12,308	2,952	279,398	(220)	279,178

	Millions of U.S. dollars							
Year ended March 31, 2004	Fixed-line	au	TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (loss):								
Outside sales	$ 5,006	$ 17,195	$ 2,535	$ 1,713	$ 480	$ 26,929	$ —	$ 26,929
Intersegment sales	889	137	61	28	280	1,395	(1,395)	—
Total	5,895	17,332	2,596	1,741	760	28,324	(1,395)	26,929
Operating expenses	5,740	15,066	2,442	1,541	755	25,544	(1,379)	24,165
Operating income (loss)	$ 155	$ 2,266	$ 154	$ 200	$ 5	$ 2,780	$ (16)	$ 2,764
II. Identifiable Assets, Depreciation and Capital Expenditures:								
Identifiable assets	$ 5,818	$ 11,384	$ 2,626	$ 1,821	$ 842	$ 22,491	$ 2,484	$ 24,975
Depreciation	794	1,749	509	366	61	3,479	(19)	3,460
Capital expenditures	621	1,757	121	117	28	2,644	(3)	2,641

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

The appropriation of retained earnings of the Company with respect to the year ended March 31, 2005, proposed by the Board of Directors and approved at the shareholder’s meeting held on June 24, 2005, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥3,500 = US$32.59)	¥ 14,622	$ 136
Bonuses to directors and statutory auditors	73	1

Report of Independent Accountants

KDDI Corporation and Consolidated Subsidiaries

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION

We have audited the accompanying consolidated balance sheets of KDDI CORPORATION and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 7, KDDI CORPORATION and its subsidiaries adopted a new accounting standard for impairment accounting for fixed assets from the year ended March 31,2005 as early adoption of the standard was permitted from the fiscal year ended March 31,2004.

As described in Note 14, the Company changed its classification of industry segment in the year ended March 31,2005.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
June 24, 2005

Major Consolidated Subsidiaries

As of March 31, 2005

au Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
OKINAWA CELLULAR TELEPHONE COMPANY	Jun. 91	¥1,414	51.5%	CDMA cellular phone service under the “au” brand

Fixed-line Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Network & Solutions Inc.	Jul. 96	¥3,383	100.0%	Sales of fixed-line service for medium or small corporations

TU-KA Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
TU-KA Cellular Tokyo Inc.	Jul. 91	¥6,000	100.0%	PDC cellular phone service
TU-KA Cellular Tokai Inc.	Feb. 92	¥3,000	100.0%	PDC cellular phone service
TU-KA Phone Kansai Inc.	Oct. 91	¥18,110	100.0%	PDC cellular phone service

Other Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Evolva Inc.	May. 96	¥468	100.0%	Call center services, security services, operation and administration of buildings and peripheral facilities, etc.
mediba corporation	Dec. 00	¥490	51.0%	Planning, producing and distribution of advertisements on mobile Internet
Duogate Inc.	Dec. 04	¥490	66.5%	Planning and management, etc. of PC portal site linked with mobile phone services
KMN Corporation	Jun. 98	¥626	90.0%	Internet provider service through CATV
KDDI R&D Laboratories, Inc.	Apr. 98	¥2,283	91.7%	Research and development of new technologies and sales of developed products
KOKUSAI CABLE SHIP CO., LTD.	Mar. 66	¥135	100.0%	Construction and maintenance of submarine cables
Japan Telecommunication Engineering Service Co., Ltd.	Jun. 99	¥470	71.3%	Construction and maintenance of optical fiber network along highways
KDDI Technology Corporation	Aug. 88	¥494	100.0%	Development and consulting of image data processing system
KDDI Media Will Corporation	Aug. 99	¥142	69.1%	Research, development, production and sales of digital imaging products

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI AMERICA, INC.	Jul. 89	US$ 84	100.0%	Telecommunications services in the U.S.
KDDI EUROPE LTD.	Jul. 89	£ 43	100.0%	Telecommunications services in Europe
KDDI FRANCE SAS.	Nov. 96	EUR 4	100.0%	Telecommunications services in France
KDDI DEUTCHLAND GMBH.	Apr. 92	EUR 1	100.0%	Telecommunications services in Germany
KDDI HONGKONG LIMITED	Jan. 89	HK$ 101	100.0%	Telecommunications services in HongKong
KDDI SINGAPORE Pte. Ltd.	Sep. 89	S$ 4	100.0%	Telecommunications services in Singapore
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	AU$ 16	100.0%	Telecommunications services in Australia
KDDI do Brasil Ltda.	Apr. 96	R$ 4	67.8%	Internet provider and IT-related business in Brazil
TELEHOUSE INTERNATIONAL CORPORATION OF AMERICA LTD.	Jun. 87	US$ 45	58.2%	Secure IT housing, telecommunications facilities management in the U.S.
TELEHOUSE INTERNATIONAL CORPORATION OF EUROPE LTD.	Mar. 88	£ 47	84.5%	Secure IT housing, telecommunications facilities management in Europe
KDDI China	Oct. 01	RMB 13	80.0%	Telecommunications consulting services in China
HOLA Paraguay S.A.	Sep. 98	GS 288,650	69.6%	Cellular phone service in Paraguay

Organization

As of June 1, 2005

- Shareholder's Meeting
- Board Meeting — Office of Corporate Auditors
- Chairman
- Vice Chairman
- President
- Corporate Management Committee
  - HOKKAIDO Administration Office
  - TOHOKU Administration Office
  - KITA-KANTO Administration Office
  - Shinjuku Office
  - MINAMI-KANTO Administration Office
  - CHUBU Administration Office
  - HOKURIKU Administration Office
  - KANSAI Administration Office
  - CHUGOKU Administration Office
  - SHIKOKU Administration Office
  - KYUSHU Administration Office
  - Corporate Risk Management Division
  - Corporate Communications Division
  - Corporate Strategy Division
  - Marketing Division
  - Corporate Management Division
  - General Administration Division
  - Legal & Intellectual Property Division
  - Competency Enhancement Division
  - Corporate Purchasing Division
  - Information Systems Division
  - Customer Service Division
  - Content and Media Business Sector
  - Service Operations Sector
    - Operations Division
    - Construction Division
  - Office of CTO
    - Strategic Planning Division
    - IT Development Division
    - Network Engineering Division
    - Platform Development Division
  - Mobile Solution Business Sector
    - Mobile Solution Business Planning Division
    - Mobile Solution Sales Division
    - Mobile Solution Product Development Division
  - Network Solution Business Sector
    - Network Solution Business Management Division
    - Network Solution Engineering Division
    - Network Solution Domestic Sales Division
    - Global Business Division
  - Broadband & Consumer Business Sector
    - Broadband & Consumer Business Planning Division
    - Broadband & Consumer Sales Division
    - Broadband Promotion Division
  - "Metal Plus" Business Manegement Division
  - "au" Business Sector
    - "au" Business Strategy Division
    - "au" Service & Product Planning Division
    - "au" Technology Division
    - "au" Engineering Division
    - "au" Sales Division

Corporate History

	DDI	IDO	KDD	TWJ	Telecommunications sector
1953			established		
1961			listed on the Second Section of the Tokyo Stock Exchange		
1964			joined in the INTELSAT the TPC-1 launched		
1970			listed on the First Section of the Tokyo Stock Exchange		
1973			International Direct Dialing service launched		
1976			the TPC-2 launched		
1977			joined in the INMARSAT		
1984	established			established	
1985					liberalization of the telecommunication sector
1987	domestic telephone service launched			domestic telephone service launched	
1988	cellular companies established	established	the TPC-3 launched		
1989	analog cellular telephone service launched				
1990					
1991					
1992			the TPC-4 launched		
1993	listed on the Second Section of the Tokyo Stock Exchange				
1994	digital cellular telephone service "PDC" launched				liberalization of sales of cellular telephones
	PHS Company (DDI Pocket) established				
1995	PHS service launched				
	listed on the First Section of the Tokyo Stock Exchange				
1996			the TPC-5 launched		
1997	Internet service "DION" launched				
1998	digital cellular telephone service "cdmaOne" launched		Merger of KDD and TWJ		the KDD law abolished
1999	Acquisition of TU-KA Group		the JIH launched		
2000	Merger of DDI, KDD and IDO				
2001	au Corporation merged to KDDI				the MYLINE registration started
2002	the Third-Generation cellular telephone service "CDMA2000 1x" launched				
2003	VoIP (Voice over IP) service launched "KDDI Hikari Plus" (FTTH Service) launched the Third-Generation cellular telephone service "CDMA 1X WIN" launched				
2004	Transferred PHS business (DDI Pocket)				
2005	"KDDI Metal Plus" launched				
	100% subsidairised of TU-KA GROUP				

Notes 1) TPC : Trans Pacific Cable
2) INTELSAT : International Telecommunications Satellite Organization
3) INMARSAT : International Mobile Satellite Telecommunications Organization
4) TWJ : Teleway Japan Corporation
5) JIH : Japan Information Highway (the submarine fiber-optic cable that encircles the Japanese archipelago in a loop configuration.)

Directors, Auditors and Vice Presidents

As of June 24, 2005

Directors

Sadanori Amano
Vice Chairman
Member of the Board

Tadashi Onodera
President and Chairman

Masahiro Yamamoto
Executive Vice President
Group Strategy
and Corporate Administration
Member of the Board

Nobuhiko Nakano
Executive Vice President
Marketing and Sales
Member of the Board

Yasuhiko Ito
Executive Vice President
Technology
Member of the Board

Satoshi Nagao
Executive Vice President
Finance and Public Relations
Member of the Board

Nobuo Nezu
Senior Vice President
General Manager,
Broadband & Consumer
Business Sector
and Metal Plus Business
Management Division
Member of the Board

Hirofumi Morozumi
Associate Senior Vice
Preisident
General Manager,
au Business Sector
Member of the Board

Jiro Ushio
Member of the Board

Yasuo Nishiguchi
Member of the Board

Hiroshi Okuda
Member of the Board

Auditors

Standing Statutory Auditors
Akira Hioki
Yoshiaki Tsuji

Statutory Auditors
Yasuo Akashi
Katsuaki Watanabe

Vice Presidents

Senior Vice President
Masahiro Inoue

Vice Presidents
Hitomi Murakami
Tomoyoshi Kaneko
Yuji Tsuda
Hiroshi Kitagawa
Yuzo Ishikawa
Hisashi Fujishita
Seiji Hamada
Toshiyuki Fujino
Shunsuke Oyama
Yuji Fujimoto
Yutaka Yasuda
Yoshiharau Shimatani
Hideo Okinaka
Takahito Shigeno
Hideo Yuasa
Toru Kawai
Takashi Tanaka
Makoto Takahashi
Hiromu Naratani
Ichiro Kondou
Kantarou Nakaoka
Toshio Maki
Kiyoshi Sato
Susumu Oshima

Corporate Overview

As of June 24, 2005

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Head Office:	10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
(Registered Place of Business:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-0083, Japan)
President:	Tadashi Onodera
Capital:	¥141,851 million
Number of Employees:	12,373 (consolidated)

Stock Information

As of March 31, 2005

Total Number of Shares Authorized:	7,000,000
Total Number of Shares Issued and Outstanding:	4,240,880.38
Number of Shareholders:	118,996

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Percentage of Total Shares
Kyocera Corporation	572,675.87	13.50%
Toyota Motor Corporation	497,425.23	11.72%
The Master Trust Bank of Japan, Ltd. (Trust Account)	283,605.00	6.68%
Japan Trustee Services Bank, Ltd. (Trust Account)	252,936.00	5.96%
The Chase Manhattan Bank N.A. London	138,003.00	3.25%
State Street Bank & Trust Co.	85,839.00	2.02%
Ministry of Posts and Telecommunications Mutual Aid Association	72,641.45	1.71%
The Chase Manhattan Bank N.A. London SL Omnibus Account	56,458.00	1.33%
The Tokyo Electric Power Company, Incorporated	56,340.55	1.32%
State Street Bank & Trust Co. 505103	51,741.00	1.22%

Distribution of Shares

	Number of Shareholders	Number of Shares Held	Percentage of Total Shares
Financial Institutions	245	1,136,812.37	26.81%
Securities Firms	51	31,493.03	0.74%
Foreign corporations, etc.	617	1,222,601.57	28.83%
Individuals and other	116,645	341,534.69	8.05%
Other corporations	1,438	1,508,438.72	35.57%

Investor Relations Website

URL; http://www.kddi.com/english/corporate/ir/index.html

A variety of IR contents like presentation materials, web-castings, financial statements and annual reports, etc. is on this site. Moreover, e-mail will be delivered at the right time updated information of this site and new au handset model release etc. when registering in “E-mail Alerts”. We will wait for registration of everybody.

KDDI CORPORATION

KDDI CORPORATION
GARDEN AIR TOWER, 3-10-10, Iidabashi, Chiyoda-ku, Tokyo 102-8460, Japan
Investor Relations Department, Corporate Communications Division
Tel: +81-3-6678-0692 Fax: +81-3-6678-0305

R100
古紙配合率100％再生紙を使用しています。

PRINTED WITH SOY INK™
Trademark of American Soybean Association

Printed in Japan