Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
March 31, 2004 and 2005	2004	**2005**	**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

March 31, 2004 and 2005	Millions of yen 2004	Millions of yen 2005	Millions of U.S. dollars (Note 1) 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**

March 31, 2004 and 2005	Yen 2004	Yen 2005	U.S. dollars (Note 1) 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

	Millions of yen		Millions of U.S. dollars (Note 1)
Years ended March 31, 2004 and 2005	2004	**2005**	**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

	Millions of yen			Millions of U.S. dollars		
2005	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥ 3,355	¥ 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

	Millions of yen			Millions of U.S. dollars		
2005	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Other securities sold	¥ 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