



Management Reform of New KDDI

May 18, 2001

KDDI Corporation

New KDDI: Three Reforms

Speed up Decision Making

- Reduce the number of directors to speed up decision making
- Clarify responsibilities

Reform Business Strategy

- Focus on Mobile(au)&IP
- Concentrate the company's entire resources on au in the short-term

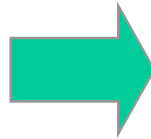
Reform Financial Structure

- Improve efficiency of capital expenditures
- Reduce interest-bearing debt

CONTENTS

Analysis of Present Condition

- Core business is unclear after the merger
- Weak marketing
- Redundant investments in mobile business
- Merger led to increase of interest-bearing debt
- Inflexible organizational structure



KDDI Management Reform

1. Management Policy

- Clarify business portfolio
- Clarify capex policy going forward
- Encourage business structural reform
- Reduce interest-bearing debt

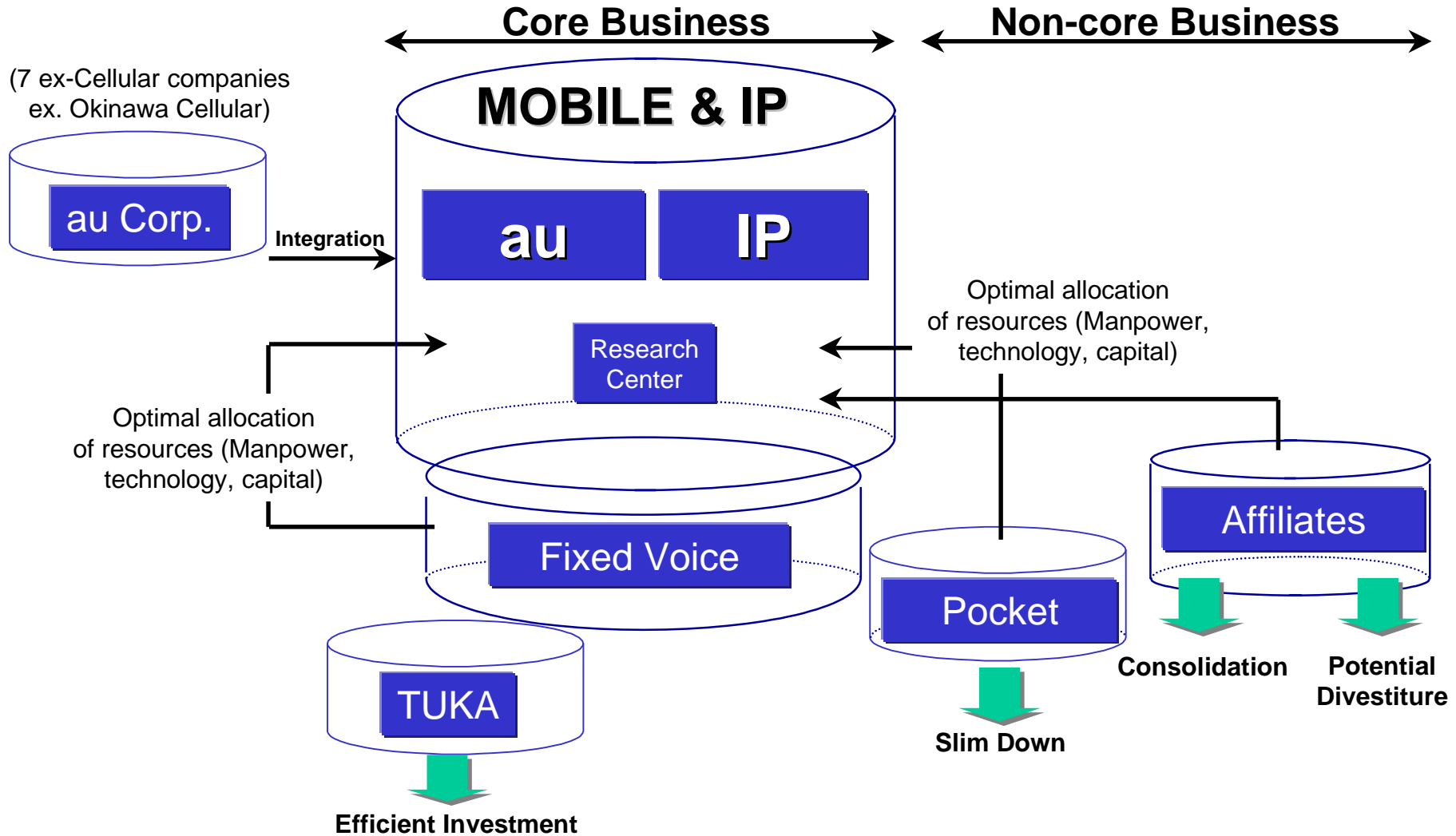
2. - Operation with au at Core

- Proactive efforts in IP business



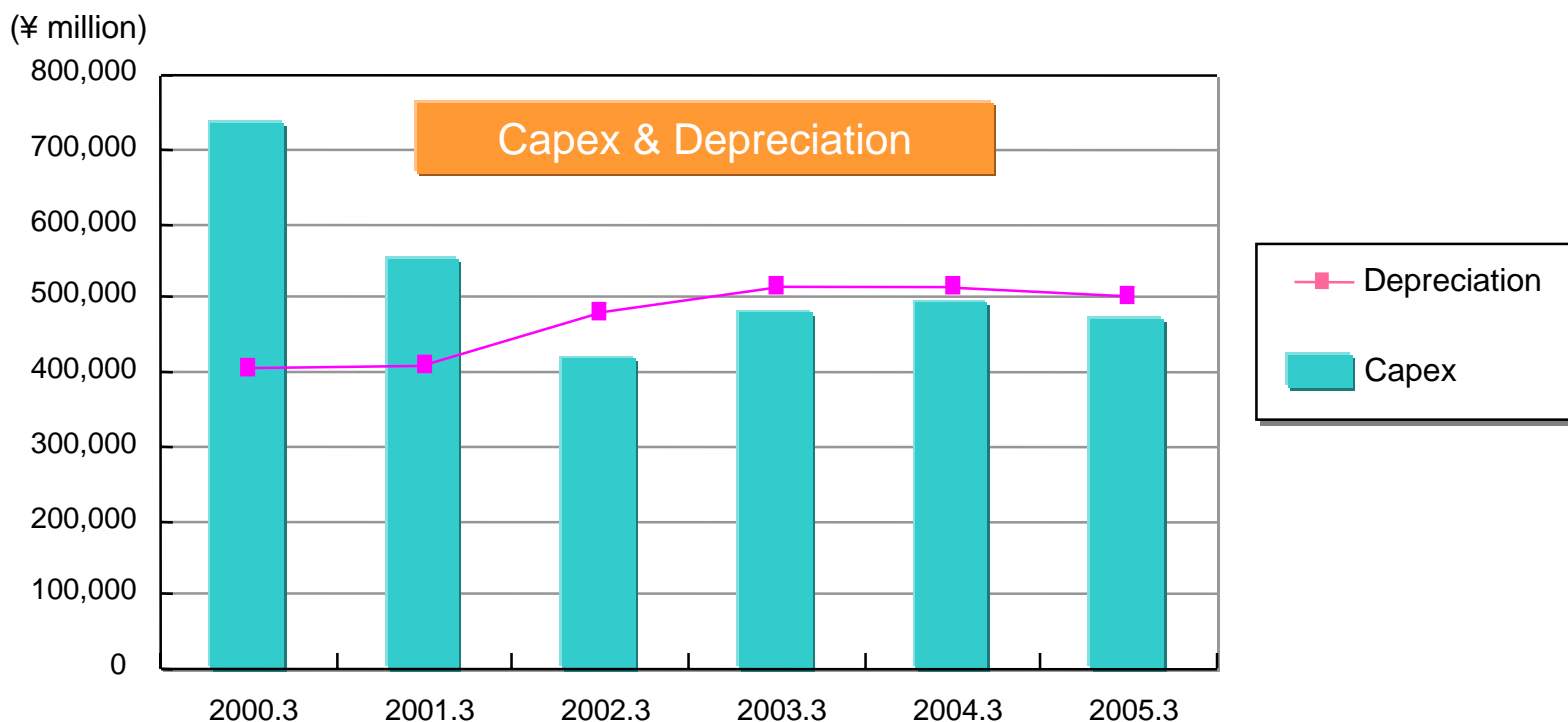
3. Achieve Mid-term Earnings Target

(1) Clarification of Business Portfolio



(2) Clarification of Capex Strategy Going Forward

- From FY2001, over 90% of Capex to be directed towards Mobile & IP investments
- Maintain competitiveness of core business through focused efficient investment, while limiting total group capex to the amount of depreciation
- Develop 3G cellular phone operation with focus on 800MHz (aim to maximize earnings in 800MHz)



(3) Encourage Reform of Business Structure ①

- Company Structure of au
 - Integrate au Corporation, a wholly owned subsidiary, into KDDI parent
- Pocket
 - As a non-core business, shift focus of Pocket operations to data during FY2001 and slim down by integrating marketing and administrative divisions into KDDI
- Tuka
 - Limit additional investment
 - Provide low cost PDC service
- Reduction of Directors
 - From 53 at the time of merger to 13 on or after June 26, 2001
- Review Operations of Affiliates
 - Strengthen through reorganization of solution related companies
- Consolidation of international offices
 - Focusing on profitability, consolidate international offices from 31 to 21

(3) Encourage Reform of Business Structure ②

- Optimal Allocation and Reduction of Employees
 - Optimal allocation of human resources to Mobile & IP
 - Already reduced headcount by 560 persons from 14,800 at the time of merger to 14,240 as of March 2001. Aim to reduce by a further 2,000 by March 2005 to 12,240 (previous target was 12,700)
- Organizational Change to Improve Business Execution speed (to be introduced June 26, 2001)
 - Position all 13 directors as board members, discuss strategy from group point of view
 - Abolish existing five sectors and flatten organizational structure with a direct reporting line to President from each division
 - KDDI has been managed by 12 directors responsible for sector management and 22 directors underneath in charge of divisions. Going forward, the business will be managed more rapidly by 13 board members and 16 heads in charge of the underlying divisions

(4) Reduction of Debt:Balance Between Stability and Growth

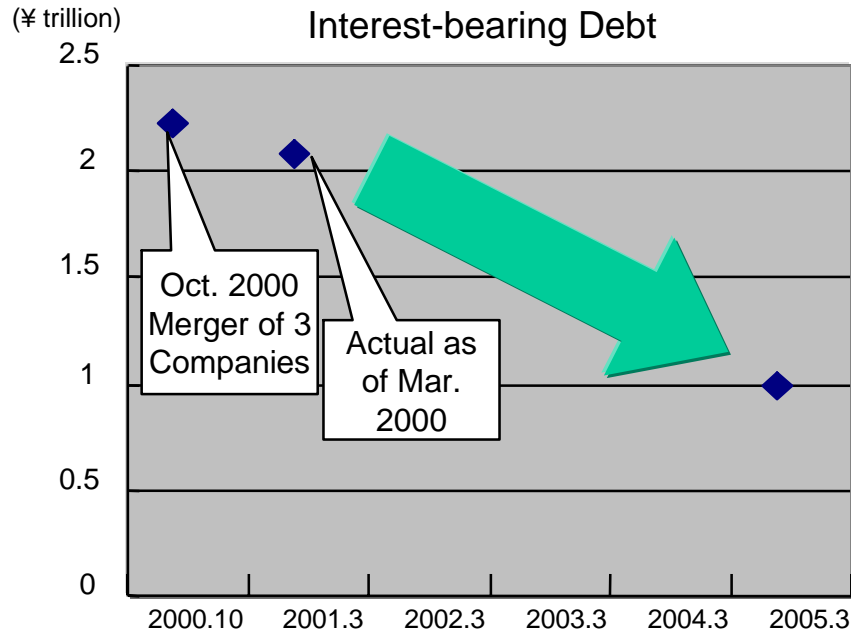


Debt-to-Equity ratio

Debt-to-EBITDA,
debt coverage ratios



Capex focus on
core business



• Repayment from free cash flow	¥600 billion
• Property securitization, asset sales	¥400 billion
Total Reduction	¥1 trillion

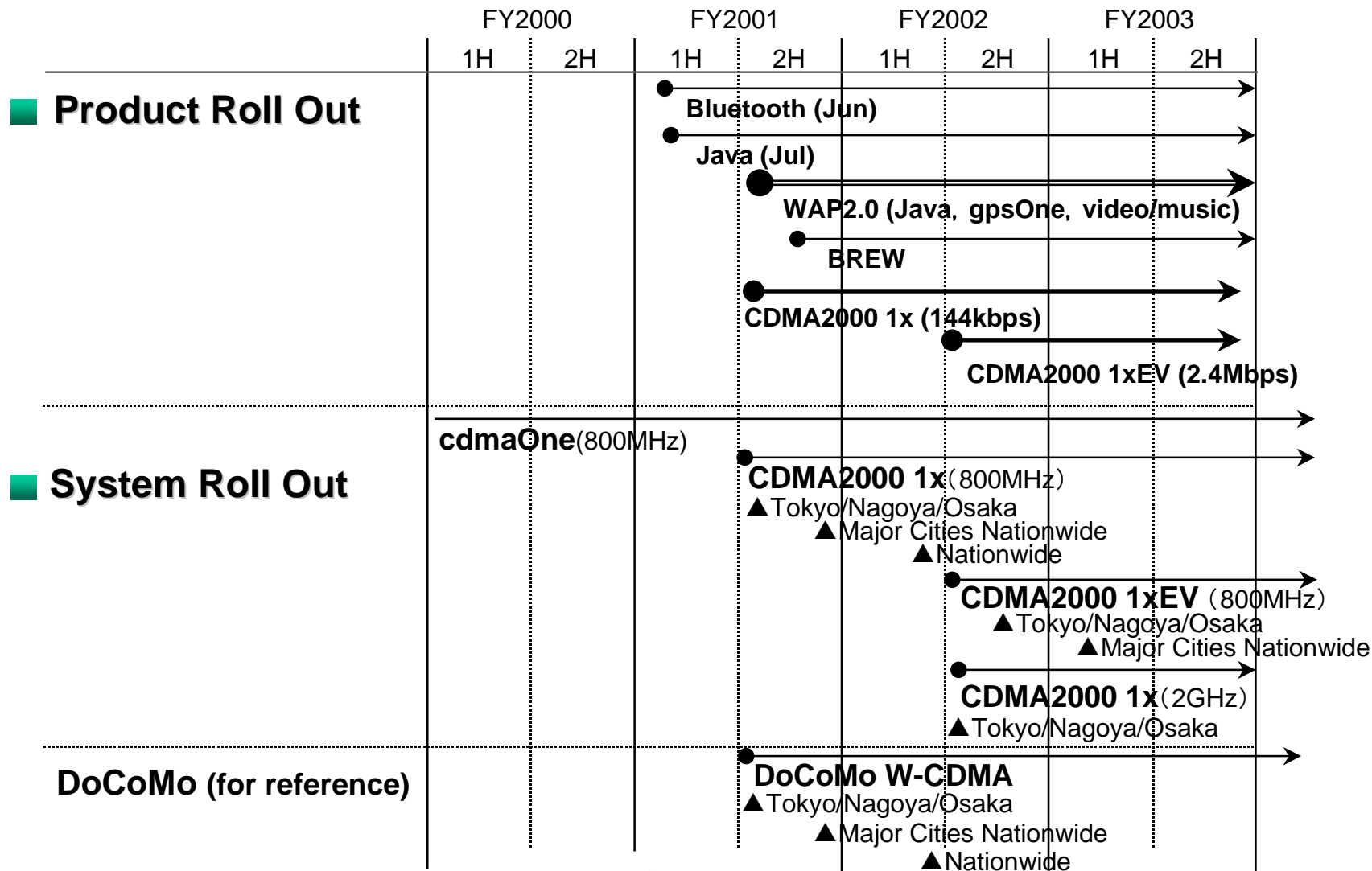
(1) au Operations: Basic Strategy

- **Gain operating share of over 20% (17 million subscribers) by March 2005**

FY01-02 offers best opportunity to gain market share amid particularly strong market expansion and before full scale development of W-CDMA by competitors
- **Improve competitiveness by introduction of WAP2.0 mobile handsets and definite launch of “CDMA2000 1x (800MHz)” infrastructure**
 - ① WAP2.0 mobile handsets: Java, gpsOne, built-in music download/video replay function
 - ② CDMA2000 1x (800MHz) development: expansion of coverage by targeted capex
 - ③ Enhance ease of data communication at effective speed of 64kbps
- **Further improvement of data communication competitiveness by introduction of CDMA2000 1xEV(800MHz*) and creation of new markets (e.g. Koko Secom)**

*Initial introduction from 800MHz range
- **Lower churn rate by thorough brand/marketing strategy and quality service**

(1) au Operations: Business Roll Out Schedule



(1) au Operations: Differentiation from Competitors

■ Application

- JAVA: - JAVA Applets size of 50KB ⇔ DoCoMo 10KB, J-phone 30KB
- Built-in agent function (competitors have no such plans)
- WAP2.0: Introduction ahead of competitors of next generation version: capable of browsing i-mode content (launch scheduled after Spring 2002)
- gpsOne: Introduction of high-accuracy position information function ahead of competitors

■ CDMA2000 1xEV

- Provision of “High-speed (Max. 2.4Mbps, average 600kbps) High-capacity Mobile Internet” through realization of virtual flat rate, virtual continuous connection usage environment

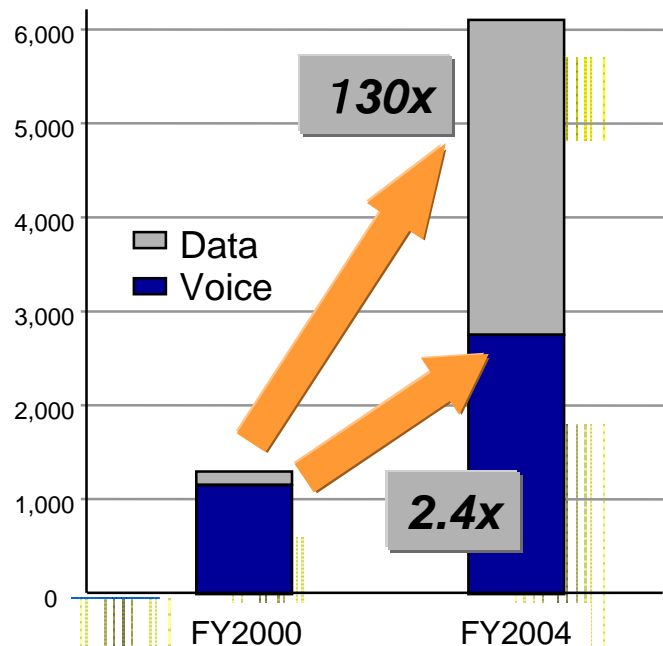
■ Development of cooperative partners (ASPs, content developers)

■ BREW

- Provision of environment for usage of large scale application (middleware), to address expected future growth

(1) au Operations: CDMA2000 1x, CDMA2000 1xEV Investment Plan

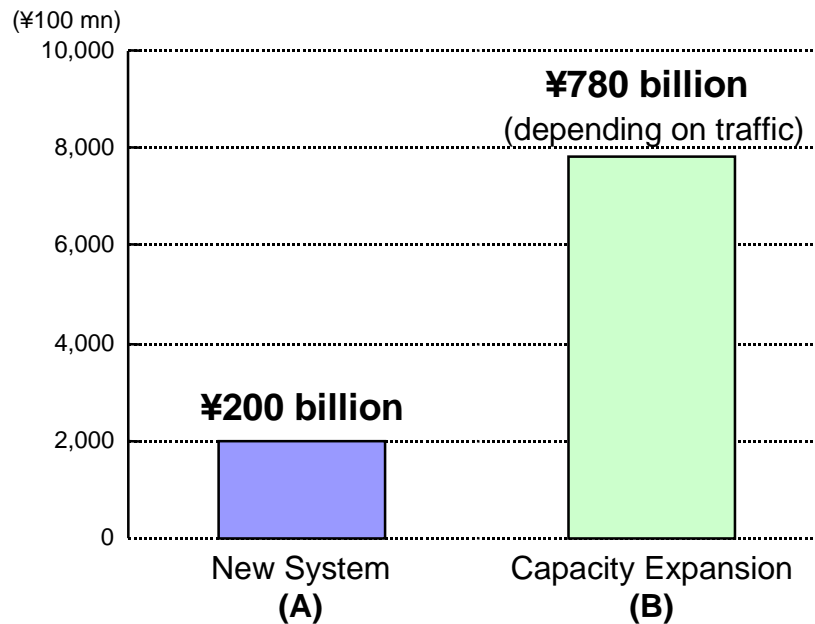
(terabyte) Annual Total Traffic Projection



Data communication traffic is estimated to increase rapidly going forward due to penetration/expansion of data-only terminals and enhanced content services such as video/music distribution.

⇒ **Capture increased data traffic with new systems (CDMA2000 1 x and CDMA2000 1xEV)**

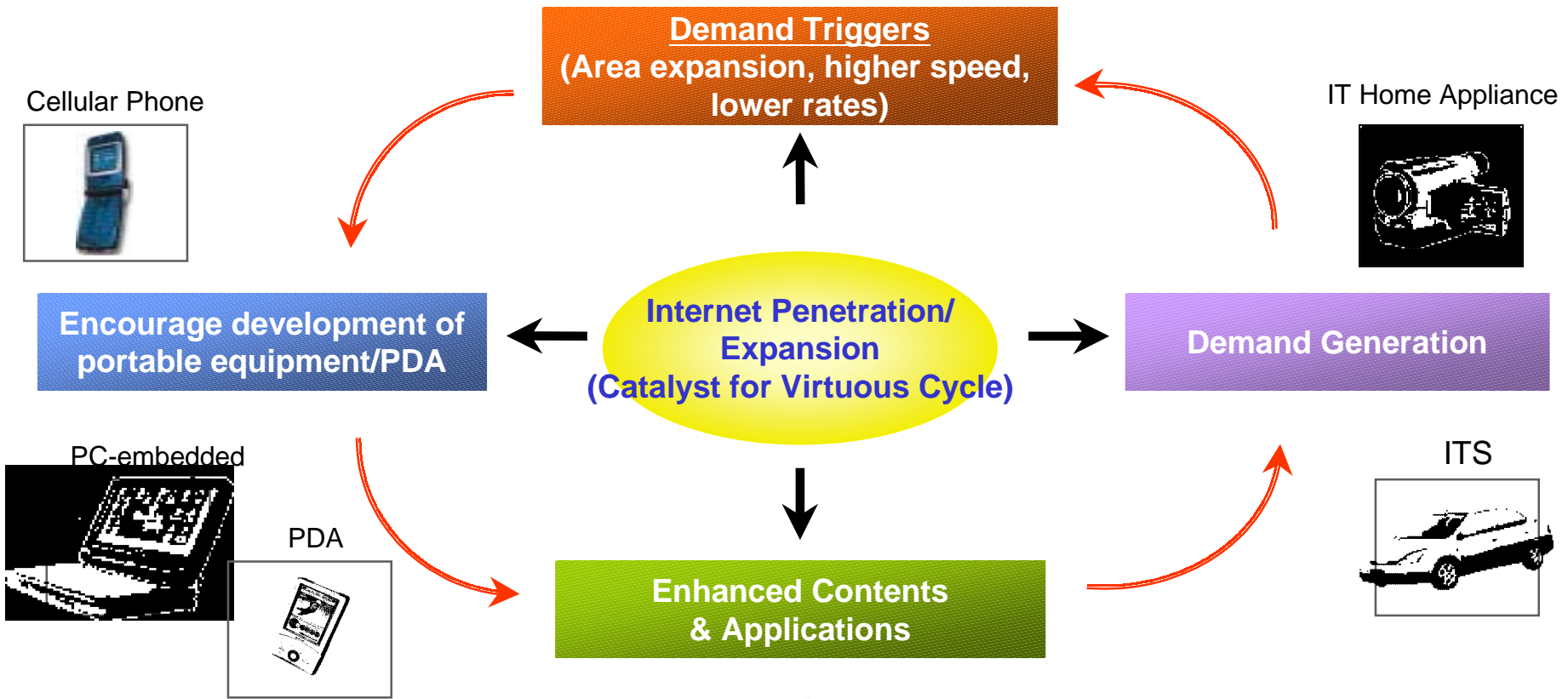
Cumulative Investment Plan for New Generation Cellular Phone, FY2001-2004



- (A): Investment necessary to launch new systems CDMA2000 1x (2GHz) and CDMA2000 1xEV (800MHz). Investment in 2GHz range by competitors is said to be around ¥1 trillion
- (B): Investment in other systems to meet traffic growth demands (mainly 800MHz range CDMA2000 1x)

(1) au Operation: Creation of New Markets - CDMA20001xEV

**Carriers must pull trigger to generate demand for high-speed/large capacity wireless data
⇒ Jump-start virtuous cycle**



(2) IP Operation: Basic Policy

■ Integration of Mobile & Fixed Line

■ Broadband (ADSL, FTTH, FWA)

- Development focused on applications rather than infrastructure
- Broadband trial in 2001

■ *dot square* (Data Center)

- Use data centers to capture new business, from major ISPs/ASPs to small e-businesses
- Enter new businesses such as storage services

■ ITS

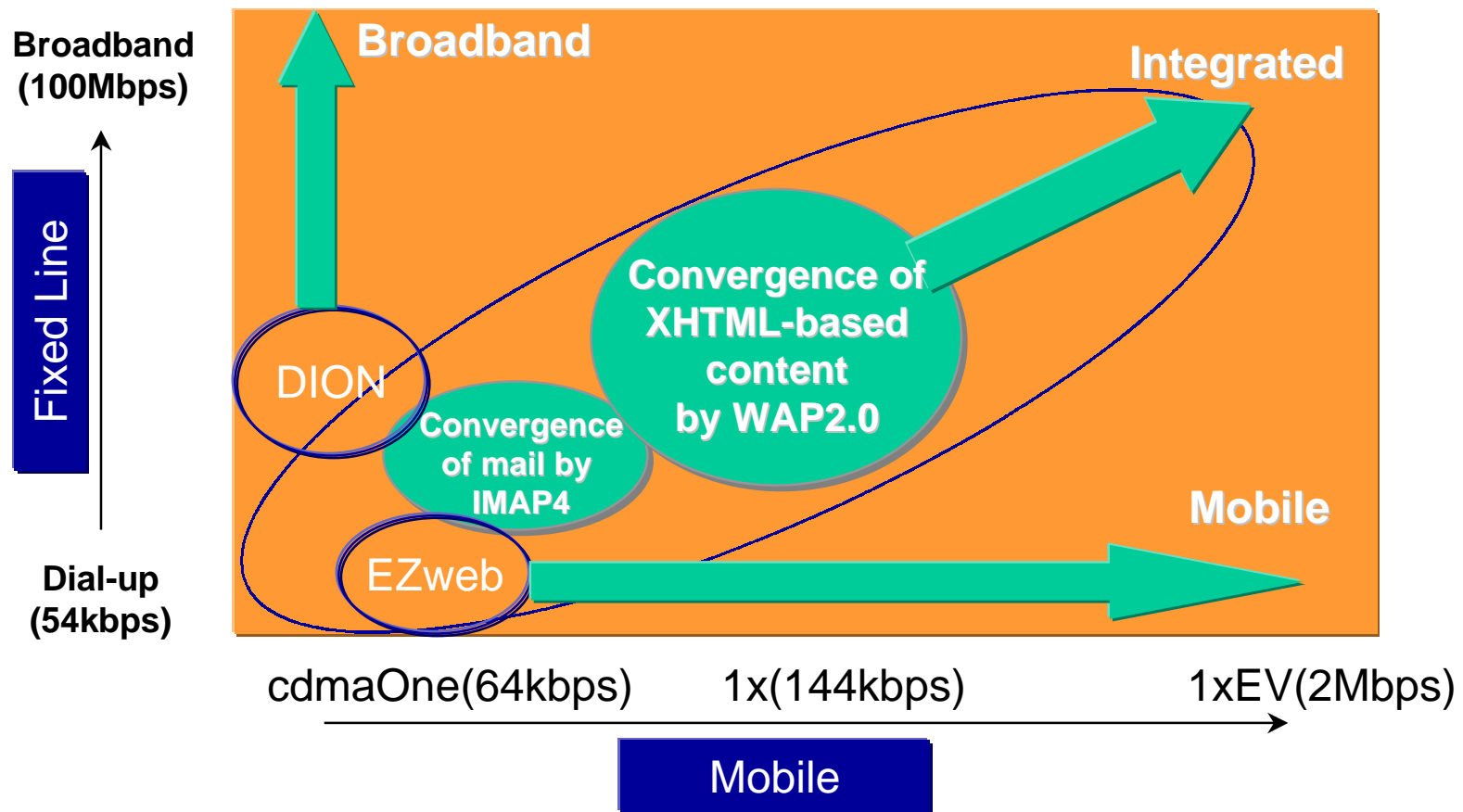
- Technical verification using 1x, 1xEV-DO to be undertaken as soon as possible
- Early establishment of business model

■ Solution

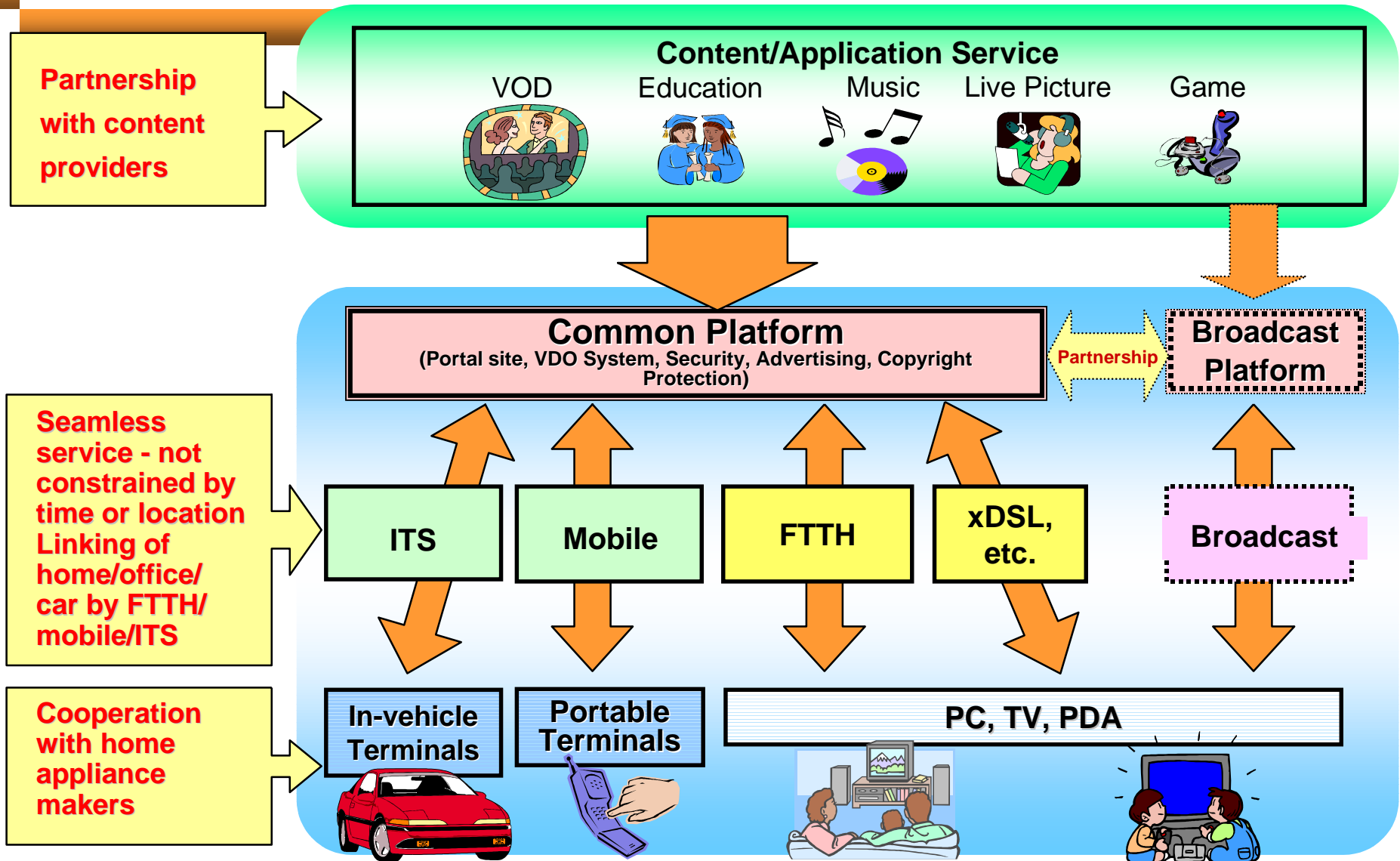
- Develop solution business by leveraging fixed line, mobile services

(2) IP Operation: Integration of Mobile & Fixed Line

- Fixed line portal and content operators are paying attention to mobile due to a sharp increase in mobile Internet users. In particular, there are high hopes for a platform encompassing KDDI's 1x, 1xEV-DO and Brew



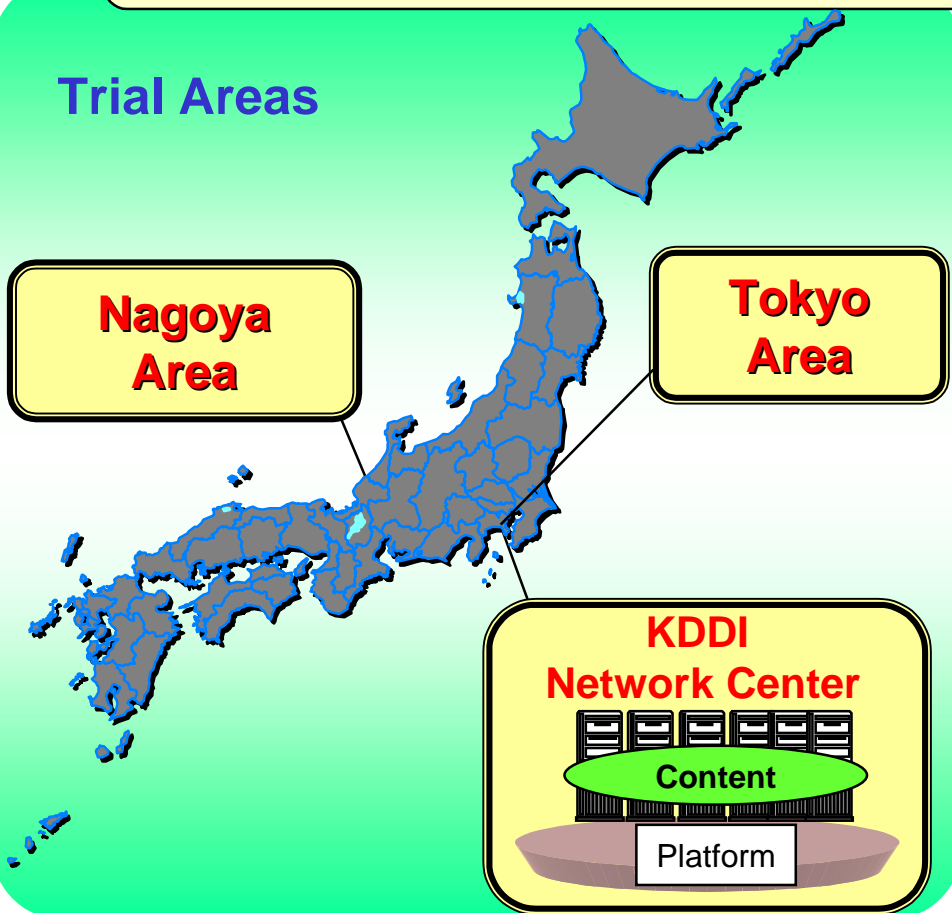
1. Image of Broadband Business



(2) IP Business: FTTH Trial

2001: Begin trials in preparation for commercialization of mobile link-enabled FTTH network

Trial Areas



Offer Structure

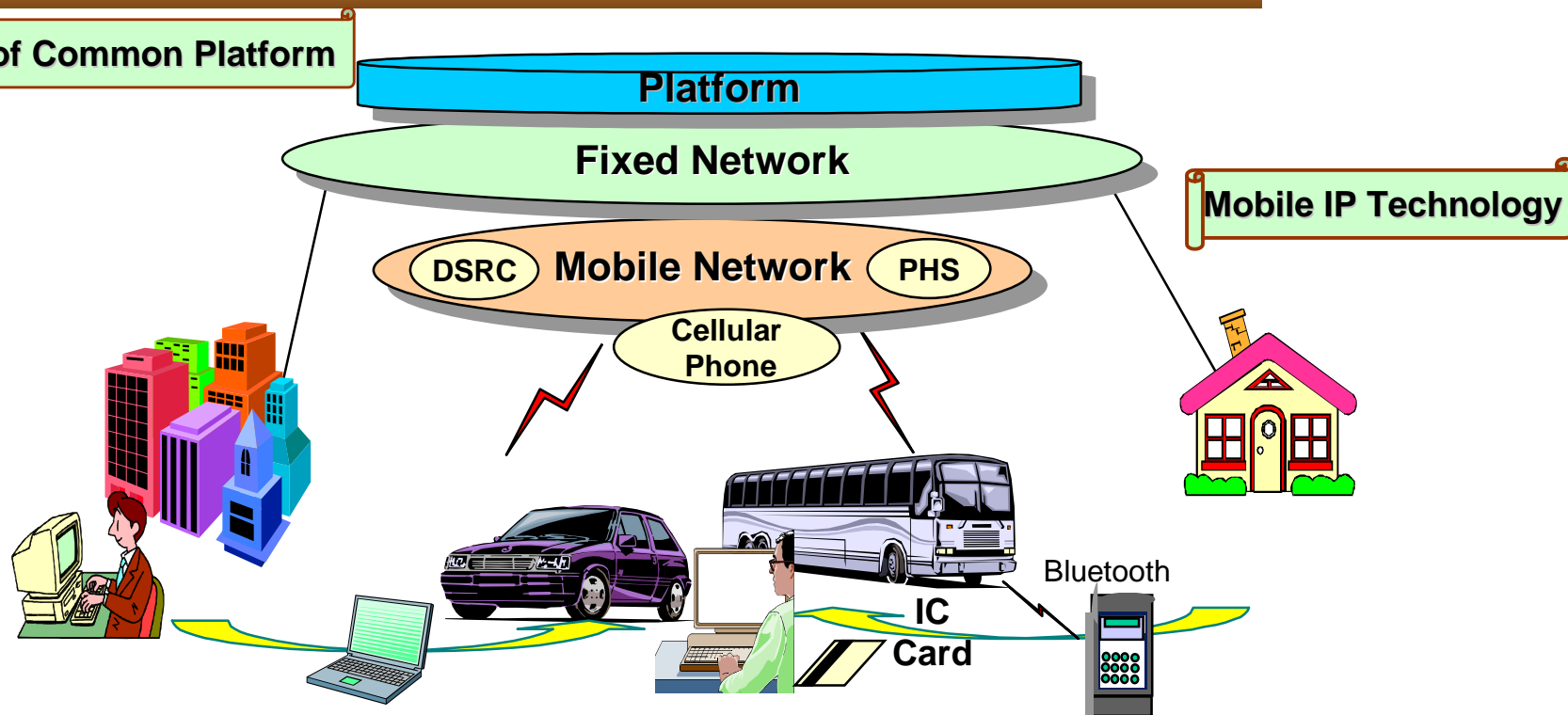
- Cooperation with content providers, home appliance makers and other broadband related companies

Service Provided

- Provision of full service using ultra-high speed bandwidth optical fiber
- Maximum bandwidth of 100Mb/s

Service Items
Quality IP telephone service
Ultra high speed Internet
Video service (VoD, HDTV)
Multi location TV telephone
Music service
Information (Administration, Regional)
Game
Mobile link

(2) IP Business: Seamless Linkage of Home, Office and Car



- Provide customers with services available via portable information equipment carried freely to home/office/car
- Broad-based business development linked to content business and mobile commerce.
- Commissioned research on in-car network access, mobile IP technology and DSRC, integration with next generation mobile networks*

* Joint research with Toyota and major electric makers as part of TAO project (Telecom/Broadcast Institute, led by Ministry of Public Management, Home Affairs, Posts and Telecommunications)

Achieve Target by Implementing Management Reform

KDDI Group Consolidated

	FY 2000 *	FY 2001 (Estimate)	FY 2004 (Estimate)
Total Sales (¥100mn)	28,164	30,100	39,000
Ordinary Income (¥100mn)	596	1,100	3,300
EBITDA (¥100mn)	5,139	6,300	9,000
EBITDA Margin	18.2%	21.2%	23.0%

* March 2001 figures are based on the Three-Company Total, and therefore differ from the official announced results

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