

October 13, 2005

KDDI Corp.
Tokyo Electric Power Co.
POWEREDCOM Inc.

Basic Agreement on the Merger with KDDI and POWEREDCOM and on the Alliance in the FTTH

Tokyo, October 13, 2005 — KDDI Corp. (represented by President and Chairman Tadashi Onodera, hereinafter referred to as "KDDI"), Tokyo Electric Power Co. (represented by President Tsunehisa Katsumata, hereinafter referred to as "TEPCO"), POWEREDCOM Inc. (represented by President and CEO Shigeru Nakane, hereinafter referred to as "POWEREDCOM ") have agreed at their board meetings today to sign a basic agreement on the merger between KDDI and POWEREDCOM. Also, KDDI and TEPCO hereby announced to form a comprehensive alliance in telecommunications services with an aim to compete against the NTT Group, and reached an agreement on the provision of integrated services in the FTTH business.

Under this comprehensive alliance, KDDI and the TEPCO Group will integrate their telecommunications-related management resources with an aim to form a stronger telecommunications service group, and win in the intensifying competition in the telecommunications market and provide customers with services of the highest level by realizing the convergence of telecommunications services and energy services (FMC + E: convergence of fixed and mobile communications + energy),^(Note) removing the walls between different lines of business.

Moreover, the alliance aims to meet the expectations of Japan's people and society and fully contribute to the development of economy and society by forming as early as possible a business group that is strong enough to compete against the NTT Group.

Note: FMC + E stands for Fixed Mobile Convergence + Energy, i.e., the integrated services of fixed-line communications, mobile phone and energy.

1. Merger between KDDI and POWEREDCOM

POWEREDCOM is a leading company that boasts the largest share in the wide-area Ethernet service market that is expected to rapidly expand from now on in the corporate fixed-line data communications market where competition is very keen.

As an integrated common carrier, on the other hand, KDDI is fully prepared to meet the needs of corporate customers, including fixed-line communications services, international communications services, and mobile phone services. KDDI will try to

improve customer satisfaction by further improving services and customer convenience through the merger.

2. Alliance in FTTH Business

KDDI and TEPCO plan to integrate KDDI's CDN^(Note) for video distribution services and TEPCO's high-quality fiber-optic networks within this year to combine together the telecommunications services now being provided respectively by KDDI and TEPCO, and provide integrated services that are highly marketable and price competitive.

KDDI and TEPCO have also agreed that: KDDI would bear part of the funds to be invested by TEPCO in equipment and facilities for the planned integrated services; and the two companies would start specific discussions about consolidation or joint undertaking through the separation of their respective business units as the form of alliance in the FTTH business in the future.

KDDI and TEPCO will continue to build a strong alliance and try to improve customer satisfaction based on the improvement of services and customer convenience.

Note: CDN stands for Contents Delivery Network, i.e., a contents distribution network suited for distribution of videos and audios by using IP technology, large capacity lines, etc.

1. Outline of Merger

(1) Schedule of Merger

Meeting of board of directors to authorize the basic agreement:

October 13, 2005

Conclusion of the basic agreement:

October 13, 2005

Meeting of board of directors to authorize the merger agreement:

November 2005 (scheduled)

Conclusion of the merger agreement:

November 2005 (scheduled)

General shareholders meeting to authorize the merger agreement (POWEREDCOM):

November 2005

* As this merger comes under the short-form merger stipulated by Article 413.3.1 of Commercial Law, KDDI as the merging company does not hold a general meeting of shareholders for authorization of the merger agreement.

Date of the merger:

January 1, 2006 (scheduled)

Date of registration of the merger:

early January 2006 (scheduled)

If uncontrollable circumstances should happen in the process of proceeding with procedures from now on, the above-mentioned scheduled may be changed upon consultation by the three parties concerned.

(2) Form of Merger

As for the merger between KDDI and POWEREDCOM, KDDI will be the existing company.

(3) Merger Ratio

Company name	KDDI	POWEREDCOM
Merger ratio	1	0.0320

- Share exchange ratios

For a share of POWEREDCOM, 0.0320 shares of KDDI will be allocated, while no allocation will be made for 9,897.34 shares of POWEREDCOM which KDDI holds as well as for POWEREDCOM's treasury stocks.

- Method and basis for calculation of share exchange ratios

Calculation of the equity value of each company was commissioned to the third parties, Mizuho Securities Co.,Ltd by KDDI and Nikko Citigroup Limited by POWEREDCOM.

Mizuho and Nikko Citigroup performed an analysis of the market stock price method, the discounted cash flow method, the market stock price method and other appropriate methods. KDDI and POWEREDCOM determined the equity values, with the results submitted thereafter.

KDDI received a fairness opinion from Mizuho and POWEREDCOM from Nikko Citigroup respectively from a financial viewpoint. The above share exchange ratio, however, may be reviewed upon consultation of the two companies if significant changes occur to the conditions for the basis of calculation.

- Number of new shares to be issued upon merger

Common stock: 186,376.48 shares (planned)

Date of Stock Allocated : January 4, 2006 (scheduled)

Date of Beginning for Dividend Receivable: October 1, 2006 (scheduled)

(4) There will be no merger subsidy to be paid.

(5) Preparation for Merger

To smoothly and speedily promote the merger operations, KDDI and POWEREDCOM form their merger preparation committee that is chaired by Masahiro Yamamoto (Executive Vice President and Member of the Board of KDDI).

(6) Others

After the merger, one managing officer is scheduled to be assigned to KDDI from POWEREDCOM (on the day of the merger). One member of the board is scheduled to be sent to KDDI from TEPCO (at the time of the general meeting of stockholders in 2006).

The stocks of the subsidiaries, etc. owned by POWEREDCOM (Dream Train Internet Inc., Familynet Japan Corp., Fusion Communications Corp. and At Tokyo Corp.) are scheduled to be transferred by the day of the merger to TEPCO or a third party or third parties based on TEPCO's policy.

2. Outline of KDDI and POWEREDCOM

(As of March 31, 2005)

(1)	Company name	KDDI Corp. (merging company)	POWEREDCOM Inc. (merged company)
(2)	Description of business	Telecommunications business	Telecommunications business
(3)	Date of foundation	June 1, 1984	March 7, 1986
(4)	Address of head office	3-2, Nishishinjuku 2-chome, Shinjuku-ku, Tokyo	16-1, Kounan 2-chome, Minato-ku, Tokyo
(5)	Representative	Tadashi Onodera, President and Chairman	Shigeru Nakane, President and CEO
(6)	Capital	141,851 million yen	45,010 million yen
(7)	Total number of stocks issued	4,240,880.38	5,840,348.33
(8)	Equity capital	1,161,250 million yen	19,540 million yen
(9)	Total assets	2,296,669 million yen	193,612 million yen
(10)	Accounting period ending on	March 31	March 31
(11)	Number of employees	8,384	1,518
(12)	Major shareholders and equity ownership	Kyocera Corp. 13.50% Toyota Motor Corp. 11.72%	Tokyo Electric Power Co. 83.81%
(13)	Main banks	Development Bank of Japan Mizuho Corporate Bank, Ltd. UFJ Bank Ltd.	Development Bank of Japan Sumitomo Mitsui Banking Corp. Mizuho Corporate Bank, Ltd. Bank of Tokyo-Mitsubishi, Ltd. UFJ Bank Ltd.
(14)	Relationship between KDDI and POWEREDCOM	Capital relationship	KDDI owns 9,897.34 shares of POWEREDCOM.
		Personal relationship	No personal relationship
		Trade connections	KDDI has outsourced to POWEREDCOM the circuit equipment necessary to provide telecommunications services in some sections.

(15) Financial results over the past three years

	KDDI Corp. (merging company)			POWEREDCOM Inc. (merged company)		
	2003	2004	2005	2003	2004	2005
Fiscal year ended March 31						
Operating revenues (millions of yen)	2,202,762	2,340,221	2,547,078	146,454	169,327	117,561
Operating income (millions of yen)	107,158	245,232	259,636	8,470	▲7,876	2,608
Ordinary income (millions of yen)	95,430	231,326	257,121	3,808	▲12,056	▲708
Net income (millions of yen)	50,396	90,617	137,363	▲22,104	▲14,376	▲80,347
Net income per share (yen)	11,913.95	21,483.07	32,601.49	▲26,284.86	▲10,760.88	▲22,352.60
Cash dividend per share (yen)	2,095.00	3,600.00	6,900.00	—	—	—
Shareholders' equity per share (yen)	232,866.16	254,246.44	277,948.96	17,418.48	7,077.15	3,349.37

3. Status after merger

- (1) Company name: KDDI Corporation
- (2) Line of business: Telecommunications business
- (3) Principal Office: 3-2, Nishi-shinjuku 2-chome, Shinjuku-ku, Tokyo
- (4) Representative: President & Chairman, Tadashi Onodera
- (5) Capital stock: 141,851 million yen
- (6) Total Assets: N.A.
- (7) Accounting period: March 31
- (8) Financial outlook after merger:

Financial outlook and organizations and other details are to be announced as soon as decided based upon the outcome of the merger preparation committee.

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