KDDI CORPORATION

WOW! A Future Full of Color

Annual Report 2004 | Results for the year ended March 31st, 2004

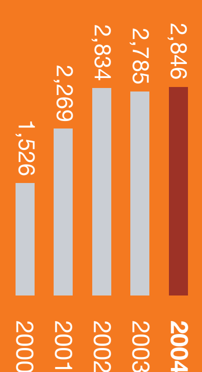
Financial Highlights

KDDI Corporation and Consolidated Subsidiaries

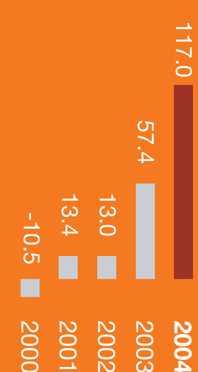
Years ended March 31, 2004 and 2003	Millions of Yen 2003	Millions of Yen 2004	Millions of U.S. dollars 2004
Consolidated Statements of Income:			
Total operating revenues	¥ 2,785,343	**¥ 2,846,098**	**$ 26,929**
Operating income	140,653	**292,105**	**2,764**
Income before income taxes and minority interests	110,726	**192,101**	**1,818**
Net income (loss)	57,359	**117,025**	**1,107**
Consolidated Balance Sheets (as of March 31):			
Total assets	¥ 2,782,039	**¥ 2,639,581**	**$ 24,975**
Interest-bearing debt	1,497,020	**1,179,764**	**11,162**
Total shareholders' equity	894,711	**1,009,391**	**9,551**
Per Share Data (yen and U.S. dollars)			
Net income	¥ 13,561	**¥ 27,748**	**$ 262.54**
Cash dividends	2,095	**3,600**	**34.06**

Notes: 1. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the rate of ¥105.69 = $1, the approximate exchange rate on March 31, 2004.
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.

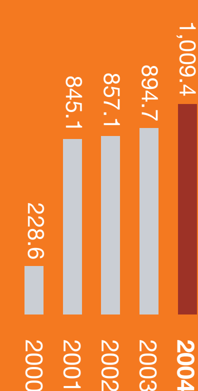
Total Operating Revenues
(Billions of yen)



Net Income (Loss)
(Billions of yen)



Total Shareholders' Equity
(Billions of yen)



Contents

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.

The future awaits.
We couldn't.

CDMA 1X 3G handsets from KDDI open up a new world of possibilities.

As one of Japan's leading communications carriers, KDDI is the gatekeeper to networks that offer a multitude of exciting choices. As well as plain old conversation and email, users can now access images, music, movies and satellite GPS location tools. In the near future KDDI plans to offer hybrid technology that will also give 3G mobile phone users the ability to watch terrestrial digital TV broadcasts. Providing access to a huge variety of information and content, KDDI hopes your handset will be a personal gateway to the digital future.

Increased bandwidth now brings a wealth of exciting content.

KDDI offers a full menu of broadband Internet access service options, including ultrahigh-speed ADSL and fiber-optic services. The latest offering from KDDI for residential users is *KDDI Hikari Plus*, a competitively priced fiber-optic service that combines IP telephony with multi-channel cable television and high-speed Internet access. Customers should expect to enjoy the difference in quality, choice and price.

Business anywhere, anytime. Courtesy of KDDI.

KDDI mobile services are revolutionizing business. In the first step toward the ubiquitous network society, KDDI offers mobile solutions that can deliver a more open office environment. Network connections to the office through laptop or notebook PCs have never been easier. KDDI mobile phones also offer a range of useful download applications. Mobile access technologies from KDDI are leading the way to revolutionary new business models.

Have fun—and let KDDI handle the technology.

Defining the future now

The year ended March 2004 was an important one in which execution of KDDI's strategic vision began to yield solid results. We also made significant progress toward achieving our long-term goals.

Large gains in earnings coupled with major reduction in debt

Consolidated revenues and profits established new record highs in fiscal 2003 (the year ended March 31, 2004). We posted operating income of ¥292.1 billion (up 107.7% year-on-year) on operating revenues of ¥2,846.1 billion (+2.2%). Cash flow also improved substantially, with free cash flows rising 32.4% to ¥404.2 billion. This helped us reduce interest-bearing debt by ¥317.3 billion to ¥1,179.8 billion (against ¥1,497.0 billion at the fiscal 2002 year-end). Our plan is to reduce debt further in fiscal 2004, to ¥1,000 billion. We believe this target is readily achievable.

Recognizing the support that we have received from shareholders, we raised the term-end dividend to ¥2,400 per share. Combined with an interim dividend of ¥1,200, this brought total dividends for the year to ¥3,600 per share. At KDDI, we view the return of profits to shareholders as one of our most important issues. While striving to achieve further growth, we will maintain our policy to pay stable dividends.

A big leap of au business by capitalizing on shift to 3G

Fiscal 2003 was an extremely fruitful one for our au business. User penetration in Japan has now surpassed 65% of the population, and the cellular-phone market is said to be reaching maturity. Our strategy for generating growth in such a challenging market has been to introduce attractive services and cellular-phone handsets into the market, thereby accelerating the ongoing shift to third-generation (3G) services.

In fiscal 2002, we introduced 3G cellular-phone services under the au brand, starting with CDMA 1X, and expanded our sales focus on 3G products and services during fiscal 2003. In November 2003 we also launched a more advanced 3G cellular-phone service called CDMA 1X WIN. This offers broadband content supported by connection speeds up to 2.4 Mbps. Cost efficiencies realized by an upgraded network enabled us to offer a range of new benefits such as fixed-rate discount tariffs for data communications. These moves raised our competitiveness, pushing the au brand to the top spot in Japan in terms of share of net increase in cellular-phone subscribers over the year for the first time.

Secured profits and solid cash flows at other three businesses

Although its revenues and profits were down from the previous year, the BBC (Broadband Consumer) & Solutions business still secured profits close to our initial performance projections. The fixed-line telephone market continued to contract amid an ongoing decline in voice traffic. Combined with a shift to VoIP telephone services, this produced challenging operating conditions for us. In response, we focused on marketing a variety of fixed-line data communications services to compensate for declining voice telephony revenues. Through restructuring measures, such as the retirement of obsolete equipment, we were able to generate solid earnings in this business.

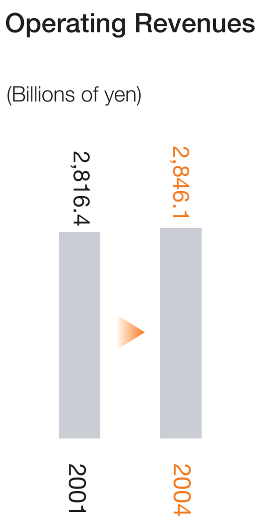
In our TU-KA and Pocket (PHS) businesses, we continued to provide services targeting specific user groups. Efficient cash-flow management enabled us to increase profits on a year-on-year basis in both segments and surpass initial performance targets. Although a decrease in the number of contracts resulted in lower revenues, solid cash flows in these areas enabled steady progress in reducing interest-bearing debt.

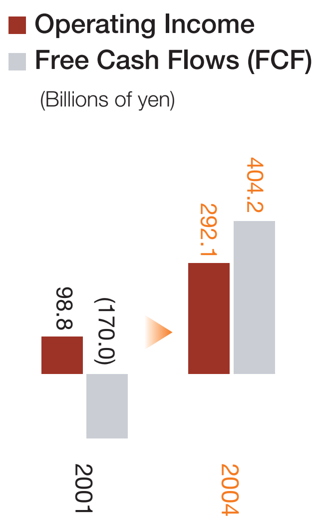
Mitsuo Igarashi, Chairman, Member of the Board (left) and Tadashi Onodera, President, Member of the Board

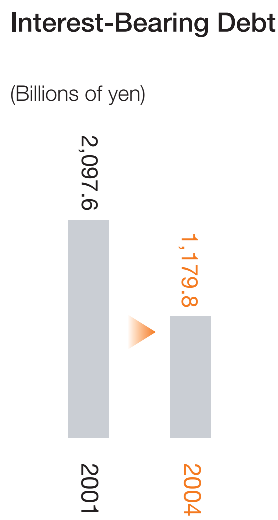
Structural reforms enhance earnings strength

Since the three-way merger that created KDDI in October 2000, we have steadily addressed a succession of major issues to reinforce our consolidated earnings structure. These structural reforms have laid the basis for realizing the long-term growth potential of the business through strategic initiatives. Specifically, we have focused on three issues: (1) business concentration and selectivity to create a platform to support sustained growth; (2) construction of a streamlined business structure that can realize the full synergy benefits of the merger; and (3) strengthening of our financial base to ensure high profitability with stable growth. More than three years on from the merger, we have raised operating income to nearly three times our figure posted for the year ended March 2001. We believe this testifies to the effectiveness of our structural reforms.

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.

The broadband society gains momentum

Business growth model based on three pillars

At present the au business is the principal driver of sales and earnings growth at KDDI. Going forward, we expect it to remain our leading operations. But we also recognize that we need to develop other areas with strong growth potential if we are to hit our medium- and long-term performance targets. To this end, we aim to develop into the following three pillars of growth for the KDDI Group over the longer term.

Consumer mobile services

Our business development efforts focus on CDMA 1X WIN. Although the subscriber base as of the end of March 2004 remained relatively small as the service had only just been launched, we expect subscriber numbers to swell as we introduce new handsets and services. Upgraded broadband content through services such as *EZ Channel* and a major push into fixed-rate 3G services promise to differentiate au clearly from other 3G brands.

We expect the increasing prevalence of fixed-rate tariffs will further enrich content, expand e-commerce opportunities and enable broadcast content through *EZ Channel*, which will in turn lead to a boost in non-traffic revenue streams.

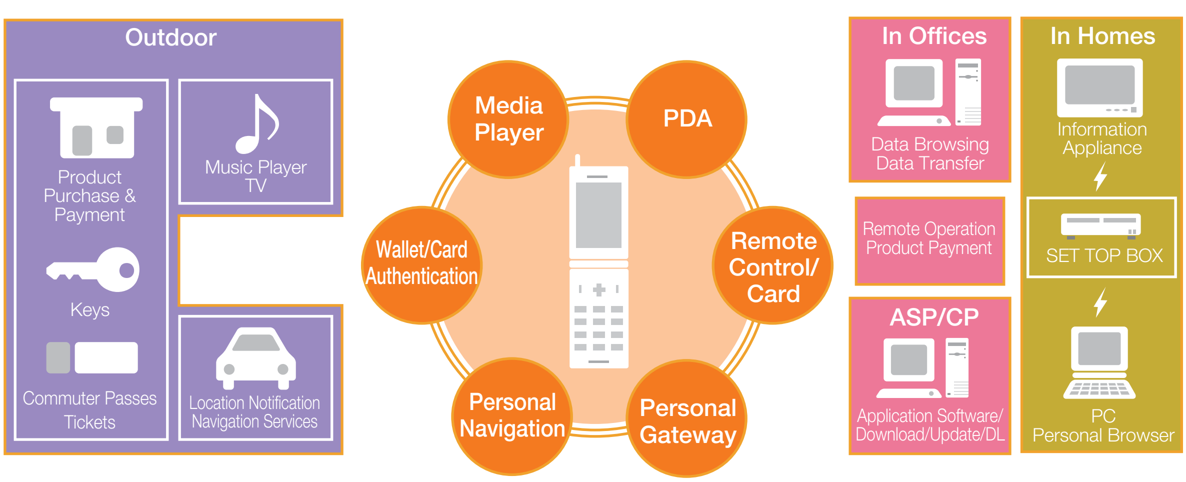
Corporate mobile solutions

We are developing and supplying a menu of mobile solutions and related services to stimulate fresh demand in the corporate sector of the market. Our marketing strategy is based on the unique benefits that we can provide corporate users by developing solutions and services that leverage our mobile and fixed-line network infrastructure. For instance, companies can connect all their operating bases across Japan using the au cellular-phone network together with our fixed-line data communications infrastructure. We can also provide customized functions such as downloadable applications using the BREW™ (Binary Runtime Environment for Wireless) platform, or GPS navigation services. We see this business expanding considerably in scale as we seek to apply the KDDI service touch.

Consumer broadband business

We plan to focus on the full-scale development of the *KDDI Hikari Plus* service that we launched in October 2003. Consumer broadband services in Japan currently center on ADSL. We believe FTTH (Fiber To The Home) offers a better platform for broadband services. The *KDDI Hikari Plus* service uses fiber-optic connections to deliver a package comprising ultra-high-speed Internet access, VoIP telephone services and multi-channel broadcast services. Our sales operations are focusing at the moment on medium-sized and large condominiums. Looking ahead, we expect to broaden sales efforts to include individual homes as a further means to promote this area as a pillar of the BBC & Solutions business.

Mobile phones as personal gateways



The ubiquitous network society promises to play to KDDI's core strengths

Our core strength at KDDI is our broad-based communications infrastructure based upon au mobile systems, combined with fixed-line networks. The Japanese communications market is undergoing a commercial revolution amid rapid changes in technologies and business environments. We believe the ongoing shift toward broadband and mobile communications technologies is accelerating the advent of a ubiquitous network society. In this society, people will be able to access various appliances as well as other people anytime, anywhere. We envisage mobile and fixed-line communications increasing in importance as gateways to an astonishing variety of content and services.

au mobile phone services already go well beyond voice and email to encompass a variety of advanced functions such as digital images, music, video and GPS. We believe such services will play a more integral role in our customers' everyday lives in the future. Mobile phones will develop new functions such as wallets, credit cards, keys and commuter passes. They will even be able to operate home appliances by remote control. In our vision of the future, they become personal gateways to access all the benefits of the ubiquitous network society (See the chart on Page 13).

As the data size available over the network will be much larger, mobile digital content such as video and music will also become increasingly sophisticated. We are taking a number of initiatives to develop the links between the broadcast content for *KDDI Hikari Plus* services to au cellular-phone services. The Japanese government also has plans to develop mobile services based on content provided through terrestrial digital broadcasting within the next few years. The processes changing mobile handsets into another media outlet are already evident in Japan. The implication is that mobile handsets will evolve into a key part of the media infrastructure of the ubiquitous network society. Positioning mobile handsets as personal gateways, our intention at KDDI is to develop a broad range of services linked to the evolving communications infrastructure.

Our commitment to Total Customer Satisfaction

Provision of the most advanced technical services is not the only key to sustainable long-term earnings growth. We think the indispensable element is customer satisfaction with our services. Based on the "customer-first" thrust of our core business principle, our prime aim is to build Total Customer Satisfaction (TCS) to ensure that our customers always rank us first. By "customers," we mean not just those who use KDDI services, but also our various stakeholders, who include sales agents, handset manufacturers, shareholders, employees and local communities—in fact, the whole of society. As part of this drive, we are seeking feedback and opinions from a wide range of people so that we can improve the quality of our comprehensive lineup of services.

Amid an ongoing technological revolution, the role of telecommunications in society is steadily assuming greater importance. This trend demands that we aim to be a customer oriented communications enterprise rather than simply a company that pursues the development of superior technology. Our business is fundamentally about satisfying customers by providing them with the services that they find useful and convenient. To put it another way, our success is ultimately about "Designing the Future" in partnership with our customers. We are totally committed to realizing this vision, and we ask our shareholders for their continued support as we work toward fulfilling it.

July 2004

Mitsuo Igarashi
Chairman, Member of the Board

Tadashi Onodera
President, Member of the Board

au Business

Overview of services

KDDI's au business operates CDMA mobile services throughout Japan. au's CDMA 1X 3G data services, which capitalize on the benefits of 3G, are particularly popular. In just two years since the introduction, nearly 80% of au's total subscriber base has moved over to 3G. Besides email and Web access, au's *EZweb* Internet access service allows users to download a wide variety of mobile content at speeds of up to 144Kbps in a quick and convenient manner, including *EZ Chaku-Uta®*, or ringtone songs of relatively large audio files.

As of March 31, 2004

Services	Data transmission speed	Accumulated number of subscribers	Area coverage
3G CDMA 1X WIN	Max. 2.4Mbps	34.3 thousand	70%
3G CDMA 1X	Max.144Kbps	13,166 thousand	90%
2G cdmaOne	Max. 64Kbps	3,450 thousand	99%

In November 2003, KDDI introduced more advanced CDMA 1X WIN 3G mobile services. Based on CDMA2000 1x EV-DO system, these data services offer access to broadband content at connection speeds of up to 2.4Mbps. Another innovation is *EZ Flat*, a fixed-rate tariff that allows users to make unlimited access to data packet communications for a competitively low price (¥4,200 per month). KDDI was the first carrier in Japan to introduce flat-rate 3G tariffs. This new pricing plan enables consumers to use their mobile handsets to access exciting broadband data services without worrying about the cost.

Market trends and strategy

With high penetration rates for mobile phones, annual net addition has been shrinking in the Japanese market. Having said that, au achieved a remarkable 58.6% increase year-on-year in net subscriber growth in fiscal 2003 to 2.91 million. For the first time ever in the industry, au grabbed the leading share of net addition, which represented about half (49.6%) of the total. The key factors behind this achievement were an attractive product offering backed by a substantially strengthened brand. As 3G mobile services start to take off in Japan, KDDI has retained its early lead by offering a well-balanced mix of value-adding factors, as shown on the following page.

We couldn't wait for the future of 3G mobile communications to arrive. So we led the way.

1. Attractive handset selection

The wide range of au 3G handsets available caters to everyone with the latest models, from advanced functions to simpler models. A broad selection of colors is also available.

2. Exciting 3G content

The single greatest benefit of 3G technology is the ability to download broadband content at high connection speeds. au offers consumers a huge variety of content to take full advantage of this speed. For instance, *EZ Chaku-Uta*® service offers an evolved version of ringtone melodies with CD-quality sound, turning the content into a rich source of musical expression. 3G features also allow images of higher definition and smoother video-clip playback.

3. Competitive pricing plans

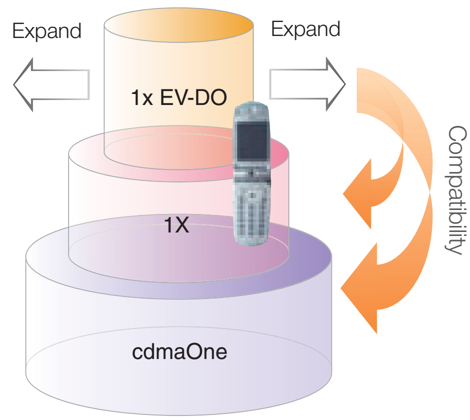
The increased amount of data contained in rich content would translate into prohibitively high costs for users on the old charging system. Since these costs would have inhibited service take-up, KDDI introduced discount plans along with full-fledged deployment of 3G services to encourage users to fully enjoy the content.

KDDI's strengths (1): an evolutionary path to 3G network

One of the reasons why KDDI was able to make such a smooth and rapid transition to 3G from 2G was its adoption of the CDMA standard. Developed by the U.S. firm Qualcomm, CDMA offers carriers the twin advantages of network upgrade simplicity and

More bandwidth means more fun and excitement.

Backward compatibility of CDMA networks



Nationwide coverage possible with WIN handset from service outset

backward compatibility. Upgrading the network to 3G simply involved replacing panel boards on the existing network of 2G base stations with no need to build out the 3G network from scratch, therefore vastly reducing the start-up capital costs for 3G. In turn, this allowed KDDI to charge 3G users lower rates. Also, customers can use their 3G handsets on the existing 2G CDMA network due to backward compatibility. This enabled au to offer nationwide coverage for 3G services from the outset, because the 2G cdmaOne service was available almost everywhere in Japan. For users, this was a key benefit.

KDDI's strengths (2): flat-rate tariffs

Introduced with the latest au CDMA 1X WIN services, KDDI's flat-rate tariff for 3G mobile data services is an industry-first for Japan. This is made possible by CDMA2000 1x EV-DO technology, under which carriers between base stations and user handsets are exclusively allocated for data transmissions, thereby enabling connection speeds of up to 2.4Mbps. An additional advantage of the technology is that it offers optimized control over the data-transmission method used within range of each base station. If conditions permit and the connection is good, the method can be altered to upgrade the speed of data transfer. This feature, an advantage of CDMA2000 1x EV-DO technology, enables data transmission costs per bit to be reduced significantly while ensuring high-level network traffic control. The result is that users enjoy fast connections and stable reception even with an all-you-can-use plan.

EZweb contents

EZチャンネル	***EZ Channel***	With the CDMA 1X WIN service, the *EZ Channel* Web feature functions as a broadcasting medium for original programs featuring full audio and video playback as well as text letters. Selected programs can be downloaded automatically overnight for customers to view at their leisure. Movie previews, music chart rankings and quiz programs are all proving popular selections.
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 shots of up to three minutes in length. Another popular service provides updates on traffic or weather conditions via real-time camera images.
EZ「着うた®」	***EZ Chaku-Uta® (downloadable ring-tone songs)***	*EZ Chaku-Uta®* service provides downloads of 15-30-second song clips of CD-quality sound. From its launch to the end of March, 2004, this service notched up 70 million downloads, making it one of the leading au services and the driving force behind au's big leap. Customers can use the downloaded clips either as ringtones or simply enjoy listening to them.
EZアプリ	***EZ Appli***	This service allows users to download various applications to add games or other functionalities to handsets. Both JAVA™ and BREW™ applications are available.
EZナビウォーク	***EZ Navi Walk (GPS navigation)***	This street-navigation service based on GPS technology turns your phone into the portable equivalent of a car navigation system. The screen image scrolls automatically depending on walking speed and can be quickly enlarged or reduced. Users are alerted that they have reached a target destination by an audio signal or handset vibration.

KDDI's strengths (3): applications development via BREW™

Most downloadable applications for cellular phones to date have been based on JAVA™. au is currently focusing on the new platform BREW™ developed by Qualcomm, which offers applications that run faster with lower memory than the JAVA™ platform. Therefore, BREW™ can be installed on both high-end and low-end handsets. This advantage makes BREW™ applications an add-on feature for the full range of au 3G handsets. Applications that have been developed to date include a wide range of games and new functions such as the GPS navigator, *EZ Navi Walk*. BREW™ technology also provides a platform for the development of customized functions for specific corporate mobile solutions. Of the 79 companies offering CDMA mobile phone services around the world, a total of 23 operators have already introduced BREW™*.

* as of March, 2004

KDDI's strengths (4): increased sales of corporate mobile solutions

Using the au network and cellular services, KDDI offers corporate clients tailored mobile solutions based on customized systems and applications. These services can provide a convenient way of boosting office productivity. KDDI is also marketing packages of mobile solutions. The two main products are as follows.

(1) Mobile Office

Users can gain secure remote access to personal email, schedules, address books, files stored on company intranets and other information through an au mobile handset or a laptop PC.

(2) GPSMAP

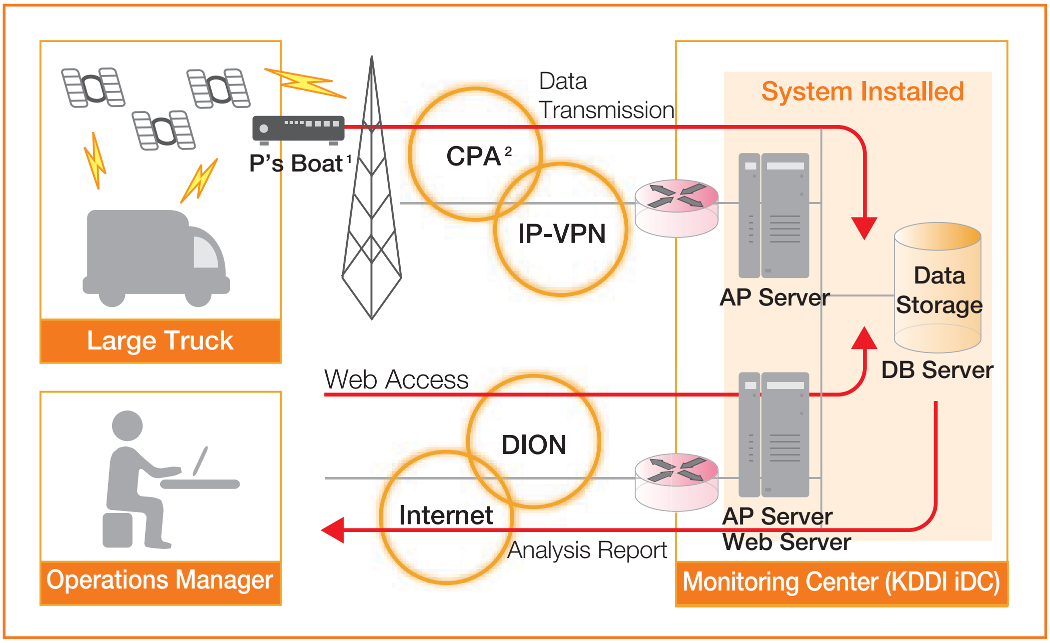
This service enables users to pinpoint the location of all handsets fitted with GPS functions. Using an office-based computer, the locations of employees can be plotted on a map, and messages from the office can then be made available to workers on a real-time basis as required.

Development of ITS business

KDDI is applying the potential of mobile solutions to the ITS (intelligent transport systems) business. This goes beyond supplying communication services via cellular terminals installed into automobiles. Working with auto and car navigation equipment manufacturers, KDDI is developing systems and platforms to offer a range of solutions.

Looking at some examples, KDDI has developed an au CDMA 1X module for the G-BOOK information network service that Toyota Motor Corporation offers to some car owners in Japan. KDDI has also developed an au communications module for use in an operational diagnostics system *(Mimamori-kun)* offered by Isuzu Motors Limited (See the chart on Page 19). This module allows drivers to do location searches using the GPS function and also to access real-time data over the Internet on fuel consumption, exhaust emissions, gears and vehicle acceleration.

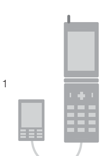
Mimamori-kun diagnostics system by Isuzu Motors



1. P's Boat: tele-metering terminal.   2. CPA: cdma Packet Access

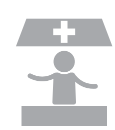
Mobile solution business examples

Industry: Delivery
Objective: Enhance logistics management
Contract: Approx. 6,500 au terminals + CPA + IP-VPN + Barcode
Effect: Enables data to be updated upon delivery at customer's site when required, eliminating need to return to store



Industry: Clothing
Objective: Bolster sales management system
Contract: Approx. 1,000 au terminals + *EZweblink*[1] + IP-VPN + barcode
Effect: Increases management efficiency of sales information for 1,000-strong mobile phone store network

Industry: Public transport
Objective: Gather bus service data
Contract: Approx. 200 in-vehicle terminals + CPA + IP-VPN
Effect: Enables information on bus location to be gathered and provided real-time, with expectation of future application in optimizing public transport census[2]



Industry: Medical
Objective: Enable database search of nursing staff
Contract: Approx. 120 au terminals + *EZweblink* + IP-VPN
Effect: Vastly improves efficiency and response time by enabling 24-hours search of nursing staff at 30 centers nationwide, eliminating need for patient referral via phone call

1. *EZweblink*: remote access services.   2. Public transport census: Research survey related to nationwide road and traffic conditions.

Reconsidering the mobile phone from a design perspective. Introducing new forms and new experiences.

au design project

Handset designs have converged on the shell type during the past few years, and look much alike, as makers have striven to maximize the size of the screen display. Recognizing that mobile phones are a fashion item for many users, the "au design project" aims to create original concept models via collaboration with external designers. The first commercial models to emerge from the project were released in October 2003, about 2.5 years after its initiation. As its name suggests, the INFOBAR series uses colorful tiles on the bar-shaped handset as dialing keys. Its originality has made the series an instant hit with users and a major topic of discussion within the industry. The "au design project" will continue to produce novel handset designs, thereby contributing to the enhancement of the au brand.

Color selection for the INFOBAR handset series

NISHIKIGOI (Carp)

ICHIMATSU

BUILDING

ANNIN

BBC & Solutions Business

Overview of services

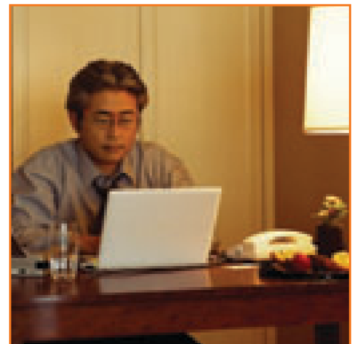
KDDI's BBC (Broad Band Consumers) & Solutions business offers a wide variety of fixed-line telecommunications services for individual and corporate customers. In the consumer sector, KDDI offers ADSL and other Internet access services (under the DION brand) besides conventional local, long-distance and international voice telephony services. New service developments in fiscal 2003 included the introduction in April 2003 of discount-priced IP telephone services as an add-on function to ADSL and the launch in October 2003 of the *KDDI Hikari Plus* service, which combines Internet access and IP telephone services with multi-channel broadcasts through a single optical fiber connection. The competitively priced IP telephony component of the *Hikari Plus* service notched up a first for Japanese carriers by offering the same sound quality as a conventional wireline connection while still allowing users to keep the same number as their NTT fixed-line connection (previously users had to change their number).

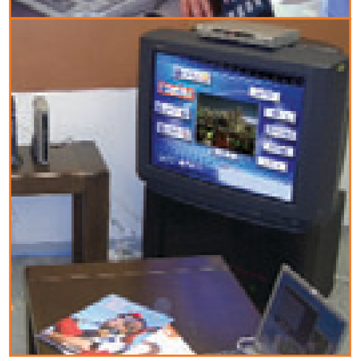
In the corporate sector, besides voice telephony and Internet access services, KDDI offers unique solutions, including data-center services and system integration. KDDI's aim is to supply a varied lineup of services to meet the specific needs of customers: for smaller corporate clients, KDDI is focusing on provision of IP-VPN (Virtual Private Network) services for the construction of intranets. In the market for larger firms, KDDI is centering on Ether-VPN for large-scale networks.

Market trends and strategy

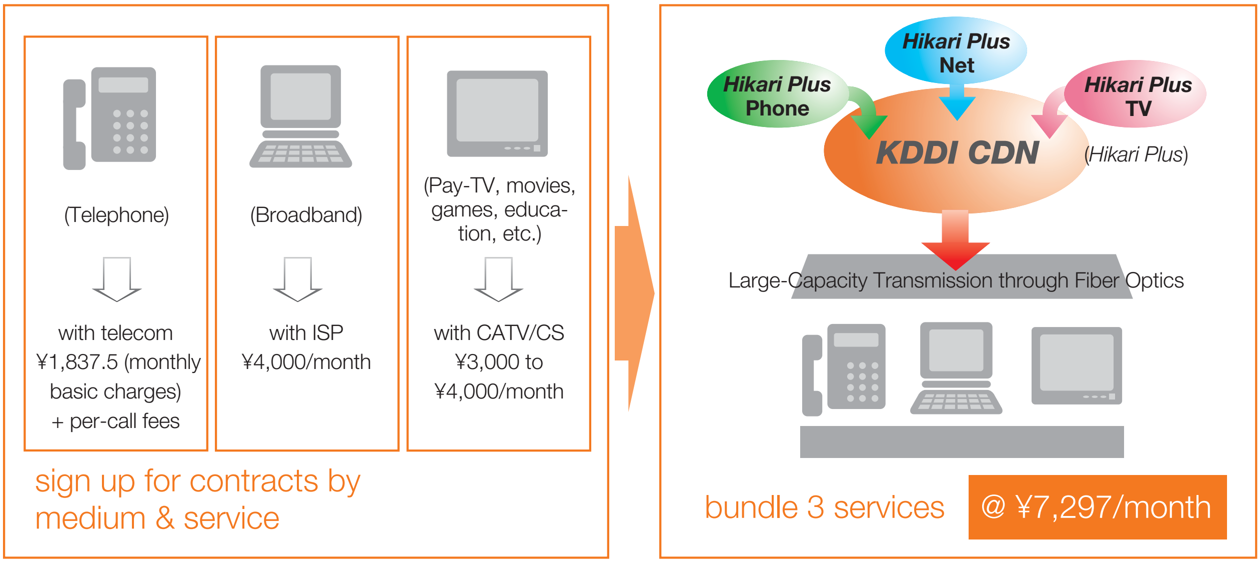
The wireline telephone market in Japan presents a special challenge for KDDI. Voice telephony continues to decline remorselessly amid a shift to mobile phones and email, and the rapid spread of ADSL has recently precipitated the contraction of the market for dial-up Internet access services. Fixed-line traffic is thus on an inevitable downward trend. In addition, the access charges paid to NTT increased in fiscal 2003. Higher connection fees are no small matter for KDDI, and substantially raise the cost burden for any carriers that relay their services over NTT lines. The policy change regarding retroactive settlement methods for these fees also poses issues for KDDI.

To generate fresh earnings growth within the wireline sector, KDDI needs to develop business models that do not depend on





Consumer benefits of *KDDI Hikari Plus* service



the NTT network infrastructure. KDDI is shifting the focus of its business in this sector away from conventional voice telephony toward a broadband model centered on IP telephone services and data communications. *KDDI Hikari Plus* marks the first major broadband service initiative by KDDI that targets residential customers. This is an area of high potential growth, and KDDI is working to extend coverage to new service areas while boosting sales capabilities. KDDI plans to continue on its current course, focusing mainly on providing a variety of solutions using IP-VPN, Ether-VPN and other networks for the development of intranets.

KDDI's strengths (1): full-scale development of *Hikari Plus* FTTH services

KDDI's *Hikari Plus* service is provided via high-capacity infrastructure which consists of a fiber-optic ultrahigh-speed access network and unique Content Delivery Network (CDN). This service is a three-in-one package: high-quality IP telephone services, ultra-high-speed Internet access and a multi-channel television service. As of March 2004, KDDI is the only company in Japan offering such a bundled service. *Hikari Plus* service is highly competitive on price: the monthly fee of about ¥7,000 compares favorably with the combined cost of buying equivalent services from separate suppliers, which would be at least ¥10,000 per month. These features are well appreciated by customers. KDDI plans to devote increased sales and marketing resources into this new *Hikari Plus* to expand market penetration. KDDI is also working to reduce the lead time to install fibers into condominium and apartment blocks.

KDDI's strengths (2): increased sales of ADSL+IP phone services

Targeting individual residential customers who do not live in large apartment blocks, KDDI continues to expand sales of ADSL services under the DION brand. The subscriber base for DION ADSL services passed the one million mark in February 2004. KDDI is positioning ADSL as its main service offering for residential broadband until the advent of full-scale FTTH in Japan. The sales promotion strategy is to bundle ADSL Internet access with IP telephony services. Besides being the first carrier to offer connection speeds of maximum 40Mbps, KDDI also offers customers a menu of choices that includes a low-priced service offering speeds up to 1Mbps. KDDI's aim is to offer customers a range of services to cater to varied user preferences. KDDI also offers customers free PC set-up at the time of initial subscription so that the service can be up and running quickly. KDDI also applies detailed touches, such as assigning female support personnel to female customers who request this option. This attention to detail has gained KDDI many plaudits.

TU-KA Business

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 (Nagoya area) and Kansai (Osaka/Kyoto/Kobe area). Unlike au, the TU-KA business does not possess a 3G license, and concentrates on supplying low-priced 2G mobile services. TU-KA users, like au users, can also get access to email, Internet, ringtone melody download and other basic content-based data services through *EZweb*. The service is targeted principally at those users who are only interested in a simple mobile phone service based around voice and email. KDDI has focused on providing innovative handset designs to appeal to such users. These include: a new sonic speaker that cuts out extraneous noise by transmitting sounds to the ear through facial bones (shown on the next page); designs for seniors that emphasize ease of portability; and a handset that is just 15mm 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

Although 3G is in its expansion phase in Japan, this does not imply that everybody wants a mobile phone with the latest state-of-the-art 3G functions. KDDI estimates that customers wanting just the basic functions from a mobile phone make up a considerable portion of the total user population. Many of these users are in the 40+-age bracket. Partly because their usage frequency is low, they tend to want to use the same model for a much longer period than the average younger user (who typically uses the phone a lot and switches to a new model regularly). These user characteristics permit the development of a low-cost business model. For instance, there is no need to upgrade the network beyond 2G. Hence, the TU-KA business is one geared to cash generation from a steady profit stream and has a positive effect on KDDI Group finances.

Based on the key concept of "simplicity," TU-KA focuses on easy-to-use handsets with basic functions. Hence, instruction manuals that used to have an enormous number of confusing pages explaining the advanced functions are now much simpler. TU-KA also emphasizes simplicity in its charge structure, and

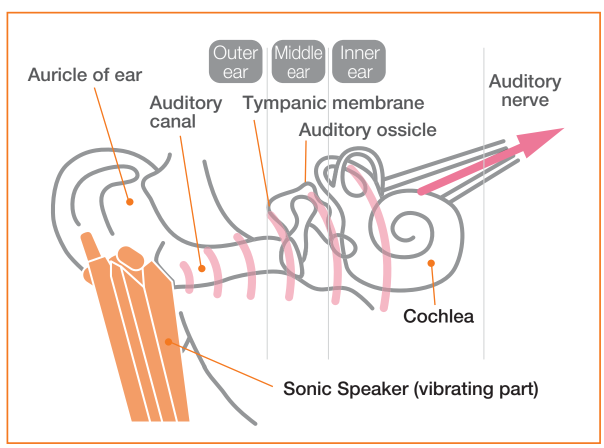
Easy to use with streamlined functions. ‘Simplicity’ is the key for TU-KA 2G models.

was the first operator to introduce discount plans, offering lower rates for two-year contracts. Under the scheme, all basic charges are covered by call charges. In terms of function, usability and pricing plans, TU-KA offers services that are extremely easy for customers to understand and appreciate. Although subscriber numbers remain on a downward trend, KDDI is focusing on achieving further reductions in the churn rate by offering simplified services to boost customer satisfaction.

The bone-conductive speaker phone

In January 2004, TU-KA recorded a world-first by launching the TS41 handset, a mobile phone fitted with a speaker that works on the principle of bone-conduction. This device converts audio signals into vibrations that are then transmitted through the bones in the jaw and up through the skull of the user to the inner ear (cochlea). By holding the handset to the face, the user can “hear” the conversation via these bone-transmitted vibrations. One major benefit of sending the auditory information through this unique and rather different route is that it allows the user to filter out other sounds outside the ear, which makes the conversation much clearer when there is a lot of background noise.

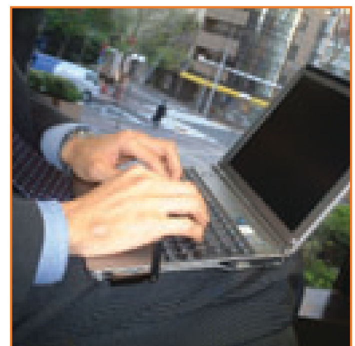
How the bone-conductive speaker system works



Pocket (PHS) Business

Overview of services

KDDI subsidiary DDI Pocket offers nationwide mobile communications service based on the PHS standard, which was originally developed in Japan. The main service offered by DDI Pocket is AirH", an internet access service designed for laptop and notebook PCs and other portable devices such as PDAs. Users insert a card that acts as a mobile data communications terminal, offering internet connection speeds of up to 128Kbps throughout Japan. A range of terminals is available to support various interfaces for mobile devices. DDI Pocket was the first service operator in Japan to offer a monthly flat-rate tariff for unlimited mobile internet access using AirH". Although the service is not as fast as 3G mobile services in terms of connection speeds, users can benefit from discounted rates because the network costs are significantly lower. The focus on providing services exclusively for laptop PCs and PDAs also clearly differentiates DDI Pocket's marketing position within the KDDI Group's mobile operations.



KDDI's wireless communications technology enables business anywhere, anytime.

DDI Pocket also wholesales its capacity to MVNOs (Mobile Virtual Network Operators). There are currently six such resellers operating in Japan, who provide value-added services of their own using DDI Pocket's infrastructure.

Market trends and strategy

Although DDI Pocket suffered a contraction in its overall subscriber base in the year ended March 2004, the number of corporate AirH" users increased. The chief advantages of the AirH" service to corporate clients are flat-rate tariffs, which aid in budgeting, together with a variety of solutions developed for the corporate market; for instance, handset-type PHS phones can be used as house phones in the offices. The DDI Pocket network infrastructure is geared to corporate users, with improved service coverage and throughput in city-center areas. The high level of support services offered by DDI Pocket also attracts corporate clients. Another advantage of PHS services is that the electric wave is weaker than other mobile services, which prevents the signals from causing damaging interference with medical equipment. This makes PHS ideal for mobile communications within hospitals, which have become a niche demand sector for DDI Pocket.

A key element in the future strategy is to attract more users for PHS data communications services by raising connection speeds. DDI Pocket is preparing to introduce technology that would double the network connection speed to 256Kbps from its current maximum of 128Kbps.

Concerning the Transfer of DDI Pocket's PHS Business

It was decided by the Board of Directors on June 21, 2004, that the entire operations of DDI Pocket, a subsidiary of KDDI, will be separated and merged into a Consortium, in which The Carlyle Group, Kyocera Corporation and KDDI invest. An escrow agreement was concluded on the same day (refer to page 49 for further details). Under the agreement, the company that succeeds DDI Pocket's business will be 10% owned by KDDI. Intentions are to continue developing this key business partnership via service offerings and joint marketing efforts.

Toward the next generation of communications

KDDI is engaged in a broad range of R&D activities with the objective of designing the future of communications. R&D is divided into four major areas: "Multimedia Applications," "Mobile-Wireless," "IP Networking," and "Photonic Networking." Within these areas, R&D efforts are focused on the five technological themes of next-generation IP networks, new-generation mobile communications, ubiquitous broadband, network security, and multimedia seamless applications. R&D programs range from basic research to commercialization of innovative technologies. Two major recent accomplishments involved technologies linking communications with broadcasting and the launch of services based on CDMA2000 1x EV-DO technology in Japan.

Integrated telecommunications-broadcasting technology

Terrestrial digital TV broadcasting commenced in the urbanized regions surrounding Tokyo, Osaka and Nagoya in December 2003. Besides receivers settled in homes, these broadcast services will also become accessible to mobile-phone users from late 2005.

For the past several years KDDI has been researching hybrid technologies for interactive services between broadcast media and telecommunications to enable broadcast content to be delivered to mobile handsets. In May 2004, KDDI successfully developed Japan's first mobile handset capable of receiving terrestrial digital TV broadcasts. Not only can the device receive broadcasts, but it also uses telecom-broadcast convergence technologies to provide valuable new services. For example, users could set the handset to automatically receive and display emergency broadcast warnings on the mobile-phone screen. Using GPS functions, the handset could also be used to find out details about the user's locality in relation to broadcasting programs.

KDDI plans to continue technical testing in fiscal 2004 to develop different types of services and content designed to make the most out of such hybrid broadcast-communication technologies.

CDMA2000 1x EV-DO technology

Commercialization of CDMA2000 1x EV-DO technology and technical support provided by R&D teams at KDDI played a major role in the launch of the au WIN service in Japan in November 2003. Original image compression, processing and editing technologies developed in-house underpin the extremely high quality of the live video and video streaming components of the new service. Technology developed by KDDI also supports a number of new *EZ Channel* services that provide users with rich creative possibilities based on flexible combination of video and graphics elements. Alongside these achievements, KDDI also developed related technologies, including original valuation methods for high-speed data communications characteristics and new inter-network optimization processes between base stations. Together, these enable the realization of high-throughput in the commercial service. Furthermore, KDDI has also developed relay stations (repeaters) that can extend the coverage areas at lower costs than existing conventional base stations to provide services in the new 2GHz high-frequency band. Reducing the cost of constructing and operating a 2GHz wireless network infrastructure promises to make KDDI mobile services even more competitive.

Hybrid mobile-phone handset with broadcast reception capabilities

EZ Channel service

Antenna installation at repeater station

Our commitment to the environment

The global environment is irreplaceable. As a responsible corporate citizen, KDDI has formulated its own Environmental Charter, a set of principles that govern its environmental activity programs.

KDDI Environmental Charter

Basic philosophy

KDDI recognizes the importance of fulfilling its duty as a responsible global corporate citizen to conserve and protect the Earth's irreplaceable environment so that it can be inherited by future generations. The KDDI Group is committed to pursuing its business in eco-conscious ways through programs of activities that span the entire company.

Corporate principles

1. We will strive to evaluate the quantitative effects of our activities as a company on the global environment and to implement programs of continuously improving activities aimed at providing effective environmental protection. Specific objectives are described below:

(1) Construction and operation of environmental management systems required to tackle environmental problems, based on continuous improvement in terms of the conservation of energy and other resources and the reduction of wastes

(2) Compliance with environmental laws and regulations and related demands (in particular, implementation of policies designed to cut electric power consumption from the perspective of global warming prevention)

(3) Promotion of appropriate disclosure of information within the company and to the public based on a proactive communications stance

2. We will develop and supply next-generation IT services to target reductions in environmental impact.
3. Aiming to contribute to a recycling-oriented society, we will implement and promote policies to mitigate and reduce the environmental impact of those activities that necessarily entail mass consumption, such as the supply of mobile handsets.
4. We will promote purchasing policies that favor eco-friendly equipment and products in our corporate procurement activities.
5. As a responsible corporate citizen, we will contribute to society and local communities through activities that promote an affluent society that is in harmony with the environment.

Handset recycling

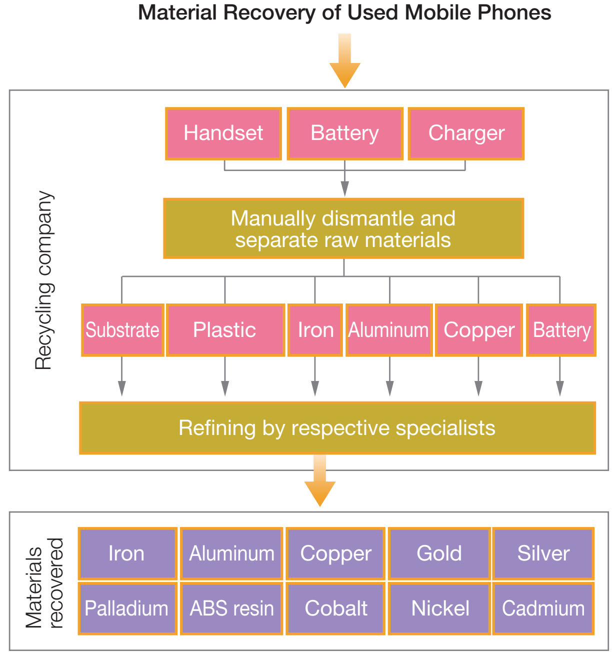
KDDI collects and recycles post-use cellular, car and PHS handsets, together with accessories such as batteries and chargers. This service to customers is designed to maximize the effective use of limited resources.

Manual disassembly processes at recycling plants enable the recovery of plastics, metals, circuit boards and other valuable items from the collected handsets, batteries and chargers. The first set of processes yields a number of separate categories of items that then undergo further recycling steps to separate out the different types of plastic and metal. For instance, circuit boards produce rare metals, including gold, silver and palladium, while batteries yield cobalt, nickel and cadmium. Recycling rates to the level of original materials approach 100%.

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。

Collection and recycling flow diagram for mobile handsets

Material Recovery of Used Mobile Phones



Financial Review

KDDI Corporation and Consolidated Subsidiaries

For the purposes of this section's financial analysis, the operations of overseas consolidated subsidiaries plus any non-mobile-related businesses operated by Japanese consolidated subsidiaries are aggregated under other businesses. As a result, the figures for the BBC & Solutions business and other businesses do not match the segment data shown in the notes to the financial statements. In addition, extraordinary income (loss) is included in other expenses (income) of Consolidated Statements Income on Page 37.

Consolidated Financial Review

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2003 and 2004	2003	**2004**	Change	%	**2004**
Operating revenues	¥ 2,785,343	**¥ 2,846,098**	¥ 60,755	2.2%	**$ 26,929**
Telecommunications business	2,191,887	**2,268,726**	76,839	3.5%	**21,466**
Voice communications	1,574,509	**1,468,961**	(105,548)	(6.7%)	**13,899**
Digital data transmission services and other	617,378	**799,765**	182,387	29.5%	**7,567**
Other business	593,456	**577,372**	(16,084)	(2.7%)	**5,463**
Operating income	140,653	**292,105**	151,452	107.7%	**2,764**
Extraordinary income (loss)	(2,485)	**(82,447)**	(79,962)	–	**(780)**
Net income	57,359	**117,025**	59,666	104.0%	**1,107**
Free cash flows	305,335	**404,232**	98,898	32.4%	**3,825**
EBITDA	563,491	**688,027**	124,528	22.1%	**6,510**
EBITDA margin	20.2%	**24.2%**	3.9%	–	**24.2%**

Operating Revenues

Total operating revenues increased 2.2% year-on-year to ¥2,846.1 billion. Within telecommunications operations, although revenues from voice communication services dipped 6.7% year-on-year to ¥1,469.0 billion, revenues from data transmission services surged 29.5% year-on-year to ¥799.8 billion. The drop in revenues from voice telephony chiefly reflected lower revenues in the BBC & Solutions business caused by ongoing changes in market conditions such as intensified competitions and a shift to discount-priced IP telephony services. This was more than offset by the overall improved competitiveness of CDMA 1X products and services in the au business, which generated a substantial increase in subscriber numbers. Operating revenues from other business declined 2.7% year-on-year to ¥577.4 billion.

Income

Operating income more than doubled compared with the previous fiscal year, soaring 107.7% to ¥292.1 billion. This was mainly attributable to increased earnings at the au business, where the competitiveness and the power of the au brand secured a substantial increase in subscriber numbers. The termination of PDC cellular services in March 2003 resulted in a large reduction in associated expenses in the year ended March 2004. Below the operating level, KDDI recorded total extraordinary losses of ¥82.4 billion, which represented an increase in such losses of ¥79.9 billion relative to the previous fiscal year. This was due primarily to the write-off of microwave transmissions infrastructure as KDDI streamlined a fiber-optic and microwave dual-system capability to a dedicated fiber-optic network. Net income increased 104.0% year-on-year to ¥117.0 billion.

Free Cash Flows/EBITDA

Free cash flows increased 32.4% year-on-year to ¥404.2 billion. This was due mainly to higher operating cash flows generated by the au business. Cash flows from investing activities were constrained by an effective level of capital spending on new and expanded base stations for the au cellular services in connection with the launch of CDMA 1X WIN services and the increase in subscriber numbers for CDMA 1X services. KDDI believes these results confirm that its cash flow-based management approach remains on track. Unrecognized losses on equity holdings fell significantly due to the sale of KDDI's stake in Singapore Telecom. EBITDA rose 22.1% year-on-year to ¥688.0 billion. The EBITDA margin improved by 3.9 points compared with the previous fiscal year to 24.2%.

Segment Financial Reviews

[au Business]

Years ended March 31, 2003 and 2004	Millions of yen 2003	2004	Change	%	Millions of U.S. dollars 2004
Operating revenues	¥ 1,626,273	**¥ 1,825,074**	¥ 198,801	12.2%	**$ 17,268**
Telecommunications business	1,197,244	**1,374,132**	176,888	14.8%	**13,002**
Voice communications	844,225	**833,798**	(10,427)	(1.2%)	**7,889**
Digital data transmission services and other	353,019	**540,334**	187,315	53.1%	**5,112**
Other business	429,029	**450,942**	21,913	5.1%	**4,267**
Operating income	53,786	**239,469**	185,683	345.2%	**2,266**
Extraordinary income (loss)	(4,250)	**1**	4,251	–	**0**
Net income	21,005	**129,995**	108,990	518.9%	**1,230**
Free cash flows	96,571	**207,251**	110,680	114.6%	**1,961**
EBITDA	245,092	**437,651**	192,559	78.6%	**4,141**
EBITDA margin	15.1%	**24.0%**	8.9%	–	**24.0%**

Segment operating revenues rose 12.2% year-on-year to ¥1,825.1 billion. An increase in the competitiveness of au-branded 3G CDMA 1X cellular services resulted in KDDI securing the leading share (averaging 49.6% over the year) of the net increase in subscribers within the Japanese market, which helped to boost overall subscriber numbers substantially to 16,959 million as of the end of March 2004. The churn rate dropped by 0.3 points to 1.5%, from 1.8% in the previous fiscal year, providing further evidence that provision of attractive services and products (including handsets, content, applications and tariffs) successfully enhanced the value of the au brand for the retention of more customers. Monthly average revenue per user (ARPU) showed a small drop by ¥130 compared with the previous fiscal year to ¥7,440. This reflected higher penetration of discount pricing plans ("Student Discount," "Annual Discount," "Family Discount," and "Packet Discount") and the introduction in April 2003 of lower land-to-mobile call rates. Voice ARPU dropped ¥480 (7.6%) year-on-year to ¥5,800, while data ARPU increased ¥350 (27.1%) to ¥1,640.

Segment operating income increased 345.2% year-on-year to ¥239.5 billion. Besides higher operating revenues, this was due to the cost reductions related to PDC cellular services terminated at the end of the previous fiscal year.

Segment net income rose 518.9% year-on-year to ¥130.0 billion. This largely reflected an absence of extraordinary losses (KDDI booked an extraordinary loss in the previous fiscal year due to reserves against past service year point service program obligations), which meant that the increase in operating income fed through directly to the segment bottom line. Free cash flows increased 114.6% year-on-year to ¥207.3 billion. EBITDA rose 78.6% year-on-year to ¥437.7 billion, and the EBITDA margin was 24.0%.

[BBC & Solutions Business]

Years ended March 31, 2003 and 2004	Millions of yen 2003	2004	Change	%	Millions of U.S. dollars 2004
Operating revenues	¥ 601,874	**¥ 542,462**	¥ (59,412)	(9.9%)	**$ 5,133**
Telecommunications business	556,047	**497,010**	(59,037)	(10.6%)	**4,703**
Voice communications	371,248	**320,581**	(50,667)	(13.6%)	**3,033**
Digital data transmission services and other	184,799	**176,429**	(8,370)	(4.5%)	**1,669**
Other business	45,827	**45,452**	(375)	(0.8%)	**430**
Operating income	60,290	**16,381**	(43,909)	(72.8%)	**155**
Extraordinary income (loss)	(3,071)	**(73,823)**	(70,752)	–	**(698)**
Net income	32,264	**(28,803)**	(61,067)	(189.3%)	**(273)**
Free cash flows	116,927	**74,232**	(42,695)	(36.5%)	**702**
EBITDA	176,809	**112,361**	(64,448)	(36.5%)	**1,063**
EBITDA margin	29.4%	**20.7%**	(8.7%)	–	**20.7%**

Segment operating revenues declined 9.9% year-on-year to ¥542.5 billion. The market in Japan for fixed-line telephone services continued to contract amid an ongoing shift to mobile phones, email and discount-priced IP telephone services. Revenues from voice communication services (local, long-distance and international telephony) dropped by ¥50.7 billion compared with the previous fiscal year. In sharp contrast, aggressive promotion of broadband services by KDDI generated increases in subscriber numbers. KDDI mainly targeted individual consumers with ADSL-based internet access services and corporate clients with Ether-VPN and IP-VPN network services. Although the broader menu of services resulted in a larger user base, tariff reductions and lower revenues from other services led to an overall decline in revenues from data transmission services of ¥8.4 billion on a year-on-year basis.

Segment operating income fell 72.8% year-on-year to ¥16.4 billion. This was due principally to the drop in operating revenues from voice communications services, despite assiduous efforts to bolster profitability through comprehensive cost-cutting measures. In addition, specific factors that contributed to higher costs included retrospective increases in connection fees imposed by NTT East and NTT West and higher depreciation costs for undersea fiber-optic cable systems associated with a reduction in useful life.

Extraordinary losses totaled ¥73.8 billion. This mainly reflected a loss on retirement of fixed assets of ¥78.0 billion associated with discontinuation of the microwave network. As a result, the segment recorded a net loss of ¥28.8 billion. Free cash flows decreased 36.5% year-on-year to ¥74.2 billion. EBITDA declined 36.5% year-on-year to ¥112.4 billion, while the EBITDA margin dropped 8.7 points to 20.7%.

[TU-KA Business]

Years ended March 31, 2003 and 2004	Millions of yen 2003	2004	Change	%	Millions of U.S. dollars 2004
Operating revenues	¥ 318,070	**¥ 276,457**	¥ (41,613)	(13.1%)	**$ 2,616**
Telecommunications business	255,412	**230,435**	(24,977)	(9.8%)	**2,180**
Voice communications	234,981	**212,976**	(22,005)	(9.4%)	**2,015**
Digital data transmission services and other	20,431	**17,459**	(2,972)	(14.5%)	**165**
Other business	62,658	**46,022**	(16,636)	(26.6%)	**435**
Operating income	6,200	**15,390**	9,190	148.2%	**146**
Extraordinary income (loss)	(1,713)	**1,104**	2,817	–	**10**
Net income	(3,227)	**9,057**	12,284	–	**86**
Free cash flows	52,137	**54,951**	2,814	5.4%	**520**
EBITDA	66,471	**71,184**	4,713	7.1%	**674**
EBITDA margin	20.9%	**25.7%**	4.9%	–	**25.7%**

Segment operating revenues declined 13.1% year-on-year to ¥276.5 billion. The main reason was a fall in subscriber numbers, which totaled 3.63 million as of the end of March 2004, representing a year-on-year net decline of 150,000. Since TU-KA services mostly target customers wanting just basic voice and email services, KDDI has tried to secure long-term revenue stability by raising the ratio of customers signing up for two-year contracts featuring more attractive discount tariffs. Although this has so far failed to reverse the overall decline in subscriber numbers, it did contribute to a reduction in the average churn rate, which fell from 2.5% in the first half of the fiscal year ended March 2004 to 2.2% in the second half of the year.

Segment operating income increased 148.2% year-on-year to ¥15.4 billion. This reflected the results of sustained sales efforts to target potentially profitable users more efficiently. By concentrating on supplying handsets that feature only easy-to-use, simple functions, TU-KA has been able to reduce handset prices steadily. The increase in operating income also reflected successful efforts to integrate networks and functions across KDDI's three TU-KA regional operators, which resulted in reduced costs and higher operating efficiency.

Segment net income amounted to ¥9.1 billion. Free cash flows rose 5.4% year-on-year to ¥55.0 billion. EBITDA increased 7.1% year-on-year to ¥71.2 billion, and the EBITDA margin was 25.7%.

[Pocket (PHS) Business]

Years ended March 31, 2003 and 2004	Millions of yen				Millions of U.S. dollars
	2003	**2004**	Change	%	**2004**
Operating revenues	¥ 197,579	**¥ 184,017**	¥ (13,562)	(6.9%)	**$ 1,741**
Telecommunications business	181,991	**168,408**	(13,583)	(7.5%)	**1,593**
Other business	15,588	**15,609**	21	0.1%	**148**
Operating income	20,267	**21,093**	826	4.1%	**200**
Extraordinary income (loss)	(649)	**(771)**	(122)	–	**(7)**
Net income	17,030	**19,064**	2,034	11.9%	**180**
Free cash flows	43,015	**47,206**	4,191	9.7%	**447**
EBITDA	62,248	**61,363**	(885)	(1.4%)	**581**
EBITDA margin	31.5%	**33.3%**	1.8%	–	**33.3%**

Segment operating revenues fell 6.9% year-on-year to ¥184.0 billion. This was due mainly to a drop in subscriber numbers, which totaled 2.90 million as of the end of March 2004, representing a year-on-year net decline of 80,000. Promotion of AirH" mobile data transmission services, continued to be the main strategic thrust of the business during the year. An expansion of individual data customers and corporate users, however, was not enough to cover a decline of individual voice customers in subscriber numbers. For the corporate market, DDI Pocket introduced the NET25 Time Share service, which allows pooling and sharing of usage time over multiple connections. For individual customers, DDI Pocket began offering AirH" services bundled with wireline broadband services for a discounted monthly flat-rate fee (marketed as the A&B Discount) in an attempt to attract new mobile data users and to improve convenience.

Segment operating income increased 4.1% year-on-year to ¥21.1 billion. With the overall subscriber base continuing to decline, KDDI focused on measures to boost profitability by making DDI Pocket services a low-cost operation specializing in mobile data transmission services. These included restricting handset prices; lowering levels of commissions for model changes; and cost reductions through greater efficiencies in terms of coverage areas.

Segment net income rose 11.9% year-on-year to ¥19.1 billion. Free cash flows increased 9.7% year-on-year to ¥47.2 billion. EBITDA declined 1.4% year-on-year to ¥61.4 billion. The EBITDA margin was 33.3% - the highest level across all KDDI Group operations.

[Other Businesses]

Years ended March 31, 2003 and 2004	Millions of yen				Millions of U.S. dollars
	2003	**2004**	Change	%	**2004**
Operating revenues	¥ 196,656	**¥ 186,533**	¥ (10,123)	(5.1%)	**$ 1,765**
Telecommunications business	96,496	**109,625**	13,129	13.6%	**1,037**
Other business	100,160	**76,908**	(23,252)	(23.2%)	**728**
Operating income	(1,002)	**797**	1,799	–	**8**
Extraordinary income (loss)	(3,007)	**(4,707)**	(1,700)	–	**(45)**
Net income	(9,868)	**(5,431)**	4,437	–	**(51)**

Compared with the previous fiscal year, segment operating revenues decreased by ¥10.1 billion to ¥186.5 billion, despite a greater focus on supporting the development of businesses with strong growth potential. The primary cause of the drop in revenues was a substantial fall in orders at KDDI Submarine Cable Systems Inc., which provides construction, technical development and consulting services for undersea cables. This chiefly reflected continued constraint in capital budgets among Western carriers amid poor operating performance and a persistent global telecommunications capacity glut. Segment operating income amounted to ¥0.8 billion, due mainly to the pursuit of higher efficiency and reduced costs through the merger of subsidiaries and other measures amid a drive to improve the financial position of the KDDI Group through loss elimination. The segment posted a net loss of ¥5.4 billion.

[Capital Expenditures]

	Millions of yen				Millions of U.S. dollars
Years ended March 31, 2003 and 2004	2003	**2004**	Change	%	**2004**
Capital expenditures (cash flow basis)	¥ 246,200	**¥ 253,257**	¥ 7,057	2.9%	**$ 2,396**
au	167,300	**161,181**	(6,119)	(3.7%)	**1,525**
BBC & Solutions	40,800	**55,126**	14,326	35.1%	**522**
TU-KA	16,200	**14,713**	(1,487)	(9.2%)	**139**
Pocket (PHS)	11,700	**12,909**	1,209	10.3%	**122**
Depreciation	388,968	**365,700**	(23,268)	(6.0%)	**3,460**
au	175,968	**184,857**	8,889	5.1%	**1,749**
BBC & Solutions	105,397	**84,120**	(21,277)	(20.2%)	**796**
TU-KA	59,979	**53,827**	(6,152)	(10.3%)	**509**
Pocket (PHS)	39,583	**38,707**	(876)	(2.2%)	**366**
Balance of interest-bearing debt	1,497,020	**1,179,764**	(317,256)	(21.2%)	**11,162**
au + BBC & Solutions	937,230	**736,026**	(201,204)	(21.5%)	**6,964**
TU-KA	317,821	**262,415**	(55,406)	(17.4%)	**2,483**
Pocket (PHS)	182,690	**134,542**	(48,148)	(26.4%)	**1,273**
Net debt	1,375,165	**983,246**	(391,919)	(28.5%)	**9,303**

On a cash-flow basis, consolidated capital expenditures totaled ¥253.3 billion in the year ended March 2004, a year-on-year increase of 2.9%. Accrued but unpaid capital projects that will be booked in the year ending March 2005 represented an excess of ¥20 billion of this spending total. Consolidated depreciation and amortization declined 6.0% year-on-year to ¥365.7 billion. Consolidated debt amounted to ¥1,179.8 billion as of March 31, 2004. KDDI is targeting a decrease in net debt to the ¥1,000 billion level by the end of March 2005. On current cash-flow projections, management regards this as a feasible objective.

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

March 31, 2003 and 2004	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars (Note 1) 2004
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 121,855	¥ **196,518**	$ **1,859**
Accounts receivable	388,047	**405,141**	**3,833**
Allowance for doubtful accounts	(20,302)	**(20,366)**	**(193)**
Inventories	55,851	**63,400**	**600**
Deferred income taxes (Note 12)	28,861	**31,087**	**294**
Prepaid expenses and other current assets	22,736	**21,897**	**208**
Total Current Assets	597,048	**697,677**	**6,601**
Property, Plant and Equipment (Note 4):			
Telecommunications equipment	2,925,119	**2,814,602**	**26,631**
Buildings and structures	437,511	**378,536**	**3,581**
Machinery and tools	121,912	**117,533**	**1,112**
Land	52,513	**50,331**	**476**
Construction in progress	66,532	**49,319**	**467**
Other property, plant and equipment	14,798	**13,203**	**125**
	3,618,385	**3,423,524**	**32,392**
Accumulated depreciation	(1,929,990)	**(1,903,746)**	**(18,012)**
Total Property, Plant and Equipment	1,688,395	**1,519,778**	**14,380**
Investments and Other Assets:			
Investments in securities (Note 3)	54,739	**36,830**	**348**
Deposits and guarantee money	40,145	**36,138**	**342**
Intangible assets	223,654	**191,192**	**1,809**
Goodwill	57,272	**53,479**	**506**
Deferred income taxes (Note 12)	20,378	**13,687**	**130**
Other assets	111,382	**101,875**	**964**
Allowance for loss on investments and other assets	(10,974)	**(11,075)**	**(105)**
Total Investments and Other Assets	496,596	**422,126**	**3,994**
Total Assets	¥ 2,782,039	¥ **2,639,581**	$ **24,975**

The accompanying notes are an integral part of these statements.

March 31, 2003 and 2004	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars (Note 1) 2004
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 4)	¥ 281,240	**¥ 281,320**	**$ 2,662**
Accounts payable	250,126	**249,918**	**2,365**
Accrued income taxes	10,433	**65,771**	**622**
Accrued expenses	19,889	**16,762**	**159**
Allowance for bonuses	12,687	**13,590**	**128**
Other current liabilities	21,611	**23,089**	**218**
Total Current Liabilities	595,986	**650,450**	**6,154**
Non-Current Liabilities:			
Long-term loans (Note 4)	851,838	**567,324**	**5,368**
Bonds (Note 4)	355,925	**328,550**	**3,108**
Reserve for point service program	15,711	**17,860**	**169**
Other non-current liabilities (Note 4)	53,656	**46,149**	**437**
Total Non-Current Liabilities	1,277,130	**959,883**	**9,082**
Total Liabilities	1,873,116	**1,610,333**	**15,236**
Minority Interests	14,212	**19,857**	**188**
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**	**1,342**
Capital surplus	304,190	**304,190**	**2,878**
Retained earnings	456,827	**563,678**	**5,333**
Net unrealized gains on securities	1,455	**11,977**	**114**
	904,324	**1,021,697**	**9,667**
Foreign Currency Translation Adjustments	(4)	**(1,645)**	**(15)**
Treasury stock, at cost	(9,609)	**(10,661)**	**(101)**
Total Shareholders' Equity	894,711	**1,009,391**	**9,551**
Total Liabilities and Shareholders' Equity	¥ 2,782,039	**¥ 2,639,581**	**$ 24,975**

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
March 31, 2003 and 2004	2003	**2004**	**2004**
Operating Revenues:			
Voice communications	¥ 1,574,509	**¥ 1,468,961**	**$ 13,899**
Digital data transmission services	450,658	**635,322**	**6,011**
Leased circuits	93,941	**82,502**	**781**
Telegraph and other telecommunications services	72,779	**81,941**	**775**
Sales of terminal equipment and other	593,456	**577,372**	**5,463**
Total Operating Revenues	2,785,343	**2,846,098**	**26,929**
Operating Expenses:			
Sales expenses	963,250	**939,147**	**8,886**
Depreciation	378,778	**359,529**	**3,402**
Charges for use of telecommunications services of third parties	419,716	**393,420**	**3,722**
Cost of sales of terminal equipment and other	554,771	**563,428**	**5,331**
Other	328,175	**298,469**	**2,824**
Total Operating Expenses	2,644,690	**2,553,993**	**24,165**
Operating Income	140,653	**292,105**	**2,764**
Other Expenses (Income):			
Interest expense	35,891	**27,762**	**263**
Interest income	(735)	**(595)**	**(6)**
Loss (gain) on sales of securities	(9,412)	**5,595**	**53**
Loss on devaluation of securities	5,270	**1,438**	**14**
(Gain) loss on sales of property, plant and equipment (Note 6)	284	**(2,028)**	**(19)**
Equity in loss (profit) of affiliates	(1,170)	**(1,439)**	**(14)**
Dividend income from anonymous association	(5,055)	**(5,690)**	**(54)**
Compensation for damage	–	**(2,664)**	**(25)**
Gain on reversal of allowance for doubtful accounts	(4,227)	**–**	**–**
Cumulative effect of new method of accounting for point service program	6,772	**–**	**–**
Gain on return of welfare pension funds to the Government	–	**(3,962)**	**(37)**
Loss on cancellation of lease contracts	–	**4,233**	**40**
Loss from amendments to submarine cable construction contracts	678	**–**	**–**
Loss on disposal of property, plant and equipment (Note 7)	–	**80,106**	**758**
Other, net	1,631	**(2,752)**	**(27)**
Total Other Expenses	29,927	**100,004**	**946**
Income before Income Taxes and Minority Interests	110,726	**192,101**	**1,818**
Income Taxes:			
Current	14,831	**72,063**	**682**
Deferred	35,524	**(2,913)**	**(27)**
Total Income Taxes	50,355	**69,150**	**655**
Minority Interests in Consolidated Subsidiaries	3,012	**5,926**	**56**
Net Income	¥ 57,359	**¥ 117,025**	**$ 1,107**

	Yen		U.S. dollars (Note 1)
Per Share Data:			
Net income	¥ 13,561	**¥ 27,748**	**$ 262.54**
Cash dividends	2,095	**3,600**	**34.06**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

KDDI Corporation and Consolidated Subsidiaries

	Thousands	Millions of yen					
Years ended March 31, 2003 and 2004	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2002	4,241	¥ 141,852	¥ 304,190	¥ 407,043	¥ 2,896	¥ 1,140	¥ (40)
Net income for the year				57,359			
Cash dividends (Note 10)				(7,570)			
Directors' and corporate auditors' bonuses				(5)			
Loss on disposal of treasury stocks				(0)			
Net unrealized gains on securities					(1,441)		
Foreign currency translation adjustments						(1,144)	
Net changes in treasury stock							(9,569)
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 auditors' bonuses				(71)			
Loss on disposal of treasury stocks				(7)			
Increase 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)**

	Thousands	Millions of U.S. dollars (Note 1)					
Year ended March 31, 2004	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance, March 31, 2003	4,241	$ 1,342	$ 2,878	$ 4,322	$ 14	$ 0	$ (91)
Net income for the year				1,107			
Increase due to decrease in equity-method companies				0			
Cash dividends (Note 10)				(95)			
Directors' and corporate auditors' bonuses				(1)			
Loss on disposal of treasury stocks				(0)			
Increase due to subsidiaries newly consolidated				(0)			
Net unrealized gains on securities					100		
Foreign currency translation adjustments						(15)	
Net changes in treasury stock							(10)
Balance, March 31, 2004	**4,241**	**$ 1,342**	**$ 2,878**	**$ 5,333**	**$ 114**	**$ (15)**	**$ (101)**

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, 2003 and 2004	2003	**2004**	**2004**
Cash Flows from Operating Activities:			
Income before income taxes and minority interests Adjustments for:	¥ 110,726	**¥ 192,101**	**$ 1,818**
Depreciation and amortization	392,855	**369,354**	**3,494**
(Gain) loss on sales of property, plant and equipment	284	**(2,028)**	**(19)**
Loss on disposal of property, plant and equipment	33,879	**100,878**	**954**
Increase (decrease) in allowance for doubtful accounts	(6,294)	**199**	**2**
Increase (decrease) in reserve for retirement benefits	7,634	**(4,029)**	**(38)**
Interest and dividend income	(1,463)	**(723)**	**(7)**
Interest expenses	35,891	**27,762**	**263**
Equity in (gain) of affiliates	(1,170)	**(1,439)**	**(14)**
Loss on sales of investment securities	–	**5,595**	**53**
Investment securities write off	5,270	**1,438**	**14**
Increase in reserve for point services	15,711	**2,149**	**20**
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension cost	(4,314)	**4,856**	**46**
Decrease (increase) in notes and accounts receivable	92,343	**(21,360)**	**(202)**
Decrease (increase) in inventories	50,214	**(10,016)**	**(95)**
Decrease in notes and accounts payable	(97,330)	**(7,763)**	**(73)**
Other, net	(15,157)	**9,982**	**94**
Sub total	619,079	**666,956**	**6,310**
Interest and dividend income received	2,881	**1,170**	**11**
Interest expenses paid	(37,298)	**(28,891)**	**(273)**
Income taxes paid	(57,775)	**(16,537)**	**(156)**
Net cash provided by operating activities	526,887	**622,698**	**5,892**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(159,536)	**(197,594)**	**(1,870)**
Proceeds from sale of property, plant and equipment	23,911	**4,898**	**46**
Payments for other intangible assets	(84,607)	**(48,131)**	**(455)**
Acquisition of investment securities	(1,023)	**(867)**	**(8)**
Proceeds from sale of investment securities	1,755	**29,128**	**275**
Payments for investment in affiliates	(333)	**(893)**	**(8)**
Proceeds from sale of subsidiaries	11,315	**–**	**–**
Increase in long-term prepayment	(14,538)	**(9,121)**	**(86)**
Other, net	1,504	**4,115**	**39**
Net cash used in investing activities	(221,552)	**(218,465)**	**(2,067)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	3,221	**(1,501)**	**(14)**
Proceeds from issuance of long-term loans	142,855	**8,000**	**76**
Repayment of long-term loans	(357,459)	**(284,787)**	**(2,695)**
Repayment of long-term accounts payable	(19,205)	**(7,029)**	**(66)**
Proceed from new bond issue	21,500	**18,000**	**170**
Payment for redemption of bonds	(25,000)	**(50,375)**	**(477)**
Payments for acquisition of treasury stocks	(9,567)	**(1,277)**	**(12)**
Dividends paid	(7,649)	**(10,201)**	**(96)**
Payments received from minority shareholders	103	**1,166**	**11**
Other, net	(162)	**(907)**	**(9)**
Net cash used in financing activities	(251,363)	**(328,911)**	**(3,112)**
Translation Adjustments on Cash and Cash Equivalents	(713)	**(668)**	**(7)**
Net Increase in Cash and Cash Equivalents	53,259	**74,654**	**706**
Cash and Cash Equivalents at Beginning of Year	68,596	**121,855**	**1,153**
Increase in Cash and Cash Equivalents due to Subsidiaries Newly Consolidated	–	**9**	**0**
Cash and Cash Equivalents at End of Year	¥ 121,855	**¥ 196,518**	**$ 1,859**

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.

The Company's consolidated financial statements for the year ended March 31, 2004, include 60 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., TU-KA Phone Kansai, Inc., DDI POCKET Inc., KCOM Corporation, KDDI AMERICA INC. and 53 other subsidiaries.

During the year ended March 31, 2004, significant changes in the scope were incurred as follows;

Consolidated:

KWILL CORPORATION	Established
TU-KA Services, Inc.	Business commenced

The above corporation began business this fiscal period and has grown to have significant material impact.

Removed:

TELEHOUSE SUISSE S.A.	Disposal of investment in subsidiary

The investment in the above corporation was sold.

Equity Method

Added:

Ampersand Broadband Inc.	Business commenced

The above corporation began business this fiscal period and has grown to have significant material impact.

Removed:

NKJ EUROPE LTD.	Liquidation

The above corporation was liquidated.

@Knowledge, Inc.

The equity share in the above corporation decreased through allocation of new shares to a third party.

FiberLabs Inc.

The Company has no major material impact on the above corporation after ceasing the dispatch of directors.

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 ¥105.69=$1, the approximate exchange rate on March 31, 2004. 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 network business held 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 network and mobile communications business:	6–15 years
Telecommunication service lines, engineering equipment, submarine cable system and buildings:	2–65 years

The useful life of submarine cable systems has changed from 20 years to 12 years from this fiscal year.

In line with rapid advancements in high-capacitance and multiplexing technologies for submarine fiber-optic cables in recent years, capacity costs and running costs per unit of capacity for submarine cable systems have decreased markedly compared to the beginning of the period.

Consequently, the number of submarine cable systems that ceased operation after 11-14 years increased substantially during the period, leading to the aforementioned change in useful life.

In line with this change, operating expenses of telecommunications business increased by ¥4,466 million ($42 million), resulting in decreases by the same amount in operating income, ordinary income and income before income taxes and minority interests.

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 2004 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2004 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.

In conjunction with the implementation of the defined benefit enterprise pension plan law, the Company and certain of its domestic subsidiaries received approval from the Ministry of Health, Labour and Welfare on April 1, 2003 to relinquish the entrusted portion of future retirement benefit obligations of the employee pension fund. Consequently, the Company applied transitional measures as specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No. 13 issued by the Japanese Institute of Certified Public Accountants), and a reduction in benefit obligations related to the entrusted portion was recognized on the aforementioned approval date.

As a result, operating revenues (gain on transfer of entrusted portion of employees' pension funds) and income before income taxes and minority interests both increased by ¥3,962 million ($37 million).

The amount transferred to the government at fiscal 2004 year-end was ¥6,480 million ($61 million).

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.

3. Market Value Information

At March 31, 2004, 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.

	Millions of yen			Millions of U.S. dollars		
2004	Book value	Market value	Unrealized gain (loss)	Book value	Market value	Unrealized gain (loss)
Bonds for which market value exceeds book value of consolidated balance sheets	¥ –	¥ –	¥ –	$ –	$ –	$ –
Bonds for which market value does not exceed book value of consolidated balance sheets	18	18	–	0	0	–
Total	¥ 18	¥ 18	¥ –	$ 0	$ 0	$ –

Other securities that have market prices

	Millions of yen			Millions of U.S. dollars		
2004	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	¥ 4,238	¥ 24,932	¥ 20,694	$ 40	$ 236	$ 196
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	441	438	(3)	4	4	(0)
Total	¥ 4,679	¥ 25,370	¥ 20,691	$ 44	$ 240	$ 196

Other securities sold during the current consolidated fiscal year

	Millions of yen			Millions of U.S. dollars		
2004	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	¥ 35,175	¥ 5,589	¥ 10,717	$ 333	$ 53	$ 101

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

2004	Millions of yen Book value	Millions of U.S. dollars Book value
Other securities		
Unlisted equity securities	¥ 6,550	$ 62
Unlisted corporate bonds	5,234	50
Commercial papers	47,495	449
Total	¥ 59,279	$ 561

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	¥ –	¥ 305	¥ –	¥ 5,234	$ –	$ 3	$ –	$ 50
Other	47,531	49	–	–	450	0	–	–
Other securities	–	–	–	–	–	–	–	–
Total	¥ 47,531	¥ 354	¥ –	¥ 5,234	$ 450	$ 3	$ –	$ 50

4. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2004 were ¥4,277 million (U.S. $40 million), and the annual average interest rate applicable to short-term bank loans at March 31, 2004 was 3.19%.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen 2003	Millions of yen 2004	Millions of U.S. dollars 2004
Domestic unsecured straight bonds due 2004 through 2010 at rates of 0.435% to 2.57% per annum	¥ 236,500	**¥ 234,125**	**$ 2,215**
General secured bonds due 2005 through 2017 at rates of 2.30% to 3.20% per annum (*)	139,800	**109,800**	**1,039**
Total bonds	¥ 376,300	**¥ 343,925**	**$ 3,254**
Loans from banks:			
Maturing through 2020 at average rates of 1.91% per annum	¥ 1,099,924	**¥ 823,439**	**$ 7,791**
Other interest-bearing debt	15,045	**8,124**	**77**
	¥ 1,114,969	**¥ 831,563**	**$ 7,868**
Total bonds, loans and other interest-bearing debt	¥ 1,491,269	**¥ 1,175,488**	**$ 11,122**
Less, amount due within one year	275,455	**277,044**	**2,621**
	¥ 1,215,814	**¥ 898,444**	**$ 8,501**

(*)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, 2004 were as follows:

Year ending March 31	Millions of yen 2004	Millions of U.S. dollars 2004
2005	**¥ 277,044**	**$ 2,621**
2006	**243,220**	**2,301**
2007	**229,078**	**2,168**
2008	**248,433**	**2,351**
2009 and thereafter	**177,713**	**1,681**
	¥ 1,175,488	**$ 11,122**

At March 31, 2004, assets pledged as collateral for long-term loans were as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
Long-term loans	¥ 11,601	$ 110
Current portion of long-term loans	3,514	33
Performance bond for cable contracts	47	0
	¥ 15,162	$ 143
Mortgage on factory foundation	¥ 25,518	$ 241
Term deposits	47	1
	¥ 25,565	$ 242

5. Contingent Liabilities

At March 31, 2004 and 2003, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2003	2004	2004
As a guarantor for:			
Loans of affiliated companies	¥ 215	¥ 45	$ 0
System supply contract of KDDI Submarine Cable Systems Inc.	146,526	129,203	1,223
Office lease contract of KDDI AMERICA, INC.	765	533	5
Other	–	1	0
	¥ 147,506	¥ 129,782	$ 1,228

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

Gain and loss on sales of property, plant and equipment, at March 31, 2004, was as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
(Gain) on sales of Meguro Building	¥ (2,385)	$ (23)
(Gain) on sales of employee apartments and welfare centers	(451)	(4)
Loss on sales of employee apartments and welfare centers	507	5
Other	301	3

7. Loss on Disposal of Fixed Assets

Loss on disposal of fixed assets in fiscal 2004 is mainly attributable to disposal of microwave transmission facilities, as outlined below.

	Millions of yen	Millions of U.S. dollars
	2004	2004
Machinery and equipment	¥ 18,910	$ 179
Antenna facilities	17,434	165
Buildings	24,087	228
Other	17,599	167

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, 2004 and 2003 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
	2003			**2004**			**2004**		
Tools, furniture and fixtures	¥ 151,043	¥ 89,285	¥ 61,757	**¥ 112,847**	**¥ 67,885**	**¥ 44,962**	**$ 1,068**	**$ 643**	**$ 425**
Other	4,671	675	3,996	**4,753**	**1,158**	**3,595**	**45**	**11**	**34**
	¥ 155,714	¥ 89,960	¥ 65,753	**¥ 117,600**	**¥ 69,043**	**¥ 48,557**	**$ 1,113**	**$ 654**	**$ 459**

Future lease payments as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 26,391	**¥ 21,273**	**$ 201**
Over one year	39,362	**27,284**	**258**
	¥ 65,753	**¥ 48,557**	**$ 459**

Lease payments and assumed depreciation charges for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Lease payments	¥ 29,966	**¥ 25,856**	**$ 245**
Assumed depreciation charges	29,966	**25,856**	**245**

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, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 20,154	**¥ 19,472**	**$ 184**
Over one year	100,282	**77,199**	**731**
	¥ 120,436	**¥ 96,671**	**$ 915**

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, 2004 and 2003 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
	2003			**2004**			**2004**		
Tools, furniture and fixtures	¥ 2,972	¥ 1,755	¥ 1,217	**¥ 2,118**	**¥ 1,404**	**¥ 714**	**$ 20**	**$ 13**	**$ 7**
Other	347	193	155	**203**	**101**	**102**	**2**	**1**	**1**
	¥ 3,319	¥ 1,948	¥ 1,372	**¥ 2,321**	**¥ 1,505**	**¥ 816**	**$ 22**	**$ 14**	**$ 8**

Future lease receipts as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Within one year	¥ 636	**¥ 443**	**$ 4**
Over one year	841	**437**	**4**
	¥ 1,477	**¥ 880**	**$ 8**

Lease receipts and assumed depreciation charges for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Lease received	¥ 781	**¥ 659**	**$ 6**
Assumed depreciation charges	728	**613**	**6**

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, 2004 was summarized as follows:

	Millions of yen			Millions of U.S. dollars		
2004	National amount	Market value	Unrealized gain	National amount	Market value	Unrealized gain
Interest rate swap agreements:						
Fixed rate into variable rate obligations	¥ 2,000	¥ 133	¥ 133	$ 19	$ 1	$ 1
Variable rate into fixed rate obligations	¥ 4,000	¥ (75)	¥ (75)	$ 38	$ (1)	$ (1)

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 ¥12,676million ($120 million) and ¥12,167million at March 31, 2004 and 2003, 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 ¥13,340 million ($126 million) and ¥10,459 million, for the years ended March 31, 2004 and 2003, respectively.

12. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2004 was 41.9%.
At March 31, 2004 and 2003, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2003	**2004**	**2004**
Deferred tax assets:			
Depreciation and amortization	¥ 5,194	**¥ 7,269**	**$ 69**
Allowance for doubtful accounts	8,377	**6,858**	**65**
Disposal of fixed assets	3,765	**5,350**	**51**
Inventory write down	4,497	**1,601**	**15**
Reserve for retirement benefits (lump-sum)	18,548	**20,997**	**199**
Reserve for retirement benefits (pension)	3,696	**2,644**	**25**
Allowance for bonus payment	5,639	**6,007**	**57**
Accrued expenses	13,167	**7,700**	**73**
Accrued enterprise taxes	–	**6,265**	**59**
Net operating loss carried forward	54,534	**44,780**	**424**
Unrealized profits	7,363	**5,393**	**51**
Reserve for point service program	6,434	**7,316**	**69**
Other	7,476	**7,546**	**71**
Gross deferred tax assets	138,690	**129,726**	**1,228**
Valuation allowance	(65,752)	**(54,635)**	**(517)**
Net deferred tax assets	¥ 72,938	**¥ 75,091**	**$ 711**
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,476)	**¥ (1,353)**	**$ (13)**
Gain on establishment of retirement benefit trust	(20,367)	**(20,367)**	**(193)**
Net unrealized gains on securities	(936)	**(8,027)**	**(76)**
Retained earnings for overseas affiliates	(1,409)	**(1,066)**	**(10)**
Other	(1,695)	**(1,481)**	**(14)**
Total deferred tax liabilities	¥ (25,883)	**¥ (32,294)**	**$ (306)**
Net deferred tax assets	¥ 47,055	**¥ 42,797**	**$ 405**

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, 2004.

Statutory tax rate	41.9%
Special tax treatment for IT investment	(2.5)%
Appropriation of net operating loss carried forward	(5.1)%
Amortization of goodwill	0.8%
Other	0.9%
Effective tax rate	36.0%

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, 2004 was analyzed as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
Projected benefit obligations	¥ (262,103)	$ (2,480)
Plan assets	168,999	1,599
Retirement benefit trust	8,265	78
	¥ (84,839)	$ (803)
Unrecognized prior service cost	(11,045)	(105)
Unrecognized actuarial differences	87,534	828
Prepaid pension cost	(19,855)	(187)
Reserve for retirement benefits	¥ (28,205)	$ (267)

Net pension expense related to the retirement benefits for the year ended March 31, 2004 was as follows:

	Millions of yen	Millions of U.S. dollars
	2004	2004
Service cost	¥ 9,063	$ 86
Interest cost	5,179	49
Expected return on plan assets	(2,660)	(25)
Amortization of prior service cost	(822)	(8)
Amortization of actuarial differences	9,965	94
Net pension cost	¥ 20,725	$ 196

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

Discount rate	2.0%
Expected rate of return on plan assets	2.5% (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, 2004 and 2003 is as follows:

	Millions of yen						
Year ended March 31, 2003	Network & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (loss):							
Outside sales	¥ 606,783	¥1,925,253	¥ 194,332	¥ 58,975	¥2,785,343	¥ –	¥2,785,343
Intersegment sales	89,255	12,163	3,247	31,613	136,278	(136,278)	–
Total	696,038	1,937,416	197,579	90,588	2,921,621	(136,278)	2,785,343
Operating expenses	632,345	1,883,725	177,312	92,813	2,786,195	(141,505)	2,644,690
Operating income (loss)	¥ 63,693	¥ 53,691	¥ 20,267	¥ (2,225)	¥ 135,426	¥ 5,227	¥ 140,653
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	¥1,292,590	¥1,476,959	¥ 226,016	¥ 61,954	¥3,057,519	¥ (275,480)	¥2,782,039
Depreciation	108,923	241,012	39,583	6,880	396,398	(7,429)	388,969
Capital expenditures	48,713	191,489	12,922	1,723	254,847	(854)	253,993

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, 2004	BBC & Solution	au, TU-KA	PHS	Other	Total	Elimination	Consolidation
	Millions of yen						
I. Sales and Operating Income (loss):							
Outside sales	$ 5,171	$ 19,749	$ 1,713	$ 296	$ 26,929	$ -	$ 26,929
Intersegment sales	948	80	28	334	1,390	(1,390)	-
Total	6,119	19,829	1,741	630	28,319	(1,390)	26,929
Operating expenses	5,960	17,454	1,542	629	25,585	(1,420)	24,165
Operating income (loss)	$ 159	$ 2,375	$ 199	$ 1	$ 2,734	$ 30	$ 2,764
II. Identifiable Assets, Depreciation and Capital Expenditures:							
Identifiable assets	$ 11,895	$ 13,633	$ 1,821	$ 478	$ 27,827	$ (2,852)	$ 24,975
Depreciation	838	2,295	366	29	3,528	(68)	3,460
Capital expenditures	645	1,881	116	7	2,649	(8)	2,641

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

2. Change in business name
Based on the reorganization of the Company implemented in April, 2003, the former "Network & Solutions business" segment was renamed as the "BBC & Solutions business" in line with the establishment of the "Broadband Consumer (BBC) Business Headquarters."

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

a. The appropriation of retained earnings of the Company with respect to the year ended March 31, 2004, proposed by the Board of Directors and approved at the shareholder's meeting held on June 24, 2004, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥2,400 = US$22.71)	¥ 10,114	$ 96
Bonuses to directors and statutory auditors	73	1

b. It was decided by the Board of Directors on June 21, 2004, that the entire operations of DDI Pocket, a subsidiary of KDDI, will be separated and merged into a Consortium, in which The Carlyle Group (Carlyle), Kyocera Corporation (Kyocera) and KDDI invest. An escrow agreement was concluded on the same day. Details of the transaction follow.

(1) Objectives

DDI Pocket was the first carrier in Japan to introduce flat-rate tariffs for mobile data communications services, thereby securing a powerful position in the market, which is expected to expand further in the future. Besides recording consolidated full-year profits for three consecutive terms since the year ended March 31, 2002 , DDI Pocket has made major contributions to the KDDI Group in terms of generating stable free cash flows.

With an infusion of new resources, DDI Pocket's PHS business is expected to continue growing strongly. Taking into account KDDI Group's limited pool of resources, however, it was decided that the most beneficial course of action for DDI Pocket and its customers would be to aim for business expansion by injecting capital from external sources.

Furthermore, KDDI concluded that the most effective way to create new added value was to strengthen its competitive advantage in the mobile phone market by selecting and focusing management resources into core areas, notable the profitable au business.

Carlyle highly regards DDI Pocket's PHS business, especially in terms of DDI Pocket's medium to long term competitive advantage and growth potential in the corporate mobile data communications market. Carlyle entered into the transaction to provide it the best opportunity to contribute to the further development of PHS technology in Japan through the Consortium with Kyocera, a manufacturer of base stations and terminals.

(2) Outline of Participating Companies

The new company will be 60% owned by Carlyle, 30% by Kyocera and 10% by KDDI.

<Carlyle>

Representative:	Louis Gerstner (Representative in Japan: Tamotsu Adachi)
Head Office:	1001 Pennsylvania Ave. N.W. Suite 220 South, Washington, D.C., U.S.A.
Business Description:	Investment business (Private equity funds)

<Kyocera>

Representative:	Yasuo Nishiguchi
Head Office:	6 Takeda Tobadono-cho, Fushimi-ku, Kyoto, Japan
Business Description:	Fine Ceramic, Electronic Device, Equipments, Other Businesses
Relationship with KDDI:	Owns 13.5% share in KDDI

(3) Subsidiary to be Acquired

<DDI Pocket>

Corporate Name:	DDI Pocket, Inc.
Representative:	Takeo Yamashita
Head Office:	3-4-7, Toranomon, Minato-ku, Tokyo, Japan
Established:	July 1, 1994
Business Description:	Telecommunication Business (PHS Business)
Capital:	¥75,251 million
Shares Outstanding:	250,420
Business Year-end:	March 31
Number of Employees:	818 (as of March 31, 2004)

Three Year Financial Summary

	Millions of yen			Millions of U.S. dollars		
Years ended March31,	2002	2003	**2004**	2002	2003	**2004**
Total operating revenues	¥ 211,008	¥ 197,579	**¥ 184,017**	$ 1,996	$ 1,869	**$ 1,741**
Operating income	6,660	20,267	**21,093**	63	192	**200**
Ordinary income	3,036	17,742	**19,010**	29	168	**180**
Net income	14,658	17,030	**19,064**	139	161	**180**
Total assets	261,458	226,016	**192,424**	2,474	2,138	**1,821**
Total shareholders' equity	¥ 70	¥ 17,023	**¥ 36,216**	$ 1	$ 161	**$ 343**

(4) Transaction Overview

The entire operations of DDI Pocket will be separated and merged into a special purpose company held by the Consortium, in which Carlyle, Kyocera and KDDI invest, in exchange for which the Consortium will pay ¥220.0 billion (US$2.08 billion) in cash (this amount is subject to change upon adjustments in operating capital). Any cash remaining after repayment of net interest-bearing debt of DDI Pocket outstanding at closing will be paid to existing DDI Pocket shareholders.

DDI Pocket Transfer Scheme

1. The entire operations of DDI Pocket's PHS business will be separated and merged into a special purpose company ("SPC") in exchange for the stock of the SPC.
2. A second SPC will issue common stock for the Consortium in exchange for equity capital.
3. DDI Pocket will transfer SPC stock to the second SPC in exchange for the equivalent value in cash.
4. SPC and second SPC will merge.
5. DDI Pocket will be liquidated.

(5) Timetable for the Transaction

June 21, 2004:	Contract signed
October 1, 2004:	Corporate division
Around October 15, 2004:	Trigger escrow agreement
During the year ending March 31, 2005:	Liquidation of DDI Pocket

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, 2004 and 2003, 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. These 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, 2004 and 2003, 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 15, it was decided by the Board of Directors on June 21,2004,and an escrow agreement was concluded on the same day ,that the entire operations of DDI pocket, a subsidiary of KDDI CORPORATION , separated and merged into a consortium.

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

Kyoto, Japan

June 24, 2004

Major Consolidated Subsidiaries

As of March 31, 2004

Mobile Communication Businesses

[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 services under the “au” brand
Tu-Ka Cellular Tokyo Inc.	Jul. 91	¥ 6,000	61.2%	PDC cellular phone service
Tu-Ka Cellular Tokai Inc.	Feb. 92	¥ 3,000	60.7%	PDC cellular phone service
Tu-Ka Phone Kansai Inc.	Oct. 91	¥ 6,000	54.0%	PDC cellular phone service
DDI Pocket Inc.	Jul. 94	¥ 75,251	80.9%	PHS service

[Overseas]

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
HOLA Paraguay S.A.	Sep. 98	GS 288,650	69.6%	Cellular service in Paraguay

Broadband & Consumer and Solutions-related Businesses

[Domestic]

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KCOM Corporation	May 90	¥ 1,921	100.0%	Internet services, data transmission services, etc.
KMN Corporation	Jun. 98	¥ 626	90.0%	Internet provider service through CATV

[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.	Oct. 96	€ 4	100.0%	Telecommunications services in France
KDDI DEUTSCHLAND GMBH.	Apr. 92	€ 1	100.0%	Telecommunications services in Germany
KDDI HONGKONG LIMITED	Jan. 89	HK$ 101	100.0%	Telecommunications services in Hong Kong
KDDI SINGAPORE Pte. Ltd.	Sep. 89	S$ 4	100.0%	Telecommunications services in Singapore
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	A$ 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	83.9%	Secure IT housing, telecommunications facilities management in Europe
KDDI China	Oct. 01	RMB 13	80.0%	Telecommunications consulting services in China

Telecom Infrastructure Construction

[Domestic]

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Submarine Cable Systems Inc.	May 92	¥ 5,686	69.2%	Consulting, integration, construction, and technological development of optical-fiber submarine cable
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

Sales of IT Equipment and Systems

[Domestic]

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
K-Solutions Inc.	Jul. 96	¥ 672	85.2%	Planning, development, equipment, and sales and support of communications infrastructure and systems
KDDI Technology Corporation	Aug. 88	¥ 494	100.0%	Development and consulting of image data processing system
OSI Plus Corporation	Sep. 87	¥ 490	100.0%	Designing, consulting and sales of OSI software
KDDI Media Will Corporation	Aug. 99	¥ 142	69.1%	Research, development, production and sales of digital imaging products

Other Services

[Domestic]

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI R&D Laboratories, Inc.	Apr. 98	¥ 2,283	91.7%	Research and development of new technologies and sales of developed products
KDDI Telemarketing Inc.	May. 96	¥ 200	100.0%	Call center services
KDDI Msat, Inc.	Apr. 77	¥ 300	100.0%	Consulting and sales of Inmarsat satellite communications services
KDDI TELESERVE Inc.	Sep. 87	¥ 100	100.0%	Temporary staff placement, recruitment consultancy and language service
a1adnet corporation	Dec. 00	¥ 490	51.0%	Planning, producing and distribution of advertisements on mobile Internet
KDDI SOGO SERVICE CO., LTD.	Apr. 74	¥ 168	100.0%	Security services; operation and administration of buildings and peripheral facilities

Organization

As of July 1, 2004

- 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
  - Business 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 Division
  - Telecommunication Operations Sector
    - Service Operations Planning Division
    - Telecommunication Service 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
  - "au" Business Sector
    - "au" Business Strategy Division
    - "au" Service & Product Planning Division
    - "au" Technology Division
    - "au" Engineering Division
    - "au" Sales Division

Corporate History

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

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.)

Corporate Overview

(As of March 31, 2004)

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Principal Office:	KDDI Bldg., 3-2, Nishi-shinjuku 2-chome, Shinjuku-ku, Tokyo 163-8003, Japan
	(Iidabashi Office)
	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
President:	Tadashi Onodera
Capital:	¥141,851 million
Number of Employees:	13,128 (consolidated)

Directors, Auditors and Vice Presidents

(As of July 1, 2004)

Directors

Chairman, Member of the Board
Mitsuo Igarashi

President, Member of the Board
Tadashi Onodera

Executive Vice President, Member of the Board
Masahiro Yamamoto

Members of the Board, Senior Vice Presidents
Nobuhiko Nakano
Yasuhiko Ito
Satoshi Nagao

Members of the Board, Associate Senior Vice Presidents
Nobuo Nezu
Hirofumi Morozumi

Members of the Board
Jiro Ushio
Yasuo Nishiguchi
Hiroshi Okuda

Auditors

Standing Statutory Auditors
Akira Hioki
Yoshiaki Tsuji

Statutory Auditors
Hideki Ishida
Katsuaki Watanabe

Vice Presidents

Associate Senior Vice Presidents
Masaru Takahashi
Kaoru Tachibana
Kazuyuki Tsukada

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

Stock Information

As of March 31, 2004

Total Number of Shares Authorized:	7,000,000
Total Number of Shares Issued and Outstanding:	4,240,880.38
Number of Shareholders:	129,303

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Voting Right Percentage
Kyocera Corporation	572,675.87	13.62%
Toyota Motor Corporation	497,425.23	11.83%
Japan Trustee Services Bank, Ltd. (Trust Account)	362,213.00	8.61%
The Master Trust Bank of Japan, Ltd. (Trust Account)	306,382.00	7.28%
The Chase Manhattan Bank N.A. London	140,022.00	3.33%
State Street Bank & Trust Co.	88,848.00	2.11%
Ministry of Posts and Telecommunications Mutual Aid Association	72,641.45	1.72%
The Tokyo Electric Power Company, Incorporated	56,340.55	1.34%
Mizuho Corporate Bank, Ltd.	54,608.24	1.29%
JP Morgan Chase Oppenheimer Funds JASDEC Account	47,217.00	1.12%

Distribution of Shares

	Number of Shareholders	Number of Shares Held	Percentage of Total Shares
Financial institutions	238	1,300,003.29	30.65%
Securities firms	74	35,053.80	0.83%
Foreign corporations, etc.	649	1,011,400.86	23.85%
Individuals and other	126,753	334,255.94	7.88%
Other corporations	1,589	1,560,166.49	36.79%

KDDI CORPORATION

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

Printed in Japan