KDDI CORPORATION

# Ubiquitous Solution Company

Annual Report 2006

Results for the year ended March 31, 2006

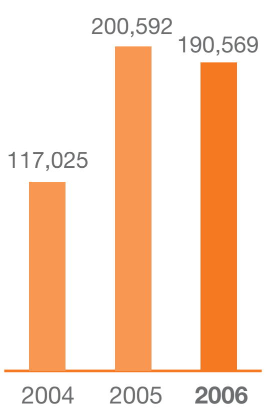
# Financial Highlights

KDDI Corporation and Consolidated Subsidiaries

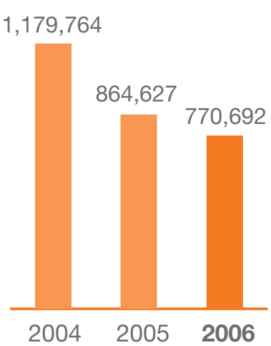
| Years ended March 31, 2004 - 2006 | Millions of Yen 2004 | Millions of Yen 2005 | Millions of Yen 2006 | Millions of U.S. dollars 2006 |
|---|---|---|---|---|
| Total operating revenues | ¥ 2,846,098 | ¥ 2,920,039 | ¥ **3,060,814** | $ **26,056** |
| Operating income | 292,105 | 296,176 | **296,596** | **2,525** |
| Income before income taxes and minority interests | 192,101 | 293,531 | **180,606** | **1,537** |
| Net income | 117,025 | 200,592 | **190,569** | **1,622** |
| Capital expenditure (cash flow basis) | 253,257 | 342,391 | **414,726** | **3,530** |
| (At year end) | | | | |
| Total assets | 2,639,581 | 2,472,322 | **2,500,865** | **21,289** |
| Interest-bearing debt | 1,179,764 | 864,627 | **770,692** | **6,560** |
| Total shareholders' equity | 1,009,391 | 1,162,192 | **1,295,531** | **11,029** |
| Per share data (yen and U.S. dollars) | | | | |
| Net income | 27,748 | 47,612 | **45,056** | **383.55** |
| Cash dividends | 3,600 | 6,900 | **8,000** | **68.10** |

Notes: 1. U.S. dollar amounts above and elsewhere in this report are converted from yen, for convenience only, at the rate of ¥117.47 = $1, the approximate exchange rate on March 31, 2006.
2. Interest-bearing debt consists of short-term loans and current portion of long-term loans, long-term loans, bonds and long-term accounts payable.

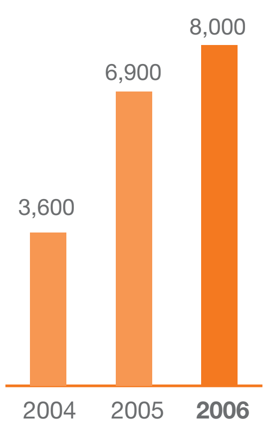
Net income (millions of yen)




Interest-bearing debt (millions of yen)




Cash dividends (yen)




## 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.

KDDI, the sole provider of both mobile and fixed-line services in Japan, has created a gateway to a whole new world of ubiquitous solutions

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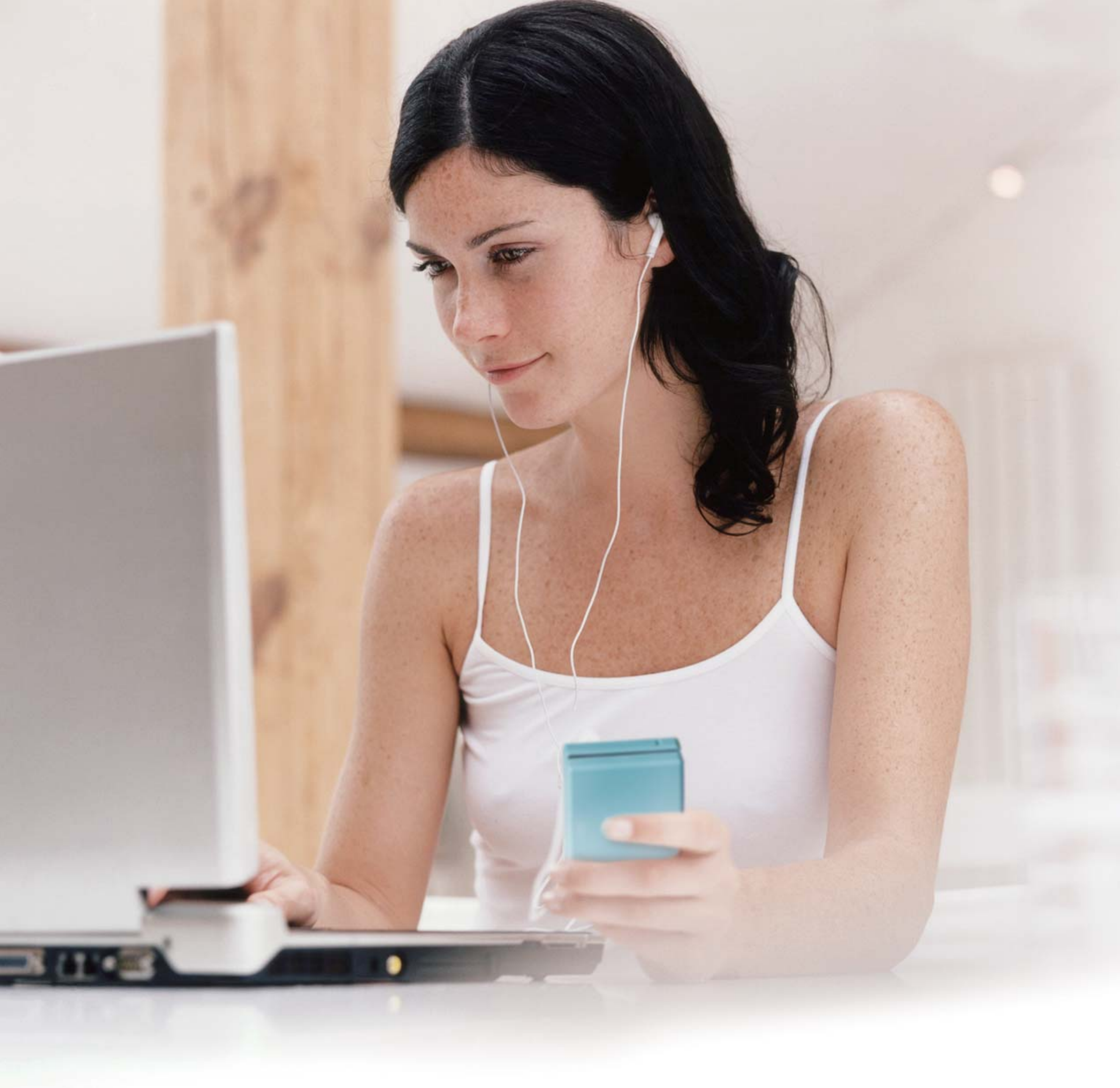


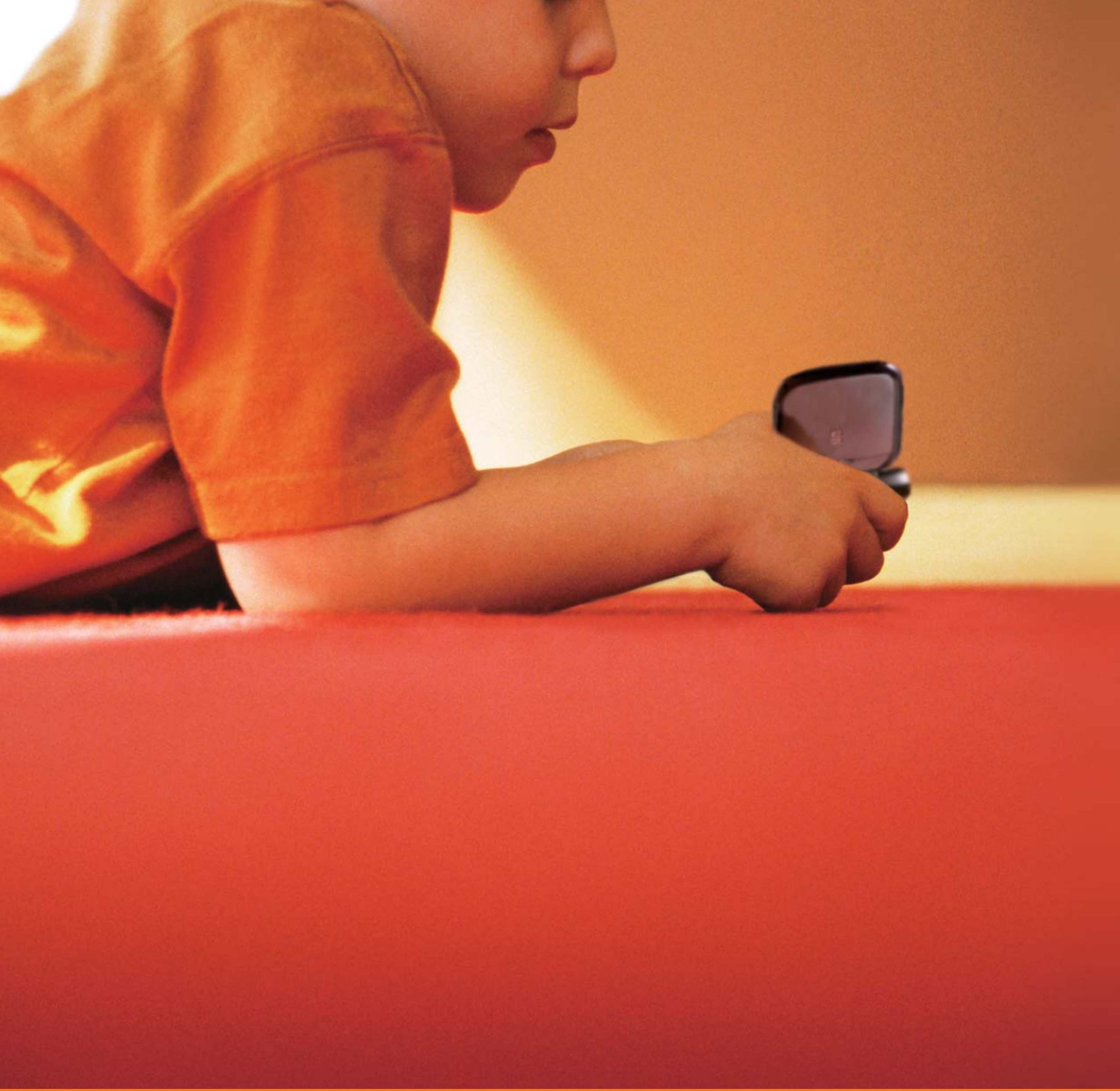
## More music on the move

The new LISMO service enables au users to fully integrate music between handsets and PCs by allowing favorite tracks from a CD or downloaded via EZ Chaku-uta Full® to be transferred either way. Users with LISMO-capable handsets can also swap playlists. The leader in mobile music, au remains the premier mobile multimedia brand among Japanese carriers.


W42K

W41S

W43T



## A television in your pocket

The latest au mobile handsets allow users to enjoy digital TV broadcasts in stunning clarity on a 2.7-inch QVGA wide-LCD display. Recent advances in energy consumption have boosted maximum viewing times to over three hours. You can now even make a 30-minute video recording on your phone. Welcome to the new age of mobile multimedia.


W41H

W41H

W33SA II

## The world comes to you

"Hikari one" FTTH services offer residential users a triple-play combination of high-speed Internet access, telephone and cable. Downlink speeds of up to 100Mbps offer super-fast Internet access. Enabling high-quality telephone service along with multiple cable TV channels, this fiber-optic connection from KDDI provides an affordable gateway to the world.

# Taking It to the Next Level

## Our goals are to continue expanding our customer base while cultivating new business domains based on the watchwords "Strategy and Speed."

**The fiscal year ended March 2006 marked the start of a new phase for KDDI. Based on the watchwords "Strategy and Speed", we focused on expanding our customer base in preparation for the next stage of profit growth. Here, I review the achievements of the year and discuss our strategy for future business development.**

### I. Analysis of Results for the Year Ended March 2006

The year under review marked a new phase in the evolution of KDDI's business. In the fixed-line market, we established our new direct-access services, where we collect basic monthly line charges from customers rather than from NTT. The mobile communications market, meanwhile, was where we focused on upgrading and expanding our services and pricing plans ahead of the planned introduction in autumn 2006 of mobile number portability (MNP), which will enable users to switch mobile carriers without changing numbers.

It was also a year in which the public debate about the monopolistic hold of NTT over the Japanese telecommunications market heated up. Regulators and appointed experts began discussing how to promote fair, healthy competition. The details of KDDI's consolidated operating performance for the year are discussed elsewhere in this report, in the "Overview of Operations" and in the "Financial Review." The key points of that performance are as follows:

* A strong performance from our Mobile Business absorbed the operating loss posted by our Fixed-line Business. At the consolidated level, operating revenues increased 4.8% compared with the previous year, to ¥3,060.8 billion. Operating income edged up 0.1%, to ¥296.6 billion, while net income fell 5.0%, to ¥190.6 billion.
* In the Mobile Business, we achieved steady growth in the number of 3G subscribers. Operating revenues in this segment rose 8.6% on a year-on-year basis, to ¥2,510.4 billion, and operating income surged 21.3%, to ¥354.4 billion.
* Operating revenues from our Fixed-line Business increased 3.9% on a year-on-year basis, to ¥619.3 billion, due mainly to expanded sales of KDDI Metal Plus services and our merger with POWEREDCOM Inc. The rise, however, in the subcontracting and subscriber acquisition costs of KDDI Metal Plus led to an operating loss in this segment of ¥61.3 billion.

Based on these results, we elected to return more profits to shareholders and increased our total annual dividends to ¥8,000 per share, from ¥6,900 in the previous year. On a non-consolidated basis, the dividend payout ratio was 20.8%, slightly higher than our management target of 20% for this indicator. We continue to invest for future growth, and our policy is to maintain a high and stable dividend payout.

### II. Activities in the Year Ended March 2006

#### 1. Mobile Business

Our au-branded mobile phone service has always been particularly popular for its music download capabilities. We focused during the year on gaining even more au customers by taking it to the next level with the launch of au LISTEN MOBILE SERVICE (LISMO), which makes the most of the characteristics of 3G phones. The top-rank customer satisfaction rating for au reflects high customer retention, and we also posted a further fall in this service's churn rate. In fact, we exceeded our growth targets for customer base and profits for our au mobile phone service in the year under review.

In October 2005, KDDI Corporation absorbed the three TU-KA subsidiaries of TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., and TU-KA Phone Kansai, Inc. That same month, we began offering TU-KA subscribers the opportunity to transfer to the au service without having to change their numbers. We heightened the attractiveness of this offer in February 2006 by allowing TU-KA customers to keep the same e-mail address as well. Migration from TU-KA to au continues to proceed smoothly.

The migration process, moreover, has been an extremely valuable experience for us. It has enabled us to construct systems for the smooth transfer of user contracts. And that will help us to benefit quickly once MNP becomes a reality for all mobile phone users in Japan in late 2006.

#### 2. Fixed-line Business

We encountered delays in the first half of the year in expanding the coverage area for our KDDI Metal Plus service. The result was a larger-than-forecast operating loss in our Fixed-line Business, mainly because the subcontracting costs and commission-related sales expenses were front-loaded.

Expansion of the coverage area proceeded to plan in the second half of the year. And as of the end of 2006, the subscriber base for KDDI Metal Plus had grown to 1.8 million, exceeding the target figure of 1.7 million that we had set for the year. I believe that we have secured an excellent foothold in this market, putting us in a good position to achieve further growth in the year ahead.

In October 2005, we took a significant step forward in strengthening our base of fixed-line operations for growth. We completed a comprehensive alliance in the telecommunications field with The Tokyo Electric Power Co. (TEPCO). In November 2005, as a prelude to the launch of an integrated service with TEPCO, we began a joint promotional campaign — the KDDI & TEPCO Hikari Campaign Plan — to market Fiber to the Home (FTTH) services for residential customers. Then, in January 2006 in a move related to this alliance, we merged with POWEREDCOM, Inc., the leading player in the Japanese market for corporate wide-area Ethernet services.

3. Fixed and Mobile Convergence Business

In May 2005, we took the first step toward building our Fixed and Mobile Convergence (FMC) Business when we began offering customers a consolidated billing service for fixed-line and mobile services. We followed this up in January 2006 with the launch of LISMO, the industry's first comprehensive music service suite for mobile phones. LISMO seamlessly integrates music between au handsets and personal computers. Toward further seamlessness, in June 2005 we publicized our Ultra 3G integrated capability, which provides for an advanced IP network that can realize complete fixed-mobile convergence.

We have also initiated organizational reforms to prepare for FMC. On December 1, 2005, we rearranged our divisional structure to ensure new market-based separation between individual and corporate customers. The Consumer Business sector now contains both our mobile and fixed-line businesses for consumers, while the Solution Business sector incorporates mobile and fixed-line communications solutions for corporate clients. This reform involved a significant exchange of personnel between the mobile and fixed-line sectors.

## III. Future Business Developments and Prospects

Our aim remains to generate continuous growth. In this respect, we believe that the prospects for the industry are excellent. We envision two principal developments in the coming years:

* Within the overall telecommunications sector, we see FMC and communications merging with broadcasting. This will result in new opportunities for growth from a second tier of services related to content and media, in addition to the revenue generated from conventional traffic-based services.
* To maximize KDDI's strengths amid such a merger, we plan to consolidate our mobile and fixed-line operations.

I believe that KDDI faces three challenges to its success. First is MNP. Second is the way that we extract strategic value from FTTH in our Fixed-line Business. Third is content and media. The "Feature" section of this annual report contains discussions with key senior managers of our ongoing moves

Tadashi Onodera, President and Chairman

in each of these areas. Those discussions offer further insight into our medium-term business strategy.

1. Mobile Communications Business

The year under review witnessed rapid change. New carriers decided to enter Japan's mobile telecommunications market in November 2005, and then Softbank announced its acquisition of Vodafone Japan in March 2006. We have responded to changing business conditions by maintaining our focus on making our overall product offerings more competitive over the long term and on improving our customer services. Moreover, although there is no way of knowing exactly how many users will switch carriers following the planned introduction of MNP in autumn 2006, we view the expected increase in customer mobility as an opportunity to expand our subscriber base. In leveraging our high-quality network infrastructure, we seek to draw users from other carriers with an attractive package of handsets, content, and tariffs.

Before the end of 2006, we plan to upgrade our data network to EV-DO Revision A. This improved version of our existing protocol offers broadband users greater bandwidth and faster connection speeds. We are developing original and innovative services that enable au to take advantage of the technical enhancements of EV-DO Revision A. The shift to the new system will maintain the technical superiority of our data communications service infrastructure, which, in turn, will help us to retain the competitive advantage of our overall product offerings.

At the end of March 2006, our share of the Japanese mobile communications market, by cumulative contract, had increased to 27.7%. We seek next to raise this figure to 30%, or about 30 million subscribers.

A major issue for us is developing and cultivating business domains to generate fresh sources of income. Our main areas of interest are content and media and mobile solutions for corporate users, and we are determined to move aggressively in these fields.

2. Fixed-line Business
We expect the KDDI Metal Plus service to post significantly better profitability in the year to March 2007. This is because the year ahead will realize a full-year sales contribution from the customers that we signed up in the year under review. Based on our projections, we expect KDDI Metal Plus to start making money in the year to March 2008.

In the year to March 2007, meanwhile, we will continue to move steadily forward with our preparations for the full-scale development of our FTTH business. At the start of June 2006, we launched Hikari one, an integrated FTTH service supplied in cooperation with TEPCO. We are also talking with TEPCO about a complete merger of its FTTH operations with ours at the beginning of January 2007. Initially, we aim to establish a successful business model for FTTH services in cooperation with TEPCO within the Kanto region surrounding Tokyo, an area where household penetration for broadband is high relative to other areas of the nation.

For corporate users, we have positioned KDDI Powered Ethernet as our main brand in the market for wide-area Ethernet services, a segment with excellent growth potential. Following the merger, we will expand our corporate business by fully exploiting POWEREDCOM's high-quality services and customer service systems.

3. FMC
We continue to make steady progress in preparing for fixed and mobile convergence based on our Ultra 3G concept. Our construction of a next-generation content delivery network (CDN) — a high-quality IP network incorporating packet prioritization and control technologies for voice, image, and other content — is well advanced. By the end of March 2008, we plan to become one of the first carriers in the world to have a fixed telephony network that has undergone complete IP conversion.

Among the most significant aspects of this conversion is that we are constructing a network that achieves full fixed-mobile convergence, eliminating dependence on a particular method of access. Besides 3G mobile phone and wireless LAN services, this network will accommodate wireless systems, such as next-generation CDMA2000, and fixed-line technologies, such as ADSL and FTTH. This will provide users with an ideal communications environment where they can enjoy ubiquitous access to high-speed data communications and high-quality multimedia, without being aware of any distinction between fixed-line and mobile communications.

## IV. Activities Related to Corporate Social Responsibility
Because KDDI is a vital public utility, we realize that our most important social obligation is to make our service environment as good as possible for all users. Additional corporate social responsibility (CSR) objectives at KDDI include maximizing the value of the company and strengthening its brand through initiatives to raise total customer satisfaction (TCS). This applies to shareholders, investors and other stakeholders, and customers.

KDDI has a clear policy on corporate governance. We actively seek to clarify and strengthen our corporate governance through efforts to bolster efficiency and to increase transparency. In the year ending March 2007, we plan to formulate a basic policy on internal control systems to reinforce the transparency and integrity of KDDI Group operations. Part of this initiative includes a plan to establish a department responsible for internal controls. This initiative should help to improve our corporate governance and to boost the quality of our operations overall. We are, for example, also planning improvements in our information security, disclosure, and risk management and the like.

In addition, we recognize that protection of the global environment is a crucial obligation for large companies, such as KDDI. We have for this purpose instituted the KDDI Environment Charter, which is our basis for promoting various eco-friendly activities that target the development of a more affluent society.

On June 13, 2006, we announced to the media that data leakage had occurred relating to information on approximately four million subscribers to DION, our Internet access service. This information consisted of details about subscribers as of December 18, 2003. On behalf of the company, I apologize sincerely to customers for this breach of privacy. We are implementing measures across the company to ensure that we handle all customer information properly and that there is no recurrence of this event.

As the Ubiquitous Solution Company, KDDI continues to upgrade and expand its existing businesses while cultivating businesses in new areas. I believe that the two most critical things for us in our corporate activities are, first, to be a "value-creating enterprise" that grows by anticipating the needs of customers and, second, to be a "customer-oriented enterprise" that focuses assiduously on raising customer satisfaction. In my opinion, maximizing customer satisfaction is the quickest route to maximizing corporate value. I believe that at KDDI we are truly united in striving toward the attainment of this challenging common goal. I sincerely ask our shareholders, investors, and other stakeholders for their continued support and understanding.

July 2006

T. Onodera

Tadashi Onodera
President and Chairman

## Strategic Direction in Core Business Segments

The Japanese telecommunications market is undergoing remarkable change amid reorganization and the advent of mobile number portability (MNP). Rather than sticking exclusively with methods that have worked in the past, carriers must develop new business models suited to the increasingly competitive environment.

KDDI has continued to make steady progress in the evolution of its business. It is distinct from its rivals in being the only carrier in Japan with thriving operations in both the mobile and fixed-line sectors. This critical difference offers the company a level of potential for new business development unmatched by other carriers and is thus a significant competitive advantage.

Senior managers from KDDI talk about business trends and prospects in mobile telecommunications, fixed-line telecommunications, and content & media. They do so with respect to the company's keyword, "Strategy and Speed," focusing on the initiatives each business is undertaking for present and future development.

**Toru Kawai**
Vice President
General Manager, au Business Sector
Consumer Business Sector

**Toshio Maki**
Vice President
General Manager, Broadband & Consumer Business Sector
Consumer Business Sector

**Makoto Takahashi**
Vice President
General Manager, Content & Media Business Sector

(Note: Mr. Kawai was appointed Associate General Manager of the Consumer Business Sector in July 2006.)

# Mobile number portability (MNP) is an opportunity to exploit fully the value of the au brand. We remain focused on raising customer satisfaction while developing innovative value-added services.

Toru Kawai
Vice President
General Manager, au Business Sector
Consumer Business Sector

Note: Mr. Kawai was appointed Associate General Manager of the Consumer Business Sector in July 2006.

**Q. In 2005, the au brand secured the highest share of net additions for the third year running. What do you feel are the major strengths of au?**

A. I think that au has developed a number of hard-to-define qualities, or "au style," if you will, that make it the leader in the Japanese market. Essentially, we have infused a spirit of cool, advanced technology — plus an element of surprise — into the handsets, the service content, and the tariff structures. I believe that our customers choose au because it has a strong, all-round offering in each of these areas. For example, au was the first brand to introduce handsets that focus on design. Within the industry, we have also pioneered other advances, including flat-rate data-communication tariffs and such download services as EZ Chaku-uta Full®, which enables mobile users to download entire songs.

Our network infrastructure supports the development of "au-style" service innovations. Most customers may not be aware that our early adoption of high-speed, high-capacity CDMA 3G technology was critical to the technology they hold in their hands today. By constructing our 3G network faster and more efficiently than any other carrier, we have been able to help our subscribers make a smooth transition to 3G technology. And the system is backward compatible, meaning that customers can use 2G technology as needed to overcome gaps in the 3G network. Providing the best content means nothing if customers cannot connect to the network outside certain areas or if they lose connectivity owing to poor reception.

**Q. But it seems that rival carriers are putting a lot of effort into building their own infrastructures?**

A. That's right. However, not only are we the clear leader in the proportion of subscribers who have already migrated to 3G — a strength that we plan to exploit — but we also remain one step ahead in network technology.

The launch of HSDPA services by other carriers in mid-2006 will mean that they have caught up with KDDI's EV-DO technology. But before the end of 2006, we plan an upgrade of our network technology with the EV-DO Revision A. This will enable downlink speeds of up to 3.1 Mbps and uplink speeds of up to 1.8 Mbps, increasing the speed and the capacity of data communications over the au network. That Revision A facilitates high-speed upstream as well as downstream connections will prove particularly significant. This advance makes possible two-way, high-speed, large-capacity communications, which will allow us to offer new and innovative services that were previously simply not feasible. We are in the detailed planning phase for these new services.

## Q. How do you view the planned introduction of MNP later this year?

A. In our view, MNP is a huge opportunity to expand the customer base for au, which in total subscribers is the second-ranked brand in the Japanese market. We have already announced a number of moves for the run-up period, including various handset development collaboration projects with new manufacturers and the introduction of an “endless carryover” option that will allow customers to keep any unused call minutes forever up to the predetermined amount. That service is due to start in August 2006. We are also preparing a number of other initiatives targeted specifically at MNP.

On a side note, we began offering same-number migration to au for TU-KA subscribers in the second half of the fiscal year ended March 2006. This was an extremely useful experience for working out how we could best offer a smooth handover to migrating customers once MNP starts.

Two things particularly surprised us about the TU-KA shift. The first was that the number of applications to switch was heavily concentrated around the time of our initial announcement. The second surprise was the sheer number of TU-KA customers who wanted to subscribe to au’s WIN service, which allows users to enjoy a variety of content options.

The selling point of TU-KA as far as we were concerned was its simple appeal for those users who only wanted phone and e-mail. So we had expected that the vast majority of migrating customers would select the 1X service option. But this was not the case. What we discovered was that in fact many TU-KA users had not switched to au because changing numbers was a major barrier for them. I suspect that there are many users subscribed to a rival service who would actually like to use au but who have decided against switching carriers because of the inconvenience of changing number. So our plan is to try to entice as many customers as possible to take advantage of MNP and to switch to au by providing the most attractive product and service offering that we can.

We expect user volatility to increase in the first year following the introduction of MNP. Until that introduction actually happens, though, we do not know what proportion of users will switch carriers. But we do expect the numbers of customers who join or leave au to reflect user satisfaction with the service. In a sense, MNP is a sort of once-in-a-lifetime chance for KDDI, and we are treating it as such. We have been preparing for it for several years, and we plan to focus all of our efforts on making the most out of MNP once it arrives. I am looking forward to it, because I believe that MNP will be the culmination of all that we have achieved and planned to date.

## Q. Do you think that KDDI has an inherent significant advantage once MNP arrives?

A. No. My gut feeling is that we will not find out that sort of thing until MNP is finally here. What is important to realize is that MNP is not something short term. Even if we secure an increase in our customer base initially, that base may shrink the year after, or the reverse could happen. Although in many ways it is a great opportunity for us, MNP also levels the playing field with our customers. If a user is even slightly dissatisfied with our service, they could easily migrate to a rival carrier at any time. It will mean that we will have to do our utmost to continue to keep customers satisfied with our offerings. If we fail to do this, we are unlikely to be forgiven in a post-MNP world.

## Q. Going forward, what do you believe are the major strategic issues for the au business?

A. Our short-term goal is to secure a 30% share of the market’s subscribers, or roughly 30 million users. The advent of MNP, however, will make the market even tougher, and we will have to continue to do our best to offer customers all that we can. Until now, the au brand has been successful in attracting younger customers. I believe that we have reached a point where to increase our market share we need to offer a more complete lineup of handsets along with additional services to appeal to all kinds of users. This involves a multitude of challenges, since we need to adopt an approach that encompasses different customer segments, including businesspeople, elementary school children, and seniors.

On the other hand, my belief is that amid a challenging business environment we must realize the importance of holding fast to the basic strategy that has always underpinned our business. This is to offer users a high-value-added, all-round package of handsets, content-based services, and tariffs based on the high quality of our network infrastructure. We must, moreover, continue providing innovative and original customer-oriented services that cause people to see au as a cool, advanced brand that also offers an element of surprise. So perhaps our most significant challenge is to ensure that we continue putting on the “au style.”

# In the fixed-line business, KDDI's core goal is to become a trusted service provider for customers based on highly reliable platforms.

Toshio Maki
Vice President
General Manager, Broadband & Consumer Business Sector
Consumer Business Sector

**Q. The year ended March 2006 was a particularly tough one for KDDI in terms of the profitability of fixed-line operations. How do you evaluate this performance?**

A. The loss in the fiscal year ended March 2006 was due principally to the front-loading of sales-related costs for Metal Plus services. In the second half we were able to step up the pace of customer acquisition, and we are now seeing the profitability of these operations come back into line. We project that Metal Plus will become a profitable service on a stand-alone basis in the year to March 2008. We are also working hard to make this happen earlier if at all possible.

At the moment, all carriers are struggling in the Japanese fixed-line market. Personally, however, I feel that this is a business that we must and can make profitable for KDDI. But to do this we need to create new business models and develop new services. One of these is FTTH, in my opinion. Connecting up a household to our fiber-optic network allows us to provide customers with not only telephone and Internet services, but also a variety of other services such as video. I believe that FTTH is definitely a business with good profit potential if we look at it, say, over a ten-year horizon. However, to make it profitable we first need to invest. At the moment we are using cash flow from other fixed-line telecoms services to fund our investment in FTTH. Essentially we are sacrificing some short-term profit for long-term gain.

**Q. What is KDDI's strategy for developing the FTTH business?**

A. Previously we were leasing lines from NTT for the final connection to supply various services. This was a problem for two reasons: first, there were the actual costs involved; second, there were lead-time issues involved before we could actually provide the service to the customer. This was why we had to shift to supplying direct-access services in which the customer gets everything from KDDI, including the access line. Now customers pay the basic monthly charge for a line to us rather than to NTT, which also creates an additional source of revenue for KDDI.

Supplying FTTH services involves upgrading the entire backbone, not just the last-one mile. We have been investing in an IP-based CDN backbone that will be compatible with Metal Plus as well as the FTTH service, which is branded "Hikari one." Construction of this network is almost complete. Since demand for FTTH in Japan is still not main-stream, our plan is to use the CDN initially to connect to the existing copper wire connections, which will allow us to supply the Metal Plus service. After building up this service into a cash generator, our strategy is then to switch focus and to invest more in FTTH.

"Hikari one" FTTH service

In the year ended March 2006, delays in coverage rollout meant that revenue did not cover our sunk costs in the first half. But we should get close to break even this year if we hit our target of expanding the subscriber base to 2.75 million. So we should be able quite soon to start investing cash generated by Metal Plus in the FTTH business.

### Q. What is your overall vision for KDDI's fixed-line business?

A. Our ultimate goal at KDDI is to supply customers with a variety of services using communication platforms. One of our key objectives is therefore to create a platform common to wirelines and wireless telecoms. For example, banks could use such a platform to supply a wide range of financial services. You could also imagine many content providers wanting to use such a platform, since it would enable these firms to develop various businesses using web sites tailored either to people on the move or to PC users. There would still be a large variety of access methods — whether FTTH, or ADSL, or mobile phone, or perhaps WiMAX — but if customers could access a single platform for service providers irrespective of the type of connection, then I believe that such a platform would be highly attractive to many users. That is why we have put a fiber-optic network at the center of our plans, and it is also why we are developing an increasingly wide variety of services.

### Q. And presumably the alliance with TEPCO (The Tokyo Electric Power Co.) is a major part of this?

A. Correct. Our plan is to merge the FTTH operations of the alliance partners by January 2007, but prior to that happening it is important for us to offer FTTH services to customers as our own network connections. Then the next important question is what level of service penetration we can achieve with FTTH in conjunction with TEPCO. We initiated a joint promotional campaign for FTTH in November 2005, and from June 2006 we changed the name of this service to "Hikari one" and began marketing it as an integrated service alongside KDDI Hikari Plus. Cable television will be the key to future market penetration, and so we also re-branded the Hikari Plus TV service as "MOVIE SPLASH." Now we are working to improve our video distribution services while putting our full promotional efforts behind "Hikari one."

Of course, we do face some geographic limitations with the service because TEPCO as a regulated utility can only serve the Kanto region. So our plan is to create a successful business model in the Kanto region in partnership with TEPCO before developing the business in other parts of Japan. I'm sure that the other regional power utilities will be watching our progress closely.

### Q. What is the link between KDDI's investment in a cable TV operator and the FTTH business?

A. For us, the main goal with the investment in JAPAN CABLENET LIMITED (JCN) is to gain access to a customer base. This deal broadens our customer base in one swoop. Plus there should also be synergies from combining their content with the other services that we can supply. Moreover, I think the investment makes a lot of sense for JCN, because they do not have the capability to supply high-speed Internet services over a fiber-optic or similar network. Building such a network from scratch requires a huge capital investment. So I think that it is beneficial for JCN as well to link up with a major telecom company, with both fixed and mobile services as KDDI. This particular arrangement is a capital tie-up, but we also have a number of cooperative partnerships with other cable TV operators. I think we will see more such cooperative ventures in the future.

### Q. What are the major issues for the future?

A. Our priority is to get the Metal Plus service established and making money, in line with our plan. As we roll out the integrated FTTH service in partnership with TEPCO, I think the future prospects for that business will become clearer. In both these cases, I think that owning the final mile will prove a crucial success factor.

Next, we need to show customers a world that they cannot resist. Simply competing on price does not mean all that much. Ultimately I believe our strength at KDDI is in owning a network that can provide a comprehensive linkage between landline phones, PCs, televisions and mobile handsets. What we need to do is to play to our advantage as a single company that spans both fixed-line and mobile communications. If we can provide a highly attractive package of services using fixed-line connections, I believe that customers will want to choose KDDI because of this essential strength.

## We aim to tailor varied content-based services to consumer needs to make lifestyles more attractive via "Keitai (mobile phones)".

Makoto Takahashi
Vice President
General Manager, Content & Media Business Sector

**Q. What do you think are the greatest strengths of au mobile content?**

A. The au brand is particularly strong in entertainment-related content, most notably in music. Our services in this area have evolved and become steadily more advanced, going from ringtone downloads with EZ Chaku-Uta® and download capabilities for complete tracks with EZ Chaku-uta Full® to our most recent innovation, au LISTEN MOBILE SERVICE (LISMO).

The reason why we have been able to introduce this kind of content ahead of other carriers is that we have a superior network infrastructure, in terms of both transmission capability and cost competitiveness. Successive upgrades have enabled us to provide users with download services that involve more data-intensive content. During 2006, we plan to upgrade once again, this time to EV-DO Revision A. This will realize another major advance in terms of connection speeds and data transmission capacity, in turn enabling us to supply even more attractive content.

**Q. What is the difference between the au LISMO service and portable music players such as the iPod?**

A. I think that the main difference is in the user age demographic, both actual and targeted. The main users for LISMO and the other au music download services are teenagers and young adults (aged 15-25), whereas the products of other companies tend to have a slightly older user base. In the case of au, most downloads are to mobile handsets, but many people using the portable music players first download the files to a PC before transferring the music to the device. I think the difference in pattern of usage arises because younger consumers tend to be more comfortable with using a mobile phone handset as the primary download tool than they are with using a PC this way.

In fact, in the sense that it connects mobile phones with PCs, I view LISMO as a type of fixed-mobile convergence (FMC) service. With LISMO, you can back up the track originally downloaded to the phone using EZ Chaku-uta Full® onto your PC, with playback possible as well. Similarly, it also allows you to transfer to your phone any tracks burned from a favorite CD or music purchased online from the LISMO Music Store.


**Q. FMC is a much-discussed concept these days. How do you envisage it benefiting KDDI's content business?**

A. I think that FMC holds a variety of possibilities for our content business. For instance, you could hit a button on your mobile phone to retrieve a video file stored on your hard disk at home. You could then watch this content either on the phone while you are on the move, or else enjoy it on the plasma display back at home. Or you could use your mobile handset to share some video content that you particularly like with a friend. I think that FMC would provide a variety of new and enjoyable ways of experiencing content. But data-intensive content like video demands a high-speed, large-capacity network infrastructure. I believe that KDDI is the only carrier in Japan that is developing the network capabilities to facilitate these kinds of services.

### Q. Aside from music download services, mobile Internet banking is another field with great potential. What is KDDI doing in this area?

A. In April 2006, we announced that we had formed a strategic alliance with The Bank of Tokyo-Mitsubishi UFJ for mobile online banking. The plan calls for differentiating our service from existing online banking operations by using the mobile phone number as an integral part of the security functions so that we can enable simple but secure settlement procedures. With many online banking services today, the actual procedures involved require many steps. We hope to design a service that takes advantage of the highly personalized characteristics of a mobile phone to make the verification and settlement systems as convenient as possible. We are currently working on systems to facilitate simple and secure financial functions using a mobile phone, such as settlement and money transfers.

### Q. And what about KDDI's partnership with Google?

A. I think that this is an extremely important development, because equipping mobile phones with a high-powered search engine enormously increases the ability of the user to access content.

Content businesses tend to adopt one of two kinds of business model. The first type is the download model, such as the EZ Chaku-uta Full® service. This type of model gives users access to valuable content for a fee. The other type is the information reference model, which is typified by web portals and news sites. This kind of service addresses rising user demand for free access to information anywhere at any time. Usage of search sites as a means of finding content is also on the increase; it is remarkably common among our au flat-rate subscribers.

In this context, I believe that our partnership with Google is highly significant. Our aim with the agreement is to offer au customers easier and better access to search services. The Google search engine is based on a web crawler[*1]. Compared with the directory[*2] approach, this dramatically increases the amount of searchable information. We also believe that the Google search technology will enable our customers to find more relevant results for the keywords entered for any particular content-related query.

*1: Robot or crawler search engines use programs that automatically trawl the Internet to compile web pages.

*2: Directory-type search engines depend on manual categorization of web sites by people.

### Q. In the future, what do you think the key factors will be in the content and media business?

A. Currently our business development efforts are focused on trying to take greater advantage of flat-rate usage tariffs using content tailored to the PC Site Viewer phone browser, or other attractive content such as streaming video. We are seeing a significant increase in access by au subscribers to blogs and to SNS[*3]. In addition, our users are spending a lot more time at such sites. Due to their extremely high popularity, we are looking to build practical new business models based on the growth of SNS in Japan.

Another area with a lot of potential is in the linkage with broadcasting. In April 2006, we initiated a joint trial with broadcasters of a business based on "One Seg (One segment broadcasting system) "[*4]. We aim to create a new business model by offering multiple links from broadcasts of highly rated programs to related content in such a way that the responses provide information on what program element triggered viewer interest. Our goal is to unite the ubiquitous nature of mobile phones and "One Seg" broadcasts to expand viewing opportunities and thus maximize opportunities for content usage. We are already seeing increasing numbers of track downloads occurring during music video broadcasts, and we believe that such phenomena could be a new profit opportunity for KDDI and for the broadcasters alike. Examples include viewer-targeted links to content sales within programs, or various ad-linked opportunities that we could offer advertisers.

Our overall aim here is to develop and supply widely the platforms and functions needed to underpin such broadcast-linked business opportunities, because this way we can create more value from content distribution. We also hope to explore new business opportunities in collaboration with program broadcasters, and I think that we can build win-win relationships through such initiatives.

*3: A social networking site (SNS) is a communication-oriented web site designed to allow participants to make friends and develop relationships with others online. While some sites are fee-based, many are free to users. Most free sites have business models that involve collecting revenue from advertisers or levying small intermediary fees on the sales generated by people recommending purchases of books, CDs or other goods to friends via the site using specially designed functions.

*4: It shows digital terrestrial broadcasting for mobile. We separate the 13 segments for digital terrestrial broadcasting as one-channel to broadcast the video, voice and data. HDTV needs 12 segments for broadcasting and other one segment is only for mobile within 13 segments.

### Q. How do you see the future development of telecommunications services from a content and media perspective?

A. Extreme as it may seem, my personal view is that we are approaching a time when carriers will no longer be in the telecommunications business alone. Consumer lifestyles will probably develop to the point where people feel happiest using the PC at home and the mobile handset when they are away from home. I believe that those customers using both devices will start to regard them merely as different gateways to gain access to a variety of information and services.

For example, you could purchase insurance or a package holiday on your mobile phone, or, as I mentioned before, you might like to watch the video that you recorded at home outdoors on your mobile. I think we are not that far off these sorts of capability becoming a reality. People have extremely varied needs, and I think the key to future growth will be in working out how to use the network infrastructure most profitably to deliver valuable services and information to users.

# Mobile Business

## Expanding customer base with attractive all-round package of handsets, content, and tariffs based on infrastructure strengths

Note: As a result of the merger of KDDI Corporation with three TU-KA Group firms in October 2005, the au Business and the TU-KA Business were integrated into a new business segment in the fiscal year ended March 2006. This new segment is our Mobile Business.

### Business Conditions in the Fiscal Year Ended March 2006

The Mobile Business remained the main driver of KDDI's strong performance in the fiscal year ended March 2006.

Segment sales and profits increased compared with the previous year. Operating revenues totaled ¥2,510.4 billion, a year-on-year increase of 8.6%. Operating income rose 21.3%, to ¥354.4 billion. On a consolidated basis, the Mobile Business accounted for approximately 80% of total sales. Net income attributable to this segment fell 15.4% year on year, to ¥145.3 billion, reflecting an extraordinary loss of ¥104.3 billion incurred against the impairment of PDC equipment used in our TU-KA operations.

The growth generated by KDDI in the Mobile Business segment over the past few years derives from successful efforts to differentiate product and service offerings from those of rival carriers. To do this, KDDI has leveraged the advantages of au's 3G network infrastructure to create a highly attractive all-round package of handsets, mobile content, and tariffs.

### Overview of Business Performance

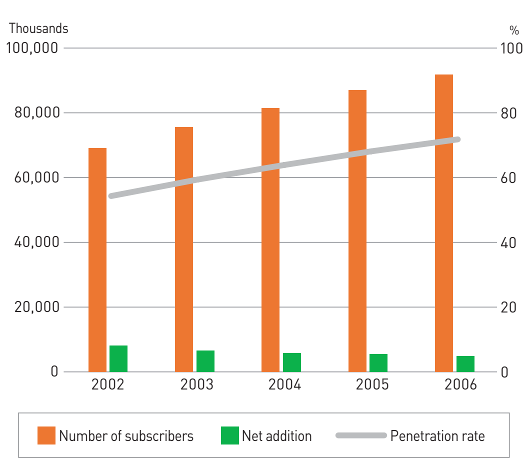
Subscriber numbers

The subscriber base for au and TU-KA services as of the end of March 2006 rose 10% year on year, to 25.44 million customers. This number represents a 27.7% share of cumulative subscriptions.

Cumulative subscriptions to au rose 16.2% year on year, to 22.7 million. Of this figure, 21.83 million customers, or over 90% of the total, subscribed to 3G mobile phone services. The subscriber base for CDMA 1X WIN (WIN) services reached 8.28 million by the end of March 2006, increasing substantially, by 5.03 million users, compared with the previous year-end.

KDDI began shifting TU-KA subscribers to the au brand in October 2005, ahead of the introduction of mobile number portability (MNP). As a result, the number of TU-KA subscribers fell to 2.74 million. In February 2006, KDDI upgraded the terms of service migration to enable users to keep their existing e-mail addresses as well their phone numbers. As of the end of March 2006, approximately 710,000 TU-KA subscribers had moved to au and kept their original numbers.

Spread of Cellular Phones



W42S (Walkman® phone)

Net growth in the au subscriber base compared with the previous year-end equaled 3.16 million. Excluding same-number migration from TU-KA, net growth was 2.45 million. The au brand registered the highest number of net additions for the third consecutive year.

ARPU (au-branded services)
ARPU for au services declined 1.8% year on year, to ¥7,040. The drop in ARPU was less than for rival carriers because growth in data ARPU helped to offset the ongoing downward trend in voice ARPU. Steady growth in the proportion of high-end WIN users also helped to bolster overall ARPU.

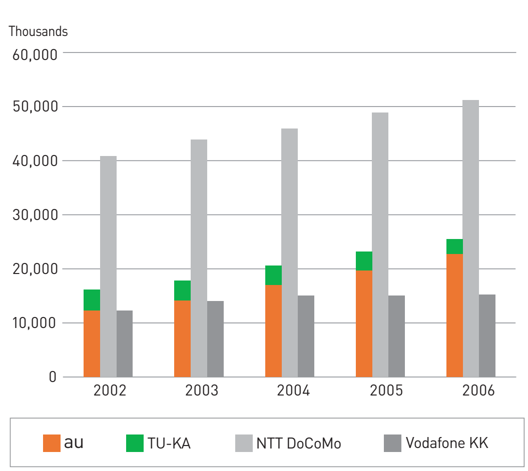
Churn rate (au-branded services)
The churn rate for au subscribers was 1.20% in the year ended March 2006, a significant improvement of 0.24 percentage points over the previous year. The low churn rate reflected successful efforts by KDDI to boost customer satisfaction by upgrading its all-round product and service offerings while promoting model upgrades among subscribers using targeted direct-mail campaigns and other methods.

## Market Trends and Business Strategy

Growth in the overall mobile phone market in Japan has slowed over the past few years. Net additions in the year ended March 2006 equaled 4.8 million subscribers, a decline of 6% compared with the previous year. Competition, meanwhile, is set to intensify following the government authorization in November 2005 for the entry of a new carrier, the announcement in March 2006 of the acquisition of Vodafone Japan by Softbank, and the advent of MNP in autumn 2006.

Amid changing conditions in the Japanese mobile phone market, KDDI's competitive advantage in expanding its customer base lies in the attractiveness of its all-round offering of infrastructure, handsets, content, and tariffs. KDDI views the advent of MNP as an excellent opportunity to further gain market share. The Mobile Business's short-term goals are to achieve a 30% share of cumulative subscriptions and a customer base of 30 million subscribers as quickly as possible.

Trends in Number of Subscriber for Cellular Telephone




## High-Quality Infrastructure: The Introduction of EV-DO Revision A

The CDMA2000 1X EV-DO (EV-DO) standard that supports WIN services provides KDDI with yet another competitive advantage over other carriers. The EV-DO system is specifically designed for data communication. It provides a network optimized for high-speed, large-volume data traffic. EV-DO technology also has realized significant savings for KDDI in the cost per bit of data transmitted. And KDDI is leveraging the technological strengths of EV-DO infrastructure ahead of other carriers with such attractive services as EZ Chaku-uta Full®, along with flat-rate data tariffs.

The launch of High-Speed Downlink Packet Access (HSDPA) services in Japan in mid-2006 has enabled other carriers to catch up with EV-DO. But KDDI remains a technological step ahead. During 2006, KDDI plans to upgrade to EV-DO Revision A, which features improved downlink (3.1 Mbps) and uplink (1.8 Mbps) speeds. The jump in upload quality in particular, from 154 Kbps, promises to be huge. The introduction of EV-DO Revision A will heighten KDDI's edge in network infrastructure capabilities and further differentiate its au service from the offerings of other carriers.

## Attractive Handsets: A Comprehensive Model Lineup

In September 2005, KDDI launched new handset models that are compatible with FeliCa, a noncontact IC card technology used in various services, such as Edy and Suica. KDDI began selling a number of other exciting new handsets in February 2006. These include the W41H, which can receive terrestrial digital television broadcasts; the W41T, which features built-in high-HDD capacity; and the neon model, which is the fifth handset from the au design project. The handsets in KDDI's newly expanded range cater to diverse customer requirements and excel in user convenience, functionality, and design attractiveness. KDDI is focused on upgrading the lineup on a continual basis. In June 2006, KDDI introduced Japan's first Walkman® phone, by Sony Ericsson Mobile Communications. KDDI plans to launch additional new handset models in the year ending March 2007 from such other leading manufacturers as Sharp Corporation and Panasonic Mobile Communications Co., Ltd. Efforts are under way to expand and improve the model lineup ahead of the introduction of MNP.

## Captivating Content: Fun and Variety Based on WIN Characteristics

KDDI's pioneering promotion of flat-rate pricing plans has encouraged users to make use of mobile Internet services without worrying about data charges. KDDI is now developing and introducing new ways of using mobile phones that promise to cultivate innovative sources of revenue for the company going forward. Music download services are some of the most popular content-based services among au subscribers. Building on the success of EZ Chaku-Uta® and EZ Chaku-uta Full®, in late January 2006 KDDI launched au LISTEN MOBILE SERVICE (LISMO). LISMO grants au subscribers seamless connectivity between their mobile handsets and PCs. It also is the industry's first comprehensive music service suite for mobile phones. Users are able to enjoy interactive music and to easily share music between mobile phones and PCs with au Music Port music management software. LISMO adds even more advanced music services to KDDI's already strong range of services for au mobile users.

In other content-related developments, in December 2005 KDDI established Media Flow Japan. This joint planning venture with US-based Qualcomm analyzes market possibilities in video distribution services. Then, in February 2006, KDDI launched the e-shopping site au Shopping Mall. Although the amounts consumers are spending remain low, the site's e-commerce rev-

W41CA

W33SA II

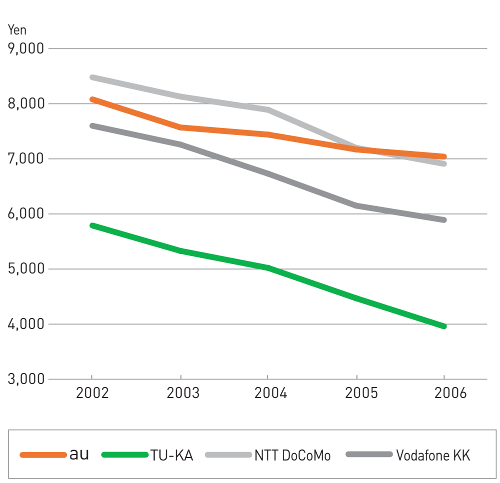
enue from product sales, auctions, and other features is rapidly growing. In April 2006, KDDI and The Bank of Tokyo-Mitsubishi UFJ agreed to jointly establish Japan's first mobile Internet bank to promote mobile financial services. (we established the Mobile Net Bank Establishment Investigation Corporation) And in May 2006, KDDI agreed to incorporate Google's search engine into its EZweb Internet service. This gives au mobile phone users access to an extensive search service that targets content aimed at PCs in addition to the mobile-specific content that they already enjoy.

Going forward, KDDI plans to continue differentiating its au content offerings by expanding and upgrading exclusive services centered on downloadable content, including music (EZ Chaku-uta Full®); e-books; and games. KDDI also is incorporating value-added software features into handsets. These features, which include the full-browser functionality of PC Site Viewer, provide mobile users with greater access to the sort of information provided by a fixed-line Internet connection.

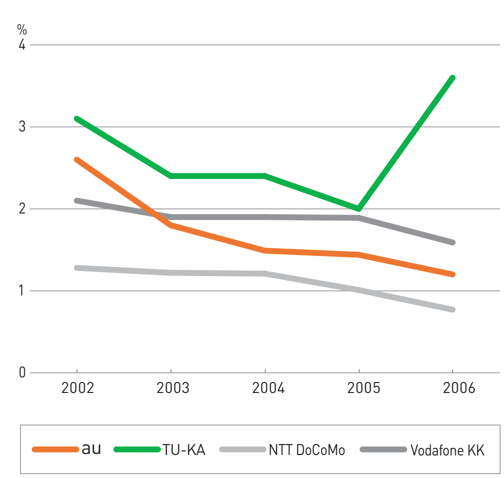
## Enticing Tariffs: Service Menus Expanded to Fit Customer Needs Using Flat-Rate Pricing Plans

KDDI leverages the cost advantage provided by EV-DO technology to offer au WIN subscribers its Double Flat Rates tariff option. This two-tiered, flat-rate discount plan for packet-switched data affords customers access to a rich variety of high-quality content for as little as ¥2,100 per month, including tax. In May 2005, KDDI introduced the Double Flat Rates Light plan,

ARPU




Churn Rate



which aims to encourage more users to sample content by cutting the minimum monthly flat-rate charge to ¥1,050. This offer successfully enticed many new users to try KDDI's flat-rate pricing system for mobile data services. About 80% of WIN subscribers have adopted one of these two discount plans.

KDDI has also developed a wide variety of pricing plans for voice services. Conditional on a two-year contract, My Plan Discount, introduced in February 2006, allows single subscribers to benefit from the deeper discounts on the basic monthly charge typically only available using family discount plans. In August 2006, KDDI plans to introduce the Indefinite-Period Carry Over (an endless carryover option) that allows customers to keep their unused call minutes up to a predetermined limit.

## Developing Untapped Markets: Mobile Solutions for Corporate Clients

It is KDDI's intention to allocate more resources to developing mobile solution services for the corporate sector. In late March 2006, KDDI launched the au B01K handset, which is equipped with enhanced security features. The B01K Endurance model features a high-capacity battery and remote-control security features, such as data deletion. As such, it matches corporate needs for a phone that combines long conversation capabilities with complete data protection. These handsets are ideal for salespeople because they alleviate any concerns over loss of power or data leakage.

In July 2006, KDDI plans to introduce the E02SA handset. This will be the first au model capable of interfacing with a wireless LAN. The E02SA, therefore, will enable users to access a VoIP internal phone network and the au mobile network with a single handset. This promises to enhance workplace efficiency by allowing workers to remain in contact even if they move around their offices.

KDDI plans to market E02SA handsets in partnership with equipment vendors under a package called OFFICE FREEDOM. The package features a specially developed wireless LAN internal extension solution that promises expanded business possibilities. It facilitates smoother communication between workers in the same company, irrespective of location.

KDDI also is working more closely with consumers to develop various individual solutions for specific customer needs. At the same time, KDDI continues to upgrade its existing services.

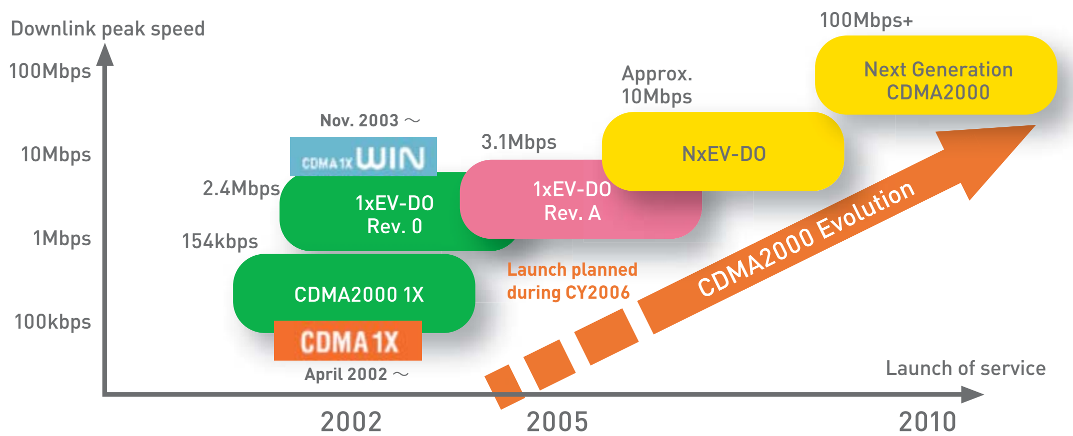
## Strategy for TU-KA Services

In October 2005, following the merger with three TU-KA group companies, KDDI began offering same-number transfers to entice TU-KA subscribers to shift to the au service. The terms of transfer were further enhanced in February 2006 with the opportunity for users to keep their e-mail addresses as well their phone numbers. User migration from TU-KA to au is proceeding satisfactorily.

KDDI decided to close the TU-KA mobile phone service to new subscribers from June 30, 2006. The timeline for terminating TU-KA services, however, hinge on the continued satisfactory migration to au.

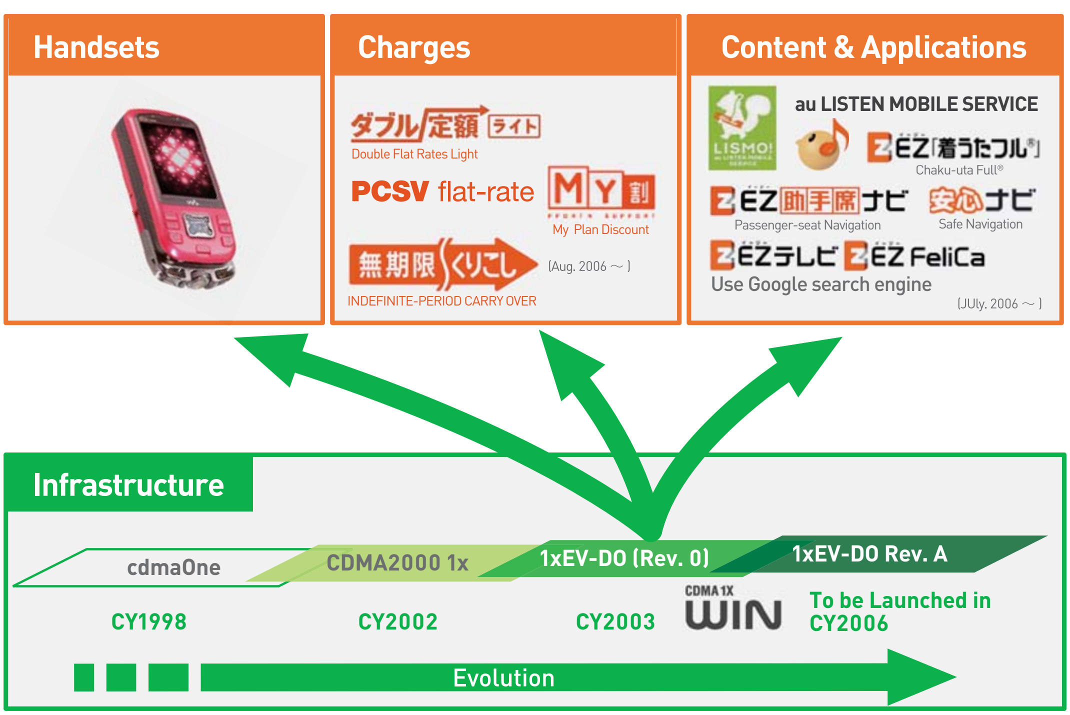
W42CA (G'z One)

## Evolution of au/KDDI 3G system




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

## Boost all-round product attractiveness



# Fixed-line Business

## Reinforcing business base through direct-access, IP, and broadband services

### Business Conditions in the Fiscal Year Ended March 2006

KDDI supplies personal consumers and corporate clients with a full range of fixed-line telecommunications services. Among them are voice telephony and broadband Internet access.

Operating revenues for the Fixed-line Business in the fiscal year ended March 2006 totaled ¥619.3 billion, an increase of 3.9% compared with the previous year. Revenue from voice telephony services rose because of expanded sales of KDDI Metal Plus. And the merger with POWEREDCOM Inc. in January 2006 added to sales in the fourth quarter. These factors resulted in a return to positive growth for KDDI's Fixed-line Business.

The promotion of KDDI Metal Plus, however, involved substantial up-front investment, resulting in a segment operating loss of ¥61.3 billion. KDDI believes that the resources invested in expanding the customer base will generate profits through higher sales.

One of the major developments during the year was the comprehensive telecommunications alliance with The Tokyo Electric Power Co. (TEPCO) that KDDI forged in October 2005. It gave rise to an integrated FTTH service. This alliance also facilitated the January 2006 merger of KDDI Corporation with POWEREDCOM, Japan's leading provider of wide-area Ethernet services for corporate users. In March 2006, KDDI further acquired an equity stake in JAPAN CABLENET LIMITED (JCN) as part of its investment strategy to expand its business base.

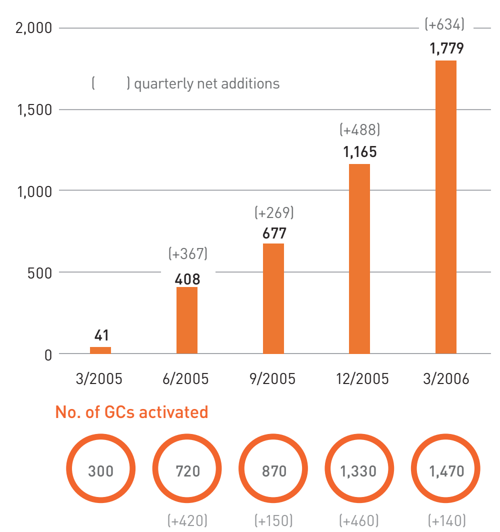
### Priority Placed on the Promotion of KDDI Metal Plus

KDDI Metal Plus is a direct-access, fixed-line telephone service. Since KDDI provides the line, customers pay related charges to KDDI rather than to NTT. Compared with fixed-line voice telephony services that only provide call-based revenue, Metal Plus generates additional revenue for KDDI through a basic monthly charge. Metal Plus targets customers who only want a basic telephone service, but it also offers optional Internet access through either ADSL or a dial-up connection.

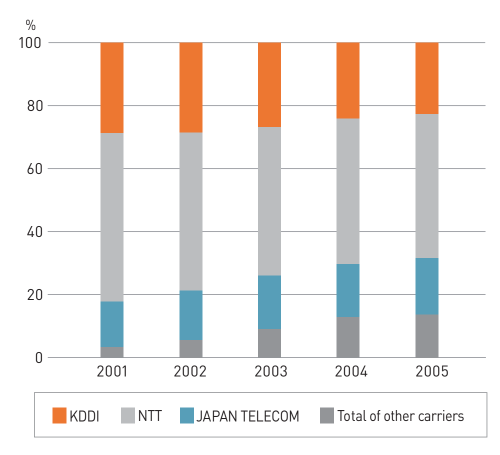
Subscriber numbers for KDDI Metal Plus had surpassed 1.8 million by the end of March 2006. Delays in expanding the coverage area impeded the line activation of sign-ups in the first half of the year, but a rapid expansion of the coverage area in the second half enabled KDDI to make substantial progress in building up the subscriber base. As of the end of March 2006, service accessibility extended to 1,470 activated GC rings (NTT's Central Offices), covering about 65% of the population of Japan.

There is an ongoing trend among users in Japan toward the adoption of mobile and IP phone telecommunications services. KDDI capitalized on that trend with the rising penetration of KDDI Metal Plus and in the second half of the year was able to arrest the fall in voice telephony revenue. The first-half network connection delays, however, resulted in insufficient revenue to offset the promotional and related costs, leading to a substantial operating loss.

## No. of Metal Plus Subs




## Market Share of Myline by Carrier




## Market Trends and Business Strategy

The Japanese fixed-line market is in transition, to a new era that will be dominated by IP and broadband services. A committee appointed by the government examined issues affecting the telecommunications and broadcasting markets in Japan in the interests of ensuring fair competition and published a number of recommendations in a report issued in June 2006. Among the issues identified by this committee were the functional separation of bottleneck facilities owned by the NTT regional operating companies NTT East and NTT West, the need to consider the fundamental reform of NTT by 2010, and the urgent need to ensure that any broadcasts over telecom networks using IP multicasting technology comply with broadcasting copyright laws.

The market for fiber-optic services in Japan is poised for accelerated growth. Net quarterly growth in fiber-optic service provision had already begun to outpace ADSL by the end of March 2005. However, the video-based services that could most benefit from the high-quality, large-capacity nature of optical fiber access are not at the same point of imminent takeoff.

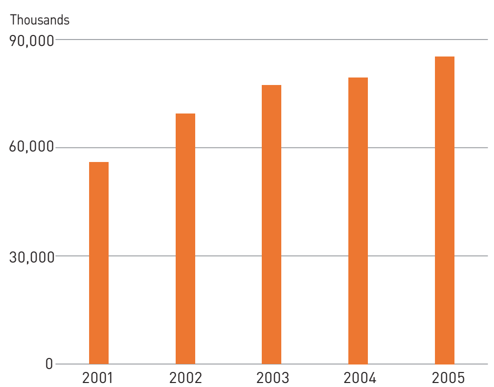
## Toward the Improved Profitability of KDDI Metal Plus

KDDI Metal Plus registered a steep loss in its first year, but this was generally in line with projections for the start-up phase. KDDI expects sales revenue and profits to improve significantly going forward based on the progress that has already been made in expanding the subscriber base of KDDI Metal Plus. For the second year of the service, to March 2007, KDDI expects the full-year sales contribution from KDDI Metal Plus's 1.8 million subscribers to result in a halving of the operating loss the service experienced in its first year. KDDI is also forecasting that Metal Plus will become profitable in its third year, to March 2008.

As of the end of March 2006, individual customers accounted for more than 90% of the KDDI Metal Plus subscriber base. KDDI plans to focus increased resources on promoting the service to small and medium enterprises during the year ending March 2007, emphasizing the ISDN compatibility option introduced in November 2005.

Construction of the nationwide IP-based Contents Delivery Network (CDN), the backbone for KDDI Metal Plus, is approaching completion. This advanced infrastructure will allow KDDI to shift its sales and marketing resources easily between Metal Plus and FTTH because the same network underpins both services. This will enable KDDI to adopt a flexible marketing strategy depending on how quickly demand for FTTH materializes. Furthermore, the plan to base backbone construction for the future integrated fixed-mobile Ultra 3G network on the CDN promises to help maximize the efficiency of network asset utilization.

### Spread of Internet



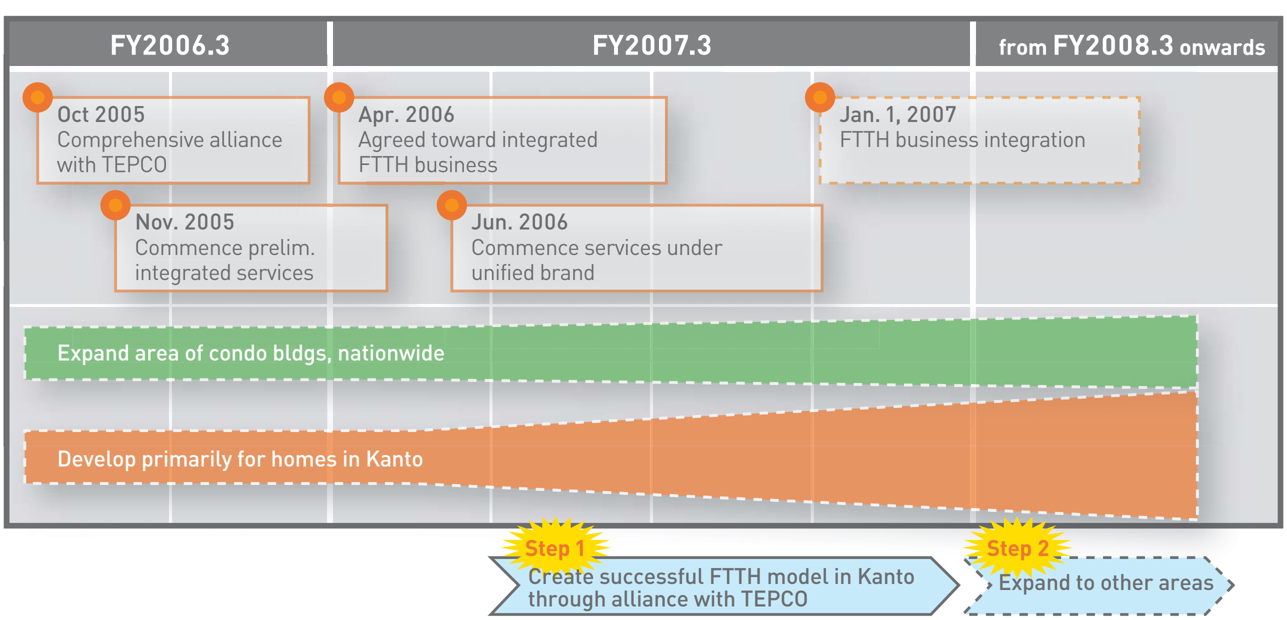

### Development of the FTTH business (Hikari one)

KDDI and TEPCO began promoting the sale of full-scale integrated FTTH services under the Hikari one brand in June 2006. The rollout started in the Kanto region, centered on Tokyo. The KDDI Hikari Plus service marketed to date to residential customers in condominiums and apartment blocks as KDDI Hikari Plus Condos has been re-branded as Hikari one Condos. And Hikari one Home targets residential customers in detached houses and low-rise accommodation of up to three floors. Network provision for the latter service utilizes GE-PON, or Gigabit Ethernet-Passive Optical Network, technology applied to a 1 Gbps fiber to connect KDDI's CDN backbone with the TEPCO fiber-optic access network. This enables multiple customers to gain access to high-speed, high-quality services.

Video-based services are expected to play an extremely important role in the development of FTTH services. KDDI is offering Hikari one users a television service that features a video content distribution platform called MOVIE SPLASH. This service uses IP multi-casting technology (please refer to the Technology and R&D section on p. 31-32 for more details).

To facilitate the swift and effective expansion of the Hikari one business, KDDI is discussing with TEPCO merging TEPCO's FTTH operations (Hikari Network Company) into

### FTTH Initiatives



KDDI Corporation by January 2007. The first step in this process is for the KDDI-TEPCO alliance to establish a successful FTTH business model in the Kanto region, where many households already have broadband access.

### Upgrading Services Targeting Corporate Clients

POWEREDCOM, which merged with KDDI in January 2006, is Japan's top provider of wide-area Ethernet services in the highly competitive market for fixed-line data communications services targeting corporate users. Demand for wide-area Ethernet services is expected to continue growing. KDDI, by positioning KDDI Powered Ethernet as its main branded service in this segment, is trying to optimally exploit the strengths of POWEREDCOM in high-quality service provision and related customer support. In combining these advantages with KDDI's range of services for corporate users, KDDI seeks to develop new services with added convenience and thereby upgrade the total offering for corporate clients to become a comprehensive solutions provider.

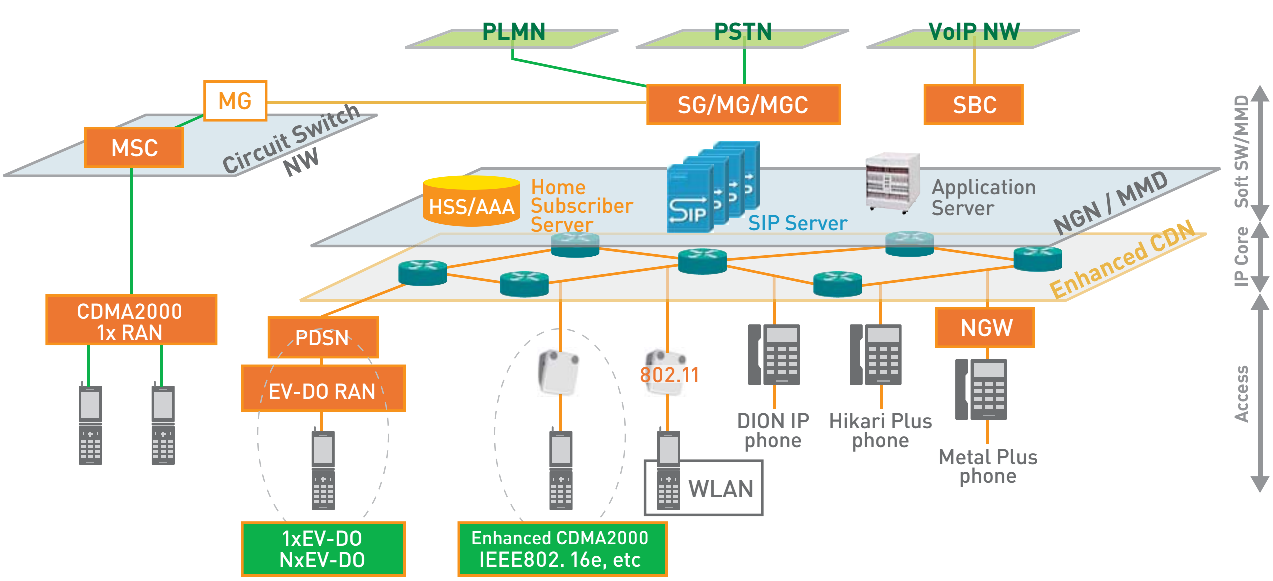
### Full IP Conversion of the Fixed-Telephony Network

KDDI is on track to become, by the end of March 2008, one of the first carriers in the world to convert its entire fixed-telephony network to an IP backbone. Full IP conversion will permit a more efficient utilization of network resources and realize significant cost savings through lower backbone maintenance and operating costs.

KDDI's fixed-line business development efforts continue to take advantage of the rapid shift to direct-access, IP, and broadband services. The primary goal at KDDI remains to develop highly competitive services for the fixed-line market ahead of the projected development of FMC networks. In this way, KDDI hopes to establish profitable Fixed-line Business operations.

## FMC Development

In June 2005, KDDI unveiled its concept for a fully integrated non-access-dependent Ultra 3G network that achieves FMC. The network provides integrated services to users through various mutual access connections. KDDI plans to begin constructing this integrated fixed and mobile IP network in 2007. In addition to FTTH, 3G mobile phone services, and wireless LAN technologies, the planned network will be compatible with emerging wireless systems that employ such standards as IEE 802.16e. This fully integrated backbone will capitalize on the unique advantages that KDDI enjoys as a fixed-line carrier.



Corporations are expected to undertake comprehensive measures to ensure full legal and regulatory compliance. In so doing, they prevent any serious corporate misdeeds and safeguard their information. From environmental and other perspectives, society also expects firms to be proactive in fulfilling their social corporate responsibility (CSR) through diverse activities. KDDI regards CSR as a key management issue and strives to foster a CSR-oriented workplace.

## Corporate Governance

### Corporate governance framework

KDDI introduced an executive officer system in June 2001 to clarify the separation of management oversight and business execution. The new system contributes to faster decision making and has more clearly delineated the lines of authority and responsibility among senior management. The Board of Directors has 11 members, including 3 nonexecutive directors. Its statutory function is to make important decisions and to oversee the execution of business policies. The Board of Auditors has 5 members, including 3 external auditors. The corporate auditors conduct internal audits to provide an important check of business activities, particularly the execution of corporate duties by directors.

During the year ending March 2007, KDDI plans to formulate a policy on the structure of internal controls and related systems. KDDI works to strengthen its corporate governance and to improve the quality of its governance measures. It also seeks to ensure that its corporate activities are fair, transparent, and efficient.

### Compliance

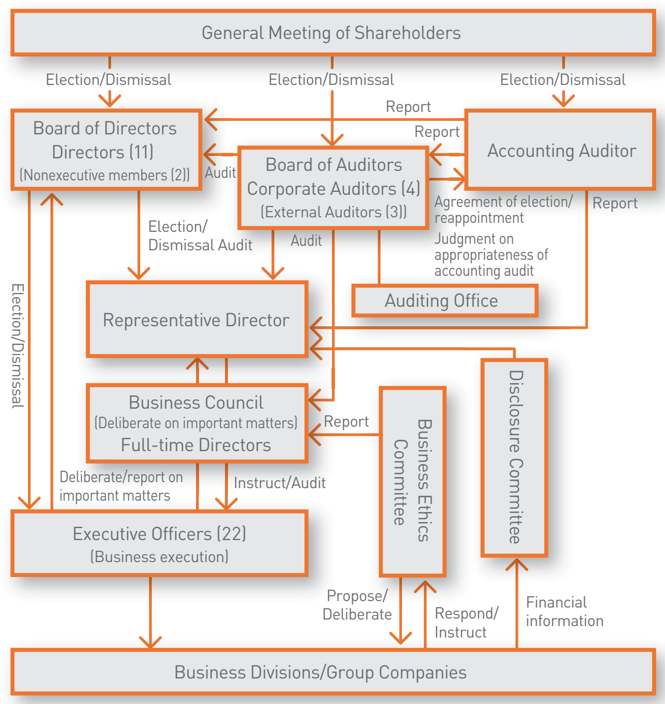
KDDI codified its business ethics in January 2003 to ensure the ethical conduct of its executives and employees in pursuing corporate activities. Ongoing training programs aim to raise awareness of ethics-related issues. KDDI has also established a Business Ethics Committee to oversee compliance-related issues that affect the KDDI Group and a help line for employees to report incidents or to discuss such issues. Compliance-related activities at KDDI cover KDDI Corporation and all KDDI Group subsidiaries and have as their purpose to identify and resolve problems early, quickly, and effectively.

KDDI has reaffirmed and clarified its internal compliance regulations in response to the enactment in April 2006 of Japanese legislation designed to protect public informants. The company will strive to respond quickly and properly to any allegations of ethical noncompliance made by whistleblowers and to protect the rights of those informants. KDDI also will cultivate an open corporate culture to support its commitments in this regard.

### Disclosure and investor relations

KDDI is fully committed to undertaking fair and timely disclosure on an ongoing basis of any information that could have a material bearing on the decisions of investors. This policy is in line with Tokyo Stock Exchange regulations governing the timely disclosure of information concerning the issuers of publicly listed securities, as stipulated in the Securities and Exchange Law.

Corporate governance framework




(As of May 31, 2006)

KDDI maintains internal communication and investor relations (IR)-related systems to support the timely disclosure and the proper control of such information. It also employs various methods to ensure ready access to information, including press releases, investor presentations, executive press conferences, and notices regarding network maintenance or system failures. All information is published promptly on the KDDI Web site. With regard to financial data, KDDI has established a Disclosure Committee whose mandate is to boost management transparency through intensive deliberation by ensuring a consistently fair and honest approach to the release of financial information.

The effectiveness of KDDI's IR activities was confirmed in the year ended March 2006. For the third consecutive year, KDDI received an award for Excellence in Corporate Disclosure, reflecting the opinions of research analysts. This award signifies a positive evaluation of the proactive stance of senior management on IR issues, the quality of the content made available through investor meetings, and KDDI's commitment to fair disclosure.

### Risk management

KDDI set up a Risk Management Department in April 2004 that became the Corporate Risk Management Division in July 2004. This division oversees the security and confidentiality of communications over the KDDI network. In addition, it manages risks affecting KDDI Group activities, notably the risk of any leakage of customer information or other breaches of privacy. The division also conducts internal audits that focus on legal compliance and on improving the efficiency and effectiveness of daily business activities.

KDDI designated five primary risks as management priorities during the year ended March 2006. They are as follows: privacy breaches involving customer information, ethical and legal lapses, disaster prevention and related incidents, accidents causing any failure of KDDI's telecommunications network or related equipment, and any similar incidents related to the company's IT systems. KDDI implements plan-do-check-act (PDCA) management cycles to prevent such risks and has instituted companywide risk-response and crisis management systems to deal with problems should they arise.

### Information security

KDDI established its Information Security Committee based on internal regulations of July 2002. This cross-functional body oversees companywide information security measures. In October 2005, as part of countermeasures to the threat of increasingly sophisticated and diverse attacks from cyberspace, KDDI established its Security Operations Center. The center reinforces measures to safeguard customer information.

In April 2006, KDDI established a department to promote information and security management systems (ISMS). Efforts are under way to gain ISMS certification by way of the 2005 international standard ISO/IEC 27001 across all business divisions, particularly major operating divisions. KDDI is committed to information security.

## Social Contribution

### Environmental management

KDDI instituted the KDDI Environment Charter in March 2003 as a guide to environmental protection activities within the KDDI Group. The KDDI Environment Committee heads those activities. KDDI strives for continuous reductions in the environmental impact of its business throughout the KDDI Group by developing and implementing environmental management systems (EMS) and is pursuing EMS certification under ISO 14001. At the end of March 2006, a total of 2 sites and 32 divisions had completed EMS certification procedures.

### Energy conservation

Most greenhouse gas emissions by KDDI stem from power consumption by telecommunications equipment and company offices. KDDI has made reduced power consumption a primary goal of its environmental protection activities. Efforts to cut energy use at facilities and in operations include the installation of solar power systems.

### Recycling mobile handsets

Mobile phone components contain valuable resources, including gold, silver, and palladium, that can be recycled into new products. By recycling such resources, KDDI tries to reduce the environmental impact of its products and thereby contribute to the development of a recycling-oriented society. Although a handset weighs little, the weight of all the handsets sold in a year is appreciable. KDDI promotes the recycling of mobile handset materials to attenuate the impact of their disposal on the environment and aims for 100% recycling ratios for such materials as metals and plastics.

Logo of the Mobile Recycling Network

KDDI is an active member of the Mobile Recycling Network. This Japanese recycling initiative brings together mobile carriers and the manufacturers of handsets and PHS products. Members collect and recycle post-use cellular and PHS handsets regardless of brand or manufacturer.

### Eco-friendly purchasing

Eco-friendly Purchasing Guidelines defined in February 2003 underpin purchasing policies that favor eco-friendly products and suppliers at KDDI. These "green procurement" policies apply to all products and services purchased by the KDDI Group. Their purpose is to encourage a preferential shift in purchasing toward items of low environmental impact and to suppliers with active environmental protection programs. The criteria supplement other quality and price considerations.

### Unauthorized Disclosure of Customer Information

On June 13, 2006, KDDI confirmed that there had been an unauthorized disclosure of customer information pertaining to data on approximately four million subscribers to DION, KDDI's Internet access service. This information consisted of details — name, address, and contact telephone number — about subscribers as of December 18, 2003. KDDI had reinforced its internal information security controls after the enactment of the Personal Information Protection Law. The company sincerely regrets this unfortunate breach of privacy and is focused on determining exactly how and why this incident occurred. KDDI is implementing further measures throughout the company to ensure that there is no recurrence of this event and pledges to do its utmost to restore customer trust.

# Technology and R&D activities supporting KDDI's business

## Technical advantages of CDMA2000 1x EV-DO Revision A

Introduced in November 2003, CDMA 1X WIN services from au make use of a specialized high-speed packet-switched data communications protocol known as CDMA2000 1x EV-DO (Rev. 0). This facilitates maximum speeds of 2.4Mbps downloading and 154kbps uploading in the 1.25MHz frequency band.

Protocol standards for Revision A, the next-generation CDMA2000 1x EV-DO upgrade, were finalized in April 2004. KDDI is scheduled to enter commercial operation of the technology in 2006. Featuring improved downlink (3.1Mbps) and uplink (1.8Mbps) speeds, Revision A will support functional Quality of Service (QoS) improvements. The improved standard also employs quality assurance technology to allow maintenance of connection quality for specific users and minimal transmission delays, thus enabling the simple provision of two-way real-time communication services such as VoIP or IP television broadcasting.

Supporters of rival technology W-CDMA, beginning with NTT DoCoMo, are promoting the standardization of HSDPA (High Speed Downlink Packet Access) with an upgraded W-CDMA protocol. NTT DoCoMo has announced the mid-2006 launch of HSDPA services with initial maximum speeds of 3.6Mbps for downloading and 64-384kbps for uploading using the 5MHz frequency band.

The technology used in HSDPA services to maximize speed and volume of data transmission includes hybrid ARQ (Automatic Repeat Request), which improves error correction by triggering re-transmission using error codes, and modulation technology that varies speed depending on the strength of the connection and network status. In performance terms, the system used in HSDPA is arguably the equivalent of CDMA2000 1x EV-DO (Rev. 0), which means that CDMA2000 1x EV-DO (Rev. A) is effectively more advanced.

## Mobile WiMAX[*1] field trials

KDDI has positioned Mobile WiMAX as an access system for Ultra 3G, and is pushing ahead with field trials to test its viability as a wireless platform that will complement 3G mobile phone systems in urban areas.

KDDI received government approval in June 2005 to perform a phased program of field trials in the city of Osaka to test mobile WiMAX technology. The trials evaluated basic functionality and performance of the underlying OFDMA (Orthogonal Frequency Division Multiple Access) standard, followed by mobile applications, base station handover within a mobile WiMAX setting and seamless switching between media channels and 3G systems such as CDMA2000 1X EV-DO and WiFi[*2].

KDDI also plans to evaluate WiMAX performance in multimedia applications such as image content and voice services and IP-based TV phones. Development work also continues to combine a mobile network with an IP-based multimedia platform to create a MultiMedia Domain (MMD) accessible to mobile devices using an IPv6 backbone. Tests conducted in early 2006 successfully connected the WiMAX system to an MMD application server. KDDI plans to develop these technologies to provide a new generation of mobile communication services.

To improve related infrastructure, KDDI is developing advanced technologies such as MIMO (multi-input multi-output[*3]) and AAS (adaptive-array antenna system[*4]) to facilitate a low-cost mobile WiMAX system.

Notes: 1. Standard for fixed wireless communications approved by the Institute of Electrical and Electronics Engineers (IEEE) in January 2003 (amendment to band frequency in IEEE 802.16 standard).

2. Brand name devised by the trade group WECA to increase awareness of IEEE 802.a/IEEE 802.11b, standards for wireless local area networks (WLAN).

Mobile WiMAX handset

3. A technique of wireless data transmission using multiple antennas to increase spectral efficiency. It has been applied to increase the speed of WLAN, for instance.
4. A system that enables dynamic directional control of antennas by applying an appropriate weight to each of the signals received at the antenna elements and combining them.

## Uninterrupted IP multicasting technology

Going forward, video transmission will be characterized by broadband killer contents via FTTH. IP multicasting involves simultaneous transmission of video or other data to multiple users. KDDI has developed technology to prevent any interruption of transmission if there is a network failure.

IP networks automatically re-route if this occurs, but the resulting delay of up to 30 seconds typically cuts off the video signal during IP multicasting. KDDI has solved this problem by employing back-up servers installed in a gateway close to the user. If a network problem triggers re-routing, the gateway detects this within a few hundredths of a second and switches transmission to the back-up server to maintain an uninterrupted signal to users. This provides sufficient time for the network to find a problem-free route. Once re-routing has finished, the gateway switches back — without users noticing any program interruption.

## Network and service security

The following are two examples of the initiatives undertaken by KDDI to boost network and service security.

1) High-speed encryption technology for mobile phones

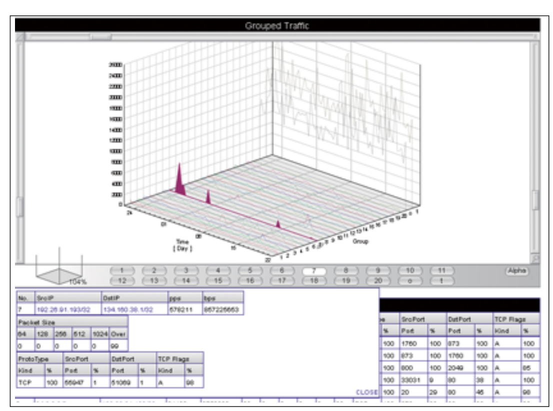
Envisioning an environment where communications mixes seamlessly with broadcasting, KDDI has developed, an original high-speed encryption algorithm for mobile phones. It is 6-8 times faster than AES (Advanced Encryption Standard), a widely used encryption algorithm, and also supports real-time decoding of streamed video (such as One Seg) to mobile handsets — a feat that is beyond existing standards. As connectivity continues to improve, this algorithm promises to contribute to the development of emerging businesses involving real-time transmission of broadband content to mobile users.

2) Combating network attacks

KDDI has installed on its network a system that automatically detects DoS (denial of service*) attacks. The system is capable of detecting such attacks by analyzing traffic samples in high-speed networks with connectivity of up to 10Gbps. Detection is based on analysis of traffic characteristics, and works irrespective of network features. Capable of detecting DoS or distributed DoS attacks on a network within just a few minutes, the system promises to raise the quality of KDDI's IP services.

Note: An attack on a network that causes a loss of service to users by overloading the system with high-volume data.

Testing IP multicasting



DoS analysis screen

# Financial Review

## (1) Significant Accounting Policies and Estimates

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

### (a) Estimated useful lives of fixed assets

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

### (b) Impairment of fixed assets

Impairment losses are calculated based on the grouping of assets into the smallest-possible units capable of generating cash flows that are independent of other assets or asset groups. In the fiscal year ended March 2006, the KDDI Group posted extraordinary losses of ¥104.2 billion against the impairment of fixed assets related to the provision of TU-KA cellular phone services (such as PDC equipment) and of ¥9.9 billion against the impairment of underutilized fixed assets, including some domestic transmission infrastructure.

### (c) Deferred tax assets

Deferred tax assets and liabilities are stated based on the statutory effective tax rate in recognition of any temporary differences between the carrying values of assets and liabilities and corresponding values listed in filings to tax authorities. Valuation allowances are stated against deferred tax assets, based on future likelihood. Evaluations of the necessity of recording such valuation allowances take into account projected future taxable income levels and utilizable tax planning. Losses carried forward for tax purposes arising from the merger with POWEREDCOM Inc. and any related temporary differences are also stated based on considerations of future likelihood.

### (d) Retirement benefits and pension obligations

Retirement and severance benefits and pension obligations are calculated using certain fundamental parameters that are based on actuarial calculations. The key parameters used include the discount rate, projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels. The discount rate is computed based on the market yields of long-term Japanese government bonds. Projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels are all computed based on statistical values. The expected rate of return is computed based on historical portfolio performance.

The effects of any differences that arise between actual results and the initial assumptions, or of any systemic changes related to mergers, stock splits, or other developments, would by their nature be cumulative and subject to recognition on a regular basis over future fiscal periods. Hence, such changes and differences could potentially have a material effect on the future values of pension-related expenses and allowances.

The following pages provide an analysis of the financial condition and business results of the KDDI Group for the fiscal year ended March 2006. Any forecasts, predictions, projections, outlooks, plans, policies, or comments regarding the future contained in these pages constitute forward-looking statements and as such represent the best judgment of management as of the end of March 2006 based on information available at that time. Actual results may differ materially because of the risks and uncertainties inherent in such statements.

## (2) Analysis of Consolidated Business Results

### Executive Summary

The market for broadband services continued to grow in Japan. Competition between telecoms carriers to secure customers entered a new phase as the market for personal cellular phone services showed signs of maturity. In the fixed-line communications market, carriers competed to offer a range of direct access services. In the mobile phone market, existing carriers introduced new services and tariff menus, while other companies decided to enter the market. The KDDI Group responded to rapidly changing business conditions through an emphasis on strategy and speed. Efforts focused on strengthening the base of operations to withstand increasingly fierce market competition with the aim of generating sustained growth in consolidated revenue and profits.

Key moves (mobile communications market):

• Absorption of three subsidiaries (TU-KA Cellular Tokyo, Inc., TU-KA Cellular Tokai, Inc., and TU-KA Phone Kansai, Inc.) by KDDI Corporation in response to the anticipated intensification of competition and rapid changes in the business environment (October 2005)

Key moves (fixed-line communications market):

- Comprehensive alliance concluded with Tokyo Electric Power Co. (TEPCO) in communications sector (October 2005)
- Integrated fiber-optic FTTH services launched by KDDI and TEPCO using joint promotional campaign (November 2005)
- Merger of KDDI with POWEREDCOM Inc. (January 2006)
- Equity stakes acquired in Japan Cablenet Holdings Limited and Japan Cablenet Limited as part of a strategy to expand customer base to benefit from future development of the broadband services industry in Japan (March 2006)

### Overview

Total operating revenues increased ¥140.7 billion (4.8%) on a year-on-year basis, to ¥3,060.8 billion. The au mobile business remained the main contributor to revenue growth. Higher sales of 3G CDMA 1X WIN mobile handsets enabled KDDI to secure a 48.1% share of the overall annual net increase in subscribers. Continued strong growth in the mobile communications sector more than offset the effect of the October 2004 transfer of PHS operations (which caused a year-on-year decline in revenue of ¥86.8 billion). Revenue from the fixed-line communications business also rose, because of the aggressive marketing of the KDDI Metal Plus service and the merger with POWEREDCOM in January 2006.

Operating expenses increased ¥140.3 billion (5.3%) on a year-on-year basis, to ¥2,764.2 billion. This was mainly attributable to aggressive marketing efforts to expand sales of CDMA 1X WIN handsets and to promote the KDDI Metal Plus service. Operating income rose ¥0.4 billion (0.1%), to ¥296.5 billion.

Net other expenses totaled ¥2.5 billion, an improvement of ¥7.2 billion over the previous year. Principal contributory factors included a further steady reduction in interest-bearing debt and lower interest expense. Ordinary income increased ¥7.6 billion, to ¥294.0 billion.

Total extraordinary losses on a net basis amounted to ¥113.3 billion, reducing profits ¥120.5 billion compared with the previous year. The major factor was an impairment loss of ¥114.2 billion recorded for the fiscal year ended March 2006 against PDC equipment and other TU-KA business-related fixed assets.

Income before income taxes and minority interests decreased ¥112.9 billion, to ¥180.6 billion. Total income taxes, which comprised corporation, resident, and enterprise taxes totaling ¥61.1 billion, together with an income tax credit that resulted in higher deferred taxes of ¥74.5 billion, declined ¥101.5 billion compared with the previous year. This chiefly reflected loss carryforwards and tax relief items inherited as a result of the merger with POWEREDCOM, which had the effect of reducing taxes ¥65.0 billion.

Minority interests declined ¥1.3 billion compared with the previous year, to ¥3.4 billion. Net income declined ¥10.0 billion, to ¥190.5 billion.

## (3) Segment Financial Reviews

### (a) Operating revenues

#### Mobile Business

As a result of the merger of KDDI Corporation with three TU-KA Group firms in October 2005, the au business and the TU-KA business were integrated into a new segment called the mobile communications business.

In the mobile communications segment, KDDI has sought to differentiate its offerings from those of rivals by focusing on generally upgrading products and services (including mobile handsets, fee structures, and content) to leverage prior investments in infrastructure supporting 3G mobile phone services.

- Development of a wide variety of new handsets upgraded the range, including successes such as the world's first handset capable of receiving One Seg services and the neon model from the au design project

The range of mobile handsets for au subscribers was augmented substantially, with a total of 32 new models introduced to cater to diverse user requirements. Models launched during the year included the following:

- A model fitted with an advanced GPS function that allows users such as family members to be located using a service called Safe Navi
- A handset compatible with One Seg, the world's first terrestrial digital television broadcasting service for mobile users
- A model fitted with a 4 GB hard disk drive (a first for Japan) and that provides access to au LISTEN MOBILE SERVICE (LISMO), the industry's first comprehensive music service suite for mobile phones
- Neon: the fifth model from the au design project
- Models compatible with mobile payment services, such as EZ FeliCa and Mobile Suica
- Initiation of LISMO for au subscribers, the industry's first comprehensive music service suite for mobile phones

Building on the success of EZ Chaku-Uta® and EZ Chaku-uta Full®, the new LISMO service for au subscribers allows seamless connections between mobile handsets and PCs. This comprehensive music download service, the first in the industry, has made music even more accessible to mobile users.

- LISMO's au Music Player enables users with mutually compatible handsets to exchange music playlists and to make use of the music communication service Uta-tomo™. Users can enjoy interactive music with just a handset.
- Sharing music between mobile phones and PCs is made easy with au Music Port, a music management software program for PCs.

In February 2006, KDDI launched au Shopping Mall, an e-shopping site that allows au subscribers to search for various products at shops operating on the EZweb Internet service. The service also allows users to purchase a number of products from different vendors in an easy and convenient format.

- Pricing and discount plans were further upgraded with the introduction of new tariff options, such as Double Flat Rates Light, Family Discount Wide Support, and My Plan Discount:
- Double Flat Rates Light (May 2005): A flat-rate tariff for packet-switched data communications services designed to enable more CDMA 1X WIN handset owners to gain easier access to rich broadband content (¥1,000/month)
- Family Discount Wide Support (November 2005): Extends the appeal of the Family Discount pricing plan by offering CDMA 1X services for children of elementary and middle school age and for people over 60 at a basic monthly charge of just ¥1,500;* the number of applicable lines for Family Discount was also increased, from 6 to 10

  *¥2,000 if less than three months since initial subscription to au service
- My Plan Discount (February 2006): Based on a two-year contract, this option allows single subscribers to CDMA 1X or CDMA 1X WIN services to benefit from the deeper discounts on the basic monthly charge available through the Family Discount or Annual Discount plans

*Mobile phone solution services for corporate clients*

Following the November 2004 introduction of OFFICE WISE services for corporate clients, in December 2005 KDDI added a new package of services, including such novel functions as message boards. These make business more convenient while responding to corporate requirements for enhanced security and improved productivity and the like. In March 2006, KDDI also launched the au B01K mobile handset for corporate clients. It is equipped with a high-capacity battery and remote-control security features, such as data deletion and handset locking. KDDI continues to develop new and improved services for this sector.

*Campaign to promote same-number subscription switches from TU-KA to au*

Following the merger of the three TU-KA companies with KDDI, the company began offering TU-KA mobile phone subscribers the opportunity to switch to an au contract without changing numbers or losing accumulated loyalty points. In February 2006, this promotional offer was upgraded to allow users to keep the same EZweb e-mail address as well.

Until now, KDDI has offered separate mobile phone services under the au and TU-KA brands to cater to varied customer needs. However, in view of the sharp reduction in new subscriptions to the TU-KA service and the steady migration of TU-KA subscribers to au contracts using the same numbers and e-mail addresses (totaling 710,000 users in the second half of the fiscal year ended March 2006), KDDI decided to close the TU-KA mobile phone service to new subscribers from June 30, 2006. Going forward, KDDI plans to focus on making au mobile services as attractive as possible to boost customer satisfaction. KDDI also plans to review whether to maintain TU-KA services, depending on usage status.

These various moves helped to boost considerably the competitiveness of KDDI's mobile phone services, which are now mainly focused on 3G handsets. Operating revenues in this segment in the fiscal year ended March 2006 totaled ¥2,510.3 billion, a year-on-year increase of ¥197.8 billion. A brief analysis of the major contributory factors is provided below.

Cumulative subscribers (thousands)

| | At March 31, 2005 | At March 31, 2006 | Net increase | Share of annual net increase |
|---|---|---|---|---|
| au | 19,542 | 22,699 | 3,157 | 65.8% |
| (module-type) | 487 | 586 | 99 | |
| CDMA 1X WIN (EV-DO) | 3,252 | 8,280 | 5,028 | |
| CDMA 1X | 14,683 | 13,548 | (1,135) | |
| CdmaOne | 1,608 | 871 | (737) | |
| TU-KA (PDC) | 3,590 | 2,739 | (850) | -17.7% |
| Total | 23,132 | 25,439 | 2,307 | 48.1% |

Note: Net increase = new subscriptions - cancellations

*High share of annual net subscriber growth*

Total subscriber numbers equaled 25.44 million as of the end of March 2006, representing a 27.7% share of cumulative subscriptions. KDDI achieved a share of 48.1% of overall net subscriber growth during the year (2.31 million users). This factor contributed significantly to higher operating revenues.

KDDI expects other carriers to try to expand their share of the 3G mobile phone services market aggressively in the run-up to the introduction of mobile number portability (MNP) in Japan in autumn 2006. The KDDI Group will respond with further efforts to boost product competitiveness.

*Positive impact of increased sales of CDMA 1X WIN handsets*

Growth in the number of CDMA 1X WIN users accelerated as KDDI expanded and upgraded the handset lineup and improved available content. Subscribers numbered 8.28 million by the end of March 2006 (up 5.03 million from the previous year-end) and accounted for approximately one-third of the total. KDDI has also introduced a variety of flat-rate tariffs, such as Double Flat and Double Flat Light to encourage users to make more use of data packet-based services. A broader selection of tariff menus resulted in KDDI maintaining the proportion of subscribers on flat-rate pricing plans at a high level (81%). CDMA 1X WIN user growth and a higher ratio of 3G subscribers within KDDI's user base helped to expand the number of high-ARPU* customers, which helped to support growth in operating revenue. Total ARPU (the sum of ARPU for voice and data services) for the fiscal year ended March 2006 was ¥7,040, a decline of ¥130 compared with the previous year. However, data ARPU increased ¥150, to ¥1,890.

*ARPU: Average Revenue per User (average monthly revenue per subscriber)

*Improvement in churn rate*

The average churn rate for au-branded mobile phone services improved significantly, falling from 1.44% to 1.20%. This reflected ongoing efforts to provide customers with a more-attractive lineup of products (such as handsets, content, software applications, and pricing plans) and services, as well as continued success in boosting au brand power.

## Introduction of EV-DO Rev. A

KDDI plans the introduction of EV-DO Rev. A functional extensions to its CDMA 2000 1x EV-DO data infrastructure for au mobile phones in mid-2006. With EV-DO Rev. A, data communication speeds will rise to 3.1 Mbps, downloading, and 1.8 Mbps, uploading. The shift to the new standard will also improve control over service quality by minimizing packet data delays. This move promises to pave the way for the development of entirely new services.

## Fixed-line business

Amid a rapid shift toward direct-access, fixed-line services for residential users and the growth of IP and broadband services, KDDI devoted considerable efforts in this segment to strengthening the customer base through business development initiatives. These included promoting sales of the direct-access service KDDI Metal Plus and the development of FTTH services based on a wide-ranging alliance with TEPCO in the telecommunications field and the associated merger with POWEREDCOM.

*Expanded sales of KDDI Metal Plus high-quality IP phone services*

During the fiscal year ended March 2006, KDDI aggressively promoted sales of KDDI Metal Plus, a high-quality IP phone service offering all the features expected of a fixed-line service at competitive prices along with a simple fee structure. Customers can gain access to these services through a simple connection of their existing landline to KDDI's high-quality IP network. Subscriber numbers had reached 1.8 million by the end of March 2006.

*Upgrading of wide-area Ethernet services for corporate clients*

In January 2006, KDDI merged with POWEREDCOM, a leading Japanese provider of wide-area Ethernet services for corporate clients. Going forward, the growth of corporate fixed-line data communications is expected to increase demand within the market for wide-area Ethernet services. KDDI is positioning KDDI Powered Ethernet as its main branded service for this segment. KDDI is also working to increase customer satisfaction by leveraging the strengths of POWEREDCOM to offer high-quality service provision and related customer support structures and by developing new services with added convenience.

As a result of KDDI's business development initiatives in responding to the rapid shift toward direct-access, IP, and broadband services, segment operating revenues in the fiscal year ended March 2006 totaled ¥619.3 billion, an increase of ¥23.2 billion on a year-on-year basis. Amid an ongoing trend among users toward the adoption of mobile and IP phone telecommunications services, during the second half of the year KDDI was able to arrest the fall in voice telephony revenue through its aggressive promotion of KDDI Metal Plus services. Other contributory factors in the favorable segment performance were solid growth in income from Internet-type services and new growth due to revenue from wide-area Ethernet services following the merger with POWEREDCOM.

*Comprehensive telecommunications alliance with TEPCO and provision of integrated services*

In October 2005, KDDI entered into a comprehensive telecommunications alliance with TEPCO, based on which discussions immediately began relating to joint business development initiatives. In April 2006, another agreement was concluded to enter into discussions with a view to merging the optical network operations of the TEPCO Group into KDDI by January 1, 2007. Discussions on the value of this TEPCO Group business are ongoing, with the aim of reaching a conclusion by the end of September 2006.

Under the same alliance, KDDI and TEPCO also began offering an integrated FTTH service in November 2005. Plans call for the full-scale development of these operations from June 2006 onward.

Through the merger into KDDI of these telecommunications operations, KDDI and TEPCO aim to build a stronger and more competitive telecommunications business group.

*IP conversion plans for fixed-line network*

KDDI has already announced plans for the phased IP conversion of its fixed-line network. By the end of March 2008, KDDI plans to become one of the world's first carriers to convert its entire fixed-line network to IP. This move will enable KDDI to upgrade the original high-quality IP network that is the backbone for the Hikari one and KDDI Metal Plus services and to shift entirely to software-based switches in place of the existing fixed-line exchanges, which will result in substantial facility cost savings. At the same time, KDDI plans to reduce on an ongoing basis the level of connection fees paid to two NTT regional operating companies by promoting the shift toward direct-access services. The IP conversion of the network also promises to enable KDDI to offer customers high-quality services at lower prices.

### PHS business

The PHS segment was eliminated effective the fiscal year ended March 2006 following the transfer of PHS business operations in October 2004.

Segment operating revenues in the first half of the previous year prior to the business transfer were ¥86.8 billion. The segment elimination caused operating revenues in the fiscal year ended March 2006 to fall by the same amount.

### Other businesses

In other businesses, the KDDI Group focused on responding to rapid changes in operating conditions in telecoms markets by boosting competitiveness through a restructuring of group operations. This involved moves to consolidate business functions between KDDI Group firms to increase efficiency while strengthening the operational base to foster future growth.

With the aim of consolidating operations and increasing profits, consolidated subsidiary KDDI Evolva Inc., which is involved in call center operations, merged in turn with CTC Create Corporation (May 2005); KSS Clean Corporation (July 2005); and TU-KA Service Co., Ltd. (February 2006). Evolva was the surviving entity in each case.

Segment operating revenues totaled ¥103.5 billion, a year-on-year increase of ¥22.1 billion.

Note: The figures for operating revenues by business segment in the above analysis include sales to external customers as well as sales from intersegment transactions. Because of the change in segment classification effective the fiscal year ended March 2006, the year-on-year growth amounts refer to comparable operations as defined in the revised classification.

## (b) Operating expenses

### Mobile Business

Mobile communications segment operating expenses in the fiscal year ended March 2006 totaled ¥2,155.9 billion, an increase of ¥135.6 billion compared with the previous year. The major factors contributing to the rise in costs are outlined below.

*Increased sales expenses for mobile handsets*

The extension of the handset lineup due to the launch of innovatively designed models (the au design project) and the introduction of upgraded CDMA 1X WIN handsets helped to attract more new subscribers and to accelerate the shift among users toward 3G-compatible CDMA 1X WIN models. This pushed up overall sales expenses for au-branded models. However, average procurement costs per handset were lower than in the previous year because of a combination of more-advanced handset functions and lower development costs.

*Increased sales of CDMA 1X WIN handsets and lower sales commissions*

KDDI pays sales commissions to agency sales outlets per subscriber contract. Sales commissions for au-branded handsets in the fiscal year ended March 2006 totaled ¥492.0 billion, an increase of ¥48.0 billion compared with the previous year. This mostly represented growth in au-branded handset sales volumes, which increased 1.66 million units on a year-on-year basis, to 13.25 million units (including new subscriptions and model switches). However, the average sales commission per handset declined ¥1,000 compared with the previous year, to ¥37,000 (including new subscriptions and model switches).

Other significant factors contributing to growth in operating expenses in this segment included higher access charges and increased costs incurred for facility maintenance and outsourced customer support services.

### Fixed-line business

Fixed-line segment operating expenses in the fiscal year ended March 2006 totaled ¥680.6 billion, an increase of ¥84.2 billion compared with the previous year. The major factors contributing to the rise in costs are outlined below.

*Increased KDDI Metal Plus-related costs due to aggressive service promotion*
The major items pushing up costs related to KDDI Metal Plus services were commissions, usage fees for dry copper connections, contract fees for the use of telecommunications services supplied by NTT, and outsourced customer support services.

*Increased depreciation expenses related to capital investment plans*
KDDI is investing in a phased expansion of the coverage area for KDDI Metal Plus services. Related new capital investment resulted in an increase in depreciation expenses of ¥15.5 billion compared with the previous year.

Other significant factors contributing to growth in operating expenses in this segment included higher access charges.

### PHS business
The decline in the PHS business segment's operating expenses in the fiscal year ended March 2006 compared with the previous year was ¥81.3 billion (equal to the operating expenses posted in the first half of the previous fiscal year prior to the business transfer).

### Other businesses
In the other businesses segment, the KDDI Group focused on boosting overall competitiveness, on increasing efficiency through the consolidation of business functions, and on strengthening operations in the sectors with the greatest growth potential.

Segment operating expenses in the fiscal year ended March 2006 increased ¥18.6 billion compared with the previous year, to ¥99.1 billion, primarily as a result of higher operating revenues.

## (c) Operating income
Operating income in the fiscal year ended March 2006 amounted to ¥296.5 billion, a rise of ¥0.4 billion compared with the previous year. By business segment, the mobile communications business recorded operating income of ¥354.4 billion, a year-on-year increase of ¥62.1 billion; the fixed-line business posted an operating loss of ¥61.3 billion, a net decrease of ¥60.9 billion from the previous year; and other businesses recorded operating income of ¥4.3 billion, up ¥3.4 billion over the previous year. In addition, the elimination of the PHS business segment depressed operating income ¥5.4 billion compared with the previous year.

## (d) Other income and expenses
Net other expenses totaled ¥2.5 billion, an improvement of ¥7.2 billion over the previous year. The major contributory factors are outlined below.

*Interest expense*
Consolidated interest-bearing debt totaled ¥770.6 billion at March 31, 2006, a decline of ¥93.9 billion compared with the previous year-end. As a result, interest expense in the fiscal year ended March 2006 was ¥15.6 billion, or ¥5.2 billion less than in the previous year.

*Equity in profit of affiliates*
Equity in the profit of affiliates resulted in a gain of ¥2.2 billion, which represented a year-on-year increase of ¥0.8 billion. The major equity-method affiliates that contributed to this figure were Mobicom Corporation, which supplies mobile phone services in Mongolia, and Kyocera Communication Systems Co., Ltd., which provides IT outsourcing solutions, IP services, and telecoms engineering services.

## (e) Ordinary income
Ordinary income in the fiscal year ended March 2006 totaled ¥294.0 billion, a year-on-year increase of ¥7.6 billion.

## (f) Exceptional items
Net extraordinary losses totaled ¥113.3 billion. This represented a year-on-year increase in such losses of ¥120.5 billion. The materially significant items are outlined below.

### Fiscal year ended March 2006
*Gain from debt forgiveness (¥1.2 billion)*
An extraordinary gain was recorded related to an exemption from liabilities associated with undersea cable-laying operations on the completion of the liquidation of consolidated subsidiary KDDI Submarine Cable Systems Inc.

*Impairment losses (¥114.2 billion)*
The KDDI Group calculates losses on the impairment of fixed assets based on the grouping of assets into the smallest-possible units capable of generating cash flows that are independent of other assets or asset groups. The major impairment losses in the fiscal year ended March 2006 are outlined below.

### Impairment loss on TU-KA phone service related assets
In view of the sharp reduction in new subscriptions to the TU-KA service and the steady migration of TU-KA subscribers to au mobile phone service contracts, KDDI decided to close the TU-KA mobile phone service to new subscribers from June 30, 2006. The book value of assets related to the provision of TU-KA cellular phone services (such as PDC equipment) was therefore written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥104.2 billion. The breakdown for this figure

was machinery and facilities, ¥60.9 billion; antennas and related equipment, ¥22.5 billion; software, ¥6.0 billion; and other assets, ¥14.8 billion. Recoverable values for each asset group were measured in terms of utilization value and computed based on estimated future cash flows discounted using a rate of 2.45%.

### Impairment loss on domestic transmission infrastructure and other idle assets

The book value of some domestic transmission infrastructure and other underutilized assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥9.9 billion. The breakdown was machinery and facilities, ¥1.2 billion; long-distance lines and related equipment, ¥3.0 billion; undersea cables and related equipment, ¥2.9 billion; and other assets, ¥2.8 billion. Recoverable values for each asset group were measured in terms of potential net proceeds on disposal. Market values were computed based on appraised values, with any assets judged unsalable being valued at zero.

### Fiscal year ended March 2005

*Gain from transfer of PHS business (¥27.6 billion)*

The sale of PHS business operations generated revenue of ¥206.2 billion. An extraordinary gain was recorded based on the difference between the net proceeds of the transfer (taking into account repayments of interest-bearing debt and other factors) and the value recorded on the consolidated balance sheet against equity in the net assets of the PHS business.

*Impairment losses (¥23.4 billion)*

The book value of some undersea cables and other underutilized assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥23.4 billion.

## (g) Income before income taxes and minority interests

Income before income taxes and minority interests in the fiscal year ended March 2006 amounted to ¥180.6 billion, a decrease of ¥112.9 billion compared with the previous year.

## (h) Income taxes and tax adjustments

Total income taxes, which comprised corporation, resident, and enterprise taxes totaling ¥61.1 billion, together with an income tax credit that resulted in higher deferred taxes of ¥74.5 billion, were ¥101.5 billion less than in the previous year. This mainly reflected loss carryforwards and tax relief items inherited as a result of the merger with POWEREDCOM, which had the effect of reducing taxes ¥65.0 billion.

## (i) Minority interests

Minority interests in consolidated subsidiaries, which are principally profits that revert to minority shareholders of Okinawa Cellular Telephone Company, were ¥3.4 billion in the fiscal year ended March 2006. This represented a decline of ¥1.3 billion compared with the previous year, due mainly to the fact that the figure of ¥4.8 billion recorded for the fiscal year ended March 2005 included first-half profits attributable to minority shareholders of DDI Pocket Inc.

## (j) Net income

Net income in the fiscal year ended March 2006 amounted to ¥190.5 billion, a decrease of ¥10.0 billion compared with the previous year.

### Business environment outlook

The KDDI Group identifies the key prospective competitive developments in the Japanese telecoms industry as follows:

- Mobile communications market: the introduction of mobile number portability (MNP); the entry of new carriers; the increase in competition caused by the ongoing merger of communications and broadcasting technologies, as evidenced in the launch of the One Seg digital television broadcast service for mobile users
- Fixed-line communications market: the advent of fierce price competition in services targeted at corporate clients and the efforts by carriers to secure customers in the residential user segment amid the rising market penetration of FTTH services

Faced with such conditions, the KDDI Group plans to focus on reinforcing its earnings base to support future growth by continuing to respond proactively to rapidly changing market conditions and by developing businesses that cater to customer needs.

- In the mobile communications business, KDDI aims to focus on providing a more convenient and enjoyable mobile services environment for users while seeking to expand into new business areas. The major aims are to increase sales of CDMA 1X WIN mobile handsets and to provide customers with attractive pricing plans and discount services.
- In the fixed-line communications business, KDDI aims to focus on expanding its customer base by continuing to supply direct-access services, such as KDDI Metal Plus, KDDI Hikari Plus, and KDDI Hikari Direct, and by building its FTTH business based on integrated services offered in conjunction with such partners as TEPCO and cable television providers.

## (4) Capital Financing and Liquidity

### (a) Cash flows

**Operating activities** +¥575.5 bn (+¥36.8 bn year on year)

Net cash provided by operating activities in the fiscal year ended March 2006 amounted to ¥575.5 billion, which represented an increase of ¥36.8 billion compared with the previous year. An increase in notes and accounts payable was a major contributor to higher operating cash flow.

**Investing activities** -¥435.9 bn (-¥299.4 bn year on year)

Net cash used in investing activities in the fiscal year ended March 2006 was ¥435.9 billion, representing a year-on-year increase in cash outflow equivalent to ¥299.4 billion. Major contributory factors included the absence of proceeds from the sale of subsidiaries, which had generated a cash inflow of ¥206.2 billion in the previous year through the divestiture of PHS operations, and a rise in capital spending of ¥72.3 billion in year-on-year terms. Capital investments in the mobile communications business segment were mostly related to wireless base stations and exchange facilities designed to expand area coverage and to enhance call quality for CDMA 1X and CDMA 1X WIN services. Capital spending in the fixed-line business segment was mostly on the construction of facilities for the provision of KDDI Metal Plus and other services.

Free cash flows, which equal net cash generated by operating and investing activities, amounted to ¥139.6 billion, a decline of ¥262.5 billion compared with the previous year.

**Financing activities** -¥256.9 bn (+¥119.1 bn year on year)

Net cash used in financing activities in the fiscal year ended March 2006 was ¥256.9 billion, which represented a year-on-year decrease in cash outflow of ¥119.1 billion. A major contributory factor was the decrease in contracted debt repayments associated with the reduction in interest-bearing debt.

### (b) Liquidity

Consolidated cash and cash equivalents totaled ¥151.0 billion at March 31, 2006, a decrease of ¥71.5 billion from the balance of ¥222.5 billion at March 31, 2005. Going forward, the KDDI Group expects the liquidity balance to vary in line with operating performance, financing needs, and internal investment levels.

The net year-on-year effect on cash and cash equivalents due to the merger of KDDI with POWEREDCOM was an increase of ¥44.7 billion.

### (c) Financing

During the fiscal year ended March 2006, KDDI made two unsecured straight bond issues of ¥25.0 billion each to finance loan repayments. Both the #1 and #2 bonds were issued in September 2005. All other requirements for funds were financed from internal cash flow and bank loans. The balance of corporate bonds outstanding was ¥334.6 billion at March 31, 2006, which represented an increase of ¥6.1 billion compared with the previous year-end. The year-end balance of loans outstanding declined ¥97.4 billion, to ¥436.0 billion.

### (d) Debt repayments

Contracted debt repayment totals by maturity are given below.

(yen in billions)

| | Amount | Less than1yr | 1-3yrs | 3-5yrs | Above 5yrs |
|---|---|---|---|---|---|
| Corporate bonds | 334.6 | 76.8 | 130.0 | 82.8 | 45.0 |
| Bank borrowings | 436.0 | 169.7 | 217.3 | 32.7 | 16.3 |
| Other | 0 | 0 | — | — | — |
| Total | 770.6 | 246.5 | 347.3 | 115.5 | 61.3 |

### (e) Foreign exchange risk

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

### (f) Financial policies

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

The KDDI Group pursues a proactive cash management policy of conserving funds within the parent company to enhance financial efficiency. The parent company undertakes the integrated management of fund surpluses or deficits at the majority of subsidiaries and actively seeks to constrain financing costs by leveraging its higher credit rating to procure funds that are then distributed to subsidiaries through a system of loans.

Consolidated interest-bearing debt totaled ¥770.6 billion at March 31, 2006. The ratio of direct to indirect financing was 43:57, and the long-term financing ratio* was 68.01%. The proportion of centralized fund procurement during the year under review was 99.02%.

Rating and Investment Information Inc. (R&I) accords KDDI a long-term senior debt rating of A.

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

## (g) Contingent liabilities

The balance of third-party guaranteed liabilities at March 31, 2006, amounted to ¥112.8 billion.

# Supplemental Data

## Mobile Business

| | Millions of yen | | | | | Millions of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating revenues** | — | — | — | 2,312,537 | **2,510,395** | **21,371** |
| Sales outside the group | — | — | — | 2,293,525 | **2,484,202** | **21,147** |
| Telecommunications business | — | — | — | 1,751,053 | **1,903,427** | **16,204** |
| Other business | — | — | — | 542,473 | **580,775** | **4,943** |
| Sales within the group | — | — | — | 19,012 | **26,193** | **224** |
| **Operating income** | — | — | — | 292,251 | **354,439** | **3,018** |
| **Extraordinary income (loss)** | — | — | — | (252) | **(105,296)** | **(896)** |
| **Net income** | — | — | — | 171,698 | **145,303** | **1,237** |
| **Free cash flows** | — | — | — | 190,636 | **266,178** | **2,266** |
| **EBITDA** | — | — | — | 548,859 | **605,172** | **5,152** |
| **Operating income margin** | — | — | — | 12.6% | **14.1%** | **14.1%** |
| **EBITDA margin** | — | — | — | 23.7% | **24.1%** | **24.1%** |

## Fixed - line Business

| | Millions of yen | | | | | Millions of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating revenues** | 651,929 | 601,874 | 623,104 | 596,041 | **619,314** | **5,272** |
| Sales outside the group | — | — | 529,119 | 494,729 | **518,716** | **4,416** |
| Telecommunications business | 607,664 | 556,047 | 484,512 | 451,632 | **470,391** | **4,004** |
| Other business | 44,265 | 45,827 | 44,607 | 43,096 | **48,325** | **412** |
| Sales within the group | — | — | 93,984 | 101,312 | **100,598** | **856** |
| **Operating income (loss)** | 30,525 | 60,290 | 16,421 | (310) | **(61,309)** | **(522)** |
| **Extraordinary income (loss)** | (17,526) | (3,071) | (74,466) | (18,118) | **(9,590)** | **(82)** |
| **Net income (loss)** | 4,137 | 32,264 | (29,935) | (4,413) | **26,362** | **224** |
| **Free cash flows** | 55,485 | 116,927 | 68,559 | (3,066) | **(102,317)** | **(871)** |
| **EBITDA** | 157,467 | 176,809 | 112,402 | 87,494 | **41,451** | **353** |
| **Operating income margin** | 4.7% | 10.0% | 2.6% | -0.1% | **-9.9%** | **-9.9%** |
| **EBITDA margin** | 24.2% | 29.4% | 18.0% | 14.7% | **6.7%** | **6.7%** |

## Other business

| | Millions of yen | | | | | Millions of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating revenues** | 276,974 | 196,656 | 80,371 | 81,381 | **103,503** | **881** |
| Sales outside the group | — | — | 50,680 | 46,399 | **57,896** | **493** |
| Sales within the group | — | — | 29,691 | 34,982 | **45,607** | **388** |
| **Operating income (loss)** | 4,063 | (1,002) | 545 | 951 | **4,381** | **37** |
| **Extraordinary income (loss)** | (12,921) | (3,007) | (4,058) | 2,093 | **31,298** | **266** |
| **Net income (loss)** | (11,578) | (9,868) | (3,439) | 1,565 | **34,861** | **297** |
| **Operating income margin** | 1.5% | — | 0.7% | 1.2% | **4.2%** | **4.2%** |

## (Reference)

## au Business

| | Millions of yen | | | | | Millions of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating revenues** | 1,524,554 | 1,626,273 | 1,831,786 | 2,092,702 | **1,117,787** | **9,516** |
| Sales outside the group | — | — | 1,817,333 | 2,067,843 | **1,103,558** | **9,394** |
| Telecommunications business | 1,155,657 | 1,197,244 | 1,367,038 | 1,558,404 | **853,112** | **7,262** |
| Other business | 368,897 | 429,029 | 450,295 | 509,439 | **250,446** | **2,132** |
| Sales within the group | — | — | 14,453 | 24,859 | **14,228** | **121** |
| **Operating income** | 57,396 | 53,786 | 239,469 | 273,106 | **932,557** | **7,939** |
| **Extraordinary income (loss)** | (155,071) | (4,250) | 1 | (68) | **184,643** | **1,572** |
| **Net income (loss)** | (58,713) | 21,005 | 129,995 | 161,157 | **111,299** | **947** |
| **Free cash flows** | 15,643 | 96,571 | 207,251 | 132,561 | **119,908** | **1,021** |
| **EBITDA** | 269,127 | 245,092 | 437,651 | 481,387 | **290,390** | **2,472** |
| **Operating income margin** | 3.8% | 3.3% | 13.1% | 13.1% | **16.6%** | **16.6%** |
| **EBITDA margin** | 17.7% | 15.1% | 23.9% | 23.0% | **26.0%** | **26.0%** |

As a result of merging the TU-KA companies in October 2005, the Mobile Telecommunications Business segment was shifted to the Mobile Business segment in the third quarter of the fiscal year ended March 31, 2006. Please use figures from the former au business until September 30, 2005 as reference for figures for that fiscal year.

## TU-KA business

| | Millions of yen | | | | | Millions of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating revenues** | 358,260 | 318,070 | 274,329 | 231,396 | **101,271** | **862** |
| Sales outside the group | — | — | 267,929 | 225,682 | **98,626** | **840** |
| Telecommunications business | 286,278 | 255,412 | 223,040 | 192,649 | **86,888** | **740** |
| Other business | 71,982 | 62,658 | 44,890 | 33,034 | **11,738** | **100** |
| Sales within the group | — | — | 6,400 | 5,714 | **2,645** | **23** |
| **Operating income** | 3,784 | 6,200 | 16,304 | 18,431 | **10,552** | **90** |
| **Extraordinary income (loss)** | — | (1,713) | 1,104 | (184) | **(28)** | **(0)** |
| **Net income (loss)** | (3,276) | (3,227) | 8,043 | 10,541 | **6,652** | **57** |
| **Free cash flows** | 14,831 | 52,137 | 54,951 | 58,075 | **25,740** | **219** |
| **EBITDA** | 63,400 | 66,471 | 72,097 | 66,811 | **31,453** | **268** |
| **Operating income margin** | 1.1% | 1.9% | 5.9% | 8.0% | **10.4%** | **10.4%** |
| **EBITDA margin** | 17.7% | 20.9% | 26.3% | 28.9% | **31.1%** | **31.1%** |

As a result of merging the TU-KA companies in October 2005, the Mobile Telecommunications Business segment was shifted to the Mobile Business segment in the third quarter of the fiscal year ended March 31, 2006. Please use figures from the former TU-KA business until September 30, 2005 as reference for figures for that fiscal year.

# Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

| March 31, 2005 and 2006 | Millions of yen 2005 | Millions of yen 2006 | Millions of U.S. dollars (Note 1) 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets:** | | | |
| Cash and cash equivalents | ¥ 222,532 | ¥ **151,003** | $ **1,285** |
| Accounts receivable | 383,083 | **408,905** | **3,481** |
| Allowance for doubtful accounts | (17,900) | **(15,175)** | **(129)** |
| Inventories | 48,613 | **38,384** | **326** |
| Deferred income taxes (Note 12) | 30,407 | **17,730** | **151** |
| Prepaid expenses and other current assets | 20,678 | **15,837** | **135** |
| **Total Current Assets** | 687,413 | **616,684** | **5,249** |
| **Property, Plant and Equipment (Note 4):** | | | |
| Telecommunications equipment | 2,619,605 | **3,001,891** | **25,555** |
| Buildings and structures | 383,982 | **428,448** | **3,647** |
| Machinery and tools | 118,564 | **117,078** | **997** |
| Land | 50,286 | **48,423** | **412** |
| Construction in progress | 71,439 | **70,419** | **599** |
| Other property, plant and equipment | 10,255 | **1,195** | **10** |
| | 3,254,131 | **3,667,454** | **31,220** |
| Accumulated depreciation | (1,841,446) | **(2,257,597)** | **(19,218)** |
| **Total Property, Plant and Equipment** | 1,412,685 | **1,409,857** | **12,002** |
| **Investments and Other Assets:** | | | |
| Investments in securities (Notes 3, 4) | 31,846 | **49,276** | **420** |
| Deposits and guarantee money | 35,298 | **38,547** | **328** |
| Intangible assets | 149,642 | **165,332** | **1,408** |
| Goodwill | 48,248 | **—** | **—** |
| Deferred income taxes (Note 12) | 23,682 | **103,625** | **882** |
| Other assets | 96,048 | **126,326** | **1,075** |
| Allowance for doubtful assets | (12,540) | **(8,782)** | **(75)** |
| **Total Investments and Other Assets** | 372,224 | **474,324** | **4,038** |
| **Total Assets** | ¥ 2,472,322 | ¥ **2,500,865** | $ **21,289** |

The accompanying notes are an integral part of these statements.

| March 31, 2005 and 2006 | Millions of yen 2005 | 2006 | Millions of U.S. dollars (Note 1) 2006 |
|---|---|---|---|
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current Liabilities:** | | | |
| Short-term loans and current portion of long-term loans (Note 4) | ¥ 227,744 | **¥ 246,757** | **$ 2,100** |
| Accounts payable | 260,407 | **275,107** | **2,342** |
| Accrued income taxes | 65,682 | **18,780** | **160** |
| Accrued expenses | 9,956 | **10,919** | **93** |
| Allowance for bonuses | 13,511 | **16,892** | **144** |
| Other current liabilities | 25,483 | **26,971** | **230** |
| **Total Current Liabilities** | 602,783 | **595,426** | **5,069** |
| **Non-Current Liabilities:** | | | |
| Long-term loans (Note 4) | 368,967 | **266,340** | **2,267** |
| Bonds (Note 4) | 268,175 | **257,800** | **2,195** |
| Reserve for point service program | 20,805 | **24,893** | **212** |
| Reserve for retirement benefits and other non-current liabilities (Notes 4, 13) | 36,171 | **44,078** | **375** |
| **Total Non-Current Liabilities** | 694,118 | **593,111** | **5,049** |
| **Total Liabilities** | 1,296,901 | **1,188,537** | **10,118** |
| **Minority Interests** | 13,229 | **16,797** | **142** |
| **Contingent Liabilities (Note 5)** | | | |
| **Shareholders' Equity (Note 10):** | | | |
| Common stock | | | |
| Authorized—7,000,000 and 7,000,000 shares at | | | |
| March 31, 2005 and 2006, respectively | | | |
| Issued —4,240,880.38 and 4,427,256.86 shares at | | | |
| March 31, 2005 and 2006, respectively | 141,852 | **141,852** | **1,208** |
| Additional paid in capital surplus | 304,190 | **305,676** | **2,602** |
| Retained earnings | 739,448 | **853,405** | **7,265** |
| Net unrealized gains on securities | 9,858 | **21,666** | **184** |
| | 1,195,348 | **1,322,599** | **11,259** |
| **Foreign Currency Translation Adjustments** | (1,650) | **1,166** | **10** |
| Treasury stock, at cost | (31,506) | **(28,234)** | **(240)** |
| **Total Shareholders' Equity** | 1,162,192 | **1,295,531** | **11,029** |
| **Total Liabilities and Shareholders' Equity** | ¥ 2,472,322 | **¥ 2,500,865** | **$ 21,289** |

# Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

| March 31, 2005 and 2006 | Millions of yen 2005 | Millions of yen 2006 | Millions of U.S. dollars (Note 1) 2006 |
|---|---|---|---|
| **Operating Revenues:** | | | |
| Revenues from telecommunication business | ¥ 2,300,566 | ¥ 2,398,526 | $ 20,418 |
| Sales of terminal equipment and other | 619,473 | 662,288 | 5,638 |
| **Total Operating Revenues** | 2,920,039 | 3,060,814 | 26,056 |
| **Operating Expenses:** | | | |
| Sales expenses | 998,403 | 1,047,003 | 8,913 |
| Depreciation | 341,043 | 328,259 | 2,795 |
| Charges for use of telecommunications services of third parties | 382,064 | 413,294 | 3,518 |
| Cost of sales of terminal equipment and other | 615,539 | 653,531 | 5,563 |
| Other | 286,814 | 322,131 | 2,742 |
| **Total Operating Expenses** | 2,623,863 | 2,764,218 | 23,531 |
| **Operating Income** | 296,176 | 296,596 | 2,525 |
| **Other Expenses (Income):** | | | |
| Interest expense | 20,949 | 15,682 | 133 |
| Interest income | (701) | (1,027) | (9) |
| Gain on sales of securities | (3,008) | (699) | (6) |
| Valuation loss on investments in securities | 273 | 695 | 6 |
| Loss (gain) on sales of property, plant and equipment (Note 6) | (205) | 422 | 4 |
| Gain from transfer of PHS business | (27,674) | — | — |
| Equity in gain of affiliates | (1,426) | (2,278) | (19) |
| Gains from forgiveness of debt | — | (1,298) | (11) |
| Dividend income from anonymous association | (6,418) | (6,836) | (58) |
| Loss on disposal of property, plant and equipment | 174 | 160 | 1 |
| Impairment loss (Note 7) | 23,449 | 114,296 | 973 |
| Other, net | (2,768) | (3,127) | (26) |
| **Total Other Expenses** | 2,645 | 115,990 | 988 |
| **Income before Income Taxes and Minority Interests** | 293,531 | 180,606 | 1,537 |
| **Income Taxes:** | | | |
| Current | 96,647 | 61,140 | 520 |
| Deferred | (8,541) | (74,597) | (635) |
| **Total Income Taxes** | 88,106 | (13,457) | (115) |
| **Minority Interests in Consolidated Subsidiaries** | 4,833 | 3,494 | 30 |
| **Net Income** | ¥ 200,592 | ¥ 190,569 | $ 1,622 |

| March 31, 2005 and 2006 | Yen 2005 | Yen 2006 | U.S. dollars (Note 1) 2006 |
|---|---|---|---|
| **Per Share Data:** | | | |
| Net income | ¥ 47,612 | ¥ 45,056 | $ 383.55 |
| Net income after adjusted the potential stocks | 47,571 | 45,025 | 383 |
| Cash dividends | 6,900 | 8,000 | 68.10 |

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, 2005 and 2006 | Number of shares of common stock | Common stock | Additional paid in capital surplus | Retained earnings | Net unrealized gains on securities | Foreign currency translation adjustments | Treasury stock at cost |
| Balance, March 31, 2004 | 4,241 | ¥ 141,852 | ¥ 304,190 | ¥ 563,678 | ¥ 11,977 | ¥ (1,645) | ¥ (10,661) |
| Net income for the year | | | | 200,592 | | | |
| Cash dividends (Note 10) | | | | (24,460) | | | |
| Directors' and corporate auditors' bonuses | | | | (78) | | | |
| Loss on disposal of treasury stocks | | | | (284) | | | |
| Decrease due to decrease in equity method companies | | | | (0) | | | |
| Net unrealized gains on securities | | | | | (2,119) | | |
| Foreign currency translation adjustments | | | | | | (5) | |
| Net changes in treasury stock | | | | | | | (20,845) |
| Balance, March 31, 2005 | 4,241 | ¥ 141,852 | ¥ 304,190 | ¥ 739,448 | ¥ 9,858 | ¥ (1,650) | ¥ (31,506) |
| Increase due to merger | 186 | | 1,486 | | | | |
| Net income for the year | | | | 190,569 | | | |
| Cash dividends (Note 10) | | | | (29,247) | | | |
| Directors' and corporate auditors' bonuses | | | | (89) | | | |
| Loss on disposal of treasury stocks | | | | (838) | | | |
| Disposition of goodwill | | | | (46,438) | | | |
| Net unrealized gains on securities | | | | | 11,808 | | |
| Foreign currency translation adjustments | | | | | | 2,816 | |
| Net changes in treasury stock | | | | | | | 3,272 |
| **Balance, March 31, 2006** | **4,427** | **¥ 141,852** | **¥ 305,676** | **¥ 853,405** | **¥ 21,666** | **¥ 1,166** | **¥ (28,234)** |

| | Thousands | Millions of U.S. dollars (Note 1) | | | | | |
|---|---|---|---|---|---|---|---|
| Years ended March 31, 2006 | Number of shares of common stock | Common stock | Additional paid in capital surplus | Retained earnings | Net unrealized gains on securities | Foreign currency translation adjustments | Treasury stock at cost |
| Balance, March 31, 2005 | 4,241 | $ 1,208 | $ 2,590 | $ 6,295 | $ 84 | $ (14) | $ (268) |
| Increase due to merger | 186 | | 12 | | | | |
| Net income for the year | | | | 1,622 | | | |
| Cash dividends (Note 10) | | | | (249) | | | |
| Directors' and corporate auditors' bonuses | | | | (1) | | | |
| Loss on disposal of treasury stocks | | | | (7) | | | |
| Disposition of goodwill | | | | (395) | | | |
| Net unrealized gains on securities | | | | | 100 | | |
| Foreign currency translation adjustments | | | | | | 24 | |
| Net changes in treasury stock | | | | | | | 28 |
| **Balance, March 31, 2006** | **4,427** | **$ 1,208** | **$ 2,602** | **$ 7,265** | **$ 184** | **$ 10** | **$ (240)** |

# Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

| March 31, 2005 and 2006 | Millions of yen 2005 | Millions of yen 2006 | Millions of U.S. dollars (Note 1) 2006 |
|---|---|---|---|
| **Cash Flows from Operating Activities:** | | | |
| Income before income taxes and Minority interests Adjustments for: | ¥ 293,531 | ¥ **180,606** | $ **1,537** |
| Depreciation and amortization | 354,061 | **337,461** | **2,873** |
| Loss (gain) on sales of property, plant and equipment | (205) | **422** | **4** |
| Loss on disposal of property, plant and equipment | 18,172 | **22,074** | **188** |
| Impairment loss | 23,449 | **114,296** | **973** |
| Decrease in allowance for doubtful accounts | (465) | **(5,642)** | **(48)** |
| Decrease in reserve for retirement benefits | (640) | **(1,673)** | **(14)** |
| Interest and dividend income | (886) | **(1,494)** | **(13)** |
| Interest expenses | 20,949 | **15,682** | **133** |
| Equity in gain of affiliates | (1,426) | **(2,278)** | **(19)** |
| Gain on sales of investment securities | (3,008) | **(699)** | **(6)** |
| Valuation loss in investments in securities | 273 | **695** | **6** |
| Gain from transfer of PHS business | (27,674) | **—** | **—** |
| Increase in reserve for point services | 3,698 | **4,088** | **35** |
| Changes in assets and liabilities: | | | |
| Increase in prepaid pension cost | (1,916) | **(1,534)** | **(13)** |
| Increase in notes and accounts receivable | (3,840) | **(6,863)** | **(58)** |
| Decrease in inventories | 10,466 | **10,872** | **93** |
| Increase (decrease) in notes and accounts payable | (12,256) | **24,424** | **208** |
| Other, net | 2,116 | **5,916** | **49** |
| Sub total | 674,399 | **696,353** | **5,928** |
| Interest and dividend income received | 1,929 | **2,281** | **19** |
| Interest expenses paid | (22,233) | **(16,348)** | **(139)** |
| Income taxes paid | (115,419) | **(106,755)** | **(909)** |
| Net cash provided by operating activities | 538,676 | **575,531** | **4,899** |
| **Cash Flows from Investing Activities:** | | | |
| Payments for purchase of property, plant and equipment | (271,926) | **(311,614)** | **(2,653)** |
| Proceeds from sale of property, plant and equipment | 1,466 | **1,953** | **17** |
| Payments for other intangible assets | (56,035) | **(87,665)** | **(746)** |
| Acquisition of investment in securities | (6,085) | **(413)** | **(4)** |
| Proceeds from sale of investment in securities | 10,282 | **3,336** | **28** |
| Payments for investment in affiliates | (5,395) | **(28,669)** | **(244)** |
| Proceeds from sale of subsidiaries excluded from consolidation | 206,234 | **—** | **—** |
| Increase in long-term prepayment | (14,058) | **(13,648)** | **(116)** |
| Other, net | (991) | **797** | **7** |
| Net cash used in investing activities | (136,508) | **(435,923)** | **(3,711)** |
| **Cash Flows from Financing Activities:** | | | |
| Net decrease in short-term loans | (1,351) | **(543)** | **(5)** |
| Repayment of long-term loans | (293,330) | **(216,530)** | **(1,843)** |
| Repayment of long-term accounts payable | (5,935) | **(2,583)** | **(23)** |
| Proceed from new bond issue | — | **49,973** | **424** |
| Payment for redemption of bonds | (15,375) | **(60,375)** | **(514)** |
| Payments for acquisition of treasury stocks | (24,436) | **(262)** | **(2)** |
| Dividends paid | (24,594) | **(29,552)** | **(249)** |
| Payments received from minority shareholders | 164 | **242** | **2** |
| Other, net | (11,201) | **2,695** | **23** |
| Net cash used in financing activities | (376,058) | **(256,935)** | **(2,187)** |
| **Translation Adjustments on Cash and Cash Equivalents** | (96) | **1,146** | **10** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 26,014 | **(116,181)** | **(989)** |
| **Cash and Cash Equivalents at Beginning of Year** | 196,518 | **222,532** | **1,894** |
| **Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated** | — | **44,722** | **381** |
| **Decrease in Cash and Cash Equivalents due to change in consolidation** | — | **(70)** | **(1)** |
| **Cash and Cash Equivalents at End of Year** | ¥ 222,532 | ¥ **151,003** | $ **1,285** |

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.

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

The Company's consolidated financial statements for the year ended March 31, 2006, include 46 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., KDDI Network & Solutions Inc., KDDI Technical Engineering Service, KDDI Evolva Inc., KMN Corporation, KDDI AMERICA INC. and 40 other subsidiaries.

During the year ended March 31, 2006, significant changes in the scope were incurred as follows;

Consolidated:

| | |
|---|---|
| KDDI Technical Engineering Servic | Established |
| Ubiquitous Core Inc. | Established |
| Media Flow Japan Co., Ltd. | Established |
| Power Nets Co., Ltd. | Merged |

Removed (Consolidated)

Merger

KDDI Evolva Inc.
CTC Create Inc.
The corporations above merged in May 2005 with the surviving company being KDDI Evolva Inc.

Merger

KDDI Evolva Inc.
KSS Clean Corporation
The corporations above merged in July 2005 with the surviving company being KDDI Evolva Inc.

Merger

KDDI Corporation
Tu-Ka Cellular Tokyo Inc.
Tu-Ka Cellular Tokai Inc.
Tu-Ka Phone Kansai Inc.
The corporations above merged in October 2005 with the surviving company being KDDI Corporation.

Merger

Okinawa Call Center Corporation
KDDI Telemarketing Inc.
The corporations above merged in December 2005 with the surviving company being Okinawa Call Center Corporation. The company name has been changed to KDDI Evolva Okinawa Inc.

Merger

KDDI Evolva Inc.
Tu-Ka Services, Inc.
The corporations above merged in February 2006 with the surviving company being KDDI Evolva Inc.

| | |
|---|---|
| TOKYO NETWORK COMPUTING PTY. LTD. | Liquidated |
| KDDI Submarine Cable Systems, Inc. | Liquidated |
| KDDI R&D LABORATORIES USA, INC. | Liquidated |
| SWIFTCALL CENTRE LTD. | Sale of shares |
| SWIFTCALL LONG DISTANCE LTD. | Sale of shares |

Nippon Iridium Corp. Decision to start bankruptcy proceedings
NIPPON IRIDIUM (BERMUDA) LTD. Decision to start bankruptcy proceedings

Equity Method

Added:

Mobaoku. Co., Ltd., Japan Cablenet Holdings Limited, Japan Cablenet Limited, Cable Network, OTA Co., Ltd., City TV Nakano Ltd., Katsushika Cable Network Corporation, Odawara Cable TV Co., Ltd., Musashino-Mitaka Cable Television Inc., Town TV Minami Yokohama Co., Ltd., Cable Network Chiba Co., Ltd., Town TV Narashino Co., Ltd., Funabashi Cable Network Co., CATV KOHNAN Limited, Kumamoto Cable Network Corporation, Hachioji TeleMedia Ltd., Koala TV Co., Ltd., My TV Co., Ltd. Acquisition of shares

Removed:

Ampersand Broadband Inc. Liquidated

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 ¥117.47=$1, the approximate exchange rate on March 31, 2006. 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 1 unconsolidated subsidiary and 2 affiliates for which the equity method have not been applied are stated at cost because the effect of application of the equity method would be immaterial.

**b. Revenue Recognition**

For telecommunications services, revenues are recorded mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized upon fulfillment of contractual obligations, which is generally upon shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed.

**c. Cash and Cash Equivalents**

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term highly liquid investments with an original maturity of three months or less at the time of purchase and which represent a minor risk of fluctuations in value.

**d. Inventories**

Inventories are stated at cost. Cost is determined by the moving average method.

**e. Foreign Currency Translation**

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year. The resulting differences in yen amounts are presented as minority interests and foreign currency translation adjustments in shareholders' equity.

**f. Property, Plant and Equipment and Depreciation**

Property, plant and equipment is stated at cost. Assets are depreciated over their estimated useful lives by applying the declining-balance method to machinery and equipment used for fixed-line business by the Company, and by the straight-line method to machinery and equipment used for mobile communications business and other assets held by the Company, and most of depreciated assets held by its subsidiaries. The main depreciation periods are as follows.

| | |
|---|---|
| Machinery and equipment used for fixed-line and mobile communications business: | 2-17 years |
| Telecommunications service lines, engineering equipment, submarine cable system and buildings: | 2-65 years |

**g. Financial Instruments**

(1) Derivatives

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

(2) Securities

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

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

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

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

(3) Hedge Accounting

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

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

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

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

**h. Research and Development Expenses and Software**

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

**i. Income Taxes**

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

**j. Leases**

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

**k. Other Assets**

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

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

**m. Allowance for Doubtful Accounts**
To prepare for uncollectible credits, the Company and its subsidiaries based an allowance for general credits on the actual bad debt ratio, and appropriated an estimated unrecoverable amount for specific credits deemed to be uncollectible after considering possible losses on collection.

**n. Retirement Benefits**
The amount for employee retirement benefits at fiscal 2006 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2006 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 i n which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

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

**o. Point Service Programs**
In order to prepare for the future cost of the points customers have earned under the "au" Point Program, based on its past experience, the Company reserves an amount considered appropriate to cover possible redemption of the points during or after the next consolidated fiscal year.

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

## 3. Market Value Information

At March 31, 2006 and 2005, book value, market value and net unrealized gains or losses of quoted securities were as follows:
Bonds intended to be held to maturity that have market value.

No items to be reported.

Other securities that have market prices

| | Millions of yen | | | | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Acquisition cost | Book value | Unrealized gain (loss) | Acquisition cost | Book value | Unrealized gain (loss) | Acquisition cost | Book value | Unrealized gain (loss) |
| Securities for which book value of consolidated balance sheets exceeds acquisition cost | ¥ 3,355 | ¥ 19,867 | ¥ 16,512 | **¥ 3,623** | **¥ 40,195** | **¥ 36,572** | **$ 31** | **$ 342** | **$ 311** |
| Securities for which book value of consolidated balance sheets does not exceed acquisition cost | 849 | 846 | (3) | **657** | **650** | **(7)** | **6** | **6** | **(0)** |
| Total | ¥ 4,204 | ¥ 20,713 | ¥ 16,509 | **¥ 4,280** | **¥ 40,845** | **¥ 36,565** | **$ 37** | **$ 348** | **$ 311** |

Other securities sold during the current consolidated fiscal year

| | Millions of yen | | | | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Amount of sale | Total gain on sale | Total loss on sale | Amount of sale | Total gain on sale | Total loss on sale | Amount of sale | Total gain on sale | Total loss on sale |
| Other securities sold | ¥ 7,301 | ¥ 3,056 | ¥ 47 | **¥ 869** | **¥ 703** | **¥ 4** | **$ 7** | **$ 6** | **$ 0** |

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

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| | Book value | Book value | Book value |
| Other securities | | | |
| Unlisted equity securities | ¥ 9,416 | **¥ 9,003** | **$ 77** |
| Unlisted corporate bonds | 2,508 | **—** | **—** |
| Commercial papers | 61,988 | **4,999** | **42** |
| Total | ¥ 73,912 | **¥ 14,002** | **$ 119** |

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 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | **2006** | | | | **2006** | | | |
| | 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 | Within one year | One to five years | Five to 10 years | Over 10 years |
| Bonds | | | | | | | | | | | | |
| Corporate bonds | ¥ — | ¥ 300 | ¥ — | ¥ 2,508 | **¥ 300** | **¥ —** | **¥ —** | **¥ —** | **$ 3** | **$ —** | **$ —** | **$ —** |
| Other | 62,032 | 5 | — | — | **5,005** | **—** | **—** | **—** | **42** | **—** | **—** | **—** |
| Other securities | — | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | ¥ 62,032 | ¥ 305 | ¥ — | ¥ 2,508 | **¥ 5,305** | **¥ —** | **¥ —** | **¥ —** | **$ 45** | **$ —** | **$ —** | **$ —** |

## 4. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2006 were ¥2,626 million (U.S. $22 million), and the annual average interest rate applicable to short-termbank loans at March 31, 2006 was 5.15%.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Domestic unsecured straight bonds due 2005 through 2012 at rates of 0.435% to 2.57% per annum | ¥ 218,750 | **¥ 224,875** | **$ 1,914** |
| General secured bonds due 2006 through 2017 at rates of 2.65% to 3.20% per annum (*) | 109,800 | **109,800** | **935** |
| Total bonds | ¥ 328,550 | **¥ 334,675** | **$ 2,849** |
| Loans from banks: | | | |
| Maturing through 2020 at average rates of 1.43% per annum | ¥ 530,377 | **¥ 433,387** | **$ 3,689** |
| Other interest-bearing debt | 2,604 | **4** | **0** |
| | ¥ 532,981 | **¥ 433,391** | **$ 3,689** |
| Total bonds, loans and other interest-bearing debt | ¥ 861,531 | **¥ 768,066** | **$ 6,538** |
| Less, amount due within one year | 224,385 | **243,926** | **2,076** |
| | ¥ 637,146 | **¥ 524,140** | **$ 4,462** |

(*)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, 2006 were as follows:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Year ending March 31 | 2006 | 2006 |
| 2007 | ¥ 243,926 | $ 2,075 |
| 2008 | 255,702 | 2,177 |
| 2009 | 91,589 | 780 |
| 2010 | 36,958 | 315 |
| 2011 and thereafter | 139,891 | 1,191 |
| | ¥ 768,066 | $ 6,538 |

At March 31, 2006, assets pledged as collateral for long-term loans were as follows:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| | 2006 | 2006 |
| Mortgage on factory foundation | ¥ 20,815 | $ 177 |
| Investment in securities | 5,934 | 51 |
| | ¥ 26,749 | $ 228 |
| Long-term loans | ¥ 5,068 | $ 43 |
| Current portion of long-term loans | 3,164 | 27 |
| Loans of Wilcom Inc.* | 113,752 | 968 |
| | ¥ 121,984 | $ 1,038 |

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

## 5. Contingent Liabilities

At March 31, 2006 and 2005, the Company was contingently liable as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| As a guarantor for: | | | |
| System supply contract of KDDI Submarine Cable Systems Inc. | 125,863 | 111,148 | 946 |
| Office lease contract of KDDI America, Inc. | 892 | 1,469 | 12 |
| CABLENET SAITAMA CO., LTD. (Keepwell for management guidance todebt)* | — | 204 | 2 |
| | ¥ 126,755 | ¥ 112,821 | $ 960 |

(*) The Company was liable to ¥204 million of the total keepwell for management guidance to debt of ¥1,032 million.

### 6. Gains and Losses on Sales of Property, Plant and Equipment

Gains and losses on sales of property, plant and equipment, in the year ended March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| Gain on sales of land for small offices | ¥ (519) | ¥ — | $ — |
| Loss on sale of employee apartments and welfare centers | 316 | — | — |
| Gain on sale of Oyama site | — | (204) | (2) |
| Loss on sale of Oyama golf course and adjacent lot | — | 573 | 5 |
| Other | (2) | 53 | 1 |
| | ¥ (205) | ¥ 422 | $ 4 |

### 7. Impairment Losses

Impairment losses in the year ended March 31, 2006 and 2005 were outlined below.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| Machinery and equipment | ¥ 2,006 | ¥ 62,084 | $ 529 |
| Antenna facilities | — | 22,535 | 192 |
| Submarine cable systems | 13,717 | — | — |
| Buildings | 946 | — | — |
| Software | — | 6,009 | 51 |
| Other | 6,780 | 23,668 | 201 |
| | ¥ 23,449 | ¥ 114,296 | $ 973 |

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

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | 2006 | 2006 |
| Submarine cables and submarine line and mechanical equipment for relay stations of KDDI Corporation | ¥ 16,886 | ¥ — | $ — |
| Utility rights of KDDI Submarine Cable Systems Inc. | 2,258 | — | — |
| KDDI Corporation TU-KA phone service assets | — | 104,263 | 888 |
| KDDI Corporation domestic transmission systems equipment and other idle assets | — | 9,974 | 85 |

* KDDI Group recorded impairment losses on the above assets and asset groups during the fiscal year. To measure impairment loss, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows generated by other assets and asset groups.

With regard to asset groups related to TU-KA phone services, new subscriptions decreased significantly during the year ended March 31, 2006 while the Company promoted the migration to "au" services. New subscriptions were concluded on June 30, 2006. As a result, the Company recorded ¥104,263 million (US$885 million) in extraordinary losses as impairment loss, the amount by which the carrying value exceeds the recoverable value of the asset. In addition, the Company recorded ¥9,974 million (US$85 million) in extraordinary losses as impairment loss, the amount by which the carrying value exceeds the recoverable value of an idle asset, including certain domestic transmission systems equipment. The recoverable value of assets is estimated after consideration of the net sales price. The market value of assets is determined based on appraisal assessments, while the value of assets difficult to sell or convert for other uses is deemed to be zero. The communications equipment of certain other subsidiaries also recorded an extraordinary loss.

## 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, 2006 and 2005 were summarized as follows:

| | Millions of yen | | | | | | | | Millions of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Impairment loss | Net book value | Acquisition cost | Accumulated depreciation | Impairment loss | Net book value | Acquisition cost | Accumulated depreciation | Impairment loss | Net book value |
| | 2005 | | | | **2006** | | | | **2006** | | | |
| Tools, furniture and fixtures | ¥ 99,331 | ¥ 73,376 | ¥ 302 | ¥ 25,653 | **¥ 85,522** | **¥ 57,592** | **¥ 2,887** | **¥ 25,043** | **$ 728** | **$ 490** | **$ 25** | **$ 213** |
| Other | 4,970 | 1,646 | — | 3,324 | **4,942** | **1,972** | **4** | **2,966** | **42** | **17** | **0** | **25** |
| | ¥104,301 | ¥ 75,022 | ¥ 302 | ¥ 28,977 | **¥ 90,464** | **¥ 59,564** | **¥ 2,891** | **¥ 28,009** | **$ 770** | **$ 507** | **$ 25** | **$ 238** |

Future lease payments as of March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Within one year | ¥ 15,476 | **¥ 10,470** | **$ 89** |
| Over one year | 13,803 | **17,539** | **149** |
| | ¥ 29,279 | **¥ 28,009** | **$ 238** |
| Balance of impairment loss on leased assets | ¥ 302 | **¥ 2,891** | **$ 25** |

Lease payments, assumed depreciation charges and impairment loss for the years ended March 31, 2006 and 2005 were as follows.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Lease payments | ¥ 22,315 | **¥ 18,892** | **$ 161** |
| Reclassification of impairment loss on leased assets | — | **302** | **3** |
| Assumed depreciation charges | 22,315 | **18,892** | **161** |
| Impairment loss | 302 | **2,891** | **25** |

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, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Within one year | ¥ 17,750 | **¥ 17,852** | **$ 152** |
| Over one year | 56,401 | **41,246** | **351** |
| | ¥ 74,151 | **¥ 59,098** | **$ 503** |

**Lessor side**

*Finance leases without transfer of ownership*

There were no assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value at March 31, 2006 and 2005 were summarized as follows.

| | Millions of yen | | | | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | **2006** | | | **2006** | | |
| | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value |
| Tools, furniture and fixtures | ¥ 1,721 | ¥ 1,304 | ¥ 417 | **¥ —** | **¥ —** | **¥ —** | **$ —** | **$ —** | **$ —** |
| Other | 176 | 109 | 67 | **—** | **—** | **—** | **—** | **—** | **—** |
| | ¥ 1,897 | ¥ 1,413 | ¥ 484 | **¥ —** | **¥ —** | **¥ —** | **$ —** | **$ —** | **$ —** |

Future lease receipts as of March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Within one year | ¥ 309 | **¥ —** | **$ —** |
| Over one year | 200 | **—** | **—** |
| | ¥ 509 | **¥ —** | **$ —** |

Lease receipts and assumed depreciation charges for the years ended March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Lease received | ¥ 483 | **¥ 97** | **$ 1** |
| Assumed depreciation charges | 444 | **90** | **1** |

## 9. Derivatives

**Lessee side**

For the purpose of minimizing risks of foreign exchange or interest rate fluctuations, the Company and certain of its subsidiares have entered into particular financial agreements.

Information on such financial arrangements outstanding as of March 31, 2006 and 2005 was summarized as follows:

| | Millions of yen | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|
| **2006** | National amount | Market value | Unrealized gain | National amount | Market value | Unrealized gain |
| Interest rate swap agreements: | | | | | | |
| Fixed rate into variable rate obligations | ¥ — | ¥ — | ¥ — | $ — | $ — | $ — |
| Variable rate into fixed rate obligationsl | — | — | — | — | — | — |

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

## 10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and other distribution paid out of retained earnings by the parent company and its Japanese subsidiaries be appropriated as a legal reserve which is included in retained earnings in the consolidated balance sheets. No further appropriation is required when the sum of the legal reserve and capital surplus equals 25 percent of their respective stated capital. This reserve amounted to ¥12,223 million ($104 million) and ¥12,263 million at March 31, 2006 and 2005, 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 paidin 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 ¥15,337 million ($131 million) and ¥10,963 million, for the years ended March 31, 2006 and 2005, respectively.

### 12. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2006 was 40.6%.
At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were analyzed as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Deferred tax assets: | | | |
| Depreciation and amortization | ¥ 8,325 | **¥ 38,471** | **$ 328** |
| Allowance for doubtful accounts | 8,548 | **12,316** | **105** |
| Disposal of fixed assets | 1,681 | **2,876** | **24** |
| Inventory write down | 1,711 | **2,623** | **22** |
| Impairment loss | 7,134 | **51,193** | **436** |
| Reserve for retirement benefits | 4,678 | **5,736** | **49** |
| Allowance for bonus payment | 6,003 | **7,404** | **63** |
| Accrued expenses | 3,443 | **2,617** | **22** |
| Accrued enterprise taxes | 5,084 | **2,437** | **21** |
| Net operating loss carried forward | 31,318 | **3,580** | **30** |
| Unrealized profits | 3,723 | **2,572** | **22** |
| Reserve for point service program | 7,775 | **10,105** | **86** |
| Other | 7,991 | **5,443** | **46** |
| Gross deferred tax assets | 97,414 | **147,373** | **1,254** |
| Valuation allowance | (34,939) | **(9,941)** | **(84)** |
| Net deferred tax assets | ¥ 62,475 | **¥ 137,432** | **$ 1,170** |
| Deferred tax liabilities: | | | |
| Special depreciation reserve | ¥ (2,023) | **¥ (1,912)** | **$ (17)** |
| Net unrealized gains on securities | (6,702) | **(14,793)** | **(126)** |
| Retained earnings for overseas affiliates | (1,307) | **(863)** | **(7)** |
| Other | (604) | **(1,448)** | **(12)** |
| Total deferred tax liabilities | ¥ (10,636) | **¥ (19,016)** | **$ (162)** |
| Net deferred tax assets | ¥ 51,839 | **¥ 118,416** | **$ 1,008** |

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statementpurposes for the year ended March 31, 2006.

| | |
|---|---|
| Statutory tax rate | 40.6% |
| Special tax treatment for IT investment | (5.1)% |
| Appropriation of net operating loss carried forward | (8.1)% |
| Effect of merger | (34.3)% |
| Reversal of reserve for tax contingencies | (1.9)% |
| Other | 1.3% |
| Effective tax rate | (7.5)% |

### 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, 2006 and 2005 were analyzed as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Projected benefit obligations | ¥ (259,579) | **¥ (270,535)** | **$ (2,303)** |
| Plan assets | 188,124 | **238,413** | **2,029** |
| Retirement benefit trust | 8,168 | **8,203** | **70** |
| | ¥ (63,287) | **¥ (23,919)** | **$ (204)** |
| Unrecognized prior service cost | (9,539) | **(8,743)** | **(74)** |
| Unrecognized actuarial differences | 68,007 | **26,412** | **225** |
| Prepaid pension cost | (15,127) | **(16,667)** | **(142)** |
| Reserve for retirement benefits | ¥ (19,946) | **¥ (22,917)** | **$ (195)** |

Net pension expense related to the retirement benefits for the year ended March 31, 2006 and 2005 were as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2005 | **2006** | **2006** |
| Service cost | ¥ 8,706 | **¥ 8,730** | **$ 74** |
| Interest cost | 5,189 | **5,203** | **44** |
| Expected return on plan assets | (3,366) | **(3,766)** | **(32)** |
| Amortization of prior service cost | (797) | **(797)** | **(6)** |
| Amortization of actuarial differences | 7,742 | **6,829** | **58** |
| Net pension cost | ¥ 17,474 | **¥ 16,199** | **$ 138** |

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

| | |
|---|---|
| Discount rate | 2.0% |
| Expected rate of return on plan assets | 2.0% (Mainly) |
| Expected rate of return concerning retirement benefit trust | 0% |
| Method of attributing the projected benefits to periods of services | straight-line basis |
| Amortization of prior service cost | 14 years from the year ending March 31, |
| Amortization of actuarial differences | 14 years from the year following that in which they arise |

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

Business segment for the years ended March 31, 2006 and 2005 is as follows:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year ended March 31, 2005 | Fixed-line | au | TU-KA | PHS | Other | Total | Elimination | Consolidation |
| I. Sales and Operating Income (loss): | | | | | | | | |
| Outside sales | ¥494,729 | ¥2,067,843 | ¥225,683 | ¥ 85,387 | ¥ 46,397 | ¥2,920,039 | ¥ — | ¥ 2,920,039 |
| Intersegment sales | 101,312 | 24,859 | 5,714 | 1,486 | 34,983 | 168,354 | (168,354) | — |
| Total | 596,041 | 2,092,702 | 231,397 | 86,873 | 81,380 | 3,088,393 | (168,354) | 2,920,039 |
| Operating expenses | 596,351 | 1,819,596 | 212,965 | 81,397 | 80,429 | 2,790,738 | (166,875) | 2,623,863 |
| Operating income (loss) | (310) | ¥ 273,106 | ¥ 18,432 | ¥ 5,476 | ¥ 951 | ¥ 297,655 | (1,479) | ¥ 296,176 |
| II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures: | | | | | | | | |
| Identifiable assets | ¥616,415 | ¥1,298,828 | ¥225,947 | ¥ — | ¥ 82,472 | ¥2,223,662 | ¥ 248,660 | ¥ 2,472,322 |
| Depreciation | 78,720 | 201,658 | 46,645 | 18,659 | 4,997 | 350,679 | (771) | 349,908 |
| Impairment losses | 17,631 | — | 184 | — | 5,446 | 23,261 | 188 | 23,449 |
| Capital expenditures | 90,585 | 243,720 | 7,342 | 8,538 | 2,993 | 353,178 | (582) | 352,596 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2006** | Fixed-line | Mobile | Other | Total | Elimination | Consolidation |
| I. Sales and Operating Income (loss): | | | | | | |
| Outside sales | **¥ 518,716** | **¥ 2,484,202** | **¥ 57,896** | **¥ 3,060,814** | **¥ —** | **¥ 3,060,814** |
| Intersegment sales | **100,598** | **26,193** | **45,607** | **172,398** | **(172,398)** | **—** |
| Total | **619,314** | **2,510,395** | **103,503** | **3,233,212** | **(172,398)** | **3,060,814** |
| Operating expenses | **680,623** | **2,155,956** | **99,122** | **2,935,701** | **(171,483)** | **2,764,218** |
| Operating income (loss) | **¥ (61,309)** | **¥ 354,439** | **¥ 4,381** | **¥ 297,511** | **¥ (915)** | **¥ 296,596** |
| II. Identifiable Assets, Depreciation, Impairment losses, and Capital Expenditures: | | | | | | |
| Identifiable assets | **¥ 838,081** | **¥ 1,404,454** | **¥ 68,248** | **¥ 2,310,783** | **¥ 190,082** | **¥ 2,500,865** |
| Depreciation | **94,226** | **237,523** | **4,483** | **336,232** | **(493)** | **335,739** |
| Impairment losses | **9,193** | **105,028** | **21** | **114,242** | **54** | **114,296** |
| Capital expenditures | **135,554** | **253,471** | **5,468** | **394,493** | **(163)** | **394,330** |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| **Year ended March 31, 2006** | Fixed-line | Mobile | Other | Total | Elimination | Consolidation |
| I. Sales and Operating Income (loss): | | | | | | |
| Outside sales | **$ 4,416** | **$ 21,147** | **$ 493** | **$ 26,056** | **$ —** | **$ 26,056** |
| Intersegment sales | **856** | **224** | **388** | **1,468** | **(1,468)** | **—** |
| Total | **5,272** | **21,371** | **881** | **27,524** | **(1,468)** | **26,056** |
| Operating expenses | **5,794** | **18,353** | **844** | **24,991** | **(1,460)** | **23,531** |
| Operating income (loss) | **$ (522)** | **$ 3,018** | **$ 37** | **$ 2,533** | **$ (8)** | **$ 2,525** |
| II. Identifiable Assets, Depreciation, Impairment losses, and Capital Expenditures: | | | | | | |
| Identifiable assets | **$ 7,134** | **$ 11,956** | **$ 581** | **$ 19,671** | **$ 1,618** | **$ 21,289** |
| Depreciation | **802** | **2,022** | **38** | **2,862** | **(4)** | **2,858** |
| Impairment losses | **78** | **895** | **0** | **973** | **0** | **973** |
| Capital expenditures | **1,154** | **2,158** | **46** | **3,358** | **(1)** | **3,357** |

Notes: 1. Business segment and Principal Services/Operations of Each Segment.

(1) The year ended March 31, 2005

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

(2) The year ended March 31, 2006

| Business segment | Principal services/operations |
|---|---|
| Fixed-line | Urban, long distance and international telecommunications services, internet services, solution services, data center services |
| Mobile | Mobile phone services, sale of phone terminals, mobile solution services |
| Other | Call center business, content business, research and development of advanced technologies, other fixed line services, other mobile phone services, other data center services, etc. |

2. Change in business segment

Previously, KDDI divided its operations into five business segments: Fixed-line Business, "au," "TU-KA," PHS and other. From the year ended March 31, 2006, the "au" and "TU-KA" segments were merged, and the name changed to "Mobile Business," while the entire operations of the PHS business were transferred in October 2004 and have therefore been eliminated from the year ended March 31, 2006. Consequently, the Company's operations are now comprised of the following three business segments: Fixed-line Business, Mobile Business and Other.

In October 2005, KDDI absorbed the three TU-KA group companies (Tu-Ka Cellular Tokyo Inc., Tu-Ka Cellular Tokai Inc. and Tu-Ka Phone Kansai Inc.), and the TU-KA business was integrated into the "au" business. Through this absorption, KDDI hopes to counter intensifying competition and drastic changes in the market environment for cellular phones. At the same time, KDDI believes it has created a strategic business structure that can maximize synergistic effects, such as mobile number portability to "au" services and sales network expansion, areas that other companies will have difficulty emulating.

Internal management has also employed an integrated financial management system for both of these businesses in line with the aforementioned absorption. KDDI judged it could more definitively disclose the business contents of the Group's businesses by changing the business segments to ones employed by internal management.

Segment information by business segment for the previous fiscal year is based on business classification used in the current fiscal year.

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2005 | Fixed-line | Mobile | PHS | Other | Total | Elimination | Consolidation |
| I. Sales and Operating Income (loss): | | | | | | | |
| Outside sales | ¥ 494,729 | ¥2,293,526 | ¥ 85,387 | ¥ 46,398 | ¥2,920,040 | ¥ — | ¥2,920,040 |
| Intersegment sales | 101,312 | 19,012 | 1,486 | 34,983 | 156,793 | (156,793) | — |
| Total | 596,041 | 2,312,538 | 86,873 | 81,381 | 3,076,833 | (156,793) | 2,920,040 |
| Operating expenses | 596,351 | 2,020,286 | 81,397 | 80,430 | 2,778,464 | (154,600) | 2,623,864 |
| Operating income (loss) | (310) | ¥ 292,252 | ¥ 5,476 | ¥ 951 | ¥ 298,369 | ¥ (2,193) | ¥ 296,176 |
| II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures: | | | | | | | |
| Identifiable assets | ¥ 616,415 | ¥1,523,438 | ¥ — | ¥ 82,472 | ¥2,222,324 | ¥ 249,998 | ¥2,472,322 |
| Depreciation | 78,720 | 248,248 | 18,659 | 4,997 | 350,625 | (717) | 349,908 |
| Impairment losses | 17,631 | 184 | — | 5,446 | 23,261 | 188 | 23,449 |
| Capital expenditures | 90,585 | 250,947 | 8,538 | 2,993 | 353,063 | (468) | 352,596 |

| | Millions of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| Year ended March 31, 2005 | Fixed-line | Mobile | PHS | Other | Total | Elimination | Consolidation |
| I. Sales and Operating Income (loss): | | | | | | | |
| Outside sales | $ 4,607 | $ 21,357 | $ 795 | $ 432 | $ 27,191 | $ — | $ 27,191 |
| Intersegment sales | 943 | 177 | 14 | 326 | 1,460 | (1,460) | — |
| Total | 5,550 | 21,534 | 809 | 758 | 28,651 | (1,460) | 27,191 |
| Operating expenses | 5,553 | 18,813 | 758 | 749 | 25,873 | (1,440) | 24,433 |
| Operating income (loss) | $ (3) | $ 2,721 | $ 51 | $ 9 | $ 2,778 | $ (20) | $ 2,758 |
| II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures: | | | | | | | |
| Identifiable assets | $ 5,740 | $ 14,186 | $ — | $ 768 | $ 20,694 | $ 2,328 | $ 23,022 |
| Depreciation | 733 | 2,312 | 174 | 46 | 3,265 | (7) | 3,258 |
| Impairment losses | 164 | 2 | — | 51 | 217 | 2 | 218 |
| Capital expenditures | 844 | 2,337 | 80 | 28 | 3,288 | (4) | 3,283 |

3. Information by geographic area and overseas sales is not shown since overseas sales were not material compared to consolidated net sales.

## 15. Subsequent Events

The appropriation of retained earnings of the Company with respect to the year ended March 31, 2006, proposed by the Board of Directors and approved at the shareholder's meeting held on June 15, 2006, was as follows:

| | Millions of yen | Millions of U.S. dollars |
|---|---|---|
| Year-end cash dividends (¥3,500 = US$32.59 ) | ¥ 19,668 | $ 167 |
| Bonuses to directors and statutory auditors | 83 | 1 |

# Report of Independent Accountants

KDDI Corporation and Consolidated Subsidiaries

## Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION

We have audited the accompanying consolidated balance sheets of KDDI CORPORATION and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2005 and 2006, 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 14, the Company changed its classification of business segment for the segment information in the year ended March 31, 2006.

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

Tokyo, Japan
June 28, 2006

# Major Consolidated Subsidiaries

As of March 31, 2006

## au Business

Domestic

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

## Fixed-line Business

Domestic

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

## Other Business

Domestic

| Company Name | Date Established | Paid-in Capital (millions) | Voting Right Percentage | Business Field |
|---|---|---|---|---|
| KDDI Evolva Inc. | May. 96 | ¥468 | 100.0% | Call center services, security services, operation and administration of buildings and peripheral facilities, etc. |
| mediba corporation | Dec. 00 | ¥490 | 51.0% | Planning, producing and distribution of advertisements on mobile Internet |
| Duogate Inc. | Dec. 04 | ¥490 | 66.5% | Planning and management, etc. of PC portal site linked with mobile phone services |
| Ubiquitous Core Inc. | Apr. 05 | ¥490 | 51.0% | Cross-media marketing centered on mobile phones |
| KMN Corporation | Jun. 98 | ¥626 | 90.0% | Internet provider service through CATV |
| KDDI R&D Laboratories, Inc. | Apr. 98 | ¥2,283 | 91.7% | Research and development of new technologies and sales of developed products |
| KOKUSAI CABLE SHIP CO., LTD. | Mar. 66 | ¥135 | 100.0% | Construction and maintenance of submarine cables |
| Japan Telecommunication Engineering Service Co., Ltd. | Jun. 99 | ¥470 | 71.3% | Construction and maintenance of optical fiber network along highways |
| KDDI Technology Corporation | Aug. 88 | ¥494 | 100.0% | Development and consulting of image data processing system |
| KDDI Media Will Corporation | Aug. 99 | ¥142 | 69.1% | Research, development, production and sales of digital imaging products |
| KDDI Technical & Engineering Service Corporation. | Apr. 05 | ¥1,500 | 100% | Construction, maintenance and operations support of communications equipment |

Overseas

| Company Name | Date Established | Paid-in Capital (millions) | Voting Right Percentage | Business Field |
|---|---|---|---|---|
| KDDI AMERICA, INC. | Jul. 89 | US$ 84 | 100.0% | Telecommunications services in the U.S. |
| KDDI EUROPE LTD. | Jul. 89 | £ 43 | 100.0% | Telecommunications services in Europe |
| KDDI FRANCE SAS. | Nov. 96 | EUR 4 | 100.0% | Telecommunications services in France |
| KDDI DEUTCHLAND GMBH. | Apr. 92 | EUR 1 | 100.0% | Telecommunications services in Germany |
| KDDI HONGKONG LIMITED | Jan. 89 | HK$ 101 | 100.0% | Telecommunications services in HongKong |
| KDDI SINGAPORE Pte. Ltd. | Sep. 89 | S$ 10 | 100.0% | Telecommunications services in Singapore |
| KDDI AUSTRALIA PTY. LIMITED | Apr. 98 | AU$ 16 | 100.0% | Telecommunications services in Australia |
| KDDI do Brasil Ltda. | Apr. 96 | R$ 4 | 67.8% | Internet provider and IT-related business in Brazil |
| TELEHOUSE INTERNATIONAL CORPORATION OF AMERICA LTD. | Jun. 87 | US$ 45 | 58.2% | Secure IT housing, telecommunications facilities management in the U.S. |
| TELEHOUSE INTERNATIONAL CORPORATION OF EUROPE LTD. | Mar. 88 | £ 47 | 84.5% | Secure IT housing, telecommunications facilities management in Europe |
| KDDI China | Oct. 01 | RMB 13 | 80.0% | Telecommunications consulting services in China |
| HOLA Paraguay S.A. | Sep. 98 | GS 288,650 | 69.6% | Cellular phone service in Paraguay |

# Organization

As of July 1, 2006

- 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
  - SHINAGAWA 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 Strategy Planning Office
  - Technical Standards and Spectrum Division
  - Corporate Communications Division
  - Marketing Division
  - Corporate Management Division
  - General Administration & Human Resources Division
  - Corporate Purchasing Division
  - Information Systems Division
  - Customer Service Division
  - Operations Sector
    - Network Operations Division
    - Service Operations Division
    - Facility Operations Division
  - Engineering Sector
    - Mobile Engineering Division
    - Network Engineering Division
    - Optical Fiber Engineering Division
  - Corporate Technology Sector
    - Technology Planning & Development Division
    - Network Engineering Division
    - IP Network Engineering Division
    - Platform Development Division
  - Solution Business Sector
    - Mobile Solution Business Sector
      - Mobile Solution Product Development Division
      - Mobile Solution Sales Division
    - Network Solution Business Sector
      - Network Solution Product Planning Division
      - Network Solution Domestic Sales Division
      - Global Business Division
  - Consumer Business Sector
    - "au" Business Sector
      - "au" Service & Product Planning Division
      - "au" Sales Division
    - Broadband & Consumer Business Sector
      - Broadband & Consumer Product Planning Division
      - Broadband & Consumer Business Process Planning Division
      - Broadband & Consumer Sales Division
    - CATV Alliance Division
  - Content and Media Business Sector
    - Content and EC Division
    - Media Division

# Corporate History

| | DDI | IDO | KDD | TWJ | Telecommunications sector |
|---|---|---|---|---|---|
| 1953 | | | established | | |
| 1961 | | | listed on the Second Section of the Tokyo Stock Exchange | | |
| 1964 | | | joined in the INTELSAT<br>the TPC-1 launched | | |
| 1970 | | | listed on the First Section of the Tokyo Stock Exchange | | |
| 1973 | | | International Direct Dialing service launched | | |
| 1976 | | | the TPC-2 launched | | |
| 1977 | | | joined in the INMARSAT | | |
| 1984 | established | | | established | |
| 1985 | | | | | liberalization of the telecommunication sector |
| 1987 | domestic telephone service launched | | | domestic telephone service launched | |
| 1988 | cellular companies established | established | the TPC-3 launched | | |
| 1989 | | | | | |
| 1990 | analog cellular telephone service launched | | | | |
| 1991 | | | | | |
| 1992 | | | the TPC-4 launched | | |
| 1993 | listed on the Second Section of the Tokyo Stock Exchange | | | | |
| 1994 | digital cellular telephone service “PDC” launched | | | | liberalization of sales of cellular telephones |
| | PHS Company (DDI Pocket) established | | | | |
| 1995 | PHS service launched | | | | |
| | listed on the First Section of the Tokyo Stock Exchange | | | | |
| 1996 | | | the TPC-5 launched | | |
| 1997 | Internet service “DION” launched | | | | |
| 1998 | digital cellular telephone service “cdmaOne” launched | | Merger of KDD and TWJ | | the KDD law abolished |
| 1999 | Acquisition of TU-KA Group | | the JIH launched | | |
| 2000 | Merger of DDI, KDD and IDO | | | | |
| 2001 | au Corporation merged to KDDI | | | | the MYLINE registration started |
| 2002 | the Third-Generation cellular telephone service “CDMA2000 1x” launched | | | | |
| 2003 | VoIP (Voice over IP) service launched<br>“KDDI Hikari Plus” (FTTH Service) launched<br>the Third-Generation cellular telephone service “CDMA 1X WIN” launched | | | | |
| 2004 | Transferred PHS business (DDI Pocket) | | | | |
| 2005 | “KDDI Metal Plus” launched | | | | |
| | Merger with three TU-KA group companies | | | | |
| 2006 | Merger with POWEREDCOM Inc. | | | | |

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

# Directors, Auditors and Vice Presidents

As of June 15, 2006

## Directors

**Sadanori Amano**
Vice Chairman
Member of the Board

**Tadashi Onodera**
President and Chairman

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

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

**Yasuhiko Ito**
Executive Vice President
Technology
Member of the Board

**Satoshi Nagao**
Executive Vice President
Finance and Corporate Communications
Member of the Board

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

**Jiro Ushio**
**Noboru Nakamura**
**Hiroshi Okuda**
**Tsunehisa Katsumata**

## Auditors

Standing Statutory Auditors
**Akira Hioki**
**Nobuo Nezu**
**Takashi Yonezawa**

Statutory Auditors
**Yasuo Akashi**
**Katsuaki Watanabe**

## Vice Presidents

Senior Vice President
**Masahiro Inoue**

Vice Presidents
**Tomoyoshi Kaneko**
**Yuji Tsuda**
**Hiroshi Kitagawa**
**Yuzo Ishikawa**
**Hisashi Fujishita**
**Seiji Hamada**
**Shunsuke Oyama**
**Yutaka Yasuda**
**Yoshiharu Shimatani**
**Hideo Okinaka**
**Takahito Shigeno**
**Hideo Yuasa**
**Toru Kawai**
**Takashi Tanaka**
**Makoto Takahashi**
**Hiromu Naratani**
**Ichiro Kondou**
**Kantarou Nakaoka**
**Toshio Maki**
**Susumu Oshima**
**Akira Kuwata**

# Corporate Overview

As of March 31, 2006

| | |
|---|---|
| **Company Name:** | KDDI CORPORATION |
| **Date of Establishment:** | June 1, 1984 |
| **Business Objective:** | Telecommunications business |
| **Head Office:** | 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan |
| (Registered Place of Business: | 3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-0083, Japan) |
| **President:** | Tadashi Onodera |
| **Capital:** | ¥141,851 million |
| **Number of Employees:** | 14,021 (consolidated) |

# Investor Relations Website

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

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

The KDDI website won the Internet IR Best Company Award from Daiwa Investor Relations Co., Ltd. in FY 2005.

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