

## KDDI Corporation's 22nd Annual Meeting of Shareholders Questions and Answers

\* The names of shareholders who made remarks are undisclosed.

Opinions and questions irrelevant to the objectives of the meeting have been omitted.  
The questions and answers have been sorted and edited as appropriate.

Q1

Question on KDDI's policy on holding its own treasury stock.

A1

At the present time, this is mostly the repurchase of our own stock needed for stock options.

However, our business operations are expanding in terms of strategic M&As, and so we are considering expansion through stock swaps. Thus, there is a possibility that we will repurchase some of our own stock.

At the present time, we intend to maintain our current holdings of our own stock. If the occasion rises to increase our holdings of our own stock, we will report this to our shareholders.

Q2

Question on concrete measures to reduce dependency on mobile phone operations and a review of Metal Plus operations.

A2

Currently, fixed line communication operations are running at a deficit, and we depend on mobile communication operations for our sales and profits.

Up to now, mobile phones were mostly owned by individual customers. Japan's population is currently about 120 million, and so if we think only in terms of individual customers, this is the limit of expansion.

Measures to expand mobile communication operations are focused on corporate use of mobile phones.

An example of this is Kuroneko Yamato, our best corporate client. The sales drivers use KDDI mobile phones, and they can use them to receive calls from customers or to send data. The sales drivers carry two mobile phones, the company phone and their own private use phone. We want to encourage more corporate clients to use our

mobile phones and so increase the number of KDDI mobile phones in use. This will overcome the limits imposed by the population of Japan. Our mobile solutions business department is engaged in this endeavor.

Regarding our fixed line communications operations, formerly we only operated the Myline service. In our Myline services, if a customer used these services in all four areas, they still had to pay the basic phone service rate to NTT, and so customers asked “Why do I have to pay basic phone service charge to NTT when I am a subscriber to KDDI services?”

Moreover, as both ends of the access charge were NTT's, KDDI had to pay access charges to NTT. Consequently, if the access charges increased, our profitability deteriorated. So these services were controlled by a different company.

After the deregulation of telecommunications in 1985, the only rates that were raised were NTT's basic service charges. This was not desirable from the user's viewpoint. We introduced Metal Plus to expedite the move to IP services as a strategy to lower basic service charges and to provide our customers with more convenience.

The Metal Plus network uses an IP backbone network called CDN, but this network is not limited to Metal Plus. It is a network that is used for many diverse services such as Optical ONE service and to connect up with au base transceiver stations. We started the Metal Plus service as a way of attaining a nationwide IP backbone network as quickly as possible.

Thus, at the present time, we are promoting sales of Metal Plus as a major product. However, in the future, we will switch to Optical ONE. We have already created a CDN network so we can operate Optical ONE at lower costs. We commenced Metal Plus services as part of our overall strategy. So, we are not trying to reach 10 million subscribers with Metal Plus alone. We expect Metal Plus to become profitable next fiscal year. So, it will become an additional revenue source within our fixed line communications operations. Thus, we want to achieve growth through both mobile phones and fixed line phones.

Q3

Question on the reasons why KDDI did not appeal the decision of the administrative lawsuit it made against the Ministry of Internal Affairs and Communications.

A3

In the first trial, KDDI lost the action. However, subsequently, the Ministry of Internal Affairs and Communications, in effect, accepted our stance in two of the five objections we launched. Thus, we did not make an appeal, and we decided to adopt a pragmatic approach and accept what they offered.

Q4

Question on the leak of DION customer data and KDDI's data security systems

A4

In reality, the security measures in place as of December 2003 proved to be insufficient.

We upgrade our security systems every year, and one possibility to account for this data leakage is the following. At that time, the PCs linked to the host computer had built-in hard discs and could also be connected to an external memory, and this could have been the leak point.

Now, we have better security in place. Our PCs have been changed to a Thin-Client system so that an external memory cannot be connected. We have also changed the access protocol from an IC card to a fingerprint authentication system. In view of this incident, we have launched a comprehensive review of all our security systems.

We realize that we have seriously inconvenienced many people and we are determined to put more effective security systems in place.

Physical security systems cannot give complete protection, and it is impossible to achieve 100% protection from people with criminal intent. Thus, we are committed to giving ethical conduct education to our employees and to companies who work with us, and in this way we seek to respond to the human element of this issue.

Q5

Question on the Telecommunication and Broadcasting Advisory Council.

A5

KDDI has always insisted that, in order to ensure fair competition among telecommunication companies, it is necessary to set fair competition conditions. There are many different opinions as to implementation of timing, but there is some agreement on the establishment of fair competition conditions.

The council has expressed its thinking in terms of the approach to setting proper conditions for competition and promoting such competition in a move to advance the telecommunications sector in Japan. Thus, we feel that their basic thinking is the same as ours.

Our Optical ONE service utilizes an IP multicast system, and it includes Optical Plus TV which offers a TV program distribution service. However up to now, terrestrial TV rebroadcasting via IP multicast systems has not been permitted. Thus, the thinking has been that people who want to watch terrestrial TV broadcasting should use their TV set. This is not convenient for users, so we requested that permission should be given for simultaneous broadcasting of terrestrial TV contents using our IP multicast system in the same way as CATV.

The Council has issued a report on this stating that IP multicast systems should be allowed to carry terrestrial TV broadcasts in the same way as CATV.

There are copyright problems involved, but the basic direction is moving in a way which is favorable to us, and so we are pleased with the results attained so far.

Q6

Question on corporate ethics including the DION customer data leak

A6

We feel that compliance is vital, and we are implementing such policies. However, we recognize that the corporate ethics of our executives and employees among others has been inadequate, including this data leak incident, and so we realize that more efforts are needed. And so we are improving the education of our executives and employees in the areas of corporate ethics and compliance issues.

Q7

Question on the management of the Annual Meeting of Shareholders

A7

We would like as many shareholders as possible to express their opinions.

Q8

Question on dividend payments

A8

Currently our objective is to maintain a dividend payment of 20% on a parent company basis.

However, we still have outstanding interest-bearing debt of just under 800 billion yen in the form of long-term borrowings from external sources. Moreover, we must also invest capital for future growth, and so we take into account the need for growth and the overall balance. Consequently, we have set the dividend at 20%. If interest-bearing debt is reduced to zero, we will reconsider the dividend payment, and so we ask for your understanding of the need to keep the dividend at 20% for the moment. We consider that KDDI has the potential for more growth, and so we are investing to ensure such growth.

Regarding a decision on dividend payment, this will continue to be decided by the Annual Meeting of Shareholders and not by the board of directors. In view of the business modulus of a telecom company such as KDDI, we feel that our scale of operations is a form of collateral, and so we consider that, rather than changing the dividend payment level every quarter, it is better to maintain stable dividend payments, both for shareholders and for KDDI.

Q9

Question on the disclosure of the remuneration of individual executives

A9

Our basic policy toward the disclosure of the remuneration of executives is as follows. We disclose the total amount and the number of executives, so if those who wish to know the amount received by individual executives divide the total amount by the number of executives, they will be able to get an adequate idea of individual

remunerations.

Unlike the USA, at KDDI there is very little difference between individual remunerations.

Q10

Question on resolutions of the Board of Directors using electromagnetic means

A10

In an emergency situation when members of the Board of Directors cannot attend a meeting, we will use electromagnetic means. However, basically, we are committed to holding Board of Director meetings where the directors are physically present. Even if electromagnetic means are used, the auditors will be involved, as has been the case up to now.

Q11

Question on Chuo Aoyama PwC (PricewaterhouseCoopers)

A11

At this time, we intend to continue with the accounting contract up to the end of June this year. Regarding the period of July and August this year, when they will be unable to act due to the administrative order to suspend accounting operations, and regarding the future beyond that time, we are currently holding internal discussions on what action we should take regarding the selection and appointment of our accounting auditors, and a decision has not yet been made on this. When a decision is reached, we will make an announcement on this matter.

Q12

Question on the Andersen Monument at the KDDI Shinjuku Building

A12

Regarding the Andersen Monument in front of the KDDI Shinjuku Building, we received a comment from a shareholder last year, and the monument has been carefully cleaned.

Q13

Question on the special committee on the leak of DION customer data, and measures to prevent a reoccurrence.

A13

In 2003, we felt that the security measures we had in place were sufficient. However, as customer data has leaked out, we now realize that our measures were inadequate. We upgrade our security systems every year as necessary. However, in view of this incident, we have already set up a task force led by the Vice President to protect against leaks of customer data. We have launched a comprehensive review of all our security systems, and we are committed to the maximum efforts to ensure that this kind of thing never happens again.

Q14

Question on the effects of the merger with POWEREDCOM

A14

Six months have passed since this merger, and the employees of the two companies have integrated well. We are going to see the results of the merger from now on. We think that there are three advantages and synergistic effects to this.

The first is in terms of products. POWEREDCOM has the largest share in the wide-area Ethernet market in Japan and it is top in terms of user satisfaction. KDDI provides a wide range of diverse services including overseas calls. By joining the two companies, we feel that we can create a very powerful product lineup.

The second advantage is a strengthening of our sales capacity. Prior to the merger, the two companies were competitors. Through this merger, we can now approach customers as an integrated entity, and we expect this to improve our sales performance.

The third advantage is that, thanks to the merger with POWEREDCOM, we now have our own telecom lines in the Kanto (East Japan) region. Prior to the merger, we had to lease telecom lines from NTT to provide our services. As we now have our own telecom lines, it will be possible to improve end-to-end quality, and we will also be able to offer customers lines more promptly.

In view of these three advantages, we will be able to create a more powerful product array.

Q15

Question on KDDI's strategies regarding MNP (Mobile Number Portability)

A15

As the announcement on mobile number portability released on May 17 indicated, it is relatively easy for customers to make use of this system. Thus, users can cancel their present contract and switch to a new company in a single location, and the waiting time will only be a few hours.

We intend to ensure that customers can make this switchover in a short period of time. We are still studying the charges for this service, but we intend to make the charge as low as possible to encourage people to switch over.

MNP (Mobile Number Portability) is a rare and valuable opportunity for us to increase our subscribers and our market share. We have decided to work hard to increase our customer base through our integrated product strengths and our unique services matched to the day the MNP system starts.

In concrete terms, we intend to offer an even more comprehensive lineup as the MNP service gets underway. We will enhance our services to attain a powerful user perception that "music lovers choose au" through our unique LISMO service.

Regarding call rates, we intend to offer more comprehensive services including the carryover plan we have already announced. We are intent on attracting more customers through our integrated strengths in handsets, services (contents) and call rates.

The net market increase for this year is forecast at about 4 million new subscribers, and we expect to have a net gain of an additional 3.5 million subscribers. But when the 1.5 million TU-KA subscribers are subtracted, we expect a net increase of 2 million.

Q16

Question on contingency reserves

A16

After subtracting items such as dividend payments to shareholders and bonus payments to executives from net profit for this term, and then subtracting the balance carried forward to next term (39.4 billion yen which is roughly equivalent to the dividend payments), the remainder is held as contingency reserves.

Q17

Question on special shareholder benefit plans

A17

We have received a valuable suggestion from a shareholder on distributing calendars and/or diaries, etc. However, at the present time, we have a policy of implementing equality in special benefit plans for all shareholders. We concentrate our resources on dividend payments, and we seek to pay as high a dividend as possible, which we consider to be the fairest way. However, we do feel that special benefit plans for individual shareholders are very attractive concepts, and we are always considering this option. If we decide on some good benefit plans, we will inform everyone.

Q18

Question on the response of the au shop to the shift from TU-KA to au.

A18

Thank you very much for your valuable opinion. We are considering the appropriate response.

Q19

Question on fingerprint authentication and video monitor systems to prevent future data leaks as in the DION incident

A19

The task force set up to protect against leaks of customer data (special committee) is currently studying these measures in detail.

This includes studies to decide whether fingerprint authentication alone is sufficient. Regarding video monitoring, basically we currently record everything, and if an incident arises, we retrieve the pertinent data. And we are also considering if this is adequate or not.

Q20

Question on pension funds and the Murakami Fund

A20

Our pension funds utilized the Murakami Fund at some time in the past, but this has already been terminated.

KDDI pension funds are managed by a separate corporate entity other than KDDI.

Q21

Question on individual shareholders

A21

The company would like to increase the number of individual shareholders who are willing to hold our stock for the medium- to long-term. In addition to posting an outline of our operations and our performance on our website, we frequently participate in seminars for individual investors held by securities companies and so on.

We intend to implement measures to attract individual shareholders and work to keep them over the medium- to long-term.