

## Overview of Operations

# Mobile Business

## KDDI will Increase Customer Satisfaction by Strengthening its All-round Product Appeal and Expand its Customer Base through MNP Additions

### Market Trends

The number of mobile phone subscriptions in Japan, including those for PHS systems, exceeded 100 million by the end of March 2007. Although growth in the consumer market was sluggish, expansion in the corporate market suggests that growth will continue in the future.

The competitive environment in Japan was marked by the start of MNP on October 24, 2006. The Softbank Group also entered the market with the purchase of Vodafone K.K. in October 2006, and a succession of lower tariff plans were announced following the start of MNP. Another new entrant in the market was EMOBILE Ltd., which began offering data services at the end of March 2007.

Study Group on Mobile Business was also convened under the Ministry of Internal Affairs and Communications' "New Competition Promotion Program 2010", aimed at establishing rules for fair competition. This panel of experts has exchanged a variety of opinions regarding current mobile business models, including the status of commissions, removal of the SIM lock, and the possibility of Mobile Virtual Network Operators (MVNO).

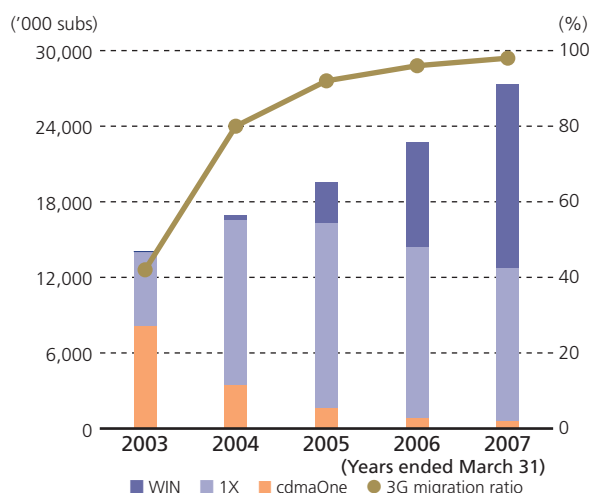
KDDI feels that with such changes occurring in the business environment, the key to expanding its customer base in the Japanese mobile phone market is a comprehensive strength that encompasses infrastructure, handsets, charges, and content. Consequently we are maintaining our focus on maximizing value for customers as we respond flexibly to retain a constant advantage in each area.

### Overview of the Fiscal Year Ended March 2007

The Mobile Business continued as the main driver behind KDDI's strong performance during the fiscal year ended March 2007, accounting for three quarters of consolidated operating revenue.

Operating revenue in the Mobile Business rose 6.7% during the fiscal year under review to ¥2,677.4 billion, with operating income up 8.8% to ¥385.7 billion reflecting increases in both revenue and earnings. Net income rose sharply, up 44.2% to ¥209.5 billion, mainly because of the increase in operating income, along with the absence of an impairment loss of ¥104.3 billion on PDC equipment for the Tu-Ka service that was recorded in the previous fiscal year.

### au Subs and Migration to 3G



KDDI has managed to distinguish its au mobile service from the competition by drawing on the advantages of its 3G infrastructure to enhance the appeal of its product package, encompassing handsets, charges and content. The result has been that au was recognized as first in customer satisfaction for mobile services\* in all nine regions of Japan in 2006.

We believe that the consistently strong performance of au as it leveraged MNP-generated opportunities to expand the customer base is also the result of patient and steady efforts that have been recognized by customers.

\* Source: J.D. Power Asia Pacific 2006 Japan Mobile Telephone Service Satisfaction Study <sup>SM</sup>

## Performance by Key Indicators

### Subscriber Numbers

The subscriber base for au and Tu-Ka services as of the end of March 2007 rose 10.8% year on year, to 28.19 million customers. This number represents a 29.1% share of the market (au: 28.2%; Tu-Ka: 0.9%).

The total number of subscribers to au rose 20.3% year on year, to 27.32 million. Of this figure, 26.72 million customers, or 98% of the total, subscribed to 3G mobile phone services. The subscriber base for CDMA 1X WIN (WIN) services reached 14.55 million, accounting for 53% of all au subscribers.

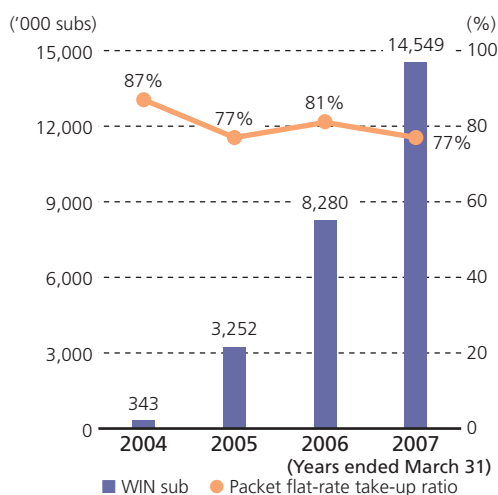
KDDI plans to end its Tu-Ka service at the end of March 2008. The total number of subscribers as of the end of March 2007 was 0.87 million.

As a result, compared to the net increase in the entire market of 4.93 million subscribers in the fiscal year to March 2007, net growth in the au subscriber base was 4.62 million, offset by a net decrease of Tu-Ka of 1.87 million, for a total net gain of 2.75 million. KDDI led the industry in net add share with 55.8% (au: 93.7%; Tu-Ka: -37.9%).

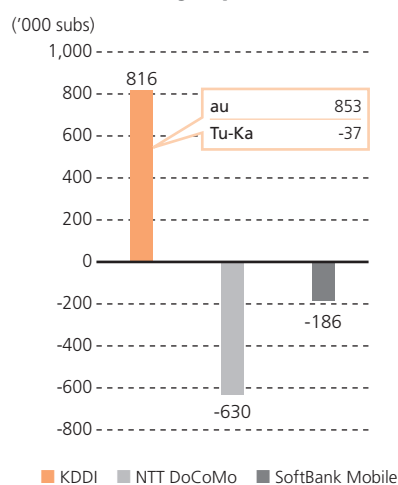
### Status of MNP

Net au subscriber gain from MNP in the second half of the fiscal year ended March 2007 was 853 thousand subscriptions (1,150 thousand subscribers gained due to MNP against 297 thousand subscribers lost due to MNP), with subscribers gained outnumbering subscribers lost by four to one. The Tu-Ka service had a net loss of 37 thousand subscribers, as no new subscribers were accepted ahead of the cessation of service planned for the end of March 2008. Accordingly, the cumulative total for KDDI overall was a net addition of 816 thousand subscribers. MNP also seems to have invigorated the market as a whole, which experienced a net gain of 2.91 million subscribers in the second half of the fiscal year ended March 2007, compared with a gain of 2.67 million for the same period a year earlier.

## WIN Subs and Packet Flat-rate Take-up Ratio



## Net MNP Gain in Second Half of March 2007 by Operator



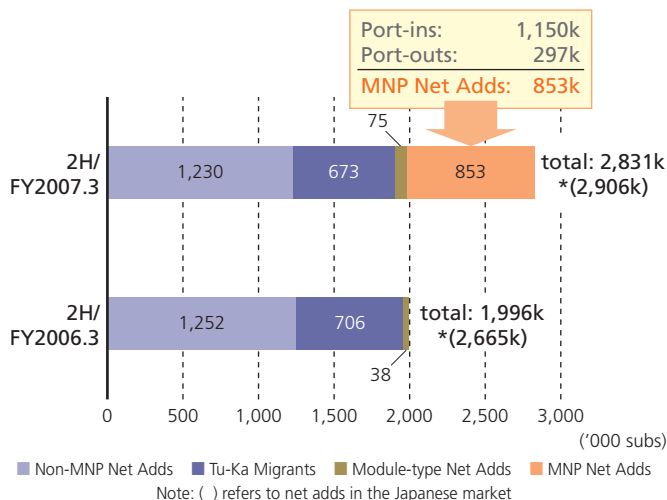
Even though the actual number of users taking advantage of MNP has fallen short of initial predictions, in the case of au, MNP has resulted in a considerable net gain, with the number of subscribers gained through MNP rising while the cancellation rate was kept low. The anticipated falloff in the net gain from sources other than MNP has also not materialized, remaining on a par with that of the previous fiscal year. Gains from MNP have therefore simply added to the gains already in place.

KDDI was the only one of the three mobile carriers to realize a net gain from MNP, yet KDDI's basic strategies did not change before or after the start of MNP. Conventional wisdom in the market was that the implementation of MNP would ignite price competition in the form of lower communication charges and an increase in sales commissions, but au business remained steady, as shown by the following major indicators for the au service.

#### Churn Rate (au-Branded Services)

The churn rate for au subscribers was a low 0.95% in the second quarter (July through September), with sales also sluggish ahead of the start of MNP. The rate in the third quarter after the implementation of MNP inched up only slightly, remaining at a low 1.00%. As a result, the churn rate for the full fiscal year ended March 2007 was 1.02%, down 0.18 percentage points from the previous fiscal year.

#### Breakdown of au Net Additions



#### Sales Commissions (au-Branded Services)

The average sales commission for au-branded services remained on a par with the previous year at ¥37,000. MNP is not a temporary event, but a system that will remain in the future. KDDI, as stated previously, has no intention of significantly raising its average sales commission per unit with the start of MNP, and the results of this policy are shown in the business performance of the fiscal year under review.

#### ARPU (au-Branded Services)

Average Revenue per User (ARPU) for au services declined 6.1% year on year, to ¥6,610. Of this total, however, data ARPU increased 6.9% to ¥2,020, while voice ARPU declined 10.9% to ¥4,590 due to the impact of the accounting treatment for the "INDEFINITE-PERIOD CARRY OVER" plan begun in August 2006.

In the accounting for the "INDEFINITE-PERIOD CARRY OVER" plan, the portion of free unused call minutes carried over into the following month is not recorded as revenue, but treated as unearned revenue. As a result, until the upper limit for "INDEFINITE-PERIOD CARRY OVER" plan is reached, i.e., during the initial phase of the introduction, the ARPU appears to be low. Excluding the temporary impacts of this accounting treatment, ARPU overall is growing steadily, with the increase in the proportion of the high-end WIN service users underpinning ARPU.

#### Measures to Strengthen Overall Product Appeal

KDDI is already well on its way to accomplish its medium-term target of 30% market share and 30 million subscribers during the year ending March 2008. This section introduces KDDI's initiatives in the four areas of infrastructure, handsets, charges and content.

### High-Quality Infrastructure – the Launch of EV-DO Rev. A –

KDDI has differentiated itself from other carriers with the CDMA2000 1x EV-DO (“EV-DO”) format currently adopted for WIN services. Because EV-DO is a technology specifically for data communications, it is ideally suited for high-speed, large-volume data transmission. With its introduction KDDI was able to significantly lower the per-bit communication cost. Drawing on the advantages of the EV-DO infrastructure KDDI was able to stay ahead of other carriers to offer attractive services such as “EZ Chaku-Uta-Full®”, and such charges plans as the “Double-Teigaku-Light” (Packet Flat-rate) plan.

In September 2006, KDDI introduced the Broadcast Multicast Service (BCMCS), which expanded the functionality of EV-DO. BCMCS expanded the former one-to-one unicast into a one-to-many multicast service, in effect making it possible to send a transmission to numerous users simultaneously. Utilizing this efficient data transmission function enabled KDDI to expand its service by allowing simple and convenient use of such advanced content as “EZ NewsFlash” and “EZ Channel-plus”.

Further, an upgraded version of EV-DO, EV-DO Rev. A, was introduced in December 2006. EV-DO Rev. A has dramatically raised the download speed to a maximum 3.1 Mbps, and the upload speed from 154 kbps to a maximum 1.8 Mbps. The deployment of EV-DO Rev. A has allowed KDDI to further differentiate itself in terms of infrastructure, the source of product competitiveness.

### Attractive Handsets – an Advanced Lineup

KDDI has established an image in Japan of the au brand as the mobile phone for a music player. We are now moving on to the next stage with a focus on video, expanding the lineup of models capable of receiving “1 Seg” digital video broadcasts for mobile devices. A total of 14 models with the “1 Seg” reception function had been launched as of the end of the fiscal year to March 2007, with a further 7 models to be added in the summer of 2007, making the function nearly standard on WIN handsets. The sixth installment of the “au design project,” which seeks to create new values for mobile phones from the standpoint of design, was launched in the form of the “MEDIA SKIN” models, featuring an industry-first QVGA OEL (Organic Electroluminescent) main display with 260,000 colors. These efforts help to enhance KDDI’s product lineup in response to the sophistication of handsets, and the increasing diversity and individuality in customer needs. At the same time, a steady reduction in handset costs has been one of the strengths of the au brand, and will be further enhanced in the future.

Three models launched as part of the “au design project,” the “INFOBAR,” “talby,” and “neon” lines, along with the “MEDIA SKIN” concept model, were selected in January 2007 for inclusion in the collection of The Museum of Modern Art, New York (MoMA). We are extremely pleased with such early recognition of our efforts with regard to the design of mobile phones.

## Efficiency of Data Transmission by Technology

Purpose	Voice Communication/High Speed Data		Enhanced Downlink Speed		Enhanced Uplink Speed/ Quality of Service	
System	CDMA 1X [CDMA2000 1x]	W-CDMA	CDMA 1X WIN [EV-DO Rev. 0]	HSDPA	CDMA 1X WIN [EV-DO Rev. A]	
Bandwidth	1.25MHz	5MHz	1.25MHz	5MHz	1.25MHz	
Communication Service	Voice+data	Voice+data	data	data	data	
Connection type	Circuit switched+Packet	Circuit switched+Packet	Packet	Packet	Packet	
Maximum transmission speed [bps]	Down	154k	384k (2M)	2.4M	3.6M	3.1M
	Up	64k (154k)	64k (384k)	154k	64-384k	1.8M
Sector throughput [DownLink]	Approx. 220kbps	Approx. 1Mbps	Approx. 800kbps	Approx. 3-4Mbps	Approx. 1Mbps	
Efficiency [bps/Hz]	0.18	0.2	0.64	0.6-0.8	0.8	

### Charges – Service Menus Expanded to Fit Customer Needs Using Packet Flat-rate Plans –

KDDI has leveraged the cost advantage provided by EV-DO to introduce the “Double-Teigaku-Light” (Packet Flat-rate) plan, which affords many customers easy access to a rich variety of content for as little as ¥1,000 per month (¥1,050 including tax). This plan successfully enticed many new users who had not previously used data services to any significant extent. As of the end of March 2007, 77% of WIN subscribers had adopted either this or the “Double-Teigaku” plan.

In voice services KDDI also offers a wide variety of charges options developed from the customer’s perspective. One such plan is the “My Plan Discount”, introduced in February 2006. Conditional on a two-year contract, this plan allows single subscribers to receive the same discount rate on the basic monthly charge as that of the “Family Discount” plan. In August 2006, KDDI launched the “INDEFINITE-PERIOD CARRY OVER” plan that allows customers to keep their unused call minutes up to a predetermined limit.

### Content – a Range of Entertaining Content Utilizing the Features of WIN

The spread of packet flat-rate plans for data communications has created an environment in which users can use mobile

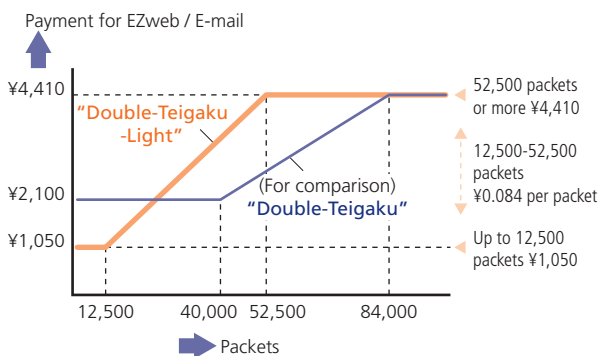
Internet services without worrying about the cost. Mobile phones are being used in a number of new ways, providing carriers with new opportunities for revenue beyond the traditional traffic charges.

KDDI is particularly strong in music downloads. With a broad lineup of music-capable handsets and a nationwide network allowing high-speed download, KDDI has dominated its competitors, and established an image of the au brand as the mobile phone for a music player. We are now enhancing our efforts in video as the successor to music, launching a video clip service, centered on music videos, in December 2006.

In July 2006 KDDI concluded an alliance with Google, Inc., moving ahead of other carriers in enhancing its search function. The introduction of Google searches has promoted growth in search-linked advertising, which during the most recent quarter (January through March 2007) grew to account for around half of all mobile advertising revenue.

KDDI began offering the mobile social networking service (SNS) “EZ GREE” in cooperation with GREE, Inc., in November 2006. We are also working to establish a mobile net banking service in cooperation with the Bank of Tokyo-Mitsubishi UFJ, Ltd., and making other efforts to cultivate new business domains beyond communications.

### “Double-Teigaku-Light” (Packet Flat-rate) Plan



### Spectrum Allocation for Mobile Operators

	Currently in Operation	Changes Moving Forward
<b>800MHz</b>	<b>au</b> by KDDI NTT DoCoMo CDMA2000 PDC / W-CDMA	-Uplink/Downlink reallocation work to be finished by 2012. -No change in total allocated capacity for “au”.
<b>1.5GHz</b>	<b>TU-KA</b> by KDDI NTT DoCoMo PDC	SoftBank Mobile PDC
<b>1.7GHz</b>		<b>New Allocation for FDD</b> (Nationwide) -Applied by: EMOBILE (Tokyo, Osaka, Nagoya) -Potential applications: NTT DoCoMo
<b>2.0GHz</b>	<b>au</b> by KDDI NTT DoCoMo CDMA2000 W-CDMA	<b>New Allocation for TDD</b> -Applied by: ip mobile

## Developing Untapped Markets – Mobile Solutions for Corporate Clients –

KDDI is actively pursuing mobile solution services for the corporate sector, a market that is expected to grow in the future. One part of this effort is the launch in July 2006 of the “E02SA” model handset, the first au handset capable of accessing a wireless LAN. The “E02SA” handset can interface with VoIP (IP phone) service to be an internal extension in the company, and will function as a mobile phone outside the office. The general name for this internal extension package built on use of the “E02SA” handset is “OFFICE FREEDOM,” and it is currently being offered in cooperation with equipment vendors and other partner companies. This service has helped to further expand the customer base, joining the previous “OFFICE WISE” package for major customers, in which an au base station is installed at a customer’s business location, allowing a single au phone to be used both inside and outside the office.

KDDI also is working to expand its product lineup and develop solutions to meet the needs of corporate users, such as the “Business Discount” plan launched in April 2007 for companies with contracts for two to ten subscriptions as one corporate name.

## Termination of the Tu-Ka Service

KDDI plans to terminate the Tu-Ka service at the end of March 2008. There were approximately 870,000 subscriptions in effect at the end of March 2007, of which 400,000 were post-paid, and 470,000 prepaid.

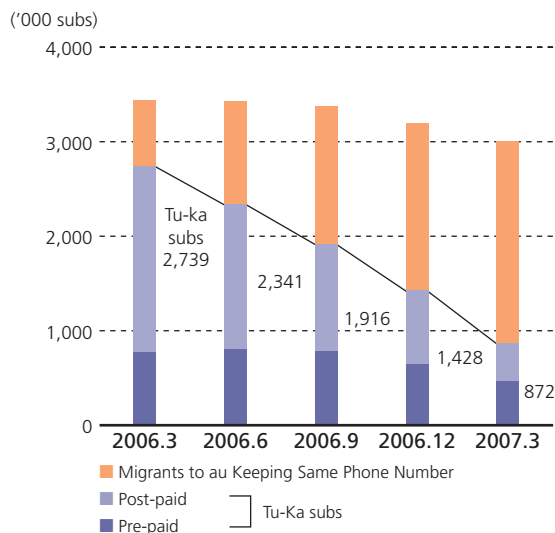
KDDI began offering Tu-Ka users same-number transfers to au in October 2005, ahead of the implementation of MNP. A total of 1.43 million users migrated during the year ended March 2007, for a cumulative total of 2.13 million since October 2005. If this cumulative total is added to the 870,000 Tu-Ka users remaining at the end of March 2007, the result is 3.00 million subscriptions. This means that, of the 3.53 million Tu-Ka users at the end of September 2005—before the introduction of same-number transfers—a total of 85% users continue to use one or other of the KDDI services.

For the Tu-Ka facilities, ¥104.3 billion for impairment loss of PDC equipment was recorded at the end of March 2006, with the remaining ¥39.6 billion in impairment for towers and other common facilities at the end of March 2007. KDDI will continue to incur costs during the fiscal year ending March 2008 to transfer customers to the au service. However, the termination of the Tu-Ka service will allow KDDI to move from the former dual systems to a single CDMA network operation, from which we anticipate further improvements in business efficiency in the future.

## Evolution of Business Mobile Handsets



## Migration of Tu-Ka Subscribers to au

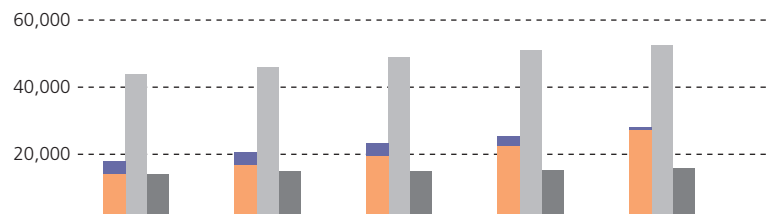


## Mobile Business Market Data

Years ended March 31

### Number of Total Subscribers

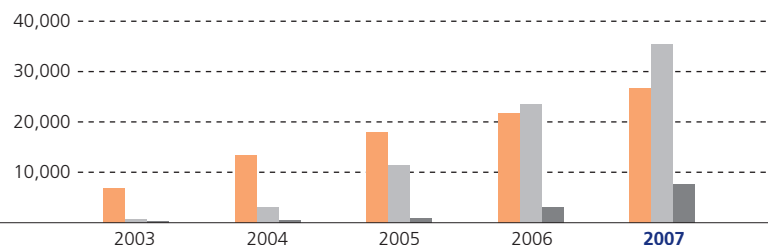
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(Years ended December 31)	2003	2004	2005	2006	2007
KDDI	17,832	20,591	23,132	25,439	<b>28,189</b>
■ au	14,049	16,959	19,542	22,699	<b>27,317</b>
■ Tu-Ka	3,783	3,632	3,590	2,739	<b>872</b>
■ NTT DoCoMo	43,861	45,927	48,825	51,144	<b>52,621</b>
■ SoftBank Mobile	13,963	15,002	15,041	15,210	<b>15,909</b>
Total	75,657	81,520	86,998	91,792	<b>96,718</b>

### Number of 3G Mobile Subscribers

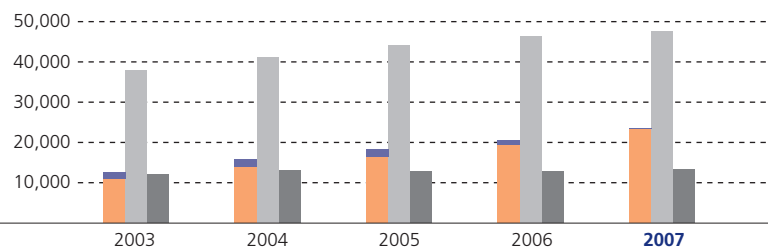
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	2003	2004	2005	2006	2007
■ 1X+WIN (au)	6,806	13,509	17,935	21,828	<b>26,720</b>
■ FOMA (NTT DoCoMo)	330	3,045	11,501	23,463	<b>35,530</b>
■ SoftBank 3G (SoftBank Mobile)	25	138	917	3,038	<b>7,660</b>

### Number of Subscribers for Mobile Internet Connection Service

('000 subs)

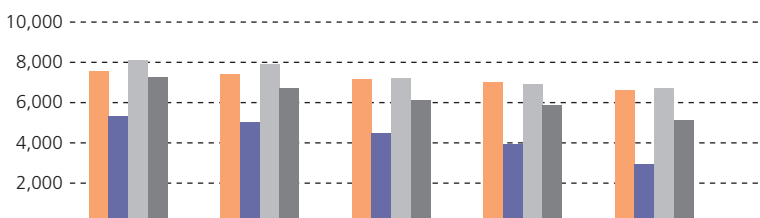


	2003	2004	2005	2006	2007
EZweb	12,541	15,700	18,259	20,523	<b>23,533</b>
■ au	10,854	13,886	16,469	19,390	<b>23,322</b>
■ Tu-Ka	1,687	1,814	1,790	1,133	<b>211</b>
■ i-mode (NTT DoCoMo)	37,758	41,077	44,021	46,360	<b>47,574</b>
■ Yahoo! mobile (SoftBank Mobile)	12,162	12,956	12,874	12,875	<b>13,265</b>

Source: Company Data, Telecommunication Carriers Association (TCA)

## ARPU (Average Revenue per Unit)

(Yen)

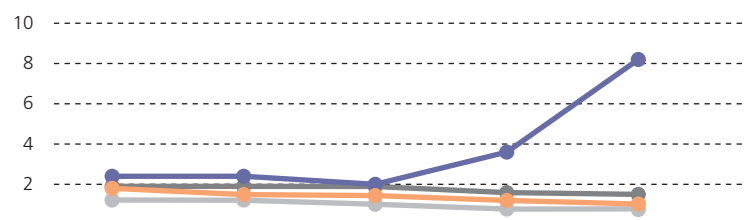


	2003	2004	2005	2006	2007
au	7,570	7,440	7,170	7,040	<b>6,610</b>
of which Data ARPU	1,290	1,640	1,740	1,890	<b>2,020</b>
Tu-Ka	5,330	5,020	4,470	3,960	<b>2,960</b>
NTT DoCoMo	8,130	7,890	7,200	6,910	<b>6,700</b>
of which Data ARPU	1,750	1,970	1,870	1,880	<b>2,010</b>
SoftBank Mobile	7,260	6,730	6,150	5,890	<b>*5,120</b>
of which Data ARPU	—	—	—	—	—

\* ARPU for fiscal year ended March 2007 is average of quarterly results

## Churn Rate

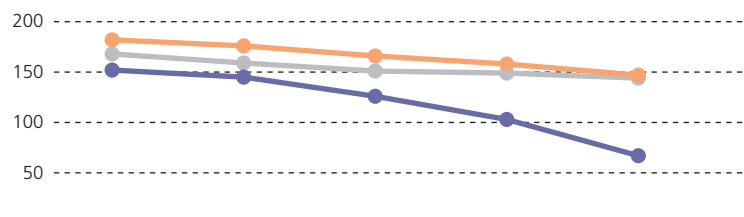
(%)



	2003	2004	2005	2006	2007
au	1.80	1.49	1.44	1.20	<b>1.02</b>
Tu-Ka	2.40	2.40	2.00	3.60	<b>8.20</b>
NTT DoCoMo	1.22	1.21	1.01	0.77	<b>0.78</b>
SoftBank Mobile	1.90	1.90	1.89	1.59	<b>1.50</b>

## MoU (Minutes of Use)

(Minutes)



	2003	2004	2005	2006	2007
au	182	176	166	158	<b>147</b>
Tu-Ka	152	145	126	103	<b>67</b>
NTT DoCoMo	168	159	151	149	<b>144</b>
SoftBank Mobile	—	—	—	—	—



## Overview of Operations

# Fixed-line Business

## Reinforcing KDDI's Broadband Base through the Integration of TEPCO's FTTH Business

### Market Trends

Japan's fixed-line market is in transformation, entering a new era of direct-access, IP, and broadband services. Under the auspices of the Ministry of Internal Affairs and Communications "New Competition Promotion Program 2010", "Panel on Neutrality of Networks", and "Study Group on Future Images of Universal Service Fund System", comprised of intellectuals and other prominent people, are discussing new rules for competition to deal with the conversion of fixed-line communications to IP systems.

Within Japan's broadband market, growth of the emerging FTTH services sector is accelerating, while the ADSL services sector has begun to decline on a net basis. Still, from the point of view of market penetration for video distribution using the high-speed, high-definition features of FTTH to its advantage, the FTTH services market has not been developed on a full scale. One of the reasons behind this lag is legal issues regarding copyrights.

Video over FTTH uses an "IP multicasting" system for distribution. Previously IP multicasting was defined under copyright law not as "wired broadcast," but as "automatic public retransmission." Therefore, before broadcasting one program, permission to use the content had to be obtained from the individual holders of copyrights, such as composers, musicians, and record companies—an extremely difficult process. However, with the revision of portions of Japan's copyright law in December 2006, it became possible to simultaneously broadcast a program using IP multicasting. Thus, the market has been steadily evolving to enable the integration of telecommunications and broadcasting.

### Overview of the Fiscal Year Ended March 2007

KDDI supplies consumers and corporate clients with a full range of fixed-line telecommunications services, including voice telephony and broadband Internet access.

Operating revenues for the Fixed-line Business posted double-digit growth year on year, rising 15.3%, to ¥714.4 billion. Operating revenues increased for the second consecutive fiscal year because of higher voice telephony service revenues from expanded sales of "KDDI METAL PLUS" and the revenue contribution of POWEREDCOM Inc. following the merger in January 2006. This achievement reflects a return to a growth structure. In addition, operating loss improved ¥12.3 billion from the prior fiscal year, to ¥49.0 billion. This improvement came despite a ¥26.5 billion increase in depreciation expenses due to the service area expansion of "KDDI METAL PLUS" in the previous fiscal year and the merger with POWEREDCOM Inc. The greater profitability of the "KDDI METAL PLUS" service was a major factor in this result.

One of the highlights of the year in the Fixed-line Business was the January 2007 integration of the FTTH business of Tokyo Electric Power Company (TEPCO). KDDI is steadily reinforcing its business base to further promote broadband.

## Performance by Key Indicators

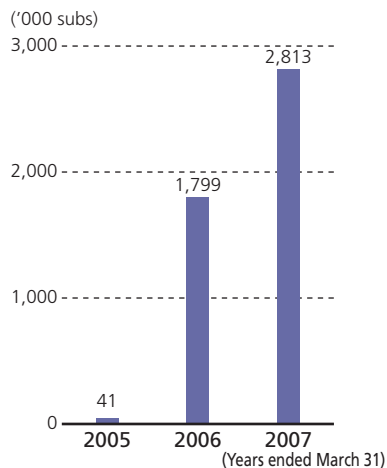
### “KDDI METAL PLUS”

“KDDI METAL PLUS” is a direct-access, fixed-line telephone service. Since KDDI provides the line instead of NTT, the service generates revenue for KDDI from a basic monthly charge as well as the usual call-based revenue. “KDDI 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.

Growth in the subscriber base for “KDDI METAL PLUS” progressed favorably during the fiscal year under review. At March 2007, the number of subscribers was up 1.01 million year on year, to 2.81 million. Of this number, more than 20% of subscribers are using “KDDI METAL PLUS” in conjunction with ADSL Internet services.

Total revenues of “KDDI METAL PLUS” amounted to ¥92.5 billion. Including voice telephony and Internet services, ARPU was ¥3,320. The revenues of this new service helped voice telephony revenues rebound in the second half of the fiscal year ended March 2006. Voice telephony revenues had previously been on the decline because of the shift to mobile phones and IP phones. Although “KDDI METAL PLUS” registered a steep loss in its first year of operations because of up-front marketing costs, the profitability of the service showed steady improvement in the fiscal year under review because of the full-year contribution of subscribers acquired in the previous fiscal year and restraint in marketing expenditures.

**KDDI METAL PLUS Subscribers**



### “HIKARI-one” (FTTH)

Before the integration of TEPCO’s FTTH business, KDDI and TEPCO began promoting the new joint “HIKARI-one” service to residential customers in detached houses in the Tokyo metropolitan area from June 2006. The “KDDI HIKARI PLUS” service, marketed to residential customers in condominiums in major cities throughout Japan, was also re-branded as “HIKARI-one”.

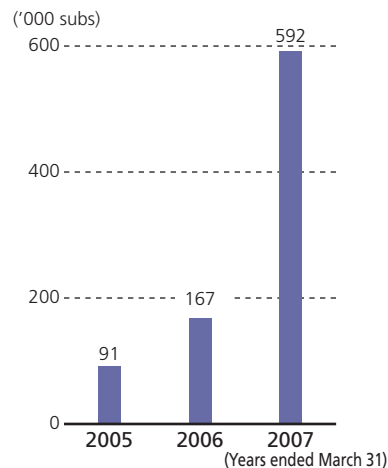
In January 2007, KDDI completed the integration of TEPCO’s FTTH business, gaining access to ten million households using FTTH services in the Tokyo metropolitan area. As a result, at fiscal year-end, the number of FTTH subscribers surged 430 thousand compared with the previous fiscal year, to 590 thousand.

## Full Conversion to IP and Broadband Services

### “KDDI METAL PLUS” Initiatives

Improving the profitability of “KDDI METAL PLUS” was a key issue in the process of making FTTH services the core of the Fixed-line Business. However, the number of subscribers swung steadily upward during the fiscal year, and the service can claim a certain degree of success. As a result of this progress, KDDI anticipates that the service will achieve firm profitability on an annual basis in the fiscal year ending March 2008—its third year of operations—as originally planned.

**FTTH Subscribers**



At the end of March 2007, over 90% of subscribers to “KDDI METAL PLUS” were in the residential user segment. Nevertheless, as a result of efforts to gain more small and medium-sized business subscribers, the number of corporate subscribers grew steadily during the fiscal year.

#### *“HIKARI-one” (FTTH) Initiatives*

KDDI’s first priority is to collaborate with TEPCO to develop a successful business model for its FTTH business in the Tokyo metropolitan area, where there is a high proportion of broadband-connected households. As such, KDDI is taking various steps to improve the consumer appeal of its “HIKARI-one” service.

KDDI is steadily expanding the number of Internet providers available on “HIKARI-one”, adding among others “@nifty” and “BIGLOBE” during the fiscal year. At March 31, 2007, a total of seven Internet providers were offering their services through “HIKARI-one”. Among other attractive services, in December 2006, KDDI began offering subscribers to “HIKARI-one” in detached houses the option of using a high-speed PLC modem to enable multiple connections to KDDI’s system throughout the house using the power line rather than in-house wiring. In January 2007, KDDI added the option of using an axial cable modem that uses axial cable for televisions to provide connections.

While the PC sections of consumer electronics discount store chains remain at the core of its sales channel network, KDDI has commenced selling its services through au mobile phone shops and is cross selling to au’s customer base.

#### *Strengthening Collaboration with CATV Operators*

KDDI is expanding its business through CATV operators with its “CABLE PLUS PHONE SERVICE”, which enables CATV stations to offer full-scale “triple play” services, including multi-channel broadcasting, internet, and telephone services. At the end of the fiscal year under review, KDDI had business tie-ups with 25 CATV station companies.

In July 2007, KDDI plans to convert the JCN Group to a consolidated subsidiary. In preparation for Fixed, Mobile and Broadcast Convergence (FMBC), KDDI is implementing measures to acquire video distribution service know-how and expand its subscriber base.

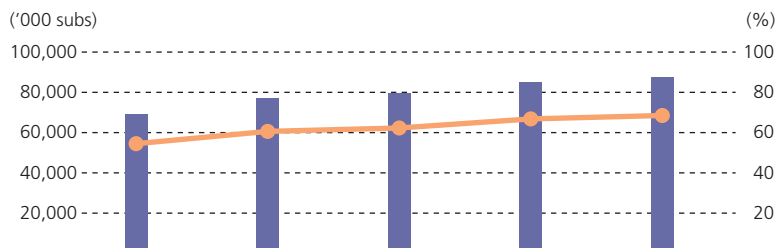
#### *Strengthening Services Targeting Corporate Clients*

Going forward, wide-area Ethernet services in the corporate market are exhibiting strong growth potential. On January 1, 2006, KDDI merged with POWEREDCOM Inc., one of the leading companies in the wide-area Ethernet market. The merger helped more than double wide-area Ethernet service revenues, to ¥55.3 billion. Combined with KDDI’s diverse range of other services and solutions for corporate clients, wide-area Ethernet services make it possible to achieve an even higher degree of convenience for the client.

In August 2006, KDDI established a joint company with major global carrier British Telecommunications plc. (BT) to begin development of a global outsourcing business aimed at corporate clients. Also during the fiscal year, KDDI formed a business alliance with UNIADEX, Ltd., an information and communication technology (ICT) specialist. From April 2007, KDDI has been collaborating with UNIADEX, Ltd. in developing a service that can provide one-stop shopping for every service from communications networks to ICT system design and construction, as well as operation and maintenance. Through such business tie-ups, KDDI is seeking to expand its business domain.

## Fixed-line Business Market Data

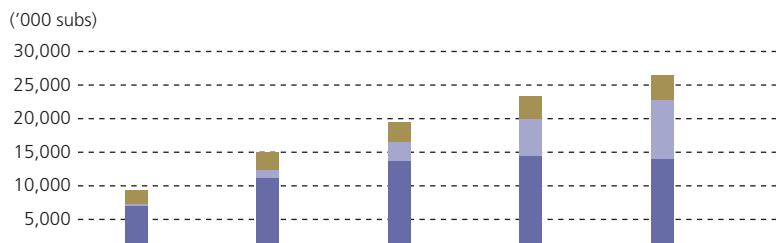
### Number of Internet Subscribers



(Years ended December 31)

	2002	2003	2004	2005	2006
■ Total subscribers in Japan	69,420	77,300	79,480	85,290	<b>87,540</b>
● Penetration rate	54.5%	60.6%	62.3%	66.8%	<b>68.5%</b>

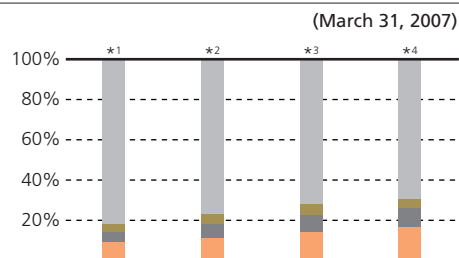
### Number of Broadband Subscribers



(Years ended March 31)

	2003	2004	2005	2006	2007
■ ADSL subscribers	7,023	11,196	13,676	14,518	<b>14,013</b>
■ FTTH (Fiber To The Home) subscribers	305	1,142	2,897	5,458	<b>8,804</b>
■ CATV subscribers	2,069	2,578	2,960	3,309	<b>3,610</b>
Total	9,397	14,916	19,533	23,285	<b>26,427</b>

### Market Share of Myline by Operator



(Years ended March 31)

	2005				2006				2007			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local*1	In-prefecture long-distance*2	Out-of-prefecture long-distance*3	International*4
■ KDDI	12.3%	15.1%	18.7%	22.2%	10.8%	13.2%	16.5%	19.5%	<b>9.1%</b>	<b>11.3%</b>	<b>14.1%</b>	<b>16.5%</b>
■ SoftBank Telecom	6.7%	8.9%	11.0%	12.5%	5.4%	7.3%	9.1%	10.4%	<b>5.0%</b>	<b>6.7%</b>	<b>8.3%</b>	<b>9.3%</b>
■ Other companies total	7.0%	7.8%	9.6%	8.0%	5.6%	5.4%	8.0%	6.6%	<b>4.2%</b>	<b>4.7%</b>	<b>5.9%</b>	<b>4.6%</b>
■ NTT	74.0%	68.2%	60.7%	57.3%	78.2%	73.1%	66.4%	63.5%	<b>81.8%</b>	<b>77.2%</b>	<b>71.7%</b>	<b>69.5%</b>
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Ministry of Internal Affairs and Communications and Myline Carriers Association

## Segment Data

Years ended March 31

Mobile Business	Millions of yen					Millions of U.S. dollars
	2003	2004	2005	2006	2007	2007
<b>Operating revenues</b>	—	—	2,312,537	2,510,395	<b>2,677,445</b>	<b>22,681</b>
Sales outside the group	—	—	2,293,525	2,484,202	<b>2,662,550</b>	<b>22,554</b>
Telecommunications business	—	—	1,751,053	1,903,427	<b>2,017,516</b>	<b>17,090</b>
Other business	—	—	542,473	580,775	<b>645,034</b>	<b>5,464</b>
Sales within the group	—	—	19,012	26,193	<b>14,895</b>	<b>126</b>
<b>Operating income</b>	—	—	292,251	354,439	<b>385,689</b>	<b>3,267</b>
<b>Net income</b>	—	—	171,698	145,303	<b>209,458</b>	<b>1,774</b>
<b>Free cash flows</b>	—	—	190,636	266,178	<b>294,838</b>	<b>2,498</b>
<b>EBITDA</b>	—	—	548,859	605,172	<b>598,134</b>	<b>5,067</b>
<b>Operating income margin</b>	—	—	12.6%	14.1%	<b>14.4%</b>	<b>14.4%</b>
<b>EBITDA margin</b>	—	—	23.7%	24.1%	<b>22.3%</b>	<b>22.3%</b>

(Reference)	Millions of yen			
	au Business		Tu-Ka Business	
	2003	2004	2003	2004
<b>Operating revenues</b>	1,626,273	1,831,786	318,070	274,329
Sales outside the group	—	1,817,333	—	267,929
Telecommunications business	1,197,244	1,367,038	255,412	223,040
Other business	429,029	450,295	62,658	44,890
Sales within the group	—	14,453	—	6,400
<b>Operating income</b>	53,786	239,469	6,200	16,304
<b>Net income (loss)</b>	21,005	129,995	(3,227)	8,043
<b>Free cash flows</b>	96,571	207,251	52,137	54,951
<b>EBITDA</b>	245,092	437,651	66,471	72,097
<b>Operating income margin</b>	3.3%	13.1%	1.9%	5.9%
<b>EBITDA margin</b>	15.1%	23.9%	20.9%	26.3%

\* These two businesses were incorporated into the Mobile Business segment in October 2005; therefore no data is presented for the fiscal year ended March 2005 or subsequent years.

Fixed-line Business	Millions of yen					Millions of U.S. dollars
	2003	2004	2005	2006	2007	2007
<b>Operating revenues</b>	601,874	623,104	596,041	619,314	<b>714,351</b>	<b>6,051</b>
Sales outside the group	—	529,119	494,729	518,716	<b>610,365</b>	<b>5,170</b>
Telecommunications business	556,047	484,512	451,632	470,391	<b>548,675</b>	<b>4,648</b>
Other business	45,827	44,607	43,096	48,325	<b>61,690</b>	<b>523</b>
Sales within the group	—	93,984	101,312	100,598	<b>103,986</b>	<b>881</b>
<b>Operating income (loss)</b>	60,290	16,421	(310)	(61,309)	<b>(49,036)</b>	<b>(415)</b>
<b>Net income (loss)</b>	32,264	(29,935)	(4,413)	26,362	<b>(23,448)</b>	<b>(199)</b>
<b>Free cash flows</b>	116,927	74,232	(3,066)	(102,317)	<b>6,303</b>	<b>53</b>
<b>EBITDA</b>	176,809	112,402	87,494	41,451	<b>80,890</b>	<b>685</b>
<b>Operating income margin</b>	10.0%	2.6%	-0.1%	-9.9%	<b>-6.9%</b>	<b>-6.9%</b>
<b>EBITDA margin</b>	29.4%	18.0%	14.7%	6.7%	<b>11.3%</b>	<b>11.3%</b>

Other Business	Millions of yen					Millions of U.S. dollars
	2003	2004	2005	2006	2007	2007
<b>Operating revenues</b>	196,656	80,371	81,381	103,504	<b>108,704</b>	<b>921</b>
Sales outside the group	—	50,680	46,399	57,896	<b>62,345</b>	<b>528</b>
Sales within the group	—	29,691	34,982	45,607	<b>46,359</b>	<b>393</b>
<b>Operating income (loss)</b>	(1,002)	545	951	4,381	<b>6,858</b>	<b>58</b>
<b>Net income (loss)</b>	(9,868)	(3,439)	1,565	34,861	<b>3,571</b>	<b>30</b>
<b>Operating income margin</b>	-0.5%	0.7%	1.2%	4.2%	<b>6.3%</b>	<b>6.3%</b>