Five-year Summary

Years ended March 31

	Millions of yen					Millions of U.S. dollars
	2003	2004	2005	2006	**2007**	**2007**
Operating revenues	2,785,343	2,846,098	2,920,039	3,060,814	**3,335,260**	**28,253**
Telecommunications business	2,191,887	2,268,726	2,300,566	2,398,526	**2,592,882**	**21,964**
Voice communications	593,456	577,372	619,473	662,288	**742,378**	**6,289**
Operating income	140,653	292,105	296,176	296,596	**344,701**	**2,920**
Net income	57,359	117,025	200,592	190,569	**186,747**	**1,582**
EBITDA	563,491	688,027	664,255	654,409	**691,699**	**5,859**
Operating income margin	5.0%	10.3%	10.1%	9.7%	**10.3%**	**10.3%**
EBITDA margin	20.2%	24.2%	22.7%	21.4%	**20.7%**	**20.7%**
Total Assets	2,782,039	2,639,581	2,472,322	2,500,865	**2,803,240**	**23,746**
Interest-bearing debt	1,497,020	1,179,764	864,627	770,692	**620,471**	**5,256**
Total net assets (formerly shareholders' equity)	894,711	1,009,391	1,162,192	1,295,531	**1,537,114**	**13,021**
Net cash provided by operating activities	526,887	622,698	538,676	575,531	**738,703**	**6,258**
Net cash used in investing activities	(221,552)	(218,465)	(136,508)	(435,923)	**(442,218)**	**(3,746)**
Free cash flows	305,335	404,233	402,168	139,608	**296,485**	**2,512**
Net cash used in financing activities	(251,363)	(328,911)	(376,058)	(256,935)	**(258,919)**	**(2,193)**
Per share data (yen and U.S. dollars):						
Net income	13,561	27,748	47,612	45,056	**42,505**	**360**
Net income after adjusted the potential stocks	—	—	47,571	45,025	**42,495**	**360**
Cash dividends	2,095	3,600	6,900	8,000	**9,500**	**80**
Total net assets (formerly shareholders' equity)	212,222	239,515	278,170	296,383	**339,806**	**2,878**

Notes: 1. U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥118.05=U.S.$1 on March 30, 2007.
2. From the fiscal year ended March 2007 net assets (the sum of shareholders' equity, new share subscription rights and minority interests) are presented in the balance sheet.

Selected Financial Indicators

	2003	2004	2005	2006	**2007**
Equity ratio (%)	32.2	38.2	47.0	51.8	**54.1**
D/E ratio (times)	1.67	1.17	0.74	0.59	**0.41**
ROE (%)	6.5	12.3	18.5	15.5	**13.3**
ROA (%)	4.7	10.8	11.6	11.9	**13.0**
Total assets turnover ratio (times)	0.9	1.0	0.9	1.2	**1.3**
Shareholders' equity turnover ratio (times)	3.2	3.0	2.7	2.5	**2.4**
Current ratio (%)	100.2	107.3	114.0	103.6	**88.0**
Fixed assets to equity (%)	244.2	192.4	153.6	145.4	**136.4**
Fixed assets to long-term capital (%)	100.6	98.6	96.2	99.8	**106.2**
Liquidity in-hand (times)	0.5	0.9	0.9	0.6	**0.7**
Interest coverage ratio (times)	3.9	10.5	14.2	19.0	**29.3**
Dividend payout ratio (%)	17.5	16.8	21.2	20.8	**22.4**

Equity ratio = Shareholders' equity ÷ total assets

D/E ratio = Interest-bearing debt ÷ shareholders' equity

ROE = Net income ÷ average shareholders' equity over fiscal year

ROA = Operating income ÷ average total assets over fiscal year ×100

Total assets turnover ratio = Operating revenues ÷ average total assets over fiscal year

Shareholders' equity turnover ratio = Operating revenues ÷ average shareholders' equity over fiscal year

Current ratio = Current assets (end of fiscal year) ÷ current liabilities (end of fiscal year) ×100

Fixed assets to equity = Fixed assets (end of fiscal year) ÷ total shareholders' equity ×100

Liquidity in-hand = Liquidity in-hand (cash + marketable securities among the current assets) ÷ (operating revenues ÷ 12)

Interest coverage ratio = (Operating income + interest income, discounts + dividends earned) ÷ (interest income, discounts)

Dividend payout ratio = Annual dividend amounts ÷ Net income

The dividend payout ratio is presented on a non-consolidated basis until the fiscal year ended March 2006, and on a consolidated basis from the fiscal year ended March 2007.

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 changes 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 loss is calculated based on the grouping of assets into the smallest-possible units capable of generating cash flows that are largely independent of other assets or asset groups. Recoverable values for each asset group are measured in terms of utilization value and computed based on the discounted present value of estimated future cash flows from the assets. In the fiscal year ended March 2006, the KDDI Group posted ¥104.3 billion against the impairment of fixed assets related to the provision of Tu-Ka cellular phone services. For the fiscal year ended March 2007, ¥39.6 billion in impairment loss related to Tu-Ka was posted, reflecting the fact that the service will terminate at March 31, 2008.

(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.

(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, divestitures, 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 2007. 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 2007 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

1. Status of the KDDI Group

The KDDI Group is a comprehensive telecommunications company operating both mobile services and fixed-line communications in Japan. Mobile Business are provided under the "au" and "Tu-Ka" brands. At the end of March 2007, the two brands combined had a 29.1% share of the Japanese market, second in the country with 28.19 million subscribers. The Fixed-line Business provides a range of individual and corporate services, including voice communications and broadband Internet connectivity. The direct-access, high-quality IP phone service "KDDI METAL PLUS" was launched in February 2005, with subscriber numbers reaching 2.81 million at the end of March 2007. For its corporate customers, KDDI began providing "KDDI Powered Ethernet" in

January 2006 as its mainstay service. KDDI's FTTH (Fiber to the Home) operations, which were merged with those of Tokyo Electric Power Company (TEPCO) in January 2007, had approximately 590,000 subscribers at the end of March 2007.

2. Trends in Telecommunications and KDDI's Response

In the mobile communications market, the Softbank Group purchased Vodafone K.K. and EMOBILE Ltd. entered the market. The Mobile Number Portability (MNP) system went into effect on October 24, 2006.

In the fixed-line market, in addition to the continuing spread of broadband services, competition to acquire customers has entered a new phase with rapid changes in the business environment, including convergence of fixed-line, mobile communications, and broadcasting.

In response, the KDDI Group focused on "Strategy and Speed" to quickly and appropriately respond to the rapid changes in the business climate and diversifying customer needs, achieving sustainable growth and further expansion of its service offerings throughout the group. We also strengthened our business foundation to survive increasingly fierce market competition.

KDDI Group Initiatives in the Mobile Communications Market

- Steadily expanded customer base amid greater competition for customer acquisitions following introduction of Mobile Number Portability system (October 24, 2006)
- Concluded business alliances with Google, Inc., and GREE, Inc.
- Began shifting customers from Tu-Ka to au without changing their mobile number

KDDI Group Initiatives in the Fixed-line Market

- Merged the FTTH business with TEPCO's Fiber Optic Network Company on January 1, 2007, enhancing the business foundation
- For "CABLE PLUS PHONE SERVICE", a telephone service using the CATV network and KDDI's CDN*, we steadily increased the number of allied CATV stations, including TEPCO CABLE TELEVISION Inc. (T-CAT), and its communications Inc. At the end of March 2007, alliances had been concluded with 25 CATV stations.

* CDN: Content Delivery Network, a distribution network using IP technology and large-capacity lines, ideal for voice and image transmission.

Overview

Total operating revenues during the fiscal year to March 2007 increased ¥274.4 billion (9.0%) year on year to ¥3,335.3 billion. Revenue in the Mobile Business rose as a result of greater sales of CDMA 1X WIN mobile handsets, and an increase in subscriber numbers. KDDI benefited from MNP to attain a 55.8% share of the overall annual net increase in subscribers—the top share in the industry. Revenue from the Fixed-line Business also rose, owing to greater sales of "KDDI METAL PLUS" and an increase in "KDDI Powered Ethernet" offered following the merger with POWEREDCOM, Inc.

Operating expenses increased ¥226.3 billion (8.2%) year on year to ¥2,990.6 billion. This was mainly attributable to promotion of CDMA 1X WIN handsets in the Mobile Business, and the combination of an increase in expenses related to "KDDI METAL PLUS" and depreciation costs in the Fixed-line Business. Nonetheless, operating income rose ¥48.1 billion (16.2%) to ¥344.7 billion.

Other expenses totaled ¥35.6 billion, a decrease of ¥80.4 billion compared to the previous fiscal year. This was due mainly to steady reduction in interest-bearing debt and lower interest expense, combined with a ¥72.2 billion reduction in impairment loss recorded for equipment and facilities related to Tu-Ka mobile phone services.

As a result, income before income taxes and minority interests increased ¥128.5 billion year on year to ¥309.1 billion. Total income taxes included corporation, resident, and enterprise taxes of ¥133.4 billion against deferred income taxes of ¥14.9 billion, which together amounted to an increase of ¥131.9 billion from the previous fiscal year. This chiefly reflected an increase in taxable income stemming from the rise in earnings, along with a loss carried forward and tax relief items inherited as a result of the merger with POWEREDCOM Inc., which had the effect of reducing taxes ¥65.0 billion in the previous fiscal year.

Minority interests in consolidated subsidiaries increased ¥0.4 billion compared with the previous year, to ¥3.9 billion. Net income declined ¥3.8 billion, to ¥186.7 billion.

Segment Financial Reviews

(a) Operating Revenues

Mobile Business

The KDDI Group provides customers with mobile phone service under the "au" and "Tu-Ka" brands. Utilizing the strengths of the infrastructure for the mainstay au service, KDDI has differentiated itself from the competition by reinforcing the appeal of its product package as a whole, including handsets, charges, and content offerings.

Infrastructure: Introduction of EV-DO Rev.A

EV-DO Rev. A, an enhanced version of the CDMA 2000 1x EV-DO data transmission infrastructure for au mobile handsets, was introduced in December 2006. This new version provides faster data transmission speeds of 3.1Mbps downlink and 1.8Mbps uplink, as well as such quality control functions as delayed inhibition of packet transmissions, allowing us to offer new types of services not previously available.

Handsets: 43 models launched during year

KDDI continued to expand its lineup of au handsets, with 43 models launched during the fiscal year under review (33 in the previous fiscal year), allowing customers to select the model that best suits their personal preferences and lifestyle.

- Models that feature "1 Seg" broadcasting service, adding video to the existing focus on music and design
- Models that receive digital radio, a first for mobile phones
- "au design project" models

Note: Annual number of models includes corporate models from the fiscal year under review.

Content

KDDI began providing a variety of services through the "LISMO" comprehensive music service suite in an effort to further enhance the mobile phone music enjoyment of its customers.

- "LISMO Music Store"
- "LISMO Video Clip"
- "LISMO Music Search", a comprehensive music search engine

Charges

KDDI enhanced its service menu in August 2006 with the "INDEFINITE-PERIOD CARRY OVER" plan that allows customers to keep the unused call minutes from their plan for an unlimited period of time.

Note: The upper limit for carryover is predetermined for each rate plan.

Corporate mobile phone solutions service

KDDI began offering "OFFICE FREEDOM" and "Business Call Flat-rate" pricing. We also launched a robust mobile phone model for business use, EO3CA.

Tu-Ka service to end on March 31, 2008

KDDI will proceed with migration of users to the au mobile service.

As a result of efforts to increase overall product competitiveness focused on the mainstay au mobile business, segment operating revenues for the fiscal year to March 2007 rose ¥167.1 billion year on year to ¥2,677.4 billion. The main factors for this are as follows.

Net increase in number of subscribers

The total number of subscribers at the end of March 2007 was 28.19 million, giving KDDI a 29.1% share of the market (au 28.2%, Tu-Ka 0.9%). The annual net increase in subscribers (combined total of au and Tu-Ka) was 2.75 million (net share of 55.8%), which was the main reason for the sharp rise in operating revenues. MNP, which has been a priority issue for KDDI, made a significant contribution to the net increase in subscribers, with a total increase due to MNP of 816 thousand subscribers. The number of au subscribers increased by a net 853 thousand (1,150 thousand subscribers gained due to MNP against 297 thousand subscribers lost due to MNP), while Tu-Ka MNP subtractions totaled 37 thousand. User migration from Tu-Ka to au keeping the same phone number proceeded smoothly, with 1.43 million users migrated during the year for an aggregate total of 2.13 million (since October 2005).

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 the content on offer. Subscriptions steadily increased to 14.55 million at the end of March 2007, (up 6.27 million from the

Reference: Total Number of Subscribers

(Millions of subscribers)

	At March 31, 2006	At March 31, 2007	Net increase (decrease)	Share of annual net increase
au	22.70	27.32	4.62	93.7%
(Of which, module type)	0.59	0.70	0.11	
CDMA 1X WIN (EV-DO)	8.28	14.55	6.27	
CDMA 1X	13.55	12.17	(1.38)	
cdmaOne	0.87	0.60	(0.27)	
Tu-Ka (PDC)	2.74	0.87	(1.87)	(37.9%)
Total	25.44	28.19	2.75	55.8%

Note: Net increase (decrease) = Number of new subscriptions minus cancellations

previous year-end), to attain 53% of all au subscriptions. KDDI has also enhanced its tariff menus with the "Double-Teigaku-Light" (packet flat-rate) plan, and other service plans to encourage users to make greater use of data packet-based services, maintaining the proportion of subscribers on flat-rate pricing plans at a high level (77%). The increase in CDMA 1X WIN users and higher ratio of subscribers for the service helped to expand the number of customers with high ARPU*, which boosted growth in overall operating revenue. Total ARPU (the sum of ARPU for voice and data services) for the fiscal year under review was ¥6,610, a decline of ¥430 compared with the previous year. However, data ARPU increased ¥130, to ¥2,020.

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

Improvement in churn rate

The churn rate for au-branded mobile phone services improved 0.18 percentage points, declining from 1.20% the previous fiscal year to 1.02%. This reflected ongoing efforts to provide customers with a more attractive lineup of products and services (such as handsets, content, software applications, and pricing plans), as well as continued success in boosting au brand power.

Fixed-line Business

Amid a rapid shift in the business environment toward direct-access, IP and broadband services, KDDI worked to enhance its customer base through business development initiatives. These included promoting sales of the direct-access service "KDDI METAL PLUS", promoting "KDDI Powered Ethernet" through the merger with POWEREDCOM Inc. in January 2006, and strengthening the business foundation through integration of FTTH services.

Expanded sales of "KDDI METAL PLUS" high-quality IP phone services

KDDI 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 by simply having their existing landline connected to KDDI's high-quality IP network. Subscriber numbers had reached 2.81 million (a year-on-year increase of 1.01 million subscribers) by the end of March 2007.

The number of FTTH subscribers also grew to 590,000 as of the end of March 2007, boosted by the business integration.

As a result of KDDI's business activities in response to the rapid shift toward direct-access, IP and broadband services, operating revenues for the fiscal year under review increased ¥95.0 billion year on year to ¥714.4 billion. Expanded sales of "KDDI METAL PLUS" amid the shift toward mobile phones and IP phones as a means of communication led to a steady rise in voice-related revenue. Revenue from Internet services also grew steadily, as did income from wide-area Ethernet services following the merger with POWEREDCOM Inc.

Integration of the FTTH business

In January 2007, KDDI incorporated the FTTH business of TEPCO's internal Fiber Optic Network Company. By establishing its own fiber optic access network KDDI will be able to flexibly develop in any area where there is demand, allowing for more efficient and agile business development. Our medium- to long-term goal is to gain a 30% share of the service area in Tokyo-metropolitan area.

IP conversion of the fixed-line network

KDDI has already announced plans for the IP conversion of its fixed-line telephony 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 expand its unique high-quality IP network—the backbone for "HIKARI-one" and "KDDI METAL PLUS"—and to shift entirely to software-based switches in place of the existing fixed-line exchanges, which will provide substantial facility cost savings. At the same time, by promoting the shift toward direct-access services KDDI will be able to reduce the level of connection fees paid to the two NTT regional operating companies. Customers will also benefit from the conversion, as it will enable KDDI to provide high-quality services at lower prices.

Other Businesses

In Other Businesses, the KDDI Group focused on timely and accurate responses to the rapid changes in operating conditions in telecom markets. To raise the competitiveness of the entire group we consolidated business functions between KDDI Group firms to increase the efficiency of management assets, while strengthening the operational base in fields where future growth is anticipated.

Segment operating revenues totaled ¥108.7 billion, a year-on-year increase of ¥5.2 billion.

A further capital investment is planned for the JAPAN CABLENET (JCN) Group, shares of which KDDI acquired in March 2006. These operations will be included as a new business domain for the KDDI Group.

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.

(b) Operating Expenses

Mobile Business

Mobile communications segment operating expenses in the fiscal year ended March 2007 totaled ¥2,291.8 billion, an increase of ¥135.8 billion compared with the previous year. The major factors contributing to the rise in costs are outlined below.

Increased sales expenses for mobile handsets

Average procurement costs per handset were lower than in the previous year as a result of efforts to lower development costs* amid increasingly advanced functionality. However, the total number of handsets procured increased owing to rising sales stemming from the introduction of MNP, the migration of Tu-Ka users to au, and a rise in the number of model upgrades following the aggregate increase in the number of subscribers. This pushed up overall sales expenses for au-branded models.

* Creating the KDDI Common Platform (KCP)
KDDI is creating a common platform for mobile handsets with the aim of strengthening cost competitiveness in handset software development. A common software platform will lower handset costs.

Increase in total value of sales commissions

KDDI pays sales commissions to agency sales outlets per subscriber contract. The average sales commission per au-branded handset remained on a par with the previous year at ¥37,000 (including new subscriptions and model switches). However, total sales commissions for general au-branded handsets totaled ¥568.0 billion in the fiscal year ended March 2007, an increase of ¥76.0 billion compared with the previous year. This mostly represented growth in au-branded handset sales volumes, which increased 2.30 million units on a year-on-year basis, to 15.55 million units (including new subscriptions and model switches).

Decrease in depreciation

Total depreciation in this segment declined ¥37.5 billion compared to the previous fiscal year. This mainly reflected the conclusion of depreciation on initial CDMA equipment for the au service, and the recording during the previous fiscal year of an impairment loss for the Tu-Ka service.

Other significant factors contributing to the increase in operating expenses in this segment included higher access charges stemming from the rise in operating revenues, increased costs incurred for operation and maintenance, and expenses for outsourced customer support services.

Fixed-line Business

Fixed-line segment operating expenses in the fiscal year ended March 2007 totaled ¥763.4 billion, an increase of ¥82.8 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 expanded sales

Major items pushing up costs included dry copper connection fees and outsourced customer support services. Although "KDDI METAL PLUS"-related expenses increased with the sales expansion, profitability improved with the addition of revenue from basic fees.

Increased depreciation expenses related to capital investment

KDDI made capital investments to expand facilities following the merger with POWEREDCOM Inc. in the previous fiscal year, and for "KDDI METAL PLUS" (to expand the coverage area). These investments, along with the integration of the FTTH business in January 2007, resulted in a ¥26.5 billion increase in depreciation expenses compared with the previous year.

Other significant factors contributing to the increase in operating expenses in this segment included expenses for outsourced work.

Other Businesses

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

Segment operating expenses in the fiscal year ended March 2007 increased ¥2.7 billion compared with the previous year, to ¥101.8 billion, primarily as a result of higher operating revenues.

(c) Operating Income

Operating income in the fiscal year ended March 2007 amounted to ¥344.7 billion, a rise of ¥48.1 billion compared with the previous year. By business segment, the Mobile Business recorded operating income of ¥385.7 billion, a year-on-year increase of ¥31.3 billion; the Fixed-line Business posted an operating loss of ¥49.0 billion, a reduction of ¥12.3 billion compared to the loss the previous year; and Other Businesses recorded operating income of ¥6.9 billion, up ¥2.5 billion over the previous year.

(d) Other Expenses

Other expenses totaled ¥35.6 billion, a decrease of ¥80.4 billion compared to the previous fiscal year. The major contributory factors are outlined below.

Interest expense

Consolidated interest-bearing debt totaled ¥620.5 billion at March 31, 2007, a decline of ¥150.2 billion compared with the previous fiscal year-end. As a result, interest expense in the fiscal year ended March 2007 was ¥11.8 billion, ¥3.8 billion less than in the previous year.

Equity in gain of affiliates

Equity in gain of affiliates resulted in a gain of ¥0.8 billion, which represented a year-on-year decrease of ¥1.5 billion. The major factor behind the decline was the impact from equity-method incorporation of the JCN Group, shares of which were acquired in March 2006. The major equity-method affiliates that contributed to earnings were Mobicom Corporation, which supplies mobile phone services in Mongolia, and Kyocera Communication Systems Co., Ltd., which provides telecoms engineering and other services.

Impairment loss

A loss on asset impairment of ¥42.1 billion was recorded for the fiscal year under review, representing a ¥72.2 billion reduction in loss compared to the previous fiscal year. The most significant contributor to impairment loss in financial terms was as follows:

Impairment loss on Tu-Ka phone service-related assets (¥39.6 billion for fiscal year ended March 2007)

KDDI has decided to cease offering the Tu-Ka service at the end of March 2008. It will be integrated with the au mobile service, providing customers with greater convenience and better service. 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 a loss on asset impairment of ¥39.6 billion.

Impairment loss on Tu-Ka phone service related assets (¥104.3 billion for fiscal year ended March 2006)

In response to 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 on 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 a loss on asset impairment of ¥104.3 billion.

Impairment loss on domestic transmission infrastructure and other idle assets (¥10.0 billion for fiscal year ended March 2006)

The book value of certain domestic transmission infrastructure and other underutilized assets was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥10.0 billion.

Gains from forgiveness of debt (¥1.3 billion)

In the fiscal year ended March 2006 a gain from forgiveness of debt amounting to ¥1.3 billion was recorded. This related to an exemption from liabilities associated with undersea cable-laying operations on completing the liquidation of consolidated subsidiary KDDI Submarine Cable Systems Inc.

(e) Income before Income Taxes and Minority Interests

Income before income taxes and minority interests in the fiscal year ended March 2007 amounted to ¥309.1 billion, an increase of ¥128.5 billion compared with the previous year.

(f) Income Taxes and Tax Adjustments

Total income taxes, which comprised corporation, resident, and enterprise taxes, amounted to ¥133.4 billion, together with an income tax adjustment that resulted in deferred taxes of ¥14.9 billion, representing a ¥131.9 billion increase in total income taxes and tax adjustments compared to the previous fiscal year. This mainly reflected an increase in taxable income stemming from the rise in earnings, along with loss carried forward and tax relief items inherited as a result of the merger with POWEREDCOM Inc., which had the effect of reducing taxes ¥65.0 billion in the previous fiscal year.

(g) Minority Interests

Minority interests in consolidated subsidiaries in the fiscal year ended March 2007, which are principally profits that revert to minority shareholders of OKINAWA CELLULAR TELEPHONE COMPANY, increased ¥0.4 billion from the previous fiscal year to ¥3.9 billion.

(h) Net Income

Net income in the fiscal year ended March 2007 amounted to ¥186.7 billion, a decrease of ¥3.8 billion compared with the previous year.

Going forward, KDDI will further exploit its advantages as a comprehensive telecommunications company combining fixed-line and mobile communications. To this end, KDDI will utilize FMBC (Fixed, Mobile and Broadcast Convergence) to offer an optimal, cutting-edge communications environment, and develop businesses that meet ever-diversifying customer needs.

- In the Mobile Business, KDDI will offer attractive mobile handsets, new services and content to further acquire customers through MNP, work to provide an even smoother mobile environment by further expanding sales of CDMA 1X WIN, as well as seek to expand its business fields.
- In the Fixed-line Business, KDDI will seek to further extend its customer base by expanding sales of "HIKARI-one" through integration in January 2007 with the FTTH business handled by TEPCO's internal Fiber Optic Network Company. KDDI will also pursue alliances with CATV companies in addition to continuing to provide such direct-access services as "KDDI METAL PLUS" and "KDDI Hikari Direct."

(3) Capital Investments and Assets

Capital Investments

The KDDI Group makes efficient capital investments aimed at increasing reliability and providing a more satisfying service to customers. The major capital investments by business segment are outlined below.

Mobile Business

In the au business, to better meet customer needs and to strengthen product appeal following the introduction of Mobile Number Portability, KDDI is installing new equipment and upgrading other facilities, including wireless base stations and exchange equipment, in order to expand service areas and improve transmission quality.

Also, with the steady growth of "EZ Chaku-Uta Full®", strengthened product appeal due to such new services and content as "EZ Channel-plus" and "au My Page", KDDI is expanding the service area and upgrading equipment for CDMA 1X WIN, which permits high-speed data transmission.

Fixed-line Business

In the consumer-oriented business, KDDI is building its own large-capacity network in line with the development of "KDDI METAL PLUS" and "HIKARI-one", as well as installing and upgrading equipment for IP telephone service and other related facilities.

In the solutions business, KDDI is adding equipment to allow it to meet growing demand for the data transmission services including IP-VPN and wide-area Ethernet, as well as offer diversification in the service menu. We have also upgraded and expanded transmission lines, stations, and other types of infrastructure to meet growing demand, enhance capacity along the access and backbone networks, as well as improve the reliability and quality of service.

Assets

Total assets at March 31, 2007, amounted to ¥2,803.2 billion, a year-on-year increase of ¥302.4 billion. This mainly reflected the increase in capital investments, along with a ¥138.8 billion impact from the FTTH business of TEPCO, which was incorporated in January 2007, of which ¥129.4 billion is from fixed assets, and ¥9.4 billion is current assets.

(4) Sources of Capital and Liquidity

(a) Cash Flows

Operating Activities +¥738.7bn (+¥163.2bn year on year)

Net cash provided by operating activities in the fiscal year ended March 2007 amounted to ¥738.7 billion, which represented an increase of ¥163.2 billion compared with the previous year. This was due mainly to an increase in income before income taxes and minority interests, along with a ¥55.1 billion reduction in income taxes paid, and the impact of the holiday schedule at the end of the fiscal year under review, which pushed back payments into the next fiscal year.

Investing Activities -¥442.2bn (-¥6.3bn year on year)

Net cash used in investing activities in the fiscal year ended March 2007 was ¥442.2 billion, representing a year-on-year increase in cash outflow equivalent to ¥6.3 billion.

The main source of outflow was capital investments, which the KDDI Group conducts efficiently to provide services that satisfy customers and raise the reliability of networks. Capital investments in the Mobile Business were related to new and upgraded wireless base stations and exchange facilities designed to expand area coverage and to enhance call quality for CDMA 1X WIN and CDMA 1X services. Investments to increase capacity of equipment

in the 2GHz band were higher than in the previous fiscal year in response to frequency realignments and an increase in subscriber numbers.

Capital spending in the Fixed-line Business was mostly for new and upgraded equipment for "KDDI METAL PLUS" and "HIKARI-one". Spending declined year on year as a stage in the service area extension for "KDDI METAL PLUS" had been completed in the previous fiscal year.

Free Cash Flow

Free cash flows, equal to net cash generated by operating and investing activities, amounted to ¥296.5 billion, an increase of ¥156.9 billion compared with the previous year. Free cash flow was utilized for reductions in interest-bearing debt.

Financing Activities -¥258.9bn (-¥2.0bn year on year)

Net cash used in financing activities in the fiscal year ended March 2007 was ¥258.9 billion, which represented a year-on-year increase in cash outflow of ¥2.0 billion. Major contributory factors included increases in dividends paid and payments for acquisition of treasury stock, against a decrease in contracted debt repayments.

(b) Liquidity

Consolidated cash and cash equivalents at end of year totaled ¥192.7 billion, an increase of ¥41.7 billion from the balance of ¥151.0 billion at March 31, 2006. Going forward, the KDDI Group expects the liquidity balance to vary in response to the group's financial position and the financing environment.

(c) Financing

During the fiscal year ended March 2007, KDDI procured ¥94.8 billion in funds from financial institutions to partially finance loan repayments and capital investments. Other requirements for funds were secured from internal reserves. The balance of corporate bonds outstanding at March 31, 2007 was ¥257.8 billion, which represented a decrease of ¥76.9 billion compared with the previous year-end. The year-end balance of loans outstanding declined ¥73.3 billion, to ¥362.7 billion.

(d) Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

	Total amount	Less than 1 yr	1-3 yrs	3-5 yrs	Above 5 yrs
Corporate bonds	257.8	90.0	59.8	63.0	45.0
Bank borrowings	362.7	169.8	81.7	101.0	10.1
Total	620.5	259.8	141.5	164.0	55.1

(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, selecting the most effective means of financing according to the financial status of the company and the prevailing conditions in financial markets.

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 necessary funds that are then distributed to subsidiaries through a system of loans.

As a result, the balance of consolidated interest-bearing debt was ¥620.5 billion at March 31, 2007. The ratio of direct to indirect financing was 42:58, and the long-term financing ratio* was 58.13%. The proportion of centralized fund procurement by the parent company was 98.81%.

Rating and Investment Information Inc. (R&I) accorded KDDI a long-term senior debt rating of A+ as of March 2007.

* 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, 2007, amounted to ¥17.0 billion.

Business Risks

This section contains an overview of the principal business-related and other risks facing the KDDI Group that could have a material bearing on the decisions of investors. The section also discloses information on a number of other subjects that, while not explicitly considered business risks at the present time, could also be materially relevant to investment decisions. KDDI discloses information on possible risks in the interests of greater transparency. The company assesses the likelihood of issues arising in connection with the various risk factors. Based on these assessments, it strives to take all appropriate measures to avoid risk wherever possible and to develop appropriate and timely countermeasures for situations as they arise.

This section contains various forward-looking statements that represent the best judgments of the KDDI Group as of March 31, 2007. Investors should note that future developments are also subject to unknown risks and uncertainties that by their nature cannot be covered by the following discussion.

(1) Competitors, Rival Technologies and Rapid Market Shifts

Mobile Business

The KDDI Group launched 3G cellular-phone services in Japan in April 2002 with the introduction of CDMA 1X, followed by CDMA 1X WIN in November 2003.

During the fiscal year ended March 2007, KDDI launched 43 handset models, allowing customers to select the model that best suits their personal preferences and lifestyle. The new models included handsets capable of receiving "1 Seg" TV broadcasts—adding video to the existing focus on music and design—as well as the first mobile phone handsets to receive digital radio, and "au design project" models. KDDI also strove to enhance payment options, introducing the "INDEFINITE-PERIOD CARRY OVER" plan in August 2006. In addition, KDDI began providing a variety of services through the "LISMO" comprehensive music service suite in an effort to further enhance the mobile phone music enjoyment of its customers. Services included "LISMO Music Store", "LISMO Video Clip" and "LISMO Music Search".

As a result of such efforts to add services and enhance customer satisfaction, the number of subscribers to the au service increased steadily, enabling KDDI to lead the industry in terms of the overall annual net increase in subscribers. However, these services are subject to competition from rival mobile carriers and competing technologies and to sudden changes in market conditions. The main business-related factors and uncertainties that could have a negative impact on Mobile Business operations and thereby affect the financial position and performance of the KDDI Group are summarized and listed below.

- Market demand trends out of line with KDDI Group expectations
- Subscriber growth trends out of line with KDDI Group expectations
- Fall in ARPU (Average Revenue Per Unit) due to tariff discounts sparked by fierce price competition, or higher sales-commission related or promotional costs to maintain customer base
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with network quality or capacity irrespective of any unforeseen developments
- Decline in attractiveness of handsets or supplied content in comparison with offerings of rival carriers
- Increase in handset procurement costs associated with adoption of more advanced functions, or higher sales commissions
- Drop in customer satisfaction caused by spam or other e-mail abuse, plus related increases in network security costs
- Higher costs of 2GHz spectrum
- Increase in competition due to new wireless technology of high-speed data
- Effects associated with dependence on specific communications protocol, handset or network technologies or software
- Intensifying competition resulting from increasing convergence of fixed-line, mobile and broadcasting, and other changes in the operating environment

Fixed-line Business

KDDI is expanding sales of direct-access services targeting the residential user segment, including "KDDI METAL PLUS" (IP telephony and ADSL), and "HIKARI-one" which supplement the existing "MYLINE" and DION-brand ADSL services. Also, KDDI is promoting "KDDI Powered Ethernet" for corporate customers.

In January 2006, KDDI merged with POWEREDCOM Inc. as part of its comprehensive alliance with Tokyo Electric Power Company (TEPCO) in the telecommunications business. In a measure to reinforce its operating base with a view to developing its broadband services in the future, in January 2007, KDDI absorbed the FTTH businesses operated by TEPCO's internal Fiber Optic Network Company.

Through such initiatives KDDI is working to upgrade services and enhance customer satisfaction. However, these services are subject to competition from fixed-line carriers, ADSL providers, cable TV operators and other firms, as well as to sudden changes in market conditions. The main business-related factors and uncertainties that could have a negative impact on Fixed-line Business operations and thereby affect the financial position and performance of the KDDI Group are summarized and listed below.

- Market demand trends out of line with KDDI Group expectations
- Subscriber growth trends out of line with KDDI Group expectations
- Fall in ARPU due to tariff discounts sparked by fierce price competition, or higher sales-commission related or promotional costs to maintain customer base
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with network quality or capacity (irrespective of any unforeseen developments)
- Decline in attractiveness of supplied content relative to rival carriers
- Drop in customer satisfaction caused by spam or other e-mail abuse, plus related increases in network security costs
- Contraction of fixed-line telephony market due to spread of IP telephony
- Increase in NTT access charges
- Intensifying competition resulting from increasing convergence of fixed-line, mobile and broadcasting and other changes in the operating environment

(2) Communications Security and Protection of Customer Privacy

KDDI is legally obliged as a licensed Japanese telecommunications carrier to safeguard the security of communications over its network. The company is also actively engaged in protecting the confidentiality of customer and other personal information. KDDI has established the Corporate Risk Management Division and a committee for privacy and security issues to formulate and implement measures across the entire KDDI Group to prevent internal privacy breaches or other information leaks, as well as unauthorized access from external networks.

The KDDI Group as a whole is pursuing a number of initiatives to improve its compliance-related provisions. In one measure, KDDI reinforced controls and supervision regarding access to information systems that manage personal and customer information. The company also formulated its business ethics and the KDDI Privacy Policy, and established the Business Ethics Committee. In addition, handbooks on customer privacy issues have been distributed to employees. Meanwhile, KDDI is working on a companywide level to ensure communications security and protection of customer privacy. It has drawn up security-related policies such as forbidding employees from taking internal data out of the office, or from copying data from work PCs to external memory devices. KDDI is training employees to adhere to these policies, as well as rigorously monitoring their implementation. Despite all these measures and safeguards, however, KDDI cannot guarantee that breaches of privacy or leakage of confidential customer information will never occur. Any such incident could seriously damage the brand image of the KDDI Group. Besides a loss of customer trust, the company could also be forced to pay substantial compensation, which could have a negative impact on the financial position and performance of the KDDI Group. Going forward, the company may also face higher costs to develop or upgrade communications security and privacy protection systems.

(3) Telecommunications Sector Regulation and Government Policies

The revision or repeal of laws and ordinances governing telecommunications, together with related government policies, have the potential to exert a negative impact on the financial position and performance of the KDDI Group. The KDDI Group believes that it is taking all appropriate measures to respond to such laws, ordinances and government policies, including those related to social issues with potentially injurious implications for its brand image and customer trust. However, the financial position and performance of the KDDI Group could be negatively affected if such measures were to prove ineffective in the future.

With regard to the future of the NTT Group in the new era of fiber-optic and IP services, the KDDI Group advocates revisiting the original reasons for deregulating telecommunications—namely, to allow fair market competition to work effectively. The government has conducted a range of study projects and invited public comments regarding rules to govern competition in the Japanese telecoms market. KDDI has used these opportunities to advocate fundamental reform, including abolishment of the NTT Group's holding company structure, complete severance of equity links between the NTT companies and separation of its operations on access networks.

Fulfilling these demands would require revision of laws including the NTT Law (The Law Concerning Nippon Telegraph and Telephone Corporation, etc.), so in the meantime KDDI is advocating that rigid inter-company partitions are determined and made compulsory to prevent the NTT companies from sharing personnel, property, funds or information. If market domination by the NTT Group as a whole grows despite these measures, this could have a negative impact on the financial position and performance of the KDDI Group.

The main factors and uncertainties in terms of the revision or repeal of laws and ordinances governing telecommunications and related government policies that could affect the financial position and performance of the KDDI Group are summarized and listed below.

Mobile Business

- Revisions to the mobile business model
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to the specified telecommunications equipment system (tighter regulation)
- Revisions to systems governing universal service fund
- Allocation of frequencies for commercialization of wireless broadband and similar services
- New carriers entering the mobile communications market
- New research into the effect of radio waves on health
- Mobile internet systems or related regulatory developments
- Systems targeting mobile phone use or related regulatory developments
- New regulations regarding access to the next-generation networks of NTT East and NTT West
- New regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- Product defects in mobile phone handsets or chargers (including adapters)

Fixed-line Business

- Revisions to the specified telecommunications equipment system (deregulating use of optical fiber and similar equipment)
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to systems governing universal service fund
- Internet systems or related regulatory developments
- New regulations regarding access to the next-generation networks of NTT East and NTT West
- New regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- Product defects in communications equipment or chargers (including adapters)

(4) System Failures due to Natural Disasters and Other Unforeseen Events

Provision of voice and data communication services by the KDDI Group is dependent on the smooth functioning of related communications networks in Japan and overseas. Temporary service outages due to systemic problems or other unforeseen circumstances cannot be ruled out and could theoretically lead to large-scale billing errors.

Temporary or long-term cessation of services due to KDDI Group systems going down is another system-related risk with potentially negative effects on the financial position and performance of the KDDI Group. The major potential causes of such an event are listed below.

- Computer viruses or other form of cyberattack
- System hardware or software crashes
- Power brownouts or blackouts
- Natural disasters such as earthquake, typhoon or flood
- War, terrorism, accidents or other unforeseen events

(5) Litigation and Patents

Litigation stemming from alleged infringement of intellectual property and other rights associated with KDDI Group products, services and technologies could potentially have a negative impact on financial position and performance.

(6) Personnel Retention and Training

The KDDI Group invests in company-wide personnel training to ensure that it can respond rapidly to technological developments, although the training process takes time for the desired effects to manifest. Going forward, KDDI faces the risk of a substantial increase in personnel development costs.

(7) General Legal and Regulatory Risk

In each of the countries in which it operates, the KDDI Group takes steps to secure the appropriate business and investment permits and licenses, to establish procedures in conformity with national safety and security laws, and to apply various other government regulations. The company also seeks to comply fully with commercial, anti-trust, patent, consumer, tax and labor laws as well as legislation covering foreign exchange transactions and issues related to the environment and recycling. Failure to comply with legislation could result in limitations being placed on the future business activities of the KDDI Group or increases in costs.

(8) Pension Liabilities

Following the merger in 2000, the KDDI Group has undertaken efforts to integrate pension systems. This has involved moves to return the government-sponsored substitutional portion of employee welfare pensions and to cut pension liabilities through revisions of retirement benefit rates. KDDI has also revised its pension asset management policies and methods, based on projections of future retirement benefit liabilities. Going forward, the KDDI Group could post extraordinary losses if a fall in yields on managed pension assets leads to a drop in the market value of the pension fund, or in the event of significant revisions to the actuarial assumptions (such as the discount rate, composition of personnel or expected rate of salary increases) on which planned retirement benefit levels are based.

(9) Asset-Impairment Accounting

In the fiscal year ended March 2007 the KDDI Group posted impairment losses primarily for asset groups related to the provision of Tu-Ka cellular phone services. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment.

(10) Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

Consolidation within the telecommunications industry in Japan and abroad could exert a negative impact on the financial position and performance of the KDDI Group.

Going forward, the KDDI Group may undertake further business restructuring measures at some later date. The company cannot guarantee that such action would necessarily have a positive impact on the KDDI Group.

In October 2005, KDDI absorbed three Tu-Ka consolidated subsidiaries. KDDI then merged with POWEREDCOM Inc. in January 2006 as part of its comprehensive alliance with TEPCO in the telecommunications business. In a measure to offer integrated services in its FTTH operations, in January 2007 KDDI absorbed the FTTH businesses operated by TEPCO's internal Optical Fiber Network Company.

The KDDI Group cannot guarantee that future effects of this business restructuring will necessarily have a positive impact on its financial position and performance.

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
March 31, 2006 and 2007	2006	**2007**	**2007**
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 151,003	**¥ 192,654**	**$ 1,632**
Accounts receivable	408,905	**439,294**	**3,721**
Allowance for doubtful accounts	(15,175)	**(15,008)**	**(127)**
Inventories	38,384	**55,099**	**467**
Deferred income taxes (Note 12)	17,730	**45,521**	**386**
Prepaid expenses and other current assets	15,837	**17,009**	**144**
Total Current Assets	616,684	**734,569**	**6,223**
Property, Plant and Equipment:			
Telecommunications equipment	3,001,891	**3,207,402**	**27,170**
Buildings and structures	428,448	**432,906**	**3,667**
Machinery and tools	117,078	**122,815**	**1,040**
Land	48,423	**52,635**	**446**
Construction in progress	70,419	**89,436**	**758**
Other property, plant and equipment	1,195	**1,798**	**15**
	3,667,454	**3,906,992**	**33,096**
Accumulated depreciation	(2,257,597)	**(2,406,384)**	**(20,384)**
Total Property, Plant and Equipment	1,409,857	**1,500,608**	**12,712**
Investments and Other Assets:			
Investments in securities (Note 4)	49,276	**51,269**	**434**
Deposits and guarantee money	38,547	**38,181**	**323**
Intangible assets	165,332	**204,826**	**1,735**
Goodwill	—	**30,076**	**255**
Deferred income taxes (Note 12)	103,625	**114,955**	**974**
Other assets	126,326	**137,984**	**1,168**
Allowance for doubtful assets	(8,782)	**(9,228)**	**(78)**
Total Investments and Other Assets	474,324	**568,063**	**4,811**
Total Assets	¥ 2,500,865	**¥ 2,803,240**	**$ 23,746**

The accompanying notes are an integral part of these statements.

March 31, 2006 and 2007	Millions of yen 2006	Millions of yen 2007	Millions of U.S. dollars (Note 1) 2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 5)	¥ 246,757	**¥ 259,859**	**$ 2,201**
Accounts payable	275,107	**391,937**	**3,320**
Accrued income taxes	18,780	**100,404**	**850**
Accrued expenses	10,919	**11,419**	**97**
Allowance for bonuses	16,892	**18,179**	**154**
Other current liabilities	26,971	**52,768**	**447**
Total Current Liabilities	595,426	**834,566**	**7,069**
Non-Current Liabilities:			
Long-term loans (Note 5)	266,340	**192,858**	**1,634**
Bonds (Note 5)	257,800	**167,780**	**1,421**
Reserve for point service program	24,893	**30,679**	**260**
Reserve for retirement benefits and other non-current liabilities (Notes 5, 13)	44,078	**40,243**	**341**
Total Non-Current Liabilities	593,111	**431,560**	**3,656**
Total Liabilities	1,188,537	**1,266,126**	**10,725**
Contingent Liabilities (Note 6)			
Net Assets (Note 10)			
Common stock			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2006 and 2007, respectively			
Issued—4,427,256.86 and 4,484,818.86 shares at March 31, 2006 and 2007, respectively	141,852	**141,852**	**1,202**
Additional paid-in capital surplus	305,676	**367,272**	**3,111**
Retained earnings	853,405	**1,000,662**	**8,476**
Treasury stock, at cost			
Number of treasury stock 56,569.00 and 22,672.34 shares at March 31, 2006 and 2007, respectively	(28,234)	**(20,310)**	**(172)**
Total Shareholders' Equity	1,272,699	**1,489,476**	**12,617**
Net unrealized gains on securities	21,666	**22,322**	**189**
Foreign currency translation adjustments	1,166	**4,467**	**38**
Total Unrealized Gains and Translation Adjustments	22,832	**26,789**	**227**
Stock Acquisition Rights	—	**137**	**1**
Minority Interests	16,797	**20,712**	**176**
Total Net Assets	1,312,328	**1,537,114**	**13,021**
Total Liabilities and Shareholders' Equity	¥ 2,500,865	**¥ 2,803,240**	**$ 23,746**

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

March 31, 2006 and 2007	Millions of yen 2006	Millions of yen 2007	Millions of U.S. dollars (Note 1) 2007
Operating Revenues:			
Revenues from telecommunication business	¥ 2,398,526	**¥ 2,592,882**	**$ 21,964**
Sales of terminal equipment and other	662,288	**742,378**	**6,289**
Total Operating Revenues	3,060,814	**3,335,260**	**28,253**
Operating Expenses:			
Sales expenses	1,047,003	**1,148,641**	**9,730**
Depreciation	328,259	**315,551**	**2,673**
Charges for use of telecommunications services of third parties	413,294	**449,509**	**3,808**
Cost of sales of terminal equipment and other	653,531	**713,331**	**6,043**
Other	322,131	**363,527**	**3,079**
Total Operating Expenses	2,764,218	**2,990,559**	**25,333**
Operating Income	296,596	**344,701**	**2,920**
Other Expenses (Income):			
Interest expense	15,682	**11,842**	**100**
Interest income	(1,027)	**(853)**	**(7)**
Gain on sales of securities	(699)	**(444)**	**(4)**
Valuation loss on investments in securities	695	**251**	**2**
Loss on sales of property, plant and equipment (Note 7)	422	**59**	**0**
Equity in gain of affiliates	(2,278)	**(775)**	**(6)**
Gains from forgiveness of debt	(1,298)	**—**	**—**
Dividend income from anonymous association	(6,836)	**(7,969)**	**(67)**
Loss on disposal of property, plant and equipment	160	**200**	**2**
Impairment loss (Note 8)	114,296	**42,084**	**356**
Other, net	(3,127)	**(8,768)**	**(74)**
Total Other Expenses	115,990	**35,627**	**302**
Income before Income Taxes and Minority Interests	180,606	**309,074**	**2,618**
Income Taxes:			
Current	61,140	**133,356**	**1,130**
Deferred	(74,597)	**(14,923)**	**(127)**
Total Income Taxes	(13,457)	**118,433**	**1,003**
Minority Interests in Consolidated Subsidiaries	3,494	**3,894**	**33**
Net Income	¥ 190,569	**¥ 186,747**	**$ 1,582**

March 31, 2006 and 2007	Yen 2006	Yen 2007	U.S. dollars (Note 1) 2007
Per Share Data:			
Net income	¥ 45,056	**¥ 42,505**	**$ 360.06**
Net income after adjusted the potential stocks	45,025	**42,495**	**359.97**
Cash dividends	8,000	**9,500**	**80.47**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets

KDDI Corporation and Consolidated Subsidiaries

The consolidated statement of changes in net assets for the fiscal year ended March 31 2006 is presented under the new standard.

	Thousands	Millions of yen										
		Shareholders' equity					Unrealized gains and translation adjustments etc.					
Years ended March 31, 2006 and 2007	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains and translation adjustments etc.	Foreign currency translation adjustments	Unrealized gains and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, March 31, 2005	4,241	¥141,852	¥304,190	¥ 739,448	¥(31,506)	¥1,153,984	¥ 9,858	¥(1,650)	¥ 8,208	—	¥13,229	¥1,175,421
Dividend of surplus (Note 10)				(29,247)		(29,247)						(29,247)
Net income for the year				190,569		190,569						190,569
Acquisition of treasury stock					3,272	3,272						3,272
Disposal of treasury stock				(838)		(838)						(838)
Increase due to merger	186		1,486			1,486						1,486
Reversal of consolidated adjustment account				(46,438)		(46,438)						(46,438)
Directors' and corporate auditors' bonuses				(89)		(89)						(89)
Net changes of items other than shareholders' equity during the fiscal year							11,808	2,816	14,624		3,568	18,192
Balance, March 31, 2006	4,427	¥141,852	¥305,676	¥ 853,405	¥(28,234)	¥1,272,699	¥21,666	¥ 1,166	¥22,832	—	¥16,797	¥1,312,328
Dividend of surplus (Note 10)				(39,356)		(39,356)						(39,356)
Net income for the year				186,747		186,747						186,747
Acquisition of treasury stock					(46,281)	(46,281)						(46,281)
Disposal of treasury stock			(66)		2,409	2,343						2,343
Net change due to absorption-type demerger	58		61,662		51,796	113,458						113,458
Directors' and corporate auditors' bonuses				(134)		(134)						(134)
Net changes of items other than shareholders' equity during the fiscal year							656	3,301	3,957	137	3,915	8,008
Balance, March 31, 2007	**4,485**	**¥141,852**	**¥367,272**	**¥1,000,662**	**¥(20,310)**	**¥1,489,476**	**¥22,322**	**¥ 4,467**	**¥26,789**	**¥137**	**¥20,712**	**¥1,537,114**

	Thousands	Millions of U.S. dollars (Note 1)										
		Shareholders' equity					Unrealized gains and translation adjustments etc.					
Years ended March 31, 2007	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains and translation adjustments etc.	Foreign currency translation adjustments	Unrealized gains and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, March 31, 2006	4,427	$1,202	$2,589	$7,229	$(239)	$10,781	$184	$10	$194	—	$142	$11,117
Dividend of surplus (Note 10)				(333)		(333)						(333)
Net income for the year				1,581		1,581						1,581
Acquisition of treasury stock					(392)	(392)						(392)
Disposal of treasury stock			(1)		20	19						19
Net change due to absorption-type demerger	58		523		439	962						962
Directors' and corporate auditors' bonuses				(1)		(1)						(1)
Net changes of items other than shareholders' equity during the fiscal year							5	28	33	1	34	68
Balance, March 31, 2007	**4,485**	**$1,202**	**$3,111**	**$8,476**	**$(172)**	**$12,617**	**$189**	**$38**	**$227**	**$1**	**$176**	**$13,021**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
Years ended March 31, 2006 and 2007	2006	**2007**	**2007**
Cash Flows from Operating Activities:			
Income before income taxes and			
Minority interests Adjustments for:	¥ 180,606	**¥ 309,074**	**$ 2,618**
Depreciation and amortization	337,461	**328,179**	**2,780**
Impairment loss	114,296	**42,084**	**356**
Loss on sales of property, plant and equipment	422	**59**	**0**
Loss on disposal of property, plant and equipment	22,074	**21,850**	**185**
Increase (decrease) in allowance for doubtful accounts	(5,642)	**417**	**4**
Decrease in reserve for retirement benefits	(1,673)	**(5,413)**	**(46)**
Interest and dividend income	(1,494)	**(1,703)**	**(14)**
Interest expenses	15,682	**11,842**	**100**
Equity in gain of affiliates	(2,278)	**(775)**	**(7)**
Gain on sales of investment securities	(699)	**(444)**	**(4)**
Valuation loss in investments in securities	695	**251**	**2**
Increase in reserve for point services	4,088	**5,785**	**49**
Changes in assets and liabilities:			
Increase in prepaid pension cost	(1,534)	**(521)**	**(4)**
Increase in notes and accounts receivable	(6,863)	**(38,053)**	**(322)**
Increase (decrease) in inventories	10,872	**(15,948)**	**(135)**
Increase in notes and accounts payable	24,424	**115,518**	**979**
Increase in advances received	2,915	**24,059**	**204**
Other, net	3,001	**932**	**8**
Sub total	696,353	**797,193**	**6,753**
Interest and dividend income received	2,281	**5,615**	**48**
Interest expenses paid	(16,348)	**(12,422)**	**(105)**
Income taxes paid	(106,755)	**(51,683)**	**(438)**
Net cash provided by operating activities	575,531	**738,703**	**6,258**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(311,614)	**(317,289)**	**(2,688)**
Proceeds from sale of property, plant and equipment	1,953	**911**	**8**
Payments for other intangible assets	(87,665)	**(106,958)**	**(906)**
Acquisition of investment in securities	(413)	**(2,056)**	**(17)**
Proceeds from sale of investment in securities	3,336	**1,410**	**12**
Payments for investment in affiliates	(28,669)	**(9,628)**	**(82)**
Increase in long-term prepayment	(13,648)	**(11,651)**	**(99)**
Other, net	797	**3,043**	**26**
Net cash used in investing activities	(435,923)	**(442,218)**	**(3,746)**
Cash Flows from Financing Activities:			
Net decrease in short-term loans	(543)	**(23,014)**	**(195)**
Proceeds from long-term loans	—	**93,000**	**788**
Repayment of long-term loans	(216,530)	**(168,153)**	**(1,424)**
Proceed from new bond issue	49,973	**—**	**—**
Payment for redemption of bonds	(60,375)	**(76,875)**	**(651)**
Payments for acquisition of treasury stocks	(262)	**(46,281)**	**(392)**
Dividends paid	(29,552)	**(40,022)**	**(339)**
Payments received from minority shareholders	242	**88**	**1**
Other, net	112	**2,338**	**19**
Net cash used in financing activities	(256,935)	**(258,919)**	**(2,193)**
Translation Adjustments on Cash and Cash Equivalents	1,146	**1,085**	**9**
Net Increase (Decrease) in Cash and Cash Equivalents	(116,181)	**38,651**	**328**
Cash and Cash Equivalents at Beginning of Year	222,532	**151,003**	**1,279**
Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated	44,722	**3,000**	**25**
Decrease in Cash and Cash Equivalents Due to change in Consolidation	(70)	**—**	**—**
Cash and Cash Equivalents at End of Year	¥ 151,003	**¥ 192,654**	**$ 1,632**

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 Corporate Law 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. The Company's 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, 2007, include 42 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 other subsidiaries.

During the year ended March 31, 2007, significant changes in the scope were incurred as follows:

Removed (Consolidated)

Power Nets Inc.	Amalgamated by absorption
Duogate Inc.	Amalgamated by absorption
KDDI BRAZIL HOLDINGS LTDA.	Sale of shares
KDDI DO BRASIL LTDA.	Sale of shares

Equity Method

Added:

Mobile Net Bank Establishment Investigation Corporation	Established
KDDI & BT Global Solutions Corporation	Established
TEPCO OPTICAL NETWORK ENGINEERING INC.	Established
Kamakura Cable Communications., Ltd.	Acquisition of shares

Removed:

Merger

CATV KOHNAN Limited

Town Television Minami-Yokohama Co., Ltd.

The corporations above merged in October 2006 with CATV KOHNAN Limited, the surviving company, changing its name to JCN YOKOHAMA Limited.

Merger

Funabashi Cable Network Limited

TOWN TV NARASHINO CO., LTD.

The corporations above merged in October 2006 with Funabashi Cable Network Co., the surviving company, changing its name to JCN Funabashi Narashino Limited.

Merger

Koala Television Co., Ltd.

Katsushika Cable Network Limited

The corporations above merged in March 2007 with Koala TV Co., the surviving company, changing its name to JCN Koala Katsushika Limited.

Reclassifications:

Certain amounts of prior years have been reclassified to conform to the presentations for the fiscal year ended March 31, 2007.

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 ¥118.05=$1, the approximate exchange rate on March 30, 2007. 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 two 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. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign Currency Translation Adjustments" and "Minority Interests" of "Net Assets".

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 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) Securities

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 Net assets. 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.

(2) Derivatives

Derivatives are used to hedge against interest rate fluctuation risks based on the Company's policy.

Major hedging instruments are interest rate swaps and hedged items are long term loans.

The interest rate swap transaction used to hedge interest rate fluctuation are measured at the fair value and unrealized gain or loss are presented in income statements.

The interest rate swaps meeting the requirement of exceptional treatment of Japanese GAAP are not measured at the fair value and the difference between payment amount and receipt amount are included in the interest expense occurred on the long term borrowings as the hedged item.

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 (5 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 and negative goodwill are amortized using the straight-line method over a period of 5 to 10 years. However, the small amounts of goodwill and negative goodwill in the fiscal year under review were treated as income and expenses in the Consolidated Statement 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 2007 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2007 year-end. Prior service cost is amortized on a straight line basis over the average remaining service life of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

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. Adoption of Accounting New Standards

(Accounting Standard for Presentation of Net Assets in the Balance Sheet)

Effective from the fiscal year ended March 31, 2007, the Company has adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No.5)" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Guidance No.8)" both issued by the Accounting Standards Board of Japan on December 9, 2005.

The amounts corresponding to the conventional "Shareholders' equity" in the balance sheet is ¥1,516,265 million (US$12,844 million).

"Net assets" in the balance sheets for this year is presented according to the revision of "Regulations Concerning the Terminology, Form and Presentation Methods of Consolidated Financial Statements" dated on April 25, 2006. Furthermore, the Company presented its net assets in the balance sheet using the new presentation as of March 31 2006.

(Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures)

Effective from the fiscal year ended March 31, 2007, the Company has adopted "Accounting Standard for Business Combinations (Business Accounting Council, October 31, 2003)", "Accounting Standard for Business Divestitures (Accounting Standards Board of Japan Statement No.7, December 27, 2005)", and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan Guidance No.10, December 22, 2006)".

3. Business Combination

Information on major business combination in the year ended March 31, 2007 is as follows:

1. The primary reasons for business combination, the name and brief description of acquired business, the acquisition date, and legal form for business combination

The primary reasons for business combination	To integrate management resources of both companies to realize strong and solid foundation of telecommunication group. To provide communication services with high convenience to meet broad customer needs such as integrating communications and electricity to satisfy society's strong need for such a union.
Name of demerger company of acquired business	Tokyo Electric Power Co.
Brief description of acquired business	Residential optical fiber connection (FTTH) business and related rental business developed and operated by Hikari Network Company of Tokyo Electric Power Co.
Acquisition date	January 1, 2007
Legal form for business combination	Absorption-type demerger, where the Company is the surviving entity and Tokyo Electric Power Co., is the divisively reorganizing entity.

2. Reporting period of acquired business for consolidated financial statements

From January 1, 2007 to March 31, 2007

3. Acquisition costs and detail of acquired business

	Millions of yen	Millions of U.S. dollars
	2007	**2007**
Acquisition costs of acquired business	**¥114,389**	**$ 969**

Detail of acquisition costs

	Millions of yen	Millions of U.S. dollars
	2007	**2007**
Purchase price	**¥113,458**	**$ 961**
Expenses directly paid for business acquisition	**931**	**8**

Note: The purchase price will be paid through a share transfer.

4. Type and number of shares allocated for common stock 144,569 shares

5. Assessed value

Assessed value per share (¥784,800 = US$6,648.03)

6. The amount, cause, amortization method and amortizing of goodwill

(1) Amount of goodwill

	Millions of yen	Millions of U.S. dollars
	2007	**2007**
Amount of goodwill	**¥ 31,190**	**$ 264**

(2) Cause to give rise to goodwill Since the purchase price exceeds the total amount of fair value on account of expected superior earning power, the excess amount is recognized as goodwill.

(3) Amortization method and period Goodwill is amortized over 7 years by straight-line method.

7. The assets acquired and the liabilities assumed at the acquisition date by major balance sheet caption

	Millions of yen	Millions of U.S. dollars
	2007	**2007**
Fixed assets	**¥129,395**	**$ 1,096**
Current assets	**9,390**	**80**
Total assets	**138,785**	**1,176**
Current liabilities	**24,395**	**207**
Total liabilities	**24,395**	**207**

4. Market Value Information

At March 31, 2007 and 2006, 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		
	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
	2006			2007			2007		
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥3,623	¥40,195	¥36,572	**¥3,987**	**¥41,588**	**¥37,601**	**$34**	**$352**	**$319**
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	657	650	(7)	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥4,280	¥40,845	¥36,565	**¥3,987**	**¥41,589**	**¥37,601**	**$34**	**$352**	**$319**

Other securities sold during the current consolidated fiscal year

	Millions of yen						Millions of U.S. dollars		
	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
	2006			2007			2007		
Other securities sold	¥ 869	¥ 703	¥ 4	**¥ 939**	**¥ 495**	**¥ 12**	**$ 8**	**$ 4**	**$ 0**

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

	Millions of yen		Millions of U.S. dollars
	Book value	Book value	Book value
	2006	2007	2007
Other securities			
Unlisted equity securities	¥ 9,003	**¥ 9,680**	**$ 82**
Commercial papers	4,999	**18,993**	**161**
Bonds	—	**1,255**	**11**
Total	¥ 14,002	**¥ 29,928**	**$ 254**

Among other securities, scheduled redemption amount of bonds intended to be held to maturity and of instruments that have maturities.

	Millions of yen								Millions of U.S. dollars			
	Within one year	One to five years	Five to 10 years	Over 10 years	Within one year	One to five years	Five to 10 years	Over 10 years	Within one year	One to five years	Five to 10 years	Over 10 years
	2006				2007				2007			
Bonds												
Corporate bonds	¥ 300	¥ —	¥ —	¥ —	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**	**$ —**
Other	5,005	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	¥5,305	¥ —	¥ —	¥ —	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**$ —**	**$ —**	**$ —**	**$ —**

5. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2007 and 2006 were ¥4,077 million (U.S.$35 million) and ¥2,626 million, and the annual average interest rates applicable to short-term bank loans at March 31, 2007 and 2006 were 5.68% and 5.15%.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Domestic unsecured straight bonds due 2006 through 2012 at rates of 0.435% to 2.57% per annum	¥224,875	**¥177,979**	**$ 1,508**
General secured bonds due 2006 through 2017 at rates of 2.65% to 3.20% per annum (*)	109,800	**79,800**	**676**
Total bonds	¥334,675	**¥257,779**	**$ 2,184**
Loans from banks:			
Maturing through 2020 at average rates of 1.61% per annum	¥433,387	**¥358,614**	**$ 3,037**
Other interest-bearing debt	4	**—**	**—**
	¥433,391	**¥358,614**	**$ 3,037**
Total bonds, loans and other interest-bearing debt	¥768,066	**¥616,393**	**$ 5,221**
Less, amount due within one year	243,926	**255,755**	**2,166**
	¥524,140	**¥360,638**	**$ 3,055**

(*) 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, 2007 were as follows:

Year ending March 31	Millions of yen 2007	Millions of U.S. dollars 2007
2007	**¥255,755**	**$ 2,166**
2008	**91,680**	**777**
2009	**49,862**	**422**
2010	**78,438**	**664**
2011 and thereafter	**140,658**	**1,192**
	¥616,393	**$ 5,221**

6. Contingent Liabilities

At March 31, 2007 and 2006, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
As a guarantor for:			
System supply contract of KDDI Submarine Cable Systems Inc.	111,148	**15,828**	**134**
Office lease contract of KDDI America, Inc. and others*1	1,469	**1,097**	**9**
Keepwell for management guidance to debt (CABLENET SAITAMA CO., LTD.)*2	204	**100**	**1**
	¥112,821	**¥17,025**	**$ 144**

(*1) The total contingent liabilities of ¥7 million includes the ¥3 million portion that the Company was liable for.

(*2) The portion of the total keepwell for management guidance to debt of ¥505 million (U.S.$4 million) that the company was liable for.

7. 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, 2007 and 2006 were as follows:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Gain on sale of Oyama site	¥ (204)	**¥ —**	**$ —**
Loss on sale of Oyama golf course and adjacent lot	573	**—**	**—**
Other	53	**59**	**0**
	¥ 422	**¥ 59**	**$ 0**

8. Impairment Losses

The Company recorded impairment losses in the year ended March 31, 2007 and 2006 mainly on the assets and asset groups below.

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
KDDI Corporation Tu-Ka phone service assets	¥104,263	**¥39,586**	**$ 335**
KDDI Corporation domestic transmission systems equipment and other idle assets	9,974	**—**	**—**

In calculating impairment losses, the assets are grouped according to the lowest unit with identifiable cash flows practically independent from the cash flows of other assets or groups of assets.

During the year ended March 31, 2007, the carrying amount of the assets group related to Tu-Ka phone service has been reduced to the recoverable amount, and because Tu-Ka phone service will be integrated into au phone service to satisfy customer needs and terminate on March 31, 2008, the ¥39,586 million (U.S.$335 million) that was the amount deducted is recognized as impairment loss in other expenses.

Impairment losses includes a machinery and tools portion of ¥5,220 million (U.S.$44 million), telecommunications equipment portion of ¥17,966 million (U.S.$152 million), a buildings and structures portion of ¥8,133 million (U.S.$69 million), while the others portion is ¥8,267 million (U.S.$70 million).

The recoverable value of this assets group is measured based on the value in use and involves discounting the future cash flow by 5.63%.

9. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value as of March 31, 2007 and 2006 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
	2006				**2007**				**2007**			
Machinery and equipment, Tools, furniture and fixtures, vehicles	¥85,522	¥57,592	¥2,887	¥25,043	**¥44,099**	**¥22,633**	**¥3,031**	**¥18,435**	**$374**	**$192**	**$26**	**$156**
Other	4,942	1,972	4	2,966	**4,890**	**2,247**	**—**	**2,643**	**41**	**19**	**—**	**22**
	¥90,464	¥59,564	¥2,891	¥28,009	**¥48,989**	**¥24,880**	**¥3,031**	**¥21,078**	**$415**	**$211**	**$26**	**$178**

Future lease payments as of March 31, 2007 and 2006 were as follows.

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Within one year	¥10,470	**¥ 8,502**	**$ 72**
Over one year	17,539	**12,576**	**107**
	¥28,009	**¥21,078**	**$ 179**
Balance of impairment loss on leased assets	¥ 2,891	**¥ 3,031**	**$ 26**

Lease payments, assumed depreciation charges and impairment loss for the years ended March 31, 2007 and 2006 were as follows.

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Lease payments	¥18,892	**¥11,520**	**$ 98**
Reclassification of impairment loss on leased assets	302	**1,687**	**14**
Assumed depreciation charges	18,892	**11,520**	**98**
Impairment loss	2,891	**199**	**2**

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, 2007 and 2006 were as follows.

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Within one year	¥17,852	**¥17,922**	**$ 152**
Over one year	41,246	**23,741**	**201**
	¥59,098	**¥41,663**	**$ 353**

Lessor side

Finance leases without transfer of ownership

There is no applicable data of equivalent acquisition cost (including interest portion thereon), equivalent accumulated depreciation and equivalent balance for the year ended March 31, 2007 and 2006

There is no applicable data of equivalent future minimum lease receipts for the year ended March 31, 2007 and 2006

Lease receipts and assumed depreciation charges for the years ended March 31, 2007 and 2006 were as follows.

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Lease received	¥ 97	**¥ —**	**$ —**
Assumed depreciation charges	90	**—**	**—**

10. Shareholders' Equity

A new Japanese Corporate Law came into effect from May 1, 2006. The new law provides that an amount equal to 10 percent of cash dividends paid be appropriated to additional paid-in capital, which is included in capital surplus, or the legal reserve, which is included in retained earnings, in the consolidated balance sheets. No further appropriation is required when the sum of additional paid-in capital and the legal reserve equals 25 percent of stated capital. Under the law, retained earnings are available for distribution at any time upon approval by the shareholders' meeting or, under certain conditions, upon approval by the Board of Directors.

11. Research and Development Expenses

Research and development expenses charged to income were ¥15,386 million ($130 million) and ¥15,337 million, for the years ended March 31, 2007 and 2006, respectively.

12. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2007 was 40.6%.

At March 31, 2007 and 2006, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Deferred tax assets:			
Depreciation and amortization	¥ 38,471	**¥ 34,760**	**$ 295**
Allowance for doubtful accounts	12,316	**16,018**	**136**
Disposal of fixed assets	2,876	**2,764**	**23**
Inventory write down	2,623	**1,458**	**12**
Impairment loss	51,193	**56,558**	**479**
Reserve for retirement benefits	5,736	**3,395**	**29**
Allowance for bonus payment	7,404	**7,997**	**68**
Accrued expenses	2,617	**2,623**	**22**
Net operating loss carried forward	3,580	**2,691**	**23**
Unrealized profits	2,572	**2,044**	**17**
Reserve for point service program	10,105	**12,423**	**105**
Accrued enterprise taxes	2,437	**7,483**	**63**
Advances received	—	**10,992**	**93**
Assets adjustment account	—	**18,810**	**159**
Other	5,443	**3,753**	**32**
Gross deferred tax assets	147,373	**183,769**	**1,556**
Valuation allowance	(9,941)	**(7,818)**	**(66)**
Net deferred tax assets	¥137,432	**¥175,951**	**$ 1,490**
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,912)	**¥ (1,795)**	**$ (15)**
Net unrealized gains on securities	(14,793)	**(15,224)**	**(129)**
Retained earnings for overseas affiliates	(863)	**(830)**	**(7)**
Other	(1,448)	**(1,682)**	**(14)**
Total deferred tax liabilities	¥ (19,016)	**¥ (19,531)**	**$ (165)**
Net deferred tax assets	¥118,416	**¥156,420**	**$ 1,325**

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statements purposes for the year ended March 31, 2007.

Statutory tax rate	40.6 %
Special tax treatment for IT investment	(3.0)%
Preferential tax system on research and development	(0.3)%
Effect of consolidated elimination of dividend income	0.7 %
Other	0.3 %
Effective tax rate	38.3 %

13. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of a 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, 2007 and 2006 were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Projected benefit obligations	¥(270,535)	**¥(284,360)**	**$ (2,409)**
Plan assets	238,413	**260,977**	**2,211**
Retirement benefit trust	8,203	**8,488**	**72**
	¥ (23,919)	**¥ (14,895)**	**$ (126)**
Unrecognized prior service cost	(8,743)	**(3,598)**	**(30)**
Unrecognized actuarial differences	26,412	**18,176**	**154**
Prepaid pension cost	(16,667)	**(17,205)**	**(146)**
Reserve for retirement benefits	¥ (22,917)	**¥ (17,522)**	**$ (148)**

Net pension expense related to the retirement benefits for the year ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Millions of U.S. dollars
	2006	**2007**	**2007**
Service cost	¥ 8,730	**¥ 9,599**	**$ 81**
Interest cost	5,203	**5,443**	**46**
Expected return on plan assets	(3,766)	**(4,768)**	**(40)**
Amortization of prior service cost	(797)	**(636)**	**(5)**
Amortization of actuarial differences	6,829	**4,302**	**36**
Net pension cost	¥ 16,199	**¥ 13,940**	**$ 118**

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
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

Information for each of the business segments for the years ended March 31, 2007 and 2006 is as follows:

	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 yen					
Year ended March 31, 2007	Fixed-line	Mobile	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	**¥610,365**	**¥2,662,550**	**¥ 62,345**	**¥3,335,260**	**¥ —**	**¥3,335,260**
Intersegment sales	**103,986**	**14,895**	**46,359**	**165,240**	**(165,240)**	**—**
Total	**714,351**	**2,677,445**	**108,704**	**3,500,500**	**(165,240)**	**3,335,260**
Operating expenses	**763,387**	**2,291,756**	**101,846**	**3,156,989**	**(166,430)**	**2,990,559**
Operating income (loss)	**¥ (49,036)**	**¥ 385,689**	**¥ 6,858**	**¥ 343,511**	**¥ 1,190**	**¥ 344,701**
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:						
Identifiable assets	**¥871,997**	**¥1,517,284**	**¥101,416**	**¥2,490,697**	**¥ 312,543**	**¥2,803,240**
Depreciation	**120,682**	**200,044**	**4,937**	**325,663**	**(514)**	**325,149**
Impairment losses	**47**	**39,590**	**159**	**39,796**	**2,288**	**42,084**
Capital expenditures	**87,660**	**307,746**	**6,708**	**402,114**	**17,316**	**419,430**

Year ended March 31, 2007	Millions of U.S. dollars					
	Fixed-line	Mobile	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	$5,170	$22,555	$528	$28,253	$ —	$28,253
Intersegment sales	881	126	393	1,400	(1,400)	—
Total	6,051	22,681	921	29,653	(1,400)	28,253
Operating expenses	6,466	19,414	863	26,743	(1,410)	25,333
Operating income (loss)	$ (415)	$ 3,267	$ 58	$ 2,910	$ 10	$ 2,920
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:						
Identifiable assets	$7,387	$12,853	$859	$21,099	$ 2,647	$23,746
Depreciation	1,022	1,695	42	2,759	(5)	2,754
Impairment losses	0	336	1	337	19	356
Capital expenditures	742	2,607	57	3,406	147	3,553

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

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. Reclassifications to assets by business segments

Conventionally, the assets related to the Company's administrative division were allocated to each business segment, however, as from the year ended March 21, 2007, the full amount will be classified to either of the items of elimination or consolidation.

This change is due to clarification of the range of assets for each segment.

This change impacted assets in the following way. Compared with conventional classification, Fixed-line increased ¥37,972 million (U.S.$322 million), Mobile decreased ¥43,181 million (U.S.$366 million), and there was a combined increase of ¥81,153 million (U.S.$687 million) for elimination and consolidation.

Capital expenditure was impacted as follows. Fixed-line and Mobile decreased ¥8,532 million (U.S.$72 million) and ¥9,316 million (U.S.$79 million) respectively, and there was a combined increase of ¥17,848 million (U.S.$151 million) for elimination and consolidation.

Depreciation Expenses are allocated to each segment based on conventional classification.

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

1. The appropriation of retained earnings of the Company for the year ended March 31, 2007, proposed by the Board of Directors and approved at the shareholders' meeting held on June 20, 2007, was as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥5,000 = US$42.35)	¥ 22,311	$ 189
Bonuses to directors and statutory auditors	93	1

2. Conclusion of the share transfer contracts related to acquisition of shares of JAPAN CABLENET LIMITED and JAPAN CABLENET HOLDINGS LIMITED (new subsidiaries)

KDDI CORPORATION (hereinafter, the Company) resolved at the meeting of its Board of Directors held on April 24, 2007 to acquire the shares of JAPAN CABLENET HOLDINGS LIMITED (hereinafter, JCNH) and JAPAN CABLENET LIMITED (hereinafter, JCN) held by Fujitsu Limited (hereinafter, Fujitsu). On the same day the parties concluded share transfer contracts whereby JCNH and JCN will become subsidiaries of the Company. Details of the share transfer are as follows.

1. Reason of acquisition of shares
   Although the Company acquired the shares of JCNH and JCN on March, 2006 and had attended the management of cable TV operator as from the viewpoint of broadening customer base toward future development of Hikari, the Company will newly acquire all JCN's and JCNH's shares held by Fujitsu to further strengthen the relationship with JCN group. According to this acquisition of shares, it will be possible to provide attractive services to customers quickly as a result of further link up with JCN group and establishing quick decision-making framework to better respond to the ever-intensifying competitive environment.

2. Transaction volume, transaction price and the number of shares held before and after transaction
   (1)Transaction volume, number of shares before and after transaction

		Target shares	Percentage of shares held	Percentage of voting rights held
•Number of shares held before transaction	JCNH	303,959.00 shares	46.76%	As on left
	JCN	86,761.80 shares	9.61%	9.85%
•Transaction volume	JCNH	182,000.00 shares	–	–
	JCN	81,151.00 shares	–	–
•Number of shares held after transaction	JCNH	485,959.00 shares	74.76%	As on left
	JCN	167,912.80 shares	18.60%*	19.60%*

* Total percentage of JCN shares held including shares held indirectly (the portion retained by JCNH) is 89.56%. Total percentage of voting rights held is 91.78%.

   (2)Transaction price

	Millions of yen	Millions of U.S. dollars
Shares of JCNH	¥14,603	$ 124
Shares of JCN	¥ 6,609	$ 56
Total amount	¥21,212	$ 180

Above transaction price is the price agreed based on the share evaluation by the independent organization.

3. Schedule

April 24, 2007	Resolution of the KDDI’s Board of Directors, conclusion of share transfer contracts
April 26, 2007	Resolution of the Fujitsu’s Board of Directors, effective date of share transfer contracts
June 27, 2007	Delivery of the shares (closing date)

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, 2006 and 2007, and the related consolidated statements of income, changes in net assets, 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, 2006 and 2007, 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 2, effective from the fiscal year ended March 31, 2007, KDDI CORPORATION and its subsidiaries adopted new accounting standards: "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet", "Accounting Standard for Business Combinations" and "Accounting Standard for Business Divestitures", and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures ".

As described in Note 14, the Company reclassified the full amounts of the assets related to the Company's administrative division which were allocated to each business segment to either of the items of elimination or consolidation.

As described in note 15, on April 24, 2007, the Board of Directors of the Company resolved to acquire additional shares of JAPAN CABLENET HOLDINGS LIMITED and JAPAN CABLENET LIMITED, and on the same day the Company entered into the share transfer contracts.

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.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan
June 21, 2007