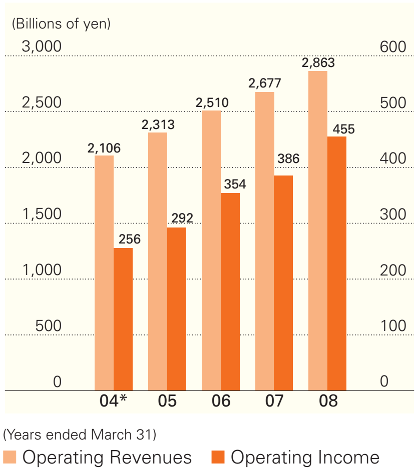
Overview of Operations: Business at a Glance

Operating Revenues/Operating Income



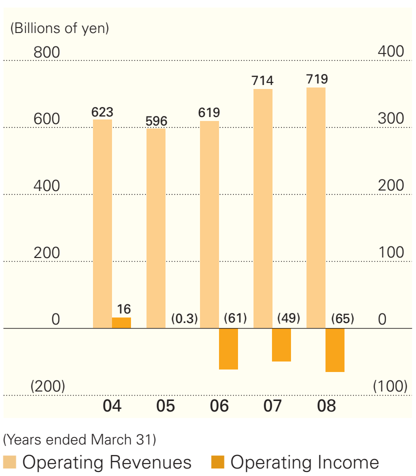
Mobile Business

Operating Revenues. . . . . . . ¥2,862.6 billion (up 6.9% YoY)
Operating Income. . . . .¥455.0 billion (up 18.0%)

The Mobile Business reached its longstanding target of 30 million au subscribers at the end of March 2008. The steady increase in subscribers, along with improvement in the churn rate due to the success of various retention strategies, resulted in a 6.9% rise in operating revenue from the previous fiscal year to ¥2,862.6 billion in the fiscal year ended March 2008, with operating income up 18.0% to ¥455.0 billion.

*Figures for the March 2004 fiscal year include a simple combining of results from the au and Tu-Ka businesses.

Operating Revenues/Operating Income

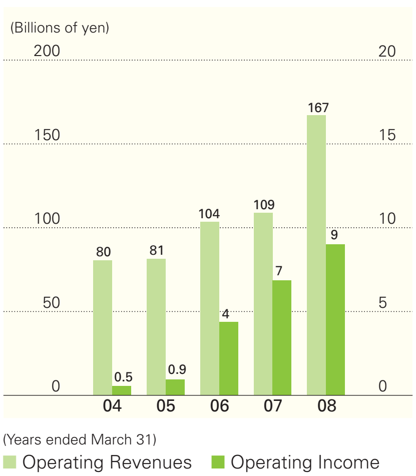


Fixed-line Business

Operating Revenues. . . . .¥718.6 billion (up 0.6% YoY)
Operating Income (Loss) . . . . ¥(64.7) billion (–)

The Fixed-line Business achieved an increase in the number of subscribers for Metal-plus and FTTH service, along with greater sales of corporate data services, which offset revenue declines from telephone and other legacy services. As a result, operating revenue rose 0.6% from the previous fiscal year to ¥718.6 billion. Operating income, however, despite improved profitability for Metal-plus, suffered from an increase in expenses for development of the FTTH business. As a result, the Fixed-line Business posted an operating loss for the fiscal year under review of ¥64.7 billion, a ¥15.6 billion greater loss than in the previous fiscal year.

Operating Revenues/Operating Income



Other Business

Operating Revenues. . . . .¥167.2 billion (up 53.8% YoY)
Operating Income. . . . .¥9.0 billion (up 31.4%)

The Other Business segment benefited from making JCN Group, Japan's second-largest MSO* a consolidated subsidiary in June 2007.** As a result, operating revenue rose 53.8% from the previous fiscal year to ¥167.2 billion in the fiscal year under review, with operating income up 31.4% to ¥9.0 billion.

*Multiple System Operator, a company operating multiple cable television stations
**JAPAN CABLENET (JCN) Group, Japan's second-largest MSO, became a consolidated subsidiary of KDDI in June 2007. As of the end of March 2008 JCN operated 15 cable TV stations, mainly in the Tokyo metropolitan area, with a total of 667,000 subscribers.

Mobile Business

KDDI will Increase Customer Satisfaction by Strengthening its Overall Product Appeal

Contents

Market Trends

New Entrants and Intensified Price Competition

By the end of 2007, the number of mobile phone subscriptions in Japan, exceeded 100 million. Expansion in the corporate market and the second phone (per individual) market in the consumer market will continue in the future, though growth in the traditional consumer sector may be sluggish.

The competitive environment in Japan in the fiscal year under review was marked by the implementation of expanded and improved tariff plans prompted by the market entrance of the Softbank Group in the previous fiscal year. Development of new markets, such as the second phone market in the consumer market and the small-scale corporate client market, supported a net increase of 6.01 million subscribers in the overall market, exceeding by far the 4.93 million net increase in the previous fiscal year. Among other events, EMOBILE Ltd., which began offering data services in the previous fiscal year, added voice services at the end of March 2008 by partly making use of the roaming services of another operator.

During the fiscal year, the Study Group on Mobile Business, commissioned by the Ministry of Internal Affairs and Communications under its "New Competition Promotion Program 2010" to formulate rules for fair competition, submitted its report. In it were many major changes, such as the introduction of a new sales scheme including a "split-plan" model offering no handset sales incentives.

With the implementation of competitive tariff plans by all mobile carriers, the previous large disparity in tariff rates between carriers disappeared. As a result, the focus of market competition appears to be shifting back to service rather than tariffs.

Overview of the Fiscal Year Ended March 2008

Increase in Both Sales and Profit and a Milestone of 30 Million au Subscribers

The Mobile Business remained the chief driver behind KDDI's strong performance during the fiscal year ended March 2008, accounting for three quarters of consolidated operating revenue.

Revenues and earnings were up in the fiscal year under review, with operating revenue in the Mobile Business increasing 6.9% to ¥2,862.6 billion, and operating income rising 18.0% to ¥455.0 billion. Net income advanced sharply, up 27.2% to ¥266.5 billion, primarily because of higher operating income and lower impairment losses related to the termination of the Tu-Ka service than in the previous fiscal year.

Performance by Key Indicators

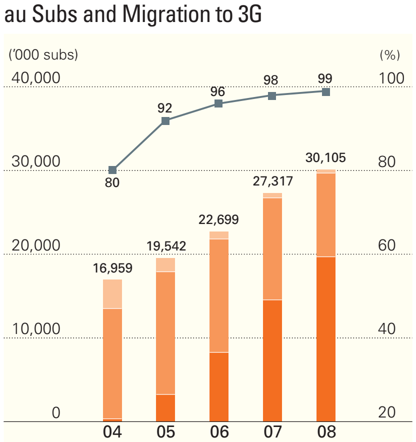
Subscriber Numbers

Increase of au Subscribers to 30.11 Million

The subscriber base for au and Tu-Ka services as of the end of March 2008 advanced 7.6% year on year, to 30.34 million customers. This number represents a 29.5% share of the market (au: 29.3%; Tu-Ka: 0.2%).

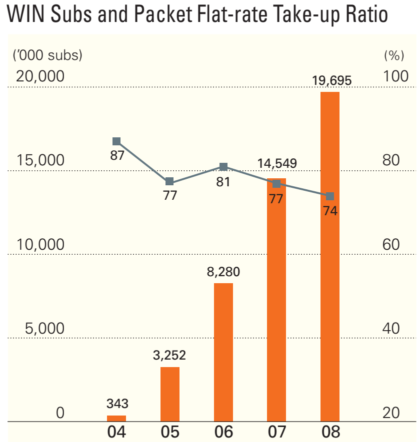
The total number of au subscribers surged 10.2% year on year, to 30.11 million, breaking through the major

au Subs and Migration to 3G



(Years ended March 31)
WIN (EV-DO) 1X cdmaOne
3G migration ratio

WIN Subs and Packet Flat-rate Take-up Ratio



(Years ended March 31)
WIN sub Packet flat-rate take-up ratio

target of 30 million subscribers. Of this figure, 29.69 million customers, 99% of the total, subscribed to 3G mobile phone services. The subscriber base for CDMA 1X WIN (WIN) services rose to 19.70 million, accounting for 65% of all au subscribers. KDDI terminated its Tu-Ka service as scheduled at the end of March 2008.

Churn Rate

Reduction of Churn Rate to 0.95%

The churn rate for the full fiscal year ended March 2008 was 0.95%, down 0.07 percentage points from the previous fiscal year, thanks to the penetration of discount plans and various other customer retention measures.

SAC/SRC

SAC/SRC at 37,000 yen on a Par with Previous Year

The average subscriber acquisition cost and subscriber retention cost for au-branded services remained on a par with the previous year at ¥37,000. Up to the third quarter, sales commissions were kept below those in the previous fiscal year through curtailment of handset procurement costs and sales expenses. However, in the fourth quarter, the major sales period for the year, KDDI put on a sales drive aimed at reaching the 30-million mark for au subscribers. The average sales commission for the fourth quarter rose to ¥41,000 as a result, pushing up the average sales commission for the overall year to ¥37,000.

ARPU

ARPU at 6,260 yen, Down 5.3% Year on Year

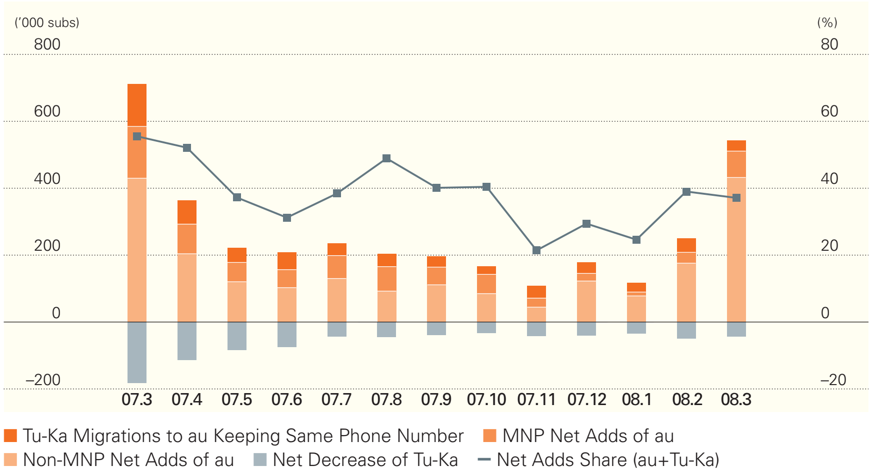
Average Revenue per Unit (ARPU) for au services declined 5.3% year on year to ¥6,260. Of this total, data ARPU increased 5.4% to ¥2,130 due to progress in building the proportion of high-end WIN subscribers. However, voice ARPU declined 10.0% to ¥4,130 due to a decrease of 10 minutes in the MoU and the popularization of "Everybody Discount" and "Family Discount" services.

KDDI has managed to distinguish its au mobile service from the competition by drawing on the advantages of its 3G infrastructure to enhance the appeal of its product package, encompassing handsets, charges and content. The Company believes that to continue to be the customers' service of choice, it must work diligently to improve these areas of infrastructure, handsets, charges and content step-by-step to increase customer-satisfaction levels. Reflecting that dedication, in 2007 au was recognized as first in customer satisfaction for mobile services* in all nine regions of Japan for the second consecutive year.

We believe that the consistently strong performance of au is also the result of patient and steady efforts that have been recognized by customers.

*Source: J.D. Power Asia Pacific 2006 and 2007 Japan Mobile Telephone Service Satisfaction Study[SM]

Monthly Net Additions of KDDI



Measures to Strengthen Overall Product Appeal

Increase of Customer Satisfaction by Improving Infrastructure, Handsets, Charges and Content

KDDI aims to increase the degree of customer satisfaction by strengthening its overall product appeal through improvements in the four areas of infrastructure, handsets, charges and content. This section introduces the Company's initiatives in these four areas.

High-quality Infrastructure

Establishment and Expansion of EV-DO Rev. A and Reorganization of the 800MHz Band

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

In December 2006, KDDI introduced EV-DO Rev. A, an upgraded version of EV-DO. At the end of March 2008, the system was in operation in almost all major service areas in Japan. EV-DO Rev. A has dramatically raised the download speed to a maximum 3.1 Mbps, and the upload speed from 154 kbps to a maximum 1.8 Mbps. The deployment of EV-DO Rev. A has allowed KDDI to further differentiate itself in terms of infrastructure, the source of product competitiveness.

KDDI is increasing its capacity in the 2GHz band in view of the swell in subscriber numbers and the reorganization of the 800MHz band. At the same time, the Company is preparing for the new allocation of frequencies within the 800MHz band. The reorganization of the 800MHz band involves switching around the current directions for uplink (handset to base station) and downlink (base station to handset) capacities, and reallocating the current narrow frequencies into blocks. Reorganization is to be completed by July 2012.

Currently, the 800MHz band is KDDI's main operating band, but the Company is pressing ahead with expansion of 2GHz band coverage. In addition, it is increasing the area coverage for the new 800MHz band in preparation for full conversion by July 2012.

Compared with the 800MHz band, the 2GHz band generally requires greater effort to expand area coverage due to special characteristics including the direct propagation of radio waves. KDDI, however, offers dual-band handsets that can access the current

Efficiency of Data Transmission by Technology

Purpose		Voice Communication/High Speed Data		Enhanced Downlink Speed		Enhanced Uplink Speed/Quality of Service
System		CDMA 1X [CDMA2000 1x]	W-CDMA	CDMA 1X WIN [EV-DO Rev. 0]	HSDPA	CDMA 1X WIN [EV-DO Rev. A]
Bandwidth		1.25MHz	5MHz	1.25MHz	5MHz	1.25MHz
Communication service		Voice+data	Voice+data	data	data	data
Connection type		Circuit switched+Packet	Circuit switched+Packet	Packet	Packet	Packet
Maximum transmission speed [bps]	Down	154k	384k (2M)	2.4M	3.6M (7.2M)	3.1M
	Up	64k (154k)	64k (384k)	154k	64-384k	1.8M
Sector throughput [DownLink]		Approx. 220kbps	Approx. 1Mbps	Approx. 800kbps	Approx. 3-4Mbps	Approx. 1Mbps
Efficiency [bps/Hz]		0.18	0.2	0.64	0.6-0.8	0.8

Makoto Takahashi
Associate Senior Vice President
General Manager,
Consumer Business Sector
Member of the Board

Our challenge is to create new value with our 30 million-strong au subscriber base

During the fiscal year ended March 2008, we achieved and surpassed our major target of 30 million au subscribers. I believe this was the result of our comprehensive product development in the four areas of infrastructure, handsets, pricing and content, along with our efforts to enhance customer satisfaction.

Lower handset procurement costs are the source of competitiveness. In order to pursue this aim, in October 2007 we established the KDDI Integrated Platform (KCP+), which expands the scope of standardization. This allows us to respond to increasingly individualized and diversified customer needs with handsets that have a uniquely attractive "au feel," while also strengthening cost competitiveness by improving development efficiency.

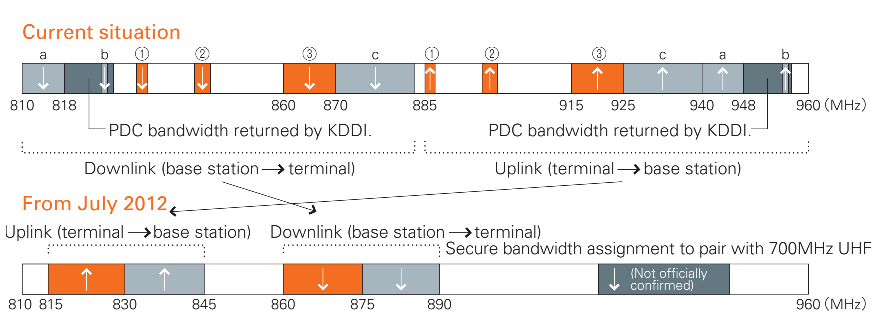
Average Revenue per Unit (ARPU) continues to decline with the popularity of "Everybody Discount" introduced in 2007 and other pricing schemes. However, we are looking to increase non-traffic ARPU by offering appealing content and developing new services, such as settlement services through "Jibun Bank," which began providing service to customers in July 2008.

We are also promoting cross-selling of fixed-line services to au subscribers by developing and offering fixed and mobile convergence (FMC) services. These include sales of FTTH and other fixed-line services through au shops, the launch of "au Collective Talk*" offering free calls from KDDI fixed lines to au subscribers, and LISMO Video, which allows users to enjoy movies downloaded from a PC on their mobile phones.

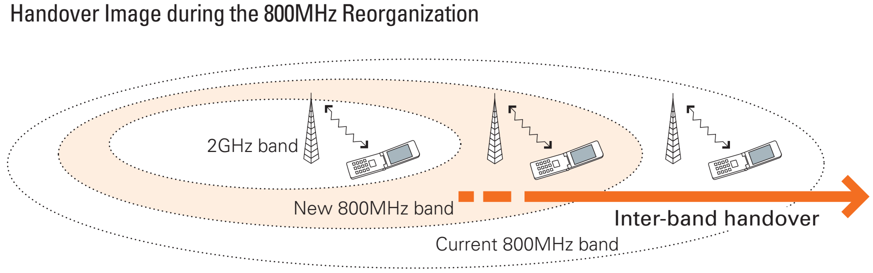
*Launch planned for August 1, 2008

800MHz band frequencies in addition to the 2GHz band. Moreover, the Company has made available triple-band models that are able to access the newly allocated 800MHz band to ensure convenience for its customers. In total, approximately 15.5 million such handsets were in use as of the end of March 2008, accounting for more than half of all au-branded models. This number is expected to increase in the future. As shown in the figure, the dual-band handsets will primarily use the 2GHz band, switching to the 800MHz band when outside the 2GHz coverage area. KDDI believes that it can raise the quality of its infrastructure still further by expanding the 2GHz coverage area.

Reorganization of 800MHz Band



Handover Image during the 800MHz Reorganization



Attractive Handsets

Enhancement of a Broad Lineup to Support Diverse Lifestyles

KDDI has worked hard to make the au brand name synonymous with music via mobile phone. Now a Bluetooth® wireless listening function has been added, and using the "LISMO Audio Device Link" service subscribers can enjoy music downloaded via their mobile phone on another audio device. For those subscribers who enjoy video, the "1Seg" (digital TV broadcast system for mobile phones and other mobile devices) function now is nearly standard on WIN handsets. In addition, the Company began selling a mobile phone model with a high-definition Organic Electroluminescent (OEL) display. Also, the seventh round of the "au design project," which reexamines the mobile phone from a design perspective, led to the launch of the "INFOBAR2" series of mobile phones.

Based on the concept of supporting the diverse lifestyles of customers, KDDI launched a wide array of handsets, including easy-to-use models with high-quality embedded cameras and global models compatible with the Global System for Mobile Communications (GSM). In all, the Company introduced 36 models including corporate models during the fiscal year under review, 30 WIN models and 6 1X models.

While making efforts to expand and improve the handset lineup, the Company also completed the development of the KDDI Integrated Platform "KCP+" in October 2007. "KCP+" is a shared software platform with an expanded scope of standardization aimed at further reducing handset costs. KDDI expects that full-scale introduction of "KCP+" will both enable the Company to absorb the rising costs of handsets caused by additional and high-performance functions and further reduce development and manufacturing costs.

Charges

Service Menus Expanded to Fit Customer Needs Using a New Sales Scheme including a Split-off Model

The Ministry of Internal Affairs and Communications' Study Group on Mobile Business conducted various deliberations about the current business model in the mobile phone industry, which depends on handset sales incentives. In light of these proceedings, KDDI introduced a new sales scheme in November 2007 in response to customer needs. The new scheme, "au Purchase Program," allows the subscriber to choose one of two handset sales courses, either the "Full Support course," which employs traditional incentives to keep the initial cost of handset purchase low, or the "Simple course," a so-called "split-off" model offering no sales incentives that targets those subscribers who prefer to reduce their monthly-use tariff rather than replace their handset.

Since the introduction of the new scheme, almost all customers have selected the more traditional "Full Support course."

KDDI has leveraged the cost advantage provided by EV-DO to introduce the "Double-Teigaku-Light" (Packet Flat-rate) plan, which affords customers easy access to a rich variety of content for as little as ¥1,000 per month (¥1,050 including tax). This plan has successfully enticed many existing users who had not previously used data services to any significant extent as well as new subscribers to sign up. As of the end of March 2008, 74% of WIN subscribers had adopted either this or the "Double-Teigaku" plan.

In voice services KDDI also offers a wide variety of tariff options developed from the customer's perspective. New to the service menu in the fiscal year under review was "Everybody Discount." Introduced in September 2007, the "Everybody Discount" plan revised the "Annual Discount+Family Discount" and "My Plan Discount" plans, which offered up to a maximum of 50% off on

INFOBAR2

Walkman® phone (W52S)

EXILIM-Keitai (W53CA)

Cyber-shot™ phone (W61S)

Wooo-Keitai (W53H)

basic monthly charges in proportion to the number of years of continuous use of services, substituting a uniform 50% discount on basic monthly charges right from the date of subscription, conditional on a two-year contract.

In March 2008, KDDI launched a service offering free calling between family members 24 hours a day anywhere in Japan for subscribers to "Everybody Discount + Family Discount." Customers, particularly families that uniformly use au services, have welcomed the service.

Content

A Wide Variety of Entertaining Content Utilizing the Features of WIN

The spread of packet flat-rate plans for data communications has created an environment in which users can take advantage of mobile Internet services without worrying about the cost. Mobile phones are being used in a number of new ways, providing carriers with new opportunities for revenue beyond the traditional traffic charges. In the fiscal year under review, total revenues from fee collection for content providers, advertising, e-commerce, and collaborative content provision in the Content and Media Business amounted to ¥35.9 billion, expanding 1.3 times compared to the previous fiscal year.

For more details, please see the section on the Content and Media Business.

Developing Untapped Markets – Mobile Business Targeting Corporate Clients–

Reinforcement of Corporate Business with Newly Established Sales System for SMEs

With growth slowing in the consumer market, KDDI is actively pursuing mobile business services for the corporate sector, a market that is expected to grow in future. Until now, the Company has been offering—primarily to large corporations—mobile solutions services using mobile phones to improve or strengthen customers' businesses. Given the heightened demand for mobile services by small and medium-sized businesses, KDDI is now also pursuing the establishment of a sales organization and product and marketing strategies for small and medium-sized businesses.

KDDI has been able to steadily expand its customer base of large corporate clients by demonstrating its comprehensive capabilities in proposing solutions, providing communication areas, and offering a lineup of corporate-use mobile handsets and quality communication systems.

As an indication of KDDI's reputation for mobile solutions, at the Mobile Computing Promotional Consortium (MCPC) award 2008, KDDI client SOHGO SECURITY SERVICES CO., LTD.'s "Guard Dispatch System" walked away with the Grand Prize/the Minister of Internal Affairs and Communications' Prize as well as Mobile Business Award. It marked the third consecutive year that a KDDI client has won the Grand Prix Award—Isuzu Motors Limited won the prize last year for its commercial vehicle telematics, "Mimamori-kun Online Service" and YAMATO TRANSPORT CO., LTD., won it two years ago for its "Cargo Information Real Time System."

In the organizational revisions made in October 2007, KDDI integrated KDDI Network & Solutions Inc., a subsidiary mainly selling fixed line services to medium or small corporations, into its operations. This consolidation substantially expanded and strengthened its sales structure to establish an organization capable of aggressively approaching small and medium-sized businesses.

In particular, for notably successful emerging medium or small companies, the Company strengthened its sales efforts by developing and reinforcing its office-visit-based sales corporate-client agencies, increasing its collaboration with au shops, and making active use of direct marketing, telemarketing, and Web sales systems.

KDDI has expanded and improved its services for small and medium-sized businesses by focusing on their needs. In May 2007, the Company introduced

au Purchase Program

(prices include tax)

au Purchase Program Course name	Simple course*	Full Support course
Purchase support (handset subsidy)	No	Yes (¥21,000)
Contract on period of handset use	No (except installment payments)	2-year contract
Price plan	Plan SS Simple to Plan LL Simple etc.	Plan SS to Plan LL etc.
Basic monthly charge (for Plan SS Simple)**	¥980/month (includes ¥1,050 free calls)	¥1,890/month (includes ¥1,050 free calls)
Installment payment	Yes (12 or 24 installments)	No

*Conditions for the new simple plan that began on June 10th.

**Basic monthly charge when customer signs "Everybody Discount" contract.

Initiatives Targeting Corporate Clients

Segment	Marketing System		Competitive Elements	KDDI Initiatives
Medium-Large Corporations (more than 100 employees)	Offering mobile solutions	Direct	Ability to offer solutions	• Expand provision of optimal solutions that meet customer needs (Win numerous awards from MCPC award 2008) • Broaden market with specialized handsets for corporate clients
Small Business (more than 10 employees)	Push-strategy by marketing experts	Agency for corporate clients		Products • "Everybody Discount"+"Business Discount" ⇒ On-net free calls among employees Marketing channel • Strengthen in-shop marketing for corporate customers.
Small Business (less than 10 employees)	Standardized pull-strategy	"au" shop	More affordable charges	Promotions • "Welcome Campaign for Corporate Customer"* • Promote visits to shop by TV and newspaper advertising.

*Offer applies to corporate new customers who purchase an au handset, from March 1 to May 31, 2008, by the "Simple course," and choose "Plan SS," "Business Discount," and "Everybody Discount." Special rate includes basic monthly fee of ¥980 (tax incl.) + ¥1,050 (tax incl.) for free calls until May 2010.

"Keitai de Cordless Set," a cordless extension solution for mobile phones using a wireless LAN for small offices or shops. In September 2007, it launched its "Everybody Discount + Business Discount," a service for small and medium-sized businesses that offers a 50% discount on monthly basic charges starting from just a single corporate subscriber line.

Termination of the Tu-Ka Service

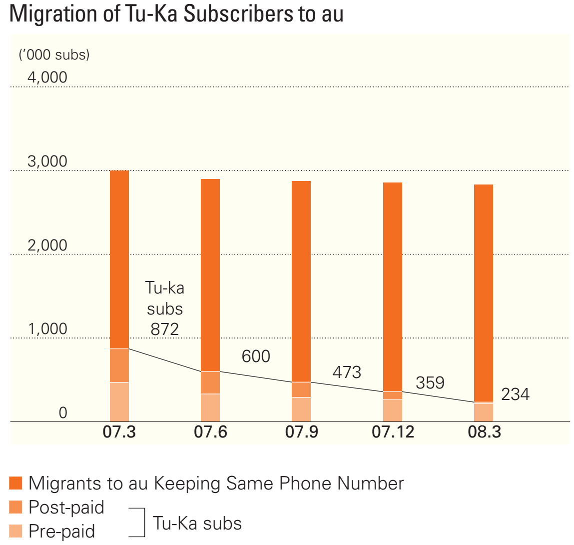
Service Terminated at March-end 2008

KDDI terminated its Tu-Ka service according to schedule at the end of March 2008. KDDI began offering Tu-Ka users same-number transfers to its au service in October 2005, and a total of 2.60 million users migrated to au by March 2008. Most of the subscribers who came over to au were postpaid subscribers. Since there were 3.53 million Tu-Ka users at the end of September 2005, the migration figure reflects that approximately 74% of the former Tu-Ka subscribers have stayed onboard with KDDI.

With regard to the Tu-Ka facilities, ¥104.3 billion for impairment loss of PDC equipment was recorded at the end of March 2006, with the remaining ¥39.6 billion in impairment for towers and other common facilities at the end of March 2007. KDDI booked a loss on disposal of property, plant and equipment, including final charges for removal and other expenses, totaling ¥7.5 billion at the end of March 2008.

The termination of the Tu-Ka service has allowed KDDI to move from the former dual systems to a single CDMA network operation, a move that the Company expects will yield further improvements in business efficiency in the future.

Migration of Tu-Ka Subscribers to au



Strategies for the Future

Leveraging its 30-million-strong Subscriber Base, KDDI Will Strive to Create New Values

Toward "Challenge 2010"

A Greater Focus on Profitability with Well-balanced Subscriber Growth

KDDI's Mobile Business currently accounts for three quarters of its consolidated operating revenues, and also is the chief driver for operating income. The business is expected to remain the core source of earnings in the final year of "Challenge 2010." In achieving our long-held goal of 30 million au subscribers, we have entered our next phase of growth, which will be based on KDDI's unique ability to create new value.

In addition to expansion efforts in the core consumer market, we will also seek to increase the overall number of subscribers by aggressively developing our mobile business for corporate clients, a market with high growth potential.

Moreover, we will endeavor to enhance competitiveness through the timely introduction of customer-oriented handsets and services that only KDDI can offer. Through the expansion of our content business and the development of such new business as our mobile internet financial project, Jibun Bank Corporation, we will pursue earnings opportunities outside the conventional boundaries of traffic revenues.

Our goal is to promote business management with a greater focus on profitability, while striving for subscriber base growth that maintains a balance between ARPU and customer acquisition expenses.

This section presents KDDI's strategies and activities for the corporate client market, the future driver of subscriber-base growth; for enhancing the competitiveness of handsets through lower procurement costs; for expansion of the "au Purchase Program" service launched in June 2008; and for the introduction of an installment sales system for mobile phone handsets.

Aiming for Continued Subscriber Growth

Proactive Development of Corporate Clients

Japan's current market for corporate clients is estimated to account for approximately 10% of the overall mobile market. KDDI's business composition is almost identical to the overall proportion of the market. Considering that fixed-line subscriptions account for approximately 30% of all corporate clients subscriptions, there is ample potential for growth in mobile handset-based services. Furthermore, given the progress in use of machine-to-machine mobile communications modules to manage maintenance of machine tools, automatic vending machines, and other equipment, market growth is no longer limited to Japan's population.

Going forward, KDDI will strive to further develop its corporate client subscriber base by providing mobile solutions services centered on mobile phone systems to large corporations as well as developing the small and medium-sized business market. During the fiscal year under review, the Company established a new sales organization dedicated to developing the small and medium-sized business market that has commenced mobile services sales operations.

"Challenge 2010": Further Strengthening Competitiveness of Mobile Business

Handsets	• Reduce procurement costs through KDDI Integrated Platform (KCP+) • Development and sale of handsets with features unique to au • Expand handsets for corporate clients and for use in various situations
Charges/service	• Underpin ARPU by adding new services • Introduce a preferential benefits system for long-term subscribers • Expand global roaming • Reinforce settlement/authentication functions and FMBC service
Infrastructure	• Reorganize 800MHz band and enhance coverage • Improve communications quality • Commercial launch of the post-Rev. A system

Strengthening Competitiveness of Handsets

Lower Procurement Costs and More Attractive Handsets through KCP+

As it expands and enhances the functionality of the handset lineup, keeping down handset procurement costs poses a significant issue for KDDI in view of the rising proportion of WIN handset sales. KDDI has succeeded in mitigating the development costs of manufacturers through the use of KDDI Common Platform or "KCP," a shared software platform currently based on the BREW® system.

In October 2007, the scope of standardization was expanded to "KDDI Integrated Platform (KCP+)." The deployment of "KCP+" has allowed handset manufacturers to focus on differentiating themselves in terms of user interface, design, and the device areas in which they are strongest, such as cameras and LCDs. Through the adoption of "KCP+," KDDI aims to further enhance the attractiveness of its handsets in response to continually increasing diversity and individuality in customer needs, and to raise cost competitiveness by bringing greater efficiency to handset development.

More Variety in Price Plans and Payment Options for Handsets

Expansion of "au Purchase Program" Service and Introduction of Installment Sales of au Handsets

Starting in June 2008, KDDI introduced installment sales of au handsets for its "Simple course" purchase method. The purpose of introducing installment sales is to facilitate the purchase of high-end handsets, which appears to be quite expensive to customers only with discount by Purchase Support (¥21,000 including tax) under the "Full Support course".

KDDI has also introduced the "New Simple Plan," which provides an easy comparison to the "Full Support course" and is competitively priced compared to plans offered by other market players.

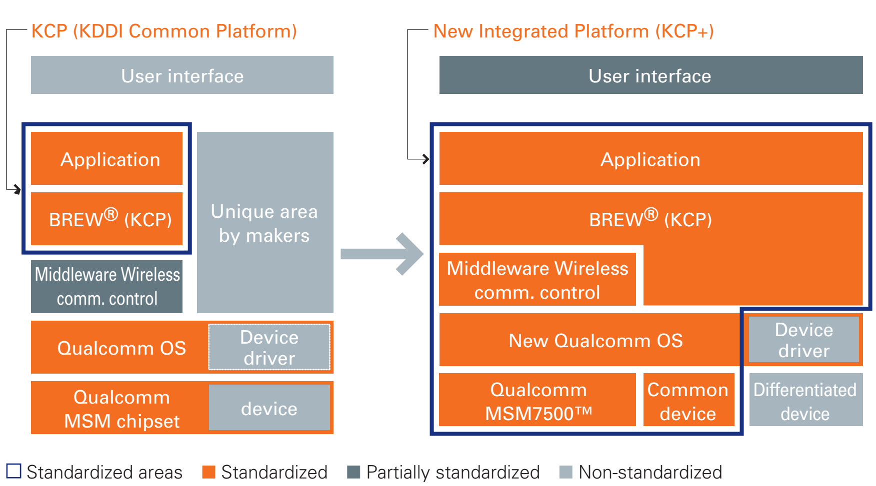
The introduction of this installment sales system will enable the Company to take a flexible approach in pricing handsets and to increase profit margin on handset sales under the new "Simple course" as it achieves competitive procurement costs for handsets.

Outlook for Fiscal Year Ending March 2009

Aiming for Further Increases in Sales and Profit

KDDI projects that its mobile subscriptions at the end of the current fiscal year will increase 4.1% year on year to 31.6 million. Although the number of subscribers is expected to grow, ARPU will be lower due to the increased prevalence of discount services and greater use of the new sales scheme. The Company therefore anticipates revenues will edge forward 1.7% year on year to ¥2,911.0 billion. Under the impact of a moderate decline in handset sales and greater use of the new sales scheme, KDDI forecasts that operating income will rise 9.2% year on year, to ¥497.0 billion.

Create New Integrated Platform



Content and Media Business

Aiming for Expansion as a New Pillar of Non-traffic Revenue Growth

Market Trends

Expansion of Large Content and Video Distribution Services

The evolution of 3G networks and the popularization of packet flat-rate plans for data transmission have enabled content providers to offer high-speed and high-volume content, supporting the steady expansion of the content and media market.

Recently, conventional downloadable content has been joined by a surge in blogs, social networking services (SNSs), and other user-generated content. Benefiting from these new media, Internet advertising and e-commerce-related services are also increasing. Furthermore, video distribution services, such as YouTube, which up to now have been the preserve of personal computers, are now experiencing rapidly growing popularity on mobile phones.

Although there are many mobile Internet sites with useful information, there are those of a more circumspect nature, such as ill-intentioned sites that are almost completely fraudulent, online dating sites and adult content sites that are illegal for anyone under 18 years old. To deal with these sites, an initiative spearheaded by government authorities, telecommunications providers, and content providers in Japan is pressing forward with measures to promote the spread and use of a “harmful site access restriction service,” or filtering service, to protect young people from these dangers.

Overview of the Fiscal Year Ended March 2008

Sales up 30% from the Previous Year

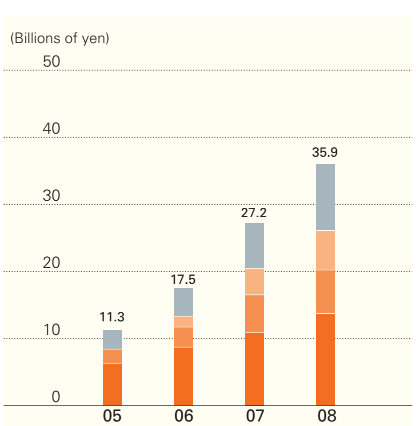
Sales in the Content and Media Business continued their upward climb, rising 1.3 times to ¥35.9 billion. Sales included fee collection for content providers, advertising, e-commerce, and collaborative content.

KDDI’s fee collections service for such paid content as “EZ Chaku-Uta®,” “EZ Chaku-Uta-Full®,” games, and other digital content is steadily growing. To further expand its user base, the Company is implementing the following initiatives.

First, KDDI is developing the content user base for “EZ NewsFlash.” Offering free news, weather reports, and other services that are delivered automatically to the call-waiting screen of mobile phones, the service makes it easy for users who have not utilized EZweb much in the past to casually try out the service. By serving as an entryway, “EZ NewsFlash” is contributing to increased access of related content.

Next, to provide a new service that tailors itself to customers’ lifestyles, KDDI launched “au Smart Sports,” a general service that focuses on helping customers to improve themselves through sports. “au Smart Sports” provides an application that supports users daily sports activities, helps manage training histories, enables the viewing of sports information on EZweb and PC sites, and offers sports-related goods. In the first version of “au Smart Sports Run&Walk,” KDDI linked the au mobile phone “Run&Walk” application,

Sales of Content/Media Business



(Years ended March 31)

■ Content-fee collection ■ Advertising ■ EC
■ Collaborative content & others

*Advertising sales ratio in the year ended March 2008 decreased due to the effect of accounting change.

KDDI Filtering Services

Filtering level	Services	Usage Styles
Maximum	EZweb Restricted Access (white list method)	Access limited to viewing usage data, “Security Navi” and other select pages (from November 2003)
	EZ Safety Access Service Site Restriction Course (white list method)	Children only able to view safe sites (from April 2006)
Minimum	EZ Safety Access Service Special Category Restriction Course (black list method)	Allows children to view school websites, etc. while blocking harmful sites (from March 2008)

which allows users to check their progress and calories burned during their running or walking programs, with the "Run&Walk Site," which combines mobile phones and PCs to further enhance workouts. The "Run&Walk" application also has an MP3 player that lets users enjoy listening to music tracks while running or walking and a GPS-based training program history to keep track of where they've been. In addition to "au Smart Sports," KDDI has launched "au one Gadget," for customers who want quicker access to their favorite type of information or function.

To provide young people with an environment where they can confidently and safely access EZweb services, KDDI introduced its "EZweb Restricted Access" service in November 2003 and "EZ Safety Access Service" (White List Method: currently EZ Safety Access Service Site Restriction Course) in April 2006. Furthermore, commencing in February 2008, the Company began strengthening its efforts to encourage new users to subscribe to filtering services, and introduced its "EZ Safety Access Service Special Category Restriction Course" (Black List Method) in March 2008.

Toward "Challenge 2010"

Promoting Safe and Secure Mobile Internet Environment and Expanding Business Domains

In planning KDDI's future growth, it is important not to depend solely on communication revenues, but to develop other sources of earnings by expanding the Company's business domain. The Content and Media Business has a central role to play within that strategy.

In addition to more thoroughly developing its services in current fields, including fee collection for content providers, advertising, e-commerce, and collaborative content, KDDI is planning to further reinforce and expand au's specialty field of music, including creation of music content. Working to expand video and other entertainment-related content, the Company will establish a dominant and innovative position in the market. To realize its goal of sustainable growth, KDDI will aggressively implement initiatives to broaden its content user base. As with au's music content, the Company will create new content that will become the core content services of the future and will also collaborate with companies in other fields to develop services that suit customers' lifestyles.

For the purpose of protecting juveniles, KDDI will take steps to create a mobile Internet environment that young people can use with confidence and in safety by promoting filtering services. The Company will also strive to create an environment where all participants—users, content providers, and the creators— can enjoy positive relationships based on stringent measures to protect content copyrights.

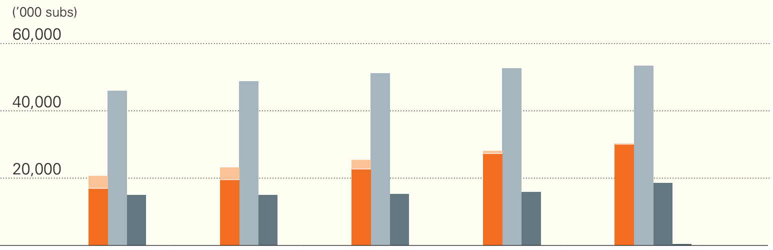
Through these initiatives KDDI will seek to promote the appeal of the au brand and expand the domain of the Content and Media Business.

Lifestyle Strategies

Market Data

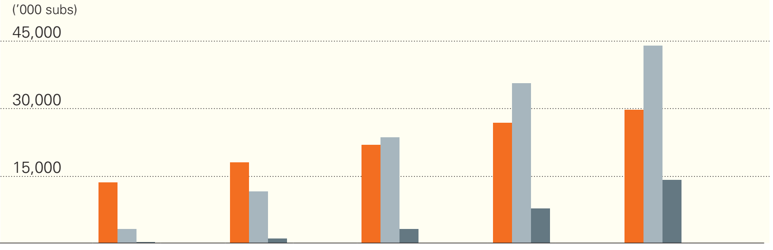
Years ended March 31

Number of Total Subscribers



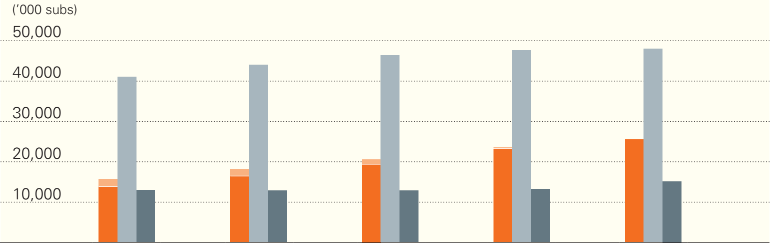
	2004	2005	2006	2007	2008
KDDI	20,591	23,132	25,439	28,189	**30,339**
au	16,959	19,542	22,699	27,317	**30,105**
Tu-Ka	3,632	3,590	2,739	872	**234**
NTT DoCoMo	45,927	48,825	51,144	52,621	**53,388**
SoftBank Mobile	15,002	15,041	15,210	15,909	**18,586**
EMOBILE	—	—	—	—	**412**
Total	81,520	86,998	91,792	96,718	**102,725**

Number of 3G Subscribers



	2004	2005	2006	2007	2008
1X+WIN (au)	13,509	17,935	21,828	26,720	**29,689**
FOMA (NTT DoCoMo)	3,045	11,501	23,463	35,530	**43,949**
SoftBank 3G (SoftBank Mobile)	138	917	3,038	7,660	**14,007**

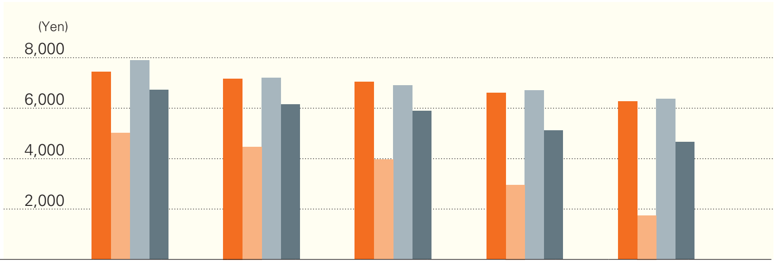
Number of Subscribers for Mobile Internet Connection Service



	2004	2005	2006	2007	2008
EZweb	15,700	18,259	20,523	23,533	**25,512**
au	13,886	16,469	19,390	23,322	**25,505**
Tu-Ka	1,814	1,790	1,133	211	**8**
i-mode (NTT DoCoMo)	41,077	44,021	46,360	47,574	**47,993**
Yahoo! mobile (SoftBank Mobile)	12,956	12,874	12,875	13,265	**15,171**

Source: Company Data, Telecommunication Carriers Association (TCA)

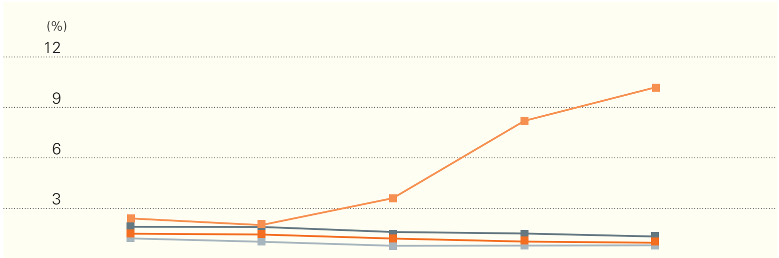
ARPU
(Average Revenue per Unit)



	2004	2005	2006	2007	2008
au	7,440	7,170	7,040	6,610	**6,260**
of which Data ARPU	1,640	1,740	1,890	2,020	**2,130**
Tu-Ka	5,020	4,470	3,960	2,960	**1,750**
NTT DoCoMo	7,890	7,200	6,910	6,700	**6,360**
of which Data ARPU	1,970	1,870	1,880	2,010	**2,200**
SoftBank Mobile	6,730	6,150	5,890	*5,120	**4,660
of which Data ARPU*	—	—	—	—	**1,490

* Accounting method for Data ARPU changed from fiscal year ended March 2005.
** ARPU for fiscal year ended March 2007 is average of quarterly results

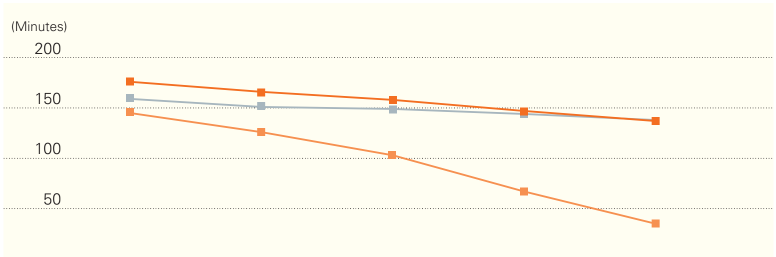
Churn Rate



	2004	2005	2006	2007	2008
au	1.49	1.44	1.20	1.02	**0.95**
Tu-Ka	2.40	2.00	3.60	8.20	**10.2**
NTT DoCoMo	1.21	1.01	0.77	0.78	**0.80**
SoftBank Mobile	1.90	1.89	1.59	1.50	**1.32**

*Churn rate for fiscal year ended March 2007 is average of quarterly results

MoU
(Minutes of Use)

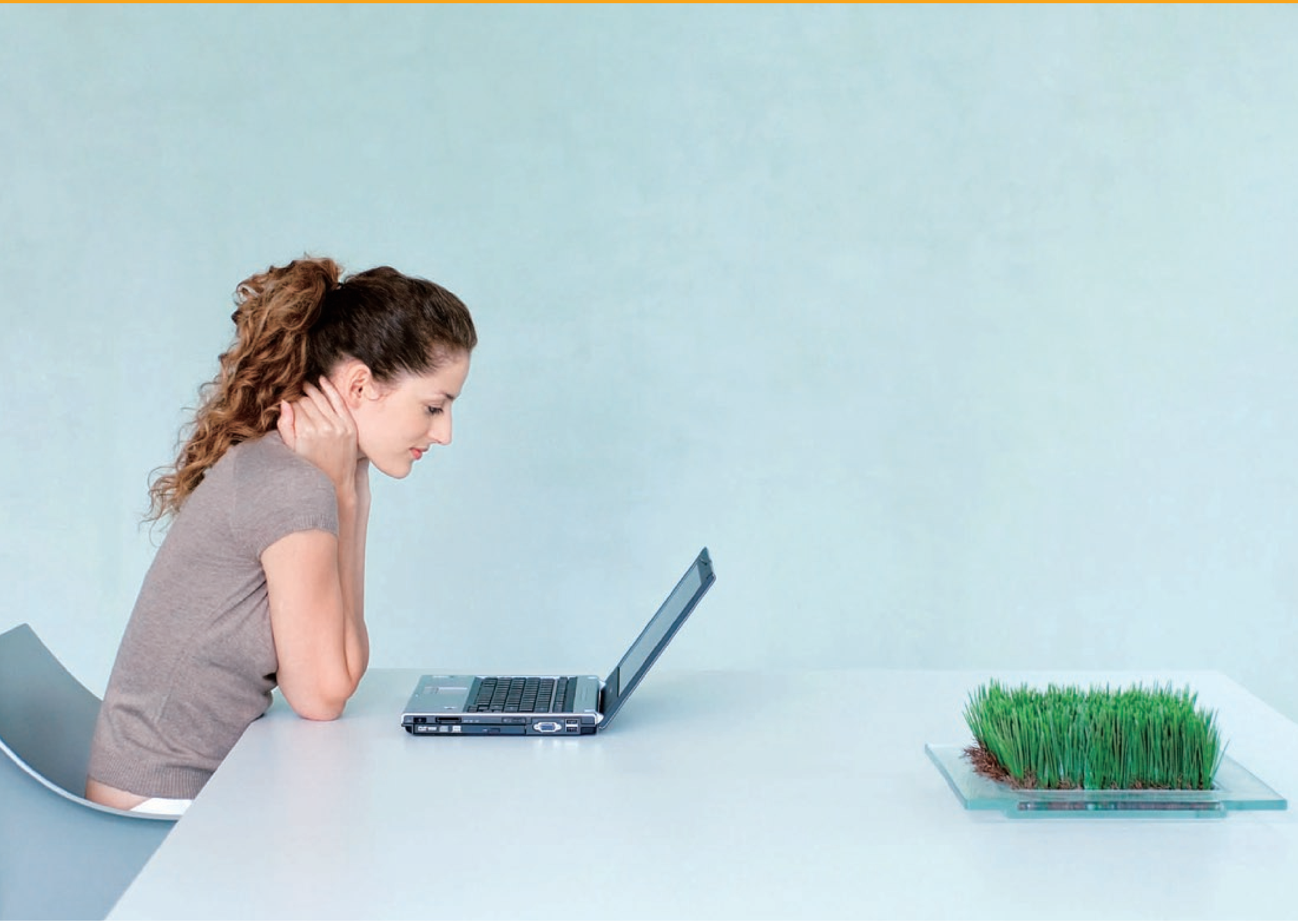


	2004	2005	2006	2007	2008
au	176	166	158	147	**137**
Tu-Ka	145	126	103	67	**35**
NTT DoCoMo	159	151	149	144	**138**
SoftBank Mobile	—	—	—	—	**—**

Fixed-line Business

KDDI will Firm up the Fixed-line Business Base with Access Line Business Initiatives

Contents



Market Trends

Shift from Long-distance Business to Access Line Business

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

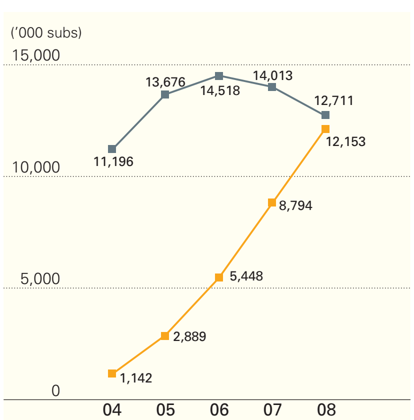
In Japan's broadband market, the fiber to the home (FTTH) services market topped 10 million subscriptions in the first half of the fiscal year under review. Given the pace of the shift to FTTH from ASDL, it is possible that the number of FTTH subscriptions will surpass ASDL subscriptions in the current fiscal year. Still, from the point of view of market penetration of video distribution, which uses the high-speed, high-definition features of FTTH to advantage, the FTTH services market has not been developed on a full scale. One of the reasons behind this lag is legal issues regarding copyrights. In view of these conditions, NTT has also revised its expectations, reducing its 2010 goals for FTTH services from 30 million subscribers to 20 million subscribers.

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

About 20 years ago, when long-distance operators entered the fixed-line business in Japan, access portion fees to the owner of the access lines, NTT, amounted to less than 10% of the fees paid by customers. With the progressive use of IP systems, access portion fees now amount to about 75% of customer fees—a dramatic contraction in net revenues.

From the perspective of revenues and income, therefore, in today's market it is essential to shift from a long-distance business that focuses on voice telephony to access line business.

Number of FTTH Subscribers



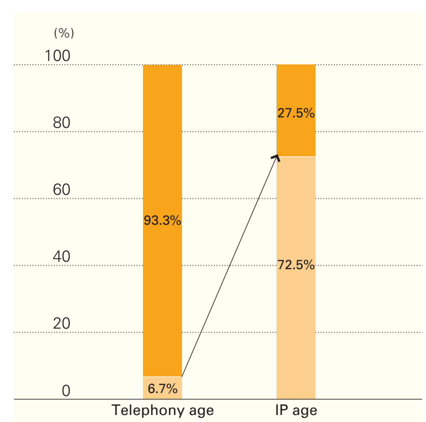
(Years ending March 31)
— ADSL — FTTH

Fixed-line Revenues

Telephony age
Call fee for 3 min in 1987 between Tokyo–Osaka
Charged to user : ¥300
–Access cost : ¥20
Gross margin : ¥280

IP age
Monthly Internet connection fee of FTTH for detached house*
Charged to user : ¥7,528
–FTTH cost : ¥5,460
Gross margin : ¥2,068

*Charge when KDDI's ISP (au one net) is used on NTT East's B FLET'S (Hyper Family or New Family Type). Included in the gross margin portion are expenses for use of NTT East's network infrastructure.



% of Access % of Gross margin

Overview of the Fiscal Year Ended March 2008

Strategic Solutions for the Shift to Direct Access, IP and Broadband Services

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

Operating revenues for the Fixed-line Business edged forward 0.6%, to ¥718.6 billion. The segment achieved its third consecutive year of operating revenues growth despite a contraction in legacy voice telephony services. The decline in legacy services was compensated for by higher basic telephony charges provided by growth in subscriptions to "Metal-plus" and by increased revenues from corporate data services related to the merger with POWEREDCOM Inc., supporting a continued revenue growth trend in the Fixed-line Business. Profitability also improved, with the merger with POWEREDCOM contributing positively to earnings and the "Metal-plus" service reducing its red ink. Despite these steady improvements in individual categories, however, the deterioration in legacy service operating revenues and expanded costs from developing the FTTH business resulted in overall operating loss increasing ¥15.7 billion from the prior fiscal year, to ¥64.7 billion.

During this period of shift in the market to direct access and IP and broadband services, the Fixed-line Business is proceeding with strategic initiatives to convert its traditional telephone services to access line business based on FTTH, direct access voice telephony ("Metal-plus" and "Cable-plus phone"), and cable television (CATV).

As part of this process, the Fixed-line Business has been actively reorganizing its structure. In January 2006, it absorbed POWEREDCOM through a merger. In January 2007, it integrated the FTTH business of Tokyo Electric Power Company (TEPCO) into its operations. In June 2007, it converted JAPAN CABLENET (JCN) Group to a consolidated subsidiary. More recently, the Fixed-line Business acquired and consolidated Chubu Telecommunications Co., Inc., (CTC), formerly a consolidated subsidiary of Chubu Electric Power Co., Inc.

Note: JCN Group is not included in the performance of the Fixed-line Business in the fiscal year under review, but in Other Business. JCN Group, CTC, and overseas network subsidiaries are scheduled to be included in the Fixed-line Business in the current fiscal year.

Initiatives in Access Line Business for the IP Era

Sales Expansion of Metal-plus and FTTH

"Metal-plus" Strategies

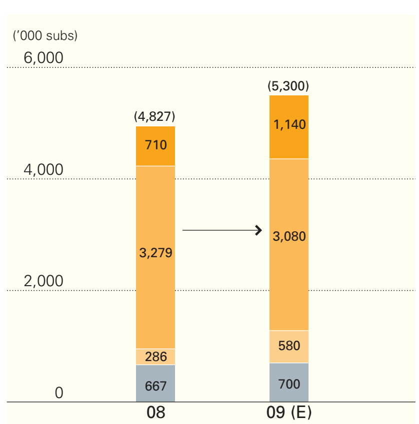
A Breakthrough of 3 Million Target

"Metal-plus" is a direct-access, fixed-line telephone service. Since KDDI provides the line instead of NTT, the service generates a basic monthly charge for KDDI as well as the usual call-based revenue. "Metal-plus" targets customers who only want a basic telephone service, but it also offers optional Internet access through either ADSL or a dialup connection. Growth in the subscriber base for "Metal-plus" progressed favorably during the fiscal

Access Line Business Strategies

October 2003	Launched HIKARI-one (ex. Hikari-plus)
February 2005	Launched Metal-plus
October 2005	Launched Cable-plus phone
January 2006	Absorbed POWEREDCOM (TEPCO's subsidiary)
January 2007	Integrated TEPCO's FTTH biz
June 2007	Consolidated JCN Group (CATV) as subsidiaries
April 2008	Consolidated CTC as subsidiary <CTC: Chubu Electric's subsidiary>

Fixed Access Lines



(Years ending March 31)
FTTH · Metal-plus · Cable-plus phone · CATV

*( ) shows total subs of access lines excluding crossover subs.

year under review. In the year under review, the number of subscribers exceeded the 3 million mark, rising 466 thousand year on year, to 3,279 thousand subscribers. Of this amount, more than 20% of subscribers took an ASDL Internet option.

Including voice telephony and Internet services, total revenues of "Metal-plus" amounted to ¥122.9 billion in the fiscal year under review, up ¥30.3 billion, and ARPU was ¥3,420, advancing ¥100 from a year earlier. Breaking through the targeted 3 million subscribers mark enabled strong progress with profitability recovery, and business performance goals for the current fiscal year will target actual profits.

At fiscal year-end, over 90% of "Metal-plus" customers were individuals. However, by concentrating on marketing to small and medium-sized businesses, the service is steadily attracting more high-ARPU corporate customers.

FTTH Strategies

Reinforcement of Product Competitiveness and Sales Forces Including Sales Channels

KDDI markets the segment's FTTH business under the brand name of "HIKARI-one" and offers customers the triple services of voice telephony, Internet, and video. Following the January 2007 integration of TEPCO's FTTH business, KDDI now has a FTTH network that can be accessed by 10 million households in the Tokyo metropolitan area. The service currently is being marketed to residential customers in detached houses. In other areas of Japan, "HIKARI-one" is offering its services to residential customers in large-scale housing complexes such as condominiums and apartment blocks using NTT's local lines.

During the fiscal year under review, the "HIKARI-one" operations worked to strengthen sales capabilities, including the expansion of sales channels, and to boost the competitiveness of products. To build sales capabilities, they began marketing services to customers in detached houses in the second half of the fiscal year under review, while also focusing on sales to customers in condominiums and apartment blocks. Moreover, once the "Metal-plus" services reached their fiscal goals, the sales team shifted its emphasis to FTTH services, organizing a sales drive. With condominiums in particular, the sales teams strengthened its sales efforts targeting real estate developers and condominium building maintenance associations. To expand sales channels from their previous dependence on volume sales outlets, the sales team added au shops to the existing core network of sales outlets, controlling sales costs as well as beginning cross-selling to the mobile phone service's customer base.

To boost product competitiveness, the "HIKARI-one" operations reinforced their multi-ISP subscription-taking system and developed such attractive new products as "DVD Burning." They also proactively expanded and improved video content by increasing the number of channels providing video services and offering video-on-demand (VOD) services for content from Warner Bros., NBC Universal, and 20th Century Fox.

Takashi Tanaka
Associate Senior Vice President
General Manager,
Solution Business Sector
Member of the Board

We seek to become an all-around ICT player in the corporate services field

Demand is growing in the corporate fixed-line communications market for VPN and other wide-area Ethernet services. KDDI has benefited from our merger with the leading company for these services, POWEREDCOM Inc., and we have outstripped our competitors in related sales in this field.

The demand for outsourcing services, from LANs and terminals to applications beyond mere network service, is also rising particularly among small and medium-sized corporations. In our core business of networks we are able to provide a full range of domestic fixed-line and mobile communications and international fixed-line communications. In other areas where our own services fall short, we expand our area of business by creating cooperative "win-win" models with partners who possess a particular expertise, such as our alliance with Microsoft Corporation in the Software as a Service (SaaS) business. These link-ups enable KDDI to offer end-to-end services as an Information and Communication Technology (ICT) provider.

Going forward, we plan to draw on our core of fixed-line network services to expand fixed and mobile convergence (FMC) services and the overseas data center business, while pursuing cooperative models with other companies to expand into new business areas and maximize sales.

As a result, at fiscal year-end, the number of FTTH subscribers rose 118 thousand compared with the previous fiscal year, to 710 thousand. Total voice telephony, Internet, and video revenues amounted to ¥36.6 billion, with ARPU of ¥4,600. Profitability remains in the red due to the high costs of acquiring customers and the marketing organization startup costs. The negative contribution of the FTTH operations is a major cause of the operating deficit of the overall Fixed-line Business.

Strengthening Collaboration with CATV Operators

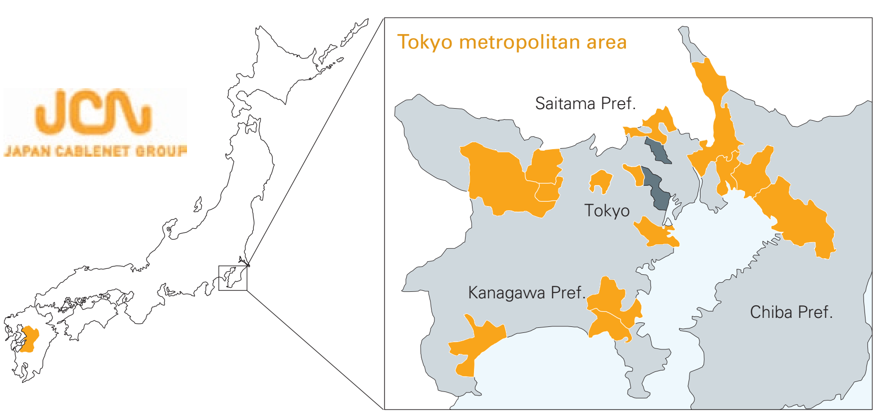
Expanding "Cable-plus phone" Alliances

"Cable-plus phone" service allows CATV operators to provide fixed-line voice telephony services using their coaxial cable network and KDDI's backbone network. The Company is expanding its pass-through business with CATV operators through this service, which enables CATV stations to offer full-scale "triple play" services, including multichannel broadcasting, Internet, and telephone services. For KDDI, "Cable-plus phone" service represents a new source of voice telephony basic charges. At the end of the fiscal year under review, the Company had business tie-ups with 42 CATV station companies, and voice telephony subscriptions for 286,000 lines. Going forward, KDDI will continue to build business alliances with CATV operators to expand its customer base.

Synergies from Consolidation of JCN Group

In June 2007, JCN Group, the second largest multiple system operator (MSO) in Japan, became a consolidated subsidiary of KDDI. At March 31, 2008, the JCN Group had 15 CATV stations and 667,000 subscribers, mainly in the Tokyo metropolitan area. In preparation for fixed mobile and broadcast convergence (FMBC), KDDI is implementing measures to acquire video distribution service know-how and expand its subscriber base.

JCN Group Service Area



*As of the end of March 2008

■ Group stations (15) ■ Affiliated companies (2)

Consumer-oriented FMBC Strategies

Integration of Consumer Brand into au

Leveraging its advantages as a comprehensive communications company operating both mobile and fixed-line communications services, KDDI is promoting fixed, mobile, and broadcast convergence (FMBC) services focused on the 30 million subscribers to its mobile phone services. As part of that process, KDDI integrated its mobile phone services under the consumer brand name "au." The Company also integrated its mobile and fixed-line communications businesses internally, combining the business strategy and product planning departments in April 2007 and the sales departments in October 2007.

In September 2007, KDDI took a major step forward toward its goal of creating an FMBC platform by integrating its mobile phone and personal computer portal sites and restarting services under the "au one" brand name. The use of "au" as the brand name is intended to foster a sense of integration. In addition to combining the portal sites, KDDI also changed its ISP brand name from "DION" to "au one net." These changes have set the stage for fixed-line services to leverage the brand-name power of the "au" mobile phone service with its customer base of 30 million subscribers to promote use of fixed-line services.

Developing the Corporate Business

Reinforcing KDDI's Initiatives to Become an All-around ICT Player

Benefits of the Merger with POWEREDCOM

Steady Increase of Network Service Sales for Corporate Customers

Within the corporate client business, virtual private network (VPN) services such as wide-area Ethernet services exhibit strong growth potential. Already, KDDI's merger with POWEREDCOM, one of the leading companies in the wide-area Ethernet market, is steadily producing results. VPN services revenues in the fiscal year under review totaled ¥98.6 billion, rising 11% year on year by maintaining a double-digit growth rate.

Previously, KDDI was dependent on NTT for the access lines used for corporate clients. The merger with POWEREDCOM affords the Company dual access routes through electric power companies and NTT. This capability has improved confidence in KDDI's overall services and proven to be a powerful sales point with customers.

The Company has also been successful in collaborating with the PNJ Group, a group of electric power company-related carriers. By establishing a firm position for itself in the fixed-line market for corporate services, KDDI is steadily expanding its network revenues around its VPN service sales.

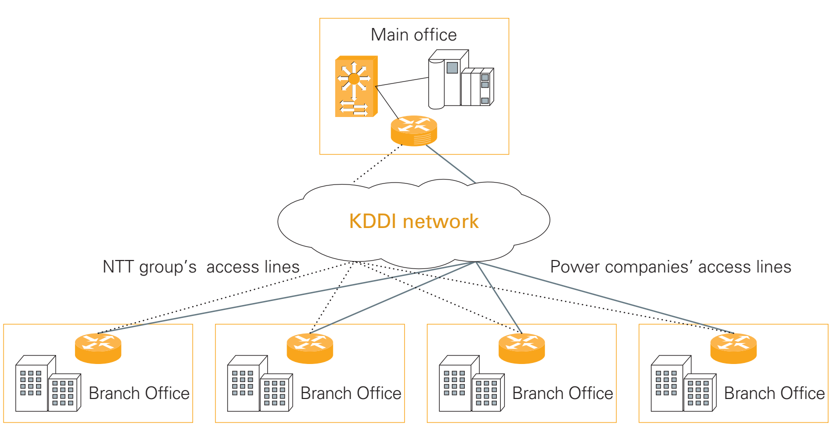
Moving forward with "One-stop" Strategies

Offering End-to-end Services through Expansion of Business Domains

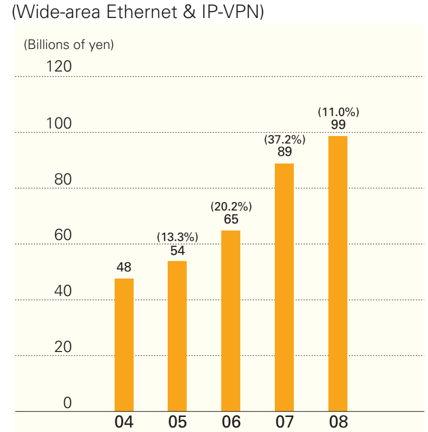
The demand for outsourcing services, from LANs and terminals to applications beyond mere network services, is rising particularly among small and medium-sized corporations. Moreover, because of the need for fixed-line and mobile convergence capabilities, the intensifying competition has not only enveloped fixed-line and mobile communications business, but also system integration businesses and device vendors.

During the fiscal year under review, KDDI expanded its business domain for outsourcing services and started one-stop solutions service for establishing networks as well as LANs in the customer premises through a business alliance with UNIADEX. Ltd. in February 2007. The Company also entered the "Software as a Service" (SaaS) business through a tie-up with Microsoft Corporation (See Special Feature, page 18) and began providing security solution services in collaboration with Little eArth Corporation Co., Ltd. (LAC). By working with other companies to create joint business models, KDDI has expanded its business domain, enabling it to begin offering end-to-end services as an information and communication technology (ICT) specialist.

Dual Access Networks



VPN Service Sales
(Wide-area Ethernet & IP-VPN)



(Years ended March 31)
*( ) shows yoy.

Strategies for the Future

Aiming at Regaining Profitability by the Year Ending March 2011, We will Establish an Overall Access Strategy for Our Consumer Services and Secure Revenue through Expanding Business Domains in our Corporate Services

Toward "Challenge 2010"

Aiming for Higher Sales and Profitability through Expanding the Customer Base

Japan's fixed-line market is at a turning point, with legacy services giving way to direct-access, IP, and broadband services. At KDDI we are also moving in this direction and developing access line services toward its next phase of growth. While the up-front costs of expanding the subscriber base for FTTH are keeping the Fixed-line Business in the red, we do not intend to downsize. Rather, we plan to recover profitability by increasing sales based on subscriber base expansion.

Under "Challenge 2010," we are implementing strategies to strengthen our "Metal-plus," FTTH, "Cable-plus phone," and CATV access line business. We are also growing our corporate client services business. Through these combined efforts, we aim to bring the Fixed-line Business back into the black in the fiscal year ending March 2011. Here, we introduce the initiatives being implemented by our Fixed-line Business for the future.

Metal-plus Strategies

Stable Profit Structure for "Metal-plus"

Our "Metal-plus" service is expected to become profitable in the current fiscal year. By maintaining its 3 million-strong subscriber base, we will make the service a source of stable profits in future.

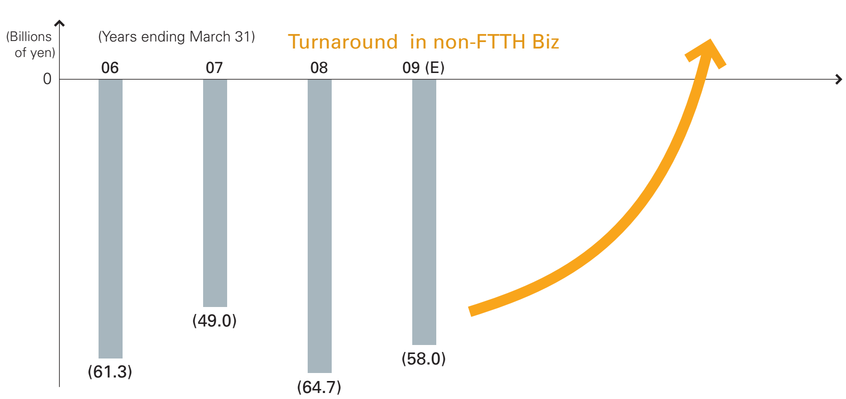
FTTH Strategies

Expand Subscriber Base to Gain 30% Share of FTTH Market in Service Area

In January 2007, we integrated the FTTH business of Tokyo Electric Power Company, followed by the conversion of Chubu Electric Power Co., Inc's subsidiary, CTC into a KDDI consolidated subsidiary in April 2008. Thanks to these measures, it has become possible to flexibly expand the business in the Tokyo metropolitan area and Chubu region using our own access lines. With the medium-term target of capturing a 30% market share in these service areas, we aim to improve profitability by promoting two key issues: enhancing the appeal of our products and curtailing costs.

We believe that to heighten the intrinsic appeal of FTTH, we need to create an environment where subscribers can enjoy high-definition digital television or video over our FTTH

Image of Operating Income of Fixed-line Business



service, and are pressing forward with technical development to make that a reality. By expanding and improving our video services, including high-definition digital television and video, and working hand in hand with au services, we are making progress with strengthening product appeal throughout our services. To expand marketing capabilities, KDDI is shifting from its previous dependence on volume sales outlets to a broader network of sales channels, including telemarketing, door-to-door sales, and au shops. Through this process, we aim to strengthen sales capabilities and curtail sales costs, while expanding our subscriber base.

Strengthen the Corporate Services Business

Further Expansion of Business Domains

We believe that growth in our Fixed-line Business for corporate clients will require such measures as fixed and mobile convergence (FMC) services working in conjunction with corporate clients' mobile services and expansion of businesses to peripheral areas. To extend the one-stop solution strategy that we have been pursuing since last year in our core network businesses and peripheral areas, we will establish a system to promote further development, forming win-win relationships with business partners that are specialists in high-demand business areas where we lack capabilities. Through these measures, we plan to expand our subscriber base around our network to include both fixed-line and mobile customers, small-scale as well as large-scale corporate clients, and overseas as well as domestic customers. We intend to become an all-around player in this field capable of offering one-stop ICT solutions.

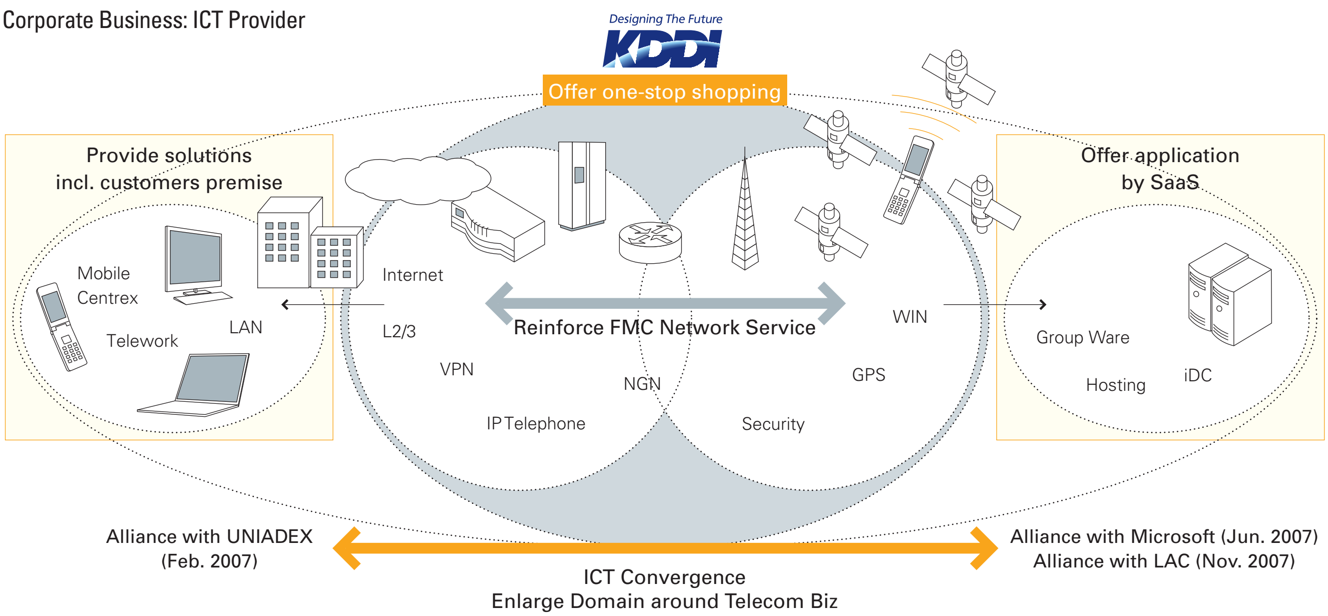
Outlook for Fiscal Year Ending March 2009

Promotion of Access Line Business

The outlook for the current fiscal year is affected by the fact that the JCN Group and overseas network subsidiaries previously included in Other Business will be included in the Fixed-line Business segment along with CTC, which became a consolidated subsidiary in April 2008.

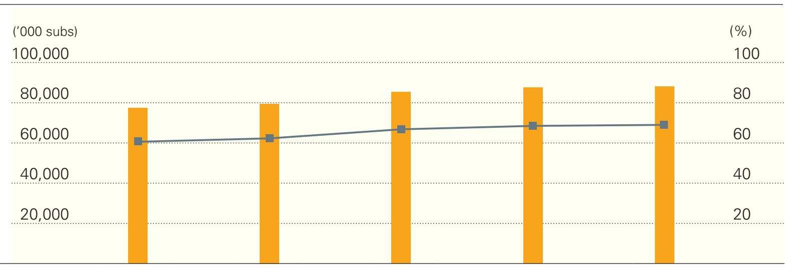
Including this additional revenue, operating revenues are projected to advance 19.0% year on year to ¥855.0 billion. Operating losses will continue, but are expected to contract ¥6.7 billion, to ¥58.0 billion. Although "Metal-plus" service is forecast to move into the black, the development of FTTH services will keep overall operations in the red. In addition, the number of fixed access lines for individual customers is expected to increase by 473 thousand over the previous year to 5.3 million.

Corporate Business: ICT Provider



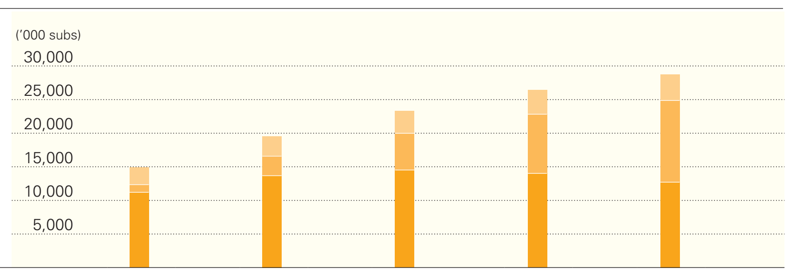
Market Data

Number of Internet Subscribers



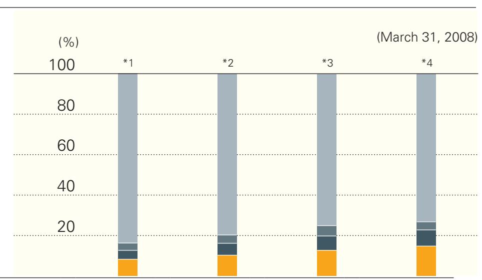
(Years ended December 31)	2003	2004	2005	2006	**2007**
■ Total subscribers in Japan	77,300	79,480	85,290	87,540	**88,110**
— Penetration rate	60.6%	62.3%	66.8%	68.5%	**69.0%**

Number of Broadband Subscribers



(Years ended March 31)	2004	2005	2006	2007	**2008**
■ ADSL Subscribers	11,196	13,676	14,518	14,013	**12,711**
■ FTTH Subscribers	1,142	2,889	5,448	8,794	**12,153**
■ CATV Subscribers	2,578	2,961	3,310	3,607	**3,874**
Total	14,916	19,533	23,285	26,427	**28,738**

Market Share of Myline by Operator



(Years ended March 31)	2006				2007				**2008**			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local*1	In-prefecture long-distance*2	Out-of-prefecture long-distance*3	International*4
■ KDDI	10.8%	13.2%	16.5%	19.5%	9.1%	11.3%	14.1%	16.5%	**8.3%**	**10.3%**	**12.7%**	**14.8%**
■ SoftBank TELECOM	5.4%	7.3%	9.1%	10.4%	5.0%	6.7%	8.3%	9.3%	**4.4%**	**5.9%**	**7.1%**	**8.0%**
■ Other companies total	5.6%	5.4%	8.0%	6.6%	4.2%	4.7%	5.9%	4.6%	**3.5%**	**4.1%**	**5.2%**	**4.1%**
■ NTT	78.2%	73.1%	66.4%	63.5%	81.8%	77.2%	71.7%	69.5%	**83.8%**	**79.7%**	**75.0%**	**73.1%**
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

*Fusion included under "Other companies" from fiscal year ended March 2007.

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

Other Business

KDDI will Strengthen Business Fields with Growth Potential, including Consolidation of the JCN Group*

Contents

Business Review

Prioritizing Reinforcement of Growth Areas

KDDI is focusing on strengthening business fields with growth potential in order to strengthen the competitiveness of the entire KDDI Group. In June 2007 KDDI made the JCN Group, Japan's second-largest MSO a consolidated subsidiary. Mainly as a result of this, other business operating revenue rose 53.8% from the previous fiscal year to ¥167.2 billion, with operating income up 31.4% to ¥9.0 billion.

KDDI will revise the scope of its Fixed-line Business Segment, effective fiscal year ending March 2009. We will incorporate the JCN Group into this segment as part of the fixed-line business access strategy. In addition, we will include overseas group companies providing fixed-line communication services as part of our corporate Information and Communication Technology (ICT) solutions strategy.

*For JAPAN CABLENET (JCN) Group, see page 19 for more information.

External view of KDDI R&D Laboratories, Inc. (Fujimino, Saitama Prefecture)

Main Services and Group Companies in the Other Business

	Main Services	Main Group Companies
Other Business	Call centers, content, cable television, research and development, other fixed-line services, other mobile phone services, other data center services, etc.	KDDI Evolva Inc. mediba corporation JAPAN CABLENET (JCN) Group KDDI R&D Laboratories, Inc. KMN Corporation KDDI America, Inc. TELEHOUSE International Corporation of America

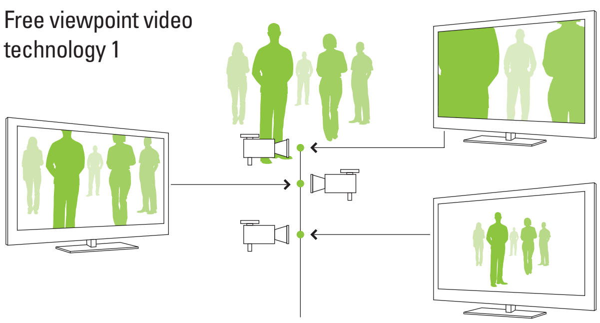
Research and Development

Free Viewpoint Video Technology that Anticipates the Future of Television

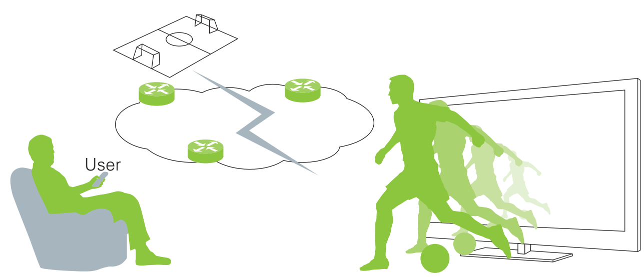
KDDI has developed a free viewpoint video technology that allows viewers to enjoy televised images from nearly any viewpoint they prefer. Users can select viewpoints where a video camera could not be placed, such as the referee's view of a sumo bout or a soccer player's perspective. It even enables "walkthrough images," as if the user could move among the players for a sense of being on the field. This free viewpoint video technology was first accomplished using proprietary technology developed by KDDI R&D Laboratories that optimally combines wide space division with image synthesis, known as the "cylindrical space division and reconstruction scheme."

Higher definition large screens, high resolution pictures and other imaging technologies are advancing rapidly, as seen in digital broadcasting and digital cinema. There is a growing need for virtual reality and other types of highly realistic images. KDDI's free viewpoint video generation technology offers viewers the opportunity to experience images as if they were actually there at the scene (ultra-realistic). We are exploring image creation systems and other applications using this technology, and plan to continue research into future video technologies.

Free viewpoint video technology 1



Free viewpoint video technology 2



1Gbit/s Infrared Wireless Transmission Using a Mobile Phone

KDDI has developed a 1Gbit/s infrared communication interface 250 times faster than the current interface in widespread use (4Mbit/s).

The memory capacity of mobile phones, digital cameras, portable audio/video and other devices has increased considerably in recent years, and demand has risen for interfaces able to quickly and easily transfer stored data such as images, movies and music. Previously, transferring the data stored in a mobile phone to a computer required the use of a cable to link the two devices. KDDI's new interface eliminates the need for a cable, and allows for transmission of large volumes of data in an extremely short amount of time, without the hassle of a fixed line. For example, data equivalent to two or three CD albums for a portable music player (about 100Mbyte) can be easily sent over the interface KDDI developed in under a second.

KDDI is working with the Infrared Data Association (IrDA), which develops standards for infrared technology, to standardize the 1Gbit/s infrared communication interface by March 2009, as well as taking steps to promote the technology so as to allow large volumes of data to be sent between a variety of information devices and mobile phones in short periods of time. We anticipate that the incorporation of high-speed infrared interfaces will make mobile phones even more enjoyable and convenient.

Usage Diagram of the High-speed Infrared Interface