Financial Section

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Message from the Executive Vice President

Satoshi Nagao
Executive Vice President
Member of the Board

KDDI prepares proper financial statements and provides appropriate disclosure quarterly and as necessary, in accordance with the Corporate Law, Financial Instruments and Exchange Law and regulations of the Tokyo Stock Exchange (TSE).

To help ensure the greater accuracy of the information disclosed in end-of-period earnings statements, an internal Disclosure Committee meets at the time of each statement to review information, hold discussions, and ensure common understanding. After approval by this committee, earnings statements are approved by the Corporate Management Committee and Board of Directors, and released in accordance with TSE regulations regarding timely disclosure. In addition, as one element of management supervision, the Company's corporate auditors conduct audits of directors' execution of corporate duties. (See page 48 for a diagram of the corporate governance structure.)

The KDDI Group was formed in 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION. We later merged with au CORPORATION, three Tu-Ka group companies and POWEREDCOM Inc., as well as integrating the FTTH business of Tokyo Electric Power Company (TEPCO), and incorporated the JCN Group and Chubu Telecommunications Co., Inc. in the scope of consolidation. Amid this amalgamation of a diverse range of business expertise and corporate cultures, the Group creates a climate of constantly rising to new challenges while working to develop and expand its business domain.

The business climate is undergoing change, even as the accounting standards become increasingly internationalized and internal control systems are important than ever before. To respond to such changes, we integrated accounting principles across the Group in a systematic manner in order to increase management transparency and increase the level of sophistication in our accounting. The result is the KDDI Group Accounting Practice (KGAP), established in April 2008.

KGAP both establishes the Group's accounting principles for implementing consolidated management and standardizes business management duties and performance measures. We intend to utilize KGAP as a guideline to enable speedy and transparent management decisions in order to provide our management team and our stakeholders with financial information that is high quality and easy-to-understand.

KDDI is working to improve our consolidated governance. At the same time, we are meeting the expectations of our shareholders and investors by preparing proper financial statements and providing beneficial information in a timely manner to allow our stakeholders to gain an accurate understanding of the status of the Group's business activities. Thank you for your continued understanding and support of KDDI.

Five-year Summary

Years ended March 31

	Millions of yen					Millions of U.S. dollars[*1]
	2004	2005	2006	2007	**2008**	**2008**
Operating revenues	¥2,846,098	¥2,920,039	¥3,060,814	¥3,335,260	**¥3,596,284**	**$35,895**
Telecommunications business	2,268,726	2,300,566	2,398,526	2,592,882	**2,749,897**	**27,447**
Other business	577,372	619,473	662,288	742,378	**846,387**	**8,448**
Operating income	292,105	296,176	296,596	344,701	**400,452**	**3,997**
Net income	117,025	200,592	190,569	186,747	**217,786**	**2,174**
EBITDA	688,027	664,255	654,409	691,699	**769,209**	**7,678**
Operating income margin	10.3%	10.1%	9.7%	10.3%	**11.1%**	**11.1%**
EBITDA margin	24.2%	22.7%	21.4%	20.7%	**21.4%**	**21.4%**
Total Assets	2,639,581	2,472,322	2,500,865	2,803,240	**2,879,275**	**28,738**
Interest-bearing debt	1,179,764	864,627	770,692	620,471	**571,945**	**5,709**
Total net assets (formerly shareholders' equity)*[2]	1,009,391	1,162,192	1,295,531	1,537,114	**1,715,731**	**17,125**
Net cash provided by operating activities	622,698	538,676	575,531	738,703	**545,234**	**5,442**
Net cash used in investing activities	(218,465)	(136,508)	(435,923)	(442,218)	**(557,688)**	**(5,567)**
Free cash flows	404,233	402,167	139,608	296,485	**(12,454)**	**(124)**
Net cash used in financing activities	(328,911)	(376,058)	(256,935)	(258,919)	**(104,410)**	**(1,042)**
Per share data (yen and U.S. dollars):						
Net income	27,748	47,612	45,056	42,505	**48,810**	**487**
Net income after adjusted the potential stocks	27,708	47,571	45,025	42,495	**48,807**	**487**
Cash dividends	3,600	6,900	8,000	9,500	**10,500**	**105**
Total net assets (formerly shareholders' equity)	239,515	278,170	296,383	339,806	**377,278**	**3,766**

Notes: 1. U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥100.19=U.S.$1 on March 31, 2008.
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

	2004	2005	2006	2007	**2008**
Equity ratio (%)	38.2	47.0	51.8	54.1	**58.5**
D/E ratio (times)	1.17	0.74	0.59	0.41	**0.34**
ROE (%)	12.3	18.5	15.5	13.3	**13.6**
ROA (%)	10.8	11.6	11.9	13.0	**14.1**
Total assets turnover ratio (times)	1.0	1.1	1.2	1.3	**1.3**
Shareholders' equity turnover ratio (times)	3.0	2.7	2.5	2.4	**2.2**
Current ratio (%)	107.3	114.0	103.6	88.0	**107.4**
Fixed assets to equity (%)	192.4	153.6	145.4	136.4	**132.3**
Fixed assets to long-term capital (%)	98.6	96.2	99.8	106.2	**99.4**
Liquidity in-hand (times)	0.8	0.9	0.6	0.7	**0.3**
Interest coverage ratio (times)	10.5	14.2	19.0	29.3	**40.2**
Dividend payout ratio (%)	16.8	21.2	20.8	22.4	**21.5**

Equity ratio = Shareholders' equity (end of fiscal year) ÷ total assets (end of fiscal year)
D/E ratio = Interest-bearing debt (end of fiscal year) ÷ shareholders' equity (end of fiscal year)
ROE = Net income ÷ average shareholders' equity over fiscal year
ROA = Operating income ÷ average total assets over fiscal year
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)
Fixed assets to equity = Fixed assets (end of fiscal year) ÷ total shareholders' equity (end of fiscal year)
Fixed assets to long-term capital = Total fixed assets ÷ (total shareholders' equity (end of fiscal year) + non-current liabilities (end of fiscal year))
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.)

Note: Sum of Shareholders' equity, Share warrant and Minority interests

Segment Data

Years ended March 31

Mobile Business	Millions of yen					Millions of U.S. dollars
	2004	2005	2006	2007	**2008**	**2008**
Operating revenues	—	¥2,312,537	¥2,510,395	¥2,677,445	**¥2,862,599**	**$28,572**
Sales outside the group	—	2,293,525	2,484,202	2,662,550	**2,851,679**	**28,463**
Telecommunications business	—	1,751,053	1,903,427	2,017,516	**2,149,208**	**21,451**
Other business	—	542,473	580,775	645,034	**702,471**	**7,011**
Sales within the group	—	19,012	26,193	14,895	**10,920**	**109**
Operating income	—	292,251	354,439	385,689	**455,044**	**4,542**
Net income	—	171,698	145,303	209,458	**266,472**	**2,660**
Free cash flows	—	190,636	266,178	294,838	**82,414**	**823**
EBITDA	—	548,859	605,172	598,134	**692,239**	**6,909**
Operating income margin	—	12.6%	14.1%	14.4%	**15.9%**	**15.9%**
EBITDA margin	—	23.7%	24.1%	22.3%	**24.2%**	**24.2%**

(Reference)	Millions of yen	
	au Business	Tu-Ka Business
	2004	2004
Operating revenues	¥1,831,786	¥274,329
Sales outside the group	1,817,333	267,929
Telecommunications business	1,367,038	223,040
Other business	450,295	44,890
Sales within the group	14,453	6,400
Operating income	239,469	16,304
Net income	129,995	8,043
Free cash flows	207,251	54,951
EBITDA	437,651	72,097
Operating income margin	13.1%	5.9%
EBITDA margin	23.9%	26.3%

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

Fixed-line Business	Millions of yen					Millions of U.S. dollars
	2004	2005	2006	2007	**2008**	**2008**
Operating revenues	¥623,104	¥596,041	¥619,314	¥714,350	**¥718,646**	**$7,173**
Sales outside the group	529,119	494,729	518,716	610,364	**629,647**	**6,285**
Telecommunications business	484,512	451,632	470,391	548,675	**565,331**	**5,643**
Other business	44,607	43,096	48,325	61,690	**64,316**	**642**
Sales within the group	93,984	101,312	100,598	103,986	**88,999**	**888**
Operating income (loss)	16,421	(310)	(61,309)	(49,036)	**(64,668)**	**(645)**
Net income (loss)	(29,935)	(4,413)	26,362	(23,448)	**(51,731)**	**(516)**
Free cash flows	74,232	(3,066)	(102,317)	6,303	**(53,897)**	**(538)**
EBITDA	112,402	87,494	41,451	80,890	**58,129**	**580**
Operating income margin	2.6%	(0.1)%	(9.9)%	(6.9)%	**(9.0)%**	**(9.0)%**
EBITDA margin	18.0%	14.7%	6.7%	11.3%	**8.1%**	**8.1%**

Other Business	Millions of yen					Millions of U.S. dollars
	2004	2005	2006	2007	**2008**	**2008**
Operating revenues	¥80,371	¥81,381	¥103,504	¥108,704	**¥167,159**	**$1,668**
Sales outside the group	50,680	46,399	57,896	62,345	**114,958**	**1,147**
Sales within the group	29,691	34,982	45,607	46,359	**52,201**	**521**
Operating income	545	951	4,381	6,858	**9,014**	**90**
Net income (loss)	(3,439)	1,565	34,861	3,571	**1,247**	**12**
Operating income margin	0.7%	1.2%	4.2%	6.3%	**5.4%**	**5.4%**

Management's Discussion and Analysis

The consolidated financial statements of the KDDI Group have been prepared in conformity with accounting standards generally accepted in Japan.

The following pages provide an analysis of the financial condition and business results of the KDDI Group for the fiscal year ended March 31, 2008. 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 2008 based on information available at that time. Actual results may differ materially due to the risks and uncertainties inherent in such statements.

1. Analysis of Consolidated Business Results

(1) Executive Summary

(a) Status of the KDDI Group

The KDDI Group, consisting of the parent company, 59 consolidated subsidiaries, and 15 affiliates, is a comprehensive telecommunications company operating both mobile services and fixed-line communications networks in Japan.

Previously, the Group's Mobile Business was provided under two brands: "au" and "Tu-Ka." On March 31, 2008, however, the "Tu-Ka" service was terminated. At the end of March 2008, the two brands combined had a 29.5% share of the Japanese market, with 30.34 million subscribers and the No. 2 market position. (Within these figures, the "au" service carried a 29.3% market share and 30.10 million subscribers.)

The Fixed-line Business provides a range of individual and corporate services, including voice communications and broadband and Internet connectivity. The high-quality IP phone service "Metal-plus" launched services in February 2005, and had reached 3.27 million subscribers as of the end of March 2008. 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 merged with those of Tokyo Electric Power Company (TEPCO) in January 2007, had 710,000 subscribers at the end of March 2008.

The Group is also involved in the call center business, content business, and cable television business. In addition to improving its services, the Group is strengthening the interaction between its businesses in order to cultivate new services.

(Reference)

Scope of Consolidation

- Consolidated subsidiaries: 59 companies (17 more than the previous fiscal year; 22 companies added, 5 removed)
- Equity-method affiliates: 14 companies (13 fewer than the previous fiscal year; 3 companies added, 16 removed)

KDDI Group

(As of March 31, 2008)

Business Segment	Principal Services/Operations	Principal Group Companies
Mobile Business	Mobile phone services, sale of phone terminals, etc.	KDDI Corporation, OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Technical & Engineering Service Corporation
Fixed-line Business	Domestic and international telecommunications services, Internet services, solutions services, etc.	KDDI Corporation, KDDI Technical & Engineering Service Corporation
Other Business	Call center business, content business, cable television business, and other services	KDDI Evolva Inc., mediba corporation, JCN Group and others

(b) Trends in Telecommunications and the KDDI Group's Response

In the mobile communications market, the Mobile Number Portability (MNP) system went into effect on October 24, 2006. This was followed by the "Mobile Business Revitalization Plan" (announced by the Ministry of Internal Affairs and Communications on September 21, 2007), which saw the commencement of new mobile service pricing methods, as well as the entry of EMOBILE Ltd., which began providing voice communication services based on domestic roaming agreements with other enterprise. The competition for customer acquisition in such areas as mobile handsets, fees, and services has grown increasingly steep.

In the fixed-line business, the operating environment is changing dramatically. In addition to ongoing advancement of broadband and other services, factors in this change include the conversion of fixed and mobile communications, closer correlation between telecommunications and broadcasting, the approval of plans to establish specific base stations for a 2.5GHz broadband wireless access (BWA) system, and the commencement of next-generation network (NGN) commercial services by NTT East and NTT West. The market has therefore entered a new level of competitiveness.

In response, the KDDI Group focused on "Strategy and Speed" to quickly and appropriately respond to the rapid changes in the business climate and the diversifying needs of our customers.

◯ KDDI Group Initiatives in the Mobile Communications Market

- Achieved the 30-million milestone for total "au" subscribers (per our target for March 31, 2008).
- Steadily expanded our customer base though the active flows using the MNP (mobile number portability) system stabilized immediately after the introduction of MNP (October 24, 2006).
- Launched new sales scheme called "au Purchase Program" in November 2007. This provides various options for customers purchasing mobile handsets (excluding prepaid), both for new subscribers and for upgrade customers.
- Enhanced and promoted widespread adoption of filtering services to ensure safe, reliable use of EZweb, and conducted educational activities aimed at minors and their parents and guardians.
- Terminated "Tu-Ka" mobile service (March 31, 2008).

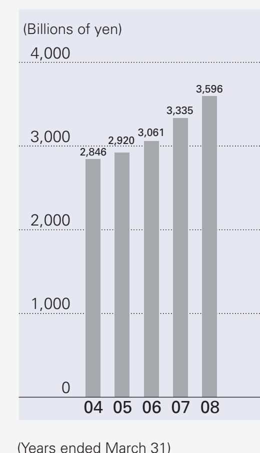
◯ KDDI Group Initiatives in the Fixed-line Market

- Established a business foundation through the merger of KDDI's FTTH (Fiber to the Home) operations with those of TEPCO (January 2007), and upgraded the content of the "HIKARI-one television service (MOVIE SPLASH)."
  - ◆ Increased number of channels and began offering titles from Warner Brothers, NBC Universal, Twentieth Century Fox, and other studio via VOD (video on demand).
- Steadily increased the number of allied CATV stations for "Cable-plus phone" service using the CATV network and KDDI's Content Delivery Network (CDN).*
  - ◆ At the end of March 2008, alliances had been concluded with 42 CATV stations, with 286,000 subscribers.

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

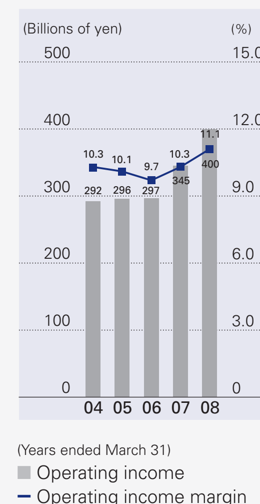
(2) Overview

Consolidated operating revenues



(Years ended March 31)

Consolidated operating income/margin



In the fiscal year ended March 31, 2008, total operating revenues amounted to ¥3,596.3 billion, up ¥261.0 billion, or 7.8%, from the previous fiscal year. Revenue in the Mobile Business increased as a result of greater sales of CDMA 1X WIN mobile handsets and an increase in subscriber numbers. KDDI attained a 35.8% share of the overall annual net increase in subscribers (with "au" accounting for 46.4%). Revenue from the Fixed-line Business also rose, owing in part to increased sales of "Metal-plus" and the "HIKARI-one" services.

Operating expenses rose ¥205.3 billion, or 6.9%, to ¥3,195.8 billion. This was mainly due to costs associated with expanding sales of CDMA 1X WIN handsets and higher depreciation costs in the Mobile Business, as well as a rise in costs related to "HIKARI-one" in the Fixed-line Business.

Accordingly, operating income climbed ¥55.8 billion, or 16.2%, to ¥400.5 billion.

Other expenses totaled ¥21.2 billion, ¥14.4 billion lower than in the previous year. Key factors contributing to this decrease in expenses were a decline in interest expenses due to steady progress in the reduction of interest-bearing debt and a year-on-year decline in impairment loss.

Income before income taxes and minority interests grew ¥70.1 billion, or 22.7%, to ¥379.2 billion. Total income taxes, consisting of corporation, resident, and enterprise taxes, totaled ¥143.2 billion against deferred income taxes of ¥14.5 billion, which together amounted to an increase of ¥39.3 billion

Summarized Consolidated Statements of Income

(Billions of yen)

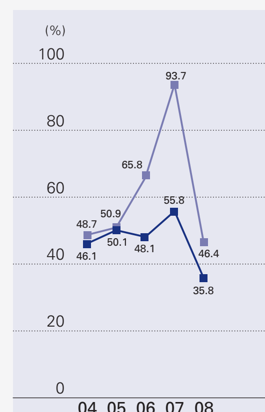
	2007/3	2008/3	Change amount	Change %
Operating Revenues	3,335.3	3,596.3	261.0	7.8
Operating Expenses	2,990.6	3,195.8	205.3	6.9
Operating Income	344.7	400.5	55.8	16.2
Other Expenses	35.6	21.2	(14.4)	(40.4)
Income before Income Taxes and Minority Interests	309.1	379.2	70.1	22.7
Current Income Taxes	133.4	143.2	9.9	7.4
Deferred Income Taxes	(14.9)	14.5	29.4	—
Minority Interests in Consolidated Subsidiaries	3.9	3.7	(0.2)	(4.8)
Net Income	186.7	217.8	31.0	16.6

year on year. This mainly reflected the rise in taxable income due to higher earnings, as well as a decline in tax deductions for IT investments and an increase in income tax adjustment admitted accompanying an impairment loss on equipment related to the "Tu-Ka" service.

Minority interests in consolidated subsidiaries declined ¥0.2 billion, to ¥3.7 billion. As a result, net income rose ¥31.0 billion, or 16.6%, to ¥217.8 billion.

(3) Segment Financial Reviews

Share of net additions of Mobile Business



(Years ended March 31)
— au+Tu-Ka — au

(a) Mobile Business

In the Mobile Business, the Group strove to comprehensively improve the appeal of its offerings—including infrastructure, mobile phone handsets, charges, and content—centering on the "au" brand. On March 31, 2008, the Group ended its "Tu-Ka" service as planned.

○ Infrastructure: Expansion of EV-DO Rev. A Network

KDDI differentiates itself from other carriers with CDMA2000 1x EV-DO ("EV-DO"), a dedicated format for data communications using CDMA 1x WIN. In December 2006, the Company started rolling out EV-DO Rev. A, an upgraded version of EV-DO. By the end of March 2008, this new service covered practically all of Japan's major areas. 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 foundation of product competitiveness.

○ Handsets: 36 Models*[1] Launched During Year

KDDI continued to expand its lineup of au handsets, with 36 models launched during the fiscal year under review (43 in the previous year), allowing customers to select the model that best suits their personal lifestyles.

- Models predicated on design and function, such as the Waterproof 1 Seg series, the EXILIM series*[2], the Walkman® series*[3], INFOBAR2, and the Wooo series*[4]
- Models compatible with the KDDI integrated platform "KCP+"*[5], such as "LISMO Audio Device Link" and "au one Gadget"
- Models compatible with "au Smart Sports Run&Walk"
- Easy-to-use "Simple Phone" handsets for inexperienced users

*[1] Annual number of models includes corporate models from the fiscal year under review.
*[2] EXILIM is a registered trademark of CASIO COMPUTER CO., LTD.
*[3] Walkman is a registered trademark or trademark of Sony Corporation
*[4] Wooo is a registered trademark of Hitachi, Ltd.
*[5] Integrated platform that expands the range of common area including basic applications, operating system, middleware and almost all mobile phone software.

○ Mobile Handset Sales Methods New System Called "au Purchase Program" Introduced in November 2007

KDDI launched its new "au Purchase Program" sales system, which gives customers the choice of two plans when buying or changing their handsets. The first, the "Full Support course," enables customers to stick with their current system and take advantage of handset subsidy to purchase handsets at little initial extra cost. The other, the "Simple course," does not include the handset subsidy and is aimed at customers who prioritize lower monthly payments over handset replacement.

○ Charges

- "Everybody Discount" service launched (September 2007) Our existing "My Plan Discount," "Business Discount," and "Family Discount" plans offered users up to a maximum of

50% off on basic monthly charges in proportion to the number of years of continuous use of services. In September 2007, we introduced the "Everybody Discount," which substitutes a blanket 50% discount on basic monthly charges immediately from the first year, conditional on a two-year contract.

- 24-hour free domestic calls to family members (March 2008)
  Since March 1, 2008, subscribers to "Family Discount" in combination with the "Everybody Discount" or "Smile-heart Discount"* can make calls to family members free of charge. In addition, corporate subscribers combining the "Business Discount" plan can now make free calls between employees on the same "Business Discount" plan.

* Discount service for disabled people.

◯ Content Services

- KDDI has unveiled the new "au Smart Sports" service to meet the lifestyles of customers involved in sports. This comprehensive service, helps support au subscribers' life-styles through sporting activities, offers such applications as training history and management to support everyday sporting activities on mobile phones, as well as access to sports-related products, sports news, and information on EZweb and PC.
- KDDI launched the "au one Gadget" service, which gives users quick access to their favorite information and features.
- On September 27, 2007, KDDI unveiled its new "au one" portal site, an amalgamation of the au mobile Internet service EZweb portal and other sites that is integrated for both mobile phones and PCs. At the same time, the Company changed the name of the DION Internet service brand to "au one net."

◯ Corporate Services

KDDI actively targets the corporate mobile business, a market that continues to grow. We have steadily broadened our customer base among large and medium-sized enterprises by demonstrating our comprehensive strengths in such areas as solutions-related consulting, communication coverage area, lineup of specialized handsets for corporate users, and transmission quality.

In addition, in October 2007, we merged KDDI Network & Solutions Inc. into the parent company and significantly expanded our sales organization. In the process, we built a structure capable of offering proactive approaches to small and medium-sized enterprises.

<Major new services for corporate customers>

- "au Keitai Chakushin Discount" service launched (February 2008)
  Under this new service, users of au handsets registered in the name of a company receive a 15% discount on all calls made to their phones from KDDI- and NTT-subscribed*[1] telephones registered in the name of the same company.

*[1] 0077 prefix calls from NTT-subscribed telephones (including INS64/1500)

- "WIN Single Flat-rate" plan launched (March 2008)
  This is a flat-rate data transmission plan specifically for PCs fitted with CDMA 1x WIN communication modules.*[2]

*[2] As of March 31, 2008, the lineup includes five models and 12 terminals: ThinkPad X61/ThinkPad X61s (Lenovo Japan Ltd.); FlyBook VM/FlyBook V5 (Dialogue Japan Corporation); and the dynabook SS RX (TOSHIBA CORPORATION).

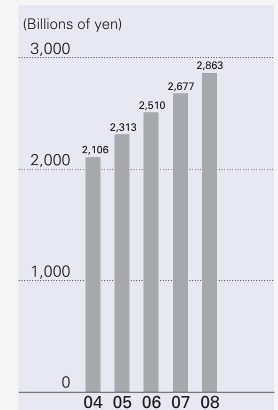
◯ Termination of "Tu-Ka" Mobile Service (March 2008)

KDDI terminated its "Tu-Ka" mobile service as planned on March 31, 2008. KDDI began offering Tu-Ka users same-number transfers to au service contracts in October 2005, and a total of 2.60 million users migrated to au by March 31, 2008. As of September 30, 2005, there were 3.53 million Tu-Ka subscribers, of whom around 74% have now use the au mobile service.

Operating Revenues

Total operating revenues in the Mobile Business reached ¥2,862.6 billion, up ¥185.2 billion, or 6.9%, year on year. The chief reasons for this increase are given below.

Operating revenues (Mobile Business)



(Years ended March 31)

◯ Increase in Number of Subscribers

The total number of subscribers (au and Tu-Ka) at the end of March 2007 was 30.34 million, giving KDDI a 29.5% share of the market (au 29.3%). The annual net increase in subscribers (au and Tu-Ka) was 2.15 million (net addition share of 35.8%).

MNP made a significant contribution to the net increase in au subscribers, totaling around 600,000. The net number of au subscribers increased by 620,000 (1.25 million subscribers gained due to MNP against 630,000 lost due to MNP), while the number of Tu-Ka subscribers lost as a result of MNP totaled 28,000.

Although MNP is not a temporary system, the number of people taking advantage of it declined moderately in the year under review. This was due to a rebound from the initial huge demand when MNP was introduced, as well as the permeation of discounted multi-year contract plans offered by various carriers. Since MNP began in 2006, KDDI has attracted a net increase of 1.41 million subscribers through the system, the highest among Japan's mobile service carriers.

(Reference) Total Subscribers

('000 subs)

	2007/3	2008/3	Net Additions	Share of Net Additions
au	27,317	30,105	2,788	46.4%
of module-type	699	814	115	
CDMA 1X WIN	14,549	19,695	5,146	
CDMA 1X	12,170	9,993	(2,177)	
cdmaOne	597	417	(180)	
Tu-Ka (PDC)	872	234	(638)	(10.6)%
Total	28,188	30,339	2,151	35.8%

Note: Net additions = New subscribers – churn

○ Expansion of CDMA 1X WIN and ARPU

Thanks to ongoing improvements in the handset lineup and available content, the number of subscribers to the high-end CDMA 1X WIN service has continued to increase. The total reached 19.70 million at the end of March 2008, up 5.15 million from a year earlier, representing 65% of all au subscriptions. Moreover, the share of subscribers on flat-rate pricing plans remained high, at 74%. This increase in CDMA 1X WIN users and the higher ratio of subscribers to the service helped boost the base of high-ARPU*[1] customers, bolstering overall ARPU.

Total ARPU for au services during the fiscal year under review declined by 5.3% to ¥6,260. Within this figure, voice ARPU fell 10.0% to ¥4,130 due to a 10-minute decrease in average MoU*[2] and the proliferation of discount services, such as "Everybody Discount" and "Family Discount." By contrast, data ARPU for all users rose 5.4% to ¥2,130 owing to a steady increase in subscribers to the high-end CDMA 1X WIN service, which has an ARPU ¥1,070 higher than the overall average.

*[1] ARPU: Monthly Average Revenue Per Unit
*[2] MoU: Monthly Minutes of Use

○ Improvement in Churn Rate

The churn rate for au subscribers was a low 0.95% in the year under review, down 0.07 of a percentage point from 1.02% in the previous fiscal year. Going forward, we will step up efforts both to keep the churn rate low by comprehensively improving the appeal of our products, and to further raise customer satisfaction by providing an even better mobile service environment.

Churn rate

(Years ended March 31)

au ARPU

(Yen)

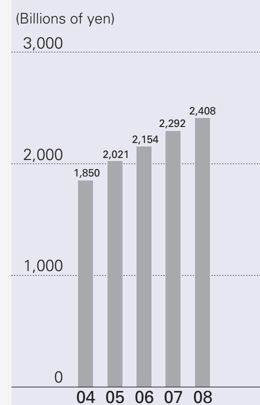
	2007/3	2008/3	Change
Total ARPU	6,610	6,260	(350)
of Voice	4,590	4,130	(460)
of Data	2,020	2,130	+110

WIN ARPU

(Yen)

	2007/3	2008/3	Change
Total ARPU	8,670	7,790	(880)
of Voice	5,250	4,590	(660)
of Data	3,420	3,200	(220)

Operating expenses (Mobile Business)



(Years ended March 31)

Operating Expenses

Operating expenses in the Mobile Business rose ¥115.8 billion to ¥2,407.6 billion, an increase of 5.1%. Major contributing factors are outlined below.

○ Cost of Sales for Mobile Handsets

The average procurement cost per handset was ¥38,000, on a par with the previous year, reflecting the result of efforts to lower development costs* amid increasingly advanced functionality. The total number of handsets procured also remained on a par with the previous year, such that overall sales expenses for au-branded models were practically unchanged.

*Efforts to lower development costs
As handset functions grow increasingly sophisticated, KDDI has been creating a common platform for mobile handsets with the aim of improving handset cost-competitiveness. By building a common software platform, we have sought to lower handset costs. In the year under review, we developed the KCP+ to further reduce such costs. We believe that it will enable us to achieve further cost reductions in the future.

○ Total Value of SAC/SRC

KDDI provides direct support of ¥20,000 to mobile handset purchasers who have opted for the "Full Support course" of the "au Purchase Program." The average subscriber acquisition cost and subscriber retention cost per au-branded handset remained on a par with the previous year at ¥37,000.

Until the third quarter of the fiscal year, the averages SAC/SRC was lower than the previous corresponding period, owing to lower procurement costs per unit and efforts to reduce sales expenses. In the fourth quarter, however, when competition is most intense, the average SAC/SRC per handset rose to around ¥41,000 as KDDI strove to attract new customers and surpass the 30-million mark for total au subscriptions. These efforts brought the annual average to ¥37,000. Total SAC/SRC for au-branded handsets amounted to ¥586.0 billion, up ¥18.0 billion from the previous year.

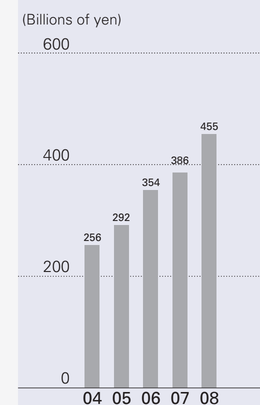
○ Depreciation

In line with the increased subscriptions and improved transmission quality of the au mobile service and the expansion of the EV-DO Rev. A coverage area, KDDI has been developing its 2GHz network. In anticipation of the reorganization of the 800MHz band, meanwhile, we have started full-scale preparation of the new 800MHz band allocated to us. To expedite these initiatives, we have been installing new equipment and upgrading facilities, including wireless base stations and exchange equipment. Consequently, total depreciation in this segment increased ¥28.0 billion year on year.

Operating Income

Operating income in the Mobile Business increased ¥69.4 billion, or 18.0%, to ¥455.0 billion, providing a solid boost to consolidated operating income.

Operating income (Mobile Business)



(Years ended March 31)

(b) Fixed-line Business

Amid the rapid development of IP-based broadband services, KDDI sought to broaden its customer base in the Fixed-line Business by promoting a variety of offerings, including the "Metal-plus" high-quality IP telephony service, the "KDDI Powered Ethernet" service for corporate customers, and the "HIKARI-one" FTTH service.

○ Increased Subscribers of "Metal-plus" High-quality IP Service

During the year, KDDI saw expanded customers of "Metal-plus," a high-quality IP telephony service with a low-priced, simple charging system. The service also allows fixed-line subscribers to connect with KDDI's high-quality IP network.

In the year ended March 2008, "Metal-plus" generated revenue of ¥122.9 billion, up ¥30.3 billion, and had a total of 3.28 million subscribers at fiscal year-end. ARPU (voice and data) rose ¥100, to ¥3,420.

○ Rollout of "HIKARI-one" FTTH Service

Our "HIKARI-one" FTTH service offers subscribers the "triple play" of IP telephony, high-speed Internet, and video distribution services. In January 2007, KDDI's FTTH operations were merged with those of Tokyo Electric Power Company (TEPCO). We are now constructing an access network targeting residential customers in detached houses that can be accessed by around 10 million households in the Tokyo metropolitan area. We also offer services to residential customers in condominiums in major cities throughout Japan via NTT's access line.

In the year ended March 2008, KDDI's FTTH generated revenue of ¥36.6 billion and had a total of 710,000 subscribers at fiscal year-end. ARPU (voice, data, and video) was ¥4,600.

◯ Expanded Data Services for Corporate Clients

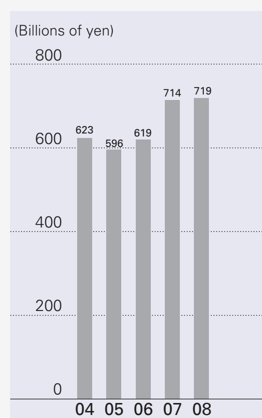
Among the data services we offer our corporate clients, we believe that VPN services, such as wide-area Ethernet, represent a growth area for the future. We are now witnessing the benefits of KDDI's merger with POWEREDCOM Inc. Sales from VPN services in the year under review rose 11%, to ¥98.6 billion, which shows a steady growth.

▮ Operating Revenues

Total operating revenues in the Fixed-line Business edged up ¥4.3 billion, or 0.6%, to ¥718.6 billion. Major factors are outlined below.

Revenue from conventional fixed-line telephone services such MYLINE has been contracting due to the shift toward mobile and IP communications. Nonetheless, KDDI posted an increase in voice-related revenue thanks to its promotion of the "Metal-plus". Meanwhile, Internet-related service revenue has been growing steadily following the rollout of FTTH service. Revenue from VPN services for corporate customers is also growing, benefiting from the merger with POWEREDCOM Inc.

Operating revenues
(Fixed-line Business)

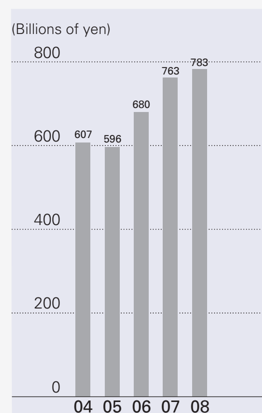


(Years ended March 31)

▮ Operating Expenses

Total operating expenses in the Fixed-line Business rose ¥19.9 billion, or 2.6%, to ¥783.3 billion. The primary factors behind this increase are summarized below.

Operating expenses
(Fixed-line Business)



(Years ended March 31)

◯ Increase in Expenses related to "Metal-plus"

For "Metal-plus," although sales commissions and other costs associated with acquiring new customers decreased, due to an increase in total subscribers, access charges for this service and communication facility usage costs (dry copper connection fees) have also risen.

Having achieved our target of 30 million "Metal-plus" subscribers, we will make steady improvements in profitability, with the aim of making this service profitable in the year ending March 2009.

◯ Increase in Expenses related to "HIKARI-one" FTTH Rollout

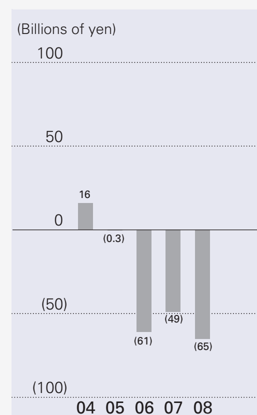
The "HIKARI-one" rollout led to increases in customer acquisition costs, including sales commissions, as well as related installation costs. Along with the merger of KDDI's and TEPCO's FTTH operations in January 2007, meanwhile, the Company has been rebuilding its sales structure, incurring related start-up costs and sales maintenance costs in the process.

▮ Operating Income (Loss)

In the year under review, KDDI's Fixed-line Business reported an operating loss of ¥64.7 billion, up ¥15.6 billion from the previous year. We made steady progress on several fronts, reaping the benefits of the merger with POWEREDCOM Inc. and reducing losses from the "Metal-plus" service. Due to a decline in sales from legacy services, as well as higher costs from marketing of the "HIKARI-one" service, however, the operating loss in this segment increased.

Going forward, we will work to improve the appeal of the "HIKARI-one" service and promote a shift in sales routes toward our network of au shops, rather than the conventional method centering on mass retail chains. In these ways, we will seek to expand our customer base while reducing costs.

Operating income
(Fixed-line Business)



(Years ended March 31)

Subsequent Events

CTC becomes consolidated subsidiary (April 1, 2008)

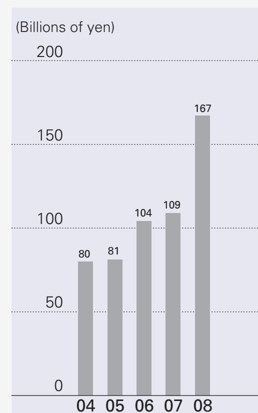
On January 25, 2008, KDDI signed an agreement with Chubu Electric Power Co., Inc., holder of shares in Chubu Telecommunications Co., Inc. (CTC). Pursuant to the agreement, Chubu Electric transferred a portion of its shares in CTC (1,660,000 shares, or 80.5% of CTC's total issued stock) to KDDI, making CTC a consolidated subsidiary of KDDI on April 1, 2008. Going forward, we intend to step up efforts to further advance our telecommunications business in the Chubu region, taking advantage of the business foundation, including customer base and infrastructure built up by CTC over the years.

(c) Other Business

In Other Business, the KDDI Group strove to raise its overall competitiveness by strengthening its presence in fields expected to grow in the future.

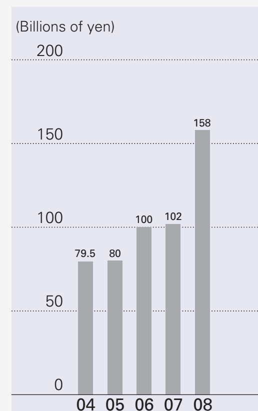
During the year, KDDI reinforced collaboration within the Group by making the JCN Group, which is involved in the cable television business, into a consolidated subsidiary in June 2007.

Operating revenues
(Other Business)



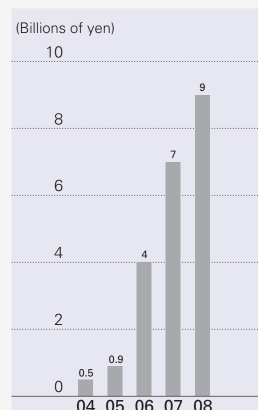
(Years ended March 31)

Operating expenses
(Other Business)



(Years ended March 31)

Operating income
(Other Business)



(Years ended March 31)

Operating Revenues

Operating revenues in the Other Business jumped ¥58.5 billion, or 53.8%, to ¥167.2 billion.

Operating Expenses

Operating expenses in this segment rose ¥56.3 billion, or 55.3%, to ¥158.1 billion.

Operating Income

Segment operating income increased ¥2.2 billion, or 31.4%, to ¥9.0 billion.

The inclusion of the JCN Group into the scope of consolidation was the primary reason for the increases in segment operating revenues, operating expenses, and operating income.

(Reference)
Status of JCN Group at March 31, 2008

The JCN Group consists of JAPAN CABLENET HOLDINGS LIMITED and JAPAN CABLENET LIMITED, which head a group of 15 cable television station subsidiaries and two affiliates. The JCN Group provides CATV, Internet and other services in various service areas.

The figures for operating revenues by each business segment (Mobile Business, Fixed-line Business, Other Business) in the above analysis represent the sum of sales to external customers and sales from intersegment transactions.

(4) Other Expenses/Income

Other expenses (income) amounted to ¥21.2 billion, representing an increase in expenses of ¥14.4 billion from the previous fiscal year. The chief contributors to the rise in expenses were as follows.

○ Interest Expense

At March 31, 2008, consolidated interest-bearing debt totaled ¥571.9 billion, down ¥48.5 billion from a year earlier. As a result, interest expense declined ¥1.8 billion, to ¥10.0 billion.

○ Equity in Gain of Affiliates

Equity in gain of affiliates rose ¥1.3 billion, to ¥2.1 billion. The major equity-method affiliates that contributed to earnings were MOBICOM CORPORATION, which offers mobile phone services in Mongolia, and Kyocera Communication Systems Co., Ltd., which provides telecommunications engineering and other services.

(Reference)
Equity stake in UQ Communications Inc. (name changed from Wireless Broadband Planning K.K. on March 1, 2008)

- Wireless Broadband Planning (a KDDI affiliate) was established in August 2007, with equity investments from KDDI Corporation, Intel Capital Corp., East Japan Railway Company, Kyocera Corporation, Daiwa Securities Group Inc., and The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- In December 2007, Wireless Broadband Planning obtained a license to develop and operate 2.5GHz Broadband Wireless Access System (BWA) base stations using mobile WiMAX technology.
- The renamed UQ Communications plans to commence operations in 2009. Deploying the strengths of KDDI and its other equity holders, it will create a new business in establishing a mobile WiMAX network, with the aim of realizing a society in which broadband networks can be accessed from anywhere.

○ Impairment Loss and Loss on Disposal of Property, Plant and Equipment

In the year under review, KDDI posted impairment loss of ¥21.2 billion, down ¥20.9 billion from the previous year. It also posted a ¥7.5 billion loss on disposal of property, plant, and equipment (none posted in the previous year). Items that had a material impact are outlined below.

(Year ended March 2008)

- ¥21.2 billion impairment loss

  Impairment loss on domestic network infrastructure and other idle assets

  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 ¥18.7 billion.

- ¥7.5 billion loss on disposal of property, plant, and equipment
  Loss on disposal of property, plant, and equipment, as well as equipment removal costs, related to cessation of Tu-Ka mobile phone service on March 31, 2008.

(Year ended March 2007)
- ¥42.0 billion impairment loss
  The book value of assets related to the provision of Tu-Ka cellular phone services (such as PDC equipment) was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥39.6 billion.

(5) Income Taxes and Tax Adjustments

Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥143.2 billion, together with an income tax adjustment that resulted in deferred taxes of ¥14.5 billion, representing a ¥39.3 billion increase in total income taxes and tax adjustments compared with the previous fiscal year. This mainly reflected an increase in taxable income stemming from the rise in earnings, a decrease in tax deductions under the government's IT investment promotion scheme, and an increase in tax adjustment admitted accompanying the impairment losses on Tu-Ka equipment in the year under review.

Going forward, the KDDI Group will target sustainable growth via "quantitative expansion" and "qualitative enhancement", as outlined in the "Challenge 2010" medium-term business target. Aiming to provide unparalleled customer satisfaction in every service, we will strive to create new value. Meanwhile, we will work to swiftly address changes in our business environment and advance our operations while monitoring the diversifying needs of customers.

◯ In the Mobile Business, we will endeavor to further increase customer satisfaction by providing attractive mobile handsets and new services and content, while further increasing CDMA 1X WIN sales. In these ways, will aim to create even more comfortable mobile environments and broaden the scope of our operations.

◯ In the Fixed-line Business, we will strive to increase sales from direct-access services, centering on "HIKARI-one." At the same time, we will target synergies with our cable television companies in order to further expand our customer base. In the solutions business, we will upgrade our portfolio of high-quality, high-volume network services to enhance the reliability of such services by offering dual access networks to corporate customers, and to address increases in traffic.

Given the ongoing overseas expansion and globalization of Japanese companies, there is growing demand among corporate customers for total outsourcing services, especially in the data center area. Responding to such demand, KDDI will conduct a worldwide rollout of "TELEHOUSE" global data centers, which serve as the core of the Group's ICT solutions. By 2010, we plan to build new sites in the United Kingdom, France, and Singapore. Further ahead, we will broaden the TELEHOUSE sites to another nine countries, centering on East Europe and Southeast Asia, giving us a presence in a total of 14 countries and regions worldwide.

2. Assets and Capital Expenditures

Shareholders' equity ratio, D/E ratio

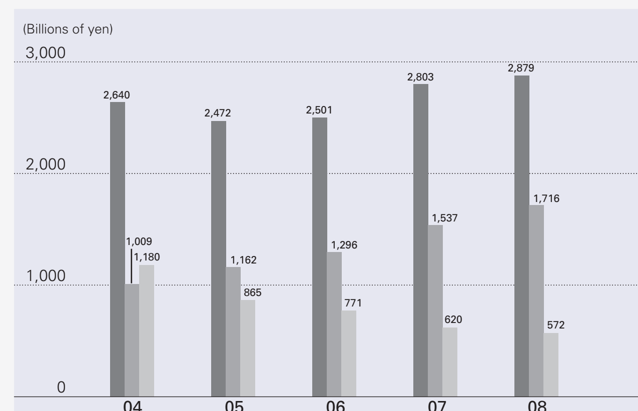
(Years ended March 31)
— Shareholders' equity ratio
— D/E ratio

(1) Assets

As of March 31, 2008, consolidated total assets amounted to ¥2,879.3 billion, up ¥76.0 billion from a year earlier. Net assets increased ¥178.6 billion, to ¥1,715.7 billion. The shareholders' equity ratio rose 4.4 points, to 58.5%.

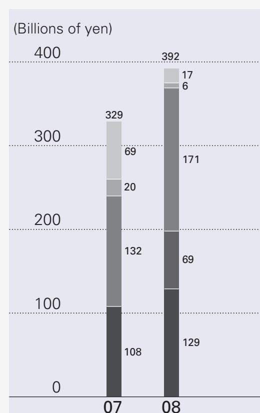
The increase in total assets stemmed mainly from a rise in capital investments, as well as an increase in property, plant, and equipment accompanying the inclusion of the JCN Group in the scope of consolidation.

Total assets, Total net assets, Debt



(As of March 31)
■ Total assets ■ Total net assets ■ Debt

Capital expenditures (Mobile Business)



(Years ended March 31)
- 800MHz 1X
- 800MHz EV–DO
- 2GHz
- New 800MHz
- Common equipments

(2) Capital Expenditures

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.

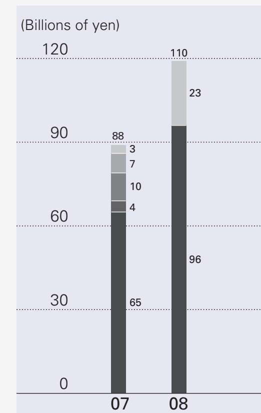
(a) Mobile Business

In its au mobile business, KDDI built a 2GHz network in line with its growing subscriber base, improved transmission quality, and expanded its EV-DO Rev. A service area. With the reorganization of the 800MHz band, meanwhile, we have started full-scale construction of facilities for the new 800MHz band allocated to us. Accordingly, we have installed new equipment and upgraded other facilities, including wireless base stations and exchange equipment. We are also upgrading IP-related facilities to cope with increased data traffic caused by the rising number of subscribers to CDMA 1X WIN and flat-rate services, as well as the proliferation of new services, such as social networking services (SNS).

(b) Fixed-line Business

Accompanying our promotion of the "HIKARI-one" FTTH service, we made a significant increase in capital investments compared with the previous fiscal year. These included installation of drop cables for new subscribers in detached houses and infrastructure for those living in condominium buildings. We also upgraded facilities to meet rising demand for IP-VPN services and wide-area Ethernet services among corporate customers, as well as the diversification of our service portfolio. In order to meet the growing demand, we have worked to upgrade and expand network, stations, and other types of infrastructure, enhance capacity along the access and backbone networks, and improve the reliability and quality of our services.

Capital expenditures (Fixed-line Business)



(Years ended March 31)
- FTTH
- Metal-plus
- CDN
- IP NW Conversion
- others

*Items other than FTTH are included in "Others" in FY2008.3.

3. Sources of Capital and Liquidity

(1) Cash Flows

(a) Operating Activities

In the year under review, net cash provided by operating activities amounted to ¥545.2 billion, down ¥193.5 billion from the previous fiscal year. This was largely due to a ¥114.6 billion increase in income taxes paid as a result of higher earnings, as well as the impact of the previous fiscal year-end falling on a business holiday, which pushed some payments into the year under review.

(b) Investing Activities

Net cash used in investing activities totaled ¥557.7 billion, up ¥115.5 billion from the previous fiscal year. Main factors included an increase in capital investments and outlays to acquire shares in JAPAN CABLENET HOLDINGS LIMITED and JAPAN CABLENET LIMITED, which subsequently became consolidated subsidiaries.

(c) Free Cash Flow

Free cash flow—the sum of cash flows from operating and investing activities—showed a net outflow of ¥12.5 billion, down ¥308.9 billion in the previous fiscal year.

(d) Financing Activities

Net cash used in financing activities was ¥104.4 billion, down ¥154.5 billion from the previous year. Major factors included increases in corporate bonds and fund-raising.

Summarized Consolidated Statements of Cash Flows

(Billions of yen)

	2007/3	2008/3	Change
Cash Flows from Operating Activities	738.7	545.2	(193.5)
Cash Flows from Investing Activities	(442.2)	(557.7)	(115.5)
Free Cash Flows	296.5	(12.5)	(308.9)
Cash Flows from Financing Activities	(258.9)	(104.4)	154.5
Cash and Cash Equivalents	192.7	75.5	(117.1)

(2) Liquidity

Cash and cash equivalents at fiscal year-end totaled ¥75.5 billion, down ¥117.1 billion from ¥192.7 billion a year earlier. Going forward, the KDDI Group expects the liquidity balance to vary in response to its financial position and the financing environment.

(3) Financing

During the fiscal year ended March 2008, KDDI procured ¥80.0 billion in funds from corporate bonds and ¥119.8 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, 2008 was ¥247.8 billion, which represented a decrease of ¥10.0 billion compared with the previous year-end. The year-end balance of loans outstanding declined ¥38.7 billion, to ¥323.9 billion.

(4) 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	247.8	40.0	102.8	65.0	40.0
Bank borrowings	323.9	59.0	47.9	197.1	19.7
Other	0.2	0.1	0.1	0	—
Total	571.9	99.1	150.8	262.1	59.7

(5) 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.

(6) 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 ¥571.9 billion at March 31, 2008. The ratio of direct to indirect financing was 43:57, and the long-term financing ratio* was 82.66%. The proportion of centralized fund procurement by the parent company was 98.66%.

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

(7) Contingent Liabilities

The balance of third-party guaranteed liabilities at March 31, 2008 amounted to ¥11.7 billion.

4. Significant Accounting Policies and Estimates

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.

(1) Estimated Useful Lives of Fixed Assets

The useful lives of fixed assets are based on reasonable estimates. Excluding the response to the already announced revisions to the tax system in fiscal 2008 (see reference), the KDDI Group sees no need to make any further changes in the estimated useful lives of fixed assets as of the end of the consolidated fiscal year ended March 31, 2008. 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.

In conjunction with revisions to the Corporation Tax Law in fiscal 2007, the depreciation method applied to tangible fixed assets acquired from April 1, 2007 onward has changed to one based on the post-revision law. Assets acquired prior to March 31, 2007 are included as depreciation expenses and the difference between 5% of the acquisition value and the reminder value is depreciated over five years starting from the fiscal year following the fiscal year in which the value reaches 5% of the acquisition value when depreciation methods based on the pre-revision Corporation Tax Law are applied.

*In the fiscal 2008 revisions to the Corporation Tax Law, the statutory useful life was reviewed, and the useful life of machinery and equipment for use in the telecommunications industry was revised from six years to nine years. The KDDI Group intends to comprehensively consider such factors as the usage environment for telecommunications equipment and other assets and technological progress in responding to this change.

(2) 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. For the fiscal year ended March 2007, ¥39.6 billion in impairment loss related to Tu-Ka was posted, reflecting the termination of the service at March 31, 2008. During the current fiscal year, the utilization rate of certain assets, including domestic network infrastructure, declined, with book value decreasing to the recoverable value. KDDI therefore recorded an impairment loss of ¥18.7 billion. The Group also recorded impairment loss of ¥2.5 billion on certain idle properties held by subsidiaries.

(3) 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.

(4) Retirement Benefits and Pension Obligations

Retirement 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 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.

When recording retirement and severance benefits, the expected rate of return is set on conservative principles, based on the discount rate.

Consolidated Balance Sheets

KDDI CORPORATION and Consolidated Subsidiaries

March 31, 2007 and 2008	Millions of yen		Millions of U.S. dollars (Note 1)
	2007	**2008**	**2008**
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 192,654	**¥ 75,546**	**$ 754**
Accounts receivable	439,294	**453,382**	**4,525**
Allowance for doubtful accounts	(15,008)	**(14,004)**	**(139)**
Inventories	55,099	**61,911**	**618**
Deferred tax assets (Note 11)	45,521	**52,197**	**521**
Prepaid expenses and other current assets	17,009	**23,270**	**232**
Total Current Assets	734,569	**652,302**	**6,511**
Property, Plant and Equipment			
Telecommunications equipment	3,207,402	**3,215,882**	**32,098**
Buildings and structures	432,906	**516,754**	**5,158**
Machinery and tools	122,815	**148,631**	**1,483**
Land	52,635	**52,987**	**529**
Construction in progress	89,436	**130,151**	**1,299**
Other property, plant and equipment	1,798	**2,205**	**22**
	3,906,992	**4,066,610**	**40,589**
Accumulated depreciation	(2,406,384)	**(2,449,079)**	**(24,444)**
Total Property, Plant and Equipment	1,500,608	**1,617,531**	**16,145**
Investments and Other Assets:			
Investments in securities (Note 4)	51,269	**46,044**	**459**
Deposits and guarantee money	38,181	**39,891**	**398**
Intangible assets	204,826	**297,097**	**2,965**
Goodwill	30,076	**25,503**	**255**
Deferred tax assets (Note 11)	114,955	**99,925**	**997**
Other assets	137,984	**111,425**	**1,112**
Allowance for doubtful accounts	(9,228)	**(10,443)**	**(104)**
Total Investments and Other Assets	568,063	**609,442**	**6,082**
Total Assets	¥ 2,803,240	**¥ 2,879,275**	**$ 28,738**

The accompanying notes are an integral part of these financial statements.

March 31, 2007 and 2008	Millions of yen 2007	2008	Millions of U.S. dollars (Note 1) 2008
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 5)	¥ 259,859	**¥ 99,207**	**$ 990**
Accounts payable	391,937	**318,494**	**3,179**
Accrued income taxes	100,404	**77,804**	**777**
Accrued expenses	11,419	**10,733**	**107**
Allowance for bonuses	18,179	**19,232**	**192**
Other current liabilities	52,768	**81,658**	**815**
Total Current Liabilities	834,566	**607,128**	**6,060**
Non-Current Liabilities:			
Long-term loans (Note 5)	192,858	**264,855**	**2,643**
Bonds (Note 5)	167,780	**207,768**	**2,074**
Reserve for point service program	30,679	**43,055**	**430**
Reserve for retirement benefits and other non-current liabilities (Notes 5, 12)	40,243	**40,738**	**406**
Total Non-Current Liabilities	431,560	**556,416**	**5,553**
Total Liabilities	1,266,126	**1,163,544**	**11,613**
Contingent Liabilities (Note 6)			
Net Assets (Note 9)			
Common stock:			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2007 and 2008, respectively			
Issued—4,484,818.86 and 4,484,818.86 shares at March 31, 2007 and 2008, respectively	141,852	**141,852**	**1,416**
Additional paid-in capital surplus	367,272	**367,267**	**3,666**
Retained earnings	1,000,662	**1,173,826**	**11,716**
Treasury stock, at cost:			
Number of treasury stock—22,672.34 and 23,032.89 shares at March 31, 2007 and 2008, respectively	(20,310)	**(20,625)**	**(206)**
Total Shareholders' Equity	1,489,476	**1,662,320**	**16,592**
Net unrealized gains on securities	22,322	**18,571**	**185**
Foreign currency translation adjustments	4,467	**2,443**	**25**
Total Unrealized Gains and Translation Adjustments	26,789	**21,014**	**210**
Stock Acquisition Rights	137	**495**	**5**
Minority Interests	20,712	**31,902**	**318**
Total Net Assets	1,537,114	**1,715,731**	**17,125**
Total Liabilities and Shareholders' Equity	¥2,803,240	**¥2,879,275**	**$28,738**

Consolidated Statements of Income

KDDI CORPORATION and Consolidated Subsidiaries

March 31, 2007 and 2008	Millions of yen 2007	Millions of yen 2008	Millions of U.S. dollars (Note 1) 2008
Operating Revenues:			
Revenues from telecommunication business	¥2,592,882	**¥2,749,897**	**$27,447**
Sales of terminal equipment and other	742,378	**846,387**	**8,448**
Total Operating Revenues	3,335,260	**3,596,284**	**35,895**
Operating Expenses:			
Sales expenses	1,148,641	**1,259,845**	**12,575**
Depreciation	315,551	**337,941**	**3,373**
Charges for use of telecommunications services of third parties	449,509	**453,686**	**4,528**
Cost of sales of terminal equipment and other	713,331	**774,670**	**7,732**
Other	363,527	**369,690**	**3,690**
Total Operating Expenses	2,990,559	**3,195,832**	**31,898**
Operating Income	344,701	**400,452**	**3,997**
Other Expenses (Income):			
Interest expense	11,842	**10,010**	**100**
Interest income	(853)	**(1,189)**	**(12)**
Gain on sales of securities	(486)	**—**	**—**
Valuation loss on investments in securities	251	**157**	**2**
Gain on sales of affiliates' shares	—	**(209)**	**(2)**
Equity in gain of affiliates	(775)	**(2,110)**	**(21)**
Income from recovery of bad debts	(474)	**(353)**	**(4)**
Dividend income from anonymous association	(7,969)	**(7,899)**	**(79)**
Loss on disposal of property, plant and equipment	—	**7,544**	**75**
Impairment loss (Note 7)	42,083	**21,230**	**212**
Other, net	(7,993)	**(5,934)**	**(59)**
Total Other Expenses	35,626	**21,247**	**212**
Income before Income Taxes and Minority Interests	309,074	**379,205**	**3,785**
Income Taxes:			
Current	133,356	**143,221**	**1,429**
Deferred	(14,923)	**14,491**	**145**
Total Income Taxes	118,433	**157,712**	**1,574**
Minority Interests in Consolidated Subsidiaries	3,894	**3,707**	**37**
Net Income	¥ 186,747	**¥ 217,786**	**$ 2,174**

March 31, 2007 and 2008	Yen 2007	Yen 2008	U.S. dollars (Note 1) 2008
Per Share Data:			
Net income	¥42,505	**¥48,810**	**$487.18**
Net income after adjusted the potential stocks	42,495	**48,807**	**487.14**
Cash dividends	9,500	**10,500**	**104.80**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

KDDI CORPORATION and Consolidated Subsidiaries

	Thousands	Millions of yen										
		Shareholders' equity					Unrealized gains and translation adjustments					
Years ended March 31, 2007 and 2008	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on securities	Foreign currency translation adjustments	Total unrealized gains and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
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 9)				(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	8,009
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
Dividend of surplus (Note 9)				(44,620)		(44,620)						(44,620)
Net income for the year				217,786		217,786						217,786
Acquisition of treasury stock					(354)	(354)						(354)
Disposal of treasury stock			(5)		39	34						34
Change in scope of consolidation				(2)		(2)						(2)
Net changes of items other than shareholders' equity during the fiscal year							(3,751)	(2,024)	(5,775)	358	11,190	5,773
Balance, March 31, 2008	**4,485**	**¥141,852**	**¥367,267**	**¥1,173,826**	**¥(20,625)**	**¥1,662,320**	**¥ 18,571**	**¥ 2,443**	**¥21,014**	**¥495**	**¥31,902**	**¥1,715,731**

	Thousands	Millions of U.S. dollars (Note 1)										
		Shareholders' equity					Unrealized gains and translation adjustments					
Years ended March 31, 2008	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on securities	Foreign currency translation adjustments	Total unrealized gains and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, March 31, 2007	4,485	$1,416	$3,666	$ 9,987	$(202)	$14,867	$222	$ 45	$267	$1	$207	$15,342
Dividend of surplus (Note 9)				(445)		(445)						(445)
Net income for the year				2,174		2,174						2,174
Acquisition of treasury stock					(4)	(4)						(4)
Disposal of treasury stock			(0)		0	0						0
Change in scope of consolidation				(0)		(0)						(0)
Net changes of items other than shareholders' equity during the fiscal year							(37)	(20)	(57)	4	111	58
Balance, March 31, 2008	**4,485**	**$1,416**	**$3,666**	**$11,716**	**$(206)**	**$16,592**	**$185**	**$ 25**	**$210**	**$5**	**$318**	**$17,125**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

KDDI CORPORATION and Consolidated Subsidiaries

Years ended March 31, 2007 and 2008	Millions of yen		Millions of U.S. dollars (Note 1)
	2007	**2008**	**2008**
Cash Flows from Operating Activities:			
Income before income taxes and Minority interests Adjustments for:	¥ 309,074	**¥ 379,205**	**$ 3,785**
Depreciation and amortization	328,179	**359,525**	**3,588**
Impairment loss	42,084	**21,230**	**212**
Loss on sales of property, plant and equipment	59	**(24)**	**(0)**
Loss on disposal of property, plant and equipment	21,850	**17,828**	**178**
Increase (decrease) in allowance for doubtful accounts	417	**25**	**0**
Decrease in reserve for retirement benefits	(5,413)	**(551)**	**(5)**
Interest and dividend income	(1,703)	**(2,353)**	**(23)**
Interest expenses	11,842	**10,010**	**100**
Equity in gain of affiliates	(775)	**(2,110)**	**(21)**
Gain on sales of investment securities	(444)	**—**	**—**
Gain on sales of affiliates' shares	—	**(209)**	**(2)**
Valuation loss in investments in securities	251	**157**	**1**
Increase in reserve for point service	5,785	**12,376**	**123**
Changes in assets and liabilities:			
Increase in prepaid pension cost	(521)	**(5,395)**	**(54)**
(Increase) decrease in notes and accounts receivable	(38,053)	**8,580**	**86**
(Increase) decrease in inventories	(15,948)	**(8,397)**	**(84)**
Increase (decrease) in notes and accounts payable	115,518	**(99,793)**	**(996)**
Increase in advances received	24,059	**23,218**	**232**
Other, net	932	**4,534**	**45**
Sub total	797,193	**717,856**	**7,165**
Interest and dividend income received	5,615	**4,065**	**40**
Interest expenses paid	(12,422)	**(10,334)**	**(103)**
Income taxes paid	(51,683)	**(166,353)**	**(1,660)**
Net cash provided by operating activities	738,703	**545,234**	**5,442**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(317,289)	**(384,712)**	**(3,840)**
Proceeds from sale of property, plant and equipment	911	**881**	**9**
Payments for other intangible assets	(106,958)	**(115,345)**	**(1,151)**
Payments for acquisition of investment in securities	(2,056)	**(1,089)**	**(11)**
Proceeds from sale of investment in securities	1,410	**135**	**1**
Payments for investment in affiliates	(9,628)	**(13,749)**	**(137)**
Payments for acquisition of affiliates' shares resulting in changes in scope of consolidation (Note 3)	—	**(23,426)**	**(234)**
Payments for increase in long-term prepayment	(11,651)	**(15,424)**	**(154)**
Other, net	3,043	**(4,959)**	**(50)**
Net cash used in investing activities	(442,218)	**(557,688)**	**(5,567)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	(23,014)	**1,280**	**13**
Proceeds from long-term loans	93,000	**118,125**	**1,179**
Repayments of long-term loans	(168,153)	**(168,336)**	**(1,680)**
Proceeds from new bond issue	—	**80,000**	**798**
Payments for redemption of bonds	(76,875)	**(90,000)**	**(898)**
Payments for acquisition of treasury stocks	(46,281)	**(354)**	**(4)**
Dividends paid	(40,022)	**(45,570)**	**(455)**
Payments received from minority shareholders	88	**660**	**7**
Other, net	2,338	**(215)**	**(2)**
Net cash used in financing activities	(258,919)	**(104,410)**	**(1,042)**
Translation Adjustments on Cash and Cash Equivalents	1,085	**(244)**	**(2)**
Net Increase (Decrease) in Cash and Cash Equivalents	38,651	**(117,108)**	**(1,169)**
Cash and Cash Equivalents at Beginning of Year	151,003	**192,654**	**1,923**
Increase in Cash and Cash Equivalents due to Merger and Subsidiaries Newly Consolidated	3,000	**—**	**—**
Cash and Cash Equivalents at End of Year	¥ 192,654	**¥ 75,546**	**$ 754**

The accompanying notes are an integral part of these financial statements.

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, 2008, include 59 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., KDDI Technical Engineering Service, KDDI Evolva Inc., JAPAN CABLENET LIMITED, KMN Corporation, KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2008, significant changes in the scope were incurred as follows:

Added (Consolidated):

- Consolidated due to increase in the percentage of owned shares from additional acquisition (3 companies)
  JAPAN CABLENET HOLDINGS LIMITED*
  JAPAN CABLENET LIMITED*
  PRISM COMMUNICATIONS CORPORATION*
  *Converted from equity-method affiliate to consolidated subsidiary

- Consolidated subsidiaries of JAPAN CABLENET LIMITED due to consolidation of parent company, reflecting an increase in equity from acquisition of shares (12 companies)
  CABLE NETWORK OHTA Inc.
  City Television Nakano LIMITED
  JCN Koala Katsushika Limited
  ODAWARA Cable Television Inc.
  MUSASHINO-MITAKA CABLE TELEVISION Inc.
  JCN YOKOHAMA Limited
  CABLE NETWORK CHIBA Co., Ltd.
  JCN Funabashi Narashino Limited
  Kumamoto Cable Network CORPORATION
  Hachioji Telemedia Ltd.
  MYTV Limited
  Kamakura Cable Communications., Ltd.
  *Converted from equity-method affiliate to consolidated subsidiary

- Increased due to acquisition of shares (4 companies)
  ICHIKAWA CABLE NETWORK CO., LTD.
  CABLENET SAITAMA CO., LTD.
  Hino Cable Television Inc.
  KDDI Web Communications Inc. (Former company name; Servision Inc.)

- Increased due to new establishment (3 companies)
  KDDI GLOBAL, LLC
  KDDI India Pvt. Ltd.
  TELEHOUSE BEIJING CORPORATION LTD.

Removed (Consolidated):

- Increased due to liquidation (3 companies)
  SWIFTCALL SALES & MARKETING LTD.
  TELECOMET TECHNOSERVICE INC.
  TELECOMET INTERNATIONAL LTD.

- Decreased due to sale of shares (2 companies)
  KDDI Media Will Corporation
  KWILL CORPORATION

Added (Equity Method):

- Increased (equity method) due to conversion to equity-method affiliate, reflecting acquisition of additional shares (1 company)
  Cable Television Tokyo, Ltd.

- Increased due to new establishment (1 company)
  UQ Communications Inc. (Former company name; Wireless Broadband Planning K.K.)

- Increased due to acquisition of shares (1 company)
  Kita Cable Network, Inc.

Removed (Equity Method):

- Decreased due to liquidation (1 company)
  Minex Corporation

Reclassifications:

Certain amounts of prior years have been reclassified to conform to the presentations for the fiscal year ended March 31, 2008.

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 ¥100.19=$1, the approximate exchange rate on March 31, 2008. 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, investment in one affiliate for which the equity method has not been applied is stated at cost because the effect of application of the equity method is immaterial.

b. Revenue Recognition

For telecommunications services, revenues are recognized mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized on fulfillment of contractual obligations, which is generally on shipment basis. 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 bear lower risks from fluctuations in value.

d. Inventories

Inventories are stated at cost. Cost is determined by the moving-average method (The method of write-downs based on the decrease in profitability is applied in order to calculate the inventory value on the balance sheet).

(Change in Accounting Policy)

In accordance with the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 5, 2006), which allows application to begin with consolidated financial statements for consolidated fiscal years that commence prior to March 31, 2008, the aforesaid Accounting Standard has been applied from the fiscal year under review. The effect on operating income, income before income taxes and minority interests, and net income as a result of applying the new accounting standard is immaterial.

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. 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

(Change in Accounting Policy)

Upon the revision of the Corporation Tax Law, the depreciation method for depreciating the property, plant and equipment acquired on April 1, 2007 or thereafter has been changed to the method pursuant to the provisions of the revised law.

The effect on operating income, income before income taxes and minority interests, and net income as a result of applying the revised accounting method is immaterial.

(Additional information)

For assets acquired by KDDI, or its domestic consolidated subsidiaries, on or before March 31, 2007, the difference between the memorandum cost and the amount equivalent to 5% of the acquisition cost is allocated using the straight-line method over 5 years from the consolidated fiscal year that follows the fiscal year in which the book value reached to 5% of the acquisition cost using the depreciation method based on the Corporation Tax Law before the revision, and the allocated portion are included in the depreciation expenses. The effect on operating income, income before income taxes and minority interests, and net income as a result of applying this method is immaterial.

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 as 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 timing 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 20 years. However, minimal amounts of goodwill are expensed as incurred.

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 record allowance for general credits based on the actual bad debt ratio, and allowance for specific credits deemed to be uncollectible considering the collectivity.

n. Reserve for Retirement Benefits

The amount for employee retirement benefits at fiscal 2008 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2008 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.

o. Reserve for Point Service Program

In order to prepare for the future cost generating from the utilization of points that customers have earned under the point services such as "au" Point Program, based on its past experience, the Company reserves an amount considered appropriate to cover possible utilization the points during or after the next consolidated fiscal year.

3. Assets and Liabilities of Newly Consolidated Subsidiaries

JAPAN CABLENET HOLDINGS LIMITED and JAPAN CABLENET LIMITED have been newly consolidated due to the acquisition of shares. Accordingly a breakdown of assets and liabilities existed at the time of consolidation, and the reconciliation between the acquisition price of shares and the expense required for acquisition of the subsidiaries (net amount) is set out below.

	Millions of yen	Millions of U.S. dollars
	2008	**2008**
Property, plant and equipment	**¥ 32,144**	**$ 321**
Current assets	**10,810**	**108**
Goodwill	**37,507**	**374**
Non-current liabilities	**(8,673)**	**(86)**
Current liabilities	**(14,226)**	**(142)**
Minority interests	**(9,415)**	**(94)**
Sub total	**¥ 48,147**	**$ 481**
Amount recorded on consolidated balance sheet after applying equity method until acquisition of control	**26,904**	**269**
Sub total: Acquisition price of subsidiaries' shares in the fiscal year under review	**¥ 21,243**	**$ 212**
Cash and cash equivalents of subsidiaries	**(4,063)**	**(41)**
Net: Expense required for acquisition of the subsidiaries	**¥ 17,180**	**$ 171**

Note: Percentage of subsidiary voting rights held by the Company
JAPAN CABLENET HOLDINGS LIMITED 77.0%
JAPAN CABLENET LIMITED 95.4%
(72.7%)
The value in parentheses ( ) indicates the portion of indirect holdings.

Note: Date of acquisition of shares June 27, 2007

4. Market Value Information

At March 31, 2008 and 2007, 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)
	2007			**2008**			**2008**		
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥3,987	¥41,589	¥37,601	**¥4,237**	**¥35,722**	**¥31,484**	**$42**	**$357**	**$314**
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	—	—	—	**654**	**500**	**(154)**	**7**	**5**	**(1)**
Total	¥3,987	¥41,589	¥37,601	**¥4,891**	**¥36,222**	**¥31,330**	**$49**	**$362**	**$313**

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
	2007			2008			2008		
Other securities sold	¥939	¥495	¥12	**¥123**	**¥96**	**¥2**	**$1**	**$1**	**$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
	2007	**2008**	**2008**
Other securities			
Unlisted equity securities	¥ 9,680	**¥ 9,823**	**$ 98**
Commercial papers	18,993	**—**	**—**
Negotiable deposit	—	**3,000**	**30**
Bonds	1,255	**227**	**2**
Total	¥29,928	**¥13,050**	**$130**

Note: Negotiable deposit were included in "Cash and cash equivalents" in the previous fiscal year. However, from the fiscal year, negotiable deposit are now treated as other securities, in accordance with "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No. 14, revised July 4, 2007) and "Q&A on Accounting for Financial Instruments" (JICPA Accounting Practice Committee, revised November 6, 2007).
The balance of negotiable deposit was ¥3,000 million ($30 million) at March 31, 2008, and ¥101,000 million ($1,008 million) at March 31, 2007.

5. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2008 and 2007 were ¥5,666 million (U.S.$57 million) and ¥4,077 million, and the annual average interest rates applicable to short-term bank loans at March 31, 2008 and 2007 were 6.34% and 5.68%.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Domestic unsecured straight bonds due 2008 through 2014 at rates of 0.76% to 2.30% per annum	¥177,979	**¥207,968**	**$2,076**
General secured bonds due 2008 through 2017 at rates of 2.70% to 3.20% per annum*	79,800	**39,800**	**397**
Total bonds	¥257,779	**¥247,768**	**$2,473**
Loans from banks:			
Maturing through 2020 at average rates of 1.40% per annum	¥358,614	**¥318,241**	**$3,176**
Other interest-bearing debt	—	**271**	**3**
	¥358,614	**¥318,512**	**$3,179**
Total bonds, loans and other interest-bearing debt	¥616,393	**¥566,280**	**$5,652**
Less, amount due within one year	255,755	**93,529**	**933**
	¥360,638	**¥472,751**	**$4,719**

* 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, 2008 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	**2008**	**2008**
2008	**¥ 93,529**	**$ 933**
2009	**51,258**	**512**
2010	**99,564**	**994**
2011	**86,584**	**864**
2012 and thereafter	**235,345**	**2,349**
	¥566,280	**$5,652**

6. Contingent Liabilities

At March 31, 2008 and 2007, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
As a guarantor for:			
Contingent liabilities existing in cable system supply contract	¥15,828	**¥10,597**	**$106**
Contingent liabilities resulting from the liquidation of Minex Corporation	—	**578**	**6**
Office lease contract of KDDI America, Inc.	1,097	**555**	**5**
Keepwell for management guidance to debt (CABLENET SAITAMA CO., LTD.)	100	**—**	**—**
	¥17,025	**¥11,730**	**$117**

7. Impairment Losses

The Company recorded impairment losses in the years ended March 31, 2008 and 2007 mainly on the assets and asset groups below.

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
KDDI Corporation Tu-Ka phone service assets	¥39,586	**¥ —**	**$ —**
KDDI Corporation Idle assets including domestic transmission systems equipment	—	**18,728**	**187**
Consolidated subsidiaries' idle assets of telecommunications service lines and others	—	**2,502**	**25**

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

During the year ended March 31, 2008, the book value of assets with reducing capacity utilization ratio including part of the abovementioned domestic transmission system, etc. has been written down to the recoverable amount, and the ¥18,728 million (U.S.$187 million) that was the amount deducted is recognized as impairment loss. This impairment loss includes a telecommunications service line in long-distance portion of ¥3,646 million (U.S.$36 million), an engineering equipment portion of ¥7,715 million (U.S.$77 million), a submarine cable system portion of ¥3,344 million (U.S.$33 million), and an other portion of ¥4,022 million (U.S.$40 million).

Note that the recoverable amount is estimated by the net sales price. The calculation of market value is by valuation by appraisal, and assets whose sale or relocation is difficult are estimated as ¥0 (U.S.$0).

For the idle assets in some subsidiaries, etc., ¥2,502 million (U.S.$25 million) was recognized as impairment loss.

This impairment loss includes a machinery and equipment portion of ¥2,125 million (U.S.$21 million), and an other portion of ¥377 million (U.S.$4 million).

8. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value as of March 31, 2008 and 2007 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
	2007				**2008**				**2008**			
Machinery and equipment, tools, furniture and fixtures, vehicles	¥44,099	¥22,633	¥3,031	¥18,435	**¥42,058**	**¥23,853**	**¥646**	**¥17,558**	**$420**	**$238**	**$6**	**$175**
Other	4,890	2,247	—	2,643	**5,010**	**2,725**	**—**	**2,286**	**50**	**27**	**—**	**23**
	¥48,989	¥24,880	¥3,031	¥21,078	**¥47,068**	**¥26,578**	**¥646**	**¥19,844**	**$470**	**$265**	**$6**	**$198**

Future lease payments as of March 31, 2008 and 2007 were as follows.

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Within one year	¥ 8,502	**¥ 9,434**	**$ 94**
Over one year	12,576	**10,410**	**104**
	¥21,078	**¥19,844**	**$198**
Balance of impairment loss on leased assets	¥ 3,031	**¥ 183**	**$ 2**

Lease payments, assumed depreciation charges, reclassification of impairment loss and impairment loss for the years ended March 31, 2008 and 2007 were as follows.

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Lease payments	¥11,520	**¥9,733**	**$97**
Reclassification of impairment loss on leased assets	1,687	**1,224**	**12**
Assumed depreciation charges	11,520	**9,733**	**97**
Impairment loss	199	**—**	**—**

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, 2008 and 2007 were as follows.

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Within one year	¥17,922	**¥12,729**	**$127**
Over one year	23,741	**10,722**	**107**
	¥41,663	**¥23,451**	**$234**

9. Shareholders' Equity

A Japanese Corporate 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.

10. Research and Development Expenses

Research and development expenses charged to income were ¥19,567 million ($195 million) and ¥15,386 million, for the years ended March 31, 2008 and 2007, respectively.

11. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2008 was 40.6%.

At March 31, 2008 and 2007, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Deferred tax assets:			
Depreciation and amortization	¥ 34,760	**¥ 32,643**	**$ 326**
Allowance for doubtful accounts	16,018	**11,585**	**116**
Disposal of fixed assets	2,764	**2,566**	**26**
Inventory write down	1,458	**1,049**	**10**
Impairment loss	56,558	**42,123**	**420**
Reserve for retirement benefits	3,395	**1,164**	**12**
Allowance for bonus payment	7,997	**8,397**	**84**
Accrued expenses	2,623	**8,764**	**87**
Net operating loss carried forward	2,691	**1,507**	**15**
Unrealized profits	2,044	**2,423**	**24**
Reserve for point service program	12,423	**17,471**	**174**
Accrued enterprise taxes	7,483	**5,884**	**59**
Advances received	10,992	**18,923**	**189**
Assets adjustment account	18,810	**14,216**	**142**
Other	3,753	**4,831**	**48**
Gross deferred tax assets	183,769	**173,546**	**1,732**
Valuation allowance	(7,818)	**(8,195)**	**(82)**
Net deferred tax assets	¥175,951	**¥165,351**	**$1,650**
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,795)	**¥ (1,899)**	**$ (19)**
Net unrealized gains on securities	(15,224)	**(12,688)**	**(127)**
Retained earnings for overseas affiliates	(830)	**(2,290)**	**(23)**
Other	(1,682)	**(1,213)**	**(12)**
Total deferred tax liabilities	¥ (19,531)	**¥ (18,090)**	**$ (181)**
Net deferred tax assets	¥156,420	**¥147,261**	**$1,469**

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, 2008.

Because the difference between the statutory tax rate and the Company's effective tax rate for financial statements purposes for the year ended March 31, 2008, was less than 5% of the statutory tax rate, a note concerning this is omitted.

12. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of defined benefit pension system, a retirement lump-sum plan and a retirement benefit trust scheme.

Note that some consolidated subsidiaries have a defined contribution retirement pension system.

The reserve for retirement benefits as of March 31, 2008 and 2007 were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Projected benefit obligations	¥(284,360)	**¥(301,811)**	**$(3,012)**
Plan assets	260,977	**254,555**	**2,541**
Retirement benefit trust	8,488	**8,142**	**81**
	¥ (14,895)	**¥ (39,114)**	**$ (390)**
Unrecognized prior service cost	(3,598)	**(3,123)**	**(31)**
Unrecognized actuarial differences	18,176	**47,116**	**470**
Prepaid pension cost	(17,205)	**(22,617)**	**(226)**
Reserve for retirement benefits	¥ (17,522)	**¥ (17,738)**	**$ (177)**

Net pension expense related to the retirement benefits for the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Millions of U.S. dollars
	2007	**2008**	**2008**
Service cost	¥ 9,599	**¥10,274**	**$103**
Interest cost	5,443	**5,674**	**57**
Expected return on plan assets	(4,768)	**(5,219)**	**(52)**
Amortization of prior service cost	(636)	**(475)**	**(5)**
Amortization of actuarial differences	4,302	**4,020**	**40**
Net pension cost	¥13,940	**¥14,274**	**$142**

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

Discount rate	2.0%
Expected rate of return on plan assets	2.0%
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

13. Stock Option

Since September 2002, a stock option system has been in place in the Company. The recipients of these stock options are Members of the Board, Vice Presidents, Executive Directors, employees and directors of wholly owned subsidiaries.

Method for calculating fair value of stock options

The fair value of stock options granted in 2006 and 2007 was calculated using the Black-Scholes model and the primary base values and estimation method are as follows.

	Yen		U.S. dollars
	August 2006 5th Stock Option	**August 2007 6th Stock Option**	**August 2007 6th Stock Option**
Volatility of share prices[*1]	24.794%	**23.772%**	
Forecasted remaining period[*2]	3 years	**3 years**	
Expecting dividend[*3]	¥6.167 per share	**¥8,133 per share**	**$81.18 per share**
Risk-free interest rate[*4]	1.000%	**1.054%**	

[*1] Calculation is based on the stock results over three years (August 2003 to August 2006; August 2004 to August 2007).
[*2] Because it is difficult to make a rational estimate due to a lack of accumulated data, the value is estimated on the assumption that the exercise of stock options is carried out in the middle of the stock option rights exercise period.
[*3] This is based on actual dividend payments during the past three fiscal years (FY2004/3 to FY2006/3; FY2005/3 to FY2007/3).
[*4] This is the rate of return for government bonds for the period corresponding to the forecasted remaining period.

Scale of stock options and changes in the scale

The following lists the number of shares calculated for the number of stock options that existed in the fiscal year under review.

(1) Number of stock options

	Shares	
	August 2006 5th Stock Option	**August 2007 6th Stock Option**
Beginning of period	4,389	**—**
Granted	—	**5,008**
Expired	54	**44**
Authorized	—	**—**
Unauthorized	4,335	**4,964**

(2) Unit value and stock option rights exercise period

	Yen		U.S. dollars
	August 2006 5th Stock Option	**August 2007 6th Stock Option**	**August 2007 6th Stock Option**
Exercise price	¥775,000	**¥879,000**	**$8,773.33**
Average share price at exercise	—	**—**	**—**
Fair value unit price (Date of grant)	103,462	**100,549**	**1,003.58**
Exercise period	from October 1, 2008 to September 30, 2010	**from October 1, 2009 to September 30, 2011**	

14. Segment Information

Information for each of the business segments for the years ended March 31, 2008 and 2007 is as follows:

	Millions of yen					
Year ended March 31, 2007	Fixed-line	Mobile	Other	Total	Elimination and corporate	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

	Millions of yen					
Year ended March 31, 2008	Fixed-line	Mobile	Other	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	**¥629,647**	**¥2,851,679**	**¥114,958**	**¥3,596,284**	**¥ —**	**¥3,596,284**
Intersegment sales	**88,999**	**10,920**	**52,201**	**152,120**	**(152,120)**	**—**
Total	**718,646**	**2,862,599**	**167,159**	**3,748,404**	**(152,120)**	**3,596,284**
Operating expenses	**783,314**	**2,407,555**	**158,144**	**3,349,013**	**(153,181)**	**3,195,832**
Operating income (loss)	**¥ (64,668)**	**¥ 455,044**	**¥ 9,015**	**¥ 399,391**	**¥ 1,061**	**¥ 400,452**
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures:						
Identifiable assets	**¥834,264**	**¥1,676,103**	**¥199,880**	**¥2,710,247**	**¥ 169,028**	**¥2,879,275**
Depreciation	**115,021**	**228,046**	**8,823**	**351,890**	**(621)**	**351,269**
Impairment losses	**18,386**	**466**	**2,502**	**21,354**	**(124)**	**21,230**
Capital expenditures	**90,313**	**373,343**	**16,649**	**480,305**	**13,365**	**493,670**

Year ended March 31, 2008	Fixed-line	Mobile	Other	Total	Elimination and corporate	Consolidation
	Millions of U.S. dollars					
I. Sales and Operating Income (Loss):						
Outside sales	**$6,285**	**$28,463**	**$1,147**	**$35,895**	**$ —**	**$35,895**
Intersegment sales	**888**	**109**	**521**	**1,518**	**(1,518)**	**—**
Total	**7,173**	**28,572**	**1,668**	**37,413**	**(1,518)**	**35,895**
Operating expenses	**7,818**	**24,030**	**1,579**	**33,427**	**(1,529)**	**31,898**
Operating income (loss)	**$ (645)**	**$ 4,542**	**$ 89**	**$ 3,986**	**$ 11**	**$ 3,997**
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:						
Identifiable assets	**$8,327**	**$16,729**	**$1,995**	**$27,051**	**$ 1,687**	**$28,738**
Depreciation	**1,148**	**2,276**	**88**	**3,512**	**(6)**	**3,506**
Impairment losses	**183**	**5**	**25**	**213**	**(1)**	**212**
Capital expenditures	**902**	**3,726**	**166**	**4,794**	**133**	**4,927**

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, cable television business, research and development of advanced technologies, other fixed-line services, other mobile phone services, other data center services, etc.

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

15. Special Purpose Companies

1. Overview of special purpose companies for disclosure purposes and transactions made through such companies

The Company securitizes its properties in order to improve its financial position reducing interest-bearing debts.

Special purpose companies ("SPCs"), which take the legal form of special limited liability companies and stock companies, are used for this securitization scheme. In the securitization, the company transfers its properties to SPCs and SPCs procure the funds through the issuance of bonds or loans based on the value of transferred properties.

Also, after securitization, the same properties are to be leased back to KDDI and all investments by anonymous associations to the SPCs are to be collected by the company. We therefore determine that, as of March 31, 2008, there is no possibility of incurring future losses.

There are two SPCs that are used for securitization and have the transaction balances as of March 31, 2008.

On their latest closing dates, these SPCs recorded a total asset (net total) of ¥192,649 million ($1,923 million) and total liabilities (net total) of ¥179,568 million ($1,792 million).

The Company, or any of its consolidated subsidiaries, has not made any investments to either of these SPCs that would result in the acquisition of voting rights and no directors or employees have been dispatched.

2. Transaction amounts with SPCs during the year ended March 31, 2008

Major transaction amounts for the year ended March 31, 2008 and balance as of March 31, 2008	Millions of yen 2008	Millions of U.S. dollars 2008	Main income and loss	Millions of yen 2008	Millions of U.S. dollars 2008
Transferred properties (Note 1)	**¥201,947**	**$2,016**	—	**—**	**—**
Accounts receivable	**23,362**	**233**	—	**—**	**—**
Long-term deposits received	**652**	**7**	—	**—**	**—**
Investments by anonymous association (Note 2)	**10,066**	**100**	Dividend	**¥ 7,900**	**$ 79**
Lease back transactions (Note 3)	**—**	**—**	Lease payments	**16,989**	**170**

Notes: 1 Transaction amounts related to transferred properties are represented as the transfer price at the time of the transfer.
2 Transaction amounts relating to the investments made by the anonymous association are represented as the amounts invested as of March 31, 2008.
3 Transferred properties are leased back and such transactions are accounted for using a methods similar to that applicable to normal lease transactions. Such lease back transactions correspond to non-cancellable operating leases and the amount of future lease payments is provided in "8. Lease payments".

16. Subsequent Events

1. The appropriation of retained earnings and directors' and corporate auditors' bonuses of the Company for the year ended March 31, 2008, proposed by the Board of Directors and approved at the shareholders' meeting held on June 19, 2008, were as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥5,500 = US$54.90)	¥24,540	$245
Directors' and corporate auditors' bonuses	99	1

2. Acquisition of shares of Chubu Telecommunications Co., Inc. (new subsidiary)
   KDDI CORPORATION (hereinafter, the "Company") resolved at the meeting of its Board of Directors held on January 25, 2008 to acquire shares of Chubu Telecommunications Co., Inc. (hereinafter, "CTC") held by Chubu Electric Power Co., Inc. (hereinafter, "Chubu Electric"). On the same day the parties concluded share transfer contracts.
   Accordingly, the Company acquired shares in the aforementioned company on April 1, 2008.
   Details of the share acquisition are as follows.

   1. Reason of acquisition of shares
      The Company and Chubu Electric are committed to using their combined management resources to create a more solid foundation for their telecommunications business in the Chubu Region, enabling the provision of highly convenient telecommunications services that are responsive to customer needs. The Company believes that the share acquisition has enabled it to use the operating base established by CTC (customer base, infrastructure, etc.) to further extend its telecommunications business in the Chubu Region.

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

	Number of shares	Percentage of shares held
Number of shares held before acquisition (Number of voting rights)	0 share (0 unit)	0%
Number of shares acquired (Number of voting rights)	1,660,709 shares (1,660,709 units)	—
Number of shares held after acquisition (Number of voting rights)	1,660,709 shares (1,660,709 units)	80.5%

      (2) Acquisition price
      ¥37,932 million (U.S.$379 million)
      The above acquisition price was the agreement price based on an evaluation by a third party.
      The final acquisition price was subject to adjustment and fixed based on the financial status of CTC at the time of acquisition and other considerations.

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 sheet of KDDI CORPORATION and its subsidiaries as of March 31, 2008,and the related consolidated statements of income, changes in net assets and cash flows for the year 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 audit.

We conducted our audit 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 audit provides 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, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 16, the Company resolved at the meeting of its Board of Directors held on January 25, 2008 to acquire shares of Chubu Telecommunications Co., Inc. held by Chubu Electric Power Co., Inc.
On the same day the Company and Chubu Electric Power Co., Inc. concluded share transfer contracts.
Accordingly, the Company acquired shares in the aforementioned company on April 1, 2008.

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.

Kyoto Audit Corporation

Kyoto Audit Corporation
Kyoto, Japan

July 8, 2008