Designing The Future

KDDI

Ubiquitous Solution Company

Annual Report 2007

Results for the year ended March 31, 2007

Contents

Working Our Competitive Advantage

4 Consecutive Years

of Higher Sales and Operating Income

16.2% YoY Growth in Operating Income

No.1 in Net Additions

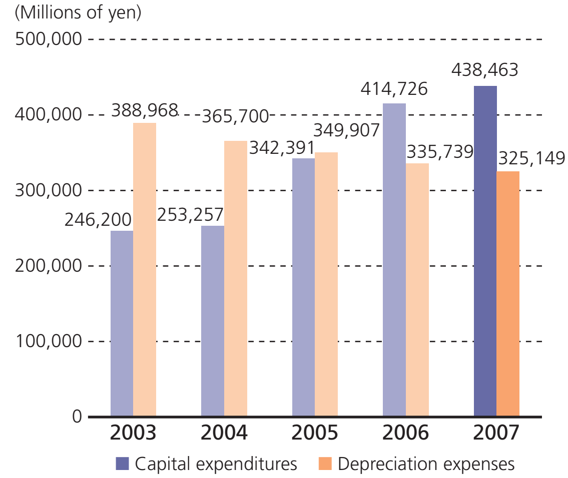
with 10.8% YoY Growth in Mobile Subscribers

Key Achievements in Fiscal 2006

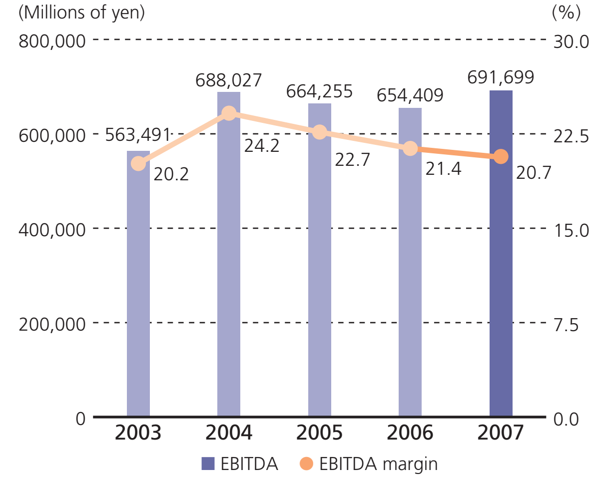
Selected Financial Indicators

Years ended March 31

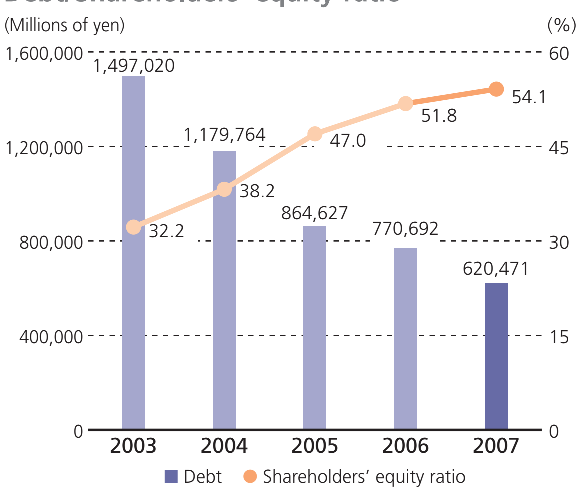
Capital expenditures/Depreciation expenses



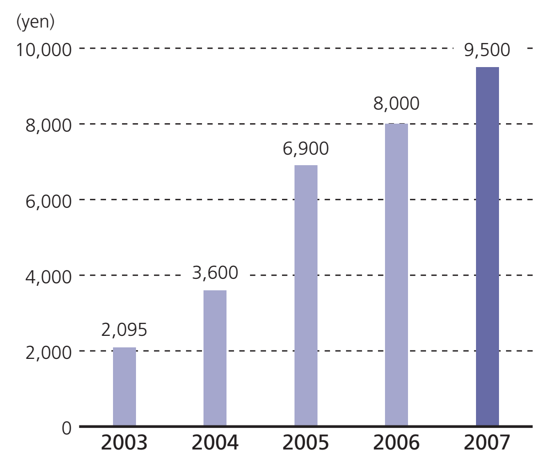
EBITDA/EBITDA margin



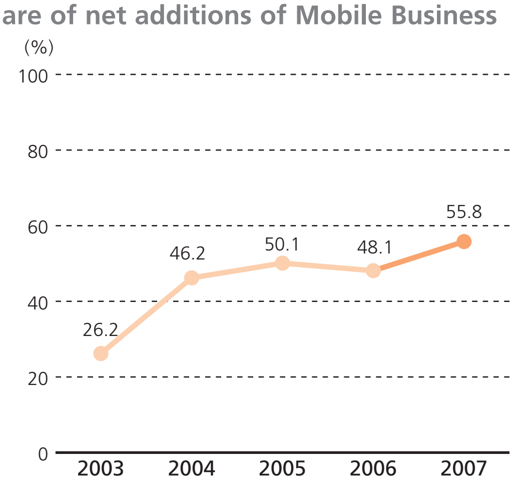
Debt/Shareholders' equity ratio



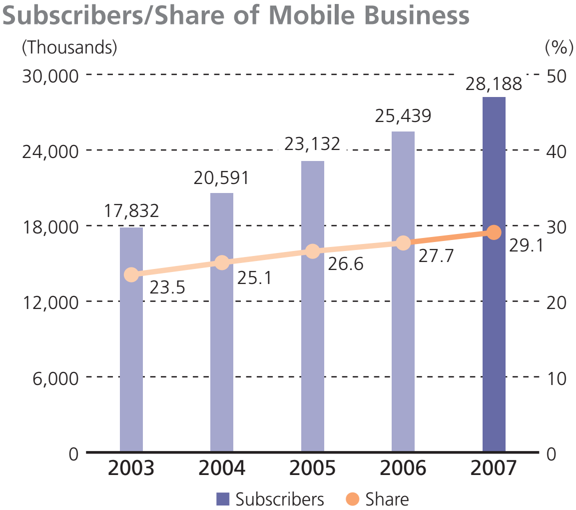
Cash dividends



Share of net additions of Mobile Business



Subscribers/Share of Mobile Business

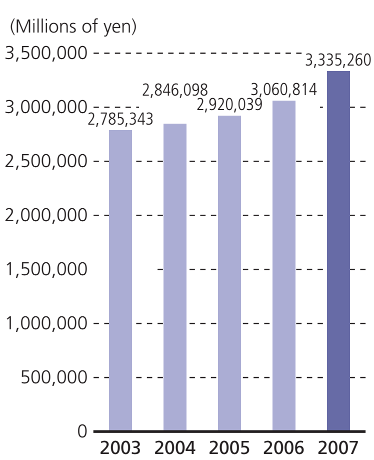


Financial Highlights

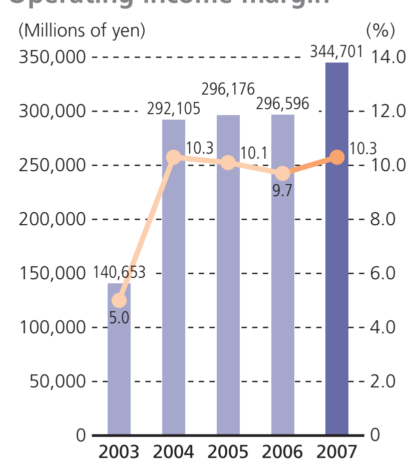
Years ended March 31	Millions of yen 2005	Millions of yen 2006	Millions of yen **2007**	Millions of U.S. dollars **2007**
Operating revenues	¥2,920,039	¥3,060,814	**¥3,335,260**	**$28,253**
Operating income	296,176	296,596	**344,701**	**2,920**
Income before income taxes and minority interests	293,531	180,606	**309,074**	**2,618**
Net income	200,592	190,569	**186,747**	**1,582**
Capital expenditures (cash flow basis)	342,391	414,726	**438,463**	**3,714**
<At year end>				
Total assets	2,472,322	2,500,865	**2,803,240**	**23,746**
Interest-bearing debt	864,627	770,692	**620,471**	**5,256**
Net assets (former Shareholders' equity) *	1,162,192	1,295,531	**1,537,114**	**13,021**
Per share data (yen & U.S. dollars)				
Net income	47,612	45,056	**42,505**	**360**
Cash dividends	6,900	8,000	**9,500**	**80**

* Beginning with the fiscal year ended March 2007, Net assets is used instead of Shareholders' equity.
Net assets: Sum of Shareholders' equity, Share warrant and Minority interests

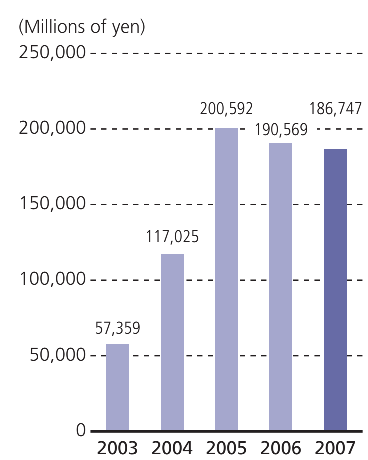
Operating revenues



Operating income/ Operating income margin



Net income



Message to Shareholders and Investors

Tadashi Onodera
President and Chairman

KDDI Targets Sustainable Growth through Both "Quantitative Expansion" and "Qualitative Enhancement"

Analysis of Results for the Year Ended March 2007

Among the highlights of the fiscal year, MNP was off to a banner start and FTTH business integration underpinned our progress in building a business foundation for our next stage of growth.

In the fiscal year ended March 31, 2007, KDDI posted revenue and profit growth for the fourth consecutive year. We scored a solid advance in consolidated operating revenues, at 9.0% year on year, to ¥3,335.3 billion, while operating income broke through the ¥300.0 billion mark for the first time, rising 16.2%, to ¥344.7 billion. In term of overall progress, there were two major developments during the fiscal year. The first was a broad expansion in our Mobile Business subscriber base thanks to the newly introduced Mobile Number Portability (MNP) system. Another was the integration of Tokyo Electric Power Company (TEPCO)'s fiber to the home (FTTH) business into our Fixed-line Business.

MNP—a major event for our Mobile Business—got under way on October 24, 2006 and KDDI immediately began to pick up net gains in subscribers. We have worked hard to differentiate the au brand in the mobile market by leveraging our infrastructure advantages and offering an appealing overall package comprising handsets, charges, and content. Our strong performance under the MNP system suggests that consumers appreciate the efforts we have made. With regard to this market, I have often expressed my desire to achieve a 30% share and 30 million subscribers as soon as possible, and I now feel that we are tangibly closer.

In our Fixed-line Business, "KDDI METAL PLUS" cleared its new subscriber targets, and is expected to become profitable during the fiscal year ending March 2008 as originally planned. In a major move, we integrated TEPCO's FTTH business into our own, and now have our own optical fiber access networks from which to develop the business in the Tokyo metropolitan area. This action represents one of our first strategic steps to expand our subscriber base with an eye to the spread of broadband.

Looking back on the fiscal year under review, it was an extremely successful year in terms of business development and performance, bringing us steadily closer to our next growth stage.

Business Environment

Promoting sound growth in the Japanese telecom market

After the start of MNP there were some signs of price competition, and to avoid becoming embroiled in a full-blown price war, the issue for KDDI has been how to enhance its competitive advantage in non-tariff areas. Under the Ministry of Internal Affairs and Communications' "New Competition Promotion Program 2010" for Japan's telecommunications market, experts are discussing strategies for encouraging competition in services and establishing a level playing field toward the year 2010. For example, the "Study Group on Mobile Business" is investigating business models for the mobile market and discussing such topics as sales commissions and Mobile Virtual Network Operators (MVNO). The ministry also has set up the "Panel on the Neutrality of the Network" and the "Study Group on Future Images of Universal Service Fund System". Furthermore, in 2010, a discussion will be opened up on issues concerning NTT's organization. Under these circumstances, we plan to keep a close eye on the changing conditions in our environment, and build a strong KDDI capable of achieving sustainable growth no matter what the competition may be.

"Challenge 2010", Medium-term Target,

Sending the message that KDDI will be a sustainable-growth company

With the favorable start to MNP and the integration of the FTTH business, we have to a certain extent set the stage for future business development. Now the time has come to indicate a direction in our drive for growth. I also see a need to respond to the expected changes in the business environment arising from the "New Competition Promotion Program 2010" and other forces of change in the market and to determine a course that will ensure growth for KDDI. To that end, we have unveiled our medium-term target—"Challenge 2010", which is the strong message that in collaboration with our customers, business partners, employees, and other stakeholders, we are determined that KDDI will be a sustained growth company.

On a numbers basis, our consolidated targets for the fiscal year ending March 2011 are operating revenues of ¥4 trillion and operating income of ¥600 billion. Rather than a commitment to figures, these targets have been set to pose a challenge to KDDI Group employees to work together and push forward in making this important.

One of the purposes behind our drive toward these targets is overcoming the hurdles posed by the changing regulatory and competitive environments. However, an equally important reason is to become a company that can achieve sustainable growth through "quantitative expansion" and "qualitative enhancement" by being No. 1 for customer satisfaction in all the services we offer. Obviously, without quality, we cannot hope to achieve greater business volume—we must strengthen the inherent quality of our services and our corporate structure. Among the actions needed to support growth and create an unshakable social foundation for KDDI's continued viability are improving customer satisfaction, including upgrading our technological, service development, and customer response capabilities; refining our management strategies for increasing profitability. Achieving both qualitative and quantitative improvement in parallel is the principal goal of "Challenge 2010".

The following are the main issues to be addressed in pursuing "Challenge 2010".

Attaining Solid Growth in Sales and Profits in the Mobile Business

Our most important task is to utilize the approximately 30 million-strong subscriber base in expanding our business domain into peripheral areas around our core communications business to maximize the revenues per subscriber. Our long-standing goal of 30% market share and 30 million subscribers now stands within view. The essence of this drive will be not only to increase subscribers and market share, but also to maintain our profit margins. Attaining solid growth in sales and profits requires a balance between both expansion and profitability.

Progress in FTTH Broadband Business and Profitability of Fixed-line Business

I would encourage our shareholders and investors to take a slightly long-term view of our Fixed-line Business, particularly our current area of emphasis, the FTTH business. Fifteen to twenty years ago, KDDI had an adequate profit structure built around the long-distance telephone business, but with all the technological advances and intensifying competition it has not been easy to improve our profit structure in the fixed-line business. If we stick with our current core businesses, the fixed-line business will go into decline. To heighten our competitiveness in the fixed-line business, however, we have also put emphasis on acquiring our own access network, which allows us to provide independent services. This factor underpinned the reasoning behind the integration of TEPCO's FTTH business. We expect the red ink to continue for a while longer, but if we can acquire a certain level of FTTH subscribers, we will recover to the breakeven point and then make the business more profitable down the road. To begin with, we are targeting a 30% share of the FTTH market in the Tokyo metropolitan service area. The successful business model developed there will then be applied to other regions. Progressive development of the FTTH business will depend on services that appeal to customers and thorough cost reduction. We aim to rise to the challenge and move into the black not only in our FTTH business, but also in our overall Fixed-line Business by March 2011.

The Development of FMBC and Expansion of Non-traffic Business Domains

Another major issue is the achievement of Fixed Mobile & Broadcast Convergence (FMBC) services for the consumer market. Ahead of the integration of our infrastructure through the "Ultra 3G" network, we face the urgent task of integrating services at the upper level centering on content and media. With that in mind, in April 2007, we amalgamated the Content and Media Division into the Consumer Business Sector. A key point in the success of the FMBC business will be to take advantage of our position as the only company capable of developing mobile and fixed-line businesses together to provide services worthy of customers' support.

We will also be aggressively expanding into other business domains. Of our targeted operating revenues of ¥4 trillion, we will be aiming for new businesses to contribute approximately 5%. The JCN Group, which became a consolidated subsidiary in July 2007, and the mobile internet banking, scheduled to start business in the middle of the fiscal year ending March 2009, are two examples of our expansion into new business domains.

Becoming an All-round Player in the Corporate Market Providing One-stop ICT Solutions

We think the corporate market will become increasingly important to our business, and we introduced our fixed-mobile convergence (FMC) services in this market first. Going forward, we intend to become an all-round player in this field capable of offering one-stop Information and Communication Technology (ICT) solutions. To that end, we formed a comprehensive business alliance with UNIADEX, Ltd. to enter the ICT solutions business for buildings and are developing the Software as a Service (SaaS) market.

Corporate Governance

Shareholder value growth rooted in Total Customer Satisfaction

We are planning to further strengthen our corporate governance, including our internal control system. In the aftermath of the leakage of customer information last year, the entire group has worked together to implement various measures aimed at preventing any recurrence of such incidents. Recognizing that the true basis for such measures lies in the morals of each and every one of our employees, we have placed special emphasis on educating our staff in this respect. Based on improved CSR initiatives, we are making further progress with our Total Customer Satisfaction (TCS) initiatives to increase the degree of satisfaction not only among customers but among all stakeholders, thus improving the quality of our company as a whole.

KDDI regards the return of profits to shareholders as a priority management issue, and has steadily increased its dividends. For the time being, our main method of returning profits to shareholders will remain dividends. While maintaining a certain level of capital investment to attain sustainable growth, we will continue to aim for stable dividends with a payout ratio of 20% or more. Based on growth achieved through a balance between "quantitative expansion" and "qualitative enhancement", we plan to meet the expectations of our shareholders and investors. In meeting the challenge of the future, we look forward to your continued support.

August 2007

T. Onodera

Tadashi Onodera
President and Chairman

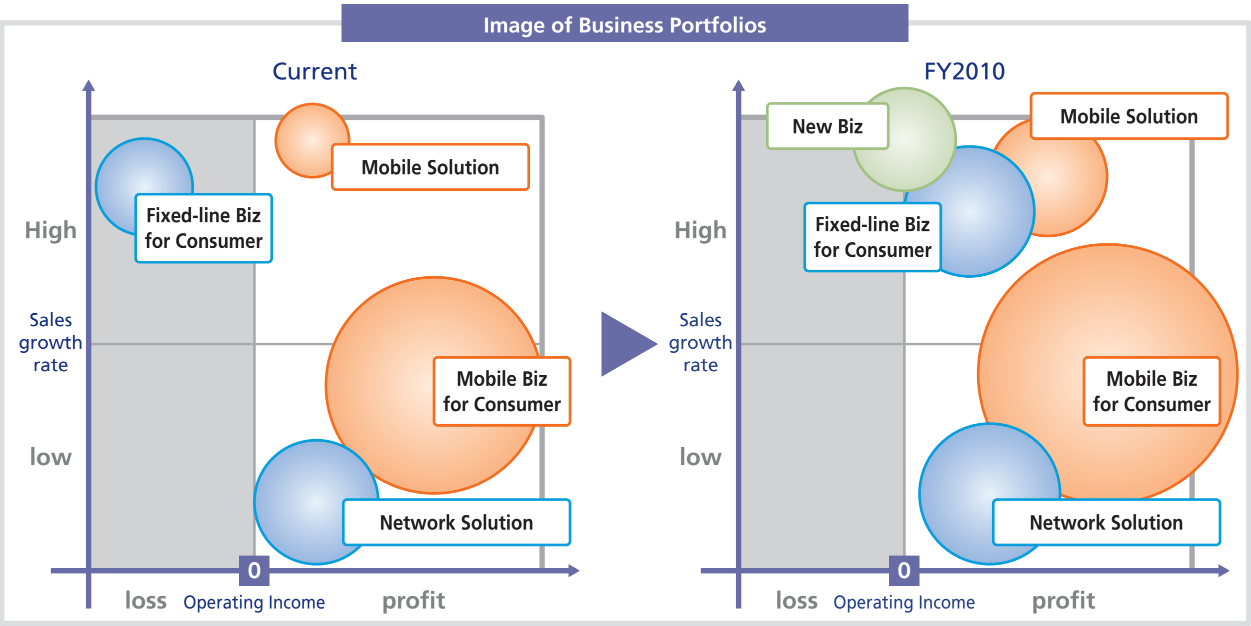
Core Messages of "Challenge 2010"

- Aim for "Customer Satisfaction No. 1" in every service.
- Realize sustainable growth through simultaneous pursuit of "Quantitative Expansion" and "Qualitative Enhancement."
- Targets in FY2010 (consolidated)
  Operating revenues: ¥4 trillion, Operating income: ¥600 billion
  - Maintain the momentum of increasing revenues and income in Mobile Business.
    - Enlarge sales by expanding customer base and business domain.
  - Promote broadband such as FTTH business, etc. and make a turnaround in Fixed-line Business.
  - Develop FMBC and expand non-traffic business domain.
  - Expand corporate business to be an all-round player which can offer ICT* as one-stop shopping.

  * Information and Communication Technology
- Enhance the return to shareholders.

Mobile for Consumer, mainstay business, will continue to drive the consolidated business performance, with Fixed-line Business also aimed for improved profitability.

Image of Business Portfolios

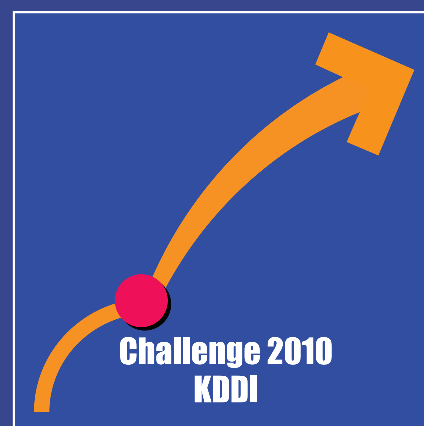


Note: The sizes of the circles show images on those of sales.

Further Reinforcing Competitiveness toward “Challenge 2010”

To achieve the medium-term target represented by ”Challenge 2010”, KDDI must aim to provide unparalleled customer satisfaction in every service. At the same time, it will be crucial to ensure sustainable growth through both “Quantitative Expansion” and “Qualitative Enhancement.” KDDI will promote further convergence of mobile and fixed-line services to develop its businesses in its own unique way.

In the Consumer Business Sector and the Solution Business Sector, the respective general managers explain their thinking with regard to future business development.



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

Consumer Business

"au" is Central in our Efforts to Increase and Reinforce Touch Points With Customers to Provide Services That can Propose New Lifestyles.

Q. How do you evaluate the results of mobile number portability (MNP) following the system's introduction in October 2006?

A. I think the strong start under MNP comes down to the fact that customers recognized the comprehensive product power in au. If we look at surveys of uses that came to au through the MNP system, they gave us high marks in particular for our coverage. In addition to the superior call quality such as a good connection anytime and anywhere, I think that our efforts to provide pioneering data communications services were also crucial. KDDI led the industry in leveraging the capabilities of 3G infrastructure by the introduction of CDMA2000 1x EV-DO in November 2003. Clearly, choosing a mobile phone service depends on evaluating infrastructure, handsets, charges, and services as a complete package. That is why I think it is of the utmost importance that we continue to stay ahead of others on all counts.

Q. Has the progress of MNP so far differed from your initial expectations?

A. I thought mobility across the market would be stimulated by MNP and a little higher than it actually was. Once MNP got underway, however, KDDI's churn rate as well as conventional net additions without using MNP remains unchanged. The result was a substantial net gain in customers with the net addition due to MNP as add-on growth in subscribers. With regard to the current competitive environment, I think that simply cutting tariffs makes no sense—it is more important to boost competitiveness in other areas. Real differentiation in the market comes from raising the overall appeal of the product package including handsets, charges, and services, based on a strong infrastructure.

Q. How would you define the position of the Mobile Business within "Challenge 2010"?

A. Because consumer-oriented mobile operations are so important for KDDI, I feel a great deal of responsibility. First and foremost, we need to reach our long-sought target of 30% market share and 30 million subscribers within the fiscal year. Next, I think it is important that we increase our market share steadily, only by one percentage point each year by continuously achieving current net-add share of approximately 50%. Meanwhile, another key strategy to maximize sales is an enhanced business model: in addition to earning communications service fees, we will be focusing on expanding ARPU through content and other non-traffic revenues. In other words, our aim will be to maximize the KDDI services used by each customer. Going forward, we will also be expanding our business domain, for instance, by proactively working to offer mobile internet banking to make sure the most user-friendly internet bank for mobile phone users.

Q. What actions are planned for KDDI's Fixed-line Business?

A. We now expect "KDDI METAL PLUS" to move into the black in the fiscal year ending March 2008, its third year of operations. I think the reason this service is now on track is simply because we set distinct goals and everyone pitched in to make them work. The process of building on our achievements has given our people in fixed-line operations greater confidence. In the FTTH business, meanwhile, we established the "HIKARI-one" brand and integrated Tokyo Electric Power Company's FTTH business into our own. We now have an access network in metropolitan Tokyo and can develop the business independently. In April 2007, we united the sales divisions of mobile and fixed-line businesses, making it easier for us to cross-sell fixed-line services such as "KDDI METAL PLUS" and "HIKARI-one" to our approximately 30 million-strong au subscriber base. The significance of this event, I think, is that we are now starting to make real headway in Fixed Mobile Convergence (FMC). In our FTTH business, we are looking to establish a successful business model in the Tokyo metropolitan area, which has a high penetration rate for broadband services among households, and gain a 30% share in that service area. In the fiscal year ending March 2008, we are anticipating a return to profitability in all fixed-line categories except for FTTH, but by the fiscal year ending March 2011, we expect the Fixed-line Business as a whole to make a turnaround. On another front, we will make the JAPAN CABLENET (JCN) Group a KDDI subsidiary in July 2007, and I believe our ties with CATV will become increasingly important moving forward. In this age of conversion to IP networks, access networks will be essential, and KDDI cannot achieve total coverage with only "HIKARI-one". Therefore, we plan to build mutually beneficial relationships with CATV operators which have pay-TV subscribers. Our fundamental approach is to build up comprehensive capabilities in this way to compete with rival carriers.

Q. Can you explain what form Fixed Mobile & Broadcast Convergence, or FMBC, will take?

A. Let's begin with FMC. As mentioned above, it stands for Fixed Mobile Convergence, an area in which we pride ourselves on having made considerable advances. Most notably, in our mobile phone operations we offer "LISMO" (au LISTEN MOBILE SERVICE), enabling users to save music downloaded by mobile phone onto their home PC. The service also enables users to do the opposite: they can transfer music downloaded from the Internet using their PC and listen to it on their mobile phone. If we extrapolate this idea a little further, it could become possible in future to connect a mobile phone to a television to watch video filmed using the phone while out, or to connect a phone to a car dashboard display for navigation. With this type of potential, I envisage FMC bringing changes that used to be in the realms of science fiction. In short, the mobile phone becomes your passport—your personal gateway—to a diverse variety of services.

FMBC, which also incorporates broadcasting, is what KDDI is proposing as the next step on from FMC. We envisage that FMBC will enable people to enjoy a wide range of content through broadcasts on their mobile phone, and are preparing for this through such services as Media-FLO. Development of FMBC, in terms of infrastructure, will be realized by "Ultra 3G" and the key here, I believe, will be an integration at the upper level—the content and media, prior to that in the networks.

Q. As General Manager of the Consumer Business Sector, which aspects of "Challenge 2010" have particularly inspired you?

A. Our main focus in this business is to use every available means to increase points of contact with customers. This includes au shops, customer service centers and the KDDI DESIGNING STUDIO, in addition to the screens of mobile phone and PCs and a huge diversity of content. By delivering a product or service that exceeds expectations at each interface, we will expand our customer base and the sales per subscriber. This will allow us to maximize sales on an ongoing basis which is, I believe, the ultimate goal of "Challenge 2010".

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

Solution Business

KDDI Aims to be an All-round Player that can Provide One-stop ICT Solutions

Q. What are the strengths of KDDI's corporate business?

A. Clearly our greatest strength is being able to provide one-stop solutions that meet customer requirements. Generally we have dealt with the information systems departments of clients, but nowadays Information and Communication Technology (ICT) is being woven into corporations' business strategies, and playing a more central role. Whereas in the past, we only needed to respond in detail to a client's communication network requirements, now we are being asked to provide one-stop solutions covering not only the network, but also its peripheral areas. KDDI's strength as a one-stop solutions provider is to totally provide all network services—mobile, fixed-line, and even international fixed-line. Corporate clients can have all their communications requirements supplied by one company. Moreover, we can also provide for the peripheral areas. For some time, we have been offering System Integration (SI) services overseas and have developed highly proficient System Engineers (SE) worldwide who can offer solutions spanning both the fixed-line and mobile fields. These human resources are a substantial asset in terms of our ability to accurately meet customer needs.

Q. How has the corporate market reacted to MNP?

A. As in the consumer market, MNP has been good for our corporate business. I think there are three reasons for this. First, good mobile connections regardless of location are important to corporate clients, and au's superior network has earned high marks in this regard. Second, our corporate handsets themselves appeal to corporate clients, because we offer long battery life, durability, and other features companies are looking for. We have also recently enhanced our lineup of corporate handsets with models offering wireless LAN (Local Area Network) compatibility. Finally, we are able to propose effective solutions using these handsets to address business communication issues. As a result we can cater to corporations' needs throughout the process of promoting IT systems to handle administrative tasks, increasing efficiency, and strengthening information security.

Q. What specific actions do you take to help companies promote IT systems or increase their efficiency?

A. Partly because we were latecomers to the corporate mobile market, our marketing approach has centered on how to strengthen or improve our clients' business operations through mobile phone-based solutions, rather than focusing on person-to-person voice communications. In other words, we work to incorporate our customers' business activities into mobile phones by adding onboard administrative applications that effectively allow the phones to be used as IT terminals. In this sense, the BREW® platform used by au mobile phones has enabled us to achieve a diverse range of mobile solutions because of its superior high-speed processing and connectivity to other systems. For example, we designed a communications solution for a major logistics company that uses Bluetooth® technology to create a low-cost, flexible information and communications system with mobile phone handsets as the hub. The system provides a personal gateway to printers and a range of other standard office equipment through the user's mobile phone. This solution model eliminates the risk of terminals or its functions becoming obsolete, which was the traditional problem faced when using specialized terminals. Not limited to the logistics business field, the system has been introduced by a variety of companies and is contributing to greater efficiency.

Q. The Mobile Solution Business Sector has been in operation now for three years. In what specific areas has it been successful?

A. Right from the start, our attitude has been to avoid price competition and compete on the basis of solution services. I feel that stance has steadily produced results. We have seen the successful implementation of many of our proposals that seek to improve clients' business operations by our suggestions that mobile phone use can contribute to sales growth or to cost reductions. And our activities have been appreciated by the business community with many prizes, including the Grand Prix, received by one of our clients at "Mobile Computing Promotion Consortium (MCPC) Award 2007". In our FMC business, it has been much the same story. Companies conduct their business both inside and outside their offices, but these activities are not mutually exclusive, both activities have to collaborate in order to be effective. In simple terms, if employees outside the office have mobile phones while employees in the office are using fixed-line phones, the only telecom carrier in Japan that can provide the clients with a one-stop solution is KDDI. The shift to Mobile Centrex Systems in clients' offices continues to gain ground in Japan and our "OFFICE WISE" and "OFFICE FREEDOM" services have been popular in this regard.

Q. What are the prospects for future growth in the corporate mobile phone market?

A. The corporate market only accounts for about 10% of the overall mobile phone market right now, but is expected to grow substantially. Considering that 30% of the total fixed-line market is for corporations, a rough estimate would suggest that the handset-based corporate market has the potential to reach the same level within the total mobile market. Moreover, there are other potential growth areas such as the communication module market, which is based on machine-to-machine communications, and is therefore not limited by the size of the population. For example, there are approximately 70 million automobiles in Japan today. Sooner or later, all of these cars are going to have a communication module in them. And there are a vast number of new applications for communication modules, such as in tooling machine maintenance, security systems or vending machines. I believe the communication module market offers infinite growth potential.

Q. As General Manager of the Solution Business Sector, which aspects of "Challenge 2010" have particularly inspired you?

A. Until recently our Fixed-line Business targeting corporations offered little prospect of sales growth, providing only fixed-line services. However, there are related businesses targeting the corporate market that still offer ample opportunity for growth: potential lies not only in the burgeoning corporate mobile market, but also in FMC services and peripheral areas. Currently, our consumer-oriented mobile operations drive growth for the Group. However, as an all-round player that provides one-stop ICT solutions, we intend to transform our corporate services into an additional pillar of future growth. To meet the high demand for one-stop solutions, we looked carefully at our own capabilities and firmed up a detailed plan for supplementing our services in areas where we fall short. One such business area was the construction of LAN in buildings and ICT equipment management and other services for buildings. Through our business alliance with UNIADEX, Ltd.—which excels in this area—we can now provide appropriate one-stop solutions. Going forward, if there are services we cannot provide—in new or existing business areas—we will develop win-win relationships with specialist companies to provide them. Thus we can steadily build up our capacity to provide best-fit services promptly. And this in turn will enable us to expand our client base in both fixed and mobile communications, among large corporations as well as SMEs, in Japan and abroad. We will also strive to maximize sales by growing our operations in new domains, reaching beyond networks to include peripheral areas. I believe that to achieve future growth as an all-round player, the key is always to be able to respond to our clients' wishes, and that is a goal that inspires me.

Mobile Business

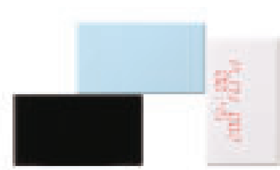
Reliable call quality. Attractive handsets with a focus on design. A range of customer-oriented tariff plans. High value-added content and services. KDDI is refining the competitiveness of its overall package to raise levels of customer satisfaction further still.

Music via mobile phone, "1 Seg" (TV broadcasts) digital radio, high-resolution camera capability. The possibilities offered by mobile phones are burgeoning along with the range of services.

Four models from au design project added to MoMA collection

INFOBAR (2003)
Naoto Fukasawa

talby (2004)
Marc Newson



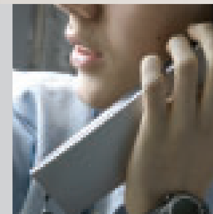
neon (2006)
Naoto Fukasawa

MEDIA SKIN concept (2005)
Tokujin Yoshioka

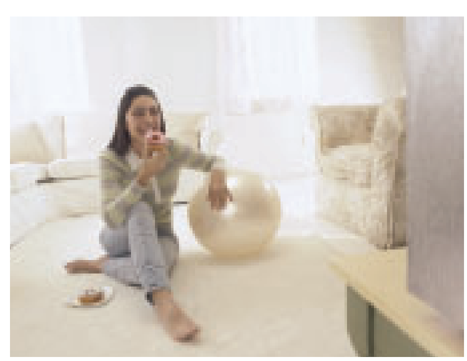
Note: ( ) refers to year when products were launched for sale except for MEDIA SKIN, which refers to the release of concept model.

Fixed-line Business

As it moves closer to full IP and broadband conversion with “KDDI METAL PLUS” and “HIKARI-one” (FTTH), KDDI is striving to develop and supply services offering outstanding convenience by leveraging the additional benefits of its mobile communications capabilities.



In addition to high-speed, high-capacity Internet connection services, KDDI offers high-quality, reliable, sophisticated phone services, compelling content via multi-channel television broadcasts and video on demand (VOD)—all with a single optical fiber.



Mobile Business

KDDI will Further Enhance Competitiveness in Handsets, Charges and Content Based on its Strength in Infrastructure.

Toward "Challenge 2010"

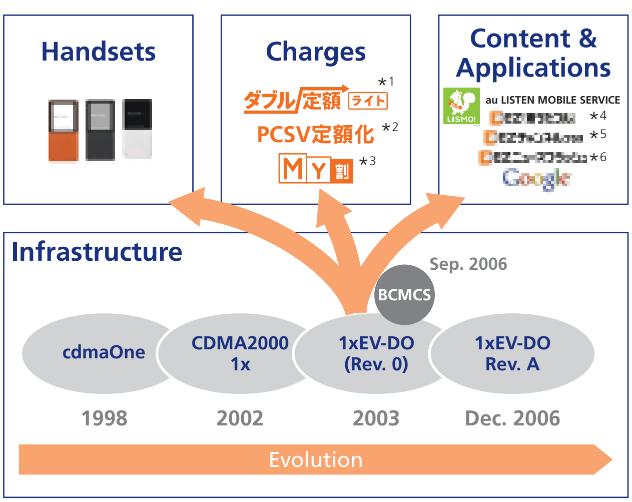
KDDI's Mobile Business currently accounts for three quarters of its consolidated operating revenues, and is the main driver for operating income as well. The business is expected to still be the central source of earnings in the final year of "Challenge 2010". KDDI has distinguished itself from its competitors by utilizing the strengths of the au 3G infrastructure (as shown in Figure 1), and the comprehensive product advantages it offers in terms of mobile handsets, charges, and content.

With "Challenge 2010" (Figure 2) as well, KDDI is working to further raise competitiveness in order to maintain the current increases in revenue and earnings in the Mobile Business. This section presents KDDI's plans and efforts for infrastructure and handsets, the strengths of KDDI's Mobile Business.

Infrastructure—Part 1: Maintaining and Enhancing the Competitive Advantage of the 3G System

Mobile Number Portability (MNP) in Japan went into effect in October 2006, with au the only service provider to achieve a net MNP increase. Surveys of customers who have chosen au reveal a high regard for KDDI's transmission quality and coverage area. Infrastructure means more than just the basics of being able to obtain a good connection anytime and anywhere. In Japan, where the use of 3G is spreading, a strong infrastructure leads to differentiation in terms of both data services and fee structures that take advantage of cost competitiveness. Also, since it takes two to three years and a huge investment in equipment to deploy a new system to cover all of Japan, it is not easy for other carriers to catch up with KDDI, which had a head start in deploying its 3G system.

Figure 1: All-round Product Attractiveness of Mobile Business



*1 Double-Teigaku-Light (Packet Flat-rate) plan
*2 PCSV Flat-rate plan
*3 My Plan Discount
*4 EZ Chaku-Uta-Full®
(Music download service)
*5 EZ Channel-plus
*6 EZ NewsFlash

Figure 2: "Challenge 2010": Further Strengthening Competitiveness of Mobile Business

Handsets	● Reduce costs through KDDI Integrated Platform (KCP+) and expand Rev. A handsets
Charges/service	● Underpin ARPU by adding new services ● Enhance global roaming ● Develop business models to address customer needs ● Reinforce settlement/authentication functions and FMBC service
Infrastructure	● Reorganize 800MHz band and enhance coverage ● Improve communications quality ● Commercial launch of the post-Rev. A system

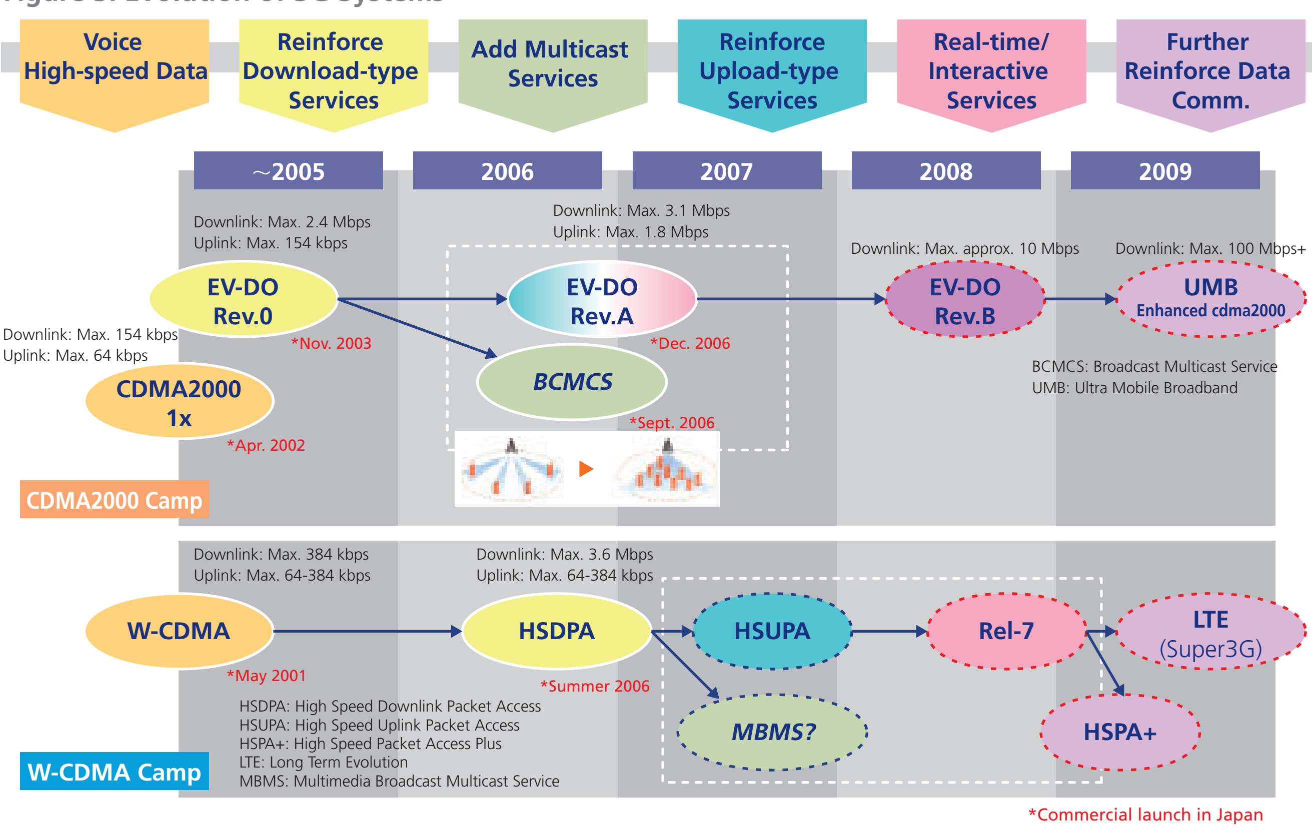
Figure 3 shows the evolution of the 3G CDMA2000 system adopted by the au brand alongside the W-CDMA system, with the same colors representing comparable functions. In terms of infrastructure, although rival carriers introduced HSDPA (High Speed Downlink Packet Access) from the summer of 2006 (the yellow circle), this simply enabled them to catch up with the EV-DO service introduced for au in November 2003. KDDI has remained one step ahead of the competition, introducing BCMCS (Broadcast Multicast Service) in September 2006, and an upgraded version of EV-DO, EV-DO Rev. A, in December 2006. The successor system to EV-DO Rev. A has not yet been determined, but KDDI will continue to maintain and enhance its competitive advantage in infrastructure.

Infrastructure—Part 2: Reorganization of the 800MHz Band and Expanding Capacity for the 2GHz Band

KDDI is currently increasing its capacity in the 2GHz band in view of the increase in subscriber numbers and the reorganization of the 800MHz band. At the present time, the frequency directions for this band are opposite to overseas. Its reorganization, to be completed by July 2012, involves switching round the current directions for uplink (handset to base station) and downlink (base station to handset) services, and re-allocating frequencies to replace the current narrow allocations with blocks.

The 2GHz band requires more careful efforts when expanding area coverage due to characteristics including the direct

Figure 3: Evolution of 3G Systems



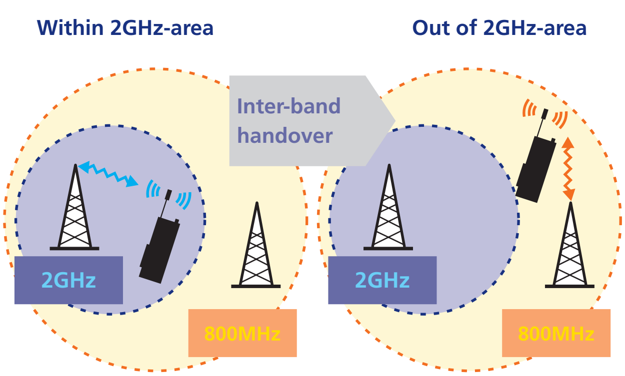
propagation of radio waves. KDDI, however, has begun offering dual-band handsets that can access the current 800MHz band frequencies in addition to the 2GHz band. In addition, the company is offering triple-band models that will be able to access the newly allocated 800MHz band to ensure convenience for its customers. There were a total of approximately seven million such handsets in use as of the end of March 2007, accounting for a quarter of all au-branded models, and the number is expected to increase in the future. As shown in Figure 4, the dual-band handsets will mainly use the 2GHz band, and when outside the 2GHz coverage area, they will use the 800MHz band. KDDI believes that it can raise the quality of its infrastructure still further by expanding the 2GHz coverage area.

Handsets: "KCP+" Lowers Handset Procurement Costs

Along with infrastructure, another significant strength for KDDI is in declined procurement costs of au handsets amid further enhancements to the handset lineup, additional functions and a rising proportion of WIN handset sales. With handsets becoming more sophisticated and complex, manufacturers are facing greater difficulties in terms of product development and testing. KDDI has been able to lighten their burden through the use of "KCP" (KDDI Common Platform), a shared software platform currently based on the BREW® system.

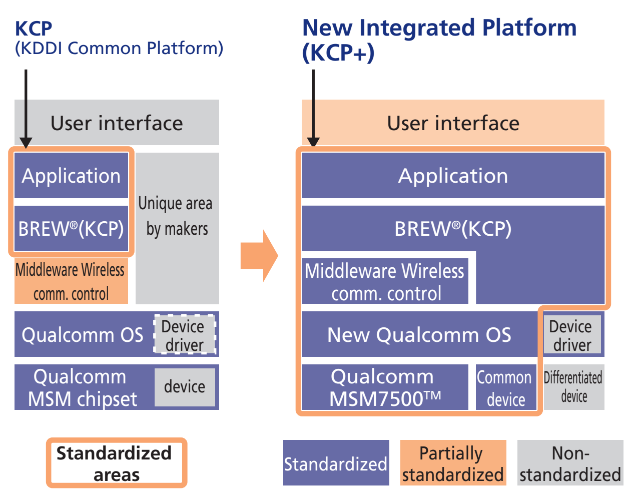
Going forward, as shown in Figure 5, the scope of standardization will be expanded with "KCP+" (KDDI Integrated Platform) planned for development within 2007. "KCP+" will allow handset manufacturers to focus on differentiating themselves in terms of the user interface, design, and the device areas in which they are strongest (cameras, LCDs, etc.). KDDI expects that the adoption of "KCP+" will further enhance the attractiveness of its handsets in response to continually increasing diversity and individuality in customer needs, as well as raise cost competitiveness by bringing greater efficiency to handset development.

Figure 4: 800MHz/2GHz-Dual-band Compatibility



Note: 2GHz-area expansion is in progress.

Figure 5: Create New Integrated Platform



Content and Media Business

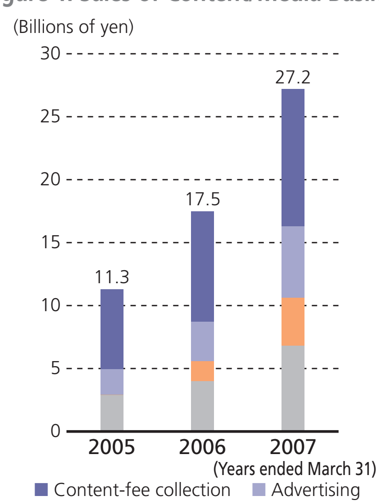
Increase and Reinforce Touch Points—Points of Contact with the Customer—to Expand Customer Reach

Toward "Challenge 2010"

au brings excitement to customers' lives by adding value to its mobile services in novel ways. The spirit of innovation that characterizes au is in large part thanks to the Content and Media Business. With au, KDDI has focused particularly on improving music services, to the extent that the au brand name is now synonymous with music via mobile phone. This is thanks to KDDI's efforts in leveraging its infrastructure advantages to develop a range of pioneering services. Examples include innovative music download services such as "EZ Chaku-Uta®", "EZ Chaku-Uta-Full®", and "au LISTEN MOBILE SERVICE (LISMO)", which have helped to establish win-win relationships with the music industry.

KDDI believes that to ensure future growth it will need to develop other earnings streams in addition to traffic revenues by expanding its operational reach. KDDI's Content and Media Business is already steadily producing results; sales growth was strong in the fiscal year ended March 2007, resulting in net sales of ¥27.2 billion, 1.5 times higher than in the previous year. KDDI intends to continue expanding the business into new domains as well as increase its involvement in existing service areas such as fee collection for content providers, advertising, e-commerce and providing collaborative contents. Through these efforts KDDI is targeting net sales in the fiscal year ending March 2011 of 2.5 times current net sales. This section explains plans for the future direction of KDDI's Content and Media Business.

Figure 1: Sales of Content/Media Business



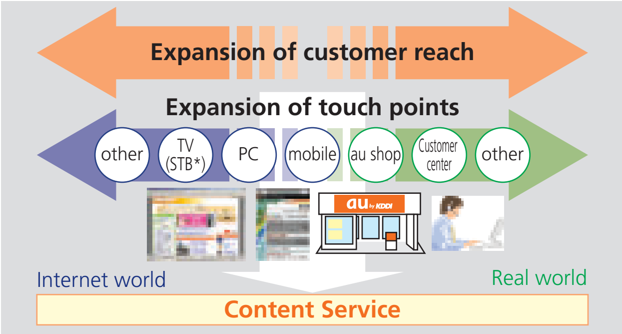
*For the year ended March 2005, EC and collaborative content & others are combined.

Mobile Phones to Play Pivotal Role and Propose New Lifestyles for Customers

Looking ahead, the priority for KDDI is to increase the number of touch points (points of contact with customers) to appeal broadly to customer categories and age groups that the company has so far been unable to reach. To this end, the Content and Media Business will target all customers in the KDDI group. In the au service, KDDI is already working to upgrade its entertainment-oriented content, including video to complement the music content in which the service has already excelled. Meanwhile, in the banking and broadcasting fields, KDDI is pushing ahead with preparations for the launch of new services such as mobile phone-based Internet banking and Media-FLO. KDDI will continue to take proactive measures to expand its operational domain into new areas by working with leading players in other industries. Through these initiatives, KDDI aims to increase the total amount of transactions via its business platforms, from digital content (virtual) to tangible commodities (real).

Mobile phones have become essential tools for customers in Japan; in fact, many would struggle to get through their day if they left their mobile phone at home in the morning. KDDI wants to make the most of the indispensability of mobile phones, while at the same time transcending the limitations of the existing products and services of mobile phones to offer customers a comprehensive range of them that suit their lifestyles. To maximize earnings KDDI will extend its customer reach to increase the number of people using KDDI content, while pursuing earnings opportunities outside the conventional boundaries of telecommunications business.

Figure 2: Expansion and Enhancement of Touch Points



*Set Top Box

Fixed-line Business

Targeting Subscriber Base Expansion and Profitability Recovery through Broadband Businesses

Toward Challenge 2010

Japan's fixed-line market is at a turning point, with its legacy services being transformed to direct-access, IP, and broadband services. At KDDI, we are also moving in this direction, working toward the next growth phase in the business through the development of our new services "KDDI METAL PLUS" and "HIKARI-one". Because of the front-loading of subscriber acquisition and other costs during the start-up period for these new services, the Fixed-line Business is currently in the red. However, we intend to recover profitability not by downsizing, but by increasing sales based on subscriber base expansion.

As can be seen in Figure 1, "Challenge 2010," we are aiming to bring the Fixed-line Business back into the black along with the expansion of our FTTH and other broadband businesses based on our expansive and diverse access network. In this section, we introduce the initiatives being implemented by our Fixed-line Business for the future.

"KDDI METAL PLUS" Enters Profit Contribution Phase

"KDDI METAL PLUS" is a direct-access, IP-based service. Due to direct customer access, this service earns a basic monthly charge and has contributed to an upswing in KDDI's previously declining voice telephony revenues. At the end of March 2007, "KDDI METAL PLUS" had a total of 2.81 million subscribers, and is forecast to increase this figure, maintaining it at over 3 million in the medium to long term. In line with the original plan, the service is expected to record profits in the fiscal year ending March 2008, its third year of operations, and enter a stable profit contribution phase.

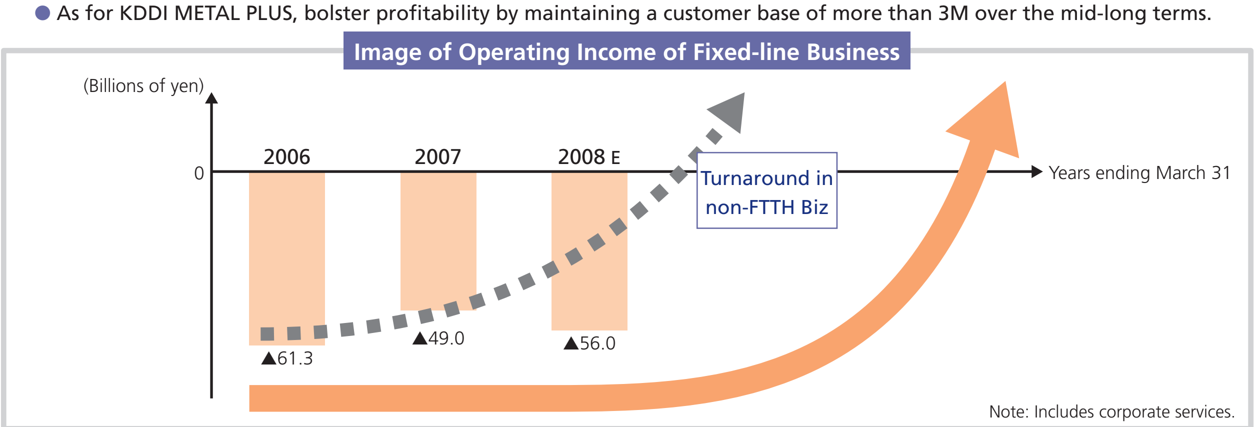
Targeting a 30% Share of FTTH Market in Tokyo Metropolitan Service Area

In January 2007, we integrated the FTTH business of Tokyo Electric Power Company (TEPCO) with our own FTTH business. Because we can now set up our own lines in the Tokyo met-

Figure 1: "Challenge 2010" Fixed-lined Business Initiatives

Promote broadband such as FTTH business, etc., by utilizing various access lines and make a turnaround in Fixed-line Business.

- As for FTTH, access network of our own, aim for a 30% share in Tokyo-metropolitan service area over the mid-long terms.
- Enhance video ARPU by promoting broadband.
- As for KDDI METAL PLUS, bolster profitability by maintaining a customer base of more than 3M over the mid-long terms.



ropolitan area, whereas before we had to lease them from NTT, it has become possible to flexibly expand the business in accordance with individual area demand. Currently, we are endeavoring to expand our FTTH service "HIKARI-one", which offers subscribers the "triple play" of IP phone, high-speed Internet, and video distribution services.

As can be seen in Figure 2, which shows KDDI's FTTH network, we have a content delivery network (CDN) as its backbone, while based on the business integration with TEPCO's FTTH business, we already have access to approximately 10 million households in the Tokyo metropolitan area. Therefore, in terms of capital investment, we will only need to shoulder the last-one-mile costs to install drop cables, which will increase in proportion with new subscribers.

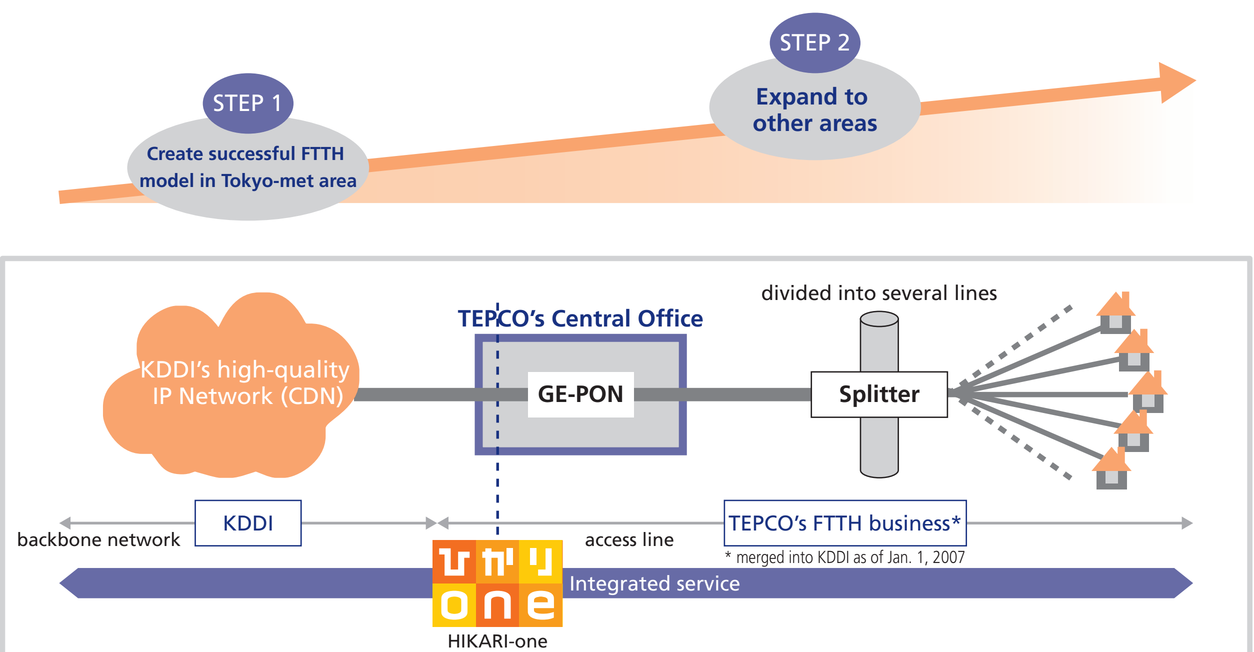
We believe that to heighten the intrinsic appeal of FTTH, we need to create an environment where subscribers can enjoy high definition television (HDTV) programs or high-quality video over our FTTH service. We are pressing forward with technical development to make that a reality. As an overall marketing goal, we are aiming to establish a successful business model for our FTTH business while capturing a 30% share of the Tokyo metropolitan market, which has a high penetration rate for broadband services among households.

Note: For further details, please see "Technology and R&D" on page 24.

Fixed-line Business Turns Profitable

We anticipate that our "KDDI METAL PLUS" service will move into the black in the fiscal year ending March 2008. Of the four core categories in the Fixed-line Business then, "KDDI METAL PLUS", FTTH, legacy service for consumers, and service for corporate clients, all but the FTTH business will be profitable. Carefully monitoring the increase in demand for video distribution over FTTH, we intend to allocate the improved profits of other services for expanding the subscriber base of our FTTH business. Through this process, we plan to achieve an early recovery of profitability in our overall Fixed-line Business.

Figure 2: FTTH Initiatives



Technology and R&D

R&D for IMT-Advanced, a Next-Generation Mobile System

KDDI has developed demonstration and testing equipment to verify the various technologies necessary for ultra-large capacity communications systems. KDDI aims to use the equipment for testing IMT-Advanced, the successor system to IMT-2000 (the 3rd-generation mobile systems).

Researchers have set targets of achieving IMT-Advanced bitrates of 100 Mbps under high-mobility conditions, and approximately 1 Gbps in semi-stationary conditions. The specifications of the testing equipment are configured to allow use of the 100MHz frequency band for downlink, enabling real-time communications of approximately 750 Mbps, a speed on a par with that of optical fiber. To achieve such ultra-large capacity wireless transmission it is necessary to test and put in place key technologies—multicarrier transmission (OFDM[1]) and MIMO[2]—under actual operating conditions. KDDI is proceeding with field trials that include tests of such new technologies as rotational multiple modulation technology—devised by the KDDI R&D Laboratories and known as the R-OFDM[3] system—as well as twin turbo decoding. R-OFDM provides stable large-capacity transmission even over poor transmission routes, and has been adopted by 3GPP2, one of the standardization bodies for the 3rd-generation mobile systems, as an option for the 3.9G[4] standard.

With IMT-Advanced, which is expected to be commercialized after 2010, customers will be able to enjoy a high-performance, high-quality communication service equivalent to that of FTTH and similar fixed-line communications, even when on the move.

R&D for Advanced Video Services over FTTH

The advent of FTTH has enabled smooth transmission of high definition video and other large-volume transmissions impossible with ADSL lines. There are high expectations in the industry for even more sophisticated services using FTTH, including such highly realistic transmissions as digital cinema. KDDI has developed "JH-4000", a codec for digital cinema transmissions that uses proprietary compression controls and meets Hollywood standards. This technology allows digital cinema video to be compressed in real time while retaining extremely high image quality, despite the fact that digital cinema image resolution is around four times that of high definition video at 4096 pixels x 2160 lines. It is a promising technology for use in video transmission systems at digital cinema theaters and elsewhere.

Testing equipment for next-generation mobile systems

Notes:

1. OFDM (Orthogonal Frequency Division Multiplex). Comprising parallel transmission by multiple subcarriers, this technology is suited to large-capacity wireless transmissions using wide-frequency bands. It has been adopted for terrestrial digital broadcasts and WiMAX.
2. MIMO (Multiple-Input Multi-Output). This technology enables multiple parallel transmissions through airspace by using several antennas for both the transmitter and receiver. With 2X2 MIMO, the bitrate can be nearly doubled under good conditions.
3. R-OFDM (Rotational-OFDM). This technology enables user data modulation symbols to be de-coded with a rotating matrix before allocation to subcarriers, rather than being allocated to subcarriers directly. This allows for transmission stability under multipath propagation conditions, such as in mobile communications.
4. 3.9G: The general name for systems using the same carrier frequencies as IMT-2000 (the 800MHz or 2GHz bands, etc.), which aims to realize a high peak rate of 50 to 300 Mbps. As part of the process of evolution from IMT-2000 to IMT-Advanced, 3GPP is engaged in discussions over LTE (Long Term Evolution), with 3GPP2 on UMB (Ultra Mobile Broadband).

Competitive Edge of au Infrastructure

It is often said that au was the first carrier to successfully develop 3G mobile services in Japan. However, there really is not much difference in terms of technology between the CDMA2000 system used by KDDI and the W-CDMA system by other mobile carriers in Japan. That said, there are other differences, of which two in particular stand out. The first is called "an overlay approach," which describes the process whereby KDDI introduced the 3G system on top of its 2G system as CDMA2000 has backward compatibility with cdmaOne. What this means is that 3G handsets are available right from the start seamlessly all over the nation. The other difference is a creation of a world of mobile Internet through CDMA2000 1xEV-DO, which KDDI launched in November 2003 under the brand name of WIN. Developed specifically for optimal data-based communications, this protocol enabled KDDI to pioneer the development of mobile Internet services. Competitors finally caught up with the introduction of the 3.5G HSDPA system in August 2006, but KDDI countered with the launch of an upgrade, EV-DO Rev. A, in December 2006. In terms of infrastructure, then, KDDI is about two years ahead of its peers.

Reorganization of the 800MHz Band

By July 2012, the Japanese Government plans to reorganize the 800MHz band, reversing the frequencies for uplink (handset to base station) and downlink (base station to handset)—currently the opposite of systems used overseas—and re-allocating the frequencies in blocks. Because other mobile carriers have difficulties in building their areas over the 2GHz bandwidth, it is said that KDDI will be under great pressure in developing its 2GHz network as well as dealing with the revision of the 800MHz system. However, KDDI will use a different method than its competitors. As with its evolution to a 3G system, KDDI takes an overlay approach again to build 2GHz service area on top of 800MHz areas and make them compatible. Mobile phone handsets also work over different frequencies. In addition to the current 800MHz band, handsets have dual-band or even triple-band function with the 2GHz and the new 800MHz bands. Consequently, KDDI makes sure that customers do not feel uneasy about the use of different frequencies and that they can continue to enjoy the services as usual.

The Post-Rev. A System and "Ultra 3G"

The 3rd-Generation Partnership Project 2 (3GPP2), a standard-setter for CDMA2000 operators, has finalized the protocol standards for EV-DO Rev. B, an upgrade for EV-DO Rev. A. Next down the line is the so-called 3.9G system, which is UMB (Ultra Mobile Broadband) for CDMA operators and LTE (Long Term Evolution) for the W-CDMA camp. These technologies are similar; both are based on the same wireless standard of OFDM (Orthogonal Frequency Division Multiplex) with 100Mbps- communications speeds. Standardization will be mostly completed during 2007, with commercialization possible by as early as 2010. KDDI has yet to decide what type of system to bring in after Rev. A, but believes it needs to identify how to deliver new value to its customers with the introduction of its next system.

KDDI proposes "Ultra 3G" as its NGN (Next Generation Network), which is an access-independent network and integrates mobile, fixed, wired and wireless systems to provide a variety of seamless services. The company is also aiming to achieve FMBC (Fixed Mobile and Broadcast Convergence), integrating communications and broadcasting. KDDI is fully committed to driving forward its preparations for "Ultra 3G", which will allow the company to demonstrate its advantages as a carrier with both mobile and fixed-line capabilities.

Corporate Governance and Compliance

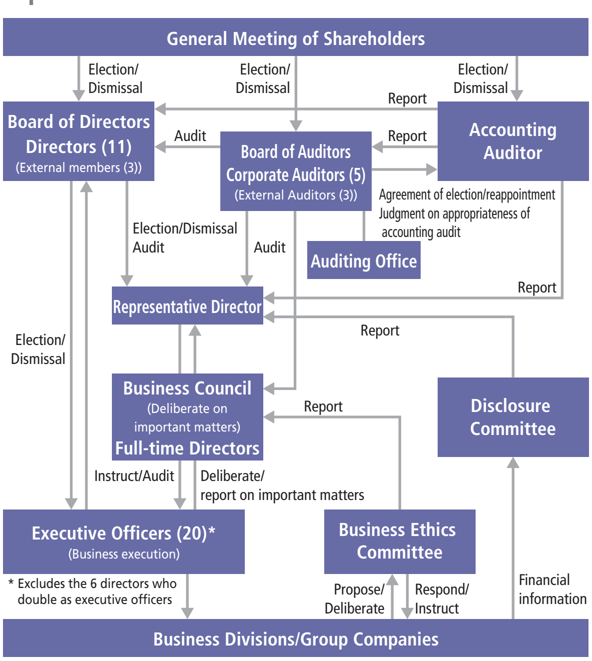
Under its medium-term target, "Challenge 2010", KDDI is aiming for sustained growth through both "Quantitative Expansion" and "Qualitative Enhancement". A key management priority to increase corporate value is the establishment of a corporate governance system geared to the promotion of Total Customer Satisfaction (TCS) activities that incorporates rigorous enforcement of internal controls. These initiatives are aimed at strengthening the corporate base to support future business growth.

* For further information on KDDI's social contribution and environmental activities, please see CSR Report 2007.

Corporate Governance Framework

KDDI introduced an executive officer system in June 2001 to clarify the separation of management oversight and business execution. The new system is streamlined and robust; it contributes to faster decision making and has more clearly delineated the lines of authority and responsibility among senior management. Among the executive bodies, the Board of Directors has 11 members, including 3 external directors. Its statutory function is to make important decisions and to oversee the execution of business policies. The Board of Auditors comprises 5 members, including 3 external auditors. The corporate auditors conduct internal audits to provide an important check of business activities, particularly the execution of corporate duties by directors.

Corporate Governance Framework



(As of June 20, 2007)

Compliance

KDDI codified its business ethics in January 2003 to establish basic principles for executives and employees to follow in the course of day-to-day business. The company conducts ongoing in-house and external training programs, among other measures, to ensure ethical conduct in the pursuit of corporate activities. KDDI has also put in place a framework comprising a Business Ethics Committee for the group as a whole and a help line for employees to report incidents or to discuss issues. This system enables the company to identify and resolve problems as soon as possible. In addition, subsidiaries have established similar systems incorporating a code of ethics, Business Ethics Committee, and help line on corporate ethics, thereby providing a compliance framework for the entire KDDI Group.

KDDI has formulated internal compliance regulations in response to the April 2006 enforcement of Japanese legislation designed to protect public informants. The company will continue striving to respond quickly and properly to any allegations of ethical noncompliance made by whistleblowers and to protect the rights of those informants. KDDI will also foster a more open corporate culture to support this commitment.

Disclosure and Investor Relations

KDDI is fully committed to undertaking fair and timely disclosure of any information that could have a material bearing on the investment decisions of investors. Such disclosure is conducted on an ongoing basis, and is focused on the requirements of shareholders and investors. The company's policy in this regard is in line with Tokyo Stock Exchange regulations governing the timely disclosure of information concerning the issuers of publicly listed securities, as stipulated in the Financial Instruments and Exchange Law. KDDI discloses its basic IR policy on its web site, explaining such matters as fundamental thinking regarding IR activities and the system for disclosing pertinent information. With regard to financial disclosure in particular, KDDI has set up a Disclosure Committee that concentrates on determining what information should be disclosed with the goal of improving business transparency and supplying appropriate information to the public. KDDI takes the opinions expressed by investors seriously, communicating them not only to management, but also to employees in general. Such opinions are considered an extremely valuable reference in the formation of business and management strategies.

During the fiscal year under review, the effectiveness of KDDI's IR activities was again confirmed by the company's receipt for the fourth consecutive year of an award for Excellence in Corporate Disclosure. The award, which is based on the opinions of securities analysts, signifies a positive evaluation of senior management's proactive stance on IR issues. KDDI places particular emphasis on supplying IR information over the Internet, and in February 2007 extended its coverage by launching an IR site for mobile phones. Through these and other measures, KDDI is continuing its commitment to fair disclosure.

Risk Management

KDDI has a risk management system covering the entire parent company as well as group companies. The Corporate Risk Management Division at the core of this system was established in 2004. KDDI is strengthening its risk management by focusing on two major categories of risk: business risk, which has a potentially adverse influence on sales activities or business performance, and management risk, which has a potentially negative impact on the company's reputation or brand image. Risks related to business activities as well as changes in legal regulations or business climate are examples of business risk, while leakage of private customer information or legal violations are examples of management risk.

KDDI has designated five primary risks as management priorities: privacy breaches involving customer information, ethical and legal lapses, disaster prevention and related incidents, accidents causing failure of KDDI's telecommunications network or related equipment, and any similar incidents related to the company's IT systems. In addition to pursuing measures to prevent and mitigate risk, KDDI has instituted companywide crisis-management systems to minimize damage from incidents through quick and accurate response.

Information Security

During the fiscal year, it was discovered that there had been a leakage of private information regarding customers of KDDI's Internet access service, DION, in June 2006. Similarly, the company determined that a magnet-optical disk containing information on customers who had terminated their contracts with its mobile phone service, au, was lost in January 2007. KDDI sincerely apologizes for any inconvenience or distress these incidents may have caused to those concerned.

In August 2006, to prevent recurrences of customer information leakage, KDDI announced measures to strengthen its information security system based on a companywide review of its internal systems. In addition to stepping up previous information security measures, the company 1) took measures to prevent transfer or removal of customer data, 2) created an audit trail of data users, 3) introduced assessments of the effectiveness of its information security measures and acted to ensure their objectivity, and 4) introduced training for all employees of the company and its service vendors to ensure companywide implementation of policies incorporating the physical, technological, supervisory, and human error-related aspects of information security. All initiatives planned for the fiscal year ended March 2007 to strengthen information security have been fully implemented throughout the company as well as in contracted service vendors' organizations.

KDDI remains fully aware of its responsibility as a telecommunications service provider that handles the personal information of a large number of customers. The company as a whole is committed to further stepping up its measures to safeguard the security of sensitive information and prevent any further incidents.

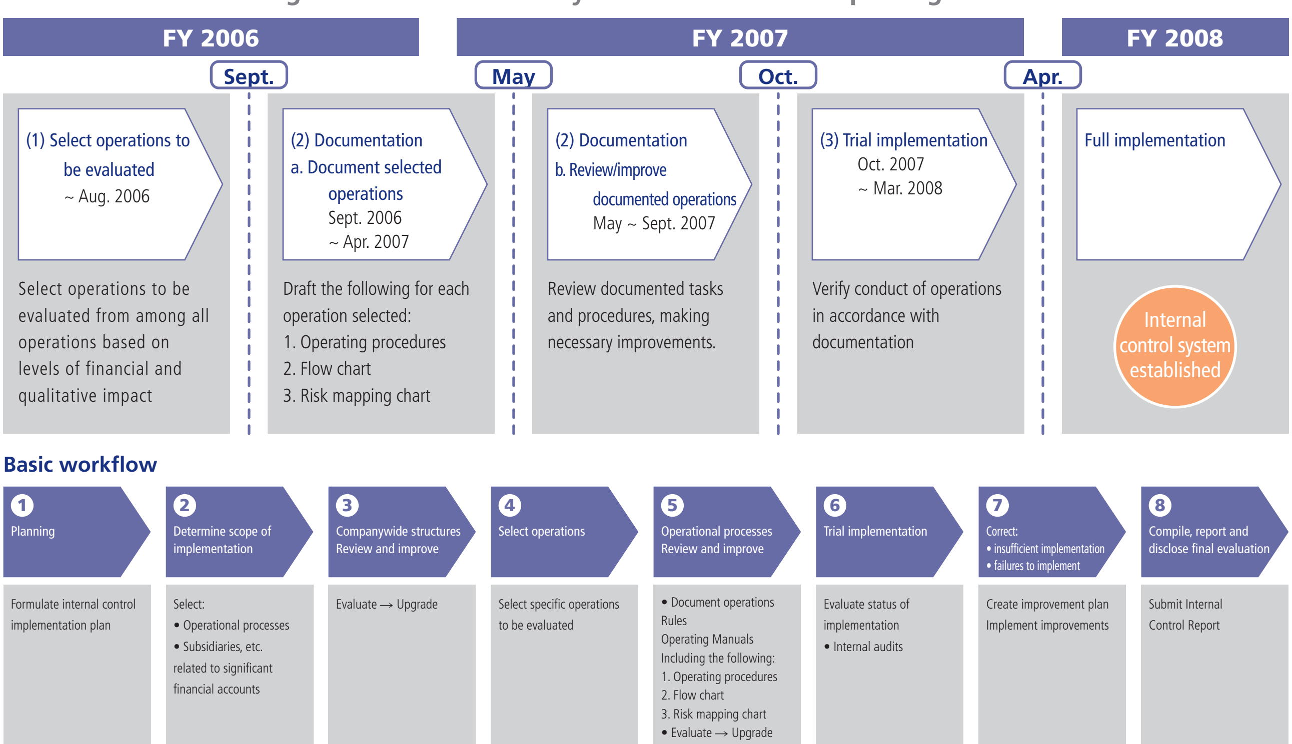
Building an Internal Control System

KDDI formulated and announced its basic policy for the creation of an internal control system in April 2006. An Internal Control Department was also established, which began building an internal control system to ensure reliable financial reporting, as well as the fairness, transparency and effectiveness of business execution.

Building an Internal Control System to Ensure Reliable Financial Reporting

To prepare the Internal Control Report it will be required to submit under the Financial Products and Exchange Law from the fiscal year ending March 2009, KDDI has prioritized the establishment of an internal control system for financial reporting. KDDI will proceed as described in the charts below, first examining all its operations and selecting financial operations according to its implementation criteria. The administrative tasks and procedures comprising these financial operations will then be documented, evaluated for effectiveness, and deficiencies will be corrected. This process will be extended to all subsidiaries of the KDDI Group over time.

Schedule for Establishing an Internal Control System for Financial Reporting



Building Internal Structures

KDDI has built an internal personnel framework to facilitate establishment of the internal control system for financial reporting. An internal control officer was designated for each division, and internal control managers were appointed to each department within the divisions. The internal control managers coordinate and promote measures to establish internal control within their respective departments, including document drafting and other practical tasks.

To instill and further develop awareness of internal controls, KDDI compiled a special report with messages from the management in its in-house newsletter, and conducted position-specific training for directors and vice presidents of departments, as well as e-learning seminars for all employees. Going forward, we will continue to utilize regular personnel training through rotation between departments and the e-learning system to continuously deepen understanding among all our employees of the need for companywide efforts to promote internal control.

Measures to Improve Overall Business Quality

KDDI seeks more than just compliance with the law. The goal is to utilize the process of establishing reliable financial reporting as an opportunity to review the administrative procedures of the entire company, making them more standardized and efficient to enhance overall business quality.

Measures to Improve Overall Business Quality

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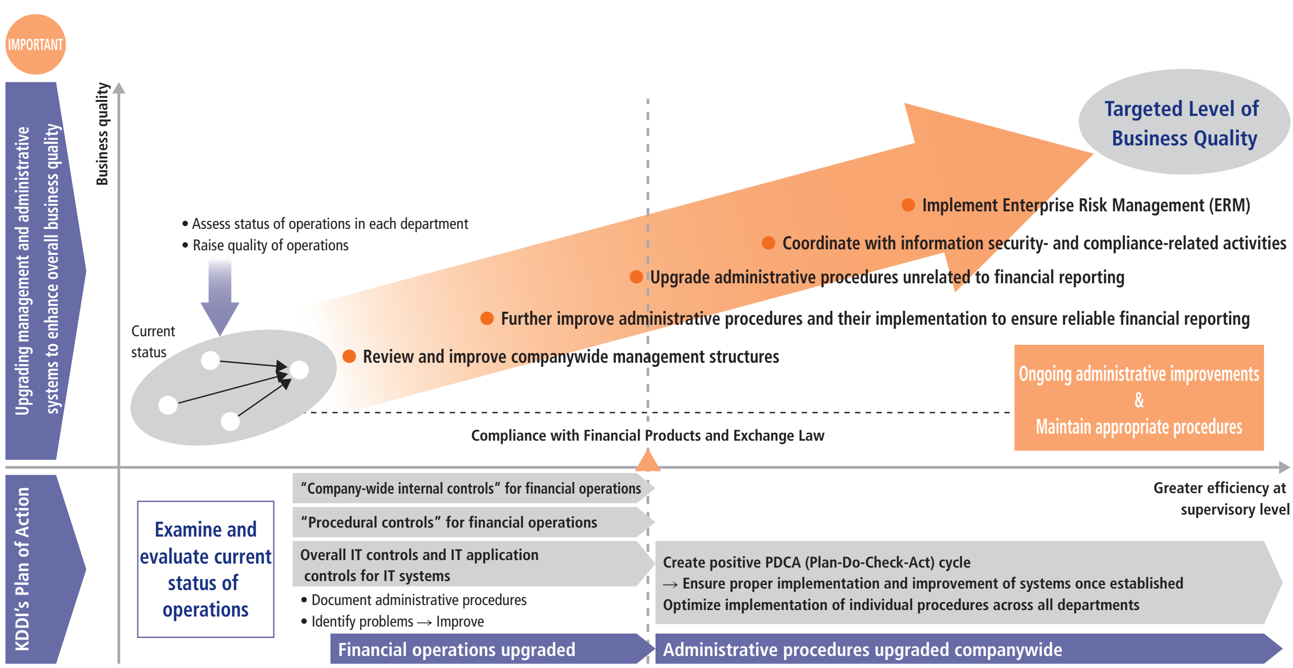


Directors, Auditors and Vice Presidents

As of June 20, 2007

Directors

Sadanori Amano
Vice Chairman
Member of the Board

Tadashi Onodera
President and Chairman

Nobuhiko Nakano
Executive Vice President
Sales
Member of the Board

Yasuhiko Ito
Executive Vice President
Technology
Member of the Board

Satoshi Nagao
Executive Vice President
Finance, Corporate
Communications and
Group Strategy
Member of the Board

Hirofumi Morozumi
Senior Vice President
Corporate Administration
and Human Resources,
Corporate Strategy
Member of the Board

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

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

Noboru Nakamura
Hiroshi Okuda
Tsunehisa Katsumata

Auditors

Standing Statutory Auditors
Nobuo Nezu
Takashi Yonezawa
Susumu Oshima

Statutory Auditors
Yasuo Akashi
Katsuaki Watanabe

Vice Presidents

Associate Senior Vice President
Masahiro Inoue

Vice Presidents
Hiroshi Kitagawa
Yuzo Ishikawa
Hisashi Fujishita
Seiji Hamada
Shunsuke Oyama
Yutaka Yasuda
Yoshiharu Shimatani
Hideo Okinaka
Hideo Yuasa
Toru Kawai
Hiromu Naratani
Ichiro Kondou
Toshio Maki
Akira Kuwata
Yoshihiko Tomioka
Shigeyuki Akiba
Tsutomu Fukuzaki
Junji Hasegawa
Takaaki Kato

Organization

As of June 20, 2007

- Shareholders' Meeting
- Board Meeting
- Office of Corporate Auditors
- Chairman
- Vice Chairman
- President
- Corporate Management Committee
  - HOKKAIDO Administration Office
  - TOHOKU Administration Office
  - KITA-KANTO Administration Office
  - SHINJUKU Office
  - SHINAGAWA Office
  - MINAMI-KANTO Administration Office
  - CHUBU Administration Office
  - HOKURIKU Administration Office
  - KANSAI Administration Office
  - CHUGOKU Administration Office
  - SHIKOKU Administration Office
  - KYUSHU Administration Office
  - Corporate Risk Management Division
  - Corporate Strategy Planning Office
  - Corporate Communications Division
  - Marketing Division
  - Corporate Management Division
  - General Administration & Human Resources Division
  - Corporate Purchasing Division
  - Customer Service Division
  - Information Systems Division
  - Emerging Technologies and Spectrum Division
  - Operations Sector
    - Network Operations Division
    - Service Operations Division
    - Facility Operations Division
  - Engineering Sector
    - Mobile Engineering Division
    - Network Engineering Division
    - Optical Fiber Engineering Division
  - Mobile Technology Sector
    - Mobile Network Development Division
    - Platform Development Division
  - Core Technology Sector
    - Network Engineering Division
    - IP Network Engineering Division
  - Solution Business Sector
    - Solution Product Planning Sector
    - Mobile Solution Business Sector
      - Mobile Solution Sales Division
      - Mobile Solution Engineering Division
    - Network Solution Business Sector
      - Network Solution Domestic Sales Division
      - Network Solution Engineering Division
      - Global Business Division
  - Consumer Business Sector
    - Consumer Business Strategy Division
    - CATV Alliance Division
    - Consumer Sales Sector
      - "au" Sales Division
      - Broadband & Consumer Sales Division
      - Broadband & Consumer Business Process Planning Division
    - Consumer Service & Product Planning Division
    - Content and Media Division

Mobile Business

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

Market Trends

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

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

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

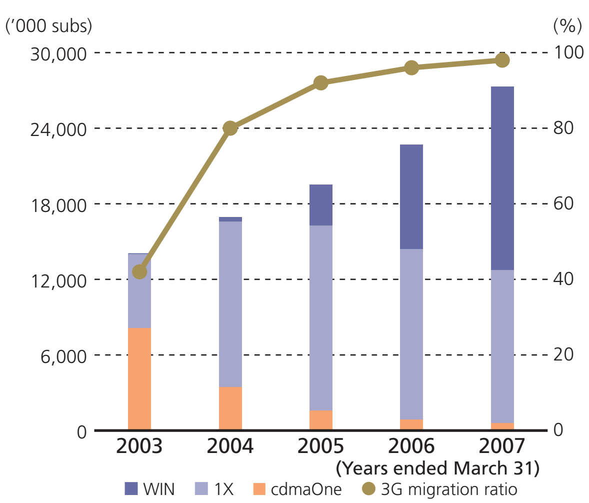
KDDI feels that with such changes occurring in the business environment, the key to expanding its customer base in the Japanese mobile phone market is a comprehensive strength that encompasses infrastructure, handsets, charges, and content. Consequently we are maintaining our focus on maximizing value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

Overview of the Fiscal Year Ended March 2007

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

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

au Subs and Migration to 3G



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

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

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

Performance by Key Indicators

Subscriber Numbers

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

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

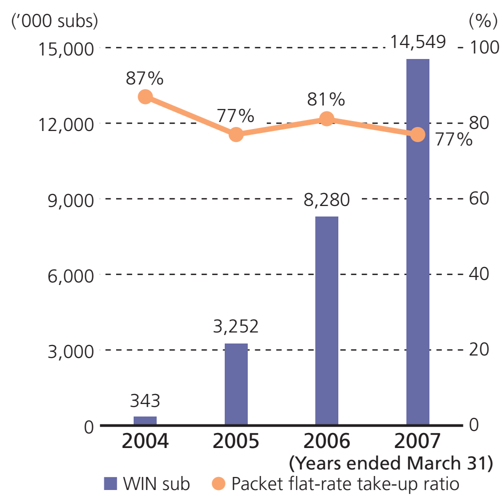
KDDI plans to end its Tu-Ka service at the end of March 2008. The total number of subscribers as of the end of March 2007 was 0.87 million.

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

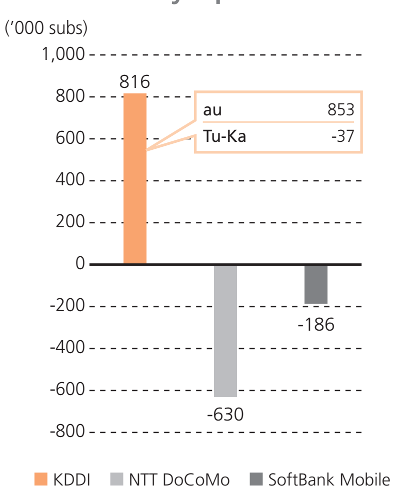
Status of MNP

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

WIN Subs and Packet Flat-rate Take-up Ratio



Net MNP Gain in Second Half of March 2007 by Operator



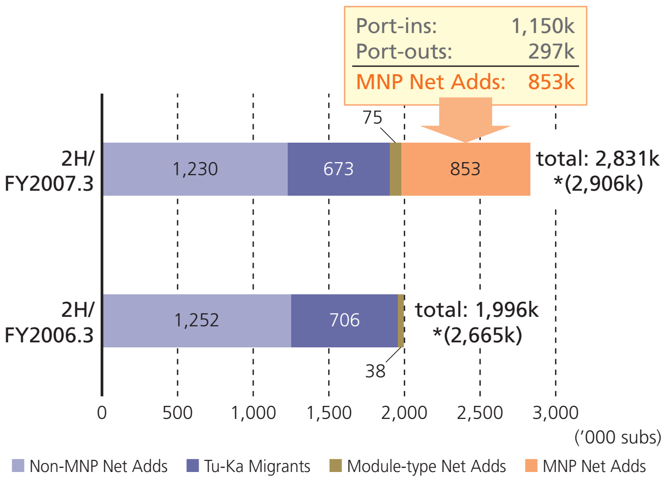
Even though the actual number of users taking advantage of MNP has fallen short of initial predictions, in the case of au, MNP has resulted in a considerable net gain, with the number of subscribers gained through MNP rising while the cancellation rate was kept low. The anticipated falloff in the net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

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

Churn Rate (au-Branded Services)

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

Breakdown of au Net Additions



Note: ( ) refers to net adds in the Japanese market

Sales Commissions (au-Branded Services)

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

ARPU (au-Branded Services)

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

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

Measures to Strengthen Overall Product Appeal

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

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

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

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

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

Attractive Handsets – an Advanced Lineup

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

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

Efficiency of Data Transmission by Technology

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

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

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

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

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

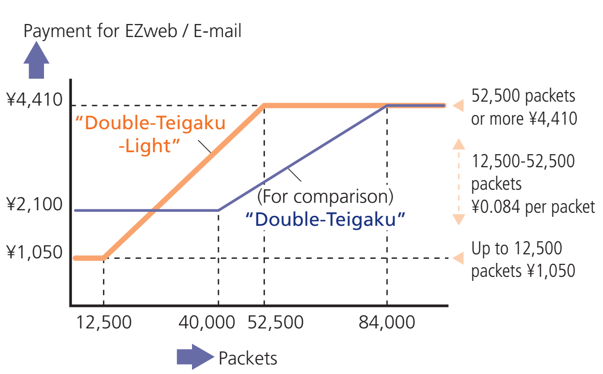
The spread of packet flat-rate plans for data communications has created an environment in which users can use mobile Internet services without worrying about the cost. Mobile phones are being used in a number of new ways, providing carriers with new opportunities for revenue beyond the traditional traffic charges.

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

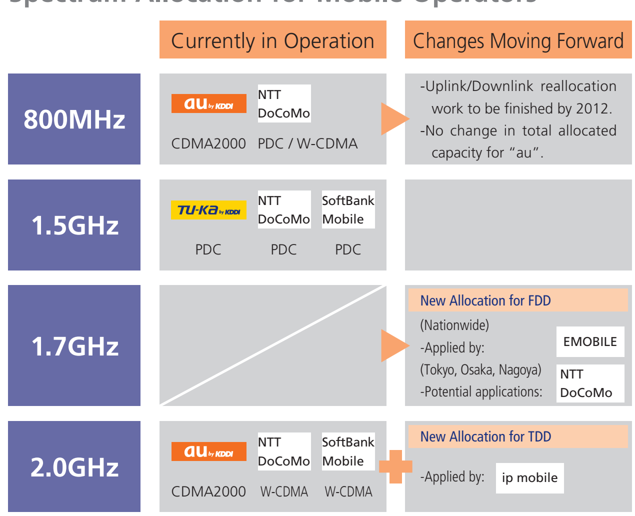
In July 2006 KDDI concluded an alliance with Google, Inc., moving ahead of other carriers in enhancing its search function. The introduction of Google searches has promoted growth in search-linked advertising, which during the most recent quarter (January through March 2007) grew to account for around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

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

"Double-Teigaku-Light" (Packet Flat-rate) Plan



Spectrum Allocation for Mobile Operators



Developing Untapped Markets – Mobile Solutions for Corporate Clients –

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

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

Termination of the Tu-Ka Service

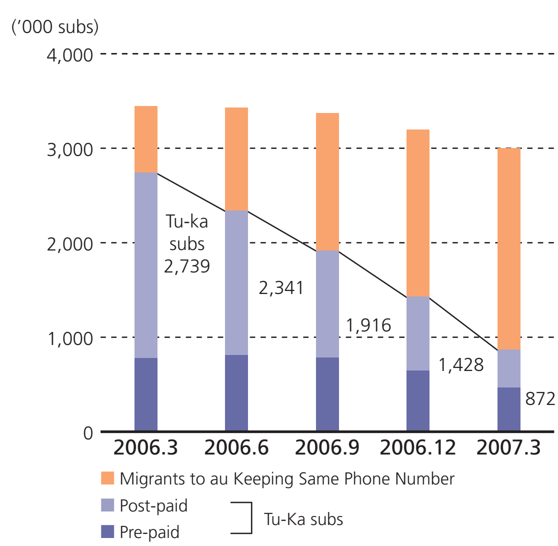
KDDI plans to terminate the Tu-Ka service at the end of March 2008. There were approximately 870,000 subscriptions in effect at the end of March 2007, of which 400,000 were post-paid, and 470,000 prepaid.

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

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

Evolution of Business Mobile Handsets

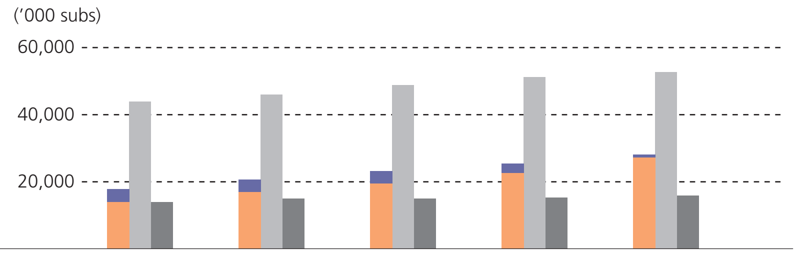
Migration of Tu-Ka Subscribers to au



Mobile Business Market Data

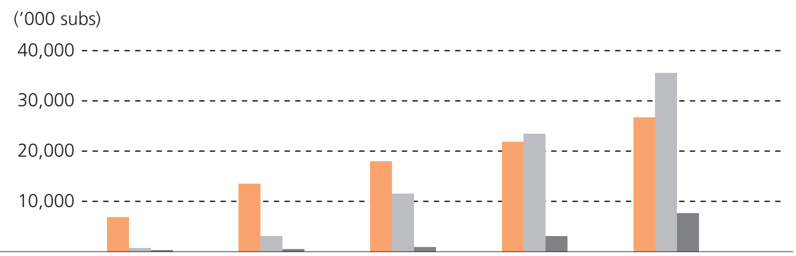
Years ended March 31

Number of Total Subscribers



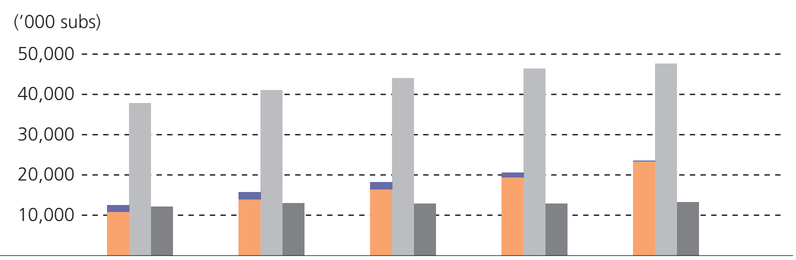
(Years ended December 31)	2003	2004	2005	2006	**2007**
KDDI	17,832	20,591	23,132	25,439	**28,189**
au	14,049	16,959	19,542	22,699	**27,317**
Tu-Ka	3,783	3,632	3,590	2,739	**872**
NTT DoCoMo	43,861	45,927	48,825	51,144	**52,621**
SoftBank Mobile	13,963	15,002	15,041	15,210	**15,909**
Total	75,657	81,520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

Number of 3G Mobile Subscribers



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

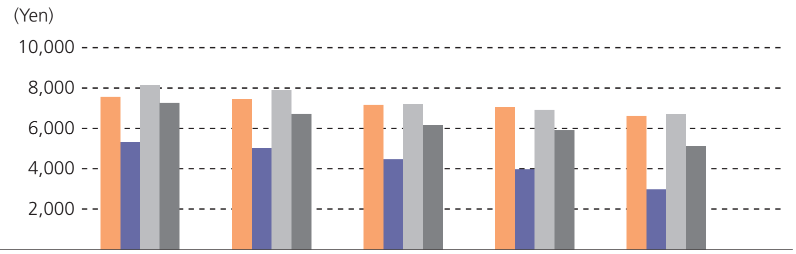
Number of Subscribers for Mobile Internet Connection Service



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

Source: Company Data, Telecommunication Carriers Association (TCA)

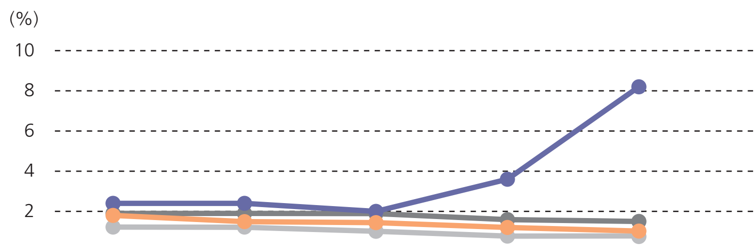
ARPU (Average Revenue per Unit)



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

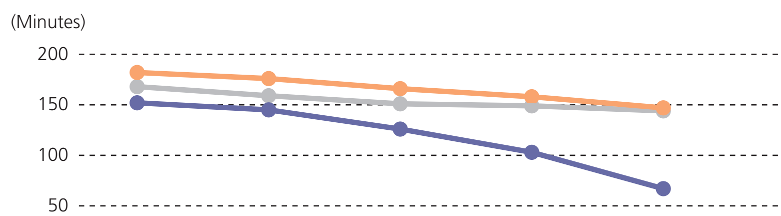
* ARPU for fiscal year ended March 2007 is average of quarterly results

Churn Rate



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

MoU (Minutes of Use)



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

Fixed-line Business

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

Market Trends

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

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

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

Overview of the Fiscal Year Ended March 2007

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

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

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

Performance by Key Indicators

"KDDI METAL PLUS"

"KDDI METAL PLUS" is a direct-access, fixed-line telephone service. Since KDDI provides the line instead of NTT, the service generates revenue for KDDI from a basic monthly charge as well as the usual call-based revenue. "KDDI METAL PLUS" targets customers who only want a basic telephone service, but it also offers optional Internet access through either ADSL or a dial-up connection.

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

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

"HIKARI-one" (FTTH)

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

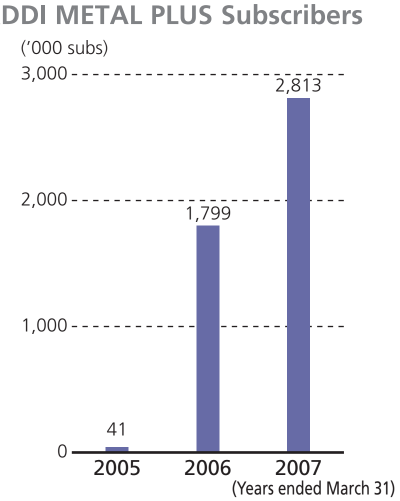
In January 2007, KDDI completed the integration of TEPCO's FTTH business, gaining access to ten million households using FTTH services in the Tokyo metropolitan area. As a result, at fiscal year-end, the number of FTTH subscribers surged 430 thousand compared with the previous fiscal year, to 590 thousand.

Full Conversion to IP and Broadband Services

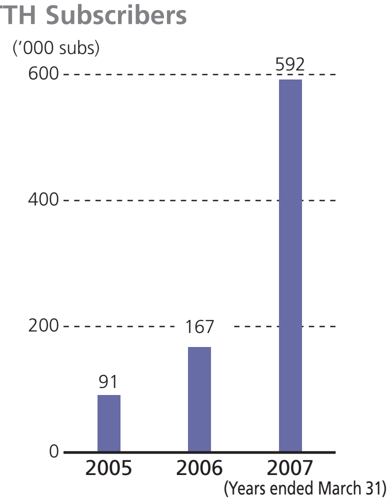
"KDDI METAL PLUS" Initiatives

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

KDDI METAL PLUS Subscribers



FTTH Subscribers



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

"HIKARI-one" (FTTH) Initiatives

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

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

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

Strengthening Collaboration with CATV Operators

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

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

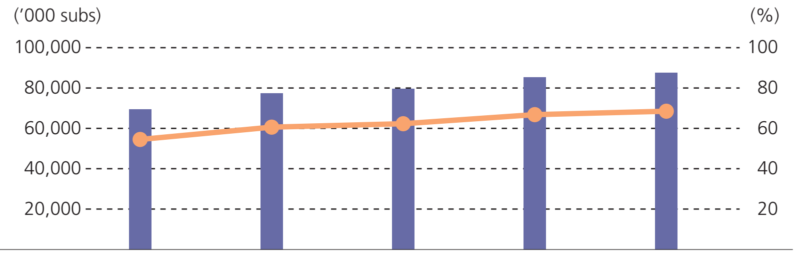
Strengthening Services Targeting Corporate Clients

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

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

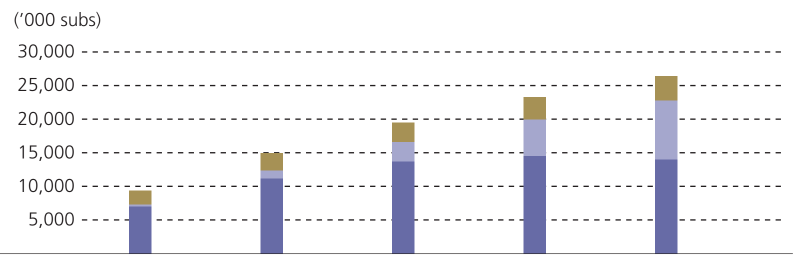
Fixed-line Business Market Data

Number of Internet Subscribers



(Years ended December 31)	2002	2003	2004	2005	**2006**
■ Total subscribers in Japan	69,420	77,300	79,480	85,290	**87,540**
● Penetration rate	54.5%	60.6%	62.3%	66.8%	**68.5%**

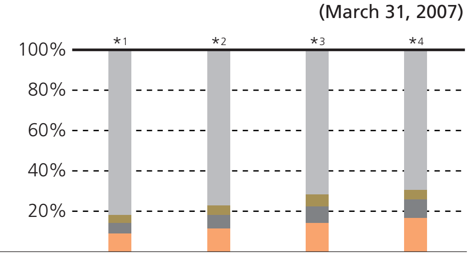
Number of Broadband Subscribers



(Years ended March 31)	2003	2004	2005	2006	**2007**
■ ADSL subscribers	7,023	11,196	13,676	14,518	**14,013**
■ FTTH (Fiber To The Home) subscribers	305	1,142	2,897	5,458	**8,804**
■ CATV subscribers	2,069	2,578	2,960	3,309	**3,610**
Total	9,397	14,916	19,533	23,285	**26,427**

Market Share of Myline by Operator

(March 31, 2007)



(Years ended March 31)	2005				2006				**2007**			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local*1	In-prefecture long-distance*2	Out-of-prefecture long-distance*3	International*4
■ KDDI	12.3%	15.1%	18.7%	22.2%	10.8%	13.2%	16.5%	19.5%	**9.1%**	**11.3%**	**14.1%**	**16.5%**
■ SoftBank Telecom	6.7%	8.9%	11.0%	12.5%	5.4%	7.3%	9.1%	10.4%	**5.0%**	**6.7%**	**8.3%**	**9.3%**
■ Other companies total	7.0%	7.8%	9.6%	8.0%	5.6%	5.4%	8.0%	6.6%	**4.2%**	**4.7%**	**5.9%**	**4.6%**
■ NTT	74.0%	68.2%	60.7%	57.3%	78.2%	73.1%	66.4%	63.5%	**81.8%**	**77.2%**	**71.7%**	**69.5%**
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

Segment Data

Years ended March 31

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

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

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

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

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

Five-year Summary

Years ended March 31

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

Notes: 1. U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥118.05=U.S.$1 on March 30, 2007.

2. From the fiscal year ended March 2007 net assets (the sum of shareholders' equity, new share subscription rights and minority interests) are presented in the balance sheet.

Selected Financial Indicators

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

Equity ratio = Shareholders' equity ÷ total assets

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

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

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

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

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

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

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

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

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

Dividend payout ratio = Annual dividend amounts ÷ Net income

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

Financial Review

(1) Significant Accounting Policies and Estimates

The consolidated financial statements of the KDDI Group have been prepared in conformity with accounting standards generally accepted in Japan. In particular, the significant accounting policies described below had a material impact on the major accounting judgments and estimates by the KDDI Group that were used in the compilation of these consolidated financial statements.

(a) Estimated Useful Lives of Fixed Assets

The useful lives of fixed assets are based on reasonable estimates. The estimated useful life of submarine cable systems was reduced in the fiscal year ended March 2004 in recognition of major market shifts and other changes in the telecoms business environment in the past few years. The KDDI Group sees no need to make any further changes in the estimated useful lives of fixed assets. However, such need may arise in the future if market, environmental, or technological changes occur more rapidly than projected or in the event of new legal or regulatory developments.

(b) Impairment of Fixed Assets

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

(c) Deferred Tax Assets

Deferred tax assets and liabilities are stated based on the statutory effective tax rate in recognition of any temporary differences between the carrying values of assets and liabilities and corresponding values listed in filings to tax authorities. Valuation allowances are stated against deferred tax assets, based on future likelihood. Evaluations of the necessity of recording such valuation allowances take into account projected future taxable income levels and utilizable tax planning.

(d) Retirement Benefits and Pension Obligations

Retirement and severance benefits and pension obligations are calculated using certain fundamental parameters that are based on actuarial calculations. The key parameters used include the discount rate, projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels. The discount rate is computed based on the market yields of long-term Japanese government bonds. Projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels are all computed based on statistical values. The expected rate of return is computed based on historical portfolio performance.

The effects of any differences that arise between actual results and the initial assumptions, or of any systemic changes related to mergers, divestitures, or other developments, would by their nature be cumulative and subject to recognition on a regular basis over future fiscal periods. Hence, such changes and differences could potentially have a material effect on the future values of pension-related expenses and allowances.

The following pages provide an analysis of the financial condition and business results of the KDDI Group for the fiscal year ended March 2007. Any forecasts, predictions, projections, outlooks, plans, policies, or comments regarding the future contained in these pages constitute forward-looking statements and as such represent the best judgment of management as of the end of March 2007 based on information available at that time. Actual results may differ materially because of the risks and uncertainties inherent in such statements.

(2) Analysis of Consolidated Business Results

Executive Summary

1. Status of the KDDI Group

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

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

2. Trends in Telecommunications and KDDI's Response

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

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

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

KDDI Group Initiatives in the Mobile Communications Market

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

KDDI Group Initiatives in the Fixed-line Market

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

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

Overview

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

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

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

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

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

Segment Financial Reviews

(a) Operating Revenues

Mobile Business

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

Infrastructure: Introduction of EV-DO Rev.A

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

Handsets: 43 models launched during year

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

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

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

Content

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

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

Charges

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

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

Corporate mobile phone solutions service

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

Tu-Ka service to end on March 31, 2008

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

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

Net increase in number of subscribers

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

Positive impact of increased sales of CDMA 1X WIN handsets

Growth in the number of CDMA 1X WIN users accelerated as KDDI expanded and upgraded the handset lineup and improved the content on offer. Subscriptions steadily increased to 14.55 million at the end of March 2007, (up 6.27 million from the

Reference: Total Number of Subscribers

(Millions of subscribers)

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

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

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

Improvement in churn rate

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

Fixed-line Business

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

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

KDDI promoted sales of "KDDI METAL PLUS", a high-quality IP phone service offering all the features expected of a fixed-line service at competitive prices along with a simple fee structure. Customers can gain access to these services by simply having their existing landline connected to KDDI's high-quality IP network. Subscriber numbers had reached 2.81 million (a year-on-year increase of 1.01 million subscribers) by the end of March 2007.

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

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

Integration of the FTTH business

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

IP conversion of the fixed-line network

KDDI has already announced plans for the IP conversion of its fixed-line telephony network. By the end of March 2008, KDDI plans to become one of the world's first carriers to convert its entire fixed-line network to IP. This move will enable KDDI to expand its unique high-quality IP network—the backbone for "HIKARI-one" and "KDDI METAL PLUS"—and to shift entirely to software-based switches in place of the existing fixed-line exchanges, which will provide substantial facility cost savings. At the same time, by promoting the shift toward direct-access services KDDI will be able to reduce the level of connection fees paid to the two NTT regional operating companies. Customers will also benefit from the conversion, as it will enable KDDI to provide high-quality services at lower prices.

Other Businesses

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

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

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

Note: The figures for operating revenues by business segment in the above analysis include sales to external customers as well as sales from intersegment transactions.

(b) Operating Expenses

Mobile Business

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

Increased sales expenses for mobile handsets

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

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

Increase in total value of sales commissions

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

Decrease in depreciation

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

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

Fixed-line Business

Fixed-line segment operating expenses in the fiscal year ended March 2007 totaled ¥763.4 billion, an increase of ¥82.8 billion compared with the previous year. The major factors contributing to the rise in costs are outlined below.

Increased "KDDI METAL PLUS"-related costs due to expanded sales

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

Increased depreciation expenses related to capital investment

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

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

Other Businesses

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

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

(c) Operating Income

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

(d) Other Expenses

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

Interest expense

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

Equity in gain of affiliates

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

Impairment loss

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

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

KDDI has decided to cease offering the Tu-Ka service at the end of March 2008. It will be integrated with the au mobile service, providing customers with greater convenience and better service. The book value of assets related to the provision of Tu-Ka cellular phone services (such as PDC equipment) was therefore written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥39.6 billion.

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

In response to the sharp reduction in new subscriptions to the Tu-Ka service and the steady migration of Tu-Ka subscribers to au mobile phone service contracts, KDDI decided to close the Tu-Ka mobile phone service to new subscribers on June 30, 2006. The book value of assets related to the provision of Tu-Ka cellular phone services (such as PDC equipment) was therefore written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥104.3 billion.

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

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

Gains from forgiveness of debt (¥1.3 billion)

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

(e) Income before Income Taxes and Minority Interests

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

(f) Income Taxes and Tax Adjustments

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

(g) Minority Interests

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

(h) Net Income

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

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

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

(3) Capital Investments and Assets

Capital Investments

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

Mobile Business

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

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

Fixed-line Business

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

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

Assets

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

(4) Sources of Capital and Liquidity

(a) Cash Flows

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

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

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

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

The main source of outflow was capital investments, which the KDDI Group conducts efficiently to provide services that satisfy customers and raise the reliability of networks. Capital investments in the Mobile Business were related to new and upgraded wireless base stations and exchange facilities designed to expand area coverage and to enhance call quality for CDMA 1X WIN and CDMA 1X services. Investments to increase capacity of equipment in the 2GHz band were higher than in the previous fiscal year in response to frequency realignments and an increase in subscriber numbers.

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

Free Cash Flow

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

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

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

(b) Liquidity

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

(c) Financing

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

(d) Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

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

(e) Foreign Exchange Risk

The policy of the KDDI Group is to use forward exchange contracts, currency swaps, and other instruments as necessary to hedge foreign exchange risks associated with business transactions denominated in foreign currencies or overseas investment and financing projects, based on the balance of assets and liabilities in each currency.

(f) Financial Policies

The basic policy of the KDDI Group is to secure stable, low-cost financing as required, selecting the most effective means of financing according to the financial status of the company and the prevailing conditions in financial markets.

The KDDI Group pursues a proactive cash management policy of conserving funds within the parent company to enhance financial efficiency. The parent company undertakes the integrated management of fund surpluses or deficits at the majority of subsidiaries, and actively seeks to constrain financing costs by leveraging its higher credit rating to procure necessary funds that are then distributed to subsidiaries through a system of loans.

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

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

* Total proportion of interest-bearing debt due to corporate bonds and long-term borrowings

(g) Contingent Liabilities

The balance of third-party guaranteed liabilities at March 31, 2007, amounted to ¥17.0 billion.

Business Risks

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

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

(1) Competitors, Rival Technologies and Rapid Market Shifts

Mobile Business

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

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

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

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

Fixed-line Business

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

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

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

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

(2) Communications Security and Protection of Customer Privacy

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

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

(3) Telecommunications Sector Regulation and Government Policies

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

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

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

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

Mobile Business

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

Fixed-line Business

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

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

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

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

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

(5) Litigation and Patents

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

(6) Personnel Retention and Training

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

(7) General Legal and Regulatory Risk

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

(8) Pension Liabilities

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

(9) Asset-Impairment Accounting

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

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

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

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

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

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

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

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

The accompanying notes are an integral part of these statements.

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

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets

KDDI Corporation and Consolidated Subsidiaries

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

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

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

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

KDDI Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued in Japan for domestic reporting purposes.

KDDI Corporation (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the Corporate Law and Japanese Telecommunications Business Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The Company's foreign subsidiaries maintain their accounts in conformity with the generally accepted accounting principles and practices of each country of their domicile.

In order to make it easier for overseas readers to comprehend, financial statements prepared for disclosure in Japan have been reclassified slightly.

The Company's consolidated financial statements for the year ended March 31, 2007, include 42 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., KDDI Network & Solutions Inc., KDDI Technical Engineering Service, KDDI Evolva Inc., KMN Corporation, KDDI AMERICA, INC. and other subsidiaries.

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

Removed (Consolidated)

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

Equity Method

Added:

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

Removed:

Merger

CATV KOHNAN Limited

Town Television Minami-Yokohama Co., Ltd.

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

Merger

Funabashi Cable Network Limited

TOWN TV NARASHINO CO., LTD.

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

Merger

Koala Television Co., Ltd.

Katsushika Cable Network Limited

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

Reclassifications:

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

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥118.05=$1, the approximate exchange rate on March 30, 2007. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

2. Significant Accounting Policies

a. Basis of Consolidation and Accounting for Investments in Affiliated Companies

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries.

All significant intercompany transactions and accounts are eliminated.

Investments in certain affiliates are accounted for by the equity method, whereby a consolidated group includes in net income its share of the profits or losses of these companies, and records its investments at cost adjusted for such share of profits or losses.

Exceptionally, investments in two affiliates for which the equity method have not been applied are stated at cost because the effect of application of the equity method would be immaterial.

b. Revenue Recognition

For telecommunications services, revenues are recorded mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized upon fulfillment of contractual obligations, which is generally upon shipment. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed.

c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term highly liquid investments with an original maturity of three months or less at the time of purchase and which represent a minor risk of fluctuations in value.

d. Inventories

Inventories are stated at cost. Cost is determined by the moving average method.

e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign Currency Translation Adjustments" and "Minority Interests" of "Net Assets".

f. Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at cost. Assets are depreciated over their estimated useful lives by applying the declining-balance method to machinery and equipment used for fixed-line business by the Company, and by the straight-line method to machinery and equipment used for mobile communications business and other assets held by the Company and most depreciated assets held by its subsidiaries. The main depreciation periods are as follows.

Machinery and equipment used for fixed-line and mobile communications business:	2-17 years
Telecommunications service lines, engineering equipment, submarine cable system and buildings:	2-65 years

g. Financial Instruments

(1) Securities

Investments of the Company in equity securities issued by affiliates are accounted for by the equity method.

Other securities for which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gains and losses, net of applicable deferred tax assets/liabilities, directly reported as a separate component of Net assets. The cost of securities sold is determined by the moving-average method.

Other securities for which market quotations are not available are valued at cost mainly determined by the moving-average method.

(2) Derivatives

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

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

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

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

h. Research and Development Expenses and Software

Research and development expenses are charged to income when incurred. Software for internal use included in intangible assets is amortized using the straight-line method over the estimated useful lives (5 years).

i. Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. The Company and its domestic subsidiaries have adopted the deferred tax accounting method. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Leases

Finance leases, other than those leases deemed to transfer the ownership of the leased assets to lessees, are accounted for using a method similar to that applicable to operating leases.

k. Other Assets

Goodwill and negative goodwill are amortized using the straight-line method over a period of 5 to 10 years. However, the small amounts of goodwill and negative goodwill in the fiscal year under review were treated as income and expenses in the Consolidated Statement of Income.

l. Net Income per Share

Net income per share is computed based on the average number of shares outstanding during each year.

m. Allowance for Doubtful Accounts

To prepare for uncollectible credits, the Company and its subsidiaries based an allowance for general credits on the actual bad debt ratio, and appropriated an estimated unrecoverable amount for specific credits deemed to be uncollectible after considering possible losses on collection.

n. Retirement Benefits

The amount for employee retirement benefits at fiscal 2007 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2007 year-end. Prior service cost is amortized on a straight line basis over the average remaining service life of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

Upon approval from the Ministry of Health, Labour and Welfare, the Company and certain of its domestic subsidiaries shifted to a defined benefit enterprise pension plan for their employee pension funds on April 1, 2004.

o. Point Service Programs

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

p. Adoption of Accounting New Standards

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

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

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

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

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

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

3. Business Combination

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

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

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

2. Reporting period of acquired business for consolidated financial statements

From January 1, 2007 to March 31, 2007

3. Acquisition costs and detail of acquired business

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

Detail of acquisition costs

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

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

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

5. Assessed value

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

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

(1) Amount of goodwill

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

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

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

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

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

4. Market Value Information

At March 31, 2007 and 2006, book value, market value and net unrealized gains or losses of quoted securities were as follows:

Bonds intended to be held to maturity that have market value.

No items to be reported.

Other securities that have market prices

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

Other securities sold during the current consolidated fiscal year

	Millions of yen						Millions of U.S. dollars		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
	2006			**2007**			**2007**		
Other securities sold	¥ 869	¥ 703	¥ 4	**¥ 939**	**¥ 495**	**¥ 12**	**$ 8**	**$ 4**	**$ 0**

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

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

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

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

5. Short-Term Loans and Long-Term Debt

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

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

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

(*) The Company has offered overall assets as general collateral for the above corporate bonds.

Aggregate annual maturities of long-term debt subsequent to March 31, 2007 were as follows:

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

6. Contingent Liabilities

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

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

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

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

7. Gains and Losses on Sales of Property, Plant and Equipment

Gains and losses on sales of property, plant and equipment, in the year ended March 31, 2007 and 2006 were as follows:

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

8. Impairment Losses

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

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

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

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

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

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

9. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value as of March 31, 2007 and 2006 were summarized as follows.

	Millions of yen								Millions of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value
	2006				**2007**				**2007**			
Machinery and equipment, Tools, furniture and fixtures, vehicles	¥85,522	¥57,592	¥2,887	¥25,043	**¥44,099**	**¥22,633**	**¥3,031**	**¥18,435**	**$374**	**$192**	**$26**	**$156**
Other	4,942	1,972	4	2,966	**4,890**	**2,247**	**—**	**2,643**	**41**	**19**	**—**	**22**
	¥90,464	¥59,564	¥2,891	¥28,009	**¥48,989**	**¥24,880**	**¥3,031**	**¥21,078**	**$415**	**$211**	**$26**	**$178**

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

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

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

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

Depreciation charges were computed using the straight-line method over lease terms assuming no residual value.

Operating leases

Obligation under non-cancelable operating leases as of March 31, 2007 and 2006 were as follows.

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

Lessor side

Finance leases without transfer of ownership

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

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

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

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

10. Shareholders' Equity

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

11. Research and Development Expenses

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

12. Income Taxes

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

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

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

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

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

13. Retirement Benefits

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

The reserve for retirement benefits as of March 31, 2007 and 2006 were analyzed as follows:

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

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

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

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

Discount rate	2.0%
Expected rate of return on plan assets	2.0% (Mainly)
Expected rate of return concerning retirement benefit trust	0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization of prior service cost	14 years
Amortization of actuarial differences	14 years from the year following that in which they arise

Note: On April 1, 2003, the Company and its subsidiaries established a new defined benefit enterprise plan called "Corporation Pension Fund of KDDI" in order to combine three individual Qualified Pension Plans, formerly held by KDD, IDO and au, which had been maintained separately after the merger in October 2000. Welfare Pension Plans, formerly held by DDI, au (except Kansai Cellular Telephone Company), Okinawa Cellular Telephone Company and DDI Pocket, which had also been maintained separately after the merger, were integrated into the "Corporate Pension Fund of KDDI" on April 1, 2004.

14. Segment Information

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

	Millions of yen					
Year ended March 31, 2006	Fixed-line	Mobile	Other	Total	Elimination	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	¥518,716	¥2,484,202	¥ 57,896	¥3,060,814	¥ —	¥3,060,814
Intersegment sales	100,598	26,193	45,607	172,398	(172,398)	—
Total	619,314	2,510,395	103,503	3,233,212	(172,398)	3,060,814
Operating expenses	680,623	2,155,956	99,122	2,935,701	(171,483)	2,764,218
Operating income (loss)	¥ (61,309)	¥ 354,439	¥ 4,381	¥ 297,511	¥ (915)	¥ 296,596
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:						
Identifiable assets	¥838,081	¥1,404,454	¥ 68,248	¥2,310,783	¥ 190,082	¥2,500,865
Depreciation	94,226	237,523	4,483	336,232	(493)	335,739
Impairment losses	9,193	105,028	21	114,242	54	114,296
Capital expenditures	135,554	253,471	5,468	394,493	(163)	394,330

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

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

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

Business segment	Principal services/operations
Fixed-line	Urban, long distance and international telecommunications services, internet services, solution services, data center services
Mobile	Mobile phone services, sale of phone terminals, mobile solution services
Other	Call center business, content business, research and development of advanced technologies, other fixed line services, other mobile phone services, other data center services, etc.

2. Reclassifications to assets by business segments

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

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

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

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

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

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

15. Subsequent Events

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

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

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

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

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

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

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

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

(2)Transaction price

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

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

3. Schedule

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

Report of Independent Accountants

KDDI Corporation and Consolidated Subsidiaries

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION,

We have audited the accompanying consolidated balance sheets of KDDI CORPORATION and its subsidiaries as of March 31, 2006 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, effective from the fiscal year ended March 31, 2007, KDDI CORPORATION and its subsidiaries adopted new accounting standards: "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet", "Accounting Standard for Business Combinations" and "Accounting Standard for Business Divestitures", and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures ".

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

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

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Misuzu Audit Corporation

Misuzu Audit Corporation
Tokyo, Japan
June 21, 2007

Major Consolidated Subsidiaries

As of March 31, 2007

Mobile Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
OKINAWA CELLULAR TELEPHONE COMPANY	Jun. 91	¥ 1,414	51.5%	Cellular phone service under the "au" brand in Okinawa Prefecture

Fixed-line Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Network & Solutions Inc.	Jul. 96	¥ 3,383	100.0%	Sales of fixed-line service for medium or small corporations

Other Business

Domestic

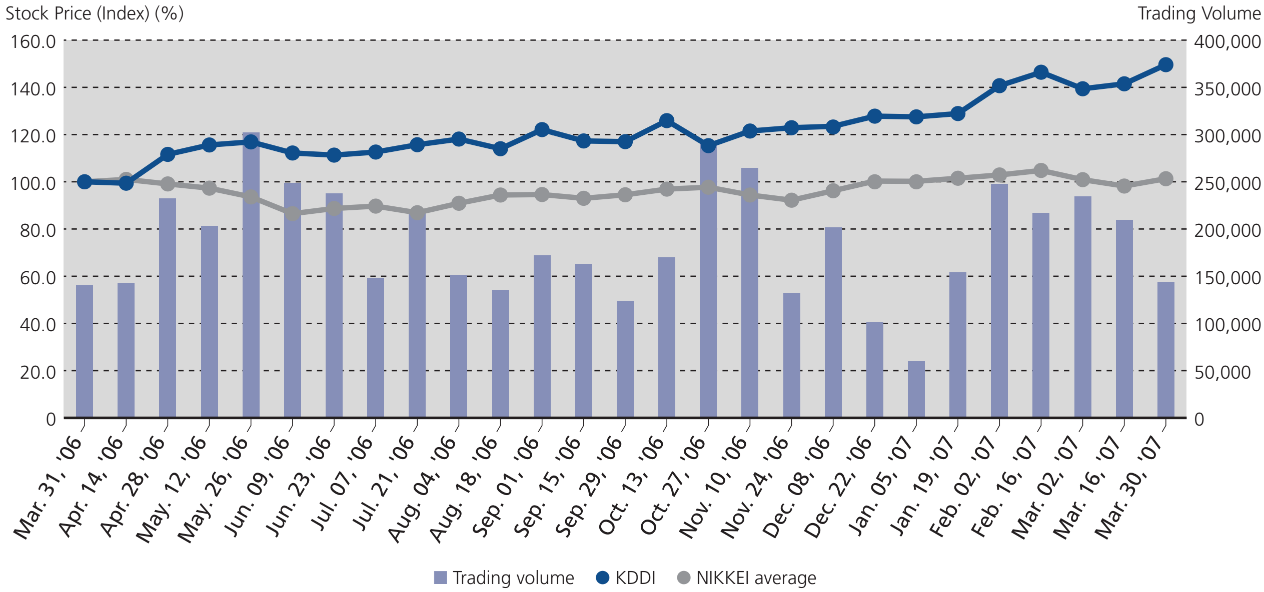
Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Evolva Inc.	May. 96	¥ 588	100.0%	Call center services, security services, a temporary staff agency, etc.
mediba corporation	Dec. 00	¥ 490	51.0%	Planning, producing and distribution of advertisements on mobile Internet
KMN Corporation	Jun. 98	¥ 626	90.0%	Internet provider service through CATV
KDDI R&D Laboratories, Inc.	Apr. 98	¥ 2,283	91.7%	Research and development of new technologies and sales of developed products
KOKUSAI CABLE SHIP CO., LTD.	Mar. 66	¥ 135	100.0%	Construction and maintenance of submarine cables
Japan Telecommunication Engineering Service Co., Ltd.	Jun. 99	¥ 470	71.3%	Construction and maintenance of optical fiber network along highways
KDDI Technology Corporation	Aug. 88	¥ 494	100.0%	Development and consulting of mobile handset platform
KDDI Media Will Corporation	Aug. 99	¥ 142	69.1%	Research, development, production and sales of digital imaging products
KDDI Technical & Engineering Service Corporation	Apr. 05	¥ 1,500	100.0%	Construction, maintenance and operations support of communications equipment

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI AMERICA, INC.	Jul. 89	US$ 84	100.0%	Telecommunications services in the U.S.
KDDI EUROPE LIMITED	Jul. 89	£ 43	100.0%	Telecommunications services in Europe
KDDI FRANCE S.A.S.	Sep. 96	EUR 4	100.0%	Telecommunications services in France
KDDI Deutschland GmbH.	Apr. 92	EUR 1	100.0%	Telecommunications services in Germany
KDDI HONGKONG LIMITED	Jan. 89	HK$ 96	100.0%	Telecommunications services in HongKong
KDDI SINGAPORE Pte. Ltd.	Sep. 89	S$ 10	100.0%	Telecommunications services in Singapore
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	AU$ 16	100.0%	Telecommunications services in Australia
TELEHOUSE International Corporation of America	Jun. 87	US$ 45	62.8%	Secure IT housing, telecommunications facilities management in the U.S.
TELEHOUSE INTERNATIONAL CORPORATION OF EUROPE LTD.	Jun. 87	£ 47	84.5%	Secure IT housing, telecommunications facilities management in Europe
KDDI CHINA CORPORATION	Nov. 01	RMB 13	80.0%	Telecommunications consulting services in China
HOLA PARAGUAY S.A.	Sep. 98	GS 288,650	69.6%	Cellular phone service in Paraguay

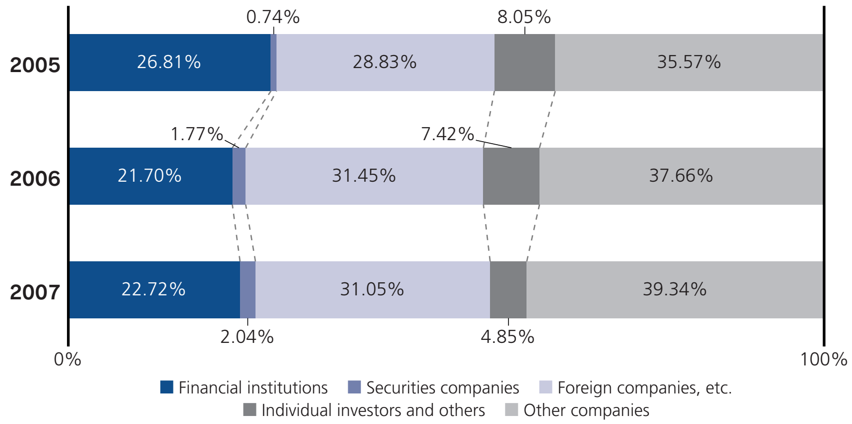
Stock Information

Stock Prices and Trends of Stock Transactions



Composition of Shareholders

Years ended March 31



Changes in Total Number of Shares Issued and Outstanding and Capital

Total Number of Shares Issued and Outstanding

Authorized	7,000,000
Issued	4,484,818.86
Number of Shareholders	91,846

Changes in Capital

	Total number of shares issued and outstanding (shares)		Capital (Millions of yen)		Capital surplus (Millions of yen)	
	Increase	Balance	Increase	Balance	Increase	Balance
Mar. 3, 1998 1)	100,000.00	2,274,442.00	19,230	72,635	19,230	87,920
Sep. 30, 2000 2)	123,448.00	2,397,890.00	60,002	132,637	60,002	147,922
Oct. 1, 2001 3)	1,345,260.60	3,743,150.60	6,726	139,363	115,780	263,702
Mar. 31, 2001 4)	497,729.78	4,240,880.38	2,489	141,851	40,394	304,096
Sep. 26, 2001 5)	—	4,240,880.38	—	141,851	94	304,190
Jun. 1, 2006 6)	186,376.48	4,427,256.86	—	141,851	1,486	305,676
Jun. 1, 2007 7)	57,562.00	4,484,818.86	—	141,851	61,596	367,272

Notes:

1) Allocation of new shares to Kyocera Corporation
   Number of shares issued: 100,000 shares
   Price of shares issued: 384,600 yen
   Price of capitalization: 192,300 yen

2) Allocation of new shares to Toyota Motor Corporation
   Number of shares issued: 123,448 shares
   Price of shares issued: 972,100 yen
   Price of capitalization: 486,050 yen

3) Merged with KDD Corporation and IDO CORPORATION
   Merger ratio

DDI CORPORATION	:	KDD Corporation
9.21	:	1
DDI CORPORATION	:	IDO CORPORATION
29	:	1

4) Made au CORPORATION a 100%-owned subsidiary of KDDI CORPORATION through share exchange
   Exchange ratio

KDDI CORPORATION	:	au CORPORATION
1.000	:	2.015

5) Merged with KDD (Tokyo Central) Sales Inc., KDD (Tokyo south) Sales Inc., KDD (Tokyo West) Sales Inc. and KDD (Osaka) Sales Inc.

6) Issued new shares upon merger with POWEREDCOM Inc.

7) New share issue due to share allotment under absorption-type corporate split in which Tokyo Electric Power Company was the splitting company.

Corporate History

	DDI	IDO	KDD	TWJ	Telecommunications sector
1953			established		
1961			listed on the Second Section of the Tokyo Stock Exchange		
1964			joined in the INTELSAT the TPC-1 launched		
1970			listed on the First Section of the Tokyo Stock Exchange		
1973			International Direct Dialing service launched		
1976			the TPC-2 launched		
1977			joined in the INMARSAT		
1984	established			established	
1985					liberalization of the telecommunication sector
1986					
1987	domestic telephone service launched			domestic telephone service launched	
1988	cellular companies established	established	the TPC-3 launched		
1989	analog cellular telephone service launched				
1990					
1991					
1992			the TPC-4 launched		
1993	listed on the Second Section of the Tokyo Stock Exchange				
1994	digital cellular telephone service "PDC" launched				liberalization of sales of cellular telephones
	PHS Company (DDI Pocket) established				
1995	PHS service launched				
	listed on the First Section of the Tokyo Stock Exchange				
1996			the TPC-5 launched		
1997	Internet service "DION" launched				the KDD law abolished
1998	digital cellular telephone service "cdmaOne" launched		Merger of KDD and TWJ		
1999	Acquisition of Tu-Ka Group		the JIH launched		
2000	Merger of DDI, KDD and IDO				
2001	au CORPORATION merged to KDDI				MYLINE registration started
2002	the Third-Generation cellular telephone service "CDMA2000 1x" launched				
2003	VoIP (Voice over IP) service launched "KDDI Hikari Plus" (FTTH Service) launched the Third-Generation cellular telephone service "CDMA 1X WIN" launched				
2004	Transferred PHS business (DDI Pocket)				
2005	"KDDI METAL PLUS" launched Merger with three Tu-Ka group companies				
2006	Merger with POWEREDCOM Inc. "HIKARI-one" (former "KDDI Hikari Plus") launched				MNP started
2007	Integration of TEPCO's FTTH business				

Notes
1) TPC: Trans Pacific Cable
2) INTELSAT: International Telecommunications Satellite Organization
3) INMARSAT: International Mobile Satellite Telecommunications Organization
4) TWJ: Teleway Japan Corporation
5) JIH: Japan Information Highway (the submarine fiber-optic cable that encircles the Japanese archipelago in a loop configuration)
6) MNP: Mobile Number Portability
7) TEPCO: Tokyo Electric Power Company

Corporate Overview

As of March 31, 2007

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Head Office:	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
(Registered Place of Business:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-0083, Japan)
Representative Director:	Tadashi Onodera, President and Chairman
Capital:	¥141,851 million
Number of Employees:	14,358 (consolidated)

Investor Relations Website

IR Website URL:

http://www.kddi.com/english/corporate/ir/index.html

The website offers a variety of IR-related information including financial presentation materials, webcasts, quarterly financial results and annual reports. Subscribers to the e-mail alerts service receive prompt e-mail notification of website updates, as well as details of newly released au handsets and other information. Investors are encouraged to make use of this service.

The KDDI website was awarded "the Internet IR Best Company Award in 2006" by Daiwa Investor Relations Co., Ltd. and third place in the "Gomez IR website overall ranking" Compiled by Gomez Consulting Co., Ltd.

Designing The Future

KDDI CORPORATION

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