

Message to Shareholders and Investors

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



Tadashi Onodera
President and Chairman

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 UNIADDEX, 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



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)

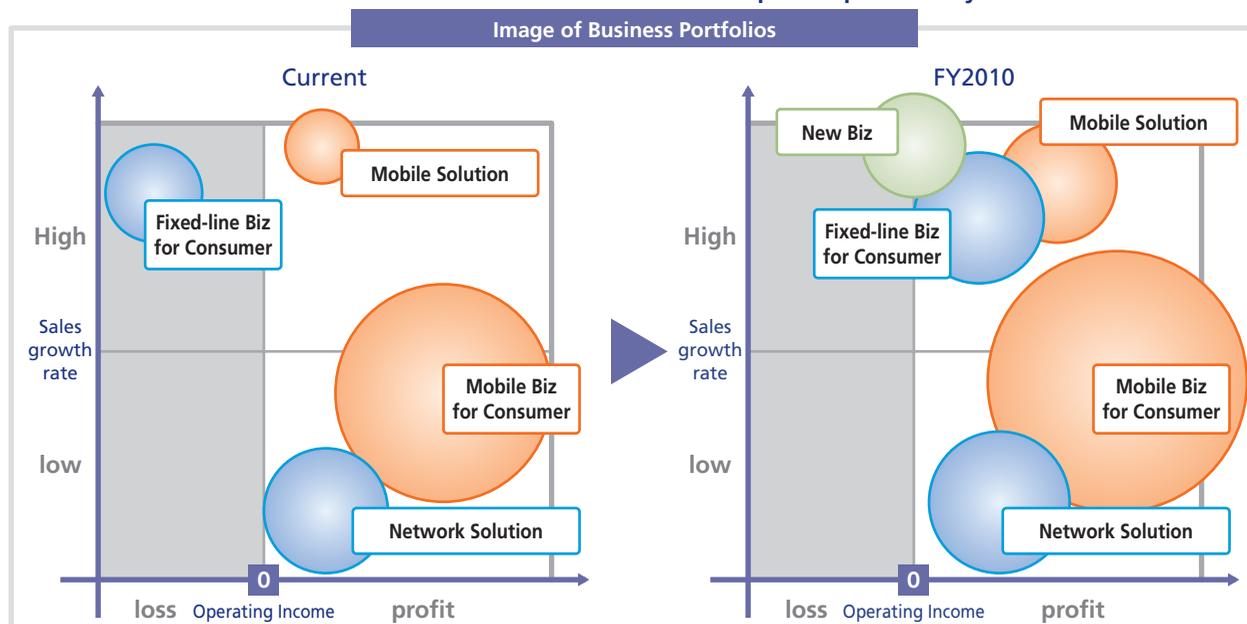
Operating revenues: ¥4 trillion, Operating income: ¥600 billion

- ▶ 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.



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