Designing The Future

KDDI

Ubiquitous Solution Company

Annual Report 2008

Results for the year ended March 31, 2008

The Challenge for New Value Creation

In April 2007, KDDI announced "Challenge 2010," which detailing our medium-term business targets. Under "Challenge 2010," KDDI will strive to have unparalleled customer satisfaction in all services and aim for sustainable growth through both "quantitative expansion" and "qualitative enhancement."

In order to achieve sustainable growth, KDDI must not simply continue on the present course, but rather strive to create new value.

We hope that this report enables readers to gain a better understanding of KDDI's businesses and recognize the company's growth potential.

Contents

Financial Highlights

Years ended March 31

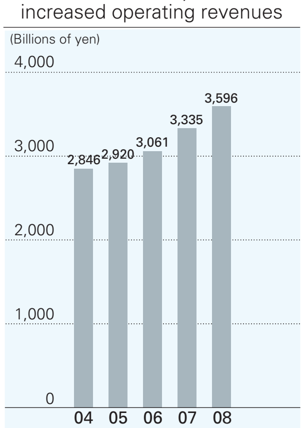
	Millions of yen			Millions of U.S. dollars
	2006	2007	**2008**	**2008**
Operating revenues	¥3,060,814	¥3,335,260	**¥3,596,284**	**$35,895**
Operating income	296,596	344,701	**400,452**	**3,997**
Income before income taxes and minority interests	180,606	309,074	**379,205**	**3,785**
Net income	190,569	186,747	**217,786**	**2,174**
Capital expenditures (cash flow basis)	414,726	438,463	**517,002**	**5,160**
<At year-end>				
Total assets	2,500,865	2,803,240	**2,879,275**	**28,738**
Interest-bearing debt	770,692	620,471	**571,945**	**5,709**
Net assets (former Shareholders' equity)*	1,295,531	1,537,114	**1,715,731**	**17,125**
Per share data (yen & U.S. dollars)				
Net income	45,056	42,505	**48,810**	**487**
Cash dividends	8,000	9,500	**10,500**	**105**

*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

+7.8%
3,596.3 billion

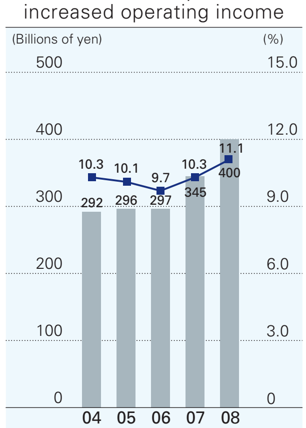
5 consecutive years of increased operating revenues



Operating income/ Operating income margin

+16.2%
400.5 billion

5 consecutive years of increased operating income

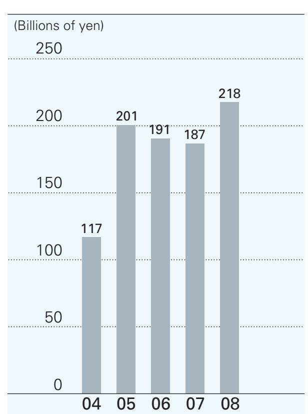


Operating income
Operating income margin

Net income

+16.6%
217.8 billion

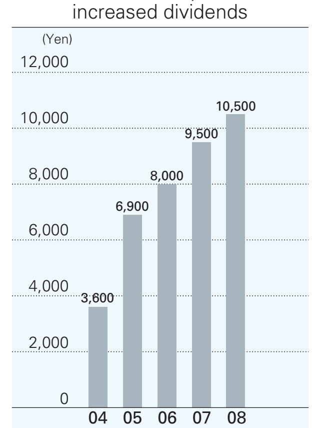
A new record



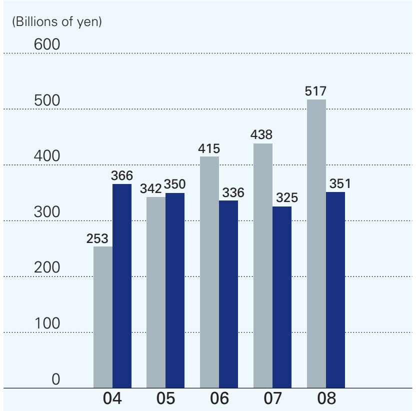
Cash dividends

+¥1,000
Annual cash dividends per share ¥10,500

6 consecutive years of increased dividends

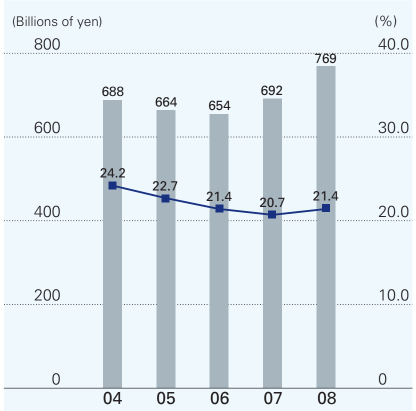


Capital expenditures/ Depreciation expenses



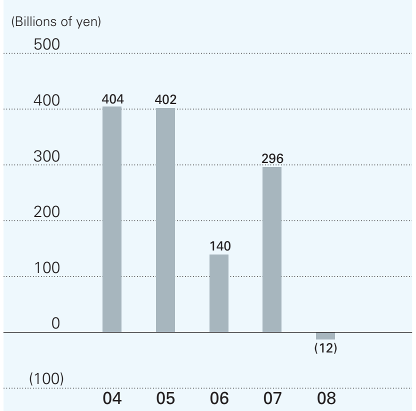
Capital expenditures
Depreciation expenses

EBITDA/EBITDA margin

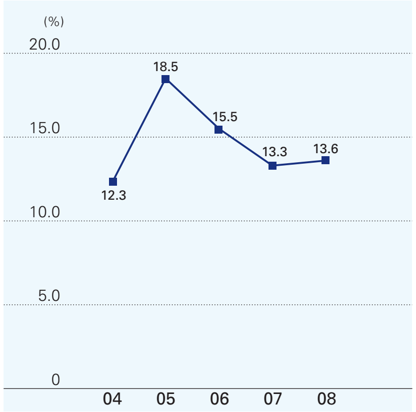


EBITDA — EBITDA margin

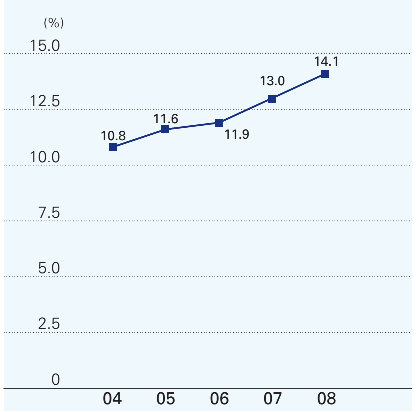
Free cash flows



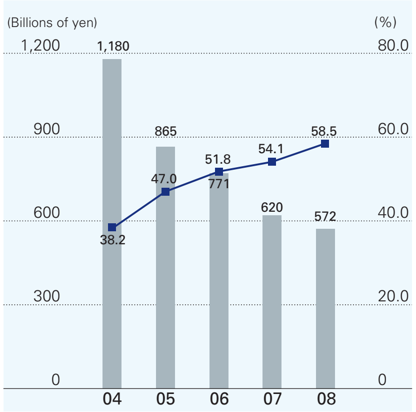
Return on Equity (ROE)



Return on Assets (ROA)

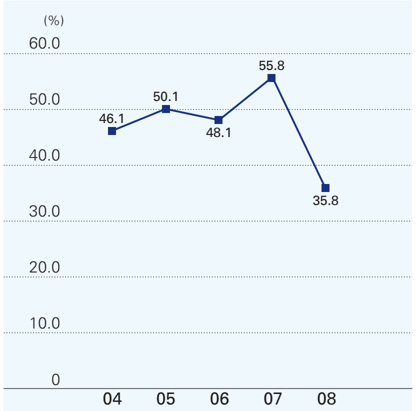


Debt/Shareholders' equity ratio



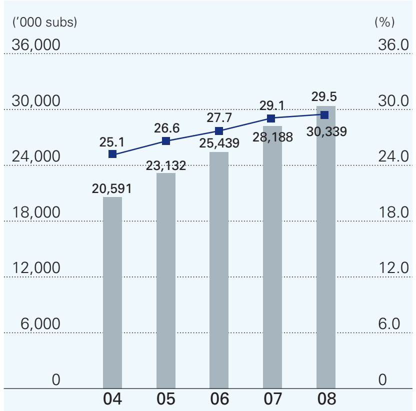
Debt — Shareholders' equity ratio

Share of net additions of Mobile Business*



*au+Tu-Ka

Subscribers/Share of Mobile Business*



Subscribers — Share
*au+Tu-Ka

Message to Shareholders and Investors

Five Consecutive Years of Growth in Revenue and Profits Aiming for Sustainable Growth through "Quantitative Expansion" and "Qualitative Enhancement"

In the fiscal year ended March 2008, KDDI recorded an increase in consolidated revenue and profits for the fifth consecutive year, and increased the dividend paid to shareholders for the sixth year in a row. I believe our operating results were solid amid the tough business environment resulting from the entrance of new players in the communications industry and intensifying price competition.

In particular, our Mobile Business was a driver of overall performance, as evidenced by the fact that the number of cumulative au subscribers reached our longstanding target of 30 million.

However, while further growth in demand is expected from corporate clients in the mobile market, a gradual dip in growth is forecast in the maturing consumer market. This will lead to an even more competitive business environment. Given this, in order to ensure a competitive position we must continually develop and offer services that will satisfy customers, and we will therefore strive to boost customer satisfaction.

Meanwhile, in the Fixed-line Business, as the core service transitions from conventional communications services to IP communications, making physical distance irrelevant, it is important to proceed with direct-access business where we offer access lines by ourselves. To accomplish this, we will redouble our efforts in the access lines business in order to secure a new source of revenues.

In addition, we will gear up our initiatives in the high value-added businesses that we propose to customers for new value creation, centered on information communications.

Through these efforts we will strive to earn unparalleled customer satisfaction in all services, one of the objectives of our "Challenge 2010" medium-term business target. As we aim for sustainable growth that balances "quantitative expansion" and "qualitative enhancement", we will increase corporate our value, win our customers' increased trust, and better meet their needs. We look forward to your continued support.

July 2008

T. Onodera

Tadashi Onodera
President and Chairman

Market Environment

Q1. First of all, how would you summarize the market and the activity in the industry during the past year?

A1. It was a very competitive year in the mobile phone market. Going forward, I think we will see price competition settle down, and the focus of competition will shift to services, such as the quality of handsets and content.

In the mobile phone market, the fiscal year ended March 31, 2008 (fiscal 2007) was one of intensifying competition, as companies enhanced their pricing plans and introduced new marketing schemes to separate handset subsidies from tariffs.

However, looking at the modest slackening in consumer market growth, it has become tougher than before to offset declining revenues from lower prices with an increase in subscribers. As a result, in fiscal 2008, I look for the focus of competition to start to switch from pricing and move towards services-related competition, such as the quality of handsets and contents.

In the fixed-line market, Japan is at a turning point in which we are seeing the switchover to IP and broadband services. While the transition from ADSL to FTTH (Fiber to The Home) has begun, it has not yet gone into full gear.

Under the government's "New Competition Promotion Program 2010," many ideas for promoting new service-related competition and establishing an environment of fair competition in the IP era are being considered in Japan's telecommunications industry. A variety of ideas for promoting competition are under study, particularly on the topics of the mobile phone business model and ways to handle the dramatic increase in Internet traffic. In addition, starting in 2010 NTT's organizational issues will be considered.

While the business environment may be tough, I believe that we can best serve our shareholders and all stakeholders by keeping a close watch on changes in the industry environment and maintaining a robust KDDI that can continue to achieve growth no matter how competitive the industry becomes.

Assessment of Operating Results

Q2. How do you assess KDDI's operating results?

A2. I believe we performed well in fiscal 2007. We successfully achieved growth in revenues and profits for the fifth consecutive year and reached the 30 million-mark for au cumulative subscriptions.

We reported consolidated operating revenues of ¥3,569.3 billion (+7.8% compared to the previous year), and operating income of ¥400.5 billion (+16.2%) for fiscal 2007. This marks five consecutive years of growth in both operating revenues and operating income.

In the Mobile Business, we achieved our target of 30 million au subscribers, and I believe we posted solid results in terms of "quantitative expansion." In terms of "qualitative enhancement," which involves satisfying customers by providing better handsets and services than our competitors, I believe we must continue to make additional improvements.

In the Fixed-line Business, Metal-plus service became more profitable. Also, we enjoyed benefits from the merger with POWEREDCOM and our corporate business including VPN (Virtual Private Network) service performed well. However, the operating loss for fiscal 2007 was larger than the previous year, partially attributable to the bolstering of FTTH service marketing efforts in the first half of the fiscal year. Although it is taking time for the FTTH business to earn a profit, we will continue to strengthen our sales capability and work to improve profitability to ensure growth potential over the mid- to long-term.

Progress on "Challenge 2010" Mid-term Target

Q3. Please discuss your medium- to long-term growth strategy.

A3. In the Mobile Business, we will enhance au's uniqueness and brand strength to make it a driver of overall profits.

In April 2007 we unveiled our "Challenge 2010" medium-term target. During fiscal 2007, the first year of the mid-term period, in the Mobile Business we focused on the timely development and introduction of our own unique handsets and services to meet customers' diverse needs, and worked to strengthen au's uniqueness and brand strength.

In June 2008 we enhanced the "au Purchase Program," and made our low-tariff "Simple course" even more attractive by introducing an installment payment system for handset purchases in order to lower customers' initial handset purchase costs.

We are taking initiatives to reduce all types of costs. In particular, regarding handset procurement, with the development of the "KDDI Integrated Platform (KCP+)," which offers both high-functionality and competitive pricing, we will be able to earn profits on handset sales going forward. While pursuing quality aimed at "quantitative expansion" such as increased subscriptions and higher market share, we will keep our upward trajectory in both operating revenues and profits by making the business highly profitable.

In the growing market for corporate customers, we have produced significant results by boosting our competitiveness in offering services that meet customers' specific needs according to industry and company size. In particular, in the mobile solutions area centered on medium and large companies, we performed well by differentiating ourselves from our competitors in a number of ways, including our FMC (Fixed and Mobile Convergence) service. In our business targeting small and medium-sized enterprises, during fiscal 2007 we

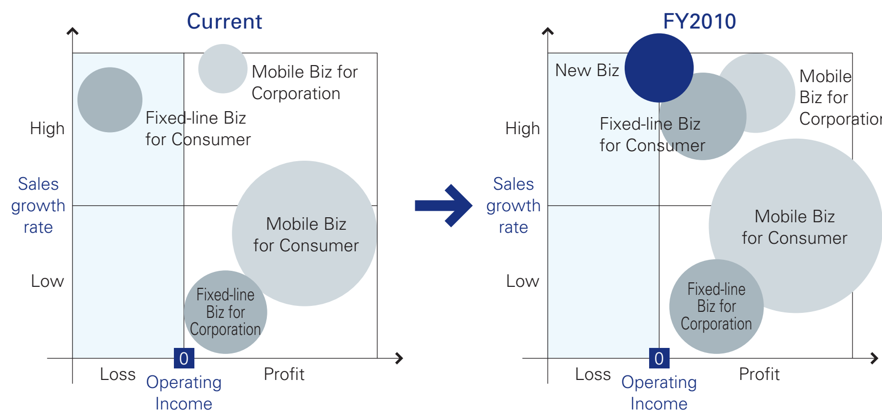
Core Messages of "Challenge 2010"

- 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 and 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.
- Enhance the return to shareholders.

*Information and Communication Technology established a sales platform devoted to this area, and are carrying out a marketing effort to boost sales.

Furthermore, sales in the Content and Media Business grew firmly at an annualized rate of 30%. We look forward to future growth in this high-margin business.

Image of Business Portfolios (The sizes of the circles show images on those of sales.)



Q4. What is the status of the Fixed-line Business?

A4. We will continue to improve the profitability of the business, with the aim of turning a profit in fiscal 2010.

In the consumer fixed-line business, we will continue to focus on the access line business. Currently, initial costs for FTTH, including costs for acquiring customers and opening lines, are a burden. We will solve this by expanding the customer base and increasing the efficiency of customer acquisition. We will enhance our competitiveness by building a stronger sales platform, including the utilization of au shops, and enhancing our services and making them more attractive.

Meanwhile, our corporate-client business is seeing an expansion of profits, largely in the provision of network solutions, due to the benefits of the merger with POWEREDCOM. In order to meet our customers' needs for one-stop outsourcing, we are building alliances with partner companies and expanding our overseas data centers, aiming to develop into a highly reliable all-around player capable of delivering one-stop ICT (Information and Communication Technology) solutions.

For the fiscal year ending March 2009, we are expecting our Metal-plus service to become profitable, and believe that by further improving the profitability of the overall Fixed-line Business, especially in the area of FTTH services, we can turn a profit in this in fiscal 2010.

Q5. How are things progressing with new business initiatives?

A5. We are working on several new businesses, including the mobile Internet financial business and the mobile WiMAX business.

"Challenge 2010" calls for about 5% of the ¥4 trillion in operating revenues to be generated by new businesses. Given the modest decline in ARPU in the Mobile Business, it will be important for us to tap the 30 million-strong au subscriber base to cultivate businesses that will expand revenue other than from traditional tariff fees.

Specifically, Jibun Bank Corporation, a joint venture with The Bank of Tokyo-Mitsubishi UFJ, Ltd., which provides mobile phone-based retail banking services, launched service in July 2008 after receiving a banking license. Furthermore, through a joint investment with five other companies, we launched UQ Communications Inc., which will engage in the mobile WiMAX business. The new company is now quickly preparing for the launch of service in 2009, with KDDI assuming the leadership role.

In fiscal 2008 we will focus on building these new businesses with the aim of developing them significantly.

Note: Both Jibun Bank Corporation and UQ Communications Inc. are equity method affiliates of KDDI.

Operating Results Outlook

Q6. What is your outlook for operating results for the fiscal year ending March 2009?

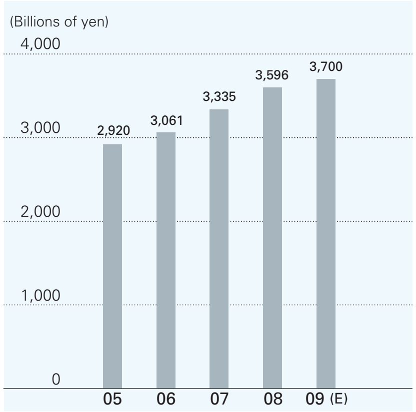
A6. Competition will remain intense, but we will strive for higher revenues and profits.

For the fiscal year ending March 2009, we are forecasting operating revenues of ¥3.7 trillion (+2.9% compared to the previous year), operating income of ¥443.0 billion (+10.6%) and net income of ¥250.0 billion (+14.8%). (Please refer to pages 29 and 41 of the Overview of Operations for the breakdown by business and assumptions used.)

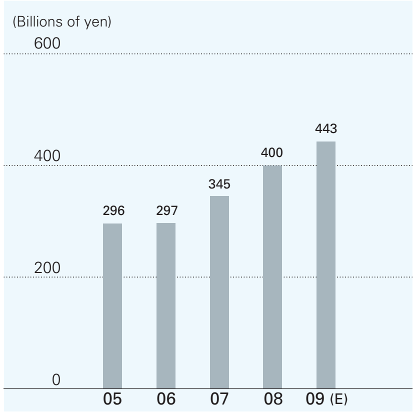
Although the market competition is intense, we are working to achieve "quantitative expansion" and "qualitative enhancement" in advance of the final year of "Challenge 2010." We will aim to keep an upward trajectory in operating revenues and profits. I believe that my most important mission is to build the base for future growth through higher operating revenues and profits.

We are also planning to spend ¥590 billion on capital expenditures during fiscal 2008, an increase of ¥73 billion from the previous year.

Operating Revenues



Operating Income



In the Mobile Business, we will respond to the growing number of subscribers, further improve transmission quality, and enhance EV-DO Rev. A, which enables downstream speed up to a maximum of 3.1Mbps and upstream speed up to a maximum of 1.8Mbps. At the same time, we will move up some of our preparations for the July 2012 reorganization of the 800MHz bandwidth.

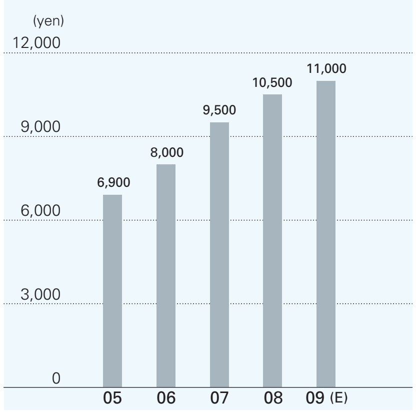
In the Fixed-line Business, we will make investments for future business growth, including wide marketing of the FTTH service with the strengthening of the access line business, and investment in overseas data centers in order to enhance our capabilities of the ICT solutions to corporate customers.

Returning Profits to Shareholders/Capital Policy

Q7. Please discuss your policies regarding shareholder returns and the allocation of capital.

A7. We will target a consolidated payout ratio of more than 20%, while also investing for future growth.

Cash Dividends



Returning profits to shareholders is a priority management issue. We will continue to offer a stable dividend, aiming for a consolidated payout ratio of 20% or more, while maintaining a healthy financial position.

Thus far we have increased our dividend each year in line with earnings growth. The dividend for the fiscal year ended March 2008 was ¥10,500, a ¥1,000 increase from the previous year, resulting in a consolidated payout ratio of 21.5%. Although the current consolidated payout ratio level is not as high as we would like, in the near term we must invest to achieve continued growth. I hope to raise the payout ratio over the mid- to long-term while keeping a balance between investment and dividends.

Dividends will continue to be the main method for shareholder returns. At the same time, however, in the future we will consider share buybacks as another option, taking into account the status of free cash flow.

KDDI will continue to invest for further growth, aiming to increase our sales and profits and raise corporate value. We look forward to your continued support.

Special Feature:

The Challenge for New Value Creation

In addition to strengthening our existing businesses to attain ongoing growth, KDDI also places great importance on strengthening our initiatives to create new added-value businesses based around information communications.

In the consumer-oriented field, we are taking on the challenge of creating new value by taking advantage of the au customer base to create new businesses, including in the field of non-traffic business. For corporate clients, we aim to become an all-around player in ICT* based on fixed and mobile convergence (FMC).

Aiming to be No. 1 in customer satisfaction in all services, KDDI will provide new value to our customers and to society.

*ICT: Information and Communication Technology

Contents

New Value Creation I

Developing the Mobile Internet Financial Business ~Jibun Bank~

In July 2008, a new style of bank was born out of a joint venture between KDDI and The Bank of Tokyo-Mitsubishi UFJ, Ltd. This new bank aims to provide value to each individual customer by taking advantage of the unique features of mobile handsets.

Creating New Value

Profit opportunities lost due to high thresholds

For many people, the phrase "bank transaction" conjures up images of cumbersome procedures and a long wait in line for the teller, or the annoyance of having to boot up the computer to access Internet banking. But if people could perform bank transactions at any time and place, whenever they found something they wanted to buy—or if a simple bank transaction allowed them to easily split the bill after a dinner out with friends—banking would be a familiar, low-threshold experience, and the number of opportunities to make use of banking services would increase dramatically. For many people, products such as Certificates of Deposit and foreign currency deposits may seem difficult, but in an era when nearly every Japanese person has a mobile phone, we decided we could create a new business opportunity using the special features of mobile phones to handle transactions involving these products.

KDDI and The Bank of Tokyo-Mitsubishi UFJ propose an optimal solution

"We want to eliminate the high threshold, and create a bank that users find more familiar and comfortable."

Jibun Bank was born when KDDI and The Bank of Tokyo-Mitsubishi UFJ came together with this same strong desire. KDDI was searching for new

Jibun Bank Corporation

Jibun Bank has a big advantage over previous Internet banking services in Japan: the roughly 30 million au subscribers and the approximately 40 million individual customers of The Bank of Tokyo-Mitsubishi UFJ. Going forward, we have set our sights on providing the major financial services to individual customers, aiming for 2.4 million accounts and ¥1 trillion in deposits in fiscal 2010 (the third year of operations). We are aiming for 3.4 million accounts, ¥1.5 trillion in deposits, and recovery of our losses in fiscal 2012 (the fifth year of operations).

Services

Continuously develop and introduce high-added-value services that only mobile phones can offer, in addition to basic banking functions.

	From July 2008	From Fall 2008	From Spring 2009
Mobile phone interface	Download of specialized applications (au) Enable quick and easy transactions by browser	Pre-install application on new phone models, creating an entryway to Jibun Bank in launcher (au)	
Services only mobile phones can offer	Mobile bankbook Bank transfers via mobile phone number	Fast card loan applications by mobile phone Intermediary services for securities and insurance purchases by mobile phone	Flexibly enable deposits in foreign currencies Mobile phone credit cards (Contactless IC)
Fee settlement and e-commerce alliances	Settlement for online shopping, auction and other purchases via Jibun Bank through au mobile e-commerce E-Money charge purchases		Expansion of e-commerce alliances Develop options for more diverse settlement scenarios (publicly run gambling races, etc.)

Reaffirming the compatibility of mobile phones and financial services

In the preparation stages before the establishment of Jibun Bank, KDDI oversaw mobile handset operation and transmission access, while The Bank of Tokyo-Mitsubishi UFJ handled banking services. We already felt that mobile phones and financial services were compatible, but as the preparations progressed, our feeling turned to conviction. In addition to giving full consideration to system structure and security, the new bank is also successively expanding its service lineup. We hope that the public will look forward to making use of the new financial services to be provided by Jibun Bank.

Hiroyuki Takeshima
Executive Officer
Marketing and IT Initiatives Unit
Jibun Bank Corporation

businesses as Japan's mobile phone market matures. The Bank of Tokyo-Mitsubishi UFJ was searching for a mobile Internet strategy to meet customer needs that traditional bank services were unable to cover. Jibun Bank can truly be called an optimal solution for resolving the problems both companies were facing.

Resolving the difficulty of new value creation

One of the key features of Jibun Bank is that it has been designed for ease of use via a mobile phone handset. We believe there is great value in creating an environment where users can complete a transaction whenever and wherever they want with just a click or two.

In creating this environment, a strong alliance between a communications company and a bank was needed in order to build applications into the handset software.

Such major example of the new bank is "mobile phone number bank transfers."* This new service, unlike anything previously available from a bank, allows users to make easy bank transfers just by entering the telephone number and the first two characters of the recipient's name. Users can search for individuals listed in their "address book" to use the transfer service. Bringing this service to life required accurately matching mobile phone number data possessed by the communications company with the bank account number data held by the bank, raising a host of issues that had to be resolved in terms of compliance, systems, and security. We believe we have been able to overcome these issues by establishing a framework for full cooperation between our two companies and through our enthusiasm for creating original value via the new bank.

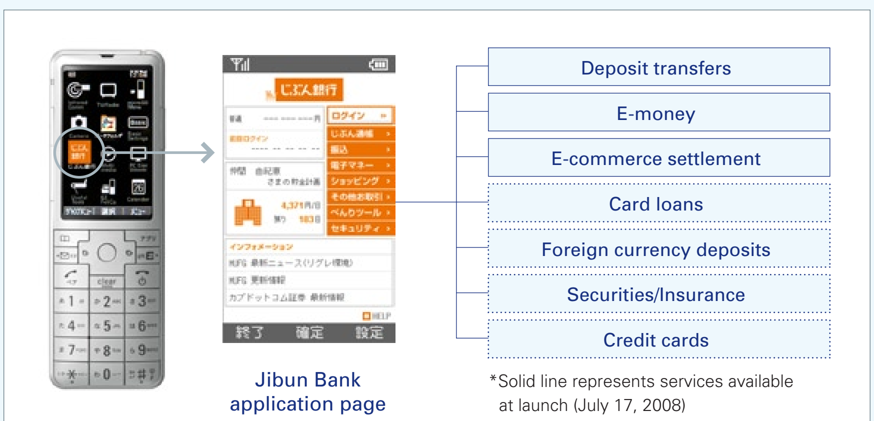
*Business model patent pending

New Value for KDDI

Helping to boost au's appeal and increase customer satisfaction through an attractive, easy-to-use financial service

au handsets released in the future will have specialized software pre-installed, with an extremely easy-to-use interface. Attractive services such as "mobile phone number bank transfers" and "Jibun Bank payment," which makes it possible to pay simply and quickly for online auction items, will be available for use only by au contract holders. We expect that this new feature will stimulate greater phone use involving Jibun Bank among au users, and that commercial transactions will spread. We also believe that it will make the au services more appealing, and contribute to raising customer satisfaction.

Enabling Various Financial Services* through Simple Navigation



*Solid line represents services available at launch (July 17, 2008)

New Value Creation II

UQ Communications ~ Developing the Mobile WiMAX Business ~

The mobile WiMAX network will provide the crucial social infrastructure needed to allow customers to use broadband services anytime, anywhere. Through the mobile WiMAX business, KDDI aims to create new markets and new ways of providing value.

Creating New Value

Japan's only provider of mobile WiMAX telecommunications

Mobile WiMAX is a new telecommunications technology of a global standard offering high-speed broadband and always-on connections even for users in rapidly moving vehicles. The first such network was launched in South Korea in 2006, and other countries including the United States are currently building infrastructure and developing terminals with the aim of launching services in the near future.

In Japan, KDDI joined a consortium of six companies to set up Wireless Broadband Planning K.K. (current name: UQ Communications Inc.), which in December 2007 received a license to develop telecommunications base stations using the 2.5GHz frequency band. The company will establish a nationwide network, making it the only mobile WiMAX operator in Japan.

The New World of Mobile WiMAX

Mobile WiMAX technology aims to provide a broadband connection environment that users can access at anytime, whether at home, at the office, or out on the street. UQ Communications envisions a service that will allow users to easily access the mobile WiMAX network using a variety of devices, at any time or place, as indicated by the company's slogan: "Broadband always with you."

The company is trying to develop a new business model and new markets that do not replace the old market, but rather incorporates it by allowing a wide range of different products and communications devices to access the network. This is the world that mobile WiMAX seeks to create, and it is in this flexibility that its value as a business lies.

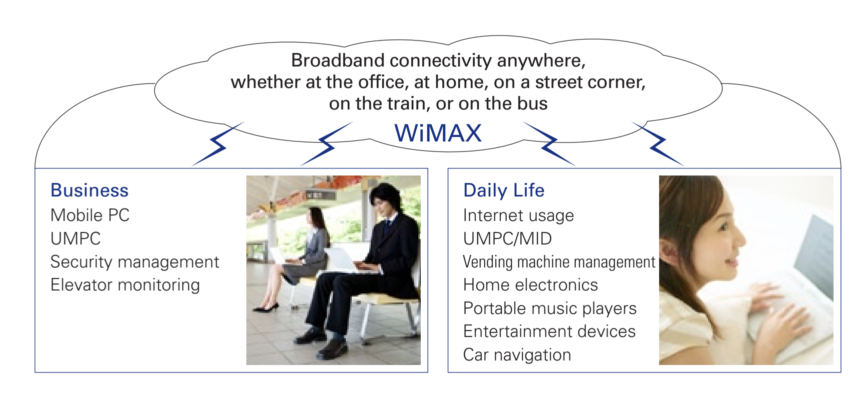
Stimulating the market by encouraging MVNOs

Mobile virtual network operators (MVNOs) are a critical element that will be needed to help develop and stimulate the markets that mobile WiMAX makes possible.

Characteristics of Mobile WiMAX

High Speed Broadband	• Maximum transmission rate of 40Mbps, expandable to 80Mbps in the future
Mobility	• Network can be utilized even while in moving vehicles at speeds of over 200kph* *By using a phasing simulator, connections were confirmed to be possible even while users were moving at speeds of 200kph. Under the standard specifications, connections are possible at speeds of 120kph.
Always On	• New uses based on connections that are always "on" • The disadvantages of dial-up connections are eliminated
Global Standard	• Terminals can be used without any adjustment even outside of Japan • Cost of devices is likely to be less expensive as common specifications are used worldwide

The World that Mobile WiMAX will Make Possible



As large numbers of customers begin using the network, it will be necessary for providers to develop and offering increasingly attractive services in various business segments. When the mobile WiMAX network will be a fully open to MVNOs, a host of new players will be able to enter the market, offering users an ever-expanding range of services.

UQ Communications has already begun conducting explanatory meetings for companies interested in developing MVNO businesses. The sessions have proven even more popular than expected, with nearly 200 companies from a number of business sectors taking part. The high level of participation reflects the strong interest and high expectations of companies hoping to develop businesses on the WiMAX network. In developing new markets, UQ Communications plans to pursue business alliances with many of the MVNOs set up by these participants.

New Value for KDDI

KDDI holds a 32.26% stake in the company. As a largest shareholder, it is contributing technology and business expertise to help UQ Communications build network infrastructure and develop its operations. The addition of WiMAX services to KDDI's other services will expand the range of solutions that the company is able to offer and allow KDDI to provide clients with the convenience and satisfaction that the latest technology makes possible.

From increasing awareness to expanding markets

Although the amount of time remaining before the launch of services in February 2009 is rather short, public awareness of mobile WiMAX remains low; the word itself is not yet well known. The company will need to start by drawing up a public relations strategy to raise awareness of and increase interest in mobile WiMAX.

The company recognizes that it will need to take a substantial business risk and expand considerable energies in the early period following the launch of services in order to prime the market for eventual expansion. Once the initial steps have been taken, the company will work with a variety of MVNOs to explore new market possibilities.

Hajime Sakaguchi
General Manager
Marketing Strategy Department
UQ Communications Inc.

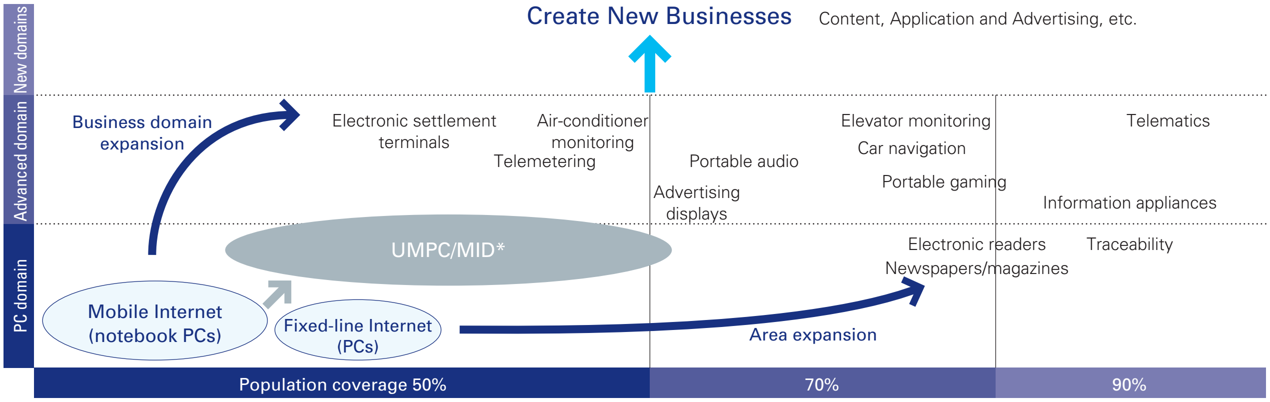
UQ Communications Inc.

UQ Communications is a mobile WiMAX operator established by a consortium of six companies, each of which has taken a capital stake: KDDI, Intel Capital Corp., East Japan Railway Company, Kyocera Corporation, Daiwa Securities Group Inc., and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The company intends to launch services in the Central Tokyo/Yokohama/Kawasaki area on a trial basis in February 2009, and add commercial service for the Tokyo Metropolitan Area, Nagoya, Osaka, Kyoto and Kobe areas by the summer.

The company then plans to expand the coverage area to all government ordinance cities by the end of March 2010, with network services reaching over 90% of Japan's population coverage by the end of March 2013.

Marketing strategy



*UMPC: Ultra Mobile PC, MID: Mobile Internet Device

New Value Creation III

Advancing the Corporate Client Business

In the corporate market, KDDI aims to be an all-around player offering one-stop ICT*. Based on "Challenge 2010", we will promote our corporate customer business, centered around network services, by developing and providing ICT solutions that lead to creation of new value for our customers.

* ICT: Information and Communication Technology

Diversifying Customer Demands

KDDI provides fixed-line and mobile services as a comprehensive communications company. The company became involved in fixed and mobile convergence (FMC) early on, and has provided competitive services.

Recently, many customers have been taking advantage of ICT to boost their operating capability, and are seeking one-stop solutions not only for networks, but also for peripheral areas.

As the communications infrastructure evolves, there is a growing demand for smooth collaboration between employees inside and outside the office through seamless use of fixed-line and mobile communications.

In addition, customers, particularly those of small and medium-scale, are increasingly interested in improving the efficiency of their operations by using software without high capital expenditure and maintenance costs.

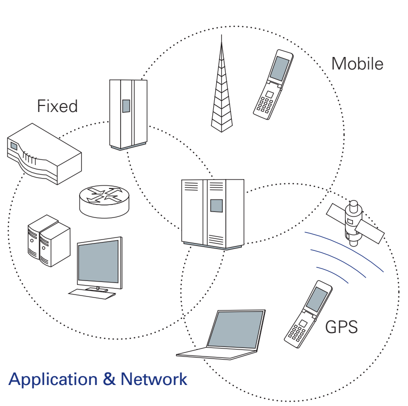
New Value for KDDI

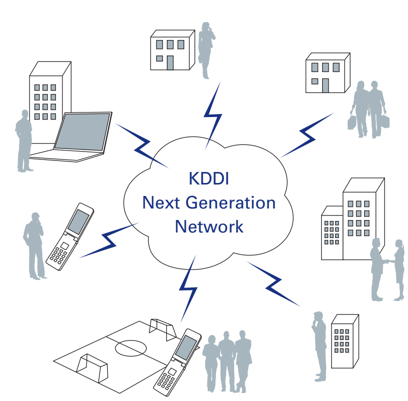
KDDI aims to be an all-around player providing one-stop ICT solutions to meet diversifying customer demands. We will further hone our fundamental network services, including FMC services. In addition to these essential communications company services, we are aiming to expand into new fields. This expansion will allow us to offer Systems Integration services, such as construction of office LAN systems, as well as so-called "top layer services," including server-side applications—all in one-stop.

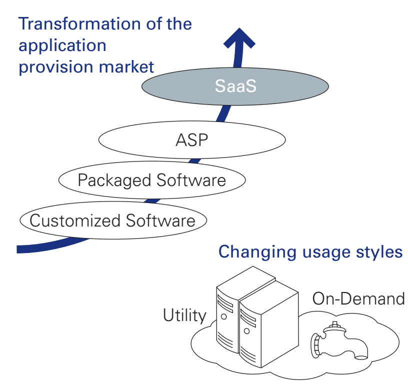
These new initiatives by KDDI are introduced below.

Customers' Three Main Demands

(1) One-stop solutions	(2) Seamless integration of fixed and mobile networks	(3) Shift from ownership to a usage-based model
Offer total solutions combining applications and networks	Dependable, ubiquitous and simple functionality	Make applications available on demand
Integrated operation and support	Compatibility with any device	Make the latest system environment available
Integrated billing	Voice and data services	Fee payment on a monthly basis







Mobile Solutions Offer Comprehensive Client Business Support

Serving primarily large and medium-sized companies, KDDI delivers significant results by offering mobile solutions that support the efficiency of customer business activities and enhance security.

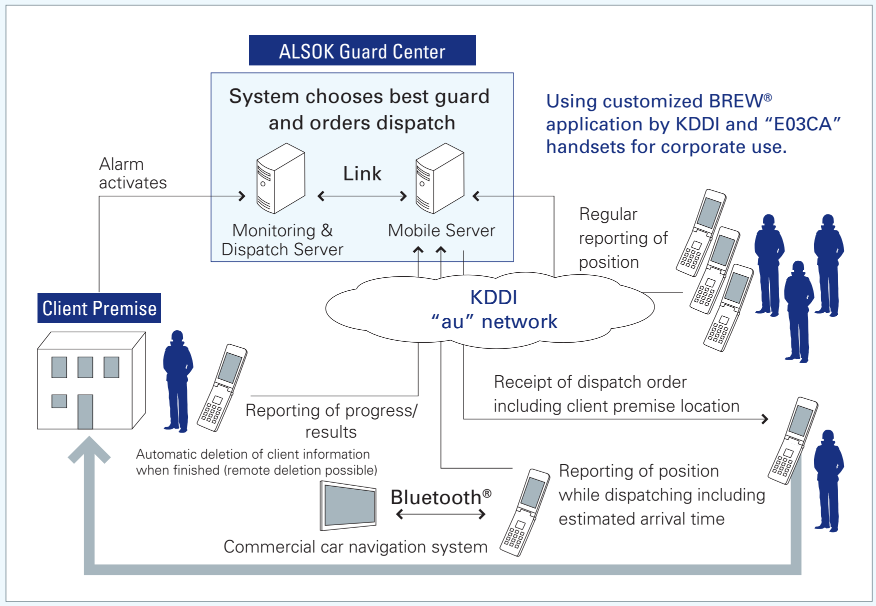
Creating New Value

ALSOK's "Guard Dispatch System"—an example of a client solution

Background

SOHGO SECURITY SERVICES CO., LTD. (better known by its brand name—ALSOK) is one of Japan's leading general security service companies. The company's electronic security services dispatch guards to a customer's premises in case of unauthorized entry, fire or other incident, to deal with the problem. In the past, when an incident occurred, it took some time to determine which security personnel should be dispatched based on their current location and how best to direct them to the site. However, KDDI is now providing valuable support by providing the "Guard Dispatch System", which determines the nearest security staff member and fastest route in a systematic manner, greatly relieving the burden on coordinating staff.

Linking au mobile phones with ALSOK's core computer system enabled the company to achieve reduced security staff response times.



Summary

The key to success on this project was to utilize mobile phone capabilities, including Bluetooth®, to allow them to communicate with ALSOK's core in-house computer system. These link-ups are achieved in several ways. Specifically, the global positioning system (GPS) functions built into the mobile phones are used to identify the location of all security personnel, and a short message service (SMS) has been incorporated to transmit and confirm instructions in real-time. In addition, Bluetooth® transmission is used to automatically relay the destination and estimated time of arrival to the navigation system of the dispatched car.

Mr. Toshifumi Takemure

Director
Tohoku Sohgo Security Services Co., Ltd. (ALSOK)

ALSOK's "Guard Dispatch System" won the Grand Prize/the Minister of Information and Communications' Prize in the MCPC award 2008

"When choosing a business partner to help us develop this system, ALSOK received proposals from a number of other telecom operators as well. However, we decided to use the system proposed by KDDI because it offered the easiest mobile network connectivity and included Bluetooth® transmission between handsets and car navigation systems. These were key elements of added value that guided our decision. Since implementing the system, we have been able to greatly reduce the response time of security guards and improve service, while at the same time greatly reducing costs. In the future, we are looking forward to more proposals from KDDI to leverage their technology and know-how to help us cut our telecommunications costs further and make other improvements."

New Value for KDDI

In addition to network services, KDDI is creating advantages in the increasingly competitive market for corporate telecom services by using phones to provide customers with mobile solutions. KDDI's mobile solutions are earning positive customer responses and being used in a wide range of industry sectors including the auto industry, transport, and security services. As evidence of KDDI's accomplishment, customers who received support from KDDI have won the grand prize in the Mobile Computing Promotion Consortium's MCPC award for the past three consecutive years. In the future, KDDI intends to continue offering mobile solutions to help customers to boost efficiency and improve security, in order to extend the Company's success in corporate mobile telecommunications operations.

Developing the SaaS Business Model

SaaS (Software as a Service) is a service that utilizes telecommunications networks to allow users to select the software they need and use it for a monthly fee, with no need to purchase an expensive software package or invest in a large-scale system. KDDI is actively contributing to the creation and development of the SaaS market in Japan.

Creating New Value

Enhancing the competitiveness of small and medium-sized enterprises

Japan's broadband infrastructure has already achieved significant levels of performance in terms of both speed and environment. Nevertheless, corporate utilization of ICT remains low. The Japanese government is therefore promoting utilization of these technologies with a view to enhancing labor productivity at small and medium-sized enterprises and ensuring international competitiveness.

The SaaS model by KDDI

In order to create new value in this area of high social need, through tie-ups with software providers, KDDI is also starting to provide SaaS services based around mobile services that offer customers a one-stop ICT solution.

Tie-up with Microsoft Corporation

In June 2007, KDDI came to a broad-based agreement with Microsoft Corporation to work together to create an SaaS market in Japan. The agreement was grounded in a shared desire on the part of both companies to contribute to improving the productivity of Japanese enterprises by developing the SaaS market in a sound manner. In April 2008 the partnership began providing its first SaaS model service, "KDDI Business Outlook." This new communications service allows users to use Microsoft's "Microsoft® Office Outlook®" application from their au mobile phone handset as well as their PC. It has earned positive reviews.

Future Development

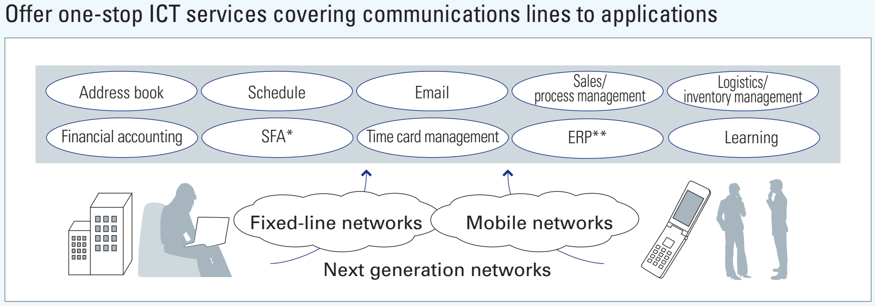
In expanding the menu of other SaaS model services, KDDI is providing support programs to our various application partner companies. As of June 2008, there are already over 50 companies taking advantage of the support program. Going forward, we are working to further expand our pool of business partners and enhance our service offerings.

New Value for KDDI

Developing a SaaS model business will enable KDDI to provide new software and business-oriented applications. Previously, our corporate client business centered around provision of network services. In this business area, if we are able to provide a one-stop, integrated solution from device (PC, mobile phone, etc.) all the way to the system and even the network, the scope of our business will expand, and we will improve the added value of our network services themselves.

As an all-around player providing one-stop ICT solutions, KDDI will contribute to value creation for our customers, including increased sales, expanded profit, improved customer satisfaction, and enhanced competitiveness.

Offer one-stop ICT services covering communications lines to applications



* SFA Sales Force Automation
** ERP Enterprise Resource Planning

Contributing to the business efficiency of japan's small and medium-sized enterprises

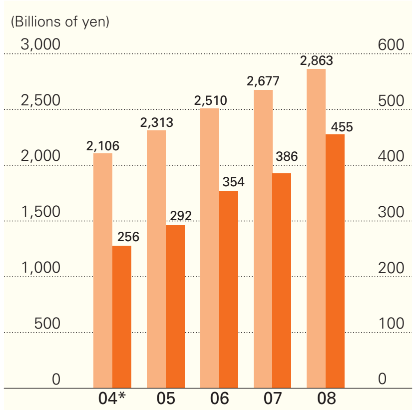
Centered around its fixed-line and mobile communications networks, KDDI's corporate client business aims to eliminate the barriers between ICT services in order to provide one-stop solutions for everything from networks to the software service area.

The SaaS model presents a new and challenging field. At KDDI, we have asked ourselves what we can do to help improve overall enterprise efficiency. With the cooperation of our partner companies, we will work to make a contribution by expanding the services we offer our customers.

Kenyu Sobazima
Manager
Application Marketing Department
Solution Strategy Division
KDDI CORPORATION

Overview of Operations: Business at a Glance

Operating Revenues/Operating Income



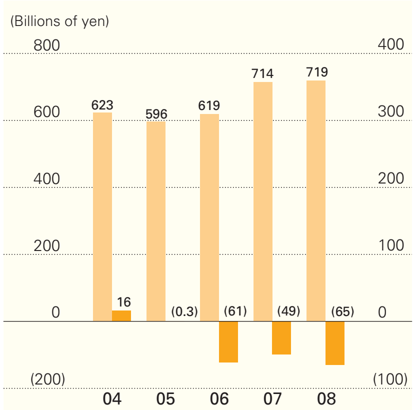
Mobile Business

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

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

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

Operating Revenues/Operating Income

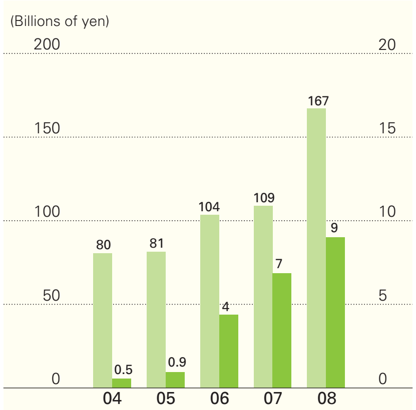


Fixed-line Business

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

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

Operating Revenues/Operating Income



Other Business

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

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

*Multiple System Operator, a company operating multiple cable television stations

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

Mobile Business

KDDI will Increase Customer Satisfaction by Strengthening its Overall Product Appeal

Contents

Market Trends

New Entrants and Intensified Price Competition

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

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

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

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

Overview of the Fiscal Year Ended March 2008

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

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

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

Performance by Key Indicators

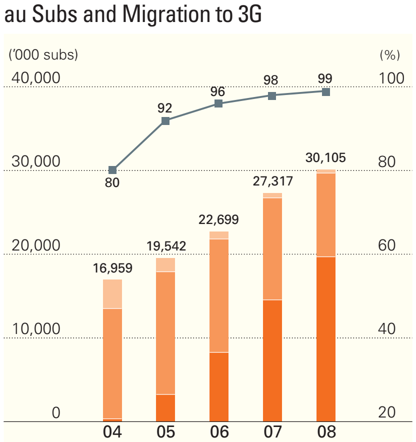
Subscriber Numbers

Increase of au Subscribers to 30.11 Million

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

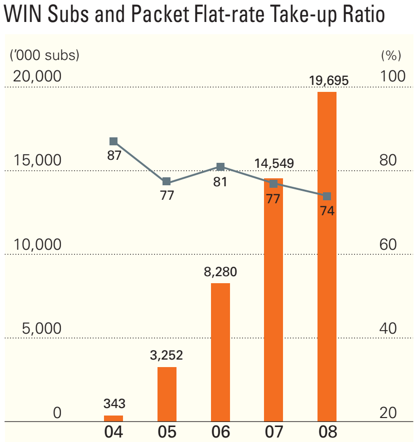
The total number of au subscribers surged 10.2% year on year, to 30.11 million, breaking through the major

au Subs and Migration to 3G



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

WIN Subs and Packet Flat-rate Take-up Ratio



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

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

Churn Rate

Reduction of Churn Rate to 0.95%

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

SAC/SRC

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

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

ARPU

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

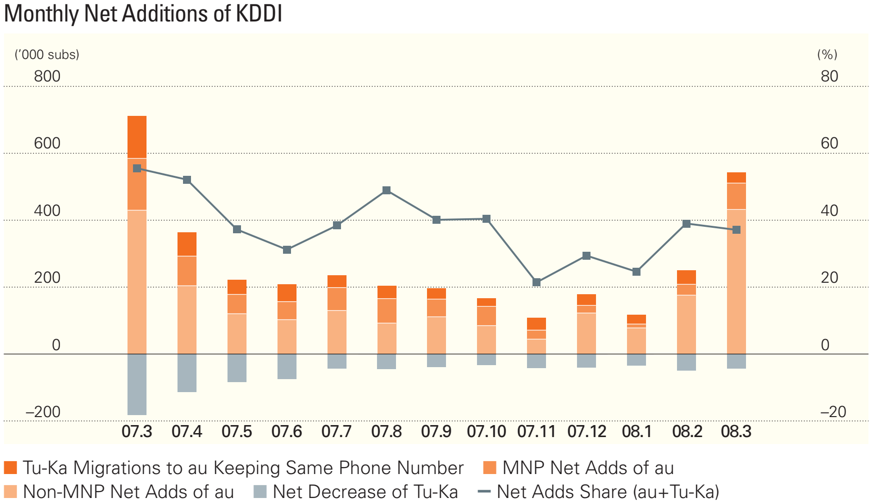
Average Revenue per Unit (ARPU) for au services declined 5.3% year on year to ¥6,260. Of this total, data ARPU increased 5.4% to ¥2,130 due to progress in building the proportion of high-end WIN subscribers. However, voice ARPU declined 10.0% to ¥4,130 due to a decrease of 10 minutes in the MoU and the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

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

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

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

Monthly Net Additions of KDDI



Measures to Strengthen Overall Product Appeal

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

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

High-quality Infrastructure

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

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

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

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

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

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

Efficiency of Data Transmission by Technology

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

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

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

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

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

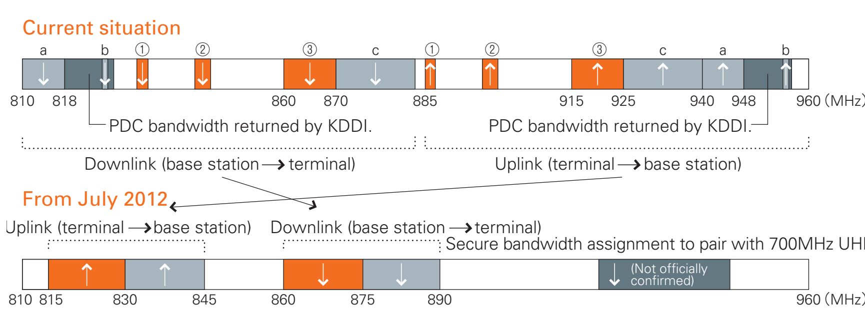
Average Revenue per Unit (ARPU) continues to decline with the popularity of "Everybody Discount" introduced in 2007 and other pricing schemes. However, we are looking to increase non-traffic ARPU by offering appealing content and developing new services, such as settlement services through "Jibun Bank,"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

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

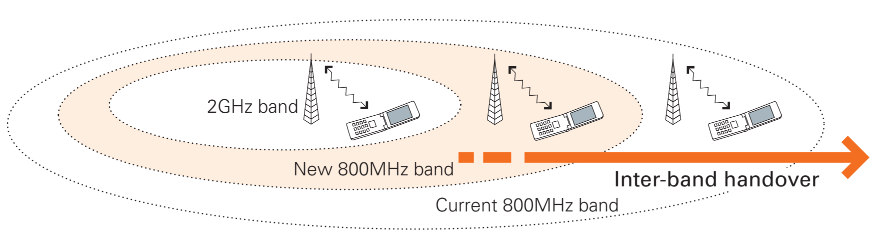
*Launch planned for August 1, 2008

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

Reorganization of 800MHz Band



Handover Image during the 800MHz Reorganization



Attractive Handsets

Enhancement of a Broad Lineup to Support Diverse Lifestyles

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

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

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

Charges

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

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

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

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

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

INFOBAR2

Walkman® phone (W52S)

EXILIM-Keitai (W53CA)

Cyber-shot™ phone (W61S)

Wooo-Keitai (W53H)

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

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

Content

A Wide Variety of Entertaining Content Utilizing the Features of WIN

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

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

Developing Untapped Markets – Mobile Business Targeting Corporate Clients–

Reinforcement of Corporate Business with Newly Established Sales System for SMEs

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

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

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

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

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

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

au Purchase Program

(prices include tax)

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

*Conditions for the new simple plan that began on June 10th.
**Basic monthly charge when customer signs "Everybody Discount" contract.

Initiatives Targeting Corporate Clients

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

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

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

Termination of the Tu-Ka Service

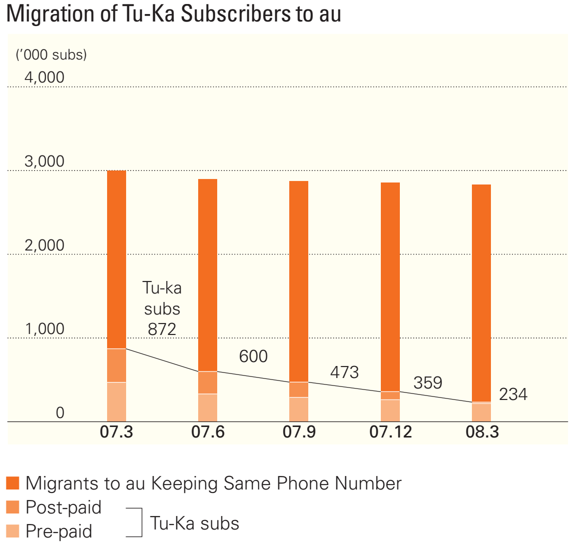
Service Terminated at March-end 2008

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

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

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

Migration of Tu-Ka Subscribers to au



Strategies for the Future

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

Toward "Challenge 2010"

A Greater Focus on Profitability with Well-balanced Subscriber Growth

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

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

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

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

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

Aiming for Continued Subscriber Growth

Proactive Development of Corporate Clients

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

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

"Challenge 2010": Further Strengthening Competitiveness of Mobile Business

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

Strengthening Competitiveness of Handsets

Lower Procurement Costs and More Attractive Handsets through KCP+

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

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

More Variety in Price Plans and Payment Options for Handsets

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

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

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

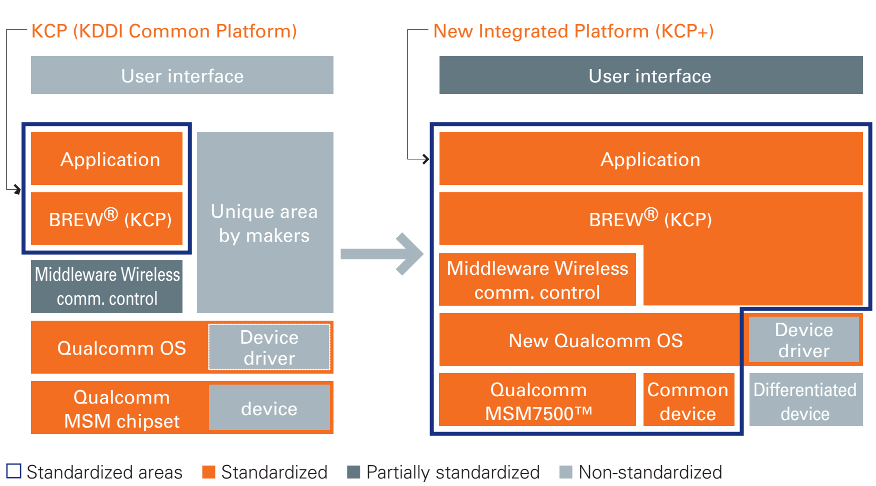
The introduction of this installment sales system will enable the Company to take a flexible approach in pricing handsets and to increase profit margin on handset sales under the new "Simple course" as it achieves competitive procurement costs for handsets.

Outlook for Fiscal Year Ending March 2009

Aiming for Further Increases in Sales and Profit

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

Create New Integrated Platform



Content and Media Business

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

Market Trends

Expansion of Large Content and Video Distribution Services

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

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

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

Overview of the Fiscal Year Ended March 2008

Sales up 30% from the Previous Year

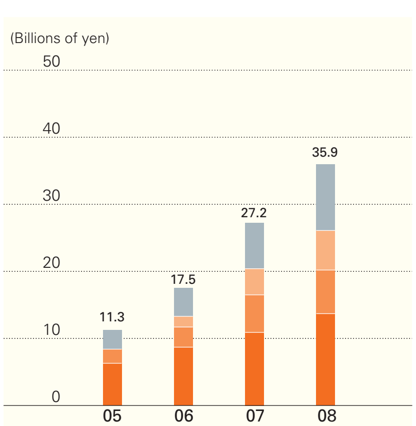
Sales in the Content and Media Business continued their upward climb, rising 1.3 times to ¥35.9 billion. Sales included fee collection for content providers, advertising, e-commerce, and collaborative content.

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

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

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

Sales of Content/Media Business



(Years ended March 31)

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

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

KDDI Filtering Services

Filtering level: Maximum → Minimum

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

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

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

Toward "Challenge 2010"

Promoting Safe and Secure Mobile Internet Environment and Expanding Business Domains

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

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

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

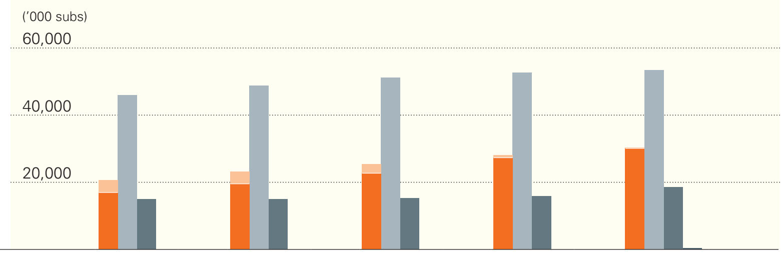
Through these initiatives KDDI will seek to promote the appeal of the au brand and expand the domain of the Content and Media Business.

Lifestyle Strategies

Market Data

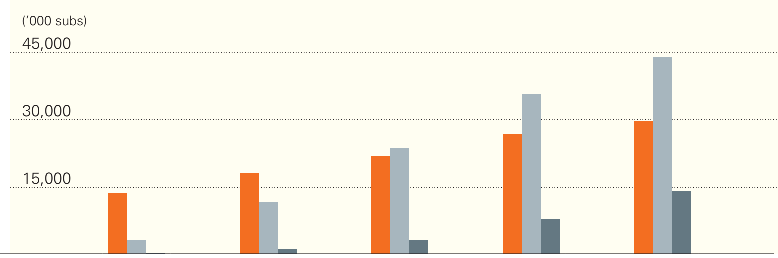
Years ended March 31

Number of Total Subscribers



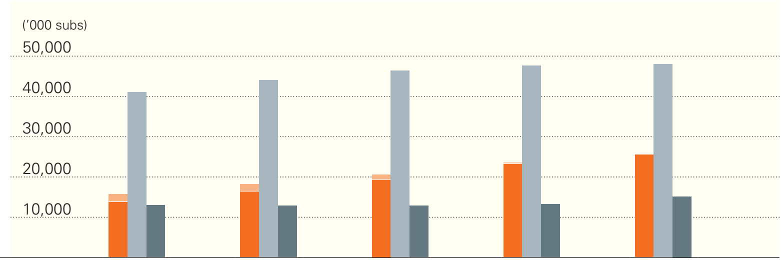
	2004	2005	2006	2007	2008
KDDI	20,591	23,132	25,439	28,189	**30,339**
au	16,959	19,542	22,699	27,317	**30,105**
Tu-Ka	3,632	3,590	2,739	872	**234**
NTT DoCoMo	45,927	48,825	51,144	52,621	**53,388**
SoftBank Mobile	15,002	15,041	15,210	15,909	**18,586**
EMOBILE	—	—	—	—	**412**
Total	81,520	86,998	91,792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

Number of 3G Subscribers



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

Number of Subscribers for Mobile Internet Connection Service

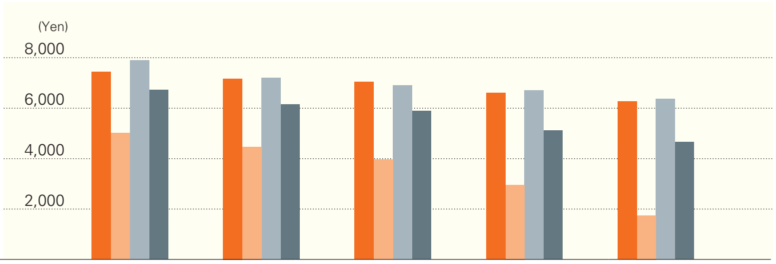


	2004	2005	2006	2007	2008
EZweb	15,700	18,259	20,523	23,533	**25,512**
au	13,886	16,469	19,390	23,322	**25,505**
Tu-Ka	1,814	1,790	1,133	211	**8**
i-mode (NTT DoCoMo)	41,077	44,021	46,360	47,574	**47,993**
Yahoo! mobile (SoftBank Mobile)	12,956	12,874	12,875	13,265	**15,171**

Source: Company Data, Telecommunication Carriers Association (TCA)

ARPU

(Average Revenue per Unit)

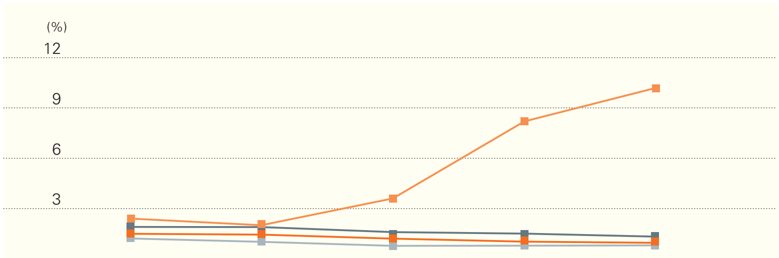


	2004	2005	2006	2007	2008
au	7,440	7,170	7,040	6,610	**6,260**
of which Data ARPU	1,640	1,740	1,890	2,020	**2,130**
Tu-Ka	5,020	4,470	3,960	2,960	**1,750**
NTT DoCoMo	7,890	7,200	6,910	6,700	**6,360**
of which Data ARPU	1,970	1,870	1,880	2,010	**2,200**
SoftBank Mobile	6,730	6,150	5,890	*5,120	**4,660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

* Accounting method for Data ARPU changed from fiscal year ended March 2005.

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

Churn Rate

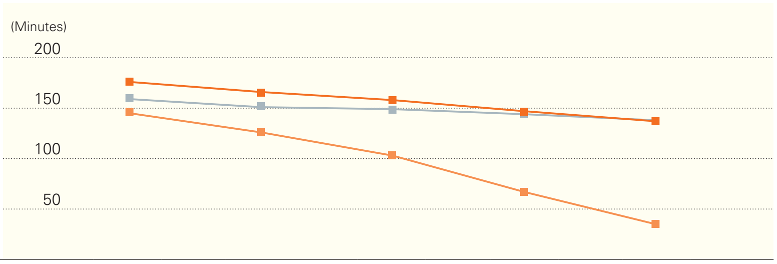


	2004	2005	2006	2007	2008
au	1.49	1.44	1.20	1.02	**0.95**
Tu-Ka	2.40	2.00	3.60	8.20	**10.2**
NTT DoCoMo	1.21	1.01	0.77	0.78	**0.80**
SoftBank Mobile	1.90	1.89	1.59	1.50	**1.32**

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

MoU

(Minutes of Use)

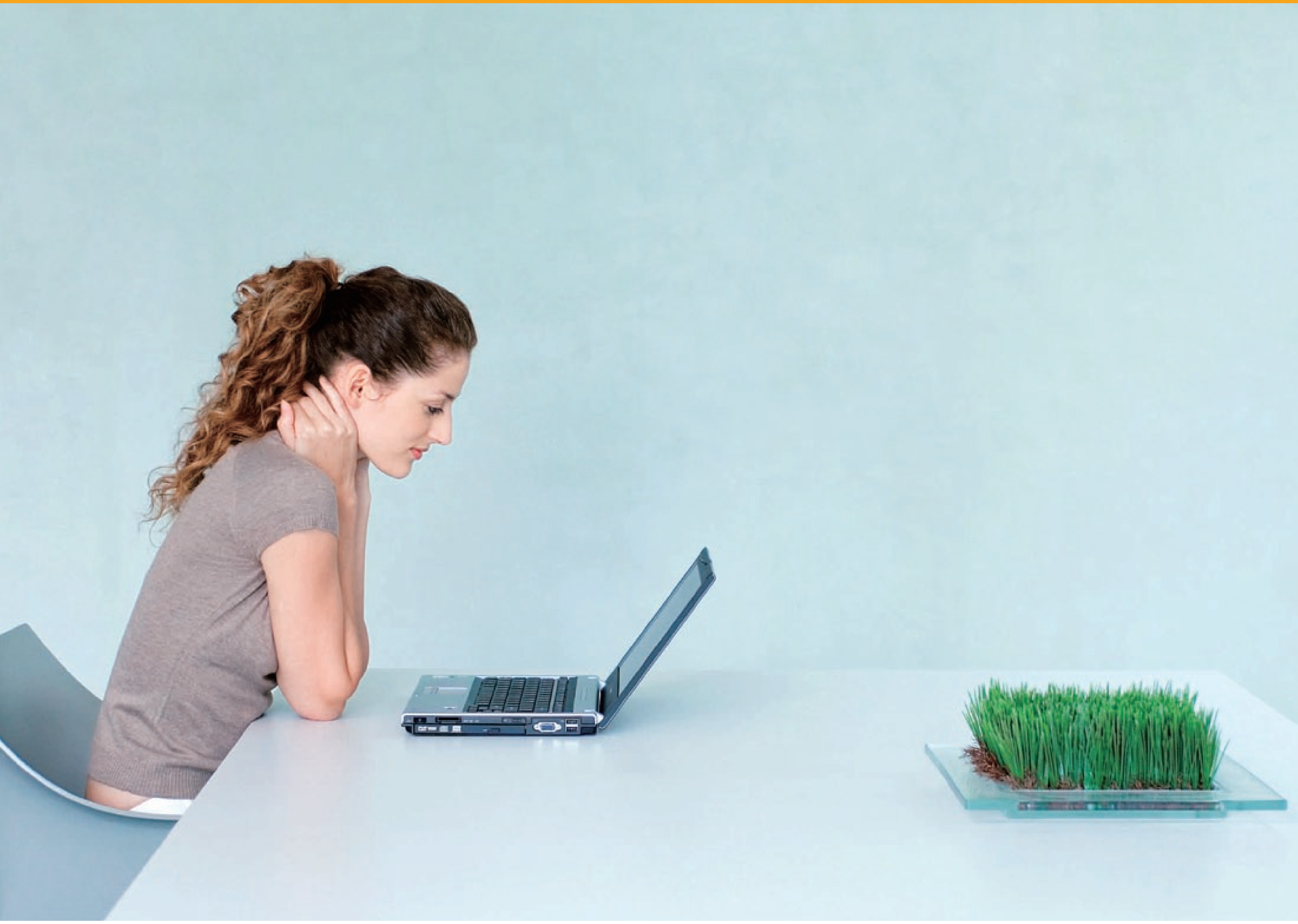


	2004	2005	2006	2007	2008
au	176	166	158	147	**137**
Tu-Ka	145	126	103	67	**35**
NTT DoCoMo	159	151	149	144	**138**
SoftBank Mobile	—	—	—	—	**—**

Fixed-line Business

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

Contents



Market Trends

Shift from Long-distance Business to Access Line Business

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

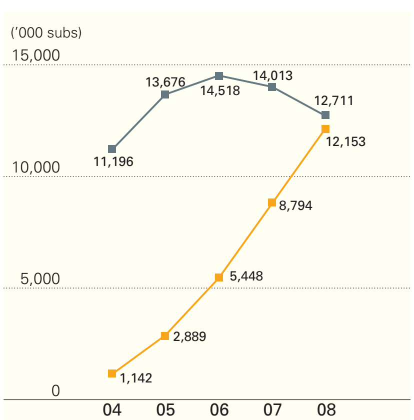
In Japan's broadband market, the fiber to the home (FTTH) services market topped 10 million subscriptions in the first half of the fiscal year under review. Given the pace of the shift to FTTH from ASDL, it is possible that the number of FTTH subscriptions will surpass ASDL subscriptions in the current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

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

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

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

Number of FTTH Subscribers



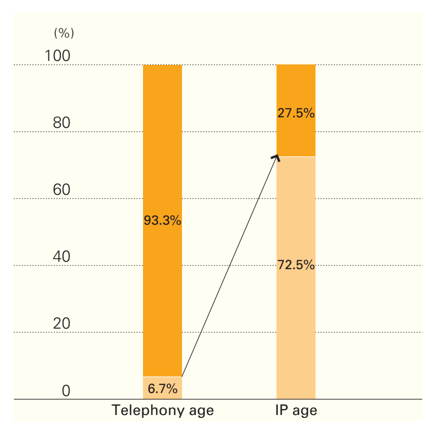
(Years ending March 31)
— ADSL — FTTH

Fixed-line Revenues

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

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

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



% of Access % of Gross margin

Overview of the Fiscal Year Ended March 2008

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

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

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

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

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

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

Initiatives in Access Line Business for the IP Era

Sales Expansion of Metal-plus and FTTH

"Metal-plus" Strategies

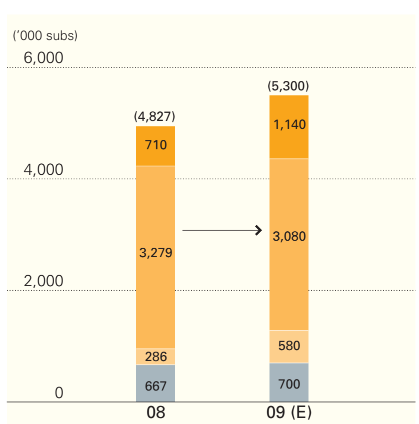
A Breakthrough of 3 Million Target

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

Access Line Business Strategies

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

Fixed Access Lines



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

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

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

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

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

FTTH Strategies

Reinforcement of Product Competitiveness and Sales Forces Including Sales Channels

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

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

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

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

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

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

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

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

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

Strengthening Collaboration with CATV Operators

Expanding "Cable-plus phone" Alliances

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

Synergies from Consolidation of JCN Group

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

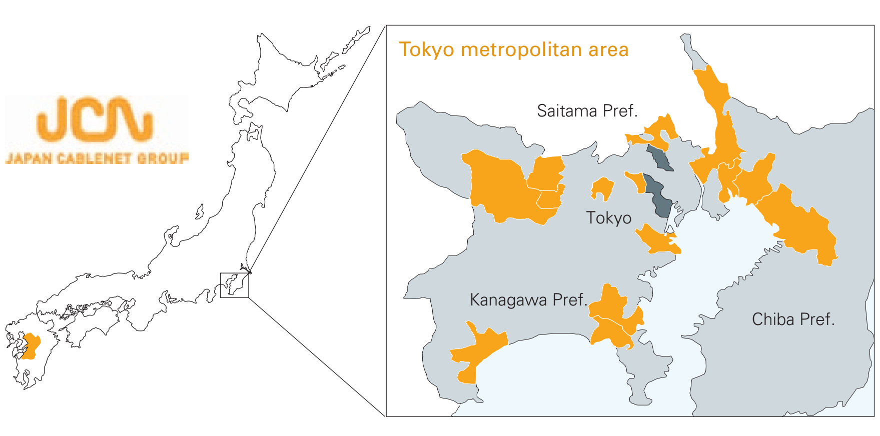
Consumer-oriented FMBC Strategies

Integration of Consumer Brand into au

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

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

JCN Group Service Area



*As of the end of March 2008

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

Developing the Corporate Business

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

Benefits of the Merger with POWEREDCOM

Steady Increase of Network Service Sales for Corporate Customers

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

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

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

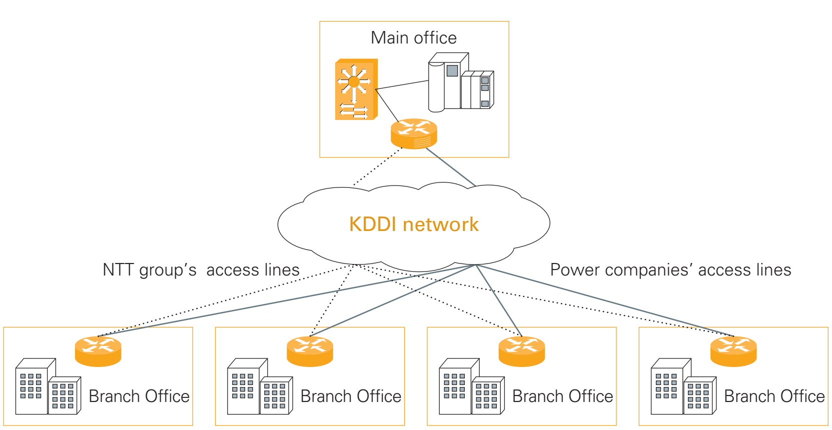
Moving forward with "One-stop" Strategies

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

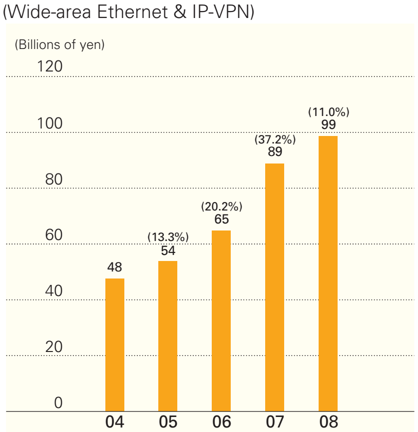
The demand for outsourcing services, from LANs and terminals to applications beyond mere network services, is rising particularly among small and medium-sized corporations. Moreover, because of the need for fixed-line and mobile convergence capabilities, the intensifying competition has not only enveloped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

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

Dual Access Networks



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



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

Strategies for the Future

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

Toward "Challenge 2010"

Aiming for Higher Sales and Profitability through Expanding the Customer Base

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

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

Metal-plus Strategies

Stable Profit Structure for "Metal-plus"

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

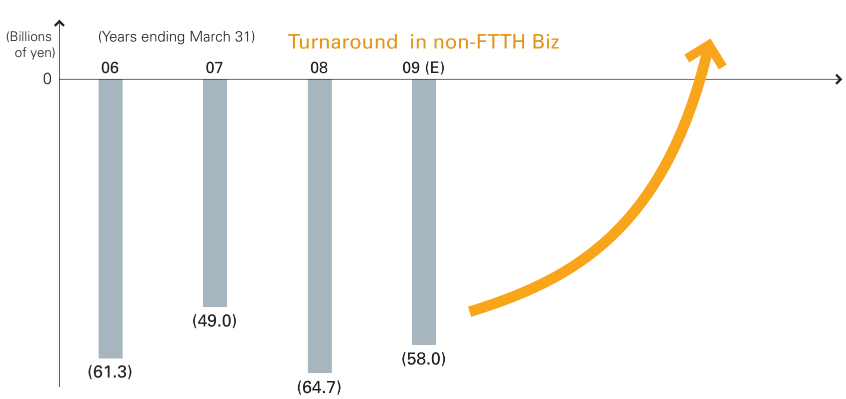
FTTH Strategies

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

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

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

Image of Operating Income of Fixed-line Business



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

Strengthen the Corporate Services Business

Further Expansion of Business Domains

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

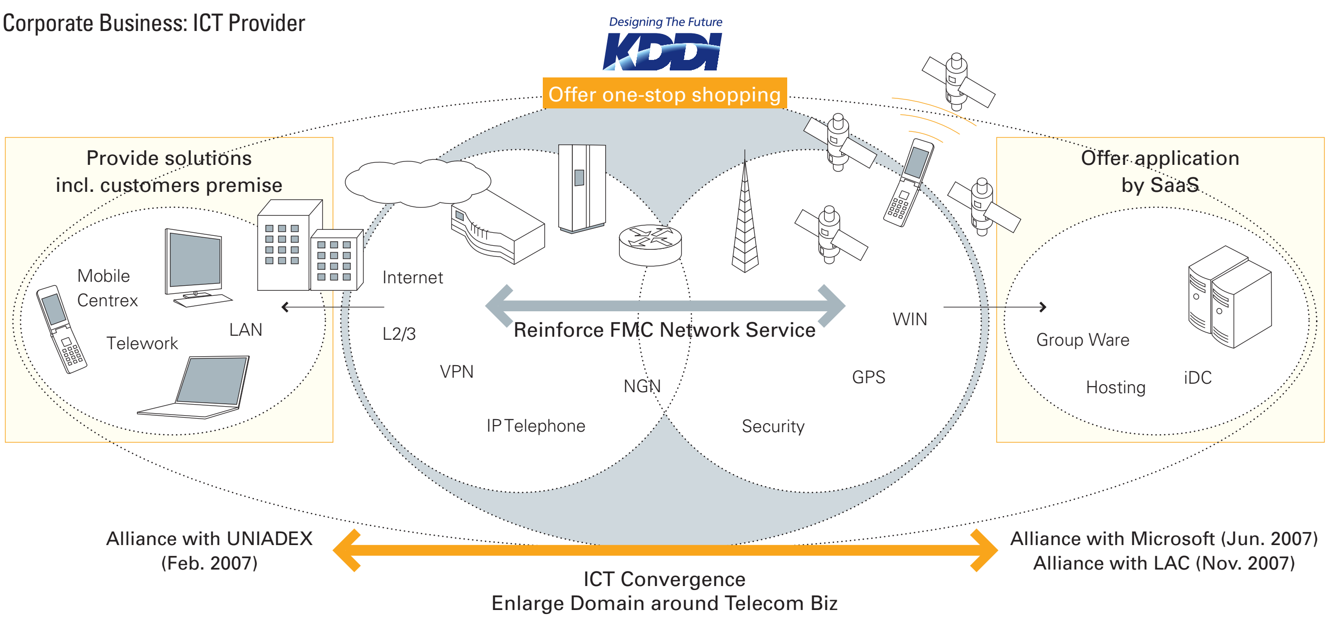
Outlook for Fiscal Year Ending March 2009

Promotion of Access Line Business

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

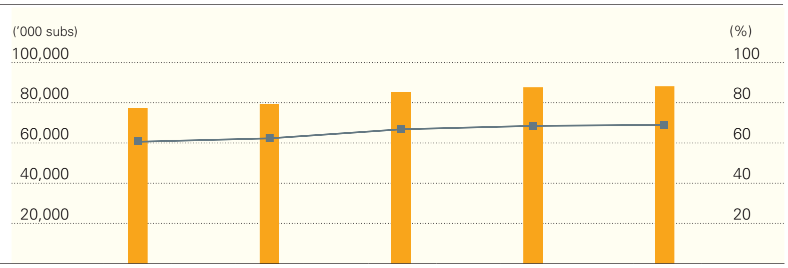
Including this additional revenue, operating revenues are projected to advance 19.0% year on year to ¥855.0 billion. Operating losses will continue, but are expected to contract ¥6.7 billion, to ¥58.0 billion. Although "Metal-plus" service is forecast to move into the black, the development of FTTH services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

Corporate Business: ICT Provider



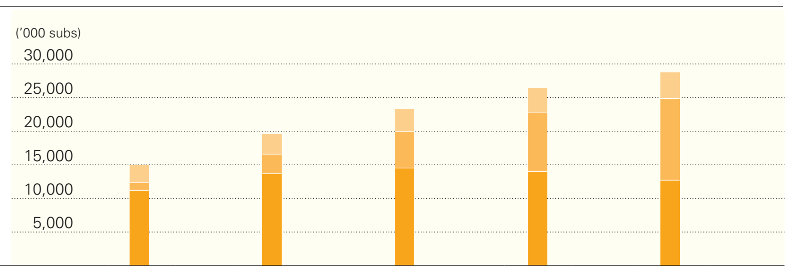
Market Data

Number of Internet Subscribers



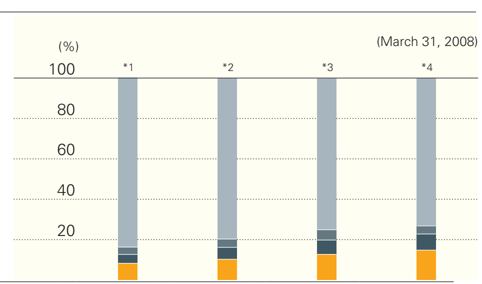
(Years ended December 31)	2003	2004	2005	2006	**2007**
■ Total subscribers in Japan	77,300	79,480	85,290	87,540	**88,110**
— Penetration rate	60.6%	62.3%	66.8%	68.5%	**69.0%**

Number of Broadband Subscribers



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

Market Share of Myline by Operator



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

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

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

Other Business

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

Contents

Business Review

Prioritizing Reinforcement of Growth Areas

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

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

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

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

Main Services and Group Companies in the Other Business

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

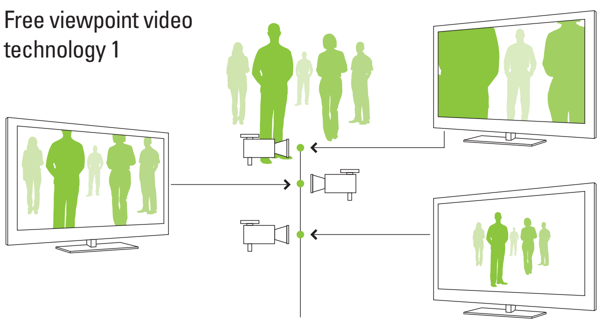
Research and Development

Free Viewpoint Video Technology that Anticipates the Future of Television

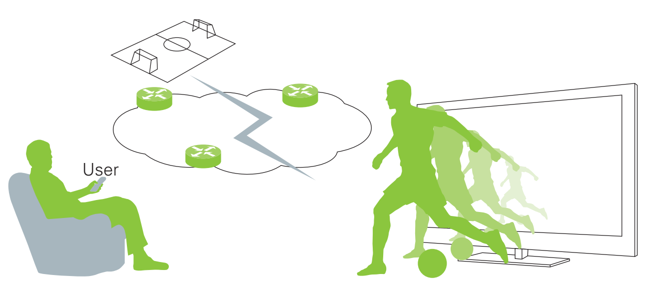
KDDI has developed a free viewpoint video technology that allows viewers to enjoy televised images from nearly any viewpoint they prefer. Users can select viewpoints where a video camera could not be placed, such as the referee's view of a sumo bout or a soccer player's perspective. It even enables "walkthrough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

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

Free viewpoint video technology 1



Free viewpoint video technology 2



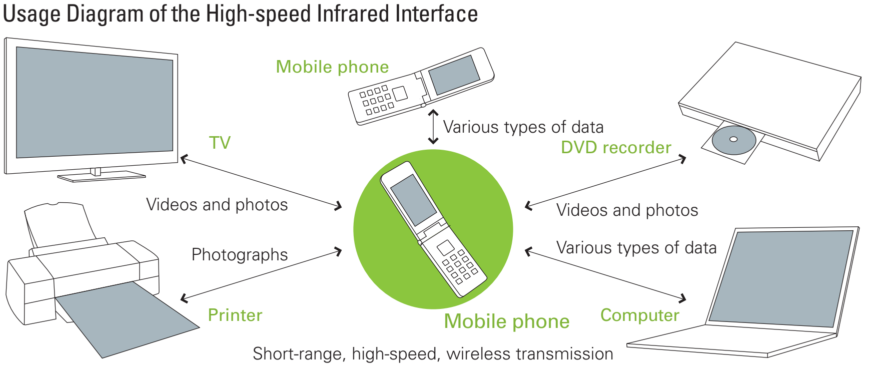
1Gbit/s Infrared Wireless Transmission Using a Mobile Phone

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

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

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

Usage Diagram of the High-speed Infrared Interface



Corporate Governance

Contents

Directors and Auditors
As of June 19, 2008

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
Susumu Oshima
Masayuki Yoshinaga**

Statutory Auditors
Yasuo Akashi**
Katsuaki Watanabe**

* Outside Directors
** Outside Auditors

Organization

As of June 19, 2008

- Shareholders' Meeting
- Board Meeting
- Chairman
- Vice Chairman
- President
- Corporate Management Committee

- Office of Corporate Auditors
- Auditors
- Auditors Office

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
- 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 Strategy Division
  - Solution Product Planning Sector
  - FMC Solution Business Sector
    - FMC Solution Sales Division
    - FMC Solution Engineering Division
  - ICT Solution Business Sector
    - ICT Solution Sales Division
    - ICT Solution Engineering Division
    - Global Business Division
- Consumer Business Sector
  - Consumer Business Strategy Division
  - CATV Alliance Division
  - Consumer Sales Sector
    - Consumer Sales Planning Division
    - Consumer Sales Division
  - Consumer Service & Product Planning Division
  - Content and Media Division

Corporate Governance

Basic Policy Regarding Corporate Governance

KDDI considers strengthening corporate governance to be a vital issue in terms of enhancing corporate value for shareholders, and is working to improve management efficiency and transparency.

With regard to business execution, an executive officer system was introduced in June 2001 to assign authority, clarify responsibilities, and ensure that operations are conducted effectively and efficiently.

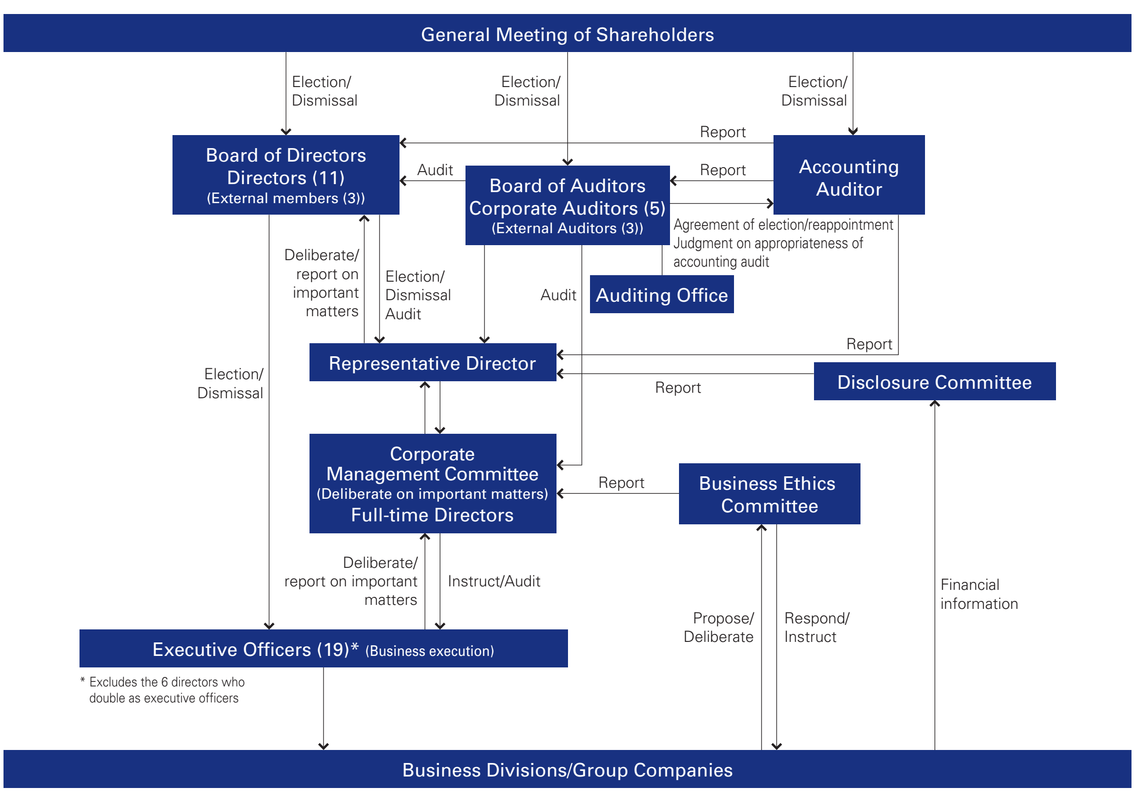
The Board of Directors, which includes external directors, makes decisions regarding important matters as prescribed by relevant statutes, and oversees the execution of business by directors and other managers to ensure proper conduct. The agenda items for the Board of Directors, as well as important matters relating to the execution of business, are decided by the Corporate Management Committee, composed of directors and executive officers.

Corporate auditors attend meetings of the Board of Directors, as well as other important internal meetings. The Board of Directors and the Internal Auditing Department provide, in an appropriate and timely manner, all data necessary to the execution of auditors' duties, exchange opinions, and collaborate with auditors. The Office of Corporate Auditors was established in 2006 to assist corporate auditors with their duties. The opinions of the auditors are taken into account when selecting personnel for assignment to the office.

All KDDI Group operations are subject to internal audits to regularly assess the appropriateness and effectiveness of internal controls. The results of internal audits are reported to the president and to corporate auditors, along with recommendations for improvement and correction of problem areas.

KDDI's corporate governance structure is as follows.

Corporate Governance Framework



(As of June 19, 2008)

Remuneration for Directors and Auditors

		No. of directors/ auditors	Remuneration (Millions of yen)
Directors	Outside Directors	3	22.5
	Others	8	343.6
Auditors	Outside Auditors	3	35.0
	Others	2	43.3

Notes: 1. The maximum monthly remuneration for directors was set at ¥40 million by a resolution of the 17th Annual Meeting of Shareholders, held on June 26, 2001. This does not include the employee salary for directors concurrently occupying posts as employees. Furthermore, directors may receive up to an additional ¥40 million of remuneration in the form of equity warrants issued as stock options, as decided by a resolution of the 22nd Annual Meeting of Shareholders held on June 15, 2006.
2. The maximum monthly remuneration for auditors was set at ¥7 million by a resolution of the 16th Annual Meeting of Shareholders, held on June 28, 2000.
3. Remuneration amounts outlined above included the following board members' bonuses, as determined by a resolution of the 24th Annual Meeting of Shareholders held on June 19, 2008.
11 Directors: ¥80.2 million (3 Outside Directors: ¥7.5 million)
5 Auditors: ¥19.2 million (3 Outside Auditors: ¥9.7 million)
4. Remuneration amounts outlined above included: (1) equity warrants issued to 7 directors as stock options, as determined by a resolution of the Board of Directors' meeting held on July 21, 2006; and (2) equity warrants issued to 8 directors as stock options, as determined by a resolution of the Board of Directors' meeting held on July 23, 2007.

Major Activities of Outside Directors and Outside Auditors

Directors

- In his post as director Noboru Nakamura attended 5 of the 7 meetings of the Board of Directors.
- In his post as director Hiroshi Okuda attended 3 of the 7 meetings of the Board of Directors.
- In his post as director Tsunehisa Katsumata attended 2 of the 7 meetings of the Board of Directors.

*In cases where an outside director is unable to attend a meeting of the Board of Directors, the Company provides the director with a timely report concerning the proceedings of the meeting, and requests the director's opinions and advice related to the management of the Company.

Auditors

- In his post as auditor Takashi Yonezawa attended 7 of the 7 meetings of the Board of Directors, and 7 of the 7 meetings of the Board of Auditors.
- In his post as auditor Yasuo Akashi attended 6 of the 7 meetings of the Board of Directors, and 6 of the 7 meetings of the Board of Auditors.
- In his post as auditor Katsuaki Watanabe attended 4 of the 7 meetings of the Board of Directors, and 4 of the 7 meetings of the Board of Auditors.

*Outside auditors conduct audits according to auditing policies and plans determined by the Board of Auditors. In meetings of the Board of Auditors, they listen to and discuss reports on the methods and results of audits performed by each auditor. Furthermore, they provide relevant opinions regarding the audits at meetings of the Board of Directors.

Concept of Compliance

KDDI is improving and reinforcing its compliance structures, based on its belief that compliance with the law—including strict observance of the privacy of communications established in the Constitution of Japan—is fundamental to business operations. In conjunction with these efforts, the company is working to improve awareness of compliance to ensure that all employees maintain a high sense of ethics at all times and execute their duties appropriately. To this end, KDDI codified its business ethics in January 2003, establishing basic principles for executives and employees to follow in the course of day-to-day business.

Compliance Promotion System

KDDI has also put in place a KDDI Group Business Ethics Committee to deliberate and make decisions on compliance-related items. The committee formulates policies for educational activities, and, in the event that a violation of compliance occurs, it deals with the situation, discloses information outside of the Company, and deliberates on measures to prevent recurrence. The status of the committee's activities is made available to all employees via the intranet.

Compliance Education and Training

In addition to the existing management training and companywide e-learning, since December 2007, KDDI has also been implementing quarterly compliance-related training at group training sessions for general employees.

(Key training accomplishments: Training for 300 general employees; e-learning for approximately 11,000 employees; management/line manager training for 900 employees)

Business Ethics Help Line

KDDI established the Business Ethics Help Line to serve as a contact point for all employees with questions or concerns about business ethics and legal compliance. By establishing a contact point in collaboration with external experts, the Company is creating an environment where it is easy for employees to report concerns. The Company has also established internal regulations in response to the enforcement of Japanese legislation designed to protect public informants, and actively conducts educational activities on this topic.

Compliance Structure of KDDI Group Companies

KDDI has also codified its business ethics for Group companies, and has established company-based Business Ethics Committees and Business Ethics Help Lines. The Business Ethics Committees convene semi-annually to ascertain the situation at each company and support the establishment and reinforcement of compliance structures.

Risk Management

KDDI's risk management is centered on various committees composed of directors and other managers, and a risk management department (the Corporate Risk Management Division) that regularly assesses risk data, and provides integrated control for risk. All departments and managers work together, based on relevant internal regulations, to provide proper management of risks facing the KDDI Group, and to achieve management targets in an appropriate and efficient manner.

1. Risk Management Structure

(1) The committee for management strategies rigorously analyzes business risks and prioritizes businesses to achieve sustainable growth for the Group, in addition to formulating appropriate management strategies and plans. To achieve these aims, the committee for performance management meets monthly to monitor business risks and ensure thorough management of performance data.

(2) KDDI treats all stakeholders as customers, and has all managers participate in total customer satisfaction (TCS) activities in order to improve customer satisfaction. The committee for TCS works to respond quickly and appropriately to customer needs and complaints in order to evaluate and improve TCS activities.

KDDI also ensures compliance with product safety laws and regulations, and works to provide customers with safe and reliable, high-quality products and services. It provides easy-to-understand information and full instructions to ensure customers select and use these products and services properly.

These company-wide measures ensure support and trust in all activities of the KDDI Group and improve customer satisfaction, as well as solidify and expand the customer base.

(3) KDDI is in the process of refining its internal control system to enhance the reliability of financial reporting. (See pages 52 to 53 for details.)

(4) The KDDI Group works to further enhance its public relations and IR activities, ensure the transparency of Group management, and gain the acceptance and trust of all stakeholders. (See page 51 for details.) Business risks facing the Group are properly clarified and disclosed in a timely and appropriate manner by the committee for disclosure. Issues pertaining to the Group's social responsibilities, including environmental measures, social contributions and other initiatives, are compiled and disclosed in a CSR report prepared mainly by departments concerned with CSR. (See pages 54 to 55 for details.)

(5) For issues that exert a significant or long-term impact on company business, KDDI is working to formulate a business continuity plan (BCP) containing response strategies that will lessen as much as possible the interruption of business or other risks.

2. Structure as a Telecommunications Carrier

(1) Protecting communications privacy

The protection of communications privacy is fundamental to the KDDI Group's corporate management, and we take steps to ensure privacy is strictly protected.

(2) Information security

For the management of corporate information assets, including preventing leaks of customer data and protecting against cyber-terrorism in telecommunications service networks, the committee for information security formulates measures, and works together with managers to guarantee information security.

(3) Restoration of networks and services following a disaster

KDDI implements measures to improve network reliability and prevent the disruption of service in order to lessen as much as possible such risks as the interruption or termination of communication services due to a serious accident, damage or a major disaster.

In an emergency situation a special task force will be established as quickly as possible in order to rapidly restore service.

Disclosure and Investor Relations

The company 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 Securities Exchange Law and Tokyo Stock Exchange regulations governing the timely disclosure of information concerning the issuers of publicly listed securities. 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 quarterly 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 the company's IR activities was again confirmed by the company's receipt for the fifth 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. In the fiscal year ended March 2008, the company won a Disclosure Award in the Tokyo Stock Exchange's Listed Companies' Awards. This was the second time it received the award, having won it previously in the fiscal year ended March 1998.

*KDDI has received awards for Excellence in Corporate Disclosure for five consecutive years since the fiscal year ended March 2003

Information Security

KDDI established an Information Security Committee composed of management-level employees in 2004, as part of its structure to assess the status of information security throughout the company, and allow for the timely implementation of measures necessary to strengthen information security. Further, to ensure that all security measures are implemented promptly and without fail, an officer for information security has been assigned to each internal department, and the program is being expanded to all employees and external contractors.

KDDI considers the leaking and loss of customer data that occurred in 2006 to be a serious incident, and has implemented measures to strengthen information security from a variety of angles. In particular, we have steadily implemented a range of security measures to prevent a reoccurrence of such an information security breach. We also recognize that it is essential to have in place a mechanism to check the implementation of these measures and correct any deficiencies. We have therefore decided to acquire Information Security Management System (ISMS*) certification throughout the company, and utilize this as a security tool. This will ensure that the Plan-Do-Check-Act management cycle is rigorously observed throughout the organization.

ISMS certification was immediately acquired for the Operations Sector, Information Systems Division and certain other departments, and a full-scale ISMS acquisition program was launched from the latter half of fiscal 2006 to certify all internal departments as quickly as possible. The scope of registration for ISMS certification has gradually been expanded, and as of April 2008 covered approximately 80% of the company (on an employee number basis). Certification of the remaining departments will be completed by the end of fiscal 2008. KDDI will continue to utilize the ISMS framework to assess the effectiveness of its various security measures, revising them as necessary, and work continually to improve information security and strengthen customer data management.

*ISMS is a management system for information security based on the international standard ISO/IEC27001:2005.

Internal Controls

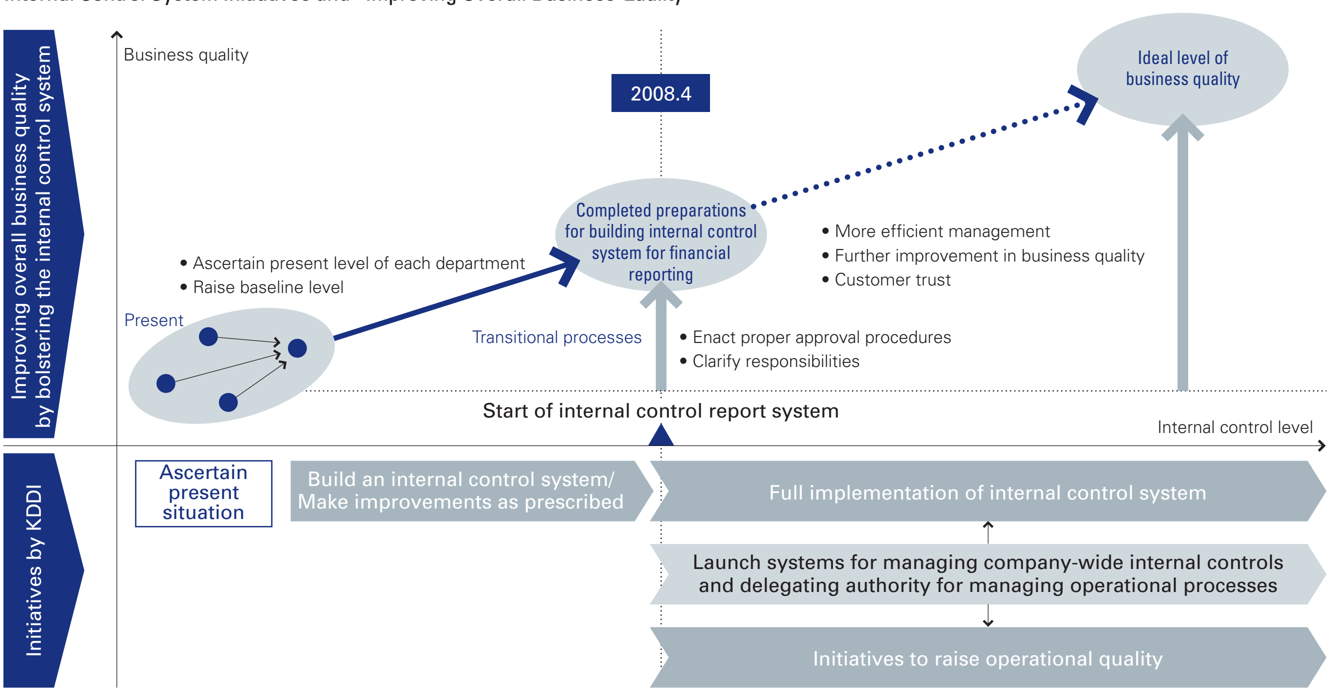
Measures to Improve Overall Business Quality

Basic Policy Regarding Internal Controls

KDDI, at a meeting of its Board of Directors held in April 2006, decided to implement a system necessary to ensure proper operation (basic policy for the creation of an internal control system) in accordance with Article 362-5 of the Corporate Law. The Board decided to make revisions (additions) to this system at its January 2008 meeting.

Under this basic policy, KDDI will establish an effective internal control system in order to ensure reliable financial reporting, as well as the fairness, transparency and effectiveness of business execution in a bid to improve corporate quality.

Internal Control System Initiatives and "Improving Overall Business Quality"



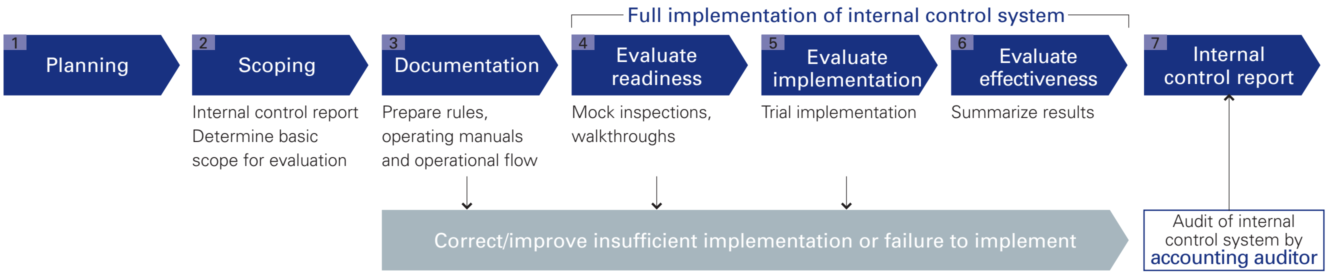
Response to the Financial Products and Exchange Law

In response to the Financial Products and Exchange Law, KDDI has made preparations for the establishment of an internal control system to ensure reliable financial reporting, emphasizing the clarification of those company-wide operations concerned with financial reporting, and documenting and reviewing of their operational flow. New organizations were established in April 2006 specializing in the building of an internal control system (the current Corporate Risk Management Division and the Internal Control Department), and in each department within the divisions internal control managers were appointed to promote measures to establish internal controls within their respective departments.

KDDI is also working to build internal control systems at Group subsidiaries, and in the fiscal year ended March 2008 began building such systems at 17 domestic and overseas subsidiaries. In the fiscal year ending March 2009, the number of companies and the scope of controls will be expanded to further bolster the Group's control structure.

KDDI also conducted an e-learning program for all employees, in June 2007 and again in January 2008, to deepen their understanding of internal controls. Study seminars, attended by 760 employees, were also held 4 times during the fiscal year ended March 2008.

Basic Cycle in Building an Internal Control System for Financial Reporting



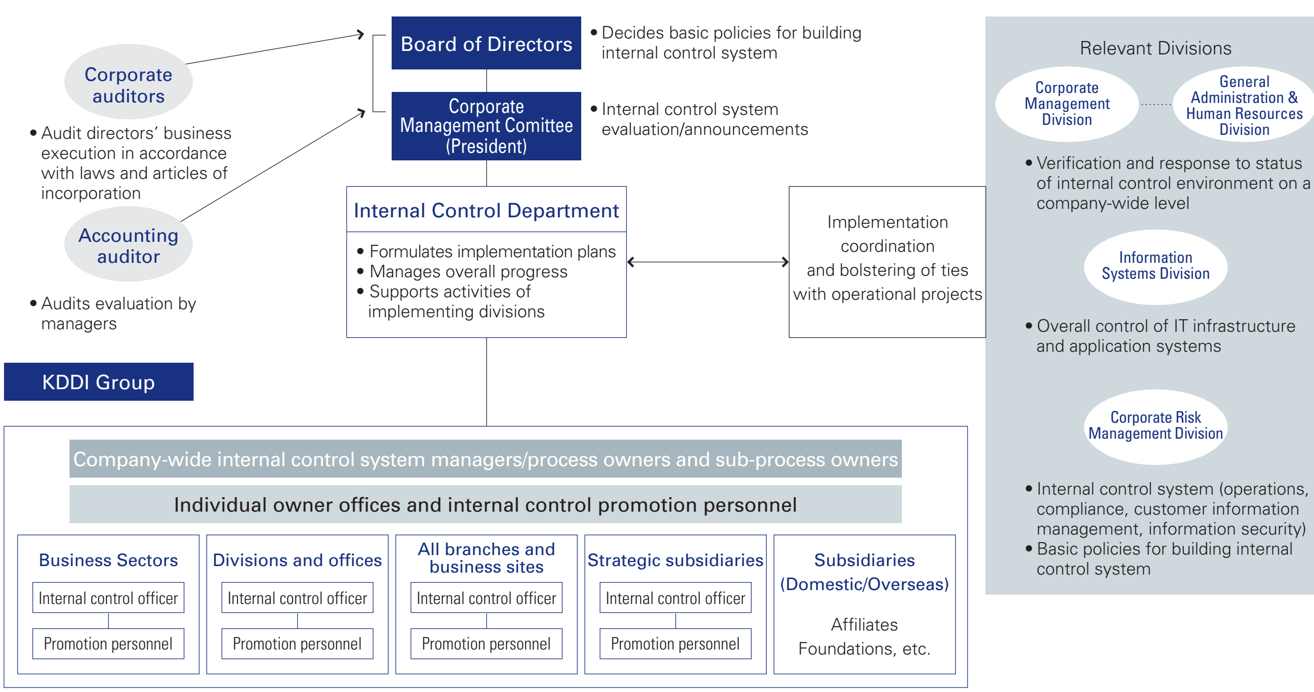
Internal Structures

Internal controls for financial reporting will be fully implemented from the fiscal year ending March 2009. KDDI has decided to introduce a new system in which a "process owner" is designated for each finance-related operational process, along with subordinate "sub-process owners." This system will help clarify responsibilities regarding the building and operation of the internal control system, and operational improvements.

KDDI has also decided to introduce an administration system for company-wide internal controls, and in addition to this system will implement controls for the entire Group.

KDDI considers its initiatives in response to the enforcement of the Financial Products and Exchange Law to be steps toward improving overall business quality. We are working to achieve the company-wide goal of "improving operational quality" to raise efficiency and standardization, as well as add value while enhancing the quality of operations.

Internal Control Promotion System Concerning Financial Reporting



Corporate Social Responsibility

Contributing to Attaining a Secure and Safe Sustainable Society through Telecommunications

CSR Stance

As a comprehensive telecommunications company, we believe that our corporate social responsibility (CSR) lies in supporting all aspects of social and economic activity through the provision of telecommunication services.

In our CSR activities, we recognize the highly public and social nature of telecommunications. Based on that awareness, we strive to encourage each and every employee to follow KDDI's basic principles in this area.

KDDI Fundamental Principles and CSR

KDDI Fundamental Principles

- Winning the customer's satisfaction and trust
- Ensuring employee satisfaction and a dynamic company
- Winning the trust of shareholders and business partners
- Contributing to social development

Sustainable development of society

KDDI's CSR

- Total Customer Satisfaction (TCS)
- Provision of secure and satisfying telecommunications services
- Contribution to social development
- Business foundations (corporate governance, compliance, information disclosure, risk management, etc.)

The Foundation of CSR: TCS (Total Customer Satisfaction)

KDDI considers all stakeholders "customers"—not just those who use our services, but our business partners, employees, shareholders, investors, and government administrative agencies. We are promoting TCS (Total Customer Satisfaction) activities throughout the Company in our quest for customer satisfaction within all our processes. TCS initiatives underpin KDDI's business activities and form the foundations for our CSR initiatives.

Specific Initiatives

Reliability and Stability of Communication Networks

As a comprehensive telecommunications carrier KDDI provides its customers with a stable lifeline by maintaining and managing a highly reliable communications network. We are constantly upgrading our operating and maintenance structures to offer customers high-quality communications services.

Year-round 24-hour Monitoring

In order to reliably provide stable and enjoyable communications services, KDDI has set up five centers to constantly monitor its mobile, fixed-line, and international networks and servers, as well as to detect and analyze hacker attacks on its servers. These centers operate around the clock every day of the year to ensure the reliability of communications.

Ensuring Communication Network Services during Disasters

In addition to diversifying the locations of its communications equipment, installing parallel backup lines and systems, and enabling multi-routing, KDDI endeavors to improve network security and reliability by strengthening the abilities of its communication stations and mobile base stations to deal with or resist interruptions caused by disasters.

To secure essential lines of communications in an orderly manner during disasters, KDDI has installed mobile base stations capable of using satellite communication systems in vehicles that can be deployed to replace the regular base station network. These mobile command vehicles have been in service since January 2007.

In March 2008, KDDI began offering a service that relays with no delays the Japan Meteorological Agency's Earthquake Early Warning alert of major earthquakes to all au mobile phones in the area around an earthquake's epicenter.

Building a Secure and Safe Society

KDDI is constantly aware of security and safety in its efforts to support the development of society by providing more enjoyable and convenient communications.

Filtering Service and Mobile Phone Safety Education

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

Since the fiscal year ended March 2006, KDDI has been offering classes on the proper use of mobile phones to elementary school students around the country. In April 2008, the scope of the program was broadened to include high school and junior high school students. The classes use examples of actual incidents to communicate the dangers that may lie beyond a simple phone call or email message on their mobile phones.

Environmental Protection Activities

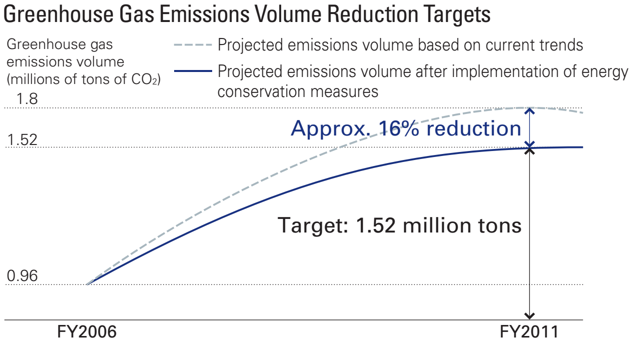
In March 2003, we created the KDDI Environmental Charter, a set of guidelines for environmental initiatives. The same year, we established Stage One of the Medium-term Environmental Conservation Plan, which aimed to create an integrated company-wide environmental management system by the end of fiscal 2007. The system was completed in January 2007, and in July 2007 we formulated Stage Two of the Medium-term Environmental Conservation Plan.

Stage Two of the Medium-term Environmental Conservation Plan

(1) Global warming countermeasures

Reduce projected energy consumption for fiscal 2011 by 16%, and limit greenhouse gas emissions volume (CO_2) to 1.52 million tons.

Greenhouse Gas Emissions Volume Reduction Targets



(2) Reduction of waste/Promotion of recycling

- Achieve 99% or higher recycling rate for mobile handsets and decommissioned communications equipment in fiscal 2011.
- Thoroughly implement reduction and separation of office waste and achieve 70% or higher recycling rate in fiscal 2011.

(3) Qualitative improvement of environmental management

- Reinforce compliance evaluation and internal auditing.
- Enhance in-house environmental education activities.

Results and Progress in Stage Two of the Medium-term Environmental Conservation Plan

In order to make steady progress toward the targets laid out in Stage Two of the Medium-term Environmental Conservation Plan, the Company has established numerical reduction trend targets for each fiscal year from fiscal 2007 to the end-year in fiscal 2011, and is monitoring progress.

Key Trend Targets for Fiscal 2007 and Progress Status

	FY2007	
	Trend Target	Actual Results
Reduction of greenhouse gas emissions volume …Electrical power consumption	1.92 billion kWh	1.85 billion kWh
Reduction of waste/Promotion of recycling …Recycling rate for mobile phone handsets	98% or over	98%
…Recycling rate for decommissioned communications equipment	98% or over	98%
…Reduction of office waste/Promotion of recycling/Thorough separation of waste by type	Ensure separation/ Understand current monitoring situation	99% of waste checked to ensure proper separation

International Cooperation and Contribution Activities

Taking advantage of the knowledge and technology capabilities in the telecommunications field that it has developed over the years, KDDI engages in a proactive program of international contribution activities. Examples include projects to improve communications systems in developing countries, pilot projects to eliminate the digital divide,* dispatch of technology experts, and acceptance of overseas trainees.

*"The digital divide" is a term coined to describe the problem of disparity between the "haves" and "have-nots" in respect of information and communication technology (ICT). Such disparities exist between developed countries and developing countries, between urban areas and remote (rural) areas, etc.

Third-party Assessment

As a result of the evaluation of KDDI's CSR activities, the Company has been added to the following major socially responsible investment (SRI) indexes.

FTSE4Good

MS-SRI

- FTSE4Good JAPAN INDEX
- FTSE4Good GLOBAL INDEX
- Morningstar Socially Responsible Investment Index

*"Morningstar Socially Responsible Investment Index" refers to ratings given by Morningstar Japan K.K. to 150 listed companies in Japan selected on the basis of outstanding social responsibility. The benchmark is Japan's first socially responsible investment share price index.

*For more information on our CSR initiatives, please visit our CSR website. (http://www.kddi.com/english/corporate/kddi/csr)

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, 2008. 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 2008, KDDI launched 36 handset models, allowing each customer to select the model that best suits their lifestyle. The broad lineup included models featuring distinctive designs or functions, such as the Waterproof 1Seg series, the EXILIM series, the Walkman® series, the INFOBAR2 series, and the Wooo series; models incorporating the KDDI Integrated Platform (KCP+), including those that feature the "LISMO" comprehensive music service suite or the "au one Gadget" series; and models with the "au Smart Sports Run&Walk" function; as well as the "Simple Phone" series of models with simplified functions for first-time users. In charge option services, from March 1, 2008, KDDI began offering 24-hour free calls to family members for subscribers to the "Everybody Discount" or "Smile Heart Discount" plans, the same service provided for the "Family Discount" plan. We also began offering the "Business Discount" plan which ensures 24-hour free calling between employees on the plan. Further, from November 12, 2007, KDDI began offering the "au Purchase Program" that allows new au subscribers (except for prepaid service) or subscribers purchasing a new au handset to select from two purchasing options to find the one that meets their particular needs.

As a result of such efforts to add services and enhance customer satisfaction, the number of subscribers to the au service increased steadily. 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 payments and retention costs
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to 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
- Increase in network costs associated with construction of base stations for the 2GHz band and the new 800MHz band to respond to the new frequencies
- Increase in competition due to new high-speed wireless data technology
- 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

The KDDI Group is taking steps to expand sales of direct-access services including "Metal-plus" and the "HIKARI-one" FTTH service, and further expand its customer base through alliances with cable TV companies.

During the fiscal year ended March 2008, for its "HIKARI-one TV Service (MOVIE SPLASH)" KDDI added more channels, and made proactive efforts to expand video content, including launching VOD (video on demand) programming from Warner Brothers, NBC Universal and 20th Century Fox. For the cable television station network and the "Cable-plus phone" service using KDDI's CDN (Content Delivery Network), we steadily increased the number of allied CATV stations, strengthening the business foundation developed under the existing broadband services business.

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 payments and retention costs
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to unforeseen developments
- Decline in attractiveness of supplied content relative to rival carriers
- Drop in customer satisfaction as a result of spam or other e-mail abuse, plus related increases in network security costs
- Contraction of the fixed-line telephony market due to spread of IP telephony
- Possible 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 and 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 company-wide 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 both training employees to adhere to these policies and 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. In addition to a possible 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 Regulations and Government Policies

The revision or repeal of laws and ordinances governing telecommunications, together with related government policies, has 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
- New carriers entering the mobile communications market, such as through an MVNO
- Regulation of the mobile Internet due to an increase in harmful websites
- Regulation of mobile phones
- 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)
- New research into the effect of radio waves on health

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
- Regulation of the Internet due to an increase in harmful websites
- 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. Retirement Benefits

The KDDI Group provides a defined-benefit pension plan (fund type), a retirement allowance plan (internal reserve), and a retirement benefit trust. Some consolidated subsidiaries have a defined contribution pension plan. KDDI regularly reviews its asset management policies and agencies in accordance with future predictions of retirement payment liabilities. However, going forward the KDDI Group could incur 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 2008 the KDDI Group posted impairment losses primarily for domestic transmission infrastructure and other idle assets. 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.

On June 27, 2007, KDDI acquired shares in JAPAN CABLENET HOLDINGS LIMITED (JCNH) and JAPAN CABLENET LIMITED (JCN), making both companies consolidated subsidiaries. Also, on January 25, 2008, KDDI concluded a stock transfer contract with Chubu Electric Power Co., Inc., under which a portion of the shares in Chubu Telecommunications Co., Inc. held by Chubu Electric will be transferred to KDDI effective April 1, 2008.

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

Financial Section

Contents

Message from the Executive Vice President

Satoshi Nagao
Executive Vice President
Member of the Board

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

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

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

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

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

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

Five-year Summary

Years ended March 31

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

Notes: 1. U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥100.19=U.S.$1 on March 31, 2008.
2. From the fiscal year ended March 2007 net assets (the sum of shareholders' equity, new share subscription rights and minority interests) are presented in the balance sheet.

Selected Financial Indicators

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

Equity ratio = Shareholders' equity (end of fiscal year) ÷ total assets (end of fiscal year)
D/E ratio = Interest-bearing debt (end of fiscal year) ÷ shareholders' equity (end of fiscal year)
ROE = Net income ÷ average shareholders' equity over fiscal year
ROA = Operating income ÷ average total assets over fiscal year
Total assets turnover ratio = Operating revenues ÷ average total assets over fiscal year
Shareholders' equity turnover ratio = Operating revenues ÷ average shareholders' equity over fiscal year
Current ratio = Current assets (end of fiscal year) ÷ current liabilities (end of fiscal year)
Fixed assets to equity = Fixed assets (end of fiscal year) ÷ total shareholders' equity (end of fiscal year)
Fixed assets to long-term capital = Total fixed assets ÷ (total shareholders' equity (end of fiscal year) + non-current liabilities (end of fiscal year))
Liquidity in-hand = Liquidity in-hand (cash + marketable securities among the current assets) ÷ (operating revenues ÷ 12)
Interest coverage ratio = (Operating income + interest income, discounts + dividends earned) ÷ (interest income, discounts)
Dividend payout ratio = Annual dividend amounts ÷ net income
(The dividend payout ratio is presented on a non-consolidated basis until the fiscal year ended March 2006, and on a consolidated basis from the fiscal year ended March 2007.)

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

Segment Data

Years ended March 31

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

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

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

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

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

Management's Discussion and Analysis

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

The following pages provide an analysis of the financial condition and business results of the KDDI Group for the fiscal year ended March 31, 2008. Any forecasts, predictions, projections, outlooks, plans, policies, or comments regarding the future contained in these pages constitute forward-looking statements, and as such represent the best judgment of management as of the end of March 2008 based on information available at that time. Actual results may differ materially due to the risks and uncertainties inherent in such statements.

1. Analysis of Consolidated Business Results

(1) Executive Summary

(a) Status of the KDDI Group

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

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

The Fixed-line Business provides a range of individual and corporate services, including voice communications and broadband and Internet connectivity. The high-quality IP phone service "Metal-plus" launched services in February 2005, and had reached 3.27 million subscribers as of the end of March 2008. For its corporate customers, KDDI began providing "KDDI Powered Ethernet" in January 2006 as its mainstay service. KDDI's FTTH (Fiber to the Home) operations, which merged with those of Tokyo Electric Power Company (TEPCO) in January 2007, had 710,000 subscribers at the end of March 2008.

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

(Reference)

Scope of Consolidation

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

KDDI Group

(As of March 31, 2008)

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

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

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

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

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

◯ KDDI Group Initiatives in the Mobile Communications Market

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

◯ KDDI Group Initiatives in the Fixed-line Market

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

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

(2) Overview

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

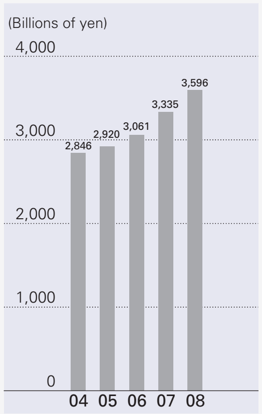
Operating expenses rose ¥205.3 billion, or 6.9%, to ¥3,195.8 billion. This was mainly due to costs associated with expanding sales of CDMA 1X WIN handsets and higher depreciation costs in the Mobile Business, as well as a rise in costs related to "HIKARI-one" in the Fixed-line Business.

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

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

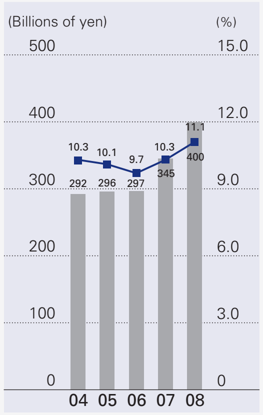
Income before income taxes and minority interests grew ¥70.1 billion, or 22.7%, to ¥379.2 billion. Total income taxes, consisting of corporation, resident, and enterprise taxes, totaled ¥143.2 billion against deferred income taxes of ¥14.5 billion, which together amounted to an increase of ¥39.3 billion

Consolidated operating revenues



(Years ended March 31)

Consolidated operating income/margin



(Years ended March 31)

■ Operating income
— Operating income margin

Summarized Consolidated Statements of Income

(Billions of yen)

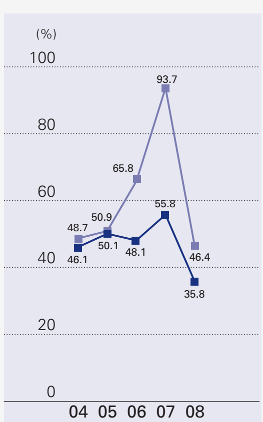
	2007/3	2008/3	Change amount	Change %
Operating Revenues	3,335.3	3,596.3	261.0	7.8
Operating Expenses	2,990.6	3,195.8	205.3	6.9
Operating Income	344.7	400.5	55.8	16.2
Other Expenses	35.6	21.2	(14.4)	(40.4)
Income before Income Taxes and Minority Interests	309.1	379.2	70.1	22.7
Current Income Taxes	133.4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

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

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

(3) Segment Financial Reviews

Share of net additions of Mobile Business



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

(a) Mobile Business

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

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

KDDI differentiates itself from other carriers with CDMA2000 1x EV-DO ("EV-DO"), a dedicated format for data communications using CDMA 1x WIN. In December 2006, the Company started rolling out EV-DO Rev. A, an upgraded version of EV-DO. By the end of March 2008, this new service covered practically all of Japan's major areas. EV-DO Rev. A has dramatically raised the download speed to a maximum 3.1 Mbps, and the upload speed from 154 kbps to a maximum 1.8 Mbps. The deployment of EV-DO Rev. A has allowed KDDI to further differentiate itself in terms of infrastructure, the foundation of product competitiveness.

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

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

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

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

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

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

○ Charges

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

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

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

* Discount service for disabled people.

◯ Content Services

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

◯ Corporate Services

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

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

<Major new services for corporate customers>

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

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

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

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

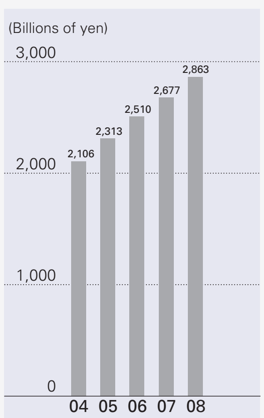
◯ Termination of “Tu-Ka” Mobile Service (March 2008)

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

Operating Revenues

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

Operating revenues (Mobile Business)



(Years ended March 31)

◯ Increase in Number of Subscribers

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

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

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

(Reference) Total Subscribers

('000 subs)

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

Note: Net additions = New subscribers – churn

◯ Expansion of CDMA 1X WIN and ARPU

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

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

*[1] ARPU: Monthly Average Revenue Per Unit

*[2] MoU: Monthly Minutes of Use

◯ Improvement in Churn Rate

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

Churn rate

(Years ended March 31)

au ARPU

(Yen)

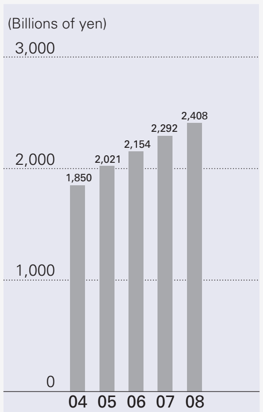
	2007/3	2008/3	Change
Total ARPU	6,610	6,260	(350)
of Voice	4,590	4,130	(460)
of Data	2,020	2,130	+110

WIN ARPU

(Yen)

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

Operating expenses (Mobile Business)



(Years ended March 31)

Operating Expenses

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

◯ Cost of Sales for Mobile Handsets

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

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

◯ Total Value of SAC/SRC

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

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

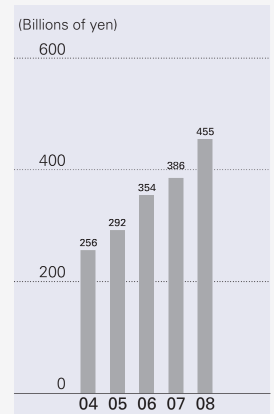
◯ Depreciation

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

Operating Income

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

Operating income (Mobile Business)



(Years ended March 31)

(b) Fixed-line Business

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

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

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

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

◯ Rollout of "HIKARI-one" FTTH Service

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

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

◯ Expanded Data Services for Corporate Clients

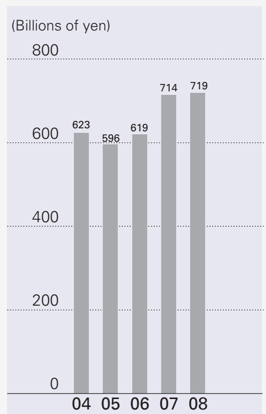
Among the data services we offer our corporate clients, we believe that VPN services, such as wide-area Ethernet, represent a growth area for the future. We are now witnessing the benefits of KDDI's merger with POWEREDCOM Inc. Sales from VPN services in the year under review rose 11%, to ¥98.6 billion,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

Operating Revenues

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

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

Operating revenues (Fixed-line Business)

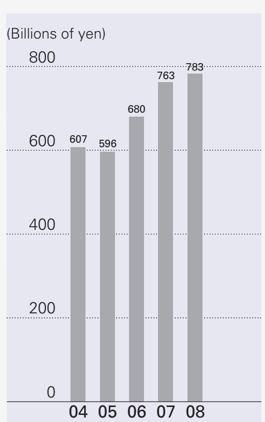


(Years ended March 31)

Operating Expenses

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

Operating expenses (Fixed-line Business)



(Years ended March 31)

◯ Increase in Expenses related to "Metal-plus"

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

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

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

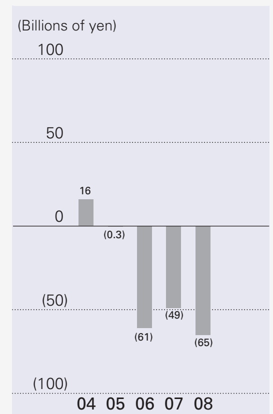
The "HIKARI-one" rollout led to increases in customer acquisition costs, including sales commissions, as well as related installation costs. Along with the merger of KDDI's and TEPCO's FTTH operations in January 2007, meanwhile, the Company has been rebuilding its sales structure, incurring related start-up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

Operating Income (Loss)

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

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

Operating income (Fixed-line Business)



(Years ended March 31)

Subsequent Events

CTC becomes consolidated subsidiary (April 1, 2008)

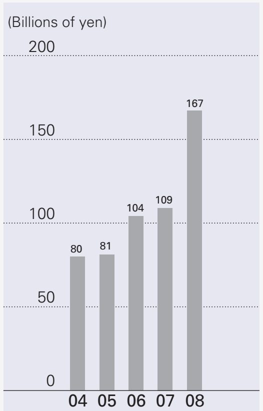
On January 25, 2008, KDDI signed an agreement with Chubu Electric Power Co., Inc., holder of shares in Chubu Telecommunications Co., Inc. (CTC). Pursuant to the agreement, Chubu Electric transferred a portion of its shares in CTC (1,660,000 shares, or 80.5% of CTC's total issued stock) to KDDI, making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

(c) Other Business

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

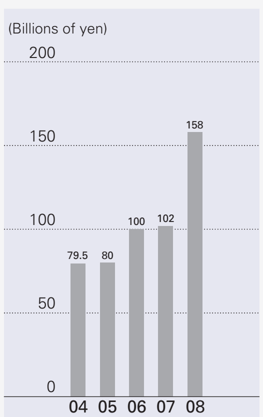
During the year, KDDI reinforced collaboration within the Group by making the JCN Group, which is involved in the cable television business, into a consolidated subsidiary in June 2007.

Operating revenues
(Other Business)



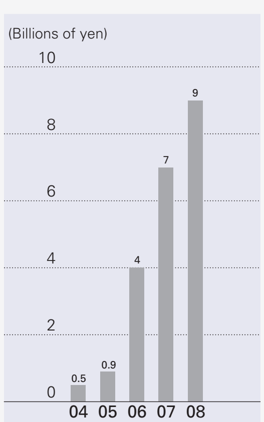
(Years ended March 31)

Operating expenses
(Other Business)



(Years ended March 31)

Operating income
(Other Business)



(Years ended March 31)

Operating Revenues

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

Operating Expenses

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

Operating Income

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

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

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

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

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

(4) Other Expenses/Income

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

○ Interest Expense

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

○ Equity in Gain of Affiliates

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

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

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

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

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

(Year ended March 2008)

- ¥21.2 billion impairment loss

  Impairment loss on domestic network infrastructure and other idle assets

  The book value of certain domestic transmission infrastructure and other underutilized assets was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥18.7 billion.

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

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

(5) Income Taxes and Tax Adjustments

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

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

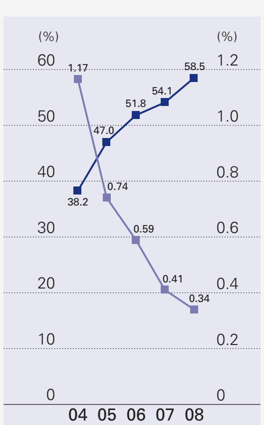
○ In the Mobile Business, we will endeavor to further increase customer satisfaction by providing attractive mobile handsets and new services and content, while further increasing CDMA 1X WIN sales. In these ways, will aim to create even more comfortable mobile environments and broaden the scope of our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

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

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

2. Assets and Capital Expenditures

Shareholders' equity ratio, D/E ratio



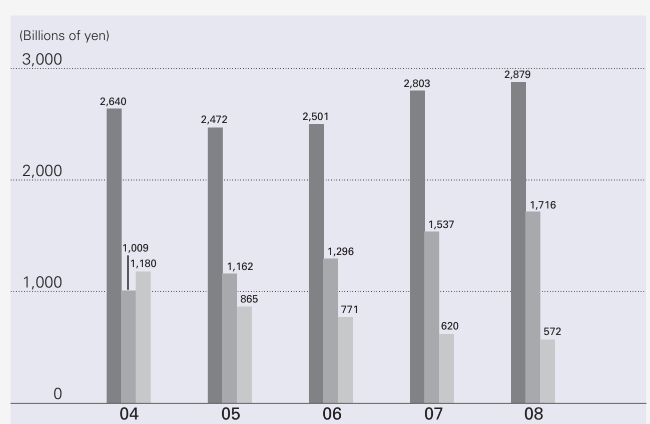
(Years ended March 31)
— Shareholders' equity ratio
— D/E ratio

(1) Assets

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

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

Total assets, Total net assets, Debt

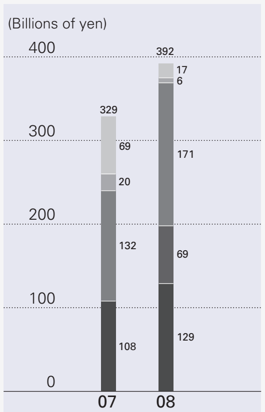


(As of March 31)
■ Total assets ■ Total net assets ■ Debt

(2) Capital Expenditures

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

Capital expenditures (Mobile Business)



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

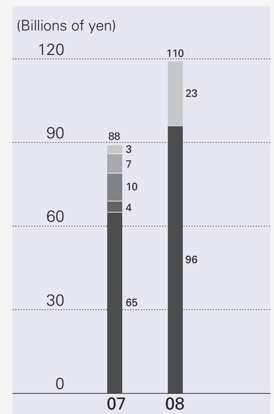
(a) Mobile Business

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

(b) Fixed-line Business

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

Capital expenditures (Fixed-line Business)



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

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

3. Sources of Capital and Liquidity

(1) Cash Flows

(a) Operating Activities

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

(b) Investing Activities

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

(c) Free Cash Flow

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

(d) Financing Activities

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

Summarized Consolidated Statements of Cash Flows

(Billions of yen)

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

(2) Liquidity

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

(3) Financing

During the fiscal year ended March 2008, KDDI procured ¥80.0 billion in funds from corporate bonds and ¥119.8 billion in funds from financial institutions to partially finance loan repayments and capital investments. Other requirements for funds were secured from internal reserves. The balance of corporate bonds outstanding at March 31, 2008 was ¥247.8 billion, which represented a decrease of ¥10.0 billion compared with the previous year-end. The year-end balance of loans outstanding declined ¥38.7 billion, to ¥323.9 billion.

(4) Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

	Total amount	Less than 1 yr	1-3 yrs	3-5 yrs	Above 5 yrs
Corporate bonds	247.8	40.0	102.8	65.0	40.0
Bank borrowings	323.9	59.0	47.9	197.1	19.7
Other	0.2	0.1	0.1	0	—
Total	571.9	99.1	150.8	262.1	59.7

(5) Foreign Exchange Risk

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

(6) Financial Policies

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

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

As a result, the balance of consolidated interest-bearing debt was ¥571.9 billion at March 31, 2008. The ratio of direct to indirect financing was 43:57, and the long-term financing ratio* was 82.66%. The proportion of centralized fund procurement by the parent company was 98.66%.

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

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

(7) Contingent Liabilities

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

4. Significant Accounting Policies and Estimates

The significant accounting policies described below had a material impact on the major accounting judgments and estimates by the KDDI Group that were used in the compilation of these consolidated financial statements.

(1) Estimated Useful Lives of Fixed Assets

The useful lives of fixed assets are based on reasonable estimates. Excluding the response to the already announced revisions to the tax system in fiscal 2008 (see reference), the KDDI Group sees no need to make any further changes in the estimated useful lives of fixed assets as of the end of the consolidated fiscal year ended March 31, 2008. However, such need may arise in the future if market, environmental, or technological changes occur more rapidly than projected or in the event of new legal or regulatory developments.

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

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

(2) Impairment of Fixed Assets

Impairment loss is calculated based on the grouping of assets into the smallest-possible units capable of generating cash flows that are largely independent of other assets or asset groups. Recoverable values for each asset group are measured in terms of utilization value and computed based on the discounted present value of estimated future cash flows from the assets. For the fiscal year ended March 2007, ¥39.6 billion in impairment loss related to Tu-Ka was posted, reflecting the termination of the service at March 31, 2008. During the current fiscal year, the utilization rate of certain assets, including domestic network infrastructure, declined, with book value decreasing to the recoverable value. KDDI therefore recorded an impairment loss of ¥18.7 billion. The Group also recorded impairment loss of ¥2.5 billion on certain idle properties held by subsidiaries.

(3) Deferred Tax Assets

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

(4) Retirement Benefits and Pension Obligations

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

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

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

Consolidated Balance Sheets

KDDI CORPORATION and Consolidated Subsidiaries

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

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

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

Consolidated Statements of Income

KDDI CORPORATION and Consolidated Subsidiaries

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

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

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

Consolidated Statements of Changes in Net Assets

KDDI CORPORATION and Consolidated Subsidiaries

	Thousands	Millions of yen										
		Shareholders' equity					Unrealized gains and translation adjustments					
Years ended March 31, 2007 and 2008	Number of shares of common stock	Common stock	Additional paid-in capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on securities	Foreign currency translation adjustments	Total unrealized gains and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, March 31, 2006	4,427	¥141,852	¥305,676	¥ 853,405	¥(28,234)	¥1,272,699	¥ 21,666	¥ 1,166	¥22,832	—	¥16,797	¥1,312,328
Dividend of surplus (Note 9)				(39,356)		(39,356)						(39,356)
Net income for the year				186,747		186,747						186,747
Acquisition of treasury stock					(46,281)	(46,281)						(46,281)
Disposal of treasury stock			(66)		2,409	2,343						2,343
Net change due to absorption-type demerger	58		61,662		51,796	113,458						113,458
Directors' and corporate auditors' bonuses				(134)		(134)						(134)
Net changes of items other than shareholders' equity during the fiscal year							656	3,301	3,957	137	3,915	8,009
Balance, March 31, 2007	4,485	¥141,852	¥367,272	¥1,000,662	¥(20,310)	¥1,489,476	¥ 22,322	¥ 4,467	¥26,789	¥137	¥20,712	¥1,537,114
Dividend of surplus (Note 9)				(44,620)		(44,620)						(44,620)
Net income for the year				217,786		217,786						217,786
Acquisition of treasury stock					(354)	(354)						(354)
Disposal of treasury stock			(5)		39	34						34
Change in scope of consolidation				(2)		(2)						(2)
Net changes of items other than shareholders' equity during the fiscal year							(3,751)	(2,024)	(5,775)	358	11,190	5,773
Balance, March 31, 2008	**4,485**	**¥141,852**	**¥367,267**	**¥1,173,826**	**¥(20,625)**	**¥1,662,320**	**¥ 18,571**	**¥ 2,443**	**¥21,014**	**¥495**	**¥31,902**	**¥1,715,731**

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

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

Consolidated Statements of Cash Flows

KDDI CORPORATION and Consolidated Subsidiaries

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

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

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

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

Added (Consolidated):

- Consolidated due to increase in the percentage of owned shares from additional acquisition (3 companies)

  JAPAN CABLENET HOLDINGS LIMITED*
  JAPAN CABLENET LIMITED*
  PRISM COMMUNICATIONS CORPORATION*
  *Converted from equity-method affiliate to consolidated subsidiary

- Consolidated subsidiaries of JAPAN CABLENET LIMITED due to consolidation of parent company, reflecting an increase in equity from acquisition of shares (12 companies)

  CABLE NETWORK OHTA Inc.
  City Television Nakano LIMITED
  JCN Koala Katsushika Limited
  ODAWARA Cable Television Inc.
  MUSASHINO-MITAKA CABLE TELEVISION Inc.
  JCN YOKOHAMA Limited
  CABLE NETWORK CHIBA Co., Ltd.
  JCN Funabashi Narashino Limited
  Kumamoto Cable Network CORPORATION
  Hachioji Telemedia Ltd.
  MYTV Limited
  Kamakura Cable Communications., Ltd.
  *Converted from equity-method affiliate to consolidated subsidiary

- Increased due to acquisition of shares (4 companies)

  ICHIKAWA CABLE NETWORK CO., LTD.
  CABLENET SAITAMA CO., LTD.
  Hino Cable Television Inc.
  KDDI Web Communications Inc. (Former company name; Servision Inc.)

- Increased due to new establishment (3 companies)

  KDDI GLOBAL, LLC
  KDDI India Pvt. Ltd.
  TELEHOUSE BEIJING CORPORATION LTD.

Removed (Consolidated):

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

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

Added (Equity Method):

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

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

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

Removed (Equity Method):

- Decreased due to liquidation (1 company)
  Minex Corporation

Reclassifications:

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

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥100.19=$1, the approximate exchange rate on March 31, 2008. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

2. Significant Accounting Policies

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

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

All significant intercompany transactions and accounts are eliminated.

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

Exceptionally, investment in one affiliate for which the equity method has not been applied is stated at cost because the effect of application of the equity method is immaterial.

b. Revenue Recognition

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

c. Cash and Cash Equivalents

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

d. Inventories

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

(Change in Accounting Policy)

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

e. Foreign Currency Translation

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

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

f. Property, Plant and Equipment and Depreciation

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

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

(Change in Accounting Policy)

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

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

(Additional information)

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

g. Financial Instruments

(1) Securities

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

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

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

(2) Derivatives

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

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

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

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

h. Research and Development Expenses and Software

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

i. Income Taxes

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

j. Leases

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

k. Other Assets

Goodwill and negative goodwill are amortized using the straight-line method over a period of 5 to 20 years. However, minimal amounts of goodwill are expensed as incurred.

l. Net Income per Share

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

m. Allowance for Doubtful Accounts

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

n. Reserve for Retirement Benefits

The amount for employee retirement benefits at fiscal 2008 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2008 year-end. Prior service cost is amortized on a straight-line basis over the average remaining service life of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

o. Reserve for Point Service Program

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

3. Assets and Liabilities of Newly Consolidated Subsidiaries

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

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

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

Note: Date of acquisition of shares June 27, 2007

4. Market Value Information

At March 31, 2008 and 2007, book value, market value and net unrealized gains or losses of quoted securities were as follows:

Bonds intended to be held to maturity that have market value

No items to be reported.

Other securities that have market prices

	Millions of yen						Millions of U.S. dollars		
	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
	2007			**2008**			**2008**		
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥3,987	¥41,589	¥37,601	**¥4,237**	**¥35,722**	**¥31,484**	**$42**	**$357**	**$314**
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	—	—	—	**654**	**500**	**(154)**	**7**	**5**	**(1)**
Total	¥3,987	¥41,589	¥37,601	**¥4,891**	**¥36,222**	**¥31,330**	**$49**	**$362**	**$313**

Other securities sold during the current consolidated fiscal year

	Millions of yen						Millions of U.S. dollars		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
		2007			2008			2008	
Other securities sold	¥939	¥495	¥12	**¥123**	**¥96**	**¥2**	**$1**	**$1**	**$0**

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

	Millions of yen		Millions of U.S. dollars
	Book value	Book value	Book value
	2007	**2008**	**2008**
Other securities			
Unlisted equity securities	¥ 9,680	**¥ 9,823**	**$ 98**
Commercial papers	18,993	**—**	**—**
Negotiable deposit	—	**3,000**	**30**
Bonds	1,255	**227**	**2**
Total	¥29,928	**¥13,050**	**$130**

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

5. Short-Term Loans and Long-Term Debt

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

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

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

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

Aggregate annual maturities of long-term debt subsequent to March 31, 2008 were as follows:

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

6. Contingent Liabilities

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

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

7. Impairment Losses

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

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

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

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

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

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

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

8. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value as of March 31, 2008 and 2007 were summarized as follows.

	Millions of yen								Millions of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value
	2007				**2008**				**2008**			
Machinery and equipment, tools, furniture and fixtures, vehicles	¥44,099	¥22,633	¥3,031	¥18,435	**¥42,058**	**¥23,853**	**¥646**	**¥17,558**	**$420**	**$238**	**$6**	**$175**
Other	4,890	2,247	—	2,643	**5,010**	**2,725**	**—**	**2,286**	**50**	**27**	**—**	**23**
	¥48,989	¥24,880	¥3,031	¥21,078	**¥47,068**	**¥26,578**	**¥646**	**¥19,844**	**$470**	**$265**	**$6**	**$198**

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

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

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

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

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

Operating leases

Obligation under non-cancelable operating leases as of March 31, 2008 and 2007 were as follows.

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

9. Shareholders' Equity

A Japanese Corporate Law provides that an amount equal to 10 percent of cash dividends paid be appropriated to additional paid-in capital, which is included in capital surplus, or the legal reserve, which is included in retained earnings, in the consolidated balance sheets.

No further appropriation is required when the sum of additional paid-in capital and the legal reserve equals 25 percent of stated capital. Under the law, retained earnings are available for distribution at any time upon approval by the shareholders' meeting or, under certain conditions, upon approval by the Board of Directors.

10. Research and Development Expenses

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

11. Income Taxes

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

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

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

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statements purposes for the year ended March 31, 2008.

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

12. Retirement Benefits

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

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

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

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

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

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

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

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

13. Stock Option

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

Method for calculating fair value of stock options

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

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

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

Scale of stock options and changes in the scale

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

(1) Number of stock options

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

(2) Unit value and stock option rights exercise period

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

14. Segment Information

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

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

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

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

Notes: 1. Business segment and principal services/operations of each segment.

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

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

15. Special Purpose Companies

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

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

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

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

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

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

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

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

Major transaction amounts for the year ended March 31, 2008 and balance as of March 31, 2008 / **Main income and loss**

	Millions of yen 2008	Millions of U.S. dollars 2008		Millions of yen 2008	Millions of U.S. dollars 2008
Transferred properties (Note 1)	¥201,947	$2,016	—	—	—
Accounts receivable	23,362	233	—	—	—
Long-term deposits received	652	7	—	—	—
Investments by anonymous association (Note 2)	10,066	100	Dividend	¥ 7,900	$ 79
Lease back transactions (Note 3)	—	—	Lease payments	16,989	170

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

16. Subsequent Events

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

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

2. Acquisition of shares of Chubu Telecommunications Co., Inc. (new subsidiary)

KDDI CORPORATION (hereinafter, the "Company") resolved at the meeting of its Board of Directors held on January 25, 2008 to acquire shares of Chubu Telecommunications Co., Inc. (hereinafter, "CTC") held by Chubu Electric Power Co., Inc. (hereinafter, "Chubu Electric"). On the same day the parties concluded share transfer contracts.

Accordingly, the Company acquired shares in the aforementioned company on April 1, 2008.

Details of the share acquisition are as follows.

1. Reason of acquisition of shares

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

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

(1) Acquisition volume, number of shares before and after acquisition

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

(2) Acquisition price

¥37,932 million (U.S.$379 million)

The above acquisition price was the agreement price based on an evaluation by a third party.

The final acquisition price was subject to adjustment and fixed based on the financial status of CTC at the time of acquisition and other considerations.

Report of Independent Accountants

KDDI CORPORATION and Consolidated Subsidiaries

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION,

We have audited the accompanying consolidated balance sheet of KDDI CORPORATION and its subsidiaries as of March 31, 2008,and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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

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

Kyoto Audit Corporation

Kyoto Audit Corporation
Kyoto, Japan

July 8, 2008

Major Consolidated Subsidiaries

As of March 31, 2008

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	¥	50	100.0%	Sales of fixed-line service for medium or small corporations
KDDI Technical & Engineering Service Corporation*	Apr. 05	¥	1,500	100.0%	Construction, maintenance and operations support of communications equipment

*A company also offers mobile-related business.

Other Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)		Voting Right Percentage	Business Field
KDDI Technology Corporation	Aug. 88	¥	494	100.0%	Development and consulting of mobile handset platform
KDDI Evolva Inc.	May 96	¥	588	100.0%	Call center services, security services, a temporary staff agency, etc.
KDDI R&D Laboratories, Inc.	Apr. 98	¥	2,283	91.7%	Research and development of new technologies and sales of developed products
KMN Corporation	Jun. 98	¥	626	100.0%	Internet provider service through CATV
Japan Telecommunication Engineering Service Co., Ltd.	Jun. 99	¥	470	73.6%	Construction and maintenance of optical fiber network along highways
mediba corporation	Dec. 00	¥	1,035	51.0%	Planning, producing and distribution of advertisements on mobile Internet
JAPAN CABLENET HOLDINGS LIMITED	Mar. 01	¥	32,500	77.0%	Management of cable TV operator
JAPAN CABLENET LIMITED	Mar. 01	¥	34,872	95.4%	Management of cable TV operator

Overseas

Company Name	Date Established	Paid-in Capital (millions)		Voting Right Percentage	Business Field
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 HONGKONG LIMITED	Jan. 89	HK$	96	100.0%	Telecommunications services in HongKong
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 SINGAPORE Pte. Ltd.	Sep. 89	S$	10	100.0%	Telecommunications services in Singapore
KDDI Deutschland GmbH.	Apr. 92	EUR	0.6	100.0%	Telecommunications services in Germany
KDDI FRANCE S.A.S.	Sep. 96	EUR	4	100.0%	Telecommunications services in France
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	AU$	16	100.0%	Telecommunications services in Australia
HOLA PARAGUAY S.A.	Sep. 98	GS	288,650	70.0%	Cellular phone service in Paraguay
KDDI CHINA CORPORATION	Nov. 01	RMB	13	80.0%	Telecommunications consulting services in China
KDDI India Pvt. Ltd.	Sep. 07	INR	19	100.0%	Telecommunications consulting services in India
TELEHOUSE BEIJING CORPORATION LTD.	Oct. 07	RMB	82	90.0%	Secure IT housing, telecommunications facilities management in Beijing

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
1987	domestic telephone service launched			domestic telephone service launched	
1988	cellular companies established	established	TPC-3 launched		
1989	analog cellular telephone service launched				
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	"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 Acquisition of JCN Group				
2008	Cessation of Cellular "Tu-Ka" Service Acquisition of Chubu Telecommunications Co., Inc.				

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

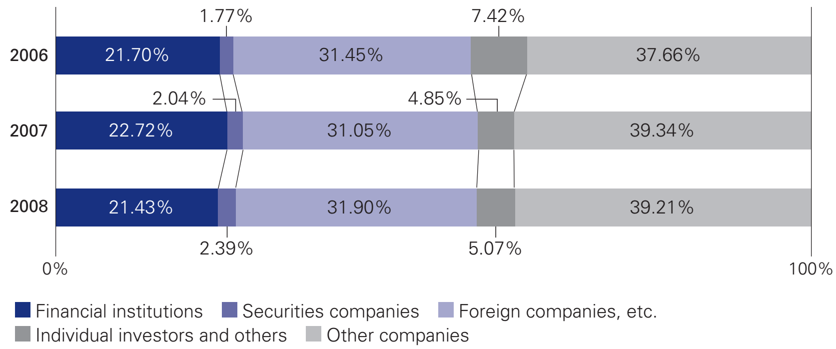
Stock Information

Total Number of Shares Issued and Outstanding

Authorized	7,000,000
Issued	4,484,818.86
Number of Shareholders	97,512

Composition of Shareholders

Years ended March 31



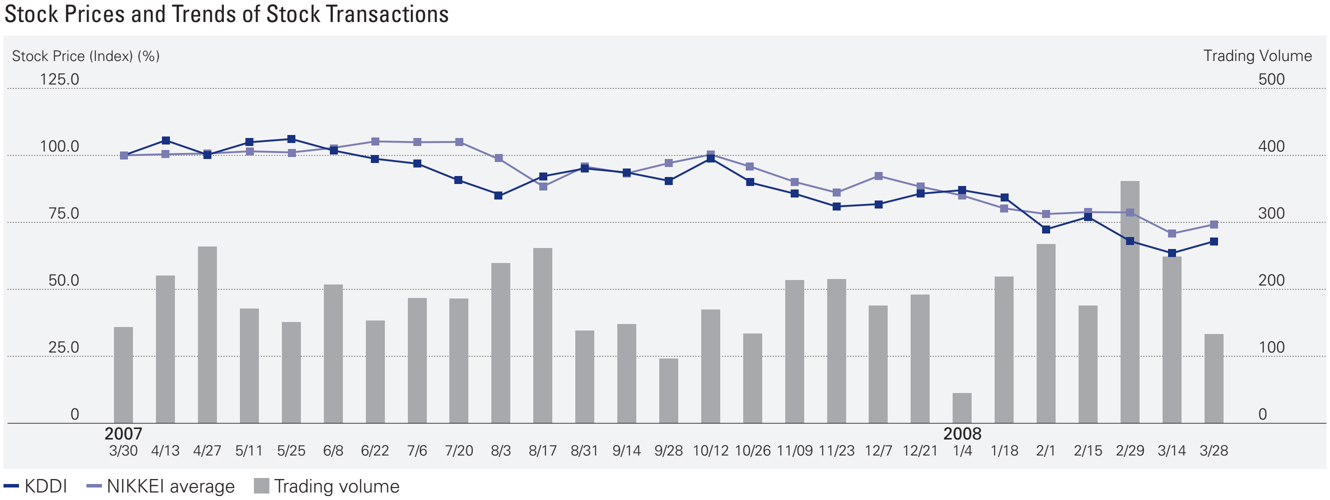
Changes in Capital

	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	141,852	40,394	304,096
Sep. 26, 2001 5)	—	4,240,880.38	—	141,852	94	304,190
Jun. 1, 2006 6)	186,376.48	4,427,256.86	—	141,852	1,486	305,676
Jun. 1, 2007 7)	57,562.00	4,484,818.86	—	141,852	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
   1 : 92.1
   DDI CORPORATION : IDO CORPORATION
   1 : 2.9
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.

Stock Prices and Trends of Stock Transactions



Corporate Overview

As of March 31, 2008

Company Name: KDDI CORPORATION

Date of Establishment: June 1, 1984

Business Objective: Telecommunications business

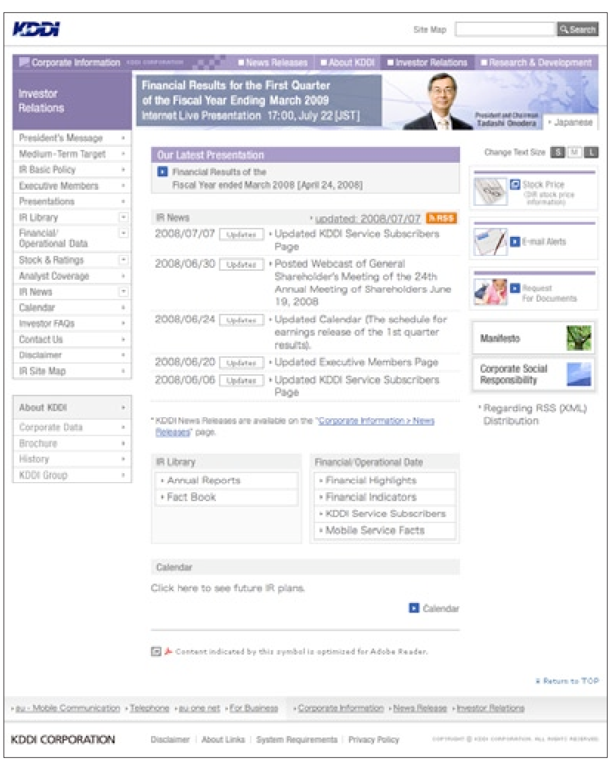
Head Office: Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
(Registered Place of Business: 3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-0083, Japan)

Representative Director: Tadashi Onodera, President and Chairman

Capital: ¥141,851 million

Number of Employees: 15,865 (consolidated)

Investor Relations Website



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 won "the Internet IR Best Company Award in 2007" from Daiwa Investor Relations Co., Ltd., ranked fourth overall in the Best Corporate Website 2007 Survey by Nikko Investor Relations Co., Ltd. and took second in the "Gomez IR website overall ranking" from Gomez Consulting Co., Ltd.

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

Designing The Future

KDDI CORPORATION
Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
Investor Relations Department, Corporate Communications Division
Tel: +81-3-6678-0692 Fax: +81-3-6678-0305

PRINTED WITH SOY INK™

This annual report was printed on recycled paper with soy-based ink.

Printed in Japan