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

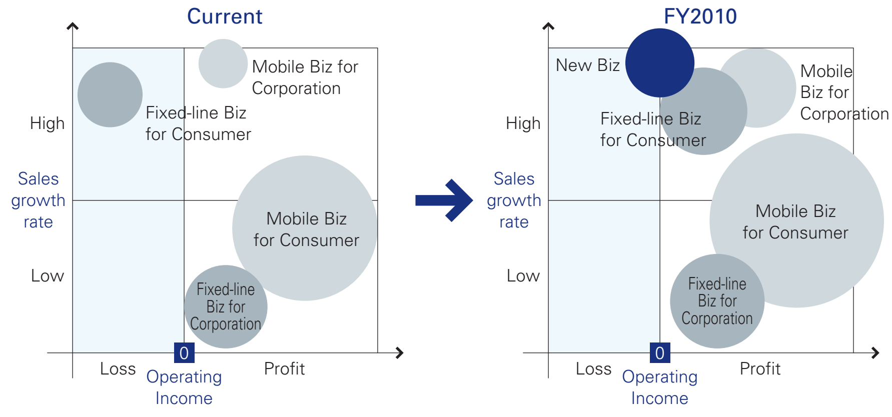
Core Messages of "Challenge 2010"

- 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?

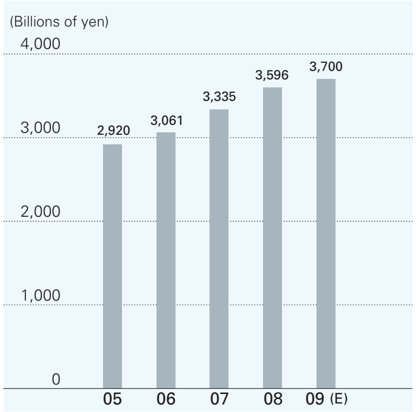
A6. Competition will remain intense, but we will strive for higher revenues and profits.

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.)

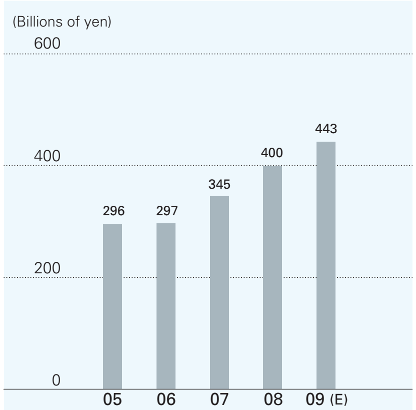
Although the market competition is intense, we are working to achieve "quantitative expansion" and "qualitative enhancement" in advance of the final year of "Challenge 2010." We will aim to keep an upward trajectory in operating revenues and profits. I believe that my most important mission is to build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

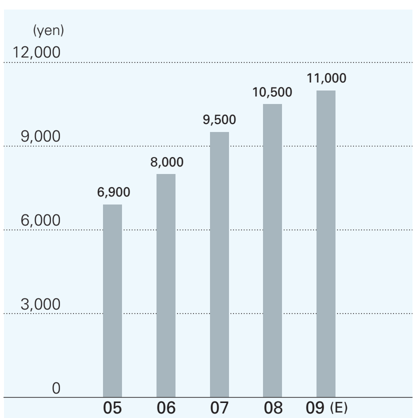
In the Fixed-line Business, we will make investments for future business growth, including wide marketing of the FTTH service with the strengthening of the access line business, and investment in overseas data centers in order to enhance our capabilities of the ICT solutions to corporate customers.

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.