Corporate Governance

Contents

46 Directors and Auditors
47 Organization
48 Corporate Governance
52 Internal Controls
54 Corporate Social Responsibility
56 Business Risks

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

- 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.

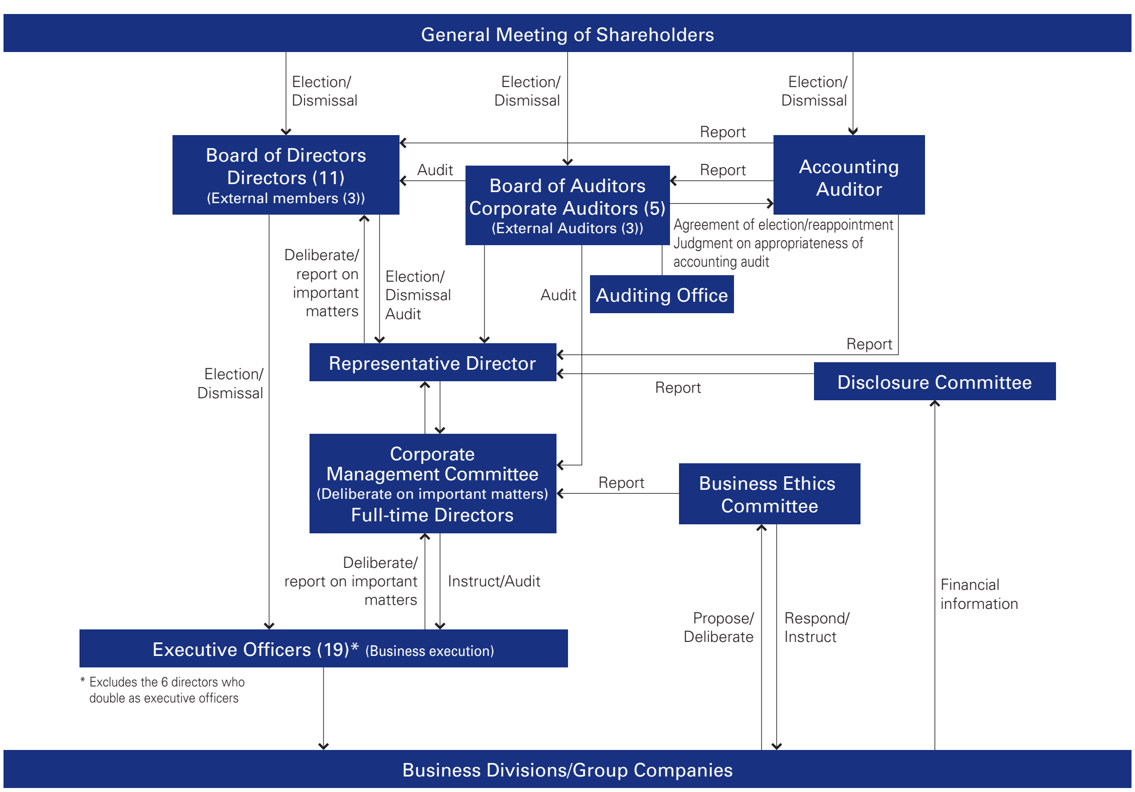
The Board of Directors, which includes external directors, makes decisions regarding important matters as prescribed by relevant statutes, and oversees the execution of business by directors and other managers to ensure proper conduct. The agenda items for the Board of Directors, as well as important 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

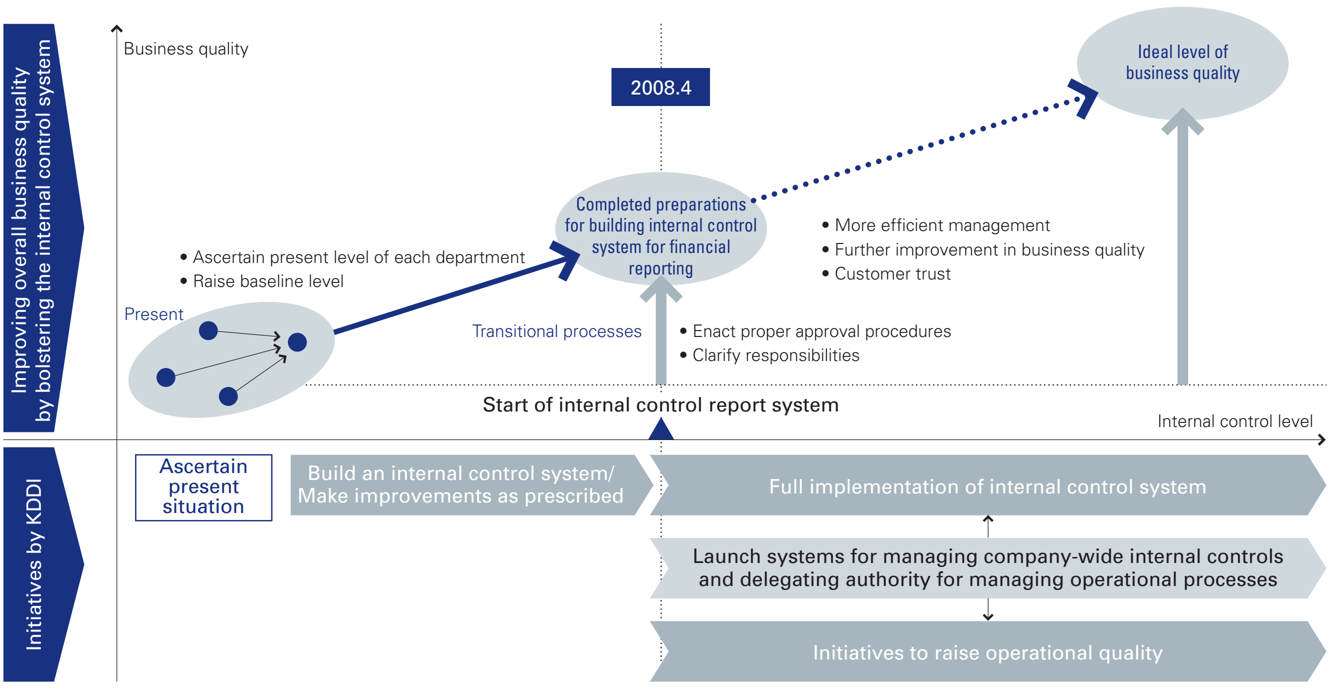
Measures to Improve Overall Business Quality

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"



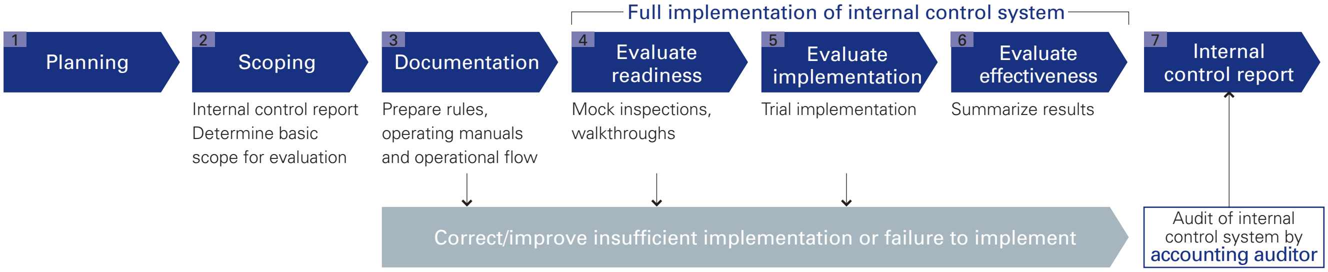
Response to the Financial Products and Exchange Law

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



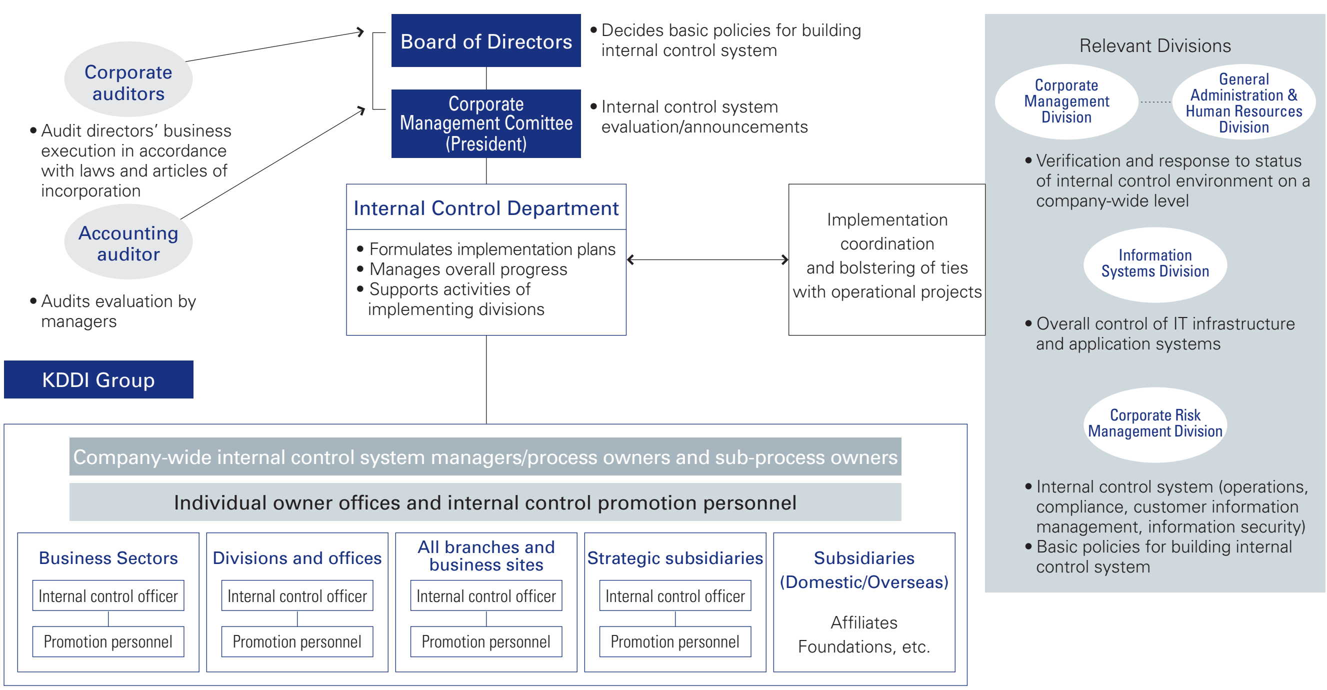
Internal Structures

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

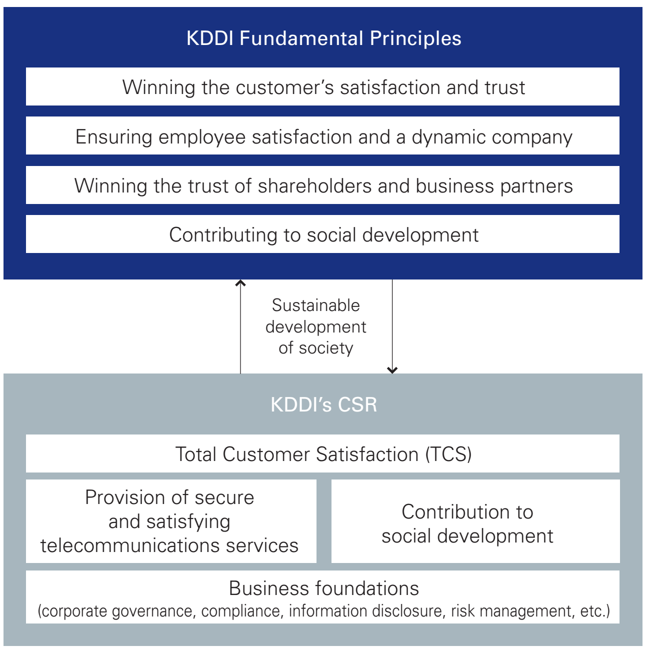
Contributing to Attaining a Secure and Safe Sustainable Society through Telecommunications

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



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

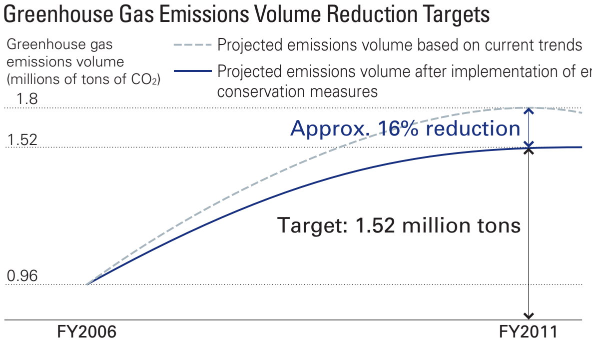
In March 2003, we created the KDDI Environmental Charter, a set of guidelines for environmental initiatives. The same year, we established Stage One of the Medium-term Environmental Conservation Plan, which aimed to create an integrated company-wide environmental management system by the end of fiscal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