Designing The Future
KDDI

Being KDDI

Annual Report 2010

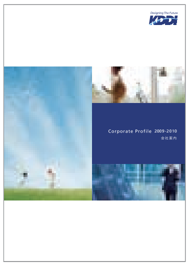
Results for the year ended March 31, 2010

CONTENTS

OTHER KDDI COMMUNICATION MATERIALS

KDDI CSR REPORT 2010

The KDDI CSR Report 2010 describes the total customer satisfaction (TCS) initiatives underpinning KDDI's business activities and clarifies its corporate social responsibility (CSR). It also outlines activities according to four priority issues, and reports from the perspective of management, society, and in terms of environmental performance, interspersed with stakeholder comments. Carbon offsets are employed to balance the amount of CO_2 emitted during the publication of this report.



CORPORATE PROFILE

KDDI produces a Corporate Profile outlining its operations and major initiatives, with the aim of promoting understanding among various stakeholders. This report is available on our website in e-book and PDF format, and is also published as a physical copy.

(Please contact kddipr@kddi.com to request physical copies of this report.)

DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this annual report concerning KDDI's plans, strategies, beliefs, expectations, or projections about the future, and other statements other than those of historical fact, are forward-looking statements based on management's assumptions in light of information currently available and involve risks and uncertainties. Actual results may differ materially from these statements. Potential risks and uncertainties include, but are not limited to, domestic and overseas economic conditions; fluctuations in currency exchange rates, particularly those affecting the U.S. dollar, euro, and other overseas currencies in which KDDI or KDDI Group companies do business; and the ability of KDDI and KDDI Group companies to continue developing and marketing services that enable them to secure new customers in the communications market—a market characterized by rapid technological advances, the steady introduction of new services, and intense price competition.

Being KDDI, Being More EXCITING

KDDI will commemorate the 10th anniversary since its establishment in October 2010.

The Japanese telecommunications market, which experienced rapid progress in the past decade, is currently facing a major turning point. By pursuing the uniqueness of KDDI that has supported our developments over the past 10 years, we aim to create new value to turn the changes in the market environment into a tailwind. And as in the past, we thrive to be as exciting a company as ever.

NEXT ▸
KDDI—THE DIFFERENCES

KDDI—THE DIFFERENCES

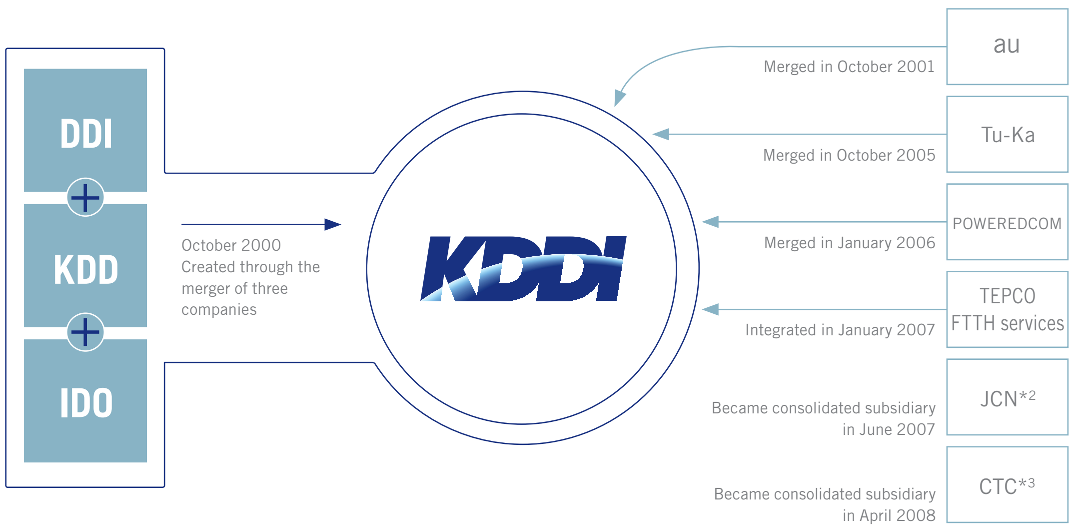
As a comprehensive telecommunications company, KDDI leverages its unique business structure to remain a step ahead of the changing times. We endeavor to anticipate the needs of the upcoming era of the “ambient intelligence society,” and thrive to make progress steadly.

IN BUSINESS STRUCTURE

The KDDI Group was established in October 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION. Thereafter, we merged with subsidiaries in the area of mobile communications. In the area of fixed-line communications, among other companies, we merged with POWEREDCOM, Inc., and integrated the FTTH*1 business of Tokyo Electric Power Company (TEPCO). The result was a uniquely comprehensive business structure combining mobile and fixed-line communications in a single company, and establishment of a solid foundation for growth.

*1 Fiber to the Home: Data communications service over fiber-optic networks targeting individual customers

Comprehensive Telecommunications Operator Combining Mobile and Fixed-line Business



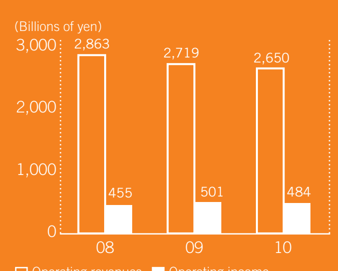
*2 Japan Cablenet Limited
*3 Chubu Telecommunications Co., Inc.

MOBILE BUSINESS

Mobile Phone Services, Sales of Mobile Phone Handsets, Mobile Solutions Services, etc.

Composition of Consolidated Operating Revenues

73.6% *4

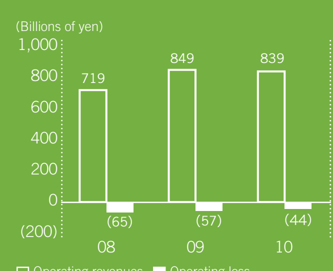


FIXED-LINE BUSINESS

Local, Long-Distance, and International Telecommunications Services, Internet Services, Solutions Services, Data Center Services, CATV Services, etc.

Composition of Consolidated Operating Revenues

23.3% *4

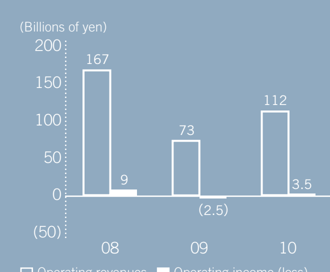


OTHER BUSINESS

Call Center Business, Content Business, Research and Advanced Development, and Other Mobile Phone Services, etc.

Composition of Consolidated Operating Revenues

3.1% *4



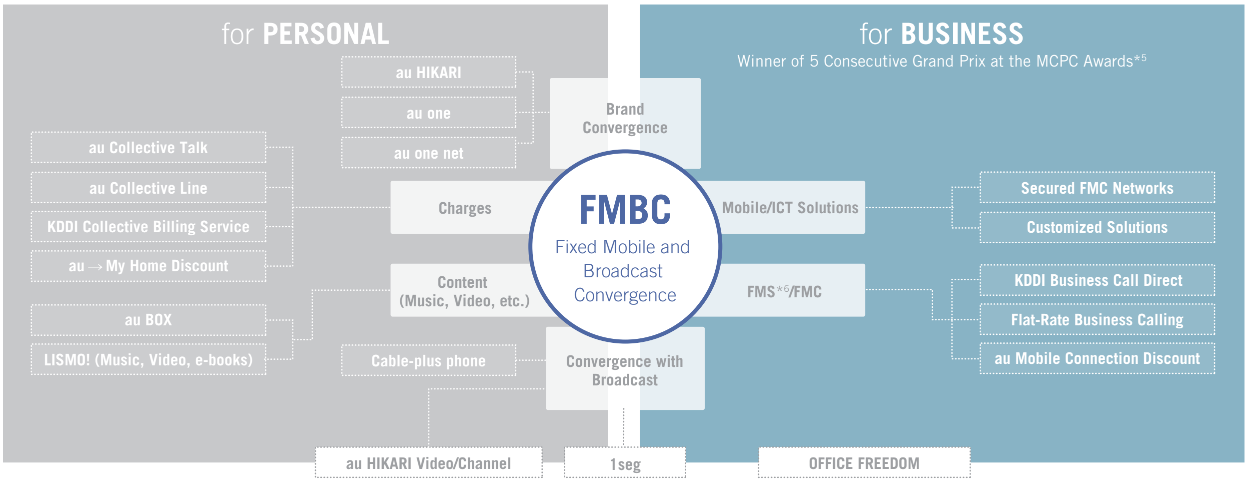
(Years ended March 31)

*4 Denominator is the simple total of individual segment revenues.

IN SERVICES

FMC (Fixed and Mobile Convergence) enables a variety of services and contents anywhere, any time, regardless of different communication methods and access means, be it fixed or mobile. KDDI's next-generation infrastructure concept, "Ultra 3G," takes this convergence one step further, to FMBC (Fixed Mobile and Broadcast Convergence). This is an area where only KDDI, which has various access lines, can pursue potentials.

FMBC Initiatives

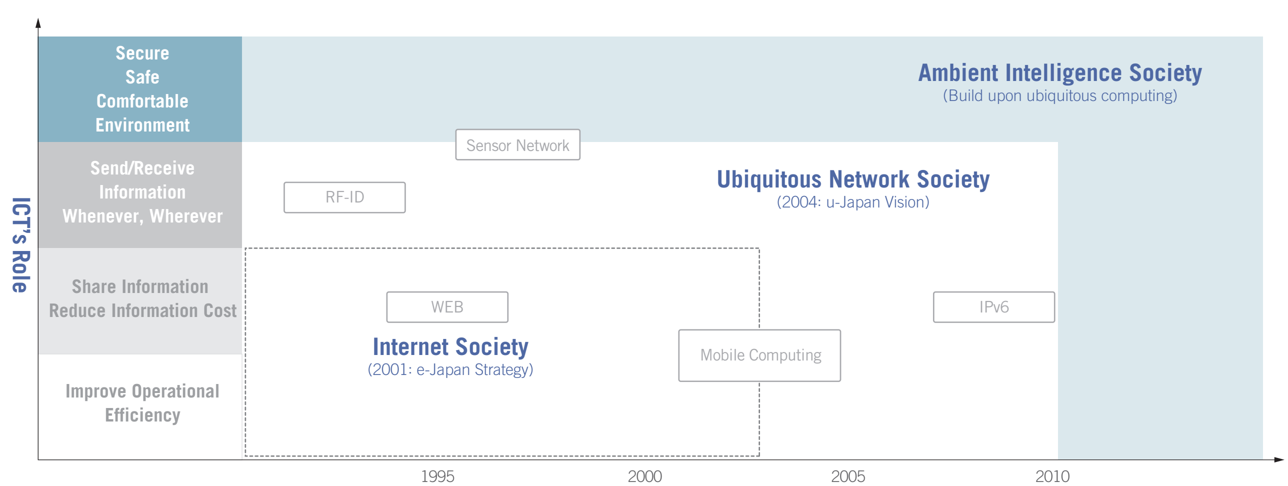


*5 MCPC award ▶▶ P.41
*6 Fixed Mobile Substitution

IN VISION

KDDI anticipates the future beyond FMBC. We envision an "ambient intelligence society," in which sophisticated ICT (Information and Communication Technology) solutions are available to users, without people being aware of it. Leveraging the unique foundation for growth that we have developed by bringing mobile and fixed-line business under one roof, we are working to create new usage styles toward the realization of an "ambient intelligence society."

KDDI's Anticipated "Ambient Intelligence Society"



Source: Created by KDDI Research Institute based on Hitachi Research Institute documentation

FINANCIAL HIGHLIGHTS

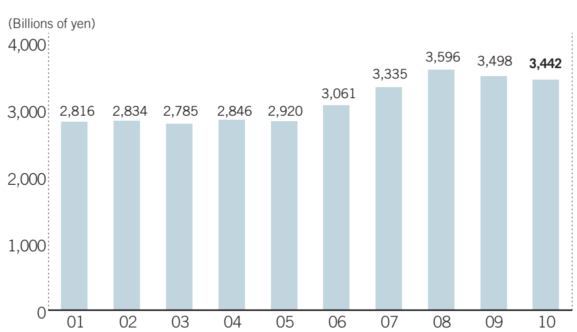
Years ended March 31

Please see Operational Data on P.30–33.

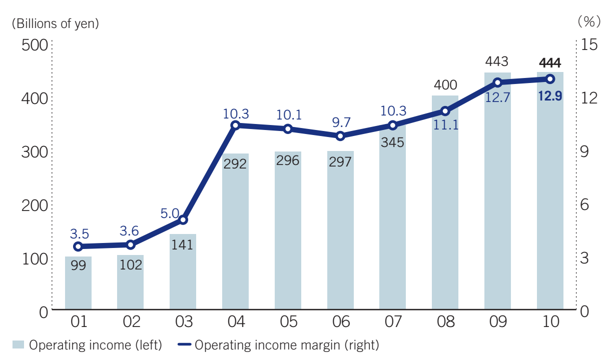
Years ended	2006	2007	2008	2009	Millions of yen 2010	Millions of U.S. dollars*1 2010
Operating Revenues	¥3,060,814	¥3,335,260	¥3,596,284	¥3,497,509	**¥3,442,147**	**$36,996**
Telecommunications business	2,398,526	2,592,882	2,749,897	2,720,675	**2,606,165**	**28,011**
Other business	662,288	742,378	846,387	776,834	**835,982**	**8,985**
Operating Income	296,596	344,701	400,452	443,207	**443,862**	**4,771**
Income before Income Taxes and Minority Interests	180,606	309,074	379,205	394,863	**368,626**	**3,962**
Net Income	190,569	186,747	217,786	222,736	**212,764**	**2,287**
Capital Expenditures (cash flow basis)	414,726	438,463	517,002	575,072	**518,034**	**5,568**
EBITDA	654,409	691,699	769,209	904,030	**927,253**	**9,966**
Depreciation	335,739	325,149	351,269	434,623	**460,940**	**4,954**
Net Cash Provided by (Used in) Operating Activities	575,531	738,703	545,234	712,231	**739,992**	**7,953**
Net Cash Provided by (Used in) Investing Activities	(435,923)	(442,218)	(557,688)	(775,470)	**(924,442)**	**(9,935)**
Free Cash Flows	139,608	296,485	(12,454)	(63,240)	**(184,450)**	**(1,982)**
Net Cash Provided by (Used in) Financing Activities	(256,935)	(258,919)	(104,410)	191,490	**149,239**	**1,604**

*1 U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥93.04=U.S.$1, on March 31, 2010.

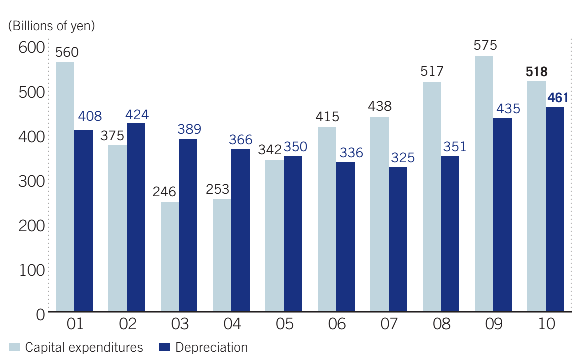
Operating Revenues



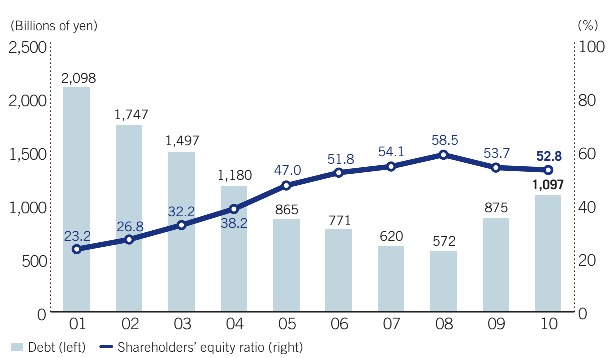
Operating Income/Operating Income Margin



Capital Expenditures/Depreciation



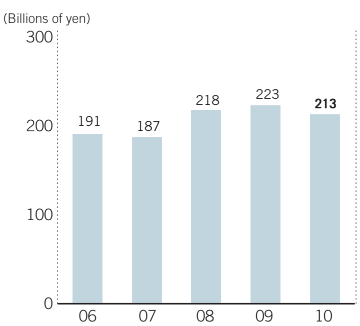
Debt/Shareholders' Equity Ratio



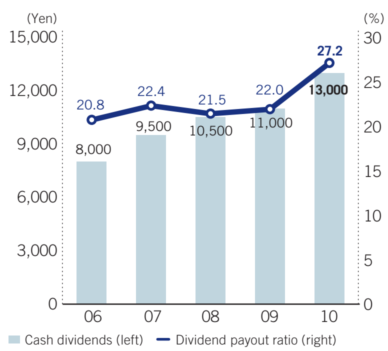
At year-end	2006	2007	2008	2009	2010 (Millions of yen)	2010 (Millions of U.S. dollars*1)
Total Assets	¥2,500,865	¥2,803,240	¥2,879,275	¥3,429,133	**¥3,819,537**	**$41,053**
Interest-bearing Debt	770,692	620,471	571,945	874,951	**1,096,778**	**11,788**
Net Assets (formerly shareholders' equity)*2	1,295,531	1,537,114	1,715,731	1,881,329	**2,078,451**	**22,339**
Per share data (yen and U.S. dollars)						
Net Income	45,056	42,505	48,810	49,973	**47,768**	**513**
Cash Dividends	8,000	9,500	10,500	11,000	**13,000**	**140**
Selected financial indicators						
Operating Income Margin	9.7%	10.3%	11.1%	12.7%	**12.9%**	**12.9%**
EBITDA Margin	21.4%	20.7%	21.4%	25.8%	**26.9%**	**26.9%**
Shareholders' Equity Ratio	51.8%	54.1%	58.5%	53.7%	**52.8%**	**52.8%**
Return on Equity (ROE)	15.5%	13.3%	13.6%	12.6%	**11.0%**	**11.0%**
Return on Assets (ROA)	11.9%	13.0%	14.1%	14.1%	**12.2%**	**12.2%**
Dividend Payout Ratio*3	20.8%	22.4%	21.5%	22.0%	**27.2%**	**27.2%**

*2 From the year ended March 31, 2007 net assets (the sum of shareholders' equity, unrealized gains and translation adjustments, new share subscription rights and minority interests) are presented in the balance sheet.
*3 The dividend payout ratio is presented on a non-consolidated basis until the year ended March 31, 2006, and on a consolidated basis from the year ended March 31, 2007.

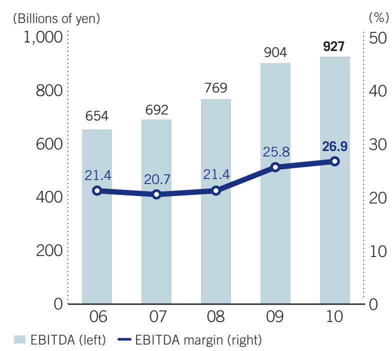
Net Income



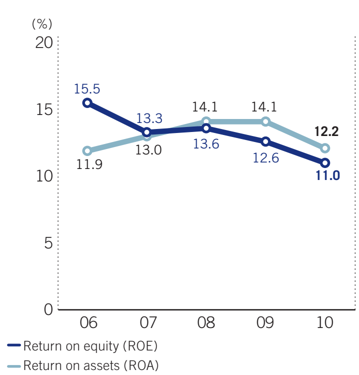
Cash Dividends/Dividend Payout Ratio



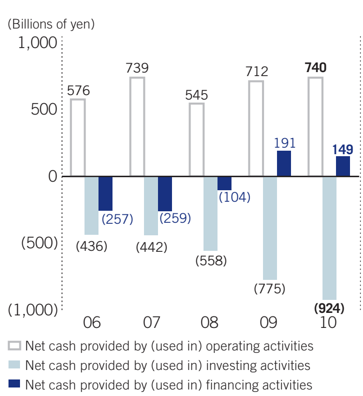
EBITDA/EBITDA Margin



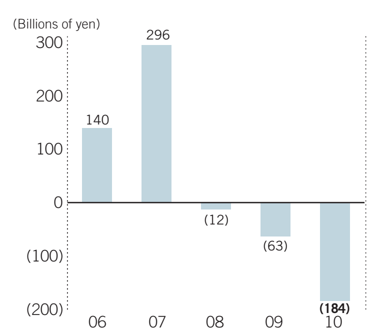
Return on Equity (ROE)/ Return on Assets (ROA)



Cash Flows



Free Cash Flows



NEXT ▸
TO OUR SHAREHOLDERS AND INVESTORS

TO OUR SHAREHOLDERS AND INVESTORS

This year, KDDI will celebrate the 10th anniversary since its establishment in 2000. It has been a decade of challenges for growth.
Today, as the business environment enters a new phase, we are reexamining our own uniqueness. Recapturing the venture business spirit from a decade ago, we are moving forward to create new value.

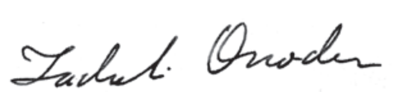
In the year ended March 31, 2010, total operating revenues decreased 1.6% year on year, to ¥3,442.1 billion. The decline resulted from customers shifting to “Simple course” pricing in the Mobile Business, which led to a decrease in voice ARPU (average revenue per unit). Operating income recorded was ¥443.9 billion, maintaining the same level as the previous year, after a reduction in the operating loss of the Fixed-line Business offset the decrease in operating income of the Mobile Business. Net income decreased 4.5% year on year, to ¥212.8 billion, due to business restructuring expenses that resulted from network streamlining in the Fixed-line Business. The streamlining was conducted to achieve profitability in the sector within the year ending March 31, 2011.

Currently, the business environment in Japan for the communications market is entering a new phase. In the mobile communications market, where growth in the individual customer market is slowing down, the increasing penetration of broadband service is making it essential to cater to the new demand beyond general mobile handsets, such as data cards and smart phones, as well as such non-traffic business areas represented by the content and media business. Meanwhile, in the fixed-line market, the access line business is becoming more important than ever due to the rapid development of direct access, IP, and broadband. The advancements in fixed-line and mobile communications combined with the convergence of communications and broadcasting represent the coming of an age where we can fully show our advantages as the Group with both fixed-line and mobile businesses.

KDDI is looking beyond the ubiquitous society to the coming of an “ambient intelligence society.” At this stage, ICT will become integrated naturally into society and enable users to live their everyday lives safely, comfortably, and with peace of mind without being conscious of the technology around them. With October 2010 marking 10 years since the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION that led to its establishment, the Company will advance toward the realization of an “ambient intelligence society” by boldly creating new value that is unique to KDDI.

As we tackle this challenge, I would like to ask our shareholders and investors for their continued support.

July 2010



Tadashi Onodera
President and Chairman

NEXT ▸
STRAIGHT TALK WITH THE PRESIDENT

STRAIGHT TALK WITH THE PRESIDENT

—KDDI's president, Tadashi Onodera, explains the management strategies that will take advantage of KDDI's unique strengths.

Q1

In the second half of the year ended March 31, 2010, the Mobile Business picked up momentum due to a reduction in sales commissions. Do you feel that KDDI has regained its competitive strength?

A1

I have to admit our response to changing market conditions has been slow.

In the year ended March 31, 2010, we restored our position as the forerunner of setting pricing plans. Also, for handsets, which struggled in the previous year, we were able to reassert the uniqueness of KDDI by unveiling the "iida" brand as a progressive symbol of the "au design project" and by improving the performance of the "KDDI Integrated Platform (KCP+)", which had been an issue. Thanks to these initiatives, we are steadily increasing our competitiveness in the conventional mobile phone business area. This growing competitiveness is clear if we consider that for the year ended March 31, 2010 among mobile communications carriers KDDI claimed the largest share, 38.2%, of net additions of mobile Internet subscriptions, which reflects trends in sales of conventional mobile phone handsets. Nevertheless, KDDI faces many challenges that it must tackle.

One such task is data ARPU*. Although we expected a decrease in voice ARPU because the rate of uptake of the "Simple course" plan directly affects it, we feel that the level of data ARPU is not high enough. Therefore, we have to extend the use of data communications to a wider customer base by increasing the number of subscriptions to data flat-rate pricing plans, enriching our lineup of services and content, and expanding and improving mobile portal sites designed for specific customer segments.

Another important measure for increasing data ARPU is strengthening data cards and smart phones. However, we have to admit that in recent years our responses to market condition changes accompanying the emergence of such new product areas have been slow.

* Average Revenue per Unit

Q2

In October 2010, KDDI will celebrate the 10th anniversary of its establishment. Would you agree that the uniqueness of KDDI—the appetite for challenges that has underpinned growth—is becoming perhaps less evident?

A2

I think it is time to go back to our starting point and regain our venture business spirit.

Established in 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION, KDDI has a venture business spirit that is always looking to take on new challenges. At present, however, we are gradually losing this uniqueness.

For KDDI, we can divide the past 10 years into two overall stages. The first stage was the five years since our establishment. At the time of the merger, we had interest-bearing debt of more than ¥2 trillion. Therefore, we did our utmost to rebuild our financial position. At the same time, based on a rigorous awareness of competitors, we developed foundations for growth through such initiatives as establishing "au" as a brand. In 2003, we took the lead in infrastructure initiatives by introducing CDMA2000 1x EV-DO*1 ("EV-DO"). Exploiting the resulting advantage, we introduced flat-rate pricing plans ahead of competitors and marketed a series of original services, including "Chaku-Uta®,"*2 "Chaku-Uta Full®,"*2 and "EZ Navi Walk."

These efforts established a customer base. During the following five years, we focused on how to use this base to further expand our business. Our initiatives up to then bore fruit. For example, we had the largest share of net additions for nine consecutive months from August 2006. Moreover, our share of cumulative subscriptions grew significantly. Subsequently, however, our relative advantage in infrastructure lessened as competitors caught up. From around this time, our uniqueness—our constant pursuit of new challenges—undeniably began to weaken. I believe we

lost impetus because, without us realizing it, a conservative approach based on past successes spread throughout the organization. As we approach our 10th anniversary, I feel strongly that we must return to our starting point and regain our venture business spirit.

*1 Evolution Data Only or Evolution Data Optimized. It is a technical specification dedicated to data communications that is included in the CDMA2000 specifications, which are a 3G mobile phone format compatible with CDMA technology. Development of standard specifications is being conducted under 3GPP2.
*2 "Chaku-Uta®" and "Chaku-Uta Full®" are trademarks or registered trademarks of Sony Music Entertainment (Japan) Inc.

Q3

How would you reply to the suggestion that the current market conditions make achieving novelty and originality difficult?

A3

Doing the same as others is meaningless. If we take similar steps as other companies, we will inevitably face strong price competition.

Certainly, being original within the framework of our existing Mobile Business is becoming difficult. Given the outlook of Japan's market, traffic revenues are unlikely to grow significantly. Therefore, how we develop the non-traffic business area becomes important. In this area, we can be original and realize differentiation. One example in this area is the content and media business, which is growing at a rate of approximately 25% a year.

Going forward, it is clear that differentiation will become important in content for smart phone open sites. With that in mind, KDDI is preparing to launch "au one Market" as an applications market for smart phones incorporating Android™*. We will make this new applications market optimally suited to Japan's market by improving customer convenience. In addition to providing the security features and an agency function for collecting charges, as is currently available on "EZweb," it will have outstanding search capabilities thanks to its Japanese-language compatibility. We have an original approach to smart phones, in which we pursue enhanced customer convenience in relation to handsets and services by creating systems that combine the best features of conventional mobile handsets and those of smart phones.

Regardless of the business area, copying competitors is meaningless. Taking the same kind of measures will only lead to strong price competition. To avoid the pitfall of simple price competition, we always focus on being as original as possible so as to have customers choose our services.

* "Android" is a trademark of Google Inc.

Q4

At the moment, the penetration of open platform systems for mobile handsets is advancing. What type of business models are you considering for the future?

A4

We will maintain both our original KCP+ and open platform systems and provide services tailored to suit each.

If we consider the diversification of user needs and services, there are services suited for different demands. Until the introduction of LTE (Long Term Evolution), we will keep KCP+ as the main platform of the "au" lineup and continue its operation while adding more functions and improving performance. We are currently considering strategies for the period from the introduction of LTE onward.

Further, I believe that we need to conduct our business operations based on careful analysis of the balance among handsets, services, and content. "au one Market" is an example where we have realized this. Also, it is clear that successful open platform systems have earned endorsement because of their progressive user interfaces or functions. No matter what the platform may be, I think the key is how far we can give customers a sense of progressiveness.

Q5

What is your strategy for LTE and other networks?

A5

Aiming to maximize performance and reduce cost, we will introduce LTE in December 2012.

The main reason for introducing LTE is to reduce the bit unit cost of transmission, thereby reducing cost. In order to maximize LTE performance by using frequency effectively, we plan to introduce LTE from July 2012, after the completion of 800MHz band reorganization. We plan to expand LTE area coverage to 96.5% by the end of the year ending March 31, 2015.

Further, in response to demand for high speeds, mainly for PCs, Group company UQ Communications Inc. will advance the rollout of WiMAX services. Before the introduction of LTE, we plan to introduce Multi-carrier Rev. A, which realizes downlink speeds of up to 9.3 Mbps, for mobile handsets at the end of 2010.

In the near-term, we intend to further increase our Wi-Fi compatible handsets in order to cater to increasing data traffic. In addition, we plan to rigorously raise the quality of our coverage area by not only promoting such existing services as "au Repeater" (relay stations) and "simple antenna" but also launching the small home-use base station "au Femtocell" in July 2010.

Q6

KDDI has a unique business structure that combines fixed-line and mobile communications in a single company. Going forward, what type of advantages do you expect this structure will enable?

A6

I think we will finally be able to fully realize the advantages of our business structure.

Overall, I think we will have two types of advantage. First, fixed-line communications will become important as backhaul for mobile communications. In mobile communications, data traffic volumes are soaring due to the enrichment of content and the growing popularity of data cards and smart phones. Some say that from around 2014 to 2015, Japan's frequency resources will no longer be able to cope with the increase in data traffic. A significant option for resolving the resulting network bottleneck is the use of fixed broadband lines. In other words, as mobile broadband spreads, having our own fixed-line networks becomes more of an advantage.

Secondly, having such networks allows us to develop new services by using this operational resource. Our FMBC (Fixed Mobile and Broadcast Convergence) services are one such initiative. FMBC, which means combining fixed-line communications, mobile communications, and broadcasting, will move from the stage of consolidated billing and price discounts to one where we can offer customers tangible merits through convergence in the upper layer of devices, services, and content. I believe reaching this stage will further strengthen our customer base. Only KDDI has the practical capabilities for this type of initiative.

Q7

How do you plan to grow your Fixed-line Business?

A7

The main pillar of our strategy is to expand our customer base by strengthening initiatives for the access line business.

Currently, our main business strategy is to switch over from our existing long-distance business and strengthen initiatives for our access line business. In particular, we have accelerated initiatives for FTTH*1 in recent years. In the year ended March 31, 2009, we dramatically heightened product competitiveness by launching the "Giga Value Plan," offering the ultra-high speed of 1 Gbps for the lowest price in the industry. Furthermore, in the year ended March 31, 2010, we expanded service availability to achieve a 71% year-on-year increase in net additions. Using this momentum, from the year ending March 31, 2011, we plan to further expand our customer base.

Also, KDDI has repeatedly undertaken mergers since its establishment. The resulting complexity of core networks and metro access networks as well as the dispersal of base stations have become major issues. Aiming to resolve these issues and reduce fixed cost, we are following a new grand design for networks in efforts to streamline*2 them. This initiative is scheduled for completion by the end of the year ending March 31, 2016. Partly with the help of cost reduction benefits resulting from streamlining. We are planning to achieve operating profit for the Fixed-line Business in the year ending March 31, 2011, and we promise to achieve this goal.

*1 Fiber to the Home. An access format in which fiber-optic cables connect customers' homes to the facilities of a carrier.
*2 Streamlining of fixed-line networks ▶▶ P.27

Q8

Your overseas strategies are also distinctive.

A8

Our basic approach is to concentrate on business areas where we can win in markets with growth potential.

KDDI has set out a target to increase operating revenues in overseas business from approximately ¥100 billion in the year ended March 31, 2010 to approximately ¥200 billion in the year ending March 31, 2013. To that end, one priority measure is expanding our global ICT*1 business. In the ICT area, we want to cater to the growing demand for one-stop outsourcing as Japanese companies accelerate entry into overseas markets. Our one-stop services will be based on four core ICT services: data center*2 business, carried out through the TELEHOUSE brand, which we intend to expand; a global network connecting 25 countries; system integration; and overseas regional networks. Moreover, we embarked upon a full-scale entry into the U.S. mobile phone market catering to immigrants, which continues to grow rapidly, by making two U.S. MVNOs*3 wholly owned subsidiaries in January and March 2010. For these two overseas operations—the global ICT business and MVNOs—we have particularly high expectations.

In November 2009, as a stepping stone for our strategy of opening up the markets of developing nations based on the WiMAX technology of affiliate UQ Communications, we took a stake in bracNet, Bangladesh's largest ISP (Internet service provider), and made it an affiliate. In markets with growth potential, we will specialize in business areas where we can win. This is KDDI's basic strategy for overseas business.

*1 Information and Communication Technologies
*2 Data centers are facilities in which computer equipment or communications equipment is installed. Data centers function as the infrastructure of communications networks by having stable power supplies, connecting with wide area backbone lines, and maintaining operations 24 hours a day 365 days a year.
*3 Mobile Virtual Network Operator. Operators that lease wireless communications infrastructure from other mobile phone carriers and provide services.

Q9

Why did KDDI take a stake in Jupiter Telecommunications Co., Ltd. ("J:COM")? And, how do you plan to realize benefits?

A9

KDDI, J:COM, and Sumitomo Corporation will examine how to rapidly create synergies among the three companies.

One of the reasons why we took a stake in J:COM was to develop our access strategy. In Japan's CATV access network, home-path accounts for 43.41 million households*1 (coverage ratio of all 49.72 million households*2 nationwide: 87%). The total number of households actually connected to the networks of CATV operators is 22.80 million households (household connection: 53%), which is at a level equivalent to the networks of NTT East and NTT West. Taking a stake in J:COM will significantly advance the KDDI Group's access strategy by giving it a total of 17.08 million CATV home-path households (J:COM: 12.59 million households*3, JCN: 4.49 million households*3). Furthermore, combining these households with other households that we have access to with our FTTH service will give the Group's FTTH and CATV access networks almost complete coverage of Japan's population centers, such as Tokyo, Nagoya, Osaka, and Kitakyushu. Our FTTH service is comprised of "au HIKARI" in the Kanto region (home-path: 11.73 million households*4, including the JCN and J:COM areas), and "Commuf@-hikari" offered by Chubu Telecommunications Co., Inc. (CTC), in the Chubu region (home-path: 2.80 million households*4).

Another reason we made J:COM an affiliate is because we want to offer our FMBC services, including "au," to J:COM's favorable high-ARPU customer base of 3.29 million households (total subscribed households*4).

Further, J:COM has program suppliers and extensive expertise in television-related operations. Therefore, its addition to the KDDI Group will enable the Group to actively exploit the content of J:COM's program suppliers for "au" and other areas through collaboration with J:COM.

Regarding the creation of specific synergies, KDDI and J:COM have established the Alliance Study Committee, which is tasked with examining the alliance, as well as working groups to examine individual themes. On June 10, 2010, KDDI, J:COM, and J:COM's largest shareholder Sumitomo Corporation announced the conclusion of a memorandum of understanding on consideration of the alliance and the three companies are holding detailed discussions with a view to the early realization of synergies.

*1 As of September 30, 2009 *2 2003 national census *3 As of December 31, 2009 *4 As of March 31, 2010

Alliance Study Committee (details of the announcement on June 10, 2010)

Telecom Business and Products Collaboration Working Group

- Cooperation in fixed line and mobile phones
- Cross-sales promotions
- Collaboration in high-speed wireless data communications business (UQ WiMAX)

Media Business Working Group

- Collaboration and integration in the area of VOD service
- Collaboration in advertising operations leveraging both companies' advertising sales forces
- Mutually distribute contents owned by both Groups

CATV Business Working Group

- Capital/business tie-ups between J:COM and JCN, realization of synergy benefits
- System by which J:COM and JCN mutually introduce their potential customers to each other's company

Technology and Infrastructure Working Group

- Cooperation in the area of infrastructure such as shared use of networks
- Development of devices and products that leverage both companies' technological expertise in areas such as next-generation set-top boxes (STBs) for CATV

Q10

What business result trends do you anticipate going forward?

A10 We are targeting upward-trend earnings after completion of the 800MHz band reorganization.

In the medium-term, we expect operating income to remain flat until the year ending March 31, 2013. This is mainly because voice ARPU is likely to decrease due to the increased customer shift to "Simple course" pricing in the Mobile Business and expenses arising from the 800MHz band reorganization, scheduled for 2012. Expenses arising from the 800MHz band reorganization will include additional expenses incurred due to the changeover to tri-band handsets*, depreciation relating to the operation of facilities for current and new bands, and the overlapping of such expenses as line usage fees. Although we expect such expenses will diminish gradually, the Mobile Business will likely see earnings trend downward until the completion of reorganization in July 2012. During the two years until then, we intend to counteract this trend and maintain operating income at the same level by increasing data ARPU and reducing such expenses as sales commissions in the Mobile Business while increasing the earnings of the Fixed-line Business. From 2012 onward, however, when the negative factors are gone, our goal is to get back on a track of earnings growth. Our investments in new businesses and overseas are preparatory steps taken with this goal in mind.

In addition, for the year ending March 31, 2011, we are projecting a 0.1% year-on-year decline in operating revenues, to ¥3,440 billion, and a 0.3% increase in operating income, to ¥445 billion. For the reasons I just mentioned, the Mobile Business is likely to record lower earnings. On the other hand, we plan to move the Fixed-line Business into the black and post operating income of ¥10 billion through improved profitability resulting from expansion of the customer base of the FTTH business and the benefits of lower expenses accompanying network streamlining.

* Tri-band handsets are mobile handsets that are compatible with three different bands. In this instance, tri-band handsets refers to mobile handsets that are compatible with the current and new 800MHz band as well as 2GHz.

Q11

What is the outlook for KDDI's capital expenditures?

A11 Capital expenditures have already peaked, so we expect a downward trend.

The Mobile Business' investment for the development of networks for the new 800MHz band, which has accounted for a large share of total capital expenditures in recent years, will decrease as band reorganization moves toward completion in July 2012. Other investments in the Mobile Business will stem from preparations for the introduction of Multi-carrier Rev. A at the end of 2010. However, we do not expect this to be a large investment because these preparations will only entail the upgrading of software at base stations. Overall, investment in the Fixed-line Business will likely decrease as lower investment for legacy-related areas and other areas offsets a high level of FTTH capital investment aimed at acquiring new subscribers. As a result, we see capital investment declining over the coming several years for existing businesses on a nonconsolidated basis.

As for investment accompanying the Mobile Business's introduction of LTE, based on our application to the Ministry of Internal Affairs and Communications, we expect it to reach a cumulative total of ¥515 billion from the year ending March 31, 2011 through 2015.

For the year ending March 31, 2011, we are planning consolidated capital investment of ¥490 billion, down 5.4% year on year. This includes investment in the Mobile Business of ¥360 billion, down 4.5%, and investment in the Fixed-line Business of ¥127 billion, down 8.4%.

Q12

What is KDDI's approach to returning profits to shareholders?

A12 Our policy is to steadily raise the consolidated dividend payout ratio to between 25% and 30%.

For the year ended March 31, 2010, we paid a full-year cash dividend of ¥13,000 per share, up ¥2,000 year on year, comprising an interim cash dividend of ¥6,500 per share, which included a commemorative cash dividend of ¥1,000 per share, and a year-end cash dividend of ¥6,500 per share. As a result, the consolidated dividend payout ratio was 27.2% compared with 22.0% for the previous year. Further, KDDI recorded negative free cash flow due to increasing capital investment over the past several years as well as projects that required large amounts of capital such as buying back securitized buildings and taking a stake in J:COM. However, cash flows from operating activities have remained stable—reaching approximately ¥600 billion each year—and have exceeded ¥700 billion since the year ended March 31, 2009. Given these cash flows from operating activities and the fact that capital expenditures have peaked, we expect to post positive free cash flow of ¥230 billion for the year ending March 31, 2011.

Regarding the use of cash flows, we intend to steadily increase cash dividends to maintain a consolidated dividend payout ratio of between 25% and 30%. While we do not foresee the kind of large mergers and acquisitions (M&As) implemented in the year ended March 31, 2010, we will continue to consider options centered on new businesses and overseas projects with a view to sustained growth. Also, in accordance with plans we intend to further heighten the soundness of our financial position by repaying interest-bearing debt, which stood at ¥1,096.8 billion at the end of the year ended March 31, 2010.

Q13

In closing, what is your message for stakeholders?

A13 We will continue to reassess the uniqueness of KDDI and take on challenges to create new value.

Looking ahead, I expect we will face fierce competition in the markets that surround us. However, KDDI will lose value if it simply competes to acquire customer numbers. Based on an awareness of the large impact services of information and communications have on society, we must never forget our mission of meeting the expectations of stakeholders by ambitiously and passionately creating an environment in which anyone can use communications safely and with peace of mind.

Since its establishment 10 years ago, KDDI has rigorously competed with other companies. Going forward, however, I think this approach alone will not be enough. As we approach the 10th anniversary of our establishment, I think we need to reexamine ourselves and ask what we can do that competitors cannot, what the uniqueness of KDDI is, and return our venture business spirit. I think our business vision for the coming 10 years, which we plan to announce in October 2010, will reflect the need for these changes. Therefore, I would like to ask all of our stakeholders to look forward to our future.

Being KDDI, Being More ENERGETIC

SPECIAL FEATURE: PURSUING THE UNIQUENESS OF KDDI, CREATING NEW VALUE

KDDI will pass on the winning formulas—"Based on unique ideas," "Creating new demand," and "Utilizing our unique management resources"—that have driven its development by creating new value. By honing these formulas, we will pursue further growth and aim to be a company that has energy.

NEXT ▸
THE WINNING FORMULA THAT HAS UNDERPINNED KDDI'S DEVELOPMENT

THE WINNING FORMULA THAT HAS UNDERPINNED KDDI'S DEVELOPMENT

2000 2001 2002 2003 2004 2005 2006 2007 2008

Based on Unique Ideas

"au design project"

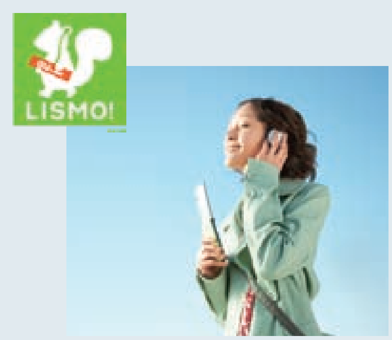
When it began in 2001, the "au design project" caused a stir in the industry. Rather than offering mobile phone handsets simply as means of communication, the project cast them in a new light as fashion items. The subsequent array of highly original concept models realized through collaborations with outside designers earned resounding endorsement from young customers and established "au" as a brand with strong design appeal.

INFOBAR

Creating New Demand

"Chaku-Uta®," "Chaku-Uta Full®," and "LISMO!"

Today, listening to music with high-quality sound via mobile phones has become a common service. Yet, it was the "au" brand that pioneered such services. By resolving copyright protection issues, the "Chaku-Uta®"* service began in December 2002. With the introduction of CDMA 1x WIN and "EZ Flat," this service evolved into a service enabling the downloading of entire songs, EZ "Chaku-Uta Full®"* in November 2003. Through these initiatives, we created a new market for music distribution via mobile phones. A service enabling customers to link PCs and mobile phones and download music, "LISMO!," marketed in January 2006, signaled a further evolutionary stage by building the framework of an original new content distribution platform, while extending our services to include videos and e-books.



* "Chaku-Uta®" and "Chaku-Uta Full®" are trademarks or registered trademarks of Sony Music Entertainment (Japan) Inc.

Utilizing Our Unique Management Resources

"KDDI Collective Billing Service" and "au Collective Talk"

KDDI offers both mobile communications and fixed-line communications businesses. We can pass on this advantage to customers by offering them preferential billing services. For example, in May 2005 we introduced the consolidated billing service "KDDI Collective Billing Service," while in August 2008 we began offering "au Collective Talk," which is the price discount services for calls between "au" mobile phones and KDDI fixed-line phones.

おうちとケータイまとめておトク。

auまとめトーク

"au Collective Talk"

2009

2010

Progressiveness and originality form the base of KDDI's venture business spirit. Through a broad spectrum of products and services, we bring fresh perspectives to the industry.

"iida"

Debuting in April 2009, "iida" has inherited the strong emphasis on design of "au." As its "LIFE>PHONE" slogan suggests, the brand focuses on everyday life.

▶▶ P.19, 37

G9

"au one Market"

In the rapidly growing smart phone market, we are trying to differentiate the "au" brand based on our unique approach concentrating on the convenience of Japanese customers. "au one Market" is one of such attempt.

▶▶ P.20, 37

IS01

Providing new ideas based on using mobile phones as lifestyle tools or trailblazing markets beyond existing areas has always been part of the DNA of KDDI, and characterizes its initiatives to this day.

"au Smart Sports"

Having established the new concept of enjoying music through mobile phones under the "au" brand, we introduced the service of listening to music on your mobile phone while playing sports with the launch of "au Smart Sports."

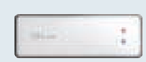
▶▶ P.20, 40

au Smart Sports

Mobile WiMAX

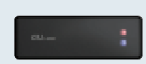
Enabling the realization of true mobile broadband through the incorporation of compatible modules in a wide range of devices, mobile WiMAX offers burgeoning potential for the creation of new mobile markets.

▶▶ P.23, 41



DATA01
by HITACHI

DATA02
by HITACHI



DATA03
by HITACHI

DATA04
by HITACHI

With respect to pricing and convenience, KDDI is beginning full-fledged initiatives to return to customers the benefits of having both mobile and fixed-line communications businesses.

"KDDI Business Call Direct"

Contributing significantly to improving the operational efficiency of corporate customers, the FMC service "KDDI Business Call Direct" is a solution that KDDI is uniquely qualified to provide because it combines mobile and fixed-line communications businesses.

▶▶ P.22

KDDIビジネスコールダイレクト

"KDDI Business Call Direct"

"Ultra 3G"

"Ultra 3G" is a next-generation network concept that seeks to aggregate mobile communications, fixed-line communications, CATV, and other services into an integrated IP network. Only KDDI can pursue this initiative because it has diverse access lines.

▶▶ P.23

"au" CONTINUES TO FOCUS CLOSELY ON CUSTOMERS' LIFESTYLES

What is the unique quality that has supported the growth of "au?" How will KDDI create new value through the brand? Makoto Takahashi, Senior Vice President in charge of the Group Strategy Sector, discusses these questions.

Makoto Takahashi
Senior Vice President, Member of the Board

'03.4 Vice President, General Manager, Contents Division, Solution Business Sector
'07.6 Associate Senior Vice President, Member of the Board
'09.4 General Manager, Consumer Service & Product Sector
'10.4 General Manager, Group Strategy Sector (Current position)
'10.6 Senior Vice President, Member of the Board (Current position)

Q1 Over the past decade, KDDI has embarked upon some highly original strategies under the "au" brand. What was the thinking that led to these strategies?

When the merger of the three companies established KDDI in 2000, data services were spreading rapidly. Around the same time, we began the Internet connection service "EZweb." However, until about 2001, we had a really hard time due to delay in developing proper billing methods and rich contents. At the time, trying to establish the "au" brand, we were rigorously examining what we could offer under the "au" brand that competitors were unable to match.

Ahead of competitors, KDDI introduced the 3.5G mobile phone CDMA2000 1x EV-DO ("EV-DO") in 2003. "EV-DO" is a system capable of high-speed, high-volume data communications as it specializes in data communications. "EV-DO" represented a quantum leap in communications speed, realizing 2.4 Mbps as opposed to 154 Kbps, which was the maximum speed achieved by the conventional CDMA2000 1x method available at the time. However, based on the lessons we learned from the difficulties we faced immediately after our establishment, we knew we had to avoid emphasizing the superiority of the communications speed and other aspects of the technology. Instead, we approached "EV-DO" from the perspective of how to make maximum use of this new infrastructural advantage—the outstanding communications efficiency—to provide appealing products and pass on pricing benefits to customers.

This approach led to the creation of innovative services such as "Chaku-Uta Full®"* and "LISMO!," which propelled the "au" brand upward. Also, I should mention that our data flat-rate pricing plans "EZ Flat" and "Double-Teigaku"—both of which were industry firsts—played a major role in spreading these services.

Transforming from a technology-oriented approach to a service-oriented approach is the concept we have nurtured in creating our unique services.

* "Chaku-Uta Full®" is a trademark or a registered trademark of Sony Music Entertainment (Japan) Inc.

An approach centered on customers' lifestyles underpins the originality of "au"

Q2 Can you explain the background of KDDI's efforts in building the brand by incorporating sophisticated designs for "au" handsets?

This is another major reason why customers choose "au." Our initial initiative in this regard began in 2001, just after we were established.

At the time, customer-oriented marketing was not that well established within KDDI nor other companies that provided communications infrastructure. To make it simple, the approach to customers was like; "This is the price. Please go ahead and use it." This attitude was also obvious in mobile phone handsets. The market was overflowing with very similar handsets. Against this backdrop, KDDI sought to differentiate by reconsidering mobile phones from design perspective after listening to the voices of customers who viewed handsets as a part of their fashion and claimed that they wanted mobile phones with good designs.

As part of these efforts, we began the "au design project" through collaborations with outside designers in 2001. We also undertook adventurous initiatives such as issuing concept models, which is common among automobile manufacturers, as a way of suggesting future design trends for mobile phones. In recent years, such collaborations have become common, but the history of "au" collaborations goes way back. Reflecting favorable responses from numerous customers to prototype handsets we had released, we commercialized a straight-type mobile phone "INFOBAR," which was unusual because foldable handsets were the mainstays at the time.

Subsequently, we continued releasing handsets that accentuated customers' lifestyles. Thinking out of the box and seeking originality built "au" into an unshakable brand known for scrupulous attention to design.

Q3 Currently, competitors are trying to catch up.

Because competitors' efforts have reduced our comparative advantage, we decided to take another step forward. Accordingly, in April 2009 we launched a new brand, "iida," which originated from the "au design project."

Befitting a brand that takes its name from the acronym of "innovation," "imagination," "design," and "art," "iida" appeals to customers' tastes and suggests lifestyle ideas, not just through handsets, but also through an all-around lineup of products that extends to accessories and content. I think that we must always look one step ahead to ensure that the "au" brand's reputation for good design remains firm.

"iida," heir to a legacy of design excellence built by the "au design project"

LIFESTYLE PRODUCTS

Q4 Is there anything distinctive about KDDI's handset development initiatives?

For example, rather than just adding in a lot of functions from the outset, we start by determining what functions a customer might want. This serves as our basis for development. In terms of design, in case of "iida," we have contracts exclusively with certain designers. Moreover, when we ask handset manufacturers to develop a model, we take the initiative saying: "This model will target these people, so development should pay particular attention to such areas." In such cases, we convey designers' instructions down to the smallest details. This is one distinguishing feature of our development. For "iida," we recruit superb industrial designers, first finding them and then entering into exclusive contracts, so handset development starts with a strong design focus. KDDI's management is fully aware of the important role played by industrial design, and they leave development in the hands of the people on the ground.

Maintaining Our Unwavering Commitment to Entertainment

Q5 The popular impression is that there is not much difference in handset functions and services across mobile carrier. What would you say is unique about KDDI handsets?

Current-day handsets offer a host of features, but there are questions as to how much customers actually use these functions. Conversely, consumers will not support handsets whose features have been scaled back too extensively, so finding that minimum feature level accepted by customers becomes the key. For example, customers might not use the cameras attached to their mobile phones very frequently, but want to have a camera of at least 5-megapixels quality just in case they do. On its own, this approach is not a sufficient differentiator. In the future, rather than competing on the basis of brand, mobile carriers will need to differentiate themselves from competitors through collaboration with companies that have robust brands and strong connection with customers. Always keeping these facts in mind, we will continue to pursue an "au"-specific path.

Q6 What is your strategy with regard to smart phones?

Rather than simply using handsets that are made overseas, "au" aims to offer handsets that are designed for easy usage by Japanese customers. For that reason, our entry into the smart phone market lagged that of competitors. But delaying our market entry enabled us to offer the "IS01," a smart book based on the Android™*1 platform. Announced in March 2010, the "IS01" has a strong flavor of our uniqueness. In addition to including functions that Japanese customers are accustomed to using, it offers easy website browsing and other characteristic smart phone features. From its initial launch, the "IS01" offered "one seg" broadcasting reception and infrared communication functions. We also plan to gradually augment the model with functions such as "LISMO!" and "Osaifu-Keitai™"*2 as well as other features. From the initial planning phase, we had intended to offer these handsets as feature phones to meet demand for second handsets. In the future, we will expand our lineup of such phones designed for the main market.

Applications are also strong distinguishing characteristics of "au." We plan to commence the "au one Market" as our unique market for applications. Its main advantages is the fact we confirmed the security of the safety of applications and only such applications will be on the market. In addition, application purchases and communication fees can all be handled simultaneously through "au simple settlement." Both of these features are designed with the convenience of Japanese customers in mind. We also offer the Android market™*1 simultaneously, allowing customers to move seamlessly between the two markets.

*1 "Android" and "Android market" are trademarks of Google Inc.
*2 "Osaifu-Keitai" is a registered trademark of NTT DoCoMo, Inc.

Q7 How are you progressing in the development of business in non-traffic fields?

As it becomes ever more difficult to differentiate on the basis of handsets, we will have to differentiate ourselves through our services and contents. Also, with voice ARPU trending downward, boosting data APRU has become a higher priority.

During the past 10 years, "au" has worked to remain strong in the area of entertainment, particularly in areas that have become an important part of customers' lives and that are highly compatible with mobile phones, such as music, video, and e-books. One KDDI characteristic is the importance we place on forging alliances with our partners to develop services and contents. This is because we believe it is best to make use of our expertise in different areas and our points of contact with customers to respond to the diverse needs of our customers. We respect our partners' technologies and approaches, and hold the core belief in the importance of win–win relationships. Just as we elicited cooperation from the music industry when we created a new market with "Chaku-Uta®"*, in recent years we have cooperated with GREE, Inc.—an SNS provider—when creating "au one GREE" and "au Smart Sports." We were able to realize these services with the belief mentioned above.

Our other services in non-traffic fields include customer-specific "banks" built into mobile handsets, helping to further maximize mobile phone characteristics. "Jibun Bank" services are highly secure financial services that can be used anywhere and at anytime. These services fall into the category of "entertainment" because—in the case of "Jibun Bank," for example—they enable customers to easily send money to pay for different sorts of entertainments they enjoy. Rather than the mechanical terms often used commonly among telecommunications companies, we provide services by taking an entertainment-oriented approach featuring easy-to-understand expressions. We will maintain this approach in the future.

* "Chaku-Uta®" is a trademark or a registered trademark of Sony Music Entertainment (Japan) Inc.

Promoting FMBC as We Develop the Services of the Future

"au" Aims to Entertain

Q8 What will be your future directions in non-traffic fields?

Once the 3.9G system based on LTE technology becomes available, it will be difficult to differentiate ourselves on the basis of infrastructure. In the future, we believe that competitive advantage will be defined by the ability to propose new communications-based lifestyle options to the elderly and other people who do not currently use these services. For example, providing larger tablet-type handsets with easy-to-operate touch panels for the elderly will offer the opportunity to use mobile communications in new ways.

Infrastructure upgrades will be important if usage of smart phones continues to increase and the current trend of video viewing, including that of user-participatory videos, continues to expand. It will be extremely important to use fixed-line infrastructure to back up mobile communications. KDDI, which has both fixed-line and CATV infrastructures, is in a position to create hybrid infrastructures that provide customers with stable services.

Looking into the future, I imagine that each of the various devices around us will gain communication functionality, and that cloud computing will become common in terms of contents services. As a result, people are likely to have access to their own specialized environment using communications regardless of fixed or mobile. Although it is unclear what kind of services will be available at this stage, KDDI will promote FMBC by utilizing fixed-line communications, mobile communications, WiMAX, and CATV. Through these efforts, we are taking a proactive approach toward business development on the basis of this new environment.

SPECIAL FEATURE: PURSUING THE UNIQUENESS OF KDDI, CREATING NEW VALUE

A NEW WORLD OF COMMUNICATIONS THAT KDDI IS UNIQUELY POSITIONED TO CREATE

How will KDDI leverage the advantages it derives from providing both mobile and fixed-line communications? How will it take advantage of the possibilities of mobile WiMAX? We ask Takashi Tanaka, Senior Vice President in charge of the Solution and Consumer businesses and the Product Development Sector, to share his thoughts on these topics.

Takashi Tanaka
Senior Vice President, Member of the Board

'03.4 Vice President, General Manager, Solution Product Development Division, Solution Business Sector
'07.6 Associate Senior Vice President, Member of the Board
'07.8 President of Wireless Broadband Planning Inc. (now UQ Communications Inc.)
'09.4 Solution Business
'10.4 Consumer Business, Solution Business, and Product Development Sector (Current position)
'10.6 Chairman of UQ Communications Inc., Senior Vice President, Member of the Board (Current position)

FMBC

Q1 What is the concept behind FMBC?

FMBC is an acronym for "Fixed Mobile and Broadcast Convergence," referring to fixed-line and mobile communications, and broadcasting, which in KDDI's case is CATV. The acronym creates a certain amount of misunderstanding that networks themselves will actually converge. Rather, the idea is that there will be an integration of devices that sit atop these various networks as the upper layer. More correctly, "convergence" will be achieved among services. For that reason, some people refer it instead as the "multi-screen concept." This expresses the idea that whether customers are viewing the displays, or screens, of mobile phone handsets, PC monitors, or televisions, they will be able to access convergent services without having to think about their different communication infrastructures.

Q2 What is the current status of FMBC?

About three years ago, we started reorganizing the structure that until then had been separated into mobile and fixed-line communications into divisions based on individual and corporate customers. We have now completed organizational integration to offer services in a unified way. At that time, we began providing services that linked mobile and fixed-line communications. Specific services include "au Collective Talk," a discounted pricing plan that bundles together mobile and fixed-line communications and cross-sellings at au shop. Furthermore, in April 2009, KDDI launched the "KDDI Business Call Direct Service," service, which enables corporate customers to place calls between au mobile phones and KDDI phones* at a flat rate by making them as internal extension calls. This solution is an example of reducing customers' investment costs, raising their operating efficiency, and holding down their communication costs, by taking advantage of the strength we derive from having both fixed-line and mobile communications. Going forward, in addition to pursuing developments from the pricing perspective, we will move gradually to the stage where we can create the structure that will enable us to offer "three-screen" services.

* All KDDI circuits

KDDI Yet to Leverage the Competitive Advantage of Its "Three Screens"

Q3 What advantages does KDDI have in the promotion of FMBC?

Various companies are espousing the same worldview. However, realizing FMBC and FMC services that are truly attractive to customers goes beyond the services; it involves an integrated offering that includes the unique networks and pricing structures. Our advantage of holding all three networks—mobile, fixed-line, and CATV—and our ongoing investment in networks as we envision the services of the future is going to show its strength.

Q4 What are some of the distinguishing features of "Ultra 3G," which will serve as the base of FMBC?

The most important point of the "Ultra 3G" vision is that rather than depending on advances in network technologies, initiatives begin by conceptualizing how networks should look in response to customers' requests. Based on the understanding that customer needs are services and content, rather than communication itself, this idea has resulted in the integration of diverse access methods into an IP network.

In October 2007, we commenced commercial services offering FTTH and ADSL, fixed-line IP telephony, CATV, and IP-VPN, all on an integrated IP network. In 2009, we plan to add WiMAX and mobile voice traffic, and in the future will integrate LTE. Our aim is to create networks that KDDI is uniquely able to offer, which are not dependent on access method.

Mobile WiMAX

Q5 What was the strategic objective behind your acquisition of a mobile WiMAX license?

Mobile WiMAX is a high-speed mobile broadband service that UQ Communications Inc. ("UQ") launched in July 2009. Let me explain the objectives of the service, as well as its characteristics.

One of the service's characteristics is that it realizes high-speed broadband communications with downlink speeds of up to 40 Mbps, far exceeding that of current-day 3G mobile phones. Broadband characteristics with small delays will make this service optimal for cloud computing, which is expected to be adopted among mobile communications. Service availability in any location that has a base station support is a substantial difference from public wireless LAN, which can only be used in limited access points. Furthermore, the service supports mobile access even during the time the user is moving at speeds of more than 200kph. The major goal in promoting mobile WiMAX lies in taking advantage of the same level of access to broadband as is available in homes and companies regardless of location or equipment—something that has not been possible in the past with mobile phones or public wireless LAN. This service represents the realization of true mobile broadband.

Also, WiMAX is a global-standard specification. It allows the same terminal to be used overseas, and common global specifications will hold down costs. Already, a number of notebook PCs have built-in modules that are compatible with this service, a factor that should encourage proliferation.

Q6 Please explain the potential of mobile WiMAX as an open model.

Mobile WiMAX is an open model from two perspectives: networks and equipment. Network openness means opening networks to MVNOs. This will allow various industry partners to participate in the communications business. Equipment openness, meanwhile, offers a possibility for promoting built-in compatible modules different from those that have been used in mobile devices to date. "Always on" connectivity also will open up the potential to use equipment in entirely new ways.

The day when digital signage, telemetering, and the monitoring of vending machine inventories will shift to WiMAX is not far in the future in the real life. Gradually, compatible modules will be incorporated into the devices around us, enabling mobile network connectivity. For example, such modules are likely to be incorporated into industrial equipment that requires remote operation or monitoring of status, as well as televisions and portable game devices, cameras, and a wide variety of home electronics. The inclusion of modules into car navigation systems would allow on-demand download of content, and Internet connectivity would promote their proliferation. UQ can provide the platform to unlock the potential of this huge market.

UQ Able to Provide Platform for Growing Potential Market

Q7 How is WiMAX different from LTE?

LTE is a mobile phone communications technology, whereas mobile WiMAX is a technology that acts like an extension of wireless LAN services. Regardless of how far mobile phone development progresses, they are unlikely to become substitutes for PCs, which enjoy the ability to connect conveniently to network environments via FTTH and wireless LAN, as mobile handsets are required to be small and light in size due to their purpose of usage and they will have a limited capability as an input device. Furthermore, as data traffic is expected to increase further, we anticipate the creation of multi-networks designed to accommodate various communication formats—a likely outcome of the next-generation communications environment. In terms of infrastructure investment, compared with the trillions of yen that are required for existing mobile phones, mobile WiMAX can create networks at a much lower investment cost. In the upcoming generation, having two networks surely will not be an inefficient option.

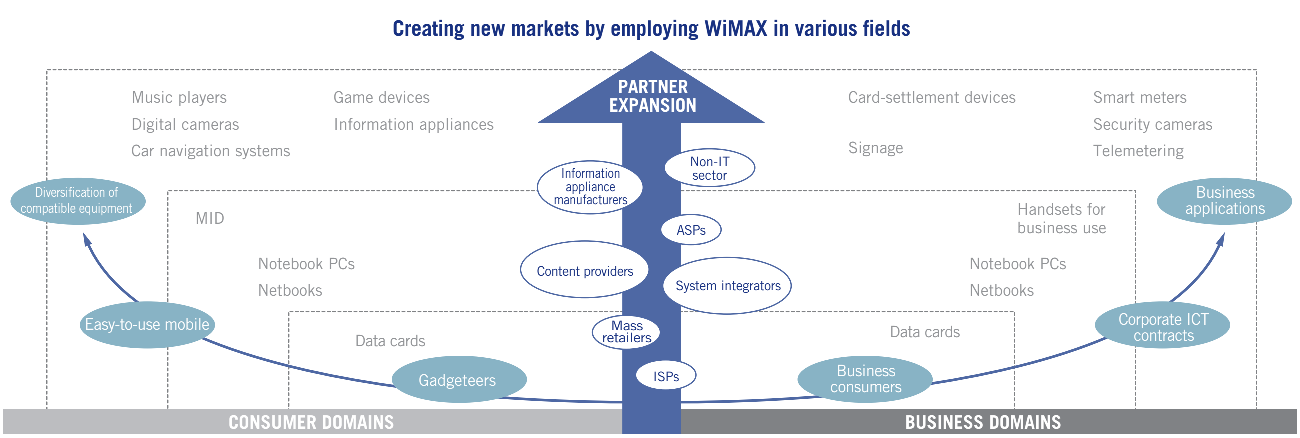
Q8 Please explain your directions for the future.

UQ aims to move into black on an operating basis during the year ending March 31, 2013. In the year ending March 31, 2011, we plan to expand the number of subscribers to 800,000. Pricing, communication speed, and network will be key factors behind the service's proliferation. Of these, pricing is already the lowest in the industry. Although communication speed is satisfactory at present, the introduction by 2012 of downlink speeds of up to 330Mbps through the initiation of IEEE802.16m will present the need for higher communication speeds and a response to expanding traffic volume. A major issue for the future will be expanding service areas. As of March 31, 2010, we had about 7,000 base stations, and will increase this number to 15,000 by March 31, 2011, by accelerating the construction ahead of our initial plan.

In addition to increasing the number of PCs with built-in WiMAX-compatible modules, we will incorporate WiMAX-compatible modules into unconventional devices to differentiate the service from mobiles phones.

We plan to offer support to MVNOs in a range of ways, such as cooperating in promotions and setting prices.

Partner Expansion



Being KDDI, Being More AMBITIOUS

Taking advantage of its unique business structure that combines mobile and fixed-line communications businesses within a single company, KDDI is promoting FMBC. With the coming of an "ambient intelligence society", we aim offer new services through the integration of fixed-line and mobile communications, and broadcasting.

NEXT ▸
UNDERSTANDING KDDI: THE KEYWORDS

"Simple course"

In light of the findings by the Ministry of Internal Affairs and Communications Study Group on Mobile Business as part of its "New Competition Promotion Program 2010," new pricing plans were introduced in 2008 to separate tariffs from handset prices, in addition to existing pricing plans where carriers subsidize handset cost by paying handset subsidies to sales agencies.

In addition to the "Full Support course," its existing pricing plan, KDDI introduced the "Simple course," under which a separate handset subsidy is discounted from monthly basic charges. In the year ended March 31, 2010, approximately 90% of customers who purchased new handsets chose the "Simple course."

▶▶ P.34 Mobile Business, Overview of Operations in the Year Ended March 31, 2010

(Fees, including tax)

	au買い方セレクト "au Purchase Program"	
Course name	フルサポートコース "Full Support course"	シンプルコース "Simple course"
Handset subsidy	¥16,800	¥0
Contract on period of handset use	2-year contract	No (except installment payments)
Basic monthly charge (free calls)	¥1,890 (¥1,050)	¥980 (¥1,050)
Installment payment	No	Yes

Note: Monthly basic charge under "Plan SS," "Everybody Discount" contract

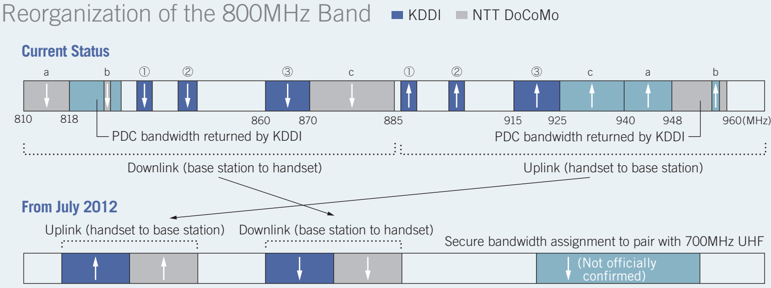
Reorganization of the 800MHz Band

The reorganization of the 800MHz band calls for switching the direction of the current uplink (handset to base station) and downlink (base station to handset) and reallocating the current narrow and scattered frequencies into solid blocks by July 2012.

Currently, the 800MHz band serves as KDDI's main operating band, but the Group is pressing ahead with expansion of 2GHz band coverage, and also is increasing the coverage area for the new 800MHz band in preparation for full conversion by July 2012.

KDDI has made available tri-band handsets, which are compatible with the current 800MHz, 2GHz, and new 800MHz, and as of March 31, 2010, approximately 21.87 million, or about 71% of all au handsets under contract, were tri-band compatible. We will continue working to provide more tri-brand handsets over the next two years, so that by the time of the July 2012 switch to the new band, all au subscribers will be using tri-band handsets. ▶▶ P.36 Network

Reorganization of the 800MHz Band



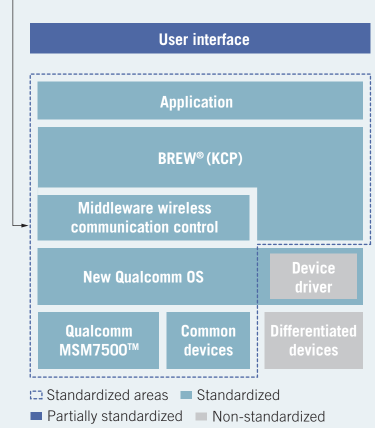
KCP+

(KDDI Integrated Platform)

Seeking to further reduce handset procurement costs and shorten product development lead time, KDDI has established the KDDI Integrated Platform (KCP+), a shared software platform with an expanded scope of standardization from the base operating system to all handset software. These efforts at the new development phase help shorten the amount of time required to develop mobile phones and lower costs.

▶▶ P.37 Handsets

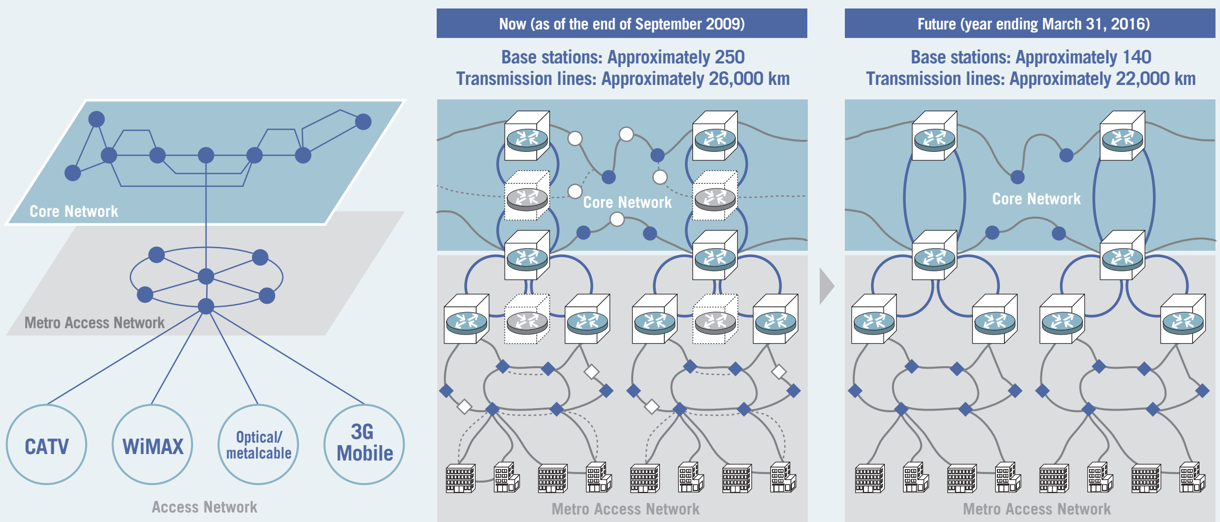
KDDI Integrated Platform (KCP+)



Streamlining of Fixed-line Networks

One result of our ongoing mergers from 2000 onward has been the growing complexity of the core networks and metro access networks that support our overall business. From the standpoint of strengthening our operational bases, fundamental reform to reduce network costs has been a major issue. We have drawn plans to streamline our fixed-line networks through closure or consolidation of base stations and transmission circuits by the year ending March 31, 2016. These efforts should enable KDDI to maintain/raise quality while reducing costs.

▶▶ P.42 Fixed-line Business, Overview of Operations in the Year Ended March 31, 2010

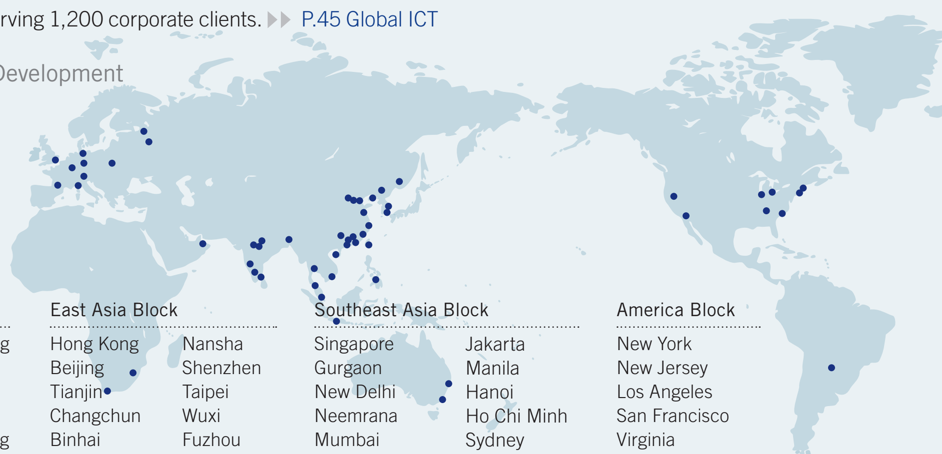


Global ICT

To meet demand for high-quality, broadband and low-cost ICT solutions, primarily among Japanese clients that are expanding their operations overseas, KDDI is developing and strengthening a global structure spanning 87 locations in 57 cities within 25 countries. We are pursuing the data center business under the "TELEHOUSE" brand, which has become one of the major data center services in the world. On a global basis, "TELEHOUSE" facilities extend to 17 locations in 11 cities within nine regions, occupying a total floor space of approximately 1.13 million m² and serving 1,200 corporate clients. ▶▶ P.45 Global ICT

KDDI's Global Business Development

(As of June 14, 2010)



Europe Block

London, Düsseldorf, Frankfurt, Amsterdam, Paris, Brussels, Moscow, St. Petersburg, Warsaw, Geneva, Cape Town, Johannesburg

East Asia Block

Hong Kong, Beijing, Tianjin, Changchun, Binhai, Dalian, Qingdao, Shanghai, Guangzhou, Nansha, Shenzhen, Taipei, Wuxi, Fuzhou, Macau, Seoul, Busan

Southeast Asia Block

Singapore, Gurgaon, New Delhi, Neemrana, Mumbai, Chennai, Bangalore, Dubai, Bangkok, Kuala Lumpur, Jakarta, Manila, Hanoi, Ho Chi Minh, Sydney, Melbourne, Ulan Bator, Vladivostok, Dhaka

America Block

New York, New Jersey, Los Angeles, San Francisco, Virginia, Chicago, Kentucky, Detroit, Asuncion

MARKET OVERVIEW

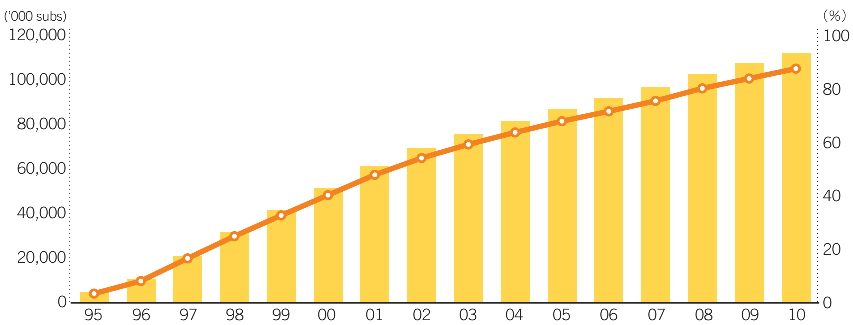
MOBILE BUSINESS

A Maturing Market and a Changing Business Model

By the end of 2007, the total number of mobile phone subscriptions in Japan topped 100 million. By March 31, 2010, the figure reached 112.18 million, occupying 87.8% of the population. However, growth in the use of regular handset terminals is leveling off in the consumer market, which has driven the expansion until now. At the same time, increases are expected in the areas of smart phones and telecommunications modules such as photo frame terminals and data cards. Corporate demand, centered on small and medium-sized enterprises, is also likely to contribute to growth.

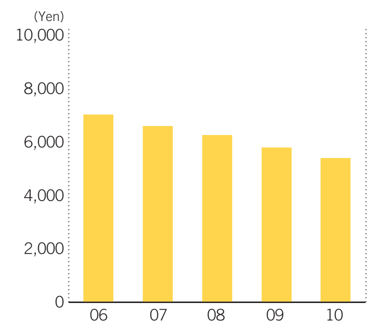
The Ministry of Internal Affairs and Communications has established a Study Group on Mobile Business as part of its "New Competition Promotion Program 2010" to formulate rules for fair competition in the field of mobile communications. In light of the group's findings, in the year ended March 31, 2008, new pricing plans were introduced to separate the telecommunications bill from the handset price. Marketing of mobile phones in Japan focused on these new pricing plans, bringing a major change to the conventional business model. Under the separate-bill/handset price plan, an amount equal to the separate handset subsidy is discounted from the monthly basic charge. Thus, as the number of subscribers choosing such a plan increases, the average voice ARPU will also decline.

Domestic Mobile Phone Subscriptions/Penetration Rate



Source: Mobile Phone and PHS Subscription Trends, Ministry of Internal Affairs and Communications, Ministry of Internal Affairs and Communications Media Release

au Total ARPU



(Years ended March 31)

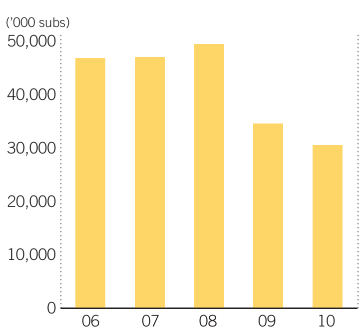
Raising Data ARPU and Creating Value by Building Traffic-Independent Models

As new pricing plans become popular and voice ARPU falls, how to raise data ARPU becomes a major issue for all mobile phone carriers.

With regard to packet pricing for data communications, carriers have introduced flat-rate plans with the aim to expand potential data usage by customers currently using a limited amount of data commutation, and hence boost data ARPU. Additionally, carriers are providing various kinds of content to encourage data usage by users with low data ARPU in order to reach the upper limit charge. Carriers are also trying to attract subscribers who pay premium prices for data usage by introducing smart phones. Furthermore, modular terminals that employ data cards and photo frames present a new market opportunity with the potential for rapid growth.

In various fields, efforts are underway to create businesses that use mobile handsets as a platform but do not depend on telecommunications traffic. Attempts to use mobile phones as a gateway for financial services and multimedia broadcasting for mobile terminals are among them.

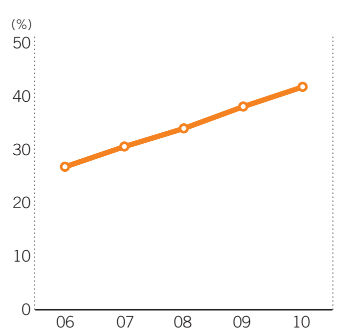
Domestic Sales of Mobile Phone Handsets



(Years ended March 31)

Source: Japan Electronics and Information Technology Industries Association (JEITA)

au Data APRU Ratio



(Years ended March 31)

Please refer to P.36–41 of the Market Overview section for an explanation of KDDI's Mobile Business strategy in the current market environment.

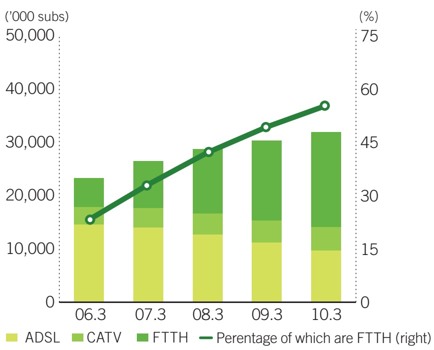
FIXED-LINE BUSINESS

Evolving into Direct Access and Broadband Services

Japan's market for fixed-line telecommunications is facing a change to giving way to direct access, IP, and broadband services. To secure revenues and profits, the industry is steadily evolving from the interconnection service business to the access line business.

The market for broadband services continues to expand. The total number of subscriptions to Fiber to the Home (FTTH), ADSL, and CATV services topped 30 million for the first time by December 31, 2008. By March 31, 2010, this figure reached 32.04 million. Consumers have shifted from ADSL to FTTH, largely owing to price competition and the introduction of "triple play" service that combines Internet access, phone, and video. In June 2008, FTTH subscriptions exceeded those of ADSL. However, customers who do not use video distribution sites or other large-volume data download services find ADSL service sufficient for their needs, leading to stagnation in the growth of FTTH service subscriptions. Carriers are consequently seeking new measures to promote the spread of FTTH.

Domestic Broadband Service Subscribers/ Percentage of Which are FTTH



Source: Ministry of Internal Affairs and Communications Media Release

Rate of Growth in Domestic FTTH Service Subscriptions

Source: Ministry of Internal Affairs and Communications Media Release

Shift to IP Service

As of March 31, 2010, fixed-line telephone subscriptions* declined 2.0% from a year earlier, to 66.17 million, showing a continual decrease due to the spread of mobile phone usage.

Of the above amount, fixed-line phone and ISDN subscriptions totaled 43.34 million, down 8.4% from the previous year, while IP phone service subscriptions employing FTTH or CATV access expanded to 22.83 million, up 12.9% from the previous year.

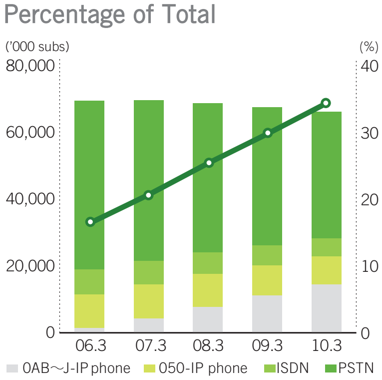
KDDI has aggressively developed IP telephone services such as the "au HIKARI" phone service and "Cable-plus phone" service. The company currently occupies 11.6% share of the IP phone market.

In response to the growth in high-volume communications between companies in the corporate market, there has been a shift in services used for internal corporate networks from leased circuit services with guaranteed bandwidth to IP-VPN and low-priced wide-area Ethernet services. In the long term, VPN services are expected to grow.

Within the IP telephony market, some carriers have begun offering cloud-computing type services where customers pay a monthly fee to use services provided by carriers, instead of possessing their own facilities.

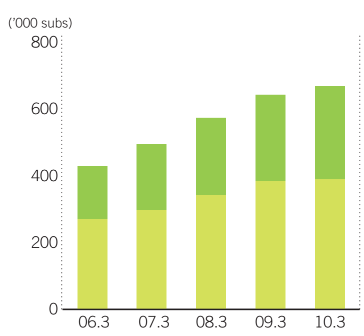
* The total number of fixed-line services, including PSTN, ISDN, and IP phone services

IP Telephone Subscriptions/ Percentage of Total



Source: Ministry of Internal Affairs and Communications Media Release

IP-VPN and Wide-Area Ethernet Service Contracts



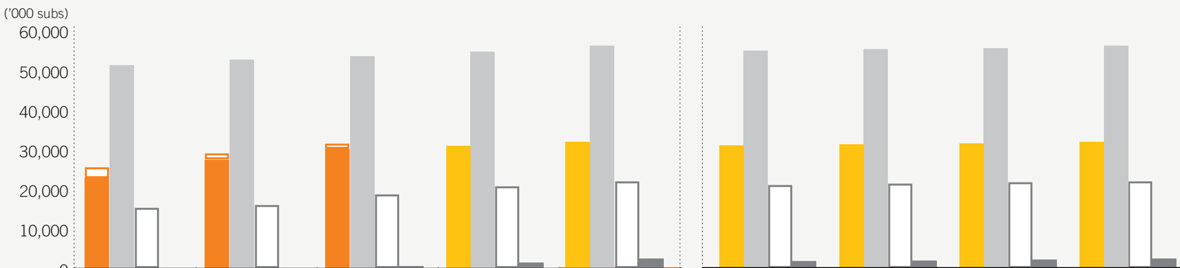
Source: Ministry of Internal Affairs and Communications Media Release

Please refer to P.43–45 of the Market Overview section for an explanation of KDDI's Fixed-line Business strategy in the current market environment.

MOBILE COMMUNICATIONS MARKET DATA

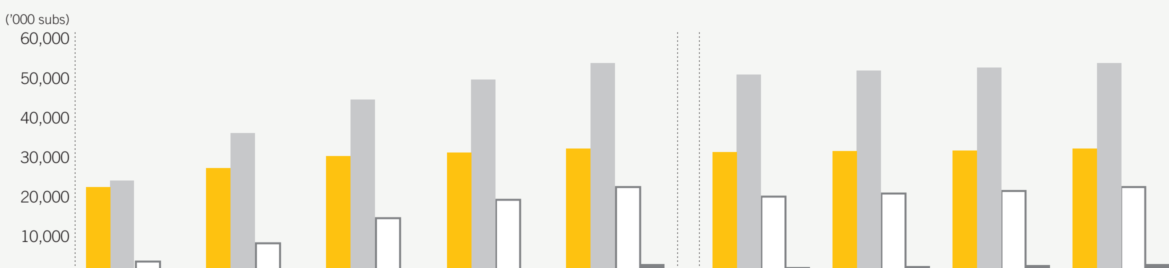
(Years ended March 31)

Number of Total Subscribers



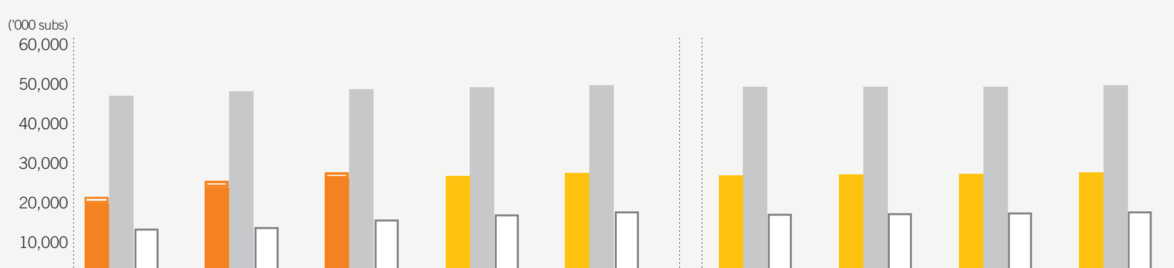
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	25,439	28,189	30,339	30,843	31,872	30,996	31,233	31,393	31,872
au	22,699	27,317	30,105	—	—	—	—	—	—
Tu-Ka	2,739	872	234	—	—	—	—	—	—
NTT DOCOMO	51,144	52,621	53,388	54,601	56,082	54,864	55,187	55,436	56,082
SOFTBANK MOBILE	15,210	15,909	18,586	20,633	21,877	20,956	21,317	21,667	21,877
EMOBILE	—	—	412	1,410	2,352	1,672	1,898	2,121	2,352
Total	91,792	96,718	102,725	107,487	112,183	108,489	109,634	110,617	112,183

Number of 3G Subscribers



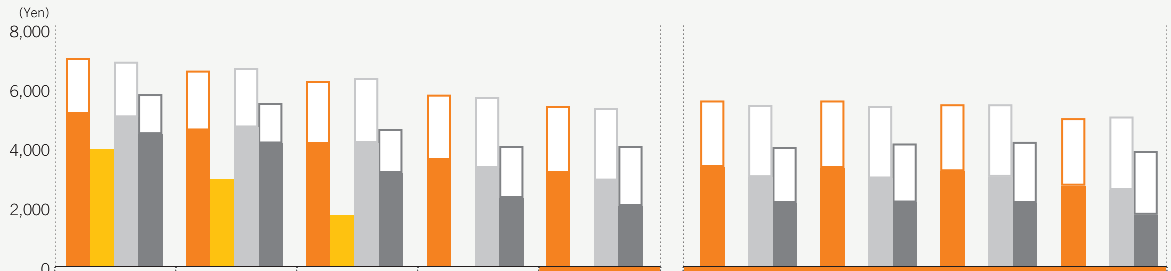
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	21,828	26,720	29,689	30,527	31,625	30,697	30,949	31,122	31,625
NTT DOCOMO	23,463	35,530	43,949	49,040	53,203	50,246	51,258	52,045	53,203
SOFTBANK MOBILE	3,038	7,660	14,007	18,654	21,877	19,455	20,238	20,885	21,877
EMOBILE	—	—	412	1,410	2,352	1,672	1,898	2,121	2,352

Number of Subscribers for Mobile Internet Connection Service



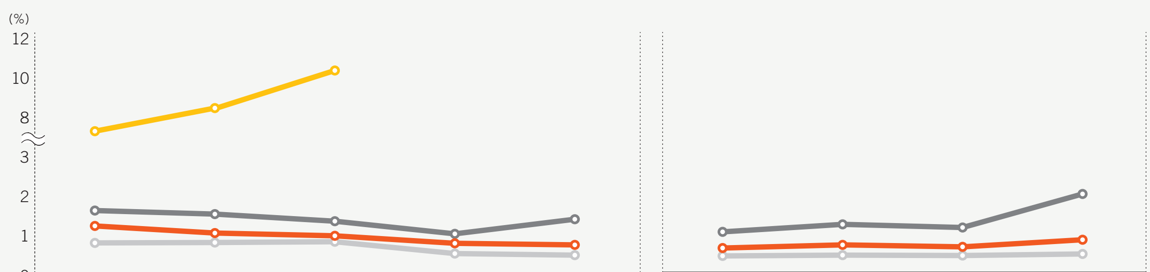
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	20,523	23,533	25,512	26,190	26,974	26,319	26,510	26,597	26,974
au	19,390	23,322	25,505	—	—	—	—	—	—
Tu-Ka	1,133	211	8	—	—	—	—	—	—
NTT DOCOMO	46,360	47,574	47,993	48,474	48,992	48,597	48,670	48,688	48,992
SOFTBANK MOBILE	12,875	13,265	15,171	16,465	17,218	16,622	16,770	16,946	17,218
EMOBILE	—	—	10	55	54	58	58	57	54

ARPU (Average Revenue Per Unit)



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	7,040	6,610	6,260	5,800	5,410	5,600	5,600	5,470	5,000
Voice ARPU	5,150	4,590	4,130	3,590	3,150	3,350	3,330	3,210	2,730
Data ARPU	1,890	2,020	2,130	2,210	2,260	2,250	2,270	2,260	2,270
Tu-Ka	3,960	2,960	1,750	—	—	—	—	—	—
NTT DOCOMO	6,910	6,700	6,360	5,710	5,350	5,440	5,420	5,470	5,060
Voice ARPU	5,030	4,690	4,160	3,330	2,900	3,010	2,970	3,030	2,590
Data ARPU	1,880	2,010	2,200	2,380	2,450	2,430	2,450	2,440	2,470
SOFTBANK MOBILE	5,810	5,510	4,650	4,070	4,070	4,030	4,150	4,200	3,890
Voice ARPU	4,460	4,150	3,150	2,320	2,050	2,150	2,160	2,150	1,750
Data ARPU	1,350	1,360	1,490	1,740	2,020	1,880	1,990	2,060	2,140

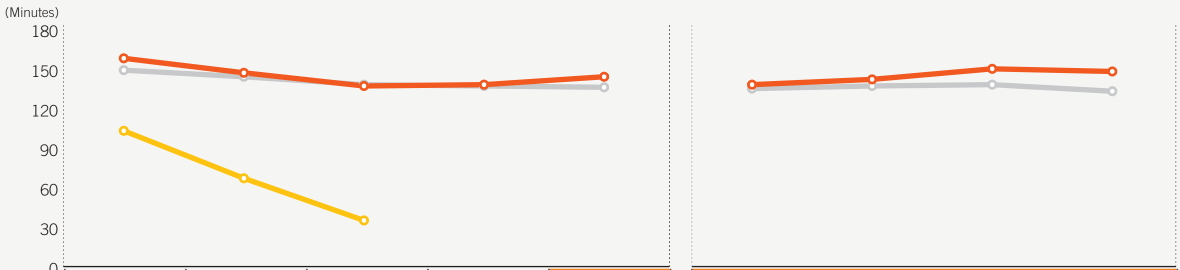
Churn Rate



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	1.20	1.02	0.95	0.76	0.72	0.64	0.72	0.67	0.85
Tu-Ka	3.60	8.20	10.20	—	—	—	—	—	—
NTT DOCOMO	0.77	0.78	0.80	0.50	0.46	0.44	0.46	0.45	0.49
SOFTBANK MOBILE	1.59	1.50	1.32	1.00	1.37	1.05	1.24	1.16	2.01

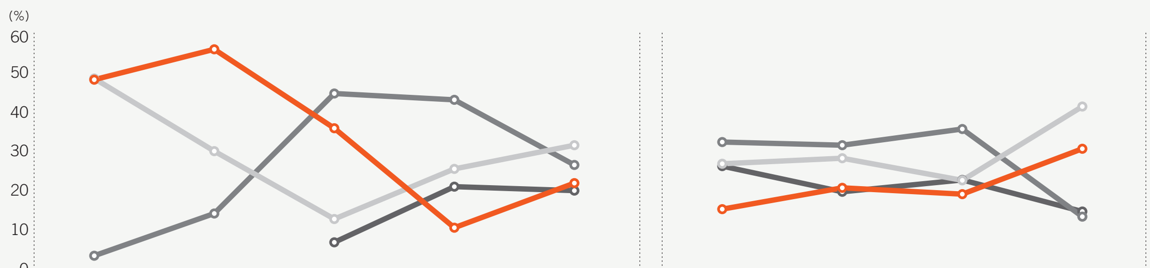
MOBILE COMMUNICATIONS MARKET DATA

MOU (Minutes Of Use)



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	158	147	137	138	144	138	142	150	148
Tu-Ka	103	67	35	—	—	—	—	—	—
NTT DOCOMO	149	144	138	137	136	135	137	138	133
SOFTBANK MOBILE	—	—	—	—	—	—	—	—	—

Share of Net Additions



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au + Tu-Ka	48.1	55.8	35.8	10.6	21.9	15.3	20.7	19.1	30.6
NTT DOCOMO	48.4	30.0	12.8	25.5	31.5	26.3	28.2	22.6	41.3
SOFTBANK MOBILE	3.5	14.2	44.6	43.0	26.5	32.3	31.5	35.6	13.4
EMOBILE	—	—	6.9	21.0	20.0	26.2	19.7	22.7	14.7

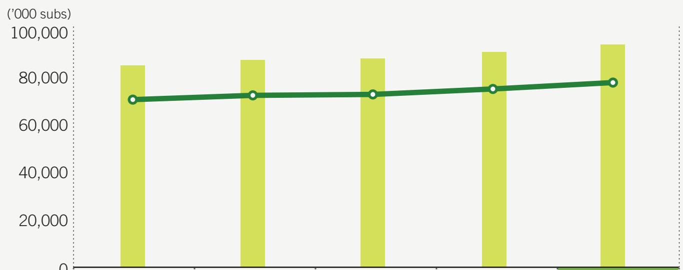
Share of Subscriptions

	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au + Tu-Ka	27.7	29.1	29.5	28.7	28.4	28.6	28.5	28.4	28.4
NTT DOCOMO	55.7	54.4	52.0	50.8	50.0	50.6	50.3	50.1	50.0
SOFTBANK MOBILE	16.6	16.4	18.1	19.2	19.5	19.3	19.4	19.6	19.5
EMOBILE	—	—	0.4	1.3	2.1	1.5	1.7	1.9	2.1

FIXED-LINE COMMUNICATIONS MARKET DATA

(Years ended March 31)

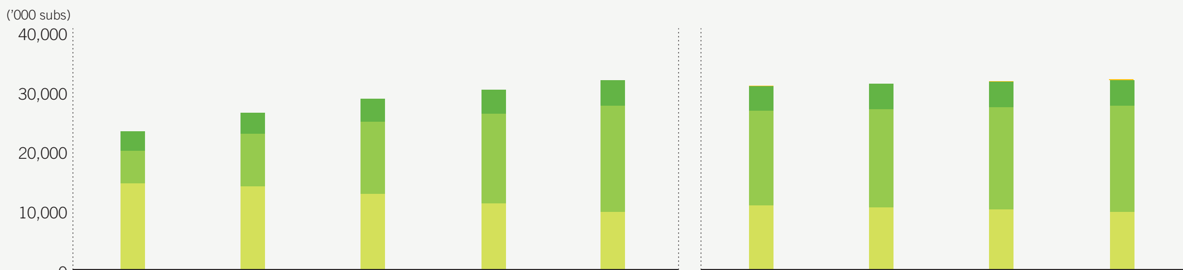
Number of Internet Subscribers



	2005	2006	2007	2008	2009
Total subscribers in Japan	85,290	87,540	88,110	90,910	94,080
Penetration rate	70.8	72.6	73.0	75.3	78.0

(Years ended December 31)
Source: Ministry of Internal Affairs and Communications

Number of Broadband Subscribers



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
ADSL subscribers	14,518	14,013	12,711	11,184	9,735	10,835	10,505	10,134	9,735
FTTH subscribers	5,448	8,794	12,153	15,017	17,789	15,889	16,512	17,196	17,789
CATV subscribers	3,310	3,607	3,874	4,111	4,353	4,181	4,243	4,301	4,353
Other	9	13	12	20	164	22	35	78	164
Total	23,285	26,427	28,750	30,332	32,041	30,927	31,295	31,709	32,041

Source: Ministry of Internal Affairs and Communications

Market Share of Myline by Operator

	2008				2009				2010			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International
KDDI	8.3%	10.3%	12.7%	14.8%	7.6%	9.4%	11.5%	13.4%	7.1%	8.7%	10.4%	12.1%
SoftBank TELECOM	4.4%	5.9%	7.1%	8.0%	4.0%	5.4%	6.4%	7.2%	3.6%	4.8%	5.7%	6.3%
Other companies total	3.5%	4.1%	5.2%	4.1%	3.2%	3.6%	4.6%	3.5%	3.0%	3.4%	4.2%	3.4%
NTT	83.8%	79.7%	75.0%	73.1%	85.2%	81.6%	77.5%	75.9%	86.3%	83.1%	79.7%	78.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

MOBILE BUSINESS

OVERVIEW OF OPERATIONS IN THE YEAR ENDED MARCH 31, 2010

Falling Voice ARPU Resulted in Decrease in Revenues and Income

In the Mobile Business, which centers on the "au" brand, KDDI provides mobile phone services, sells mobile phone handsets, and offers mobile solutions services targeting corporate customers.

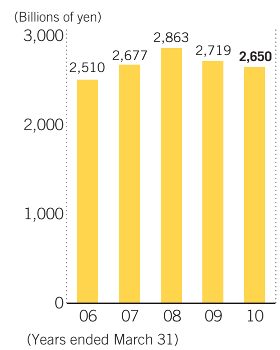
During the year ended March 31, 2010, operating revenues from this business slipped 2.5% year on year, to ¥2,650.1 billion. This decline was mainly attributable to a decline in voice ARPU as more subscribers shifted to the "Simple course" pricing plan. Although sales commissions (average subscriber acquisition and subscriber retention costs) decreased substantially, depreciation costs increased, and the lower costs failed to cover the decline in operating revenues from the telecommunications business. Consequently, operating income decreased 3.5% year on year, to ¥483.7 billion.

In the year ending March 31, 2011, we will continue working to reduce sales commissions and network-related expenses. However, due to falling voice ARPU—owing to such factors as the shift toward "Simple course" pricing—as well as expected costs of approximately ¥80.0 billion associated with reorganizing the 800MHz band, we are forecasting that operating revenues will decline an additional 4.0%, to ¥2,545.0 billion, and operating income will decrease 11.1%, to ¥430.0 billion.

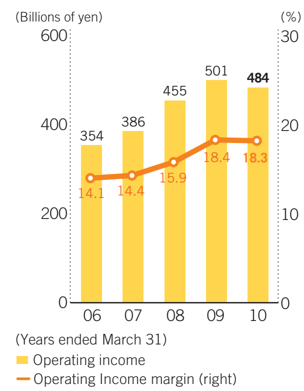
Business Objective

Principal Services/Operations
Mobile phone services, sales of mobile phone handsets, mobile solutions services, etc.
Principal Group Companies
KDDI Corporation, OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Technical & Engineering Service Corporation

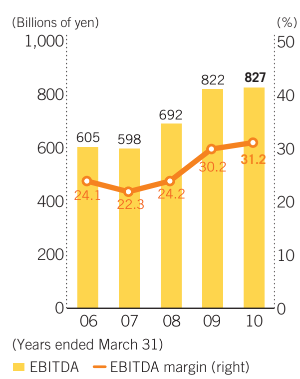
Operating Revenues



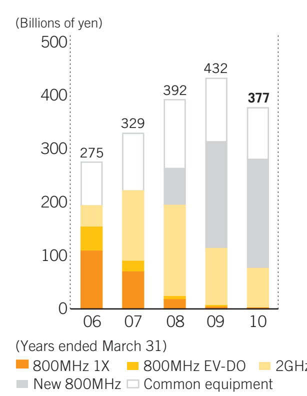
Operating Income/ Operating Income Margin



EBITDA/EBITDA Margin



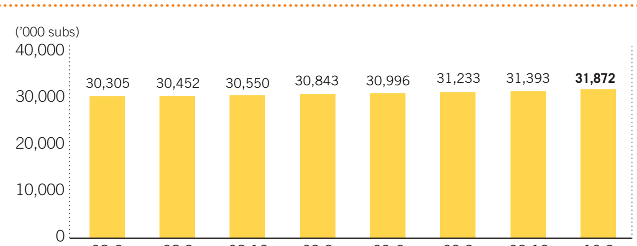
Capital Expenditures



Subscriptions

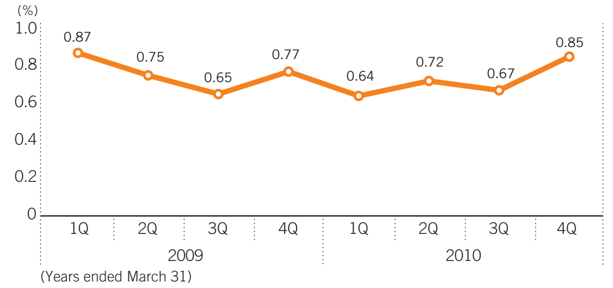
Net additions during the year numbered 1.03 million subscriptions, outpacing our initial expectations by 270,000 units. As a result, total subscriptions at the year-end numbered 31.87 million, up 3.3% from the year earlier and accounting for a cumulative share of 28.4%.

Of this number, 99% (31.63 million) subscribed to 3G mobile phone services. High-end CDMA 1X WIN ("WIN") subscriptions numbered 26.17 million, accounting for 82% of all subscriptions.



Churn Rate

The churn rate for the year ended March 31, 2010 was 0.72%, down 0.04 percentage point year on year. Although the second-half churn rate was up year on year, owing to the coming to term of two-year "Full Support course" subscriptions introduced in November 2007, the overall churn rate for the year was down as a result of a tendency for customers to own their handsets for longer periods of time.



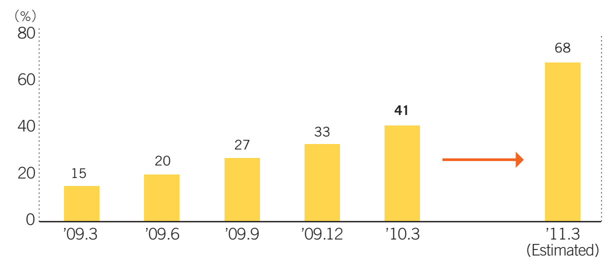
ARPU

ARPU in the year ended March 31, 2010 came to ¥5,410, down 6.7% from the previous term.

Voice ARPU fell 12.3% year on year, to ¥3,150, owing to the increasing shift toward "Simple course" pricing, access charge revisions, and the growing popularity of such pricing measures as "Call Designation Flat Rate." Consequently, we saw a decrease in charged minutes of use (MOU).

Data ARPU rose 2.3%, to ¥2,260. This expansion stemmed from successful efforts to promote the shift from 1X to high-end WIN services, a rise in the percentage of subscribers to flat-rate pricing plans, and measures to bolster data use among subscribers with low data usage.

Cumulative Take-up Ratio of "Simple course"

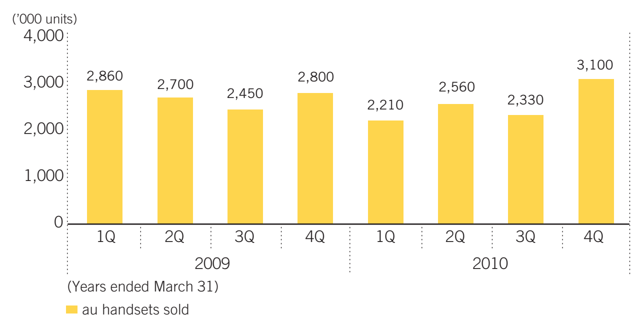


Handset Sales and Inventory

The number of handsets sold during the year ended March 31, 2010, was down 5.6% year on year, to 10.20 million. Sales of new handsets were robust during the fourth quarter, which is typically the strongest sales period. During the quarter, unit sales were up 11% year on year, but in the first half, the two-year contract system held back users from model upgrades.

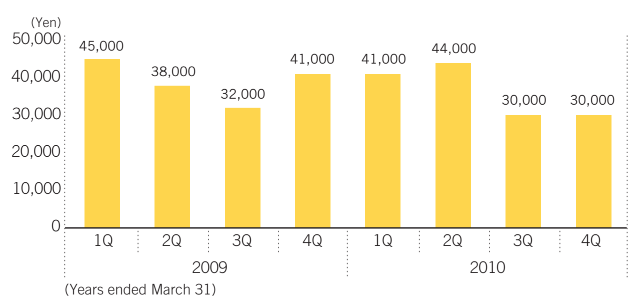
Handset inventory as of March 31, 2010 totaled 1.14 million units, down 33% year on year. This figure includes 220,000 units already written off.

KDDI writes off and disposes of handsets to clear excess inventories down to a reasonable level. Its write-offs and disposal of excess inventories led KDDI to post write-off/disposal losses for the year totaling ¥11.9 billion.



Sales Commissions

Robust new subscriber acquisition in the first half led to a relatively high percentage of new subscriptions. This factor, plus the effects of inventory reductions on relatively high-priced handsets from spring 2009 and earlier, caused sales commissions to rise to above ¥40,000. However, from the third quarter the Company sought to boost the overall appeal of its offerings, in terms of pricing plans and handsets, as well as reducing handset procurement costs. As a result, average sales commissions for the year ended March 31, 2010 were down 7.7% from the previous year, to ¥36,000.



MAJOR INITIATIVES DURING THE YEAR ENDED MARCH 31, 2010, AND DIRECTIONS FOR THE FUTURE

Network

Redoubling Efforts to Expand Our Coverage Area and Enhance Communications Quality

KDDI has differentiated itself from other carriers with the CDMA2000 1x EV-DO ("EV-DO") format currently used for its WIN services. Having made progress in establishing and expanding coverage for EV-DO Rev. A—an upgraded version of EV-DO—has enabled us to cover virtually all major regions of all 47 prefectures in Japan as of March 31, 2010.

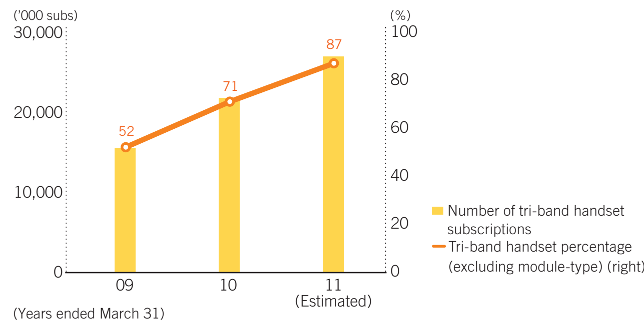
A reorganization of the frequencies in the 800MHz band—our main band—is scheduled to occur by July 2012. We are working aggressively to expand our coverage area corresponding to the new 800MHz band allocations, taking increases in subscriber numbers and data communications demand into account. KDDI is also expanding the 2GHz band capacity.

KDDI is shifting to tri-band handsets, which are compatible with three bandwidths: current 800MHz, 2GHz, and new 800MHz. We aim to have all au subscribers use tri-band handsets prior to the switchover to the new band in July 2012.

Also, in July 2010 we introduced the small home-use base station, "au Femtocell." In combination with Wi-Fi compatible handsets, we are working to enhance the indoor data usage environment and communications quality.

As part of its efforts to respond to the current growth in demand for data communications, while also ensuring efficient capital investment, KDDI has decided to introduce LTE technology, with a view toward providing services from 2012. Furthermore, to respond to subscriber needs for high-speed data communications until the introduction of the LTE-based service, KDDI plans to introduce Multi-carrier Rev. A during the year ending March 31, 2011.

Growth in Tri-Band Handsets

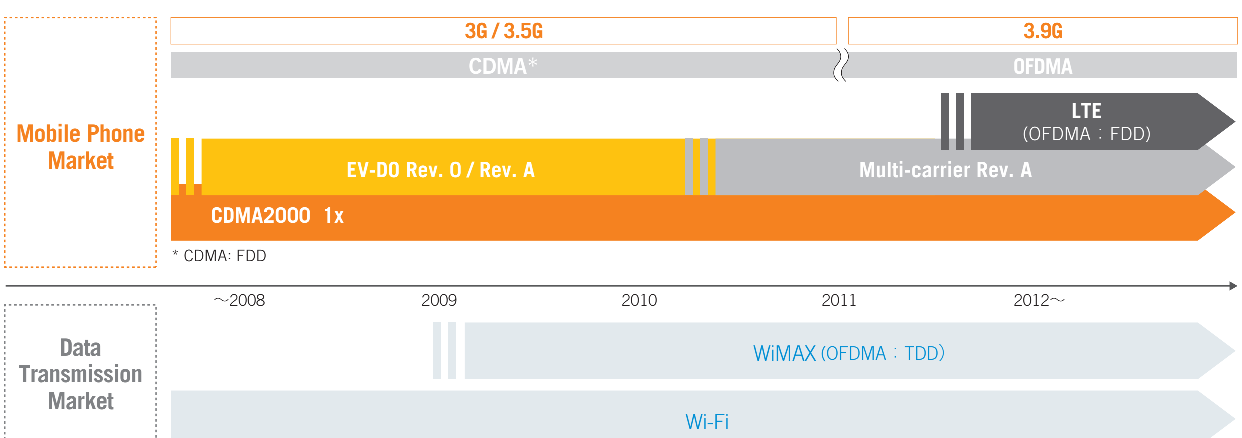


Network Roadmap up through the Introduction of LTE Technology

In 2012, KDDI plans to commence service using a 3.9G system based on LTE technology. One unique feature of our LTE development plan is its aim to quickly roll out service nationwide. At present, we expect to extend coverage to 96.5% of the population by March 31, 2015, and aim to reduce the bit rate as a result of nationwide coverage.

We also plan to introduce LTE technology in the 10MHz bandwidths of the 1.5GHz and new 800MHz bands, maximizing effectiveness over these frequencies.

The biggest issue we face prior to introducing the LTE technology lies in handling ongoing increases in data traffic over the 800MHz and 2GHz bands as efficiently as possible. To this end, during the year ending March 31, 2011, we will upgrade the software behind infrastructures of EV-DO Rev. A by introducing Multi-carrier Rev. A to bring downlink speeds to up to 9.3 Mbps without requiring major capital investment. This approach should also enable us to remain competitive up until the introduction of LTE technology.



Note: LTE: Long Term Evolution
OFDMA: Orthogonal Frequency Division Multiple Access

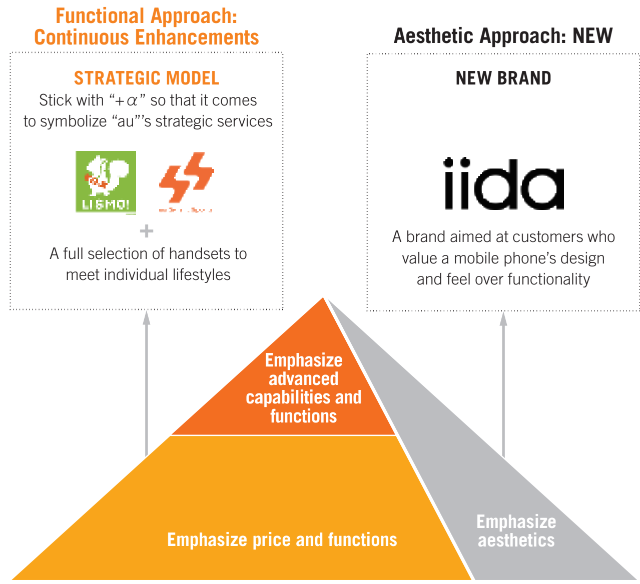
Handsets

Expanding Our Lineup with Handsets Employing Functional and Aesthetic Approaches

KDDI takes a two-pronged approach toward expanding its lineup. One is our functional approach, which emphasizes innovation and price, while the other is the aesthetic approach that concentrates on aesthetics and design.

In terms of the functional approach, KDDI offers a diverse lineup of au branded products catering to a range of lifestyles. In the year ended March 31, 2010, we introduced handsets featuring a 12.1-megapixel camera, Wi-Fi compatible models, and ones equipped with high-definition video cameras, as well as models designed to facilitate reading or enjoyment of the sports scene. Altogether, we offered 21 models during the year, compared with 36 in the previous term.

Taking an "aesthetic approach," under the "iida" brand, which we launched in April 2009, we introduced eight handset models, including the "G9" and the "lotta." In addition, we increased the number of our so-called "LIFESTYLE PRODUCTS" models to 20.



The "IS01" au Smart Phone

The Android™-equipped "IS01" smart book features a large 5.0-inch LCD touch-panel display and a QWERTY keyboard. The model employs au's original user interface, featuring card-based menus and task management functions to make it user-friendly. This smart book also offers functions that Japanese customers have come to appreciate through previous models, such as standard "one seg" TV reception and infrared communications. In a late August 2010 update, we plan to add e-mail (～@ezweb.ne.jp) and decoration mail compatibility.

IS01

"au one Market"—A Smart Phone Optimized for the Japanese Apps Market

Although the Android Market™ opens up the worldwide apps market to au customers, many of these applications are available only as original-language versions, and the difficulty of searching makes the models suboptimal for meeting the detailed Japanese market needs.

The "au one Market" addresses these requirements by ensuring appropriate customer security, providing easy-to-understand Japanese-language explanations of Japanese-compatible apps and offering carrier-based fee collection, to which Japanese customers are accustomed. The "au one Market" also provides Android™ versions of such au mobile services as "au one Navi Walk" and "LISMO!" as well as a Sekai Camera application that has been optimized for use on au Android™ handsets. This optimization of Android™ applications puts the "au one Market" on the same playing field as the Android Market™, while meeting the needs of Japanese customers by offering Japanese-specific apps.

Screen image

Note: "Android" and "Android Market" are trademarks of Google Inc.

MAJOR INITIATIVES DURING THE YEAR ENDED MARCH 31, 2010, AND DIRECTIONS FOR THE FUTURE

We have introduced KDDI Integrated Platform, "KCP+," which standardizes handset software, including base applications, operating systems, and middleware. This standardization contributes to shorter development lead times and lower development costs. Of the handsets introduced during the year, 20 models employed this system, which helped hold down handset procurement costs.

For summer models in the year ending March 31, 2011, we introduced KCP3.0, which fully leverages KCP+ technology on a new handset CPU, raising processing speed significantly. We will continue to develop this platform, making it compatible with Multi-carrier Rev. A.

To meet growing smart phone market demand, we brought out the first Android™*1 model under the "au" brand. This model, the "IS01," and the Windows®*2 phone "IS02" went on sale in June 2010. In addition to providing an exclusive user interface, the "IS01" is particularly well suited to the needs of Japanese customers because of its "one seg" broadcasting reception and infrared communications capabilities. We believe that this model does an excellent job of showcasing the "au" brand's distinctiveness. These launches raise the number of au smart phones to three models, and we are working to strengthen this lineup.

In June 2010, we also commenced sales of the "PHOTO-U SP01," the first au digital photo frame.

*1 "Android" is a trademark of Google Inc.
*2 "Windows®" is a trademark or a registered trademark of Microsoft Corporation in the United States, Japan, and other countries.

Summer 2010 Models

beskey
Choice of three keypads for easy e-mail input, attractive user-customizable LED illumination. Waterproof.

SA002
The world's first waterproof sliding handset, available in seven fun colors. Powerful camera in a slim body.

EXILIM-keitai CA005
High-speed burst shooting of print-quality images with 3x digital zoom. Slim and easy-to-use waterproof body.

Cyber-shot™ phone S003
The world's first waterproof sliding handset, high-resolution 12.1-megapixel camera with PLASMA Flash™, and a "smile shutter" to keep from missing photo opportunities.

AQUOS SHOT SH008
Easy Internet access through Wi-Fi enabled, waterproof handset. Touch-up and processing of photos taken with the high-resolution 12.1-megapixel CCD camera for upload to a blog.

REGZA Phone T004
Makes operation even easier, with mobile REGZA engine for clear and beautiful photos. Waterproof and equipped with a 12.2-megapixel camera.

BRAVIA® Phone S004
Makes operation even easier. Waterproof and with dual opening for easy viewing. Smooth "BRAVIA®" images.

SOLAR PHONE SH007
Includes solar panels for increased power-generation efficiency. Waterproof functionality and "field locator" suit the model to people with active lifestyles.

* "EXILIM-Keitai" is a registered trademark of Casio Computer Co., Ltd.
* "Cyber-shot" and "BRAVIA" are trademarks or registered trademarks of Sony Corporation.
* "PLASMA Flash" is a trademark of Sony Ericsson Mobile Communications AB.
* "AQUOS" and "AQUOS SHOT" are registered trademarks of Sharp Corporation.
* "REGZA" is a registered trademark of Toshiba Corporation.

Pricing Plans

Rolling Out Attractive New Pricing Plans

Since KDDI's introduction of installment payments for "Simple course" in June 2008, the percentage of people who select this option when buying a handset has grown, rising to 89% in the year ended March 31, 2010. As a result, the number of subscribers under "Simple course" agreements had grown to 41% of total subscriptions as of March 31, 2010.

New pricing plans included the August 2009 introduction of "Call Designation Flat Rate: GAN-GAN Talk," a discount communication service allowing subscribers to talk 24 hours a day in Japan to any of up to three self-selected numbers without charge. In order to expand access to data communications, we introduced the "Double-Teigaku-Super Light" plan, a packet flat-rate service, by lowering the price threshold for subscribers through flat-rate pricing plans.

KDDI aims to enhance its competitiveness by rolling out new service plans. In November 2009, KDDI began offering two new pricing plans, "Plan E Simple" and "Plan E," nicknamed "GAN-GAN Mail." When combined with the "EZ WIN Course," "GAN-GAN Mail" allows subscribers to send and receive e-mails for free regardless of whether it has a photo, video, or other attachment. Also, between February 9 and May 9, 2010, KDDI accepted applications for its "GAN-GAN Student Discount" pricing plan, targeting students and their families.

Services/Content

Aggressive Promotion of Content Strategies to Match Customer Lifestyles

With voice ARPU falling in line with the customer shift to "Simple course" pricing, we face an important strategic need to boost data APRU through enhanced service and content offerings. KDDI also faces the urgent need to develop a more diverse business model that is less reliant on communications traffic.

To raise data ARPU and develop revenues from non-communications traffic, we are working to develop its content and media business, which includes fee-collection for content providers, advertising, e-commerce (EC), and collaborative content offerings. Continuing its expansionary trend, during the year ended March 31, 2010 this business generated sales of ¥58.6 billion, up 31% from the previous year.

KDDI's content and media strategy is to propose content that integrates well with customer lifestyles. We aim to provide services that take advantage of the ever-present nature of mobile phones. Focusing in particular on music, video, sports, and e-books, we are pursuing a content platform strategy that involves forming alliances with prominent companies that have strong brands and high-quality content.

During the year ended March 31, 2010, KDDI integrated book content into its "LISMO!" music/video service as part of its efforts to develop the service into a comprehensive entertainment brand. To facilitate the provision of appealing content, we began allowing transmission of video files of up to 10MB on au mobile phones.

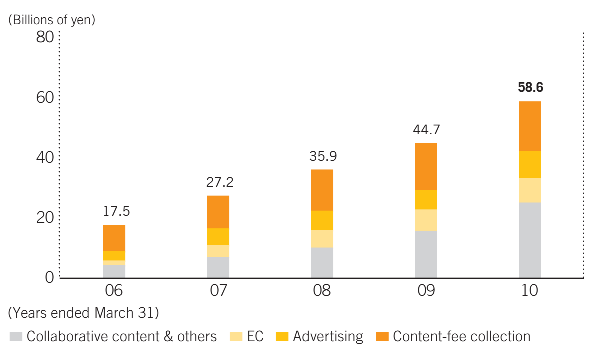
In sports, we are expanding our "au Smart Sports" service offerings. Membership is expanding steadily, with the number of registered subscribers topping 2 million in July 2010.

In addition to an expansion of digital content, including for "Chaku-Uta®"*1 and "Chaku-Uta Full®"*1 music services, games, and e-books for which KDDI provides fee collection services, we have collaborated with GREE, Inc., to offer the "au one GREE" mobile SNS. This service had 7.42 million subscribers as of March 31, 2010. In such ways, KDDI is steadily expanding into new growth fields.

In addition, through the "au one Market," which was launched in June 2010, we are expanding the mobile phone apps market in tandem with the Android Market™*2. Through this business, we aim to further promote the use of data communications.

*1 "Chaku-Uta®" and "Chaku-Uta Full®" are trademarks or registered trademarks of Sony Music Entertainment (Japan) Inc.
*2 "Android" is a trademark of Google Inc.

Content/Media Business Sales



MAJOR INITIATIVES DURING THE YEAR ENDED MARCH 31, 2010, AND DIRECTIONS FOR THE FUTURE

Mobile Business Targeting Corporate Clients

Providing Leading-Edge Mobile Solutions

As growth in the consumer market slows, KDDI is proactively targeting the corporate mobile business, which is expected to grow. For large enterprises, KDDI offers mobile solutions that enable clients to enhance their operations through the use of mobile phones. As demand rises in the small and medium-sized enterprise (SME) market, we are also moving ahead with product development and marketing strategies, and is forming a sales organization for the SME segment.

In recognition of its mobile solutions, "KDDI Business Call Direct" won the top prize in the "MM Research Institute Award 2009"*1 in the category of next-generation network products and services in the FMC services field. In addition, in the "ASP/SaaS*2/ICT Outsourcing Awards 2010*3" the Business Port Support Program earned the Grand Prix in the PaaS*2 field.

*1 A specialist in research and analysis of the IT market, MM Research Institute, Ltd. presents the "MM Research Institute Award" in recognition of companies actively developing new products and markets in the IT field. MM Research Institute established the award in 2004 and presented it for the sixth time in 2010

*2 SaaS: Software as a Service PaaS: Platform as a Service

*3 "ASP/SaaS/ICT Outsourcing Awards 2010" recognizes overall ICT services in Japan that realize the best ASP/SaaS/ICT outsourcing beneficial to society by using networks that provide applications or content.

Initiatives to Create New Sources of Revenues

Initiatives Geared Toward Jibun Bank and UQ Communications

With Japan's consumer mobile phone market reaching maturity, the growth in subscriptions is gradually leveling off. In this environment, we are expanding operations in peripheral fields in which mobile phones are core, as we strive to create a revenues base that does not rely on traffic.

"au Smart Sports"

"au Smart Sports" is an au mobile phone app that support users' daily sports activities, such as running, exercising, and golf, as well as helping them to control calorific intake and body weight through EZweb or our PC site. "au Smart Sports" constitutes a comprehensive service offering that supports health improvement through the combination of sports and daily health management.

"au Smart Sports Run & Walk," introduced in January 2008, allows users to confirm running or walking paths while exercising, as well as the number of calories burned. Through this service, users can manage their training results via EZweb or our PC site.

In November 2008, KDDI began offering an addition to "au Smart Sports" known as "Karada Manager," a health care service that helps customers reach their goals by offering exercise, diet, and other advice according to the goals set.

In May 2009, we began offering "Fitness," a service that enables users to try out hundreds of exercises, as well as "Golf," which helps users tailor their lessons and service content according to their goals.

Through various initiatives involving "au Smart Sports," KDDI encourages its customers to enjoy new sports-oriented lifestyles.

Finance is one such area. In June 2008, Jibun Bank Corporation was established through a joint venture between KDDI and The Bank of Tokyo-Mitsubishi UFJ, Ltd. The bank's management objective is to become our customers' most familiar bank, by providing high-quality financial and settlement services over the mobile phones which are now said to be owned by virtually every individual in the nation.

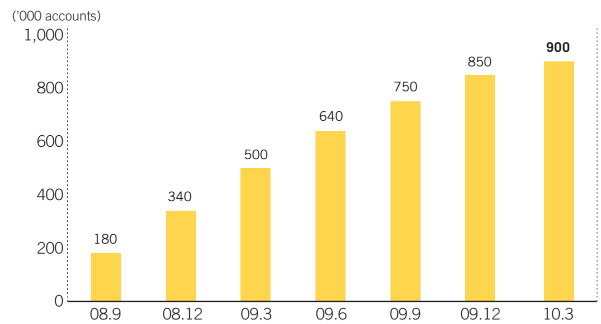
In May 2010, the number of "Jibun Bank" accounts topped 1 million in less than two years from its start of operations in July 2008, making it the first Internet bank to reach this figure so quickly. In the year ending March 31, 2011, we will cooperate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. to develop aggressive promotions in order to bring the business quickly into the black on an annual basis.

In addition to the banking business, in February 2010 we made a joint investment with Aioi Insurance Co., Ltd., establishing a preparatory company to develop a non-life insurance business with a new business concept that uses mobile phones. This company has begun pre-launch preparations, including applying for a license to operate in this segment.

Meanwhile, UQ Communications Inc., established in August 2007, is working to create a nationwide network for mobile WiMAX. UQ is the only domestic operator in Japan offering mobile WiMAX, which is a new global standard telecommunications technology with high-speed broadband and "always on" connections. The company is setting up the important communications infrastructure needed to achieve true mobile broadband, and is working toward new market and value creation. Business has grown steadily since the company launched its commercial service in July 2009. In the year ending March 31, 2011, the company aims to have in place a total of 15,000 base stations and a total of 800,000 subscribers. We expect the company to become profitable on an annual basis in the year ending March 31, 2013.

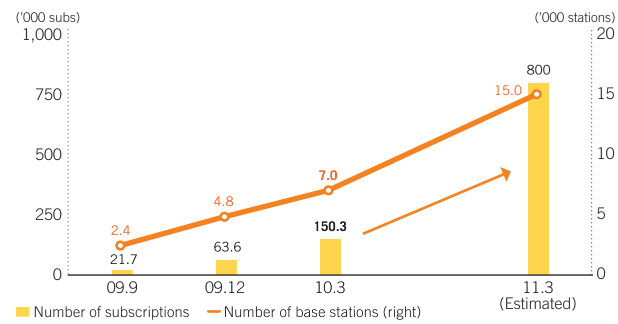
じぶん銀行

Number of "Jibun Bank" Accounts



UQ WiMAX

Mobile WiMAX—Base Stations and Subscriptions



KDDI Wins Grand Prix in Mobile Computing Promotion Consortium's MCPC Award for Fifth Consecutive Year

In the "MCPC Award 2010"—which attracts a wide range of project candidates and awards organizations or local governments that have achieved noteworthy success by creating sophisticated systems through the introduction of mobile computing—Police Integrated information Tool (PIT) of the Okayama Prefecture Police Department won the Grand Prix, as well as the Minister of Internal Affairs and Communications Award and the "Mobile Public Award." The PIT links the "E03CA" business au mobile phone with GPS that police carry with a massive police IT and communications infrastructure, and is therefore further promoting public safety, through extremely quick and effective criminal investigation. KDDI's au-based mobile solutions for customers have claimed Grand Prix awards for five consecutive years.

Winners of the MCPC Grand Prix

2010	Okayama Prefectural Police Department	"Police Integrated information Tool (PIT)"
2009	Kyushu Electric Power Co., Inc.	"Haiden Ke-tai Mobile system"
2008	SOHGO SECURITY SERVICES CO., LTD.	"Guard Dispatch System"
2007	Isuzu Motors Ltd.	"Mimamori-kun Online Service"
2006	YAMATO TRANSPORT CO., LTD.	"Cargo Information Real Time System"

FIXED-LINE BUSINESS

OVERVIEW OF OPERATIONS IN THE YEAR ENDED MARCH 31, 2010

Operating Loss Showed Solid Improvement Despite Decreased Revenues

Through its Fixed-line Business, the KDDI Group supplies a full range of fixed-line telecommunications services, such as local, long-distance, and international voice telephony, broadband Internet services, CATV services, solutions services and data center services for corporate clients.

The number of FTTH subscribers increased in the year ended March 31, 2010 as we strongly promoted this business during the year. This rise, plus the inclusion into the Group of such new companies as JCN Kanto Limited and Kawagoe Cable Vision Co., Ltd. contributed to the rise in operating revenues. However, decline in voice service revenues and appreciation of the yen that affected the performance of overseas subsidiaries provided fixed-line services resulted in a 1.1% drop in operating revenues from the previous year, to ¥839.2 billion in the year ended in March 31, 2010.

On a non-consolidated basis, the balance of payments on the FTTH business improved, and the Company experienced lower operating expenses, such as access charges for services. Moreover, stronger performance by consolidated subsidiaries such as Chubu Telecommunications Co., Inc. (CTC), helped to reduce operating loss in the Fixed-line Business to ¥44.2 billion, a ¥12.3 billion improvement compared with the previous year.

In the year ending March 31, 2011, owing to the addition of consolidated subsidiaries and an expanded customer base for FTTH services, we expect operating revenues to rise 12.0%, to ¥940.0 billion. In addition, we are aiming to put operating income back into the black, bolstered by the year-on-year increase in operating revenues that resulted from the expanded customer base for FTTH services, lower costs resulting from the network streamlining introduced in the previous year, and expanded income from consolidated subsidiaries.

Business Objective

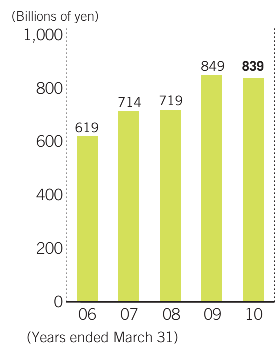
Principal Services/Operations

Local, long-distance, and international telecommunications services, Internet services, solutions services, data center services, CATV services, etc.

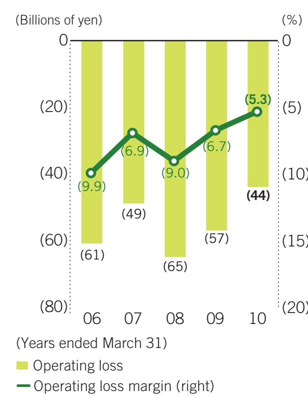
Principal Group Companies

KDDI Corporation, KDDI Technical & Engineering Service Corporation, JCN Group, CTC, and others

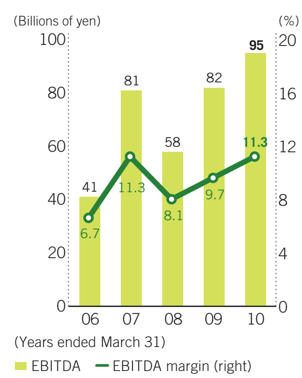
Operating Revenues



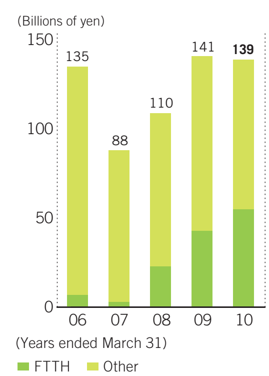
Operating Loss/ Operating Loss Margin



EBITDA/EBITDA Margin



Capital Expenditures



Streamlining of Networks

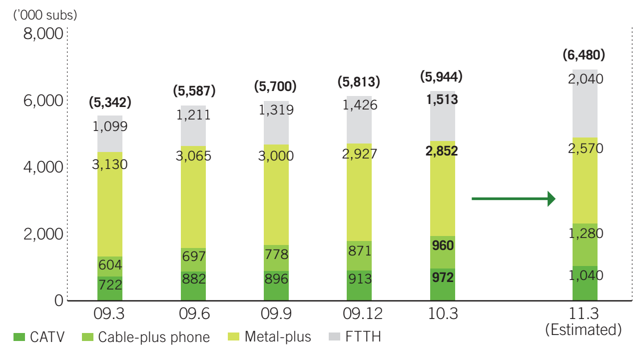
One result of our ongoing merger activity from 2000 onward has been increasing overlaps and greater complexity in fixed-line networks. This situation has complicated efforts to revise our earnings structure and respond expeditiously to market changes. Fixed-line networks support all the Group's businesses, because they also serve as the backbone for mobile communications. From the viewpoint of strengthening our business infrastructure, we faced an urgent need to reduce costs by thoroughly reforming our networks. During the year ended March 31, 2010, we rationalized our core network and metro access network by reducing base stations and transmission circuits with low-utilization rates. Ongoing efforts to consolidate network points and to streamline base stations and transmission circuits should result in higher Fixed-line Business profitability and sustainable growth.

REINFORCING ACCESS LINE BUSINESS INITIATIVES

Solid Increases in the Number of Fixed Access Line Subscribers

"Access line" refers to the line that connects customers' homes or offices with our backbone network. Whereas in the past most fixed-line business revenues derived from charges for calls, nowadays revenues center on access lines and add-on service provided over these lines. For example, KDDI offers the "au HIKARI" service, through which it provides fiber-optic "access lines" to customers' homes. Our Internet connection that provides access at speeds of up to 1Gbps is an "add-on service." To boost revenues from our access line business, we are promoting M&A with telecommunications companies that hark from power-generation companies such as Tokyo Electric Power Company and Chubu Electric Power Co., Inc., as well as CATV companies. Through such efforts, we have steadily expanded our customer bases. As of March 31, 2010, the Group's subscription number of fixed access lines had risen to 5.94 million, and the number of subscribers has been growing steadily.

Number of Fixed-access Lines



* ( ) shows total subscription of access lines excluding cross over subscriptions.

FTTH

Expanding Customer Base through Our Mainstay "Giga Value Plan"

Through its FTTH business, KDDI offers triple-play services, comprising voice telephony, Internet, and video. We have our FTTH services available to approximately 11.73 million households in the Tokyo metropolitan area, and 2.8 million households in the Chubu region. Most of these services are provided to individual homes. In Japan's other major metropolitan areas, we offer services mainly to apartment complexes by using NTT's circuits. On January 1, 2010, KDDI changed the name of its "HIKARI-one" fiber-optic service to "au HIKARI" to underscore the link between its fixed-line telecommunications and mobile telecommunications services.

With regard to products, KDDI offers Internet and phone service at super-high speeds of up to 1Gbps (best-effort) for both uplink and downlink through the "Giga Value Plan." The plan is offered at an industry-low monthly basic rate of ¥5,985 (tax inclusive) with a two-year contract. In January 2010, we began providing the "au HIKARI Condo Mini Giga" service, a low-price FTTH service comparable to ADSL, with maximum speeds of 1Gbps (best-effort) for both uplink and downlink to customers in low-rise apartment complexes in the Kanto region.

Also in January 2010, the "au HIKARI Home" FTTH service was extended to Tochigi and Miyagi prefectures, and KDDI expanded its service area in the Hokkaido region. Furthermore, KDDI began providing the service in Ishikawa Prefecture in April 2010. As a result, "au HIKARI Home" is now available in Hokkaido, in Miyagi Prefecture in the Tohoku region, in Ishikawa Prefecture in the Hokuriku region, and in eight prefectures in Japan's Kanto region.

Okinawa Telecommunication Network Co., Inc. (OTNet), became a consolidated subsidiary of Okinawa Cellular Telephone Company (OCT) in January 2010. OCT started offering "au HIKARI Chura," a bundled service comprising high-speed Internet, telephone, and television, in Okinawa Prefecture via fiber-optic lines in March 2010.

As of March 31, 2010, FTTH subscribers numbered 1.51 million, up 410,000 from the previous year. Combined revenues from voice, Internet, and video services during the year amounted to ¥78.0 billion, with an ARPU of ¥4,460. The business continues to operate in the red as a result of its costs for infrastructure maintenance, as well as the up-front costs of acquiring new customers, making it one of the main reasons for the fact the Fixed-line Business remains in the red.

"au HIKARI"

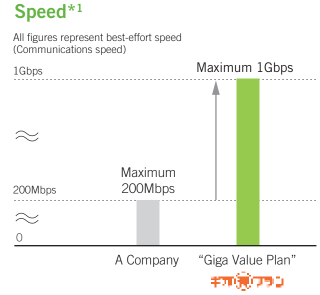
"Giga Value Plan"

"au HIKARI Home"

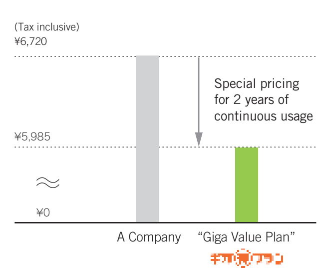
"au HIKARI Condo"

Features of the "Giga Value Plan" (As of March 31, 2010)

Speed*1



Charges (Internet + Phone)*2



*1 Represents speed to individual homes.
Speeds may vary due to differences in PC performance and other factors.

*2 Represents charges to individual homes. "Giga Value Plan" charges include discounts for automatic account withdrawal or credit card payments with "au one net" as the designated provider. "A company" charges are those to individual homes with OCN as the provider.

REINFORCING ACCESS LINE BUSINESS INITIATIVES

CATV

Reinforcing Fixed-line Telephony Services through Expansion of JCN and Allied Stations

"Cable-plus phone" service allows CATV operators to provide fixed-line telephony services using their coaxial cable network and KDDI's backbone network. We support the CATV operators through this service, which enables CATV stations to offer full-scale triple-play services, including multi-channel broadcasting, Internet, and telephone services. For KDDI, "Cable-plus phone" represents a new source of revenue from telephone basic charges. As of March 31, 2010, KDDI had business tie-ups with 95 CATV stations—25 more than one year earlier—and 960,000 telephone line subscriptions, an increase of 350,000 year on year.

On April 1, 2009, JCN Kanto and Kawagoe Cablevision became members of the JCN Group, which is a consolidated subsidiary of KDDI. Cable Television Adachi Corp. also joined the JCN Group in February 2010. As of March 31, 2010, the JCN Group had 18 CATV stations and 970,000 subscribers, 250,000 more than one year earlier.

In February 2010, KDDI assumed the stake in the Liberty Global, Inc. (LGI) Group's consolidated subsidiary Jupiter Telecommunications Co., Ltd. (J:COM), by acquiring the LGI Group's entire stake held by three companies—Liberty Global Japan II, LLC; Liberty Japan, LLC; and Liberty Jupiter, LLC, for ¥361.7 billion. Through this acquisition, KDDI assumed a 30.9%* stake, and J:COM became an equity-method affiliate of KDDI. J:COM and KDDI will form a strategic partnership and work to develop the CATV industry while striving to enable the KDDI Group, as a comprehensive telecommunications carrier, to provide its wide range of attractive services to CATV customers. Furthermore, collaborating with J:COM's existing shareholders, KDDI will support efforts to enhance J:COM's corporate value.

* Calculated on the basis of the total number of voting rights as of March 31, 2010, excluding J:COM treasury shares.

"Metal-plus"

Ongoing Decline in Subscriptions, with 9% Year-on-Year Drop as of March 31, 2010

"Metal-plus" is a direct-access, fixed-line telephone service. Since KDDI provides the line instead of NTT, the service generates basic monthly charge revenues for KDDI in addition to the conventional call-based revenues. "Metal-plus" targets customers who only want a basic telephone service, but it also offers Internet access through either ADSL or a dial-up connection.

During the year, the number of "Metal-plus" subscriptions decreased 270,000, to 2.85 million subscriptions as of March 31, 2010. Total revenues, including voice telephony and Internet, amounted to ¥119.0 billion, with an ARPU of ¥3,300.

FMBC

Forging Stronger Ties Between Fixed-line and Mobile Services

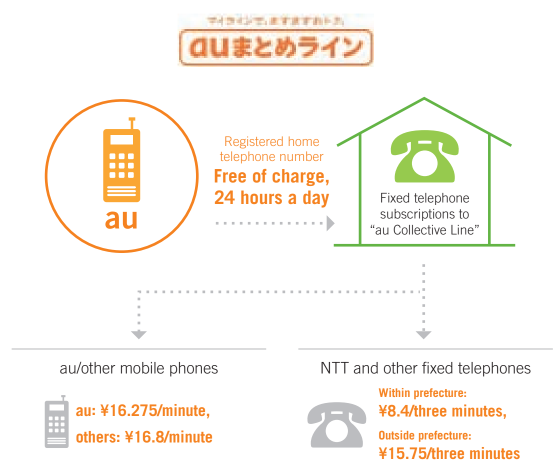
Leveraging its advantages as a comprehensive communications company operating both fixed-line and mobile communications services, KDDI is promoting FMBC services using the 31.87 million subscribers to its mobile phone services as of March 31, 2010 as a customer base.

As one initiative in this area, in November 2009 KDDI launched the new "au Collective Line" service. This offering enables NTT telephone line subscribers to use KDDI's "My Line" service to make calls from au mobile phones to home lines or from home to mobile or fixed-line phones at discounted rates.

On the marketing front, KDDI is promoting cross-selling at its au shops. During a campaign period that began in January 2010, new subscribers to the "au HIKARI" service could receive a ¥390 monthly discount on their au mobile phone basic monthly service charge for up to 12 months when applying for the au mobile phone and "KDDI Collective Billing Service."

Going forward, through ties between "au HIKARI" and au mobile phone services, we will continue working to create stronger ties between fixed-line and mobile communications services, thereby making these services more convenient for our customers.

"au Collective Line"



GLOBAL ICT

Meeting Corporate Clients' Global Telecommunications Needs with One-Stop Solutions

In the corporate fixed-line communications market, as companies seek to allocate resources more efficiently by outsourcing their information systems, KDDI is taking advantage of the strengths of having both fixed-line and mobile infrastructures, and continues to reinforce the structure for providing one-stop ICT solutions.

To meet a variety of the ICT needs of corporate clients advancing overseas business, including telecommunications network configuration, operation, and maintenance, we are creating a global structure that (as of May 30, 2010) spanned 87 locations in 57 cities within 25 countries.

In addition to networks, we provide data centers, security services, and LAN configurations to accompany factory launches. Through this broad range of offerings in peripheral fields, we aim to support clients' businesses by providing them with one-stop ICT solutions services.

Data Center Business (TELEHOUSE)

Moving Forward Aggressively to Create a Global Services Structure

In the data center business, KDDI provides services under the "TELEHOUSE" brand, which is synonymous with high-spec, safe-to-use data center services in Japan and overseas. We operate 37 "TELEHOUSE" sites—21 in Japan and 16 overseas—as well as seven that are not "TELEHOUSE" branded.

Our London, New York, and Los Angeles sites function as international Internet exchanges. Our "TELEHOUSE" Internet exchange in London handles more than half of the public Internet traffic in Europe, and the New York site performs a similar function on the U.S. East Coast.

As one initiative during the year ended March 31, 2010, we opened "TELEHOUSE CAPE TOWN" in Cape Town, South Africa in December 2009. This facility is the first data center that a Japanese telecommunications carrier has opened in Africa. We also opened "TELEHOUSE HANOI" in Hanoi, Vietnam in March 2010. Through such initiatives, KDDI is commencing services in emerging markets where high levels of economic growth are anticipated.

Cloud Service

"KDDI Cloud Server Service" Undergoes Full-Fledged Launch

In June 2009, we began offering a next-generation IT infrastructure, the "KDDI Cloud Server Service." This infrastructure incorporates firewalls, load balancers, and other key applications such as Web, operating systems, into cloud computing environments constructed in Japanese data centers.

This service involves the construction of a virtual private data center within one of KDDI's data centers in Japan. Using a platform as a service (PaaS)-type solution to build a virtual system allows clients to select only the functions they want to use, making complex systems more flexible and enabling them to be expanded or reduced quickly.

KDDI's data center business is a steadily growing component of its international business, in terms of both sales and income. In the future, we plan to expand the business into emerging markets in Southeast Asia and other regions.

Expanding Overseas Business

One of KDDI's growth strategies is to expand its overseas business. Specifically, we are promoting "global ICT solutions services," which provide a one-stop ICT platform linking global network services, data centers, overseas regional services (in the United States and Europe), and overseas system integration. With regard to Internet in emerging markets, we are expanding our WiMAX business (such as an investment in bracNet in Bangladesh) and our mobile phone business catering to immigrants (investments in two U.S. MVNOs). Through these Base of the Pyramid (BOP) businesses, we are boldly cultivating the development of altogether new global businesses.

Overview of New Overseas Subsidiaries and Affiliated Companies in the Year Ended March 31, 2010

Company	DMX Technologies Group Limited	Locus Telecommunications, Inc.	Total Call International, Inc.	bracNet (BRAC BD Mail Networks Limited)
Location	Hong Kong (headquarters registered in Bermuda)	New Jersey, United States	California, United States	Dhaka, Bangladesh
Business Overview	Telecommunications, system integration and broadcasting for corporate clients, and digital media solutions for telecommunications operators	MVNO, calling card, and other businesses	MVNO, calling card, and other businesses	Internet connectivity services business
KDDI Stake	51.68%	51%	51%	50%
2009 Sales	¥16.5 billion	¥19.1 billion	¥10.7 billion	—

OVERVIEW OF OPERATIONS—

OTHER BUSINESS

OVERVIEW OF OPERATIONS IN THE YEAR ENDED MARCH 31, 2010

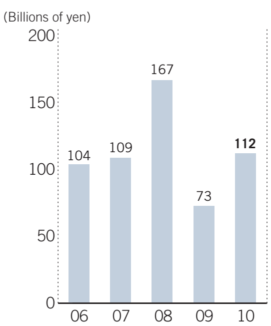
In order to raise the competitiveness of the entire KDDI Group, we are focusing on strengthening its business in fields with growth potential.

Owing to the expansion of this segment's mainstay call center and content businesses, during the year ended March 31, 2010, operating revenues surged 54.2%, to ¥112.2 billion, and operating income totaled ¥3.5 billion.

Business Objective

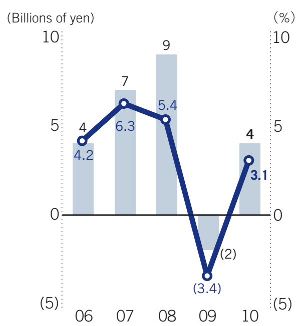
Principal Services/Operations
Call center business, content business, research and advanced development, and other mobile phone services, etc.
Principal Group Companies
KDDI Evolva inc., mediba corporation, etc.

Operating Revenues



(Years ended March 31)

Operating Income (Loss)/ Operating Income Margin



(Years ended March 31)
Operating income (loss)
Operating income margin (right)

RESEARCH AND DEVELOPMENT

In a society to which computers and IT equipment are indispensable, KDDI thrives to develop research and development to make information and communications technologies integrate naturally into society and enable safe, secure, and comfortable communications without customers even needing to be consciously aware of the fact. KDDI's cumulative R&D investments help to achieve these results.

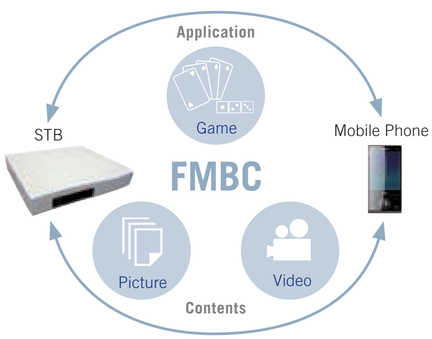
The KDDI R&D laboratories in Fujimino, Saitama Prefecture, are the base of the Group's R&D activities. At this location, we have in place an R&D environment for FMBC. This facility concentrates on component and basic technologies from a long-term, broad-ranging perspective. At the same time, the center pursues cutting-edge research along themes aiming to realize technologies that are advanced, yet easy to use and seemingly ordinary. Each year, these laboratories generate numerous R&D achievements.

In addition, the KDDI R&D Laboratories' Development Center, which concentrates on technical development, is located within the KDDI's headquarters in Tokyo's Chiyoda Ward. Taking on the challenge of differentiating core technologies while reducing costs simultaneously, the center engages in varied developments with the aim of realizing technologies within two to three years.

As a result of their R&D and technology development activities, in the year ended March 31, 2010, these two centers generated an average of more than one patent applied per researcher. In addition, to maintain a firm grasp on trends involving important future technologies and to find research themes, KDDI conducts joint and consignment research with research institutions in Japan and overseas, participates in activities at international academic conferences, and works aggressively toward standardization.

Meanwhile, we endeavor to promote internal communications to match the R&D and technology development needs not only from business divisions but also from operations and construction divisions, with the achievements of KDDI R&D Laboratories in technology development. We also conduct matching activities when the KDDI R&D laboratories commence development projects to share the directions and goals of individual mobile/fixed divisions so that the overall KDDI Group can offer services that are more convenient, interesting, and satisfactory.

Development of an Android™*-Based Set-Top Box (STB)



Built-in system based on Android™ Mobile-linked STB

KDDI R&D Laboratories, Inc. has developed an STB and STB applications based on the Android™ mobile phone platform provided by Google Inc. of the United States.

Using an STB that has the same platform as a mobile phone allows the same content and applications to be used on both STBs and mobile phones. This holds down development costs and shortens lead times.

The STB currently undergoing verification tests offers video on demand (VOD) reception functions, as well as IP multicast broadcast reception functions, that conform to IPTV Forum specifications. Additionally, incorporation of TransferJet™ realizes high-speed transmission of large files between mobile phones and STBs.

Verification tests were also conducted on applications for the STB, such as the "Interlocking Mobile Phone/STB Application," which uses incoming mobile phone calls as the basis for content forwarding and sharing between STBs, and the "In-Home Log Usage Application," which accumulates log information on various equipment at home and shows them on mobile phones and STBs. In addition to confirming their ease of development, these applications achieved seamless linkage between STBs and mobile phones.

* "Android" is a trademark of Google Inc.

Being KDDI,
Being More INSPIRED

KDDI considers all its stakeholders to be its customers. Voices of our customers are the source for creating new values. Support from our customers are the base for our continuous growth. With close attention, we will continue listening to our customers' voices.

NEXT ▸
CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

DIRECTORS AND AUDITORS

As of June 17, 2010

Directors

Tadashi Onodera
President and Chairman

'97.6 Executive Vice President, Member of the Board
'01.6 President
'05.6 President and Chairman (Current position)

Kanichiro Aritomi
Vice Chairman

'09.8 Special Adviser
'10.6 Vice Chairman (Current position)

Hirofumi Morozumi
Executive Vice President
Member of the Board

'07.6 Senior Vice President, Member of the Board
'10.4 General Manager, Corporate Sector (Current position)
'10.6 Executive Vice President, Member of the Board (Current position)

Takashi Tanaka
Senior Vice President
Member of the Board

'07.6 Associate Senior Vice President, Member of the Board
'10.4 Consumer Business, Solution Business, and Product Development Sector (Current position)
'10.6 Senior Vice President, Member of the Board (Current position)

Makoto Takahashi
Senior Vice President
Member of the Board

'07.6 Associate Senior Vice President, Member of the Board
'10.4 General Manager, Group Strategy Sector (Current position)
'10.6 Senior Vice President, Member of the Board (Current position)

Yoshiharu Shimatani
Associate Senior Vice President
Member of the Board

'03.4 Vice President
'09.6 Associate Senior Vice President, Member of the Board (Current position)
'10.4 General Manager, Technology Sector (Current position)

Masahiro Inoue
Associate Senior Vice President
Member of the Board

'05.1 Associate Senior Vice President
'10.4 General Manager, Mobile Technology Sector (Current position)
'10.6 Associate Senior Vice President, Member of the Board (Current position)

Yuzo Ishikawa
Associate Senior Vice President
Member of the Board

'01.6 Vice President
'09.4 General Manager, Solution Business Sector (Current position)
'10.6 Associate Senior Vice President, Member of the Board (Current position)

Hideo Yuasa
Associate Senior Vice President
Member of the Board

'03.4 Vice President
'10.4 General Manager, Consumer Business Sector (Current position)
'10.6 Associate Senior Vice President, Member of the Board (Current position)

Hiromu Naratani
Associate Senior Vice President
Member of the Board

'03.5 Vice President
'10.4 General Manager, Corporate Communications & Marketing Sector (Current position)
'10.6 Associate Senior Vice President, Member of the Board (Current position)

Makoto Kawamura*1
Member of the Board

'05.6 President and Representative Director of Kyocera Corporation
'09.4 Chairman of the Board and Representative Director of Kyocera Corporation (Current position)
'09.6 Member of the Board (Current position)

Shinichi Sasaki*1
Member of the Board

'05.6 Senior Managing Director of Toyota Motor Corporation
'09.6 Member of the Board (Current position) Executive Vice President and Representative Director of Toyota Motor Corporation (Current position)

Tsunehisa Katsumata*1
Member of the Board

'02.10 President of Tokyo Electric Power Company
'06. 6 Member of the Board (Current position)
'08. 6 Chairman of Tokyo Electric Power Company (Current position)

Auditors

Standing Statutory Auditors

Masataka Iki
Yoshinari Sanpei
Masayuki Yoshinaga*2

Statutory Auditors

Yoshihiko Nishikawa*2
Katsuaki Watanabe*2

*1 Outside Directors
*2 Outside Auditors

Mr. Tsunehisa Katsumata and Mr. Masayuki Yoshinaga are independent directors pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

MANIFESTO

Established in October 2000 through the merger of three companies—DDI, KDD, and IDO—KDDI commenced operations as a comprehensive telecommunications company, providing a wide variety of telecommunications services, ranging from mobile to fixed-line communications. Amid increasingly intense competition in the Japanese telecommunications market, the three companies pooled their assets, human resources, and technologies in an effort to transform themselves into an entity capable of offering higher quality, more convenient, and innovative telecommunications services that would meet society's expectations, while achieving sustainable growth in tandem with society's changing needs.

From the outset, the new company formalized the KDDI Philosophy, as it recognized that the fostering of shared values among employees hailing from different corporate cultures was essential. We worked to thoroughly instill the tenets of this philosophy—which corresponds to what is typically termed a "company philosophy" or "corporate principles"—calling for all employees to take the initiative. Since that time, 16 companies have been merged into KDDI, driving its growth through diversity. However, the KDDI Philosophy, with its unfailingly customer-oriented perspective, has remained intact as we continue to embrace new challenges and create new value.

Fundamental Principles of the KDDI Philosophy

SECURING CUSTOMER SATISFACTION AND TRUST
by providing with our services the value that customers expect;

A HAPPY WORKFORCE, A VITAL COMPANY
by continuing to be the kind of dynamic company that inspires all its employees with a sense of worth and fulfillment;

THE CONFIDENCE OF OUR SHAREHOLDERS AND BUSINESS PARTNERS
by justifying the trust placed in us by our shareholders, business associates, and all with whom we have dealings;

THE ADVANCEMENT OF THE INTERNATIONAL COMMUNITY
by bringing an ever-broadening array of communications to bear in serving the development of the global community.

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 Company is also working to systematize internal decision-making flow with a view to ensuring timely management decisions.

KDDI is making active efforts to vitalize the General Meeting of Shareholders and ensure smooth exercise of voting rights. Convocation announcements are issued early, and the Company strives to avoid scheduling the meeting on days when many other companies hold their shareholders' meetings. KDDI also allows shareholders to exercise their voting rights via PC and mobile phone platforms.

The Board of Directors, which includes outside 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. The Board of Directors also has the right to appoint and dismiss executive officers.

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 Board also periodically listens to reports from the accounting auditors on the annual accounting audit plan, the progress, and the result of accounting audits. It also makes recommendations and exchanges of opinion as necessary. In addition, KDDI established the Auditing Office to assist auditors with their duties in 2006. The opinions of the auditors are taken into account when selecting personnel for assignment to the office.

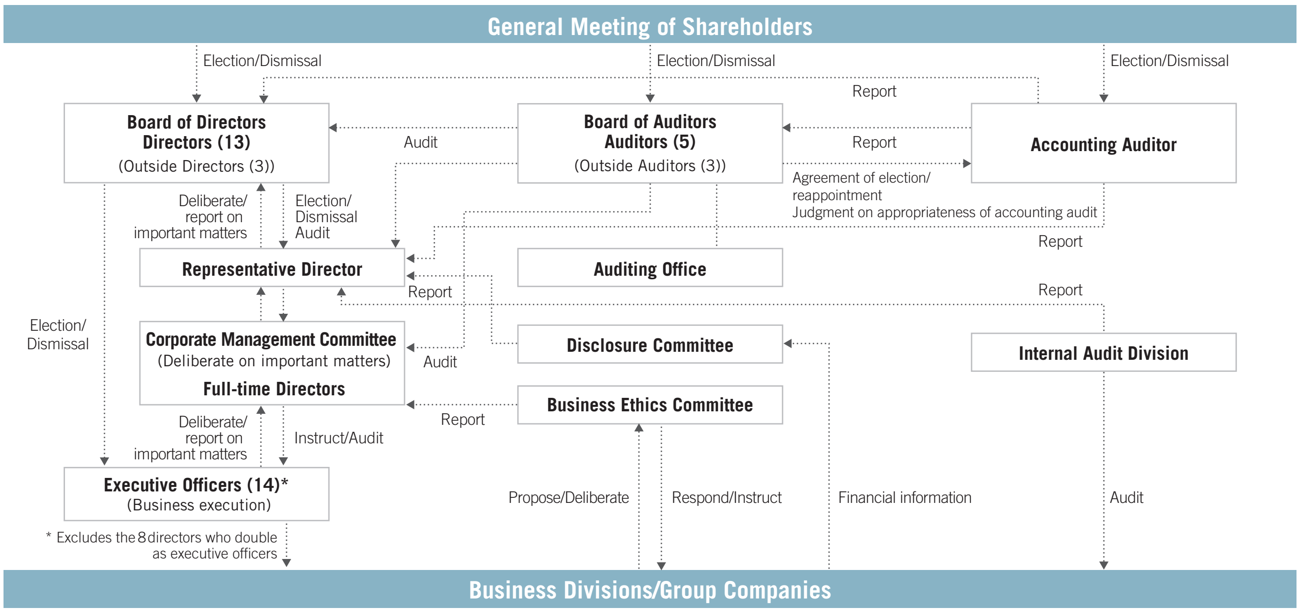
All KDDI Group operations are subject to internal audits to regularly assess the appropriateness and effectiveness of internal controls. The results of internal audits are reported to the president and to auditors, along with recommendations for improvement and correction of problem areas.

KDDI also has a Business Ethics Committee, which makes decisions on compliance-related issues, and a Disclosure Committee, which oversees disclosure of information. By bringing together the various systems and frameworks for managing each Group company, KDDI is working to enhance governance across the entire Group.

KDDI's corporate governance structure is as shown in the following chart.

BASIC POLICY REGARDING CORPORATE GOVERNANCE

Corporate Governance Framework



(As of June 17, 2010)

Major Activities of Outside Directors and Outside Auditors

Directors

- In his post as director, Makoto Kawamura attended five of the eight meetings of the Board of Directors.
- In his post as director, Shinichi Sasaki attended five of the eight meetings of the Board of Directors.
- In his post as director, Tsunehisa Katsumata attended eight of the nine meetings of the Board of Directors.

Note: The outside directors attended Board of Directors' meetings as indicated above. At these meetings, they asked questions to clarify points and provided opinions based on their expertise, insight, and specialized knowledge.

Auditors

- In his post as auditor, Masayuki Yoshinaga attended nine of the nine meetings of the Board of Directors and eight of the eight meetings of the Board of Auditors.
- In his post as auditor, Yoshihiko Nishikawa attended seven of the eight meetings of the Board of Directors and six of the seven meetings of the Board of Auditors.
- In his post as auditor, Katsuaki Watanabe attended four of the nine meetings of the Board of Directors and five of the eight meetings of the Board of Auditors.

Note: Directors Makoto Kawamura and Shinichi Sasaki, and Auditor Yoshihiko Nishikawa began attending meetings after being newly appointed to their respective positions at the 25th Annual Meeting of Shareholders, held on June 18, 2009.

Note: The outside auditors attended Board of Directors' and Board of Auditors' meetings as indicated above. At these meetings, they asked questions to clarify points and provided opinions based on their expertise, insight, and specialized knowledge.

Remuneration for Directors and Auditors

		No. of Directors/Auditors	Remuneration (Millions of yen)
Directors	Outside Directors	5	22
	Others	9	316
Auditors	Outside Auditors	4	32
	Others	2	39

Notes:

1. The above-stated remuneration for directors includes amounts for two outside directors and two directors who stepped down at the end of the 25th Annual Meeting of Shareholders, held on June 18, 2009.
2. The above-stated remuneration for auditors includes amounts for one outside auditor who stepped down at the end of the 25th Annual Meeting of Shareholders, held on June 18, 2009, and one auditor who stepped down as of December 31, 2009.
3. 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 employee salaries for directors concurrently occupying posts as employees. Furthermore, directors may receive up to an additional ¥40 million of annual remuneration in the form of stock acquisition rights issued as stock options, as decided by a resolution of the 22nd Annual Meeting of Shareholders, held on June 15, 2006.
4. The maximum annual remuneration for auditors was set at ¥84 million by a resolution of the 25th Annual Meeting of Shareholders, held on June 18, 2009. This amount is based on the Company's fiscal year.
5. Remuneration amounts outlined above included the following Board members' bonuses, as determined by a resolution of the 26th Annual Meeting of Shareholders, held on June 17, 2010.
   10 directors: ¥61.29 million (3 outside directors: ¥7.50 million)
6. Remuneration amounts for directors included: Stock acquisition rights granted to seven directors by a resolution of the Board of Directors at a meeting held on July 21, 2006; Stock acquisition rights granted to eight directors by a resolution of the Board of Directors at a meeting held on July 23, 2007; Stock acquisition rights granted to eight directors by a resolution of the Board of Directors at a meeting held on July 22, 2008; and Stock acquisition rights granted to seven directors by a resolution of the Board of Directors at a meeting held on July 23, 2009.
7. In addition to the above, at the 20th Annual Meeting of Shareholders, held on June 24, 2004, it was decided to pay a retirement allowance to directors and auditors in connection with the cancellation of the executive retirement bonus system. As a result of this decision, ¥12.71 million was paid to one director who stepped down at the end of the 26th Annual Meeting of Shareholders, held on June 17, 2010.

RISK MANAGEMENT

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

The KDDI Group has assigned Internal Control System Managers to be responsible for executing related activities autonomously.

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) The committee for Total Customer Satisfaction (TCS) works on a monthly basis to evaluate and improve TCS activities so as to better respond to customer needs and complaints in a timely and appropriate manner. KDDI also ensures compliance with product safety laws and regulations and works to provide customers safe, reliable, and 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.

(3) The KDDI Group works to further enhance its public relations and investor relations (IR) activities, ensure the transparency of Group management, and gain the acceptance and trust of all stakeholders.

Business risks facing the Group are properly clarified and disclosed in a timely and appropriate manner by the committee responsible for disclosure.

(4) For issues that exert a significant, 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.

Structure to Improve Operation Quality

(1) The KDDI Group is making a Companywide effort to evaluate and improve the status of internal controls and operational processes on financial reporting in order to further raise its level of reliability.

(2) The KDDI Group strives to implement and augment structures to improve the quality of its operations by raising operational effectiveness and efficiency, as well as by conducting appropriate acquisition, management and disposal of assets.

Structure as a Telecommunications Carrier

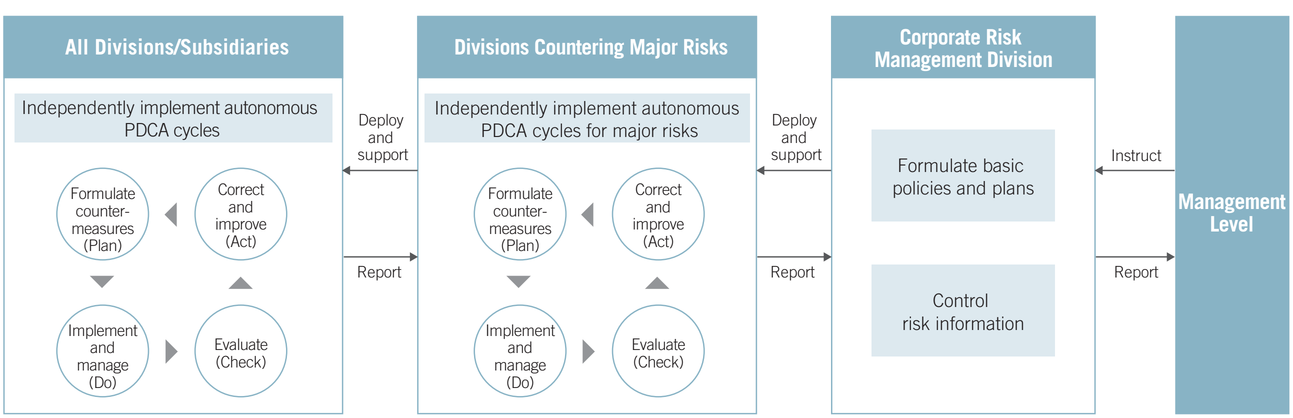
(1) The protection of telecommunications privacy is fundamental to the KDDI Group's corporate management, and we take steps to ensure that privacy is strictly protected.

(2) 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 and regular employees to guarantee information security.

(3) KDDI implements measures to improve network reliability and prevents 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.

KDDI Group Risk Management Structure

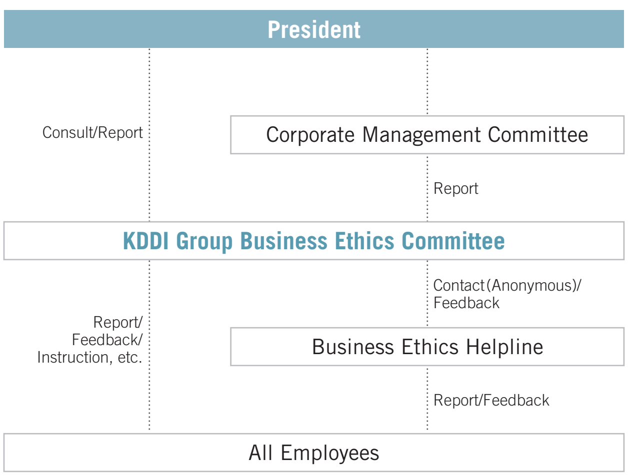


APPROACH TO COMPLIANCE

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 Telecommunications Business Law—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, compliance training during reassignment training, and Companywide e-learning, KDDI has also conducted compliance training as part of its training sessions for new employees since April 2008.

Key Training Accomplishments

FY2009

General employee training	Approx. 700 people
Management/line manager training	Approx. 1,300 people
New employee training	Approx. 300 people
e-learning	Approx. 19,000 people

Business Ethics Helpline

KDDI established the Business Ethics Helpline 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.

Enhancing the 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 Helplines. The Business Ethics Committees convene semi-annually to ascertain the situation at each company and support the establishment and reinforcement of compliance structures.

Kanichiro Aritomi

Vice Chairman
KDDI Group Business Ethics Committee Chairman

The Company has introduced the KDDI Philosophy as its canon for managing one's activities—based on a corporate mission statement that calls for integrity of mind—and formulated the KDDI Group Business Ethics Committee to facilitate the implementation of these principles in business operations.

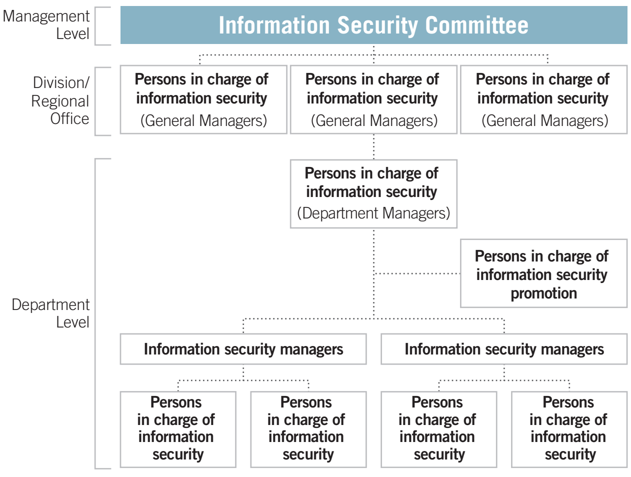
By acting in accordance with high ethical standards and respect for the law, we work to be a company that is deeply trusted and respected by customers and society.

To achieve this, we regularly conduct systematic, continuous education, training, and awareness activities based on our philosophy and principles, working to instill a compliance-aware mindset among all executives and employees. We will continue striving to enhance and establish an even stronger compliance structure.

INFORMATION SECURITY

KDDI has established an Information Security Committee composed of management-level employees, along with the heads of the sales, technology, and corporate administrative divisions. This committee is part of a structure that carefully recognizes the status of information security controls for the entire company, and when necessary readily implements Groupwide measures to enhance information security.

Security Management Structure



KDDI strictly manages the private customer information and sensitive corporate data it handles in providing a safe and stable telecommunications service, and continually implements measures to enhance information security from a variety of angles.

In April 2009, KDDI obtained information security management system (ISMS) certification for all divisions. In the year ended March 31, 2010, we have focused on maintaining the certification as the main activity to proceed with our continuous improvement on information security. At the same time, to raise employees' awareness, we have established a month-long period to strengthen information security management where employees engage in e-learning, self-checking, and group discussions. As for technological measures, we refined e-mail software to guard against operational errors and improved business systems. We have also set up office appliance environments employing measures to ensure safe processing of customer information, while securing safe remote access to our in-house network and usage of our business systems. We also collect information and take adequate measures to protect our telecommunications facilities used in operations from potential vulnerabilities and virus infections that could permit fraudulent access.

As a part of our achievements involving initiatives on information security during the year ended March 31, 2010, KDDI Group subsidiaries Okinawa Cellular Telephone Company, KDDI Technical & Engineering Service Corporation, and KDDI R&D Laboratories, Inc., obtained ISMS certification, while Chubu Telecommunications Co., Inc., acquired PrivacyMark certification. The KDDI Group is building a structure to ensure ongoing improvements in information security and the protection of private information.

Going forward, the KDDI Group will make continuous efforts as a whole to strengthen its information security management by improving the management system.

ISMS Certification at KDDI

Registration No.	Organization Name	Initial Registration
IS 76406	Shibuya Data Center	July 4, 2003
IS 85329	Information Systems Division	September 28, 2004
IS 88665	Koto Technical Center	December 13, 2004
IS 95253	KDDI Corporation*1	June 7, 2005
IS 94986	Otemachi Technical Center	July 11, 2005
IS 500630	Network Operations Center	April 18, 2006
IS 506507	Osaka Technical Center	October 27, 2006
IS 507482	Security Operations Center	October 27, 2006
IS 521724	Service Operations Division	October 22, 2007
IS 537749	FMBC Operations Center	September 30, 2008
IS 544901	KDDI Corporation*2	April 10, 2009

*1 Corporate, customer support, engineering, technology, and sales divisions and KDDI KYOSAIKAI, KDDI Health Insurance Union, KDDI Pension Fund, and KDDI Research Institute
*2 Operations Sector Engineering Operations Division, Service Operations Division, and Japan Telecommunication Engineering Service

Yoshiharu Shimatani

Associate Senior Vice President
Member of the Board
Information Security Committee
Chairman

As an electronic communications operator, the entire KDDI Group works to improve information security so that its customers can feel safe and secure in using its information transmission services. In order to protect our facilities from outside threats, we conduct around-the-clock monitoring and make repairs as necessary. Moreover, in order to protect the confidentiality of information and keep safe customer information and other important data, we respect and thoroughly implement information handling processes for all employees and contractors throughout the Group.

It is essential to raise the awareness of individual employees for maintaining information security. We will use the framework of ISMS certification, which the Company obtained for all of its divisions in April 2009, to conduct continuous efforts for improvement at every workplace.

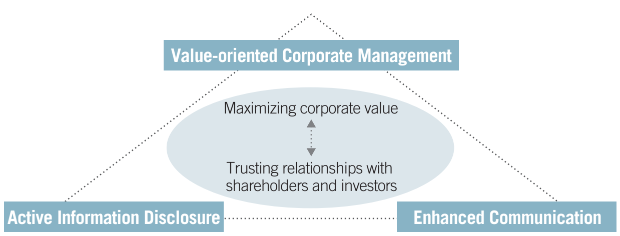
Information security activities must be firmly rooted in everyday operations, and we must ensure that we are perpetually engaged in these activities. With the Information Security Committee as the central organization, we will implement necessary measures promptly and conduct PDCA cycles continuously to improve these activities and further strengthen our information security management.

DISCLOSURE AND IR

KDDI is fully committed to undertaking fair and timely disclosure of any information that could have a material bearing on the investment decisions of investors. Such disclosure is conducted on an ongoing basis and in a comprehensible manner, and is focused on the requirements of shareholders and investors. The Company's policy in this regard is in line with the Financial Instruments and Exchange Law and related rules. KDDI discloses its investor relations (IR) basic policy on its website, 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.

IR Basic Policy

KDDI's IR program is aimed at increasing the level of satisfaction among shareholders and investors through ongoing, proactive, and fulfilling dialogue, and enhancing trust in KDDI's management.



IR Activity Guidelines

KDDI aims to build long-term trusting relationships with its shareholders and investors and to maximize its corporate value by engaging in IR adhering to the following activity guidelines.

Three IR Activity Guidelines

- **Open IR Activities**
  We value interactive dialogue with our shareholders and investors as well as ensuring accountability to our shareholders and investors through honest and fair information disclosure.
- **Proactive IR Activities**
  By always incorporating new ideas into our IR activities, we strive to make KDDI known to more people and promote further knowledge of the Company.
- **Organized IR Activities**
  Under the leadership of management, all officers and employees — including those of Group companies—will engage in organized IR activities to increase our corporate value.

IR Activities during the Year Ended March 31, 2010

Open and In-depth Communication

Earnings presentation meetings were held quarterly to allow management to directly explain the Company's results. KDDI also held individual and small group meetings with investors from Japan and overseas. We also participated in various conferences and seminars for individual investors sponsored by securities companies for better communication.

Also, timely feedback was provided to management based on responses from shareholders and investors.

Extensive IR Tools and Third-Party Ratings

By using various tools, KDDI takes a proactive approach for the disclosure of information. We offer both Japanese and English versions of videos from our earnings presentations and shareholder meetings on our website. We also provide financial statements and various other accounting information on our website, distribute e-mail alerts, and maintain an IR website for mobile phone users.

Representing the achievements of KDDI's IR activities in the year ended March 31, 2010, we received the "Internet IR Best Company Award in 2009" by Daiwa Investor Relations Co., Ltd., making it the fifth consecutive year of receiving the award. Moreover, we ranked third in the Best Corporate Website 2009 Survey's overall ranking and second in the information and telecommunications category by Nikko Investor Relations Co., Ltd.

KDDI has also been included in the Morningstar Socially Responsible Investment Index in Japan, a principal indicator of socially responsible investments, as of April 2010.

Note: Morningstar, Inc. selects the best 150 Japanese listed companies, in terms of social performance, for inclusion in its index of socially responsible companies, Japan's first index of socially responsible stocks.

IR Contact
Investor Relations Department, Corporate Management Division
Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku,
Tokyo 102-8460, Japan
Tel: +81-3-3347-0077 (switchboard number) Email: kddi-ir@kddi.com

INTERNAL CONTROLS—MEASURES TO IMPROVE OVERALL CORPORATE QUALITY

KDDI, at meetings of its Board of Directors held on April 19, 2006, January 25, 2008, and March 11, 2010, adopted basic policies for the creation of an internal control system in accordance with Article 362-5 of the Companies Act, in order to ensure that the execution of duties by directors complies with applicable laws and regulations, as well as the Company's corporate charter.

Under this basic policy, KDDI is working to establish an effective internal control system that will ensure fairness, transparency, and efficiency in its business operations, and improve corporate quality.

Initiatives in Response to the Internal Control Reporting System

In response to the Internal Control Reporting System based on the Financial Instruments and Exchange Law implemented in the year ended March 31, 2009, KDDI established the Internal Control Department to manage the Company's efforts, and to ensure reliability in its financial reporting put in place internal control systems at the Company and major Group subsidiaries, and conducted evaluations of its internal controls. The results of these evaluations were compiled in an internal controls report, which was submitted to the Japanese Prime Minister in June 2010, as well as disclosed to investors.

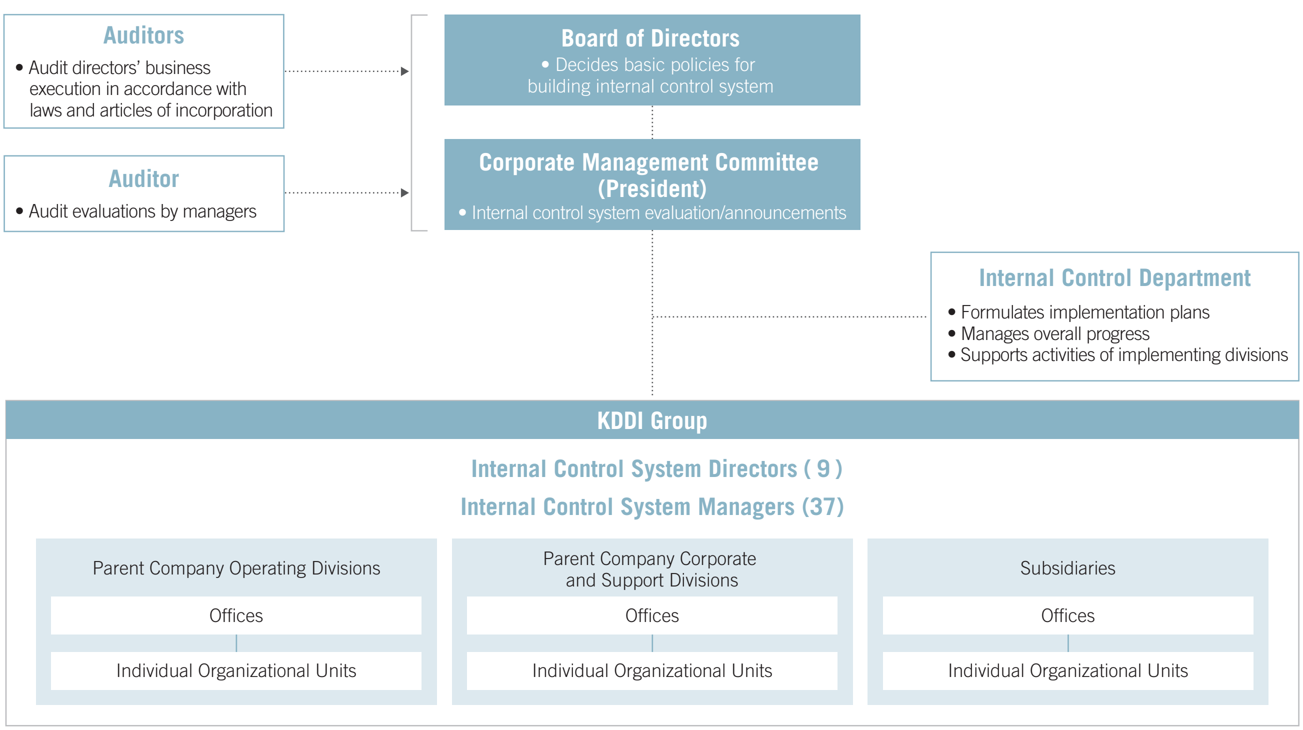
Enhancing Operational Quality to Improve Overall Corporate Quality

KDDI considers its initiatives in response to the Internal Control Reporting System to be part of its ongoing effort to improve overall corporate quality. The Internal Control Department, established as part of the response to this system, acts as the managing authority for the entire Company's internal control efforts, working to improve overall corporate quality by enhancing operational efficiency and providing standardization, while at the same time raising the quality of operations and the degree of added value.

From the year ending March 31, 2011, KDDI and its principal Group subsidiaries appointed 37 Internal Control System Managers, as well as nine Internal Control System Directors, to oversee their activities. Under this system, the entire organization will implement and operate an internal control system, furthering the improvement in overall corporate quality.

We will also conduct regular training and e-learning for all employees in order to deepen their understanding of internal control.

Internal Control Promotion System Concerning Financial Reporting



TOTAL CUSTOMER SATISFACTION (TCS) AT THE CORE OF KDDI'S CORPORATE SOCIAL RESPONSIBILITY (CSR)

As a comprehensive telecommunications company and a social infrastructure provider, KDDI is deeply involved with society in numerous ways. KDDI considers all stakeholders "customers"—not just those who use its services, but also suppliers, employees, shareholders, investors, government institutions, and other groups of people. We promote TCS as an activity to pursue customer satisfaction.

KDDI encourages each executive and employee to remain aware of TCS and embody its principles in their daily operations, thereby meeting society's expectations and KDDI's CSR.

PRIORITY ISSUES FOR KDDI'S CSR

In order to sustain growth along with society, KDDI identified four priority issues from among the social issues that caught public interest during the year ended March 31, 2009, We have also drawn on opinions from stakeholders and experts to promote methods for solving problems that lie ahead.

Priority Issue 1:
Ensure a Safe and Secure Social Environment for Information and Telecommunications

We began offering Mobile Phone Learning classes in the year ended March 31, 2006. During the year ended March 31, 2010, KDDI held 1,190 classes, raising its cumulative total to 2,180 classes. KDDI offers these classes, which aim to ensure to safe and secure usage of mobile phones by all users, by dispatching our employees as instructors to elementary, junior high, and senior high schools, as well as other locations throughout Japan.

In March 2010, we held a symposium on the current state of information and telecommunications usage by children and communicated proactively with our stakeholders by drawing opinions from care providers and educators on how to solve the issues related to these current problems.

In an effort to create an environment for the safe and secure usage of mobile phones, we have developed an au mobile phone called "mamorino" to ensure the safety of children and comfort of their caregivers. Also, we have introduced an Internet filtering service called "EZ Safety Access Service" for all customers under 18 years of age.

KDDI Mobile Phone Learning class

Symposium 2010 held in March 2010

Priority Issue 2:
Offer Reliable Information and Telecommunications Services

KDDI recognizes that its primary responsibility as a provider of information and telecommunications services—the “lifelines” of society—is to ensure stable services to its customers. Accordingly, we make every effort to secure continuous service even in the event of an emergency by holding training drills to prepare for times of natural disaster and by deploying vehicle-mounted wireless base stations equipped with satellite communication functions.

KDDI started “au signal survey” in October 2009 to improve the telecommunications environment. The service includes surveying signal strength at individual homes, as well as installment of “au repeater”—an indoor relay—at some locations to strengthen signals. This is one example of the Company’s efforts to enhance the telecommunications environment to make services more convenient for each of its customers.

Individual house call service to determine signal strength and improve transmission areas

“au repeater”

Priority Issue 3:
Initiatives to Conserve the Global Environment

As a global company, KDDI recognizes the important responsibility of promoting conservation of the global environment, and the Company’s activities reflect this environmental consideration. In the year ended March 31, 2010, KDDI developed a mobile phone base station equipped with “tribrid” power control technology to conserve energy used by its telecommunications equipment. This technology controls three kinds of electric power—power generated by solar panels, power saved in charged storage batteries, and power supplied by power companies—and provides power to mobile phone base stations in the most efficient way. KDDI launched test operations in December 2009 and plans on a full-fledged launch of these stations after completing various inspections, such as testing installation methods and optimizing supply power control.

KDDI also began employing environmental accounting standards in the year ended March 31, 2010, to enhance the quality of its environmental management.

In the year ended March 31, 2009, KDDI began conducting lifecycle assessments of its products and services to determine the amount of CO_2 generated at each stage of operations—from manufacturing and use to disposal or recycling. Quantifying emissions is the first step of our “Green by ICT” initiative to reduce the Company-wide environmental impact resulting from the utilization of our ICT.

au mobile phone base station employing “tribrid” power control technology

Priority Issue 4:
Vitalizing the Company by Developing a Diverse Workforce

KDDI has defined the promotion of diversity as one of its management strategies targeting sustainable corporate growth and is working proactively on related initiatives.

The Company has adopted systems to allow employees to take workplace leave and flexible working hours to support the dual roles of employee and child care-giver, or providing nursing care. As a result, KDDI acquired certification by the Ministry of Health, Labour and Welfare as a company that promotes employees to maintain child care in July 2009. In September 2009, we extended our activities to hold “K Papa Support Seminar” for male employees to learn about child care as fathers and the importance of maintaining a work–life balance.

KDDI is also making progress in its initiatives to employ people with disabilities and senior workers. We have also adopted human resources training systems to allow our employees to engage in fulfilling activities both domestically and internationally.

Special subsidiary KDDI Challenged Corporation was established to provide broader employment opportunities for people with disabilities.

“*Kurumin*” mark given to companies supporting employees to maintain next-generation child care.

SOCIAL CONTRIBUTION ACTIVITIES

Employee Social Contribution Activity "+α Project"

The "+α Project" is a unique social action project by KDDI that allows employees to engage in social contribution activities. As of March 31, 2010, approximately 4,200 employees nationwide have participated in the project. Members receive points in exchange for their social contribution activities inside and outside the Company, and these points can be converted into cash for donation to the charity of the member's choice. Approximately ¥3.7 million worth of points were accumulated during the year ended March 31, 2010, and these funds were donated to 14 charitable organizations, including the United Nations World Food Programme.

We also participate in the Ecocap Movement, through which we collect plastic bottle caps, and donate the money earned from sales of the caps for the purchase of vaccines. In the year ended March 31, 2010, we collected more than 4.2 million caps, generating enough money to purchase approximately 5,200 vaccines.

"+α Project" logo created by a member

Contributing to Society through the KDDI Foundation

In October 2009, we established the KDDI Foundation to return to society some of the benefits of ICT. The foundation is also intended to promote the harmonious and sound development of ICT throughout the world and assist in social contribution activities that deliver social, economic, and cultural benefits.

During the year ended March 31, 2010, the foundation's activities included provision of study grants to universities and research institutions, scholarships for foreign students, and support for NPOs and NGOs. The grants and financial assistance during the year totaled approximately ¥80 million. As part of its support for developing countries, KDDI holds technical training for research students from these countries and promotes projects to improve the telecommunications environments in these countries. We also hold charity concerts to raise funds to be donated for the education of children in developing countries, who serve as the key factor for such nations. These funds are also used in a wide range of activities, such as the construction of a school in Cambodia.

Charity concert classic 2010

FINANCIAL SECTION

CONTENTS

FIVE-YEAR SUMMARY

Years ended March 31

Consolidated	2006	2007	2008	2009	2010 (Millions of yen)	2010 (Millions of U.S. dollars*1)
Operating Revenues	¥3,060,814	¥3,335,260	¥3,596,284	¥3,497,509	**¥3,442,147**	**$36,996**
Telecommunications business	2,398,526	2,592,882	2,749,897	2,720,675	**2,606,165**	**28,011**
Other business	662,288	742,378	846,387	776,834	**835,982**	**8,985**
Operating Income	296,596	344,701	400,452	443,207	**443,862**	**4,771**
Net Income	190,569	186,747	217,786	222,736	**212,764**	**2,287**
EBITDA	654,409	691,699	769,209	904,030	**927,253**	**9,966**
Operating Income Margin	9.7%	10.3%	11.1%	12.7%	**12.9%**	**12.9%**
EBITDA Margin	21.4%	20.7%	21.4%	25.8%	**26.9%**	**26.9%**
Total Assets	2,500,865	2,803,240	2,879,275	3,429,133	**3,819,537**	**41,053**
Interest-bearing Debt	770,692	620,471	571,945	874,951	**1,096,778**	**11,788**
Total Net Assets (formerly shareholders' equity)*2	1,295,531	1,537,114	1,715,731	1,881,329	**2,078,451**	**22,339**
Net Cash Provided by (Used in) Operating Activities	575,531	738,703	545,234	712,231	**739,992**	**7,953**
Net Cash Provided by (Used in) Investing Activities	(435,923)	(442,218)	(557,688)	(775,470)	**(924,442)**	**(9,935)**
Free Cash Flows	139,608	296,485	(12,454)	(63,240)	**(184,450)**	**(1,982)**
Net Cash Provided by (Used in) Financing Activities	(256,935)	(258,919)	(104,410)	191,490	**149,239**	**1,604**
Per Share Data (yen and U.S. dollars):						
Net Income	45,056	42,505	48,810	49,973	**47,768**	**513**
Net Income after Adjusted the Potential Stocks	45,025	42,495	48,807	—	**—**	**—**
Cash Dividends	8,000	9,500	10,500	11,000	**13,000**	**140**
Total Net Assets (formerly shareholders' equity)	296,383	339,806	377,278	413,339	**453,003**	**4,869**

*1 U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥93.04=U.S.$1 on March 31, 2010.
*2 From the year ended March 31, 2007 net assets (the sum of shareholders' equity, unrealized gains and translation adjustments, new share subscription rights and minority interests) are presented in the balance sheet.

Selected Financial Indicators	2006	2007	2008	2009	2010
Equity Ratio (%)	51.8	54.1	58.5	53.7	**52.8**
D/E Ratio (times)	0.59	0.41	0.34	0.48	**0.54**
ROE (%)	15.5	13.3	13.6	12.6	**11.0**
ROA (%)	11.9	13.0	14.1	14.1	**12.2**
Total Assets Turnover Ratio (times)	1.2	1.3	1.3	1.1	**0.9**
Shareholders' Equity Turnover Ratio (times)	2.5	2.4	2.2	2.0	**1.8**
Current Ratio (%)	103.6	88.0	107.4	122.5	**118.0**
Fixed Assets to Equity (%)	145.4	136.4	132.3	139.0	**146.2**
Fixed Assets to Long-term Capital (%)	99.8	106.2	99.4	95.5	**97.6**
Liquidity In-hand (times)	0.6	0.7	0.3	0.7	**0.6**
Interest Coverage Ratio (times)	35.2	59.4	52.7	60.6	**59.7**
Dividend Payout Ratio (%)	20.8	22.4	21.5	22.0	**27.2**

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 cash flows÷interest payments (method of calculation has changed starting from Annual Report 2009)
Dividend payout ratio=Annual dividend amounts÷net income
(The dividend payout ratio is presented on a non-consolidated basis until the year ended March 31, 2006, and on a consolidated basis from the year ended March 31, 2007.)
Note: Sum of Shareholders' equity, Share warrant and Minority interests

SEGMENT DATA

Years ended March 31

Mobile Business	2006	2007	2008	2009	Millions of yen 2010	Millions of U.S. dollars*1 2010
Operating Revenues	¥2,510,395	¥2,677,445	¥2,862,599	¥2,719,211	**¥2,650,135**	**$28,484**
Sales outside the group	2,484,202	2,662,550	2,851,679	2,708,005	**2,637,806**	**28,351**
Telecommunications business	1,903,427	2,017,516	2,149,208	2,100,289	**2,004,921**	**21,549**
Other business	580,775	645,034	702,471	607,716	**632,886**	**6,802**
Sales within the group	26,193	14,895	10,920	11,206	**12,329**	**133**
Operating Income	354,439	385,689	455,044	501,461	**483,742**	**5,199**
Net Income	145,303	209,458	266,472	273,120	**293,175**	**3,151**
Free Cash Flows	266,178	294,838	82,414	179,968	**276,493**	**2,972**
EBITDA	605,172	598,134	692,239	821,881	**826,834**	**8,887**
Operating Income Margin	14.1%	14.4%	15.9%	18.4%	**18.3%**	**18.3%**
EBITDA Margin	24.1%	22.3%	24.2%	30.2%	**31.2%**	**31.2%**

Fixed-line Business	2006	2007	2008	2009	2010	2010
Operating Revenues	¥619,314	¥714,350	¥718,646	¥848,712	**¥839,178**	**$9,020**
Sales outside the group	518,716	610,364	629,647	759,313	**751,196**	**8,074**
Telecommunications business	470,391	548,675	565,331	618,972	**600,135**	**6,450**
Other business	48,325	61,690	64,316	140,341	**151,060**	**1,624**
Sales within the group	100,598	103,986	88,999	89,399	**87,982**	**946**
Operating Loss	(61,309)	(49,036)	(64,668)	(56,560)	**(44,217)**	**(475)**
Net Income (Loss)	26,362	(23,448)	(51,731)	(43,072)	**(68,383)**	**(735)**
Free Cash Flows	(102,317)	6,303	(53,897)	(40,744)	**(75,673)**	**(813)**
EBITDA	41,451	80,890	58,129	82,301	**94,669**	**1,018**
Operating Income Margin	(9.9%)	(6.9%)	(9.0%)	(6.7%)	**(5.3%)**	**(5.3%)**
EBITDA Margin	6.7%	11.3%	8.1%	9.7%	**11.3%**	**11.3%**

Other Business	2006	2007	2008	2009	2010	2010
Operating Revenues	¥103,504	¥108,704	¥167,159	¥72,777	**¥112,247**	**$1,206**
Sales outside the group	57,896	62,345	114,958	30,191	**53,145**	**571**
Sales within the group	45,607	46,359	52,201	42,586	**59,102**	**635**
Operating Income (Loss)	4,381	6,858	9,015	(2,476)	**3,505**	**38**
Net Income (Loss)	34,861	3,571	1,247	(3,543)	**1,234**	**13**
Operating Income Margin	4.2%	6.3%	5.4%	(3.4%)	**3.1%**	**3.1%**

FAQ REGARDING MANAGEMENT'S DISCUSSION AND ANALYSIS

For the convenience of our shareholders and investors, we have compiled a list of frequently asked questions (FAQs) pertaining to the Management's Discussion and Analysis section. We hope the reader will find this information useful.

Q1

Why was actual operating income during the year ended March 31, 2010, lower than the Company's initial forecast?

Operating Income (Loss) in the Year Ended March 31, 2010

Billions of yen

	① Initial forecast	② Actual	③ Difference (②−①)
Consolidated	470.0	443.9	(26.1)
Mobile Business	510.0	483.7	(26.3)
Fixed-line Business	(40.0)	(44.2)	(4.2)

In the Mobile Business, first of all, handset sales—centered on new subscriptions—were 200,000 units higher than we had forecast, which pushed up sales commissions and related expenses. Second, inventory write-offs and disposal losses that we had not taken into consideration in our initial forecast arose. Costs such as these caused operating income to undershoot our initial forecast by ¥26.3 billion.

Fixed-line Business increased loss by ¥4.2 billion from the following reasons: first, voice service revenues from international calls and other legacy services fell below our expectations partly due to the downturn in the economy. Second, the effect of exchange rate fluctuations reduced our income from overseas consolidated subsidiaries further than we had initially forecast.

Q2

Why did au ARPU fall significantly during the year ended March 31, 2010?

au ARPU Breakdown

Yen

(Years ended March 31)	① 2009	② 2010	③ Difference (②−①)
ARPU	5,800	5,410	(390)
Voice ARPU	3,590	3,150	(440)
Data ARPU	2,210	2,260	+50

The biggest factor behind the year-on-year decline in voice ARPU (down ¥440) was the increase in "Simple course" subscribers. Next was the impact of the reversal of access charges between mobile phone service providers, as well as "Call Designation Flat Rate" introduced during the year. Behind the year-on-year rise in data ARPU (up ¥50) were an increase in subscribers attracted by the introduction of new flat-rate pricing plans "Double-Teigaku-Super-Light" and "GAN-GAN Mail," our success in providing content and services to match the lifestyles and ages of various customer segments, and efforts to promote the use of au shops and other sales outlets.

Q3

What was the reason for the decline in au sales commissions in the year ended March 31, 2010, and what are your predictions for the future?

Average au Sales Commissions

Yen

(Years ended March 31)	2009	2010					Forecast for 2011
		1Q	2Q	3Q	4Q	Full-year	
Average sales commissions	39,000	41,000	44,000	30,000	30,000	36,000	29,000

Sales commissions concentrated in the first half of the year ended March 31, 2010, as we adjusted inventories of previous handset models and worked to expand sales through the introduction of new service plans. In the second half, the product appeal of new handset models took hold. Moreover, we held down sales commissions through the effect of lower average handset procurement costs and by controlling handset inventories. As a result, we achieved our initial target of ¥36,000 for the year. In the year ending March 31, 2011, we aim to further boost product appeal and reduce average handset procurement costs, lowering commissions ¥7,000 year on year, to ¥29,000.

Q4

What was the size of the impairment loss that resulted from network streamlining in the Fixed-line Business, and what will be its impact on performance in the upcoming year? What expenses does KDDI expect to record in upcoming years?

In the year ended March 31, 2010, we incurred business restructuring expenses in line with network streamlining of ¥48.1 billion, which we posted as an extraordinary loss on a consolidated basis. We expect the cost-reducing effects of this streamlining to amount to around ¥18.0 billion in the year ending March 31, 2011. We also plan to streamline and consolidate base station equipment and network infrastructure from the year ending March 31, 2011, and we expect costs for these activities to total approximately ¥18.0 billion from the years ending March 31, 2011 to March 31, 2016.

Q5

What will be your future levels of capital expenditure?

Capital expenditure is already peaking out, and by 2012 we expect to complete our investments related to the reorganization of the 800MHz band, which plays a major role in the current Mobile Business. Meanwhile, we plan to begin providing services using LTE technology from 2012. Based on the application we have submitted to the Ministry of Internal Affairs and Communications, we plan to invest a total of approximately ¥515.0 billion from the years ending March 31, 2011 to March 31, 2015. During the LTE investment period, in no year do we expect to exceed the amount invested in the year ended March 31, 2009, which reached a record high of ¥575.1 billion on a consolidated basis.

Q6

What are the assumptions behind your operating income forecasts for the year ending March 31, 2011?

Operating Income (Loss)

Billions of yen

(Years ended March 31)	2010	Forecast for 2011	Difference	YOY change
Consolidated	443.9	445.0	+1.1	+0.3 %
Mobile Business	483.7	430.0	(53.7)	(11.1)%
Fixed-line Business	(44.2)	10.0	+54.2	—

Mobile Business: Down ¥53.7 billion year on year

We assume an 11.1% decrease in operating income, resulting in an operating loss of ¥53.7 billion because, while we expect to reduce sales commissions (by ¥62.0 billion) in line with the ongoing decline in telecommunications revenues (of ¥114.9 billion), costs related to the reorganization of the 800MHz band will increase.

Fixed-line Business: Up ¥54.2 billion year on year

In this business, we expect to move back into the black on an operating basis, owing to a substantial ¥54.2 billion improvement stemming from: 1) an increase in the number of consolidated subsidiaries, including overseas companies; 2) a rise in operating revenue (up ¥18.9 billion) due to an expanding customer base for the FTTH business (au HIKARI) of KDDI on a non-consolidated basis; 3) cost-reduction effects (of ¥19.5 billion) attributable to the network streamlining conducted in the preceding term; and 4) expanded income (¥11.7 billion) from CTC, JCN, and overseas subsidiaries.

Q7

What was the impact on consolidated performance of UQ Communications and Jibun Bank in the year ended March 31, 2010, and what will be their impact in the year ending March 31, 2011?

During the year ended March 31, 2010, we recorded a loss of ¥9.2 billion in equity-method investment income in relation to UQ Communications, within which we hold 32.3% of voting rights. As a result of increased capital expenditures to expand its area of coverage, we expect this loss to increase in the year ending March 31, 2011. Our equity-method investment income attributable to Jibun Bank, in which we hold 50.0% of voting rights, was a negative ¥3.4 billion. In the year ending March 31, 2011, we aim to reduce the scale of this loss in order to return this equity-method affiliate to the black on an annual operating basis as quickly as possible.

Q8

What will be the effect of J:COM on your operating performance forecasts for the year ending March 31, 2011?

For the year ending March 31, 2011, we expect to record a ¥3.0 billion equity in loss of affiliates, calculated as the amount accruing to the KDDI Group through its 33.3% equity participation in J:COM—the net of ¥8.0 billion in equity in gain of affiliates and ¥11.0 billion in amortization of goodwill. Taking March 31, 2010 as the date of acquisition of J:COM shares, KDDI's operating performance forecasts for the year ending March 31, 2011, reflect J:COM's forecasts for the period from April through December.

The amount of goodwill accruing to the KDDI Group as a result of this transaction was approximately ¥290.0 billion (calculated as of April 23, 2010). We plan to amortize this amount over 20 years, amounting to ¥14.5 billion per year.

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 year ended March 31, 2010. 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 March 31, 2010, 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

● Executive Summary

(a) Status of the KDDI Group

The KDDI Group, consisting of the parent company, 97 consolidated subsidiaries and 21 affiliates, is a comprehensive telecommunications company operating both mobile communications services and fixed-line communications services in Japan.

The Group's Mobile Business is provided under the "au" mobile phone service, and at March 31, 2010, it had a 28.4% share of the Japanese market, with 31.87 million subscriptions and the No. 2 market position.

The Fixed-line Business segment supplies various fixed-line telecommunications services, including the "Metal-plus" IP phone service, "au HIKARI," and "Commuf@-hikari" broadband Internet services, and CATV services. As of March 31, 2010, the number of fixed access lines* for consumers was 5.94 million. For its corporate clients, KDDI offers the "KDDI Wide Area Virtual Switch" new Ethernet service, the "TELEHOUSE" network of global data centers, and an array of other ICT solutions.

The Group is also involved in the call center business, content business and other businesses, which are accounted for under the Other Business segment. In addition to improving its services, the Group is strengthening the interaction between its businesses in order to cultivate new services.

* FTTH, direct-access phone (Metal-plus and Cable-plus phone), and CATV excluding cross-over

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

In the mobile communications market, competition for customers is intensifying in areas such as the provision of low-priced pricing plans, a wide variety of handsets, and music, video, e-books, and other content services. In the fixed-line communications market, meanwhile, the expansion of broadband services, centered on FTTH, is accompanied by an ongoing convergence between fixed-line and mobile communications broadcasting. As a result, competition between services is entering a new phase.

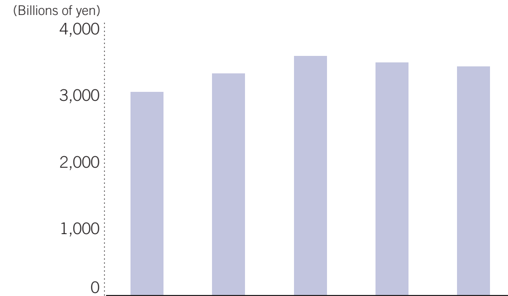
In this environment, the KDDI Group worked to meet diversifying customer needs in its Mobile Business by developing and marketing an enhanced lineup of handsets and formulating and offering new pricing plans, in addition to striving to enhance its services targeting individual and corporate clients, such as launching the new brand "iida." In the Fixed-line Business, we worked to enhance ease of use for its services and to expand fixed access lines, centered on FTTH services, while enhancing solution services for corporate clients. The Company also strove to bolster its ability to support corporate clients' international business development by increasing its overseas locations.

● Overview

In the year ended March 31, 2010, total operating revenues amounted to ¥3,442.1 billion, down ¥55.4 billion, or 1.6% year on year. In the Mobile Business, despite an increase in the total number of subscriptions, revenues fell due to a decrease in voice ARPU arising from the increased customer shift to "Simple course" pricing and a decline in the prices of handsets. Revenues also decreased in the Group's Fixed-line Business because of the drop in voice services revenues, notwithstanding the increase of revenues from FTTH service expansion by KDDI and Chubu Telecommunications Co., Inc. and an increased number of CATV stations belonging to Japan Cablenet (JCN) Group, a consolidated subsidiary of KDDI.

Total operating expenses declined ¥56.0 billion, or 1.8% year on year, to ¥2,998.3 billion. In the Mobile Business, expenses were down due to decreases in average sales commissions for handset upgrades and unit handset sales costs. Fixed-line Business expenses also contracted as a result of cutbacks in access charges and communication facility fees.

Consolidated Operating Revenues



	2006	2007	2008	2009	2010
Operating Revenues	3,061	3,335	3,596	3,498	**3,442**

(Years ended March 31)

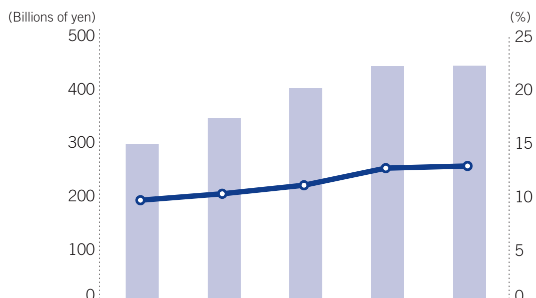
Summarized Consolidated Statements of Income

(Billions of yen)

(Years ended March 31)	2009	2010	Change amount	Change (%)
Operating Revenues	3,497.5	**3,442.1**	(55.4)	(1.6)
Operating Expenses	3,054.3	**2,998.3**	(56.0)	(1.8)
Operating Income	443.2	**443.9**	0.7	0.1
Other Expenses	48.3	**75.2**	26.9	55.6
Income before Income Taxes and Minority Interests	394.9	**368.6**	(26.2)	(6.6)
Current Income Taxes	200.9	**148.3**	(52.6)	(26.2)
Deferred Income Taxes	(30.6)	**1.9**	32.5	—
Minority Interests in Consolidated Subsidiaries	1.8	**5.7**	3.9	213.5
Net Income	222.7	**212.8**	(10.0)	(4.5)

As a result, operating income edged up ¥0.7 billion, or 0.1% year on year, to ¥443.9 billion.

Consolidated Operating Income/Margin



	2006	2007	2008	2009	2010
Operating Income	297	345	400	443	**444**
Margin	9.7	10.3	11.1	12.7	**12.9**

(Years ended March 31)

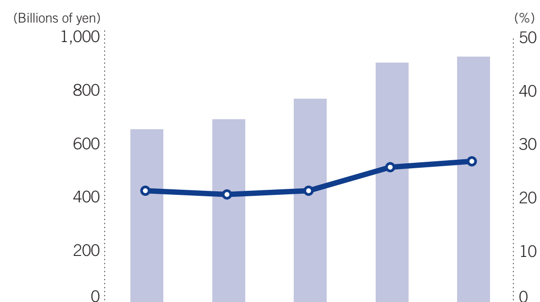
Total other expenses (net of other income) stood at ¥75.2 billion, up ¥26.9 billion from the previous year. This rise is mainly due to an increase in equity in loss of affiliates and ¥36.3 billion received in dividend income associated with the termination of a silent partnership in the previous year.

Income before income taxes and minority interests shrank ¥26.2 billion, or 6.6% year on year, to ¥368.6 billion. Corporation, resident, and enterprise taxes amounted to ¥148.3 billion, while deferred income taxes were ¥1.9 billion. Current income taxes, which comprise the sum of corporation, resident, and enterprise taxes and deferred income taxes, were therefore down ¥20.1 billion year on year.

Minority interests in consolidated subsidiaries grew ¥3.9 billion, to ¥5.7 billion.

As a result, net income decreased ¥10.0 billion, or 4.5%, to ¥212.8 billion.

EBITDA/EBITDA Margin



	2006	2007	2008	2009	2010
EBITDA	654	692	769	904	**927**
EBITDA Margin	21.4	20.7	21.4	25.8	**26.9**

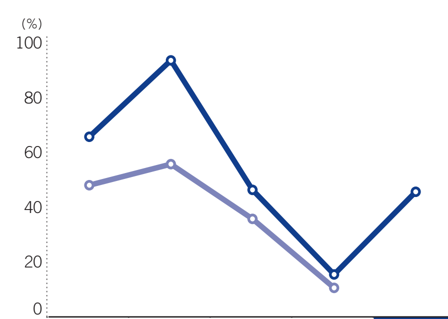
(Years ended March 31)

● Review by Segment

(a) Mobile Business

In the Mobile Business, the Group strove to comprehensively improve the appeal of its “au” brand of mobile telephone service offerings—including the network, handsets, pricing plans, and service/content.

Share of Net Additions of Mobile Business



	2006	2007	2008	2009	2010
au	65.8	93.7	46.4	15.5	**45.7**
au+Tu-Ka	48.1	55.8	35.8	10.6	**—**

(Years ended March 31)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Reference) Cumulative Subscriptions*1

(Thousands of subscriptions)

	As of March 31, 2009	As of March 31, 2010	Net Additions*2
au	30,843	**31,872**	1,029
(of module-type)	(923)	**(1,085)**	(162)
CDMA 1X WIN (EV-DO)	22,722	**26,174**	3,452
CDMA 1X	7,805	**5,451**	(2,354)
cdmaOne	316	**247**	(69)

*1 Subscriptions represent the total number of subscribers as of March 31 of each year.
*2 Net additions = New subscriptions–Churn

Network

KDDI expanded coverage for its CDMA2000 1x EV-DO Rev. A format and bolstered facilities to improve the transmission quality, thereby raising customer satisfaction. In anticipation of the reorganization of the 800MHz band, due to be implemented by July 2012, and growth in subscription numbers and data communications demand, we expanded the area covered by the new 800MHz band and enhanced the coverage of the 2GHz band. In addition, KDDI has decided to introduce a 3.9G system based on the LTE technology, with a view to providing service from 2012 to respond to future growth trends in data communications traffic, while also ensuring efficient capital investment. In order to respond to subscriber needs for high-speed data communications until the advent of the LTE-based service, during the latter half of the year ended March 31, 2011, the Company made plans to introduce Multi-carrier Rev. A, which realizes a maximum downlink speed of 9.3Mbps by upgrading the software behind its existing EV-DO Rev. A infrastructure, and thus to boost customer satisfaction.

Handsets

KDDI marketed a broad lineup of 29 "au" mobile phone handsets attuned to customers' diverse lifestyles during the year. These included models featuring music, video, cameras, and other functions; models geared to reading and to the sports scene; models that emphasize ease of use, security and safety; and design-oriented models, such as the "iida" brand.

As part of our drive to capitalize on the expanding smart phone market, KDDI launched its first "au" brand smart phone model, the "IS01" smart book incorporating Android™*1, and Windows®*2 phone "IS02" in June 2010. In particular, the "IS01" strongly emphasizes the originality of the "au" brand by employing a unique user interface and functions sympathetic to Japanese users. Moreover, we launched the first digital photo frame under the "au" banner, the "PHOTO-U SP01," in June 2010, catering specifically to subscribers using this handset as a second phone.

*1 "Android" is a trademark of Google Inc.
*2 "Windows®" is a trademark or a registered trademark of Microsoft Corporation in the United States, Japan, and other countries.

Price Plans

New price plan initiatives include the launches of the "Call Designation Flat Rate" discount service, which allows users to designate up to three au mobile phone numbers for 24-hour free calls for ¥390 per month (tax inclusive), and the "Double-Teigaku-Super Light" packet flat-rate service, also starting from ¥390 per month (tax inclusive). We also began offering "Plan E Simple" and "Plan E," nicknamed "GAN-GAN Mail," which in conjunction with the "EZ WIN Course" enable subscribers to send/receive e-mails from au mobile phones for free, regardless of the source/destination user and irrespective of picture and video file attachments.

Service/Content

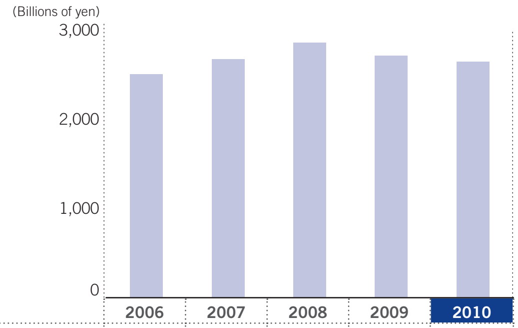
KDDI revamped its "LISMO!" music/video service for au. The service now serves as an integrated entertainment brand to offer e-book content in addition to music and videos. The service provides new functions, including a search function across music, video, and e-book content, and the downloading of multiple content files.

To enable customers to enjoy high-resolution videos with outstanding sound quality, KDDI has also facilitated the transfer of up to 10 MB of high-quality video on au mobile phones.

Operating Revenues

In the year ended March 31, 2010, total operating revenues in the Mobile Business amounted to ¥2,650.1 billion, down ¥69.1 billion, or 2.5% year on year. The main factors for this decline are outlined below.

Operating Revenues (Mobile Business)



	2006	2007	2008	2009	2010
Operating Revenues	2,510	2,677	2,863	2,719	**2,650**

(Years ended March 31)

Fall in ARPU

Voice ARPU decreased 12.3% from the previous year, to ¥3,150, as a result of the increased uptake of "Simple course" and the introduction of call designation flat-rate discount services. Data ARPU rose 2.3%, to ¥2,260, because of the expanded reach of flat-rate pricing plans arising from the promotion to customers of WIN and the introduction of the "Double-Teigaku-Super Light" packet flat-rate service. Accordingly, overall ARPU declined 6.7% during the year, to ¥5,410.

au ARPU*

(Yen)

(Years ended March 31)	2009	2010	Change
Total ARPU	5,800	**5,410**	(390)
Voice ARPU	3,590	**3,150**	(440)
Data ARPU	2,210	**2,260**	50

* ARPU is average of each year.

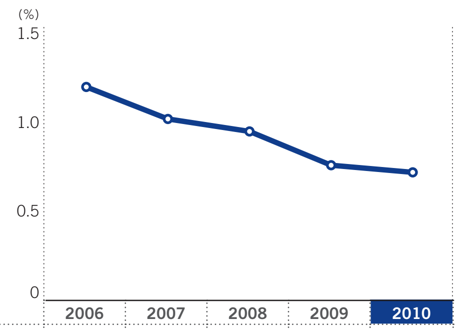
Increased Subscriptions and Lower Churn Rate

Cumulative subscriptions at the end of March 2010 were 31.87 million, giving KDDI a 28.4% share of the market. The year-on-year increase in cumulative subscriptions was 1.03 million, with a net rise in subscriptions of 530,000 and share of net additions of 21.9%. Further, cumulative subscriptions on an IP connection basis for EZweb subscribers were up 780,000 from the previous year, at 26.97 million, representing a share of net additions of 38.2%.

The churn rate eased 0.04 percentage point during the year, to 0.72%, influenced by the fact that two years have passed since the introduction of the "Everybody Discount" on multi-year service contracts.

Although increased cumulative subscriptions and the lower churn rate contributed to revenue growth, this was more than offset by the impact of the fall in ARPU. Accordingly, overall revenues declined.

Churn Rate



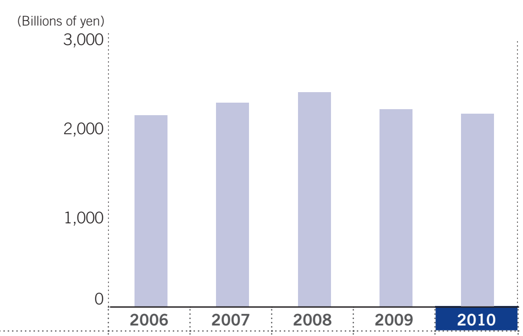
	2006	2007	2008	2009	2010
Churn Rate	1.20	1.02	0.95	0.76	**0.72**

(Years ended March 31)

Operating Expenses

Operating expenses in the Mobile Business for the year ended March 31, 2010, declined ¥51.4 billion, or 2.3% year on year, to ¥2,166.4 billion. The main factors for this decline are outlined below.

Operating Expenses (Mobile Business)



	2006	2007	2008	2009	2010
Operating Expenses	2,154	2,292	2,408	2,218	**2,166**

(Years ended March 31)

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Reference) Cumulative Subscriptions*1

(Thousands of subscriptions)

	As of March 31, 2009	As of March 31, 2010	Net Additions
FTTH	1,099	**1,513**	414
Metal-plus	3,130	**2,852**	(278)
Cable-plus phone	604	**960**	356
CATV	722	**972**	250
Fixed access lines*2	5,342	**5,944**	602

*1 Subscriptions represent the total number of subscribers as of March 31 of each year.
*2 Total subscription of access lines excluding cross over subscriptions.

Decline in Total Value of Commissions

Sales commissions are paid to retailers when contracts are entered into with customers. During the year under review, total sales commissions on mobile phone handsets fell ¥60.0 billion, to ¥365.0 billion, impacted by declines in the number of handset upgrades and average sales commissions per unit. During the year, average sales commissions (for new purchases and upgrades) fell by ¥3,000 per unit, to ¥36,000, as a result of such factors as lower handset procurement costs arising in conjunction with enhancements to KDDI's lineup of handsets launched since the fall and winter incorporating standard features.

Decrease in Cost of Sales for Mobile Handsets

Despite a slight increase in the number of units sold, cost of sales for mobile handsets declined overall as a result of a decrease in handset procurement costs. Average procurement costs per handset fell by ¥3,000, to ¥38,000.

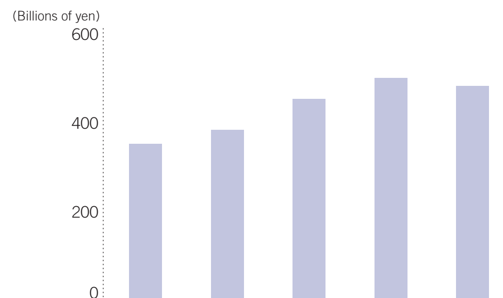
Increase in Depreciation

In addition to increased subscriptions, improved transmission quality and the expansion of the CDMA2000 1xEV-DO Rev. A coverage area, KDDI developed its 2GHz and new 800MHz band networks in response to the 800MHz band reorganization. Accordingly, KDDI has been installing new equipment and upgrading facilities, including wireless base stations and exchange equipment. This has led to an increase in depreciation of ¥22.7 billion from the previous year.

Operating Income

Operating income in the Mobile Business decreased ¥17.7 billion, or 3.5%, to ¥483.7 billion. This was primarily in step with the substantial fall in operating revenues.

Operating Income (Mobile Business)



	2006	2007	2008	2009	2010
Operating Income	354	386	455	502	**484**

(Years ended March 31)

(b) Fixed-line Business

In the Fixed-line Business, KDDI endeavored to expand access lines, particularly FTTH services, while reinforcing systems to support corporate clients' needs in international business development by increasing overseas locations and offering more solutions services.

Increase in Access Lines

KDDI focused on boosting sales of FTTH services through enhanced product appeal and expanded service areas, on promoting tie-ups with CATV companies and on increasing access lines, including "Cable-plus phone" and CATV.

FTTH Services

As it continues in its drive to strengthen linkage between its fixed-line communications and mobile communications services through the "au one" portal site and "au Collective Talk" and "au Collective Line" services, KDDI changed the name of its "HIKARI-one" FTTH service to "au HIKARI" in January 2010.

Expansion of Service Area

KDDI commenced provision of the “au HIKARI Home” FTTH service, which targets houses, in Tochigi and Miyagi prefectures and expanded the service area in the Hokkaido region. Also, we began the “au HIKARI Home” FTTH service in Ishikawa Prefecture in April 2010. Accordingly, “au HIKARI Home” is now available in Hokkaido, Miyagi, Ishikawa Prefecture, the Tokyo metropolitan area, and seven prefectures* in Japan’s Kanto region. In addition, Okinawa Telecommunication Network Co., Inc. (OTNet) became a consolidated subsidiary of Okinawa Cellular Telephone Company (OCT) in January 2010. OCT started offering “au HIKARI Chura,” a bundled service comprising high-speed Internet, telephone, and television (provided by KDDI), in Okinawa Prefecture via fiber-optic lines in March 2010.

* Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, and Yamanashi

Charges

“au Collective Line” Unveiled

KDDI launched “au Collective Line,” which enables NTT telephone line subscribers to call from “au” mobile phones to their homes or from their homes to mobile phones or fixed-line phones at discounted calling charges. That service, together with the “au Collective Talk” service, enable customers anywhere in Japan to take advantage of KDDI’s call services and their highly competitive calling charges.

Services for Corporate Customers

Enhanced Overseas Operations

The Company increased its overseas locations to bolster its systems that support corporate clients’ international business development.

In Asia, we established KDDI Shanghai Corporation, our second offshore company in this region, which began business in October 2009. Furthermore, in December 2009 KDDI acquired a stake in Hong Kong-based systems integration and digital media services provider DMX Technologies Group Limited and made DMX a consolidated subsidiary of KDDI. This initiative reinforces the systems we provide to support corporate clients.

KDDI’s data center operations are carried out through the “TELEHOUSE” brand. During the year, we established Africa’s first data center to be opened by a Japanese telecommunications carrier, “TELEHOUSE CAPE TOWN,” soon followed by “TELEHOUSE JOHANNESBURG.” We also founded our fourth such facility in the United Kingdom, “TELEHOUSE LONDON Docklands WEST.” These milestones help boost the “TELEHOUSE” brand as well as expand our service area.

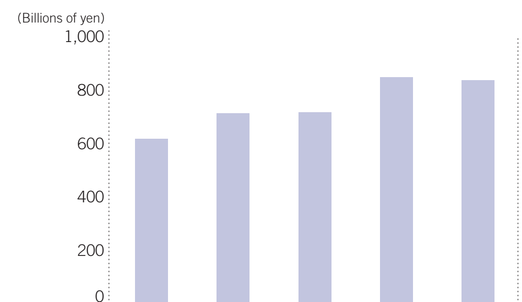
With the objective of gaining a foothold in the high-growth potential markets of developing countries, KDDI completed investment in Bangladesh Internet service provider BRAC BD Mail Networks Limited (bracNet) in January 2010. This equity participation initiative was spawned through an agreement with operating holding company gNet DEFTA Development Holding, LLC—which was established by DEFTA Partners, a major shareholder of bracNet—BRAC, and bracNet.

We also took a further step toward penetrating the growth market in the United States for mobile phone businesses catering to immigrants when KDDI’s wholly owned subsidiary, KDDI America, Inc., made consolidated subsidiaries of the U.S. MVNOs Locus Telecommunications, Inc. and Total Call International, Inc. in January 2010.

Operating Revenues

Operating revenues in the Fixed-line Business slipped ¥9.5 billion, or 1.1%, to ¥839.2 billion. The main factors for this decline are outlined below.

Operating Revenues (Fixed-line Business)



	2006	2007	2008	2009	2010
Operating Revenues	619	714	719	849	**839**

(Years ended March 31)

Increased FTTH Service Revenues

KDDI and Chubu Telecommunications Co., Inc. strove to increase sales from FTTH services. This drive successfully boosted KDDI’s revenues from these services.

Increased Revenues Arising from Growth in CATV Provider Numbers with the JCN Group

During the year, three new providers were included as consolidated subsidiaries, which contributed to growth in revenues.

Reduced Voice Service Revenues

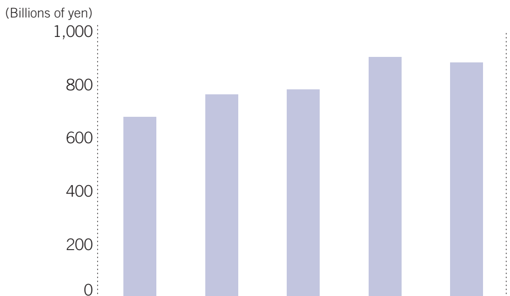
Voice services are on the decline as the mode of fixed-line telecommunications services shifts from voice communications to IP and the Internet. As this decline more than offset the abovementioned increased revenues from FTTH services and growth in CATV providers, overall operating revenues from Fixed-line Business deteriorated during the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses

Operating expenses in this segment eased ¥21.9 billion, or 2.4%, to ¥883.4 billion. The main factors in this decline are outlined below.

Operating Expenses (Fixed-line Business)



	2006	2007	2008	2009	2010
Operating Expenses	680	763	783	905	**883**

(Years ended March 31)

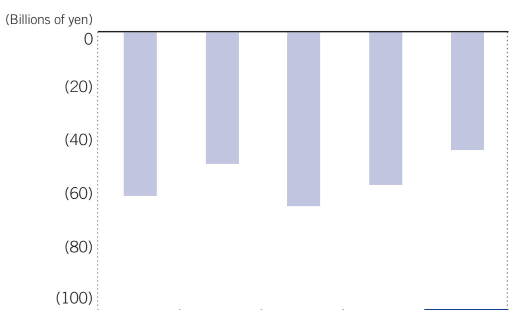
Reduced Facilities-related Costs

In step with the falloff in voice communications, such facilities-related costs as access charges and communication facility fees also declined.

Operating Loss

For the Fixed-line Business segment, KDDI posted an operating loss of ¥44.2 billion, impacted by efforts to expand FTTH services into new areas. Efforts to reduce access charges and communication facility fees helped to reduce the operating loss by ¥12.3 billion compared to the previous year.

Operating Loss (Fixed-line Business)



	2006	2007	2008	2009	2010
Operating Loss	(61)	(49)	(65)	(57)	**(44)**

(Years ended March 31)

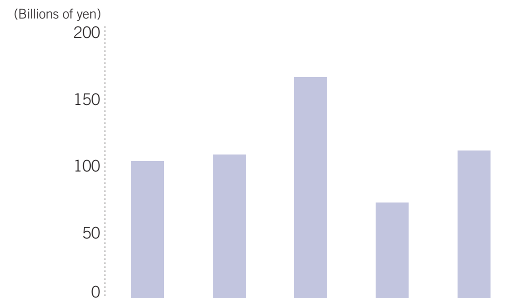
(c) Other Business

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

Operating Revenues

Operating revenues in the Other Business segment jumped ¥39.5 billion, or 54.2% from the previous year, to ¥112.2 billion.

Operating Revenues (Other Business)



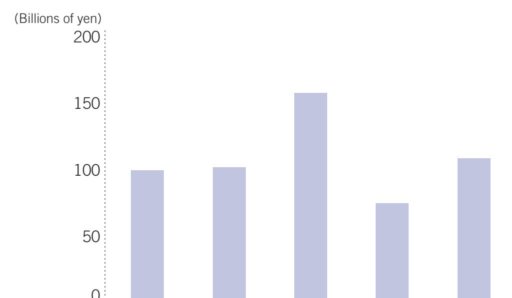
	2006	2007	2008	2009	2010
Operating Revenues	104	109	167	73	**112**

(Years ended March 31)

Operating Expenses

Operating expenses in this segment climbed ¥33.5 billion, or 44.5% from the previous year, to ¥108.7 billion.

Operating Expenses (Other Business)



	2006	2007	2008	2009	2010
Operating Expenses	100	102	158	75	**109**

(Years ended March 31)

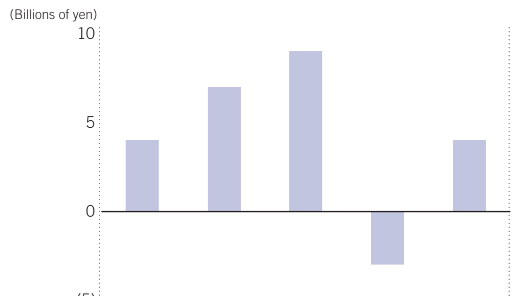
Operating Income (Loss)

KDDI's Other Business segment generated operating income of ¥3.5 billion, up ¥6.0 billion from the previous year.

The primary causes of improvements to the performance by our Other Business segment were increased revenues from our call center business and content businesses.

Note: 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.

Operating Income (Loss) (Other Business)



	2006	2007	2008	2009	2010
Operating Income (Loss)	4	7	9	(3)	4

(Years ended March 31)

● Other Income (Expenses)

Total other expenses (net of other income) amounted to ¥75.2 billion, an increase of ¥26.9 billion in expense year on year. The main factors in this increase are outlined below.

Interest Expenses

At March 31, 2010, consolidated interest-bearing debt totaled ¥1,096.8 billion, up ¥221.8 billion from the previous year-end. As a result, interest expenses increased ¥0.7 billion, to ¥12.7 billion.

Equity in Losses of Affiliates

Equity in losses of affiliates totaled ¥10.0 billion, ¥7.7 billion more year on year. This was mainly due to an increased amortization burden arising from the commencement of services by UQ Communications Inc. in July 2009 and its service area expansion.

Impairment Losses and Other Expenses

(Year ended March 31, 2010)

Business Restructuring Expenses

The book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining (combining and disposal of low-use facilities) in KDDI's Fixed-line Business. This reduction, which was recognized as an impairment loss of ¥32.8 billion, and disposal of fixed assets of ¥15.2 billion were accounted for as business restructuring expenses of ¥48.1 billion.

Impairment Losses

KDDI posted impairment losses of ¥10.7 billion, which was ¥57.3 billion less than during the previous year. The primary reason was that the utilization rate of certain assets, including some domestic transmission lines, declined, with book value decreasing to the recoverable value. This resulted in impairment losses of ¥10.3 billion.

(Year ended March 31, 2009)

Dividend of ¥36.3 Billion on Conclusion of Silent Partnership Agreement

In October 2008, KDDI acquired real estate trust beneficiary rights from Central Tower Estate Co., a special purpose company (SPC). The trust beneficiary rights were set and transferred through the securitization of real estate conducted in September 2001. In connection with this acquisition, in December 2008 KDDI ended its agreement with a silent partner that operated the aforementioned SPC. With the liquidation of the agreement, KDDI received a dividend of ¥36.3 billion, which was treated as other income.

Impairment Loss of ¥68.0 Billion

(Impairment loss on facility used for current 800MHz band)

The use of the facility for the above service will be discontinued from July 2012 due to a reorganization of frequencies. Recognizing the downward trend in subscribers using handsets compatible with such equipment, KDDI set up a cash management system for cash flows generated by such equipment, and pooled those assets into an independent asset grouping. Due to the downtrend in equipment utilization accompanying the decline in compatible mobile handsets, the book value of those assets was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥43.5 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Impairment loss on "HIKARI-one Home 100" equipment)
Recognizing the downward trend in subscribers to services using the aforementioned facility, KDDI set up a cash management system for cash flows generated by such equipment, enabling it to gain an understanding of the cash flow situation, and then pooled those assets into an independent asset grouping. Due to a decline in product appeal since the introduction of the "Giga Value Plan," as well as the downtrend in subscribers, the book value of those assets were written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥18.5 billion.

Loss on Disposal of Property, Plant, and Equipment of ¥9.1 Billion
The Company reported a ¥9.1 billion loss on disposal of property, plant and equipment, related to the disposal of "HIKARI-one Home 100" equipment.

● Income Taxes and Tax Adjustments

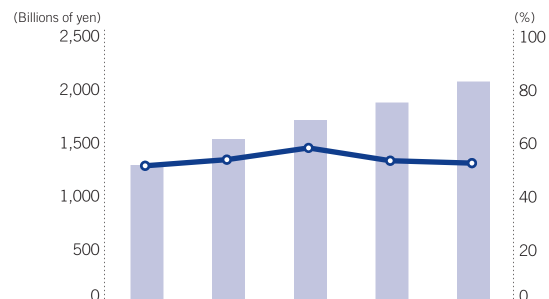
Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥148.3 billion, together with an upward income tax adjustment of ¥1.9 billion. This resulted in a ¥20.1 billion decrease in total income taxes and tax adjustments year on year. The primary factor behind this decline was a falloff in taxable income.

2. Assets and Capital Expenditures

● Assets

As of March 31, 2010, consolidated total assets amounted to ¥3,819.5 billion, up ¥390.4 billion year on year, and total liabilities grew ¥193.3 billion, to ¥1,741.1 billion. Total net assets increased ¥197.1 billion, to ¥2,078.5 billion. The shareholders' equity ratio declined 0.9 percentage point, to 52.8%. The rise in total assets stemmed mainly from KDDI assuming an ownership interest in Jupiter Telecommunications Co., Ltd., by acquiring entire ownership interests in three companies (Liberty Global Japan II, LLC, Liberty Japan, LLC, Liberty Jupiter, LLC), which in turn boosted KDDI's stocks of subsidiaries and affiliates and investment securities. Growth in total liabilities was principally due to long-term loans and issuance of bonds.

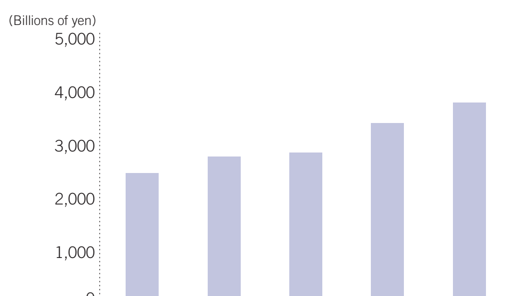
Total Net Assets, Shareholders' Equity Ratio



	2006	2007	2008	2009	2010
Total Net Assets	1,296	1,537	1,716	1,881	**2,078**
Shareholders' Equity Ratio	51.8	54.1	58.5	53.7	**52.8**

(As of March 31)

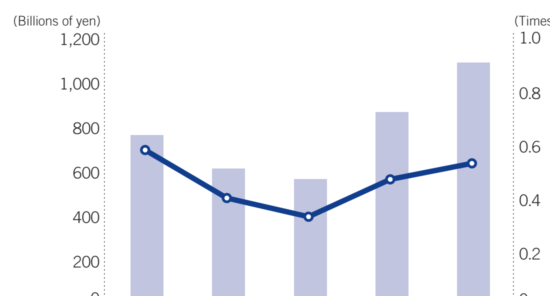
Total Assets



	2006	2007	2008	2009	2010
Total Assets	2,501	2,803	2,879	3,429	**3,820**

(As of March 31)

Debt, D/E Ratio



	2006	2007	2008	2009	2010
Debt	771	620	572	875	**1,097**
D/E Ratio	0.59	0.41	0.34	0.48	**0.54**

(As of March 31)

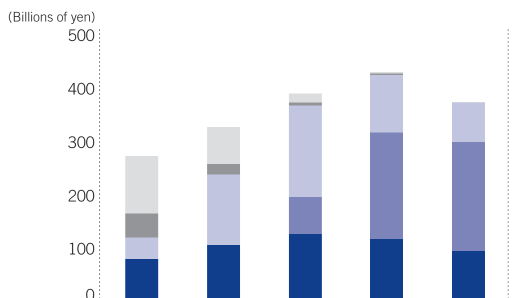
Capital Expenditures

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

(a) Mobile Business

In the Mobile Business, KDDI promoted the 2GHz band network construction in line with its growing subscriber base, in order to improve transmission quality and expand the EV-DO Rev. A service area. At the same time, with the reorganization of the 800MHz band frequencies, the Company conducted improvements to the newly allocated 800MHz band. Accordingly, KDDI has installed new equipment and upgraded other facilities, including wireless base stations and exchange equipment. The Company is also upgrading IP-related facilities to cope with increased data traffic caused by the rising number of subscribers to CDMA 1X WIN and packet flat-rate services, as well as the proliferation of new services, such as SNS “au one GREE.”

Capital Expenditures (Mobile Business)



	2006	2007	2008	2009	2010
800MHz 1X	108	69	17	3	**1**
800MHz EV-DO	45	20	6	3	**0**
2GHz	40	132	171	107	**74**
New 800MHz	—	—	69	200	**204**
Common equipment	82	108	129	119	**97**
Total	275	329	392	432	**377**

(Years ended March 31)

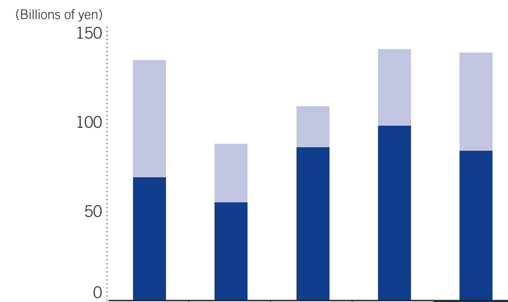
(b) Fixed-line Business

Accompanying its promotion of “au HIKARI” and other FTTH services for consumers, KDDI made capital investments to build networks, as well as to build and upgrade IP phone-related equipment and related facilities.

For corporate clients, the Company upgraded facilities in step with greater demand for IP-VPN services and wide-area Ethernet services and enhanced product appeal arising from the provision of new services, such as “KDDI Wide Area Virtual Switch.”

With respect to infrastructural facilities, such as transmission circuits and base station equipment, the Company increased the capacities of its access networks and backbone network to meet growing demand, and took other actions aimed at improving service reliability and raising communication quality.

Capital Expenditures (Fixed-line Business)



	2006	2007	2008	2009	2010
FTTH	66	33	23	43	**55**
Other	69	55	86	98	**84**
Total	135	88	110	141	**139**

(Years ended March 31)

Going forward, the KDDI Group will strengthen its business foundation to achieve sustainable growth while swiftly addressing changes in its business environment. Aiming to provide unparalleled customer satisfaction in every service, the Company will strive to create new value.

In the Mobile Business, KDDI will endeavor to further increase customer satisfaction by developing and providing attractive mobile handsets and new services and content that meet the diversified needs of customers, thus raising its comprehensive brand power. Meanwhile, the Company will aim to create even more convenient mobile environments and broaden the scope of its operations. For corporate clients, KDDI will strive to improve convenience by providing services based on the ideas of fixed-mobile convergence.

In the Fixed-line Business, KDDI will promote sales from its “au HIKARI,”“Commuf@-hikari,” and “au HIKARI Chura” FTTH services. At the same time, the Company will work together with CATV companies in order to further expand access lines, including for “Cable-plus phone” and CATV. With respect to corporate clients, KDDI, guided by the slogan “Maximize Your Corporate Strength,” will assist clients in developing their businesses in Japan and overseas using data centers as a core leverage point to offer services that encompass everything from network lines and IT equipment to sophisticated operation and maintenance services.

3. Sources of Capital and Liquidity

Summarized Consolidated Statements of Cash Flows

(Billions of yen)

(Years ended March 31)	2009	2010	Change
Net Cash Provided by (Used in) Operating Activities	712.2	**740.0**	27.8
Net Cash Provided by (Used in) Investing Activities	(775.5)	**(924.4)**	(149.0)
Free Cash Flows	(63.2)	**(184.4)**	(121.2)
Net Cash Provided by (Used in) Financing Activities	191.5	**149.2**	(42.3)
Cash and Cash Equivalents	200.3	**165.5**	(34.8)

● Cash Flows

(a) Operating Activities

Net cash provided by operating activities amounted to ¥740.0 billion, up ¥27.8 billion year on year. This was largely due to ¥368.6 billion in income before income taxes and minority interests, ¥460.9 billion in depreciation and amortization and ¥40.7 billion in business restructuring expenses. These factors outweighed ¥198.0 billion in corporate tax and other factors.

(b) Investing Activities

Net cash used in investing activities totaled ¥924.4 billion, ¥149.0 billion more year on year. The main factors included ¥494.5 billion for purchase of property, plant and equipment and intangible assets, and ¥362.5 billion (including all administration fees) for the acquisition of ownership interests in three intermediary holding companies in order to assume an equity participation relationship with Jupiter Telecommunications Co., Ltd.

Note: Please refer to "Capital Expenditures" on P. 73 for more details of capital expenditures made in the year ended March 31, 2010.

(c) Free Cash Flow

Free cash flow—the sum of cash flows from operating and investing activities—showed a net outflow of ¥184.4 billion, up ¥121.2 billion year on year.

(d) Financing Activities

Net cash provided by financing activities was ¥149.2 billion, down ¥42.3 billion year on year, primarily attributable to issuance of bonds and long-term loans.

● Liquidity

Cash and cash equivalents at year-end totaled ¥165.5 billion, down ¥34.8 billion year on year, from ¥200.3 billion. Going forward, the KDDI Group expects the liquidity balance to vary in response to its financial position and the financing environment.

● Financing

During the year ended March 31, 2010, KDDI procured ¥150.0 billion in funds from corporate bonds and ¥199.5 billion in funds from financial institutions to partially finance loan repayments, redemption of bonds, capital investments, and other investments and loans. Other requirements for funds were secured from internal reserves. The balance of corporate bonds outstanding at March 31, 2010 was ¥457.9 billion, up ¥130.2 billion from the previous year. The year-end balance of loans outstanding rose ¥86.0 billion, to ¥623.3 billion, and the balance of lease obligations was ¥15.3 billion.

● 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.

Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

	Total amount	Less than 1 year	1–3 years	3–5 years	More than 5 years
Corporate bonds	458.0	83.0	65.0	175.0	135.0
Bank borrowings	623.4	125.6	246.5	159.4	91.9
Others	0.1	0.1	0	—	—
Lease obligations	15.3	4.4	8.1	2.8	0
Total	1096.8	213.1	319.6	337.2	226.9

Financial Policies

The basic policy of the KDDI Group is to secure stable, low-cost financing as required, selecting the means of financing deemed most appropriate for 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 carries out 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 by the parent company through a system of loans.

As a result, the balance of consolidated interest-bearing debt was ¥1,096.7 billion at March 31, 2010. The ratio of direct to indirect financing was 42:58, and the proportion of centralized fund procurement by the parent company was 97%.

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

Contingent Liabilities

The balance of liabilities guaranteeing third parties at March 31, 2010 was ¥36.2 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.

Estimated Useful Lives of and Depreciation Method for Fixed Assets

The KDDI Group appropriately estimates the useful lives of its fixed assets. During the year ended March 31, 2009, the KDDI Group changed the estimated useful lives of machinery and equipment and its depreciation method for machinery and equipment in its Mobile Business, switching from the straight-line method to the declining-balance method. However, there are no assets to which the new estimated useful lives of machinery and equipment and its depreciation method for machinery and equipment need to be applied during the year under review. In the future, should there be rapid changes in the market, environment, or technology, or should new laws or regulations be enacted, the Group may revise estimated useful lives or the depreciation method after conducting a fair appraisal.

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.

During the year ended March 31, 2009, the utilization rate of the current 800MHz band equipment, which will no longer be used from July 2012 and onward following the reorganization of the bandwidth, declined due to a drop in the number of compatible handsets. As a result, the book value decreased to the recoverable value, resulting in an impairment loss of ¥43.5 billion. After the introduction of the “Giga Value Plan,” “HIKARI-one Home 100” equipment lost product appeal, and the number of subscriptions has been on a decreasing trend. Consequently, the book value decreased to the recoverable value, resulting in an impairment loss of ¥18.5 billion. The recoverable value of these assets for the Group was estimated based on the usage value, and calculated based on a future cash flow discount rate of 2.30%. The book value decreased to the recoverable value for idle properties, including certain domestic network infrastructure, resulting in an impairment loss of ¥1.6 billion. The recoverable value of these assets was estimated based on net marketable value. The Group also recorded an impairment loss of ¥4.3 billion on operating assets of certain subsidiaries.

During the year ended March 31, 2010, the book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining (combining and disposal of low-use facilities) in KDDI's Fixed-line Business. This resulted in an impairment loss (business restructuring expenses) of ¥32.8 billion. The book value was also reduced to recoverable value for KDDI's domestic transmission lines and idle assets and others for which utilization rates declined, including some domestic transmission line facilities and other assets. This resulted in an impairment loss of ¥10.3 billion. Further, the recoverable amount for the said assets is estimated based on the net selling price. The Group also recorded an impairment loss of ¥0.4 billion on operating assets of certain subsidiaries.

● Deferred Tax Assets and Liabilities

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.

● 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.

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 present, could be materially relevant to investment decisions. KDDI discloses information on possible risks in the interest of greater transparency, and 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, 2010. 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

In the mobile communications market, competition to acquire customers has been increasing sharply with the use of low-cost service plans, varied handset styles, and content services that include music, video clips, and e-books.

The KDDI Group has responded to meet diversifying customer needs by developing and launching an enhanced lineup of handsets and accessories, by devising and offering new pricing plans, and by enhancing its services targeting individual and corporate clients—including the new “iida” brand launched in April 2009. However, these services are subject to various uncertainties arising from competition with rival carriers, competing technologies, and rapid shifts in market conditions. As a result, the following factors could have a negative impact on the Group’s financial position and/or earnings performance.

- Market demand trends out of line with KDDI Group expectations
- Subscription 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 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
- Decrease 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 accommodate new frequencies
- Increase in competition due to new high-speed wireless data technology
- Effects associated with dependence on specific communications protocols, handset technologies, network technologies, or software
- Intensifying competition resulting from convergence of fixed-line, mobile, and broadcasting, and other changes in the operating environment

Fixed-line Business

In the fixed-line market, competition among services is entering a new phase as FTTH and other broadband services expand, and as convergence continues between fixed-line and mobile communications, and between communications and broadcasting.

The KDDI Group is working to enhance ease-of-use for its services and expand access lines, particularly FTTH services, while offering more solutions services for corporate clients. The Group also strives to bolster its systems for supporting corporate clients’ international business development by increasing its overseas locations. However, these services are subject to competition with rival carriers, ADSL providers, CATV operators, and other firms, and to rapid changes in market conditions. As a result, the following factors could have a negative impact on the Group’s financial position and/or earnings performance.

BUSINESS RISKS

- Market demand trends out of line with KDDI Group expectations
- Subscription growth trends out of line with KDDI Group expectations
- Fall in ARPU due to tariff discounts sparked by fierce price competition, or higher sales commissions 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
- Decrease 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 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 codified its business ethics, formulated the KDDI Privacy Policy and established the Business Ethics Committee. Handbooks on customer privacy issues have also been distributed to employees. Meanwhile, KDDI is working on a Companywide level to ensure communications security and protection of customer privacy. It has drawn up security-related policies, such as forbidding employees from taking internal data out of the office or from copying data from work PCs to external memory devices. KDDI is 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/or earnings 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. System Failures due to Natural Disasters and Other Unforeseen Events

The KDDI Group depends on communications network systems and equipment in and out of Japan to provide voice and data communication services. The KDDI Group, to minimize as much as possible the risk of service outages or interruptions as a result of natural disasters or accidents, takes steps to improve the reliability of its network and to prevent service outages. However, should there be a service outage as a result of failures in network systems or communications equipment, or substantial billing errors, the discredit to the Group's brand image and reliability could have a negative impact on the Group's financial position and/or earnings performance. The following incidents could cause a service outage.

- Natural disasters, such as earthquakes, typhoons, or floods
- Spread of infectious disease
- War, terrorism, accidents, or other unforeseen events
- Power brownouts or blackouts
- Computer viruses or other forms of cyber attack
- Operation system hardware or software failures
- Flaws in communications equipment and services

4. 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/or earnings performance of the KDDI Group. The Group believes 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 factors and uncertainties listed below could negatively affect the financial position and/or earnings performance of the KDDI Group if such measures were to prove ineffective in the future.

Regarding the future of the NTT Group in the new era of fiber-optic and IP services, the KDDI Group advocates revisiting the original reason for deregulating telecommunications to allow fair market competition to work effectively. The Japanese government has conducted a range of study projects and invited public comments regarding rules to govern competition in the Japanese telecommunications 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. However, if market domination by the NTT Group as a whole grows despite these measures, the factors and uncertainties listed below could have a negative impact on the financial position and/or earnings performance of the KDDI Group.

Mobile Business

- Revisions to the mobile business model, such as removal of subscriber identity module (SIM) locks
- 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 as Mobile Virtual Network Operators (MVNOs)
- Regulations of the mobile Internet due to an increase in harmful websites
- Regulations of mobile phone usage
- Establishment of regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- New research into the effect of radio waves on health
- Revisions to radio wave usage rules

Fixed-line Business

- Revisions to the specified telecommunications equipment system
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to systems governing universal service
- Regulations 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

5. 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 Group also seeks to comply fully with commercial, anti-trust, patent, consumer, tax, currency exchange, environmental, labor, and financial laws. Were these laws and regulations enhanced, or should the Group and/or business contractors fail to comply with legislation, it could result in limitations being placed on the future business activities of the KDDI Group and increases in costs.

6. 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 the financial position and/or earnings performance.

7. Personnel Retention and Training

The KDDI Group invests in Companywide 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.

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 defined-contribution pension plans or association-establishment-type employees' pension funds. 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 funds, 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 year ended March 31, 2010, the KDDI Group posted business restructuring expenses (extraordinary losses) as impairment losses primarily for domestic transmission line assets, for which utilization rates declined due to network streamlining (consolidation and disposal of low-use facilities) in the Fixed-line Business. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment, depending on the level of its utilization.

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

CONSOLIDATED BALANCE SHEETS

KDDI Corporation and Consolidated Subsidiaries
March 31, 2009 and 2010

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
ASSETS			
Current Assets:			
Cash and deposits	¥ 94,243	¥ 96,863	$ 1,041
Accounts receivable	513,396	580,826	6,243
Short-term investment securities	106,964	70,000	752
Allowance for doubtful accounts	(14,433)	(13,709)	(147)
Inventories	77,394	49,249	529
Deferred tax assets (Note 13)	72,001	67,398	724
Prepaid expenses and other current assets	20,673	18,751	202
Total Current Assets	870,238	869,378	9,344
Property, Plant and Equipment			
Machinery, Antenna facilities, Terminal facilities, Local line facilities, Long-distance line facilities, Engineering facilities, Submarine line facilities	3,628,310	3,719,207	39,974
Buildings and structures	579,465	619,358	6,658
Machinery and tools	145,211	157,358	1,691
Land	241,984	241,942	2,600
Construction in progress	113,871	86,712	932
Other property, plant and equipment	10,780	19,271	207
	4,719,621	4,843,848	52,062
Accumulated depreciation	(2,767,559)	(2,902,801)	(31,200)
Total Property, Plant and Equipment	1,952,062	1,941,047	20,862
Investments and Other Assets:			
Investments in securities (Note 6)	40,567	93,058	1,000
Deposits and guarantee money	39,623	38,381	413
Intangible assets	249,189	249,982	2,687
Goodwill	62,872	72,762	782
Deferred tax assets (Note 13)	111,400	100,393	1,079
Other assets	114,325	463,112	4,978
Allowance for doubtful accounts	(11,143)	(8,576)	(92)
Total Investments and Other Assets	606,833	1,009,112	10,847
Total Assets	¥ 3,429,133	¥3,819,537	$41,053

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

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 7)	¥ 141,661	**¥ 213,108**	**$ 2,291**
Accounts payable	327,416	**317,072**	**3,408**
Accrued income taxes	117,887	**67,856**	**729**
Accrued expenses	12,919	**16,150**	**174**
Allowance for bonuses	18,584	**18,976**	**204**
Other current liabilities	91,649	**103,765**	**1,115**
Total Current Liabilities	710,116	**736,927**	**7,921**
Non-Current Liabilities:			
Long-term loans (Note 7)	418,084	**497,775**	**5,350**
Bonds (Note 7)	307,753	**374,969**	**4,030**
Reserve for point service program	62,656	**78,694**	**846**
Reserve for retirement benefits and other non-current liabilities (Notes 7, 14)	49,195	**52,721**	**567**
Total Non-Current Liabilities	837,688	**1,004,159**	**10,793**
Total Liabilities	1,547,804	**1,741,086**	**18,714**
Contingent Liabilities (Note 8)			
Net Assets			
Common stock:			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2009 and 2010, respectively			
Issued—4,484,818.00 and 4,484,818.00 shares at March 31, 2009 and 2010, respectively	141,852	**141,852**	**1,525**
Additional paid-in capital surplus	367,092	**367,092**	**3,946**
Retained earnings	1,347,637	**1,506,952**	**16,197**
Treasury stock, at cost:			
Number of treasury stock—30,705.00 and 30,705.00 shares at March 31, 2009 and 2010, respectively	(25,245)	**(25,245)**	**(272)**
Total Shareholders' Equity	1,831,336	**1,990,651**	**21,396**
Net unrealized gains on securities	18,529	**34,327**	**369**
Foreign currency translation adjustments	(8,805)	**(7,251)**	**(78)**
Total Unrealized Gains and Translation Adjustments	9,724	**27,076**	**291**
Stock Acquisition Rights	991	**1,606**	**17**
Minority Interests	39,278	**59,118**	**635**
Total Net Assets	1,881,329	**2,078,451**	**22,339**
Total Liabilities and Shareholders' Equity	¥3,429,133	**¥3,819,537**	**$41,053**

CONSOLIDATED STATEMENTS OF INCOME

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2010

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
Operating Revenues:			
Revenues from telecommunication business	¥2,720,675	¥2,606,165	$28,011
Sales of terminal equipment and other	776,834	835,982	8,985
Total Operating Revenues	3,497,509	3,442,147	36,996
Operating Expenses:			
Sales expenses	705,927	702,117	7,546
Depreciation	417,805	440,291	4,732
Charges for use of telecommunications services of third parties	433,938	402,030	4,321
Cost of sales of terminal equipment and other	1,065,032	1,035,895	11,134
Other	431,600	417,952	4,492
Total Operating Expenses	3,054,302	2,998,285	32,225
Operating Income	443,207	443,862	4,771
Other Expenses (Income):			
Interest expenses	11,960	12,688	137
Interest income	(1,036)	(485)	(5)
Dividends income	—	(1,101)	(12)
Gain on sales of subsidiaries and affiliates' stocks	—	(1,015)	(11)
Loss on valuation of investment securities	5,269	2,292	25
Gain on sales of non-current assets	(538)	(515)	(6)
Equity in losses of affiliates	2,248	9,968	107
Gain on bad debts recovered	(271)	—	—
Gain on investments in silent partnership	(7,212)	(898)	(10)
Dividends due to liquidation of silent partnership contract	(36,284)	—	—
Reversal of allowance for doubtful accounts	—	(5,309)	(57)
Loss on retirement of non-current assets	9,099	—	—
Impairment loss (Note 9)	68,046	10,735	115
Business restructuring expenses (Note 10)	—	48,057	517
Other, net	(2,937)	819	9
Total Other Expenses	48,344	75,236	809
Income before Income Taxes and Minority Interests	394,863	368,626	3,962
Income Taxes:			
Current	200,896	148,311	1,594
Deferred	(30,572)	1,898	20
Total Income Taxes	170,324	150,209	1,614
Minority Interests in Income	1,803	5,653	61
Net Income	¥ 222,736	¥ 212,764	$ 2,287

	Yen		U.S. dollars (Note 1)
	2009	2010	2010
Per Share Data:			
Net income	¥49,973	¥47,768	$513.41
Net income after adjusted the potential stocks	—	—	—
Cash dividends	11,000	13,000	139.72

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2010

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
Shareholders' equity			
Common Stock			
Balance, March 31, 2009	¥ 141,852	¥ 141,852	$ 1,525
Changes during the year			
Total changes during the year	—	—	—
Balance, March 31, 2010	141,852	141,852	1,525
Additional paid-in capital surplus			
Balance, March 31, 2009	367,267	367,092	3,946
Changes during the year			
Disposal of treasury stock	(174)	—	—
Cancellation of treasury stock	(1)	—	—
Total changes during the year	(175)	—	—
Balance, March 31, 2010	367,092	367,092	3,946
Retained earnings			
Balance, March 31, 2009	1,173,826	1,347,637	14,484
Increase/decrease from change in accounting policies of overseas subsidiaries	131	—	—
Changes during the year			
Dividend of surplus	(49,057)	(53,449)	(574)
Net income for the year	222,736	212,764	2,287
Change in scope of consolidation	—	—	—
Total changes during the year	173,679	159,315	1,713
Balance, March 31, 2010	1,347,637	1,506,952	16,197
Treasury stock, at cost			
Balance, March 31, 2009	(20,625)	(25,245)	(272)
Changes during the year			
Acquisition of treasury stock	(5,260)	—	—
Disposal of treasury stock	640	—	—
Cancellation of treasury stock	1	—	—
Total changes during the year	(4,619)	—	—
Balance, March 31, 2010	(25,245)	(25,245)	(272)
Shareholders' equity			
Balance, March 31, 2009	1,662,320	1,831,336	19,683
Increase/decrease accompanying change in accounting treatment of overseas subsidiaries	131	—	—
Changes during the year			
Dividend of surplus	(49,057)	(53,449)	(574)
Net income for the year	222,736	212,764	2,287
Acquisition of treasury stock	(5,260)	—	—
Disposal of treasury stock	466	—	—
Change in scope of consolidation	—	—	—
Total changes during the year	168,885	159,315	1,713
Balance, March 31, 2010	¥1,831,336	¥1,990,651	$21,396

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2010

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
Unrealized gains and translation adjustments			
Net unrealized gains on securities			
At beginning of year	¥ 18,571	¥ 18,530	$ 199
Changes during the year			
Net changes to items other than shareholders' equity	(41)	15,797	170
Total changes during the year	(41)	15,797	170
At end of year	18,530	34,327	369
Foreign currency translation adjustments			
At beginning of year	2,443	(8,806)	(95)
Changes during the year			
Net changes to items other than shareholders' equity	(11,249)	1,555	17
Total changes during the year	(11,249)	1,555	17
At end of year	(8,806)	(7,251)	(78)
Total unrealized gains and translation adjustments			
At beginning of year	21,014	9,724	104
Changes during the year			
Net changes to items other than shareholders' equity	(11,290)	17,352	187
Total changes during the year	(11,290)	17,352	187
At end of year	9,724	27,076	291
Stock acquisition rights			
At beginning of year	495	991	10
Changes during the year			
Net changes to items other than shareholders' equity	496	615	7
Total changes during the year	496	615	7
At end of year	991	1,606	17
Minority interests			
At beginning of year	31,902	39,278	422
Changes during the year			
Net changes to items other than shareholders' equity	7,376	19,840	213
Total changes during the year	7,376	19,840	213
At end of year	39,278	59,118	635
Total net assets			
At beginning of year	1,715,731	1,881,329	20,220
Increase/decrease from change in accounting treatment of overseas subsidiaries	131	—	—
Changes during the year			
Dividend of surplus	(49,057)	(53,449)	(574)
Net income for the year	222,736	212,764	2,287
Acquisition of treasury stock	(5,260)	—	—
Disposal of treasury stock	466	—	—
Change in scope of consolidation	—	—	—
Net changes of items other than shareholders' equity during the fiscal year	(3,418)	37,807	406
Total changes during the year	165,467	197,122	2,119
At end of year	¥1,881,329	¥2,078,451	$22,339

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, 2009 and 2010

	Millions of yen		Millions of U.S. dollars (Note 1)
	2009	2010	2010
Net Cash Provided by (Used in) Operating Activities:			
Income before income taxes and minority interests	¥ 394,863	¥ 368,626	$ 3,962
Depreciation and amortization	434,623	460,940	4,954
Impairment loss	68,046	10,735	115
Amortization of goodwill and negative goodwill	9,735	9,040	97
Loss (gain) on sales of non-current assets	(514)	(486)	(5)
Loss on retirement of non-current assets	26,200	22,451	241
Business restructuring expenses	—	40,656	437
Dividends due to liquidation of silent partnership contract	(36,284)	—	—
Increase (decrease) in allowance for doubtful accounts	1,439	(3,746)	(40)
Increase (decrease) in provision for retirement benefits	(773)	3	0
Interest and dividends income	(2,495)	(1,586)	(17)
Interest expenses	11,961	12,688	137
Equity in (earnings) losses of affiliates	2,248	9,968	107
Loss (gain) on valuation of investment securities	5,269	2,292	25
Increase (decrease) in provision for point card certificates	19,601	16,047	173
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension costs	48	3,911	42
Decrease (increase) in notes and accounts receivable-trade	(60,918)	(46,413)	(499)
Decrease (increase) in inventories	(13,109)	29,432	316
Increase (decrease) in notes and accounts payable-trade	(13,951)	1,216	13
Increase (decrease) in accounts payable-other	19,337	(3,204)	(34)
Increase (decrease) in accrued expenses	1,034	1,327	14
Increase (decrease) in advances received	10,617	5,892	63
Other, net	4,338	6,896	74
Subtotal	881,315	946,685	10,175
Interest and dividends income received	4,339	3,643	39
Interest expenses paid	(11,747)	(12,385)	(133)
Income taxes paid	(161,676)	(197,951)	(2,128)
Net Cash Provided by (Used in) Operating Activities	712,231	739,992	7,953
Net Cash Provided by (Used in) Investing Activities:			
Purchase of property, plant and equipment	(466,269)	(393,667)	(4,231)
Purchase of trust beneficiary right	(207,057)	—	—
Proceeds from sales of property, plant and equipment	1,490	602	6
Purchase of intangible assets	(81,712)	(100,875)	(1,084)
Purchase of investment securities	(100)	(672)	(7)
Proceeds from sales of investment securities	131	747	8
Purchase of stocks of subsidiaries and affiliates	(5,228)	(23,784)	(256)
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 4)	(36,028)	(387,259)	(4,162)
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	—	2,564	27
Proceeds from repayment of investment and dividends due to liquidation of silent partnership contract	45,284	—	—
Purchase of long-term prepaid expenses	(26,290)	(23,937)	(257)
Other, net	309	1,839	21
Net Cash Provided by (Used in) Investing Activities	(775,470)	(924,442)	(9,935)
Net Cash Provided by (Used in) Financing Activities:			
Net increase (decrease) in short-term loans payable	76,629	18,966	204
Proceeds from long-term loans payable	170,000	99,500	1,070
Repayment of long-term loans payable	(79,049)	(41,167)	(442)
Proceeds from issuance of bonds	120,000	150,000	1,612
Redemption of bonds	(40,000)	(19,800)	(213)
Purchase of treasury stock	(5,260)	—	—
Cash dividends paid	(49,058)	(53,447)	(575)
Cash dividends paid to minority shareholders	(948)	(1,043)	(11)
Other, net	(824)	(3,770)	(41)
Net Cash Provided by (Used in) Financing Activities	191,490	149,239	1,604
Effect of Exchange Rate Change on Cash and Cash Equivalents	(3,486)	377	4
Net Increase (Decrease) in Cash and Cash Equivalents	124,765	(34,834)	(374)
Cash and Cash Equivalents at Beginning of Period	75,546	200,311	2,153
Cash and Cash Equivalents at End of Period	¥ 200,311	¥ 165,477	$ 1,779

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 Financial Instruments and Exchange Law, Corporate Law and Japanese Telecommunications Business Law, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), 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, 2010 include 97 consolidated subsidiaries.

These are; Okinawa Cellular Telephone Company, KDDI Technical & Engineering Service Corporation, KDDI Evolva Inc., Japan Cablenet Limited, Chubu Telecommunications Company, Incorporated and KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2010, significant changes in the scope were incurred as follows:

Added (Consolidated):

- 36 companies due to stock acquisition
  JCN KANTO LIMITED, Kawagoe Cable Vision Co., Ltd., DMX Technologies Group Limited and its 18 subsidiaries, Okinawa Telecommunication Network Co., Inc., Cable Television Adachi, Corp., KDDI International Holdings, LLC, KDDI International Holdings 2, LLC, KDDI International Holdings 3, LLC, KDDI Global Media, LP, Locus Telecommunications, Inc. and its 6 subsidiaries and Total Call International, Inc. and its 1 subsidiary

- 3 companies due to new establishment
  KDDI Shanghai Corporation, Broadband Access Exchange Planning Inc., KDDI Overseas Holdings B.V.

Removed (Consolidated):

- 2 companies due to merger
  Network Support Service Company, Incorporated:
  merged by Chubu Telecommunications Company, Incorporated
  KDDI KOREA Corporation:
  merged by Prism Communications Corporation
  (Prism Communications Corporation changed its name to KDDI KOREA Corporation.)

Also, the number of the Company's equity-method affiliates at March 31, 2010 was 18. During the year ended March 31, 2010, significant changes in the scope were incurred as follows:

Added (Equity Method):

- 2 companies due to stock acquisition
  Jupiter Telecommunications Co., Ltd., BRAC BD Mail Networks Limited

- 1 company due to new establishment
  Mobile General Insurance Planning Co., Ltd.

Reclassifications:

Certain amounts of prior years have been reclassified to conform to the presentations for the year ended March 31, 2010.

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 ¥93.04=U.S.$1, the approximate exchange rate on March 31, 2010. 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 ("the Companies").

All significant intercompany transactions and accounts are eliminated.

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

Exceptionally, investments in non-equity-method affiliates (CJSC Vostoktelecom, etc.) are 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 and 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.

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 balances 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 Other Than Leased Assets

Property, plant and equipment is stated at cost. Assets are depreciated over their estimated useful lives by applying the declining-balance method to machinery owned by the Companies, and by the straight-line method to property, plant and equipment other than machinery owned by the Company and most depreciated assets held by its subsidiaries.

The main depreciation periods are as follows:

Machinery: 9 years

Local line facilities, Long-distance line facilities, Engineering facilities, Submarine line facilities and Buildings: 5 to 38 years

g. Financial Instruments

(1) Securities

Investments of the Companies 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

Derivativies are used to hedge against interest rate fluctuation risks based on the Companies' policy.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The interest rate swaps meeting the requirement of exceptional treatment of Japanese GAAP are not measured at the fair value and the differences between payment amount and receipt amount are included in the interest expense occurred on the borrowing 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. Leased Assets and Amortization

Leased assets related to financial leases that do not transfer ownership rights are amortized under the straight-line method based on the lease term as the useful life and residual value of zero. The Companies continued to apply the method for ordinary operating lease transactions to financial leases that do not transfer ownership rights that started before March 31, 2008.

k. Amortization of Goodwill and Negative Goodwill

Goodwill and negative goodwill are amortized under the straight-line method over a period of 5 to 20 years. However, minimal amounts of goodwill or negative goodwill are recognized as expenses or gains for the year ended March 31, 2010.

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 general allowance based on the actual bad debt ratio, and specific allowance deemed to be uncollectible considering the collectibility.

n. Provision of Retirement Benefits

The amount for employee retirement benefits at March 31, 2010 is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at March 31, 2010.

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.

(Change in accounting policy)
From the year ended March 31, 2010, the Company adopted Partial Amendments to Accounting Standards for Retirement Benefits (Part 3) (ASBJ Statement No. 19) (July 31, 2008).

This does not affect operating income and income before income taxes and minority interests.

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 Companies reserves an amount considered appropriate to cover possible utilization of the points during or after the next consolidated fiscal year.

p. Allowance for Bonuses

To allow for the payment of bonuses to employees, the Companies record the estimated amounts of bonuses to be paid.

q. Allowance for Directors' Bonuses

To allow for the payment of bonuses to directors, the Companies record the estimated amounts of bonuses to be paid.

r. Valuation of Assets and Liabilities of Consolidated Subsidiaries

Assets and liabilities of consolidated subsidiaries are evaluated by the fair market value method.

3 Changes to Basis of Presenting Consolidated Financial Statements

(Change in accounting standard for completed construction and completed construction cost)

The Companies previously applied the completed-construction accounting standard for recognizing revenues associated with construction contracts. However, from April 1, 2009, the Companies have applied the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, December 27, 2007) and the "Implementation Guidance on the Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, December 27, 2007). As a result, the percentage-of-completion method (cost-comparison method using primarily estimate of construction progress) is applied for construction contracts for which construction started in the year ended March 31, 2010 and for which the progress of the construction by March 31, 2010 is deemed certain to be achieved. The completed-contract method is applied to other construction contracts. This change has minor impact on the accompanying consolidated financial statements.

(Changes in presentation)

(Consolidated statements of income)

1. Because the significance of the amount has increased, "Dividends income," which was included in "Miscellaneous income" in the year ended March 31, 2009, is presented as a separate item from the year ended March 31, 2010. Further, "Dividends income" included in "Miscellaneous income" in the year ended March 31, 2009 was ¥1,459 million.
2. Because the significance of the amount is negligible, "Gain on bad debts recovered," which was presented as a separate item in the year ended March 31, 2009, is included in "Miscellaneous income" from the year ended March 31, 2010. Further, "Gain on bad debts recovered" included in "Miscellaneous income" in the year ended March 31, 2010, is ¥292 million.

4 Assets and Liabilities of Newly Consolidated Subsidiaries

Liberty Global Japan II, LLC, Liberty Japan, LLC and Liberty Jupiter, LLC have been newly consolidated due to the acquisition of shares. Accordingly, the following shows the breakdown of assets and liabilities that existed at the time of consolidation, and the relationship between the acquisition cost of the ownership of interest in three companies and the expense (net amount) required for the acquisition of the subsidiaries.

	Millions of yen	Millions of U.S. dollars
	2010	2010
Non-current assets	¥363,106	$3,903
Non-current liabilities	(335)	(4)
Current liabilities	(227)	(2)
Acquisition costs	¥362,544	$3,897
Temporary payment related to acquisition	(9)	0
Net acquisition cost	¥362,535	$3,897

Note: Percentage of subsidiary voting rights held by the Company
Liberty Global Japan II, LLC 100.0%
Liberty Japan, LLC 100.0%
Liberty Jupiter, LLC 100.0%

Note: Date of acquisition of shares
February 19, 2010

5 Financial Instruments

1. Status of financial instruments

(1) Policy for measures relating to financial instruments

In light of plans for capital investment, primarily for conducting telecommunications business, the Companies raise the funds it requires through bank loans and bonds issuance. The Companies manage temporary fund surpluses through financial assets that have high levels of safety. Further, the Companies raise short-term working capital through bank loans. Regarding derivatives policy, the Companies' adhere to the fundamental principle of limiting transactions to those actually required and never conducting speculative transactions for trading profit.

(2) Details of financial instruments and associated risk and risk management system

Trade receivables—trade notes and accounts receivable and other accounts receivable—are exposed to credit risk in relation to customers and trading partners. For such risk, pursuant to criteria for managing credit exposure, the Companies have systems enabling the management of due dates and balances of each customer and trading partner as well as the analysis of credit status.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the shares of companies with which the Companies have operational relationships, and periodic analysis of market values is reported to the Board of Directors.

Deposits and guarantee money are primarily deposits and guarantee money pursuant to lease contracts for telecommunications base stations, and the Companies conduct ledger management for these items.

Almost all trade payables—trade notes and accounts payable, other accounts payable and accrued expenses—have payment due dates within one year.

Those trade payables are exposed to liquidity risk at time of settlement. However, the Companies reduce that risk by having each company review fund-raising plans every month.

Among loans payable, short-term loans payable are primarily for fund-raising related to sales transactions, and long-term loans payable are primarily for fund-raising related to capital investment and investment and financing. Loans payable with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce fluctuation risk for interest payable and fix interest expenses when it enters into long-term loans at variable interest rates—based on the premise that requirements for special treatment of interest rate swaps are met in relation to evaluation of the effectiveness of hedges—in principle, the Companies use interest rate swap transactions as a hedging method on an individual contract basis.

In order to conduct derivative transactions, based on their company's internal regulations and regulations stipulating associated details, finance or accounting divisions must receive approval from those with final-approval authority as stipulated by authority-related regulations through consultation via an internal memo for each derivative transaction and only conduct transactions with financial institutions with high credit ratings.

In addition, such current liabilities as trade payables are exposed to liquidity risk at time of settlement. However, the Group reduces that risk by having each company review fund-raising plans every month.

(3) Supplementary explanation of items relating to the market values of financial instruments

The market values of financial instruments include prices based on market prices, or, if there are no market prices, they include reasonably estimated prices. Because estimations of the said prices incorporate fluctuating factors, applying different assumptions can in some cases change the said prices.

2. Market value of financial instruments

Amounts recognized in the consolidated balance sheets, market values and the differences between them on March 31, 2010 are as shown below. Moreover, items for which it is extremely difficult to determine market values are not included in the following table (see (note 2)).

	Millions of yen		
	Book value	Market value	Difference
(1) Cash and deposits	¥ 96,863	¥ 96,863	¥ —
(2) Accounts receivable	580,826		
Allowance for doubtful accounts*1	(13,707)		
	567,119	567,119	—
(3) Short-term investment securities	70,000	70,000	—
(4) Investment securities	89,676	89,676	—
(5) Stocks of subsidiaries and affiliates	337,357	246,964	(90,393)
(6) Lease and guarantee deposits	432	510	78
Total assets	¥1,161,447	¥1,071,132	¥(90,315)
(7) Accounts payable	317,072	317,072	—
(8) Short-term loans payable	101,167	101,167	—
(9) Accrued expenses	16,150	16,150	—
(10) Income taxes payable	67,856	67,856	—
(11) Bonds payable*2	457,967	468,202	10,235
(12) Long-term loans payable*2	522,229	527,805	5,576
Total liabilities	¥1,482,441	¥1,498,252	¥ 15,811

	Millions of U.S. dollars		
	Book value	Market value	Difference
(1) Cash and deposits	$ 1,041	$ 1,041	$ —
(2) Accounts receivable	6,242	—	—
Allowance for doubtful accounts*1	(147)	—	—
	6,095	6,095	—
(3) Short-term investment securities	752	752	—
(4) Investment securities	964	964	—
(5) Stocks of subsidiaries and affiliates	3,626	2,654	(972)
(6) Lease and guarantee deposits	5	6	1
Total assets	$12,483	$11,512	$(971)
(7) Accounts payable	3,408	3,408	—
(8) Short-term loans payable	1,087	1,087	—
(9) Accrued expenses	174	174	—
(10) Income taxes payable	729	729	—
(11) Bonds payable*2	4,922	5,032	110
(12) Long-term loans payable*2	5,613	5,673	60
Total liabilities	$15,933	$16,103	$ 170

*1. Allowance for doubtful accounts recognized in notes and accounts receivable-trade is offset.

*2. Bonds and long-term loans payable included in current portion of non-current liabilities are included.

Note 1: Calculation of the market value of financial instruments and items relating to short-term investment securities and derivative transactions

1) Cash and deposits, 2) Accounts receivable, 3) Short-term investment securities

Because, the settlement periods of the above items are short and their market values are almost the same as their book values, the relevant book values are used. Further, because the credit risk is extremely difficult to determine on an individual basis for notes and accounts receivable-trade, allowance for doubtful accounts is regarded as credit risk and the book value is calculated accordingly.

4) Investment securities, 5) Stock of subsidiaries and affiliates

In relation to the market value of investment securities, for shares the market prices of exchanges are used. Further, for information on investment securities categorized according to holding purpose, please see the note "Quoted securities."

6) Lease and guarantee deposits

These are lease and guarantee deposits that have market prices and fixed memberships and repayment periods. The market values of lease and guarantee deposits is estimated using reasonable discount rates. However, because market values are almost equivalent to book values, the relevant book values are used.

7) Accounts payable, 8) Short-term loans payable, 9) Accrued expenses, 10) Income taxes payable

Because the settlement periods of the above items are short and their market values are almost the same as their book values, the relevant book values are used.

11) Bonds payable, 12) Long-term loans payable

The market value of bonds payable is calculated based on trading reference data.

The market value of long-term loans payable is calculated by applying a discount rate to the total of principal and interest. That discount rate is based on the assumed interest rate if a similar new loan was entered into. Because long-term loans payable with variable interest rates are based on the condition that interest rates are revised periodically, their market values are almost the same as their book values, the relevant book values are used.

Note 2: Financial instruments for which it is extremely difficulty to determine market value

	Millions of yen	Millions of U.S. dollars
	Book value	Book value
Investment securities		
Unlisted equity securities	¥ 3,382	$ 36
Stocks of subsidiaries and affiliates		
Unlisted equity securities	34,811	374
Investments in capital of subsidiaries and affiliates	183	2
Lease and guarantee deposits	37,949	408

Because it is recognized that these do not have market values and that the market values are extremely difficult to determine, they are not included in the chart above.

Note 3: Planned redemption amounts after the balance sheet date for monetary assets and short-term investment securities with monetary assets and maturity dates

	Millions of yen		Millions of U.S. dollars	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year
Cash and deposits	¥ 96,863	¥ —	$1,041	$ —
Accounts receivable	545,575	35,250	5,864	379
Short-term investment securities	70,000	—	752	—
Investment securities				
Other securities with maturity period				
(1) Bonds	899	—	10	—
(2) Others	316	—	3	—
Total	¥713,653	¥35,250	$7,670	$379

Note 4: Planned repayment amounts after the balance sheet date for bonds payable, long-term loans payable

Please refer to "7. Short-term Loans and Long-term Debt."

(Additional information)

From the year ended March 31, 2010, KDDI adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No.10, March 10, 2008) and the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, March 10, 2008).

6 Market Value Information

At March 31, 2010 and 2009, market value and net unrealized gains or losses of quoted securities were as follows:

Other securities

		Acquisition cost	Book value	Book value gain/loss	Acquisition cost	Book value	Book value gain/loss	Acquisition cost	Book value	Book value gain/loss
							Millions of yen			Millions of U.S. dollars
				2009			2010			2010
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥2,652	¥34,244	¥31,591	¥ 29,002	¥ 87,078	¥58,076	$ 312	$ 936	$624
	Bonds				891	897	6	10	10	0
	Other				535	551	16	5	5	0
	Subtotal	¥2,652	¥34,244	¥31,591	¥ 30,428	¥ 88,526	¥58,098	$ 327	$ 951	$624
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥1,496	¥ 1,086	¥ (409)	¥ 1,214	¥ 908	¥ (306)	$ 13	$ 10	$ (3)
	Negotiable deposit				70,000	70,000	—	752	752	—
	Other				262	242	(20)	3	3	0
	Subtotal	¥1,496	¥ 1,086	¥ (409)	¥ 71,476	¥ 71,150	¥ (326)	$ 768	$ 765	$ (3)
Total		¥4,148	¥35,330	¥31,182	¥101,904	¥159,676	¥57,772	$1,095	$1,716	$621

Regarding unlisted equity securities, which book value was ¥5,236 million and ¥3,382 million (U.S.$36 million) for the years ended March 31, 2009 and 2010, because it is recognized that these do not have market values and the market values are extremely difficult to determine, they are not included in the chart above.

Also for the year ended March 31, 2009, negotiable deposit and commercial papers existed, however, these market values are not determinable, therefore they are not included in the chart. The book values of these were ¥49,000 million for negotiable deposit and ¥57,964 million for commercial papers.

Other securities sold during the year ended March 31, 2010

	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
						Millions of yen			Millions of U.S. dollars
			2009			2010			2010
Stock	¥40	¥21	¥8	¥1,207	¥1,015	¥0	$13	$11	$0

Impairment of investment securities

For the year ended March 31, 2010, the Company recognized an impairment of ¥2,292 million (U.S.$25 million) on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment treatment was incurred for the amount recognized as required in light of the possibility of recovery.

7 Short-term Loans and Long-term Debt

Short-term loans at March 31, 2009 and March 31, 2010 were ¥80,951 million and ¥101,167 million (U.S.$1,087 million) and the annual average interest rates applicable to short-term loans for the years ended March 31, 2009 and March 31, 2010 were 1.03% and 0.58%.

Long-term debt at March 31, 2009 and March 31, 2010 consisted of the following:

		Millions of yen		Millions of U.S. dollars
		2009	2010	2010
Unsecured straight bonds		¥287,953	¥437,967	$ 4,707
Year ended March 31, 2010	(Interest rates per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2011–2020)			
General secured bonds*		39,800	20,000	215
Year ended March 31, 2010	(Interest rate per annum: 3.20%)			
	(Due: year ending March 31, 2018)			
Total bonds		¥327,753	¥457,967	$ 4,922
Loans from banks		¥456,383	¥522,229	$ 5,613
Year ended March 31, 2010	(Average rates per annum: 1.36%)			
	(Due: year ending March 31, 2011–2021)			
Other interest-bearing debt		9,864	15,416	166
Subtotal		¥794,000	¥995,612	$10,701
Less, amount due within one year		60,596	111,942	1,203
Total long-term debt		¥733,404	¥883,670	$ 9,498

* 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, 2010 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ended March 31	2010	2010
2011	¥111,942	$ 1,203
2012	137,817	1,481
2013	181,764	1,954
2014	172,860	1,858
2015 and thereafter	391,229	4,205
	¥995,612	$10,701

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Pledged assets

The following table summarizes the book value of assets pledged as collateral for short-term loans and long-term debt, including current maturities of long-term debt of the consolidated subsidiaries at March 31, 2010.

	Millions of yen	Millions of U.S. dollars
	2010	2010
Machinery, etc.	¥1,454	$16
Buildings and structures	216	2
Other property, plant and equipment	194	2
Investment securities	221	2
Other investments and other assets	119	1
Cash and deposits	467	5
Notes and accounts receivable–trade	994	11
Inventories	71	1
Other current assets	13	0
	¥3,749	$40

(Assets denominated in foreign crrencies included U.S.$21 million.)

Such collateral secured the following obligations:

	Millions of yen	Millions of U.S. dollars
	2010	2010
Long-term loans payable	¥2,388	$26
Current portion of non-current liabilities	477	5
Short-term loans payable	727	8
	¥3,592	$39

(Liabilities denominated in foreign crrencies included U.S.$14 million.)

8 Contingent Liabilities

At of March 31, 2010 and March 31, 2009, the Companies was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
As a guarantor for			
Contingent liabilities existing in cable system supply contract	¥4,958	¥ 4,652	$ 50
Contingent liabilities resulting from the liquidation of Minex Corporation	567	537	6
Office lease contract of KDDI America, Inc., etc.	459	356	4
Loan of UQ Communications Inc., etc.	329	30,608	329
	¥6,313	¥36,153	$389

9 Impairment Losses

The Companies recorded impairment losses in the years ended March 31, 2009 and March 31, 2010 mainly on the assets and asset groups below.

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
KDDI Corporation and others: Equipment for the existing 800MHz band	¥43,539	¥ —	$ —
KDDI Corporation: HIKARI-one Home 100 facilities	18,518	—	—
KDDI Corporation: Idle assets, etc.	1,645	227	2
KDDI Corporation: Domestic transmission line facilities	—	10,096	109
Consolidated subsidiaries: Business assets, etc.	4,344	412	4

The Companies calculate impairment losses by grouping assets according to minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

As a result, in the year ended March 31, 2010, for domestic transmission system with declining utilization rates and idle assets, including a certain portion of the above-mentioned domestic transmission system, the book value has been reduced to recoverable value. The said reduction is recognized as impairment losses of ¥10,323 million (U.S.$111 million) in extraordinary loss.

This consists of ¥8,863 million (U.S.$95 million) for machinery, etc., and ¥1,461 million (U.S.$16 million) for others.

Further, the recoverable amount for the said assets is estimated based on the net selling price. The calculation of market value is based on appraised value and other factors, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

In addition, impairment losses of ¥412 million (U.S.$4 million) on business assets in certain subsidiaries were recognized in extraordinary loss.

This consists of ¥216 million (U.S.$2 million) for machinery, ¥102 million (U.S.$1 million) for software and ¥94 million (U.S.$1 million) for others.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Business Restructuring Expenses

Business restructuring expenses include ¥32,832 million (U.S.$353 million) of impairment losses regarding network streamlining (combining and disposal of low-use facilities) and ¥15,224 million (U.S.$164 million) for losses on retirement of non-current assets in the Fixed-line Business.

Details of impairment losses are as follows:

	Millions of yen	Millions of U.S. dollars
	2010	2010
Long-distance line facilities	¥14,831	$159
Local line facilities	7,965	86
Machinery	6,501	70
Submarine line facilities	3,145	34
Other	390	4
	¥32,832	$353

For domestic transmission lines assets for which utilization rates declined due to network streamlining (combining and disposal of low-use facilities) in the Fixed-line Business, the book value was reduced to recoverable value and said reduction is recognized as impairment losses of ¥32,832 million (U.S.$353 million) in business restructuring expenses (extraordinary loss).

Further, the recoverable amount for the said assets is estimated based on the net selling price. However appraised value of these assets is set at ¥0 as these are difficult to sell or convert to other uses.

Loss on retirement of non-current assets consists of ¥3,888 million (U.S.$42 million) for machinery, ¥1,695 million (U.S.$18 million) for engineering facilities, ¥2,240 million (U.S.$24 million) for others and ¥7,401 million (U.S.$80 million) for disposal cost, etc.

11 Lease Payment

No significant items to be reported.

12 Research and Development Expenses

Research and development expenses charged to income were ¥26,963 million and ¥30,987 million (U.S.$333 million) for the years ended March 31, 2009 and 2010, respectively.

13 Income Taxes

At March 31, 2009 and 2010, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
Deferred tax assets			
Depreciation and amortization	¥ 45,200	¥ 47,567	$ 511
Allowance for doubtful accounts	12,990	12,097	130
Disposal of fixed assets	2,061	20,214	217
Inventory write down	6,743	5,382	58
Impairment losses	44,081	28,401	305
Reserve for retirement benefits	1,314	2,815	30
Allowance for bonus payment	8,082	8,141	88
Accrued expenses	9,087	3,448	37
Net operating loss carried forward	397	4,321	47
Unrealized profits	2,352	2,485	27
Reserve for point service program	25,428	31,941	343
Accrued enterprise taxes	9,944	5,657	61
Advances received	23,989	25,426	273
Assets adjustment account	9,477	4,738	51
Other	8,737	8,544	92
Gross deferred tax assets	¥209,882	¥211,177	$2,270
Valuation allowance	(14,191)	(14,981)	(161)
Net deferred tax assets	¥195,691	¥196,196	$2,109
Deferred tax liabilities			
Special depreciation reserve	¥ (1,370)	¥ (1,341)	$ (15)
Net unrealized gains on securities	(12,644)	(20,479)	(220)
Retained earnings for overseas affiliates	(1,229)	(905)	(10)
Other	(2,273)	(6,821)	(73)
Total deferred tax liabilities	¥ (17,516)	¥ (29,546)	$ (318)
Net deferred tax assets	¥178,175	¥166,650	$1,791

Summary of significant differences between the statutory tax rate and effective tax rate

Note omitted because the difference between the statutory tax rate and effective tax rate is less than 5% of the statutory tax rate.

14 Retirement Benefits

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

Further, certain subsidiaries have defined contribution pension plans or association-establishment-type employees' pension funds.

The reserve for retirement benefits at March 31, 2009 and 2010 are as follows:

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
Projected benefit obligations	¥(290,774)	**¥(296,050)**	**$(3,182)**
Plan assets	209,082	**239,594**	**2,576**
Retirement benefit trust	8,079	**8,161**	**87**
Unaccumulated retirement benefit obligation	¥ (73,613)	**¥ (48,295)**	**$ (519)**
Unrecognized prior service cost	(2,649)	**(1,740)**	**(19)**
Unrecognized actuarial differences	80,994	**50,145**	**539**
Prepaid pension cost	(22,572)	**(18,653)**	**(200)**
Reserve for retirement benefits	¥ (17,840)	**¥ (18,543)**	**$ (199)**

Net pension expenses related to the retirement benefits for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
Service cost	¥10,247	**¥10,745**	**$116**
Interest cost	5,679	**5,798**	**62**
Expected return on plan assets	(5,090)	**(4,181)**	**(45)**
Amortization of difference due to change of accounting method	—	**14**	**—**
Amortization of prior service cost	(475)	**(1,023)**	**(11)**
Amortization of actuarial differences	5,139	**8,711**	**94**
Net pension cost	¥15,500	**¥20,064**	**$216**

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 basis	Straight-line
Amortization of prior service cost	14 years
Amortization of actuarial differences	14 years from the year following that in which they arise

Multi-employer pension plans

Certain subsidiaries belong to the ITOCHU Union Pension Fund, which is a multi-employer pension plan. Contributions to the said pension plan are recognized as net pension cost.

Items relating to overall status of pension plan reserves as of March 31, 2009:

	Millions of yen	Millions of U.S. dollars
Plan assets	¥ 45,585	$ 490
Benefit obligation based on pension plan finance calculation	70,099	753
Balance*1	¥(24,514)	$(263)

Percentage of total pension plan accounted for by contributions from KDDI Group in the year ended March 31, 2009 0.17%*2

*1 The principle factors relating to the balance are, based on pension plan finance calculation, prior service cost of ¥7,864 million (U.S.$85 million) and deficiency carried forward of ¥16,650 million (U.S.$179 million). For the said pension plan, prior service cost is amortized through amortization of principal and interest using the straight-line method over a period of 19 years and one month (at March 31, 2009).

*2 The percentage does not match the actual percentage shouldered by the KDDI Group.

15 Stock Options

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, Advisers, Auditors and employees and directors of wholly owned subsidiries.

Also, in DMX Technologies Group Limited (“DMX”), a consolidated subsidiary of the Company, its stock option system is in place.

The recipients of these stock options are Members of the Board and employees of DMX and its group companies.

Impacts to operating expenses in the consolidated statements are ¥495 million and ¥535 million (U.S.$6 million) for the year ended March 31, 2009 and 2010.

Method for calculating fair value of stock options for KDDI Corporation

The fair value of stock options granted in the years ended March 31, 2009 and the year ended March 31, 2010 was calculated using the Black-Scholes model and the primary base values and estimation method are as follows:

		Millions of yen	Millions of U.S. dollars
	August 2008 7th Stock Option	August 2009 8th Stock Option	August 2009 8th Stock Option
Volatility of share prices*1	26.937%	**34.378%**	
Forecasted remaining period*2	3 years	**3 years**	
Expected dividend*3	¥9,333 per share	**¥10,333 per share**	**$111.06 per share**
Risk-free interest rate*4	0.812%	**0.431%**	

*1 Calculation is based on actual stock prices over three years (August 2005 to August 2008) for the 7th Stock Option and (August 2006 to August 2009) for the 8th Stock Option.
*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 (FY2006.3 to FY 2008.3) for the 7th Stock Option and (FY2007.3 to FY2009.3) for the 8th Stock Option.
*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 year ended March 31, 2010.

1) Number of stock options

KDDI Corporation

				Shares
	August 2006 5th Stock Option	August 2007 6th Stock Option	August 2008 7th Stock Option	August 2009 8th Stock Option
Before vested				
Beginning of period	—	4,895	5,049	**—**
Granted	—	—	—	**5,189**
Forfeited	—	13	17	**11**
Vested	—	4,882	—	**—**
Unvested	—	—	5,032	**5,178**
After vested				
Beginning of period	4,095	—	—	**—**
Vested	—	4,882	—	**—**
Exercised	—	—	—	**—**
Expired	112	168	—	**—**
Exercisable	3,983	4,714	—	**—**

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DMX Technologies Group Limited

Shares

	October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
Before vested			
Beginning of period	—	9,959,790	10,000,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	9,959,790	10,000,000
After vested			
Beginning of period	3,305,544	2,572,790	10,000,000
Vested	—	—	—
Exercised	—	—	—
Expired	—	—	—
Exercisable	3,305,544	2,572,790	10,000,000

* Regarding the chart for DMX Technologies Group Limited, which was consolidated during the year ended March 31, 2010, numbers in "Beginning of period" show the balance at the time of consolidation.

2) Unit value and exercise period for stock option rights

KDDI Corporation

		August 2006 5th Stock Option	August 2007 6th Stock Option	August 2008 7th Stock Option	August 2009 8th Stock Option (Yen)	August 2009 8th Stock Option (U.S. dollars)
Exercise price		¥775,000	¥879,000	¥649,000	**¥539,000**	**$5,793.21**
Average share price at exercise		—	—	—	**—**	
Fair value unit price (Date of grant)		103,462	100,549	106,718	**111,281**	**1,196.06**
Exercise period	From	October 1, 2008	October 1, 2009	October 1, 2010	**October 1, 2011**	
	To	September 30, 2010	September 30, 2011	September 30, 2012	**September 30, 2013**	

DMX Technologies Group Limited

Singapore dollars

		October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
Exercise price		SGD 0.6778	SGD 0.2260	SGD 0.0930
Average share price at exercise		—	—	—
Fair value unit price (Date of grant)		0.7900	0.2500	0.0900
Exercise period	From	October 2, 2004	April 24, 2009	November 27, 2009
	To	May 26, 2013	April 26, 2018	November 28, 2018

16 Segment Information

Information for each of the business segments for the years ended March 31, 2009 and March 31, 2010 is as follows:

Millions of yen

Year ended March 31, 2009	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss)						
Outside sales	¥2,708,005	¥759,313	¥30,191	¥3,497,509	¥ —	¥3,497,509
Intersegment sales	11,206	89,399	42,586	143,191	(143,191)	—
Total	2,719,211	848,712	72,777	3,640,700	(143,191)	3,497,509
Operating expenses	2,217,750	905,272	75,253	3,198,275	(143,973)	3,054,302
Operating income (loss)	¥ 501,461	¥ (56,560)	¥ (2,476)	¥ 442,425	¥ 782	¥ 443,207
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures						
Identifiable assets	¥1,974,649	¥938,402	¥43,773	¥2,956,824	¥472,309	¥3,429,133
Depreciation	305,307	127,855	2,440	435,602	(979)	434,623
Impairment losses	43,615	21,928	2,497	68,040	6	68,046
Capital expenditures	445,846	134,224	1,814	581,884	222,757	804,641

Millions of yen

Year ended March 31, 2010	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss)						
Outside sales	**¥2,637,806**	**¥751,196**	**¥ 53,145**	**¥3,442,147**	**¥ —**	**¥3,442,147**
Intersegment sales	**12,329**	**87,982**	**59,102**	**159,413**	**(159,413)**	**—**
Total	**2,650,135**	**839,178**	**112,247**	**3,601,560**	**(159,413)**	**3,442,147**
Operating expenses	**2,166,393**	**883,395**	**108,742**	**3,158,530**	**(160,245)**	**2,998,285**
Operating income (loss)	**¥ 483,742**	**¥ (44,217)**	**¥ 3,505**	**¥ 443,030**	**¥ 832**	**¥ 443,862**
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures						
Identifiable assets	**¥1,987,650**	**¥990,747**	**¥ 57,042**	**¥3,035,439**	**¥ 784,098**	**¥3,819,537**
Depreciation	**327,985**	**131,754**	**2,266**	**462,005**	**(1,065)**	**460,940**
Impairment losses	**78**	**43,324**	**164**	**43,566**	**1**	**43,567**
Capital expenditures	**375,877**	**142,368**	**2,901**	**521,146**	**10,991**	**532,137**

Millions of U.S. dollars

Year ended March 31, 2010	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss)						
Outside sales	**$28,351**	**$ 8,074**	**$ 571**	**$36,996**	**$ —**	**$36,996**
Intersegment sales	**133**	**946**	**635**	**1,713**	**(1,713)**	**—**
Total	**28,484**	**9,020**	**1,206**	**38,709**	**(1,713)**	**36,996**
Operating expenses	**23,285**	**9,495**	**1,168**	**33,947**	**(1,722)**	**32,225**
Operating income (loss)	**$ 5,199**	**$ (475)**	**$ 38**	**$ 4,762**	**$ 9**	**$ 4,771**
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures						
Identifiable assets	**$21,363**	**$10,649**	**$ 613**	**$32,625**	**$ 8,428**	**$41,053**
Depreciation	**3,525**	**1,416**	**25**	**4,966**	**(11)**	**4,954**
Impairment losses	**1**	**465**	**2**	**468**	**0**	**468**
Capital expenditures	**4,040**	**1,530**	**31**	**5,601**	**118**	**5,719**

Note 1. Business segments and principal services/operations of each segment

Business Segment	Principal Services/Operations
Mobile Business	Mobile phone services, sales of mobile phone handsets, mobile solutions services, etc.
Fixed-line Business	Local, long-distance and international telecommunications services, Internet services, solutions services, data center services, CATV services, etc.
Other Business	Call center business, content business, research and advanced development, and other mobile phone services, etc.

Note 2. Impairment losses in the Fixed-line Business includes ¥32,832 million (U.S.$353 million) of business restructuring expenses regarding network streamlining (combining and disposal of low-use facilities) in the Fixed-line Business.

Note 3. In "Identifable Assets," the value of Companywide assets included in the "Elimination and Corporate" category is ¥945,976 million (U.S.$10,167 million). The majority of these assets are surplus funds provided to companies, long-term investments and assets related to administrative divisions.

Further, in accordance with the acquisition of entire ownership of interest in intermediary holding companies which Liberty Global Inc. group owns, the ownership interest (stocks of subsidiaries and affiliates) of Jupiter Telecommunications Co., Ltd. was increased.

Note 4. For depreciation related to Companywide assets, amounts allocated to each segment are ¥8,614 million (U.S.$93 million) for the Mobile Business and ¥7,218 million (U.S.$78 million) for the Fixed-line Business.

Note 5. Information by geographic segment is not shown since total sales and total assets in Japan accounted for over 90% of total sales and total assets in all business segments.

Note 6. Net sales from overseas operations are not shown since they account for less than 10% of consolidated net sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17 Special Purpose Companies

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

The Company securitized its properties in order to improve its financial position by reducing interest-bearing debt. This securitization is conducted using special purpose companies ("SPCs"), a particular type of limited liability company.

For securitization, the Company transfers its real estate properties to an SPC, which procures funds from debt using these assets as collateral. The Company then receives these funds as proceeds from sale.

After securitization, the same properties are leased back to the Company. Since all investments in the SPCs by anonymous associations are expected to be collected, as of March 31, 2010, we have determined that there is no possibility of incurring future losses.

At March 31, 2010, there is one SPC with a transaction balance. Total assets in this SPC, as of its most recent closing date, amounted to ¥9,694 million (U.S.$104 million), with total liabilities of ¥9,001 million (U.S.$97 million).

Neither the Company nor any of its consolidated subsidiaries has made investments that confer voting rights in this SPC, and no directors or employees have been dispatched to it.

2. Transaction amounts with SPCs during the year ended March 31, 2010

Major transaction amounts for the year ended March 31, 2010 and balance at March 31, 2010

	Millions of yen	Millions of U.S. dollars
	2010	2010
Transferred properties*1	¥14,547	$156
Long-term accounts receivable	601	6
Investments by anonymous association*2	727	8
Lease transaction	—	—

Major income and loss

	Millions of yen	Millions of U.S. dollars
	2010	2010
Dividend	¥ 898	$10
Lease payments	1,669	18

*1 Transaction amounts related to the transferred properties are represented as the transfer price at the time of the transfer.
*2 Transaction amounts related to the investments made by the anonymous association are represented as the amounts invested at March 31, 2010.

18 Per Share Information

	Yen		U.S. dollars
	2009	2010	2010
Net assets per share	¥413,339	**¥453,003**	**$4,868.91**
Net income per share	49,973	**47,768**	**513.41**
Diluted net income per share	Not given as the Company has no potential stocks with dilution effect	**Not given as the Company has no potential stocks with dilution effect**	**—**

* The following shows the basis of calculating net income per share, and diluted net income per share.

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
Net income for the fiscal year	¥ 222,736	**¥ 212,764**	**$ 2,287**
Monetary value not related to common stockholders	—	**—**	**—**
Net income related to common stock	222,736	**212,764**	**2,287**
Number of weighted average common shares outstanding during the fiscal year	4,457,117	**4,454,113**	**4,454,113**
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	Three types of subscription warrant (14,039 subscription warrants). An overview of the subscription warrants is given in "15. Stock Options."	**Four types of subscription warrant (18,907 subscription warrants). An overview of the subscription warrants is given in "15. Stock Options."**	**—**

19 Subsequent Event

The appropriation of retained earnings and directors' and corporate auditors' bonuses of the Company for the year ended March 31, 2010, proposed by the Board of Directors and approved at the shareholders' meeting held on June 17, 2010, were as follows

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥6,500 = U.S.$69.86)	**¥28,952**	**$311**
Directors' and corporate auditors' bonuses	**61**	**1**

REPORT OF INDEPENDENT AUDITORS

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 ("the Company") as of March 31, 2010, 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, 2010, 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.

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

June 30, 2010

CORPORATE OVERVIEW

As of March 31, 2010

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 160-8003, Japan)
Representative Director:	Tadashi Onodera, President and Chairman
Capital:	¥141,852 million
Number of Employees:	18,301 (consolidated)

Investor Relations (IR) Website

The KDDI 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 2009” from Daiwa Investor Relations Co., Ltd., and we ranked third in the Best Corporate Website 2009 Survey’s overall ranking and second in the information and telecommunications category by Nikko Investor Relations Co., Ltd. The website also took sixth in the “Gomez IR Website Overall Ranking 2010” from Gomez Consulting Co., Ltd.

IR Website URL:

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

Designing The Future

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