

OVERVIEW OF OPERATIONS— 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

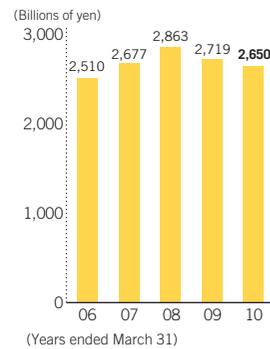
Principal Services/Operations

Mobile phone services, sales of mobile phone handsets, mobile solutions services, etc.

Principal Group Companies

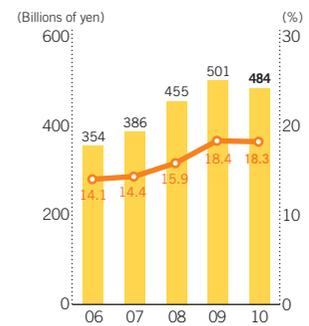
KDDI Corporation, OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Technical & Engineering Service Corporation

Operating Revenues



(Years ended March 31)

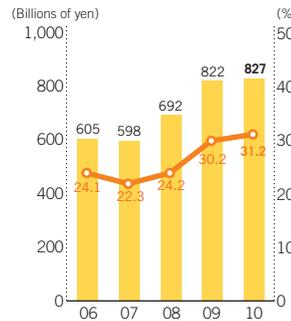
Operating Income/ Operating Income Margin



(Years ended March 31)

■ Operating income
— Operating Income margin (right)

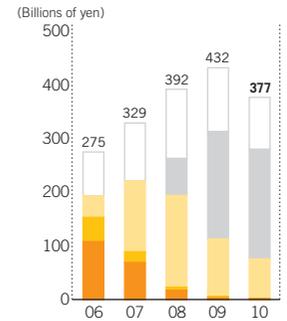
EBITDA/EBITDA Margin



(Years ended March 31)

■ EBITDA — EBITDA margin (right)

Capital Expenditures



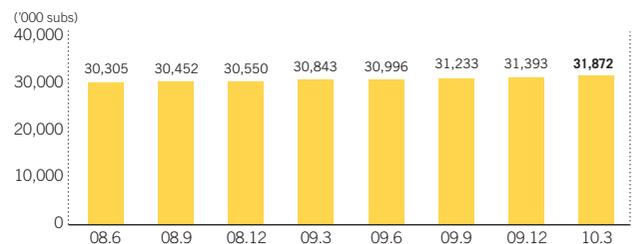
(Years ended March 31)

■ 800MHz 1X ■ 800MHz EV-DO ■ 2GHz ■ New 800MHz □ Common equipment

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.



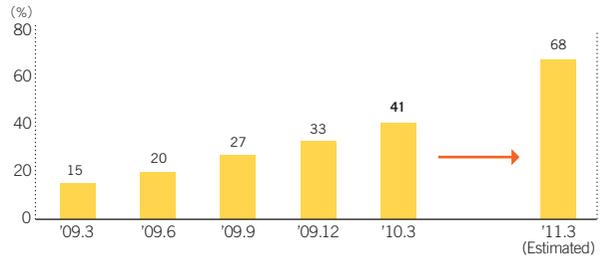
ARPU

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”

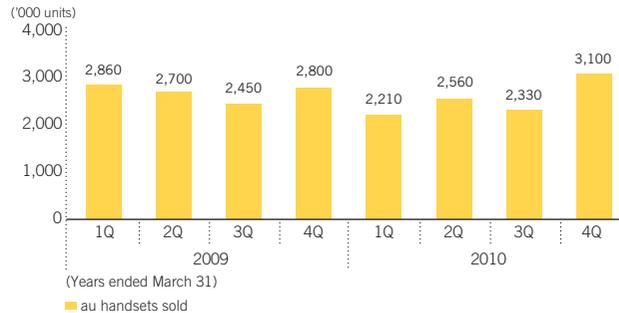


Handset Sales and Inventory

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.

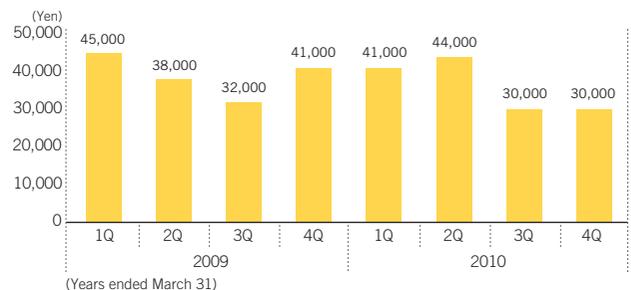
Handset inventory as of March 31, 2010 totaled 1.14 million units, down 33% year on year. This figure includes 220,000 units already written off.

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.

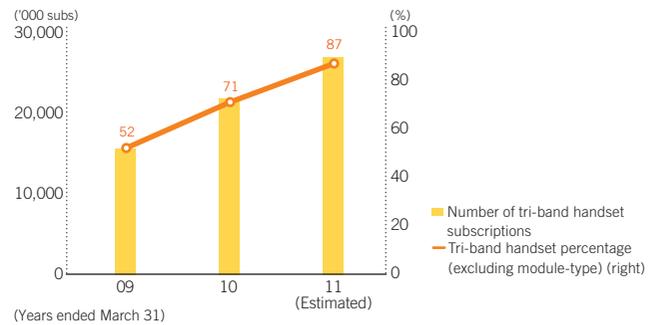
KDDI is shifting to tri-band handsets, which are compatible with three bandwidths: current 800MHz, 2GHz, and new 800MHz. We aim to have all au subscribers use tri-band handsets prior to the switchover to the new band in July 2012.

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

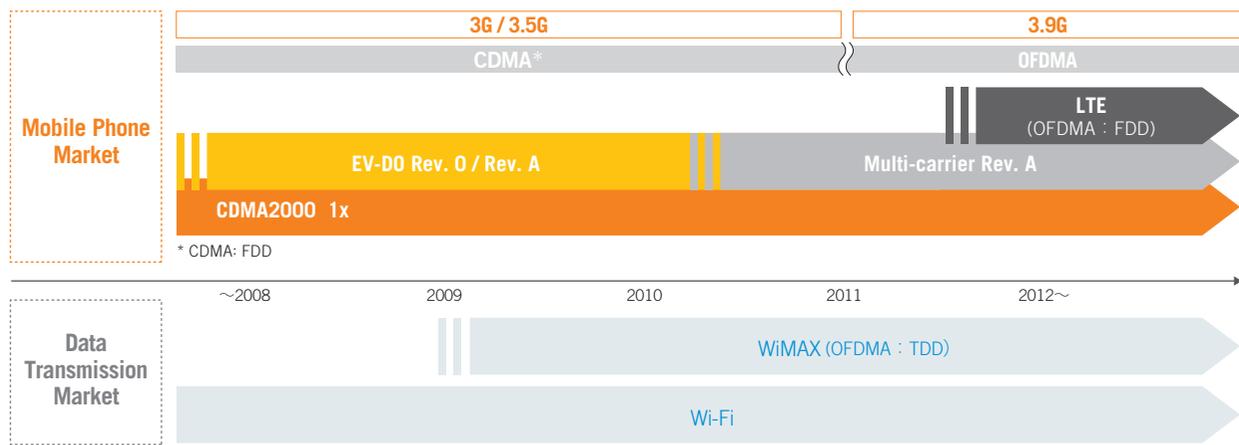


Network Roadmap up through the Introduction of LTE Technology

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

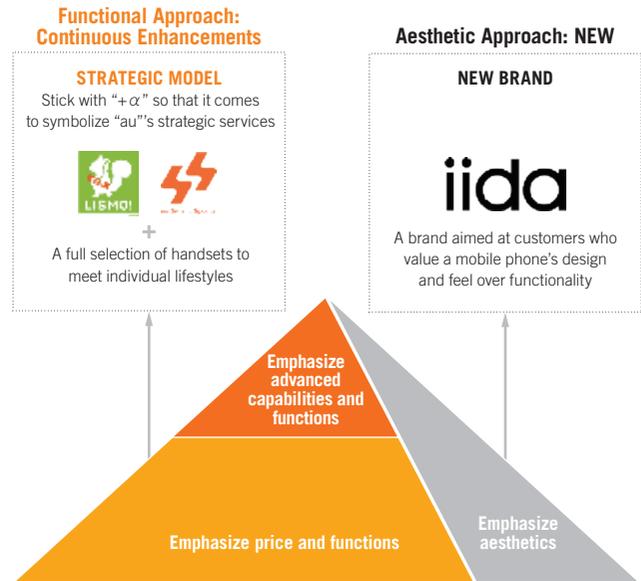
Handsets

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.

Note: “Android” and “Android Market” are trademarks of Google Inc.



Screen image

OVERVIEW OF OPERATIONS—MOBILE BUSINESS

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 ARPU 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.

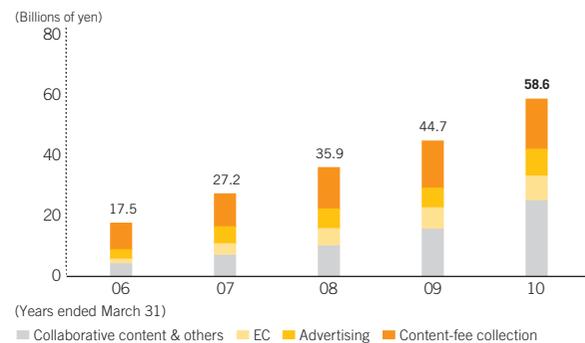
In addition to an expansion of digital content, including for "Chaku-Uta®"*1 and "Chaku-Uta Full®"*1 music services, games, and e-books for which KDDI provides fee collection services, we have collaborated with GREE, Inc., to offer the "au one GREE" mobile SNS. This service had 7.42 million subscribers 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



OVERVIEW OF OPERATIONS—MOBILE BUSINESS

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.

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.

Fitness

Golf

Run & Walk

Karada Manager

au Smart Sports

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.

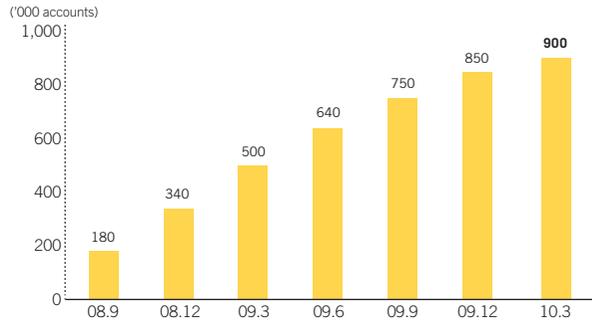
In May 2010, the number of "Jibun Bank" accounts topped 1 million in less than two years from its start of operations in July 2008, making it the first Internet bank to reach this figure so quickly. In the year ending March 31, 2011, we will cooperate with The Bank of Tokyo-Mitsubishi UFJ, Ltd. to develop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

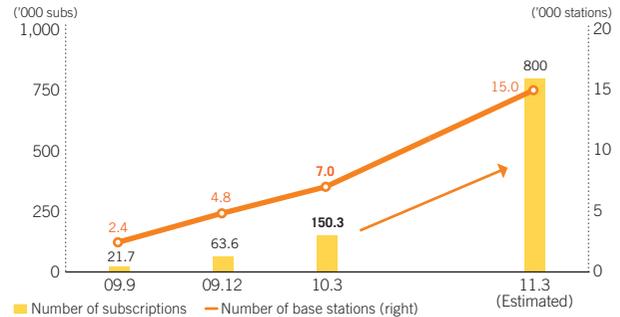
Meanwhile, UQ Communications Inc., established in August 2007, is working to create a nationwide network for mobile WiMAX. UQ is the only domestic operator in Japan offering mobile WiMAX, which is a new global standard telecommunications technology with high-speed broadband and "always on" connections. 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.



Number of "Jibun Bank" Accounts



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"

