FINANCIAL SECTION

CONTENTS

60
FIVE-YEAR SUMMARY

61
SEGMENT DATA

62
FAQ REGARDING MANAGEMENT'S DISCUSSION AND ANALYSIS

64
MANAGEMENT'S DISCUSSION AND ANALYSIS

77
BUSINESS RISKS

80
CONSOLIDATED BALANCE SHEETS

82
CONSOLIDATED STATEMENTS OF INCOME

83
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

85
CONSOLIDATED STATEMENTS OF CASH FLOWS

86
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

104
REPORT OF INDEPENDENT AUDITORS

FIVE-YEAR SUMMARY

Years ended March 31

Consolidated	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**
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 affilate 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.

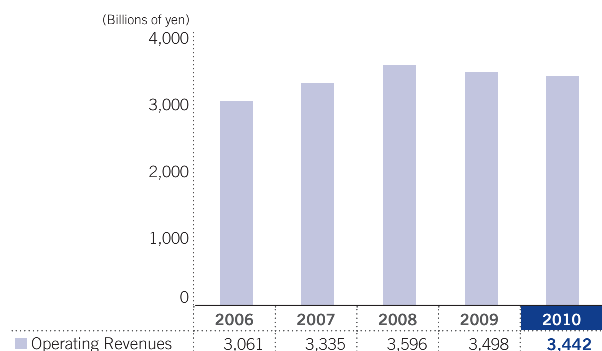
In this environment, the KDDI Group worked to meet diversifying customer needs in its Mobile Business by developing and marketing an enhanced lineup of handsets and formulating and offering new pricing plans, in addition to striving to enhance its services targeting individual and corporate clients, 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)

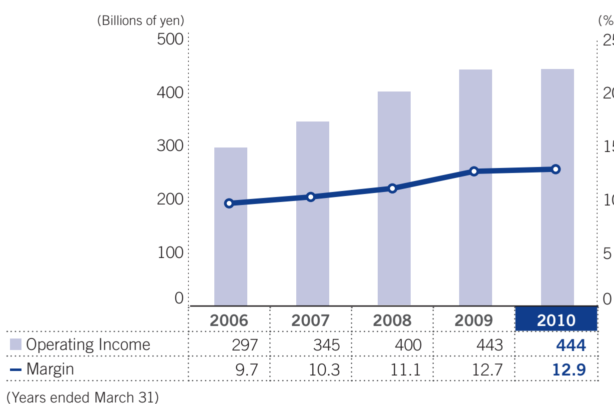
Summarized Consolidated Statements of Income

(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)

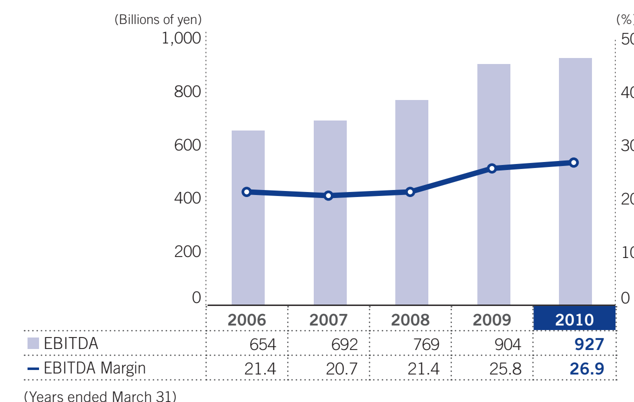
Total other expenses (net of other income) stood at ¥75.2 billion, up ¥26.9 billion from the previous year. This rise is mainly due to an increase in equity in loss of affiliates and ¥36.3 billion received in dividend income associated with the termination of a silent partnership in the previous year.

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**

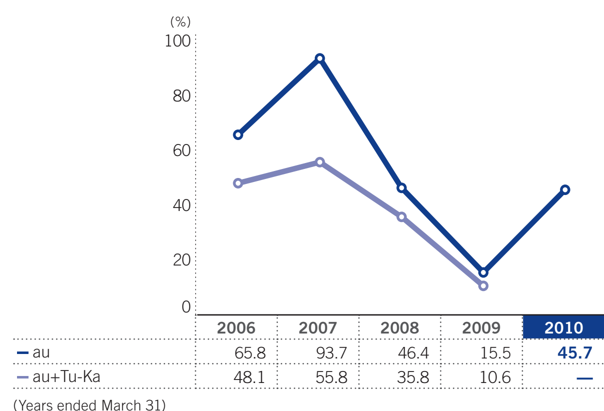
(Years ended March 31)

● 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

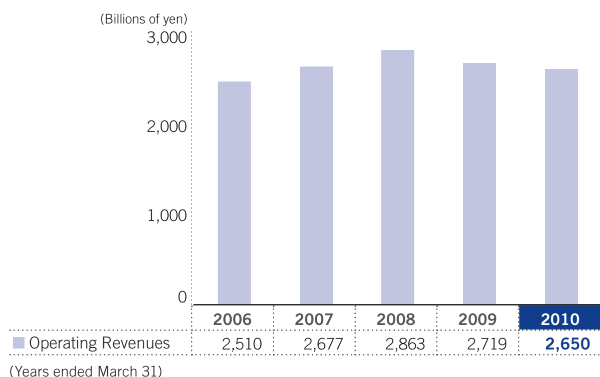
KDDI revamped its "LISMO!" music/video service for au. The service now serves as an integrated entertainment brand to offer e-book content in addition to music and videos. The service provides new functions, including a search function across music, video, and e-book content, and the downloading of multiple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



(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.

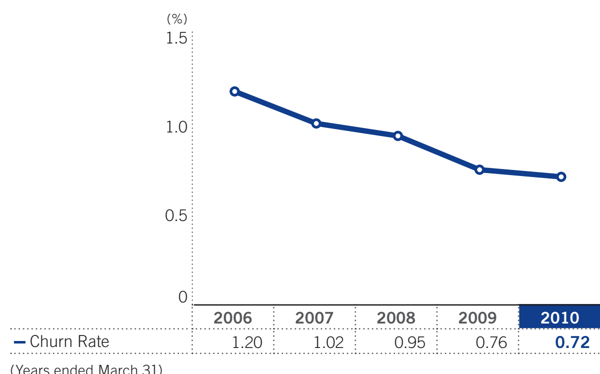
Increased Subscriptions and Lower Churn Rate

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

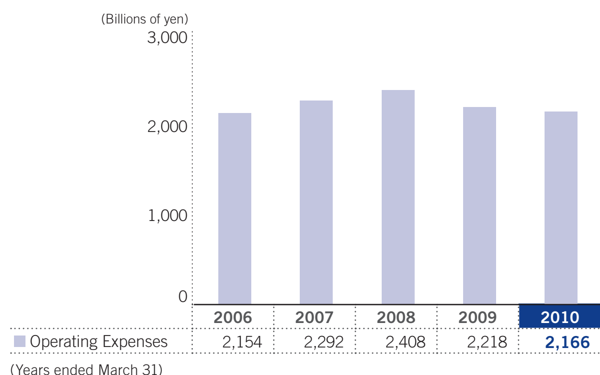


(Years ended March 31)

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)



(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.

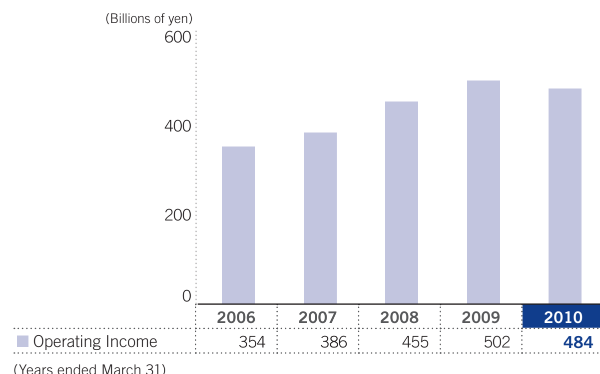
Increase in Depreciation

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.

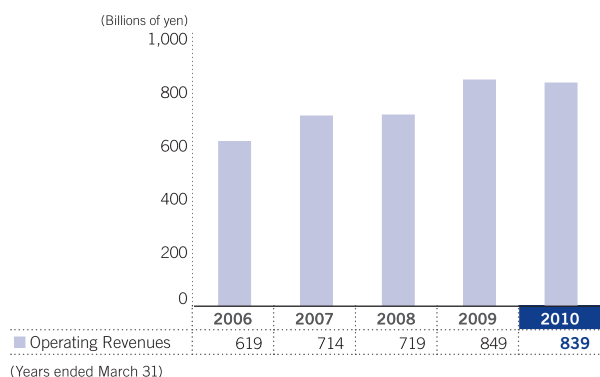
With the objective of gaining a foothold in the high-growth potential markets of developing countries, KDDI completed investment in Bangladesh Internet service provider BRAC BD Mail Networks Limited (bracNet) in January 2010. This equity participation initiative was spawned through an agreement with 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)



(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

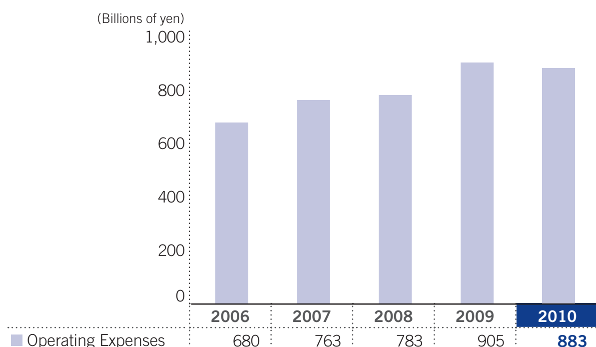
Voice services are on the decline as the mode of fixed-line telecommunications services shifts from voice communications to IP and the Internet. As this decline more than offset the abovementioned increased revenues from FTTH services and growth in CATV providers, overall operating revenues from Fixed-line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

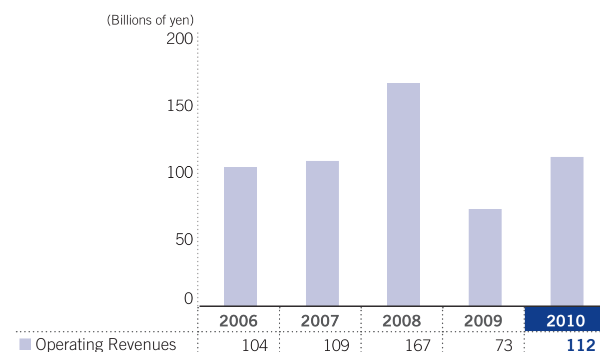
(c) Other Business

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)



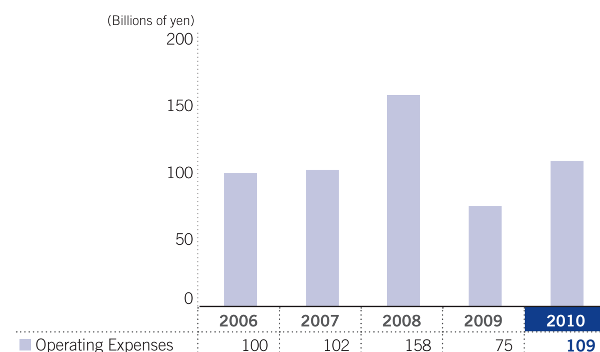
	2006	2007	2008	2009	2010
Operating Revenues	104	109	167	73	112

(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)

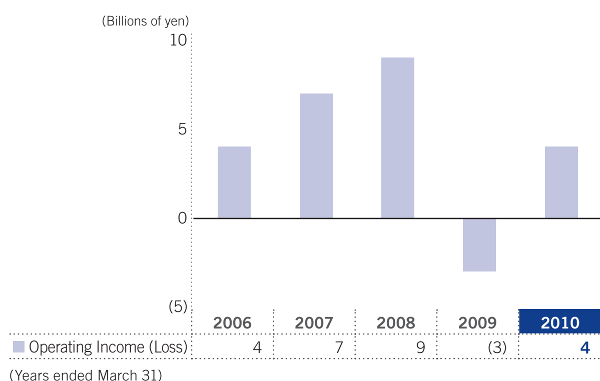
Operating Income (Loss)

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

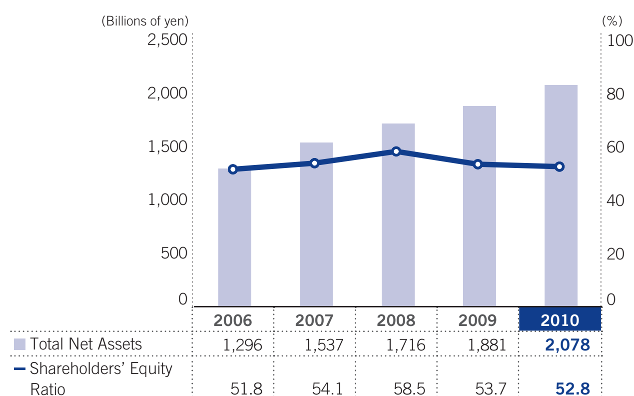
Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥148.3 billion, together with an upward income tax adjustment of ¥1.9 billion. This resulted in a ¥20.1 billion decrease in total income taxes and tax adjustments year on year. The primary factor behind this decline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

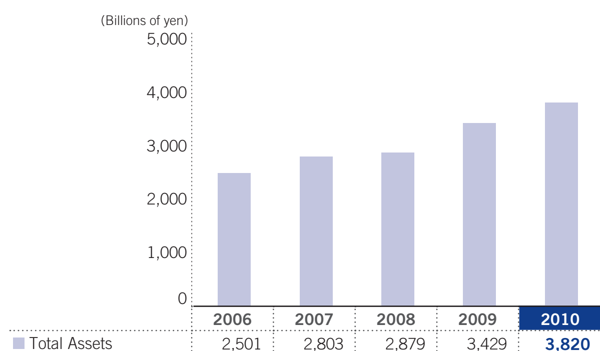
Total Net Assets, Shareholders' Equity Ratio



	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)

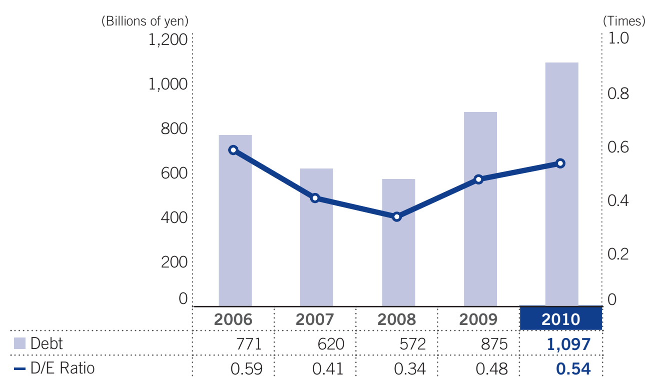
Total Assets



	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)

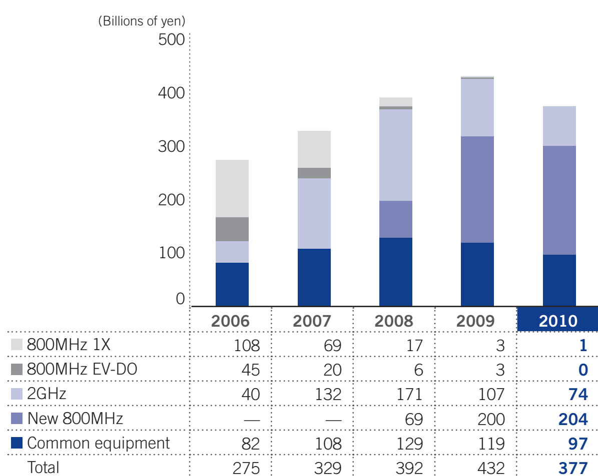
Capital Expenditures

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)

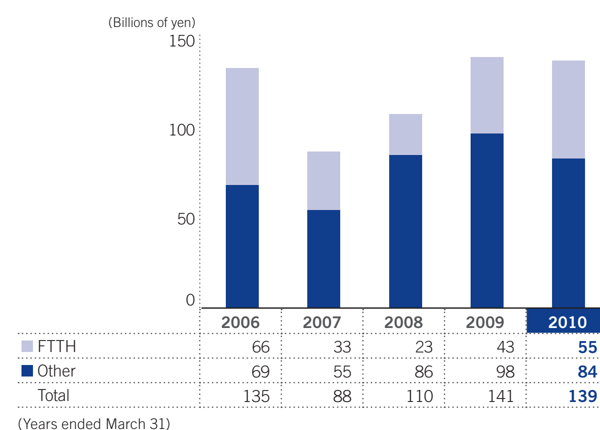
(b) Fixed-line Business

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
2. Communications Security and Protection of Customer Privacy
3. System Failures due to Natural Disasters and Other Unforeseen Events
4. Telecommunications Sector Regulations and Government Policies
5. General Legal and Regulatory Risk
6. Litigation and Patents
7. Personnel Retention and Training
8. Retirement Benefits
9. Asset-impairment Accounting
10. Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

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)).

	Book value	Market value	Difference
	Millions of yen		
(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

	Book value	Market value	Difference
	Millions of U.S. dollars		
(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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

					Millions of yen			Millions of U.S. dollars		
		Acquisition cost	Book value	Book value gain/loss	Acquisition cost	Book value	Book value gain/loss	Acquisition cost	Book value	Book value gain/loss
				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

					Millions of yen			Millions of U.S. dollars
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
			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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	—	**—**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 2010	Millions of U.S. dollars 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 2010	Millions of U.S. dollars 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, Japan

June 30, 2010