FINANCIAL SECTION

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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, 2011 higher than the Company's initial forecast?

Operating Income in the Year Ended March 31, 2011

Billions of yen

	① Initial forecast	② Actual	Difference (②–①)
Consolidated	445.0	471.9	+26.9
Mobile Business	430.0	438.9	+8.9
Fixed-line Business	10.0	24.0	+14.0

In the Mobile Business, the operating income was up ¥8.9 billion from the initial plan as amortization was lower than forecasted as capital expenditures were refrained and outsourcing expenses were lower than planned.

In the Fixed-line Business, operating income of KDDI was lower than planned due to a continuous decrease in revenues, although mainly in legacy-related voice revenues. Overall operating income was up ¥14.0 billion from the initial plan as cost reduction efforts, mainly of network streamlining, were conducted.

Q2

Why did au ARPU fall significantly during the year ended March 31, 2011?

au ARPU Breakdown

Yen

(Years ended March 31)	① 2010	② 2011	Difference (②–①)
ARPU	5,410	4,940	(470)
Voice ARPU	3,150	2,620	(530)
Data ARPU	2,260	2,320	+60

The biggest factor behind the year-on-year decline in voice ARPU (down ¥530) was the increase in "Simple course" subscribers. Next was the impact of "Call Designation Flat Rate" and a shift to lower rate plans.

Behind the year-on-year rise in data ARPU (up ¥60) was an increase in the usage of smart phones, the spread of data flat-rate service subscribers using feature phones, and the promotion of contents services.

Q3

What was the reason for the decline in au sales commissions in the year ended March 31, 2011, and what are your predictions for the future?

Average au Sales Commissions

Yen

(Years ended March 31)	2010	2011					Forecast for 2012
		1Q	2Q	3Q	4Q	Full-year	
Average Sales Commissions	36,000	27,000	28,000	24,000	24,000	26,000	22,000

Actual full-year results were down ¥3,000 from the initial plan of ¥29,000 in the year ended March 31, 2011, due to the introduction of "Maitsuki Discount" for sales of smart phones in the second half and reduction in average handset procurement cost.

In the year ending March 31, 2012, we forecast commissions to be ¥22,000, down ¥4,000 from the previous year, as we expect "Maitsuki Discount," accompanied by the rise in the sales of smart phones, will further reduce commissions.

Q4

What are the assumptions behind your operating income forecasts for the year ending March 31, 2012?

Operating Income

Billions of yen

(Years ended March 31)	2011	Forecast for 2012		
			Difference	YOY change
Consolidated	471.9	475.0	+3.1	+0.7 %
Mobile Business	438.9	430.0	(8.9)	(2.0)%
Fixed-line Business	24.0	40.0	+16.0	+66.7 %

In the Mobile Business, we are forecasting a reduction in sales commissions due to "Maitsuki Discount," an increase in profits from terminal sales and "Keitai Guarantee Service," etc., and a reduction of general costs. However, these efforts would not cover a decline in operating revenues from telecommunications business brought about by rise in the number of "Simple course" subscribers and a reduction in voice ARPU due to "Maitsuki Discount." Operating income is expected to decrease 2.0%, or ¥8.9 billion, from the previous year.

In the Fixed-line Business, operating income is projected to increase 66.7%, or ¥16.0 billion, from the previous year due to the increase in KDDI's revenues as a result of FTTH sales expansion, reduction in network costs, and a rise in profits of Group companies.

Q5

What will be your future levels of capital expenditures?

Capital Expenditures

Billions of yen

(Years ended March 31)	2008	2009	2010	2011	Forecast for 2012
Consolidated	517.0	575.1	518.0	443.7	460.0
Mobile Business	391.7	432.1	376.8	338.7	335.0
Fixed-line Business	109.6	140.6	138.7	103.1	122.0

Capital expenditures are already peaking out, and by 2012 we expect to complete our investments related to the reorganization of the 800MHz band, which occupied a major part in the Mobile Business investment. Meanwhile, we plan to begin providing services using LTE technology from 2012, where we plan to invest a total of approximately ¥300 billion for base stations from the years ending March 31, 2011 to March 31, 2015. By promoting a multi-network strategy, we plan to conduct efficient capital expenditures.

The mid-term capital expenditure level is planned to be the same level as the amount in the year ended March 31, 2011 (¥443.7 billion).

Q6

What are the status of equity in net income (loss) of affiliates including UQ and Jibun Bank in the year ended March 31, 2011?

Equity in Net Income (Loss) of Affiliates Breakdown

Billions of yen

(Years ended March 31)	Equity ratio	① 2010	② 2011	Difference (②–①)
UQ	32.3%	(9.2)	(16.8)	(7.6)
Jibun Bank	50.0%	(3.4)	(3.0)	+0.4
J:COM	33.3%	—	(1.4)	(1.4)
Other	—	2.6	1.3	(1.3)
Total	—	(10.0)	(19.9)	(10.0)

In the year ended March 31, 2011, equity in net loss of affiliates was ¥16.8 billion for UQ communications and ¥3.0 billion for Jibun Bank. The losses are likely to decrease at both companies as they improve business results in the year ending March 31, 2012.

J:COM became an equity-method affiliate from the second quarter of the year ended March 31, 2011. Equity in net loss of ¥1.4 billion was posted, including ¥11.0 billion in amortization of goodwill.

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, 2011. 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, 2011, based on information available at that time. Actual results may differ materially due to the risks and uncertainties inherent in such statements.

01 Analysis of Consolidated Business Results

Executive Summary

(a) Status of the KDDI Group

The KDDI Group, consisting of the parent company, 105 consolidated subsidiaries, and 24 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, 2011, it had 33 million subscriptions.

The Fixed-line Business segment supplies broadband services (FTTH • CATV services, etc.), and domestic and international telecommunications services, etc. As of March 31, 2011, the number of fixed access lines* was 6.41 million. For its corporate clients, KDDI offers the data network service, data center service, and an array of other ICT solutions.

The Group is also involved in the call center business and research and development of the latest technology. In addition to improving its services, the Group is developing various services to strengthen the interaction between its businesses.

We would like to apologize for the inconvenience caused to KDDI's customers due to the impacts on our telecommunications services of the Great East Japan Earthquake. In an effort to restore services to the stricken region as quickly as possible and fulfill its role as a provider of communication services, KDDI provided disaster warning billboards, lent handsets, deployed vehicle-mounted satellite base stations and ground power units, and offered support involving usage fees. The Group also donated ¥1.0 billion. We intend to make our utmost effort for the early recovery of the damaged areas. By the end of April 2011, we had restored access to some 99% of fixed lines. With regard to au base stations, we expect to have brought coverage and quality in the affected areas back to pre-earthquake levels by June 30, 2011.

* 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 such areas as the provision of low pricing plans; a wide variety of handsets including smart phones, tablet terminals, and ebooks terminals; and music, video, ebooks, 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.

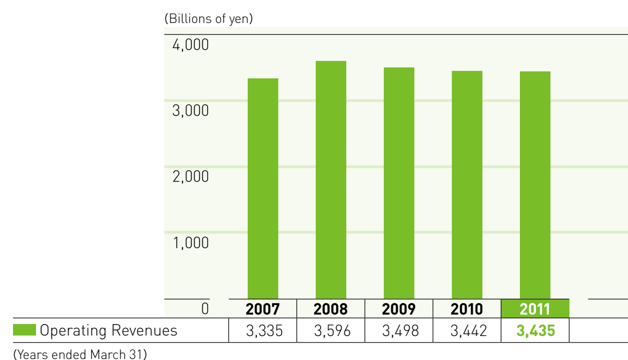
In the Mobile Business, we are developing and marketing new handsets to meet increasingly diverse demand, fueled by the mainstream acceptance of smart phones, as well as of such devices like digital photo frames, ebook readers, and mobile Wi-Fi routers. Moreover, with measures such as offering new pricing plans, we are working to expand our range of services targeting individual and corporate clients.

In the Fixed-line Business, the Group worked to expand access lines centering on FTTH and offered more solutions services for corporate clients, while striving to bolster its systems that support corporate clients' business development by increasing its overseas locations. Moreover, the Group also promoted partnership with many companies in various areas in both the Mobile Business and the Fixed-line Business.

Overview

In the year ended March 31, 2011, total operating revenues amounted to ¥3,434.5 billion, down ¥7.6 billion, or 0.2% year on year. In the Mobile Business, despite an increase in revenues due to the rise in the total number of handset sales, overall revenues fell due to a decrease in voice ARPU arising from the increased customer shift to "Simple course" pricing. Operating revenues increased in the Fixed-line Business, due to the increase in operating revenues of Group companies, which offset the decline in voice revenues of KDDI.

Consolidated Operating Revenues



	2007	2008	2009	2010	2011
Operating Revenues	3,335	3,596	3,498	3,442	3,435

(Years ended March 31)

Summarized Consolidated Statements of Income

Billions of yen

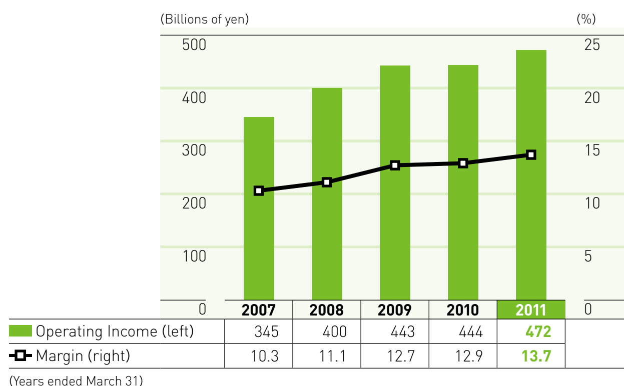
	2010	2011	Change amount	Change (%)
Operating Revenues	3,442.1	**3,434.5**	(7.6)	(0.2)
Operating Expenses	2,998.3	**2,962.6**	(35.7)	(1.2)
Operating Income	443.9	**471.9**	28.0	6.3
Other Expenses	75.2	**126.7**	51.4	68.5
Income before Income Taxes and Minority Interests	368.6	**345.3**	(23.4)	(6.3)
Total Income Taxes	150.2	**81.2**	(69.0)	(45.9)
Minority Interests in Income	5.7	**8.9**	3.2	57.4
Net Income	212.8	**255.1**	42.4	19.9

(Years ended March 31)

Total operating expenses declined ¥35.7 billion, or 1.2% year on year, to ¥2,962.6 billion. In the Mobile Business, even though an increase in the number of terminal sales caused sales cost to rise, adoption of "Maitsuki Discount" reduced sales commission, resulting in a decline in operating expenses. The decline in KDDI's operating expenses from network streamlining (combining and disposal of low-use facilities) in the year ended March 31, 2010, led to a drop in the operating expenses of the Fixed-line Business.

As a result, operating income rose ¥28.0 billion, or 6.3% year on year, to ¥471.9 billion.

Consolidated Operating Income/Margin



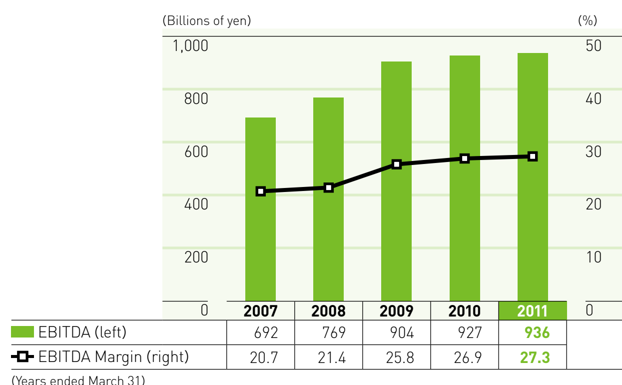
	2007	2008	2009	2010	2011
Operating Income (left)	345	400	443	444	**472**
Margin (right)	10.3	11.1	12.7	12.9	**13.7**

(Years ended March 31)

Total other expenses (net of other income) stood at ¥126.7 billion, up ¥51.4 billion from the previous year. This rise is mainly due to an increase in equity in loss of affiliates, ¥52.1 billion for impairment loss, and ¥31.8 billion for loss on retirement of non–current assets including disposal of property, plant and equipment, related to the disposal of facility used for the current 800MHz, and ¥17.6 billion for loss on the Great East Japan Earthquake.

Income before income taxes and minority interests shrank ¥23.4 billion, or 6.3% year on year, to ¥345.3 billion. Corporation, resident, and enterprise taxes amounted to ¥81.2 billion, down ¥69.0 billion, due to loss on liquidation of four intermediary holding companies that possessed shares of Jupiter Telecommunications Co., Ltd. Minority interests in income grew ¥3.2 billion, to ¥8.9 billion. As a result, net income increased ¥42.4 billion, or 19.9% year on year, to ¥255.1 billion.

EBITDA/EBITDA Margin



	2007	2008	2009	2010	2011
EBITDA (left)	692	769	904	927	**936**
EBITDA Margin (right)	20.7	21.4	25.8	26.9	**27.3**

(Years ended March 31)

Review by Segment

(a) Mobile Business

In the Mobile Business, we have worked to enhance our overall product lineup through improving network, handsets, pricing plans, and service/content of the au mobile phone service.

Share of Net Additions of Mobile Business

	2007	2008	2009	2010	2011
au	93.7	46.4	15.5	21.9	**15.3**
au+Tu-Ka	55.8	35.8	10.6	—	**—**

(Years ended March 31)

(Reference) Cumulative Subscriptions*1

Thousands of subscriptions

	As of March 31, 2010	As of March 31, 2011	Net Additions*2
au	31,872	32,999	1,127
(of module-type)	(1,085)	(1,494)	(409)
CDMA 1X WIN (EV-DO)	26,174	29,633	3,459
CDMA 1X	5,451	3,221	(2,230)
cdmaOne	247	146	(102)
EZweb/IS NET (IP connection base)	26,974	27,489	515

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

Network

We have adopted "EV-DO Multi-carrier" technology and started offering "WIN HIGH SPEED," the expanded system that allows 9.2Mbps downlink and 5.5Mbps uplink speed*1 at maximum. Compared to the current "EV-DO Rev. A," the speed triples at maximum.*1, 2

*1. Applicable in areas that support 9.2Mbps downlink (5.5Mbps uplink) speed at maximum. It is the best-effort method service. The speed mentioned is the maximum speed according to technical standards and does not show the actual usage speed. The speed may slow down significantly depending on the communication environment and traffic status.
*2. "EV-DO Rev. A" 3.1Mbps downlink/1.8Mbps uplink speed maximum. →"WIN HIGH SPEED" 9.2Mbps downlink/5.5Mbps uplink speed maximum.

Handsets

In the year ended March 31, 2011, a total of six models, including a model with such Japanese standard functions as "Osaifu-Keitai™" and "one seg" broadcasting reception and a waterproof model that allows high-resolution videos, were released under the smart phone brand "IS series."

For conventional au feature phones, a total of 31 models were released, including high-function models, simple and easy-to-use models, and a model with WiMAX functions.

"iida" brand released three handsets with a focus on designs, as well as 17 models of "LIFESTYLE PRODUCTS," including items specialized for handsets. Three concept models were produced in collaboration with internationally famous Italian design company ALESSI.

In addition, various terminals were introduced, including a tablet terminal , an ebook reader that allows downloading and storing of ebooks, a digital photo frame, etc.

Pricing Plans

"IS Flat," a new packet flat-rate service that allows customers to enjoy web services available with smart phones more casually and comfortably, was introduced. The new rate comes below the maximum rate of the conventional packet communication flat charge. "Maitsuki Discount (Monthly Discount)," where a fixed amount of discount is subtracted from the monthly charge according to the model to allow customers to purchase smart phones at a reasonable price, was also introduced. The Group also introduced "Kaigai Double-Teigaku," a flat-rate packet service, to allow customers to comfortably use au mobile phones and smart phones that involve large data communication in 23 countries and areas, including the United States, China, and South Korea.

Service/Content

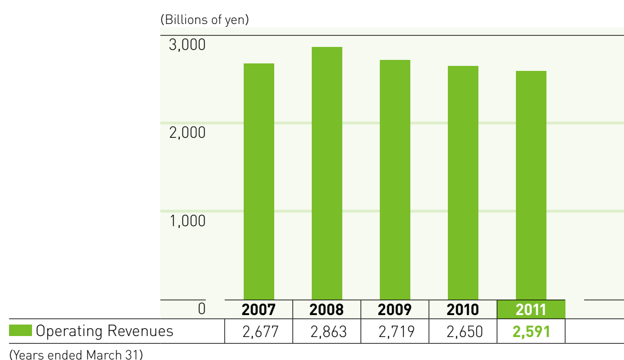
The Group started offering "Skype™ | au" service, which allows voice calls and instant messaging on au brand smart phones featuring Android™ and "au one Market," a new application market for au smart phones featuring Android™ to expand the variety of apps. "LISMO WAVE," a music streaming service that allows users to listen to FM radio broadcasting from 52 private stations around Japan regardless of the area, as well as enjoy music videos using Wi-Fi, has been offered to expand the variety of services.

"Age Verification Service," which verifies ages of customers using contents by utilizing the subscriber information of au mobile phones, has been offered as the first attempt by a domestic mobile phone carrier for more comfortable and safer usage of services.

Operating Revenues

In the year ended March 31, 2011, operating revenues in the Mobile Business amounted to ¥2,590.7 billion, down ¥59.4 billion, or 2.2% year on year. The main factors for this decline are outlined below.

Operating Revenues (Mobile Business)



	2007	2008	2009	2010	2011
Operating Revenues	2,677	2,863	2,719	2,650	2,591

(Years ended March 31)

Fall in ARPU

Voice ARPU decreased 16.8% from the previous year, to ¥2,620, as a result of the increased uptake of "Simple course" pricing. Data ARPU rose 2.7%, to ¥2,320, because of packet flat-rate services such as "IS Flat" and "Double-Teigaku." Accordingly, total ARPU declined 8.7% during the year, to ¥4,940.

au ARPU*

(Yen)

	2010	2011	Change
Total ARPU	5,410	4,940	(470)
Voice ARPU	3,150	2,620	(530)
Data ARPU	2,260	2,320	60

(Years ended March 31)

* ARPU is average of each years.

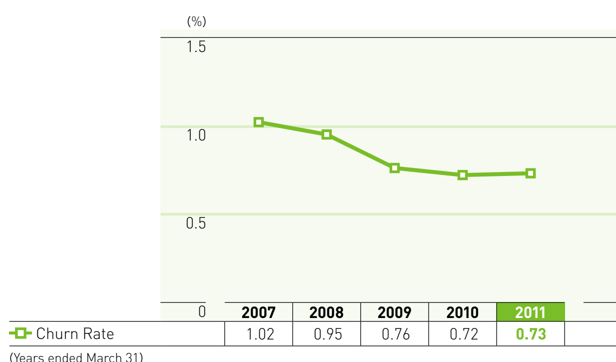
Increased Subscriptions

Cumulative subscriptions at the end of March 2011 were 33 million, up 1.13 million from the previous year. Further, cumulative subscriptions on an IP connection basis for EZweb/IS NET subscribers were up 520,000 from the previous year, at 27.49 million. A total of 360,000 subscriptions were lost due to Mobile Number Portability (MNP).

The churn rate remained about the same at 0.73%, up 0.01 percentage point from the previous year.

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

Churn Rate



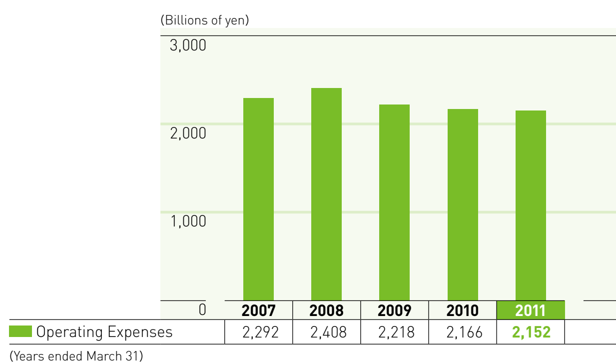
	2007	2008	2009	2010	2011
Churn Rate	1.02	0.95	0.76	0.72	0.73

(Years ended March 31)

Operating Expenses

Operating expenses in the Mobile Business for the year ended March 31, 2011 declined ¥14.6 billion, or 0.7% year on year, to ¥2,151.8 billion. The main factors for this decline are outlined below.

Operating Expenses (Mobile Business)



	2007	2008	2009	2010	2011
Operating Expenses	2,292	2,408	2,218	2,166	2,152

(Years ended March 31)

(Reference) Cumulative Subscriptions*[1]

Thousands of subscriptions

	As of March 31, 2010	As of March 31, 2011	Net Additions
FTTH	1,513	**1,901**	388
Metal-plus	2,852	**2,543**	(309)
Cable-plus phone	960	**1,341**	380
CATV	972	**1,088**	116
Fixed access lines	5,944	**6,407**	463

* Subscriptions represent the total number of subscribers as of March 31 of each year.

Decline in Total Amount of Sales 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 ¥66.0 billion, to ¥299.0 billion, impacted by declines in average sales commissions per unit from the introduction of "Maitsuki Discount" despite the rise in the total number of handsets sold. During the year, average sales commissions (for new purchases and upgrades) fell by ¥10,000 per unit, to ¥26,000, as a result of such factors as "Maitsuki Discount" arising in conjunction with lower handset procurement costs.

Increase in Handset Procurement Cost

Handset procurement cost rose as the shipment of handsets increased 1.35 million units from the previous year. Average procurement costs per handset fell by ¥2,000, to ¥36,000.

Operating Income

Operating income in the Mobile Business decreased ¥44.9 billion, or 9.3%, to ¥438.9 billion. This was primarily in step with the substantial fall in operating revenues which offset the decline in operating expenses.

Operating Income (Mobile Business)

	2007	2008	2009	2010	2011
Operating Income	386	455	502	484	**439**

(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 Sales of 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.

Services for Individual Customers

Expansion of FTTH Service Areas

KDDI began providing "au HIKARI Home" FTTH service in Ishikawa Prefecture. As a result, "au HIKARI Home" is now available in Hokkaido, in Miyagi Prefecture in the Tohoku region, in Ishikawa Prefecture in the Hokuriku region, and in eight prefectures in Japan's Kanto region.*[1] Chubu Telecommunications Co., Inc., a subsidiary of KDDI, started offering "Commuf@-hikari-TV," a new broadcasting service of "Commuf@-hikari" using optical fiber in 38 cities and 11 towns of three prefectures in the Tokai area.*[2]

*1. Tokyo, Kanagawa, Saitama, Chiba, Ibaraki, Tochigi, Gunma, and Yamanashi
*2. Only for areas where "Commuf@-hikari" services are provided.

Expansion of FTTH Services

"au HIKARI MANSION Giga," a reasonable service offering uplink and downlink speed of 1Gbps at maximum, has been offered in place of "au HIKARI MANSION," a service for apartments with four stories or more, at areas where facilities are installed.

New Set-Top Box (STB) for "au HIKARI" TV Service Launched

KDDI supplemented its "au HIKARI" TV service rental STB lineup with "HD-STB," which is mounted with a 500GB hard disk. By connecting a digitally compatible antenna, customers can view terrestrial digital broadcasts. In addition, movies and other programs provided by the "LISMO Video Store" video-on-demand distribution site can be enjoyed at customers' homes and can be transferred to au mobile phones for viewing outside the house.

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 the year ended March 31, 2011, we opened "TELEHOUSE SHANGHAI," "TELEHOUSE NEW YORK Chelsea," and "TELEHOUSE ISTANBUL" in the "TELEHOUSE" brand data center business. The openings brought the total number of TELEHOUSE sites to 20 sites in 13 cities straddling 10 regions worldwide (approximately 119,000 square meters). In order to provide support for the construction of ICT environments for Japanese companies in Brazil, KDDI launched "KDDI Brazil." With the launch of KDDI Brazil, KDDI offices outside Japan numbered 90 offices in 26 regions and 58 cities worldwide.

Establishment of "KDDI MATOMETE OFFICE CORPORATION"

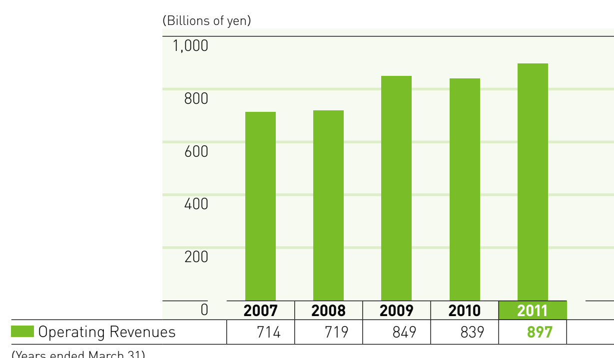
KDDI Corporation and INTELLIGENCE, LTD. jointly established "KDDI MATOMETE OFFICE CORPORATION" to manage sales of "KDDI Matomete Office" for small and medium business membership program. The establishment of the new company should allow various services including communication service, cloud service such as SaaS*[3], procurement of communication and office appliances, as well as human resource services such as agent services, training, and employment using INTELLIGENCE's human resource services, to be offered comprehensively.

*3. SaaS: Software as a Service

Operating Revenues

Operating revenues in the Fixed-line Business rose ¥58.1 billion, or 6.9%, to ¥897.3 billion. The main factors for this decline are outlined below.

Operating Revenues (Fixed-line Business)



	2007	2008	2009	2010	2011
Operating Revenues	714	719	849	839	897

(Years ended March 31)

Decreased Operating Revenues of KDDI

While operating revenues of incidental business such as solutions services rose, a decline in the operating revenues of the telecommunications business caused KDDI's operating revenues to drop from the previous year.

Increased Revenues of Group Companies

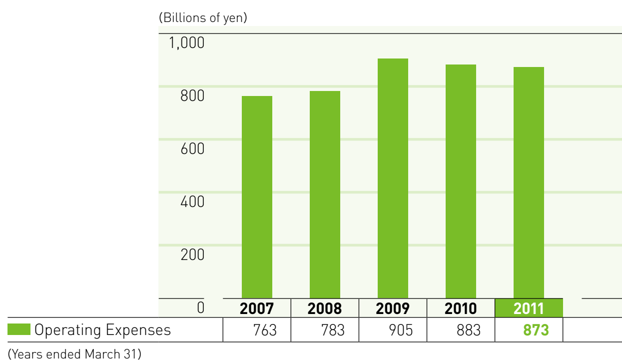
In addition to an increase in revenues due to a rise in the number of overseas consolidated subsidiaries, revenues of the Japan Cablenet (JCN) Group and Chubu Telecommunications Co., Inc. rose from the previous year.

Overall operating revenues grew as a rise in revenues of Group companies offset a drop in KDDI's revenues.

Operating Expenses

Operating expenses in this segment eased ¥10.1 billion, or 1.1%, to ¥873.3 billion. The main factors in this decline are outlined below.

Operating Expenses (Fixed-line Business)



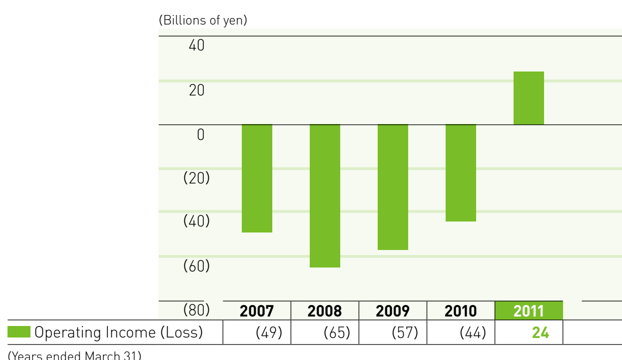
Decreased Operating Expenses of KDDI from Network Streamlining

Network-related expenses including KDDI's depreciation in the year ended March 31, 2011 dropped as a result of impairment loss regarding network streamlining conducted in the year ended March 31, 2010, and loss on retirement of noncurrent assets.

Operating Income

For the Fixed-line Business segment, KDDI posted an operating income of ¥24.0 billion, up ¥68.2 billion from the previous year, impacted by a rise in revenues of Group companies and a decline in KDDI's operating expenses, and marked a profit for the first time in seven years.

Operating Income (Loss) (Fixed-line Business)



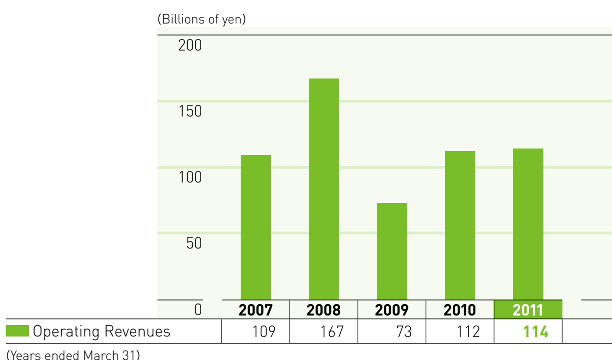
(c) Other Business

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 rose ¥2.1 billion, or 1.9% from the previous year, to ¥114.3 billion.

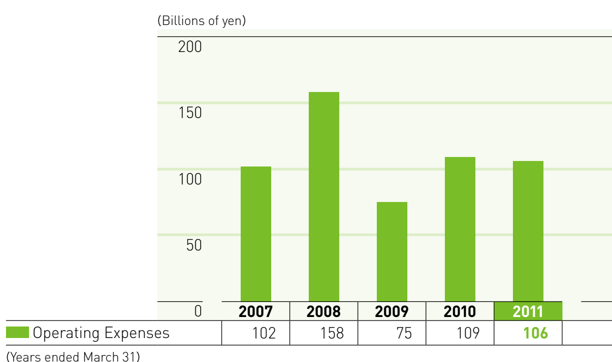
Operating Revenues (Other Business)



Operating Expenses

Operating expenses in this segment dropped ¥2.9 billion, or 2.7% from the previous year, to ¥105.8 billion.

Operating Expenses (Other Business)



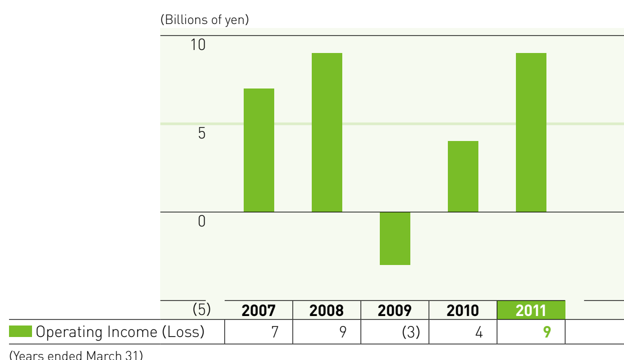
Operating Income

KDDI's Other Business segment generated operating income of ¥8.5 billion, up ¥5.0 billion, or 143.3%, 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 telecommunications engineering services.

* The figures for operating revenues by each business segment (Mobile Business, Fixed-line Business, and Other Business) in the above analysis represent the sum of sales to external customers and sales from intersegment transactions.

Operating Income (Loss) (Other Business)



Other Income (Expenses)

Total other expenses (net of other income) amounted to ¥126.7 billion, an increase of ¥51.4 billion in expenses year on year. The main factors in this increase are outlined below.

Equity in Loss of Affiliates

Equity in loss of affiliates totaled ¥19.9 billion, ¥10.0 billion more year on year. The main factor behind this loss is an increase in depreciation from capital investment by UQ Communications Inc. for expansion of areas.

Excessive debt of UQ Communications Inc. as of March 31, 2011 was ¥38.8 billion.

Impairment Losses and Other Expenses
(Year ended March 31, 2011)
Impairment Loss of ¥52.1 Billion

(Impairment loss on facility used for the current 800MHz band)
Use of the abovementioned facility will be discontinued from July 2012 due to a reorganization of frequencies, while the transfer of mobile handsets to a new frequency band is being promoted. Recognizing the downward trend in subscribers using handsets compatible with such equipment, the book value of those assets was written down to the amount deemed recoverable, resulting in an impairment loss of ¥13.1 billion.

(Impairment loss on domestic transmission system and idle assets)
For domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥17.5 billion in extraordinary loss.

(Impairment loss on legacy service facilities)
Due to the worsening market environment and the downward trend in the subscribers of a part of legacy services in the Fixed-line Business, KDDI set up a cash management system for cash flows generated by such equipment, and pooled those assets into an independent asset grouping. Recognizing the change in market environment and the trend of subscribers, the book value of those assets related to legacy service facilities was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥21.2 billion.

Loss on Retirement of Noncurrent Assets of ¥31.8 Billion

Loss on retirement of non-current assets consists of ¥28.4 billion for disposal of property, plant and equipment, related to disposal of facility used for the current 800MHz band, and ¥3.3 billion for disposal of property, plant and equipment, related to disposal of facility used for legacy service. A total of ¥31.8 billion was booked as extraordinary loss.

Loss on the Great East Japan Earthquake of ¥17.6 Billion

This loss represents the expenses incurred through the recovery of assets damaged by the Tohoku Region Pacific Coast Earthquake that occurred on March 11, 2011. It includes the loss and recovery cost of au base stations, domestic cable and others, support cost to agencies, and other recovery costs. A total of ¥17.6 billion is booked as extraordinary loss, and includes ¥16.3 billion in transfer for loss on the Great East Japan Earthquake.

(Year ended March 31, 2010)
Business Restructuring Expenses of ¥48.1 Billion

The book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining 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.

Impairment Loss of ¥10.7 Billion

(Impairment loss on domestic transmission lines and idle assets)
The utilization rate of certain assets, including some domestic transmission lines, declined, with book value decreasing to the recoverable value. This resulted in impairment loss of ¥10.3 billion.

Income Taxes and Tax Adjustments

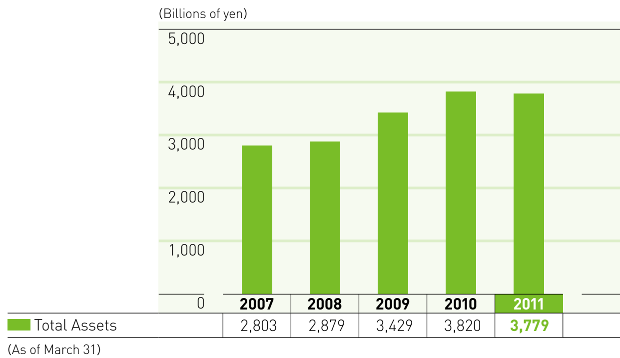
Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥102.6 billion, together with an upward income tax adjustment of ¥21.4 billion. This resulted in a ¥69.0 billion decrease in total income taxes and tax adjustments year on year. The primary factor behind this decline was loss on liquidation of four intermediary holding companies that possessed shares of Jupiter Telecommunications Co., Ltd.

02 Assets and Capital Expenditures

Assets

As of March 31, 2011, consolidated total assets amounted to ¥3,778.9 billion, down ¥40.6 billion year on year, due to decreases in noncurrent assets of the telecommunications business and investment securities, and total liabilities declined ¥134.0 billion, to ¥1,607.1 billion, as a result of a decline in short-term loans payable and long-term loans payable. Total net assets increased ¥93.4 billion, to ¥2,171.8 billion, due to an increase in retained earnings and a decrease in purchase of own shares. As a result, the equity ratio rose 2.8 percentage points, to 55.7%.

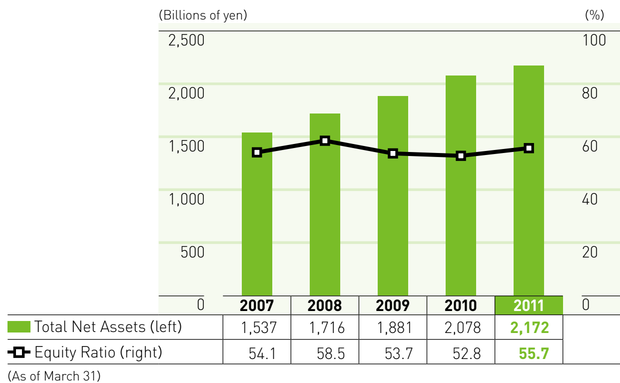
Total Assets



	2007	2008	2009	2010	2011
Total Assets	2,803	2,879	3,429	3,820	**3,779**

(As of March 31)

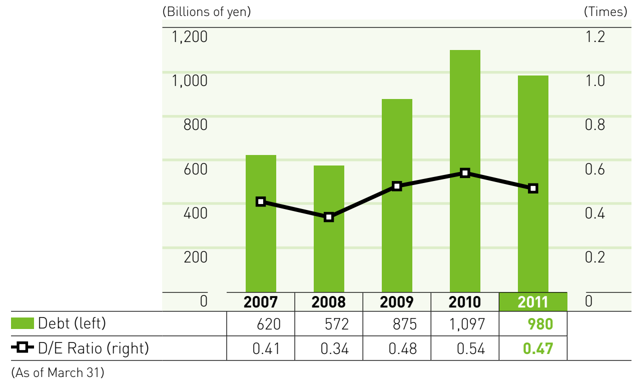
Total Net Assets, Equity Ratio



	2007	2008	2009	2010	2011
Total Net Assets (left)	1,537	1,716	1,881	2,078	**2,172**
Equity Ratio (right)	54.1	58.5	53.7	52.8	**55.7**

(As of March 31)

Debt, D/E Ratio



	2007	2008	2009	2010	2011
Debt (left)	620	572	875	1,097	**980**
D/E Ratio (right)	0.41	0.34	0.48	0.54	**0.47**

(As of March 31)

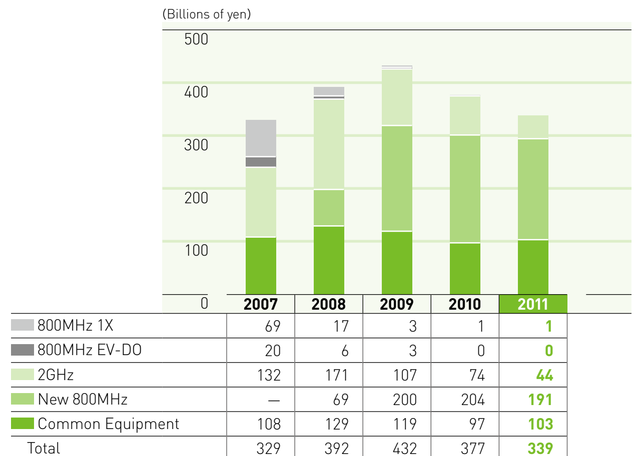
Capital Expenditures

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 au business, to further meet clients' needs, measures were taken to strengthen products, expand service areas, and build and upgrade wireless base stations and switching stations for improvement of communication quality. Capital expenditures peaked in the year ended March 31, 2009, and have decreased since then.

Capital Expenditures (Mobile Business)



	2007	2008	2009	2010	2011
800MHz 1X	69	17	3	1	**1**
800MHz EV-DO	20	6	3	0	**0**
2GHz	132	171	107	74	**44**
New 800MHz	—	69	200	204	**191**
Common Equipment	108	129	119	97	**103**
Total	329	392	432	377	**339**

(Years ended March 31)

(b) Fixed-line Business

In the consumer business, accompanying its promotion of "au HIKARI" and other FTTH services, KDDI made capital expenditures to build networks, as well as to build and upgrade IP phone-related equipment and related facilities.

In the solutions business, 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)

	2007	2008	2009	2010	2011
FTTH	33	23	43	55	43
Other	55	86	98	84	60
Total	88	110	141	139	103

(Years ended March 31)

03 Mid-term Strategy and Issues for the Year Ending March 31, 2012

The Group has formalized "three commitments" to respond quickly to changes in the operating environment, while at the same time growing sustainably and taking the lead in meeting emerging needs.

"More Connected!"—We will aim to achieve multi-network connectivity by organically linking networks owned by the Group, including mobile phone, FTTH, CATV and WiMAX networks, and various devices. We will also provide a high-speed telecommunications environment and attractive content optimized for multi-device access. At the same time, KDDI will enable multi-use services tailored to regional lifestyle and individual customer preferences, thereby making ourselves "more connected" to customers.

"More Global!"—Overseas, many countries are experiencing robust economic growth. Meanwhile, Internet diffusion in numerous emerging markets continues to lag. The Group is working to meet the needs of markets around the world by developing telecommunications-related businesses tailored to individual countries' cultural and socioeconomic conditions, and is working toward global ICT and building telecommunications environments to this end.

"More Diverse Values!"—The ongoing proliferation of Internet technologies, led by IP connectivity, are spawning ICT needs in a broadening host of fields, including medicine, health, education, government, and the environment. By taking a more active part in various corporate initiatives and lifestyle aspects, the Group aims to add a host of further value to customers.

In the Mobile Business, we will strive to enhance customer satisfaction to "recover au momentum." At the same time, we will work to expand our handset lineup, including smart phones with such enhanced communication features that are standard functions in Japan, high-speed smart phones with au+WiMAX, data terminals such as Wi-Fi routers, and tablet terminals. We will also develop and offer advanced new services and content, expand our service area, and raise service quality. By enhancing our overall product lineup in this way, we will strive to deliver a more optimal mobile telecommunications environment and expand our business domain.

The Group will strive to improve convenience by providing services based on the ideas of fixed-mobile convergence. We also aim to make steady progress in reorganizing the 800MHz band.

Through the above-mentioned initiatives, we expect to gradually reduce the churn rate, achieve a net increase in MNP, boost our share of the net increase, and raise data ARPU.

In the Fixed-line Business, we aim to bolster both revenues and profits. Along with efforts to promote sales of FTTH services such as "au HIKARI," "Commuf@-hikari," and "au HIKARI Chura," the Group will seek ties with CATV companies with the goal of expanding its access lines, including for "Cable-plus phone" and CATV services provided by the JCN Group.

With respect to corporate clients, the Group aims to contribute to business development of customers in Japan and overseas by providing network services and various cloud services, such as virtual data centers as a one-stop service to support the shift of corporate IT systems to cloud computing system, as well as offering business continuity plan (BCP) solutions using smart phone and tablet terminals, etc.

Through these initiatives, we will continue working to lower network access costs.

Furthermore, we will promote our mission as a telecommunications company that supports a lifeline through the construction of telecommunications infrastructure network that can be recovered quickly in case of major natural disasters, and creation of more minutes BCP measures based upon the experiences of the Great East Japan Earthquake.

04 Sources of Capital and Liquidity

Summarized Consolidated Statements of Cash Flows

Billions of yen

	2010	2011	Change
Net Cash Provided by (Used in) Operating Activities	740.0	**717.4**	(22.6)
Net Cash Provided by (Used in) Investing Activities	(924.4)	**(440.5)**	483.9
Free Cash Flows	(184.4)	**276.8**	461.3
Net Cash Provided by (Used in) Financing Activities	149.2	**(280.0)**	(429.2)
Cash and Cash Equivalents	165.5	**159.9**	(5.6)

(Years ended March 31)

Cash Flows

(a) Operating Activities

¥717.4 billion in income, down ¥22.6 billion year on year

Net cash provided by operating activities amounted to ¥717.4 billion. This was largely due to ¥345.3 billion in income before income taxes and minority interests, ¥449.3 billion in depreciation and amortization, and ¥52.1 billion in impairment loss. These factors outweighed ¥143.9 billion in corporate tax and other factors.

(b) Investing Activities

¥440.5 billion expenditure, down ¥483.9 billion year on year

Net cash used in investing activities totaled ¥440.5 billion. The main factors included ¥346.1 billion for purchase of property, plant and equipment and ¥76.0 billion for purchase of intangible assets.

* Please refer to "Capital Expenditures" on P. 74 for more details on capital expenditures made in the year ended March 31, 2011.

(c) Free Cash Flows

¥276.8 billion, up ¥ 461.3 billion year on year

Free cash flow—the sum of cash flows from operating and investing activities—showed a net inflow of ¥276.8 billion, up ¥461.3 billion year on year.

(d) Financing Activities

¥280.0 billion expenditure, up ¥429.2 billion year on year

Net cash used by financing activities was ¥280.0 billion, primarily attributable to ¥100.0 billion in purchase of treasury stock, ¥83.0 billion in redemption of bonds, and ¥57.9 billion in payment of cash dividends paid.

Liquidity

Cash and cash equivalents at year-end totaled ¥159.9 billion, down ¥5.6 billion year on year, from ¥165.5 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, 2011, KDDI procured ¥40.0 billion in funds from corporate bonds and ¥50.0 billion in funds from financial institutions to partially finance loan repayments and redemption of bonds. Other requirements for funds were secured from internal reserves. The balance of corporate bonds outstanding at March 31, 2011 was ¥415.0 billion, down ¥43.0 billion from the previous year. The year-end balance of loans outstanding dropped ¥74.7 billion, to ¥548.7 billion, and the balance of lease obligations was ¥15.9 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

Billions of yen

	Total amount	Less than 1 year	1–3 years	3–5 years	More than 5 years
Corporate bonds	415.0	—	155.0	105.0	155.0
Bank borrowings	548.7	134.6	193.6	170.1	50.6
Others	0	0	0	—	—
Lease obligations	15.9	5.5	8.5	1.9	0
Total	979.6	140.1	357.1	276.9	205.6

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 ¥979.6 billion at March 31, 2011. 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+.

Contingent Liabilities

The balance of liabilities guaranteeing third parties at March 31, 2011 was ¥123.5 billion.

05 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. 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, 2010, the book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining 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.

During the year ended March 31, 2011, the use of the facility for the current 800MHz band will be discontinued from July 2012 due to a reorganization of frequencies, while the transfer of mobile handsets to a new frequency band is being promoted. Recognizing the downward trend in subscribers using handsets compatible with such equipment, the book value of those assets was written down to the amount deemed recoverable, resulting in loss on asset impairment of ¥13.1 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 5.54%.

For domestic transmission system with declining utilization rates and idle assets, including a certain portion of the abovementioned domestic transmission system, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥17.5 billion. The recoverable value of these assets for the Group was estimated based on the usage value.

Recognizing the worsening market environment and the downward trend in subscribers, the book value of those assets related to a part of legacy service facilities in the Fixed-line Business was written down to the amount deemed recoverable, resulting in impairment loss of ¥21.2 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 5.54%. 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, 2011. 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.

01. Competitors, Rival Technologies, and Rapid Market Shifts
02. Communications Security and Protection of Customer Privacy
03. System Failures due to Natural Disasters and Other Unforeseen Events
04. Telecommunications Sector Regulations and Government Policies
05. General Legal and Regulatory Risk
06. Litigation and Patents
07. Personnel Retention and Training
08. Retirement Benefits
09. Asset-impairment Accounting
10. Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

01
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 mainly of smart phones, tablet terminals, and ebook terminals, and content services that include music, video clips, and ebooks.

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.

- 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

02

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.

03

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, reliability, and lower customer satisfaction caused by opportunity loss in provision of products and services due to agent closures and distribution suspension 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, tsunamis, typhoons, or floods, as well as secondary damages from the spread of toxic substances caused by natural disasters
- Spread of infectious disease
- War, terrorism, accidents, or other unforeseen events
- Power brownouts or blackouts
- Computer viruses or other forms of cyber attack, hacking
- Operation system hardware or software failures
- Flaws in communications equipment and services

04

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, if such measures were to prove ineffective in the future, it could negatively affect the financial position and/or earnings performance of the KDDI Group.

Regarding the policies for competition in the new era of fiber-optic and IP services, the KDDI Group advocates measures for fair competition with other telecommunications companies through various study groups with the Ministry of Internal Affairs and Communication and by offering opinions through a public comments

system. However, if KDDI's market competency is lost despite the above efforts, it could have a negative impact on the financial position and/or earnings performance of the KDDI Group.

The Company's business operations are subject to the following elements of uncertainty in regard to the revision or abolishment of telecommunications laws and regulations, to government policies, and to factors affecting the competency 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 communication market as Mobile Virtual Network Operators (MVNOs)
- Regulations of the mobile Internet due to an increase in harmful websites
- Regulations of mobile phone usage
- Regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- Regulations regarding 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
- Rules regarding access to the next-generation networks of NTT East and NTT West
- Regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole

05
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.

06
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 of the KDDI Group.

07
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.

08
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.

09
Asset-impairment Accounting

In the year ended March 31, 2011, the KDDI Group posted impairment loss on current 800MHz band facilities, idle assets including domestic transmission lines and a part of legacy-service 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, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
ASSETS			
Current Assets			
Cash and deposits	¥ 96,863	**¥ 136,922**	**$ 1,647**
Accounts receivable	580,826	**608,995**	**7,324**
Income taxes receivable	—	**32,704**	**393**
Short-term investment securities	70,000	**25,201**	**303**
Allowance for doubtful accounts	(13,709)	**(13,768)**	**(166)**
Inventories	49,249	**58,352**	**702**
Deferred tax assets (Note 12)	67,398	**64,080**	**771**
Prepaid expenses and other current assets	18,751	**19,612**	**236**
Total Current Assets	869,378	**932,099**	**11,210**
Property, Plant and Equipment			
Machinery, Antenna facilities, Terminal facilities, Local line facilities, Long-distance line facilities, Engineering facilities, Submarine line facilities	3,719,207	**3,852,665**	**46,334**
Buildings and structures	619,358	**629,786**	**7,574**
Machinery and tools	157,358	**164,894**	**1,983**
Land	241,942	**243,295**	**2,926**
Construction in progress	86,712	**79,397**	**955**
Other property, plant and equipment	19,271	**24,527**	**295**
	4,843,848	**4,994,564**	**60,067**
Accumulated depreciation	(2,902,801)	**(3,121,743)**	**(37,544)**
Total Property, Plant and Equipment	1,941,047	**1,872,821**	**22,523**
Investments and Other Assets			
Investments securities (Note 5)	93,058	**73,899**	**889**
Lease and guarantee deposits (Note 3)	38,381	**—**	**—**
Intangible assets	249,982	**226,315**	**2,722**
Goodwill	72,762	**64,613**	**777**
Deferred tax assets (Note 12)	100,393	**128,686**	**1,548**
Other assets	463,112	**488,588**	**5,876**
Allowance for doubtful accounts	(8,576)	**(8,103)**	**(97)**
Total Investments and Other Assets	1,009,112	**973,998**	**11,715**
Total Assets	¥ 3,819,537	**¥ 3,778,918**	**$ 45,447**

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

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Short-term loans payable and current portion of noncurrent liabilities (Note 6)	¥ 213,108	¥ 140,104	$ 1,685
Accounts payable	317,072	258,002	3,103
Income tax payable	67,856	57,765	695
Accured expenses	16,150	14,253	171
Provision for bonuses	18,976	19,520	235
Provision for loss on the Great East Japan Earthquake	—	16,283	196
Other current liabilities	103,765	101,352	1,219
Total Current Liabilities	736,927	607,278	7,303
Noncurrent Liabilities			
Long-term loans payable (Note 6)	497,775	414,188	4,981
Bonds payable (Note 6)	374,969	414,979	4,991
Provision for point card certificate	78,694	85,198	1,025
Provision for retirement benefits and other non-current liabilities (Notes 6, 13)	52,721	85,437	1,028
Total Noncurrent Liabilities	1,004,159	999,801	12,024
Total Liabilities	1,741,086	1,607,079	19,327
Contingent Liabilities (Note 7)			
Net Assets			
Capital stock:			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2010 and 2011, respectively			
Issued—4,484,818.00 and 4,484,818.00 shares at March 31, 2010 and 2011, respectively	141,852	141,852	1,706
Capital surplus	367,092	367,092	4,415
Retained earnings	1,506,952	1,704,171	20,495
Treasury stock:			
Number of treasury stock—30,705.00 and 238,976.00 shares at March 31, 2010 and 2011, respectively	(25,245)	(125,245)	(1,506)
Total Shareholders' Equity	1,990,651	2,087,870	25,110
Valuation difference on available for-sale securities	34,327	28,612	344
Deferred gain or loss on hedges	—	32	0
Foreign currency translation adjustments	(7,251)	(13,183)	(159)
Total Accumulated Other Comprehensive Income	27,076	15,462	186
Subscription rights to shares	1,606	1,505	18
Minority Interests	59,118	67,003	806
Total Net Assets	2,078,451	2,171,839	26,120
Total Liabilities and Net Assets	¥3,819,537	¥3,778,918	$45,447

CONSOLIDATED STATEMENTS OF INCOME

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
Operating Revenues:			
Revenues from telecommunications business	¥2,606,165	**¥2,489,403**	**$29,939**
Sales of terminal equipment and other	835,982	**945,143**	**11,367**
Total Operating Revenues	3,442,147	**3,434,546**	**41,305**
Operating Expenses:			
Business expenses	702,117	**653,018**	**7,853**
Depreciation	440,291	**423,448**	**5,093**
Communication facility fee	402,030	**362,480**	**4,359**
Cost of sales of terminal equipment and other	1,035,895	**1,077,742**	**12,961**
Other	417,952	**445,947**	**5,363**
Total Operating Expenses	2,998,285	**2,962,634**	**35,630**
Operating Income	443,862	**471,912**	**5,675**
Other Expenses (Income):			
Interest expenses	12,688	**14,161**	**170**
Interest income	(485)	**(640)**	**(8)**
Dividends income	(1,101)	**(1,528)**	**(18)**
Equity in loss of affiliates	9,968	**19,948**	**240**
Gain on investments in silent partnership	(898)	**(978)**	**(12)**
Loss on valuation of investment securities	2,292	**368**	**4**
Gain on sales of investment securities	(1,015)	**(5,618)**	**(68)**
Gain on sales of noncurrent assets	(515)	**(1,315)**	**(16)**
Loss on sales of investment securities	—	**176**	**2**
Gain on negative goodwill	—	**(535)**	**(6)**
Reversal of allowance for doubtful accounts	(5,309)	**—**	**—**
Gain on revesal of subscription rights to shares	—	**(450)**	**(5)**
Impairment loss (Note 8)	10,735	**52,141**	**627**
Loss on retirement of noncurrent assets (Note 9)	—	**31,816**	**383**
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	**1,242**	**15**
Loss on the Great East Japan Earthquake (Note 10)	—	**17,590**	**212**
Business restructuring expenses	48,057	**—**	**—**
Other, net	819	**271**	**3**
Total Other Expenses	75,236	**126,652**	**1,523**
Income before Income Taxes and Minority Interests	368,626	**345,260**	**4,152**
Income Taxes:			
Current	148,311	**102,618**	**1,234**
Deferred	1,898	**(21,381)**	**(257)**
Total Income Taxes	150,209	**81,237**	**977**
Income before Minority Interests	—	**264,023**	**3,175**
Minority Interests in Income	5,653	**8,900**	**107**
Net Income	¥ 212,764	**¥ 255,122**	**$ 3,068**

	Yen		U.S. dollars (Note 1)
	2010	2011	2011
Per Share Data:			
Net income	¥ 47,768	**¥ 58,150**	**$699.34**
Net income after adjusted the potential stocks	—	**—**	**—**
Cash dividends	13,000	**14,000**	**168.37**

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 14)

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
Income before minority interests	—	¥264,023	$3,175
Other comprehensive income			
Valuation difference on available-for-sale securities	—	(5,678)	(68)
Foreign currency translation adjustment	—	(7,497)	(90)
Share of other comprehensive income of associates accounted for using equity method	—	(17)	(0)
Total other comprehensive income	—	(13,193)	(159)
Comprehensive income	—	250,830	3,017
Comprehensive income attributable to			
Comprehensive income attributable to parent company	—	243,508	2,929
Comprehensive income attributable to minority interests	—	¥ 7,322	$ 88

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, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
Shareholders' equity			
Capital Stock			
Balance at the end of previous period	¥ 141,852	¥ 141,852	$ 1,706
Balance at the end of current period	141,852	141,852	1,706
Capital surplus			
Balance at the end of previous period	367,092	367,092	4,415
Balance at the end of current period	367,092	367,092	4,415
Retained earnings			
Balance at the end of previous period	1,347,637	1,506,952	18,123
Change of items during the period			
Dividend from surplus	(53,449)	(57,903)	(696)
Net income	212,764	255,122	3,068
Total changes during the period	159,315	197,219	2,372
Balance at the end of current period	1,506,952	1,704,171	20,495
Treasury stock			
Balance at the end of previous period	(25,245)	(25,245)	(304)
Change of items during the period			
Purchase of treasury stock	—	(100,000)	(1,203)
Total changes during the period	—	(100,000)	(1,203)
Balance at the end of current period	(25,245)	(125,245)	(1,506)
Shareholders' equity			
Balance at the end of previous period	1,831,336	1,990,651	23,940
Change of items during the period			
Dividend from surplus	(53,449)	(57,903)	(696)
Net income	212,764	255,122	3,068
Purchase of treasury stock	—	(100,000)	(1,203)
Total changes during the period	159,315	97,219	1,169
Balance at the end of current period	¥1,990,651	¥2,087,870	$25,110

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KDDI Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the end of previous period	¥ 18,530	¥ 34,327	$ 413
Changes of items during the period			
Net changes of items other than shareholders' equity	15,797	(5,714)	(69)
Total changes of items during the period	15,797	(5,714)	(69)
Balance at the end of current period	34,327	28,612	344
Deferred gain or loss on hedges			
Balance at the end of previous period	—	—	—
Changes of items during the period			
Net changes of items other than shareholders' equity	—	32	0
Total changes of items during the period	—	32	0
Balance at the end of current period	—	32	0
Foreign currency translation adjustment			
Balance at the end of previous period	(8,806)	(7,251)	(87)
Changes of items during the period			
Net changes of items other than shareholders' equity	1,555	(5,932)	(71)
Total changes of items during the period	1,555	(5,932)	(71)
Balance at the end of current period	(7,251)	(13,183)	(159)
Total accumulated other comprehensive income			
Balance at the end of previous period	9,724	27,076	326
Changes of items during the period			
Net changes of items other than shareholders' equity	17,352	(11,614)	(140)
Total changes of items during the period	17,352	(11,614)	(140)
Balance at the end of current period	27,076	15,462	186
Subscription rights to shares			
Balance at the end of previous period	991	1,606	19
Changes of items during the period			
Net changes of items other than shareholders' equity	615	(102)	(1)
Total changes of items during the period	615	(102)	(1)
Balance at the end of current period	1,606	1,505	18
Minority interests			
Balance at the end of previous period	39,278	59,118	711
Changes of items during the period			
Net changes of items other than shareholders' equity	19,840	7,885	95
Total changes of items during the period	19,840	7,885	95
Balance at the end of current period	59,118	67,003	806
Total net assets			
Balance at the end of previous period	1,881,329	2,078,451	24,996
Changes of items during the period			
Dividends from surplus	(53,449)	(57,903)	(696)
Net income	212,764	255,122	3,068
Purchase of treasury stock	—	(100,000)	(1,203)
Net changes of items other than shareholders' equity	37,807	(3,831)	(46)
Total changes of items during the period	197,122	93,388	1,123
Balance at the end of current period	¥2,078,451	¥2,171,839	$26,120

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, 2010 and 2011

	Millions of yen		Millions of U.S. dollars (Note 1)
	2010	2011	2011
Net cash provided by (used in) operating activities:			
Income before income taxes and minority interests	¥ 368,626	**¥ 345,260**	**$ 4,152**
Depreciation and amortization	460,940	**449,318**	**5,404**
Impairment loss	10,735	**52,141**	**627**
Amortization of goodwill and negative goodwill	9,040	**—**	**—**
Amortization of goodwill	—	**11,374**	**137**
Gain on negative goodwill	—	**(535)**	**(6)**
Loss (gain) on sales of noncurrent assets	(486)	**(1,281)**	**(15)**
Loss on retirement of noncurrent assets	22,451	**15,467**	**186**
Increase (decrease) in provision for loss on the Great East Japan Earthquake	—	**16,283**	**196**
Business restructuring expenses	40,656	**—**	**—**
Increase (decrease) in allowance for doubtful accounts	(3,746)	**(247)**	**(3)**
Increase (decrease) in provision for retirement benefits	3	**40**	**0**
Interest and dividends income	(1,586)	**(2,168)**	**(26)**
Interest expenses	12,688	**14,161**	**170**
Equity in loss (earnings) of affiliates	9,968	**19,948**	**240**
Loss (gain) on sales of stocks of subsidiaries and affiliates	—	**176**	**2**
Loss (gain) on valuation of investment securities	2,292	**368**	**4**
Increase (decrease) in provision for point card certificates	16,047	**6,504**	**78**
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension costs	3,911	**1,587**	**19**
Decrease (increase) in notes and accounts receivable-trade	(46,413)	**(31,578)**	**(380)**
Decrease (increase) in inventories	29,432	**(9,345)**	**(112)**
Increase (decrease) in notes and accounts payable-trade	1,216	**(755)**	**(9)**
Increase (decrease) in accounts payable-other	(3,204)	**(12,132)**	**(146)**
Increase (decrease) in accrued expenses	1,327	**(799)**	**(10)**
Increase (decrease) in advances received	5,892	**(239)**	**(3)**
Other, net	6,896	**(5,850)**	**(70)**
Subtotal	946,685	**867,701**	**10,435**
Interest and dividends income received	3,643	**7,579**	**91**
Interest expenses paid	(12,385)	**(14,050)**	**(169)**
Income taxes paid	(197,951)	**(143,877)**	**(1,730)**
Net cash provided by (used in) operating activities	739,992	**717,354**	**8,627**
Net cash provided by (used in) investing activities:			
Purchase of property, plant and equipment	(393,667)	**(346,113)**	**(4,163)**
Proceeds from sales of property, plant and equipment	602	**1,536**	**18**
Purchase of intangible assets	(100,875)	**(76,045)**	**(915)**
Purchase of investment securities	(672)	**(1,417)**	**(17)**
Proceeds from sales of investment securities	747	**15,790**	**190**
Purchase of stocks of subsidiaries and affiliates	(23,784)	**(3,891)**	**(47)**
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	(387,259)	**(5,398)**	**(65)**
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	2,564	**—**	**—**
Payments for sales of investments in subsidiaries and affiliates resulting in change in scope of consolidation	—	**(904)**	**(11)**
Purchase of long-term prepaid expenses	(23,937)	**(22,398)**	**(269)**
Other, net	1,839	**(1,706)**	**(21)**
Net cash provided by (used in) investing activities	(924,442)	**(440,546)**	**(5,298)**
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	18,966	**(99,715)**	**(1,199)**
Proceeds from long-term loans payable	99,500	**50,000**	**601**
Repayment of long-term loans payable	(41,167)	**(24,754)**	**(298)**
Proceeds from issuance of bonds	150,000	**40,000**	**481**
Redemption of bonds	(19,800)	**(83,000)**	**(998)**
Purchase of treasury stock	—	**(100,000)**	**(1,203)**
Cash dividends paid	(53,447)	**(57,903)**	**(696)**
Cash dividends paid to minority shareholders	(1,043)	**(1,084)**	**(13)**
Proceeds from stock issuance to minority shareholders	—	**1,868**	**22**
Other, net	(3,770)	**(5,411)**	**(65)**
Net cash provided by (used in) financing activities	149,239	**(279,998)**	**(3,367)**
Effect of exchange rate change on cash and cash equivalents	377	**(2,417)**	**(29)**
Net increase (decrease) in cash and cash equivalents	(34,834)	**(5,607)**	**(67)**
Cash and cash equivalents at beginning of period	200,311	**165,477**	**1,990**
Cash and cash equivalents at end of period	¥ 165,477	**¥ 159,870**	**$ 1,923**

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

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.

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, 2011 include 105 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, 2011, significant changes in the scope were incurred as follows:

Added (Consolidated):

- 4 companies due to stock acquisition
  Wire and Wireless Co., Ltd. and KKBOX, Inc. and its 2 subsidiaries

- 1 company due to additional purchase of shares
  CABLE TELEVISION TOKYO, LTD.

- 5 companies due to new establishment
  MediaFLO Broadcast Planning Incorporated, KDDI DO BRASIL SOLUCOES EM TECNOLOGIA LTDA, KDDI MATOMETE OFFICE CORPORATION, DMX Technologies (India) Private. Limited, Limited liability company KDDI Rus

Removed (Consolidated):

- 1 company due to sale of shares
  HOLA PARAGUAY S.A.

- 1 company due to liquidation
  MediaFLO Japan Planning Inc.

- 2 companies due to merger
  Missha Queens Mall Corp. and BeCreations, Inc.: merged by LTI Cosmetics, Inc

Also, the number of the Company's equity-method affiliates at March 31, 2011 was 20. During the year ended March 31, 2011, significant changes in the scope were incurred as follows:

Added (Equity Method):

- 2 companies due to stock acquisition
  Microfinance International Corporation and Efun Technology Entertainment Co.,Ltd.:
  Efun Technology Entertainment Co., Ltd. added to equity method affiliate due to stock acquisition of its parent company, KKBOX, Inc.

- 2 companies due to new establishment
  ebook distribution company and Telehouse International Corporation of Vietnam:

  ebook distribution company changed its name to booklista Co., Ltd.

Removed (Equity Method):

- 1 company due to sale of shares
  International Assistance Co., Ltd.

- 1 company due to additional purchase, resulting in subsidiary
  CABLE TELEVISION TOKYO, LTD.

Reclassifications:

Certain amounts of prior years have been reclassified to conform to the presentations for the year ended March 31, 2011.

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 ¥83.15=U.S.$1, the approximate exchange rate on March 31, 2011. 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 profit or loss of these companies, and records its investments at cost adjusted for such share of profit or loss.

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 gain and loss 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 gain and loss, 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

Derivatives 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.

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 continue 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

Goodwill is amortized under the straightline method over a period of 5 to 20 years.

However, minimal amounts of goodwill is recognized as expenses for the year ended March 31, 2011.

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 Companies 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, 2011 is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at March 31, 2011.

Prior service cost is amortized on a straight-line basis over the average remaining service lives 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 lives of employees (14 years) from the year following that in which they arise.

o. Provision for Point Card Certificate

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

p. Provision for Bonuses

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

q. Provision for Directors' Bonuses

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

r. Provision for Loss on the Great East Japan Earthquake

Amount for recovery of assets damaged by the Tohoku Region Pacific Coast Earthquake that occurred on March 11, 2011 has been estimated. It includes loss and recovery cost of au base stations, domestic cable and others, support cost to agencies, and other recovery cost.

However, the estimated amount may change due to reconsideration of contents and areas of repair accompanied with survey and recovery development of areas prohibited of entrance.

s. 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

(Application of "Accounting Standard for Equity Method of Accounting for Investment" and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method")
Effective from the year ended March 31, 2011, the Companies apply the "Accounting Standard for Equity Method of Accounting for Investment" (Accounting Standards Board of Japan [ASBJ] Statement No. 16 of March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24 of March 10, 2008).

There is no impact on the Companies' consolidated financial statements for the year as a result of this change.

(Application of "Accounting Standard for Asset Retirement Obligations")
Effective from the year ended March 31, 2011, the Companies apply the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 of March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 of March 31, 2008). There is no significant impact on the Companies' consolidated financial statements for the year as a result of this change.

(Application of "Accounting Standard for Business Combinations" and Others)
Effective from the year ended March 31, 2011, the Companies began applying the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of December 26, 2008), the "Partial amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23 of December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of December 26, 2008), the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16 of December 26, 2008), and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of December 26, 2008).

(Changes in Presentation)

(Consolidated Balance Sheets)
"Lease and guarantee deposits" listed in the previous consolidated fiscal year has been included in "Other assets" as its monetary value has become less significant from this consolidated fiscal year. "Lease and guarantee deposits" for this fiscal year included in "Other assets" is ¥35,565 million (U.S.$428 million).

(Consolidated Statements of Income)
Based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of December 26, 2008), the Companies apply the "Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No.5, March 24, 2009). As a result, "Income before minority interests" is included in the consolidated financial statements for the year ended March 31, 2011.

(Additional Information)
Effective from this fiscal year, the Companies apply "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 June 30, 2010).

However, the amount of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" in the consolidated previous fiscal year are shown as "Valuation and translation adjustments" and "Total valuation and translation adjustments".

4. 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.

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.

Regarding market risk, because partners of the Companies' derivative deals are financial institutions with high credibility that credit risk from breach of contract is quite slim.

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 Companies reduce 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, 2011 are as shown below. Moreover, items for which it is extremely difficult to determine market values are not included in the following table (see (note 2)).

Millions of yen

	Book value	Market value	Difference
(1) Cash and deposits	¥ 136,922	¥ 136,922	¥ —
(2) Accounts receivable	608,995		
Allowance for doubtful accounts*[1]	(13,768)		
	¥ 595,228	¥ 595,228	—
(3)Income taxes receivable	¥32,704	¥32,704	—
(4) Short-term investment securities	¥25,201	¥25,201	—
(5) Investment securities	69,723	69,723	—
(6) Stocks of subsidiaries and affiliates	332,560	186,823	(145,737)
Total assets	¥1,192,338	¥1,046,601	¥(145,737)
(7) Accounts payable	258,002	258,002	—
(8) Short-term loans payable	1,304	1,304	—
(9) Accrued expenses	14,253	14,253	—
(10) Income taxes payable	57,765	57,765	—
(11) Bonds payable*[2]	414,979	424,976	9,997
(12) Long-term loans payable*[2]	547,437	551,397	3,960
Total liabilities	¥1,293,739	¥1,307,696	¥ 13,957

Millions of U.S. dollars

	Book value	Market value	Difference
(1) Cash and deposits	$ 1,647	$ 1,647	$ —
(2) Accounts receivable	7,324		
Allowance for doubtful accounts*1	(166)		
	$ 7,158	$ 7,158	—
(3)Income taxes receivable	393	393	—
(4) Short-term investment securities	303	303	—
(5) Investment securities	839	839	—
(6) Stocks of subsidiaries and affiliates	4,000	2,247	(1,753)
Total assets	$14,340	$12,587	$(1,753)
(7) Accounts payable	3,103	3,103	—
(8) Short-term loans payable	16	16	—
(9) Accrued expenses	171	171	—
(10) Income taxes payable	695	695	—
(11) Bonds payable*2	4,991	5,111	120
(12) Long-term loans payable*2	6,584	6,631	48
Total liabilities	$15,559	$15,727	$ 168

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

*2. Bonds payable 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) Income taxes receivable, 4) 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.

5) Investment securities, 6) 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 "5. Market Value Information."

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.

Note2: 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	¥ 4,176	$ 50
Stocks of subsidiaries and affiliates		
Unlisted equity securities	24,327	293
Investments in capital of subsidiaries and affiliates	182	2

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.

Note3: 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	¥136,922	¥ —	$1,647	$ —
Accounts receivable	567,834	41,162	6,829	495
Short-term investment securities	25,201	—	303	—
Total	¥729,957	¥41,162	$8,779	$495

Note4: Planned repayment amounts after the balance sheet date for bonds payable, long-term loans payable

Please refer to "6. Short-term Loans and Long-term Debt."

5. Market Value Information

At March 31, 2010 and 2011, market value and net unrealized gain or loss of quoted securities were as follows:

Other Securities

		2010 (Millions of yen)			2011 (Millions of yen)			2011 (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
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥ 29,002	¥ 87,078	¥58,076	¥ 3,376	¥52,495	¥49,119	$ 41	$ 631	$591
	Bonds	891	897	6	—	—	—	—	—	—
	Other	535	551	16	228	250	22	3	3	0
	Subtotal	¥ 30,428	¥ 88,526	¥58,098	¥ 3,605	¥52,745	¥49,141	$ 43	$ 634	$591
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	1,214	908	(306)	17,858	17,018	(840)	215	205	(10)
	Negotiable deposit	70,000	70,000	—	25,000	25,000	—	301	301	—
	Other	262	242	(20)	174	161	(14)	2	2	0
	Subtotal	¥ 71,476	¥ 71,150	¥ (326)	¥43,032	¥42,179	¥ (853)	$518	$ 507	$ (10)
Total		¥101,904	¥159,676	¥57,772	¥46,637	¥94,924	¥48,287	$561	$1,142	$581

Regarding unlisted equity securities, which book value was ¥3,382 million and ¥4,176 million (U.S.$50 million) for the years ended March 31, 2010 and 2011, 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.

Other securities sold

	2010 (Millions of yen)			2011 (Millions of yen)			2011 (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
Stock	¥1,207	¥1,015	—	¥15,717	¥5,590	—	$189	$68	—

Impairment of Investment Securities

For the year ended March 31, 2011, the Company recognized an impairment of ¥368 million (U.S.$4 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.

6. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2010 and March 31, 2011 were ¥101,167 million and ¥1,304 million (U.S.$16 million) and the annual average interest rates applicable to short-term loans for the years ended March 31, 2010 and March 31, 2011 were 0.58% and 3.52%.

Long-term debt at March 31, 2010 and March 31, 2011 consisted of the following:

	2010 (Millions of yen)	2011 (Millions of yen)	2011 (Millions of U.S. dollars)
Unsecured straight bonds			
Year ended March 31, 2011 (Interest rates per annum: 0.713%–2.046%) (Due: years ending March 31, 2013–2021)	¥437,967	¥394,979	$ 4,750
General secured bonds			
Year ended March 31, 2011 (Interest rate per annum: 3.20%) (Due: year ending March 31, 2018)	20,000	20,000	241
Total bonds	¥457,967	¥414,979	$ 4,991
Loans from banks			
Year ended March 31, 2011 (Average rates per annum: 1.26%) (Due: year ending March 31, 2012–2021)	¥522,229	¥547,437	$ 6,584
Other interest-bearing debt	15,416	15,910	191
Subtotal	¥995,612	¥978,326	$11,766
Less, amount due within one year	111,942	138,800	1,669
Total long-term debt	¥883,670	¥839,526	$10,097

* 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, 2011 were as follows:

Year ended March 31	Millions of yen 2011	Millions of U.S. dollars 2011
2012	¥138,800	$ 1,669
2013	182,935	2,200
2014	174,107	2,094
2015	165,214	1,987
2016 and thereafter	317,270	3,816
	¥978,326	$11,766

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, 2011.

	Millions of yen 2011	Millions of U.S. dollars 2011
Machinery, etc.	¥1,036	$12
Buildings and structures	190	2
Other property, plant and equipment	112	1
Investment securities	572	7
Other investments and other assets	93	1
Notes and accounts receivable–trade	201	2
	¥2,203	$26

(Assets denominated in foreign currencies included U.S.$11 million.)

Aggregate annual maturities of long-term debt subsequent to March 31, 2011 were as follows:

	Millions of yen 2011	Millions of U.S. dollars 2011
Long-term loans payable	¥1,599	$19
Current portion of non-current liabilities, short-term loans payable	1,755	21
Notes and accounts payable	7	0
	¥3,360	$40

(Liabilities denominated in foreign currencies included U.S.$18 million.)

7. Contingent Liabilities

At March 31, 2010 and March 31, 2011, the Companies were contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2010	2011	2011
As a guarantor for			
Contingent liabilities existing in cable system supply contract	¥ 4,652	¥ 4,158	$ 50
Contingent liabilities resulting from the liquidation of Minex Corporation	537	480	6
Office lease contract of KDDI America, Inc., etc.	356	—	—
Loan of UQ Communications Inc., etc.	30,608	118,873	1,430
	¥36,153	¥123,510	$1,485

8. Impairment Loss

The Companies recorded impairment loss in the years ended March 31, 2010 and March 31, 2011 mainly on the assets and asset groups below.

	Millions of yen		Millions of U.S. dollars
	2010	2011	2011
KDDI Corporation and others: Equipment for the existing 800MHz band	¥ —	**¥13,080**	**$157**
KDDI Corporation: Idle assets, etc.	10,323	**17,472**	**210**
Facility used for legacy service	—	**21,209**	**255**
Consolidated subsidiaries: Business assets, etc.	412	**381**	**5**

The Companies calculate impairment loss 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.

The use of the facility for current 800MHz band will be discontinued from July 2012 due to a reorganization of frequencies, while transfer of mobile handsets to new frequency band is being promoted. Recognizing the downward trend in subscribers using handsets compatible with such equipments, the book value of those assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥13,080 million (U.S.$157 million). Of which, ¥12,374 million (U.S.$149 million) comes from machineries and ¥706 million (U.S.$8 million) from others.

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 5.54%.

In the year ended March 31, 2011, for domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥17,472 million (U.S.$210 million) in extraordinary loss. This consists of ¥10,687 million (U.S.$129 million) for local line facilities, ¥4,486 million (U.S.$54 million) for engineering facilities and ¥2,299 million (U.S.$28 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.

Due to the worsening market environment and the downward trend in the subscribers of a part of legacy services in the Fixed-line Business during the year ended March 31, 2011, KDDI Corporation set up a cash management system for cash flows generated by such equipment, and pooled those assets into an independent asset grouping.

Recognizing the worsening market environment and the downward trend in the subscribers, the book value of those assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥21,209 (U.S.$255 million) million. Of which, ¥10,469 million (U.S.$126 million) comes for machineries, ¥7,753 million (U.S.$93 million) for local line facilities, and ¥2,987 million (U.S.$36 million) for others.

The recoverable value of this asset group was estimated based on the usage value, and calculated based on a future cash flow discount rate of 5.54%.

In addition, impairment loss of ¥381 million (U.S.$5 million) on business assets in certain subsidiaries was recognized in extraordinary loss.

This consists of ¥95 million (U.S.$1 million) for long-distance line facilities, ¥84 million (U.S.$1 million) for buildings, ¥79 million (U.S.$1 million) for machinery, ¥78 million (U.S.$1 million) for local line facilities, and ¥44 million (U.S.$1 million) for others.

9. Loss on Retirement of Noncurrent Assets

Loss on retirement of noncurrent assets consists of ¥28,384 million (U.S.$341 million) for disposal of property, plant, and equipment, related to the disposal of facility used for current 800MHz band, ¥3,256 million (U.S. $39 million) for disposal of property, plant , and equipment, related to the disposal of facility used for legacy service, and ¥176 million (U.S.$2 million) for others.

10. Loss on the Great East Japan Earthquake

It is for recovery of assets damaged by the Tohoku Region Pacific Coast Earthquake that occurred on March 11, 2011. It includes loss and recovery cost of au base stations, domestic cable and others, support cost to agencies, and other recovery cost. It includes ¥16,283 million (U.S.$196 million) in transfer for loss on the Great East Japan Earthquake.

11. Research and Development Expenses

Research and development expenses charged to income were ¥30,987 million and ¥33,263 million (U.S.$400 million) for the years ended March 31, 2010 and 2011, respectively.

12. Income Taxes

At March 31, 2010 and 2011, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2010	**2011**	**2011**
Deferred tax assets			
Depreciation and amortization	¥ 47,567	**¥ 73,268**	**$ 881**
Allowance for doubtful accounts	12,097	**10,533**	**127**
Disposal of fixed assets	20,214	**1,877**	**23**
Inventory write down	5,382	**2,527**	**30**
Impairment loss	28,401	**40,353**	**485**
Reserve for retirement benefits	2,815	**4,121**	**50**
Provision for bonuses	8,141	**8,567**	**103**
Accrued expenses	3,448	**2,955**	**36**
Net operating loss carried forward	4,321	**13,186**	**159**
Unrealized profits	2,485	**2,347**	**28**
Reserve for point service program	31,941	**34,579**	**416**
Accrued enterprise taxes	5,657	**665**	**8**
Advances received	25,426	**24,143**	**290**
Assets adjustment account	4,738	**—**	**—**
Loss on the Great East Japan Earthquake	—	**5,936**	**71**
Other	8,545	**10,693**	**129**
Gross deferred tax assets	¥211,177	**¥235,751**	**$2,835**
Valuation allowance	(14,981)	**(17,831)**	**(214)**
Net deferred tax assets	¥196,196	**¥217,920**	**$2,621**
Deferred tax liabilities			
Special depreciation reserve	¥ (1,341)	**¥ (1,094)**	**$ (13)**
Net unrealized gain on securities	(20,479)	**(19,595)**	**(236)**
Retained earnings for overseas affiliates	(905)	**(1,270)**	**(15)**
Accrued enterprise taxes receivable	—	**(1,958)**	**(24)**
Other	(6,821)	**(2,360)**	**(28)**
Total deferred tax liabilities	¥(29,546)	**¥(26,277)**	**$ (316)**
Net deferred tax assets	¥166,650	**¥191,643**	**$2,305**

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statements purposes for the year ended March 31, 2011.

	%
	2011
Effective statutory tax rate	**40.6**
Adjustments:	
Permanently non-deductible items including dividend income	**0.2**
Inhabitant tax on per capita levy	**0.1**
Tax credit for research and development expenses	**(0.3)**
Goodwill amortization	**1.3**
Effect of equity-method investment income	**2.3**
Permanently non-deductible items including dividend income	**(0.1)**
Reserve for loss brought forward	**(1.0)**
Valuation allowance	**(1.9)**
Effects of tax rate differences for subsidiaries	**(1.9)**
Reversal of reserve for tax	**0.4**
Liquidation of subsidiaries	**(15.7)**
Other	**(0.5)**
Actual tax rate	**23.5**

13. Retirement Benefits

The Companies 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, 2010 and 2011 are as follows:

	Millions of yen		Millions of U.S. dollars
	2010	**2011**	**2011**
Projected benefit obligations	¥(296,050)	**¥(302,547)**	**$(3,639)**
Plan assets	239,594	**245,415**	**2,951**
Retirement benefit trust	8,161	**8,159**	**98**
Unaccumulated retirement benefit obligation	¥ (48,295)	**¥ (48,973)**	**$ (589)**
Unrecognized prior service cost	(1,740)	**(162)**	**(2)**
Unrecognized actuarial differences	50,145	**47,544**	**572**
Prepaid pension cost	(18,653)	**(17,066)**	**(205)**
Reserve for retirement benefits	¥ (18,543)	**¥ (18,656)**	**$ (224)**

Net pension expenses related to the retirement benefits for the years ended March 31, 2010 and 2011 were as follows:

	Millions of yen		Millions of U.S. dollars
	2010	**2011**	**2011**
Service cost	¥10,745	**¥10,710**	**$129**
Interest cost	5,798	**5,889**	**71**
Expected return on plan assets	(4,181)	**(4,792)**	**(58)**
Amortization of difference due to change of accounting method	14	**—**	**—**
Amortization of prior service cost	(1,023)	**(1,578)**	**(19)**
Amortization of actuarial differences	8,711	**8,182**	**98**
Net pension cost	¥20,064	**¥18,411**	**$221**

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, 2010:

	Millions of yen	Millions of U.S. dollars
Plan assets	¥ 56,750	$ 682
Benefit obligation based on pension plan finance calculation	70,596	849
Balance*1	¥(13,846)	$(167)

Percentage of total pension plan accounted for by contributions from the Companies in the year ended March 31, 2010 0.17%*2

*1. The principle factors relating to the balance are, based on pension plan finance calculation, prior service cost of ¥7,857 million (U.S.$94 million) and deficiency carried forward of ¥5,989 million (U.S.$72 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 18 years and one month (at March 31, 2010).

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

14. Consolidated Statements of Comprehensive Income

Comprehensive income for the year ended March 31, 2010 is as follow:

Other comprehensive income

	Millions of yen
Valuation difference on available-for-sale securities	¥15,803
Foreign currency translation adjustment	2,452
Share of other comprehensive income of associates accounted for using equity method	(373)
Total	¥17,882

Comprehensive income

	Millions of yen
Comprehensive income attributable to parent company	¥230,116
Comprehensive income attributable to minority interests	6,182
Total	¥236,299

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 subsidiaries.

Also, in DMX Technologies Group Limited ("DMX") and Wire and Wireless Co., Ltd. ("Wi^2"), a consolidated subsidiaries of the Company, its stock option system is in place.

The recipients of DMX's stock options are Members of the Board and employees of its company and its group companies. The recipients of Wi^2's stock option are Members of the Board, employees, and shareholders of its company.

Method for Calculating Fair Value of Stock Options for KDDI Corporation

The fair value of stock options granted in the years ended March 31, 2010 and the year ended March 31, 2011 was calculated using the Black-Scholes model and the primary base values and estimation method are as follows:

	August 2009 8th Stock Option	August 2009 8th Stock Option
Volatility of share prices*1	34.378%	
Forecasted remaining period*2	3 years	
Expected dividend*3	¥10,333 per share	$124.27 per share
Risk-free interest rate*4	0.431%	

*1. Calculation is based on actual stock prices over three years (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 (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, 2011.

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	—	—	5,032	5,178
Granted	—	—	—	—
Forfeited	—	—	17	32
Vested	—	—	5,015	—
Unvested	—	—	—	5,146
After vested				
Beginning of period	3,983	4,714	—	—
Vested	—	—	5,015	—
Exercised	—	—	—	—
Expired	3,983	156	210	—
Exercisable	—	4,558	4,805	—

DMX Technologies Group Limited

Shares

	October 2003 Stock Option	Arpril 2008 Stock Option	Novemer 2008 Stock Option
Before vested			
Beginning of period	—	9,959,790	10,000,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	9,959,790	10,000,000
Unvested	—	—	—
After vested			
Beginning of period	3,305,544	2,572,790	10,000,000
Vested	—	9,959,790	10,000,000
Exercised	—	8,625,722	3,070,000
Expired	—	—	—
Exercisable	3,305,544	3,906,858	16,930,000

Wire and Wireless Co., Ltd.

	Shares
	December 2009 Stock Option
Before vested	
Beginning of period	1,502
Granted	—
Forfeited	100
Vested	—
Unvested	1,402
After vested	
Beginning of period	—
Vested	—
Exercised	—
Expired	—
Exercisable	—

* Regarding the chart for Wi2, which was consolidated during the year ended March 31, 2011, 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

		Yen			U.S. dollars
		August 2007 6th Stock Option	August 2008 7th Stock Option	**August 2009 8th Stock Option**	**August 2009 8th Stock Option**
Exercise price		¥879,000	¥649,000	**¥539,000**	**$6,482.26**
Average share price at exercise		—	—	**—**	**—**
Fair value unit price (Date of grant)		100,549	106,718	**111,281**	**$1,338.32**
Exercise period	From	October 1, 2009	October 1, 2010	**October 1, 2011**	
	To	September 30, 2011	September 30, 2012	**September 30, 2013**	

DMX Technologies Group Limited

		Singapore dollars			U.S. dollars
		October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option	November 2008 Stock Option
Exercise price		SGD 0.6778	SGD 0.2260	SGD 0.0930	$0.07
Average share price at exercise		—	SGD 0.3014	SGD 0.3764	$0.30
Fair value unit price (Date of grant)		SGD 0.7900	SGD 0.2500	SGD 0.0900	$0.07
Exercise period	From	October 2, 2004	April 24, 2009	November 27, 2009	
	To	May 26, 2013	April 26, 2018	November 28, 2018	

Wire and Wireless Co., Ltd.

			U.S. dollars
		December 2009 Stock Option	December 2009 Stock Option
Exercise price		¥24,000	$288.63
Average share price at exercise		—	—
Fair value unit price (Date of grant)		—	—
Exercise period	From	December 1, 2011	
	To	October 29, 2019	

16. Segment Information

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

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 Loss 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 loss	78	43,324	164	43,566	1	43,567
Capital expenditures	375,877	142,368	2,901	521,146	10,991	532,137

Notes 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.

2. Depreciation and capital expenditures include long-term prepaid expenses and depreciation related to these expenses.
3. Impairment loss in Fixed-line Business includes ¥32,832 million of business restructuring expenses regarding network streamlining (combining and disposal of low-use facilities) in Fixed-line Business.
4. In Assets, the value of company-wide assets included in the "Elimination and Corporate" category is ¥945,975 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.
5. For depreciation related to company-wide assets, amounts allocated to each segment are ¥8,614 million for the Mobile Business and ¥7,218 million for the Fixed-line Business.
6. 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.
7. Net sales from overseas operations are not shown since they account for less than 10% of consolidated net sales.

Segment information for the year ended March 31, 2011 is as follows:

(Segment Information)

1. Outline of Business Segments Reported

The business segments the Companies report are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors, etc. to evaluate regularly in determining how to allocate resources and assess their business performance.

As the Company is a comprehensive telecommunications company combining mobile and fixed-line communications in a single company, its business segments reported comprise of the "Mobile Business" and the "Fixed-line Business."

The Mobile Business provides mobile services (voice and data service), sales of mobile phone handsets and content and other services. The Fixed-Line Business provides various fixed-line communications services, including broadband services centering in FTTH and CATV access lines, long distance and international telecommunications services. In addition, the Companies offer data center services and various ICT solutions services outside of Japan.

2. Method of Calculating Sales and Income (Loss), Identifiable Assets, and Other Items by Business Segment Reported

Accounting method for business segment reported is the same as presentations on "Basis of Presenting Consolidated Financial Statements."

Income by business segments reported are calculated based on operating income.

Intersegment sales are calculated based on third-party trading prices.

3. Information on Sales and Income (loss), Identifiable Assets, and Other Items by Business Segment Reported

Millions of yen

Year ended March 31, 2011	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
Sales						
Outside sales	¥2,582,366	¥ 803,590	¥48,590	¥3,434,546	¥ —	¥3,434,546
Intersegment sales	8,358	93,662	65,737	167,757	(167,757)	—
Total	2,590,725	897,251	114,327	3,602,303	(167,757)	3,434,546
Income by business segment	438,886	23,989	8,530	471,405	507	471,912
Identifiable assets by business segment	2,024,393	1,278,619	65,813	3,368,825	410,093	3,778,918
Other items						
Depreciation (Note 3, 4)	¥ 324,487	¥ 124,101	¥ 1,360	¥ 449,947	¥ (629)	¥ 449,318
Amortization of goodwill	115	11,256	3	11,374	—	11,374
Investment to equity-method affiliates	2,192	336,520	18,168	356,881	—	356,881
Increase of property, plant and equipment and intangible assets (Note 4)	324,249	99,550	1,216	425,015	6,533	431,548

Millions of U.S. dollars

Year ended March 31, 2011	Mobile Business	Fixed-line Business	Other Business (Note 1)	Total	Elimination and corporate (Note 2)	Consolidation
Sales						
Outside sales	$31,057	$ 9,664	$ 584	$41,305	$ —	$41,305
Intersegment sales	101	1,126	791	2,018	(2,018)	—
Total	31,157	10,791	1,375	43,323	(2,018)	41,305
Income by business segment	5,278	289	103	5,669	6	5,675
Identifiable assets by business segment	24,346	15,377	791	40,515	4,932	45,447
Other items						
Depreciation (Note 3, 4)	$ 3,902	$ 1,492	$ 16	$ 5,411	$ (8)	$ 5,404
Amortization of goodwill	1	135	0	137	—	137
Investment to equity-method affiliates	26	4,047	219	4,292	—	4,292
Increase of property, plant and equipment and intangible assets (Note 4)	3,900	1,197	15	5,111	79	5,190

Notes 1. The "Others" category incorporates operations not included in business segments reported, including call center business, research and technological development, and other operations.

2. (1) Adjustment of segment income (loss) refers to elimination of intersegment transactions.

(2) Adjustments of segment assets worth ¥410,093 million ($4,932 million) include company-wide assets of ¥ 568,261million ($6,834 million) and elimination of claims and obligations among reported companies and elimination of intersegment transaction of ¥ 152,664 million ($1,836 million). The majority of these assets are surplus funds provided to companies, long-term investments and assets related to administrative divisions.

(3) Increase of property, plant and equipment and intangible assets is mainly from increase in assets related to management and common systems.

3. For depreciation related to company-wide assets, amounts allocated to each reported segment are ¥9,474 million ($114 million) for the Mobile Business and ¥6,788 million ($82 million) for the Fixed-line Business.

4. This includes long-term prepaid expenses.

(Relative Information)

1. Products and Services Information

Products and services information is not shown since the same information is in the segment information.

2. Geographic Segment Information

(1) Sales

Sales information by geographic segment is not shown since outside sales in Japan accounted for over 90% of operating revenue on the consolidated statements of income.

(2) Property, plant and equipment

Property, plant and equipment information by geographic segment is not shown since property, plant and equipment in Japan accounted for over 90% of property, plant and equipment on the consolidated balance sheets.

3. Information by Major Clients

Information by major clients is not shown since outside sales for major clients accounted for less 10% of operating revenue on the consolidated statements of income.

(Information on impairment loss in noncurrent assets by business segment)

Millions of yen

	Mobile Business	Fixed-line Business	Other Business	Corporate	Consolidation
Impairment Loss	¥13,061	¥38,924	¥126	¥31	¥52,141

Millions of U.S. dollars

	Mobile Business	Fixed-line Business	Other Business	Corporate	Consolidation
Impairment Loss	$157	$468	$2	$—	$627

(Information on amortization of goodwill and unamortized balance by business segment)

Millions of yen

	Mobile Business	Fixed-line Business	Other Business	Consolidation
Balance at end of period	¥4,249	¥60,363	¥—	¥64,613

Millions of U.S. dollars

	Mobile Business	Fixed-line Business	Other Business	Consolidation
Balance at end of period	$51	$726	$—	$777

(Information on negative goodwill by business segment)
No significant items to be reported.

[Additional information]
Effective from the year ended March 31, 2011, the Companies apply the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17 of March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 of March 21, 2009).

Segment information of the year ended March 31, 2010 by segmentation of the year ended March 31, 2011 is as shown below.

Millions of yen

Year ended March 31, 2010	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
Sales						
Outside sales	¥2,644,027	¥ 751,755	¥ 46,365	¥3,442,147	¥ —	¥3,442,147
Intersegment sales	9,132	87,871	54,370	151,374	(151,374)	—
Total	2,653,159	839,626	100,735	3,593,521	(151,374)	3,442,147
Income by business segment	485,664	(44,030)	1,368	443,002	861	443,862
Identifiable assets by business segment	2,004,000	1,333,613	67,805	3,405,418	414,119	3,819,537
Other items						
Depreciation	¥ 328,676	¥ 131,754	¥ 1,185	¥ 461,615	¥ (675)	¥ 460,940
Amortization of good will	—	9,040	—	9,040	—	9,040
Investment to equity-method affiliates	11,374	341,803	18,979	372,155	—	372,155
Increase of property, plant and equipment and intangible assets	377,150	142,382	1,557	521,089	11,048	532,137

17. Related Party Transaction

Transactions with the Company and related party

Affiliates of the Company

Millions of yen

Type	Company Name	Head Office	Capital Stock	Business Objective	Percentage for Possession of Voting Rights	Relationship with Related Party	Contents of Transaction	Amount for Transaction	Title of Account	Amount as of March 31, 2011
Equity-method Affiliate	UQ Communi-cations Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Possession Direct 32.3%	Debit guarantee of loans	Debit guarantee*	118,700 (U.S.$1,428)	—	—
							Receiving warrantee fee	262 (U.S.$3)	Account receivable-other	89 (U.S. $1)

Terms and conditions and policies for terms and conditions

* Guarantee amounts for bank borrowings as of year end are shown in the transaction colum.

18. 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, 2011, we have determined that there is no possibility of incurring future losses.

At March 31, 2011, there is one SPC with a transaction balance. Total assets in this SPC, as of its most recent closing date, amounted to ¥9,689 million (U.S.$117 million), with total liabilities of ¥8,114 million (U.S.$98 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, 2011

Major transaction amounts for the year ended March 31, 2011 and balance at March 31, 2011

	Millions of yen	Millions of U.S. dollars
	2011	2011
Transferred properties*1	¥14,547	$175
Long-term accounts receivable	1,282	15
Investments by anonymous association*2	727	9
Lease transaction	—	—

Major income and loss

	Millions of yen	Millions of U.S. dollars
	2011	2011
Dividend	¥ 978	$12
Lease payments	1,669	20

*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, 2011.

19. Per Share Information

	Yen		U.S. dollars
	2010	2011	2011
Net assets per share	¥453,003	¥495,386	$5,957.74
Net income per share	47,768	58,150	699.34
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
	2010	2011	2011
Net income for the fiscal year	¥ 212,764	¥ 255,122	$ 3,068
Monetary value not related to common stockholders	—	—	—
Net income related to common stock	212,764	255,122	3,068
Number of weighted average common shares outstanding during the fiscal year	4,454,113	4,387,331	52,764
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	Four types of subscription warrant (18,907 subscription warrants). An overview of the subscription warrants is given in "13. Stock Options."	Three types of subscription warrant (14,509 subscription warrants). An overview of the subscription warrants is given in "13. Stock Options."	—

20. Subsequent Event

1. The appropriation of retained earnings and directors' and corporate auditors' bonuses of the Company for the year ended March 31, 2011, proposed by the Board of Directors and approved at the shareholders' meeting held on June 16, 2011, were as follows

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥7,500 = U.S.$83.15)	¥31,848	$383
Directors' and corporate auditors' bonuses	82	1

2. Commencement of Tender Offer for Shares, etc. in WebMoney Corporation

KDDI Corporation (hereafter, the "Company") resolved at a Board of Directors meeting on June 10, 2011, to conduct a tender offer to acquire all outstanding shares of common stock (including the shares delivered through the exercise of stock acquisition rights (hereafter, the "Stock Acquisition Rights") which were issued pursuant to the resolution of the extraordinary meeting of shareholders of WebMoney Corporation (hereafter, the "Target Entity") convened on March 15, 2004, and the resolution of the Target Entity's Board of Directors meeting convened on the same date; excluding, however, shares of treasury stock held by the Target Entity) and the Stock Acquisition Rights (hereafter, the "Tender Offer"), with the objective of making the Target Entity a wholly owned subsidiary of the Company.

(1) Background of events leading to the tender offer

Viewing these changes as business opportunities, to achieve further growth and transition to a new business model, the Company has formulated the 3M Strategy—a domestic business growth strategy—and a Global Strategy, targeting the expansion of global business. These strategies are based on the Company's three business visions: "More Connected!", "More Diverse Values!" and "More Global!"

The 3M Strategy takes its name from the first letters of multi-use, multi-network and multi-device, and defines the Company's business strategy for enabling the use of its services throughout the world any place and at any time. Multi-use involves giving customers the ability to access a wealth of content and services, such as music, video, ebooks and games. The Companies employ organically linked networks, including mobile phone (3G/LTE), FTTH, CATV, WiMAX and Wi-Fi (multi-use), to provide services to a host of devices, such as smart phones, tablets, ebook readers and PCs (multi-device).

In a world being cultivated by the 3M strategy, it is of growing importance to provide platforms that can be used in open environments and on various types of devices, with various networks and usage styles. Even assuming platforms enabling shared use, the Company considers it essential to provide settlement services that are attractive to customers for their convenience and reliability.

In the past, the Company has provided au mobile phone customers with carrier settlement services (such as the "au Simple Payment Service") that combine payments for content and services with au usage charges. However, customers' settlement method preferences are growing more diverse and include e-money and credit cards. Furthermore, as multi-network, multi-device use expands, we expect opportunities to provide customers with convenient services to increase. To enhance its level of convenience for customers, the Company considers the expansion of settlement services essential.

The Target Entity's server-managed electronic money is not dependent on specific devices; rather, it uses an open Internet environment. Furthermore, as it provides prepaid settlement, it is believed to complement the Company's carrier settlement service market and commercial trends, as well as the customer segment and its needs. By converting the Target Entity into a group company, the Company believes it will be able to integrate the settlement services of both companies into a settlement platform, thereby providing customers with an extremely convenient service that can be used for services throughout the Internet.

Converting the Target Entity into a wholly owned subsidiary of the Company should enable consistent and rapid decision-making and allow strategies to be implemented quickly. To maximize these synergies, the Company and the Target Entity have resolved to convert the Target Entity into a wholly owned subsidiary.

(2) Overview of target entity

① Company name	WebMoney Corporation
② Location	18-16 Hamamatsucho 1-chome, Minato-ku, Tokyo, Japan
③ Name and position of representative	Shinichi Yoshida, President and Representative Director
④ Business objective	Issuance and sale of server-managed electronic money
⑤ Capital stock	¥466,334 thousand
⑥ Date of establishment	March 24, 1988
⑦ Principal shareholders and their percentage ownership*[1,2,3]	Faith, Inc. 43.16%
	Goldman Sachs International 7.66%
	(Standing proxy: Goldman Sachs Securities Co., Ltd.)
	Deutsche Bank AG London PB Non-Treaty Clients 613 4.16%
	(Standing proxy: Deutsche Securities Inc.)
	The Master Trust Bank of Japan, Ltd.(trust account) 3.67%
	Yuichi Takatsu 3.61%
	Barclays Capital Securities London Cayman Clients 2.71%
	(Standing proxy: Standard Chartered Bank)
	Japan Trustee Services Bank, Ltd. (trust account) 1.35%
	HSBC Fund Services Clients Account 500p 1.00%
	(Standing proxy: Tokyo Branch, Hong Kong and Shanghai Banking Corporation Limited)
	Japan Securities Finance Co., Ltd. 0.77%
	Wayo Kosan Co., Ltd. 0.58%

(As of December 31, 2010: Target Entity's quarterly report for the third quarter of the 24th fiscal period)

*1. Information on principal shareholders and their percentage ownership is as of September 30, 2010.
*2. The Target Entity holds 4,129 shares of treasury stock. However, as these shares have no voting rights, they are omitted from the above list of principal shareholders.
*3. A copy of an amended report dated March 16, 2011, was sent by Tower Investment Management Co., Ltd., and report of the following ownership had been received as of March 15, 2011. However, the Target Entity is unable to confirm beneficial shareholdings as of the closing date of its quarterly report for the third quarter.
The following content, however, is included in the copy of the amended report received from said provider.
(Details in the copy of amended report)
Provider (major holder) Tower Investment Management Co., Ltd.
Number of share held 9,878 shares
Percentage ownership 15.85%

(3) Type of shares, etc., to be offered

Common stock and stock acquisition rights

(4) Offer period

① Period for initial notification of offer
From June 13, 2011 (Monday) through July 11, 2011 (Monday) (21 business days)

② Possibility of extension based on request by Target Entity
In accordance with the provisions of Article 27-10, Paragraph 3, of the Financial Instruments and Exchange Act (Law No. 25 of 1948, including subsequent revisions, hereafter, the "Act") in the event that the Target Entity submits to the party making the tender offer an opinion report requesting an extension of the Tender Offer period (hereafter, the "Tender Offer Period"), the Tender Offer Period may be extended to 30 business days, to July 25, 2011 (Monday).

(5) Offer price

① Cash of ¥327,000 (U.S.$3,933) per share of common stock
② Cash of ¥1 (U.S.$0) per stock acquisition right

(6) Number of shares, etc., to be acquired

Shares

Expected number of shares to be acquired	Minimum expected number of shares to be acquired	Maximum expected number of shares to be acquired
60,101	40,068	—

Notes:
1. The expected number of shares to be acquired is the maximum number shares that the Company has indicated it will acquire in the Target Entity. Said maximum number (60,101 shares) is derived by adding to the total shares issued as of December 31, 2010, as stated in the quarterly securities report for the third quarter of the 24th business term issued by the Target Entity on February 14, 2011 (62,330 shares) the maximum number of the Target Entity's shares (including shares in the Target Entity issued or transferred as a result of the exercise of stock acquisition rights between December 31, 2010, and the reported date of the tender offer (June 13, 2011)) that may be issued or transferred through the exercise of acquisition rights up to the final date of the Tender Offer Period (1,900 shares), and subtracting from this total the number of shares of treasury stock (4,129 shares) owned by the Target Entity as of December 31, 2010, as stated in said quarterly securities report.
2. In the event that the total number of Subscribed Shares, etc., does not satisfy the minimum expected number of shares to be acquired (40,068 shares), the Company shall not purchase any of the Subscribed Shares, etc. In the event that the total number of Subscribed Shares, etc., exceeds the minimum expected number of shares to be acquired, the Company shall purchase all Subscribed Shares, etc.
3. The Company anticipates no acquisition of treasury stock owned by the Target Entity.

(7) Expected ownership of shares, etc., following the acquisition

100.00%

(8) Purchase consideration

¥19,653 million (U.S.$236 million)

Note: Purchase consideration indicates the expected number of shares to be acquired (60,101 shares) multiplied by the acquisition price per share (¥327,000 (U.S.$3,933)).

(9) Method of funding purchase consideration

Internal reserves

(10) Date for commencement of settlement

July 19, 2011 (Tuesday)

Note: In accordance with the provisions of Article 27-10, Paragraph 3, in the event that the Target Entity submits to the party making the tender offer an opinion report requesting an extension of the Tender Offer Period, the date for commencement of settlement shall be August 1, 2011 (Monday).

(11) Important items for agreement by the company and the target entity regarding the subscription of shares included in the tender offer

The Company and Faith, the parent company of the Target Entity, concluded an agreement on subscription pertaining to the tender offer (hereafter, the "Subscription Agreement") on June 10, 2011. Under this agreement, Faith indicates its agreement to subscribe to the Tender Offer all shares of common stock held by Faith in the Target Entity (hereafter, "Subscribed Shares"). Provided, however, Faith's subscription under the Subscription Agreement are subject to the conditions that (i) the Company's assertions and guarantees under said agreement (the Company's lawful establishment and valid survivorship, competence to enter into the Subscription Agreement, the performance of procedures necessitated by the Subscription Agreement, the enforceability of the Subscription Agreement, the acquisition of approvals and licenses, etc., required to conclude and fulfill the Subscription Agreement, the absence of conflict with related legislation and agreements with regard to the fulfillment of the Subscription Agreement, the absence of factors obstructing the fulfillment of the Tender Offer, and the absence of plans to promptly resell Subscribed Shares acquired as a result of the Tender Offer) are proven to be truth in important aspects, that (ii) the Company shall fulfill or comply with the obligations in the said agreement (the obligation to conduct the Tender Offer, the duty of confidentiality, the obligation not to transfer to any third party rights assigned in the Subscription Agreement) by the Tender Offer commencement date, and that (iii) the Company shall, in order to acquire the Subscribed Shares, provide notice to the Fair Trade Commission as provided in Article 10, Paragraph 2, of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of 1947, including subsequent revisions) by the final day of the Tender Offer Period, and that the Fair Trade Commission has not previously issued a cease and desist order requiring the disposal of the Target Entity's shares or the partial transfer of its business, that the period during which the possibility of receiving any such prior notification has passed, and that the Company has received no emergency court order for suspension of activities that suspected of contravening Article 10, Paragraph 1, of the same act. In accordance with the Subscription Agreement, however, even in the event that no failure to satisfy the abovementioned preconditions exists, Faith may at its own discretion prohibit or limit subscription to the Tender Offer. Furthermore, under this agreement, ① in the event of the commencement of another tender offer for the shares of the Target Entity's common stock that places no maximum on the expected number of shares to be acquired (hereafter, "Countering Tender Offer"), (i) if the acquisition price per share of common stock in the Target Entity contained in the Countering Tender Offer is an amount equivalent to 110% or more of the acquisition price contained in this tender offer (in the event that the acquisition price in this tender offer is revised, the post-revision acquisition price) and (ii) Faith submits an opinion paper from an attorney indicating that the decision was highly rational and that not subscribing to the Countering Tender Offer (in the event that the Tender Offer has already been subscribed, including the case whereby the result is not achieved owing to the cancellation of the agreement to purchase the subscribed shares) would violate the duty of care of Faith's directors, Faith may, by paying the Company monetary consideration of ¥300 million (U.S.$4 million), fail to subscribe to the Tender Offer and be absolved any agreement related to the acquisition of the Subscribed Shares resulting from this subscription. Furthermore, ② unless the Company indicates in advance its agreement, at the Target Entity's general meeting of shareholders held following the conclusion of the Subscription Agreement Faith shall exercise its voting rights at the ordinary general meeting of shareholders of the Target Entity for the 24th fiscal period, scheduled to convene in June 2011, in favor of those resolutions other that those that are anticipated, and against any motions that are opposed.

(12) Existence of and content of agreement between the company and the target entity or its executives

The Company and the Target Entity concluded a tender offer agreement (hereafter, the "Recommendation Agreement") on June 10, 2011. An outline of the Recommendation Agreement is as follows.

① Until the conclusion of the Tender Offer Period, unless a tender offer other than this Tender Offer is enacted in accordance with Article 27-2 of the Act or for some other rational reason, all directors who attended the meeting during which the intent was expressed to recommend to the Target Entity's shareholders that the Tender Offer Proceed shall maintain this Board of directors resolution, and shall not retract the resolution or enact a Board of Directors resolution for its revision.

② Following the conclusion of the Recommendation Agreement, the Target Entity shall, in accordance with the accord reached with the Company, acquire through the Company those "licenses, etc.," provided in Article 14, Paragraph 1-4, of the Financial Instruments and Exchange Act Enforcement Regulations and will otherwise cooperate in other requirements needed to execute the Tender Offer.
③ The Target Entity shall exercise all stock acquisition rights in the Target Entity that it holds, and shall rationally strive to subscribe to the Tender offer all shares in the Target Entity acquired in this manner.
④ The Target Entity shall, in collaboration with the Company, make every rational effort to subscribe to the Tender Offer all shares in the Target Entity held under the employee shareholder plan of the Target Entity.
⑤ In the event that the tender offer is executed in the period following the conclusion of the Recommendation Agreement and before the end of the Tender Offer Period, the Target Entity shall conduct procedures to make the Company the only shareholder in the Target Entity. To this end, from the time that the procedures are indicated by the Company through to the conversion of the Target Entity to a wholly owned subsidiary, managers shall take appropriate care, conduct operations in effectively the same manner as was the case prior to the date of conclusion of the Recommendation Agreement, executing the Target Entity's business and managing and investing its financial assets. Furthermore, paying dividends from retained earnings, acts that would alter the capital structure, organizational restructuring or other deeds that exceed the normal scope of operations or behavior that would significantly impact that Target Entity's management, operations or finances, must be agreed in advance with the Company. If, however, the failure to conduct such activity would contravene the duty of care or fiduciary duty of the Directors of the Target Entity as good managers, such agreement shall not be binding, and decisions shall be made in a rational manner.
⑥ In the event that the Tender Offer is executed, in the interim period from such execution until the Company selects executives at the Target Entity, i) Directors of the Target Entity who were not included as candidates proposed by the Target Entity in the proposal for the election of directors at the ordinary general meeting of shareholders in June 2011 shall conclude their terms of office following and retire at the conclusion of said ordinary general meeting of shareholders and (ii) unless the Company agrees otherwise, the current management structure (absent some justifiable reason otherwise, the Target Entity's directors shall maintain their standings and positions, and the Target Entity's President and Representative Director shall maintain his standing and position as the Target Entity's sole representative, including the continuation of his scope of authority and the decisions and execution of the Target Entity's normal business operations) shall remain in place. However, in the event that the Tender Offer is executed, if the Company so separately requests, the Target Entity shall promptly call a general meeting of shareholders with the aim of proposing at the meeting the election of Directors specified by the Company for the Target Entity. Furthermore, if the Tender Offer is executed, during the interval until the directors it has indicated for the Target Entity are elected, the Target Entity shall include at its Board of Directors and management council meetings two observers specified by the Company.
⑦ In the event that the Company is unable to acquire all shares in the Target Entity through the Tender Offer, following the end of the Tender Offer the Target Entity shall cooperate as necessary in conducting procures specified by the Company with the aim of making the Company the sole shareholder in the Target Entity. However, in the event that the Company's percentage holding following the conclusion of the Tender Offer could, depending on the interpretation of conditions by major holders of the Target Entity's shares other than the Company or regulatory authorities' interpretations of related legislation, contravene the duty of care or fiduciary duty of the Target Entity's directors, decisions shall be reached on a rational basis, and such agreement shall not be binding.

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, 2011, and the related consolidated statements of income, comprehensive 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, 2011, 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

July 5, 2011