Designing The Future

KDDI

INTEGRATED REPORT 2014

Editorial Policy: Disclosure of Financial and Non-Financial Information

This report follows the principles outlined by the International Integrated Reporting Council (IIRC,) providing basic information, financial data, management strategy descriptions, and environment, social, and governance (ESG) data considered particularly necessary for investors.

Additional "corporate social responsibility (CSR)" and "research & development (R&D)" information that is not contained in this report can be found in the website below.

Financial Information

[Web] Investor Relations

■ Summary of Financial Statements

■ Business Risks

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

Non-Financial Information

[Web] CSR (Environment & Society)

■ Sustainability Report (including details on corporate governance)

http://www.kddi.com/english/corporate/csr/

[Web] Research & Development (R&D)

http://www.kddi.com/english/corporate/r-and-d/

Disclaimer Regarding Forward-Looking Statements

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

Contents

Consolidated Financial Highlights

(Years ended March 31)

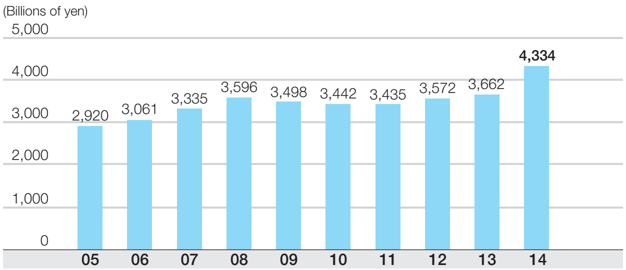
Consolidated	2005	2006	2007	2008
Operating Revenues	¥2,920,039	¥3,060,814	¥3,335,260	¥3,596,284
Operating Income	296,176	296,596	344,701	400,452
Net Income	200,592	190,569	186,747	217,786
EBITDA*2	664,255	654,409	691,699	769,209
Operating Income Margin	10.1%	9.7%	10.3%	11.1%
EBITDA Margin	22.7%	21.4%	20.7%	21.4%
Capital Expenditures	342,391	414,726	438,463	517,002
Depreciation	349,907	335,739	325,149	351,269
Interest-Bearing Debt	864,627	770,692	620,471	571,945
Equity Ratio	47.0%	51.8%	54.1%	58.5%
Return on Equity (ROE)	18.5%	15.5%	13.3%	13.6%
Return on Assets (ROA)	11.6%	11.9%	13.0%	14.1%
Net Cash Provided by (Used in) Operating Activities	538,676	575,531	738,703	545,234
Net Cash Provided by (Used in) Investing Activities	(136,508)	(435,923)	(442,218)	(557,688)
Free Cash Flows*3	402,167	139,608	296,485	(12,454)
Net Cash Provided by (Used in) Financing Activities	(376,058)	(256,935)	(258,919)	(104,410)
Cash Dividends per Share*4 (Yen)	34.5	40.0	47.5	52.5
Dividend Payout Ratio*5	21.2%	20.8%	22.4%	21.5%
Number of Consolidated Employees	12,373	14,021	14,358	15,865
CO_2 Emissions (t)*6	432,906.6	782,724.7	964,579.8	1,028,159.9
Power Consumption (MWh)*7	1,133,137	1,406,839	1,734,940	1,849,970

*1 U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥102.92 = U.S.$1 on March 31, 2014.
*2 From the fiscal year ended March 31, 2013, the EBITDA calculation formula has been changed.
Until the fiscal year ended March 31, 2012: EBITDA = Operating income + depreciation + noncurrent assets retirement cost
From the fiscal year ended March 31, 2013: EBITDA = Operating income + depreciation + amortization of goodwill + noncurrent assets retirement cost
*3 Free cash flows = Net cash provided by (used in) operating activities + net cash provided by (used in) investing activities

Operating Revenues

▶ P. 24

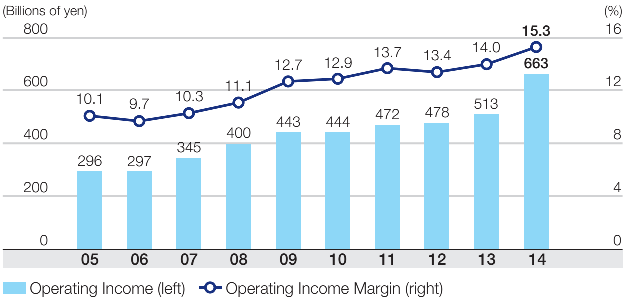
YOY **+18.3%**



Operating Income

▶ P. 24

YOY **+29.4%**



2009	2010	2011	2012	2013	Millions of yen 2014	Millions of U.S. dollars*1 2014
¥3,497,509	¥3,442,147	¥3,434,546	¥3,572,098	¥3,662,289	¥4,333,628	$42,107
443,207	443,862	471,912	477,648	512,669	663,245	6,444
222,736	212,764	255,122	238,605	241,470	322,038	3,129
904,030	927,253	936,315	908,499	959,571	1,186,069	11,524
12.7%	12.9%	13.7%	13.4%	14.0%	15.3%	15.3%
25.8%	26.9%	27.3%	25.4%	26.2%	27.4%	27.4%
575,072	518,034	443,677	421,568	467,020	571,799	5,556
434,623	460,940	449,318	417,886	406,726	470,098	4,568
874,951	1,096,778	979,630	1,046,754	977,563	1,084,966	10,542
53.7%	52.8%	55.7%	51.5%	55.1%	55.1%	55.1%
12.6%	11.0%	12.4%	11.5%	11.2%	13.0%	13.0%
14.1%	12.2%	12.4%	12.3%	12.7%	14.7%	14.7%
712,231	739,992	717,354	725,886	523,908	772,207	7,503
(775,470)	(924,442)	(440,546)	(484,507)	(472,992)	(546,257)	(5,308)
(63,240)	(184,450)	276,808	241,379	50,916	225,950	2,195
191,490	149,239	(279,998)	(225,931)	(140,249)	(105,644)	(1,026)
55.0	65.0	70.0	80.0	90.0	130.0	1.26
22.0%	27.2%	24.1%	27.5%	28.5%	32.6%	32.6%
16,967	18,301	18,418	19,680	20,238	27,073	27,073
1,061,746.4	1,181,403.0	1,108,282.3	1,218,658.6	1,049,422.3	939,501.7	939,501.7
1,910,356	2,126,440	1,995,042	2,190,787	1,885,703	1,686,480	1,686,480

*4 Values are adjusted following stock splits conducted with effective dates of October 1, 2012, and April 1, 2013. Figures for previous fiscal years have been retroactively adjusted.
*5 Figures through the fiscal year ended March 31, 2006, are on a non-consolidated basis. Figures from the fiscal year ended March 31, 2007, are on a consolidated basis.
*6 Calculated based on non-consolidated power and fuel consumption
*7 Non-consolidated basis

Net Income

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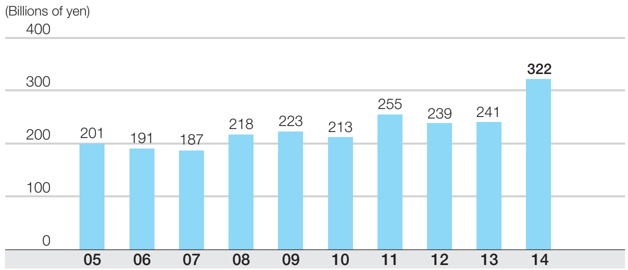
YOY **+33.4%**



Cash Dividends per Share

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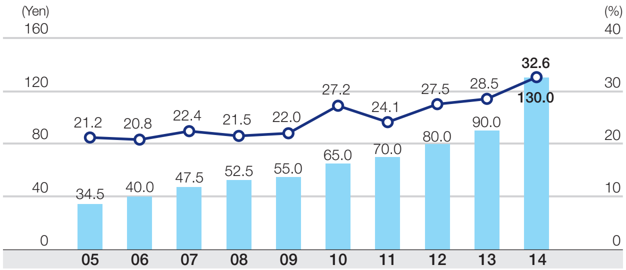
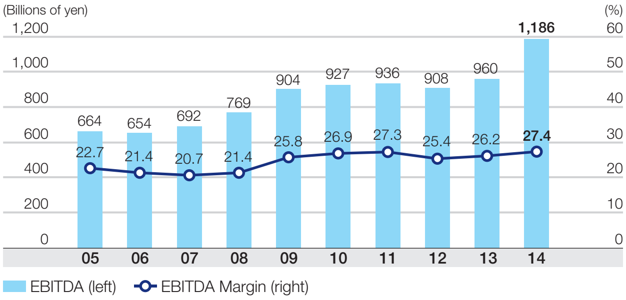
YOY **+44%**



Cash Dividends per Share (left) Dividend Payout Ratio (right)

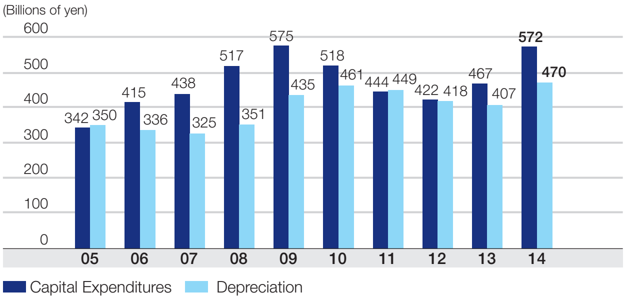
EBITDA

YOY **+23.6%**



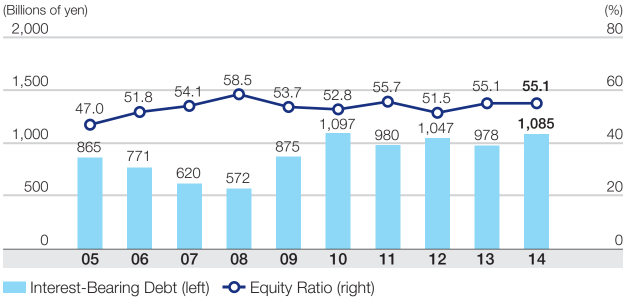
Capital Expenditures

¥571.8 billion



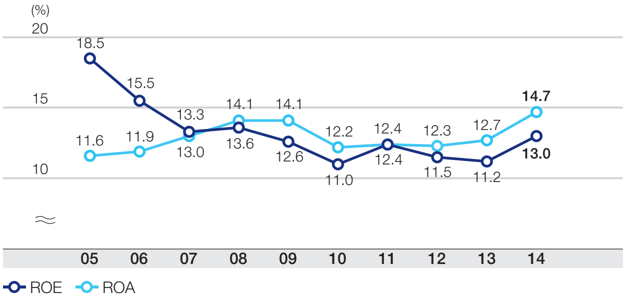
Interest-Bearing Debt

YOY **+11.0%**



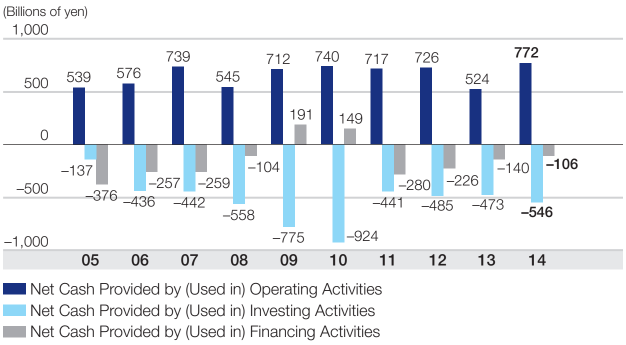
Return on Equity (ROE)

YOY **+1.8 pt.**



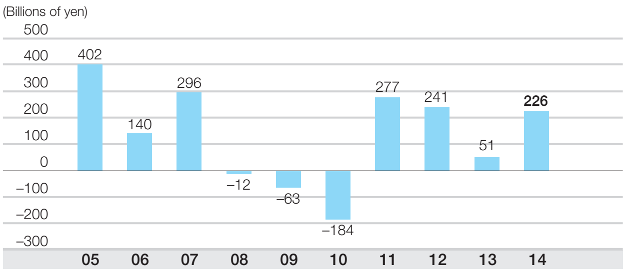
Cash Flows

Operating Activities: ¥772.2 billion

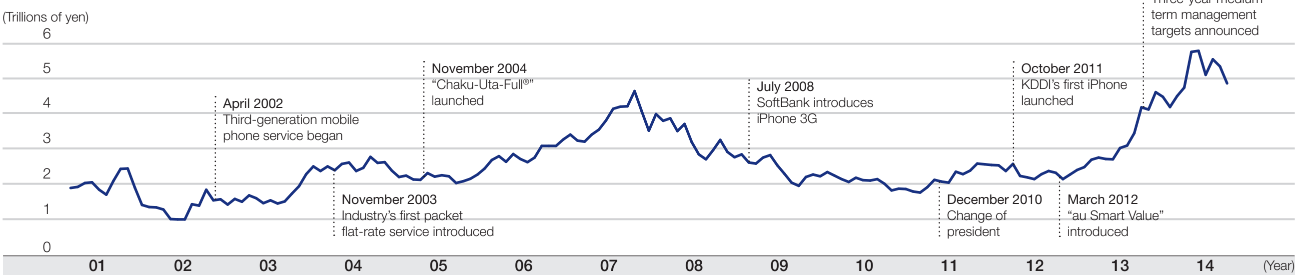


Free Cash Flows

¥226.0 billion



Market Capitalization (October 2000–March 2014 / Monthly)



The Japanese Telecommunications Market and KDDI

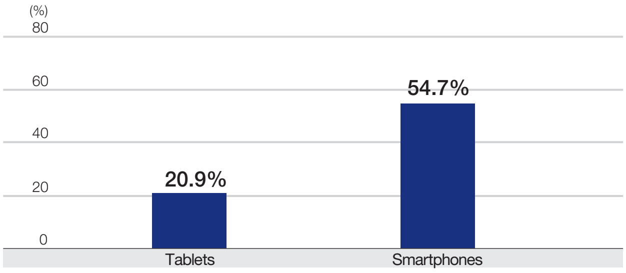
Characteristics of the Japanese Mobile Telecommunications Market

Mobile

As of March 31, 2014, cumulative mobile communication subscriptions in Japan totaled 144.01 million, up 5.9% year on year. As in the preceding fiscal year, smartphone subscriptions grew significantly, and the smartphone penetration rate exceeded 50% as of March 31, 2014.

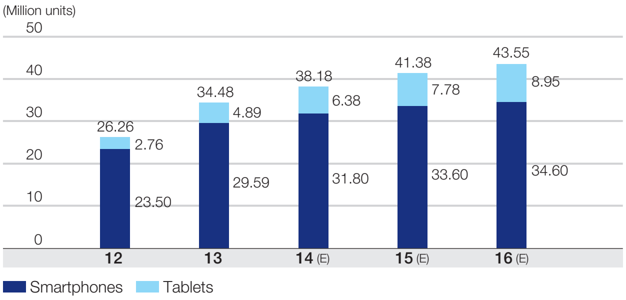
The Japanese market for mobile telecommunications is characterized by the advancement of LTE networks, which enable high-speed data communications, leading to the creation of communications environments that facilitate diverse services and are independent of handset and location. Going forward, the market is expected to continue expanding, owing to increased use of tablets and mobile Wi-Fi routers, as well as smartphones.

Penetration of Smart Devices in Japan



Source: Results of a consumer trend survey conducted in March 2014 by the Cabinet Office of Japan

Forecast Shipments of Smart Devices in Japan



(Years ended March 31)

Sources: Prepared by KDDI from the FY2013 Smart Device Trends Survey and the FY2013 Survey of Demand in the Market for Tablets, ICT Research and Consulting Inc.

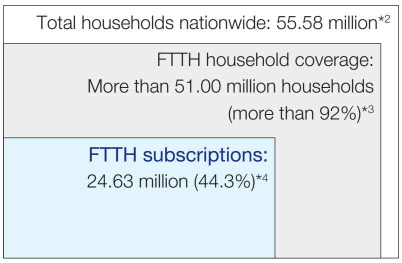
Fixed-Line Broadband

The nationwide FTTH household coverage ratio is more than 90% or "homes passed*1" is more than 70%, indicating that high-speed broadband environments are essentially in place nationwide.

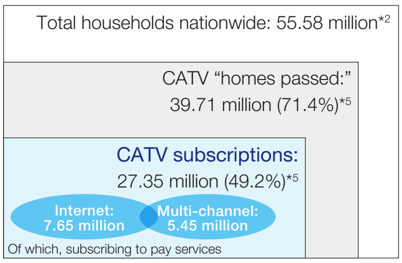
As of March 31, 2014, fixed-line broadband service subscriptions numbered 35.85 million, up 1.6% from the preceding fiscal year.

Fixed-line broadband service penetration is already at 70%. Amid a gradual market expansion, telecommunications providers are working to boost revenues by promoting "triple play" services that include access to Internet, telephony, and video.

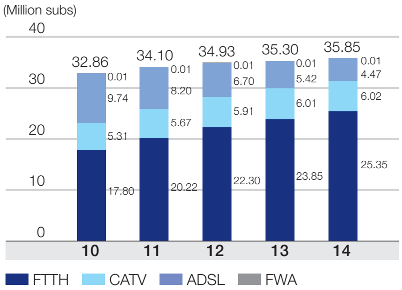
FTTH



CATV



Number of Broadband Subscriptions*2



(Years ended March 31)

*1 In regions where the installation of CATV facilities are permitted, households in areas where installation of transit routes is complete

*2 Source: Ministry of Internal Affairs and Communications (as of March 31, 2013)

*3 Source: *NTT Data Book, NTT East* (published September 2013). As of March 31, 2014, Nippon Telegraph and Telephone East Corporation (NTT East)'s FTTH household coverage ratio is 94% and Nippon Telegraph and Telephone West Corporation (NTT West)'s is approximately 92%.

*4 Source: Ministry of Internal Affairs and Communications (as of September 30, 2013)

*5 Source: *Hoso Journal*, December 2013 edition (as of September 30, 2013)

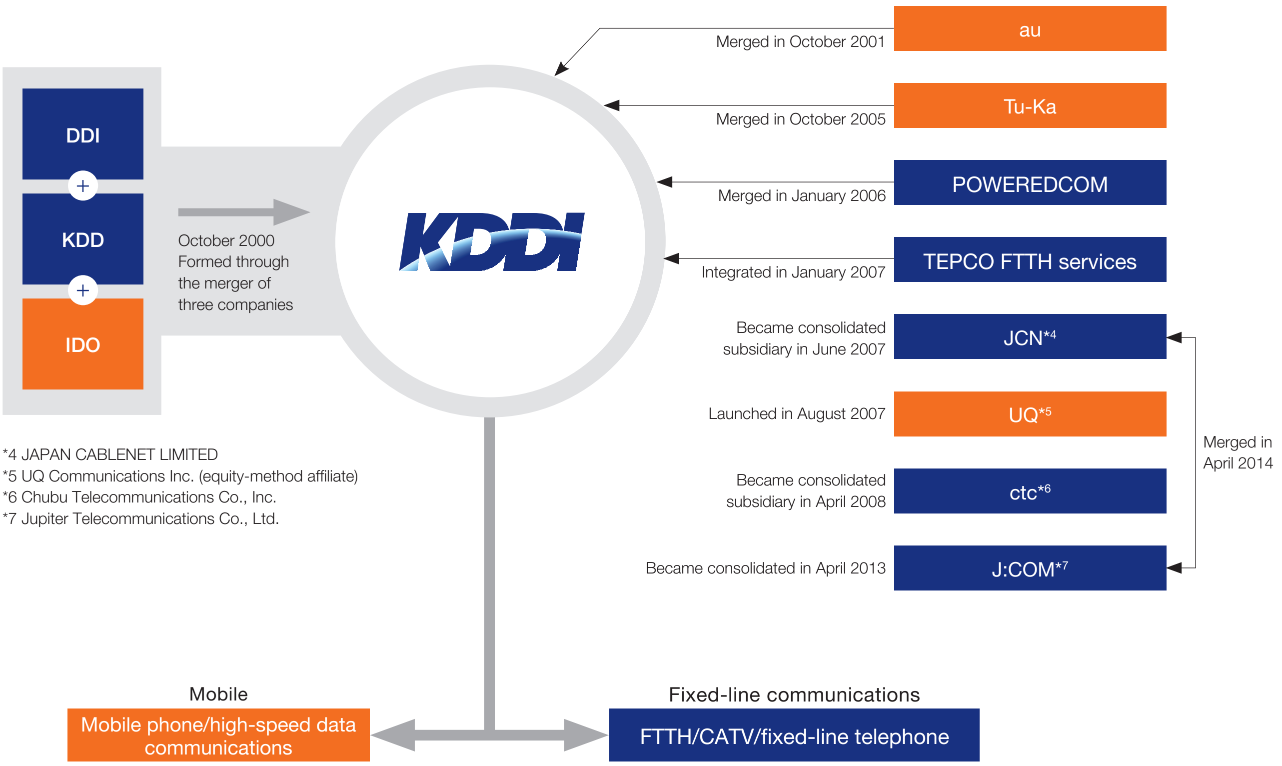
KDDI's Status

Leveraging the KDDI Group's Comprehensive Mobile and Fixed-Line Capabilities

The KDDI Corporation was established in October 2000 through the merger of DDI CORPORATION, a long distance communications company; KDD Corporation, an international communications company; and IDO CORPORATION, which provided mobile communications. Thereafter, we expanded our business through mergers in both the mobile and fixed-line businesses.

As a result, KDDI has amassed a host of access lines. In the mobile category, these include 3G/LTE and WiMAX networks. In the fixed-line category, we have FTTH and CATV. The KDDI Group's customer base includes approximately 45 million mobile subscribers*1 and around 8 million fixed-line broadband subscribers*2. We are leveraging this situation by promoting the "3M Strategy*3."

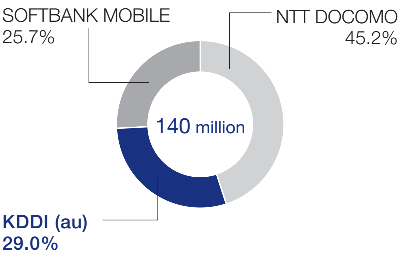
*1 Total for au + UQ
*2 Total for FTTH + CATV pay multi-channel
*3 3M stands for Multi-device, Multi-use, and Multi-network. Our growth strategy calls for the establishment of an environment that seamlessly provides a variety of content and services to customers through an optimal network that can be used anytime and anywhere, with a variety of devices, including smartphones and tablets.



*4 JAPAN CABLENET LIMITED
*5 UQ Communications Inc. (equity-method affiliate)
*6 Chubu Telecommunications Co., Inc.
*7 Jupiter Telecommunications Co., Ltd.

Share of Cumulative Mobile Communication Subscriptions*8

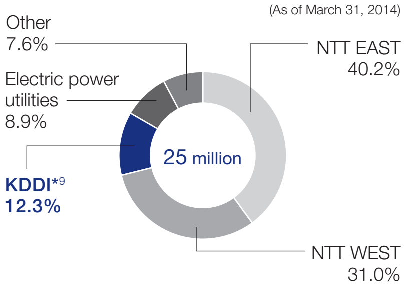
(As of March 31, 2014)



Source: Prepared by KDDI based on Telecommunications Carriers Association's data
*8 Share among NTT DOCOMO, INC. (NTT DOCOMO), SoftBank Mobile Corp. (SOFTBANK MOBILE), and KDDI

Share of Cumulative FTTH Subscriptions

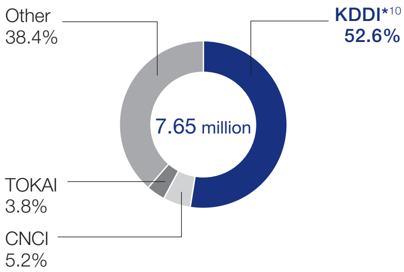
(As of March 31, 2014)



Source: Prepared by KDDI based on Ministry of Internal Affairs and Communication's data
*9 KDDI + ctc + Okinawa Cellular Telephone Company (Okinawa Cellular)

Share of Cumulative Pay Multi-Channel CATV Subscriptions

(As of September 30, 2013)



Source: Prepared by KDDI based on *Hoso Journal* (December 2013 issue)
*10 J:COM + JCN

Principal Businesses of the KDDI Group

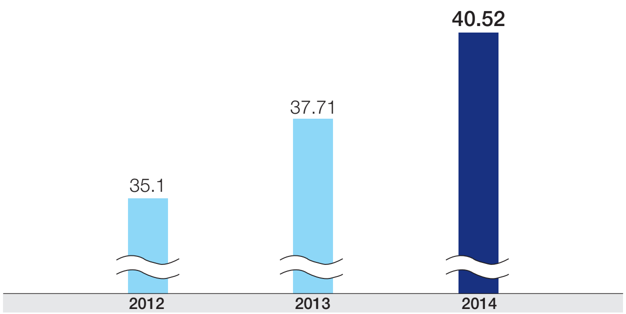
Mobile

As of March 31, 2014, au mobile subscriptions numbered 40.52 million, up 7.5% year on year and accounting for a 29.0% share of the mobile market, which has three major carriers.

Of this figure, in the Personal Services segment, which accounts for more than 70% of KDDI's consolidated operating revenues, smartphone penetration had risen to 49% (35% if limited to LTE).

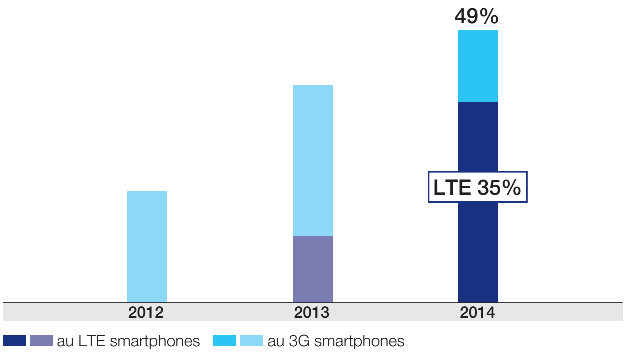
UQ Communications Inc., an equity-method affiliate that provides WiMAX service and "WiMAX 2+" (compatible with TD-LTE) service using 50MHz bandwidth of frequency in the 2.5GHz band, has subscriptions in place with more than 4 million customers.

Cumulative au Subscriptions*11 (Million subs)



(Years ended March 31)
*11 KDDI + Okinawa Cellular

au Smartphone Penetration*12 (Personal Services)



(Years ended March 31)
*12 (au LTE smartphones + au 3G smartphones) ÷ (au subscriptions minus data-only terminals, tablets, and modules)

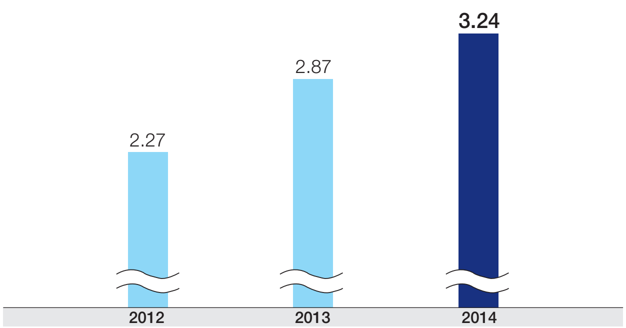
Fixed-Line Broadband

As of March 31, 2014, FTTH subscriptions stood at 3.24 million, up 12.8% year on year and accounting for a market share of 12.3%.

In CATV, in addition to the industry's second-largest company, JCN, in April 2013 KDDI included into its scope of consolidation the largest company, J:COM.

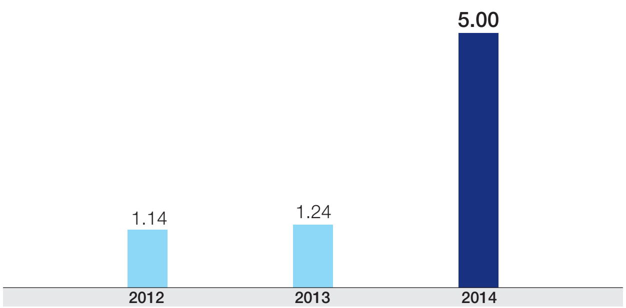
Consequently, KDDI's market share led the industry, with household subscribers numbering 5.00 million, up 3.76 million year on year. Also, J:COM got off to a new start on April 2014, due to a merger between its former self and the former JCN.

Cumulative FTTH Subscriptions*9 (Million subs)



(Years ended March 31)

Cumulative Pay Multi-Channel CATV Subscriptions*13 (Million subs)



(Years ended March 31)
*13 JCN only for the fiscal years ended March 31, 2012 and 2013. J:COM + JCN for the fiscal year ended March 31, 2014.

In line with the inclusion of JCN into the scope of J:COM's consolidation in December 2013, the method of calculating the total number of subscribing households has been unified to J:COM's standard.

Targeting the Next Growth Stage

Japan's telecommunications market is moving in earnest into the multi-device era, in which individual customers use more than one handset. Amid these changes in the operating environment, mobile communications carriers' handset and network offerings are becoming increasingly similar, and the amount of mobile data traffic is growing sharply—those issues are common among telecommunications carriers. Accordingly, the market has entered a new period of competitiveness.

Against this backdrop, KDDI positioned the fiscal year ended March 31, 2014, as the first year in a new phase of full-scale income growth and focused on "Advance and Develop 3M Strategy" as a medium-term management target leading up to the fiscal year ending March 31, 2016. At the same time, we worked to "Implement Global Strategy," aiming to establish the foundations for our global business.

In particular, under the "3M Strategy" we sought to first develop services that competitors are unable to emulate: "au Smart Value," "au Smart Pass," and "au Smart Support." In this way, we strove to expand our customer base and enhance customer satisfaction.

We reinforced our infrastructure base, and by March 2014 we had expanded actual population coverage* of "au 4G LTE" to 99% in the area where we provide the 800MHz "platinum band." This bandwidth is the base for "au 4G LTE," which offers high speed and easy connections.

In addition to these initiatives, during the year we brought Japan's leading CATV provider Jupiter Telecommunications Co., Ltd., into the scope of consolidation. As a result, consolidated operating revenues for the KDDI Group as a whole grew 18.3% year on year, to ¥4,333.6 billion, and operating income rose 29.4%, to ¥663.2 billion—the first time operating revenues had exceeded ¥4 trillion, and the first time with operating income in excess of ¥600 billion. In addition, the number of au mobile subscriptions exceeded 40 million in February 2014.

As in the preceding term, for the fiscal year ending March 31, 2015, we are working for the goal of achieving double-digit growth each year in consolidated operating income. We also plan to further expand earnings per share. In a host of fields, we aim to provide "value that exceeds customer expectations." As a result, we intend to differentiate ourselves from competitors and are targeting the next growth stage.

Even as we move our business to a new stage, we recognize that we must not forget our mission, namely to contribute to the realization of a prosperous communications-based society through our business by providing uninterrupted telecommunications services and delivering services that offer new value to society. All employees are working to fulfill this mission by sharing the "KDDI Philosophy," which defines the sort of company we want to be.

Through its widely varied business activities, KDDI intends to stimulate people all over the world, offering them safety and enjoyment and bringing smiles to their faces. We aim to contribute to society's development, while further enhancing corporate value through sustainable growth and increased shareholder returns.

July 2014

Takashi Tanaka

Takashi Tanaka
President, KDDI CORPORATION

* For calculation purposes, Japan has been divided into 500m^2 grid squares. Actual population coverage is the coverage ratio in comparison to the total population of grid squares designated as part of KDDI's service area.

Takashi Tanaka
President, KDDI CORPORATION

By delivering value that exceeds expectations in a host of fields, we aim to differentiate ourselves from competitors and are targeting the next growth stage.

THEME 01

Looking Back on the Three Years Since Being Appointed President, and the First Year of Medium-Term Management Targets Leading to the Fiscal Year Ending March 31, 2016

During the first fiscal year after I was appointed president in December 2010, the fiscal year ended March 31, 2012, I concentrated first on the reconstruction of the mobile business—our foundational business. By doing so, we shored up our corporate footings prior to the full-fledged launch of our medium-term growth strategy, the “3M Strategy.”

At that point in time, we were losing subscribers to competitors through mobile number portability (MNP) and were unable to keep pace with other companies in terms of data average revenue per unit (ARPU) growth. Under those circumstances, I sought to share a sense of urgency among all employees, and we worked to achieve a complete recovery of au momentum by improving against four key performance indicators (KPIs): au churn rate, MNP net additions, au net additions, and data ARPU.

My second year at the helm, the fiscal year ended March 31, 2013, marked the full-fledged rollout of our “3M Strategy.”

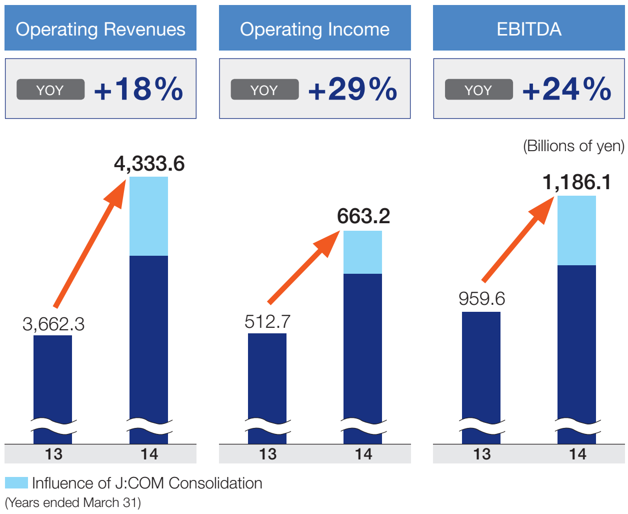
In addition to boosting sales of services aimed at realizing the "3M Strategy"—"au Smart Value" and "au Smart Pass"—we honored the two commitments we had made at the beginning of the fiscal year: reaching ¥500 billion in consolidated operating income and seeing au ARPU bottom out on a monthly basis. As billed, this was truly a starting point of income growth.

Moving steadily forward, at the beginning of the fiscal year ended March 31, 2014, we set the medium-term (meaning the fiscal years of March 31, 2014–2016) management target of achieving double-digit growth each year in consolidated operating income.

We positioned these three years as the period for us to "advance to the income growth phase." In the first year of this period, the fiscal year ended March 31, 2014, we achieved double-digit growth in operating revenues, operating income, and EBITDA.

Highlights of Performance in FY2014.3

Double-digit growth in operating revenues, operating income, and EBITDA



THEME 02

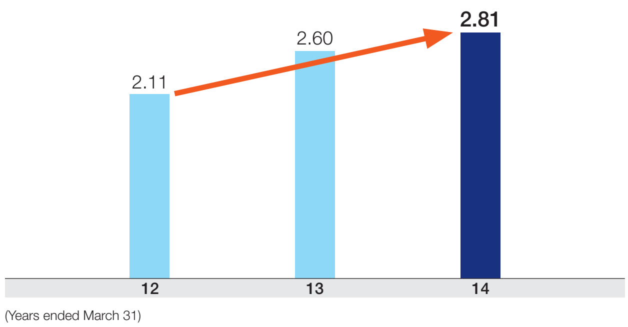
Establishing the Foundations for Sustained Income Growth

To realize sustained increases in income, it is essential for us to generate stable sales growth. The prime mover of this growth will be a rise in mobile communications revenue in the Personal Services segment, which accounts for more than 70% of consolidated operating revenues. To bolster mobile communications revenue, it would be ideal to boost both ARPU and subscriber numbers. However, although we enjoyed strong upward momentum with net increases in subscriber numbers during the fiscal year ended March 31, 2013, ARPU was still trending downward year on year. For the fiscal year ended March 31, 2014, I made a commitment to turn this trend around. By promoting the shift toward smartphones, which are linked to higher data ARPU, and controlling the amount of the "Maitsuki Discount (Monthly Discount)," we achieved a year-on-year turnaround in ARPU in the fourth quarter. As of March 31, 2014, smartphone penetration had risen to 49% (35% if limited to LTE.) We expect this percentage to keep increasing steadily, to more than 70% within a few years. For the full fiscal year ending March 31, 2015, we anticipate year-on-year ARPU growth of 1.2%, providing us with the base for sustained income growth.

At the same time, we have chalked up steady successes in expanding our customer base by working to "Advance and Develop 3M Strategy."

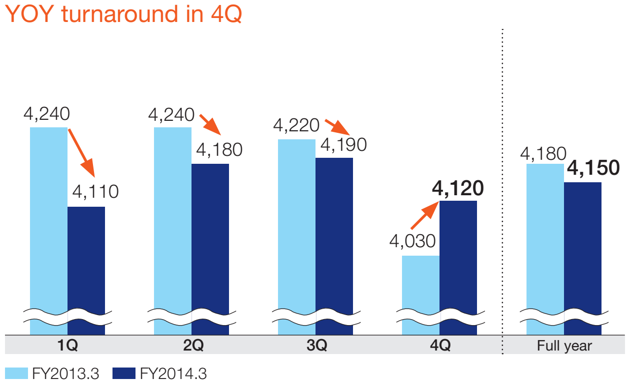
au Net Additions (Consolidated basis) (Millions)

Up 7.5% YOY on cumulative basis



au ARPU* (Personal Services basis) (Yen)

YOY turnaround in 4Q



* au ARPU = [Voice ARPU (before application of discount)] + [Data ARPU] − [Amount of discount applied]

Now two years since our launch of the "au Smart Value" service, mobile penetration of "au Smart Value" has climbed to 22%.*1 We continue to increase the number of allied companies providing fixed-line communications applicable for "au Smart Value." As of March 31, 2014, this number amounted to seven FTTH companies (including KDDI), 125 CATV companies, and 213 channels (including 22 CATV companies and 22 channels allied with STNet, Inc.). By encouraging cross-selling to each other's customer bases—a unique strength for "au Smart Value"—we expect to raise the penetration rate going forward.

Membership for the "au Smart Pass" service, which we launched at the same time, surpassed 10 million on March 17, 2014. In addition to contributing to increases in value ARPU through the service itself, "au Smart Pass" plays the important role of providing a contact point with customers that is instrumental in upselling services offering unlimited access to music, movies, e-books, and other content. Looking only at "au Smart Pass" members, value ARPU had risen to ¥720 by the fourth quarter of the fiscal year ended March 31, 2014. Hinging on "au Smart Pass," we expect value ARPU to increase further.

On the network front, we have been steadily expanding our "au 4G LTE" network area. As of March 14, 2014, our actual population coverage ratio*2 reached 99% for the 800MHz "platinum band," which provides the base for this network.

To put in place a high-speed, easy-to-connect LTE network, we concentrated on the quick expansion of the 800MHz base band. Only a year and a half after the September 2012 start of "au 4G LTE" service on the 800MHz band, our actual population coverage ratio*2 reached 99%. I believe that this factor was a major success that will contribute greatly to a new stage of growth.

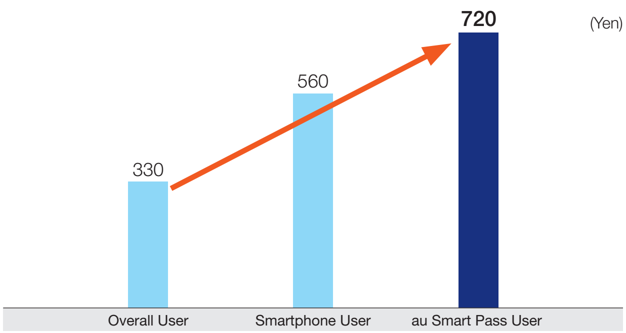
*1 "au Smart Value" subscribers (mobile) ÷ au subscribers, excluding data-only terminals and modules

*2 For calculation purposes, Japan has been divided into 500m² grid squares. Actual population coverage is the coverage ratio in comparison to the total population of grid squares designated as part of KDDI's service area.

Expansion of "Value ARPU"

Usage of "au Smart Pass" to spearhead promotion of other services

Value ARPU (4Q / FY2014.3)



Uta Pass ¥300 / month*3	Video Pass Unlimited plan ¥562 / month*3	Book Pass Unlimited plan ¥562 / month*3

Upselling

au Smart Pass
(¥372 / month)*3

Subscribers exceed 10 million (March 17, 2014)

*3 Displayed monetary values exclude tax

"au 4G LTE" Network

First achievement of 99% actual population coverage*4

Actual Population Coverage

au 4G LTE 800MHz Platinum Bandwidth*5

Reached 99%
as of March 14, 2014

Communication Speed

au 4G LTE 800MHz Platinum Bandwidth

Maximum downlink speed	Maximum uplink speed
75Mbps*6	25Mbps*6

*4 Target is for actual population coverage for the 800MHz platinum bandwidth. Based on area maps of several providers and KDDI's own findings.

*5 Applicable devices; Android™ smartphones compatible with 4G LTE, iPhone 5s, iPhone 5c, iPad Air, and iPad mini Retina display model

*6 Certain areas have maximum downlink speeds of 37.5Mbps and maximum uplink speeds of 12.5Mbps or lower. The speed mentioned is the maximum speed by technical standards. The speed may slow down significantly depending on the usage environment and traffic status. This is the best-effort method service.

THEME 03

Strengthened Cross-Selling with J:COM

In April 2013, we brought Japan's leading CATV provider, Jupiter Telecommunications Co., Ltd. (J:COM), into the scope of consolidation. In April 2014, we then merged J:COM with JAPAN CABLENET LIMITED (JCN), Japan's second-largest CATV company. These moves resulted in a newly augmented J:COM, with the total number of subscribing households at 5.00 million and a multi-channel service share of more than 50%.

We are taking advantage of J:COM's overwhelming market share and reinvigorated status, as well as the expanded scope of application of "au Smart Value" (adding multi-channel services, which have the highest uptake among CATV services) to beef up our cross-selling efforts with J:COM.

THEME 04

Targeting the Next Growth Stage

From the fiscal year ending March 31, 2015, we are targeting the next growth stage based on the platforms for expansion described earlier.

Promoting the shift toward multi-devices and expanding earnings

In Japan, smartphone penetration is around 50%*7, and the household penetration rate for tablets is around 20%*7. To take advantage of this sharp shift toward smart devices, we are putting in place environments that give customers access to a host of services, irrespective of device or location.

We are also on the cusp of a full-fledged shift to an era of multi-devices, whereby customers have a tablet or other device as well as a smartphone.

Under these conditions, we will support customers' shift toward multiple devices, and will focus on boosting total revenues generated from use across all devices—total revenue from communications and value-added services.

In promoting the shift toward multi-devices, we will also endeavor to boost sales of new products and reinforce rate plans.

First, we are addressing the strong demand among customers in single-person households for service via mobile Wi-Fi routers, which is higher in terms of demand than that for access to fixed-line broadband services. We are targeting these customers by reinforcing sales of mobile Wi-Fi routers via "au Smart Value mine," which provides a set discount when bundled with a smartphone.

Anticipating the proliferation of tablets, we are stepping up campaigns offering a set discount for purchases that include smartphones.

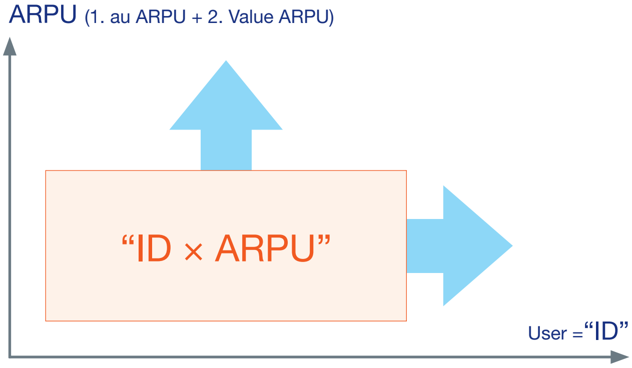
The response to both offerings, which launched in autumn of 2013, has been extremely favorable. Further expanding the value-added services that can be used across multi-devices should enable us to increase ARPU per ID.

*7 Source: Results of a consumer trend survey conducted in March 2014 by the Cabinet Office of Japan

Key Growth Factors

Accelerated trend of multi-device usage by individual users as the era of smart devices approaches

Target expansion of "ID × ARPU*8"



*8 Combined total of communications fees and value-added service revenues for all devices used

Using “au WALLET” to create a new economic zone

As one measure for expanding value-added service revenue, along with smartphone proliferation we have been working to increase the number of “au Smart Pass” members. As of March 31, 2014, membership totaled 10.25 million. In addition, on May 21, 2014, we launched “au WALLET” as a new e-money service.

“au WALLET” makes use of “au ID,” an authentication key, to access various au network services, and provides a settlement function that allows for use at physical shops as well.

When paying for content, in Japan carrier billing is the norm and recovery rates are extremely high, at 99%. A tie-up with MasterCard® means that “au WALLET” can be used at about 38.1 million*1 stores worldwide. Configured to leverage the charging convenience—a strength of carrier billing—we anticipate strong initial market uptake. Our aim is for the usage level to reach ¥1 trillion by the fiscal year ending March 31, 2017. We see “au WALLET” as a new business development opportunity, as it provides us with an opening to combine our conventional business approach with revenues generated in the physical economy, generating a “Net + physical economic zone.”

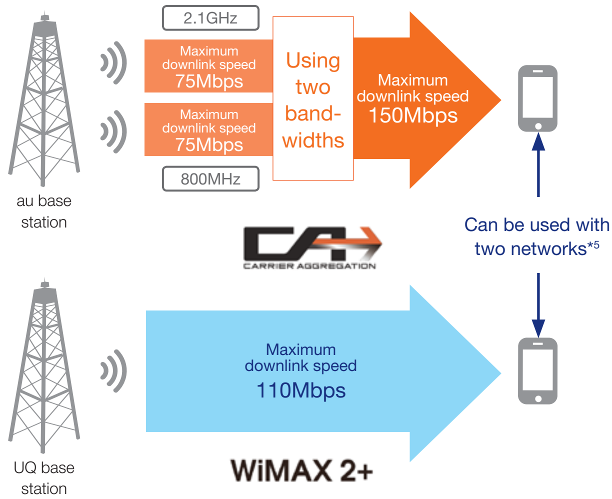
Enhancing networks further

With networks, the two key elements are area and speed. In terms of area, I have already described how we achieved an actual population coverage ratio of 99%*2 in the 800MHz band for “au 4G LTE.” We also expect to increase coverage in the 2.1GHz band for “au 4G LTE” to more than 90% by March 31, 2015. We will maintain our competitive advantage in terms of LTE area.

In terms of speed, we have begun a strategy of incorporating two on-board next-generation communications networks on smartphones and tablets. These networks employ carrier aggregation*3—a technology for “LTE-Advanced,” the next-generation high-speed telecommunications standard—as well as the “WiMAX 2+*4” ultrahigh-speed communication service provided by UQ Communications Inc., a KDDI equity-method affiliate. In addition to automatic network selection according to the user environment, this approach allows customers to enjoy more convenient high-speed data communication. We aim to be the LTE service leader with respect to speed of execution.

*1 Source: *Nilson Report*, March 2014 edition
*2 For calculation purposes, Japan has been divided into 500m² grid squares. Actual population coverage is the coverage ratio in comparison to the total population of grid squares designated as part of KDDI’s service area.
*3 Carrier aggregation: A technology that enables simultaneous LTE data transmission across multiple frequencies. Combining the data received at each frequency allows communications at up to 150Mbps.
*4 “WiMAX 2+”: This ultrahigh-speed communication service is compatible with TD-LTE and has a maximum downlink speed of 110Mbps. This speed is expected to increase to 220Mbps by March 31, 2015.

Two Next-Generation Communications Networks



*5 When circuits are busy, connects to the network that KDDI determines to be less congested.
Note: The speeds mentioned are the maximum speeds by technical standards and do not represent actual usage speeds. The speed may slow down significantly depending on the usage environment and traffic status.

THEME 05

Cash Flow Allocation and Shareholder Returns

Capital expenditures during the fiscal year ended March 31, 2014, were in line with our plans, at ¥571.8 billion, up 22.4% from the previous year. In addition to constructing base stations to boost our competitiveness in LTE, ¥41.5 billion went toward J:COM, which was newly included in the scope of consolidation. We also invested in the prospering data center business. Going forward, we expect to continue making capital investments aimed at maintaining or increasing our competitiveness. However, we expect to sustain our current level of investment of around ¥580.0 billion in the fiscal year ending March 31, 2015, in measures for using Wi-Fi to offload mobile data traffic onto fixed-line networks, contributing to operational efficiency.

Free cash flows for the fiscal year ended March 31, 2014, was up ¥175.1 billion from the previous year’s level, to ¥226.0 billion. This increase was attributable to the rise in EBITDA, as well as the impact of a smaller year-on-year increase in installment sales receivables accompanying smartphone sales. Also, ¥99.3 billion of this amount was attributable to the newly consolidated J:COM. We expect to continue generating cash on a stable basis in line with income growth.

Uses of cash

In terms of uses of cash, I believe we need to give top priority to ensuring sustainable business growth after reaching our current medium-term management target—during and after the fiscal year ending March 31, 2017.

In addition to achieving sustained income growth, our returns to shareholders focus on stable dividends, and we plan to continue increasing this level. The dividend for the fiscal year ended March 31, 2014, amounted to ¥130 per share, up ¥40 from the previous year. This figure amounted to a consolidated dividend payout ratio of 32.6% and represented the 12th consecutive fiscal year of dividend increases. We have committed to a consolidated dividend payout ratio in excess of 30%, and expect to raise dividends steadily as we achieve a synergy with higher earnings per share as income rises.

We will also consider acquiring our own shares, after taking into account the share price and our cash flow situation.

Medium-Term Management Targets

Achieving sustainable growth and enhancing shareholder returns

		FY2014.3	FY2015.3–FY2016.3
Income Growth	Consolidated operating income	YOY +29%	Double-digit annual growth rate
	Earnings per share (EPS)	YOY +26%	Large increases accompanying income growth
Shareholder Returns	Payout ratio	33%	Dividend payout ratio over 30%
	Share buyback	Consider as possible option for management	

THEME 06

KDDI Philosophy
The Importance of the KDDI Philosophy as the Basis of Our Conduct as a Corporate Citizen

In the KDDI Philosophy, KDDI describes the perspectives that employees should share and expresses a code of conduct. Respecting the individual characters of each of our employees goes without saying, but company management cannot work smoothly if employees have disparate visions and senses of ethics.

As a company that provides social infrastructure, our societal mission is to deliver stable telecommunications services regardless of conditions. As our business derives from utilizing radio waves, which are an important asset shared by all citizens, we must do our utmost to fulfill our attendant responsibilities by uniting the hearts of our employees and behaving as one.

Aiming for human welfare as well as the development of society, on a daily basis we think what value we can provide to society as individuals or as a corporate citizen. The KDDI Philosophy is the framework for sharing this value and strengthening trust. I see this as the essence of CSR management.

THEME 07

In Closing

The fiscal year ended March 31, 2014, was the first of three years for which I made a public pledge to meet medium-term management targets. We achieved these, posting double-digit growth in operating income and in the fourth quarter realizing our earnest desire to turn around what had been a year-on-year downtrend in ARPU, partly due to the rise in data ARPU stemming from the shift toward smartphones. Through these results, I believe we have built the foundation for sustained income growth.

To respond quickly to changes in our operating environment, achieve sustained growth, and remain at the forefront of change, we will move forward with our growth strategies: the "3M Strategy" and the "Global Strategy." We will also strive to provide highly reliable networks, as well as high-value-added products and services. In these ways, we intend to enhance customer satisfaction levels even further.

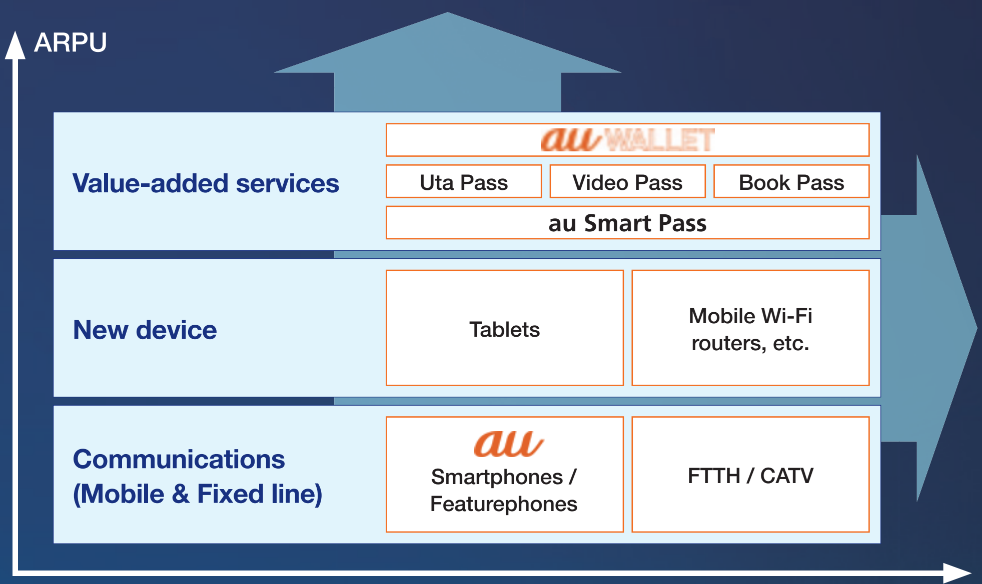
Maximizing ARPU (Average Revenue per Unit)

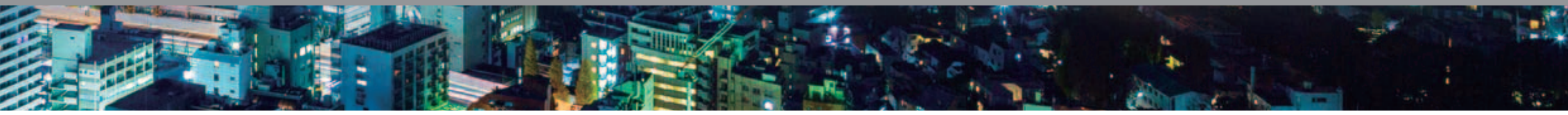
In the Japanese telecommunications market, mobile carriers' handset and networks offerings are growing increasingly similar, making competition on the basis of differentiation difficult. Under this scenarios, the market is advancing rapidly into the "multi-device" era, in which smartphone customers are likely to also own a tablet, mobile Wi-Fi router, or other device.

Operating under these circumstances, KDDI is working to further expand the customer base it has cultivated to date. At the same time, we are taking the initiative on expanding ARPU in a manner that will allow stable growth and be impervious to competition.

We succeeded in reversing the downward trend in au ARPU year on year in the fourth quarter of the fiscal year ended March 31, 2014. We expect this figure to continue rising as the smartphone penetration rate increases. In addition, the multi-device transition will enable us to generate new ARPU. Meanwhile, we should be able to expand value ARPU in non-communications domains—a unique feature of the Japanese market, thereby maximizing ARPU.

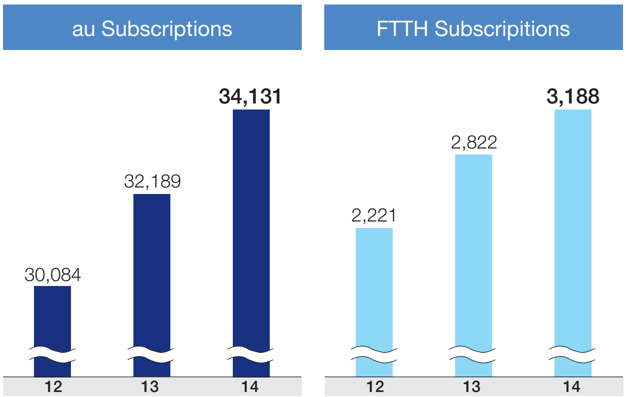
Expanding "Customer Base / IDs" and ARPU





Increasing Customer Base / IDs

Cumulative Subscriptions (Personal Services) ('000 subs)

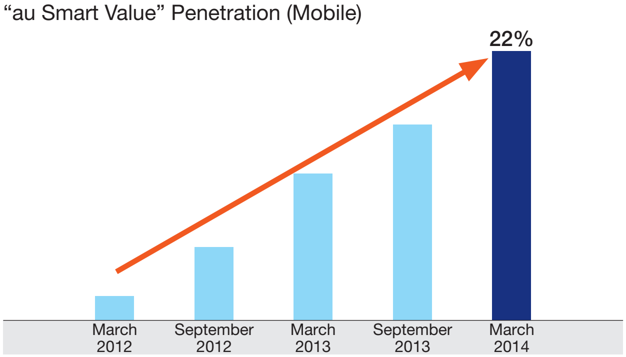


(Years ended March 31)

The core of KDDI's business strategy, the "3M Strategy" (Multi-device, Multi-use, Multi-network), lies in leveraging our combination of mobile and fixed-line communications networks to enhance customer satisfaction and maximize revenue. In March 2012, we adopted the "au Smart Value" sales strategy of offering smartphones and fixed-line communications as a set. This move enabled us to augment our base of customers for the mobile and fixed-line communications owned by the KDDI Group with a new customer base: those of fixed-line companies throughout Japan with whom we entered into alliances. Through cross-selling, we have been able to increase our customer base for mobile and fixed-line communications alike.

As a result, our total number of au subscriptions exceeded 40 million in February 2014. As of March 31, 2014, "au Smart Value" subscriptions numbered 7.05 million for mobile and 3.58 million households for fixed-line, increasing the penetration rate*1 to 22% of mobile subscribers in the Personal Services segment.

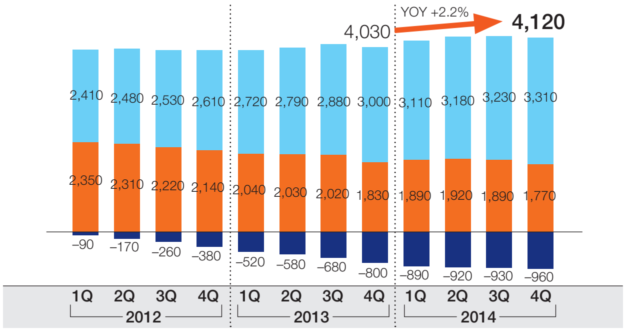
"au Smart Value" Penetration (Mobile)



*1 ("au Smart Value" subscribers (mobile)) ÷ (au subscribers, excluding data-only terminals and modules)

Going forward, while maintaining our focus on "au Smart Value" we will promote the shift toward smartphones and strive to expand the customer bases for both mobile and fixed-line (FTTH and CATV) communications.

au ARPU*2 on Quarterly Basis (Yen)



Data ARPU Voice ARPU (before application of discount)
Amount of Discount Applied
(Years ended March 31)

*2 au ARPU = [Voice ARPU (before application of discount)] + [Data ARPU] – [Amount of discount applied]
au ARPU (before revision): Mobile subscriptions (on aggregate basis, excluding tablets and modules)

Reversing the Trend on au ARPU

au ARPU has three components: data ARPU, voice ARPU, and amount of discount applied (the impact of "Maitsuki Discount (Monthly Discount)" and "au Smart Value".) Although au ARPU had been falling for some time on a year-on-year basis, we resolved to boost data ARPU by promoting the shift toward smartphones and halting the decline in voice ARPU. We also controlled the amount of the "Maitsuki Discount," which corresponds to a deduction from monthly communications fees over a 24-month period for a portion of the sales commissions on mobile phone handsets. Through this combination, in the fourth quarter of the fiscal year ended March 31, 2014, we succeeded in reversing the downward trend on au ARPU for the first time in 12 fiscal years.

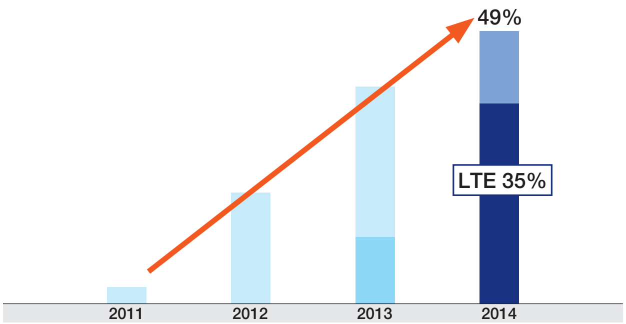
Promoting the Shift toward Smartphones while Controlling the "Maitsuki Discount" Amount

Rise in data ARPU in line with the shift toward smartphones

Through efforts to promote the shift toward smartphones, as of March 31, 2014, the smartphone penetration rate was 49%, up more than 10 percentage points year on year. Of this figure, the penetration rate of LTE smartphones, for which monthly fees are ¥500 per month higher than 3G smartphones*3, was 35%. (More than 70% of all smartphones are LTE.) These trends contributed to the rise in data ARPU.

*3 Excluding iPhone campaign fees

au Smartphone Penetration Rate*4 (Personal Services)



au LTE smartphones au 3G smartphones
(Years ended March 31)

*4 (au LTE smartphones + au 3G smartphones) ÷ (au subscriptions – (data-only terminal subscriptions + tablet subscriptions + modules subscriptions))

Strategy

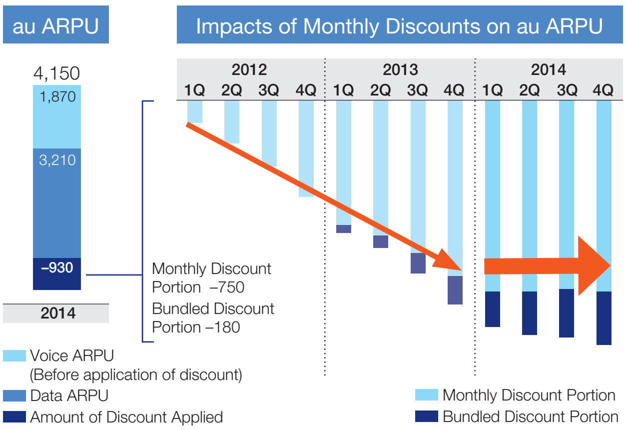
Minimizing the impact of discounts by controlling the "Maitsuki Discount" amount

"Maitsuki Discount" is a discount service whereby we deduct a portion of sales commissions on mobile phone handsets from monthly communications charges over a 24-month period. While this approach has the effect of holding down operating costs at the time handsets are sold, it also tends to pull down future au ARPU. We introduced this discount system when we started offering smartphones, and the system's impact on ARPU tends to increase as smartphone penetration rises.

To turn au ARPU around in the fiscal year ended March 31, 2014, we restrained the monthly discount portion of handset sales commissions, exercising control over this discount by accepting a higher percentage of operating expenses.

The "Maitsuki Discount" amount consequently flattened at a level down approximately ¥750 for each quarter of the fiscal year ended March 31, 2014, halting the downward trend in au ARPU.

Controlling the "Maitsuki Discount" Amount to Keep Its Impact from Expanding (Yen)



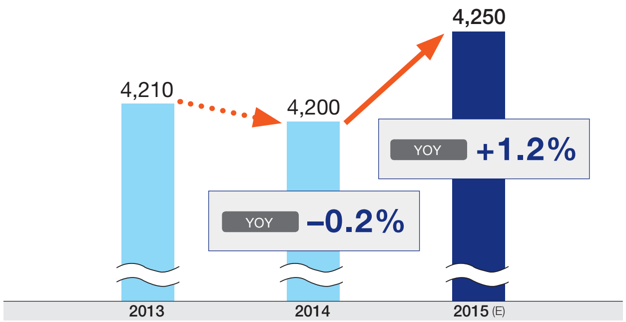
By successfully promoting the shift toward smartphones and controlling the "Maitsuki Discount" amount, in the fourth quarter of the fiscal year ended March 31, 2014, we met our initial goal of reversing year-on-year the downtrend in au ARPU—for the first time in the 12 years since the fiscal year ended March 31, 2002.

Outlook for the Future

We expect the smartphone penetration rate to continue rising, increasing to more than 70% over the next few years. In line with this trend, we will continue making an effort to control the "Maitsuki Discount" amount.

We expect au ARPU to rise 1.2% in the fiscal year ending March 31, 2015. This trend will allow us to put in place a stable base for income growth that does not overly rely on momentum from net additions.

Forecast of au ARPU*1 (New definition) (Yen)



(Years ended March 31)

*1 au ARPU = [Voice ARPU (before application of discount)] + [Data ARPU] – [Amount of discount applied]
au ARPU (new definition): Mobile subscriptions (on aggregate basis, excluding data-only terminals, tablets, and modules)

Boosting ARPU from New Devices

The multi-device trend is quickly gaining traction. We will encourage this shift and aim to maximize the total amount of revenue we generate across multiple devices, comprising revenues from communications and value-added service revenue.

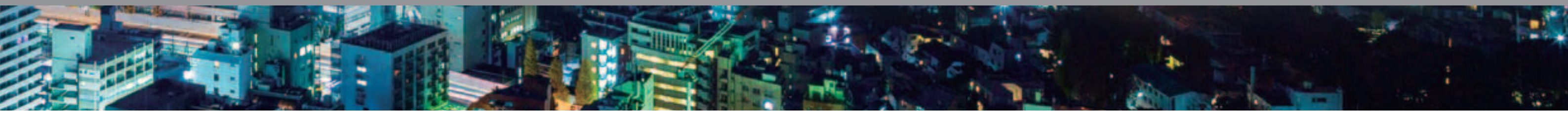
To promote the multi-device trend, we will endeavor to expand sales by reinforcing our rate plans, mainly on tablets and mobile Wi-Fi routers.

The household penetration rate for tablets is 20%*2, and we expect that figure to rise further. To encourage this, we will strengthen sales campaigns offering set discounts for purchases that include a smartphone.

We are addressing the strong demand among customers in single-person households for service via mobile Wi-Fi routers, which is higher than that for access to fixed-line broadband services. We are targeting these customers by reinforcing sales of mobile Wi-Fi routers via "au Smart Value mine," which provides a set discount when bundled with a smartphone.

Compared with the conventional ARPU from just a smartphone or a featurephone, we will become able to generate ARPU from tablets, mobile Wi-Fi routers, and other new devices. This opportunity should link to higher ARPU per customer (ID).

*2 Source: Results of a consumer trend survey conducted by the Cabinet Office of Japan in March 2014.



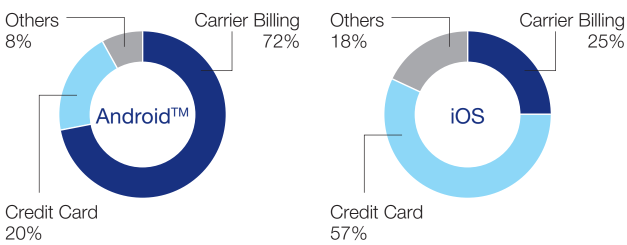
Expanding Value ARPU

Reasons Why Telecommunications Carriers are Able to Monetize the Content Business

KDDI is moving aggressively to expand value-added sales*3 in non-communications domains. At present, value-added sales is centered on the billing revenue generated when mobile users purchase digital content. A unique characteristic of Japan's mobile content business is that customers typically use the content-fee collection services provided by telecommunications carriers (carrier billing) as their settlement method when purchasing content. For Android™ handsets, carrier billing can account for as much as 70% or more of the total settlement amount. As a result, telecommunications carriers are able to monetize the content business.

*3 Revenue derived from "au Smart Pass" and other upselling services based on "au Smart Pass," as well as existing cooperative services, commissions on settlements, and advertising revenues, divided by the number of subscribers in the Personal Services segment.

Settlement Variation per OS Type in Japan



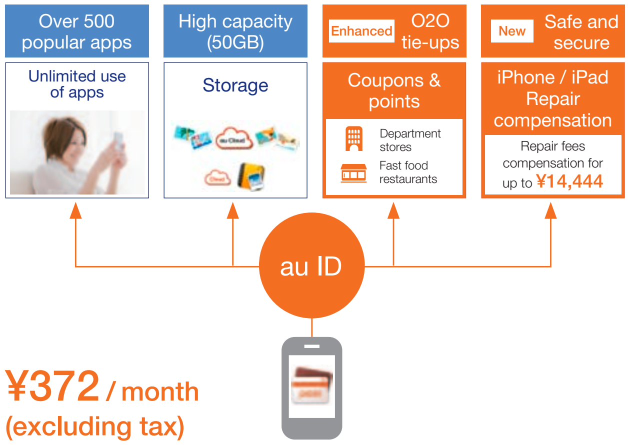
Source: Mobile Content Forum as of May 2012

For KDDI, the key to this business is "au Smart Pass." "au Smart Pass" gives customers unlimited access to more than 500 popular smartphone apps, as well as coupons, online storage, and security services, plus functionality that enables them to safely and securely enjoy the world of the open Internet for only ¥372 per month (excluding tax.)

During the era of featurephones, customers purchased content via the portal sites that telecommunications carriers provided. Settlement was through the carrier billing services offered by telecommunications carriers, who received a percentage as commission income, resulting in a vertically integrated business model for telecommunications carriers. As we moved to the era of smartphones and the world of the open Internet, customers began to have options in addition to the services provided by their telecommunications carrier. To help customers navigate the enormity of the open Internet and use content safely and securely, in March 2012 we began offering this service, which also provides a contact point to reconnect customers and telecommunications carriers. As of March 31, 2014—two years since the service launched—membership accounts for more than 60% of au smartphone users, at 10.25 million. Some 80% of customers*4 purchasing a new au smartphone elect to join this service, and member numbers continue to rise.

*4 Excluding sales from model upgrade by existing "au Smart Pass" users

au Smart Pass

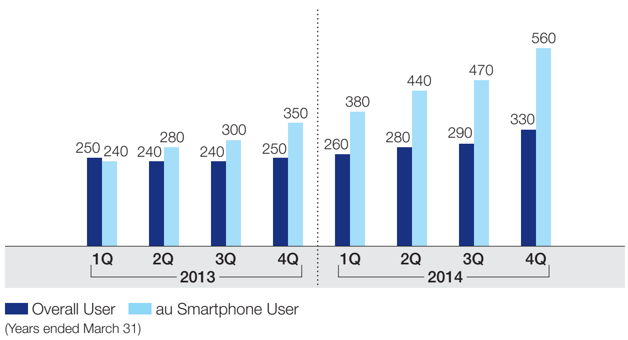


Trend in Value ARPU

We are leveraging our prowess in the content business to boost value-added sales per customer, or "value ARPU." In the fourth quarter of the fiscal year ended March 31, 2014, this figure was ¥330, up 32% year on year.

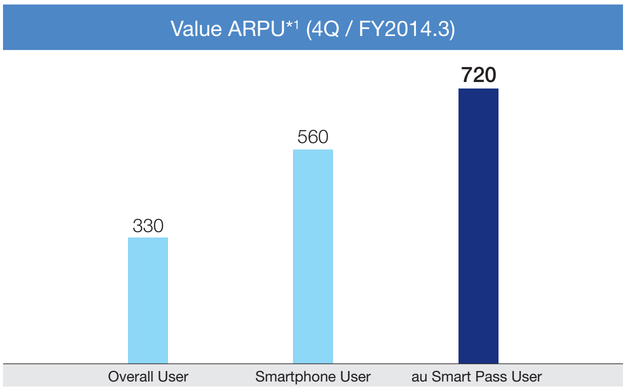
Looking just at smartphone users, value ARPU had risen even higher, to ¥560. As smartphone penetration rises, we believe value ARPU will grow accordingly.

Value ARPU on Quarterly Basis (Yen)



Based on our “au Smart Pass” offering, we will continue to upsell fixed-rate services that offer unlimited access to music, videos, and e-books. We will also promote online to offline (O2O) business in an effort to further increase value ARPU. For the fourth quarter of the fiscal year ended March 31, 2014, value ARPU resulting from “au Smart Pass” members was ¥720, significantly higher than the value ARPU figure for smartphone users as a whole.

Expansion of Value ARPU (Yen)



*1 Excluding tax

Using “au WALLET” as a New Revenue Source in the Physical Economic Zone

As one means of raising value ARPU further, we will augment the previous online economic zone centered on content billing with a new revenue source: an economic zone based on settlement at physical shops. To realize this goal, on May 21, 2014, we launched a new e-money service called “au WALLET.” This service provides an authentication key, the “au ID,” that provides access to various au network services. This e-money service also comes with a settlement function that facilitates use at physical shops.

A tie-up with MasterCard® means that “au WALLET” can be used at some 38.1 million stores worldwide. Furthermore, charging is convenient, as the service uses carrier billing, which has recovery rates of around 99%. The service therefore simultaneously addresses two weaknesses endemic to e-money systems—limits to where the user’s credit card could be used and limitations and the limited availability of e-money systems. By overcoming these disadvantages, we believe market penetration will increase rapidly. Our initial aim is for the usage level to reach ¥1 trillion by the fiscal year ending March 31, 2017, and the initial response far exceeds our expectations. Shortly after we began accepting applications, the number had risen to 1 million as of May 30, 2014. A month later, on June 30, we had received 3 million applications.

Another major advantage of this service is that it requires only a limited outlay for capital expenditure and other related expenses. This means we should be able to start generating profits quickly.

We see “au WALLET” as a new business development opportunity, as it combines our Internet business approach with revenues generated in the physical economy, generating a “Net + physical economic zone” that should allow us to maximize value ARPU.

Creation of a New Economic Sphere by Developing au WALLET with Partners

*2 Some stores and services are not applicable

“au WALLET” Card

Multi-Network Capabilities: The Source of KDDI's Competitiveness

KDDI utilizes multi-network capabilities to promote the offloading of data. This approach allows us to efficiently handle the sharp rise in mobile data traffic, provide high-quality telecommunications services, and augment capital expenditure efficiency.

Growth in Mobile Traffic and Data Offloading

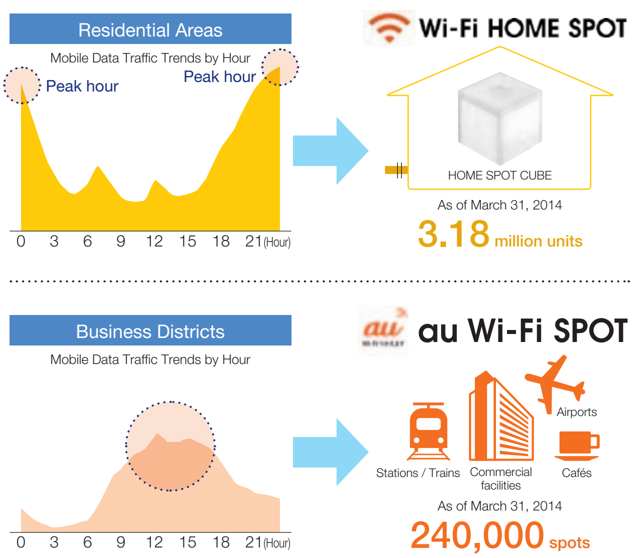
The widespread adoption of smartphones is prompting a rapid increase in mobile data traffic. KDDI's most recent figures indicate that data traffic per smartphone is running at 2.7GB per month, up 42% over a year earlier. Given bandwidth limitations, it is becoming difficult for mobile infrastructure to absorb these increases on its own.

To address this issue, KDDI is promoting data offloading, which plays to the Company's strength in owning both mobile and fixed-line networks. Taking this approach, KDDI has recently been successful in offloading 57% of data traffic per smartphone onto fixed-line networks.

"Wi-Fi HOME SPOT" and "au Wi-Fi SPOT"

In Japan, traffic volumes in residential areas tend to peak in the nighttime hours, whereas they are highest in business areas during the lunch break and in the evening.

Data Offloading via Wi-Fi



Based on these characteristics, we are pursuing an initiative under which we provide—free of charge—a "Wi-Fi HOME SPOT" router to smartphone users who have residential fixed-line broadband circuits. This approach allows us to offload data traffic in the home to fixed-line broadband networks.

Meanwhile, our outdoors initiative is to create public Wi-Fi spots by locating "au Wi-Fi SPOT" routers conveniently along routes where customers tend to congregate, providing au smartphone users with free Wi-Fi service. This arrangement allows us to handle mobile data traffic efficiently 24 hours a day and boosts capital expenditure efficiency.

Mobile Data Offloading Trends*3

March 2012 Approx. 20% → March 2013 Approx. 52% → March 2014 Approx. 57%

*3 Definition of the offload rate until the fiscal year ended March 31, 2013: Data traffic during the peak hour (11–12 pm) over one month

Definition	Numerator: Data offloading to Wi-Fi + WiMAX
	Denominator: Total smartphone data traffic (3G + Wi-Fi + WiMAX)

From the fiscal year ended March 31, 2014, the denominator changed to include data traffic from LTE smartphones.

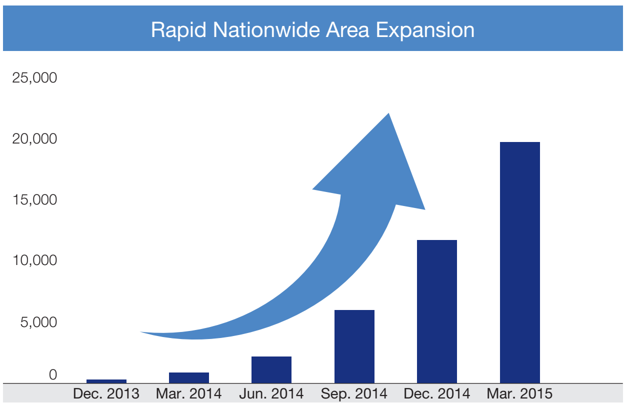
Aggressive LTE Rollout over the "Platinum Band"

Since the launch of LTE service in September 2012, we have concentrated on ensuring a convenient communications environment for our customers by expanding the 800MHz "platinum band" for providing this service. As a result of these efforts, we have quickly achieved an actual population coverage ratio of 99%, the highest of any Japanese telecommunications operator. To provide networks that are even faster and more stable, KDDI is undertaking the following initiatives.

Carrier Aggregation (CA)

KDDI is the first company in Japan to introduce "carrier aggregation," a technology for the next-generation LTE high-speed communications standard, "LTE-Advanced." By using two

Significant Increase in Areas*4 with Maximum Downlink Speed of 150Mbps (Base stations)



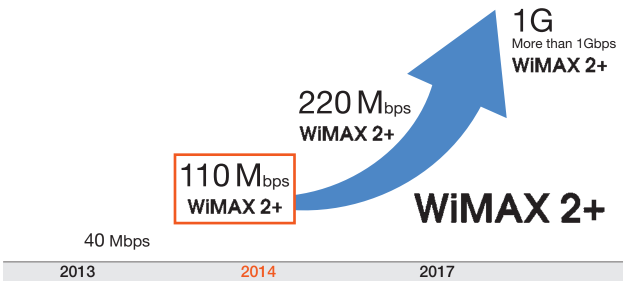
*4 Total number of base stations compatible with 2.1GHz (150Mbps) + CA. Plans as of April 2014.

bandwidths we provide for "au 4G LTE," 800MHz and 2.1GHz, carrier aggregation enables us to boost maximum downlink speed to 150Mbps, achieving stable, high-speed communications. This effective use of frequencies improves efficiency across the overall LTE network, making it possible to achieve maximum downlink speeds of 150Mbps at once across Japan, rather than only in specific regions. We plan to increase the number of 150Mbps-compatible base stations to 20,000 by March 31, 2015 (up from approximately 700 as of March 31, 2014.)

WiMAX 2+

Another facet of our multi-network strategy is to use the "WiMAX 2+" network provided by UQ Communications Inc., an affiliated company. "WiMAX 2+" is an ultrahigh-speed telecommunications service compatible with TD-LTE. By March 31, 2015, we expect to boost maximum downlink speed to 220Mbps, compared with 110Mbps at present.

Advancement of "WiMAX 2+"

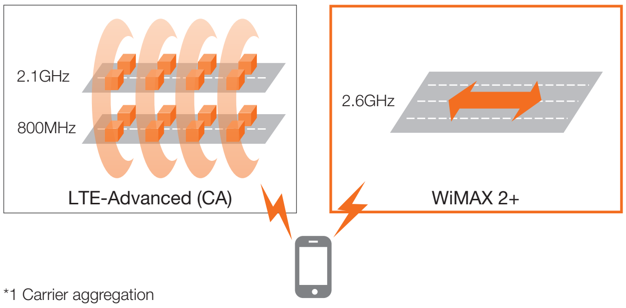


Aiming to Provide the Highest Effective Speed over LTE Networks by Having Both Carrier Aggregation and "WiMAX 2+" On Board

We introduced the strategy of providing on-board access to two next-generation communications networks, beginning with smartphones and tablets that went on sale in the summer of 2014 (with some exceptions.) Allowing handsets to automatically select the optimal network depending on signal strength and line congestion should lead to more stable high-speed data communication, as well as offloading some data from "au 4G LTE" to "WiMAX 2+," thereby holding down network costs.

By boosting communications speeds, achieving stable communications, and making our overall network more efficient, we aim to differentiate ourselves from competitors by providing the highest effective speed over LTE networks.

Aiming to Provide the Highest Effective Speed by Having Both "LTE-Advanced" (CA*1) and "WiMAX 2+" On Board



*1 Carrier aggregation

Our Network Orientation Moving to the 2020s

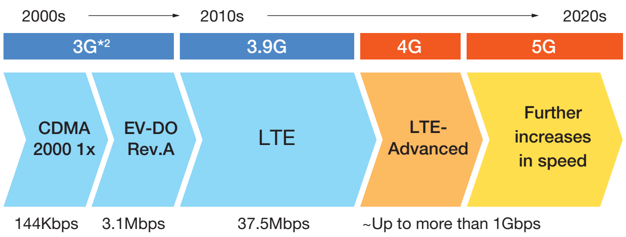
With such developments as 4K / 8K ultrahigh-resolution video, wearable devices, and big data applications forecast for the future, telecommunications networks appear likely to become even more important than ever before.

By the 2020s, we expect mobile networks to transition from the current fourth generation (4G) to the fifth generation (5G), with communications speeds rising commensurately.

While 5G will use high frequencies to allow ultrahigh-speed communications, base stations will employ smaller cells, similar to wireless LANs, so are set to facilitate a significant increase in the number of base stations with fixed-line connections.

Although these developments will cause the cost of base station circuits to rise, KDDI will be able to take full advantage of the proprietary fixed-line communications facilities it already has in place. As a result, we expect to maintain or increase our competitiveness in the 5G era.

Moving toward Even Faster Speeds with 4G and 5G



*2 3G standards are based on CDMA2000, which KDDI uses.

Note: The maximum communication speed varies depending on areas or terminals used. The communication speed is not the actual communication speed, but the maximum value based on the technical standards. The actual speed may fall short of the maximum for various reasons, including the customer's communication environment and traffic conditions.

Performance Analysis

Performance Analysis for the Fiscal Year Ended March 31, 2014

Analysis of Statements of Income

Operating Revenues

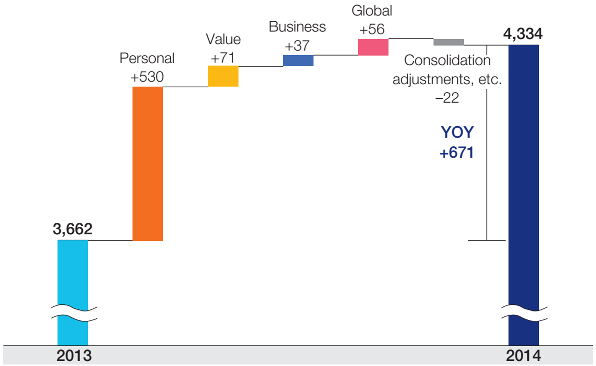
(Billions of yen)

Year on Year

18.3% up

¥4,333.6 billion

In the Personal Services segment, which accounts for more than 70% of consolidated operating revenues, mobile communications revenues grew thanks to a steady rise in the smartphone penetration rate, and revenues from handset sales expanded. These factors, plus the inclusion of J:COM into the scope of consolidation, prompted an 18.3% year-on-year increase in consolidated operating revenues, to ¥4,333.6 billion.



(Years ended March 31)

Operating Income

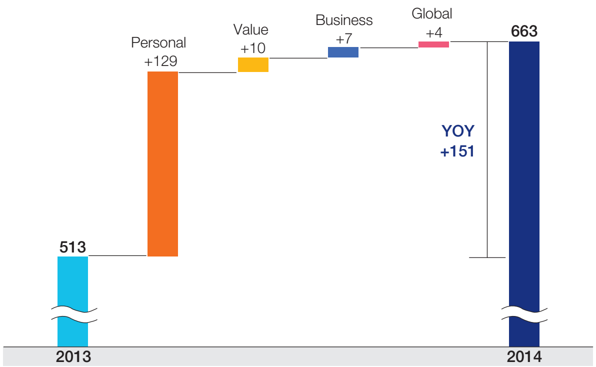
(Billions of yen)

Year on Year

29.4% up

¥663.2 billion

Consolidated operating income rose 29.4%, to ¥663.2 billion. This was primarily due to sharply higher revenues from the Personal Services segment absorbing an increase in sales commissions in the face of increasingly fierce competition, higher handset procurement costs in tandem with a rise in unit sales of smartphones, and expenses related to the consolidation of J:COM.



(Years ended March 31)

Net Income

Year on Year

33.4% up

¥322.0 billion

Net income was up 33.4% year on year, to ¥322.0 billion. In addition to higher operating income, extraordinary losses declined significantly. In the previous fiscal year, extraordinary losses totaled ¥104.9 billion, due to the posting of impairment and retirement losses stemming from the discontinued use of former 800MHz frequency facilities. During the year under review, extraordinary losses were ¥50.3 billion, stemming from losses on step acquisition of J:COM's shares.

Dividends per Share*

Year on Year

¥40 up

¥130

We awarded full-year cash dividends per share of ¥130, up ¥40 year on year, amounting to a consolidated dividend payout ratio of 32.6%. Our dividend policy is to maintain the consolidated dividend payout ratio at a level above 30% while taking into consideration the investments necessary to achieve growth and ensure stable business operations, and we plan to continue raising dividends through synergy between a higher consolidated dividend payout ratio and increasing earnings per share in line with increased operating income.

* Stated dividend amounts take into consideration the stock split conducted with an effective date of April 1, 2013.

Analysis of Balance Sheets

Total Assets

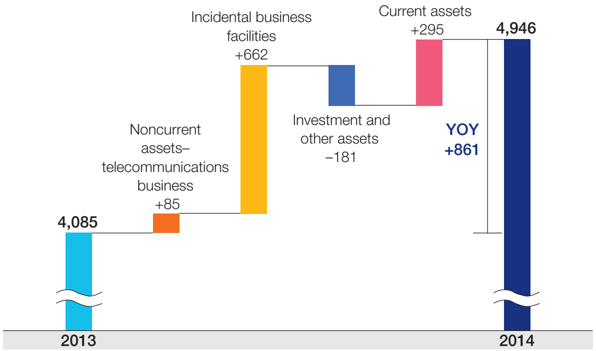
(Billions of yen)

Year on Year

¥860.8 billion up

¥4,945.8 billion

The consolidation of J:COM prompted incidental business facilities to increase, causing total assets to rise ¥860.8 billion, to ¥4,945.8 billion.



(Years ended March 31)

Total Net Assets

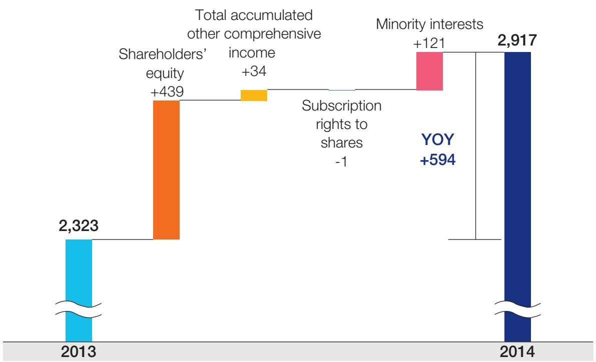
(Billions of yen)

Year on Year

¥593.6 billion up

¥2,917.0 billion

Shareholders' equity expanded in line with an increase in retained earnings. In addition, the conversion of convertible bond-type bonds with subscription rights to shares delivered a major boost to shareholders' equity through the allocation of Company shares, and minority interests increased. As a result, net assets expanded ¥593.6 billion year on year.



(Years ended March 31)

Interest-Bearing Debt

Year on Year

¥107.4 billion up

¥1,085.0 billion

Completion of the conversion of convertible bond-type bonds with subscription rights to shares brought down interest-bearing debt. More than compensating for this decrease was the combination of funding through long-term loans payable and the increase in debt related to the J:COM consolidation. Interest-bearing debt consequently rose ¥107.4 billion, to ¥1,085.0 billion.

D/E Ratio

Year on Year

0.03 pt. down

0.40 times

We raised funds through long-term loans payable, and the J:COM consolidation led to an increase in interest-bearing debt. At the same time, however, net assets expanded due to factors such as the rise in retained earnings and a decline in treasury stock. Accordingly, the D/E ratio decreased 0.03 percentage point.

Analysis of Capital Expenditures and Cash Flows

Capital Expenditures

Mobile

Year on Year

¥35.8 billion up

¥374.0 billion

Fixed-Line, etc.

Year on Year

¥69.0 billion up

¥197.8 billion

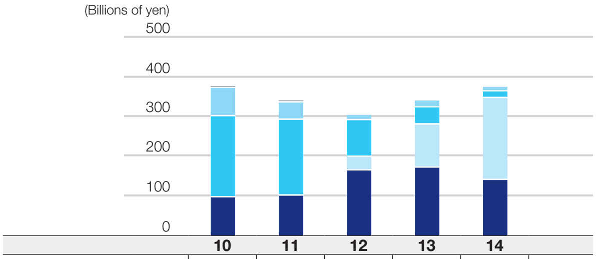
Consolidated capital expenditures rose ¥104.8 billion compared with the fiscal year ended March 31, 2013, to ¥571.8 billion.

Capital expenditures in the mobile business were up ¥35.8 billion, to ¥374.0 billion, as we made aggressive LTE-related investments—chiefly for the construction of base stations—to boost our LTE area coverage in the 800MHz band to 99% by March 31, 2014.

In the fixed-line business, capital expenditures rose ¥69.0 billion year on year, to ¥197.8 billion. Reasons for the increase included rises related to the J:COM consolidation and domestic and overseas data center expansion.

Mobile

(Billions of yen)

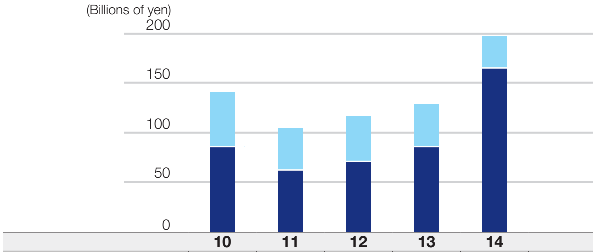


	10	11	12	13	14
Former 800MHz	1	1	0	0	0
2GHz	74	44	11	14	10
New 800MHz (excluding LTE)	204	191	93	43	17
LTE	—	—	34	110	206
Common equipment	97	103	165	172	141
Total	377	339	304	338	374

(Years ended March 31)

Fixed-Line, etc.

(Billions of yen)



	10	11	12	13	14
FTTH	55	43	46	43	33
Other	86	62	71	86	165
Total	141	105	117	129	198

(Years ended March 31)

Cash Flows

Free Cash Flows

Year on Year

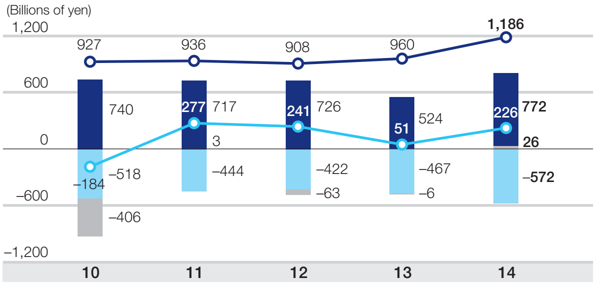
¥175.0 billion up

¥226.0 billion

Net cash provided by operating activities came to ¥772.2 billion, ¥248.3 billion more than in the previous year, affected by higher income before income taxes and minority interests and a smaller increase in installment sales receivables stemming from smartphone sales. Net cash used in investing activities totaled ¥546.3 billion, up ¥73.3 billion, mainly due to the J:COM consolidation. Free cash flows, the total of operating and investing cash flows, therefore amounted to ¥226.0 billion, up ¥175.0 billion.

Cash Flows

(Billions of yen)



(Years ended March 31)

Free Cash Flows
Net Cash Provided by (Used in) Operating Activities
Capital Expenditures

Performance Analysis for the Fiscal Year Ended March 31, 2014 by Segment

Segments at a Glance

From the fiscal year ended March 31, 2013, KDDI has realigned its reportable segments into four business segments based on management resource allocation and financial results evaluation in accordance with management's approach.

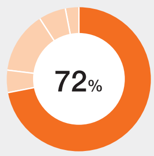
The Personal Services segment, which provides mobile and fixed-line services for consumers, accounts for more than 70% of operating revenues and operating income.

Personal Services Segment

Provision of communications services for individuals

This segment provides mobile and fixed-line communications services to individual customers. The segment's main activities are the provision of "au" brand mobile communication services and the sale of mobile handsets. In addition, in fixed-line communications we provide "au HIKARI"-brand FTTH and CATV services.

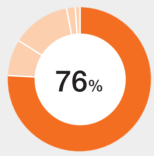
Operating Revenues



¥3,367.9 billion

YOY 18.7% up

Operating Income

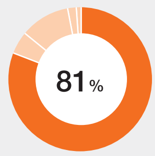


¥507.2 billion

Operating Income Margin 15.1%

YOY 34.0% up

EBITDA



¥955.7 billion

EBITDA Margin 28.4%

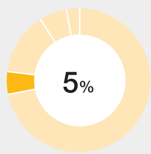
YOY 27.3% up

Value Services Segment

Provision of content and settlement services for individuals

In this segment, we provide individual customers with content, settlement, and other services. We are also reinforcing our Multi-device and Multi-network initiatives, and creating environments to facilitate more convenient and comfortable use of value-added services.

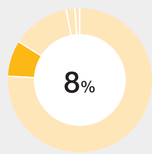
Operating Revenues



¥212.5 billion

YOY 49.8% up

Operating Income

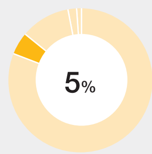


¥51.6 billion

Operating Income Margin 24.3%

YOY 23.2% up

EBITDA



¥64.5 billion

EBITDA Margin 30.3%

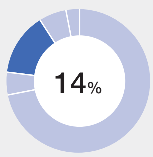
YOY 24.5% up

Business Services Segment

Provision of communications and solution / cloud services for companies

In this segment, which targets corporate customers ranging from small and medium-sized businesses to major corporations, we propose cloud-based solutions that enable the seamless use of mobile handsets such as smartphones, tablets, and networks, as well as applications.

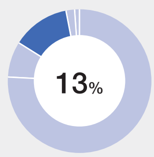
Operating Revenues



¥674.9 billion

YOY 5.7% up

Operating Income

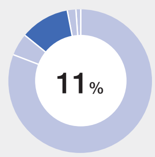


¥86.5 billion

Operating Income Margin 12.8%

YOY 8.3% up

EBITDA



¥130.7 billion

EBITDA Margin 19.4%

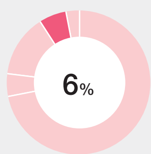
YOY 1.5% up

Global Services Segment

Provision of communications and solution / cloud services for companies and individuals overseas

Centered on our "TELEHOUSE" data centers for corporate customers, this segment provides one-stop ICT solutions. We are also making proactive forays into the Internet business in emerging markets, as well as the mobile virtual network operator (MVNO) business, focusing on immigrants in the United States, and other consumer businesses. Furthermore, we provide international voice traffic transmission services for more than 600 telecommunications providers throughout the world.

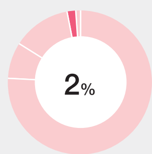
Operating Revenues



¥263.6 billion

YOY 27.2% up

Operating Income

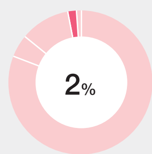


¥11.4 billion

Operating Income Margin 4.3%

YOY 45.7% up

EBITDA



¥27.3 billion

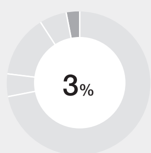
EBITDA Margin 10.4%

YOY 28.1% up

Other

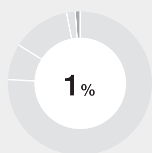
Communications facility construction as well as maintenance, call centers, R&D, etc.

Operating Revenues



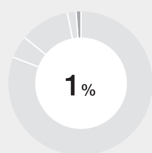
¥150.0 billion

Operating Income



¥7.1 billion

EBITDA



¥8.7 billion

Analysis by Segment: Personal Services Segment

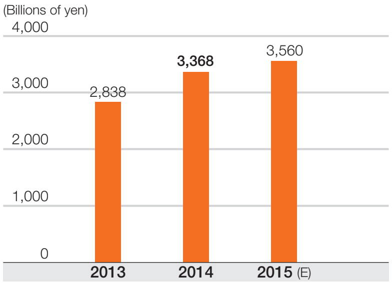
Overview of Operations

During the fiscal year ended March 31, 2014, operating revenues increased 18.7%, to ¥3,367.9 billion. This rise stemmed from higher data communications revenues, thanks to favorable increases in the number of subscribers, the ongoing shift toward smartphones and the resulting increase in revenues from handset sales, and the contribution to earnings of J:COM, as this company was included in the scope of consolidation.

Meanwhile, operating expenses increased 16.3%, to ¥2,860.7 billion. In addition to higher sales commissions stemming from increasingly stringent competition, we experienced a rise in handset procurement costs in line with greater unit sales of smartphones, plus the additional costs of converting J:COM to a consolidated subsidiary.

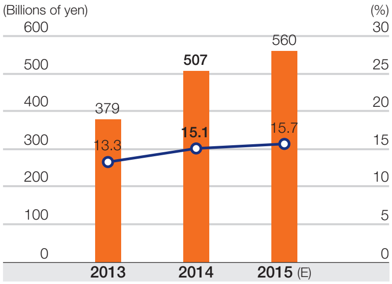
Operating income consequently increased 34.0% year on year, to ¥507.2 billion. In the fiscal year ending March 31, 2015, we expect the shift toward smartphones to continue. Given the turnaround in ARPU, we should be able to expect steady growth for the year as a whole without overly relying on net additions. Owing to these factors, we forecast a ¥52.8 billion year-one-year increase in operating income.

Operating Revenues



(Years ended March 31)

Operating Income / Operating Income Margin

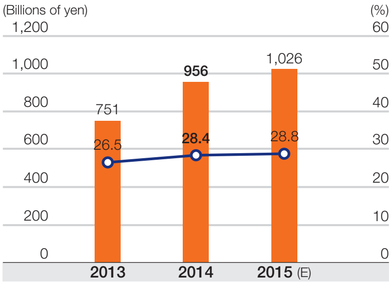


(Years ended March 31)

Operating Income (left)

Operating Income Margin (right)

EBITDA / EBITDA Margin



(Years ended March 31)

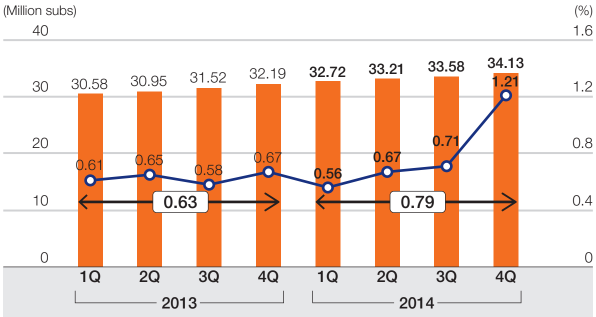
EBITDA (left)

EBITDA Margin (right)

au Subscriptions / au Churn Rate

The net addition in au subscriptions outpaced our initial expectations of 1.50 million subscriptions by 440,000, amounting to 1.94 million subscriptions. As a result, total subscriptions numbered 34.13 million as of March 31, 2014, up 6.0% from March 31, 2013.

The au churn rate was the lowest level in the industry, at 0.79%, with low levels continuing on from the fiscal year ended March 31, 2013.



(Years ended March 31)

Total au Subscriptions at the End of Each Quarter (left)

au Churn Rate (right)

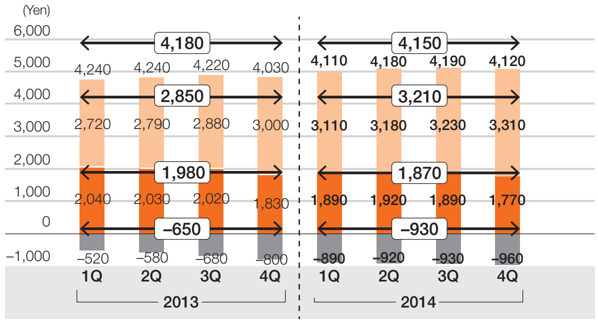
au ARPU

Voice ARPU declined 5.6% year on year, to ¥1,870, mainly due to smartphone subscribers spending less time with voice communications and the impact of access charge revisions.

Data ARPU was up 12.6%, to ¥3,210, owing to an increase in smartphone subscriptions.

The amount of discount applied was ¥930, up ¥280 year on year. This rise was attributable mainly to the increased use of "Maitsuki Discount (Monthly Discount)" pricing in line with the increased smartphone penetration rate and rising penetration of "au Smart Value." However, our efforts to control "Maitsuki Discount" levels have succeeded in slowing its rate of increase.

As a result, au ARPU amounted to ¥4,150, which was down 0.7% year on year. Even so, the downward trend in au ARPU reversed in the fourth quarter, and in the fiscal year ending March 31, 2015, we expect au ARPU to rise on an annual basis, to ¥4,250.



(Years ended March 31)

Data ARPU

Voice ARPU (before application of discount)

Amount of Discount Applied

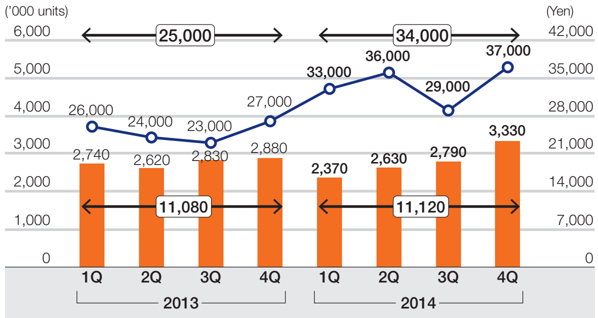
(total discount effect of "au Smart Value" and "Maitsuki Discount")

au Handset Units Sold / au Sales Commissions

au handset sales rose 0.4% year on year, to 11.12 million units.

au sales commissions increased ¥9,000 year on year, to ¥34,000, as we controlled the level of "Maitsuki Discount" to encourage a bottoming out of au ARPU, putting a greater operational weight on sales commissions, as well as to attract new subscribers through MNP in the fourth quarter in the face of stiff competition.

In the fiscal year ending March 31, 2015, we expect sales commissions to decrease ¥3,000 as we differentiate ourselves from competitors through value offerings in a host of areas—spanning networks, services, and sales channels—based on our "3M Strategy" and centering on "au Smart Value," which should enable us to control the year-on-year change in "Maitsuki Discount."



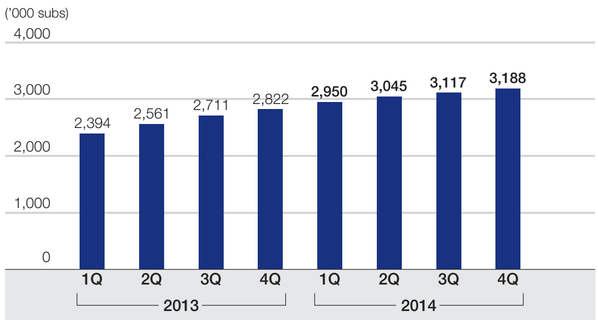
(Years ended March 31)

au Handset Units Sold (left)

au Sales Commissions (right)

FTTH Subscriptions

The net increase in FTTH subscriptions was 370,000, to 3.19 million, as of March 31, 2014, as "au Smart Value" drove new subscriber acquisitions, as well as to lowered churn.



(Years ended March 31)

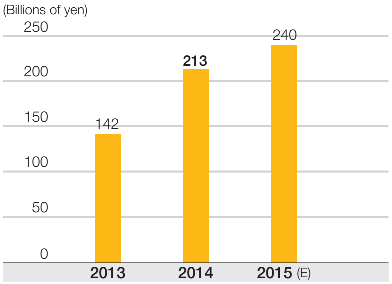
Analysis by Segment: Value Services Segment

Overview of Operations

During the fiscal year ended March 31, 2014, operating revenues in this segment surged 49.8%, to ¥212.5 billion. Centered on "au Smart Pass," members of "Video Pass" and other content services grew steadily. We also benefited from program distribution revenue from J:COM, owing to its inclusion in the scope of consolidation.

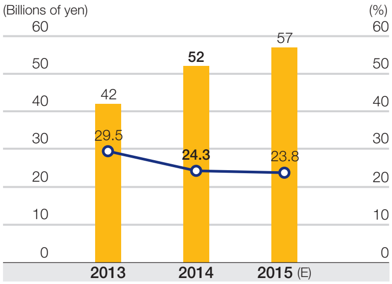
Operating expenses, meanwhile, rose 60.9% year on year, to ¥160.9 billion, due to an increase in cost of sales and expenses stemming from the inclusion of J:COM in the scope of consolidation. As a result, operating income rose 23.2% during the fiscal year ended March 31, 2014, to ¥51.6 billion.

Operating Revenues



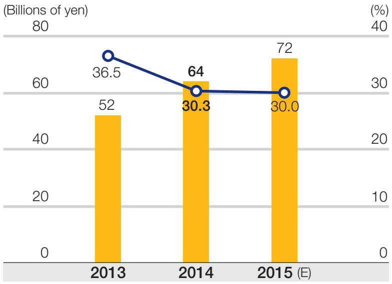
(Years ended March 31)

Operating Income / Operating Income Margin



(Years ended March 31)
Operating Income (left)
Operating Income Margin (right)

EBITDA / EBITDA Margin



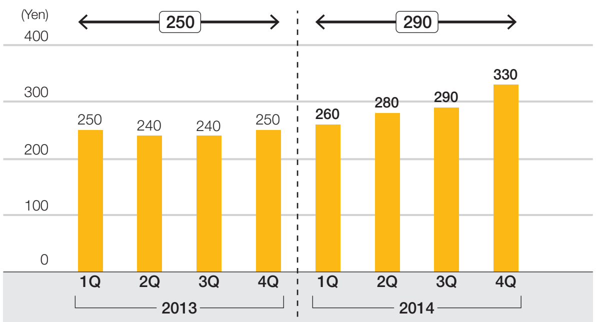
(Years ended March 31)
EBITDA (left)
EBITDA Margin (right)

Value ARPU*

In the fiscal year ended March 31, 2014, value ARPU grew ¥40, to ¥290. Contributing to this rise were a steady increase in the number of members to content services such as "au Smart Pass" and "Video Pass," as well as the May 2013 introduction of charges for "au Smart Pass" of iOS.

For the fiscal year ending March 31, 2015, we expect the number of "au Smart Pass" members to continue rising. We will also upsell through services like "Uta Pass" and "Video Pass," which offer unlimited access for a fixed rate, and promote Online to Offline (O2O) business through collaborating partners. We aim to boost value ARPU as a result.

* Revenue derived from "au Smart Pass" and other upselling services based on "au Smart Pass," as well as existing cooperative services, commissions on settlements, and advertising revenues, divided by the number of subscribers in the Personal Services segment.



(Years ended March 31)

Analysis by Segment: Business Services Segment

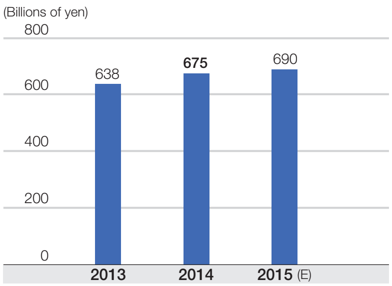
Overview of Operations

Operating revenues in this segment grew 5.7% year on year, to ¥674.9 billion, as increased sales of smart devices to large companies bolstered data communications revenue and revenues from handset sales, and solution sales such as cloud-related business and IT outsourcing rose. Sales also grew for services from consolidated subsidiary "KDDI MATOMETE OFFICE" targeting small and medium-sized companies.

At the same time, operating expenses grew 5.4%, to ¥588.4 billion, affected by an increase in sales commissions to attract customers to smart devices, higher handset procurement costs, and rising cost of sales on solutions. As a result, operating income was up 8.3% year on year, to ¥86.5 billion.

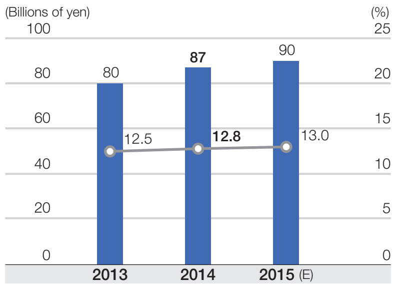
In the fiscal year ending March 31, 2015, we will continue to target major corporations with our provision of one-stop cloud services that seamlessly integrate smart device networks over the cloud. "KDDI MATOMETE OFFICE" will continue to cultivate business among small and medium-sized firms. We anticipate higher revenues and income as a result of these efforts.

Operating Revenues



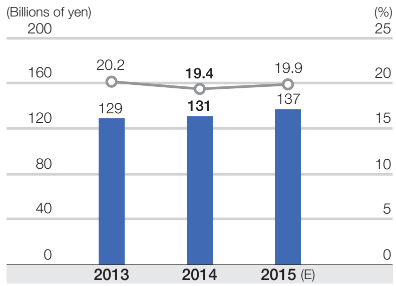
(Years ended March 31)

Operating Income / Operating Income Margin



(Years ended March 31)
Operating Income (left)
Operating Income Margin (right)

EBITDA / EBITDA Margin



(Years ended March 31)
EBITDA (left)
EBITDA Margin (right)

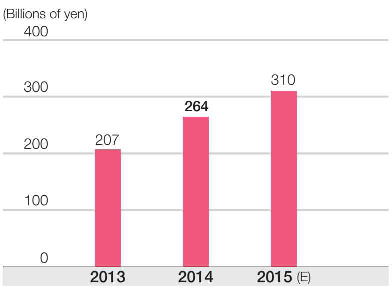
Analysis by Segment: Global Services Segment

Overview of Operations

Operating revenues in this segment grew 27.2%, to ¥263.6 billion, and operating income expanded 45.7%, to ¥11.4 billion, in the fiscal year ended March 31, 2014, thanks to higher revenues and income from "TELEHOUSE"-brand data centers and expanded MVNO business through overseas subsidiaries in the United States.

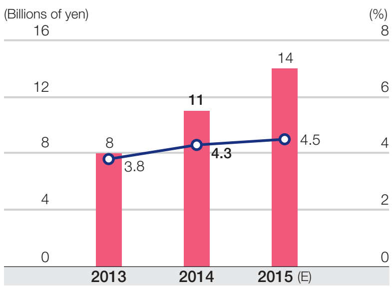
KDDI expects high levels of ongoing growth in this segment, due to the expansion of the highly profitable data center business in Europe and Asia, mobile phone and ISP businesses in emerging economies, and the mobile phone business focusing on immigrants in the United States.

Operating Revenues



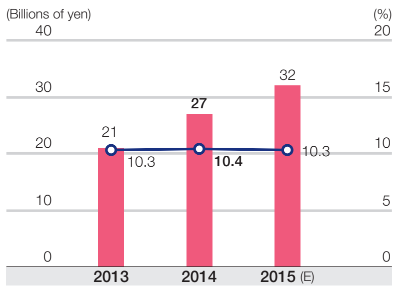
(Years ended March 31)

Operating Income / Operating Income Margin



(Years ended March 31)
Operating Income (left)
Operating Income Margin (right)

EBITDA / EBITDA Margin

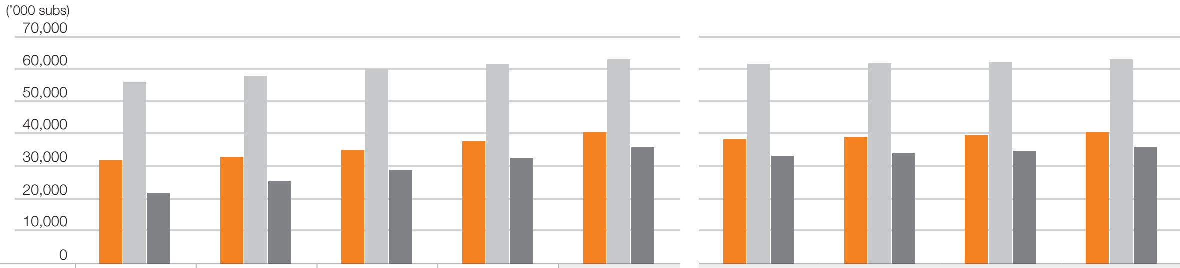


(Years ended March 31)
EBITDA (left)
EBITDA Margin (right)

Market Overview

Mobile Communications Market Data (Years ended March 31)

Number of Total Subscribers



	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au	31,872	32,999	35,109	37,709	40,522	38,378	39,045	39,617	40,522
NTT DOCOMO	56,082	58,010	60,130	61,536	63,105	61,623	61,772	62,182	63,105
SOFTBANK MOBILE	21,877	25,409	28,949	32,480	35,925	33,290	34,068	34,760	35,925
Total	109,831	116,418	124,188	131,725	139,552	133,291	134,885	136,558	139,552

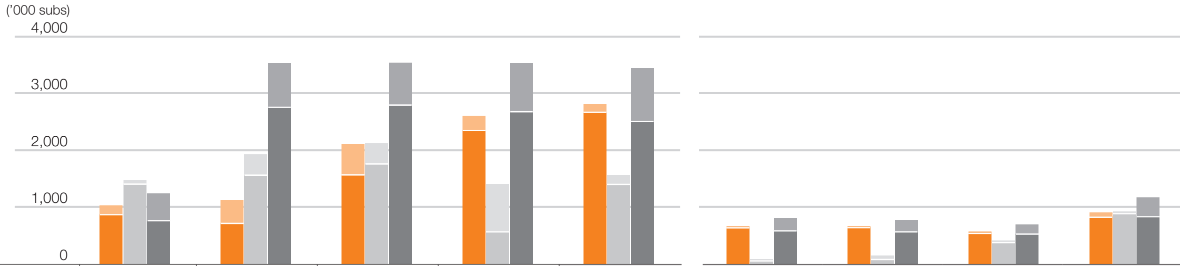
Source: Data prepared by KDDI based on materials from the Telecommunication Carriers Association

Share of Cumulative Subscriptions*1

(%)

	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au	29.0	28.3	28.3	28.6	29.0	28.8	28.9	29.0	29.0
NTT DOCOMO	51.1	49.8	48.4	46.7	45.2	46.2	45.8	45.5	45.2
SOFTBANK MOBILE	19.9	21.8	23.3	24.7	25.7	25.0	25.3	25.5	25.7

Net Additions



	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au	1,030	1,127	2,110	2,600	2,813	669	667	572	905
(Module-type terminals)	163	409	543	247	143	27	18	21	77
NTT DOCOMO	1,481	1,928	2,120	1,407	1,569	87	149	410	924
(Module-type terminals)	76	366	362	839	168	35	67	32	35
SOFTBANK MOBILE	1,244	3,532	3,540	3,531	3,445	810	778	692	1,165
(Module-type terminals)	481	771	741	850	934	231	210	166	327
Total	3,755	6,586	7,770	7,537	7,827	1,566	1,594	1,673	2,994
(Module-type terminals)	720	1,546	1,646	1,936	1,244	292	295	219	438

Source: Data prepared by KDDI based on materials from the Telecommunication Carriers Association

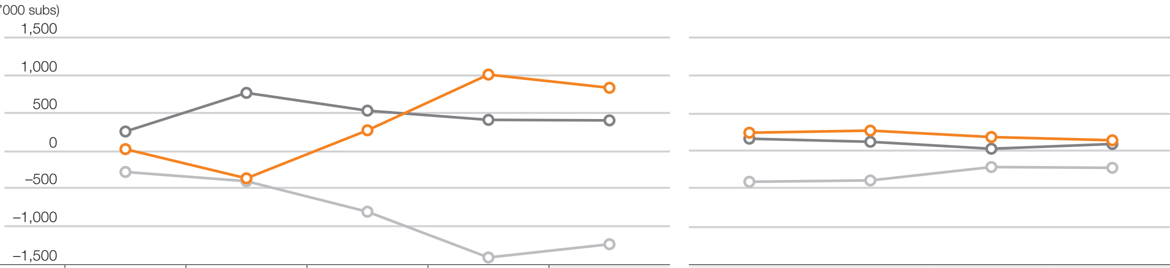
Share of Net Additions*1

(%)

	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au	27.4	17.1	27.2	34.5	35.9	42.7	41.9	34.2	30.2
NTT DOCOMO	39.5	29.3	27.3	18.7	20.0	5.6	9.3	24.5	30.8
SOFTBANK MOBILE	33.1	53.6	45.6	46.8	44.0	51.7	48.8	41.4	38.9

*1 Share among NTT DOCOMO, SOFTBANK MOBILE, and KDDI

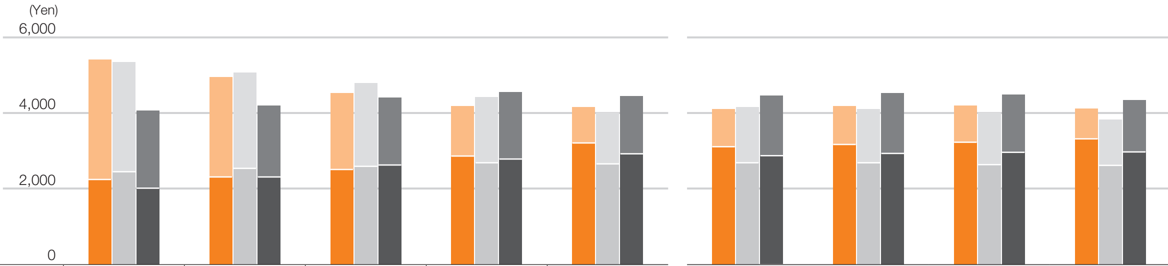
MNP Net Additions



	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au	24	–362	273	1,011	835	241	269	184	141
NTT DOCOMO	–278	–400	–804	–1,409	–1,234	–408	–391	–213	–223
SOFTBANK MOBILE	257	768	533	411	404	162	120	30	92

Source: Data prepared by KDDI based on securities analyst reports (from hearings at individual companies)

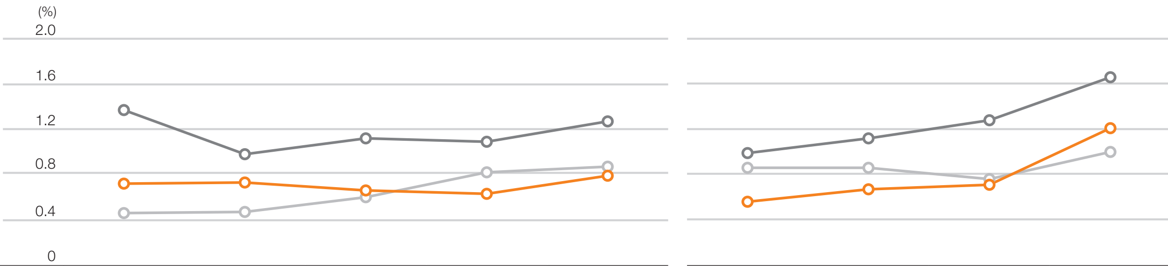
ARPU (Average Revenue per Unit)



	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au*2	5,410	4,940	4,530	4,180	4,150	4,110	4,180	4,190	4,120
Voice ARPU*3	3,150	2,620	2,020	1,330	940	1,000	1,000	960	810
Data ARPU	2,260	2,320	2,510	2,850	3,210	3,110	3,180	3,230	3,310
(Amount of discount applied)	—	—	–230	–650	–930	–890	–920	–930	–960
NTT DOCOMO*4	5,350	5,070	4,790	4,420	4,010	4,150	4,100	4,010	3,820
Voice ARPU	2,900	2,530	2,200	1,730	1,370	1,470	1,430	1,370	1,220
Packet ARPU	2,450	2,540	2,590	2,690	2,640	2,680	2,670	2,640	2,600
SOFTBANK MOBILE*5	4,070	4,210	4,400	4,550	4,450	4,460	4,520	4,490	4,340
Voice ARPU	2,050	1,890	1,760	1,770	1,520	1,590	1,590	1,530	1,370
Data ARPU	2,020	2,310	2,640	2,780	2,930	2,870	2,930	2,960	2,970

Source: Data prepared by KDDI from individual companies' materials
*2 Excludes module-type terminals. On a consolidated basis (Mobile Communications segment) through the fiscal year ended March 31, 2012. From the fiscal year ended March 31, 2012, based on the Personal Services segment.
*3 Indicated figures for au voice ARPU for the fiscal year ended March 31, 2013, taking into consideration the amount of discount applied.
*4 NTT DOCOMO changed its definition of ARPU from the fiscal year ended March 31, 2012.
*5 After applying the "Monthly Discount" and excluding module-type terminals from the fiscal year ended March 31, 2012. From the fiscal year ended March 31, 2013, method of calculation changed to International Financial Reporting Standards.

Churn Rate

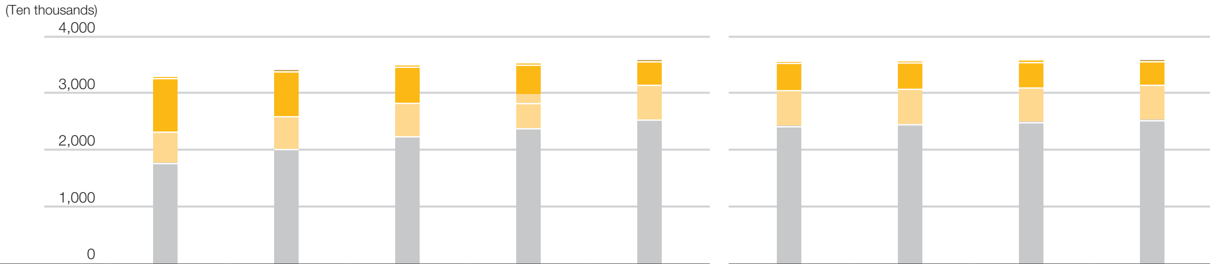


	2010	2011	2012	2013	2014	2014 1Q	2014 2Q	2014 3Q	2014 4Q
au*2	0.72	0.73	0.62	0.63	0.79	0.56	0.67	0.71	1.21
NTT DOCOMO	0.46	0.47	0.60	0.82	0.87	0.86	0.86	0.76	1.00
SOFTBANK MOBILE	1.37	0.98	1.12	1.09	1.27	0.99	1.12	1.28	1.66

Source: Data prepared by KDDI from individual companies' materials

Fixed-Line Communications Market Data (Years ended March 31)

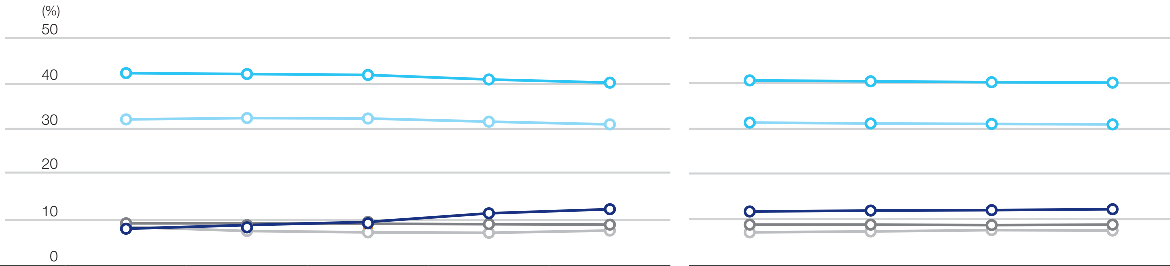
Number of Broadband Subscriptions



	2010	2011	2012	2013	2014	2014			
						1Q	2Q	3Q	4Q
FTTH	1,780	2,022	2,230	2,385	2,535	2,429	2,463	2,502	2,535
CATV	531	567	591	601	602	604	605	606	602
ADSL	974	820	670	542	447	516	492	470	447
FWA	1	1	1	1	1	1	1	1	1
Total	3,286	3,410	3,493	3,530	3,585	3,550	3,561	3,579	3,585

Source: Ministry of Internal Affairs and Communications

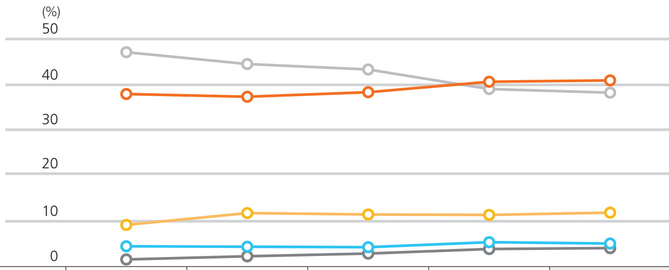
Share of FTTH Subscriptions



	2010	2011	2012	2013	2014	2014			
						1Q	2Q	3Q	4Q
KDDI	8.0	8.8	9.5	11.4	12.3	11.8	12.0	12.1	12.3
NTT EAST	42.3	42.1	41.9	40.9	40.2	40.7	40.5	40.3	40.2
NTT WEST	32.1	32.4	32.3	31.6	31.0	31.4	31.2	31.1	31.0
Electric power utilities	9.2	9.2	9.1	9.0	8.9	8.9	8.9	8.8	8.9
Other	8.4	7.5	7.2	7.1	7.6	7.2	7.4	7.7	7.6

Source: Ministry of Internal Affairs and Communications

Share of CATV Subscriptions



	2009	2010	2011	2012	2013
J:COM	37.9	37.3	38.3	40.6	40.9
JCN	9.1	11.7	11.4	11.3	11.8
CNCI	4.4	4.3	4.2	5.3	5.0
TOKAI	1.5	2.2	2.8	3.8	4.0
Other	47.1	44.5	43.3	39.0	38.2

Source: Data prepared by KDDI based on *Hoso Journal*

Corporate Governance

Directors and Audit & Supervisory Board Members (As of June 26, 2014)

Directors

Tadashi Onodera
Chairman
'01.6 President
'05.6 President and Chairman
'10.12 Chairman (Current position)
'13.6 Director, Kyocera Corporation (Current position)
'14.6 Director, Daiwa Securities Group Inc. (Current position)

Takashi Tanaka
President
'07.6 Associate Senior Vice President, Director
'10.6 Senior Vice President, Director
'10.12 President (Current position)
'13.6 General Manager, Corporate & Marketing Communications Sector (Current position)

Hirofumi Morozumi
Executive Vice President
Director
'07.6 Senior Vice President, Director
'10.4 General Manager, Corporate Sector (Current position)
'10.6 Executive Vice President, Director (Current position)

Makoto Takahashi
Senior Vice President
Director
'07.6 Associate Senior Vice President, Director
'10.3 Director of Jupiter Telecommunications Co., Ltd.
'10.6 Senior Vice President, Director (Current position)
'11.4 General Manager, Business Development Sector (Current position)

Yuzo Ishikawa
Senior Vice President
Director
'10.6 Associate Senior Vice President, Director
'11.6 Senior Vice President, Director
'12.4 General Manager, Consumer Business, Solution Business, Global Business and Product Sector (Current position)
'14.3 Director of Jupiter Telecommunications Co., Ltd. (Current position)
'14.6 Senior Vice President, Director*1 (Current position)

Masahiro Inoue
Associate Senior Vice President
Director
'10.6 Associate Senior Vice President, Director (Current position)
'11.4 Associate General Manager, Technology Sectors (Engineering and Operations) (Current position)

Hideo Yuasa
Associate Senior Vice President
Director
'10.6 Associate Senior Vice President, Director (Current position)
'11.4 President, Chubu Telecommunications Co., Inc. (Current position)

Tsutomu Fukuzaki
Associate Senior Vice President
Director
'06.10 Vice President
'12.4 Associate Senior Vice President, General Manager, Consumer Sales Division (Current position)
'13.6 Director (Current position)

Hidehiko Tajima
Associate Senior Vice President
Director
'10.4 Vice President
'13.4 Associate Senior Vice President, General Manager, Global Consumer Business Division, Global Business Sector (Current position)
'13.6 Director (Current position)

Yoshiaki Uchida
Associate Senior Vice President
Director
'13.4 Vice President
'14.4 Associate Senior Vice President, General Manager, Technology Sector General Manager, Technical Planning Division
'14.6 Associate Senior Vice President, General Manager, Technical Planning Division, Director (Current position)

Tetsuo Kuba
Director*2
'09.4 President and Representative Director, President and Executive Officer of Kyocera Corporation
'13.4 Chairman of the Board and Representative Director of Kyocera Corporation (Current position)
'13.6 Director of KDDI (Current position)

Nobuyori Kodaira
Director*2
'10.6 Senior Managing Director of Toyota Motor Corporation
'11.6 Director and Senior Managing Officer of Toyota Motor Corporation
'12.6 Executive Vice President of Toyota Motor Corporation (Current position)
'13.6 Director of KDDI (Current position)

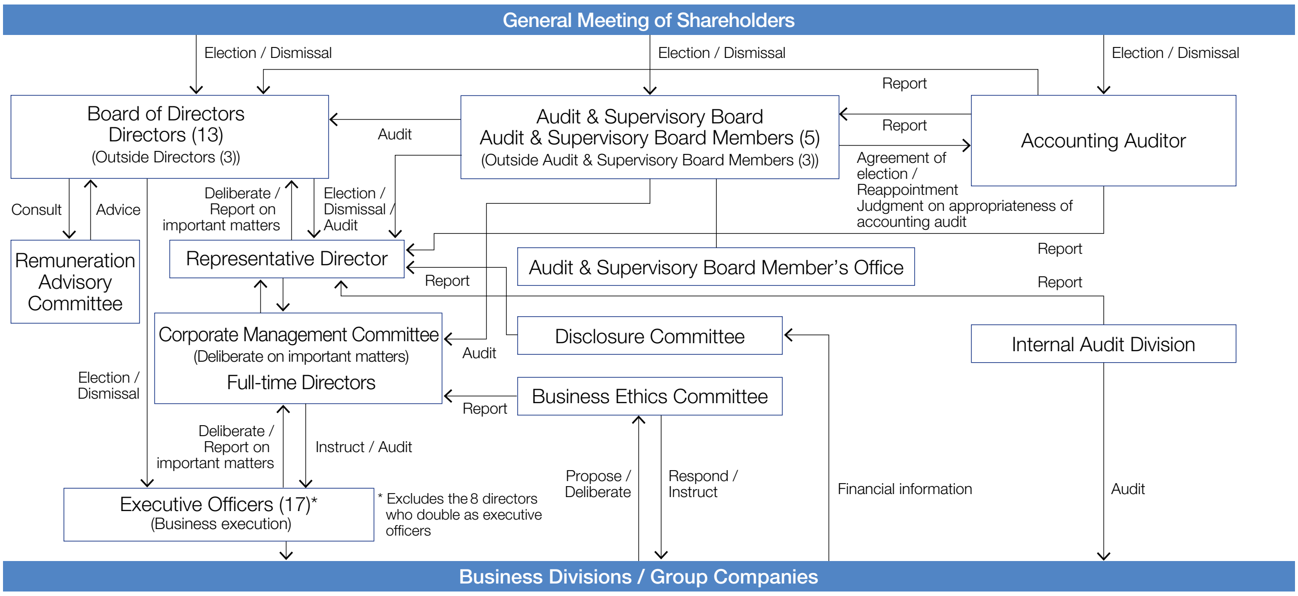
Shinji Fukukawa
Director*2, 4
'88.6 Retired as Vice-Minister of Ministry of International Trade and Industry
'88.12 Senior Advisor of Global Industrial and Social Progress Research Institute (Current position)
'02.11 Chairman of Japan Industrial Partners, Inc. (Current position)
'11.12 Chairman of Jetstar Japan Co., Ltd. (Current position)
'12.12 Chairman of Toyo University (Current position)
'14.6 Director of KDDI (Current position)

Audit & Supervisory Board Members

Yoshinari Sanpei
Hiroshi Kobayashi
Takeshi Abe*4
Kishichiro Amae*3, 4
Yukihisa Hirano*3, 4

*1 Promoted to the position of Director with representative rights
*2 Outside directors
*3 Outside Audit & Supervisory Board Members
*4 Outside director Shinji Fukukawa, Audit & Supervisory Board Members Takeshi Abe, Kishichiro Amae and Yukihisa Hirano are independent directors pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

Corporate Governance Framework (As of June 18, 2014)



Overview of the Governance Structure (As of June 18, 2014)

Configuration	Company with Audit & Supervisory Board Members system
Number of Directors	13
	Of which, outside Directors: 3
	Of which, independent director: 1
Director appointments	1 year
Average age of Directors	61.1 years
Number of Audit & Supervisory Board Members	5
	Of which, outside Audit & Supervisory Board Members: 3
	Of which, independent auditors: 3

Reasons for Appointment as Directors and Audit & Supervisory Board Members

Outside Directors	Tetsuo Kuba	Mr. Kuba was appointed because of his demonstrated effectiveness in the management of one of the Company's principal shareholders, his extensive experience as a director of other companies, and the perspective rooted in broad-based insight that he brings to supervising the Company's business activities.
	Nobuyori Kodaira	Mr. Kodaira was appointed because of his demonstrated effectiveness in the management of one of the Company's principal shareholders, his extensive experience as a director and auditor of other companies, and the perspective rooted in broad-based insight that he brings to supervising the Company's business activities.
	Shinji Fukukawa (Independent director)	Mr. Fukukawa was appointed to apply the extensive experience and broad-based insight he has developed over numerous years as an executive officer in public administration and at various foundations involving the execution of operations at those organizations to supervising the Company's business activities. Given his career history, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an director, and have appointed him as an independent director.
Outside Audit & Supervisory Board Members	Takeshi Abe (Independent auditor)	Mr. Abe was appointed because of the extensive experience and broad-based insight he has developed over numerous years as an executive officer in public administration and at various foundations involving the execution of operations at those organizations. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. Mr. Abe's tenure as executive officer at the Development Bank of Japan, Inc., was short. A substantial amount of time has passed since he retired from that position, and he currently receives no benefits from that organization. Given the fact that he hails from organizations involved in administrative operations, we recognize that he has scant relationship with KDDI. Consequently, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an auditor, and have appointed him as an independent auditor.
	Kishichiro Amae (Independent auditor)	Mr. Amae has extensive experience gained through many years as a diplomat and in the execution of operations at various organizations. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. Given his career history, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an auditor, and have appointed him as an independent auditor.

Outside Audit & Supervisory Board members	Yukihisa Hirano (Independent auditor)	Mr. Hirano has extensive experience and expertise as a corporate manager. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. An appropriate amount of time has passed since Mr. Hirano retired from his position as president of Toyota Motor Corporation, and he currently receives no benefits from that organization. In addition, after retiring he served as president of the Central Japan International Airport Co., Ltd., and we recognize that he currently has no relationship with Toyota Motor Corporation. Consequently, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an auditor, and have appointed him as an independent auditor.

Meetings Convened (FY2013)

(Times)

Regular Board of Directors meetings	8
Extraordinary meetings of the Board of Directors	1
Attendance by Outside Directors	88.9%

Key Decisions Made (FY2013)

Advance redemption of bonds	Advanced redemption after having met conditions for 120% call option on zero coupon convertible bonds due 2015 with subscription rights to shares.
Introduction of shareholder benefits	Introduction of shareholder benefits for shareholders registered in the registry of shareholders as of March 31 of each year who own one or more share-trading units. (Applies to shareholders registered in the registry of shareholders as of March 31, 2014)
Conclusion of JCN share transfer agreement with J:COM	As part of the procedure for merging J:COM and JCN, transfer of KDDI's holdings of shares in JCN to J:COM.
Conclusion of merger agreement between J:COM and JCN	Merger of the two companies as part of a strategy to increase the scale of the KDDI Group's CATV business and promote sustainable growth.

Remuneration for Directors and Audit & Supervisory Board Members (FY2013)

(Millions of yen)

Executive classification	Total remuneration	Total remuneration by type			Number of corresponding executives
		Basic remuneration	Stock options	Bonus	
Directors (Excluding Outside Directors)	574	385	—	188	12
Outside Directors	20	20	—	—	4
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	47	47	—	—	2
Outside Audit & Supervisory Board Members	40	40	—	—	3

Notes:
* The above-stated remuneration for Board members included amounts for 2 Directors and 2 Outside Directors who stepped down at the end of the 29th Annual Meeting of Shareholders, held on June 19, 2013.
* The maximum annual remuneration for Audit & Supervisory Board Members was set at ¥100 million by a resolution of the 28th Annual Meeting of Shareholders, held on June 20, 2012. This amount is based on the Company's fiscal year.
* Remuneration amounts outlined above included the following Board members' bonuses, which were defined as being linked to performance and no more than 0.1% of consolidated net income for the applicable fiscal year by a resolution of the 27th Annual Meeting of Shareholders, held on June 16, 2011.
* For "Policies Regarding Decisions on the Contents of Remuneration," "Policies on Remuneration for Directors," "Policies on Remuneration for Audit & Supervisory Board Members," and "State of Corporate Governance", please refer to the website "CSR (Environment & Society)" section on the KDDI website.
http://www.kddi.com/english/corporate/csr/

IR Activities (FY2013)

We received the "Award from Securities Analysts for Excellence in Corporate Disclosure" eight times from the Securities Analysts Association of Japan's Corporate Disclosure Study Group.

(Times)

Individual meetings with institutional investors	970
Financial results briefing	4
Overseas road shows	12
Seminars for individual investors	32

Social and Environmental Information

We have excerpted ESG information that is of particular importance to investors from our CSR information. See the following pages for more detailed CSR information.

Sustainability Report 2014

http://www.kddi.com/english/corporate/csr/report/

Human Resources

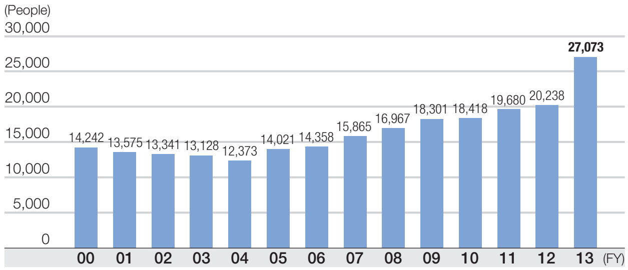
KDDI recognizes the importance of human resources in sustaining corporate value. Accordingly, we focus on recruiting and training human resources, which provide the foundations for our growth strategies.

Number of Employees on a Consolidated Basis and the "KDDI Philosophy"

Since its establishment through a merger of three companies in October 2000, KDDI has conducted numerous mergers and management integrations. As a result, from the time of establishment the number of employees has approximately doubled on a consolidated basis, to 27,073 as of March 31, 2014.

To bring together toward a common goal a workforce characterized by personnel with diverse attitudes and values, we have formulated the "KDDI Philosophy." This philosophy indicates the type of company we aim to become and expresses the attitudes, values, and behaviors that employees need to exhibit to reach our goals. We are making every effort to ensure that all employees behave in keeping with the "KDDI Philosophy."

Number of Employees since Our Establishment (Consolidated basis)

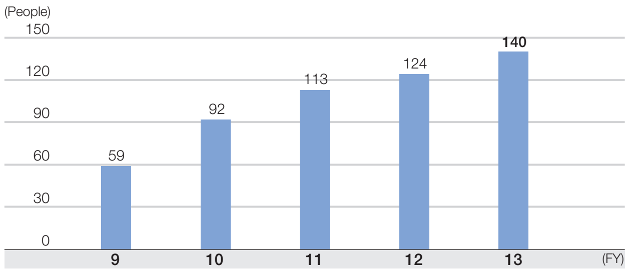


Cultivating and Promoting Female Leaders

Since FY2012, we have focused on cultivating female leaders, aiming to provide a place for them to participate in corporate decision making and therefore reinforcing our power as a company. Specifically, we have set a goal of promoting 90 women (7% of the total) to positions as line managers, who have the authority to conduct personnel evaluations by FY2015. To that end, we launched a program for promoting female line managers in FY2012, and have since conducted programs involving workplace training, group training, study sessions, and communication with role models. At group training sessions, the president and other Board members participate in roundtables, providing evaluations on presentations. During FY2013, we introduced on a trial basis a system whereby general managers act as mentors for existing female line managers.

We are working to cultivate female managers, and these activities serve as the foundation we are building upon by promoting female leaders. The number of female managers at KDDI rose for the eighth consecutive fiscal year, to 140 as of March 31, 2014.

Number of Female Managers



TOPICS Selected as a "Nadeshiko Issues" for the Second Consecutive Year

KDDI has set a specific target for the number of women to be promoted by FY2015, and supports efforts by women to develop their careers. As an evaluation of such initiatives, the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange denotes listed companies that take proactive steps to promote women as "Nadeshiko Issues," a designation KDDI has earned for the second consecutive year.

We plan to continue encouraging the professional advancement of women, and we believe that management that incorporates a female viewpoint will lead to increased customer satisfaction.

NADESHIKO BRAND 2014

Introduction of a New System of Executive Assistants

As a method of providing instruction on management techniques, in FY2012, we introduced a new job title, "Executive assistants," for people who serve as assistants to directors. The executive assistants sit in on all meetings attended by their superiors, learning their management approaches from up close. We appointed 11 people to this new position in FY2013. Following their experience as assistants, these employees will be appointed to line manager positions in various departments.

By giving employees the opportunity to learn management techniques directly from the Company's directors, we are cultivating the human resources for the KDDI of tomorrow.

Global Human Resource Cultivation

In response to the rapid wave of globalization, the KDDI Group is placing an emphasis on cultivating employees who have been locally hired overseas.

We position an understanding of the KDDI Philosophy as the basis for training. We also provide training on practical skills as needed according to employees' positions and skills, including understanding of services, through Practical Level Training. Mid-Level Management Training aims to cultivate an understanding of business strategies and augment management skills, and Senior Management Training cultivates human resources for leadership roles as location managers.

Through our Global Human Resources Exchange Program, we also provide employees hired overseas with opportunities to work for a certain period of time at our headquarters. This program aims to encourage personnel interaction between overseas locations and headquarters.

Mission Grade

The Mission Grade System that we introduced for managers in FY2013, clarifies the management roles of line managers and the professional roles of managers in non-line positions, setting their rank in accordance with the size of their roles. Rather than being evaluated on past operating performance, under this system the rank is defined according to their responsibility, authority, and degree of influence on the basis of current job performance. Our compensation system is designed to reward employees in accordance with their level of contribution.

Practical skills training for employees working overseas

[Supporting the Cultivation of Human Resources at Partner Companies] Holding the "au CS AWARDS" in Pursuit of High-Quality Customer Service

KDDI holds the "au CS AWARDS" to enhance the customer service skills of au shop staff. FY2013, marked the 10th such contest. Staff members who won the contest's qualifying round in different regions went on to pit their customer service skills against their peers, scoring points on their overall value proposals incorporating "3M Strategy" products.

We aim to maximize customer satisfaction by encouraging the spread of customer service skills on display at this contest to all our shops.

au shop staff demonstrating their customer service skills

Environment

KDDI is undertaking a host of initiatives to reduce its environmental impact through its business activities to prepare itself against future environmental risk.

Third Medium-Term Environmental Conservation Plan State of Progress under the "KDDI GREEN PLAN 2012–2016"

The Third Medium-Term Environmental Conservation Plan that we formulated in FY2012 introduces three priority issues to be achieved by FY2016—a low-carbon society, a recycling-oriented society, and biodiversity—and sets specific targets for each.

As of March 31, 2014, we were making satisfactory progress toward reaching all of our targets. We had already met the goal of increasing the number of Tribrid Base Stations*1 to 100 by March 31, 2013. We will continue with initiatives to save electricity by making use of renewable energy.

*1 These au mobile phone base stations automatically select from three kinds of electric power—power generated by solar panels, power saved in charged storage batteries, and power supplied by power companies—and provide power to base stations in the most efficient way at the time it is used.

KDDI GREEN PLAN 2012–2016

Material issues	Targets
Low-Carbon Society	(1) By FY2016, reduce electric power consumption by 30%, compared with the level if energy-saving measures had not been implemented.
	(2) By FY2016, lower electric power consumption per subscriber by 15%, compared with FY2011.
	(3) By the end of FY2012, increase the number of Tribrid Base Stations to 100.
Recycling-Oriented Society	(1) Achieve zero emissions for retired telecommunications facilities.
	(2) Achieve material recycling ratio of 99.8% or more for used mobile phone handsets.
	(3) Achieve a material recycling ratio for general waste of 90% or more at KDDI-owned buildings and in the headquarters building.
Biodiversity	(1) Pursue activities based on our action guidelines for preservation of biodiversity.

Environmental Accounting

Noteworthy changes in parameters of environmental accounting during FY2013, were (1) the expansion of the scope of calculation through the addition of three consolidated subsidiaries (KDDI Evolva Inc., Japan Telecommunication Engineering Service Co., Ltd., and Chubu Telecommunications Co., Inc.) and (2) a year-on-year decrease in power consumption (MWh.)

Coverage: KDDI and 16 major consolidated subsidiaries*2 Period: April 1, 2013 to March 31, 2014

Environmental protection costs		Transaction examples	FY2013 (Millions of yen)		FY2012 (Millions of yen)		Change from previous year (Millions of yen)	
			Investment	Cost	Investment	Cost	Investment	Cost
Business area costs	Pollution prevention costs	Pollution prevention costs stipulated by law, costs for proper disposal of PCBs, etc.	0	151	0	141	0	9
	Global environmental protection costs	Power-saving wireless equipment for mobile base stations (Investment amount is calculated proportionally based on the power-saving effect.)	96,858	13,767	7,319	5,174	89,539	8,593
	Resource recycling costs	Reduction of paper resources, processing and disposal of waste products	0	252	0	378	0	(126)
Upstream / downstream costs		Collection, recycling, and reuse of merchandise and products	0	935	0	636	0	299
Administrative costs		Operation and updating of environmental ISO standards, disclosure of environmental information	0	78	1	96	(1)	(18)
R&D costs		R&D of technology, equipment, handsets, products, services, and other items conducive to reducing the environmental burden	0	121	0	130	0	(9)
Social activity costs		Donations and support for forest conservation activities and to environmental protection groups	0	31	0	16	0	15
Environmental damage restoration costs		Measures for prevention of asbestos spraying, restoration of polluted soil	0	0	0	0	0	0
Total			96,858	15,335	7,320	6,572	89,538	8,763

1. Environmental protection benefits (Physical)		Indicator category (Unit)	FY2013	FY2012	Change from previous year
(1) Benefits derived from business area	1) Benefits related to resources invested in business activities	Power consumption (MWh)	1,889,604	2,038,462	(148,858)
		Paper usage (t)	43,691	17,991	25,700
		Paper reduced by Bill on WEB (t)	3,481	3,339	142
	2) Benefits related to environmental burden and waste products discharged from business activities	Greenhouse gas emissions (t-CO_2)	1,070,006	1,035,576	34,430
		Industrial waste emissions related to telecommunications facilities and buildings (t)	3,388	2,041	1,347
(2) Benefits derived from upstream / downstream costs	Benefits related to goods and services produced by business activities	Number of used mobile phones and other devices collected (10,000 units)	387	446	(59)

2. Economic benefits of environmental protection measures (Yen)	Substantive benefits (Major effects)	FY2013 (Millions of yen)	FY2012 (Millions of yen)	Change from previous year
Revenues	Revenues from sales through disposal of telecommunications facilities and buildings	631	502	129
Costs reductions	Reduction in energy costs by adopting the use of low-pollution vehicles	13	12	1
	Reduction in costs of new purchases by reusing disposed of telecommunications facilities	3,200	2,136	1,065
Total		3,845	2,650	1,195

*2 KDDI Web Communications Inc., mediba Inc., JAPAN CABLENET LIMITED (JCN), KDDI R&D Laboratories Inc., KDDI Research Institute, Inc., KDDI Engineering Corporation, KDDI Evolva Okinawa Corporation, KDDI Challenged Corporation, KDDI Technology Corporation (KTEC), TELEHOUSE International Corp. of Europe Ltd. (London), WebMoney Corporation, KDDI MATOMETE OFFICE CORPORATION, Okinawa Cellular Telephone Company, KDDI Evolva Inc., Japan Telecommunication Engineering Service Co., Ltd., Chubu Telecommunications Co., Ltd.

Offering Reliable Information and Communications Services

Ensuring a stable telecommunications infrastructure is both the foundation of KDDI's growth and its duty as a company that provides social infrastructure.

Initiatives for Providing Reliable Communications Services

KDDI owns an array of telecommunications facilities including optical cables and mobile phone base stations, which it maintains and operates via technical centers situated throughout Japan.

At operations centers scattered around the country, we also conduct centralized monitoring of telecommunications conditions 24 hours a day, 365 days a year. In the event of an outage, these centers control communications as appropriate, communicating with operational departments throughout Japan. With regard to communications service quality, we configure, analyze, and improve our facility operating system in line with stringent standards we have set for ourselves. In this manner, we strive to provide reliable communications services of consistently high quality.

Various Types of Operation Centers for Monitoring and Control

KDDI operates a variety of centers to ensure that customers can use its various telecommunications services securely. These include mobile operation centers that monitor au mobile phone networks; server operation centers for monitoring server equipment; network operation centers monitoring fixed-line backbone circuits; technical service centers that monitor leased lines and VPNs for corporate customers; IT outsourcing centers that monitor individual solution equipment and operate data centers; security operation centers for detecting, analyzing, and providing protection against cyber-attacks; and global network operation centers that have overall control of international lines. Through these seven types of centers, we monitor the status of telecommunications 24 hours a day, 365 days a year. If an outage should occur, the centers communicate with relevant departments in each region to mount a swift an effective response.

BCP for Large-Scale Disasters

Following our experiences in the March 2011 Great East Japan Earthquake, in October 2011 we formulated a Business Continuity Plan (BCP) for Large-Scale Disasters. We are pursuing a host of measures to address the plan's objective of "fulfilling our responsibilities to continue providing telecommunications services as a designated public institution." We have established detailed rules for each phase of response to disaster, from initial action through to full restoration. We are also creating satellite network links to principal bases throughout Japan in preparation for a scenario in which all fixed-line and mobile circuits cease to function, as well as putting in place a host of other measures.

In February 2014, the Disaster Response Office spearheaded efforts to connect the communications equipment of all branches throughout Japan as part of disaster response training in anticipation of an earthquake directly under the Tokyo metropolitan area. We employ a completely "blind" method of training, in which participants are not told what sort of disaster to expect until just before training begins. This drill assumed that all communications were shut off immediately after the disaster struck, so disaster response meetings had to rely solely on communications via satellite networks, lending the training a sense of reality.

Disaster response training connecting the communications equipment of all branches throughout Japan

We will reflect in our future BCP for Large-Scale Disasters the issues and areas for improvement that became apparent as a result of this training, building the foundations for more robust disaster response going forward.

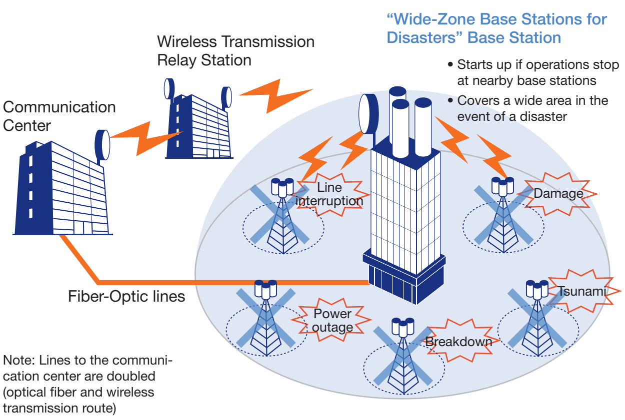
Introducing "Wide-Zone Base Stations for Disasters" Compatible with 4G LTE

In preparation for a large-scale electrical outage that might result from an event such as an earthquake directly under the Tokyo metropolitan area, we are introducing "Wide-zone Base Stations for Disasters" to provide backup if communications are lost over a widespread area. We commenced operation of these stations on February 26, 2014.

These base stations can handle voice transmission (1x), 3G communications (EVDO), and LTE communications (4G LTE). They are the first wide-zone base stations for disasters in Japan able to handle 4G LTE.

We are considering the introduction of wide-zone base stations to prepare for potential disasters not just in the Tokyo region but in areas throughout Japan.

Introduction of "Wide-Zone Base Stations for Disasters"



ESG

Financial Section

Consolidated Balance Sheets

KDDI Corporation and its Subsidiaries
As of March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
ASSETS			
Current Assets			
Cash and deposits (Notes 4, 5, 8)	¥ 96,952	¥ 222,051	$ 2,158
Accounts receivable (Note 5)	1,032,722	1,163,218	11,302
Short-term investment securities (Notes 4, 5, 7, 8)	231	274	3
Inventories	56,943	86,060	836
Deferred tax assets (Note 13)	58,768	51,353	499
Prepaid expenses and other current assets	25,524	44,177	429
Allowance for doubtful accounts (Note 5)	(20,271)	(21,533)	(209)
Total Current Assets	1,250,869	1,545,599	15,017
Property, Plant and Equipment			
Machinery, antenna facilities, terminal facilities, local line facilities, long-distance line facilities, engineering facilities, submarine line facilities (Note 8)	3,997,719	3,578,081	34,766
Buildings and structures (Note 8)	613,562	928,954	9,026
Machinery and tools (Note 8)	193,866	312,002	3,031
Land	249,931	256,506	2,492
Construction in progress	124,561	169,867	1,650
Other property, plant and equipment (Note 8)	30,200	112,353	1,092
	5,209,841	5,357,762	52,058
Accumulated depreciation	(3,379,882)	(3,219,754)	(31,284)
Net Property, Plant and Equipment	1,829,959	2,138,009	20,774
Investments and Other Assets			
Investment securities (Notes 5, 7, 8)	81,787	91,509	889
Investments in affiliates (Notes 5, 8)	348,388	41,755	406
Intangible assets	217,698	405,662	3,942
Goodwill	86,376	337,457	3,279
Deferred tax assets (Note 13)	114,577	79,315	771
Net defined benefit asset	—	20,103	195
Other assets	166,360	295,924	2,875
Allowance for doubtful accounts	(11,015)	(9,576)	(93)
Total Investments and Other Assets	1,004,171	1,262,149	12,263
Total Assets	¥ 4,084,999	¥ 4,945,757	$ 48,054

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

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
LIABILITIES AND NET ASSETS			
Current Liabilities			
Short-term loans payable and current portion of noncurrent liabilities (Notes 5, 8)	¥ 264,693	¥ 328,722	$ 3,194
Accounts payable (Notes 5, 6, 8)	369,838	436,244	4,239
Income taxes payable (Note 5)	104,774	125,365	1,218
Accrued expenses (Note 5)	23,000	26,732	260
Provision for bonuses	20,765	28,771	280
Provision for loss on the Great East Japan Earthquake	49	—	—
Other current liabilities	94,077	103,103	1,002
Total Current Liabilities	877,196	1,048,937	10,192
Noncurrent Liabilities			
Long-term loans payable (Notes 5, 6, 8)	244,728	518,698	5,040
Bonds payable (Notes 5, 8)	259,997	204,999	1,992
Convertible bond-type bonds with subscription rights to shares (Notes 5, 8)	200,667	—	—
Provision for point service program	91,583	76,338	742
Net defined benefit liability (Notes 3, 14)	—	17,340	168
Provision for retirement benefits and other noncurrent liabilities (Notes 5, 14)	87,465	162,456	1,578
Total Noncurrent Liabilities	884,440	979,831	9,520
Total Liabilities	1,761,636	2,028,767	19,712
Contingent Liabilities (Note 9)			
Net Assets			
Shareholders' Equity			
Capital stock:			
Authorized-700,000,000 and 1,400,000,000 shares at March 31, 2013 and 2014, respectively			
Issued-448,481,800 and 896,963,600 shares at March 31, 2013 and 2014, respectively	141,852	141,852	1,378
Capital surplus	367,145	385,943	3,750
Retained earnings	2,055,587	2,291,730	22,267
Treasury stock:			
Number of treasury stock—66,269,400 and 61,984,948 shares at March 31, 2013 and 2014, respectively	(346,002)	(161,822)	(1,572)
Total Shareholders' Equity	2,218,581	2,657,703	25,823
Accumulated Other Comprehensive Income			
Valuation difference on available for-sale securities	38,882	45,731	444
Deferred gain or loss on hedges	(1,598)	(1,585)	(15)
Foreign currency translation adjustments	(6,071)	15,189	148
Remeasurements of defined benefit plans	—	6,352	62
Total Accumulated Other Comprehensive Income	31,213	65,688	638
Subscription Rights to Shares	574	40	0
Minority Interests	72,995	193,559	1,881
Total Net Assets	2,323,363	2,916,990	28,342
Total Liabilities and Net Assets	¥4,084,999	¥4,945,757	$48,054

Consolidated Statements of Income

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
Operating Revenues:			
Revenues from telecommunications business	¥2,432,726	¥2,609,157	$25,351
Sales of mobile terminals and other	1,229,562	1,724,471	16,755
Total Operating Revenues	3,662,289	4,333,628	42,107
Operating Expenses:			
Business expenses (Note 16)	671,840	684,469	6,650
Depreciation	371,966	362,057	3,518
Communication facility fee	374,825	364,320	3,540
Cost of sales of mobile terminals and other	1,309,048	1,843,902	17,916
Other (Notes 12, 16)	421,942	415,636	4,038
Total Operating Expenses	3,149,619	3,670,383	35,662
Operating Income	512,669	663,245	6,444
Other Expenses (Income):			
Interest expenses	11,118	12,019	117
Interest income	(775)	(742)	(7)
Dividends income	(1,987)	(1,845)	(18)
Equity in losses of affiliates	—	741	7
Equity in income of affiliates	(3,899)	—	—
Loss on valuation of investment securities	520	270	3
Gain on sales of investment securities	(1,050)	(6,866)	(67)
Gain on sales of noncurrent assets (Note 11)	(588)	(300)	(3)
Loss on sales of noncurrent assets (Note 11)	1,078	378	4
Gain on reversal of subscription rights to shares	(512)	—	—
Impairment loss (Note 10)	80,549	8,696	84
Loss on retirement of noncurrent assets (Note 11)	22,713	—	—
Other, net	(6,208)	30,266	294
Total Other Expenses	100,957	42,616	414
Income before Income Taxes and Minority Interests	411,712	620,629	6,030
Income Taxes (Note 13):			
Current	173,408	232,538	2,259
Deferred	(11,161)	32,233	313
Total Income Taxes	162,248	264,771	2,573
Income before Minority Interests	249,464	355,858	3,458
Minority Interests in Income	7,994	33,819	329
Net Income	¥ 241,470	¥ 322,038	$ 3,129

	Yen		U.S. dollars (Note 1)
	2013	2014	2014
Per Share Data (Note 21):			
Net income	¥ 315.90	¥398.60	$3.87
Diluted net income	289.26	—	—
Cash dividends	8,595.00	130.00	1.26

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

Consolidated Statements of Comprehensive Income (Note 15)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
Income before Minority Interests	¥249,464	¥355,858	$3,458
Other Comprehensive Income			
Valuation difference on available-for-sale securities	711	7,499	73
Deferred gains or losses on hedges	—	41	0
Foreign currency translation adjustments	12,063	25,444	247
Share of other comprehensive income of associates accounted for using equity method	1,342	(483)	(5)
Total Other Comprehensive Income	14,115	32,501	316
Comprehensive Income	263,579	388,359	3,773
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	253,816	350,161	3,402
Comprehensive income attributable to minority interests	¥ 9,763	¥ 38,198	$ 371

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

Consolidated Statements of Changes in Net Assets (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
Shareholders' Equity			
Capital Stock			
Balance at the beginning of the period	¥ 141,852	¥ 141,852	$ 1,378
Balance at the end of the period	141,852	141,852	1,378
Capital Surplus			
Balance at the beginning of the period	367,104	367,145	3,567
Changes of items during the period			
Disposal of treasury stock	40	18,281	178
Other	—	517	5
Total changes of items during the period	40	18,798	183
Balance at the end of the period	367,145	385,943	3,750
Retained Earnings			
Balance at the beginning of the period	1,879,088	2,055,587	19,973
Changes of items during the period			
Dividends from surplus	(64,971)	(85,895)	(835)
Net income	241,470	322,038	3,129
Total changes of items during the period	176,499	236,143	2,294
Balance at the end of the period	2,055,587	2,291,730	22,267
Treasury Stock			
Balance at the beginning of the period	(346,164)	(346,002)	(3,362)
Changes of items during the period			
Purchase of treasury stock	(2)	(20)	(0)
Disposal of treasury stock	164	184,200	1,790
Total changes of items during the period	162	184,180	1,790
Balance at the end of the period	(346,002)	(161,822)	(1,572)
Total Shareholders' Equity			
Balance at the beginning of the period	2,041,880	2,218,581	21,556
Changes of items during the period			
Dividends from surplus	(64,971)	(85,895)	(835)
Net income	241,470	322,038	3,129
Purchase of treasury stock	(2)	(20)	(0)
Disposal of treasury stock	205	202,481	1,967
Other	—	517	5
Total changes of items during the period	176,702	439,121	4,267
Balance at the end of the period	¥2,218,581	¥2,657,703	$25,823

Consolidated Statements of Changes in Net Assets — (continued) (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
Accumulated Other Comprehensive Income			
Valuation Difference on Available-for-sale Securities			
Balance at the beginning of the period	¥ 36,443	¥ 38,882	$ 378
Changes of items during the period			
Net changes of items other than shareholders' equity	2,439	6,849	67
Total changes of items during the period	2,439	6,849	67
Balance at the end of the period	38,882	45,731	444
Deferred Gain or Loss on Hedges			
Balance at the beginning of the period	(677)	(1,598)	(16)
Changes of items during the period			
Net changes of items other than shareholders' equity	(921)	13	0
Total changes of items during the period	(921)	13	0
Balance at the end of the period	(1,598)	(1,585)	(15)
Foreign Currency Translation Adjustments			
Balance at the beginning of the period	(16,899)	(6,071)	(59)
Changes of items during the period			
Net changes of items other than shareholders' equity	10,828	21,260	207
Total changes of items during the period	10,828	21,260	207
Balance at the end of the period	(6,071)	15,189	148
Remeasurements of Defined Benefit Plans			
Balance at the beginning of the period	—	—	—
Changes of items during the period	—	—	—
Net changes of items other than shareholders' equity	—	6,352	62
Total changes of items during the period	—	6,352	62
Balance at the end of the period	—	6,352	62
Total Accumulated Other Comprehensive Income			
Balance at the beginning of the period	18,867	31,213	303
Changes of items during the period			
Net changes of items other than shareholders' equity	12,346	34,475	335
Total changes of items during the period	12,346	34,475	335
Balance at the end of the period	31,213	65,688	638
Subscription Rights to Shares			
Balance at the beginning of the period	1,129	574	6
Changes of items during the period			
Net changes of items other than shareholders' equity	(555)	(534)	(5)
Total changes of items during the period	(555)	(534)	(5)
Balance at the end of the period	574	40	0
Minority Interests			
Balance at the beginning of the period	66,749	72,995	709
Changes of items during the period			
Net changes of items other than shareholders' equity	6,245	120,564	1,171
Total changes of items during the period	6,245	120,564	1,171
Balance at the end of the period	72,995	193,559	1,881
Total Net Assets			
Balance at the beginning of the period	2,128,625	2,323,363	22,574
Changes of items during the period			
Dividends from surplus	(64,971)	(85,895)	(835)
Net income	241,470	322,038	3,129
Purchase of treasury stock	(2)	(20)	0
Disposal of treasury stock	205	202,481	1,967
Other	—	517	5
Net changes of items other than shareholders' equity	18,037	154,505	1,501
Total changes of items during the period	194,739	593,626	5,768
Balance at the end of the period	¥2,323,363	¥2,916,990	$28,342

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

Consolidated Statements of Cash Flows

KDDI Corporation and its Subsidiaries
Years ended March 31, 2013 and 2014

	Millions of yen		Millions of U.S. dollars (Note 1)
	2013	2014	2014
Net Cash Provided by (Used in) Operating Activities			
Income before income taxes and minority interests	¥ 411,712	¥ 620,629	$ 6,030
Depreciation and amortization	406,726	470,098	4,568
Impairment loss	80,549	8,696	84
Amortization of goodwill	16,444	28,255	275
Loss (gain) on sales of noncurrent assets	535	79	1
Loss on retirement of noncurrent assets	23,732	24,774	241
Increase (decrease) in provision for loss on the Great East Japan Earthquake	(1,943)	—	—
Loss on step acquisitions	—	38,458	374
Increase (decrease) in allowance for doubtful accounts	7,001	(994)	(10)
Increase (decrease) in provision for retirement benefits	(5,238)	(13,735)	(133)
Decrease (increase) in net defined benefit asset	—	(20,103)	(195)
Increase (decrease) in net defined benefit liability	—	17,340	168
Interest and dividends income	(2,763)	(2,587)	(25)
Interest expenses	11,118	12,019	117
Equity in losses (earnings) of affiliates	(3,899)	741	7
Loss (gain) on valuation of investment securities	521	278	3
Increase (decrease) in provision for point service program	130	(15,245)	(148)
Changes in assets and liabilities			
Decrease (increase) in prepaid pension costs	1,844	5,285	51
Decrease (increase) in notes and accounts receivable-trade	(199,531)	(95,834)	(931)
Decrease (increase) in inventories	8,613	(25,941)	(252)
Increase (decrease) in notes and accounts payable-trade	(10,289)	(3,789)	(37)
Increase (decrease) in accounts payable-other	4,872	(42,062)	(409)
Increase (decrease) in accrued expenses	1,192	(2,254)	(22)
Increase (decrease) in advances received	(2,297)	(16,409)	(159)
Other, net	(5,841)	12,408	121
Subtotal	743,185	1,000,106	9,717
Interest and dividends income received	10,306	4,773	46
Interest expenses paid	(11,225)	(11,183)	(109)
Income taxes paid	(218,358)	(221,489)	(2,152)
Net Cash Provided by (Used in) Operating Activities	523,908	772,207	7,503
Net Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment	(322,817)	(438,329)	(4,259)
Proceeds from sales of property, plant and equipment	1,949	993	10
Purchase of intangible assets	(92,955)	(70,945)	(689)
Purchase of investment securities	(2,158)	(2,579)	(25)
Proceeds from sales of investment securities	6,959	17,041	166
Purchase of stocks of subsidiaries and affiliates	(9,679)	(8,256)	(80)
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 21)	(2,403)	(19,840)	(193)
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	—	16,272	158
Proceeds from sales of subsidiaries and affiliates	—	18,807	183
Purchase of long-term prepaid expenses	(51,322)	(62,688)	(609)
Other, net	(566)	3,268	32
Net Cash Provided by (Used in) Investing Activities	(472,992)	(546,257)	(5,308)
Net Cash Provided by (Used in) Financing Activities			
Net increase (decrease) in short-term loans payable	86,582	(119,029)	(1,157)
Proceeds from long-term loans payable	24,000	350,000	3,401
Repayment of long-term loans payable	(112,960)	(142,250)	(1,382)
Proceeds from issuance of bonds	—	30,000	291
Redemption of bonds	(65,000)	(90,000)	(874)
Purchase of treasury stock	(2)	(20)	(0)
Cash dividends paid	(64,974)	(85,886)	(834)
Cash dividends paid to minority shareholders	(1,372)	(27,346)	(266)
Proceeds from stock issuance to minority shareholders	257	19	0
Other, net	(6,782)	(21,132)	(205)
Net Cash Provided by (Used in) Financing Activities	(140,250)	(105,644)	(1,026)
Effect of Exchange Rate Change on Cash and Cash Equivalents	2,431	4,365	42
Net Increase (Decrease) in Cash and Cash Equivalents	(86,903)	124,672	1,211
Cash and Cash Equivalents at Beginning of the Year	174,192	87,289	848
Increase in Cash and Cash Equivalents Resulting from Merger	—	570	6
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 87,289	¥ 212,530	$ 2,065

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

Notes to Consolidated Financial Statements

KDDI Corporation and its Subsidiaries
Year ended March 31, 2014

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared based on the consolidated financial statements disclosed in Japan for domestic reporting purposes.

KDDI CORPORATION (the "Company") prepares these consolidated financial statements in accordance with the Financial Instruments and Exchange Law, Corporate Law and Japanese Telecommunications Business Law and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to accounting and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements disclosed in Japan have been reclassified and adjusted in order to make it easier for overseas readers to comprehend. In addition, certain reclassifications and adjustments have been made in the consolidated financial statements as of and for the year ended March 31, 2013 to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2014.

The consolidated 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 ¥102.92=U.S.$1, the approximate exchange rate on March 31, 2014. 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.

The Company's consolidated financial statements for the year ended March 31, 2014 include the Company and its 152 subsidiaries, comprising of; OKINAWA CELLULAR TELEPHONE COMPANY, Jupiter Telecommunications Co., Ltd., JAPAN CABLENET LIMITED*, Chubu Telecommunications Co., INC., KDDI MATOMETE OFFICE CORPORATION, KDDI R&D Laboratories, Inc., KDDI Engineering Corporation, KDDI Evolva Inc., KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2014, significant changes in the scope had occurred as follows:

Added (Consolidated):

- 1 company due to stock acquisition, increasing the Company's holdings and on the basis of effective control standards
  Jupiter Telecommunications Co., Ltd.
- 19 companies due to the subsidiaries of Jupiter Telecommunications Co., Ltd., which was included in the scope of consolidated subsidiaries due to stock acquisition, increasing the Company's holdings and on the basis of effective control standards
  J:COM West Co., Ltd., J:COM East Co., Ltd. and 17 companies.
- 8 companies due to stock acquisition
  Evolva Call Advance Inc., ScaleOut Inc., IP Power Systems Corp., Cosmos Ltd., Bitcellar, Inc., UBIK do Brasil Solucoes em Tecnologia Ltda, UBIK Japan Corporation, YourGolf Online Inc.
- 1 company due to new establishment
  KDDI FINANCIAL SERVICE CORPORATION

Removed (Consolidated):

- 2 companies due to liquidation
  One Network, Inc., 1MP (HK) Limited.
- 3 companies due to merger
  KDDI Okinawa Co., Ltd., JAPAN CABLENET LIMITED*, Nobot Inc.

Note: On November 1, 2013, JAPAN CABLENET LIMITED merged with JAPAN CABLENET HOLDINGS LIMITED, with the latter becoming the surviving company and renamed to JAPAN CABLENET LIMITED. Also, JAPAN CABLENET LIMITED was extinguished, due to merger with Jupiter Telecommunications Co., Ltd. on April 1, 2014.

Also, the number of the Company's equity-method affiliates at March 31, 2014 was 28 such as Kyocera Communication Systems Co., Ltd., UQ Communications Inc., Jibun Bank Corporation, Mobaoku Co., Ltd., and MOBICOM Corporation.

During the year ended March 31, 2014, changes in the scope were incurred as follows:

Added (Equity Method):

- 12 companies due to stock acquisition
  10 equity method companies of Jupiter Telecommunications Co., Ltd., LAC Co., Ltd., Gunosy Inc.

Removed (Equity Method):

- 1 company due to additional purchase of shares, resulting in subsidiary
  Jupiter Telecommunications Co., Ltd.
- 2 companies due to liquidation
  Safetynet Japan K.K., KDDI&BT Global Solutions Corporation
- 1 company due to stock exchange
  Microfinance International Corporation
- 1 company due to merger
  NJ Corporation

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.

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year end date is different from that of the Company. The difference between the fiscal year end date of the subsidiaries and that of the Company does not exceed three months. In cases where the financial statements have a different fiscal year end date from that of the Company, necessary adjustments are made for the effects of significant transactions or events that occurred between the fiscal year end date of the subsidiaries and that of the Company.

Investments in certain affiliates are accounted for using 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.

Additionally, investments in non-consolidated subsidiary (ATTRACT INC.) and affiliates (CJSC Vostoktelecom, etc.) are accounted for using cost method as 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 rendered.

c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, demand deposits and highly liquid short-term investments with maturity of three months or less at the time of purchase, which are subject to an insignificant risk of change in value.

d. Inventories

Inventories are stated at cost. Cost is determined by the moving average method. Inventories consist primarily of mobile terminals. The method of write downs based on the decrease in profitability is applied in order to calculate the inventory value in the balance sheet.

e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

All assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance 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 (except for leased assets)

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

The main useful lives are as follows:

Machinery: 9 years
Antenna facilities, Buildings, Structures, Local line facilities, Engineering facilities: 10 to 38 years

g. Intangible Assets (except for leased assets)

Amortization of intangible assets (except for leased assets) is calculated using the straight-line method over the estimated useful lives of the respective assets.

Goodwill is amortized using the straight-line method over a period of 5 to 20 years. The immaterial goodwill was expensed as incurred for the year ended March 31, 2014.

Research and development costs are expensed as incurred.

Internal use of software included in intangible assets is amortized using the straight-line method over the estimated useful lives (5 years). Customer-related assets are amortized over 8–17 years, and assets related to program supply are amortized over 22 years.

h. Other assets

Long-term prepaid expenses are amortized using the straight-line method.

i. Financial Instruments

(1) Securities

Bonds intended to be held to maturity are stated at amortized cost (straight-line method).

Available-for-sale 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 are directly reported as a separate component of "Net assets." The cost of securities sold is determined by the moving average method.

Available-for-sale 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 swaps used to hedge interest rate fluctuations are measured at the fair values and unrealized gains or losses is presented in the accompanying consolidated statements of comprehensive income.

The interest rate swaps meeting the requirement of exceptional treatment under Japanese GAAP are not measured at the fair value and the differences between payment amount and receipt amount are included in the interest expenses or income.

j. Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. 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.

k. Lease

Leased assets related to financial leases that do not transfer ownership rights are amortized using the straight-line method based on the lease terms as the useful lives 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 entered before March 31, 2008.

l. Net Income per Share

Net income per share is computed based on the average number of shares outstanding during the year.

m. Allowance for Doubtful Accounts

The Companies record allowance for doubtful accounts based on the actual bad debt ratio and then lost individual allowance is accrued against specific account that is deemed to be uncollectible.

n. Provisions

(1) Provision for point service program

The Companies record provisions for the future costs to be incurred in connection with point service programs such as the "au Point Program". Under these programs customers earn points based on criteria of the specific programs to be utilized at a future date. The Companies' reserve is based on the historical experience of points earned and utilized by customers.

(2) Provision for bonuses

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

o. Retirement Benefits (Defined benefit Plan)

(1) Attribution of expected projected benefit obligations

Allocation of projected defined benefit obligations in direct portion to the years of service is based on straight-line attribution.

(2) Amortization of prior service cost and actuarial gains and losses

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.

Actuarial gains and losses 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.

p. Others

(1) Accounting method for consumption taxes

Consumption taxes and local consumption taxes are excluded from transaction amounts. Non-deductible consumption taxes relating to the assets are expensed as incurred.

(2) Bond issuance costs

Bond issuance costs are expensed as incurred.

3. Accounting Changes and Others

a. Changes in Accounting Policies

Adoption of New Accounting Standard for Retirement Benefits

For the year ended March 31, 2014, the Companies have adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Implementation Guidance for the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (excluding, however, the provisions found in the body text of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Implementation Guidance for the Accounting Standard for Retirement Benefits). Under the new standard, the Companies revised its method of accounting for retirement benefit obligations, recording the amount deducting the plan assets from these obligations as net defined benefit asset or net defined benefit liability, and accordingly, recording unrecognized actuarial differences and unrecognized prior service costs as net defined benefit asset or net defined benefit liability.

With regard to the adoption of the Accounting Standard for Retirement Benefits, in accordance with the provisions on transitional implementation indicated in Paragraph 37 of the Accounting Standard for Retirement Benefits, the impact of these changes is included in remeasurement of defined benefit plans within accumulated other comprehensive income as of March 31, 2014.

As a result, as of March 31, 2014, the Companies recorded net defined benefit asset of ¥20,103 million (U.S.$195 million), net defined benefit asset of ¥17,340 million (U.S.$168 million), increased accumulated other comprehensive income by ¥6,352 million (U.S.$62 million) and decreased minority interests by ¥123 million (U.S.$1 million).

The amount of financial impact on per share information is included in the Per Share Information section.

b. Changes in Presentation

Consolidated Statements of Income

"Compensation expenses" under non-operating expenses listed in the year ended March 31, 2013 has been included in "Other, net" as it has become less significant in monetary terms from the current fiscal year. The consolidated financial statements have been reclassified to reflect these changes in presentation.

As a result, ¥2,003 million (U.S.$19 million) that was recorded as "Compensation expenses" under non-operating expenses on the consolidated statements of income in the year ended March 31, 2013 is reclassified as "Other, net."

c. New Accounting Standard Not Yet Adopted

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Implementation Guidance for the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Overview

From the standpoint of improvements to financial reporting and international convergence, this accounting standard was revised mainly focusing on the treatment of unrecognized actuarial gains and losses and unrecognized prior service cost, the calculation method of retirement benefit obligations and current service cost, and enhancement of disclosures.

(2) Scheduled date of application

The Companies are scheduled to adopt the revision to calculation method of retirement benefit obligations and current service cost from the beginning of the fiscal year starting on April 1, 2014.

(3) Effect of application of this accounting standard

In accordance with adoption of this accounting standard, the retained earnings at the beginning of the fiscal year starting on April 1, 2014 is expected to decrease by ¥8,055 million (U.S.$78 million) and the effect on profit and loss will be insignificant.

4. Cash and Cash Equivalents

For the purpose of presenting the consolidated statements of cash flows, cash and cash equivalents comprise the followings:

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Cash and deposits	¥96,952	¥222,051	$2,158
Short-term investment securities	231	274	3
Total	97,183	222,324	2,160
Time deposits due beyond three months	(9,895)	(9,794)	(95)
Cash and cash equivalents	¥87,289	¥212,530	$2,065

5. Financial Instruments

1. Status of Financial Instruments

(1) Policy for measures relating to financial instruments

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

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

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 to manage 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 investments in entities with which the Companies closely 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 reviewing each fund-raising plan every month. Operating obligations denominated in foreign currencies are recognized as balances of currency-specific claims and obligations. Foreign exchange forward transactions are used on hedging instruments in response to obligations deemed subject to foreign exchange fluctuation risk.

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 financing. Loans payable with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce interest rate fluctuation risk, the Companies enter into interest rate swap transactions on a contract basis. The Companies assess the effectiveness of those contracts that meet the criteria for exceptional treatment for each reporting period.

In relation to market risk, as the Companies conduct derivative transactions only with financial institutions with high credibility, the credit risk from the breach of contract by other party is quite slim.

In order to conduct derivative transactions, based on internal regulations of each subsidiary 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.

(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 available, 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, 2013 and 2014 are as shown below. Items for which market values are not readily determinable are not included in the following table (see (Note 2)).

At March 31, 2013

	Millions of yen		
	Book value	Market value	Difference
(1) Cash and deposits	¥ 96,952	¥ 96,952	¥ —
(2) Accounts receivable	1,032,722		
Less: Allowance for doubtful accounts*1	(20,271)		
	¥1,012,450	¥1,012,450	¥ —
(3) Short-term investment securities	231	231	—
(4) Investment securities			
Bonds intended to be held to maturity	3,005	3,216	211
Other securities	66,442	66,442	—
(5) Stocks of subsidiaries and affiliates	319,808	282,408	(37,400)
Total asset accounts	¥1,498,888	¥1,461,699	¥(37,189)
(6) Accounts payable	82,753	82,753	—
(7) Short-term loans payable	88,257	88,257	—
(8) Accounts payable-other	287,085	287,085	—
(9) Accrued expenses	23,000	23,000	—
(10) Income taxes payable	104,774	104,774	—
(11) Bonds payable*2	349,996	363,244	13,247
(12) Convertible bond-type bonds with subscription rights to shares	200,667	271,960	71,293
(13) Long-term loans payable*2	325,453	330,412	4,958
Total liability accounts	¥1,461,985	¥1,551,484	¥ 89,499

*1. Allowance for doubtful accounts were deducted from accounts receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

At March 31, 2014

	Millions of yen			Millions of U.S. dollars		
	Book value	Market value	Difference	Book value	Market value	Difference
(1) Cash and deposits	¥ 222,051	¥ 222,051	¥ —	$ 2,158	$ 2,158	$ —
(2) Accounts receivable	1,163,218			11,302		
Less: Allowance for doubtful accounts*1	(21,533)			(209)		
	¥1,141,685	¥1,141,685	¥ —	$11,093	$11,093	$ —
(3) Short-term investment securities	274	274	—	3	3	—
(4) Investment securities						
Bonds intended to be held to maturity	3,004	3,180	176	29	31	2
Other securities	71,371	71,371	—	693	693	—
(5) Stocks of subsidiaries and affiliates	5,280	4,293	(987)	51	42	(10)
Total asset accounts	¥1,443,664	¥1,442,853	¥ (811)	$14,027	$14,019	$ (8)
(6) Accounts payable	87,232	87,232	—	848	848	—
(7) Short-term loans payable	95,256	95,256	—	926	926	—
(8) Accounts payable-other	349,012	349,012	—	3,391	3,391	—
(9) Accrued expenses	26,732	26,732	—	260	260	—
(10) Income taxes payable	125,365	125,365	—	1,218	1,218	—
(11) Bonds payable*2	299,.998	310,191	10,193	2,915	3,014	99
(12) Convertible bond-type bonds with subscription rights to shares	—	—	—			
(13) Long-term loans payable*2	638,707	643,471	4,765	6,206	6,252	46
Total liability accounts	¥1,622,302	¥1,637,259	¥14,957	$15,763	$15,908	$145
Total derivative accounts	¥ 901	¥ 901	¥ —	$ 9	$ 9	$ —

*1. Allowance for doubtful accounts were deducted from accounts receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

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

Assets

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

As the settlement periods of the above items were short and their market values were almost the same as their book values, the relevant book values were used. Further, as the credit risks to accounts receivable were not readily determinable on an individual basis, allowances for doubtful accounts were regarded as credit.

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

In relation to the market value of investment securities, for shares the market prices of exchanges were used. Further, for information on investment securities categorized according to holding purpose, refer to the Note 7. "Marketable Securities and Other Investments."

Liabilities

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

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

11) Bonds payable, 12) Convertible bond-type bonds with subscription rights to shares, 13) Long-term loans payable

The market values of bonds payable and convertible bond-type bonds with subscription rights to shares were calculated based on trading reference data.

The market values of long-term loans payable were calculated by applying a discount rate to the total of principal and interest. That discount rate was based on the assumed interest rate if a similar new loan was entered into.

As long-term loans payable with variable interest rates were based on the condition that interest rates were revised periodically, their market values were almost the same as their book values; the relevant book values were used.

Derivative transactions

Please see the note 6. "Derivatives."

Note 2: Financial instruments of which market values were not readily determinable.

	Millions of yen		Millions of U.S. dollars
	Book value		Book value
	2013	2014	2014
Investment securities			
Unlisted equity securities	¥12,340	¥17,134	$166
Stocks of subsidiaries and affiliates			
Unlisted equity securities	28,361	36,200	352
Investments in capital of subsidiaries and affiliates	219	274	3

As the above financial instruments did not have readily determinable market values and it was practically difficult to estimate their market values, they were not included in the above table.

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

	Millions of yen		Millions of yen		Millions of U.S. dollars	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year	Within 1 year	Over 1 year
	2013		2014		2014	
Cash and deposits	¥ 96,952	¥ —	¥ 222,051	¥ —	$ 2,158	$ —
Accounts receivable	896,525	136,197	1,013,856	149,362	9,851	1,451
Securities	—	—	—	—	—	—
Short-term investment securities	—	3,005	—	3,004	—	29
Total	¥993,477	¥139,202	¥1,235,907	¥152,366	$12,008	$1,480

Note 4: Planned repayment amounts after the balance sheet date for bonds payable and long-term loans payable with monetary assets and maturity dates

At March 31, 2013

	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years (Millions of yen)
Short-term loans payable	¥ 88,257	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	90,000	85,000	20,000	25,000	20,000	110,000
Convertible bond-type bonds with subscription rights to shares	—	—	200,000	—	—	—
Long-term loans payable	80,725	78,746	91,374	25,129	34,271	15,208
Total	¥258,982	¥163,746	¥311,374	¥50,129	¥54,271	¥125,208

At March 31, 2014

	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years (Millions of yen)
Short-term loans payable	¥ 95,256	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	95,000	20,000	25,000	20,000	10,000	130,000
Convertible bond-type bonds with subscription rights to shares	—	—	—	—	—	—
Long-term loans payable	120,009	93,370	25,630	34,370	100,120	265,208
Total	¥310,264	¥113,370	¥50,630	¥54,370	¥110,120	¥395,208

	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years (Millions of U.S. dollars)
Short-term loans payable	$ 926	$ —	$ —	$ —	$ —	$ —
Bonds payable	923	194	243	194	97	1,263
Convertible bond-type bonds with subscription rights to shares	—	—	—	—	—	—
Long-term loans payable	1,166	907	249	334	973	2,577
Total	$3,015	$1,102	$492	$528	$1,070	$3,840

6. Derivatives

At March 31, 2013

Derivative transactions to which hedge accounting has not been applied

(1) Currency-related transactions

At March 31, 2013

None

At March 31, 2014

No significant items to be reported.

(2) Interest rate-related transactions

At March 31, 2013

No significant items to be reported.

At March 31, 2014

No significant items to be reported.

Derivative transactions to which hedge accounting has been applied

(1) Currency-related transactions

At March 31, 2013

None

At March 31, 2014

Millions of yen

Method of hedge accounting	Type of transaction	Hedge item	Contract amount	Contract amount of which due after one year	Fair value
Allocation for forward exchange contracts	Forward exchange contract				
	Buying				
	USD	Accounts payable	¥1,686	¥ —	Note 2
	USD	Future transactions	2,551	1,030	763
	EUR	Future transactions	348	235	137
Total			¥4,585	¥1,264	¥901

Millions of U.S. dollars

Method of hedge accounting	Type of transaction	Hedge item	Contract amount	Contract amount of which due after one year	Fair value
Allocation for forward exchange contracts	Forward exchange contract				
	Buying				
	USD	Accounts payable	$16	$ —	Note 2
	USD	Future transactions	25	10	7
	EUR	Future transactions	3	2	1
Total			$45	$12	$9

Notes: 1. Fair values are calculated based on prices offered by financial institutions.

2. Allocation for forward exchange contracts are accounted for together with accounts payable designated as the hedge item. Therefore, their fair values are included in the fair value of the accounts payable.

(2) Interest rate-related transactions

At March 31, 2013

None

At March 31, 2014

Method of hedge accounting	Type of transaction	Hedge item	Contract amount	Contract amount of which due after one year	Fair value
					Millions of yen
Exceptional treatment for interest rate swap	Interest rate swap Receive Float /Pay Fixed	Long-term loans payable	¥10,000	¥—	Note 2
Total			¥10,000	¥—	¥—

Method of hedge accounting	Type of transaction	Hedge item	Contract amount	Contract amount of which due after one year	Fair value
					Millions of U.S. dollars
Exceptional treatment for interest rate swap	Interest rate swap Receive Float /Pay Fixed	Long-term loans payable	$97	$—	Note 2
Total			$97	$—	$—

Notes: 1. Fair values are calculated based on prices offered by financial institutions.

2. Exceptional treatment for interest rate swap is accounted for together with long-term loans payable designated as the hedge item. Therefore, their fair values are included in the fair value of the long-term loans payable.

7. Marketable Securities and Other Investments

At March 31, 2013

Market value and net unrealized gain or loss of quoted securities were as follows:

Bonds intended to be held to maturity

Millions of yen

		Book value	Actual value	Difference
Bonds for which market value exceeds book value on consolidated balance sheets	National bonds and local bonds, etc.	¥3,005	¥3,216	¥211
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥3,005	¥3,216	¥211
Bonds for which market value does not exceed book value on consolidated balance sheets	National bonds and local bonds, etc.	¥ —	¥ —	¥ —
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥ —	¥ —	¥ —
Total		¥3,005	¥3,216	¥211

Other securities

Millions of yen

		Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥65,900	¥10,353	¥55,547
	Bonds	—	—	—
	Others	87	78	9
	Subtotal	¥65,986	¥10,431	¥55,556
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 686	¥ 2,530	¥ (1,843)
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥ 686	¥ 2,530	¥ (1,843)
Total		¥66,673	¥12,960	¥53,712

Regarding unlisted equity securities, whose book value was ¥12,340 million for the year ended March 31, 2013, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

Other securities sold

Millions of yen

	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥8,457	¥1,050	¥—

Impairment of investment securities

For the year ended March 31, 2013, the Companies recognized an impairment of ¥410 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 loss was recognized in light of the possibility of recovery.

At March 31, 2014

Market value and net unrealized gain or loss of quoted securities were as follows:

Bonds intended to be held to maturity

		Millions of yen			Millions of U.S. dollars		
		Book value	Actual value	Difference	Book value	Actual value	Difference
Bonds for which market value exceeds book value on consolidated balance sheets	National bonds and local bonds, etc.	¥3,004	¥3,180	¥176	$29	$31	$ 2
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥3,004	¥3,180	¥176	$29	$31	$ 2
Bonds for which market value does not exceed book value on consolidated balance sheets	National bonds and local bonds, etc.	¥ —	¥ —	¥ —	$—	$—	$—
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥ —	¥ —	¥ —	$—	$—	$—
Total		¥3,004	¥3,180	¥176	$29	$31	$ 2

Other securities

		Millions of yen			Millions of U.S. dollars		
		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥71,506	¥5,007	¥66,499	$695	$49	$646
	Bonds	—	—	—	—	—	—
	Others	88	63	25	1	1	0
	Subtotal	¥71,594	¥5,070	¥66,524	$696	$49	$646
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 30	¥ 35	¥ (5)	$ 0	$ 0	$ (0)
	Bonds	—	—	—	—	—	—
	Others	21	21	(0)	0	0	(0)
	Subtotal	¥ 50	¥ 56	¥ (6)	$ 0	$ 1	$ (0)
Total		¥71,645	¥5,126	¥66,518	$696	$50	$646

Regarding unlisted equity securities, whose book value was ¥17,134 million (U.S.$166 million) for the year ended March 31, 2014, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

Other securities sold

	Millions of yen			Millions of U.S. dollars		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥10,145	¥6,884	¥0	$99	$67	$0

Impairment of investment securities

For the year ended March 31, 2014, the Companies recognized an impairment of ¥142 million (U.S.$1 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 loss was recognized in light of the possibility of recovery.

8. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2013 and 2014 were ¥88,257 million and ¥95,256 million (U.S.$926 million), respectively and the annual average interest rates applicable to them for the years ended March 31, 2013 and 2014 were 0.27% and 0.29%, respectively.

Long-term debt at March 31, 2013 and 2014 consist of the following:

		Millions of yen		Millions of U.S. dollars
		2013	2014	2014
Unsecured straight bonds				
Year ended March 31, 2013	(Interest rates per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2013–2021)	¥329,996	¥ —	$ —
Year ended March 31, 2014	(Interest rates per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2014–2024)	—	279,998	2,721
General secured bonds (Notes)				
Year ended March 31, 2013	(Interest rates per annum: 3.20%)			
	(Due: year ending March 31, 2018)	20,000	—	—
Year ended March 31, 2014	(Interest rates per annum: 3.20%)			
	(Due: year ending March 31, 2018)	—	20,000	194
Convertible bond-type bonds with subscription rights to shares (unsecured)				
Year ended March 31, 2013	(No interest shall be paid on the bonds)			
	(Due: year ending March 31, 2016)	200,667	—	—
Year ended March 31, 2014	(No interest shall be paid on the bonds)			
	(Due: year ending March 31, 2016)	—	—	—
Total bonds		¥550,663	¥299,998	$2,915
Loans from banks				
Year ended March 31, 2013	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	325,543	—	—
Year ended March 31, 2014	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	—	638,707	6,206
Other interest-bearing debt		13,190	51,006	496
Subtotal		¥889,306	¥989,711	$9,616
Less, amount due within one year		176,436	233,504	2,269
Total long-term debts		¥712,870	¥756,208	$7,348

Note: The Company has secured overall assets as general collateral for the corporate bonds.

Summary of annual maturities of long-term debt subsequent to March 31, 2014 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ended March 31	2014	2014
2015	¥233,504	$2,269
2016	127,380	1,238
2017	58,992	573
2018	59,625	579
2019 and thereafter	510,211	4,957
Total	¥989,711	$9,616

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 subsidiaries at March 31, 2013 and 2014. In addition, the Company had secured overall assets as general collateral for the corporate bonds.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Machinery, etc.	¥ 515	¥ 372	$ 4
Buildings and structures	145	130	1
Other property, plant and equipment	46	1,009	10
Investment securities	672	892	9
Stocks of subsidiaries and affiliates	768	768	7
Other investments and other assets	28	78	1
Cash and deposits	162	200	2
Short-term investment securities	231	274	3
Total	¥2,567	¥3,722	$36

(Assets denominated in foreign currencies included U.S.$11 million and other at March 31, 2013 and U.S.$12 million and others at March 31, 2014.)

Certain subsidiaries deposited their assets as guarantee under the requirement of fund settlement in Japanese laws. Deposited assets and its book values as of respective fiscal year end were as follows.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Investment securities	¥3,005	¥3,004	$29
Cash and deposits	2,300	2,500	24

Summary of annual maturities of long-term debt subsequent to March 31, 2013 and 2014 were as follows:

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Long-term loans payable	¥ 894	¥22,874	$222
Short-term loans payable and current portion of noncurrent liabilities	1,590	3,652	35
Accounts payable	165	202	2
Total	¥2,648	¥26,728	$260

(Liabilities denominated in foreign currencies included U.S.$15 million at March 31, 2013 and U.S.$22 million at March 31, 2014.)
Note: The share of Kagoshima Mega Solar Power Corporation that has been accounted for under equity method was pledged for its bank loan.

9. Contingent Liabilities

At March 31, 2013 and 2014, the Companies' contingent liabilities were as follows:

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Contingent liabilities existing in cable system supply contract	¥ 4,703	¥ 5,146	$ 50
As a guarantor for			
Loan of UQ Communications Inc., etc.	157,962	117,700	1,144
Forward exchange contracts of Discovery Japan, Inc.	—	3,689	36
Total	¥162,665	¥126,535	$1,229

(Contingent liabilities denominated in foreign currencies included U.S.$50 million and others at March 31, 2013 and U.S.$97 million at March 31, 2014.)

10. Impairment Loss

For the year ended March 31, 2013

The Companies calculate impairment losses by asset group based on minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

In the year ended March 31, 2013, the Companies discontinued the use of former 800MHz frequency facilities in July 2012 in line with the reorganization of frequencies and drew up a plan for conversion to other frequencies on the shared portion of these facilities. Facilities not part of this conversion were determined to be idle assets that were expected to have no future value. The book value of these assets was reduced to their recoverable value, and the decrease was recorded as an impairment loss of ¥68,891 million. This consists of ¥29,456 million for buildings, ¥17,964 million for antenna facilities, ¥17,954 million for machinery and ¥3,516 million for others.

The recoverable amount of these assets is based on the estimated net selling price. The calculation of market value is based on reasonable estimate, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

For the year ended March 31, 2013, 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 ¥10,039 million. This consists of ¥6,213 million for local line facilities, ¥1,106 million for right of using submarine line facilities, ¥900 million for long-distance line facilities and ¥1,820 million for others.

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

In addition, impairment loss of ¥1,620 million on business assets in certain subsidiaries was recognized. This consists of ¥1,049 million for machinery, ¥231 million for local line facilities and ¥339 million for others.

For the year ended March 31, 2014

The Companies calculated impairment loss by assets group according to minimum units that had identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

In the year ended March 31, 2014, for domestic transmission system with declining utilization rates and idle assets, the book value had been reduced to recoverable value. The said reduction was recognized as impairment loss of ¥8,542 million. This consists of ¥7,229 million for local line facilities, ¥939 million for machinery and ¥373 million for others.

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

In addition, impairment loss of ¥154 million on business assets in certain subsidiaries was recognized as impairment loss. This consists of ¥87 million for software, ¥29 million for structures and ¥38 million for others.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
The Company and the other: Facilities for the former 800MHz band	¥68,891	¥ —	$ —
The Company: Domestic transmission line facilities and idle assets, etc.	10,039	8,542	83
Consolidated subsidiaries: Business assets, etc.	1,620	154	1
Total	¥80,549	¥8,696	$84

11. Gain and Loss on Sales and Retirement of Noncurrent Assets

Gain and loss on sales and retirement of noncurrent assets for the years ended March 31, 2013 and 2014 were as follow:

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Gain on Sales of Noncurrent Assets			
Gain on sales of real estate accompanying disposal of land, etc.	¥ 325	¥ 9	$ 0
Gain on sale of other facilities, etc.	264	291	3
Total	¥ 588	¥300	$ 3
Loss on Sales of Noncurrent Assets			
Loss on disposal of real estate accompanying disposal of land, etc.	¥ 1,050	¥ 7	$ 0
Loss on disposal of other facilities, etc.	28	371	4
Total	¥ 1,078	¥378	$ 4
Loss on Retirement of Noncurrent Assets			
Disposal cost of former 800MHz frequency facilities	¥19,857	¥ —	$—
Retirement cost of former 800Mhz frequency facilities	1,870	—	—
Others	985	—	—
Total	¥22,713	¥ —	$—

12. Research and Development Expenses

Research and development expenses were ¥28,881 million and ¥24,086 million (U.S.$234 million) for the years ended March 31, 2013 and 2014, respectively.

13. Income Taxes

At March 31, 2013 and 2014, significant components of deferred tax assets and liabilities were summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Deferred tax assets			
Depreciation and amortization	¥ 40,235	¥ 26,070	$ 253
Allowance for doubtful accounts	11,588	12,426	121
Disposal of fixed assets	1,823	6,279	61
Inventory write down	2,459	2,096	20
Impairment loss	60,011	39,594	385
Provision for retirement benefits	3,297	—	—
Net defined benefit liability	—	1,057	10
Provision for bonuses	8,588	10,588	103
Accrued expenses	4,024	6,005	58
Net operating loss carried forward	1,305	2,016	20
Unrealized profits	3,590	22,443	218
Provision for point service program	34,693	27,167	264
Accrued enterprise taxes payable	7,640	8,510	83
Advances received	19,490	14,469	141
Deferred income	—	9,293	90
Loss on valuation of stocks of subsidiaries and affiliates	3,849	9,507	92
Other	7,308	7,256	71
Gross deferred tax assets	¥209,898	¥ 204,777	$ 1,990
Valuation allowance	(8,980)	(14,806)	(144)
Total deferred tax assets	¥200,918	¥ 189,971	$ 1,846
Deferred tax liabilities			
Special depreciation reserve	¥ (1,737)	¥ (3,052)	$ (30)
Valuation difference on other securities	(20,191)	(24,217)	(235)
Retained earnings for overseas affiliates	(2,217)	(4,501)	(44)
Gain on transfer from business divestitures	(1,692)	(1,692)	(16)
Identifiable intangible assets	—	(66,047)	(642)
Net defined benefit assets	—	(2,249)	(22)
Other	(4,668)	(7,037)	(68)
Total deferred tax liabilities	¥ (30,506)	¥(108,795)	$(1,057)
Net deferred tax assets	¥170,413	¥ 81,176	$ 789

The following table summarizes significant components of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2013 and 2014

	2013	2014
Statutory tax rate	Omitted because the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.	38.0%
Adjustments:		
Permanently non-deductible items including entertainment expenses		0.2
Inhabitant tax on per capital levy		0.1
Tax credit for research and development expenses		(0.1)
Goodwill amortization		1.7
Permanently non-deductible items including dividend income		(0.2)
Valuation allowance		0.7
Effect of change in tax rate		1.0
Loss on step acquisitions		2.4
Other		(1.1)
Effective tax rate		42.7%

Revisions in amounts of deferred tax assets and deferred tax liabilities due to the changes in the corporate tax rate

The “Act on Partial Revision of the Income Tax Act” (Act No. 10 of 2014) was promulgated on March 31, 2014, repealing the special reconstruction surtax from fiscal years beginning on or after April 1, 2014.

Accordingly, the statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities was reduced from 38.0% to 35.6%, resulting in a temporary difference in assets or liabilities extinguished in the fiscal year beginning April 1, 2014. This change in the tax rate had the effect of reducing deferred tax assets (net of deferred tax liabilities) by ¥4,713 million (U.S.$46 million), and increasing income taxes-deffered by that same amount.

14. Retirement Benefits

Year ended March 31, 2013

1. Outline of retirement benefit plans

The Companies have defined benefit pension plans, retirement lump-sum plans (unfunded) and defined contribution pension plans for the benefit payments of employees.

The Company and certain domestic consolidated subsidiaries apply the pension point systems under which pension benefits are calculated based on the accumulated points allocated to employees according to their class of positions and salaries. Further, a certain subsidiary has adapted a multi-employer pension fund.

2. Provision for retirement benefits

	Millions of yen
Projected benefit obligations	¥(309,628)
Plan assets	291,107
Retirement benefit trust	8,268
Funded status	(10,253)
Unrecognized actuarial (gain) loss	4,039
Unrecognized prior service cost	6,114
Net amount recognized in the consolidated balance sheets	(101)
Prepaid pension cost	13,409
Provision for retirement benefits	¥ (13,509)

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

3. Net pension expenses related to the retirement benefits

	Millions of yen
Service cost	¥10,989
Interest cost	6,137
Expected return on plan assets	(5,075)
Amortization of prior service cost	(2,915)
Amortization of actuarial (gain) loss	5,279
Net pension cost	¥14,414

4. Assumptions used in calculation of the above information

Basis of actuarial assumption at the end of the fiscal year

Method of attributing the projected benefits over average remaining service period	Straight-line
Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Average remaining service period	14 years
Amortization of actuarial gain and loss	14 years from the year following that in which they arise

Multi-employer Pension Plans

Items relating to overall funded status of pension plan

	Millions of yen The Kanto IT Software Pension Fund As at March 31, 2012*1
Plan assets	¥186,190
Benefit obligation based on pension financing calculation	186,649
Balance*2	¥ (459)

Percentage of total pension plan accounted for by contributions from the subsidiary

The Kanto IT Software Pension Fund (For the year ended March 31, 2013)
0.09%*3

Notes: *1. Items relating to overall funded status of pension plans are based on the information as at March 31, 2012 (the most recently available year-end result).

*2. The principle factors relating to the balance were composed of general reserve of ¥3,330 million, actuarial asset value adjustment of (¥9,623) million and shortage of ¥13,412 million. For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2012).

*3. The percentage does not match the actual amount contributed by the subsidiary.

Year ended March 31, 2014

1. Outline of retirement benefit plans

The Companies have defined benefit pension plans, retirement lump-sum plans (unfunded) and defined contribution pension plans for the benefit payments of employees.

The Company and certain domestic consolidated subsidiaries apply the pension point systems under which pension benefits are calculated based on the accumulated points allocated to employees according to their class of positions and salaries.

Certain subsidiaries have adopted multi-employer pension plans of the Kanto IT Software Pension Fund and the Sumitomo Rengo Corporation Pension Fund, which are defined benefit type of pension plans. Contributions to the said pension plans are recognized as net pension costs as well as contribution of the defined contribution plans.

Further, net defined liabilities and net pension expenses of retirement lump-sum plans which certain subsidiaries operate are calculated using the simplified method.

2. Defined benefit plans

Change in benefit obligations

	Millions of yen	Millions of U.S. dollars
Defined benefit obligation at beginning of year	¥309,628	$3,008
Service cost	10,697	104
Interest cost	6,148	60
Actuarial (gain) loss	2,696	26
Benefit paid	(11,582)	(113)
Other	156	2
Defined benefit obligations at end of year	¥317,744	$3,087

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

Change in plan assets

	Millions of yen	Millions of U.S. dollars
Plan assets at beginning of year	¥299,375	$2,909
Expected return on plan assets	5,822	57
Actuarial (gain) loss	18,269	178
Companies contributions	15,211	148
Termination of retirement benefit trust	(8,439)	(82)
Benefits paid	(9,740)	(95)
Other	9	0
Plan assets at end of year	¥320,507	$3,114

Reconciliation of defined benefit obligation and plan assets, and net defined liability and net defined asset in the balance sheet

	Millions of yen	Millions of U.S. dollars
Defined benefit obligations (funded)	¥ 301,821	$ 2,933
Plan assets	(320,507)	(3,114)
	(18,686)	(182)
Defined benefit obligations (unfunded)	15,923	155
Net liability (asset) recognized in the balance sheet	(2,763)	(27)
Net defined benefit liability	17,340	168
Net defined benefit (asset)	(20,103)	(195)
Net liability (asset) recognized in the balance sheet	¥ (2,763)	$ (27)

Retirement benefit expenses

	Millions of yen	Millions of U.S. dollars
Service cost	¥10,697	$104
Interest cost	6,148	60
Expected return on plan assets	(5,822)	(57)
Amortization of actuarial (gain) loss	2,992	29
Amortization of prior service costs	1,191	12
Net retirement benefit expenses	¥15,207	$148

Note: Certain subsidiaries applied the simplified method in calculating the defined benefit obligations.

Remeasurements of defined benefit plans (before deducting tax effect)

	Millions of yen	Millions of U.S. dollars
Unrecognized past service costs	¥(4,922)	$ (48)
Unrecognized actuarial (gain) loss	14,683	143
Total	¥ 9,761	$ 95

Plan assets

a. Ratios of major asset components to total plan assets

Bonds	62%
Equity securities	15%
Others	23%
Total	100%

b. Assumption of long-term expected rate of return on plan assets

The Companies consider the allocation of the current and future plan assets as well as the rate of long-term expected return at present and in the future comprising from the various assets in determining long-term expected rate of plan assets.

Basis of calculation of actuarial assumption

Basis of actuarial assumption at the end of year	
Discount rate	2.0%
Long term expected rate of return on plan assets	2.0%

3. Defined contribution plans

The amount to be paid by the Companies to the defined contribution plans including the multi-employer pension plans is ¥2,948 million (U.S.$29 million)

4. Multi-employer benefit plans

Items relating to overall funded status of pension plan;

Millions of yen

	The Kanto IT Software Pension Fund As at March 31, 2013*1	The Sumisho Rengo Corporate Pension Fund As at March 31, 2013*1
Plan assets	¥222,957	¥31,351
Benefit obligation based	206,135	30,323
Balance*2	¥ 16,821	¥ 1,028

Millions of U.S. dollars

	The Kanto IT Software Pension Fund As at March 31, 2013*1	The Sumisho Rengo Corporate Pension Fund As at March 31, 2013*1
Plan assets	$2,166	$305
Benefit obligation based	2,003	295
Balance*2	$ 163	$ 10

Percentage of total pension plan accounted for by contribution from those subsidiaries.

The Kanto IT Software Pension Fund (For the year ended March 31, 2014)	The Sumisho Rengo Corporate Pension Fund (For the year ended March 31, 2013)*1
1.1%*3	43.4%*3

Notes: *1. Items relating to overall funded status of pension plan are based on the information as at March 31, 2013 (the most recently available year-end result).

*2. The Kanto IT Software Pension Fund

The principle factors relating to the balance were composed of shortage of ¥10,082 million (U.S.$98 million) and general reserve of ¥26,904 million (U.S.$261 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2013).

The Rengo Corporation Pension Fund

The principle factors relating to the balance were composed of general reserve of ¥2,468 million (U.S.$24 million), unamortized prior service costs of ¥1,440 million (U.S.$14 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 4 years and 6 months (from October 1, 2009 to March 31, 2014).

*3. The percentage does not match the actual amount contributed by those subsidiaries.

15. Consolidated Statements of Comprehensive Income

The comprehensive income for the years ended March 31, 2013 and 2014 were as follows.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Valuation difference on available-for-sale securities			
Amount recognized in the period	¥ 128	¥19,759	$192
Amount of recycling	1,005	(8,215)	(80)
Before income tax effect adjustment	1,133	11,544	112
Amount of income tax effect	(422)	(4,045)	(39)
Valuation difference on available-for-sale securities, net of tax effect	¥ 711	¥ 7,499	$ 73
Deferred gains or losses on hedges			
Amount recognized in the period	—	599	6
Amount of recycling	—	(529)	(5)
Before income tax effect adjustment	—	70	1
Amount of income tax effect	—	(29)	0
Deferred gains or losses on hedges	¥ —	¥ 41	$ 0
Foreign currency translation adjustments			
Amount recognized in the period	12,158	25,444	247
Amount of recycling	—	—	—
Before income tax effect adjustment	12,158	25,444	247
Amount of income tax effect	(95)	—	—
Foreign currency translation adjustments, net of tax effect	¥12,063	¥25,444	$247
Share of other comprehensive income of associates accounted for using equity method			
Amount recognized in the period	1,221	46	0
Amount of recycling	121	(529)	(5)
Share of other comprehensive income of associates accounted for using equity method, net of tax effect	1,342	(483)	(5)
Total other comprehensive income	¥14,115	¥32,501	$316

16. Stock Options

Since September 2002, a stock option system has been in place in the Company. The Company granted stock options to Members of the Board of Directors, Vice Presidents, Executive Directors, Advisers, Corporate Auditors and employees and directors of wholly owned subsidiaries.

Also, DMX Technologies Group Limited ("DMX"), Wire and Wireless Co., Ltd. ("Wi2") and ScaleOut Inc. ("ScaleOut"), consolidated subsidiaries of the Company, adopted their own stock option systems.

DMX granted stock options to Members of the Board of Directors and employees of DMX and its group companies. Wi2 granted stock options to Members of the Board of Directors, employees and shareholders of Wi2. ScaleOut granted stock options to Members of the Board of Directors, employees and shareholders of ScaleOut.

Due to the nullification of rights, gains on reversal of subscription rights for the years ended March 31, 2013 and 2014 were ¥512 million and ¥101 million (U.S.$1 million), respectively.

Estimation of fair value of stock options

Consolidated subsidiary ScaleOut Inc. is an unlisted company and consequently, the fair value of the 1st stock option of ScaleOut granted in January, 2013 was estimated by computing the intrinsic value.

Valuation of stock's price per share which is the basis of estimation of this intrinsic value is based on the price calculated using the discounted cash flow method.

The total intrinsic value of option was ¥0 as at March 31, 2014.

Estimation of number of stock options to be vested

The number of stock options to be vested was estimated based on the number of forfeited shares calculated using employee turnover rate for the corresponding period.

Scale of Stock ptions 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, 2014.

(1) Number of stock options

The Company

	Shares August 2009 8th Stock Option
Before vested	
Beginning of period	—
Granted	—
Forfeited	—
Vested	—
Unvested	—
After vested	
Beginning of period	881,800
Vested	—
Exercised	761,800
Expired	120,000
Exercisable	—

Note: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013, and stock options have been converted into equivalent numbers of shares and presented accordingly.

DMX

	October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
			Shares
Before vested			
Beginning of period	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
After vested			
Beginning of period	3,305,544	3,886,858	11,911,000
Vested	—	—	—
Exercised	—	—	2,450,000
Expired	3,305,544	—	—
Exercisable	—	3,886,858	9,461,000

Wi2

	December 2009 Stock Option
	Shares
Before vested	
Beginning of period	1,342
Granted	—
Forfeited	1,342
Vested	—
Unvested	—
After vested	
Beginning of period	—
Vested	—
Exercised	—
Expired	—
Exercisable	—

ScaleOut

	January 2013, 1st Stock Option
	Shares
Before vested	
Beginning of period	—
Granted	—
Forfeited	—
Vested	—
Unvested	—
After vested	
Beginning of period	95
Vested	—
Exercised	—
Expired	—
Exercisable	95

Note: Figures indicated in beginning of period, state the remaining number of shares for ScaleOut Inc. – which became a consolidated subsidiary during the fiscal year – at the point of newly consolidated.

(2) Unit value and exercise period of respective stock options

The Company

		August 2008 8th Stock Option	
		Yen	U.S. dollars
Exercise price		¥2,695	$26.19
Average share price at exercise		4,941	48.01
Fair value unit price (Date of grant)		556.41	5.41
Exercise period	From	October 1, 2011	
	To	September 30, 2013	

Note: Number of the stock options has been retroactively adjusted based on the 1 : 2 stock split effectively on April 1, 2013.

DMX

		October 2003 Stock Option		April 2008 Stock Option		November 2008 Stock Option	
		Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars
Exercise price		SGD 0.6778	$0.54	SGD 0.2260	$0.18	SGD 0.0930	$0.07
Average share price at exercise		—	—	—	—	0.2450	0.19
Fair value unit price (Date of grant)		0.7900	0.63	0.2500	0.20	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	

Note: Exchange rate of Singapore dollars into U.S. dollars were made as follows: SGD1=¥81.90, U.S.$1=¥102.92

Wi2

		December 2009 Stock Option	December 2009 Stock Option
		Yen	U.S. dollars
Exercise price		¥24,000	$233.19
Average share price at exercise		—	—
Fair value unit price (Date of grant)		—	—
Exercise period	From	December 1, 2011	
	To	October 29, 2019	

ScaleOut

		January 2013 1st Stock Option	January 2013 1st Stock Option
		Yen	U.S. dollars
Exercise price		¥200,000	$1,943.26
Average share price at exercise		—	—
Fair value unit price (Date of grant)		—	—
Exercise period	From	January 2, 2013	
	To	January 1,2020	

17. Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2013

(1) Total number and type of shares and treasury stock outstanding

	As of April 1, 2012	Increase during the year ended March 31, 2013	Decrease during the year ended March 31, 2013	As of March 31, 2013
Shares outstanding				
Common stock	4,484,818	443,996,982	—	448,481,800
Total	4,484,818	443,996,982	—	448,481,800
Treasury stock				
Common stock	663,006	65,637,894	31,500	66,269,400
Total	663,006	65,637,894	31,500	66,269,400

Notes 1: The Company conducted a 1:100 stock split on common stock with an effective date of October 1, 2012.
2: The increase of 443,996,982 shares during the fiscal year was due to split on common stock.
3: The increase of 65,637,894 shares in the Company's common stock was due to split on common stock 65,637,594 shares and due to purchase of share less than one unit 300 shares.
4: The decrease of 31,500 shares in the Company's common stock resulted from the exercise of stock options.
5: The subscription warrants were not bifurcated with the convertible bond–type bonds

(2) Subscription warrants and own share option

	Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants: As of April 1, 2012	Increase during the year ended March 31, 2013	Decrease during the year ended March 31, 2013	As of March 31, 2013	Balance as of March 31, 2013
							Millions of yen
The Company (parent company)	Subscription warrants as stock options	—	—				¥491
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)[Note]	Common stock	348,979 shares Upper limit	34,548,944 shares Upper limit	—	34,897,923 shares Upper limit	—
Consolidated subsidiaries	Subscription warrants as stock options	—		—			83
Total		—	—	—	—	—	¥574

Notes: Zero Coupon Convertible Bonds due 2015 (issued on December 14, 2011)
1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.
2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.
3: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.
4: The increase in the number of shares was due to split on common stock.

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	¥32,485	¥8,500	March 31, 2012	June 21, 2012
October 24, 2012 Meeting of the Board of Directors	Common stock	¥32,485	¥8,500	September 30, 2012	November 20, 2012

2. Dividend payment recognized during the fiscal year ended March 31, 2013 but effective on the next fiscal year ended March 31, 2014

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	¥36,310	Retained earnings	¥95	March 31, 2013	June 20, 2013

Note: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012. Dividends per share were calculated including the effect on this stock split.

For the year ended March 31, 2014

(1) Total number and type of shares and treasury stock outstanding

	As of April 1, 2013	Increase during the year ended March 31, 2014	Decrease during the year ended March 31, 2014	As of March 31, 2014
Shares outstanding				
Common stock	448,481,800	448,481,800	—	896,963,600
Total	448,481,800	448,481,800	—	896,963,600
Treasury stock				
Common stock	66,269,400	66,273,882	70,558,334	61,984,948
Total	66,269,400	66,273,882	70,558,334	61,984,948

Notes 1: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
2: The increase of 448,481,800 shares during the fiscal year was due to split on common stock.
3: The increase of 66,273,882 shares in the Company's common stock was due to split on common stock 66,269,400 shares and due to purchase of share less than one unit 4,482 shares.
4: The decrease of 70,558,334 shares in the Company's common stock resulted from the exercise of stock options 761,800 shares, the exercise of convertible bonds with subscription warrants 69,795,731 shares and the sales of 803 fractional shares less than one investment unit.

(2) Subscription warrants and own share option

	Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants: As of April 1, 2013	Increase during the year ended March 31, 2014	Decrease during the year ended March 31, 2014	As of March 31, 2014	Balance as of March 31, 2014: Millions of yen	Millions of U.S. dollars
The Company (parent company)	Subscription warrants as stock options	—		—			¥—	$—
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) Note	Common stock	34,897,923 shares Upper limit	34,897,923 shares Upper limit	—	69,795,731 shares Upper limit	—	—
Consolidated subsidiaries	Subscription warrants as stock options	—		—			40	0
Total		—	—	—	—	—	¥40	$0

Notes: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)
1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.
2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.
3: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
4: The increase in the number of shares was due to split on common stock.
5: The decrease in the number of shares was due to exercise of convertible bonds with subscription warrants.

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	¥36,310	¥95	March 31, 2013	June 20, 2013
October 28, 2013 Meeting of the Board of Directors	Common stock	¥49,585	¥60	September 30, 2013	November 27, 2013

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	$353	$0.92	March 31, 2013	June 20, 2013
October 28, 2013 Meeting of the Board of Directors	Common stock	$482	$0.58	September 30, 2013	November 27, 2013

2. Dividend payment recognized during the fiscal year ended March 31, 2014 but effective on the next fiscal year ended March 31, 2015

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 18, 2014 Annual meeting of shareholders	Common stock	¥58,449	Retained earnings	¥70	March 31, 2014	June 19, 2014

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividend resource	Dividends per share	Record date	Effective date
June 18, 2014 Annual meeting of shareholders	Common stock	$568	Retained earnings	$0.68	March 31, 2014	June 19, 2014

Note: The Company conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013. Dividends per share were calculated including the effect on this stock split.

18. Business Combination

Business combination through acquisition I

On April 17, 2013, the Company acquired an additional 644,115 shares in Jupiter Telecommunications Co., Ltd. ("J:COM")through public tender and as a result, the Company's voting rights to J:COM came to 40.47%. In accordance with effective control standards, J:COM was converted to a consolidated subsidiary.

1. Overview of business combination

a. Name of acquired company
Jupiter Telecommunications Co., Ltd.

b. Business activities of acquired company
Cable TV broadcast and telecommunications business through supervision and operation of cable TV stations, supervision of programming business for Cable TV stations and digital satellite and broadcasters etc.

	Millions of yen
Operating revenues (Note)	¥376,835
Net income attributable to J:COM	41,623
Total J:COM shareholders' equity	454,547
Total assets	812,030

Note: As of December 31, 2012 (J:COM annual report (the 19th period))
J:COM prepared consolidated financial statements based on accounting principles generally accepted in the United States of America.

c. Main reasons for the business combination
The Company acquired additional shares in J:COM and converted this company to a consolidated subsidiary considering for a potential business combination with consolidated subsidiary JAPAN CABLENET LIMITED, (merged with J:COM as of the date of submission of these financial statements) thereby expanding the customer base of the cable TV business, and integrating J:COM's media business with the Company's telecommunications business. These approaches are in line with efforts to increase synergies under the Company's growth strategy, the "3M Strategy."

d. Date of business combination
April 17, 2013 (Date of commencement of TOB settlement)

e. Legal form of business combination
Acquisition of shares

f. Name of company after business combination
Jupiter Telecommunications Co., Ltd.

g. Acquisition of voting rights
Voting rights held before the business combination: 31.08%
Additional voting rights acquired on the day of the business combination: 9.38%
Voting rights after the acquisition: 40.47%

NJ Corporation (merged with J:COM as of the date of submission of these financial statements), in which the Company and Sumitomo Corporation hold the same number of voting rights, acquired 553,679 shares (voting rights of 8.09%) through this tender offer. Accordingly, the Company held 4.05% of the voting rights indirectly through NJ Corporation.

h. Main factors in determination of acquirer
As the type of consideration was cash, the Company, which provided the cash, was determined to be the acquirer.

2. Period for which the acquired company's results are included in the consolidated statements of income

April 1, 2013 was deemed to be the acquisition date, and accordingly results for the period from April 1, 2013 to March 31, 2014 were included.

3. Acquisition cost and breakdown

The following table summarizes the cost incurred in conjunction with the business combination.

	Millions of yen	Millions of U.S. dollars
Consideration for acquisition		
Market value of J:COM's shares held prior to the business combination	¥281,264	$2,733
Market value of J:COM's shares acquired on the date of the business combination	79,226	770
Expenses directly related to the acquisition	827	8
Acquisition cost	¥361,317	$3,511

Consideration for acquisition also includes an administration trust portion of ¥18,807 million (U.S.$183 million) attached to a securities administration trust.

4. Difference between the acquisition cost of the acquired company and the total amount of the acquisition costs arising from transactions

Loss on step acquisition ¥38,458 million (U.S.$374 million)

5. Amount of goodwill generated, reason for generation and amortization

a. Amount of goodwill generated
¥219,735 million (U.S.$2,135 million)

b. Reason for generation
Additional future earnings capacity expected as a result of future operational development by the acquired company.

c. Amortization
Straight-line method over a period of 20 years.

6. Amount and general breakdown of assets acquired and liabilities assumed on the date of the business combination

	Millions of yen	Millions of U.S. dollars
Noncurrent assets	¥548,288	$5,327
Current assets	125,900	1,223
Total assets	674,188	6,551
Noncurrent liabilities	176,473	1,715
Current liabilities	138,156	1,342
Total liabilities	314,628	3,057

7. Other

As indicated in the "Notice of a Tender Offer for Shares in Jupiter Telecommunications Co., Ltd." ("(5) Policies on Restructuring following This Tender Offer (in Other Words, Items related to the Two-Step Acquisition)") announced on October 24, 2012, by the Company and Sumitomo Corporation, all shares subject to call were acquired on August 2, 2013, and J:COM conducted a merger of NJ Corporation on November 1, 2013. Consequently, the Company's voting rights in J:COM amount to 50%.

Goodwill of ¥35,535 million (U.S. $345 million) was generated as a result of the above.

Business combination through acquisition II

The Company's consolidated subsidiary, Jupiter Telecommunications Co., Ltd. ("J:COM") conducted a merger with NJ Corporation ("NJ"), an equity-method affiliate of the Company, on November 1, 2013.

1. Overview of business combination

a. Name of acquired company
NJ Corporation

b. Businesses of the acquired company
Special-purpose company:
Based on a shareholders' agreement regarding joint operation of J:COM entered into at Board of Directors' meetings of the Company and Sumitomo Corporation on October 24, 2012, NJ was established with the objective of making a tender offer jointly with the Company for common stock and subscription rights to shares issued by J:COM, with the Company and Sumitomo Corporation each having equal voting rights in NJ.

c. Main reason for conducting a business combination
This business combination is one procedure in a series of transactions to acquire all issued and outstanding shares of J:COM (excluding, however, treasury stock held by J:COM), as publicized in the "Notice of a Tender Offer for Shares in Jupiter Telecommunications Co., Ltd." announced by the Company and Sumitomo Corporation on October 24, 2012.

d. Date of the business combination
November 1, 2013

e. Legal form of the business combination
Merger with cash as consideration

f. Name of the company following the business combination
Jupiter Telecommunications Co., Ltd.

g. Primary grounds leading to a decision of the acquiring company
As the type of consideration is cash, the company delivering this cash—J:COM—was specified as the acquiring company.

2. Period for financial results of the acquired company included in the consolidated financial statements

From November 1, 2013 to March 31, 2014

3. Acquisition cost

Consideration for acquisition ¥518 million (U.S.$5 million)

4. Amount of goodwill generated and reason for generation

No goodwill was generated.

5. Amount and general breakdown of assets acquired and liabilities assumed on the date of the business combination

	Millions of yen	Millions of U.S. dollars
Noncurrent assets	¥161,346	$1,568
Current assets	570	6
Total assets	161,916	1,573
Current liabilities	161,398	1,568
Total liabilities	161,398	1,568

6. Impact on the consolidated statements of income for the fiscal year based on the assumption that the business combination was completed on the beginning day of the fiscal year

This information has been omitted, as a rough estimate of this impact is insignificant.

Financials

19. Related Party Transaction

Year ended March 31, 2013

Transactions with related parties

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, 2013
Equity-method affiliate	UQ Communi-cations Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	¥157,800	—	¥—
						Concurrent director	Receiving fee for the guarantee	¥329	Account receivable	¥79

Year ended March 31, 2014

Transactions with related parties

Affiliates of the Company

Millions of yen / (Millions of U.S. dollars)

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, 2014
Equity-method affiliate	UQ Communi-cations Inc.	Minato-ku, Tokyo	71,425	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	¥117,700 (U.S.$1,144)	—	¥— (U.S.$—)
						Concurrent director	Receiving fee for the guarantee	¥256 (U.S.$2)	Account receivable	¥58 (U.S.$1)

20. Segment Information

Segment information for the years ended March 31, 2013 and 2014 were as follows:

1. Outline of Reportable Business Segments

The reportable business segments are the business units for which the chief operating decision maker 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.

The Companies have formulated the "3M Strategy," a growth strategy for domestic business, and the "Global Strategy," aimed at expanding overseas business, on the basis of its three commitments: "More Connected," "More Diverse Values," and "More Global." To aid in promoting these strategies, the Companies categorize its business into four reportable categories: "Personal Services," "Value Services," "Business Services," and "Global Services."

Note: 3M stands for Multi-network, Multi-device, and Multi-use. The 3M Strategy is the Companies' business strategy for enabling the use of its wide-ranging content and services such as music, videos, ebooks and games. The strategy calls for these to be made available over the Companies' organically linked mobile phone, FTTH, CATV, WiMAX, Wi-Fi, and other networks (Multi-network); to be available on a host of devices such as smartphones, tablet computers, ebook readers and PCs (Multi-device); and for them to be available for use in the manner the customer requires (Multi-use), conveniently at any place and at any time.

In "Personal Services," the Companies provide households and individual customers with mobile handset sales and other services in addition to a variety of communications services. In "Value Services," we provide households and individual customers with various types of applications, music and video, as well as electronic money services and other services. In "Business Services," we provide various types of communication services, mobile handset sales, data center services, various types of ICT solution/cloud services, and other services for corporate customers. In "Global Services," we provide various types of communications services, data center services, various types of ICT solution/cloud services, and other services for companies and individuals overseas.

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

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

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

Intersegment trading prices are calculated based on third-party trading prices or determined by negotiating prices that take overall costs into consideration.

Assets are not allocated to reportable segments.

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

Year ended March 31, 2013

Millions of yen

	Reportable Business Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	¥2,763,486	¥109,948	¥572,269	¥174,823	¥3,620,526	¥ 41,763	¥3,662,289	¥ —	¥3,662,289
Intersegment sales	74,479	31,951	66,068	32,479	204,977	102,459	307,436	(307,436)	—
Total	¥2,837,965	¥141,899	¥638,337	¥207,302	¥3,825,503	¥144,222	¥3,969,725	¥(307,436)	¥3,662,289
Income by business segment	¥ 378,604	¥ 41,888	¥ 79,830	¥ 7,830	¥ 508,152	¥ 4,894	¥ 513,045	¥ (376)	¥ 512,669
Other items									
Depreciation[3]	342,407	6,922	46,261	10,842	406,432	1,682	408,115	(1,388)	406,726
Amortization of goodwill	11,235	1,733	981	2,495	16,444	—	16,444	—	16,444

Notes: 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of long-term prepaid expenses.

Year ended March 31, 2014

Millions of yen

	Reportable Business Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	¥3,288,658	¥164,629	¥598,385	¥228,968	¥4,280,640	¥ 52,988	¥4,333,628	¥ —	¥4,333,628
Intersegment sales	79,193	47,894	76,527	34,657	238,270	97,030	335,300	(335,300)	—
Total	¥3,367,851	¥212,522	¥674,912	¥263,625	¥4,518,910	¥150,019	¥4,668,929	¥(335,300)	¥4,333,628
Income by business segment	¥ 507,184	¥ 51,607	¥ 86,464	¥ 11,408	¥ 656,663	¥ 7,093	¥ 663,756	¥ (511)	¥663,245
Other items									
Depreciation[3]	403,610	9,897	42,990	12,170	468,667	1,455	470,122	(24)	470,098
Amortization of goodwill	22,465	2,021	—	3,635	28,120	134	28,255	—	28,255

Millions of U.S. dollars

	Reportable Business Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	$31,954	$1,600	$5,814	$2,225	$41,592	$ 515	$42,107	$ —	$42,107
Intersegment sales	769	465	744	337	2,315	943	3,258	(3,258)	—
Total	$32,723	$2,065	$6,558	$2,561	$43,907	$1,458	$45,365	$(3,258)	$42,107
Income by business segment	$ 4,928	$ 501	$ 840	$ 111	$ 6,380	$ 69	$ 6,449	$ (5)	$ 6,444
Other items									
Depreciation[3]	3,922	96	418	118	4,554	14	4,568	(0)	4,568
Amortization of goodwill	218	20	—	35	273	1	275	—	275

Notes: 1.The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of long-term prepaid expenses.

4. Relative Information

(1) Products and services information

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

(2) Geographic segment information

1. Sales

Sales information by geographic segment was not shown since 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 was 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 was not presented since no individual clients accounted for greater than 10% of operating revenue on the consolidated statements of income.

5. Information on Impairment Loss on Property, Plant, and Equipment by Business Segment

Year ended March 31, 2013

The Companies do not allocate impairment losses to reportable business segments. During the period, the Companies recorded an impairment loss of ¥80,549 million.

Year ended March 31, 2014

The Companies do not allocate impairment losses to reportable business segments. During the period, the Companies recorded an impairment loss of ¥8,696 million (U.S.$ 84 million).

6. Information on Amortization of Goodwill and Unamortized Balance by Business Segment

Year ended March 31, 2013

						Millions of yen
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	¥11,235	¥1,733	¥981	¥ 2,495	¥—	¥16,444
Year-end balance	47,173	18,157	—	21,047	—	86,376

Year ended March 31, 2014

						Millions of yen
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	¥ 22,465	¥ 2,021	¥—	¥ 3,635	¥ 134	¥ 28,255
Year-end balance	290,312	18,420	—	26,708	2,017	337,457

						Millions of U.S. dollars
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	$ 218	$ 20	$—	$ 35	$ 1	$ 275
Year-end balance	2,821	179	—	260	20	3,279

7. Information on Negative Goodwill by Business Segment

Years ended March 31, 2013 and 2014

No significant items to be reported.

21. Per Share Information

	Yen		U.S. dollars
	2013	2014	2014
Net assets per share	¥2,943.12	¥3,261.63	$31.69
Net income per share			
Basic	315.90	398.60	3.87
Diluted	289.26	—	—

* The following shows the basis of calculating net income per share and diluted net income per share for the years ended March 31, 2013 and 2014.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Net income for the fiscal year	¥241,470	¥322,038	$3,129
Monetary value not related to common stockholders	—	—	—
Net income related to common stock	241,470	322,038	3,129
Effect of dilutive securities: Amortization of bond premium (after deduction of an amount equivalent to tax)*	(155)	—	—
Net income on which diluted net income per share is calculated	¥241,315	¥322,038	$3,129

	2013	2014
Number of weighted average common shares outstanding during the fiscal year	764,378,162	807,924,216
Increase in number of shares of common stock	69,870,302	—
(Subscription warrants)	(74,455)	—
(Convertible bond-type bonds with subscription rights to shares)	(69,795,847)	—
Number of shares on which diluted net income per share is calculated	834,248,464	807,924,216
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	—	—

Note 1: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.
The Company also conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013.
Total net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous consolidated fiscal year.

Note 2: This is the amount of premium amortization for the fiscal year (after deducting an amount equivalent to tax) resulting from the issuance of the bonds at an amount higher than the face amount.

Note 3: For year ended March 31, 2014, diluted net income per share was not shown as dilutive shares do not exist.

Note 4: As described in "Accounting Changes and Others," the "Accounting Standard for Retirement Benefits" was applied, in accordance with the provisions on transitional implementation indicated in Paragraph 37 the Accounting Standard for Retirement Benefits.
As a result, net assets per share at the end of the fiscal year increased by ¥7.46.

22. Others

1. Reduction Entry Due to Subsidies, etc.

Cumulative reduction entry due to subsidies, etc. for the acquisition of property, plant and equipment as of March 31, 2013 and 2014 were ¥17,909 million and ¥23,060 million (U.S.$224 million).

2. Notes Relating to Affiliates

The following table summarizes the amounts relating to affiliates as of March 31, 2013 and 2014.

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Investments in affiliates	¥348,169	¥41,480	$403
(of which investment in jointly controlled entities)	(718)	(—)	(—)
Other investments in affiliates	219	274	3

3. Supplemental Information of Cash Flow Statement

1) Non-monetary transactions

The following tables summarize the major non-cash transactions for the years ended March 31, 2013 and 2014.

Amount of assets and obligations related to finance lease transactions entered by the Companies

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Finance lease assets	¥4,006	¥16,856	$164
Finance lease obligations	4,284	17,464	170

Exercise of subscription rights to shares on Zero Coupon Convertible Bonds

	Millions of yen		Millions of U.S. dollars
	2013	2014	2014
Marginal gain on disposal of treasury stock	¥—	¥ 18,308	$ 178
Decrease in amount of treasury stock	—	182,209	1,770
Decrease in amount of Zero Coupon Convertible Bonds	¥—	¥200,517	$1,948

2) Assets and liabilities of newly consolidated subsidiaries

Year ended March 31, 2013

No significant items to be reported.

Year ended March 31, 2014

Jupiter Telecommunications Co., Ltd.("J:COM") was newly consolidated as the result of the acquisition of the additional shares and establishing effective control.

The following table summarizes the breakdown of assets acquired and liabilities assumed existed at the time of consolidation.

	Millions of yen	Millions of U.S. dollars
Current assets	¥ 125,900	$ 1,223
Noncurrent assets	548,288	5,327
Goodwill	219,735	2,135
Current liabilities	(138,156)	(1,342)
Noncurrent liabilities	(176,473)	(1,715)
Minority interests	(217,834)	(2,117)
Subscription rights to shares	(143)	(1)
Valuation under the equity method prior to acquisition	(319,722)	(3,107)
Loss on step acquisition from the purchase of additional shares	38,458	374
Amount paid for the acquisition of shares of J:COM	80,053	778
Cash and cash equivalent of J:COM	(96,325)	(936)
Net amount paid for the acquisition of J:COM	¥ (16,272)	$ (158)

4. Lease Payment

1) As a lessee

Year ended March 31, 2013

1. Finance leases
   No significant items to be reported.

2. Operating leases
   No significant items to be reported.

Year ended March 31, 2014

1. Finance leases
   Finance leases without a transfer of ownership

   Details of lease assets
   Property, plant and equipment
   Primarily set-top boxes in the CATV business

   Depreciation for lease assets
   The depreciation method is described in Note 2. "Significant Accounting Policies."

2. Operating leases
   No significant items to be reported.

2) As a lessor

Year ended March 31, 2013

Finance leases
No transaction

Year ended March 31, 2014

Finance leases
No transaction

Independent Auditor's Report

To the Board of Directors of KDDI CORPORATION

We have audited the accompanying consolidated financial statements of KDDI CORPORATION and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDDI CORPORATION and its subsidiaries as at March 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Kyoto

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 19, 2014

Corporate Overview

As of March 31, 2014

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Head Office:	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
Registered Place of Business:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-8003, Japan
Capital:	¥141,851 million
Number of Employees:	27,073 (consolidated)
Representative Director:	Takashi Tanaka, President

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Ratio of Controlling Share*	Ratio of Voting
Kyocera Corporation	114,535,400	12.76%	13.71%
Toyota Motor Corporation	99,497,600	11.09%	11.91%
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,144,100	5.36%	5.76%
Japan Trustee Services Bank, Ltd. (Trust Account)	37,808,700	4.21%	4.52%
State Street Bank & Trust Co.	26,113,689	2.91%	3.12%
State Street Bank & Trust Co. 505223	15,097,446	1.68%	1.80%
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	13,276,743	1.48%	1.59%
State Street Bank & Trust Co. 505225	9,166,863	1.02%	1.09%
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	7,937,741	0.88%	0.95%
BNP PARIBAS Securities (Japan) Limited	7,260,645	0.80%	0.86%

* Controlling shares are calculated including treasury stock (61,984,948 shares.) KDDI excludes treasury stock from the list of major shareholders above.

Inquiries

Investor Relations Department, Corporate Management Division
URL: http://www.kddi.com/english/corporate/ir

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KDDI CORPORATION

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