

# Corporate Governance

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# Manifesto

## KDDI's Manifesto

KDDI is committed to an uncompromising quest for

- **Customer Satisfaction**  
by providing with our services the value that customers expect;
- **A Happy Workforce**  
by continuing to be the kind of dynamic company that inspires all its employees with a sense of worth and fulfillment;
- **The Confidence of Our Shareholders**  
by justifying the trust placed in us by our shareholders, business associates, and all with whom we have dealings;
- **The Advancement of the International Community**  
by bringing an ever broadening array of communications to bear in serving the development of the global community.

## Total Customer Satisfaction (TCS)

Total Customer Satisfaction (TCS) is not merely an abstract concept. At KDDI, it is the guiding principle for every thought and behind every action of everyone from the executive management to the newest employee. It derives from the Company's understanding that successful business begins by exerting the utmost effort for the benefit of its customers and carefully forging enduring relationships of trust with each user.

In order to maximize user satisfaction, KDDI not only strives to improve its service at all points of contact with the users, but also considers all work undertaken anywhere in the KDDI Group as factors that contribute to how customers evaluate the Group's products and services. KDDI reviews all processes through the eyes of the customers, and constantly endeavors to raise the level of satisfaction not only for users, but all KDDI stakeholders.

## KDDI CS Policy

Established to serve as its corporate compass, KDDI's Customer Satisfaction (CS) Policy promotes TCS and further advances the thorough adoption of its "Customer First" philosophy.

In accordance with this policy, every division and department in KDDI is required to prepare its own written CS Mission Statement, clearly stating the roles and objectives to be fulfilled to enhance customer satisfaction. Each division is responsible for realizing their

stated objectives by undertaking an annual management cycle of planning and execution followed by verification to obtain feedback in order to refine the plan for subsequent cycles. KDDI believes there is nothing more important to the Company's future than reflecting the opinions and preferences of the customers in its products, services and the way it works, and rapidly implementing quality improvements based on objective evaluations by the customers.

## Directors and Auditors

As of June 18, 2009

### Directors



**Sadanori Amano**

Vice Chairman



**Tadashi Onodera**

President and Chairman



**Satoshi Nagao**

Executive Vice President  
Member of the Board  
Finance, Corporate  
Communications and  
Group Strategy



**Hirofumi Morozumi**

Senior Vice President  
Member of the Board  
Corporate Administration and  
Human Resources,  
Corporate Strategy



**Takashi Tanaka**

Associate Senior Vice President  
Member of the Board  
Solution Business



**Makoto Takahashi**

Associate Senior Vice President  
Member of the Board  
General Manager,  
Consumer Service & Product Sector



**Yoshiharu Shimatani**

Associate Senior Vice President  
Member of the Board  
Technology Officer



**Makoto Kawamura\***



**Shinichi Sasaki\***



**Tsunehisa Katsumata\***

### Auditors

Standing Statutory Auditors

**Nobuo Nezu**

**Susumu Oshima**

**Masayuki Yoshinaga\*\***

Statutory Auditors

**Yoshihiko Nishikawa\*\***

**Katsuaki Watanabe\*\***

\* Outside Directors

\*\* Outside Auditors

## Corporate Governance

### Basic Policy Regarding Corporate Governance

KDDI considers strengthening corporate governance to be a vital issue in terms of enhancing corporate value for shareholders, and is working to improve management efficiency and transparency.

With regard to business execution, an executive officer system was introduced in June 2001 to assign authority, clarify responsibilities, and ensure that operations are conducted effectively and efficiently. The Company is also working to systematize internal decision-making flow with a view to ensuring timely management decisions.

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

The Board of Directors, which includes outside directors, makes decisions regarding important matters as prescribed by relevant statutes, and oversees the execution of business by directors and other managers to ensure proper conduct. The agenda items for the Board of Directors, as well as important matters relating to the execution of business, are decided by the Corporate Management Committee, composed of directors and executive officers. The Board of Directors also has the right to appoint and dismiss executive officers.

Auditors attend meetings of the Board of Directors, as well as other important internal meetings. The Board of Directors and the Internal Auditing Department provide, in an appropriate and timely manner, all data necessary to the execution of auditors' duties, exchange opinions, and collaborate with auditors. The Board also periodically listens to reports from the accounting auditors on the annual accounting audit plan and the progress and the result of accounting audits, and makes recommendations and exchanges of opinion as necessary. In addition, in 2006 KDDI established the Auditing Office to assist auditors with their duties. The opinions of the auditors are taken into account when selecting personnel for assignment to the office.

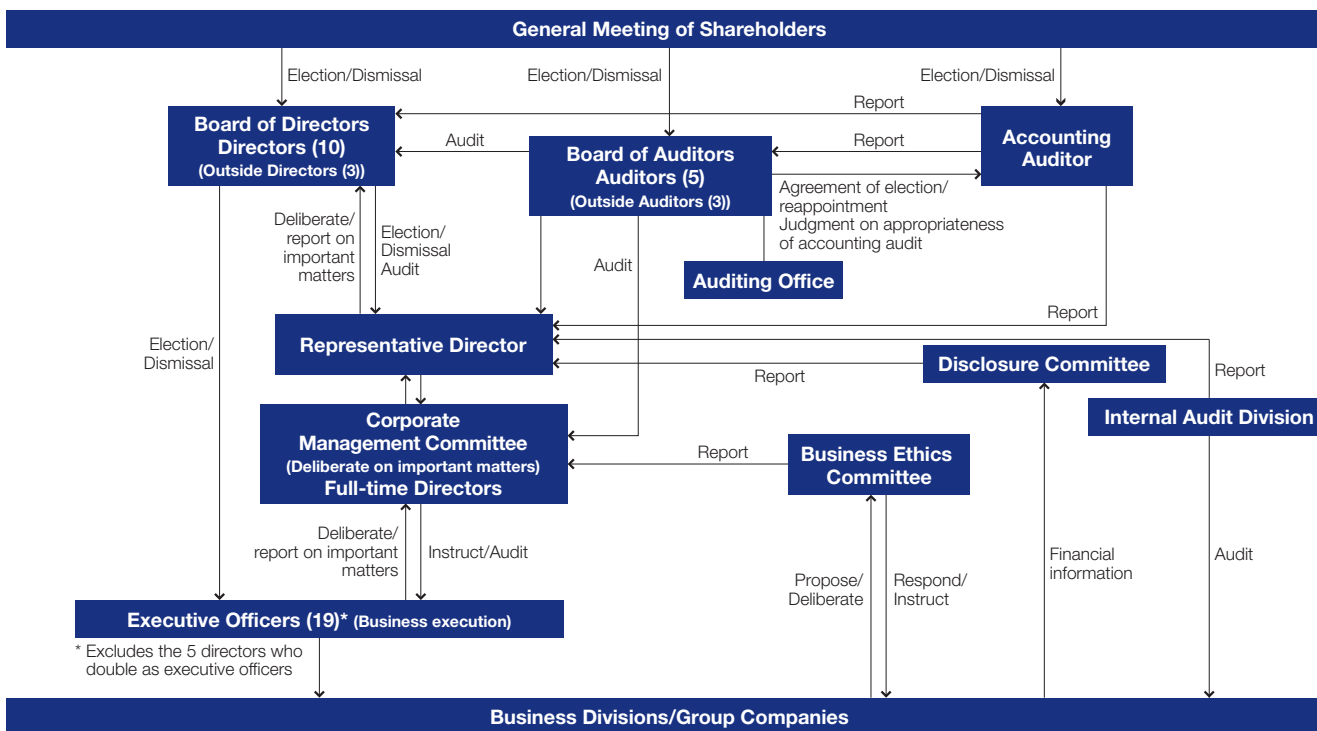
All KDDI Group operations are subject to internal audits to regularly assess the appropriateness and effectiveness of internal controls. The results of internal audits are reported to the president and to auditors, along with recommendations for improvement and correction of problem areas.

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

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

## Corporate Governance

## Corporate Governance Framework



(As of June 18, 2009)

## Remuneration for Directors and Auditors

		No. of Directors/ Auditors	Remuneration (Millions of yen)
Directors	Outside Directors	3	22.5
	Others	8	361.2
Auditors	Outside Auditors	4	35.1
	Others	2	48.1

Notes: 1. The above-listed remuneration for outside auditors includes remuneration for one auditor who stepped down at the end of the 24th Annual Meeting of Shareholders, held on June 19, 2008.

2. The maximum monthly remuneration for directors was set at ¥40 million by a resolution of the 17th Annual Meeting of Shareholders, held on June 26, 2001. This does not include the employee salary for directors concurrently occupying posts as employees. Furthermore, directors may receive up to an additional ¥40 million of annual remuneration in the form of equity warrants issued as stock options, as decided by a resolution of the 22nd Annual Meeting of Shareholders held on June 15, 2006.

3. The maximum monthly remuneration for auditors was set at ¥7 million by a resolution of the 16th Annual Meeting of Shareholders, held on June 28, 2000.

4. Remuneration amounts outlined above included the following board members' bonuses, as determined by a resolution of the 25th Annual Meeting of Shareholders held on June 18, 2009.

11 Directors: ¥80.20 million (3 Outside Directors: ¥7.50 million)

5 Auditors: ¥19.25 million (3 Outside Auditors: ¥9.75 million)

5. Remuneration amounts outlined above included: (1) equity warrants issued to 7 directors as stock options, as determined by a resolution of the Board of Directors' meeting held on July 21, 2006; equity warrants issued to 8 directors as stock options, as determined by a resolution of the Board of Directors' meeting held on July 23, 2007; and (2) equity warrants issued to 8 directors as stock options, as determined by a resolution of the Board of Directors' meeting held on July 22, 2008.

6. In addition to the above, at the 20th Annual Meeting of Shareholders, held on June 24, 2004 it was decided to pay a retirement allowance to directors and auditors in connection with the cancellation of the executive retirement bonus system. As a result of this decision, a total of ¥25.43 million was paid to two directors who retired as of the closing of the 25th Annual Meeting of Shareholders, held on June 18, 2009.

## Major Activities of Outside Directors and Outside Auditors

## Directors

- In his post as director Noboru Nakamura attended 5 of the 8 meetings of the Board of Directors.
- In his post as director Hiroshi Okuda attended 8 of the 8 meetings of the Board of Directors.
- In his post as director Tsunehisa Katsumata attended 6 of the 8 meetings of the Board of Directors.

\* In cases where an outside director is unable to attend a meeting of the Board of Directors, the Company provides the director with a timely report concerning the proceedings of the meeting, and requests the director's opinions and advice related to the management of the Company.

## Auditors

- In his post as auditor Masayuki Yoshinaga attended 7 of the 7 meetings of the Board of Directors held after he took up his position on June 19, 2008, and 7 of the 7 meetings of the Board of Auditors held after June 19, 2008.
- In his post as auditor Yasuo Akashi attended 8 of the 8 meetings of the Board of Directors, and 8 of the 8 meetings of the Board of Auditors.
- In his post as auditor Katsuaki Watanabe attended 7 of the 8 meetings of the Board of Directors, and 7 of the 8 meetings of the Board of Auditors.

\* Outside auditors conduct audits according to auditing policies and plans determined by the Board of Auditors. In meetings of the Board of Auditors, they listen to and discuss reports on the methods and results of audits performed by each auditor. Furthermore, they provide relevant opinions regarding the audits at meetings of the Board of Directors.

## Risk Management

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

### Risk Management Structure

(1) The committee for management strategies rigorously analyzes business risks and prioritizes businesses to achieve sustainable growth for the Group, in addition to formulating appropriate management strategies and plans. To achieve these aims, the committee for performance management meets monthly to monitor business risks and ensure thorough management of performance data.

(2) KDDI treats all stakeholders as customers, and has all managers participate in total customer satisfaction (TCS) activities in order to improve customer satisfaction. The committee for TCS works each month to evaluate and improve TCS activities in order to respond quickly and appropriately to customer needs and complaints.

KDDI also ensures compliance with product safety laws and regulations, and works to provide customers with safe and reliable, high-quality products and services. It provides easy-to-understand information and full instructions to ensure customers select and use these products and services properly.

These Company-wide measures ensure support and trust in all activities of the KDDI Group and improve customer satisfaction, as well as solidify and expand the customer base.

(3) KDDI is in the process of refining its internal control system to enhance the reliability of financial reporting. (See page 61 for details.)

(4) The KDDI Group works to further enhance its public relations and IR activities, ensure the transparency of Group management, and gain the acceptance and trust of all stakeholders. (See page 60 for details.)

Business risks facing the Group are properly clarified and disclosed in a timely and appropriate manner by the committee for disclosure. Issues pertaining to the Group's social responsibilities, including environmental measures, social contributions and other initiatives, are compiled and disclosed in a CSR report prepared mainly by departments concerned with CSR. (See page 62-63 for details.)

(5) For issues that exert a significant, long-term impact on Company business, KDDI is working to formulate a business continuity plan (BCP) containing response strategies that will lessen as much as possible the interruption of business or other risks.

### Structure as a Telecommunications Carrier

(1) Protecting communications privacy

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

(2) Information security

For the management of corporate information assets, including preventing leaks of customer data and protecting against cyber-terrorism in telecommunications service networks, the committee for information security formulates measures, and works together with managers and regular employees to guarantee information security.

(3) Restoration of networks and services following a disaster

KDDI implements measures to improve network reliability and prevents the disruption of service in order to lessen as much as possible such risks as the interruption or termination of communication services due to a serious accident, damage or a major disaster.

In an emergency situation a special task force will be established as quickly as possible in order to rapidly restore service.

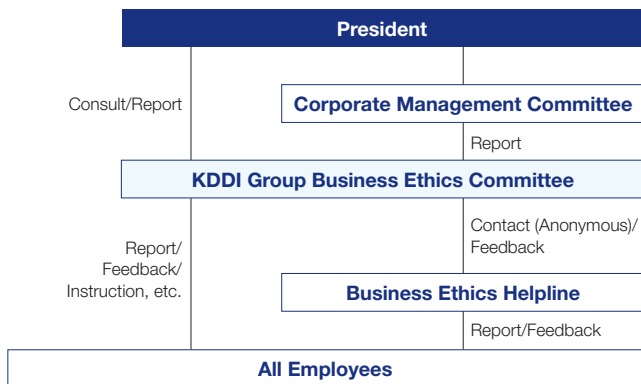
# Corporate Governance

## Approach to Compliance

KDDI is improving and reinforcing its compliance structures, based on its belief that compliance with the law—including strict observance of the privacy of communications established in the Telecommunications Business Law—is fundamental to business operations. In conjunction with these efforts, the Company is working to improve awareness of compliance to ensure that all employees maintain a high sense of ethics at all times and execute their duties appropriately. To this end, KDDI codified its business ethics in January 2003, establishing basic principles for executives and employees to follow in the course of day-to-day business.

### Compliance Promotion System

KDDI has also put in place a KDDI Group Business Ethics Committee to deliberate and make decisions on compliance-related items. The committee formulates policies for educational activities, and, in the event that a violation of compliance occurs, it deals with the situation, discloses information outside of the Company, and deliberates on measures to prevent recurrence. The status of the committee's activities is made available to all employees via the intranet.



### Compliance Education and Training

In addition to the existing management training, compliance training during reassignment training and Company-wide e-learning, KDDI has also conducted compliance training as part of training sessions for new employees since April 2008.

Key Training Accomplishments	
General employee training	Approx. 700 people
Management/line manager training	Approx. 1,300 people
New employee training	Approx. 200 people
e-Learning	Approx. 12,000 people

### Business Ethics Helpline

KDDI established the Business Ethics Helpline to serve as a contact point for all employees with questions or concerns about business ethics and legal compliance. By establishing a contact point in collaboration with external experts, the Company is creating an environment where it is easy for employees to report concerns. The Company has also established internal regulations in response to the enforcement of Japanese legislation designed to protect public informants, and actively conducts educational activities on this topic.

### Enhancing the Compliance Structure of KDDI Group Companies

KDDI has also codified its business ethics for Group companies, and has established company-based Business Ethics Committees and Business Ethics Helplines. The Business Ethics Committees convene semi-annually to ascertain the situation at each company and support the establishment and reinforcement of compliance structures.



**Sadanori Amano**  
 Vice Chairman  
 KDDI Group Business Ethics Committee  
 Chairman

KDDI encourages all employees to always consider what the right thing to do is, both as an individual and as a business person. The guidelines for putting these standards into practice in our corporate activities have been codified in a specific set of principles.

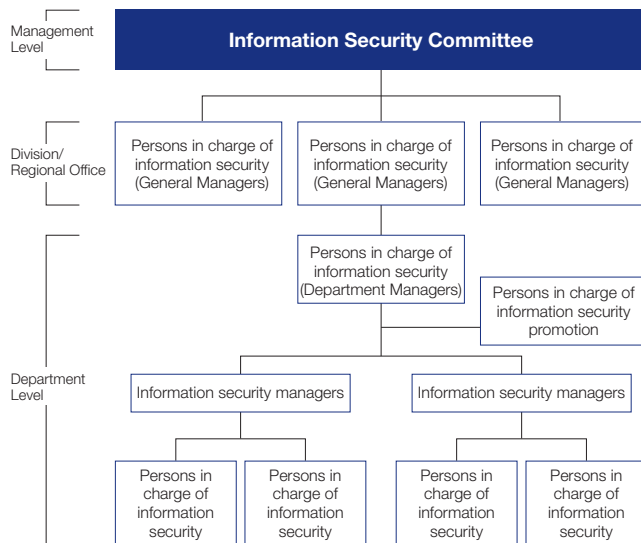
By acting in accordance with high ethical standards and respect for the law, we work to be a company that is deeply trusted and respected by customers and society.

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

## Information Security

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

### Security Management Structure



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

During FY 2009.3 the Company implemented physical countermeasures such as increasing the number of security gates at building entrances and CCTVs, technical countermeasures such as

system renovations and additional tools that help prevent human error, and human countermeasures such as e-learning sessions using actual security violation examples. KDDI also continued efforts from the previous fiscal year to ensure information security for commercial telecommunications equipment from the design and development stage. In addition, to meet the goal of acquiring company-wide Information Security Management System (ISMS\*) certification for enhanced security management, the Company started acquiring certification and continued its effort to add divisions certified, and achieved the goal of Company-wide ISMS certification for all divisions in April 2009.

Moving forward, KDDI plans to actively utilize the company-wide ISMS framework to evaluate the status and effectiveness of various initiatives, substantially improve information security, and bolster the information security of the entire KDDI Group.

### ISMS Certification at KDDI

Registration No.	Organization Name	Initial Registration
IS 76406	Shibuya Data Center	July 4, 2003
IS 85329	Information Systems Division	September 28, 2004
IS 88665	Koto Technical Center	December 13, 2004
IS 95253	KDDI Corporation*1	June 7, 2005
IS 94986	Otemachi Technical Center	July 11, 2005
IS 500630	Network Operations Center	April 18, 2006
IS 506507	Osaka Technical Center	October 27, 2006
IS 507482	Security Operations Center	October 27, 2006
IS 512595	Billing Support Center	March 16, 2007
IS 521724	Service Operations Division	October 22, 2007
IS 537749	FMBC Operations Center	September 30, 2008
IS 544901	KDDI Corporation*2	April 10, 2009

\*1 Corporate, customer support, engineering, technology, and sales divisions and KDDI KYOSAIKAI, KDDI Health Insurance Union, and KDDI Pension Fund.

\*2 Operations Sector Engineering Operations Division, Service Operations Division, and Japan Telecommunication Engineering Service.



**Yoshiharu Shimatani**

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

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

In order to improve information security levels, in April 2009 all internal divisions received ISMS certification. From that base point, we have made ongoing efforts for improvement.

Information security activities are not part of a finite campaign. Going forward, with the Information Security Committee at the core, we will continue to dynamically implement the PDCA cycle for necessary measures in order to further enhance information security at KDDI.



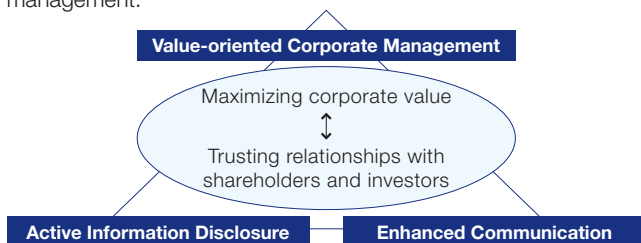
## Corporate Governance

### Disclosure and Investor Relations

KDDI is fully committed to undertaking fair and timely disclosure of any information that could have a material bearing on the investment decisions of investors. Such disclosure is conducted on an ongoing basis and in a comprehensible manner, and is focused on the requirements of shareholders and investors. The Company's policy in this regard is in line with the Financial Instruments and Exchange Law and security listing regulations and related rules. KDDI discloses its IR basic policy on its website, explaining such matters as fundamental thinking regarding IR activities and the system for disclosing pertinent information. With regard to quarterly financial disclosure in particular, KDDI has set up a Disclosure Committee that concentrates on determining what information should be disclosed with the goal of improving business transparency and supplying appropriate information to the public. KDDI takes the opinions expressed by investors seriously, communicating them not only to management, but also to employees in general. Such opinions are considered an extremely valuable reference in the formation of business and management strategies.

#### IR Basic Policy

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



#### IR Activity Guidelines

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

##### Three IR Activity Guidelines

###### ■ Open IR Activities

We value interactive dialogue with our shareholders and investors as well as ensuring accountability to our shareholders and investors through honest and fair information disclosure.

###### ■ Proactive IR Activities

By always incorporating new ideas into our IR activities, we strive to make KDDI known to more people and promote further knowledge of the company.

###### ■ Organized IR Activities

Under the leadership of the management, all our officers and employees, including those of group companies, will engage in organized IR activities to increase our corporate value.

#### Investor Relations Activities during FY 2009.3

##### Open and In-depth Communication



Presentation at a mini-seminar held during an event for individual investors

Earnings presentation meetings were held quarterly to allow management to directly communicate the Company's results. KDDI also held individual and small group meetings with investors from Japan and overseas, and participated in various conferences

and seminars for individual investors sponsored by securities companies for better communication.

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

##### More Investor Relations Tools

KDDI provides webcasts of its results presentations and shareholders' meetings on its website, and posts an English-language version of its results presentations as well. Earnings reports and other types of disclosure documents are made available through the website, with proactive disclosure conducted through email alerts, an IR site for mobile users, and other types of investor relations tools.

KDDI's IR activities were recognized through the receipt, for the sixth consecutive year, of an award from securities analysts for Excellence in Corporate Disclosure, with particular praise given to the proactive attitude of management toward IR activities. KDDI was selected as the leading company in the telecommunications division.



##### IR Contact

Investor Relations Department, Corporate Communications Division  
GARDEN AIR TOWER, 3-10-10, Iidabashi, Chiyoda-ku, Tokyo 102-8460, Japan  
Tel: +81-3-6678-0692  
Fax: +81-3-6678-0305  
Email: kddi-ir@kddi.com

# Internal Controls

## Measures to Improve Overall Corporate Quality

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

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

### Initiatives in Response to the Internal Control Reporting System

In response to the Internal Control Reporting System based on the Financial Instruments and Exchange Law implemented in FY 2009.3, KDDI established the Internal Control Department to manage the Company's efforts, and to ensure reliability in its financial reporting put in place internal control systems at the Company

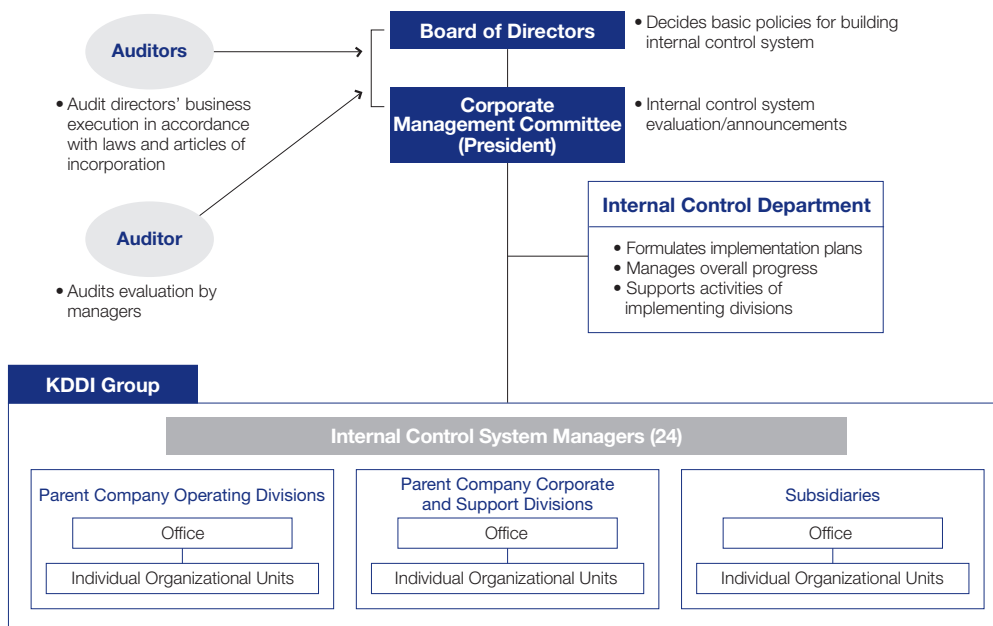
and major group subsidiaries, and conducted evaluations of its internal controls. The results of these evaluations were compiled in an internal controls report, which was submitted to the prime minister in June 2009, as well as disclosed to investors on EDINET and the KDDI website.

### Enhancing Operational Quality to Improve Overall Corporate Quality

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

of operations and the degree of added value. In FY 2010.3 KDDI will appoint 24 officers for internal control within its organization and at major group subsidiaries. Under this system, the entire organization will implement and operate an internal control system, furthering the improvement in overall corporate quality. We will also conduct regular training and e-learning for all employees in order to deepen their understanding of internal control.

#### Internal Control Promotion System Concerning Financial Reporting



# Corporate Social Responsibility

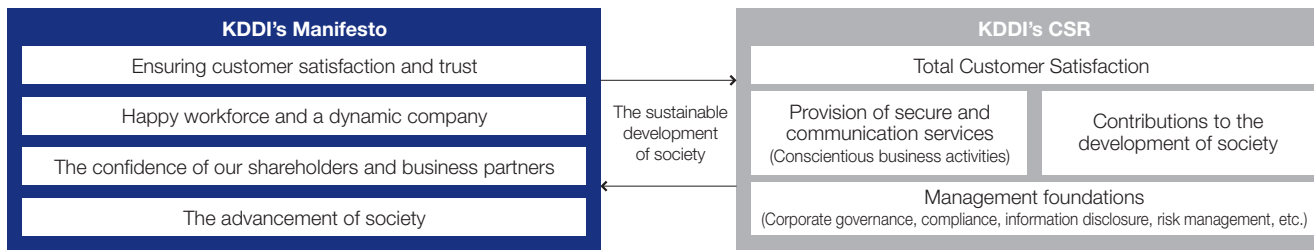
Contributing to Attaining a Secure, Safe and Sustainable Society through Telecommunications

## KDDI's CSR

As a comprehensive telecommunications company and a social infrastructure provider, KDDI believes that its corporate social responsibility (CSR) lies in supporting all aspects of social and economic activity through the provision of telecommunication services.

In its CSR activities, KDDI recognizes the highly public and social nature of telecommunications, and strives to encourage each and every employee to follow KDDI's basic principles in this area.

### KDDI's Manifesto and CSR



## The Foundation of CSR: TCS (Total Customer Satisfaction)

KDDI considers all stakeholders "customers"—not just those who use its services, but suppliers, employees, shareholders, investors, and government institutions, and local communities. In all its processes, KDDI is promoting Total Customer Satisfaction (TCS) activities throughout the Company in its quest for customer satisfaction

(see page 53). TCS initiatives underpin KDDI's business activities and form the foundations for its CSR initiatives, as all employees, from top management to general employees, work to enhance the satisfaction of all its stakeholders.

## CSR Priority Issues

Advancement in information and telecommunications services has enhanced the convenience of everyday life and economic activity, but at the same time has given rise to new social problems connected with information and telecommunications, such as young people with little experience in recognizing potentially harmful

information who have gotten into trouble with mobile phones or the Internet. During FY 2009.3, KDDI selected four priority issues from among all the social issues connected with its business activities, on which it focused its company-wide CSR program.

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

KDDI offers Mobile Phone (Keitai) Learning classes for elementary, junior high and high school students, aimed at preventing trouble involving mobile phones. As of April 2009, more than 1,000 classes had been held. Many KDDI employees are sent to schools throughout Japan to teach the classes, and the experience they gain through teaching helps them to recognize the impact the telecommunications business has on society, and fosters the creation of safe and secure products and services.

KDDI is also taking proactive steps to ensure safe and secure use of the Internet by young people, such as the "EZ Safe Access Service" for au mobile phones, and the newly introduced "au one net Safe Access Service" for Internet connection services.



KDDI employees teach classes on the proper use of mobile phones

## Priority Issue 2: Provide a Stable Information and Telecommunications Service

KDDI recognizes that its primary responsibility is to ensure a stable service for its customers as a provider of the information and telecommunications services which are lifelines for society.

In particular, to fulfill the vital role of communications during an emergency, including confirming the safety of loved ones and aiding rescue operations, KDDI has put in place communications networks and equipment to be used in times of disaster. KDDI has also deployed vehicle-mounted wireless base stations equipped with satellite communication functions, which will allow KDDI to continue to provide service even in the event of a failure.

Should a disaster occur, KDDI will immediately establish a response headquarters administered by the president, which will work with affected areas to determine the extent of damage, and restore information and telecommunications services as quickly as possible.



Disaster response training conducted in January 2009

## Priority Issue 3: Global Environment Conservation

The KDDI Environmental Charter was formulated in March 2003. In January 2007, an environmental management regime was put in place as part of the first Medium-Term Environmental Conservation Plan. In July 2007 we formulated the second Medium-Term Environmental Conservation Plan, with the goals of cutting of greenhouse gas emissions, reducing waste and encouraging recycling, and improving the quality of environmental management. In addition to these company-wide measures, the Company has conducted research on reducing CO<sub>2</sub> emissions in society in the information and telecommunications services it provides, and is studying new measures to adopt based on the results.

### Second Medium-Term Environmental Conservation Plan

(1) Global Warming Countermeasures	Reduce energy consumption by 16% from expected fiscal 2011 levels, and achieve greenhouse gas emissions of 1,520,000 tons (CO <sub>2</sub> equivalent).
(2) Waste Reduction and Recycle Promotion	<ul style="list-style-type: none"> <li>■ Achieve a resource-recycling ratio of at least 99% for mobile phones, retired communication equipment, and the like</li> <li>■ Thoroughly reduce and separate office waste, and achieve a resource-recycling ratio of at least 70%</li> </ul>
(3) Improving the quality of environmental management	<ul style="list-style-type: none"> <li>■ Enhance compliance assessments and internal auditing</li> <li>■ Enhance internal environmental education and awareness-raising activities</li> </ul>

## Priority Issue 4: Become a Vibrant Corporation Through Development of Diverse Human Resources

With Japan facing a falling birthrate and aging population, KDDI is looking to enhance diversity as one of its key strategies for sustainable growth. In April 2008, the Company established the Diversity Program Office in an effort to create an organization and environment that allows every individual to exercise his or her potential fully, regardless of external or internal differences.

In FY 2009.3, KDDI actively recruited employees with disabilities, and to further broaden employment opportunities and fields in April 2008 established KDDI Challenged Corporation, which was certified as a special subsidiary in October 2008.

KDDI also makes a proactive effort to ensure equal opportunity for female employees, hire elderly workers, and promote a healthy work-life balance.



A KDDI Challenged employee disassembles mobile phone handsets for recycling

## Social Contribution Activity

### Employee Social Contribution Activity “+α Project”

The “+α Project” is a social action project run by KDDI for employees to conduct social contribution activities. As of March 2009 approximately 2,800 employees nationwide had registered as project members. Members receive points in exchange for their social contribution activities, which can be converted into cash for donation to the charity of the member's choice. Approximately ¥5 million in points was accumulated during FY 2009.3, which was donated to nine charitable organizations, such as the Japan Association for Refugees.



Charity bazaar held in the company cafeteria

### KDDI's Long History of International Cooperation Activities

KDDI has been involved in international cooperation activities for over half a century, accepting its first overseas trainees in 1957. Today, drawing on our many years of knowledge and technical capabilities in the field of information and telecommunications technology, KDDI has implemented a pilot project to improve telecommunications in developing countries and close the digital divide, dispatching technology experts overseas, and accepting trainees from abroad. The Company has also created the “Kibo no Kakera” page on its homepage, through which visitors click on a charity to have KDDI donate computers, dictionaries, picture books and other materials to schools and orphanages in Cambodia.



Students at the Sanlong KEC School in Sanlong, Cambodia

## Business Risks

This section contains an overview of the principal business-related and other risks facing the KDDI Group that could have a material bearing on the decisions of investors. The section also discloses information on a number of other subjects that, while not explicitly considered business risks at the present time, could also be materially relevant to investment decisions. KDDI discloses information on possible risks in the interests of greater transparency. The company assesses the likelihood of issues arising in connection with the various risk factors. Based on these assessments, it strives to

take all appropriate measures to avoid risk wherever possible and to develop appropriate and timely countermeasures for situations as they arise.

This section contains various forward-looking statements that represent the best judgments of the KDDI Group as of March 31, 2009. Investors should note that future developments are also subject to unknown risks and uncertainties that by their nature cannot be covered by the following discussion.

### 1. Competitors, Rival Technologies and Rapid Market Shifts

#### 2. Communications Security and Protection of Customer Privacy

#### 3. System Failures due to Natural Disasters and Other Unforeseen Events

#### 4. Telecommunications Sector Regulations and Government Policies

### 5. General Legal and Regulatory Risk

#### 6. Litigation and Patents

#### 7. Personnel Retention and Training

#### 8. Retirement Benefits

#### 9. Asset-impairment Accounting

### 10. Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

## 1. Competitors, Rival Technologies and Rapid Market Shifts

### Mobile Business

In the mobile communications market, the major telecom companies have adopted pricing plans separating tariffs from handset prices. Handset sales fell significantly year on year as a result of higher retail prices and the widespread adoption of multi-year service contracts, along with deterioration in the Japanese economy. At the same time, competition to acquire customers has been increasing sharply with the use of low-cost service plans, varied handset styles, and content services such as music and video clips.

The KDDI Group has responded by revising its "Simple Course," the separate tariff/handset price plan, and introducing installment payment for purchasing handsets. The Group also developed a varied lineup of handsets to meet diverse customer needs, launched new content services, and took other steps to expand its services and enhance customer satisfaction. However, these services are subject to various uncertainties arising from competition with rival carriers, competing technologies and rapid shift in market conditions. As a result, the following factors could have a negative impact on the Group's financial position and/or earnings performance.

- Market demand trends out of line with KDDI Group expectations
- Subscription growth trends out of line with KDDI Group expectations
- Fall in ARPU (Average Revenue Per Unit) due to tariff discounts sparked by fierce price competition, or higher sales commission payments and retention costs
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to unforeseen developments
- Decline in attractiveness of handsets or supplied content in comparison with offerings of rival carriers
- Increase in handset procurement costs associated with adoption of more advanced functions, or higher sales commissions
- Drop in customer satisfaction caused by spam or other e-mail abuse, plus related increases in network security costs
- Increase in network costs associated with construction of base stations for the 2GHz band and the new 800MHz band to respond to the new frequencies
- Increase in competition due to new high-speed wireless data technology

- Effects associated with dependence on specific communications protocol, handset or network technologies or software
- Intensifying competition resulting from increasing convergence of fixed-line, mobile and broadcasting, and other changes in the operating environment

### Fixed-line Business

The fixed-line market is currently undergoing rapid change as broadband service becomes more widespread, fixed-line and mobile communications converge, and communications and broadcasting become increasingly interconnected.

The KDDI Group is focusing on increasing the number of fixed-access lines through FTTH sales promotions, while also working to expand corporate clients solutions services and enhance customer satisfaction. However, these services are subject to competition with rival carriers, ADSL providers, cable TV operators and other firms, as well as to rapid shifts in market conditions. As a result, the following factors could have a negative impact on the Group's financial position and/or earnings performance.

- Market demand trends out of line with KDDI Group expectations
- Subscription growth trends out of line with KDDI Group expectations
- Fall in ARPU (Average Revenue Per Unit) due to tariff discounts sparked by fierce price competition, or higher sales commission payments and retention costs
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to unforeseen developments
- Decline in attractiveness of supplied content relative to rival carriers
- Drop in customer satisfaction as a result of spam or other e-mail abuse, plus related increases in network security costs
- Contraction of the fixed-line telephony market due to spread of IP telephony
- Possible increase in NTT access charges
- Intensifying competition resulting from increasing convergence of fixed-line, mobile and broadcasting, and other changes in the operating environment

## 2. Communications Security and Protection of Customer Privacy

KDDI is legally obliged as a licensed Japanese telecommunications carrier to safeguard the security of communications over its network. The Company is also actively engaged in protecting the confidentiality of customer and other personal information. KDDI has established the Corporate Risk Management Division and a committee for privacy and security issues to formulate and implement measures across the entire KDDI Group to prevent internal privacy breaches and other information leaks, as well as unauthorized access from external networks.

The KDDI Group as a whole is pursuing a number of initiatives to improve its compliance-related provisions. In one measure, KDDI reinforced controls and supervision regarding access to information systems that manage personal and customer information. The company also formulated its business ethics and the KDDI Privacy Policy, and established the Business Ethics Committee. In addition, handbooks on customer privacy issues have been distributed to employees. Meanwhile, KDDI is working on a company-wide level to ensure communications security and protection of customer privacy. It has drawn up security-related policies such as forbidding employees from taking internal data out of the office, or from copying data from work PCs to external memory devices. KDDI is both training employees to adhere to these policies and rigorously monitoring their implementation.

Despite all these measures and safeguards, however, KDDI cannot guarantee that breaches of privacy or leakage of confidential customer information will never occur. Any such incident could seriously damage the brand image of the KDDI Group. In addition to a possible loss of customer trust, the Company could also be forced to pay substantial compensation, which could have a negative impact on the financial position and/or earnings performance of the KDDI Group. Going forward, the Company may also face higher costs to develop or upgrade communications security and privacy protection systems.

## Business Risks

### 3. System Failures due to Natural Disasters and Other Unforeseen Events

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

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

### 4. Telecommunications Sector Regulations and Government Policies

The revision or repeal of laws and ordinances governing telecommunications, together with related government policies, has the potential to exert a negative impact on the financial position and/or earnings performance of the KDDI Group. The KDDI Group believes that it is taking all appropriate measures to respond to such laws, ordinances and government policies, including those related to social issues with potentially injurious implications for its brand image and customer trust. However, the financial position and performance of the KDDI Group could be negatively affected if such measures were to prove ineffective in the future.

With regard to the future of the NTT Group in the new era of fiber-optic and IP services, the KDDI Group advocates revisiting the original reasons for deregulating telecommunications—namely, to allow fair market competition to work effectively. The government has conducted a range of study projects and invited public comments regarding rules to govern competition in the Japanese telecoms market. KDDI has used these opportunities to advocate fundamental reform, including abolishment of the NTT Group's holding company structure, complete severance of equity links between the NTT companies and separation of its operations on access networks.

Fulfilling these demands would require revision of laws including the NTT Law (Law on Nippon Telegraph and Telephone Corporation, etc.), so in the meantime KDDI is advocating that rigid inter-company partitions are determined and made compulsory to prevent the NTT companies from sharing personnel, property, funds or information. If market domination by the NTT Group as a whole grows despite these measures, this could have a negative impact on the financial position and performance of the KDDI Group.

The main factors and uncertainties in terms of the revision or repeal of laws and ordinances governing telecommunications and related government policies that could affect the financial position and/or earnings performance of the KDDI Group are summarized and listed below.

#### Mobile Business

- Revisions to the mobile business model
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to the specified telecommunications equipment system (tighter regulation)
- Revisions to systems governing universal service
- New carriers entering the mobile communications market as a MVNO
- Regulations of the mobile Internet due to an increase in harmful websites
- Regulations of mobile phone usage
- Establishment of regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- New research into the effect of radio waves on health

#### Fixed-line Business

- Revisions to the specified telecommunications equipment system (deregulating use of optical fiber and similar equipment)
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to systems governing universal service
- Regulations of the Internet due to an increase in harmful websites
- New regulations regarding access to the next-generation networks of NTT East and NTT West
- New regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole

## 5. General Legal and Regulatory Risk

In each of the countries in which it operates, the KDDI Group takes steps to secure the appropriate business and investment permits and licenses, to establish procedures in conformity with national safety and security laws, and to apply various other government regulations. The Group also seeks to comply fully with commercial, anti-trust, patent, consumer, tax, currency exchange, environmental, labor and financial laws. Were these laws and regulations enhanced, or should the Group and business contractors fail to comply with legislation, it could result in limitations being placed on the future business activities of the KDDI Group and increases in costs.

## 6. Litigation and Patents

Litigation stemming from alleged infringement of intellectual property and other rights associated with KDDI Group products, services and technologies could potentially have a negative impact on financial position and performance.

## 7. Personnel Retention and Training

The KDDI Group invests in company-wide personnel training to ensure that it can respond rapidly to technological developments, although the training process takes time for the desired effects to manifest. Going forward, KDDI faces the risk of a substantial increase in personnel development costs.

## 8. Retirement Benefits

The KDDI Group provides a defined-benefit pension plan (fund type), a retirement allowance plan (internal reserve), and a retirement benefit trust. Some consolidated subsidiaries have a defined contribution pension plan. KDDI regularly reviews its asset management policies and agencies in accordance with future predictions of retirement payment liabilities. However, going forward the KDDI Group could incur extraordinary losses if a fall in yields on managed pension assets leads to a drop in the market value of the pension fund, or in the event of significant revisions to the actuarial assumptions (such as the discount rate, composition of personnel or expected rate of salary increases) on which planned retirement benefit levels are based.

## 9. Asset-impairment Accounting

In FY 2009.3 the KDDI Group posted impairment losses primarily for current 800MHz band and “HIKARI-one Home 100” equipment, etc. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment, depending on the level of its utilization.

## 10. Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

Consolidation within the telecommunications industry in Japan and abroad could exert a negative impact on the financial position and performance of the KDDI Group. Going forward, the KDDI Group may undertake further business restructuring measures at some later date. The Group cannot guarantee that such action would necessarily have a positive impact on its business performance.