Financial Section

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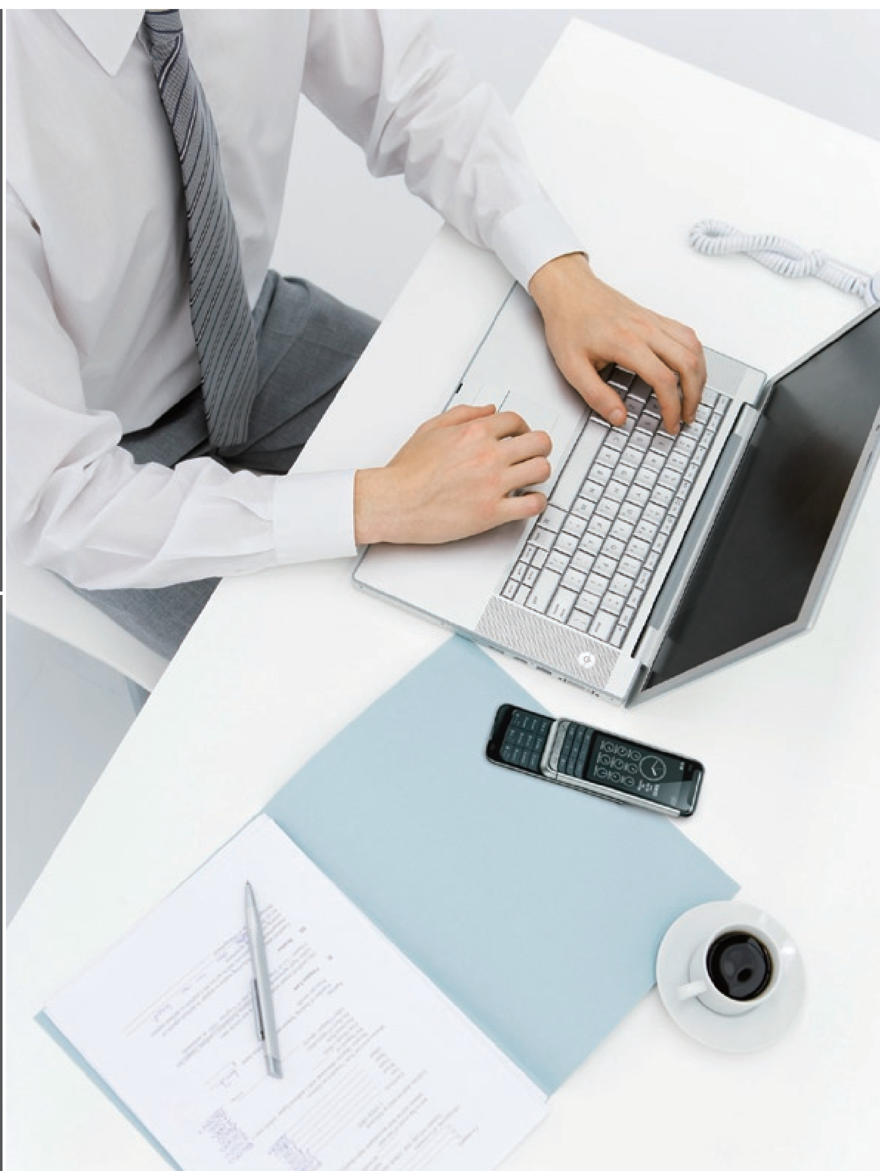


Message from the Executive Vice President

Satoshi Nagao
Executive Vice President
Member of the Board

KDDI prepares proper financial statements and provides appropriate disclosure quarterly and as necessary, in accordance with the Corporate Law, Financial Instruments and Exchange Law and regulations of the Tokyo Stock Exchange (TSE).

To help ensure the greater accuracy of the information disclosed in end-of-period earnings statements, an internal Disclosure Committee meets at the time of each statement to review information, hold discussions, and ensure common understanding. After approval by this committee, earnings statements are approved by the Corporate Management Committee and Board of Directors, and released in accordance with TSE listing regulations relating to marketable securities. In addition, as one element of management supervision, the Company's auditors conduct audits of directors' execution of corporate duties.

(See page 56 for a diagram of the corporate governance structure.)

During FY 2009.3, KDDI took a number of measures to meet the internal control reporting requirements prescribed under the Financial Instruments and Exchange Law effective from 2008. Actions included creating a division charged specifically with internal control, in addition to putting internal control systems in place and evaluating their efficacy at the parent company and major Group subsidiaries. In June 2009, KDDI submitted its internal control report to the Prime Minister.

The KDDI Group was formed in 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION. We later merged with au CORPORATION, three Tu-Ka group companies and POWEREDCOM Inc., as well as integrating the FTTH business of Tokyo Electric Power Company (TEPCO), and incorporated the JCN Group and Chubu Telecommunications Co., Inc. in the scope of consolidation. Amid this amalgamation of a diverse range of business expertise and corporate cultures, the Group creates a climate of constantly rising to new challenges while working to develop and expand its business domain.

Meanwhile, the Group is facing the prospect of further changes in the business climate, increasing internationalization of the accounting standards and the demands posed by operating internal control systems. To respond to such changes, we integrated accounting principles across the Group in a systematic manner in order to increase management transparency and increase the level of sophistication in our accounting. The result is the KDDI Group Accounting Practice (KGAP), established in April 2008. Through the KGAP, we intend to consistently provide our management team and our stakeholders with financial information that is high quality and easy-to-understand.

KDDI is working to improve our consolidated governance. At the same time, we are meeting the expectations of our shareholders and investors by preparing proper financial statements and providing beneficial information in a timely manner to allow our stakeholders to gain an accurate understanding of the status of the Group's business activities. Thank you for your continued understanding and support of KDDI.

Five-year Summary

Years ended March 31

Consolidated	2005	2006	2007	2008	Millions of yen 2009	Millions of U.S. dollars*[1] 2009
Operating revenues	¥ 2,920,039	¥ 3,060,814	¥ 3,335,260	¥ 3,596,284	**¥ 3,497,509**	**$ 35,605**
Telecommunications business	2,300,566	2,398,526	2,592,882	2,749,897	**2,720,675**	**27,697**
Other business	619,473	662,288	742,378	846,387	**776,834**	**7,908**
Operating income	296,176	296,596	344,701	400,452	**443,207**	**4,512**
Net income	200,592	190,569	186,747	217,786	**222,736**	**2,267**
EBITDA	664,255	654,409	691,699	769,209	**904,030**	**9,203**
Operating income margin	10.1%	9.7%	10.3%	11.1%	**12.7%**	**12.7%**
EBITDA margin	22.7%	21.4%	20.7%	21.4%	**25.8%**	**25.8%**
Total assets	2,472,322	2,500,865	2,803,240	2,879,275	**3,429,133**	**34,909**
Interest-bearing debt	864,627	770,692	620,471	571,945	**874,951**	**8,907**
Total net assets (formerly shareholders' equity)*[2]	1,162,192	1,295,531	1,537,114	1,715,731	**1,881,329**	**19,152**
Net cash provided by operating activities	538,676	575,531	738,703	545,234	**712,231**	**7,251**
Net cash used in investing activities	(136,508)	(435,923)	(442,218)	(557,688)	**(775,470)**	**(7,894)**
Free cash flows	402,167	139,608	296,485	(12,454)	**(63,240)**	**(644)**
Net cash used in financing activities	(376,058)	(256,935)	(258,919)	(104,410)	**191,490**	**1,949**
Per share data (yen and U.S. dollars):						
Net income	47,612	45,056	42,505	48,810	**49,973**	**509**
Net income after adjusted the potential stocks	47,571	45,025	42,495	48,807	**—**	**—**
Cash dividends	6,900	8,000	9,500	10,500	**11,000**	**112**
Total net assets (formerly shareholders' equity)	278,170	296,383	339,806	377,278	**413,339**	**4,208**

*[1] U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥98.23=U.S.$1 on March 31, 2009.

*[2] From the FY 2007.3 net assets (the sum of shareholders' equity, new share subscription rights and minority interests) are presented in the balance sheet.

Selected Financial Indicators

	2005	2006	2007	2008	2009
Equity ratio (%)	47.0	51.8	54.1	58.5	**53.7**
D/E ratio (times)	0.74	0.59	0.41	0.34	**0.48**
ROE (%)	18.5	15.5	13.3	13.6	**12.6**
ROA (%)	11.6	11.9	13.0	14.1	**14.1**
Total assets turnover ratio (times)	1.1	1.2	1.3	1.3	**1.1**
Shareholders' equity turnover ratio (times)	2.7	2.5	2.4	2.2	**2.0**
Current ratio (%)	114.0	103.6	88.0	107.4	**122.5**
Fixed assets to equity (%)	153.6	145.4	136.4	132.3	**139.0**
Fixed assets to long-term capital (%)	96.2	99.8	106.2	99.4	**95.5**
Liquidity in-hand (times)	0.9	0.6	0.7	0.3	**0.7**
Interest coverage ratio (times)	24.2	35.2	59.4	52.7	**60.6**
Dividend payout ratio (%)	21.2	20.8	22.4	21.5	**22.0**

Equity ratio = Shareholders' equity (end of fiscal year) ÷ total assets (end of fiscal year)
D/E ratio = Interest-bearing debt (end of fiscal year) ÷ shareholders' equity (end of fiscal year)
ROE = Net income ÷ average shareholders' equity over fiscal year
ROA = Operating income ÷ average total assets over fiscal year
Total assets turnover ratio = Operating revenues ÷ average total assets over fiscal year
Shareholders' equity turnover ratio = Operating revenues ÷ average shareholders' equity over fiscal year
Current ratio = Current assets (end of fiscal year) ÷ current liabilities (end of fiscal year)
Fixed assets to equity = Fixed assets (end of fiscal year) ÷ total shareholders' equity (end of fiscal year)
Fixed assets to long-term capital = Total fixed assets ÷ (total shareholders' equity (end of fiscal year) + non-current liabilities (end of fiscal year))
Liquidity in-hand = Liquidity in-hand (cash + marketable securities among the current assets) ÷ (operating revenues ÷ 12)
Interest coverage ratio = Operating cash flows ÷ Interest payments (method of calculation has changed starting from Annual Report 2009)
Dividend payout ratio = Annual dividend amounts ÷ net income
(The dividend payout ratio is presented on a non-consolidated basis until FY 2006.3, and on a consolidated basis from FY 2007.3.)
Note: Sum of Shareholders' equity, Share warrant and Minority interests

Segment Data

Years ended March 31

Mobile Business	2005	2006	2007	2008	Millions of yen 2009	Millions of U.S. dollars*1 2009
Operating revenues	¥ 2,312,537	¥ 2,510,395	¥ 2,677,445	¥ 2,862,599	**¥ 2,719,211**	**$ 27,682**
Sales outside the group	2,293,525	2,484,202	2,662,550	2,851,679	**2,708,005**	**27,568**
Telecommunications business	1,751,053	1,903,427	2,017,516	2,149,208	**2,100,289**	**21,381**
Other business	542,473	580,775	645,034	702,471	**607,716**	**6,187**
Sales within the group	19,012	26,193	14,895	10,920	**11,206**	**114**
Operating income	292,251	354,439	385,689	455,044	**501,461**	**5,105**
Net income	171,698	145,303	209,458	266,472	**273,120**	**2,780**
Free cash flows	190,636	266,178	294,838	82,414	**179,968**	**1,832**
EBITDA	548,859	605,172	598,134	692,239	**821,881**	**8,367**
Operating income margin	12.6%	14.1%	14.4%	15.9%	**18.4%**	**18.4%**
EBITDA margin	23.7%	24.1%	22.3%	24.2%	**30.2%**	**30.2%**

Fixed-line Business	2005	2006	2007	2008	Millions of yen 2009	Millions of U.S. dollars*1 2009
Operating revenues	¥ 596,041	¥ 619,314	¥ 714,350	¥ 718,646	**¥ 848,712**	**$ 8,640**
Sales outside the group	494,729	518,716	610,364	629,647	**759,313**	**7,730**
Telecommunications business	451,632	470,391	548,675	565,331	**618,972**	**6,301**
Other business	43,096	48,325	61,690	64,316	**140,341**	**1,429**
Sales within the group	101,312	100,598	103,986	88,999	**89,399**	**910**
Operating income (loss)	(310)	(61,309)	(49,036)	(64,668)	**(56,560)**	**(576)**
Net income (loss)	(4,413)	26,362	(23,448)	(51,731)	**(43,072)**	**(438)**
Free cash flows	(3,066)	(102,317)	6,303	(53,897)	**(40,744)**	**(415)**
EBITDA	87,494	41,451	80,890	58,129	**82,301**	**838**
Operating income margin	(0.1)%	(9.9)%	(6.9)%	(9.0)%	**(6.7)%**	**(6.7)%**
EBITDA margin	14.7%	6.7%	11.3%	8.1%	**9.7%**	**9.7%**

Other Business	2005	2006	2007	2008	Millions of yen 2009	Millions of U.S. dollars*1 2009
Operating revenues	¥ 81,381	¥ 103,504	¥ 108,704	¥ 167,159	**¥ 72,777**	**$ 741**
Sales outside the group	46,399	57,896	62,345	114,958	**30,191**	**307**
Sales within the group	34,982	45,607	46,359	52,201	**42,586**	**434**
Operating income (loss)	951	4,381	6,858	9,015	**(2,476)**	**(25)**
Net income (loss)	1,565	34,861	3,571	1,247	**(3,543)**	**(36)**
Operating income margin	1.2%	4.2%	6.3%	5.4%	**(3.4)%**	**(3.4)%**

Management's Discussion and Analysis

The consolidated financial statements of the KDDI Group have been prepared in conformity with accounting standards generally accepted in Japan.

The following pages provide an analysis of the financial condition and business results of the KDDI Group for FY 2009.3. Any forecasts, predictions, projections, outlooks, plans, policies, or comments regarding the future contained in these pages constitute forward-looking statements, and as such represent the best judgment of management as of the end of March 2009 based on information available at that time. Actual results may differ materially due to the risks and uncertainties inherent in such statements.

Analysis of Consolidated Business Results

Executive Summary

(a) Status of the KDDI Group

The KDDI Group, consisting of the parent company, 60 consolidated subsidiaries, and 17 affiliates, is a comprehensive telecommunications company operating both mobile communications services and fixed-line communications services in Japan.

The Group's Mobile Business is provided under the "au" mobile phone service, and at the end of March 2009, it had a 28.7% share of the Japanese market, with 30.84 million subscription and the No. 2 market position.

In FY 2009.3, three categories previously included in the Other Business segment—cable television business, overseas fixed-line business, and related services—were incorporated into the Fixed-line Business segment. In April 2008, Chubu Telecommunications Co., Inc. (CTC) became a consolidated subsidiary and now operates in this segment. In addition to the "Metal-plus" high-quality IP phone service, the Fixed-line Business provides a number of other services. These include "HIKARI-one" offered by KDDI and "Commuf@-hikari" offered by CTC, FTTH (Fiber to the Home) and other broadband Internet services, and cable television services provided by the JAPAN CABLENET (JCN) Group, a consolidated subsidiary. As of March 31, 2009, the number of fixed access lines* for consumers was 5.34 million. For its corporate clients, KDDI offers "KDDI Powered Ethernet," a top-level Ethernet service, and ICT (Information and Communication Technology) solutions including the "TELEHOUSE" network of global data centers.

*Number of access lines: FTTH, direct-access phone (Metal-plus phone and Cable-plus phone) and CATV excluding cross-over

The Group is also involved in the call center business, content business, and other businesses, which are accounted for under the Other Business segment. In addition to improving its services, the Group is strengthening the interaction between its businesses in order to cultivate new services.

(Reference)
Scope of Consolidation

- Consolidated subsidiaries: 60 companies (1 more than the previous fiscal year; 3 companies added, 2 removed)
- Equity-method affiliates: 15 companies (1 more than the previous fiscal year; 1 company added)

KDDI Group (As of March 31, 2009)

Business Segment	Principal Services/Operations	Principal Group Companies
Mobile Business	Mobile phone services, sale of mobile phone handsets, mobile solutions services, etc.	KDDI Corporation, OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Technical & Engineering Service Corporation
Fixed-line Business	Local, long-distance, and international telecommunications services, internet services, solutions services, data center services, cable television services, etc.	KDDI Corporation, KDDI Technical & Engineering Service Corporation, JCN Group, CTC and Others
Other Business	Call center business, content business, research and advanced development, and other mobile phone services	KDDI Evolva inc., mediba corporation and Others

(b) Trends in Telecommunications and the KDDI Group's Response

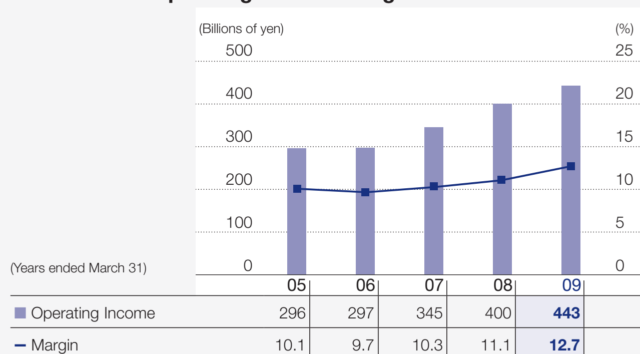
In the mobile communications market, carriers are facing sharp decline in the unit sales of handsets as pricing plans that separate tariffs from handset prices become mainstream. Other factors include rising prices of handsets, proliferation of multiple-year service contracts, and the current economic recession. At the same time, competition to acquire customers is becoming more and more intense due to emergence of low-priced service plans, wide variety of handsets, and various content-based services incorporating music and video. In the fixed-line communications market, in addition to ongoing broadband services, the convergence of fixed and mobile communications and broadcasting is gaining momentum. Competition in services is seeing a new phase in the rapidly changing business environment.

Facing these conditions, the KDDI Group modified its mobile service pricing plan "Simple Course," which separate tariffs from handset prices, with the introduction of installment payment options for handset purchases. Also in the Mobile Business, the Group strove to enhance the services by developing a rich lineup of handsets and offering new content. In the Fixed-line Business, the Group worked aggressively to increase the number of fixed access lines by promoting FTTH services and otherwise, while enhancing solution services for corporate clients.

Operating expenses declined ¥141.5 billion, or 4.4% year on year, to ¥3,054.3 billion. In the Mobile Business, expenses were down due to a decrease in cost of sales of handsets stemming from a fall in unit sales volume, as well as a decline in sales commissions. In the Fixed-line Business, by contrast, operating expenses increased for the same reasons that boosted segment operating income, namely the inclusion of CTC into the scope of consolidation and the incorporation of the JCN Group, overseas fixed-line subsidiaries, and others into the Fixed-line Business.

Accordingly, operating income climbed ¥42.8 billion, or 10.7% year on year, to ¥443.2 billion.

Consolidated Operating Income/Margin

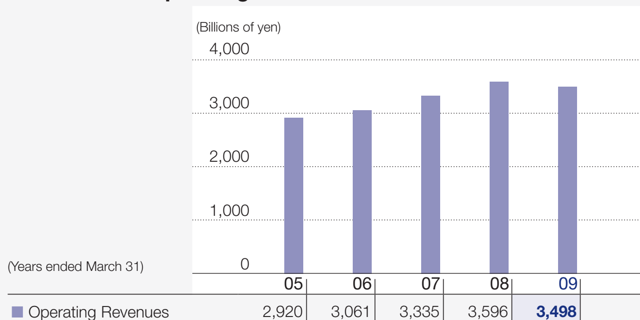


	05	06	07	08	09
Operating Income	296	297	345	400	**443**
Margin	10.1	9.7	10.3	11.1	**12.7**

Overview

In FY 2009.3, total operating revenues amounted to ¥3,497.5 billion, down ¥98.8 billion, or 2.7% year on year. In the Mobile Business, despite an increase in total number of subscriptions, revenue decreased due to the decline in the units sold and revenue of mobile handsets, stemming from the increase in prices of handsets as separate tariff/handset price plans became the mainstream. Other reasons included a fall in telecommunication revenue as KDDI introduced more low-priced service plans and discount options. By contrast, revenues from the Fixed-line Business increased, thanks to the inclusion of CTC into the scope of consolidation and the incorporation of the JCN Group, overseas fixed-line subsidiaries and others into the Fixed-line Business due to segment reclassification.

Consolidated Operating Revenues



	05	06	07	08	09
Operating Revenues	2,920	3,061	3,335	3,596	**3,498**

Despite receiving ¥36.3 billion in dividend income associated with the termination of a silent partnership, other expenses (net of other income) totaled ¥48.3 billion, up ¥27.1 billion year on year. This was mainly due to an increase in interest expense and equity in loss of affiliates. Other reasons included a ¥46.8 billion increase in impairment loss and a ¥5.1 billion rise in loss on valuation of investment securities stemming from turmoil in world financial markets sparked by the subprime loan crisis in the United States.

Income before income taxes and minority interests grew ¥15.7 billion, or 4.1% year on year, to ¥394.9 billion. Current income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥200.9 billion against deferred income taxes of ¥30.6 billion, which together amounted to an increase of ¥12.6 billion year on year.

Minority interests in consolidated subsidiaries declined ¥1.9 billion, to ¥1.8 billion.

As a result, net income rose ¥5.0 billion, or 2.3%, to ¥222.7 billion.

Management’s Discussion and Analysis

Summarized Consolidated Statements of Income

(Billions of yen)

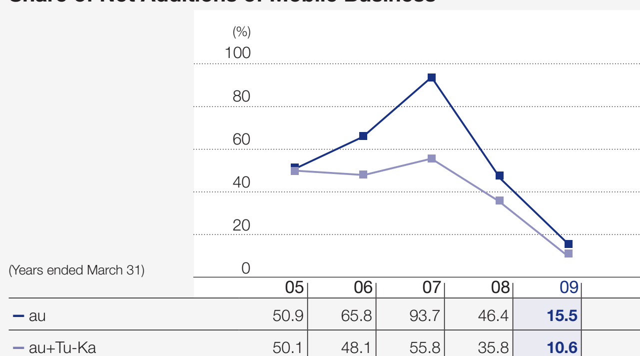
	2008.3	2009.3	Change amount	Change (%)
Operating Revenues	3,596.3	**3,497.5**	(98.8)	(2.7)
Operating Expenses	3,195.8	**3,054.3**	(141.5)	(4.4)
Operating Income	400.5	**443.2**	42.8	10.7
Other Expenses	21.2	**48.3**	27.1	127.5
Income before Income Taxes and Minority Interests	379.2	**394.9**	15.7	4.1
Current Income Taxes	143.2	**200.9**	57.7	40.3
Deferred Income Taxes	14.5	**(30.6)**	(45.1)	—
Minority Interests in Consolidated Subsidiaries	3.7	**1.8**	(1.9)	(51.4)
Net Income	217.8	**222.7**	5.0	2.3

Review by Segment

(a) Mobile Business

In the Mobile Business, the Group strove to comprehensively improve the appeal of its “au” brand offerings—including network, handsets, pricing plans, and content.

Share of Net Additions of Mobile Business



	05	06	07	08	09
au	50.9	65.8	93.7	46.4	**15.5**
au+Tu-Ka	50.1	48.1	55.8	35.8	**10.6**

Network

KDDI has differentiated itself from other carriers with the CDMA2000 1x EV-DO (“EV-DO”) format currently used for its WIN services. Progress in establishing and expanding coverage for EV-DO Rev. A, an upgraded version of EV-DO, has enabled us to cover virtually all major regions of all 47 prefectures in Japan as of the end of March, 2009. EV-DO Rev. A downlink speed has been improved to a maximum of 3.1Mbps, and uplink speed to a maximum of 1.8Mbps. The deployment of EV-DO Rev. A has allowed KDDI to further differentiate itself in terms of infrastructure, the source of product competitiveness. As part of its efforts to respond to current growth trends in data communications traffic, while also ensuring efficient capital investment, KDDI has decided to introduce a 3.9G system based on the LTE technology, with a view to providing service from 2012. Furthermore, to respond to subscriber needs for high-speed data communications until the introduction of the LTE-based service, the Company plans to upgrade the software behind its EV-DO Rev. A infrastructure in the latter half of FY 2011.3, introducing Multicarrier Rev. A to bring downlink speed to up to 9.3Mbps.

Handsets

To support the diverse lifestyles of its customers, KDDI expanded its lineup of handsets with 36 models (including models for corporate clients) launched during FY 2009.3.

- The “Walkman® Phone*1,” offering excellent sound quality
- Models offering beautiful image quality on a large display, such as the “Cyber-shot™*1 phone,” “EXILIM-Keitai*2,” “Wooo-Keitai*3,” and “AQUOS-Keitai*4”
- “Sportio” and other models in the “au Smart Sports” series
- “URBANO” handset for adults seeking both sophistication and usability
- “Full-Change” models allowing both exterior and interior, menu inside, to be entirely customized, and models with various designs, including collaborative models
- “Simple Phone” for elderly people and “Security Junior Phone” for children

Seeking to further reduce handset procurement costs and shorten product development lead time, KDDI has established the KDDI Integrated Platform (KCP+), a shared software platform with an expanded scope of standardization. Since then, the Company has been making improvements in terms of operability and function, and in FY 2009.3 launched 21 new handsets equipped with KCP+. As a result, the platform has been effective in terms of lower handset costs and shorter development lead time, in addition to delivering additional features and higher functionality.

*1 Walkman and Cyber-shot are registered trademarks or trademarks of Sony Corporation.
*2 EXILIM is a registered trademark of Casio Computer Co., Ltd.
*3 Wooo is a registered trademark of Hitachi, Ltd.
*4 AQUOS is a registered trademark of Sharp Corporation.

Price Plans

• Expansion of "Simple Course" price plans

In June 2008, KDDI added a new plan to the "au Purchase Program/ Simple Course" introduced in November 2007, allowing subscribers to purchase handsets through installment payments. With the "Plan SS Simple," which offers the lowest basic monthly rate, subscribers using the "Everybody Discount" pay a monthly basic rate of just ¥980 (tax inclusive) and receive up to ¥1,050 (tax inclusive) equivalent free calls, a significant saving. In FY 2009.3, 59% of subscribers under the "au Purchase Program" chose the "Full Support course," while 41% elected the "Simple course." Since the introduction of the installment plan, the ratio of subscribers selecting the "Simple course" has continued to rise, reaching 75% in the fourth quarter of FY 2009.3.

Service/Content

In November 2008, KDDI launched the "au BOX" rental service, which enables customers without PCs to enjoy music and video via broadband Internet connection for a monthly rental fee of only ¥315 (tax inclusive). "au BOX" can be used to play the music and video downloaded via "mora for LISMO" and "LISMO Video Store," as well as "EZ Chaku-Uta Full®" music downloaded to mobile handsets. It can also be used for CDs and DVD playback.

In December 2008, KDDI also began offering the "EZ Chaku-Uta Full Plus™" service, which offers a high AAC320Kbps bit-rate in response to music listeners looking for even higher sound quality.

In November 2008, we complemented the "au Smart Sports" lineup with the introduction of the "Karada (body) Manager" health-care service for users pursuing health, fitness, and beauty ideals. We also implemented the KDDI "au Smart Sports Yakushima Walk" campaign and "Green Road Project"—two environmental protection initiatives encouraging public participation. In these ways, we sought to help people enjoy richer sporting lives. As of April 2009, total "au Smart Sports" subscribers exceeded one million.

*mora is a registered trademark of Label Gate Co., Ltd.
*Chaku-Uta Full and Chaku-Uta Full Plus are registered trademarks or trademarks of Sony Music Entertainment.

Corporate Services

KDDI is proactively working to target corporate business, a market that continues to grow. For large enterprise clients, KDDI offers mobile solutions that enable clients to improve and enhance their operations through use of mobile phones. To address growing demand for mobile services among small and medium-sized enterprises, the Company reformed its sales organization and is promoting products and marketing strategies for that market.

Major New Services for Corporate Clients

• "Destination au Mobile Discount" service upgraded (January 2009)

In January 2009, KDDI increased the discount offered by the "Destination au Mobile Discount*" service, launched in February 2008, from 15% to 50% and made this service more attractive for customers using KDDI for all their fixed-line and mobile services.

*Discount service for calls made to "au" mobile phones from KDDI Metal Plus (business-use) and NTT-subscribed phones under the same company name (0077 prefix calls made to "au" phones from NTT-subscribed phones registered with KDDI's "Marutoku-light plus" service)

• "KDDI Business Call Direct*" launched (April 2009)

In April 2009, the Company also rolled out its "KDDI Business Call Direct" plan, a true FMC service that enables users in the same company to place calls between "au" mobile phones and KDDI phones they have registered in their group at a flat fee for domestic calls using internal extension numbers. By this service, KDDI has addressed two common demands of corporate clients: the desire to incorporate mobile handsets as part of their in-house telephone systems, and the need to reduce usage costs, including of calls between mobile and fixed-line phones.

*KDDI Phones: "KDDI Metal-Plus" (for business), "KDDI Hikari Direct," "KDDI Hikari Direct over Powered Ethernet," and "KDDI-IP Phone." It is not available to "My Line" and "My Line Plus" subscribers, as well as calls from "KDDI Metal-Plus (for business)" and KDDI phones with fixed-rate plans. Customers can enter separate fixed-rate service by subscribing "Business Call Flat Rate" for calls between KDDI phones.

• MCPC Awards received

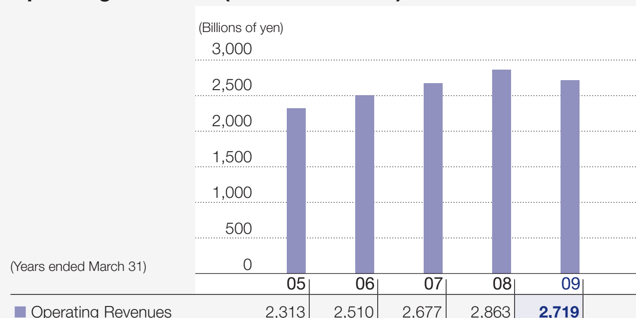
In 2009, Kyushu Electric Power Co., Ltd. received three prizes at the annual MCPC (Mobile Computing Promotion Consortium) Awards for its "Haiden Mobile Ke-tai System": the Grand Prix Award, Minister of Internal Affairs and Communications Award, and the Mobile Technology Award. This marks the fourth consecutive year that a corporate customer using "au" services has received a Grand Prix Award for mobile solutions.

*MCPC Awards 2009 are open to corporations, groups, and local government entities that have achieved remarkable success by introducing mobile computing to build advanced systems.

Operating Revenues

In FY 2009.3, total operating revenues in the Mobile Business amounted to ¥2,719.2 billion, down ¥143.4 billion, or 5.0% year on year. The main factors are outlined below.

Operating Revenues (Mobile Business)



	05	06	07	08	09
Operating Revenues	2,313	2,510	2,677	2,863	**2,719**

Management's Discussion and Analysis

(Reference) Total Subscriptions*

('000 subs)

	2008.3	2009.3	Net Additions**
au	30,105	**30,843**	738
of module-type	814	**923**	109
CDMA 1X WIN	19,695	**22,722**	3,027
CDMA 1X	9,993	**7,805**	(2,188)
cdmaOne	417	**316**	(101)
Tu-Ka (PDC)	234	**—**	(234)
Total	30,339	**30,843**	504

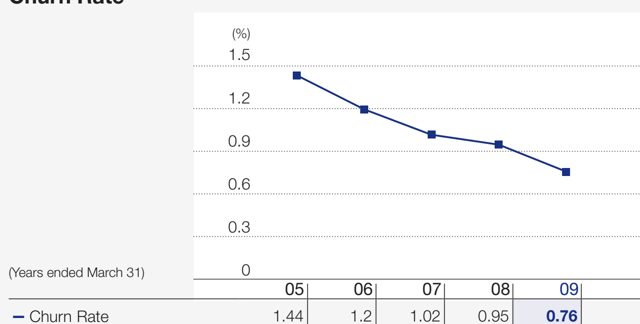
*Subscribers is as of March 31 of each year
**Net Additions=New Subscriptions-Churn

Increased Subscriptions and Lower Churn Rate

Cumulative subscriptions at the end of March 2009 were 30.84 million, giving KDDI a 28.7% share of the market. Although this represents a year-on-year increase of around 500,000, there was a net decline in subscriptions due to a number of factors. These included a contraction trend in the market for new customers stemming from a decline in market liquidity, which was impacted by the introduction of separate tariff/handset pricing plans. Another factor was a 230,000 net decrease in subscriptions caused by the termination of the "Tu-Ka" service. Accordingly, there was a net year-on-year decline of 1.64 million.

The churn rate for FY 2009.3 was 0.76%, down 0.19 percentage point year on year. This was due to the proliferation of "Everybody Discount" services, which provides a uniform 50% discount on basic monthly rates from the date of subscription, conditional on a two-year contract.

Churn Rate



Decline in ARPU (Average Revenue Per Unit)

ARPU for voice services for FY 2009.3 was ¥3,590, down 13.1% year on year. This was due to proliferation of various discount plans, such as "Everybody Discount" and "Family Discount," as well as an increase in customers choosing "Simple Course" when purchasing mobile handsets. ARPU for data services increased 3.8%, to ¥2,210, despite a rise in flat-rate service contracts, such as the "Double-Teigaku" plan. (However, the rate of increase in data ARPU was down year on year.) As a result, overall ARPU declined 7.3%, to ¥5,800.

Decline in Revenue from Handset Sales

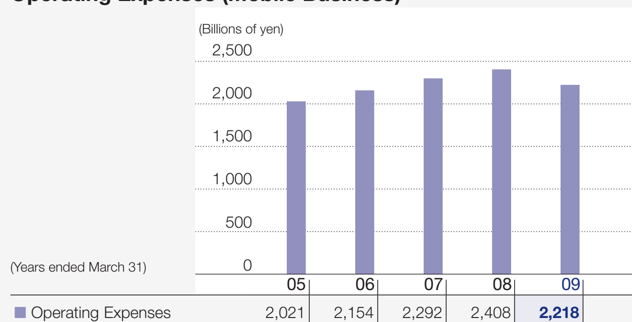
Unit sales of handsets for all mobile phone carriers declined significantly, due to an increase in handset prices as more and more customers opted for pricing plans separating the tariffs from handset prices. KDDI experienced a 32% drop in unit sales of handsets for FY 2009.3, causing a decline in revenue from handset sales.

Although the increase in subscriptions and improvement in churn rate had a positive effect on revenue, overall revenue in the Mobile Business was down due to declines in ARPU and revenue for handset sales.

Operating Expenses

Operating expenses in the Mobile Business for FY 2009.3 declined ¥189.8 billion, or 7.9% year on year, to ¥2,217.8 billion. The major factors are outlined below.

Operating Expenses (Mobile Business)



au ARPU*

(Yen)

	2008.3	2009.3	Change
Total ARPU	6,260	**5,800**	(460)
of Voice	4,130	**3,590**	(540)
of Data	2,130	**2,210**	80

*ARPU is average of each year.

WIN ARPU*

(Yen)

	2008.3	2009.3	Change
Total ARPU	7,790	**6,950**	(840)
of Voice	4,590	**3,930**	(660)
of Data	3,200	**3,020**	(180)

Cost of Sales for Mobile Handsets

Reflecting the decline in revenue from handset sales, the cost of sales for mobile handsets fell significantly, due to a major decrease in unit sales of handsets. The average procurement cost per handset increased ¥3,000, to ¥41,000, due to the release of models with added functions and higher performance, as well as an increase in costs associated with a decline in orders made to handset makers. This was despite an increase in models equipped with KCP+, which placed downward pressure on costs.

Decline in Total Value of Commissions

KDDI provides direct support to retailers when contracts are formed with customers. Such payments declined significantly in FY 2009.3, due to a major fall in unit sales of mobile handsets. Total commissions from mobile handset sales in FY 2009.3 declined ¥161.0 billion, to ¥425.0 billion, and average commission per unit rose ¥2,000, to ¥39,000. In addition, KDDI has increased its wholesale prices in line with its reassessment of handset wholesale prices, implemented when the “au Purchase Program” was introduced in November 2007. To coincide with the reassessment, KDDI took measures to ease the impact of sudden changes on retailers and customers, and that resulted in the increase of the average commission per unit. In addition, the increasing ratio of customers selecting “Simple Course” has caused average commission per unit to decline. However, due to handset inventory adjustments accompanying the huge contraction of the handset sales market, as well as the increased share of high-performance models, average handset procurement costs have increased, a factor causing average commission also to rise.

Depreciation

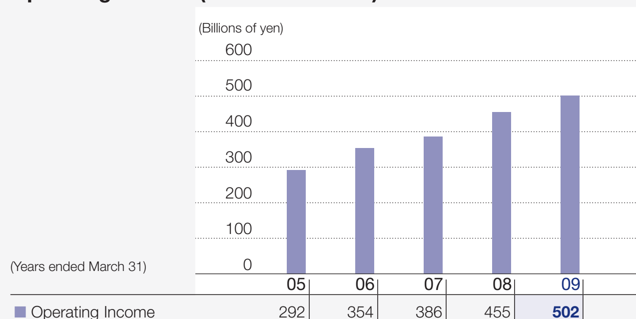
In addition to the development of the 2GHz band network, in line with the increased subscriptions and improved transmission quality and the expansion of the EV-DO Rev. A coverage area, KDDI has started full-scale preparation of the new 800MHz band allocated to it in anticipation of the reorganization of the 800MHz band. To expedite these initiatives, KDDI has been installing new equipment and upgrading facilities, including wireless base stations and exchange equipment. In addition, KDDI shifted from the straight-line method to the decline-balance method for depreciating machinery and equipment from FY 2009.3 in consideration for an amendment of the Corporate Taxation Law during FY 2009.3 in which the estimated useful lives of machinery and equipment was extended from six to nine years*. Moreover, the depreciation method for machinery and equipment for current 800MHz band, to be discontinued after July 2012, was changed to the decline-balance method in four years. Consequently, total depreciation in this segment increased ¥77.3 billion year on year.

Note: Refer to “Significant Accounting Policies and Estimates” for the useful lives and depreciation method for fixed assets (P.85)

Operating Income

Operating income in the Mobile Business increased ¥46.4 billion, or 10.2%, to ¥501.5 billion, providing a solid boost to consolidated overall Group operating income.

Operating Income (Mobile Business)



(b) Fixed-line Business

Amid the rapid development of IP-based and broadband services, KDDI sought to increase access lines and broaden its customer base in the Fixed-line Business by promoting a variety of offerings, including FTTH services and the “Metal-plus” high-quality IP telephony service, which generates steady monthly revenue. The Company also worked to expand sales from its solution-based services for corporate customers. Specific initiatives included efforts to increase sales from FTTH services and Ethernet services for corporate clients in the Chubu area, by consolidating CTC in April 2008. In addition to CTC, the operations of JCN Group and overseas fixed-line subsidiaries, previously included in the Other Business segment, were reclassified to the Fixed-line Business segment in FY 2009.3.

Increase in Access Lines

- At March 31, 2009, there were 1,099,000 subscriptions to the Group’s FTTH services—the “HIKARI-one” service of KDDI and “Commuf@-hikari” offered by CTC.
- “Metal-plus” subscriptions as of the end of FY 2009.3 totaled 3,130,000.
- The Company steadily increased the number of allied CATV stations for the “Cable-plus phone” telephony service, which uses the networks of cable television companies and KDDI’s CDN*. At the end of March 2009, alliances had been concluded with 70 CATV stations, with 604,000 subscribers.

*Content Delivery Network (CDN): A distribution network using IP technology and large-capacity circuits, ideal for voice and video transmission.

- Japan Cablenet Ltd. (JCN), a consolidated subsidiary in the CATV business operating 15 cable television stations, has increased its subscriptions* to 722,000 at fiscal year-end.

*Households using either of three services: Broadcast, Internet, or telephony.

Management's Discussion and Analysis

(Reference) Total Subscribers*

('000 subs)

	2008.3	2009.3	Net Additions**
FTTH	710	**1,099**	389
Metal-plus	3,279	**3,130**	(149)
Cable-plus phone	286	**604**	318
CATV	667	**722**	55
Fixed Access Lines	4,827	**5,342**	515

*Subscribers is as of March 31 of each year
**Net Additions=New Subscribers-Churn

FTTH Services

• "Giga Value Plan" Unveiled

In October 2008, KDDI rolled out its "Giga Value Plan" for "HIKARI-one Home." Conditional on a two-year contract, the "Giga Value Plan" is the least expensive plan in the industry, with a basic monthly rate of ¥5,985 yen (tax inclusive) per month for both Internet and phone services. It also delivers ultrafast uplink and downlink speeds as high as 1Gbps (best effort basis). At the same time, the area covered by the new service was expanded in Hokkaido (to include Sapporo, Kitahiroshima, Ebetsu, and part of Ishikari).

Charges

• "au Collective Talk" Unveiled

In August 2008, KDDI launched "au Collective Talk," a full FMC service for KDDI's "Collective Billing" customers. The new service completely eliminates domestic call charges between "au Home Phone" lines and from "au Home Phone" to "au" mobile phones. It also eliminates call charges for the "au → My Home Discount" subscriber for domestic calls made from "au" mobile phones to KDDI fixed-line home phones.

*"au Collective Talk" is applicable to "HIKARI-one phone," "Metal-plus phone," "ADSL one phone," "Cable-plus phone," and '"Phone number "050" service" and "Commuf@-hikari phone."

In March 2009, the applicability of this service was extended to cover the "Commuf@-hikari phone" service provided by CTC. This eliminates call charges between "Commuf@-hikari phone" and KDDI fixed-line home phones and "au" mobile phones, as well as calls made from "au" mobile phones to "Commuf@-hikari phone" within Japan.

Corporate Services

• Russia-Japan Cable Network (RJCN) Starts Operation

September 2008 saw the operational launch of RJCN, a joint project between KDDI and Rostelecom, the largest long-distance network carrier in Russia. RJCN is a 640Gbps optical submarine cable network connecting Japan and Russia. With a dual-route (north and south) cable structure, RJCN has high reliability backed by the self-healing system that automatically restores the service by switching the traffic from the route with failure to another. Japan is now connected to Europe via the shortest possible route using Rostelecom's optical fiber network, which extends across Russia. This reduced the round trip delay by around 30–50%*, making for a top-quality and highly reliable service.

*Comparison with other route within KDDI's backbone network.

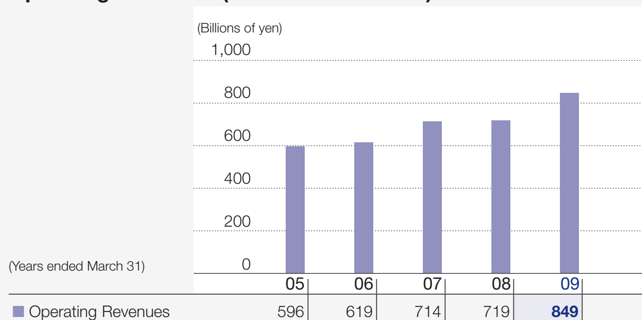
• Data Centers Expanded

In October 2008, KDDI globally integrated its data center brand to "TELEHOUSE," which includes facilities in Japan and overseas. "TELEHOUSE" has been undertaking operations in the U.S. and Europe since 1989, and has been receiving high praise internationally for its quality and reliability. Together with the global integration of the brand, KDDI standardized its specifications and offers high-spec and reliable data center services in any region. In September 2009, KDDI will open TELEHOUSE NAGOYA Sakae, its second data center in Nagoya. Overseas, TELEHOUSE PARIS Magny, KDDI's third data center in France, and its largest in the country, began services in March 2009. In April 2009, the Company's data center in Seoul, South Korea, was renamed TELEHOUSE SEOUL. Consequently, KDDI's high-quality data centers now operate according to consistent TELEHOUSE guidelines.

Operating Revenues

Operating revenues in the Fixed-line Business grew ¥130.1 billion, or 18.1%, to ¥848.7 billion. The main reasons are outlined below.

Operating Revenues (Fixed-line Business)



	05	06	07	08	09
Operating Revenues	596	619	714	719	**849**

• Impact of consolidation of CTC

In April 2008, CTC was transformed into a consolidated subsidiary of KDDI, with the aim of strengthening the Group's services for corporate customers and reinforcing its FTTH services for consumers in Japan's Chubu area. The new consolidation added strength to the Group's customer and business bases and boosted revenues in this segment.

• Effect of business reclassification

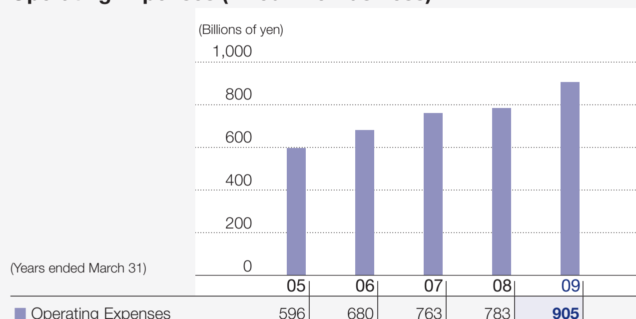
Seeking to better clarify the strategies and scope of its Fixed-line Business, the KDDI Group undertook a segment reclassification in FY 2009.3. As a result, four businesses previously included in Other Business—cable television business, other fixed-line services, overseas fixed-line business, and related services—were shifted to the Fixed-line Business, providing a boost to segment revenues.

If the reclassification were applied to the previous fiscal year, segment operating revenues would have totaled ¥799.0 billion.

Operating Expenses

Total operating expenses in the Fixed-line Business rose ¥122.0 billion, or 15.6%, to ¥905.3 billion. The primary reasons for this increase are summarized below.

Operating Expenses (Fixed-line Business)



	05	06	07	08	09
Operating Expenses	596	680	763	783	**905**

• Impact of consolidation of CTC

The consolidation of CTC led to increases in various expenses, as it did to segment revenues.

• Effect of business reclassification

The rise in the number of companies operating in the Fixed-line Business led to increases in various expenses, such as personnel expenses and depreciation, as it did to segment revenues.

Accordingly, although the rise in companies operating in the Fixed-line Business led to increased expenses for the Group on a consolidated basis, some non-consolidated expenses declined as described below.

• Depreciation

Under a revision to the Corporate Taxation Law, in FY 2009.3 the estimated useful lives of machinery and equipment were changed from six years to nine years. KDDI reviewed the depreciation method accordingly* and this led to a decline in depreciation costs.

*Refer to "Significant Accounting Policies and Estimates" for the useful lives and depreciation method for fixed assets (P.85).

• Sales Commissions

Although the number of new FTTH subscriptions is increasing in the sales expansion period, KDDI is working to restrain average sales commissions through reassessment of its sales channels, including au shops. With respect to "Metal-plus," this service is now profitable and the Company has entered the subscriber retention phase. Accordingly, the number of new contracts declined, leading to a slight year-on-year decrease in sales commissions for this service.

If the reclassification were applied to the previous fiscal year, operating expenses of the Fixed-line Business would have totaled ¥857.0 billion.

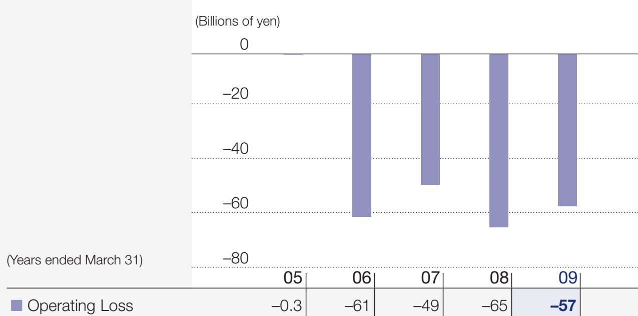
Management's Discussion and Analysis

Operating Income (Loss)

For the Fixed-line Business segment, KDDI posted an operating loss of ¥56.6 billion, impacted by expansion of FTTH sales. The effect of the business reclassification, together with efforts to reduce sales commissions and other expenses, helped reduce the operating loss by ¥8.1 billion.

If the reclassification were applied to the previous fiscal year, the segment operating loss would have been ¥58.0 billion.

Operating Loss (Fixed-line Business)



(c) Other Business

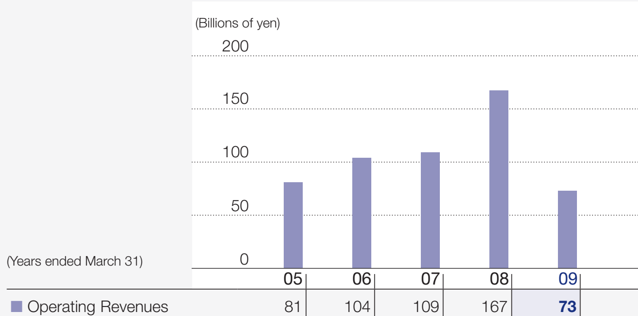
In Other Business, the KDDI Group strove to raise its overall competitiveness by strengthening its presence in fields expected to grow in the future.

During the year, KDDI undertook a reclassification of its business segments, shifting three businesses previously including in the Other Business segment—cable television business, overseas fixed-line business, and related services—to the Fixed-line Business segment.

Operating Revenues

Operating revenues in the Other Business segment fell ¥94.4 billion, or 56.5%, to ¥72.8 billion.

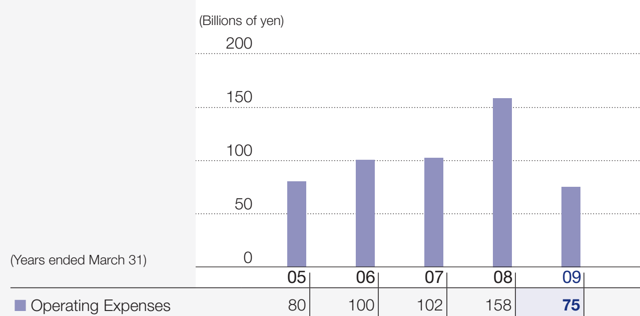
Operating Revenues (Other Business)



Operating Expenses

Operating expenses in this segment declined ¥82.9 billion, or 52.4%, to ¥75.3 billion.

Operating Expenses (Other Business)

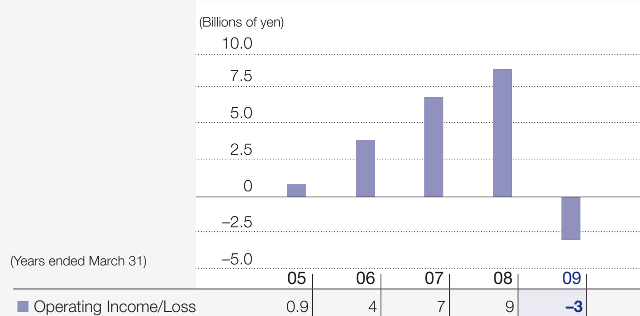


Operating Income (Loss)

This segment reported an operating loss of ¥2.5 billion, ¥11.5 billion worse than the gain reported in the previous year.

The decline in the performance of the Other Business segment stemmed primarily from the aforementioned business reclassification. If the reclassification were applied to the previous fiscal year, segment operating revenues would have been ¥66.1 billion, operating expenses would have been ¥63.6 billion, and operating income would have been ¥2.5 billion.

Operating Income/Loss (Other Business)



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

Other Income/Expenses

Total other expenses (net of other income) amounted to ¥48.3 billion, an increase of ¥27.1 billion year on year. Main reasons are described below.

Interest Expense

At March 31, 2009, consolidated interest-bearing debt totaled ¥875.0 billion, up ¥303.0 billion year on year. As a result, interest expense increased ¥2.0 billion, to ¥12.0 billion.

Equity in Gain (Loss) of Affiliates

Equity in loss of affiliates totaled ¥2.2 billion, ¥4.4 billion worse than the gain recorded in the previous fiscal year. This was mainly due to expenses created by the commencement of services by UQ Communications Inc. and Jibun Bank Corporation in FY 2009.3.

(Reference)

• UQ Communications Inc.

UQ Communications was established with equity investments from KDDI Corporation, Intel Capital Corp., East Japan Railway Company, Kyocera Corporation, Daiwa Securities Group Inc., and The Bank of Tokyo-Mitsubishi UFJ, Ltd. The aim of its establishment was to obtain a license to develop and operate 2.5GHz Broadband Wireless Access System (BWA) base stations using mobile WiMAX technology. In July 2008, UQ Communications was registered as a telecommunications carrier under the Japanese Telecommunications Business Law. In February 2009, it launched the UQ WiMAX service in Tokyo's 23 main wards, as well as Yokohama and parts of Kawasaki.

• Jibun Bank Corporation

Jibun Bank was established with equity investments from KDDI Corporation and The Bank of Tokyo-Mitsubishi UFJ, Ltd., and commenced services in July 2008. As of April 2009, the number of customer accounts with Jibun Bank had reached 500,000.

Dividend on Conclusion of Silent Partnership Agreement

In October 2008, KDDI acquired real estate trust beneficiary rights from Central Tower Estate Co., a special purpose company (SPC). The trust beneficiary rights were set and transferred through the securitization of real estate conducted in September 2001. In connection with this acquisition, in December 2008 KDDI ended its agreement with a silent partner that operated the aforementioned SPC. With the liquidation of the agreement, KDDI received a dividend of ¥36.3 billion, which was treated as Other Income.

Impairment Loss and Loss on Disposal of Property, Plant, and Equipment

In FY 2009.3, KDDI posted an impairment loss of ¥68.0 billion, up ¥46.8 billion year on year. It also reported a ¥9.1 billion loss on disposal of property, plant, and equipment, up ¥1.6 billion year on year.

(FY 2009.3)

• ¥68.0 billion impairment loss

(Impairment loss on facility used for current 800MHz band)

The use of the facility for the above service will be discontinued from July 2012 due to reorganization of frequencies. Recognizing the downward trend in subscribers using handsets compatible with such equipment, KDDI set up a cash management system for cash flows generated by such equipment, and pooled those assets into an independent asset grouping. Due to the downtrend in equipment utilization accompanying the decline in compatible mobile handsets, the book value of those assets was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥43.5 billion.

(Impairment loss on HIKARI-one Home 100 facility)

Recognizing the downward trend in subscribers to services using the aforementioned facility, KDDI set up a cash management system for cash flows generated by such equipment, enabling it to gain an understanding of the cash-flow situation, then pooled those assets into an independent asset grouping. Due to a decline in product appeal since the introduction of the "Giga Value Plan," as well as the downtrend in subscribers, the book value of those assets were written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥18.5 billion.

• ¥9.1 billion loss on disposal of property, plant, and equipment

The Company reported a ¥9.1 billion loss on disposal of property, plant, and equipment, related to the disposal of "HIKARI-one Home 100" equipment.

(FY 2008.3)

• ¥21.2 billion impairment loss

(Impairment loss on domestic network infrastructure and other idle assets)

The book value of certain domestic transmission infrastructure and other underutilized assets was written down to the amount deemed recoverable, resulting in a loss on asset impairment of ¥18.7 billion.

• ¥7.5 billion loss on disposal of property, plant, and equipment

This was a loss on disposal of property, plant, and equipment, as well as equipment removal costs, related to cessation of the Tu-Ka mobile phone service on March 31, 2008.

Income Taxes and Tax Adjustments

Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥200.9 billion, together with an income tax adjustment that resulted in deferred taxes of ¥30.6 billion, representing a ¥12.6 billion increase in total income taxes and tax adjustments year on year. This mainly reflected a ¥57.7 billion increase in corporation, resident, and enterprise taxes stemming from a rise in taxable income. By contrast, there was a ¥45.1 billion decline in income tax adjustment due to an increase in discrepancy amount temporarily out of scope of FY 2009.3 taxation associated with the impairment loss on property, plant, and equipment.

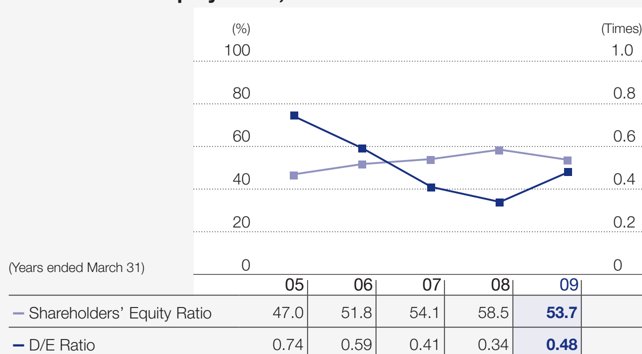
Management's Discussion and Analysis

Assets and Capital Expenditures

Assets

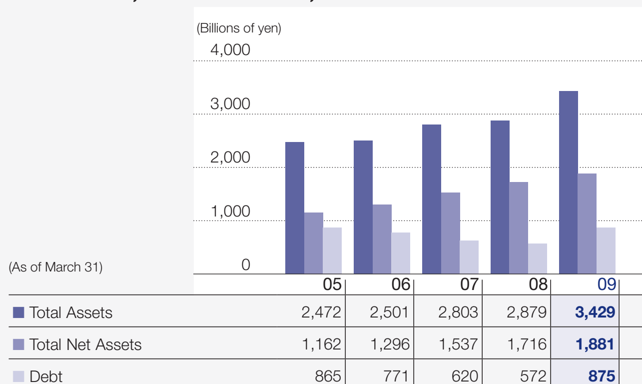
As of March 31, 2009, consolidated total assets amounted to ¥3,429.1 billion, up ¥549.9 billion year on year. Net assets increased ¥165.6 billion, to ¥1,881.3 billion. The shareholders' equity ratio declined 4.8 percentage points, to 53.7%. The rise in total assets stemmed mainly from increases in tangible and intangible fixed assets stemming from capital expenditures; an increase in property, plant, and equipment due to acquisition of trust beneficiary rights in securitized properties (buildings in Shinjuku, Otemachi, Nagoya, and Osaka); and increases in tangible and intangible fixed assets stemming from transformation of CTC into a consolidated subsidiary. The increase in total liabilities was due mainly to rises in long-term and short-term loans, as well as issuance of bonds.

Shareholders' Equity Ratio, D/E Ratio



(Years ended March 31)	05	06	07	08	09
Shareholders' Equity Ratio	47.0	51.8	54.1	58.5	**53.7**
D/E Ratio	0.74	0.59	0.41	0.34	**0.48**

Total Assets, Total Net Assets, Debt



(As of March 31)	05	06	07	08	09
Total Assets	2,472	2,501	2,803	2,879	**3,429**
Total Net Assets	1,162	1,296	1,537	1,716	**1,881**
Debt	865	771	620	572	**875**

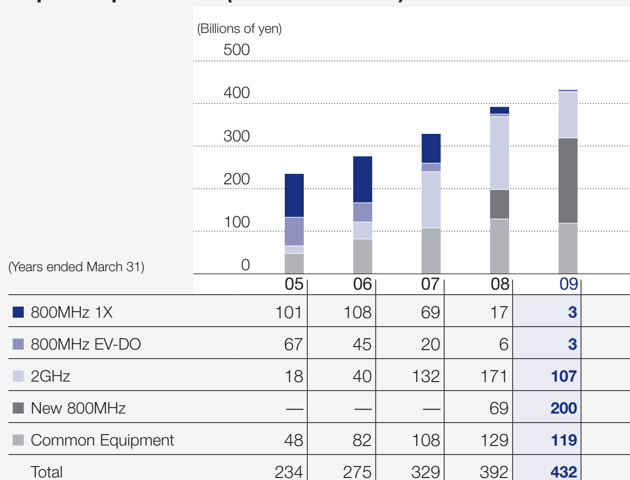
Capital Expenditures

The KDDI Group makes efficient capital investments aimed at increasing reliability and providing a more satisfying service to customers. The major capital investments by business segment are outlined below.

(a) Mobile Business

In Mobile Business, KDDI promoted the 2GHz band network construction in line with its growing subscriber base, in order to improve transmission quality and expand the EV-DO Rev. A service area. With the reorganization of the 800MHz band, meanwhile, the Company started full-scale construction of facilities for the new 800MHz band allocated to it. Accordingly, KDDI has installed new equipment and upgraded other facilities, including wireless base stations and exchange equipment. The Company is also upgrading IP-related facilities to cope with increased data traffic caused by the rising number of subscribers to CDMA 1X WIN and packet flat-rate services, as well as the proliferation of new services, such as social network services (SNS) "au one GREE."

Capital Expenditures (Mobile Business)

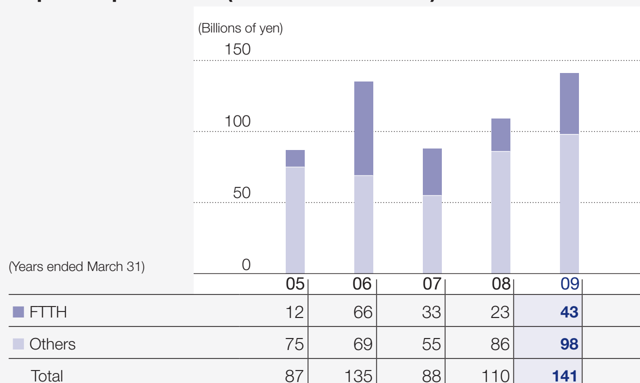


(Years ended March 31)	05	06	07	08	09
800MHz 1X	101	108	69	17	**3**
800MHz EV-DO	67	45	20	6	**3**
2GHz	18	40	132	171	**107**
New 800MHz	—	—	—	69	**200**
Common Equipment	48	82	108	129	**119**
Total	234	275	329	392	**432**

(b) Fixed-line Business

Accompanying its promotion of "HIKARI-one" and other FTTH services for consumers, KDDI made capital investments to build networks, as well as to build and upgrade IP phone-related equipment and related facilities. For corporate clients, the Company upgraded facilities to meet rising demand for IP-VPN services and wide-area Ethernet services, as well as to strengthen product appeal in connection with new services, such as KDDI Wide Area Virtual Switch. With respect to infrastructural facilities, such as transmission circuits and base station equipment, the Company increased the capacities of its access networks and backbone network to meet growing demand, and took other actions aimed at improving service reliability and raising communication quality.

Capital Expenditures (Fixed-line Business)



	05	06	07	08	09
■ FTTH	12	66	33	23	**43**
■ Others	75	69	55	86	**98**
Total	87	135	88	110	**141**

Going forward, the KDDI Group will strengthen its business foundation to achieve sustainable growth while swiftly addressing changes in its business environment. Aiming to provide unparalleled customer satisfaction in every service, the Company will strive to create new value.

In the Mobile Business, KDDI will endeavor to further increase customer satisfaction by developing and providing attractive mobile handsets and new services and content that meet the diversified needs of customers, thus raising its comprehensive brand power. Meanwhile, the Company will aim to create even more comfortable mobile environments and broaden the scope of its operations. For corporate clients, KDDI will strive to improve convenience by providing services based on the ideas of fixed-mobile convergence.

In the Fixed-line Business, KDDI will strive to increase sales from "HIKARI-one" and "Commuf@-hikari." At the same time, the Company will work together with cable television companies in order to further expand its customer base and enhance convenience. For corporate clients, KDDI will offer one-stop solutions—from provision of network services and IT equipment to sophisticated levels of operation and maintenance—centering on its data centers. In the process, KDDI will contribute to the advancement of its customers' businesses, both in Japan and overseas.

Sources of Capital and Liquidity

■ Cash Flows

Summarized Consolidated Statements of Cash Flows

(Billions of yen)

	2008.3	**2009.3**	Change
Cash Flows from Operating Activities	545.2	**712.2**	167.0
Cash Flows from Investing Activities	(557.7)	**(775.5)**	(217.8)
Free Cash Flows	(12.5)	**(63.2)**	(50.8)
Cash Flows from Financing Activities	(104.4)	**191.5**	295.9
Cash and Cash Equivalents	75.5	**200.3**	124.8

(a) Operating Activities

In FY 2009.3, net cash provided by operating activities amounted to ¥712.2 billion, up ¥167.0 billion year on year. This was largely due to increases in depreciation and impairment losses, as well as the fiscal year-end of two years ago (March 31, 2007) falling on a business holiday. These factors outweighed an increase in notes and accounts receivable associated with the introduction of an installment payment system in the Mobile Business and other factors.

(b) Investing Activities

Net cash used in investing activities totaled ¥775.5 billion, ¥217.8 billion more year on year. The main factors included the ¥207.1 billion acquisition of trust beneficiary rights from Central Tower Estate, as well as an increase in equipment investments.

Note: Please refer to the earlier "Capital Expenditures" section for more details of capital expenditures made in FY 2009.3.

(c) Free Cash Flow

Free cash flow—the sum of cash flows from operating and investing activities—showed a net outflow of ¥63.2 billion, ¥50.8 billion more year on year.

(d) Financing Activities

Net cash provided by financing activities was ¥191.5 billion, an improvement of ¥295.9 billion from the outflow recorded in the previous fiscal year. The main factors included long-term and short-term loans, as well as issuance of bonds.

Liquidity

Cash and cash equivalents at fiscal year-end totaled ¥200.3 billion, up ¥124.8 billion year on year from ¥75.5 billion. Going forward, the KDDI Group expects the liquidity balance to vary in response to its financial position and the financing environment.

Financing

During FY 2009.3, KDDI procured ¥120.0 billion in funds from corporate bonds and ¥250.0 billion in funds from financial institutions to partially finance loan repayments, redemption of bonds and capital investments. Other requirements for funds were secured from internal reserves. The balance of corporate bonds outstanding at March 31, 2009 was ¥327.8 billion, an ¥80.0 billion increase year on year. The fiscal year-end balance of loans outstanding rose ¥213.4 billion, to ¥537.3 billion, and the balance of lease obligations was ¥9.8 billion.

Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

	Total amount	Less than 1 yr	1–3 yr	3–5 yr	Above 5 yrs
Corporate bonds	327.8	19.8	83.0	155.0	70.0
Bank borrowings	537.3	119.2	155.8	192.2	70.0
Others	0.1	0.1	0	0	—
Lease obligations	9.8	2.4	4.8	2.5	0
Total	875.0	141.5	243.7	349.8	140.0

Foreign Exchange Risk

The policy of the KDDI Group is to use forward exchange contracts, currency swaps, and other instruments as necessary to hedge foreign exchange risks associated with business transactions denominated in foreign currencies or overseas investment and financing projects, based on the balance of assets and liabilities in each currency.

Financial Policies

The basic policy of the KDDI Group is to secure stable, low-cost financing as required, selecting the most effective means of financing according to the financial status of the Company and the prevailing conditions in financial markets.

The KDDI Group pursues a proactive cash management policy of conserving funds within the parent company to enhance financial efficiency. The parent company undertakes the integrated management of fund surpluses or deficits at the majority of subsidiaries, and actively seeks to constrain financing costs by leveraging its higher credit rating to procure necessary funds that are then distributed to subsidiaries through a system of loans.

As a result, the balance of consolidated interest-bearing debt was ¥875.0 billion at March 31, 2009. The ratio of direct to indirect financing was 37:63, and the proportion of centralized fund procurement by the parent company was 96%.

Rating and Investment Information Inc. (R&I) accorded KDDI a long-term senior debt rating of A+ as of March 2008.

Contingent Liabilities

The balance of liabilities guaranteeing third parties at March 31, 2009 was ¥6.3 billion.

Significant Accounting Policies and Estimates

The significant accounting policies described below had a material impact on the major accounting judgments and estimates by the KDDI Group that were used in the compilation of these consolidated financial statements.

Depreciation Method for and Estimated Useful Lives of Fixed Assets

During FY 2009.3, the KDDI Group changed its depreciation method for machinery and equipment in the Mobile Business. The revisions pertained mainly to the estimated useful lives of machinery and equipment.

The depreciation method for machinery and equipment in the Mobile Business has been changed from the straight-line method to the declining-balance method as of FY 2009.3. This change is intended to further utilize the advantages of a comprehensive communications company with both fixed-line and mobile service operations by standardizing depreciation and amortization methods between the two businesses in order to provide an optimal and cutting-edge communications environment through FMBC (fixed mobile and broadcast convergence).

In the FY 2009.3 revisions to the Corporation Tax Law, the statutory useful life was reviewed, and the useful life of machinery and equipment was revised from six years to nine years. The KDDI Group comprehensively considered such factors as the usage environment for telecommunications equipment and other assets and technological progress in responding to this change, and decided to revise Group standards for estimated useful lives of fixed assets.

In future, should there be rapid changes in the market, environment, or technology, or should new laws or regulations be enacted, the Group may revise estimated useful lives or the depreciation method after conducting a fair appraisal.

Impairment of Fixed Assets

Impairment loss is calculated based on the grouping of assets into the smallest-possible units capable of generating cash flows that are largely independent of other assets or asset groups.

During FY 2008.3, the utilization rate of certain assets, including domestic network infrastructure, declined, with book value decreasing to the recoverable value. KDDI therefore recorded an impairment loss of ¥18.7 billion. The recoverable value of these assets was estimated based on net marketable value. The Group also recorded impairment loss of ¥2.5 billion on certain idle properties held by subsidiaries. During FY 2009.3, the utilization rate of the current 800MHz band equipment, which will no longer be used from July 2012 and onward following the reorganization of the bandwidth, declined due to a drop in the number of compatible handsets. As a result, the book value decreased to the recoverable value, resulting in an impairment loss of ¥43.5 billion. After the introduction of the "Giga Value Plan," HIKARI-one Home 100 equipment lost product appeal, and the number of subscriptions has been on a decreasing trend. Consequently, the book value decreased to the recoverable value, resulting in an impairment loss of ¥18.5 billion. The recoverable value of these assets for the Group was estimated based on the usage value, and calculated based on a future cash-flow discount rate of 2.30%. The book value decreased to the recoverable value for idle properties, including certain domestic network infrastructure, resulting in an impairment loss of ¥1.6 billion. The recoverable value of these assets was estimated based on net marketable value. The Group also recorded an impairment loss of ¥4.3 billion on operating assets of certain subsidiaries.

Deferred Tax Assets

Deferred tax assets and liabilities are stated based on the statutory effective tax rate in recognition of any temporary differences between the carrying values of assets and liabilities and corresponding values listed in filings to tax authorities. Valuation allowances are stated against deferred tax assets, based on future likelihood. Evaluations of the necessity of recording such valuation allowances take into account projected future taxable income levels and utilizable tax planning.

Retirement Benefits and Pension Obligations

Retirement benefits and pension obligations are calculated using certain fundamental parameters that are based on actuarial calculations. The key parameters used include the discount rate, projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels. The discount rate is computed based on the market yields of long-term Japanese government bonds. Projected mortality rates, forecast retirement rates, and projected rates of increase in wage and salary levels are all computed based on statistical values.

The effects of any differences that arise between actual results and the initial assumptions, or of any systemic changes related to mergers, divestitures, or other developments, would by their nature be cumulative and subject to recognition on a regular basis over future fiscal periods. Hence, such changes and differences could potentially have a material effect on the future values of pension-related expenses and allowances.

When recording retirement and severance benefits, the expected rate of return is set on conservative principles, based on the discount rate.

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

March 31, 2008 and 2009	Millions of yen 2008	Millions of yen 2009	Millions of U.S. dollars (Note 1) 2009
ASSETS			
Current Assets:			
Cash and cash equivalents	¥ 75,546	¥ 200,311	$ 2,039
Accounts receivable	453,382	513,396	5,226
Allowance for doubtful accounts	(14,004)	(14,433)	(147)
Inventories	61,911	77,394	788
Deferred tax assets (Note 13)	52,197	72,001	733
Prepaid expenses and other current assets	23,270	21,569	220
Total Current Assets	652,302	870,238	8,859
Property, Plant and Equipment			
Machinery, Antenna facilities, Terminal facilities, Local line facilities, Long-distance line facilities	3,224,658	3,628,310	36,937
Buildings and structures	516,754	579,465	5,899
Machinery and tools	140,497	145,211	1,478
Land	52,987	241,984	2,464
Construction in progress	130,151	113,871	1,159
Other property, plant and equipment	1,563	10,780	110
	4,066,610	4,719,621	48,047
Accumulated depreciation	(2,449,079)	(2,767,559)	(28,175)
Total Property, Plant and Equipment	1,617,531	1,952,062	19,872
Investments and Other Assets:			
Investments in securities (Note 6)	46,044	40,567	413
Deposits and guarantee money	39,891	39,623	403
Intangible assets	254,100	249,189	2,537
Goodwill	68,501	62,872	640
Deferred tax assets (Note 13)	99,925	111,400	1,134
Other assets	111,424	114,325	1,164
Allowance for doubtful accounts	(10,443)	(11,143)	(113)
Total Investments and Other Assets	609,442	606,833	6,178
Total Assets	¥ 2,879,275	¥ 3,429,133	$ 34,909

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

March 31, 2008 and 2009	Millions of yen 2008	Millions of yen 2009	Millions of U.S. dollars (Note 1) 2009
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term loans and current portion of long-term loans (Note 7)	¥ 99,207	**¥ 141,661**	**$ 1,442**
Accounts payable	318,494	**327,416**	**3,333**
Accrued income taxes	77,804	**117,887**	**1,200**
Accrued expenses	10,733	**12,919**	**132**
Allowance for bonuses	19,232	**18,584**	**189**
Other current liabilities	81,658	**91,649**	**933**
Total Current Liabilities	607,128	**710,116**	**7,229**
Non-Current Liabilities:			
Long-term loans (Note 7)	264,855	**418,084**	**4,256**
Bonds (Note 5)	207,768	**307,753**	**3,133**
Reserve for point service program	43,055	**62,656**	**638**
Reserve for retirement benefits and other non-current liabilities (Notes 7, 14)	40,738	**49,195**	**501**
Total Non-Current Liabilities	556,416	**837,688**	**8,528**
Total Liabilities	1,163,544	**1,547,804**	**15,757**
Contingent Liabilities (Note 8)			
Net Assets (Note 11)			
Common stock:			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2008 and 2009, respectively			
Issued—4,484,818.86 and 4,484,818.00 shares at March 31, 2008 and 2009, respectively	141,852	**141,852**	**1,444**
Additional paid-in capital surplus	367,267	**367,092**	**3,737**
Retained earnings	1,173,826	**1,347,637**	**13,719**
Treasury stock, at cost:			
Number of treasury stock—23,032.89 and 30,705.00 shares at March 31, 2008 and 2009, respectively	(20,625)	**(25,245)**	**(257)**
Total Shareholders' Equity	1,662,320	**1,831,336**	**18,643**
Net unrealized gains on securities	18,571	**18,529**	**189**
Foreign currency translation adjustments	2,443	**(8,805)**	**(90)**
Total Unrealized Gains and Translation Adjustments	21,014	**9,724**	**99**
Stock Acquisition Rights	495	**991**	**10**
Minority Interests	31,902	**39,278**	**400**
Total Net Assets	1,715,731	**1,881,329**	**19,152**
Total Liabilities and Shareholders' Equity	¥ 2,879,275	**¥ 3,429,133**	**$ 34,909**

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2008 and 2009	2008	Millions of yen 2009	Millions of U.S. dollars (Note 1) 2009
Operating Revenues:			
Revenues from telecommunication business	¥2,749,897	**¥2,720,675**	**$27,697**
Sales of terminal equipment and other	846,387	**776,834**	**7,908**
Total Operating Revenues	3,596,284	**3,497,509**	**35,605**
Operating Expenses:			
Sales expenses	1,259,845	**705,927**	**7,186**
Depreciation	337,941	**417,805**	**4,253**
Charges for use of telecommunications services of third parties	453,686	**433,938**	**4,418**
Cost of sales of terminal equipment and other	774,670	**1,065,032**	**10,842**
Other	369,690	**431,600**	**4,394**
Total Operating Expenses	3,195,832	**3,054,302**	**31,093**
Operating Income	400,452	**443,207**	**4,512**
Other Expenses (Income):			
Interest expense	10,010	**11,960**	**122**
Interest income	(1,189)	**(1,036)**	**(11)**
Valuation loss on investments in securities	157	**5,269**	**54**
Gain on disposal of property, plant and equipment	—	**(538)**	**(6)**
Gain on sales of affiliates' shares	(209)	**—**	**—**
Equity in gain of affiliates	(2,110)	**2,248**	**23**
Gain on recovery of bad debt	(353)	**(271)**	**(3)**
Dividend income from anonymous association	(7,899)	**(7,212)**	**(74)**
Dividends due to liquidation of silent partnership contract	—	**(36,284)**	**(369)**
Loss on disposal of property, plant and equipment	7,544	**9,099**	**93**
Impairment loss (Note 9)	21,230	**68,046**	**693**
Other, net	(5,934)	**(2,937)**	**(30)**
Total Other Expenses	21,247	**48,344**	**492**
Income before Income Taxes and Minority Interests	379,205	**394,863**	**4,020**
Income Taxes:			
Current	143,221	**200,896**	**2,045**
Deferred	14,491	**(30,572)**	**(311)**
Total Income Taxes	157,712	**170,324**	**1,734**
Minority Interests in Consolidated Subsidiaries	3,707	**1,803**	**19**
Net Income	¥ 217,786	**¥ 222,736**	**$ 2,267**

March 31, 2008 and 2009	2008	Yen 2009	U.S. dollars (Note 1) 2009
Per Share Data:			
Net income	¥48,810	**¥49,973**	**$508.74**
Net income after adjusted the potential stocks	48,807	**—**	**—**
Cash dividends	10,500	**11,000**	**111.98**

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

Consolidated Statements of Changes in Net Assets

KDDI Corporation and Consolidated Subsidiaries

Years ended March 31, 2008 and 2009	Millions of yen 2008	Millions of yen 2009	Millions of U.S. dollars (Note 1) 2009
Shareholders' equity			
Common Stock			
Balance, March 31, 2008	¥ 141,852	**¥ 141,852**	**$ 1,444**
Changes during the year			
Total changes during the year	—	**—**	**—**
Balance, March 31, 2009	141,852	**141,852**	**1,444**
Additional paid-in capital surplus			
Balance, March 31, 2008	367,272	**367,267**	**3,739**
Changes during the year			
Disposal of treasury stock	(5)	**(174)**	**(2)**
Cancellation of treasury stock		**(1)**	**(0)**
Total changes during the year	(5)	**(175)**	**(2)**
Balance, March 31, 2009	367,267	**367,092**	**3,737**
Retained earnings			
Balance, March 31, 2008	1,000,662	**1,173,826**	**11,950**
Increase/decrease from change in accounting policies of overseas subsidiaries		**131**	**1**
Changes during the year			
Dividend of surplus (Note 11)	(44,620)	**(49,057)**	**(499)**
Net income for the year	217,786	**222,736**	**2,267**
Change in scope of consolidation	(2)	**—**	**—**
Total changes during the year	173,164	**173,679**	**1,768**
Balance, March 31, 2009	1,173,826	**1,347,637**	**13,719**
Treasury stock, at cost			
Balance, March 31, 2008	(20,310)	**(20,625)**	**(210)**
Changes during the year			
Acquisition of treasury stock	(354)	**(5,260)**	**(54)**
Disposal of treasury stock	39	**640**	**7**
Cancellation of treasury stock		**1**	**0**
Total changes during the year	(315)	**(4,619)**	**(47)**
Balance, March 31, 2009	(20,625)	**(25,245)**	**(257)**
Shareholders' equity			
Balance, March 31, 2008	1,489,476	**1,662,320**	**16,923**
Increase/decrease accompanying change in accounting treatment of overseas subsidiaries		**131**	**1**
Changes during the year			
Dividend of surplus (Note 11)	(44,620)	**(49,057)**	**(499)**
Net income for the year	217,786	**222,736**	**2,267**
Acquisition of treasury stock	(354)	**(5,260)**	**(54)**
Disposal of treasury stock	34	**466**	**5**
Change in scope of consolidation	(2)	**—**	**—**
Total changes during the year	172,844	**168,885**	**1,719**
Balance, March 31, 2009	¥1,662,320	**¥1,831,336**	**$18,643**

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2008 and 2009	Millions of yen 2008	Millions of yen 2009	Millions of U.S. dollars (Note 1) 2009
Unrealized gains and translation adjustments			
Net unrealized gains on securities			
At beginning of year	¥ 22,322	**¥ 18,571**	**$ 189**
Changes during the year			
Net changes to items other than shareholders' equity	(3,751)	**(41)**	**(0)**
Total changes during the year	(3,751)	**(41)**	**(0)**
At end of year	18,571	**18,530**	**189**
Foreign currency translation adjustments			
At beginning of year	4,467	**2,443**	**25**
Changes during the year			
Net changes to items other than shareholders' equity	(2,024)	**(11,249)**	**(115)**
Total changes during the year	(2,024)	**(11,249)**	**(115)**
At end of year	2,443	**(8,806)**	**(90)**
Total unrealized gains and translation adjustments			
At beginning of year	26,789	**21,014**	**214**
Changes during the year			
Net changes to items other than shareholders' equity	(5,775)	**(11,290)**	**(115)**
Total changes during the year	(5,775)	**(11,290)**	**(115)**
At end of year	21,014	**9,724**	**99**
Stock acquisition rights			
At beginning of year	137	**495**	**5**
Changes during the year			
Net changes to items other than shareholders' equity	358	**496**	**5**
Total changes during the year	358	**496**	**5**
At end of year	495	**991**	**10**
Minority interests			
At beginning of year	20,712	**31,902**	**324**
Changes during the year			
Net changes to items other than shareholders' equity	11,190	**7,376**	**76**
Total changes during the year	11,190	**7,376**	**76**
At end of year	31,902	**39,278**	**400**
Total net assets			
At beginning of year	1,537,114	**1,715,731**	**17,466**
Increase/decrease from change in accounting treatment of overseas subsidiaries		**131**	**1**
Changes during the year			
Dividend of surplus (Note 11)	(44,620)	**(49,057)**	**(499)**
Net income for the year	217,786	**222,736**	**2,267**
Acquisition of treasury stock	(354)	**(5,260)**	**(54)**
Disposal of treasury stock	34	**466**	**5**
Change in scope of consolidation	(2)	**—**	**—**
Net changes of items other than shareholders' equity during the fiscal year	5,773	**(3,418)**	**(34)**
Total changes during the year	178,617	**165,467**	**1,685**
At end of year	¥1,715,731	**¥1,881,329**	**$19,152**

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

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

		Millions of yen	Millions of U.S. dollars (Note 1)
Years ended March 31, 2008 and 2009	2008	**2009**	**2009**
Cash Flows from Operating Activities:			
Income before income taxes and Minority interests Adjustments for:	¥ 379,205	**¥ 394,863**	**$ 4,020**
Depreciation and amortization	351,269	**434,623**	**4,424**
Impairment loss	21,230	**68,046**	**693**
Amortization of goodwill and negative goodwill	8,225	**9,735**	**99**
Loss on sales of property, plant and equipment	(24)	**(514)**	**(5)**
Loss on disposal of property, plant and equipment	17,828	**26,200**	**267**
Dividends due to liquidation of silent partnership contract	—	**(36,284)**	**(369)**
Increase (decrease) in allowance for doubtful accounts	25	**1,439**	**15**
Decrease in reserve for retirement benefits	(551)	**(773)**	**(8)**
Interest and dividend income	(2,353)	**(2,495)**	**(25)**
Interest expenses	10,010	**11,961**	**122**
Equity in (earnings) losses of affiliates	(2,110)	**2,248**	**23**
Gain on sales of affiliates' shares	(209)	**—**	**—**
Valuation loss in investments in securities	157	**5,269**	**54**
Increase in reserve for point service	12,376	**19,601**	**199**
Changes in assets and liabilities:			
Increase (decrease) in prepaid pension cost	(5,395)	**48**	**0**
(Increase) decrease in notes and accounts receivable	8,580	**(60,918)**	**(620)**
Increase in inventories	(8,397)	**(13,109)**	**(134)**
Decrease in notes and accounts payable-trade	(62,138)	**(13,951)**	**(142)**
Increase (decrease) in accounts payable-other	(36,900)	**19,337**	**197**
Increase (decrease) in accrued expenses	(754)	**1,034**	**10**
Increase in advances received	23,218	**10,617**	**108**
Other, net	4,534	**4,338**	**44**
Sub total	717,856	**881,315**	**8,972**
Interest and dividend income received	4,065	**4,339**	**44**
Interest expenses paid	(10,334)	**(11,747)**	**(119)**
Income taxes paid	(166,353)	**(161,676)**	**(1,646)**
Net cash provided by operating activities	545,234	**712,231**	**7,251**
Cash Flows from Investing Activities:			
Payments for purchase of property, plant and equipment	(384,712)	**(466,269)**	**(4,746)**
Purchase of trust beneficiary right	—	**(207,057)**	**(2,108)**
Proceeds from sale of property, plant and equipment	881	**1,490**	**15**
Payments for other intangible assets	(115,345)	**(81,712)**	**(832)**
Payments for acquisition of investment in securities	(1,089)	**(100)**	**(1)**
Proceeds from sale of investment in securities	135	**131**	**1**
Payments for investment in affiliates	(13,749)	**(5,228)**	**(53)**
Payments for acquisition of affiliates' shares resulting in changes in scope of consolidation (Note 3)	(23,426)	**(36,028)**	**(367)**
Proceeds from repayment of investment and dividends due to liquidation of silent partnership contract	—	**45,284**	**461**
Payments for increase in long-term prepayment	(15,424)	**(26,290)**	**(267)**
Other, net	(4,959)	**309**	**3**
Net cash used in investing activities	(557,688)	**(775,470)**	**(7,894)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans	1,280	**76,629**	**780**
Proceeds from long-term loans	118,125	**170,000**	**1,731**
Repayments of long-term loans	(168,336)	**(79,049)**	**(805)**
Proceeds from new bond issue	80,000	**120,000**	**1,222**
Payments for redemption of bonds	(90,000)	**(40,000)**	**(407)**
Payments for acquisition of treasury stocks	(354)	**(5,260)**	**(54)**
Dividends paid	(45,570)	**(50,006)**	**(509)**
Payments received from minority shareholders	660	**—**	**—**
Other, net	(215)	**(824)**	**(9)**
Net cash used in financing activities	(104,410)	**191,490**	**1,949**
Translation Adjustments on Cash and Cash Equivalents	(244)	**(3,486)**	**(36)**
Net Increase (Decrease) in Cash and Cash Equivalents	(117,108)	**124,765**	**1,270**
Cash and Cash Equivalents at Beginning of Year	192,654	**75,546**	**769**
Cash and Cash Equivalents at End of Year	¥ 75,546	**¥ 200,311**	**$ 2,039**

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

Notes to Consolidated Financial Statements

KDDI Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued in Japan for domestic reporting purposes.

KDDI Corporation (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the Corporate Law and Japanese Telecommunications Business Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The Company's foreign subsidiaries maintain their accounts in conformity with the generally accepted accounting principles and practices of each country of their domicile.

In order to make it easier for overseas readers to comprehend, financial statements prepared for disclosure in Japan have been reclassified slightly.

The Company's consolidated financial statements for the year ended March 31, 2009, include 60 consolidated subsidiaries. These are: OKINAWA CELLULAR TELEPHONE Co., KDDI Technical & Engineering Service Corporation, KDDI Evolva Inc., JAPAN CABLENET LIMITED, Chubu Telecommunications Co., Inc., KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2009, significant changes in the scope were incurred as follows:

Added (Consolidated):

- Increased due to acquisition of shares (2 companies)
  Chubu Telecommunications Co., Inc.
  Network Support Services Inc.

- Increased due to new establishment (1 company)
  KDDI Challenged Inc.

Removed (Consolidated):

- Decreased due to absorption-type merger (1 company)
  KDDI Network & Solutions Inc.

- Decreased due to liquidation (1 company)
  Ubiquitous Core Inc.

Added (Equity Method):

- Increased due to new establishment (1 company)
  A-Sketch K.K.

Reclassifications:

Certain amounts of prior years have been reclassified to conform to the presentations for the fiscal year ended March 31, 2009.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥98.23=$1, the approximate exchange rate on March 31, 2009. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

2. Significant Accounting Policies

a. Basis of Consolidation and Accounting for Investments in Affiliated Companies

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries.

All significant intercompany transactions and accounts are eliminated.

Investments in certain affiliates are accounted for by the equity method, whereby a consolidated group includes in net income its share of the profits or losses of these companies, and records its investments at cost adjusted for such share of profits or losses.

Exceptionally, investments in two affiliates for which the equity method has not been applied are stated at cost because the effect of application of the equity method is immaterial.

b. Revenue Recognition

For telecommunications services, revenues are recognized mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized on fulfillment of contractual obligations, which is generally on shipment basis. Revenues from rentals and other services are recognized proportionately over the contract period or as services are performed.

c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term highly liquid investments with an original maturity of three months or less at the time of purchase and which bear lower risks from fluctuations in value.

d. Inventories

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

e. Foreign Currency Translation

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

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the 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

Property, plant and equipment is stated at cost. Assets are depreciated over their estimated useful lives by applying the declining-balance method to machinery and equipment owned by the Company, and by the straight-line method to property, plant and equipment other than machinery and equipment owned by the Company and most depreciated assets held by its subsidiaries. The main depreciation periods are as follows.

Machinery and equipment:	2-17 years
Telecommunications service lines, engineering equipment, submarine cable system and buildings:	2-65 years

(Change in Accounting Policy)

KDDI Corporation and OKINAWA CELLULAR TELEPHONE Co. have until now used the straight-line method for calculating depreciation on machinery and equipment in the mobile business, but from the year ended March 31, 2009 (April 1, 2008 to March 31, 2009) changed to the declining-balance method.

Notes to Consolidated Financial Statements

This change provides the Company with the same depreciation method for both the Fixed-line Business and the Mobile Business. It will allow the Company to further capitalize on the advantages of a comprehensive telecommunications company operating both fixed line and mobile businesses, and is aimed at providing an optimal, cutting-edge communications environment through "fixed mobile and broadcast convergence" (FMBC).

Further, as a result of fierce competition in technology development stemming from more advanced customer needs, updated equipment is essential for the Company to meet the challenges from its competitors. The change to the declining-balance method, a method for calculating depreciation more suited to the acceleration of economic obsolescence, will ensure more reasonable allocation of expenses over the depreciation period.

As a result, compared to the former method, the Company's depreciation expenses for the year ended March 31, 2009 increased ¥59,766 million, while operating income and income before income taxes and minority interests all declined by an equal amount. Net income declined by ¥35,319 million.

The effect on segment results is provided in the relevant sections.

(Additional Information)

In revisions to the Corporation Tax Law, the statutory useful life, mainly of the machinery and equipment owned by KDDI Corporation and its domestic consolidated subsidiaries, has been revised from the year ended March 31, 2009 (April 1, 2008 to March 31, 2009).

These revisions were determined based on the estimated useful life of the asset, past experience with similar assets, and prescribed laws and regulations, as well as anticipated progress in technology and other changes.

As a result, compared to the former standard the Company's depreciation expenses for the year ended March 31, 2009 decreased by ¥58,540 million, while operating income, and income before income taxes and minority interests all increased by an equal amount. Net income increased by ¥34,707 million.

The effect on segment results is provided in the relevant sections.

g. Financial Instruments

(1) Securities

Investments of the Company in equity securities issued by affiliates are accounted for by the equity method.

Other securities for which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gains and losses, net of applicable deferred tax assets/liabilities, directly reported as a separate component of Net assets. The cost of securities sold is determined by the moving-average method.

Other securities for which market quotations are not available are valued at cost mainly determined by the moving average method.

(2) Derivatives

Derivatives are used to hedge against interest rate fluctuation risks based on the Company's policy.

Major hedging instruments are interest rate swaps and hedged items are loans.

The interest rate swap transactions used to hedge interest rate fluctuation are measured at the fair value and unrealized gain or loss are presented in consolidated statements of income.

The interest rate swaps meeting the requirement of exceptional treatment of Japanese GAAP are not measured at the fair value and the difference between payment amount and receipt amount are included in the interest expense occurred on the borrowings as the hedged item.

h. Research and Development Expenses and Software

Research and development expenses are charged to income as incurred. Software for internal use included in intangible assets is amortized using the straight-line method over the estimated useful lives (5 years).

i. Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. The Company and its domestic subsidiaries have adopted the deferred tax accounting method. Under this method, deferred tax assets and liabilities are determined based on the timing differences

between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Leased assets and Amortization

Leased assets related to financial leases that do not transfer ownership rights are amortized under the straight-line method based on the lease term as the useful life and residual value of zero. The Company continued to apply the method for ordinary operating lease transactions to financial leases that do not transfer ownership rights that started before March 31, 2008.

(Change in Accounting Policy)

The Company had previously accounted for financial leases that do not transfer ownership rights according to the method for ordinary operating lease transactions. From the year ended March 31, 2009 (April 1, 2008 to March 31, 2009), the Company adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, revised March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16, revised March 30, 2007) and now accounts for these leases as ordinary sale and purchase transactions. This change had an immaterial effect on operating income, income before income taxes and minority interests, and net income.

k. Amortization of Goodwill

Goodwill and negative goodwill are amortized using the straight-line method over a period of 5 to 20 years. However, minimal amounts of goodwill incurred during the year ended March 31, 2009 are expensed as incurred.

l. Net Income per Share

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

m. Allowance for Doubtful Accounts

To prepare for uncollectible credits, the Company and its subsidiaries record general allowance based on the actual bad debt ratio, and specific allowance deemed to be uncollectible considering the collectibility.

n. Reserve for Retirement Benefits

The amount for employee retirement benefits at fiscal 2009 year-end is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at fiscal 2009 year-end. Prior service cost is amortized on a straight-line basis over the average remaining service life of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service life of employees (14 years) from the year following that in which they arise.

o. Reserve for Point Service Program

In order to prepare for the future cost generating from the utilization of points that customers have earned under the point services such as “au” Point Program, based on its past experience, the Company reserves an amount considered appropriate to cover possible utilization of the points during or after the next consolidated fiscal year.

p. Allowance for bonuses

To allow for the payment of bonuses to employees, the Company records the estimated amounted of bonuses to be paid.

q. Allowance for directors’ bonuses

To allow for the payment of bonuses to directors, the Company records the estimated amounted of bonuses to be paid.

r. Evaluation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are evaluated by the fair market value method.

Notes to Consolidated Financial Statements

3. Changes to Basis of Presenting Consolidated Financial Statements

(Accounting policies of overseas subsidiaries in preparation of consolidated financial statements)

From the year ended March 31, 2009, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, May 17, 2006), and made the necessary amendments to the consolidated financial statements.

The effect on operating income, income before income taxes and minority interests, and net income as a result of applying this change is immaterial.

(Changes in presentation)

(Consolidated statements of income)

Accompanying revisions to Japanese accounting regulations for the telecommunications business, from the year ended March 31, 2009 (April 1, 2008 to March 31, 2009) sales promotion premiums and other expenses related to handset sales, which hitherto had been included in "sales expenses," are included under "cost of sales of terminal equipment and other." As a result of this change, sales expenses decreased by ¥397,990 million (US$4,052 million), while cost of sales of terminal equipment and other increased by the same amount. The change had no effect on operating income, income before income taxes and minority interests, and net income.

4. Assets and Liabilities of Newly Consolidated Subsidiaries

Chubu Telecommunications Co., Inc. (hereafter "CTC") has been newly consolidated due to the acquisition of shares. Accordingly, the following shows the breakdown of assets and liabilities that existed at the time of consolidation, and the relationship between the acquisition price of the shares and the expense (net amount) required for the acquisition of the subsidiary.

	Millions of yen	Millions of U.S. dollars
	2009	2009
Property, plant and equipment	¥ 90,236	$ 919
Current assets	6,974	71
Goodwill	4,163	42
Non-current liabilities	(40,533)	(413)
Current liabilities	(15,247)	(155)
Minority interests	(8,081)	(82)
Acquisition price of CTC's shares	¥ 37,512	$ 382
Temporary payment related to acquisition of CTC's shares	(435)	(4)
Cash and cash equivalents of CTC	(1,049)	(11)
Expense required for acquisition of CTC	¥ 36,028	$ 367

Note: Percentage of subsidiary voting rights held by the Company
Chubu Telecommunications Co., Inc. 80.5%

Note: Date of acquisition of shares April 1, 2008

5. Assets With Transferred Ownership From Acquisition of Trust Beneficiary Right

As regards the acquired trust beneficiary right, the ownership of entrusted assets that extinguished accompanying the ending of real estate trust contracts was transferred to the Company. The following acquired assets were recorded in the consolidated balance sheets as property, plant and equipment: machinery etc. of ¥260 million (U.S.$3 million), buildings and structures of ¥17,407 million (U.S.$177 million), machinery and tools etc. of ¥114 million (U.S.$1 million), land of ¥189,276 million (U.S.$1,927 million).

6. Market Value Information

At March 31, 2009 and 2008, book value, market value and net unrealized gains or losses of quoted securities were as follows:

Bonds intended to be held to maturity that have market value

No items to be reported.

Other securities that have market prices

	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)	Acquisition cost	Book value	Unrealized gain (loss)
					Millions of yen			Millions of U.S. dollars	
			2008			**2009**			**2009**
Securities for which book value of consolidated balance sheets exceeds acquisition cost	¥ 4,237	¥ 35,722	¥ 31,484	**¥ 2,652**	**¥ 34,244**	**¥ 31,591**	**$ 27**	**$ 349**	**$ 321**
Securities for which book value of consolidated balance sheets does not exceed acquisition cost. . .	654	500	(154)	**1,496**	**1,086**	**(409)**	**15**	**11**	**(4)**
Total	¥ 4,891	¥ 36,222	¥ 31,330	**¥ 4,148**	**¥ 35,330**	**¥ 31,182**	**$ 42**	**$ 360**	**$ 317**

Other securities sold during the current consolidated fiscal year

	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
					Millions of yen			Millions of U.S. dollars	
			2008			**2009**			**2009**
Other securities sold. . . .	¥ 123	¥ 96	¥ 2	**¥ 40**	**¥ 21**	**¥ 8**	**$ 0**	**$ 0**	**$ 0**

Type and book value of securities whose market value is not determinable

		Millions of yen	Millions of U.S. dollars
	Book value	Book value	Book value
	2008	**2009**	**2009**
Other securities			
Unlisted equity securities	¥ 9,823	**¥ 5,237**	**$ 53**
Negotiable deposit	3,000	**49,000**	**499**
Commercial papers	—	**57,964**	**590**
Bonds.	227	**—**	**—**
Total.	¥ 13,050	**¥ 112,201**	**$ 1,142**

7. Short-Term Loans and Long-Term Debt

Short-term bank loans at March 31, 2009 and 2008 were ¥80,951 million (U.S.$824 million) and ¥5,666 million, and the annual average interest rates applicable to short-term bank loans at March 31, 2009 and 2008 were 1.03% and 6.34%.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Millions of U.S. dollars
	2008	2009	2009
Unsecured straight bonds due 2009 through 2019 at rates of 0.76% to 2.30% per annum	¥ 207,968	**¥ 287,953**	**$ 2,932**
General secured bonds due 2010 through 2018 at rates of 2.70% to 3.20% per annum*	39,800	**39,800**	**405**
Total bonds	¥ 247,768	**¥ 327,753**	**$ 3,337**
Loans from banks:			
Maturing through 2019 at average rates of 1.42% per annum	¥ 318,241	**¥ 456,383**	**$ 4,646**
Other interest-bearing debt	271	**9,864**	**100**
	¥ 318,512	**¥ 466,247**	**$ 4,746**
Total bonds, loans and other interest-bearing debt	¥ 566,280	**¥ 794,000**	**$ 8,083**
Less, amount due within one year	93,529	**60,596**	**617**
	¥ 472,751	**¥ 733,404**	**$ 7,466**

* The Company has offered overall assets as general collateral for the above corporate bonds.

Aggregate annual maturities of long-term debt subsequent to March 31, 2009 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	2009	2009
2009	**¥ 60,596**	**$ 617**
2010	**108,932**	**1,109**
2011	**134,742**	**1,372**
2012	**179,024**	**1,822**
2013 and thereafter	**310,753**	**3,163**
	¥ 794,047	**$ 8,084**

8. Contingent Liabilities

At March 31, 2009 and 2008, the Company was contingently liable as follows:

	Millions of yen		Millions of U.S. dollars
	2008	2009	2009
As a guarantor for:			
Contingent liabilities existing in cable system supply contract	¥ 10,597	**¥ 4,958**	**$ 50**
Contingent liabilities resulting from the liquidation of Minex Corporation	578	**567**	**6**
Office lease contract of KDDI America, Inc.	555	**459**	**5**
Loan of Kita Cable Network, Inc.	—	**329**	**3**
	¥ 11,730	**¥ 6,313**	**$ 64**

9. Impairment Losses

The Company recorded impairment losses in the years ended March 31, 2009 and 2008 mainly on the assets and asset groups below.

	Millions of yen		Millions of U.S. dollars
	2008	2009	2009
KDDI Corporation and others' existing 800MHz band equipment	¥ —	**¥ 43,539**	**$ 443**
KDDI Corporation's "HIKARI-one Home 100" equipment	—	**18,518**	**189**
KDDI Corporation's idle assets and others	18,728	**1,645**	**17**
Consolidated subsidiaries' assets for business and others	—	**4,344**	**44**
Consolidated subsidiaries' idle assets of telecommunications service lines and others	2,502	**—**	**—**

The KDDI Group calculates impairment losses by grouping assets according to minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

During the fiscal year ended March 31, 2009, equipment for the existing 800MHz band, which will no longer being used from July 2012 as a result of the reorganization of frequencies, was reclassified into a new asset group independent from similar asset groups. The reclassification was made because a revenue management structure for cash flow generated from this equipment, established in response to the downward trend in subscribers with mobile phone handsets that utilize this equipment, made it possible to calculate the revenue balance.

The book value for the asset group for the existing 800MHz band equipment, due to a decrease in the number of handsets that use the existing 800MHz band, and the downward trend in equipment capacity utilization, has been written down to the recoverable amount. The amount of this write-down was recognized as an other expense, amounting to ¥43,539 million (U.S.$443 million). This consists of ¥43,503 million (U.S.$443 million) for machinery etc., and ¥36 million (U.S.$0 million) for other losses.

During the fiscal year ended March 31, 2009, equipment for the "HIKARI-one Home 100" service was reclassified into a new asset group independent from similar asset groups. The reclassification was made because a revenue management structure for cash flow generated from this equipment, established in response to the downward trend in the number of subscribers, made it possible to calculate the revenue balance.

The book value for the asset group for "HIKARI-one Home 100" equipment, due to the decrease in product attractiveness and subscriber numbers following the launch of the "Giga Value Plan", has been written down to the recoverable amount. The amount of this write-down was recognized as an other expense, amounting to ¥18,518 million (U.S.$189 million).

This impairment loss consists of ¥17,088 million (U.S. $174 million) for machinery etc., ¥690 million (U.S. $7 million) for buildings and structures, and ¥740 million (U.S. $8 million) for other losses. The recoverable value for the asset group is calculated by estimating the value in use, and applying a discount rate of 2.30% to future cash flow.

The book value for idle assets, including a portion of the domestic transmission system, has been written down to the recoverable amount. The amount of this write-down was recognized as an other expense, amounting to ¥1,645 million (U.S.$17 million).

This impairment loss consists of ¥1,014 million (U.S.$10 million) for machinery etc., ¥578 million (U.S.$6 million) for construction in progress, and ¥53 million (U.S.$1 million) for other losses.

The recoverable amount for this asset group is estimated based on the net sales 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 (U.S. $0).

An impairment loss of ¥4,344 million (U.S.$44 million) on business assets in certain subsidiaries was also recognized as an other expense.

This impairment loss consists of ¥2,524 million (U.S.$26 million) for machinery etc., ¥589 million (U.S.$6 million) for buildings and structures, and ¥1,231 million (U.S.$13 million) for other losses.

Notes to Consolidated Financial Statements

10. Lease Payment

Lessee side

Finance leases without transfer of ownership

Assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation and net book value as of March 31, 2008 were summarized as follows.

	Millions of yen							
	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value
				2008				**2009**
Machinery and equipment, tools, furniture and fixtures, vehicles	¥ 42,058	¥ 23,853	¥ 646	¥ 17,558	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Other	5,010	2,725	—	2,286	**—**	**—**	**—**	**—**
	¥ 47,068	¥ 26,578	¥ 646	¥ 19,844	**¥ —**	**¥ —**	**¥ —**	**¥ —**

	Millions of U.S. dollars			
	Acquisition cost	Accumulated depreciation	Impairment loss	Net book value
				2009
Machinery and equipment, tools, furniture and fixtures, vehicles	**$ —**	**$ —**	**$ —**	**$ —**
Other	**—**	**—**	**—**	**—**
	$ —	**$ —**	**$ —**	**$ —**

* Figures for 2009 omitted because assumed amounts of acquisition cost (inclusive of interest), accumulated depreciation, impairment loss and net book value as of March 31, 2009 were negligible.

Future lease payments as of March 31, 2008 was as follows.

	Millions of yen		Millions of U.S. dollars
	2008	**2009**	**2009**
Within one year	¥ 9,434	**¥ —**	**$ —**
Over one year	10,410	**—**	**—**
	¥ 19,844	**¥ —**	**$ —**
Balance of impairment loss on leased assets	¥ 183	**¥ —**	**$ —**

* Figures omitted because assumed amounts of unexpired lease balances as of March 31, 2009 were negligible.

Lease payments, assumed depreciation charges, reclassification of impairment loss for the years ended March 31, 2009 and 2008 were as follows.

	Millions of yen		Millions of U.S. dollars
	2008	**2009**	**2009**
Lease payments	¥ 9,733	**¥ —**	**$ —**
Reclassification of impairment loss on leased assets	1,224	**—**	**—**
Assumed depreciation charges	9,733	**—**	**—**

Depreciation charges were computed using the straight-line method over lease terms assuming no residual value.

* Figures omitted because lease payments, assumed depreciation charges, reclassification of impairment loss for the year ended March 31, 2009 were negligible.

Operating leases

Obligation under non-cancelable operating leases as of March 31, 2008 were as follows.

	Millions of yen		Millions of U.S. dollars
	2008	2009	2009
Within one year	¥ 12,729	¥ —	$ —
Over one year	10,722	—	—
	¥ 23,451	¥ —	$ —

* Figures omitted because obligation under non-cancelable operating leases as of March 31, 2009 was negligible.

11. Shareholders' Equity

A Japanese Corporate Law provides that an amount equal to 10 percent of cash dividends paid be appropriated to additional paid-in capital, which is included in capital surplus, or the legal reserve, which is included in retained earnings, in the consolidated balance sheets.

No further appropriation is required when the sum of additional paid-in capital and the legal reserve equals 25 percent of stated capital. Under the law, retained earnings are available for distribution at any time upon approval by the shareholders' meeting or, under certain conditions, upon approval by the Board of Directors.

12. Research and Development Expenses

Research and development expenses charged to income were ¥26,963 million ($274 million) and ¥19,567 million, for the years ended March 31, 2009 and 2008, respectively.

13. Income Taxes

The statutory tax rates used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2009 was 40.6%.

At March 31, 2009 and 2008, significant components of deferred tax assets and liabilities were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2008	**2009**	**2009**
Deferred tax assets:			
Depreciation and amortization	¥ 32,643	**¥ 45,200**	**$ 460**
Allowance for doubtful accounts	11,585	**12,990**	**132**
Disposal of fixed assets	2,566	**2,061**	**21**
Inventory write down	1,049	**6,743**	**69**
Impairment loss	42,123	**44,081**	**449**
Reserve for retirement benefits	1,164	**1,314**	**13**
Allowance for bonus payment	8,397	**8,082**	**82**
Accrued expenses	8,764	**9,087**	**93**
Net operating loss carried forward	1,507	**397**	**4**
Unrealized profits	2,423	**2,352**	**24**
Reserve for point service program	17,471	**25,428**	**259**
Accrued enterprise taxes	5,884	**9,944**	**101**
Advances received	18,923	**23,989**	**244**
Assets adjustment account	14,216	**9,477**	**97**
Other	4,831	**8,737**	**89**
Gross deferred tax assets	173,546	**209,882**	**2,137**
Valuation allowance	(8,195)	**(14,191)**	**(145)**
Net deferred tax assets	¥ 165,351	**¥ 195,691**	**$ 1,992**
Deferred tax liabilities:			
Special depreciation reserve	¥ (1,899)	**¥ (1,370)**	**$ (14)**
Net unrealized gains on securities	(12,688)	**(12,644)**	**(129)**
Retained earnings for overseas affiliates	(2,290)	**(1,229)**	**(12)**
Other	(1,213)	**(2,273)**	**(23)**
Total deferred tax liabilities	¥ (18,090)	**¥ (17,516)**	**$ (178)**
Net deferred tax assets	¥ 147,261	**¥ 178,175**	**$ 1,814**

The following table summarizes significant differences between the statutory tax rate and the Company's effective tax rate for financial statements purposes for the year ended March 31, 2009.

Effective statutory tax rate	40.6%
Adjustments:	
Permanently non-deductible items including entertainment expenses	0.2
Inhabitant tax on per capita levy	0.1
Tax credit for strengthening information base	(0.1)
Tax credit for research and development expenses	(0.2)
Goodwill amortization	0.9
Effect of equity-method investment income	0.2
Reserve for loss brought forward	(0.1)
Non-taxable dividend income	0.3
Valuation allowance	1.6
Reversal of reserve for tax	0.2
Other	(0.6)
Actual tax rate	43.1%

14. Retirement Benefits

The Company and its subsidiaries have retirement benefit plans that consist of defined benefit pension plan, a retirement lump-sum plan and a retirement benefit trust scheme.

Note that some consolidated subsidiaries have a defined contribution retirement pension plan.

The reserve for retirement benefits as of March 31, 2009 and 2008 were analyzed as follows:

	Millions of yen		Millions of U.S. dollars
	2008	**2009**	**2009**
Projected benefit obligations	¥(301,811)	**¥(290,774)**	**$(2,960)**
Plan assets	254,555	**209,082**	**2,129**
Retirement benefit trust	8,142	**8,079**	**82**
Unaccumulated retirement benefit obligation	¥ (39,114)	**¥ (73,613)**	**$ (749)**
Unrecognized prior service cost	(3,123)	**(2,649)**	**(27)**
Unrecognized actuarial differences	47,116	**80,994**	**824**
Prepaid pension cost	(22,617)	**(22,572)**	**(230)**
Reserve for retirement benefits	¥ (17,738)	**¥ (17,840)**	**$ (182)**

Net pension expenses related to the retirement benefits for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Millions of U.S. dollars
	2008	**2009**	**2009**
Service cost	¥ 10,274	**¥ 10,247**	**$ 105**
Interest cost	5,674	**5,679**	**58**
Expected return on plan assets	(5,219)	**(5,090)**	**(52)**
Amortization of prior service cost	(475)	**(475)**	**(5)**
Amortization of actuarial differences	4,020	**5,139**	**52**
Net pension cost	¥ 14,274	**¥ 15,500**	**$ 158**

Assumptions used in calculation of the above information were as follows:

Discount rate	2.0%
Expected rate of return on plan assets	2.0%
Expected rate of return concerning retirement benefit trust	0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization of prior service cost	14 years
Amortization of actuarial differences	14 years from the year following that in which they arise

15. Stock Option

Since September 2002, a stock option system has been in place in the Company. The recipients of these stock options are Members of the Board, Vice Presidents, Executive Director, employees and directors of wholly owned subsidiaries.

Method for calculating fair value of stock options

The fair value of stock options granted in 2009 and 2008 was calculated using the Black-Scholes model and the primary base values and estimation method are as follows.

	Yen		U.S. dollars
	August 2007 6th Stock Option	**August 2008 7th Stock Option**	**August 2008 7th Stock Option**
Volatility of share prices *1	23.772%	**26.937%**	
Forecasted remaining period *2	3 years	**3 years**	
Expected dividend *3	¥8,133 per share	**¥9,333 per share**	**$95.01 per share**
Risk-free interest rate *4	1.054%	**0.812%**	

*1 Calculation is based on actual stock prices over three years (August 2004 to August 2007; August 2005 to August 2008).
*2 Because it is difficult to make a rational estimate due to a lack of accumulated data, the value is estimated on the assumption that the exercise of stock options is carried out in the middle of the stock option rights exercise period.
*3 This is based on actual dividend payments during the past three fiscal years (FY2005/3 to FY2007/3; FY2006/3 to FY2008/3).
*4 This is the rate of return for government bonds for the period corresponding to the forecasted remaining period.

Scale of stock options and changes in the scale

The following lists the number of shares calculated for the number of stock options that existed in the year ended March 31, 2009.

(1) Number of stock options

			Shares
	August 2006 5th Stock Option	August 2007 6th Stock Option	**August 2008 7th Stock Option**
Before vested			
Beginning of period	4,335	4,964	**—**
Granted	—	—	**5,106**
Forfeited	17	69	**57**
Vested	4,318	—	**—**
Unvested	—	4,895	**5,049**
After vested			
Beginning of period	—	—	**—**
Vested	4,318	—	**—**
Exercised	—	—	**—**
Expired	223	—	**—**
Exercisable	4,095	—	**—**

(2) Unit value and exercise period for stock option rights

	Yen			U.S. dollars
	August 2006 5th Stock Option	August 2007 6th Stock Option	**August 2008 7th Stock Option**	**August 2008 7th Stock Option**
Exercise price	¥ 775,000	¥ 879,000	**¥ 649,000**	**$ 6,606.94**
Average share price at exercise	—	—	**—**	**—**
Fair value unit price (Date of grant)	103,462	100,549	**106,718**	**1,086.41**
Exercise period	from October 1, 2008 to September 30, 2010	from October 1, 2009 to September 30, 2011	**from October 1, 2010 to September 30, 2012**	

16. Segment Information

Information for each of the business segments for the years ended March 31, 2008 and 2009 is as follows:

Millions of yen

Year ended March 31, 2008	Mobile	Fixed-line	Other	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	¥ 2,851,679	¥ 629,647	¥ 114,958	¥ 3,596,284	¥ —	¥ 3,596,284
Intersegment sales	10,920	88,999	52,201	152,120	(152,120)	—
Total	2,862,599	718,646	167,159	3,748,404	(152,120)	3,596,284
Operating expenses	2,407,555	783,314	158,144	3,349,013	(153,181)	3,195,832
Operating income (loss)	¥ 455,044	¥ (64,668)	¥ 9,015	¥ 399,391	¥ 1,061	¥ 400,452
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures:						
Identifiable assets	¥ 1,676,103	¥ 834,264	¥ 199,880	¥ 2,710,247	¥ 169,028	¥ 2,879,275
Depreciation	228,046	115,021	8,823	351,890	(621)	351,269
Impairment losses	466	18,386	2,502	21,354	(124)	21,230
Capital expenditures	373,343	90,313	16,649	480,305	13,365	493,670

Millions of yen

Year ended March 31, 2009	Mobile	Fixed-line	Other	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	**¥ 2,708,005**	**¥ 759,313**	**¥ 30,191**	**¥ 3,497,509**	**¥ —**	**¥ 3,497,509**
Intersegment sales	**11,206**	**89,399**	**42,586**	**143,191**	**(143,191)**	**—**
Total	**2,719,211**	**848,712**	**72,777**	**3,640,700**	**(143,191)**	**3,497,509**
Operating expenses	**2,217,750**	**905,272**	**75,253**	**3,198,275**	**(143,973)**	**3,054,302**
Operating income (loss)	**¥ 501,461**	**¥ (56,560)**	**¥ (2,476)**	**¥ 442,425**	**¥ 782**	**¥ 443,207**
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures:						
Identifiable assets	**¥ 1,974,649**	**¥ 938,402**	**¥ 43,773**	**¥ 2,956,824**	**¥ 472,309**	**¥ 3,429,133**
Depreciation	**305,307**	**127,855**	**2,440**	**435,602**	**(979)**	**434,623**
Impairment losses	**43,615**	**21,928**	**2,497**	**68,040**	**6**	**68,046**
Capital expenditures	**445,846**	**134,224**	**1,814**	**581,884**	**222,757**	**804,641**

Millions of U.S. dollars

Year ended March 31, 2009	Mobile	Fixed-line	Other	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	**$ 27,568**	**$ 7,730**	**$ 307**	**$ 35,605**	**$ —**	**$ 35,605**
Intersegment sales	**114**	**910**	**434**	**1,458**	**(1,458)**	**—**
Total	**27,682**	**8,640**	**741**	**37,063**	**(1,458)**	**35,605**
Operating expenses	**22,577**	**9,216**	**766**	**32,559**	**(1,466)**	**31,093**
Operating income (loss)	**$ 5,105**	**$ (576)**	**$ (25)**	**$ 4,504**	**$ 8**	**$ 4,512**
II. Identifiable Assets, Depreciation, Impairment Losses and Capital Expenditures:						
Identifiable assets	**$ 20,102**	**$ 9,553**	**$ 446**	**$ 30,101**	**$ 4,808**	**$ 34,909**
Depreciation	**3,108**	**1,302**	**25**	**4,435**	**(10)**	**4,425**
Impairment losses	**444**	**223**	**26**	**693**	**0**	**693**
Capital expenditures	**4,539**	**1,366**	**19**	**5,924**	**2,267**	**8,191**

Notes to Consolidated Financial Statements

Notes: 1. Business segment and principal services/operations of each segment.

Business segment	Principal services/operations
Mobile	Mobile phone services, sale of phone terminals, mobile solution services
Fixed-line	Urban, long distance and international telecommunications services, internet services, solution services, data center services, cable television business
Other	Call center business, content business, research and development of advanced technologies, other mobile phone services, etc.

2. In Assets, the value of company-wide assets included in the "Elimination and Corporate" category is ¥642,076 million (U.S.$6,536 million). The majority of these assets are surplus funds provided to companies, long-term investments, and assets related to administrative divisions. Trust beneficiary rights acquired during the fiscal year under review were eliminated with the termination of real estate trust contracts. Ownership of assets held in trust has been transferred to the Company and so became its assets, which have been included as company-wide assets related to administrative divisions.

3. Change in Accounting Policy
As noted in "Notes to Consolidated Financial Statements, 2. Significant Accounting Policies", from the fiscal year under review the Company changed its accounting method for depreciation of material depreciable assets. As a result of this change, the depreciation cost in the Mobile Business increased ¥59,766 million (U.S.$608 million) for the fiscal year under review, while operating income decreased by an equal amount.

4. Change in Period of Useful Life
As noted in "Notes to Consolidated Financial Statements, 2. Significant Accounting Policies", from the fiscal year under review the Company has extended the useful life of assets. As a result of this change, the depreciation cost for the subject fiscal year decreased ¥44,465 million (U.S.$453 million) in the Mobile Business, and ¥14,075 million (U.S.$143 million) in the Fixed-line Business, with operating income in both segments increasing by an equal amount.

5. Change in Business Segments
The cable television business, other fixed-line services, other data center services, and related services, which until now have been classified in the Other segment, have been switched to the Fixed-line segment.
* Other fixed-line services and other data center services: Overseas Fixed-line Business
The KDDI Group has clarified the strategies and scope of the Fixed-line Business. In Japan, amid a competitive business environment where broadband accounts for a growing portion of the fixed-line communications market, we will develop the access line business, including "Metal-plus", FTTH and cable television, to seek stable expansion of the customer base. In the Overseas Fixed-line Business, we will seek growth in overseas businesses by providing global ICT (Information and Communication Technology) solutions, with the global data center TELEHOUSE as the central company.
In line with these measures, we have revised the scope of the previous Fixed-line Business, and from the subject fiscal year have adopted profitability management in accordance with internal controls and these business strategies. From the standpoint of disclosure as well, business segments have been reorganized to match the categories adopted for internal controls, and so provide for more accurate disclosure of the group's business operations.
Taking advantage of the change in scope of the Fixed-line Business, the method of distributing the assets of the filing company has been changed to further clarify the taxable capacity of each business segment.
The information for each of the business segments for the previous fiscal year when the business segmentation and asset distribution method of the year ended March 31, 2009 are applied, is as follows.

Millions of yen

Year ended March 31, 2008	Mobile	Fixed-line	Other	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss):						
Outside sales	¥ 2,851,679	¥ 718,348	¥ 26,257	¥ 3,596,284	¥ —	¥ 3,596,284
Intersegment sales	10,920	80,660	39,861	131,441	(131,441)	—
Total	2,862,599	799,008	66,118	3,727,725	(131,441)	3,596,284
Operating expenses	2,407,555	857,008	63,612	3,328,175	(132,343)	3,195,832
Operating income (loss)	¥ 455,044	¥ (58,000)	¥ 2,506	¥ 399,550	¥ 902	¥ 400,452
II. Identifiable Assets, Depreciation, Impairment losses and Capital Expenditures:						
Identifiable assets	¥ 1,780,759	¥ 878,266	¥ 44,429	¥ 2,703,454	¥ 175,821	¥ 2,879,275
Depreciation	228,046	122,307	1,495	351,848	(579)	351,269
Impairment losses	466	18,627	2,261	21,354	(124)	21,230
Capital expenditures	373,343	103,021	3,925	480,289	13,381	493,670

Business segment	Principal services/operations
Fixed-line	Urban, long distance and international telecommunications services, internet services, solution services, data center services
Mobile	Mobile phone services, sale of phone terminals, mobile solution services
Other	Call center business, content business, cable television business, research and development of advanced technologies, other fixed-line services, other mobile phone services, other data center services, etc.

6. Information by geographic area is not shown because net sales in Japan accounted for over 90% of total net sales in all business segments.
7. Overseas net sales are not shown because they account for less than 10% of consolidated net sales.

17. Special Purpose Companies

1. Overview of special purpose companies subject to disclosure and transactions made through such companies

The Company securitizes its properties in order to improve its financial position by reducing interest-bearing debt. This securitization is conducted using special purpose companies ("SPCs"), a particular type of limited liability company.

For the securitization, the Company transfers its real estate properties to a SPC, which procures funds from debt using these assets as collateral. The Company then receives these funds as proceeds from sale.

After securitization, the same properties are leased back to the Company. Since all investments in the SPC by anonymous associations are expected to be collected, as of March 31, 2009, we have determined that there is no possibility of incurring future losses.

As of March 31, 2009, there is one SPC with a transaction balance. Total assets in this SPC, as of its most recent closing date, amounted to ¥9,932 million (U.S.$101 million), with total liabilities of ¥9,878 million (U.S.$101 million).

Neither the Company nor any of its consolidated subsidiaries has made investments that confer voting rights in this SPC, and no directors or employees have been dispatched to it.

(Changes in Items Related to Special Purpose Companies Subject to Disclosure)

In October 2008, the Company acquired a trust beneficiary right from its SPC Central Tower Estate for the land and structures of the Shinjuku Building, Otemachi Building, Nagoya Building, and Osaka Building. As a result, the contract with the anonymous association that served as the management of this SPC was ended in December 2008. The Company, which was an investor in the anonymous association, received a dividend payment upon liquidation of the anonymous association contract, and the anonymous association investment was settled as of March 2009.

2. Transaction amounts with SPCs during the year ended March 31, 2009

Major transaction amounts for the year ended March 31, 2009 and balance as of March 31, 2009

	Millions of yen	Millions of U.S. dollars
	2009	**2009**
Transferred properties (Note 1)	**¥ 14,547**	**$ 148**
Acquired properties (Note 2)	**207,057**	**2,108**
Long-term deposits received	**38**	**0**
Investments by anonymous association (Note 3)	**727**	**7**

Main income and loss

	Millions of yen	Millions of U.S. dollars
	2009	**2009**
Dividend	**¥ 7,212**	**$ 73**
Dividend accompanying termination of contract with anonymous association	**36,284**	**369**
Lease payments	**10,606**	**108**

Notes: 1 Transaction amounts related to transferred properties are represented as the transfer price at the time of the transfer.
2 Transaction amounts related to acquired properties are represented as the acquisition price.
3 Transaction amounts relating to the investments made by the anonymous association are represented as the amounts invested as of March 31, 2009.

18. Per Share Data

		Yen	U.S. dollars
	2008	**2009**	**2009**
Net assets per share	¥ 377,278	**¥ 413,339**	**$ 4,207.87**
Net income per share	48,810	**49,973**	**508.74**
Diluted net income per share	48,807	**Figures not given as potential stocks with dilution effect do not exist.**	**—**

Note: The following shows the basis of calculating net income per share and diluted net income per share.

		Millions of yen	Millions of U.S. dollars
	2008	**2009**	**2009**
Net income per share for the fiscal year			
Net income for the fiscal year	¥ 217,786	**¥ 222,736**	**$ 2,267**
Monetary value not related to common stockholder	—	**—**	**—**
Net income for the fiscal year related common stock	¥ 217,786	**¥ 222,736**	**$ 2,267**
Average number of shares outstanding during the fiscal year	4,461,904	**4,457,117**	**4,457,117**
Diluted net income per share			
Adjustment of net income for the fiscal year	—	**—**	**—**
Increase in number of shares of common stock	323.87	**—**	**—**
(subscription warrants)	(323.87)	**(—)**	**(—)**
Overview of potential stock not included in calculation of diluted net income per share because the stock have no dilution effect	—	**Three types of subscription warrants (14,039 subscription warrants). An overview of the subscription warrants is given in “15. Stock Options.”**	**—**

19. Subsequent Event

1. The appropriation of retained earnings and directors’ and corporate auditors’ bonuses of the Company for the year ended March 31, 2009, proposed by the Board of Directors and approved at the shareholders’ meeting held on June 18, 2009, were as follows:

	Millions of yen	Millions of U.S. dollars
Year-end cash dividends (¥5,500 = US$55.99)	¥24,498	$249
Directors’ and corporate auditors’ bonuses	99	1

2. KDDI to Subscribe to UQ Communications Private Share Placement

KDDI Corporation will officially subscribe to a private placement of shares by equity-method affiliate UQ Communications Inc. (Head Office: Minato-ku, Tokyo; President and Representative Director: Takashi Tanaka; “UQ”) due to the fulfillment of conditions. KDDI’s Board of Directors decided on March 13 to subscribe to part of

the capital increase, subject to the respective decision-making bodies of UQ and all UQ shareholders, with the exception of KDDI, approving the private placement.

Payment for this capital increase was completed on May 21, 2009.
The following provides an overview of the subscription, which will have an immaterial effect on income.

1. Details of Subscription by KDDI

(1) Name of stock: UQ Communications Inc. Class A preferred stock
(2) Number of shares to be purchased: 304,668 shares
(3) Total payment for shares: 15.23 billion yen
(4) Details of preferred stock

1	Type of stock	UQ Communications Inc. Class A preferred stock
2	Call period	May 15 to May 21, 2009
3	Stock issued	600,000 shares
4	Issue price per share/Total issue amount	50,000 yen/30.0 billion yen
5	Capital-excluded amount	25,000 yen per share
6	Voting rights	None
7	Dividend	500 yen per share (prior to common stock) Any dividend shortfall is payable in arrears
8	Transfer restrictions	Board approval is needed

(5) UQ and all UQ shareholders agree that if conditions arise such as no application for listing of UQ's common stock on January 1, 2016, the Company must meet any requests from holders other than KDDI of this preferred stock for the transfer of said preferred stock to KDDI.

2. About UQ Communications Inc. (as of March 1, 2009)

(1) Founded: August 29, 2007
(2) Head Office: Minato-ku, Tokyo
(3) Representative: President and Representative Director Takashi Tanaka
(4) Capital: 17.0 billion yen
(5) Number of Employees: 208
(6) Shareholders:

KDDI	32.26%
Intel Capital Corporation	17.65%
East Japan Railway Company	17.65%
Kyocera Corporation	17.65%
Daiwa Securities Group Inc.	9.80%
The Bank of Tokyo-Mitsubishi UFJ	5.00%

(Figures are presented rounded to the nearest two decimal places.)

Report of Independent Accountants

KDDI Corporation and Consolidated Subsidiaries

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION,

We have audited the accompanying consolidated balance sheet of KDDI CORPORATION and its subsidiaries ("the Company") as of March 31, 2009, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2009, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, KDDI Corporation and OKINAWA CELLULAR TELEPHONE Co. have until now used the straight-line method for calculating depreciation on machinery and equipment in the mobile business, but from the year ended March 31, 2009 (April 1, 2008 to March 31, 2009) changed to the declining-balance method. And as described in Note 16, the cable television business, other fixed-line services, other data center services, and related services, which until now have been classified in the Other segment, have been switched to the Fixed-line segment.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

Kyoto Audit Corporation
Kyoto, Japan

July 8, 2009