Designing The Future

KDDI

SHAPING THE NEW KDDI

ANNUAL REPORT 2011

Results for the year ended March 31, 2011

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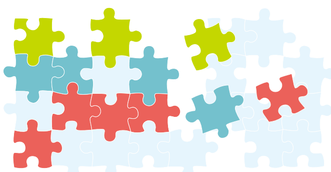
ANNUAL REPORT 2011



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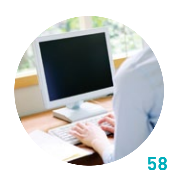

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OUR NEW STORY

Under our new President Tanaka, who assumed the position in December 2010, a new business vision and growth strategies have been released for recovery of competency and future development, and all employees are working together to practice them. This section explains the direction KDDI is going to take and its background.

We have abundant management assets that are full of potential.

1

TODAY

Management Assets Held by KDDI

For more information

With its unique foundation history resulting from the merger of three companies from different business fields and its background as a general telecommunications operator that led development of the telecommunications market, KDDI has abundant management assets that serve as a means to lead the market, which has entered a new stage of development.

Advantage of being the only domestic company to have both mobile and fixed-line businesses

KDDI is a unique corporate group that provides various access lines, including third-generation mobile phones and WiMAX in the mobile business, as well as its own access lines for Fiber to the Home (FTTH) and CATV in the fixed-line business. The Company intends to improve its advantage by proactively developing LTE (Long Term Evolution) and Wi-Fi in the mobile business, while further expanding access lines—mainly of FTTH—in the fixed-line business.

Customers who use KDDI services

Customers—including 33 million*1 using au mobile phones, 6.4 million*2 using fixed-line services, and domestic and overseas corporate clients—are irreplaceable assets for us. We believe we can provide customers with new added-value by offering both mobile and fixed-line services.

*1. (As of March 31, 2011) Subscription of au mobile phones.
*2. (As of March 31, 2011) Number of fixed-line access lines (FTTH, Metal-Plus, CATV, and Cable-plus phone)

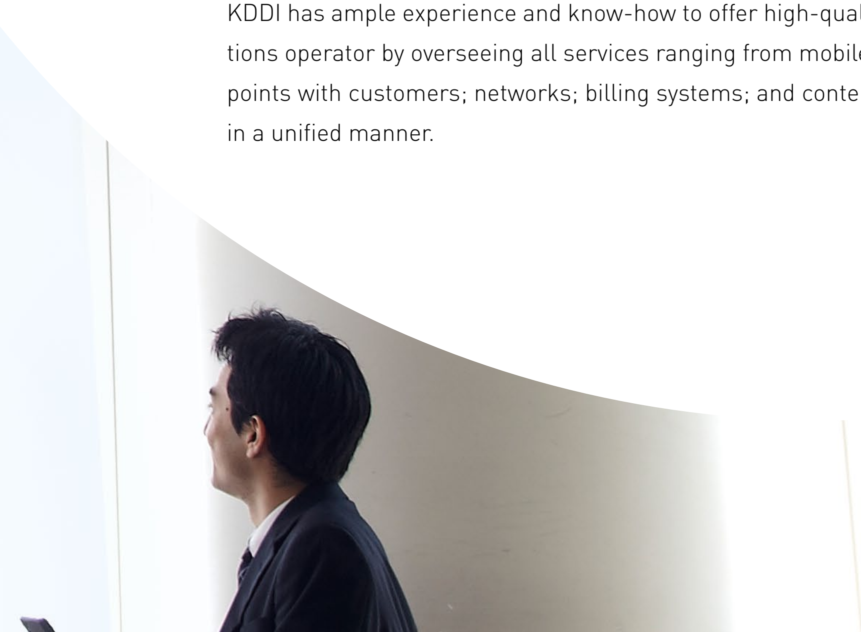
About 18,000*3 employees supporting KDDI

For KDDI, which grew to be a company with diversity due to the merger of culture from 17 companies, employees with different values are a source of competency. Under the new president, we are proceeding with reforms with "*JIBUNGOTOKA* (taking things as own problems)" and "speeding up" as key phrases.

*3. (As of March 31, 2011) Number of employees on a consolidated basis.

Experience and know-how as a general telecommunications operator in a wide variety of fields

KDDI has ample experience and know-how to offer high-quality services as a general telecommunications operator by overseeing all services ranging from mobile phone handsets, which serve as contact points with customers; networks; billing systems; and content services, which fall into an upper layer, in a unified manner.

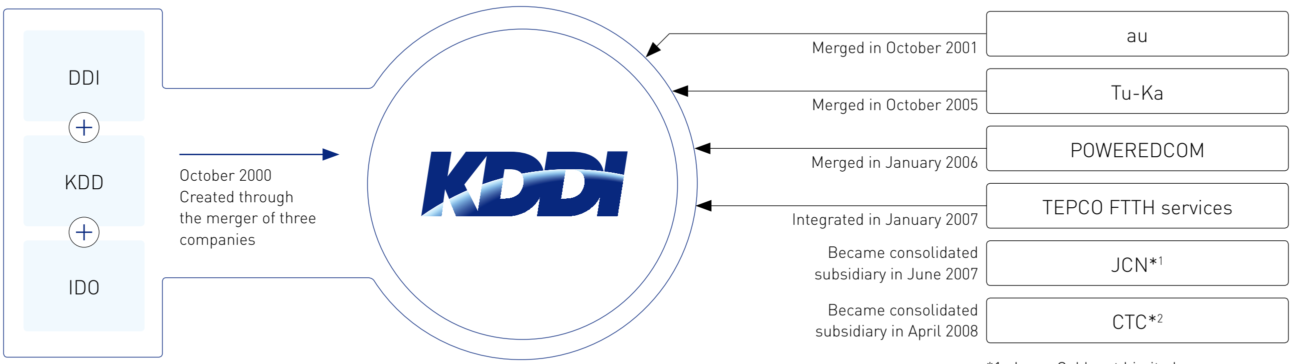


KDDI IN BRIEF

Business Overview

The KDDI Group was established in October 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION. Thereafter, we expanded our business foundation through M&As in both the mobile business and fixed-line business. We are proud to be the only company in Japan to have a uniquely comprehensive business structure combining mobile and fixed-line communications in a single company, and establishment of a solid foundation for growth.

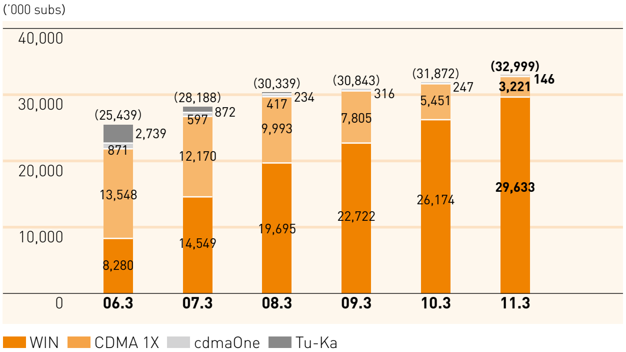
Comprehensive Telecommunications Operator Combining Mobile and Fixed-line Business



*1. Japan Cablenet Limited
*2. Chubu Telecommunications Co., Inc.

Mobile Communications: Cumulative Subscriptions

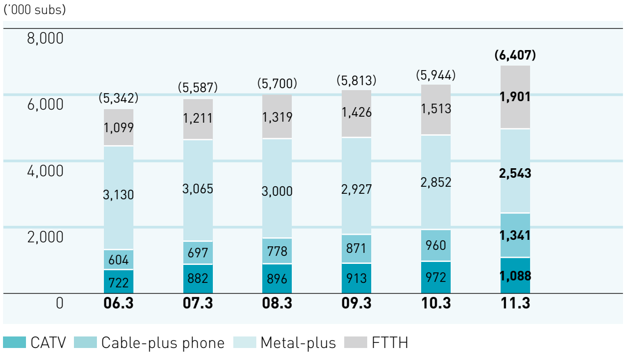
('000 subs)



* ( ) Shows total subscription

Number of Fixed-access Lines

('000 subs)

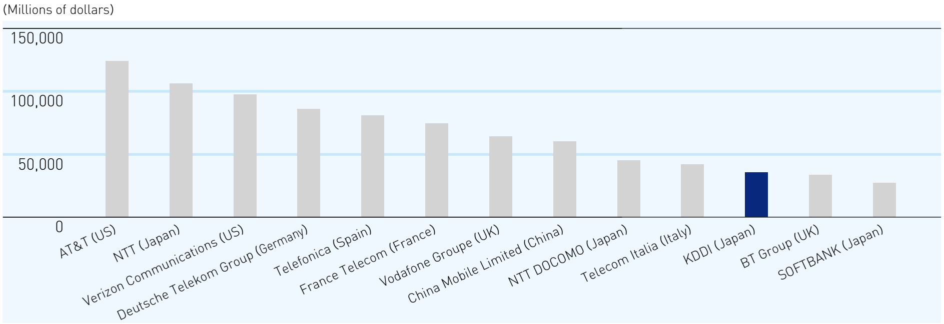


* ( ) Shows total subscription of access lines excluding cross over subscriptions.

Market Position

International Comparison of Telecommunications Carriers by Sales

(Millions of dollars)



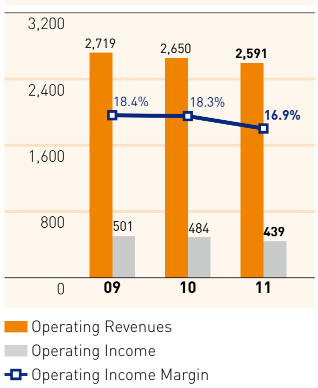
Source: Created by KDDI using "Telecom Data Book 2010" by Telecommunications Carriers Association.

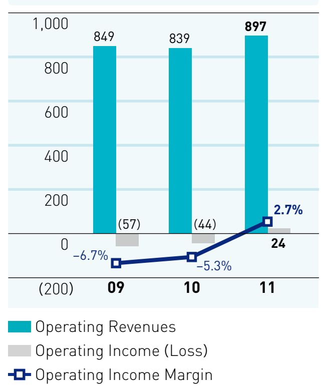
- Created to have a better idea of our business size.
- Fiscal year is FY2008, which is January 1, 2008 to December 31, 2008 for the United States, Germany, Italy, and Spain, while it is April 1, 2008 to March 31, 2009 for the United Kingdom and Japan.
- KDDI and SOFTBANK calculate sales accounting to Japanese accounting standard into U.S. dollars.

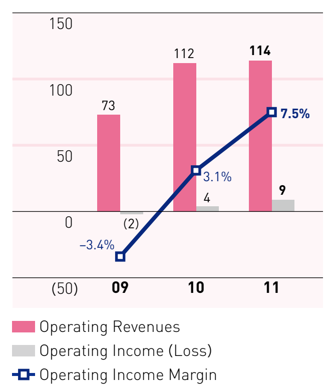
Business Overview

	Mobile Business	Fixed-line Business	Other Business
Principal Services/ Operations	Mobile telecommunications services (voice and data), sales of mobile terminals, content business, mobile solution services, etc.	Broadband services (FTTH services and cable television services, etc.), domestic and international telecommunications services, data center services, and ICT solution services, etc.	Call center service, and research and advanced development, etc.
Principal Group Companies	KDDI Corporation, Okinawa Cellular Telephone Company, KDDI Technical & Engineering Service Corporation, etc.	KDDI Corporation, JCN Group, Chubu Telecommunications Co., Inc., KDDI America, Inc., etc.	KDDI Evolva inc., KDDI R&D Laboratories, etc.
Operating Revenues	¥2,590.7 billion	¥897.3 billion	¥114.3 billion
Operating Income	¥438.9 billion	¥24.0 billion	¥8.5 billion
Capital Expenditures	¥338.7 billion	¥103.1 billion	

Operating Revenues (Billions of yen)
Operating Income (Loss) (Billions of yen)
Operating Income Margin (%)
(Years ended March 31)

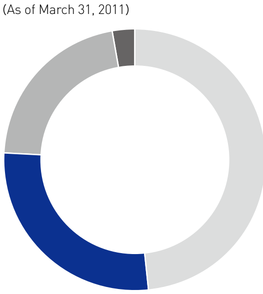






Mobile Communications: Share of Cumulative Subscriptions

(As of March 31, 2011)

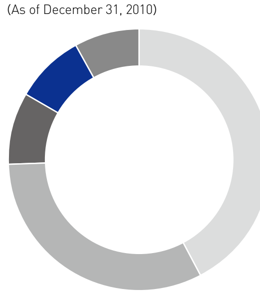


NTT DOCOMO	48.5%
KDDI	27.6%
SOFTBANK MOBILE	21.3%
EMOBILE	2.6%

Source: Telecommunications Carriers Association

Share of FTTH Subscriptions

(As of December 31, 2010)



NTT EAST	42.3%
NTT WEST	32.2%
Electric Power Utilities	9.1%
KDDI	8.6%
Other	7.8%

Source: Ministry of Internal Affairs and Communications

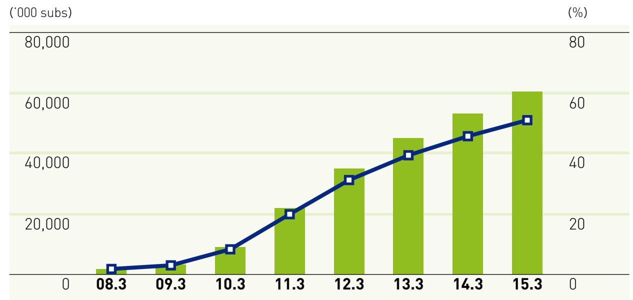
CHANGE

Change in the Business Environment Surrounding KDDI

We see change in the business environment as an opportunity for further growth.

The business environment surrounding KDDI is changing rapidly due to technological innovation in the telecommunications area, fierce global competition, and the entry of various players into the market. We see this change in the business environment as an opportunity for further growth.

Change and Expected Change of Subscriptions and Ratio of Smart Phones in Japan



Subscriptions of Smart Phones in Japan (left)
Ratio of Subscriptions of Smart Phones in Japan (right)
Source: MM Research Institute, Ltd. (Minato Ward, Tokyo)
"Change and expected change in smart phone market" (December 2010)

Rapid spread of smart phones

With the "iPhone™," launched by Apple Inc. of the United States, as a trigger, shipments of smart phones across the world rose 74% from the previous year to more than 300 million in 2010, and further rapid spread is expected. This served as one of the main causes behind the increase in domestic sales of mobile phones, which had been on a decline. Rapid spread of smart phones and tablet terminals brought major change to the market structure.

Explosive expansion of data traffic

There are forecasts that project mobile data traffic to expand 18 times in the 5 years between 2010 and 2015. This increase will be driven by the spread of such devices as smart phones and tablet terminals, which cause 10 times more data traffic than conventional mobile phones. How to counter this rapid data traffic expansion has become a major task for telecommunications operators.

Change in the business model and the nature of competition

Previously, the market has been characterized by competition between domestic telecommunications operators. However, the nature of competition is changing rapidly. Competition between various players over terminals, networks, and content layers at a global level has intensified. Vertical unified models where telecommunications operators controlled terminals, networks, and content layers in a unified manner are moving toward an open Internet model. Telecommunications operators need to react flexibly to such changes.

Due to major changes in the business environment, KDDI will undertake reforms for new growth.

DIRECTION

Business Vision and Growth Strategies of KDDI

KDDI began steps for reforms with its business vision "Three Mores" and new growth strategies, which brings out the potential of management assets and grasps the opportunities for future growth.

Business Vision

"More Connected!"

The KDDI Group will organically link its mobile networks, such as mobile phone and WiMAX, and fixed-line networks, such as FTTH and CATV, through Wi-Fi services. We aim to become a more familiar presence in our users' lives by providing a fast and comfortable communications environment and attractive content for every type of device.

"More Diverse Values!"

With the spread of IP technology such as the Internet, the domain of ICT (Information and Communication Technology) is spreading to a wide variety of different fields, including the medical, health, education, government, and environmental fields. KDDI will more actively engage with these various lifestyles and corporate activities in order to create more diverse value for customers.

"More Global!"

Turning our attention overseas, there are many emerging nations where economic growth is remarkable but the dissemination of the Internet is lagging. On the world stage, KDDI will actively open up the new markets by utilizing the experience and expertise it has accumulated in Japan with regard to ICT and content businesses.

Growth Strategies

3M Strategy

Explained on P.16–P.24 "Management Interview" and P.25–P.31 "Special Feature: Stepping Stones for Shaping Our Future"

Global Strategy

Explained on P.16–P.24 "Management Interview"

SHAPING THE NEW KDDI

We Must Have the Courage to Change KDDI

October 2010 marked the 10th anniversary of KDDI's establishment through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION. We owe our success over the past decade to the unwavering support of our stakeholders. I thank you sincerely for remaining with us during this time.

I would like to express my sincere condolences for those who lost their lives in the Great East Japan Earthquake and send my heartfelt sympathy to everyone in the stricken area.

Our mission as a telecommunications company is to provide consistently high-quality services via a reliable network. Accordingly, we have worked tirelessly to restore communications services in the disaster-afflicted region, and we will continue putting forth every effort to facilitate a swift recovery.

KDDI's operating environment is changing, marked by a transformation in the nature of competition for services. Characterizing this shift are mobile devices, including smart phones and tablet terminals, and content, such as music and video, which connect organically with various networks such as FTTH.

Amid these changes, KDDI recorded lower consolidated operating revenues for the year ended March 31, 2011, but we succeeded in achieving increase in operating income for the 10th consecutive year.

In the Mobile Business, voice ARPU declined as customers shifted to "Simple course" pricing. Temporary costs stemming from the reorganization of the 800MHz frequency also contributed to lower operating revenues and income in this segment.

We achieved a long-time goal for the Fixed-line Business, as this segment delivered positive operating income for the first time in seven years. This performance led us to surpass our initial operating income target of ¥10 billion by a large margin.

During the year ending March 31, 2012, we face a number of immediate issues, such as regaining momentum in the Mobile Business and setting in place a model to bolster revenues and income in the Fixed-line Business. We have the courage to change, and are moving forward with enthusiasm as we resolve these issues and move on to shape the new KDDI.

KDDI's three business visions are: "More Connected!," "More Global!," and "More Diverse Values!." We will keep these concepts firmly in mind as we introduce sweeping changes to our business model.

I ask for ongoing support from our stakeholders as we take on these challenges.

July 2011

Takashi Tanaka

Takashi Tanaka

KDDI Corporation President

Career Summary

Dec 2010	President
Jun 2010	Senior Vice President, Solution Business, Consumer Business, and Product Development Sector, Member of the Board
Jun 2007	Associate Senior Vice President, General Manager, Solution Business Sector, Member of the Board


KDDI

CONSOLIDATED FINANCIAL SUMMARY

Years ended March 31

Financial Results Highlights for FY2011.3

- **Consolidated operating income recorded increase for 10 consecutive years.**
- **Fixed-line Business recorded a turnaround in operating income for the first time in 7 years.**
- **Net profit surged 19.9% year-on-year.**
- **Increased year-end cash dividend by ¥1,000, annual dividend totaled ¥14,000.**

Operating revenues in the year ended March 31, 2011 amounted to ¥3,434.5 billion, down 0.2% year on year. Contributing factors included the decrease in voice ARPU (Average Revenue per Unit) in the Mobile Business, which offset an increase in the Fixed-line Business.

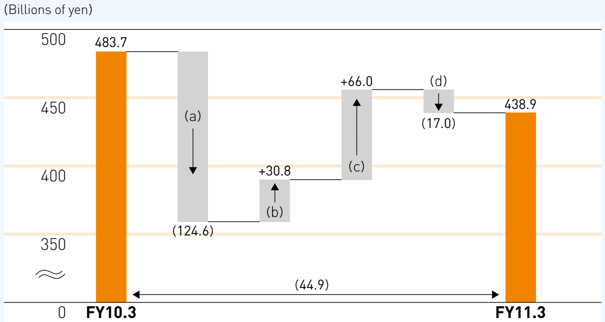
Operating income rose 6.3% year on year, to ¥471.9 billion. Net income was up 19.9% year on year, to ¥255.1 billion. This was due to the recording of extraordinary loss including loss on the Great East Japan Earthquake and impairment loss on facility used for current 800MHz band resulting from the reorganization of frequencies. In addition, income taxes dropped due to loss on liquidation of four intermediary holding companies that possessed shares of Jupiter Telecommunications Co., Ltd.

For profit distribution, we paid an interim cash dividend of ¥6,500 per share and an increased year-end cash dividend of ¥7,500 per share, up ¥1,000 year on year. The annual dividend totaled ¥14,000.

Factors Affecting Operating Income

Mobile Business

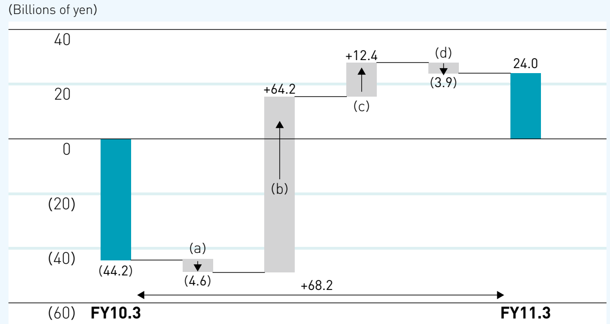
(Billions of yen)



Operating Income
(a) Revenues from Telecommunications Business
(b) Network-related Expenses* (c) Sales Commissions (d) Other
* Depreciation + Noncurrent Assets Retirement Cost + Communication Facility Fee (including Access Charges for Services)

Fixed-line Business

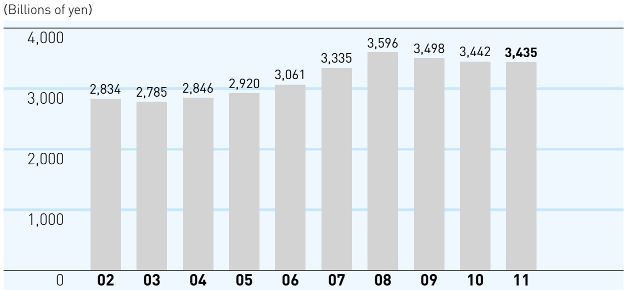
(Billions of yen)



Operating Income
(a) Non-consolidated Operating Revenues
(b) Non-consolidated Operating Expenses
(c) Group Company Earnings* (d) Other
* CTC, JCN, and Overseas Subsidiaries

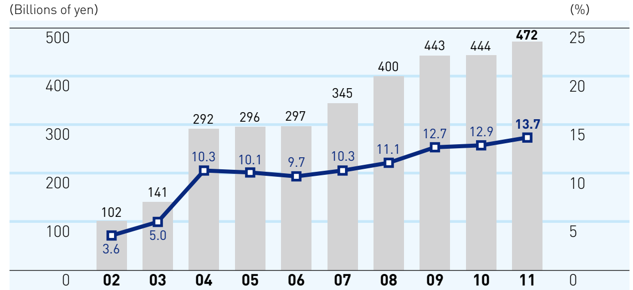
Operating Revenues

(Billions of yen)



Operating Income/Operating Income Margin

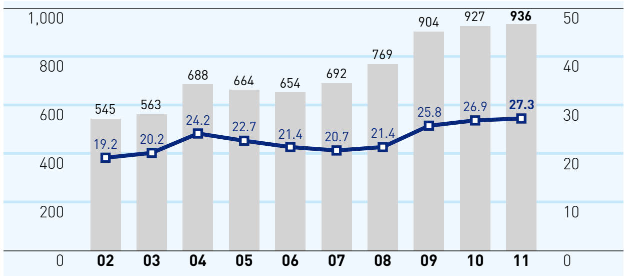
(Billions of yen) (%)



Operating Income (left) Operating Income Margin (right)

EBITDA/EBITDA Margin

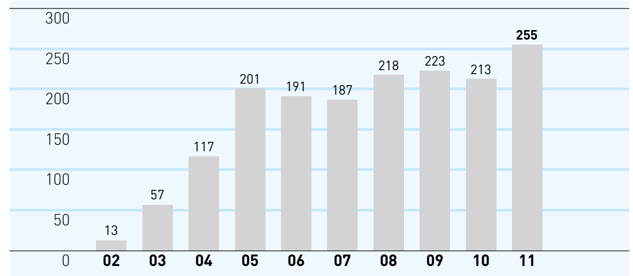
(Billions of yen) (%)



EBITDA (left) EBITDA Margin (right)

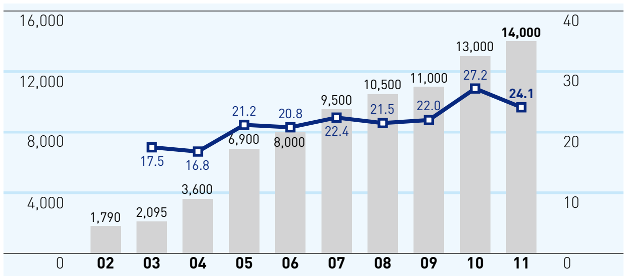
Net Income

(Billions of yen)



Dividends per Share/Dividend Payout Ratio

(Yen) (%)

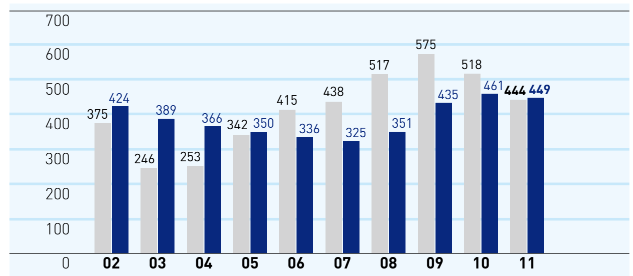


Dividends per Share (left) Dividend Payout Ratio (right)

In the year ended March 31, 2002, there was a net loss, therefore presentation is omitted.

Capital Expenditures/Depreciation

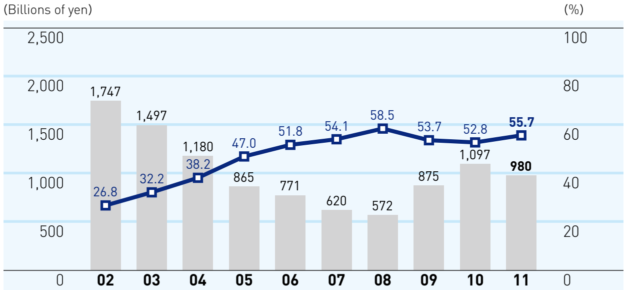
(Billions of yen)



Capital Expenditures Depreciation

Debt/Equity Ratio

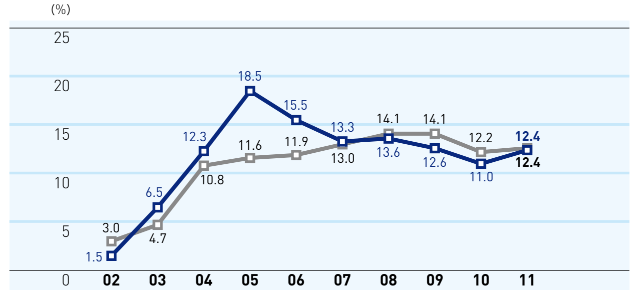
(Billions of yen) (%)



Debt (left) Equity Ratio (right)

Return on Equity (ROE)/Return on Assets (ROA)

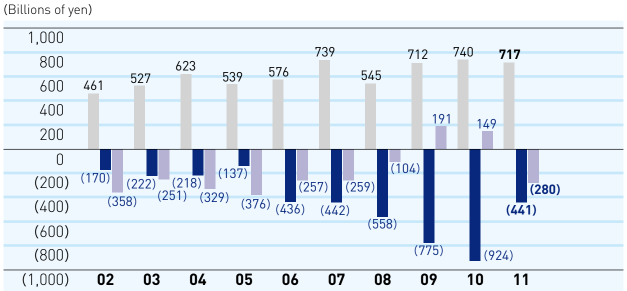
(%)



ROE ROA

Cash Flows

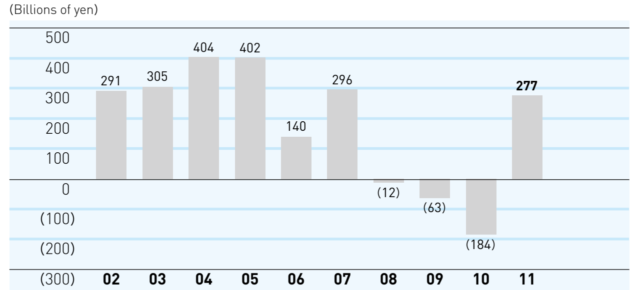
(Billions of yen)



Net Cash Provided by (Used in) Operating Activities
Net Cash Provided by (Used in) Investing Activities
Net Cash Provided by (Used in) Financing Activities

Free Cash Flows

(Billions of yen)



Five-year Summary (Years ended March 31)

Consolidated	2007	2008	2009	2010	2011 (Millions of yen)	2011 (Millions of U.S. dollars*)
Operating Revenues	¥3,335,260	¥3,596,284	¥3,497,509	¥3,442,147	**¥3,434,546**	**$41,305**
Telecommunications business	2,592,882	2,749,897	2,720,675	2,606,165	**2,489,403**	**29,939**
Other business	742,378	846,387	776,834	835,982	**945,143**	**11,367**
Operating Income	344,701	400,452	443,207	443,862	**471,912**	**5,675**
Net Income	186,747	217,786	222,736	212,764	**255,122**	**3,068**
EBITDA	691,699	769,209	904,030	927,253	**936,315**	**11,261**
Operating Income Margin	10.3%	11.1%	12.7%	12.9%	**13.7%**	**13.7%**
EBITDA Margin	20.7%	21.4%	25.8%	26.9%	**27.3%**	**27.3%**
Total Assets	2,803,240	2,879,275	3,429,133	3,819,537	**3,778,918**	**45,447**
Interest-bearing Debt	620,471	571,945	874,951	1,096,778	**979,630**	**11,781**
Total Net Assets (formerly shareholders' equity)	1,537,114	1,715,731	1,881,329	2,078,451	**2,171,839**	**26,120**
Net Cash Provided by (Used in) Operating Activities	738,703	545,234	712,231	739,992	**717,354**	**8,627**
Net Cash Provided by (Used in) Investing Activities	(442,218)	(557,688)	(775,470)	(924,442)	**(440,546)**	**(5,298)**
Free Cash Flows	296,485	(12,454)	(63,240)	(184,450)	**276,808**	**3,329**
Net Cash Provided by (Used in) Financing Activities	(258,919)	(104,410)	191,490	149,239	**(279,998)**	**(3,367)**
Per Share Data (yen and U.S. dollars):						
Net Income	42,505	48,810	49,973	47,768	**58,150**	**699**
Net Income after Adjusted the Potential Stocks	42,495	48,807	—	—	**—**	**—**
Cash Dividends	9,500	10,500	11,000	13,000	**14,000**	**168**
Total Net Assets	339,806	377,278	413,339	453,003	**495,386**	**5,958**

* U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥83.15 = U.S. $1 on March 31, 2011.

Selected Financial Indicators	2007	2008	2009	2010	2011
Equity Ratio (%)	54.1	58.5	53.7	52.8	**55.7**
D/E Ratio (times)	0.41	0.34	0.48	0.54	**0.47**
ROE (%)	13.3	13.6	12.6	11.0	**12.4**
ROA (%)	13.0	14.1	14.1	12.2	**12.4**
Total Assets Turnover Ratio (times)	1.3	1.3	1.1	0.9	**0.9**
Shareholders' Equity Turnover Ratio (times)	2.4	2.2	2.0	1.8	**1.7**
Current Ratio (%)	88.0	107.4	122.5	118.0	**153.5**
Fixed Assets to Equity (%)	136.4	132.3	139.0	146.2	**135.3**
Fixed Assets to Long-term Capital (%)	106.2	99.4	95.5	97.6	**91.7**
Liquidity In-hand (times)	0.7	0.3	0.7	0.6	**0.6**
Interest Coverage Ratio (times)	59.4	52.7	60.6	59.7	**51.1**
Dividend Payout Ratio (%)	22.4	21.5	22.0	27.2	**24.1**

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
Dividend payout ratio = Annual dividend amounts ÷ net income
Note: Sum of Shareholders' equity, Share warrant, and Minority interests

Segment Data (Years ended March 31)

Mobile Business	2007	2008	2009	2010	2011 (Millions of yen)	2011 (Millions of U.S. dollars*)
Operating Revenues	¥2,677,445	¥2,862,599	¥2,719,211	¥2,650,135	**¥2,590,725**	**$31,157**
Sales outside the group	2,662,550	2,851,679	2,708,005	2,637,806	**2,582,366**	**31,057**
Telecommunications business	2,017,516	2,149,208	2,100,289	2,004,921	**1,880,301**	**22,613**
Other business	645,034	702,471	607,716	632,886	**702,066**	**8,443**
Sales within the group	14,895	10,920	11,206	12,329	**8,358**	**101**
Operating Income	385,689	455,044	501,461	483,742	**438,886**	**5,278**
Net Income	209,458	266,472	273,120	293,175	**214,038**	**2,574**
Free Cash Flows	294,838	82,414	179,968	276,493	**244,833**	**2,944**
EBITDA	598,134	692,239	821,881	826,834	**774,390**	**9,313**
Operating Income Margin	14.4%	15.9%	18.4%	18.3%	**16.9%**	**16.9%**
EBITDA Margin	22.3%	24.2%	30.2%	31.2%	**29.9%**	**29.9%**

Explained on P.50 "OVERVIEW OF OPERATIONS"

Fixed-line Business	2007	2008	2009	2010	2011	2011
Operating Revenues	¥714,350	¥718,646	¥848,712	¥839,178	**¥897,251**	**$10,791**
Sales outside the group	610,364	629,647	759,313	751,196	**803,590**	**9,664**
Telecommunications business	548,675	565,331	618,972	600,135	**608,590**	**7,319**
Other business	61,690	64,316	140,341	151,060	**195,000**	**2,345**
Sales within the group	103,986	88,999	89,399	87,982	**93,662**	**1,126**
Operating Income (Loss)	(49,036)	(64,668)	(56,560)	(44,217)	**23,989**	**289**
Net Income (Loss)	(23,448)	(51,731)	(43,072)	(68,383)	**39,721**	**478**
Free Cash Flows	6,303	(53,897)	(40,744)	(75,673)	**35,136**	**423**
EBITDA	80,890	58,129	82,301	94,669	**151,586**	**1,823**
Operating Income Margin	(6.9%)	(9.0%)	(6.7%)	(5.3%)	**2.7%**	**2.7%**
EBITDA Margin	11.3%	8.1%	9.7%	11.3%	**16.9%**	**16.9%**

Explained on P.58 "OVERVIEW OF OPERATIONS"

Other Business	2007	2008	2009	2010	2011	2011
Operating Revenues	¥108,704	¥167,159	¥72,777	¥112,247	**¥114,327**	**$1,375**
Sales outside the group	62,345	114,958	30,191	53,145	**48,590**	**584**
Sales within the group	46,359	52,201	42,586	59,102	**65,737**	**791**
Operating Income (Loss)	6,858	9,015	(2,476)	3,506	**8,530**	**103**
Net Income (Loss)	3,571	1,247	(3,543)	1,234	**2,304**	**28**
Operating Income Margin	6.3%	5.4%	(3.4%)	3.1%	**7.5%**	**7.5%**

Explained on P.62 "OVERVIEW OF OPERATIONS"

Newly Appointed President Takashi Tanaka Outlines KDDI's Roadmap to Recovery and Growth

In this interview, we ask President Tanaka to describe KDDI's current strategies, as well as his thoughts on the Company's medium-term direction. Mr. Tanaka explains how KDDI will turn around its core businesses and defines the actions the Company will take to put in place the building blocks of the future.

Takashi Tanaka
KDDI Corporation President

Q&A KDDI's Current Challenges and Plans for the Future

Q1 When you took up the reins as KDDI's president, what issues did the Company face? What initiatives have you pursued to resolve these problems?

"I recognized that my mission was to communicate to all employees a sense of the crisis that we faced and to put the Company back onto a growth trajectory."

KDDI was formed in October 2000 through the merger of three companies—DDI CORPORATION, KDD Corporation, and IDO CORPORATION. At that time, KDDI's interest-bearing debt totaled ¥2.2 trillion. All the Company's employees had this sense of crisis and shared in the herculean task of reducing our debt level. By the year ended March 31, 2006, we had succeeded in lowering this debt to less than ¥1 trillion. Furthermore, sales of 3G mobile phone services were strong, and we were first to the market with a host of popular services, such as packet flat-rate services and "Chaku-Uta®." KDDI's star was shining.

That light gradually began to dim after the year ended March 31, 2008, when operating revenues peaked. In recent years, we have faced an uphill battle in the Mobile Business, as customers transferred to our competitors using Mobile Number Portability (MNP). Our data ARPU grew, but at a slower pace than for our rivals. We had problems in the Fixed-line Business, too. Numerous additional mergers following our initial three-company combination left us with a profusion of redundant networks. We consolidated and streamlined our network, but its speed was still unsatisfactory.

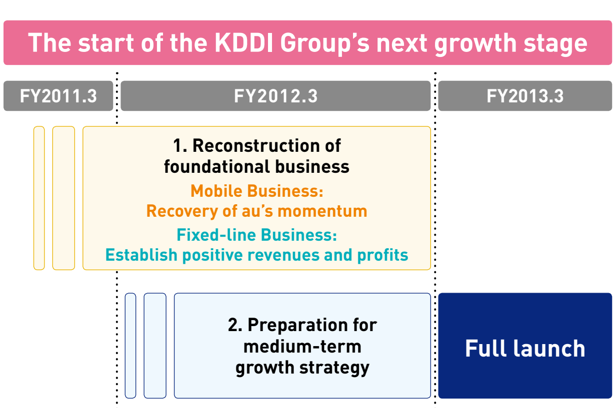
When I took the position as president, I saw it as my mission to bring KDDI back into fighting condition, and launch the Company back onto a growth trajectory. My first action was to send out a strong message to communicate a sense of crisis to all our employees and ensure that all understood the problem and were thinking along the same lines. I then unveiled our medium-term growth strategy to show them how we were going to bring back KDDI's sparkle. I have positioned the year ending March 31, 2012, as the time for us to rebuild our existing businesses and put them back into fighting condition. At the same time, we will begin preparing for the full-fledged launch of our medium-term growth strategy in the following year.

Q2 In the past, KDDI has taken a relatively conservative stance in such areas as installment sales and the introduction of smart phones. What led you to reverse course, introducing proactive measures to promote smart phones and releasing the tethering service?

"Being second in the industry made it clear that we needed to go on the offensive."

In the Mobile Business, we rank second in terms of cumulative subscriptions. It was clear that our only options were to fall back or move forward aggressively. Particularly as momentum has been declining in recent years, we now

Positioning of FY2012.3



Outlook for FY2012.3

Billions of yen

	FY2011.3	FY2012.3 (Estimated)
Operating Revenues	3,434.5	**3,460.0**
Operating Income	471.9	**475.0**
Free Cash Flows	276.8	**330.0**
CAPEX	443.7	**460.0**

have to push ahead at full speed to prevent our market presence from diminishing. I formulated these strategies deliberately, following a thorough analysis of the Company's issues and strengths.

Our delay in launching smart phones was clearly the reason for our loss of momentum in the Mobile Business. Therefore, our first move was to claw back the ground we had lost. To achieve this, we launched a major promotional campaign using "Android™ au" as a theme for our 2010 fall/winter models. We needed to quickly resolve perceptions of our inferiority by driving home the message that KDDI has changed by offering altogether new services. Starting with "Skype™ |au," launched as a "forbidden app," we have swiftly provided new services by collaborating with companies that had competitive content in an upper layer. This approach allowed us to leverage KDDI-specific strengths to deploy one differentiation strategy after another. The introduction of "+WIMAX" and the release of the tethering service ahead of other companies are just two examples of these services.

Q&A Plans for the Upcoming Year: Rebuilding Our Core Businesses

Q3 Please describe your policy of "recovering au's momentum" in the Mobile Business.

"We will comprehensively enhance the appeal of our product offerings and our sales capabilities to improve four key performance indicators (KPIs)."

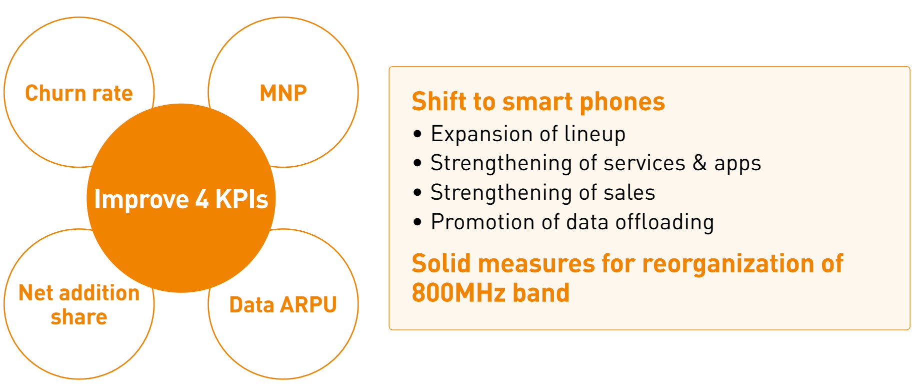
To attain "recovery of au's momentum," even more importantly than sales and profit targets, we need indicators that are easy for all employees—including sales staff—to understand. For this reason, I defined our four most important KPIs as the churn rate, MNP, share of net additions and data ARPU.

Of these four KPIs, churn rate is the most important because, given the limited number of potential subscribers, there is a growing market tendency for operators to try to snatch subscriptions from rival companies rather than cultivating their own new subscriptions.

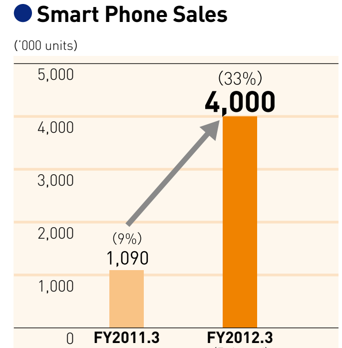
Therefore, it is vital to retain customers. The second indicator, MNP, is a barometer of our competitiveness and capability as a telecommunications operator. Improving the share of net additions, which includes such new markets as communications modules, is next in terms of priority. Next, we try to boost data ARPU, which drives future growth. I believe that if we are successful in improving these four KPIs, higher revenues and income will follow.

The key to achieving these KPIs lies in the shift to smart phones. In addition to enhancing our market presence, increasing our sales of smart phones, which are driving the market's growth, and expanding this user base relates

● Mobile Business: Recovery of au's Momentum



● Smart Phone Sales



* ( ) is the percentage of smart phone sales in all terminal sales.

directly to higher data ARPU. To raise sales, in the year ending March 31, 2012, we are targeting sales of 4 million smart phones—about four times the previous year's number—equating to around one-third of all the mobile devices KDDI sells. Putting this plan into practice requires us to comprehensively improve the appeal of our handsets, services, apps, and networks. We will make a thoroughgoing effort to strengthen both product appeal and sales capabilities.

Q4 Please describe your specific handset strategies.

"We will augment our lineup with a variety of new models to expand our smart phone user base."

Our handset strategy going forward will involve a clear shift to smart phones and an expanded handset lineup. Rather than simply increasing the number, however, we will introduce models that feature "au-ness"—in other words, models that excite users. For example, we can differentiate our models through design, as most smart phones currently on the market are essentially the same shape. I also believe we can release models with unique user interfaces (UIs). "INFOBAR A01," our summer model, is a good example.

Specifically, we will add three model genres to strengthen our smart phone lineup and thereby expand our customer base.

The first genre will include functions that have become commonplace among Japanese customers with feature phone, such as carrier mail, "Osaifu-Keitai" and "one seg." Offering these features is essential if we are to expand our smart phone customer base. As we pay close attention to UI and other ease-of-use factors, we will augment the lineup.

Second, we will proactively promote global models for high-end users. We intend to highlight our uniqueness by also featuring on these phones certain functions that have become commonplace for Japanese customers.

Furthermore, "HTC EVO WiMAX ISW11HT," released in April 2011, is compatible with "+WiMAX" and so allows WiMAX downlink speeds of up to 40Mbps. We will position "+WiMAX" models as strategic products that differentiate KDDI from its competitors.

Q5 How will you strengthen your sales capabilities?

"We will strengthen our capabilities both at au shops, which are central to our sales, and at mass retailers."

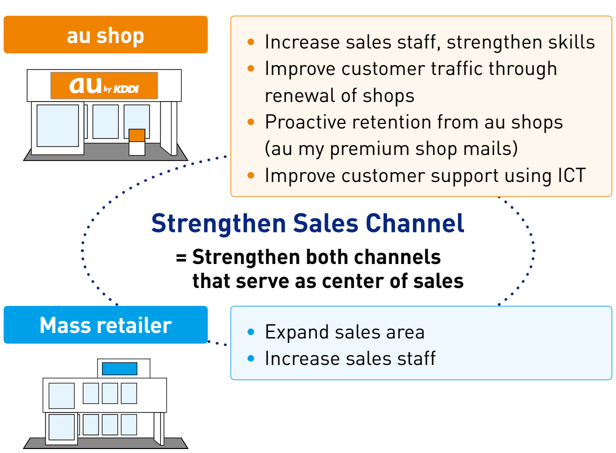
During the era of feature phones, growth in subscriptions slowed and market activity concentrated on retention. At that time, a marketing strategy that centered on boosting customer satisfaction through au shops made sense. Now that we have entered the age of smart phones, for which the market is expanding rapidly, customers tend to visit mass retailers that have an extensive lineup of models. This allows customers to compare competing models before making a purchase. In line with this trend, we will strengthen our sales force at mass retailers by expanding our floor space and increasing the number of sales staff. Meanwhile, we will boost retention by renovating au shops to attract additional customers and by using ICT to improve customer service. In these ways, we will simultaneously enhance both our offensive and defensive positions. We will encourage customers to take advantage of "Maitsuki Discount" to reduce the up-front cost of customers of buying a smart phone, while equalizing KDDI's sales costs.

Q6 What is the background for your strategy of offering reasonable pricing plans on such services as "+WiMAX" and "au Wi-Fi SPOT?"

"In this unique KDDI service, we take advantage of our multiple networks to reduce network costs and improve customer satisfaction."

Compared with feature phones, data traffic is about 10 times higher for smart phones. As handset quality improves and the ratio of smart phone users increases, mobile networks will not be able to handle the traffic volume on their own. As raising prices by 10 times or increasing the number of base stations by that multiple are not options, the only answer is to offload data traffic to fixed-line networks, which have lower costs per bit. Shifting network traffic from 3G networks to networks having a lower cost per bit allows us to reduce the total network cost. We also expect that most data traffic for users who subscribe to "+WiMAX" will be offloaded to WiMAX. Therefore, even a reasonable fee of ¥525 per month can be profitable if viewed in the light of the whole network as well as our ability to improve customer satisfaction by providing

Strengthen Sales Channel



Expand Smart Phone Usage through "Maitsuki Discount"

access to high-speed network communication. Our idea of providing "au Wi-Fi SPOT" for free to smart phone customers who subscribe to flat-rate data pricing plans is based on the same concept. By using WiMAX as backhaul for Wi-Fi spots, we can shorten the time needed to set up Wi-Fi spots and curtail capital expenditures. We also reduce total network cost by offloading mobile data traffic from 3G.

Q7 Please explain your strategies for raising revenues in the Fixed-line Business, as well as your cost-cutting initiatives.

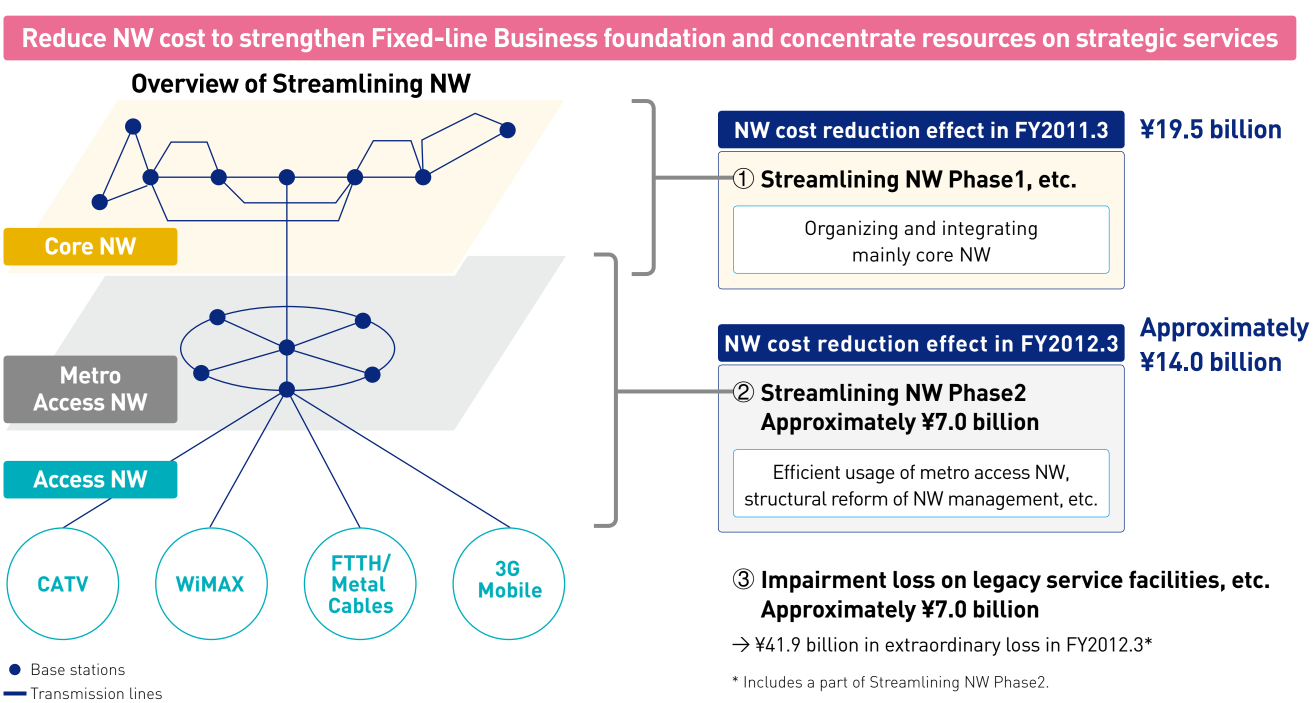
"We aim to raise the revenues of KDDI on a parent company basis by expanding our customer base for the FTTH business and strengthening our solution business for corporate clients."

During the year ended March 31, 2011, we achieved cost reductions chiefly by streamlining networks, thereby fulfilling our commitment to move the Fixed-line Business into the black. Going forward, we will concentrate on expanding top-line revenues.

In the past few years, Group subsidiaries such as JCN and CTC have steadily increased their revenues, while the revenues of KDDI have fallen on a parent company basis, mainly owing to lower revenues from legacy voice services. To boost consolidated revenues, raising KDDI's revenues is essential. As priority measures to achieve this, we will move swiftly to turn the revenue situation around by expanding our FTTH customer base, and by expanding our solution business for corporate clients through bolstering our network infrastructure to provide cloud services.

On the income front, we will continue to streamline our networks, with the aim of reducing network-related costs. During the year ended March 31, 2011, slimming our core networks led to a year-on-year cost reduction of around ¥19.5 billion. In the year ending March 31, 2012, we expect to achieve a further year-on-year reduction of approximately ¥14.0 billion. In addition to the positive impact of having handled impairment loss on legacy service facilities in the preceding year, as the second step of our streamlining process we will target more efficient use of metro access networks and move forward with structural reforms on operations and maintenance.

● Fixed-line Business—Streamlining Network (NW)



Q&A Plans for the Upcoming Year: Preparing for a New Age

Q8 Please provide an overview of your 3M Strategy and the background for its formulation.

"An excellent growth opportunity has emerged for KDDI, which owns multiple networks."

KDDI's operating environment is undergoing major changes, and smart phones are the handsets at the locus of this reform. The adoption of the touch panel was a revolutionary step forward in UI. With processors faster than 1GHz and high-definition displays, the performance of smart phones also has increased swiftly. Each year, the networks that support this functionality are becoming faster as well. The environment has changed to the point where we communicate via such devices as smart phones, tablet terminals, and PCs without giving much thought to whether we are using mobile or fixed-line networks. We have arrived in the era of the true mobile Internet.

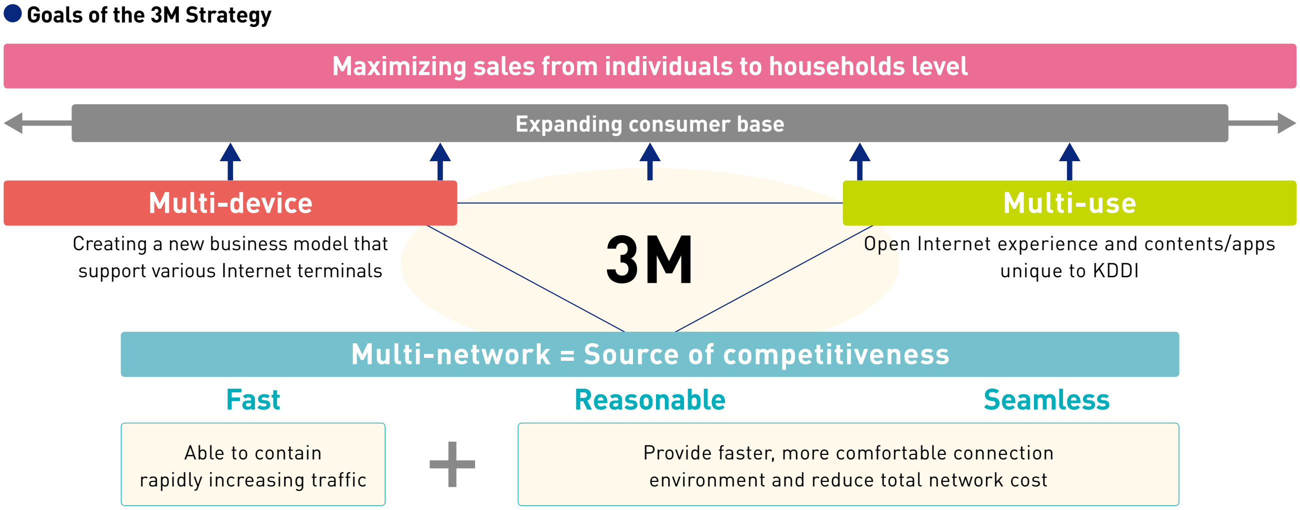
This upheaval in the environment provides a perfect opportunity for KDDI to achieve new growth, as we have a "multi-network" advantage over our competitors.

KDDI's fixed-line services include FTTH and CATV, while its mobile communications employ 3G and WiMAX. Furthermore, LTE services will commence in December 2012. We can create a "multi-network" environment by organically combining Wi-Fi with these networks. By connecting multiple devices, such as smart phones, tablet terminals, PCs, automobiles, home electronics, and other devices over multiple networks, we can expand our customer contact points according to the formula "number of access lines x number of devices." Furthermore, by enhancing the apps and content on devices, we can change the formula to "number of access lines x number of devices x apps/content," creating new scenes in which people use our services. The 3M Strategy consists of these concepts of "multi-network," "multi-device," and "multi-use," in which we aim to offer seamless services without a recognizable difference in networks.

The strategy has another important facet. Now that we have arrived in the age of the true mobile Internet, centered on smart phones, the problem of how to support the rapid increase in data traffic has come to the fore. KDDI, however, has the ability to ensure a convenient communication environment, as the Company can handle data traffic efficiently within its own multi-network environment, thereby reducing total network costs.

Adopting more of a medium- to long-term perspective, we can expand our areas of business even further. We currently provide such entertainment categories as music, sports, and books, mainly on our mobile phone platform, but we could also combine information communication technology (ICT) and lifestyle-related infrastructure in the health, medical, government, education, energy, and automotive categories.

Goals of the 3M Strategy



In the future, we can leverage our multiple networks to achieve a new type of communication outlined in the 3M Strategy, creating a rich social infrastructure offering high quality and at low cost using ICT. I believe that only KDDI has this capability. Going forward, we will create a new business model based on the 3M Strategy.

Q9 How does the 3M Strategy envision a new revenue model?

"We will maximize revenue on a household basis."

Offloading data traffic to fixed-line communication networks essentially means that fixed-line and mobile communications are linked to form a single network.

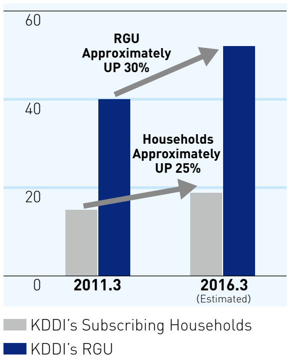
The unit for service subscriptions to fixed-line communication networks such as FTTH and CATV are generally the household rather than the individual, which suggests a new business model. If we can get customers to choose KDDI for their entire household, including mobile and fixed-line communication networks, we can provide them with convenient communication services at home without them noticing any network differences, while they enjoy pricing advantages.

Armed with a high-speed and convenient communications environment employing multiple networks with reduced network cost as a competitive advantage, we should be able to aggressively expand our customer base. Our target is to increase the number of households using our services from more than 15 million as of March 31, 2011, by approximately 25% by March 31, 2016. Also, RGUs* numbered around 40 million as of March 31, 2011. We aim to increase this figure by approximately 30% by March 31, 2016. The number of households and RGUs are important management indicators for our 3M Strategy, as we aim to expand our revenue on a household basis.

* RGUs: Revenue-generating units

Targets for Subscribing Households and RGU

(Million units)



Q10 What measures will you take in the year ending March 31, 2012, with regard to the 3M Strategy?

"We will steadily lay the stepping stones for a full-scale rollout in the year ending March 31, 2013."

At the network layer, we will promote our "multi-network" advantage by using 3G and LTE as area infrastructures, Wi-Fi to meet high traffic demand, and WiMAX for high speeds. In this way, we will move ahead with infrastructure development that meets demand for high speeds and lower costs per bit. In June 2011, we began providing "au Wi-Fi SPOTs" as free public wireless LAN services, and we plan to expand the number of spots to around 100,000 by March 31, 2012.

At the device layer, in addition to feature phones and smart phones, we will expand our lineup of tablet terminals, ebook readers, and other devices to increase our number of customer contact points.

At the content layer, we will increase our offerings of open content through collaboration with prominent content vendors. By building a business model that combines unique functions and resources that are only possible through our network infrastructure with influential content, we can offer services that raise added value for both parties. Meanwhile, we will proactively develop carrier-planned content for smart phones, such as "LISMO!" and "au Smart Sports," while introducing flat-rate and subscription models suited to cloud services.

→ For details please refer to P. 25–31 "SPECIAL FEATURE: Stepping Stones for Shaping Our Future."

Q11 Please outline your Global Strategy.

"In the year ending March 31, 2016, we plan to double revenues compared with the year ended March 31, 2011."

In Japan, a falling birthrate and an aging population have caused domestic demand to stagnate. At the same time, globalization is accelerating. To sustain KDDI's development amid these changing social circumstances, we recognize the need to broaden our perspective from a domestic market that offers limited growth potential to embrace the broader world.

In terms of global business, we will establish a stronger global ICT infrastructure by reinforcing our existing businesses, including data centers, wholesale, system integration, and networks, as well as by creating synergy between them.

In addition, we will draw upon the expertise that we have cultivated in Japan to engage more actively in consumer businesses overseas. We will expand our global business in Asian and other emerging markets, which have a population of more than 2 billion people and economies that are expected to grow, by developing Internet ISP, WiMAX, and content businesses.

One recent such development was via bracNet, Bangladesh's largest Internet service provider, in which we made an investment in 2009 to develop Internet business using fixed-line WiMAX. At present, Bangladesh has a population of 150 million, but only 2% of these people have Internet access. In fact, in more than 130 countries, less than 30% have Internet access. I believe that we can expand our business as these countries grow.

Through initiatives such as these, by the year ending March 31, 2016, we expect to double the ¥160 billion in revenues we recorded during the year ended March 31, 2011, turning global business into a pillar of the KDDI Group's operations.

Q12 Please tell us your thoughts on cash flow allocation and returns to shareholders.

"Our first priority will be on applying cash flow toward growing the business, such as through capital expenditures and by expanding our customer base."

Each year, cash flows from operating activities amount to around ¥700 billion. We expect free cash flow for the year ending March 31, 2012, to be a positive ¥330 billion.

Our capital expenditures peaked in the year ended March 31, 2010. In the year ending March 31, 2012, we are planning expenditures of ¥460 billion, up 3.7% from the preceding year. Over the medium to long term, we expect capital expenditures to be at around the same level as it was during the year ended March 31, 2011 (¥443.7 billion), owing to our promotion of a multi-network strategy. We are also planning LTE-related capital expenditures. By investing efficiently to leverage multiple networks, we expect to be able to reduce our investment in base stations to around ¥300 billion, compared with the ¥515 billion that we had planned to invest over the five years to the year ending March 31, 2015. We will invest in M&As on an as-needed basis, where it appears likely to help us achieve future growth.

Our return to shareholders centers on dividends. In the year ended March 31, 2011, dividends for the year amounted to ¥14,000 per share, up ¥1,000 from the preceding term. This figure included an interim dividend of ¥6,500 and a year-end dividend of ¥7,500.

We expect to pay dividends of ¥15,000 per share for the year ending March 31, 2012, comprising ¥7,500 per share at mid-term and year-end. We intend to steadily raise the consolidated payout ratio to around 25–30%.

During the year ended March 31, 2011, we acquired about ¥100 billion of our own shares. Depending on our cash flow situation, we will also continue to keep this option in mind as a way of returning value to shareholders.

Global Strategy

Make Global Business a Pillar of the KDDI Group's Operations

Synergy of Existing Business

Establishment of Global ICT Foundation

- Strengthen price competition ability
- Add high value
- Strengthen non-Japanese client foundation

Wholesale / Data Center / SI / Network

Expand each business — Strengthen synergy

New Business

Development in Developing Countries/Asia

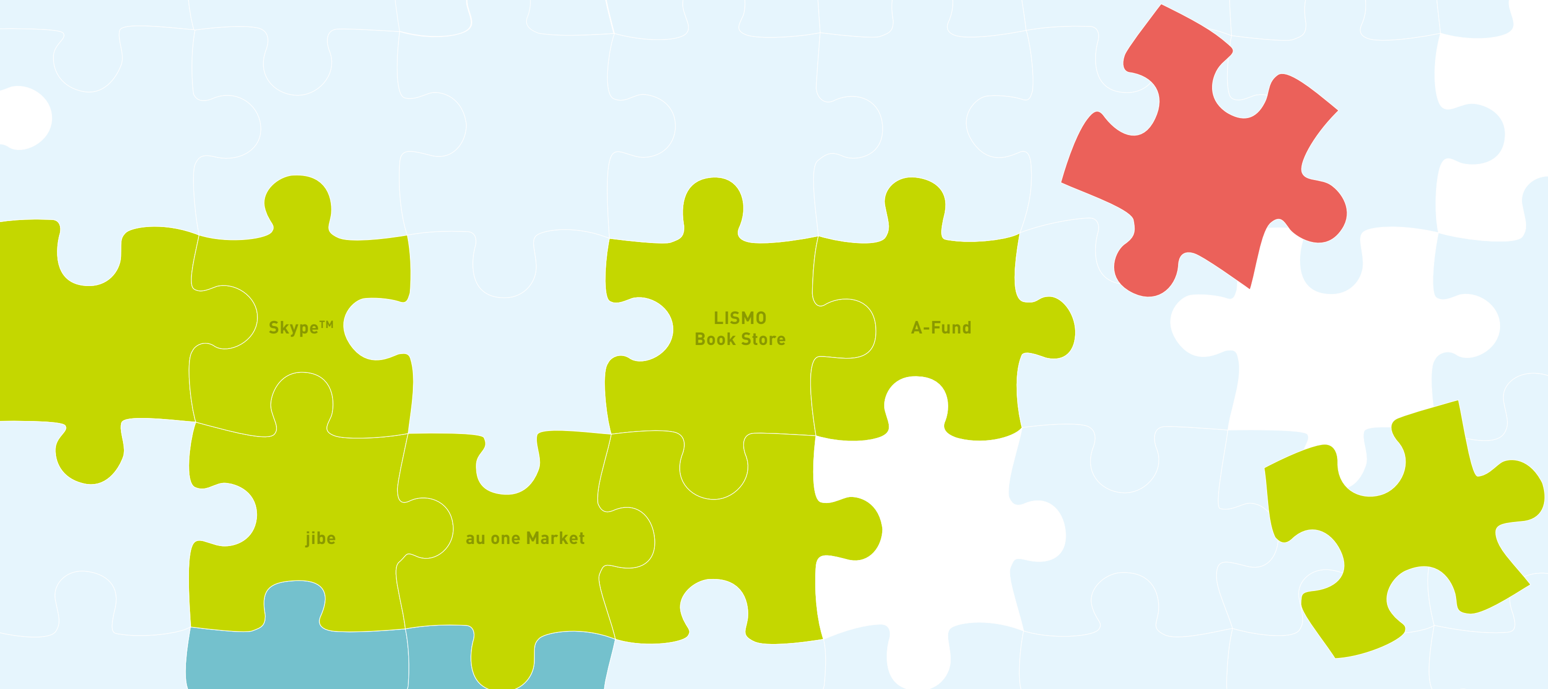
- Reach the market of 2 billion people
- Expand the consumer business on a global basis
- Internet/international remittance/contents

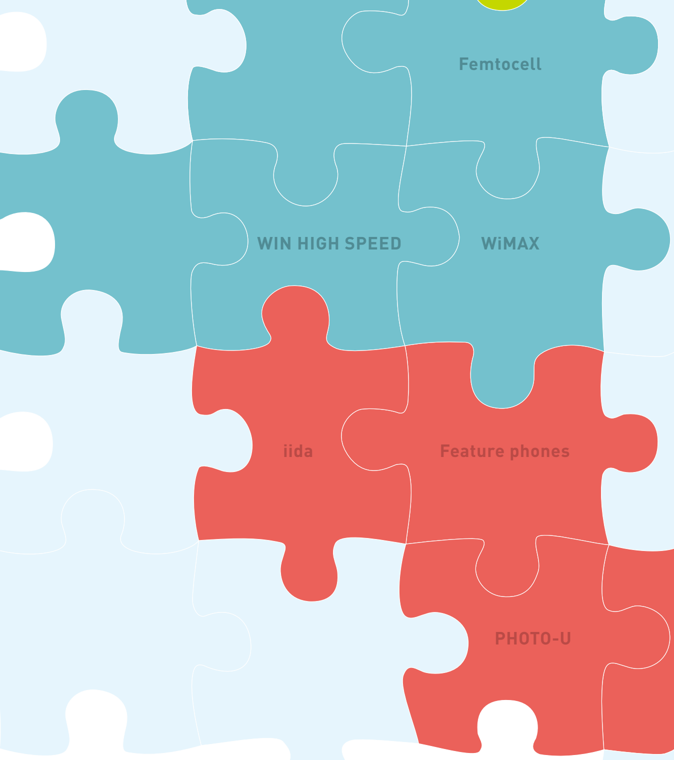
Use Knowledge & Experience in Japan

Internet ISP — WiMAX — Contents

au one NET — UQ WiMAX — LISMO!

Stepping Stones for Shaping Our Future





KDDI is continuously creating new and audacious measures under its new president, Mr. Takashi Tanaka. These efforts will serve as stepping stones in creating KDDI's future.
This special feature introduces KDDI's strategic efforts, which it will advance steadily as if completing a puzzle, to achieve further growth while providing excitement to its customers.

3M Strategy

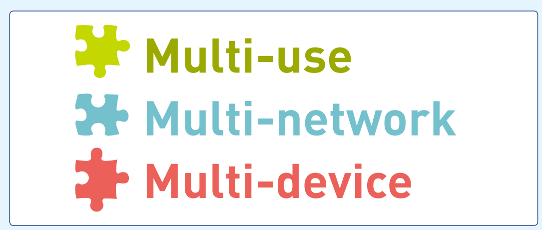
KDDI's New Strategy for Growth

3M Strategy—Its Background

In the global information telecommunications market, competition among telecommunications operators, terminal manufacturers, contents providers, etc., are becoming fierce. New services such as combining highly functional terminals and cloud-type services are being born, while business models are rapidly evolving.

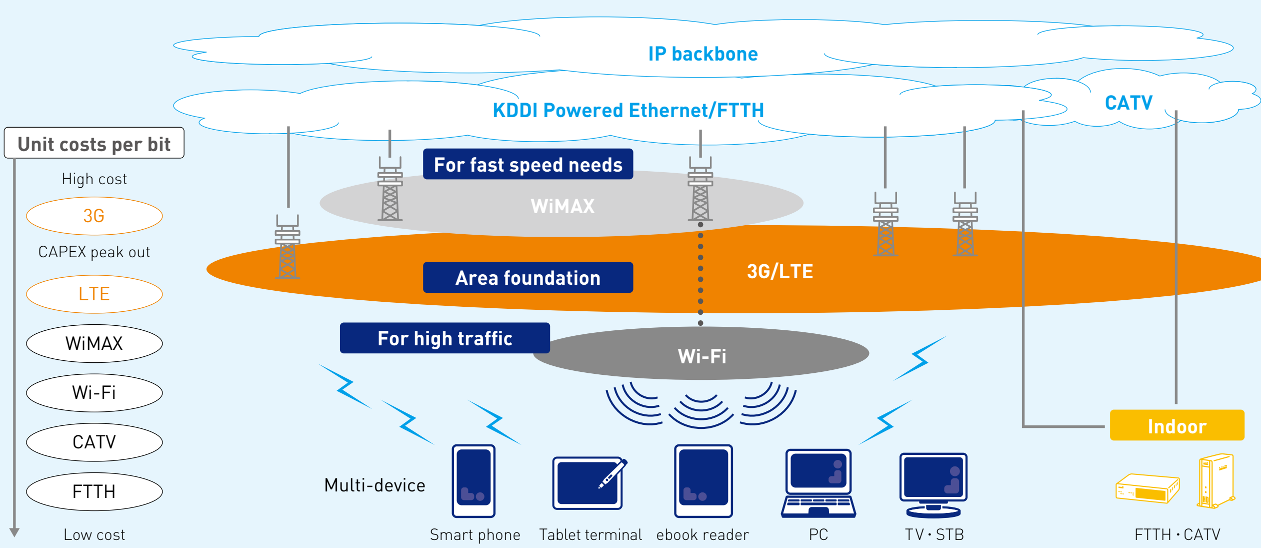
As a result, existing telecommunications operators are expected to become "dumb pipe" in the future, which only exist to provide telecommunications lines while endless price competitions arise.

However, we have no intent of becoming "dumb pipe." Rather, we will use our management resources at the maximum level to raise additional values of our services. By promoting the "3M Strategy"—named after "multi-network," "multi-device," and "multi-use"—we aim for growth of the domestic consumer business and the realization of becoming "smart pipe."



"Multi-network" is a Source of KDDI's Competitiveness

In the Mobile Business we provide 3G (third-generation mobile phone) and WiMAX, which is supplied by our group company UQ Communications Inc., while offering FTTH and CATV in the Fixed-line Business. Preparation is underway for the LTE service commencement in December 2012. Having various mobile and fixed-line networks is a source of KDDI's competitiveness, and the "multi-network" constructed by these networks is the pillar of the 3M strategy, created as a medium-term business strategy.



Aim of the "Multi-network"

Support Rapidly Increasing Traffic

With the transfer to smart phones from conventional feature phones, data traffic per user has expanded about 10 to 20 times. In the five years between 2010 and 2015, domestic mobile data traffic is expected to expand by about 18 times.

We are trying to manage this mobile data traffic that cannot be supported by 3G and LTE by offloading it to fixed-line networks so that we can efficiently support rapidly increasing traffic.

Providing a High-speed and Comfortable Telecommunications Environment

We are creating the foundation for our area network utilizing "WIN HIGH SPEED (EV-DO Multi-carrier)," which offers a maximum downlink speed of 9.2 Mbps, and LTE, whose service starts in December 2012, while offering high-speed and reasonable Wi-Fi at home and in urban areas where high traffic is expected. We will respond to the needs for high-speed communication with WiMAX, offered by UQ Communications, which allows for a maximum downlink speed of 40Mbps. We will offer the best service among various high-speed communication services according to the environment to meet the high-speed communication needs of customers.

Reduction of Network Costs

All areas of the mobile phone network have been covered using 3G networks. In the future, we will use public wireless LAN or WiMAX, whose per bit cost is more reasonable, outside of high-traffic areas such as stations. We will try to reduce network cost by using appropriate network technologies in appropriate areas, such as using fixed-line networks including FTTH and CATV as offloading devices at indoor areas.

We also aim for major network management cost reductions by sharing backhaul lines that connect 3G and WiMAX base stations with main networks, which were connected individually before.

KDDI intends to maximize its competitive superiority of having both mobile and fixed-line networks and will create a new world where various contents and apps are used seamlessly by connecting to various networks as if it were just one network. To achieve these objectives, we are implementing the 3M Strategy. In the following pages, we will introduce initiatives, which will serve as "strategic puzzle pieces," implemented under the "multi-network," "multi-device," and "multi-use" themes.

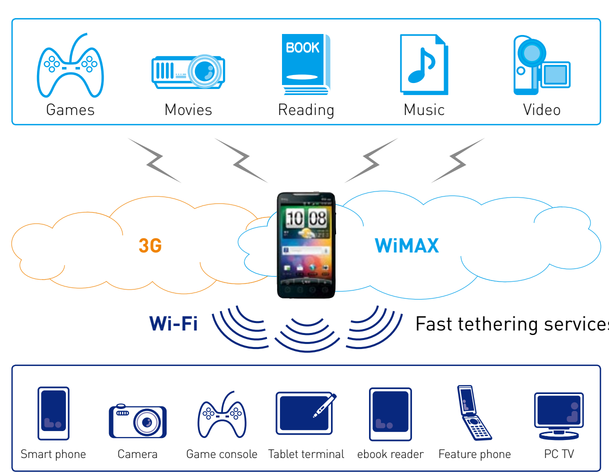
CLOSE-UP

"HTC EVO WiMAX ISW11HT" Realizes the Strength of "Multi-network"

"HTC EVO WiMAX ISW11HT" (hereafter, "ISW11HT"), released in April 2011, is a terminal that realized the usage of a high-speed and comfortable telecommunications environment through "Multi-network."

In addition to au's 3G network and Wi-Fi, ISW11HT has WiMAX communication function with a data communication maximum downlink speed of 40Mbps. With the "Wi-Fi tethering function," it can also serve as a wireless LAN router to connect up to eight wireless LAN devices. This tethering function can be used for an additional monthly charge of only ¥525 (including tax).

Through this high-speed and comfortable telecommunications environment and competitive price settings, we aim to raise the convenience of users while differentiating and securing our competitiveness in comparison to other companies. By proactively launching "+WiMAX" models such as ISW11HT, we will promote the offloading of rapidly increasing mobile data traffic to WiMAX/Wi-Fi.



Multi-network Stepping stones for multi-network

"Wi-Fi" that serves as the key to Multi-network

Wi-Fi serves as the key to organically combining mobile and fixed-line networks to promote "multi-network." KDDI started offering "au Wi-Fi SPOT," a public wireless LAN service that allows comfortable Internet communication using au smart phones outdoors from June 2011.

Special Features of "au Wi-Fi SPOT"

Easy, Comfortable, and Safe

With the specialized application "au Wi-Fi connection tool" developed by KDDI R&D Laboratories, anyone can easily connect to Wi-Fi without inputting an ID or password. It automatically switches to the best connection such as Wi-Fi and 3G according to the radio wave condition so that customers can use Internet comfortably. In addition, it works with "WPA2-PSK (AES)" *, an encryption system that realizes high security, to prevent wiretapping, spoofing, and illegal access by a third party to allow safe Wi-Fi connection.

* Only using "au Wi-Fi SPOT" and certain roaming areas.

Automatic connection by just one touch

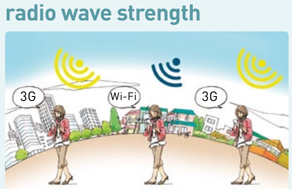
No need to input ID or password

Tap widget

Set up completed!

Automatic switch over between

Wi-Fi and 3G according to radio wave strength



Comfortable connection anywhere anytime

A Large Number of Access Points

Of 100,000 spots, about 10,000 spots are access points by such affiliates as Wire and Wireless Co., Ltd.*, and UQ Communications Inc. Approximately 90,000 of our own access points can be rapidly developed by actively using WiMAX as backhaul network and hence avoid construction of cable lines.

* Develops wireless broadband business using pubic wireless LAN under "Wi²" brand and became a consolidated subsidiary in October 2010.

au Wi-Fi SPOT

About 100,000 spots, the largest level in Japan

POINT Largest number of access points in Japan with 100,000 spots, usage free, apps anyone can use easily.

Airports

Stations

Hotels

Cafes

Expanding the number of useable spots, including au shops and commercial facilities

Price Plans with Competency

Customers subscribing to packet communication flat-rate service "IS Flat" or "Plan F(IS) Simple/ Plan F (IS)" can use with au smart phones for free of charge.

This would take out obstacles of usage and promote data offloading mainly of users of smart phones that have higher traffic.

Multi-device Stepping stones for multi-device

Expand touch points with clients using various devices

Of "devices" that serve as touch points with clients, various devices such as smart phones, tablet terminals, and ebook readers have been introduced in addition to feature phones. By connecting them to networks, we can create a variety of usage styles for our customers.

Regarding smart phones that serve as the core of "multi-device," we have introduced six models that pursue usability of a wide range of users as the summer models. "INFOBAR A01," the first smart phone released under the "iida" brand, has not only a sophisticated design based on the first generation INFOBAR released in 2003, but also features "iida UI," an interface with high usability and design. It is a model that symbolized the complete recovery of "au with distinctive design."

In addition, we have expanded our lineup with such models as "MOTOROLA XOOM™ Wi-Fi TBi11M," a tablet-type terminal dedicated for Wi-Fi usage featuring Android™3.0 that allows comfortable video viewing, ebook reader "biblio Leaf," and a data terminal for PC that can be used on both WiMAX and CDMA systems.

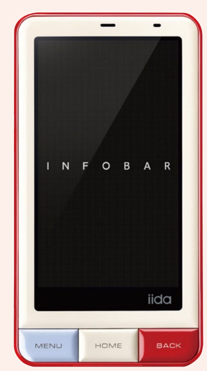
KDDI will further advance its preparations for a world where automobiles, consumer electronics, and various devices collaborate on a multi-network.

MOTOROLA XOOM™ Wi-Fi TBi11M

biblio Leaf SP02

PHOTO-U2 SP03

DATA07



INFOBAR A01

CLOSE-UP

Android™ × Lifestyle = STB* Featuring Android™

KDDI R&D Laboratories has developed STB featuring Android™. In addition to watching CATV and IPTV, this service will enable Internet usage as well as the usage of various Android™ apps to be conducted through a television set.

The biggest feature is that it enabled collaboration with smart phones featuring Android™. For example, smart phones can be used as a touch panel-type remote controller and the transferring of recorded programs to smart phones so as to watch outside the home is also possible.

In the future, various household information such as electricity consumption, usage of gas and water, delay of trains, road traffic information, and family members' health can be managed in one system.

STB featuring Android™ is the device that serves as the foundation to realize the new family lifestyle we aim for in a multi-device age.

* STB: Set-Top Box

Multi-use Stepping stones for multi-use

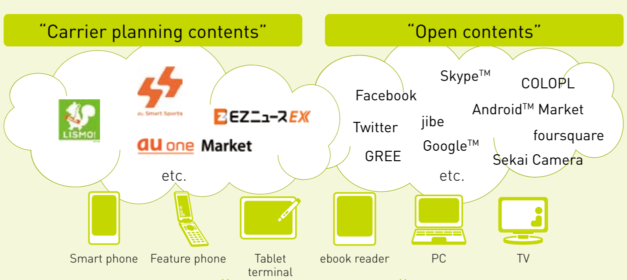
Open Internet experience and contents/apps unique to KDDI

With the development of "multi-network" and "multi-device," contents services are also changing. The future of KDDI's contents service is "multi-use."

Seamless & Collaboration

For contents services provided on mobile phones, we aim to develop an environment in which these services can be used through both fixed-line and mobile connections, and on various devices seamlessly for "multi-use." Services offered as our own brand, such as "LISMO!" and "au one News EX" and "au Smart Sports," will be expanded to multi-device, and we will proactively adopt open contents with powerful partners such as Facebook.

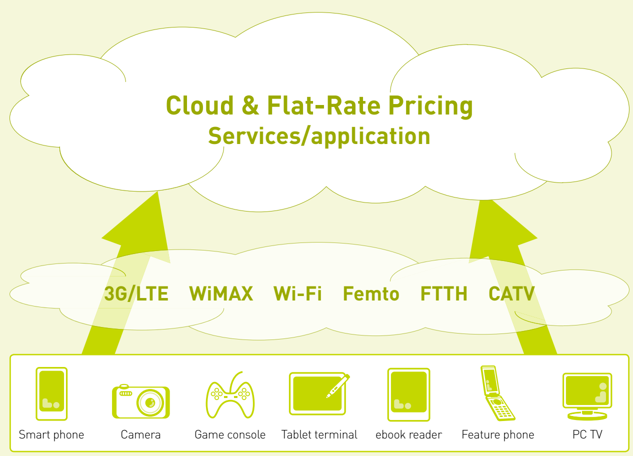
Shift to Multi-use



Keywords are "seamless" and "collaboration"

Cloud & Subscription

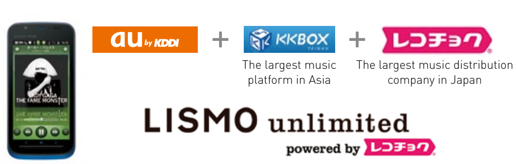
With rapid improvement in network quality through "multi-network," cloud-type services that provide massive contents and services on the cloud through networks on demand became possible, shifting from the existing download-type contents services. Furthermore, cloud-type services enable subscription models such as "LISMO unlimited" that offer various contents at flat-rate pricing in addition to the existing model of charging per content.



CLOSE-UP

Cloud × Flat-rate Pricing = "LISMO unlimited"

"LISMO unlimited" is a music distribution service realized by a joint venture with RecoChoku Co., Ltd., the largest music distribution company in Japan, using the platform of KKBOX Inc.*, a Taiwan music contents distribution company.



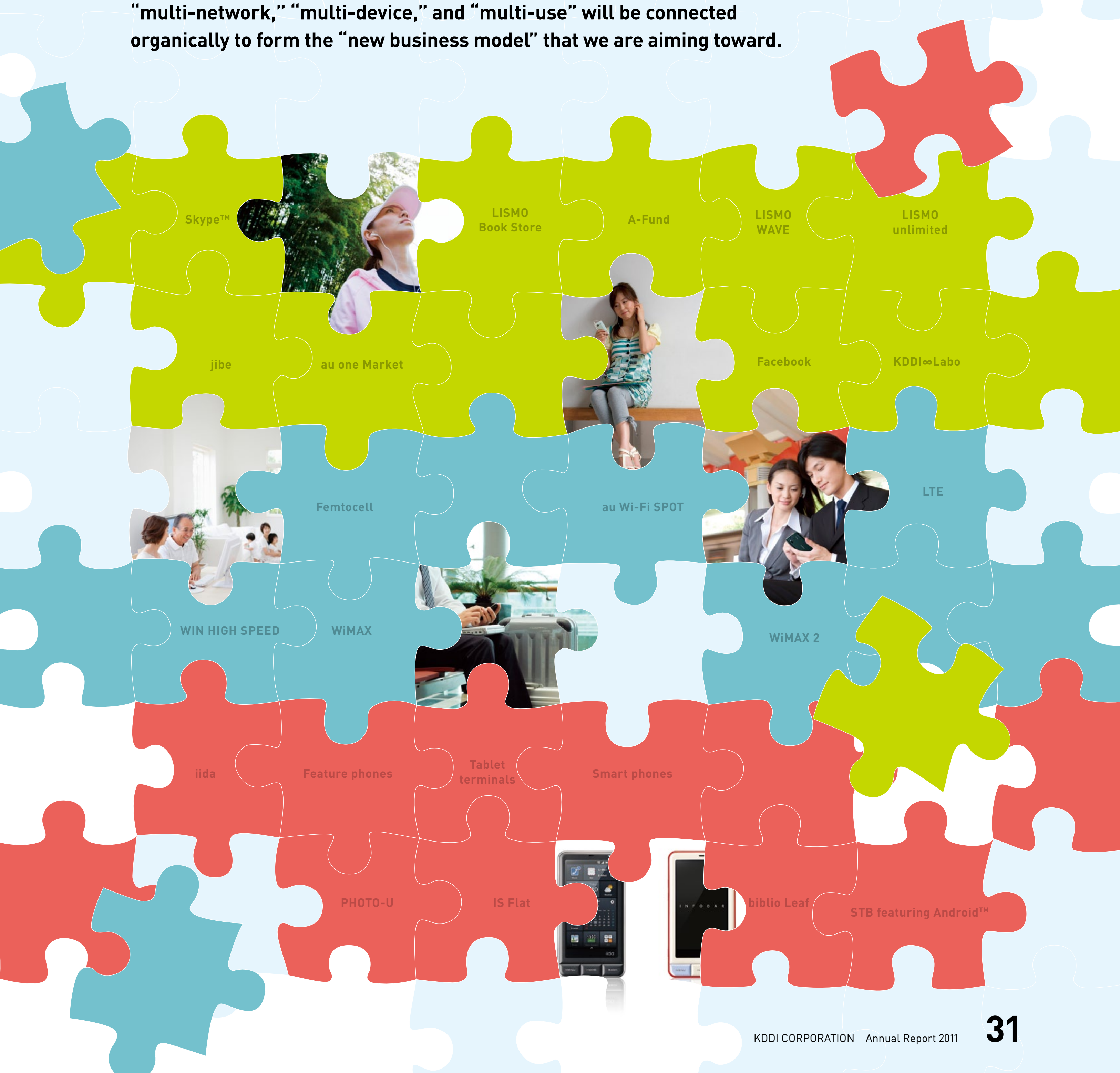
At the time of service launch, about one million tracks mainly of foreign music will be ready at the cloud distribution platform. Users can enjoy the music as if they are in their data folders anywhere and anytime using 3G and Wi-Fi networks with a flat-rate monthly pricing of ¥1,480 (including tax).

"LISMO unlimited" is the service that leads "multi-use" in the development of 3M strategies.

* Offers music contents distribution services for multi-devices such as PCs, smart phones, and mobile phones in Taiwan and Hong Kong, and became a consolidated subsidiary in December 2010

From now on...

KDDI sets the year ending March 31, 2012, as “the year for the KDDI Group to start a new phase of growth” and start “preparations for the new era” for a full-fledged launch of the 3M Strategy from the year ending March 31, 2013. Going forward, one by one we will place “strategic puzzle pieces” that form the core of the 3M Strategy. Also, the stepping stones placed for “multi-network,” “multi-device,” and “multi-use” will be connected organically to form the “new business model” that we are aiming toward.



SUSTAINABILITY

In this section, we will explain the following priority issues which have been based on the perspective of "topics that may directly affect our continuous improvement of corporate value as a telecommunications operator."

KDDI publishes the KDDI CSR REPORT to announce its CSR activities thoroughly and to introduce CSR measures in details. Please refer to

URL **http://www.kddi.com/english/corporate/csr/index.html**

RESPONSIBILITY AS A TELECOMMUNICATIONS OPERATOR

—CSR activity that serves as a foundation to achieve social responsibility as a telecommunications operator—

KDDI's mission is to provide stable information and telecommunications services—the "lifelines" of society—and offer high-speed and comfortable telecommunications environments anywhere and anytime. Through the restoration and recovery activities following the Great East Japan Earthquake, we realized the true "importance of connection." With reliable networks as our base, KDDI will offer services and the value that customers truly want so as to provide excitement, safety, happiness, and smiles of gratitude to people around the world and to become a company that continuously grows with society.

KDDI Philosophy that Serves as the Foundation of CSR, TCS and CSR

KDDI considers the fundamental principles of the KDDI Philosophy, which delineates the way we aim for, as its base to regard all stakeholders involved with the Company—including business partners, shareholders, investors and employees—to be "customers" and to promote actions to make them satisfied, or TCS (Total Customer Satisfaction).

KDDI encourages each executive and employee to remain aware of TCS and to embody its principles in their daily operations, thereby meeting society's expectations and KDDI's CSR.

TCS Practice

Economy	Society	Environment
• Appropriate disclosure of information • High revenue, high dividend • Fair deals • Provision of high-quality service and products	• Improve customer satisfaction • Realization of safe and secure ICT society • Promotion of diversity • Nurture human resources to make them take active parts • Societal contribution	• Green ICT • Reduction of disposal • Promotion of recycling • Environmental accounting • Activity to conserve forests • Diversity of living creatures

Enrich Management Foundation

- Corporate governance
- Compliance
- Risk management
- Information security
- Internal control

KDDI Philosophy

Priority Issues of KDDI's CSR

In order to sustain growth along with society, KDDI identified four priority issues from among the social issues that caught public interest during the year ended March 31, 2009. We are currently drawing on opinions from stakeholders and experts to promote methods for solving the problems that lie ahead.

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

We began offering Mobile Phone Learning classes in the year ended March 31, 2006, where we dispatch our employees as instructors to schools to teach rules, manners, troubled cases and countermeasures when using mobile phones and the Internet. During the year ended March 31, 2011, KDDI held 1,356 classes, raising its cumulative total to 3,536 classes.

In August 2010, we held a symposium where we held discussions on the current state of mobile phone and Internet usage by elementary and middle school students to provide educators and care providers with a better understanding, while at the same time listening to their opinions.

Additionally, in an effort to protect young people, KDDI has started offering Age Confirmation Service as the first domestic carrier to CGM* contents provider companies.

* Consumer-generated media: A service that provides media (word-of-mouth sites, SNS, BBS) where consumers themselves send out information using the Internet, etc.

KDDI Mobile Phone Learning class

Symposium 2010

Priority Issue 2: Offer Reliable Information and Telecommunications Services

KDDI has many telecommunications facilities, including FTTH and mobile phone base stations. To allow customers various telecommunications services safely, we have 24-hours-a-day, 365-days-a-year concentrated surveillance at a mobile operation center that manages, surveys and controls au mobile phone networks; a server operation center that manages and conserves server facilities; a network operation center that manages, surveys and controls the core lines of fixed-line services; a security operation center that detects, analyzes and protects against cyber attacks; and a global network management center that surveys all international lines. If accidents happen, we conduct proper communications control and recovery in collaboration with the management division nationwide. In terms of service quality under the management system, we try to provide high-quality and stable telecommunications services by constructing, analyzing and improving facility management systems according to the strict standards that we have established. We have approximately 50 vehicle-mounted base stations and 15 mobile power supply vehicles to react decisively to accidents and to prepare for temporary concentrated areas of telecommunications traffic due to festivals or other such events.

KDDI R&D Laboratories have developed career-free, guide-type communication at the time of disasters to provide stable telecommunications services in case of major disasters, such as earthquakes where telecommunications facilities are suspended due to damages at mobile phone base stations. The technology guides customers to shelters and areas where communications are possible using "one seg" broadcasting.

Measures for the Great East Japan Earthquake

On March 11, 2011, the Great East Japan Earthquake occurred off the coast of Miyagi Prefecture, with the heretofore unprecedented magnitude of 9.0. The earthquake, and the ensuing tsunami, brought massive damages to regions from Tohoku to Kanto.

KDDI has established a Disaster Countermeasures Office, with President Takashi Tanaka in direct charge, as well as a Local Disaster Countermeasures Office immediately after the earthquake to engage in speedy restoration measures.

Damage Assessment

The earthquake caused major damages to KDDI's operations, and we faced an extremely difficult position that shook the very raison d'etre of a company that "provides telecommunications services." Immediately after the earthquake, we conducted recovery measures with all the might and cooperation of management divisions, technical centers (TCs) nationwide, engineering centers (ECs) and related companies.

A section of the routes in the Tohoku region were disconnected one hour after the earthquake and mail and voice services had problems. However, restoration activities overnight completed rerouting measures by early morning of the following day.

As for au base stations, on the day after the earthquake, a maximum number of 1,933 base stations suspended service in six prefectures of the Tohoku region. However, the situation was handled efficiently and coverage was restored to almost all the same areas as before the earthquake by April 30 (excluding limited areas near the Fukushima nuclear plant.) We restored coverage to all the same areas as before the earthquake by June 30.

As for fixed-line, a maximum number of 390,000 lines were out of service. Through collaboration with NTT East Japan, Group companies and cooperative companies, we are conducting research and recovery measures of telecommunications lines to clients' homes and facilities inside the homes.

Relay transmission line: Joban Expressway

JIH Sendai station facility

au shop

au Yamada Orikasa base station

Further, we have installed "area quality information submission," the first service of its kind in Japan*2, available on au mobile phones released from spring 2011*1. The function allows the automatic submission to KDDI of places where telecommunications errors happened (failure of telecommunications, line cut-off, etc.) by automatically sensing the location, whether indoor and outdoor, so that we are made aware of these problems and can begin moving forward on how to improve quality in these areas*3. To allow customers to use services safely, we will improve telecommunications quality in all kinds of scenes of customers usage such as stations, meeting spots, residential areas, offices and apartments.

*1. Compatible models S007, T007, T008, CA007, K009, S006, SH011, K007, T006 and (iida) G11
*2. According to research by KDDI
*3. Works only if customers choose to have this function activated. No telecommunications charge occurs when the service automatically checks and transmits information.

Priority Issue 3: Initiatives to Conserve the Global Environment

To lower carbohydrates at mobile phone base stations, we have expanded areas which adopt Tribrid power control technology*, which is operated by combining solar energy generation and storage battery systems as well as nighttime power application, for au mobile phone base stations. We are conducting tests for full adoption of the system.

Moreover, we are adopting "Type VII" base stations, which are smaller than conventional base stations and can conserve electricity.

In addition, to conserve energy at data centers we have tested various technologies, which include reduction of stand-by mode electricity of servers, local cooling technology to cool heat vents directly, air current simulation to solve heat in server rooms and High Voltage DC Power Supply to improve electricity consumption loss at the time of AC/DC switching at uninterruptible

March 2011 | April | June

Establishment of a Disaster Counter-measures Office phase | Infomation-gathering phase | Recovery phase | Restoration phase

March 11: Disaster Countermeasures Office & Local Disaster Countermeasures Office established

March 29: First Report on measures status

April 7: Mobile: about 91%, Fixed-line: about 99% recovered

April 8: Second Report on measures status

April 30: Mobile: about 96%, Fixed-line: about 99% recovered

Telecommunications function: 90% recovered

Coverage restored to almost all the same areas as before the earthquake

Recovery Support

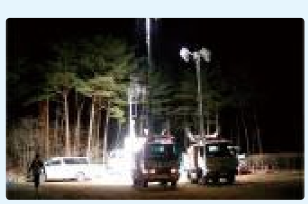
The following are a few of the measures we have taken to support victims of the earthquake.

- Establishment of vehicle-mounted base stations and satellite femtocells, free rental of au mobile phones and Iridium satellite mobile phones, free battery-charging services at damaged areas
- Extended payment limit dates, discount fees and repair charges
- Support with "LISMO WAVE" and "Skype voucher"
- Established EZ donation site, received donations at au shops
- The KDDI Group donated ¥1 billion to the Japanese Red Cross Society

Future Plans

We have realized the importance of "connection," which is the base of telecommunications. Using this tragic experience as a valuable lesson, we will move forward with plans to construct a telecommunications network that is resistant to natural disasters. We hope to achieve this through such measures as having multiple routes for main networks and "beefing-up" movable base stations, in order to provide safe and secure telecommunications services in any kind of situation as well as to provide the facilities that will be required for a speedy recovery.

Free battery-charging service: Onagawacho, Miyagi Pref.



Vehicle-mounted base stations: Rikuzentakata, Iwate Pref.

au mobile phone rental service: Sennuma, Miyagi Pref.

Satellite femtocell: Ishinomaki, Miyagi Pref.

power supply facilities. We have adopted the technologies on an experimental level according to the test results to promote measures for nationwide development.

* Term coined to refer to the combining of three types of industrial technologies from different fields. Generally, combining two types of industrial technology is called "hybrid" and three technologies "tribrid."

Environmental Accounting Standards

KDDI began employing environmental accounting standards in the year ended March 31, 2010, to enhance the quality of its environmental management.

The numbers are the sum of KDDI and 11 major consolidated subsidiaries. However, figures for the year ended March 31, 2010, are based on results of KDDI Corporation.
Period: April 1, 2010–March 31, 2011

Environmental conservation costs		Dealing cases	Year ended March 31, 2011		Year ended March 31, 2010	
			Investment (Millions of yen)	Cost (Millions of yen)	Investment (Millions of yen)	Cost (Millions of yen)
Cost within business areas	Environmental pollution prevention cost	Cost to abide by environmental pollution laws; Cost to handle PCB properly; etc.	0	0	0	0
	Global conservation cost	Base stations using solar power plant (investment has been calculated using the ratio according to energy conservation effect)	964	374	1,480	628
	Resource cycle cost	Reduction in the use of paper resources: Process and disposal of trash	27	675	6	1,111
Upstream and downstream cost		Recycle and reuse of products	84	164	0	171
Management activity cost		Management of environmental ISO, renewal and public disclosure of environmental conservation activities	0	1,065	0	720
R&D cost		Research and development of technology, facilities, terminals and products that help reduce burden on the environment	66	166	929	412
Social activity cost		Donation and support to forest conservation activities and environmental conservation organizations	0	12	0	12
Environmental damage measures cost		Prevention of spread of asbestos, recover land pollution	0	0	0	118
Total			1,141	2,456	2,415	3,172

Effect of environmental conservation (materials)		Type of indicator (unit)	Year ended March 31, 2011	Year ended March 31, 2010
Cost-related effect within business area	Effect related to resources used in business activities	Usage fee of electricity (MWh)	2,110,104	2,130,055
		Usage of paper resources (t)	26,338	28,445
		Reduction of paper through WEB de billing (t)	2,105	510
	Effect on environmental burden and industrial waste emissions from business activities	Emissions of global warming gas (t-CO_2) (FY2010: By electricity utility, calculated according to emission factor, FY2009: using 0.34t-CO_2/MWh as a factor)	896,086	724,503
		Emissions of telecommunications' facilities, buildings-related industrial waste (t)	7,838	10,060
Upstream and downstream cost-related effect	Effect on finances and services produced by business activities	Collected used mobile phones, etc. (10,000 units)	548	516

Economic effect related to environmental conservation measures (money)	Actual effect	Millions of yen	
	Contents of major effect	Year ended March 31, 2011	Year ended March 31, 2010
Revenues	Revenues from sales through disposal of telecommunications' facilities and buildings	390	457
Cost reductions	Reduction in energy costs by adopting the use of low-pollution vehicles	8	12
	Reduction in costs of new purchases by reusing disposed of telecommunications facilities	4,721	3,475
Total		5,119	3,945

* KDDI Web Communications Inc., KMN Corporation, mediba inc., JAPAN CABLENET LIMITED, KDDI R&D Laboratories Inc., KDDI Technology Corporation (KTEC), KDDI Research Institute, Inc., KDDI Technical & Engineering Service Corporation, KDDI Evolva Okinawa Corporation, KDDI Challenged Corporation, Telehouse International Corp. of Europe Ltd. (London)

Priority Issue 4: Vitalizing the Company by Developing a Diverse Workforce

KDDI has taken various measures to promote diversity and work-life balance of employees.

At "Win-K," an in-house project to promote the professional advancement of women launched in 2007, we have held Companywide forums, various regional miniforums and meetings for employees to exchange ideas to raise awareness to promote the advancement of women. The female managerial ratio for the year ended March 31, 2011, was 2.7%, up from 2.1% in the previous year, showing growth in five consecutive years. Furthermore, we aim to achieve 7% in the year ending March 31, 2016.

To promote professional opportunities of handicapped people, we have established subsidiary KDDI Challenged Corporation. The employment of handicapped people was 1.95% in the year ended March 31, 2011, up from 1.86% in the previous year.

With an aim to care various anxieties of newly hired employees and create an environment where employees feel more comfortable, we have adopted an "advisor" system from the year ended March 31, 2010, as a part of measures to develop abilities and careers of employees. The advisors are selected from senior employees as "consultants" for each newly hired employee. The aim is to allow newly hired employees to casually receive consultation about various questions and problems at work and during private time. We aim to continue the system in order to promote communication between newly hired employees and advisors and to improve their motivation.

In addition, to create a work environment we have conducted "KDDI KAITAISHINSHO," an in-house survey on the awareness of all employees. We publicize the results on the in-house intranet and house organ, as well as use them at executive and employee trainings and human resource measures for their improvement.

"Win-K"

"advisor" system

RESEARCH AND DEVELOPMENT

—Continuous research and development for next-generation technology with a long-term perspective—

As we advance reforms under the vision of "More Connected!," "More Global!," and "More Diverse Values!" we are working on research and development to provide more credible networks and more value-added products and services than ever, as well as integrating naturally into society with safe, secure, and comfortable communications without customers even noticing the system.

At KDDI R&D Laboratories, the Group's main R&D base, a system has been set up to conduct research and development in an environment that merges the development of mobile, fixed-line, and broadcasting services, and encourages collaboration between such development projects. While putting efforts on the development of elemental technology and other basic technologies with long-term and wide perspectives, we are working on the most advanced research themes to further realize "easy-to-use advanced technology." At KDDI R&D Laboratories' Development Center, which serves as the base for technology development, researchers are working on challenges to realize differentiation of core technologies and cost reductions simultaneously while making efforts to realize various technological development in several years.

Technology to Speculate Profiles of Twitter Users from their Tweets

Recently, an increasing number of general users are sending out information using Twitter and other means. Marketing services collecting and analyzing word-of-mouth information such as opinions and thoughts on products and contents have gained attention. The tendency of word-of-mouth information differs according to the profile information of users, such as age, gender, and preferences. However, not many users publicize their profile information.

KDDI R&D Laboratories has developed technology to automatically speculate profile of users (age, gender, occupation, origin, and preferences, etc.) by analyzing information posted on the Internet on blogs, bulletin boards, etc. The technology collects past comments publicized by users to automatically detect words useful to speculate their profiles. For example, if the user uses words like "school," "extracurricular activities," and "homework" in daily comments, we can speculate the user's age to be "teens" and profession to be "student."

By using the technology in marketing for word-of-mouth on the Internet, we can learn what kind of opinions are held by users according to their age and gender—information that was not available before—and use this knowledge to further improve products and services.

Communication through Carrier Collaboration at the Time of Natural Disasters

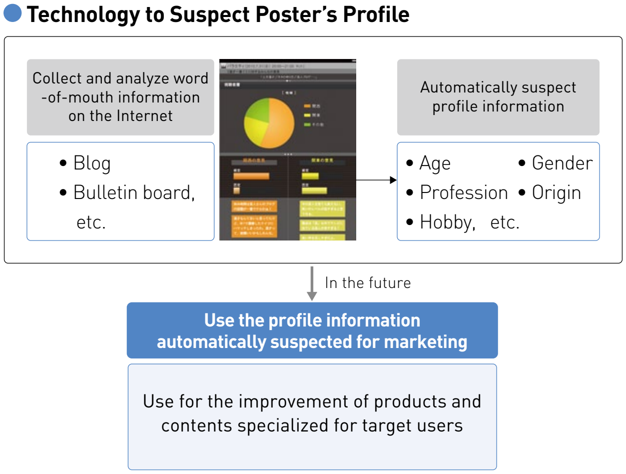
If the operation of a wireless base station is suspended due to natural disasters such as major earthquakes, usage of mobile phones around the area become impossible. Furthermore, communication traffic to confirm safety is expected even at base stations that avoided damages so mobile phone communication becomes even more difficult. KDDI R&D Laboratories developed a carrier collaboration communication system to guide users in damaged areas to locations where mobile phone usage is relatively possible through "one seg" broadcasting.

"One seg" broadcasting uses radio waves for broadcasting so that users can gain reception even if their mobile phones are out of reception range. With the carrier collaboration communication system, areas where communication is possible and landmarks near shelters are displayed if users submit their present location via GPS or by manually inputting them. Furthermore, users are guided through a navigation system using natural disaster navigation featured on au mobile phones.

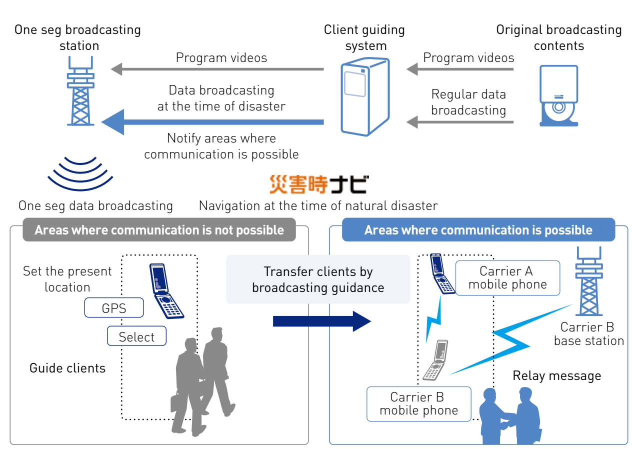
If there are no areas nearby where communication is possible, yet communication of other carriers is available, functions to relay messages become available to send mails or register on disaster bulletin boards by using nearby communication functions, such as infrared lights and Bluetooth, via mobile phones that are in the communication range.

We are working on further research and development to realize technology that is simple and easy to use in the case of actual disasters.

Technology to Suspect Poster's Profile



Communication through Carrier Collaboration at the Time of Natural Disaster



CORPORATE GOVERNANCE

—Efficient management and improving transparency—

Manifesto

Established in October 2000 through the merger of three companies—DDI, KDD, and IDO—KDDI commenced operations as a comprehensive telecommunications company, providing a wide variety of telecommunications services, ranging from mobile to fixed-line communications. Amid increasingly intense competition in the Japanese telecommunications market, the three companies pooled their assets, human resources, and technologies in an effort to transform themselves into an entity capable of offering higher quality, more convenient, and innovative telecommunications services that would meet society's expectations, while achieving sustainable growth in tandem with society's changing needs.

From the outset, the new company formalized the KDDI Philosophy, as it recognized that the fostering of shared values among employees hailing from different corporate cultures was essential. We worked to thoroughly instill the tenets of this philosophy—which corresponds to what is typically termed a "company philosophy" or "corporate principles"—calling for all employees to take the initiative. Since that time, 16 companies have been merged into KDDI, driving its growth through diversity.

However, the KDDI Philosophy, with its unfailingly customer-oriented perspective, has remained intact as we continue to embrace new challenges and create new value.

Fundamental Principles of the KDDI Philosophy

Securing Customer Satisfaction and Trust
by providing with our services the value that customers expect;

A Happy Workforce, a Vital Company
by continuing to be the kind of dynamic company that inspires all its employees with a sense of worth and fulfillment;

The Confidence of Our Shareholders and Business Partners
by justifying the trust placed in us by our shareholders, business associates, and all with whom we have dealings;

The Advancement of the International Community
by bringing an ever-broadening array of communications to bear in serving the development of the global community.

Baisc Policy Regarding Corporate Governance

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

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

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

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

The Remuneration Advisory Committee, of which more than half of its members including the chairman consist of outside directors, provides advice on remuneration to executives.

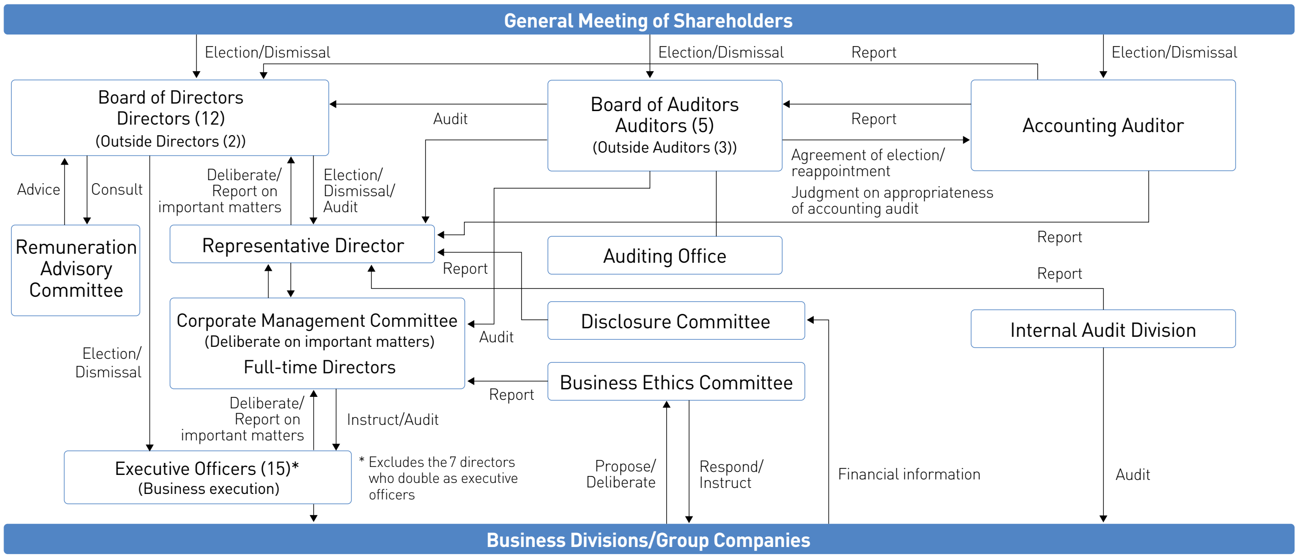
Auditors attend meetings of the Board of Directors, as well as other important internal meetings. The Board of Directors and the Internal Audit Division provide, in an appropriate and timely manner, all data necessary to the execution of auditors' duties, exchange opinions, and collaborate with auditors.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

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

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

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

Corporate Governance Framework (As of June 16, 2011)



Major Activities of Outside Directors and Outside Auditors

Directors

- In his post as director, Makoto Kawamura attended seven of the eight meetings of the Board of Directors.
- In his post as director, Shinichi Sasaki attended eight of the eight meetings of the Board of Directors.
- In his post as director, Tsunehisa Katsumata attended six of the eight meetings of the Board of Directors.

Note: The outside directors attended Board of Directors' meetings as indicated above. At these meetings, they asked questions to clarify points and provided opinions based on their expertise, insight, and specialized knowledge.

Auditors

- In his post as auditor, Masayuki Yoshinaga attended eight of the eight meetings of the Board of Directors and eight of the eight meetings of the Board of Auditors.
- In his post as auditor, Yoshihiko Nishikawa attended eight of the eight meetings of the Board of Directors and eight of the eight meetings of the Board of Auditors.
- In his post as auditor, Katsuaki Watanabe attended six of the eight meetings of the Board of Directors and five of the eight meetings of the Board of Auditors.

Note: The outside auditors attended Board of Directors' and Board of Auditors' meetings as indicated above. At these meetings, they asked questions to clarify points and provided opinions based on their expertise, insight, and specialized knowledge.

Remuneration for Directors and Auditors

		No. of Directors/Auditors	Remuneration (Millions of yen)
Directors	Outside Directors	3	22
	Others	12	385
Auditors	Outside Auditors	3	34
	Others	3	42

Notes:

1. The above-stated remuneration for directors includes amounts for two directors who stepped down at the end of the 26th Annual Meeting of Shareholders, held on June 17, 2010.
2. The above-stated remuneration for auditors includes amounts for one auditor who stepped down at the end of the 26th Annual Meeting of Shareholders, held on June 17, 2010.
3. The maximum monthly remuneration for directors was set at ¥40 million by a resolution of the 17th Annual Meeting of Shareholders, held on June 26, 2001. This does not include employee salaries for directors concurrently occupying posts as employees. Furthermore, directors may receive up to an additional ¥40 million of annual remuneration in the form of stock acquisition rights issued as stock options, as decided by a resolution of the 22nd Annual Meeting of Shareholders, held on June 15, 2006.
4. The maximum annual remuneration for auditors was set at ¥84 million by a resolution of the 25th Annual Meeting of Shareholders, held on June 18, 2009. This amount is based on the Company's fiscal year.
5. Remuneration amounts outlined above included the following Board members' bonuses, as determined by a resolution of the 27th Annual Meeting of Shareholders, held on June 16, 2011. 13 directors: ¥81.64 million (3 outside directors: ¥7.50 million).
6. Remuneration amounts for directors included: Stock acquisition rights granted to eight directors by a resolution of the Board of Directors at a meeting held on July 22, 2008, and Stock acquisition rights granted to seven directors by a resolution of the Board of Directors at a meeting held on July 23, 2009.
7. In addition to the above, at the 20th Annual Meeting of Shareholders, held on June 24, 2004, it was decided to pay a retirement allowance to directors and auditors in connection with the cancellation of the executive retirement bonus system.

Policies Regarding Decisions on the Contents of Remuneration

KDDI has set policies regarding decisions on the contents of remuneration for directors and auditors as below. The Company has also formed a Remuneration Advisory Committee to discuss with and provide advice to the Board of Directors in order to maintain both transparency and objectivity on the system of and the level of remuneration for executives. More than half of its members, including its chairman, consist of outside directors.

Policies on Remuneration for Directors

Remuneration for directors consists of fixed-amount salaries and executive bonuses provided that they are responsible for improving business results every fiscal year, as well as mid-to-long term corporate value. Fixed-amount salaries are based on their professional ranking and the management environment. Executive bonuses are based on the business results of the KDDI Group, representing their sector and the individual's performance during the fiscal year.

To clarify management responsibilities and enhance incentives for business improvement, executive bonuses after fiscal 2011 will be linked to the business results of the KDDI Group within 0.1% of consolidated net profit in the fiscal year. This linking has been set by taking into account the responsibility of directors to sustain continuous growth and to lead the new age while swiftly reacting to environmental changes within the Group.

Policy on Remuneration for Auditors

Remuneration for auditors is based on discussions with auditors and is only a flat-rate salary that is not linked to the business results of the KDDI Group.

Risk Management

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

The KDDI Group has assigned Internal Control System Managers to be responsible for executing related activities autonomously.

Risk Management Structure

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

(2) The committee for Total Customer Satisfaction (TCS) works on a monthly basis to evaluate and improve TCS activities so as to better respond to customer needs, demands, and requests for improvement of products and services in a timely and appropriate manner.

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

(3) The KDDI Group works to further enhance its public relations (PR) and investor relations (IR) activities, ensure the transparency of Group management, and gain the acceptance and trust of all stakeholders.

Business risks facing the Group are properly clarified and disclosed in a timely and appropriate manner by the committee responsible for disclosure.

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

Structure to Improve Operational Quality

(1) The KDDI Group is making a Companywide effort to evaluate and improve the status of internal controls and operational processes on financial reporting in order to further raise its level of reliability.

(2) The KDDI Group strives to implement and augment structures to improve the quality of its operations by raising operational effectiveness and efficiency, as well as by conducting appropriate acquisition, management, and disposal of assets.

Structure as a Telecommunications Carrier

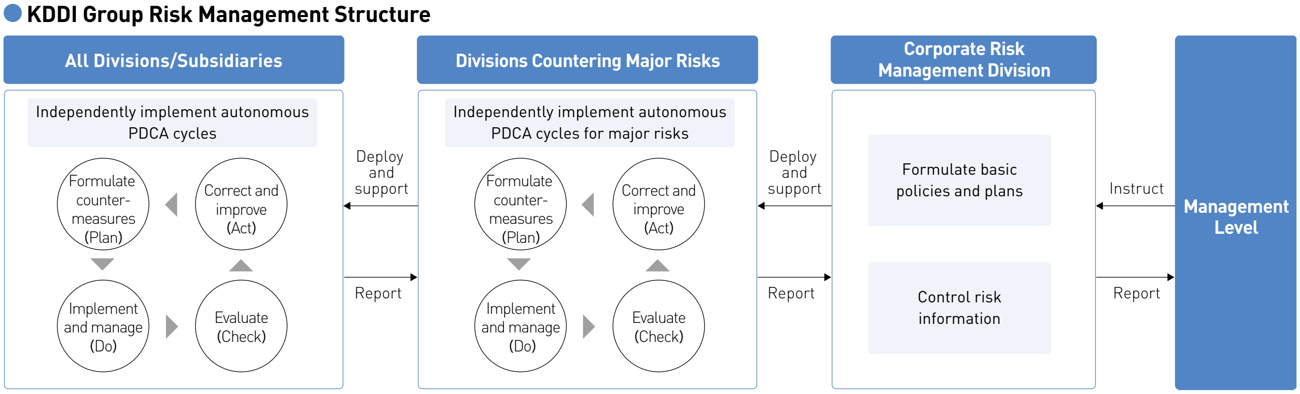
(1) The protection of telecommunications privacy is fundamental to the KDDI Group's corporate management, and we take steps to ensure that privacy is strictly protected.

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

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

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

KDDI Group Risk Management Structure



Information Security

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

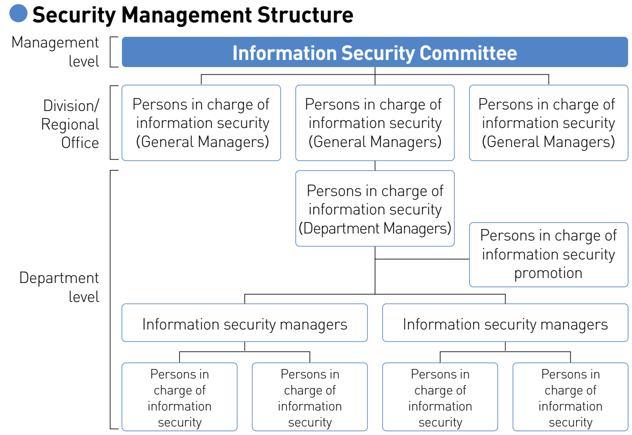
KDDI strictly manages the private customer information and sensitive corporate data it handles in providing a safe and stable telecommunications service, and continually implements measures to enhance information security from a variety of angles.

Since the year ended March 31, 2010, we have focused on maintaining the information security management system (ISMS) certification obtained for all divisions as the main activity to proceed with our continuous improvement on information security. In the year ended March 31, 2011, we have integrated nine certifications obtained by our management division to three to maintain unified security management in the division and to improve the overall security level. At the same time, to prevent information security accidents and raise employees' awareness, we have conducted e-learning classes and established a month-long period to strengthen information security management. As for technological measures, we have set up a second in-house network allowing access from multi-devices including smart phones while maintaining high security. We have also expanded safe remote access to our in-house network and usage of our business systems. We also collect information and take adequate measures to protect our telecommunications facilities used in operations from potential vulnerabilities and computer virus infections that could permit fraudulent access.

As a part of our achievements involving initiatives on information security during the year ended March 31, 2011, KDDI Group subsidiaries KDDI Technology Corporation, KMN Corporation, KDDI & BT Global Solutions Corporation, and Telehouse Beijing Co., Ltd. obtained ISMS certification, while Okinawa Cellular Telephone Company and KDDI Technical & Engineering Service expanded the certification to the whole company level.

Going forward, the KDDI Group will make continuous efforts as a whole to strengthen its information security management by improving the management system.

Security Management Structure



ISMS Certification at KDDI

Registration No.	Organization Name	Initial Registration
IS 76406	Operations Division (ex-Service Operations Division Solution Operations Center)	July 4, 2003
IS 85329	Information Systems Division	September 28, 2004
IS 95253	KDDI Corporation*1	June 7, 2005
IS 500630	Operations Division*2 (ex-Network Operations Division Submarine Cable Systems Department)	April 18, 2006
IS 521724	Operations Division (Service Operations Division)	October 22, 2007

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

*2. Network Operations Division, Submarine Cable Systems Department, and Japan Telecommunication Engineering Service

Yoshiharu Shimatani
Senior Vice President
Member of the Board
Information Security Committee
Chairman

As an telecommunications operator, the entire KDDI Group works to improve information security so that its customers can feel safe and secure in using its information transmission services. In order to protect our facilities from outside cyber attack threats, we conduct around-the-clock monitoring and take necessary measures. Moreover, in order to protect the confidentiality of telecommunications and strictly manage significant information such as customer information and other important data, we respect and thoroughly implement information handling processes for all employees and contractors throughout the Group.

In order to maintain information security, we have conducted continuous efforts for improvement by using the framework of ISMS certification to raise the awareness of individual employees and their sense of ownership to actively engage in improvement.

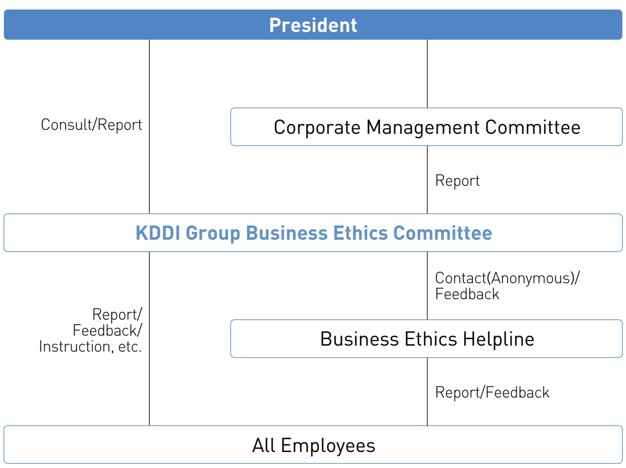
A platform to share various in-house information has been adopted since April 2011. It is a new attempt to share confidential information with stead security management. All employees are making use of corporate information with a higher awareness of information security. We will conduct PDCA cycles continuously to improve these activities and further strengthen our information security management.

Approach to Compliance

KDDI is improving and reinforcing its compliance structures, based on its belief that compliance with the law—including strict observance of the privacy of communications established in the Telecommunications Business Law—is fundamental to business operations. In conjunction with these efforts, the Company is working to improve awareness of compliance to ensure that all employees maintain a high sense of ethics at all times and execute their duties appropriately. To this end, in April 2011 KDDI revised its business ethics, which established basic principles for executives and employees to follow in the course of day-to-day business, considering recent legal revisions.

Compliance Promotion System

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



Compliance Education and Training

In addition to setting up compliance classes at various trainings of employees and having them attend, we have created operation sheets noting operation points to improve compliance awareness and circulated throughout the Company from the year ended March 31, 2011.

Key Training Accomplishments FY2010

Management/line manager training	Approx. 1,200 people
New employee training	Approx. 250 people
e-learning	Approx. 19,000 people

Business Ethics Helpline

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

Enhancing the Compliance Structure of KDDI Group Companies

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

Kanichiro Aritomi
Vice Chairman
KDDI Group Business Ethics Committee
Chairman

The Company has introduced the KDDI Philosophy as its canon for managing one's activities—based on a corporate mission statement that calls for integrity of mind—and formulated the KDDI Group Business Ethics Committee to facilitate the implementation of these principles in business operations.

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

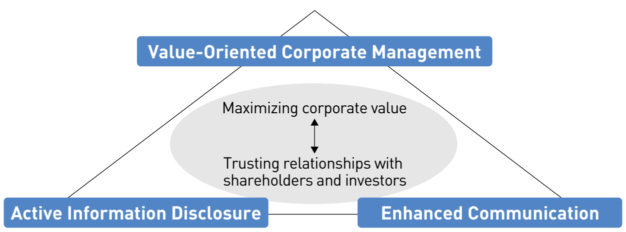
Considering advancement and diversity of services, development of globalization and increasing societal responsibility of the Company, we regularly conduct systematic, continuous education, training, and awareness activities based on our philosophy and principles, working to instill a compliance-aware mindset among all executives and employees. We will continue striving to enhance and establish an even stronger compliance structure.

Disclosure and IR

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

IR Basic Policy

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



IR Activity Guidelines

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

Three IR Activity Guidelines

- **Open IR Activities**
  We value interactive dialogue with our shareholders and investors as well as ensuring accountability to our shareholders and investors through honest and fair information disclosure.
- **Proactive IR Activities**
  By always incorporating new ideas into our IR activities, we strive to make KDDI known to more people and promote further knowledge of the Company.
- **Organized IR Activities**
  Under the leadership of management, all officers and employees—including those of Group companies—will engage in organized IR activities to increase our corporate value.

IR Activities during the Year Ended March 31, 2011

Open and In-Depth Communication

Earnings presentation meetings were held quarterly to allow management to directly explain the Company's results. KDDI also held individual and small group meetings with investors from Japan and overseas. We also participated in various conferences and seminars for individual investors sponsored by securities companies for better communication. Also, timely feedback was provided to management based on responses from shareholders and investors.

Extensive IR Tools and Third-Party Ratings

By using various tools, KDDI takes a proactive approach for the disclosure of information. We offer both Japanese and English versions of videos from our earnings presentations and shareholder meetings on our website. We also provide financial statements and various other accounting information on our website, distribute e-mail alerts, and maintain an IR website for mobile phone users.

Representing the achievements of KDDI's IR activities in the year ended March 31, 2011, we received the "Internet IR Best Company Award in 2010" from Daiwa Investor Relations Co., Ltd., making it the sixth consecutive year of receiving the award. Moreover, we ranked fourth in the Best Corporate Website 2010 Survey's overall ranking and third in the information and telecommunications category by Nikko Investor Relations Co., Ltd.

KDDI has also been included in the Morningstar Socially Responsible Investment Index in Japan, a principal indicator of socially responsible investments, as of April 2011.

Note: Morningstar, Inc. selects the best 150 Japanese listed companies, in terms of social performance, for inclusion in its index of socially responsible companies, Japan's first index of socially responsible stocks.

IR Contact
Investor Relations Department, Corporate Management Division
Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku,
Tokyo 102-8460, Japan
Tel: +81-3-3347-0077 (switchboard number) E-mail: kddi-ir@kddi.com

Internal Controls—Measures to Improve Overall Corporate Quality—

KDDI, at meetings of its Board of Directors held on April 19, 2006, January 25, 2008, and March 11, 2010, adopted and released publicly basic policies for the creation of an internal control system in accordance with Article 362-5 of the Companies Act, in order to ensure that the execution of duties by directors complies with applicable laws and regulations, as well as the Company's corporate charter.

Under this basic policy, KDDI has appointed Internal Control System Managers at each division since the year ended March 31, 2011 to establish an effective internal control system that will ensure fairness, transparency, and efficiency in its business operations, and improve corporate quality.

Initiatives in Response to the Internal Control Reporting System

In response to the Internal Control Reporting System based on the Financial Instruments and Exchange Law implemented in the year ended March 31, 2009, KDDI established internal control systems at the Company and major Group subsidiaries in Japan and overseas, and conducted evaluations of its internal controls to ensure reliability in its financial reporting. The results of these evaluations were compiled in an internal controls report, which was submitted to the Japanese Prime Minister in June 2011, as well as disclosed to investors.

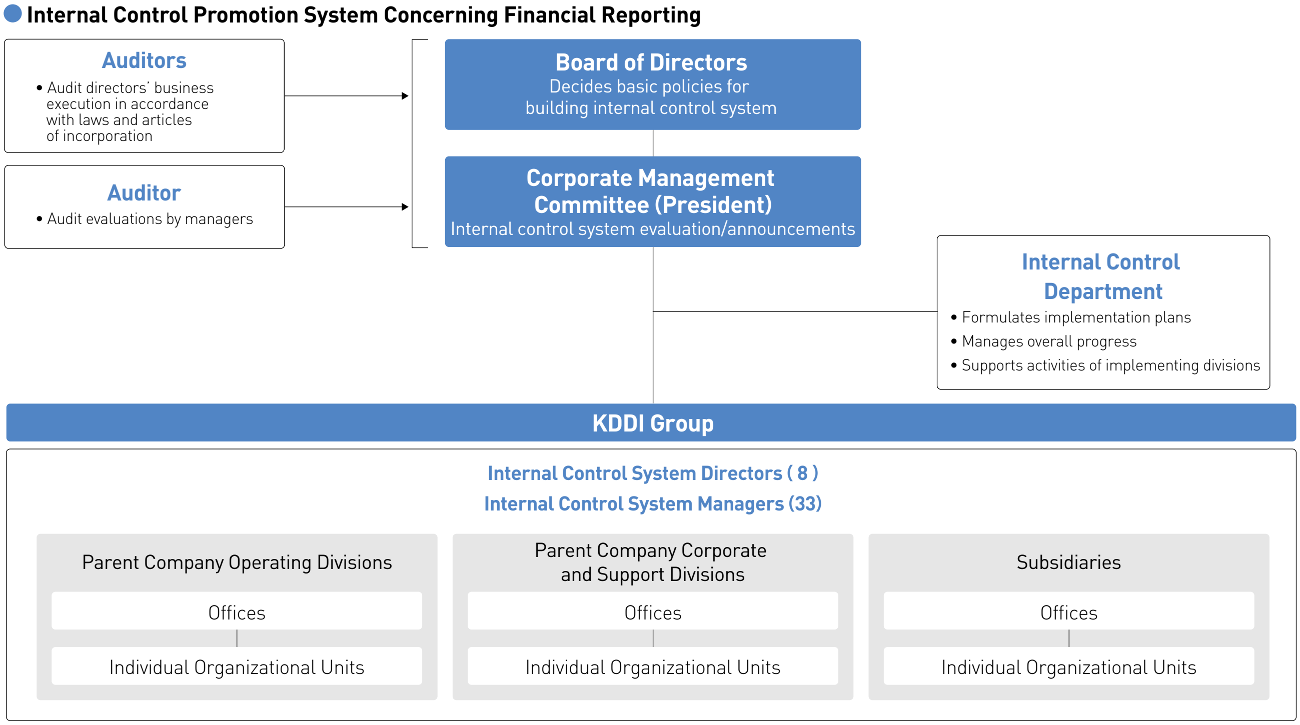
Enhancing Operational Quality to Improve Overall Corporate Quality

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

From the year ending March 31, 2012, KDDI and its principal Group subsidiaries appointed 33 Internal Control System Managers, as well as eight Internal Control System Directors to oversee their activities. Under this system, the entire organization will implement and operate an internal control system, furthering improvement in overall corporate quality.

In order to deepen the understanding of internal control, we will also regularly share executive messages and good cases by employees through mail magazines and in-house newsletters as well as conduct e-learning classes.

Internal Control Promotion System Concerning Financial Reporting



Directors and Auditors (As of June 16, 2011)

Directors

Tadashi Onodera
Chairman

’01.6 President
’05.6 President and Chairman
’10.12 Chairman (Current position)

Kanichiro Aritomi
Vice Chairman

’09.8 Special Adviser
’10.6 Vice Chairman (Current position)

Takashi Tanaka
President

’07.6 Associate Senior Vice President, Member of the Board
’10.6 Senior Vice President, Member of the Board
’10.12 President (Current position)

Hirofumi Morozumi
Executive Vice President
Member of the Board

’07.6 Senior Vice President, Member of the Board
’10.4 General Manager, Corporate Sector (Current position)
’10.6 Executive Vice President, Member of the Board (Current position)

Makoto Takahashi
Senior Vice President
Member of the Board

’07.6 Associate Senior Vice President, Member of the Board
’10.6 Senior Vice President, Member of the Board (Current position)
’11.4 General Manager, Business Development Sector (Current position)

Yoshiharu Shimatani
Senior Vice President
Member of the Board

’03.4 Vice President
’09.6 Associate Senior Vice President, Member of the Board
’11.4 General Manager, Technology Sector (Current position)
’11.6 Senior Vice President, Member of the Board (Current position)

Yuzo Ishikawa
Senior Vice President
Member of the Board

’01.6 Vice President
’10.6 Associate Senior Vice President, Member of the Board
’11.4 Associate Senior Vice President, Consumer Business, Solution Business, Global Business and Product Sector, Member of the Board (Current position)
’11.6 Senior Vice President, Member of the Board (Current position)

Masahiro Inoue
Associate Senior Vice President
Member of the Board

’05.1 Associate Senior Vice President
’10.6 Associate Senior Vice President, Member of the Board (Current position)
’11.4 Associate General Manager, Technology Sector (Engineering and Operations), Member of the Board (Current position)

Hideo Yuasa
Associate Senior Vice President
Member of the Board

’03.4 Vice President
’10.6 Associate Senior Vice President, Member of the Board (Current position)
’11.4 President, Chubu Telecommunications Co., Inc. (Current position)

Hiromu Naratani
Associate Senior Vice President
Member of the Board

’03.5 Vice President
’10.6 Associate Senior Vice President, Member of the Board (Current position)
’11.4 General Manager, Corporate Communications Sector (Current position)

Makoto Kawamura*1
Member of the Board

’05.6 President and Representative Director of Kyocera Corporation
’09.4 Chairman of the Board and Representative Director of Kyocera Corporation (Current position)
’09.6 Member of the Board (Current position)

Shinichi Sasaki*1
Member of the Board

’05.6 Senior Managing Director of Toyota Motor Corporation
’09.6 Member of the Board (Current position)
Executive Vice President and Representative Director of Toyota Motor Corporation (Current position)

Auditors

Standing Statutory Auditors

Masataka Iki
Yoshinari Sanpei
Masayuki Yoshinaga*2

Standing Auditors

Yoshihiko Nishikawa*2
Katsuaki Watanabe*2

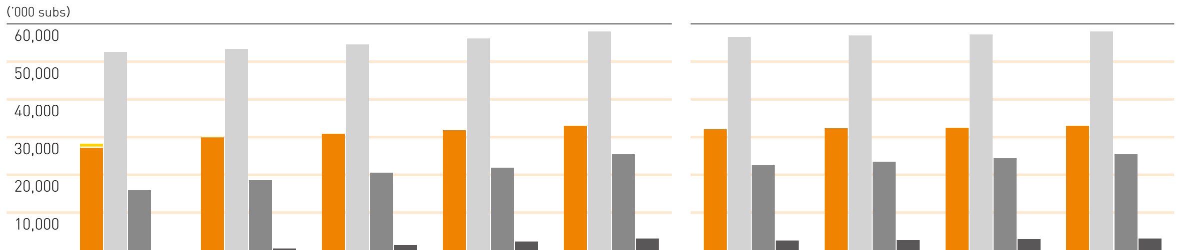
*1 Outside Directors
*2 Outside Auditors
Mr. Masayuki Yoshinaga is an independent director pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

MARKET OVERVIEW

Mobile Communications Market Data

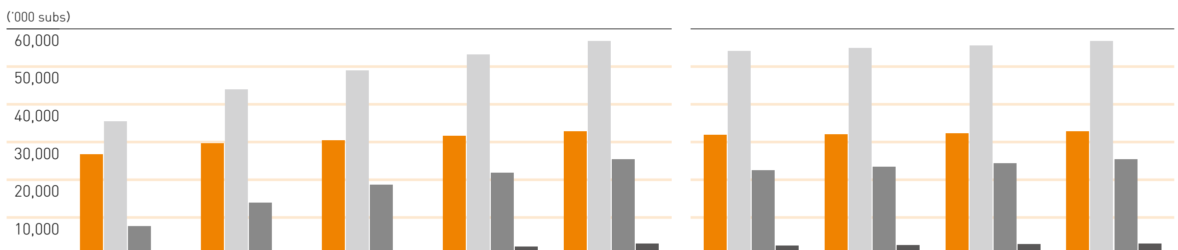
(Years ended March 31)

Number of Total Subscribers



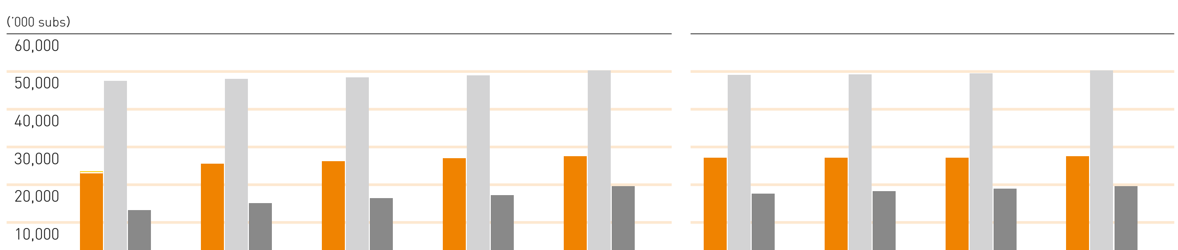
	2007	2008	2009	2010	**2011**	2011 1Q	2011 2Q	2011 3Q	2011 4Q
KDDI	28,189	30,339	30,843	31,872	**32,999**	**32,091**	**32,291**	**32,527**	**32,999**
au	27,317	30,105	30,843	31,872	**32,999**	**32,091**	**32,291**	**32,527**	**32,999**
Tu-Ka	872	234	—	—	**—**	**—**	**—**	**—**	**—**
NTT DOCOMO	52,621	53,388	54,601	56,082	58,010	56,515	56,895	57,210	58,010
SOFTBANK MOBILE	15,909	18,586	20,633	21,877	25,409	22,573	23,474	24,400	25,409
EMOBILE	—	412	1,410	2,352	3,118	2,537	2,741	2,924	3,118
Total	96,718	102,725	107,487	112,183	119,535	113,716	115,401	117,061	119,535

Number of 3G Subscribers



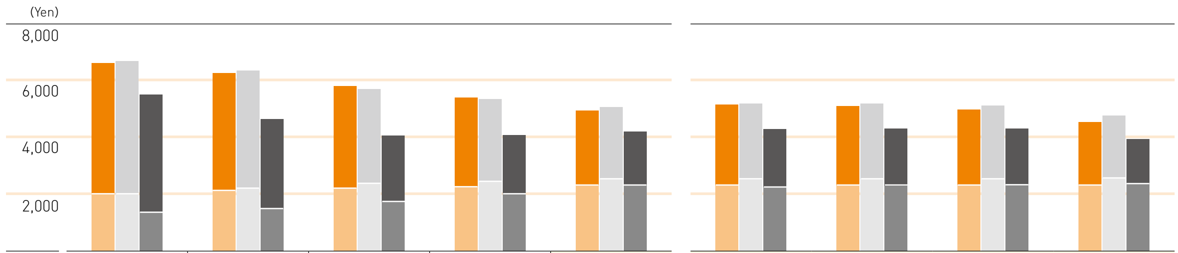
	2007	2008	2009	2010	**2011**	2011 1Q	2011 2Q	2011 3Q	2011 4Q
au	26,720	29,689	30,527	31,625	**32,853**	**31,881**	**32,105**	**32,365**	**32,853**
NTT DOCOMO	35,530	43,949	49,040	53,203	56,746	54,162	54,940	55,573	56,746
SOFTBANK MOBILE	7,660	14,007	18,654	21,877	25,409	22,573	23,474	24,400	25,409
EMOBILE	—	412	1,410	2,352	3,118	2,537	2,741	2,924	3,118
Total	69,910	88,057	99,631	109,057	118,126	111,153	113,260	115,261	118,126

Number of Subscribers for Mobile Internet Connection Service



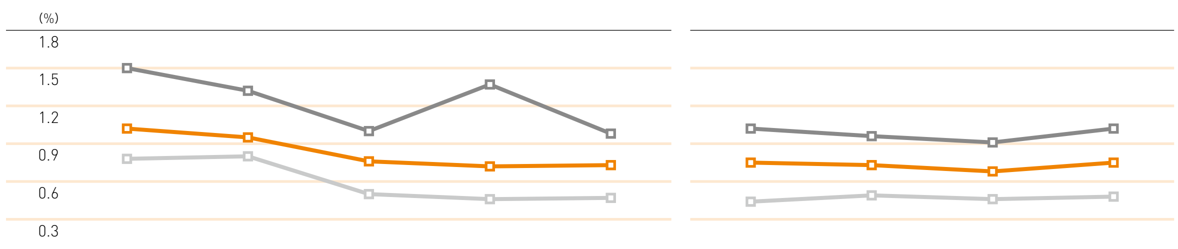
	2007	2008	2009	2010	**2011**	2011 1Q	2011 2Q	2011 3Q	2011 4Q
KDDI	23,533	25,512	26,190	26,974	**27,489**	**27,118**	**27,165**	**27,204**	**27,489**
au	23,322	25,505	26,190	26,974	**27,489**	**27,118**	**27,165**	**27,204**	**27,489**
Tu-Ka	211	8	—	—	—	—	—	—	—
NTT DOCOMO	47,574	47,993	48,474	48,992	50,235	49,061	49,185	49,466	50,235
SOFTBANK MOBILE	13,265	15,171	16,465	17,218	19,615	17,661	18,266	18,892	19,615
EMOBILE	—	10	55	54	36	50	45	39	36
Total	84,372	88,688	91,185	93,238	97,376	93,889	94,661	95,601	97,376

ARPU (Average Revenue Per Unit)



	2007	2008	2009	2010	**2011**	**2011 1Q**	**2011 2Q**	**2011 3Q**	**2011 4Q**
au	6,610	6,260	5,800	5,410	**4,940**	**5,160**	**5,100**	**4,980**	**4,530**
Voice ARPU	4,590	4,130	3,590	3,150	**2,620**	**2,860**	**2,790**	**2,660**	**2,190**
Data ARPU	2,020	2,130	2,210	2,260	**2,320**	**2,300**	**2,310**	**2,320**	**2,340**
Tu-Ka	2,960	1,750	—	—	**—**	**—**	**—**	**—**	**—**
NTT DOCOMO	6,700	6,360	5,710	5,350	5,070	5,190	5,200	5,130	4,760
Voice ARPU	4,690	4,160	3,330	2,900	2,530	2,680	2,660	2,590	2,190
Data ARPU	2,010	2,200	2,380	2,450	2,540	2,510	2,540	2,540	2,570
SOFTBANK MOBILE	5,510	4,650	4,070	4,070	4,210	4,290	4,300	4,310	3,940
Voice ARPU	4,150	3,150	2,320	2,050	1,890	2,030	2,020	1,980	1,570
Data ARPU	1,360	1,490	1,740	2,020	2,310	2,250	2,290	2,330	2,370

Churn Rate

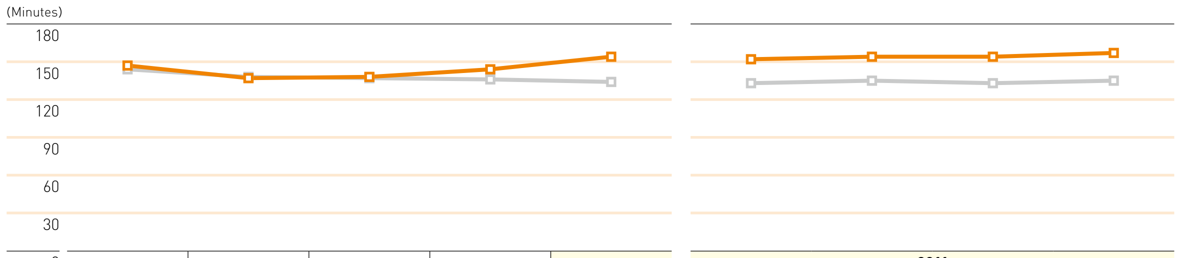


	2007	2008	2009	2010	**2011**	**2011 1Q**	**2011 2Q**	**2011 3Q**	**2011 4Q**
au	1.02	0.95	0.76	0.72	**0.73**	**0.75**	**0.73**	**0.68**	**0.75**
Tu-Ka	8.20	10.20	—	—	**—**	**—**	**—**	**—**	**—**
NTT DOCOMO	0.78	0.80	0.50	0.46	0.47	0.44	0.49	0.46	0.48
SOFTBANK MOBILE	1.50	1.32	1.00	1.37	0.98	1.02	0.96	0.91	1.02

Mobile Communications Market Data

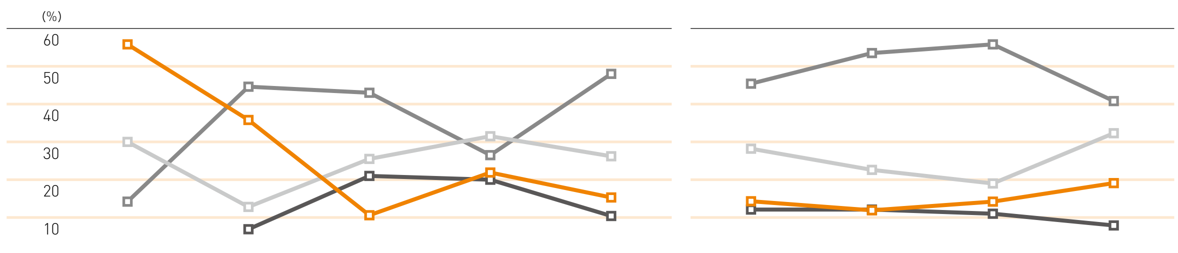
(Years ended March 31)

MOU (Minutes of Use)



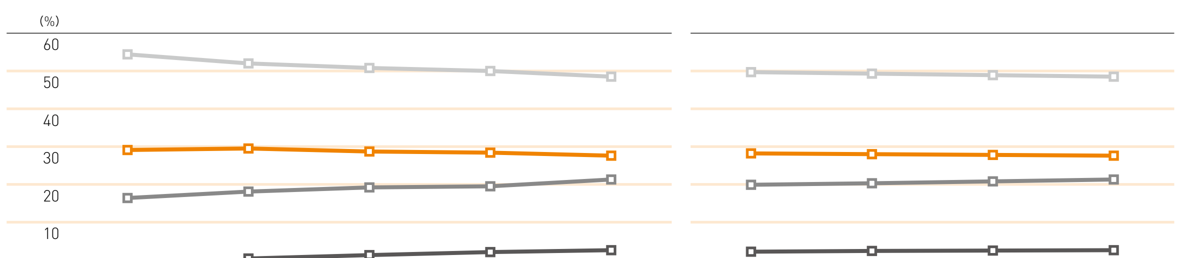
	2007	2008	2009	2010	**2011**	**2011 1Q**	**2Q**	**3Q**	**4Q**
au	147	137	138	144	**154**	**152**	**154**	**154**	**157**
Tu-Ka	67	35	—	—	**—**	**—**	**—**	**—**	**—**
NTT DOCOMO	144	138	137	136	134	133	135	133	135
SOFTBANK MOBILE	—	—	—	—	—	—	—	—	—

Share of Net Additions



	2007	2008	2009	2010	**2011**	**2011 1Q**	**2Q**	**3Q**	**4Q**
au + Tu-Ka	55.8	35.8	10.6	21.9	**15.3**	**14.3**	**11.9**	**14.2**	**19.1**
NTT DOCOMO	30.0	12.8	25.5	31.5	26.2	28.2	22.6	19.0	32.3
SOFTBANK MOBILE	14.2	44.6	43.0	26.5	48.0	45.4	53.5	55.8	40.8
EMOBILE	—	6.9	21.0	20.0	10.4	12.1	12.1	11.0	7.9

Share of Subscriptions

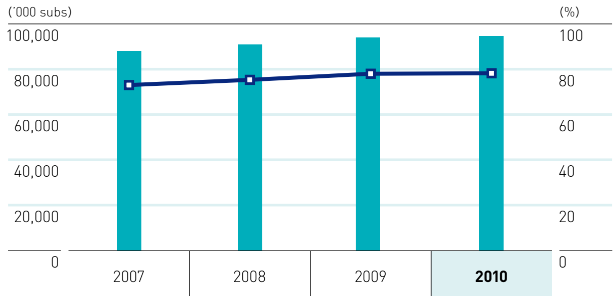


	2007	2008	2009	2010	**2011**	**2011 1Q**	**2Q**	**3Q**	**4Q**
au + Tu-Ka	29.1	29.5	28.7	28.4	**27.6**	**28.2**	**28.0**	**27.8**	**27.6**
NTT DOCOMO	54.4	52.0	50.8	50.0	48.5	49.7	49.3	48.9	48.5
SOFTBANK MOBILE	16.4	18.1	19.2	19.5	21.3	19.9	20.3	20.8	21.3
EMOBILE	—	0.4	1.3	2.1	2.6	2.2	2.4	2.5	2.6

Fixed-line Communications Market Data

(Years ended March 31)

Number of Internet Subscribers

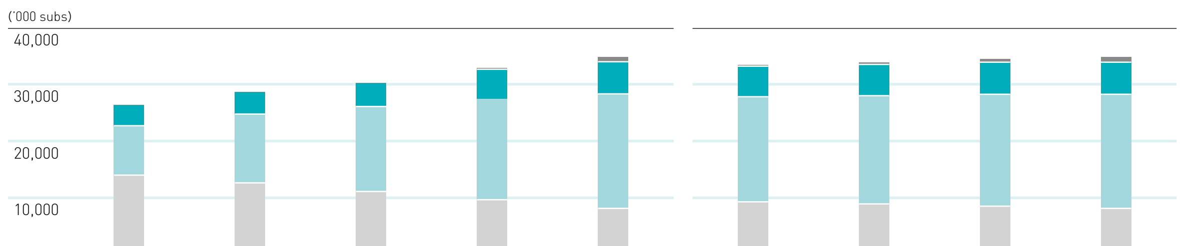


	2007	2008	2009	**2010**
Total Subscribers in Japan	88,110	90,910	94,080	94,620
Penetration Rate	73.0	75.3	78.0	78.2

(Years ended December 31)

Source: Ministry of Internal Affairs and Communications

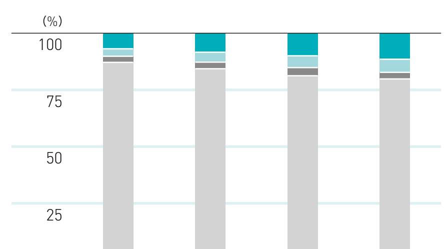
Number of Broadband Subscribers



	2007	2008	2009	2010	**2011**	**2011**			
						1Q	**2Q**	**3Q**	**4Q**
ADSL Subscribers	14,013	12,711	11,184	9,735	8,201	9,361	8,990	8,593	8,201
FTTH Subscribers	8,795	12,155	15,020	17,802	20,236	18,589	19,122	19,774	20,236
CATV Subscribers	3,607	3,872	4,111	5,315	5,675	5,377	5,528	5,666	5,675
Other	12	13	20	165	847	228	351	541	847
Total	26,427	28,750	30,335	33,016	34,959	33,535	33,992	34,575	34,959

Source: Ministry of Internal Affairs and Communications

Market Share of Myline by Operator



	2009				2010				**2011**			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International
KDDI	7.6%	9.4%	11.5%	13.4%	7.1%	8.7%	10.4%	12.1%	**6.9**	**8.4**	**10.0**	**11.5**
SoftBank TELECOM	4.0%	5.4%	6.4%	7.2%	3.6%	4.8%	5.7%	6.3%	3.3	4.4	5.2	5.8
Other Companies Total	3.2%	3.6%	4.6%	3.5%	3.0%	3.4%	4.2%	3.4%	2.7	2.9	3.6	2.9
NTT	85.2%	81.6%	77.5%	75.9%	86.3%	83.1%	79.7%	78.2%	87.1	84.3	81.2	79.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Myline Carriers Association

Mobile Business

Principal Services/Operations
Mobile telecommunications services, sales of mobile terminals, content business, mobile solutions services, etc.

Principal Group Companies
KDDI Corporation, Okinawa Cellular Telephone Company, KDDI Technical Engineering Service Corporation, etc.

Overview of Operations in the Year Ended March 31, 2011

In the Mobile Business, which centers on the "au" brand, KDDI provides mobile telecommunications services, sells mobile telecommunications devices, and offers contents and mobile solutions services targeting corporate customers.

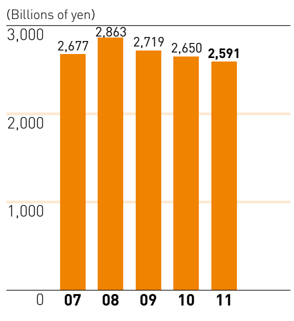
During the year ended March 31, 2011, operating revenues from this business slipped 2.2% year on year, to ¥2,590.7 billion. This decline was mainly attributable to a decline in voice ARPU as more subscribers shifted to the "Simple course" pricing plan.

Although sales commissions (average subscriber acquisition and subscriber retention costs) decreased substantially, efforts promoting users of non-triband handsets to switch to triband handsets and the increase in related costs accompanied by a rise in sales units from the active introduction of smart phones resulted in an operating income decrease of 9.3% year on year, to ¥438.9 billion.

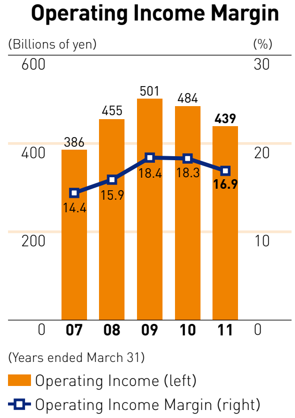
In the year ending March 31, 2012, we expect operating revenues to rise 0.4% year on year, to ¥2.6 trillion, as an increase in operating revenues of other business including sales of terminals would offset the decline in operating revenues of the telecommunications business mainly caused by falling voice ARPU from the shift toward "Simple course" pricing and the adoption of "Maitsuki Discount."

As for the operating income, we forecast a 2.0% year-on-year drop, to ¥430.0 billion, due to a decline in the operating income of the telecommunications business, despite efforts to reduce sales commission from the adoption of "Maitsuki Discount," expand profits of sales terminals and "Keitai Guarantee Service," and reduce general expense.

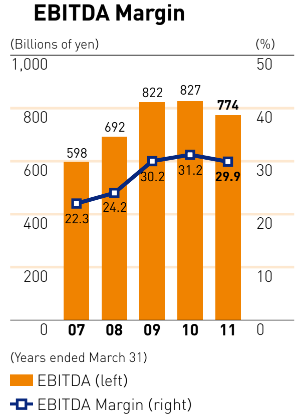
Operating Revenues



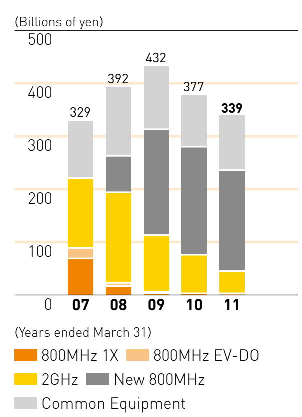
Operating Income/ Operating Income Margin



EBITDA/ EBITDA Margin



Capital Expenditures

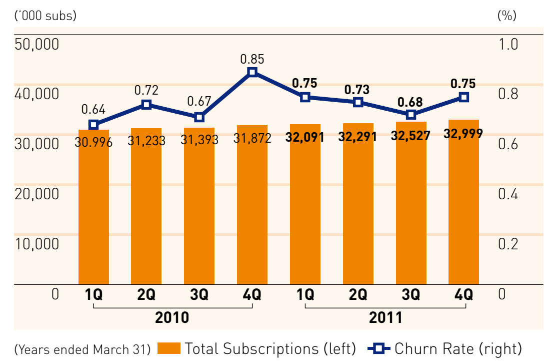


Subscriptions/Churn Rate

Net additions during the year ended March 31, 2011 numbered 1.13 million subscriptions, outpacing our initial expectations by 200,000 units. As a result, total subscriptions at the year-end numbered 33.00 million, up 3.5% from the year earlier and accounting for a cumulative share of 27.6%.

Of this number, 99.6% (32.85 million) subscribed to 3G mobile phone services. High-end CDMA 1X WIN (hereafter, "WIN") subscriptions numbered 29.63 million, accounting for 89.8% of all subscriptions.

The churn rate for the year ended March 31, 2011 was 0.73%, about the same as last year. Although the first-half churn rate was up due to the negative effect of Mobile Number Portability (MNP) after the release of smart phones by other companies, the second-half churn rate was down year on year, owing to our ability to retain customers due to the introduction of smart phones such as the "IS03."

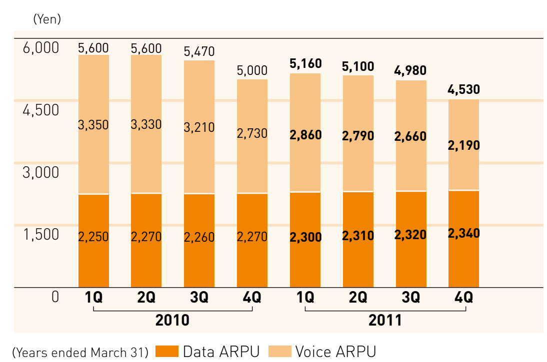


ARPU

ARPU in the year ended March 31, 2011 came to ¥4,940, down 8.7% from the previous term.

Voice ARPU fell 16.8% year on year, to ¥2,620, owing to the increasing shift toward "Simple course" pricing, the growing popularity of such pricing measures as "Call Designation Flat Rate," and access charge revisions.

Data ARPU rose 2.7%, to ¥2,320. This expansion stemmed from successful efforts to promote the shift from 1X to high-end WIN services and smart phones, leading to a rise in the percentage of subscribers to flat-rate pricing plans, and measures to bolster data use among subscribers with low data usage.

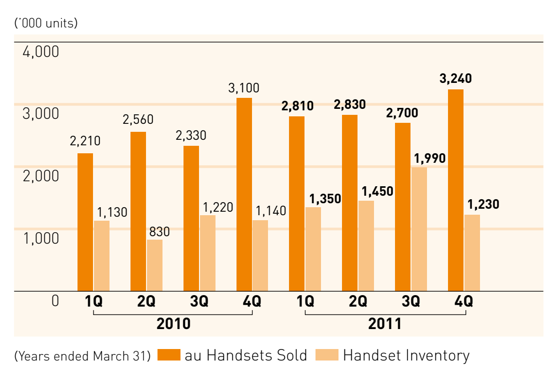


Handset Sales/Inventory

The number of handsets sold during the year ended March 31, 2011 was up 13.4% year on year, to 11.57 million, mainly due to model upgrades resulting from the expansion of smart phone demands and the transfer from non-triband handsets.

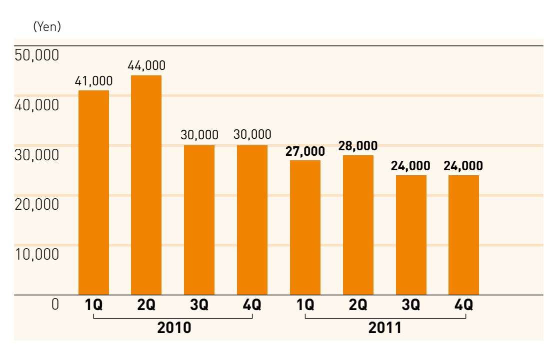
Handset inventory as of March 31, 2011 totaled 1.23 million units, up 7.8% year on year. This figure includes 90,000 units already written off.

KDDI writes off and disposes of handsets to clear excess inventories down to a reasonable level. Its write-offs and disposal of excess inventories led KDDI to post write-off/disposal losses for the year totaling ¥2.8 billion.



Sales Commissions

In addition to reducing handset procurement costs, the adoption of "Maitsuki Discount" for smart phone sales in the second half decreased sales commission per unit. As a result, average sales commissions for the year ended March 31, 2011 were down 27.8% from the previous year, to ¥26,000.



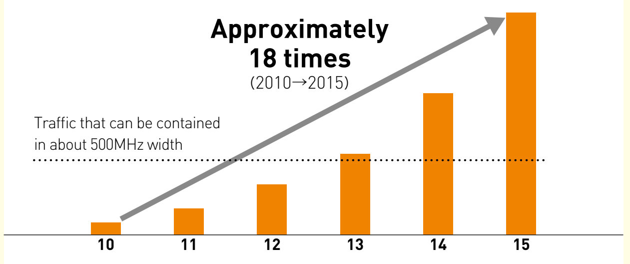
Market Environment and KDDI's Measures

Network

Background

- Mobile data traffic would expand 18 times in five years between 2010 and 2015 due to the spread of devices such as smart phones.
- How to construct high-speed and reasonable networks and how to support the traffic amid the rapid increase of traffic have become the problem for telecommunications operators.
- By promoting a multi-network strategy that effectively uses fixed-line (FTTH, CATV), mobile (3G, LTE, WiMAX), and Wi-Fi, we can not only support rapidly increasing traffic efficiently but also provide a high-speed and comfortable telecommunications environment while reducing total network cost.

Expectations on Mobile Data Traffic in the Domestic Market



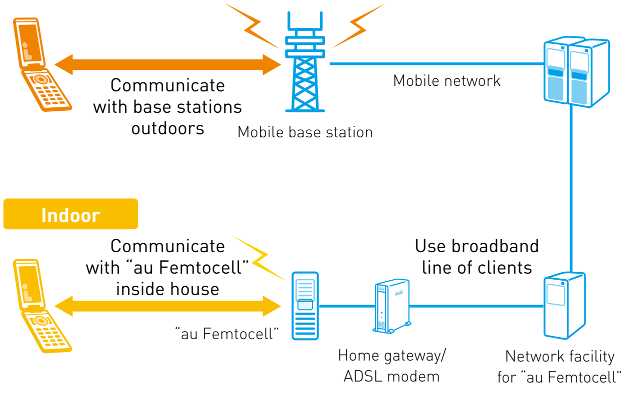
Source: Expectation by KDDI

Our Action

Measures for Data Offloading

- As measures for indoor data offloading, we have provided small indoor base stations "au Femtocell" and "au Repeater" to individuals to set up a data usage environment and to improve telecommunications quality. We have expanded "au Femtocell" offering areas to nationwide in October 2010.

Overview of "au Femtocell"



- As measures for outdoor data offloading, we have started offering public wireless LAN service "au Wi-Fi SPOT," which can be used easily by anyone with au smart phones, in June 2011. We intend to expand usable spots to increase the number to about 100,000 spots by March 31, 2012.

au Wi-Fi SPOT

Introducing New Technology for the Future

In November 2010, we adopted "EV-DO Multi-Carrier" technology and started offering "WIN HIGH SPEED," the expanded system that allows a maximum 9.2Mbps downlink and 5.5Mbps uplink speed*1. Compared to the current "EV-DO Rev. A," the speed triples at maximum. *1, 2

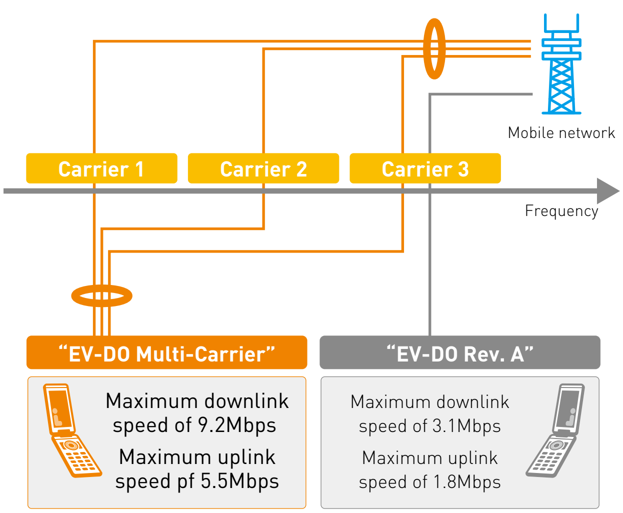
*1. Applicable in the areas that support 9.2Mbps downlink (5.5Mbps uplink) speed at maximum. It is the best-effort method service. The speed mentioned is the maximum speed by technical standards and does not show the actual usage speed. The speed may slow down significantly depending on the telecommunications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

We are planning the start of 3.9G system service using the LTE method in 2012. A special feature of our LTE development plan is the quickly raising nationwide coverage. We are currently planning on population coverage of 96.5% by March 31, 2015. We are trying to realize the reduction of cost per bit through nationwide development of LTE.

Also, by adopting LTE in 10MHz width of both the 1.5GHz band and new 800MHz band, we can maximize frequency usage.

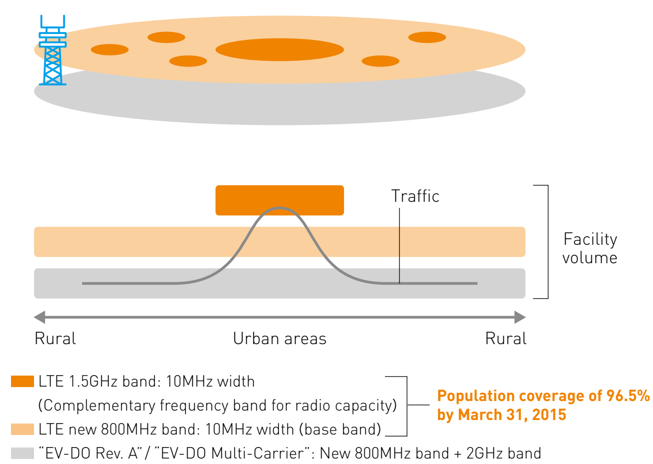
We initially planned on ¥515.0 billion in capital expenditures by March 31, 2015. However, with the promotion of the multi-network strategy we can supress the investment on base stations to within ¥300 billion.

"EV-DO Multi-Carrier" Usage



* Carrier: Radio wave to communicate carrier data (carrier wave)

Development of LTE



UQ Communications Inc. is developing "WiMAX2," a next-generation telecommunications technology that realizes high-speed telecommunications with a maximum downlink speed of 330Mbps by improving the efficiency of frequency usage. This service is to be offered commercially in the year ending March 31, 2013.

Special Features of WiMAX2

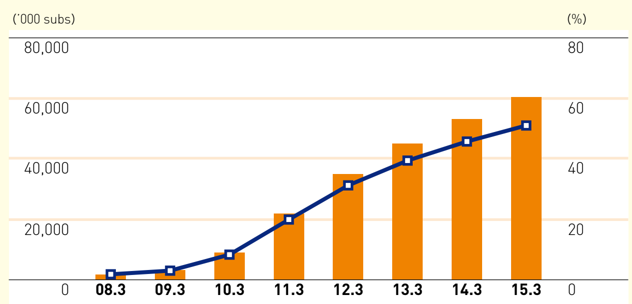
Super high-speed large volume telecommunications	→	Realize speed that matches FTTH
Further shorten transmission delays	→	Expand real-time type apps and improve usability
Expand high-speed mobility functions	→	Realize high-speed large volume telecommunications even when traveling at speed of 350km/h
Sustain compatibility with WiMAX (802.16e)	→	Secure wide areas from the start of WiMAX2 service
Further improve frequency efficiency	→	Improve network capacity

Terminals

Background

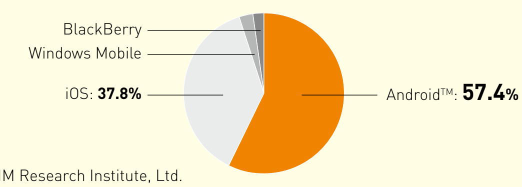
- With U.S. Apple Inc's "iPhone™" as a trigger, the shift to smart phones is advancing rapidly in the world. "Android™", a platform for mobile terminals by Google Inc., is expanding its shares and global competition including terminal manufacturers in the world is getting fierce.
- With fierce terminal competition, reorganization of domestic terminal manufacturers advanced and the same model has been introduced at various carriers, making it difficult for telecommunications operators to differentiate with terminals.
- KDDI has used "Android™ au" as a keyword to shift to smart phones, whose development we have lagged compared to other companies, and aim to expand the number of smart phone users by developing various models in its lineup.

Change and Expected Change of Subscription and Ratio of Smart Phones in Japan



Subscription of Smart Phones in Japan (left)
Ratio of Subscription of Smart Phones in Japan (right)
Source: MM Research Institute, Ltd. (Minato Ward, Tokyo)
"Change and expected change in smart phone market" (December 2010)

Shipment Shares by Smart Phone OS in Japan (FY 2011.3)



Source: MM Research Institute, Ltd.

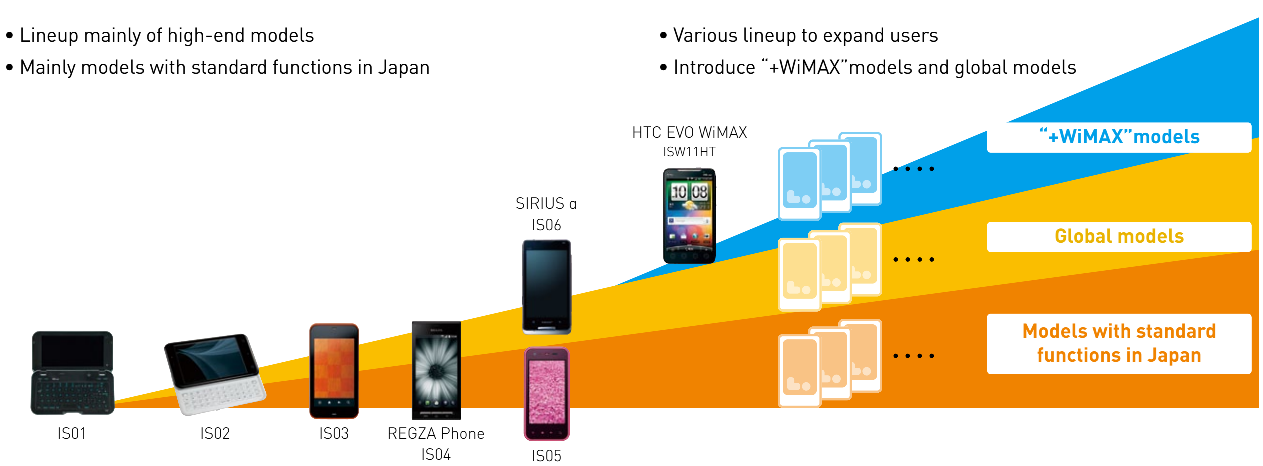
Our Action

Smart Phones

- With "Android™ au" as a keyword, in the year ended March 31, 2011, we released a total of six models, mainly smart phones with standard functions in Japan, including "IS03."
- We will develop a wide terminal lineup, including global models and models with functions common on feature phones, in Japan, as well as "+WiMAX" model like "HTC EVO WiMAX ISW11HT," released April 2011, and unique models like "INFOBAR A01," a model with a stylish design to differentiate it from other companies.

Expansion of Lineup

FY2011.3	FY2012.3
• Lineup mainly of high-end models • Mainly models with standard functions in Japan	• Various lineup to expand users • Introduce "+WiMAX"models and global models



Services/Content

Background

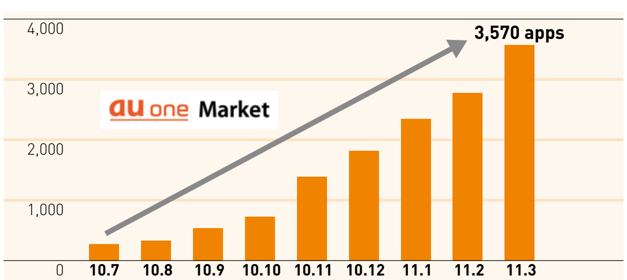
- As voice ARPU plummets, telecommunications operators face an important strategic need to boost data ARPU through enhanced service and content offerings, as well as the urgent need to develop a more diverse business model that is less reliant on communications traffic.
- A massive number of apps for smart phones have been developed and the environment is almost ready to allow anyone to use them easily. Also, as a means to differentiate the content of smart phones, provision of attractive apps and collaboration with global players of contents layer is becoming important.
- We have provided new proposals focusing on customers' lifestyles in areas such as music, videos, sports, and books. In addition, we will promote contents platform strategy through collaboration with companies that have brand power and good contents.

Our Action

Cultivation of Smart Phone Apps and Differentiation Strategy

- "au one Market," a smart phone apps market opened in June 2010, carried 3,570 apps by March 31, 2011, showing steady growth.
- We made an investment in "A-Fund," an investment fund to cultivate Android™ apps and promote cultivation of potentially popular apps.
- We will launch an incubation program "KDDI ∞ Labo" to support venture companies and engineers who will be main players in the next generation to develop Android™ apps in August 2011.

Number of Apps on "au one Market"



Overview of "A-Fund"

Name of the fund	A-Fund, L.P.
Period of new investment	Plan maximum of five years until December 2016
Target of investment	Invest in venture companies that develop Android™-related business (apps, platform, development of hardware, provision of net service) in the United States, China, and Japan
Total amount of fund	$100 million (Plan)
Management	DCM (California, U.S.A.)
Major investors*	KDDI ($25 million), GREE ($25 million), Tencent, other global companies

* As of April 22, 2011

Strengthening Tie-ups with Powerful Partners

- KDDI Corporation and Skype™ announced a strategic alliance and started offering "Skype™|au" service on au smart phones featuring Android™ in November 2010.
- In May 2011, we agreed on function collaboration with "Facebook." Users of au mobile phones will be able to communicate more easily with over 500 million people using Facebook and collect and share information that is more suited to the individual.

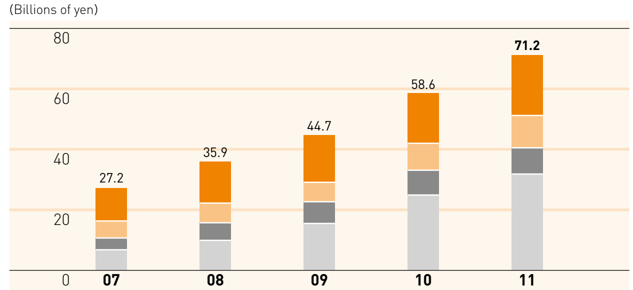
Conventional au Only Services to be Adopted by Smart Phones

- We are advancing with measures to adopt services developed for EZweb, including "LISMO!," au's music, video, and book services, and "au Smart Sports," and "EZ Navi Walk," for smart phones.
- "LISMO WAVE," a music streaming service that allows users to listen to FM radio broadcasting from 52 private stations around Japan regardless of areas, has been offered from January 2011.

Contents and media business recorded ¥71.2 billion in revenues, up 31% year on year, continuing the trend of higher revenues.

Content/Media Business Sales

(Billions of yen)



(Years ended March 31)

Collaborative Content & Others EC Advertising Content-fee Collection

Pricing Plans

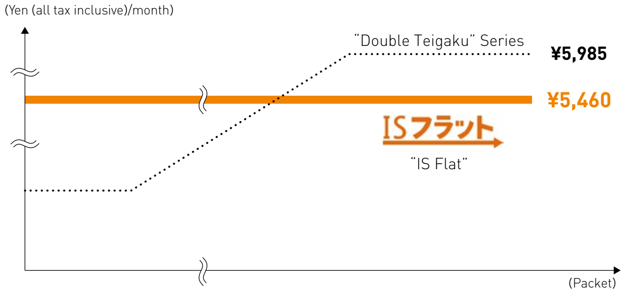
Background

- For voice call plans including basic fees, all companies are selling mainly discount two-year subscription type plans that aim to prevent termination of subscription and price plans that separate telecommunications fees and terminal price so that voice ARPU is on the decline.
- All companies are selling flat-rate plans for data communication fees that transfer to smart phones from feature phones, and this is expected to improve data ARPU.
- All companies have adopted plans to reduce price of terminals, mainly of smart phones, by discounting future telecommunications fees so as to reduce the terminal purchase burden of clients and sales commissions.

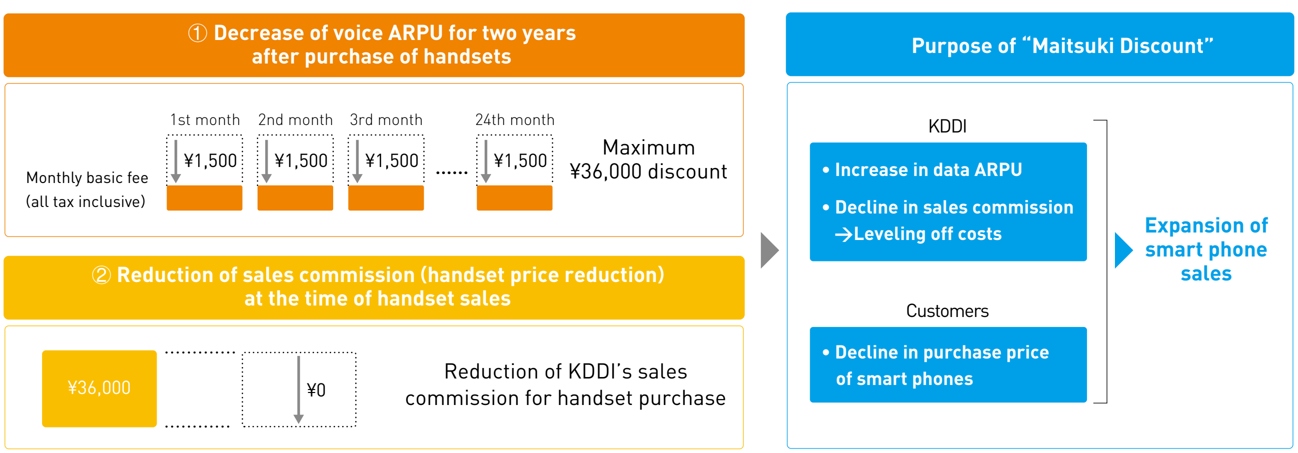
Our Action

- We have introduced "IS Flat," a new packet flat-rate service for smart phone data communication and "Maitsuki Discount (Monthly Discount)," where a fixed amount of discount is subtracted monthly according to the model in November 2011. It will reduce customers' burden on purchasing smart phones, reduce sales commissions, and level off costs.
- A total of 68% of all subscribers have subscribed to the "Simple course" pricing plan as of March 31, 2011.

IS Flat



Effect of "Maitsuki Discount" (in the case of ¥1,500 monthly reduction)



* Discount amount is decided separately according to the model.

Mobile Business Targeting Corporate Clients

Our Action

- As growth in the consumer market slows, KDDI is proactively targeting the corporate mobile business, which is expected to grow.

  For large enterprises, KDDI offers mobile solutions that enable clients to enhance their operations through the use of mobile phones. As demand rises in the small and medium-sized enterprise (SME) market, we are also moving ahead with product development and marketing strategies, and are forming a sales organization for the SME segment.

- KDDI and Three Laws of Mobility, Inc., a subsidiary of U.S. Motorola Mobility, have agreed to provide Android™ security management service developed by Three Laws of Mobility. We will provide an environment where corporate clients can safely use Android™ terminals.

"E31T," an open platform terminal for corporate users

Measures for New Revenue Foundation

Our Action

- At UQ Communications Inc., business has grown steadily since the company launched its commercial service in July 2009. Its accumulated subscriptions topped 800,000 in March 31, 2011—the target it has been aiming for—and the company expects the number to exceed 2 million in the year ending March 31, 2012.

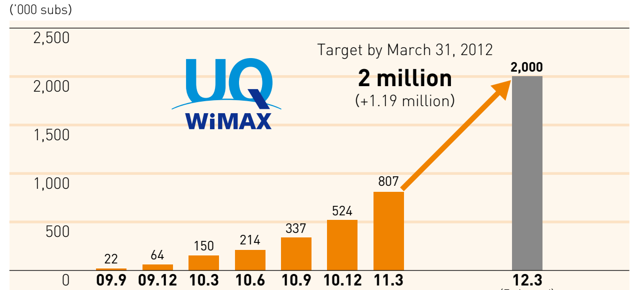
  Accumulated capital expenditures amounted to approximately ¥100 billion on March 31, 2011, and plans call for expenditures, to total ¥144 billion by March 31, 2014.

  We expect the company to become profitable on an annual basis in the year ending March 31, 2013 and to clear the accumulated loss in the year ending March 31, 2016.

  KDDI and UQ Communications will seek for further collaboration including "+WiMAX" smart phones.

Subscriptions

('000 subs)



Company Profile

Company name		UQ Communications Inc.
Capital including additional paid-in capital		¥47.0 billion
Shareholders and voting rights ratio		KDDI 32.26% Intel Capital 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%
Current situation	Area coverage	Base stations as of Mar. 31, 2011: 14,376 Avg. of 70% in Japan, 99% in Tokyo, Nagoya, Osaka by population—Covering 569 cities and towns in all 47 pref.
	Device	Wi-Fi router, WiMAX PC become main
	Fee	"UQ Flat Yearly Passport," a flat-rate plan of ¥3,880 monthly charge under the condition of one-year subscription, proves popular.

Results Estimation

Subs (as of March 2014)	Approximately 5.60 million
Sales (FY2014.3)	Approximately ¥145.0 billion
CAPEX (up to March 2014)	Approximately ¥144.0 billion
Break-even (single FY)	End of FY2013.3
Elimination of cumulative loss	End of FY2016.3

Various Devices Available by Open Device System

WiMAX PC

Wi-Fi router

Data communication card

Fixed-line Business

Principal Services/Operations
Broadband service (FTTH, CATV, etc.),
domestic and international telecommunications services,
data center services, ICT solutions services, etc.

Principal Group Companies
KDDI Corporation, JCN Group,
Chubu Telecommunications Co., Inc. ,
KDDI America, Inc., etc.

Overview of Operations in the Year Ended March 31, 2011

Through its Fixed-line Business, the KDDI Group supplies a full range of fixed-line telecommunications services, such as broadband services including FTTH and CATV services, local, long-distance, and international voice telephony, and data center services and ICT solutions services for corporate clients.

Operating revenues in the year ended March 31, 2011 amounted to ¥897.3 billion, a 6.9% increase year on year. While KDDI alone showed a decline in operating revenues due to a drop in voice service revenues that offset an increase in revenues of the Internet business from FTTH business promotions, increases in overseas consolidated subsidiaries—including investments in two MVNO-related companies in the United States and the addition of Cabletelevision Adachi Corporation and CABLE TELEVISION TOKYO, LTD. in the CATV business—led to the overall increase.

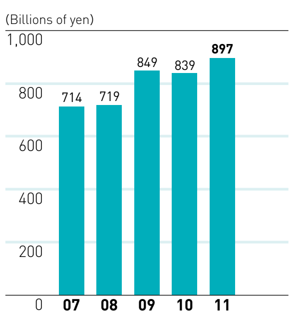
On a non-consolidated basis, the balance of payments on the FTTH business improved, and the Company experienced lower operating expenses from network streamlining. Moreover, stronger performance by consolidated subsidiaries such as Chubu Telecommunications Co., Inc. (CTC), helped to record operating income of ¥24.0 billion in the Fixed-line Business, a ¥68.2 billion improvement compared with the previous year, showing the first turnaround in seven years.

In the year ending March 31, 2012, owing to the increased revenues of consolidated subsidiaries, an expanded customer base for FTTH services, and strengthening of the solutions business for corporate clients, we expect operating revenues to rise 3.1% year on year, to ¥925.0 billion.

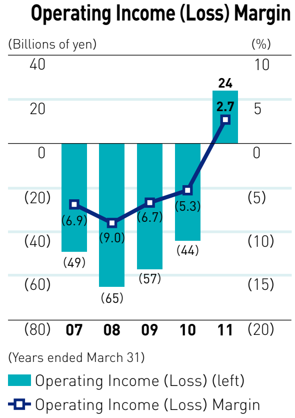
In addition, we are aiming for a 66.7% rise in operating income, to ¥40.0 billion, resulting from lower costs due to network streamlining,* improved balance of payments on the FTTH business, and expanded income from consolidated subsidiaries.

* Network streamlining: Rationalizing fixed-line networks that have increasing overlaps and greater complexity by reducing base stations and transmission circuits with low-utilization rates. In the year ended March 31, 2010, through reorganization and unification we booked a total of ¥48.1 billion in extraordinary loss including impairment loss, and in the year ended March 31, 2011, the cost reduction effect was ¥18.1 billion. We aim for further streamlining including management reform by expanding the target to metro access networks.

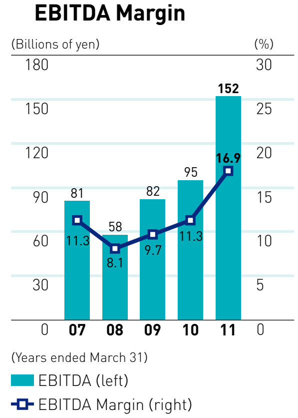
Operating Revenues



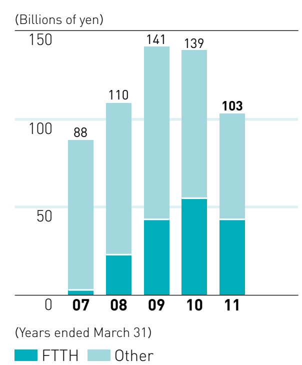
Operating Income (Loss)/ Operating Income (Loss) Margin



EBITDA/ EBITDA Margin



Capital Expenditures



Market Environment and KDDI's Measures

Access Line Business

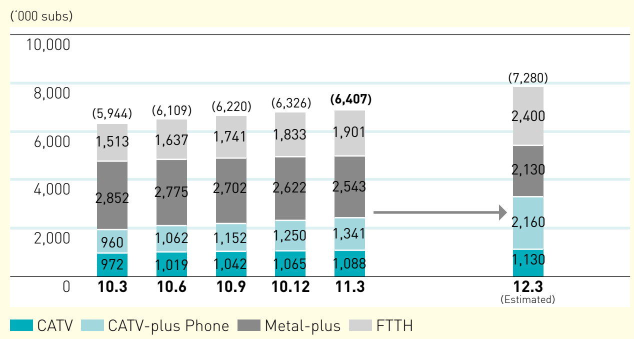
Background

"Access line" refers to the line that connects customers' homes or offices with our backbone network. In the access line business, consumers have shifted to broadband services such as ADSL, FTTH, and CATV. Shifting from ADSL to FTTH is particularly common, largely owing to price competition and the introduction of "triple-play" services that combine Internet access, phone, and video.

While needs for high volume and various visual contents viewing expand, customers who do not use video distribution sites or other large-volume data download services find ADSL service sufficient for their needs, leading to stagnation in the growth of FTTH service subscriptions. New measures to promote the spread of FTTH are needed.

Meanwhile, telecommunications carriers expect fixed-line access lines such as FTTH and CATV to serve as destinations to offload mobile data traffic which is rapidly increasing.

Number of Fixed-access Lines



* ( ) shows total subscription of access lines excluding cross over subscriptions.

Our Action

FTTH

As of March 31, 2011, FTTH subscribers on a consolidated basis, including CTC, numbered 1.9 million, up 390,000 from the previous year. Combined revenues from voice, Internet, and video services during the year amounted to ¥99.9 billion, with an ARPU of ¥4,360, making it a pillar of the fixed-line business.

Expansion of Service Areas and Service Menus

- KDDI began providing "au HIKARI Home" FTTH service in Ishikawa Prefecture in April 2010. The service expanded to include areas in Miyagi Prefecture, Tochigi Prefecture, and Ibaraki Prefecture, while the service was newly started in Niigata Prefecture, Okayama Prefecture, Hiroshima Prefecture, Kagawa Prefecture, Aichi Prefecture, and Kochi Prefecture, and the service became available in 17 prefectures as of June 30, 2011.

"au HIKARI"

"Giga Value Plan"

"au HIKARI Home"

"au HIKARI MANSION"

- "au HIKARI MANSION Giga," a reasonable service offering maximum uplink and downlink speeds of 1Gbps at apartment buildings with four stories or more, began in the Kanto region in May 2010 and in Kansai and Chubu areas in October 2010. "au HIKARI Business," a fixed-line IP telephone service for corporate clients also started.

Strengthening Cross Selling

- In the year ended March 31, 2011, we have strengthened cross selling mainly of au sales channels such as au shops. In the year ending March 31, 2012, in addition to au shops, we will promote cross selling at CATV shops such as that of J:COM, while promoting upgrading to FTTH services to ADSL users.

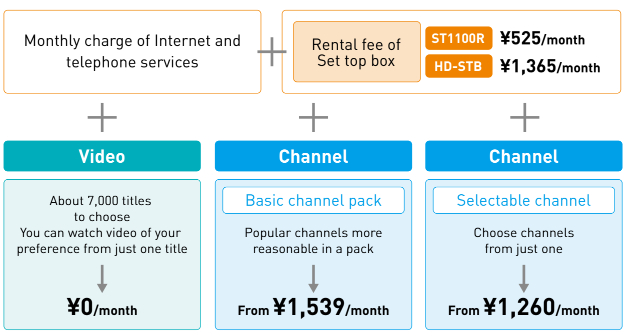
Measures to Improve Combined Sales Ratio

In the year ended March 31, 2011, we simplified pricing plans for video channel (TV service) so that customers can use these services more comfortably.

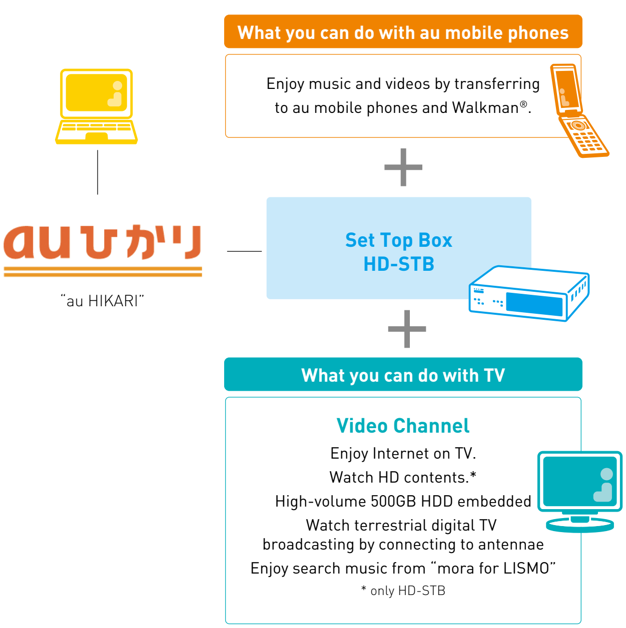
Furthermore, we have embedded 500GB HDDs into set-top boxes (STBs) in our lineup. In the year ending March 31, 2012, we began offering a new STB that can record videos to external HDD and is compatible with customers' home networks.

We are trying to expand services so that customers can enjoy videos and music in various situations throughout their daily lives. One attempt is allowing customers to enjoy videos and dramas distributed by video contents distribution site "LISMO Video Store" on home TVs as well as transfer the contents to their au mobile phones to watch the rest of the programs outside of the home.

Pricing Plans for Video Channel



Overview of HD-STB



CATV
Providing CATV Service through Subsidiary JCN Group

KDDI is providing CATV service through consolidated subsidiary JCN Group.

JCN Group had 19 group stations and 1.09 million subscribed households as of March 31, 2011. We will further promote new subscriptions by offering various service menus and expand the CATV market through ARPU improvement measures such as raising the bundle rate of existing subscribers.

Expanding Tie-up Stations for Cable-plus Phone

"Cable-plus phone" service allows CATV operators to provide fixed-line telephony services using their coaxial cable network and KDDI's CDN (Contents Delivery Network). We offer "Cable-plus phone" to CATV operators, which enables CATV stations to offer full-scale "triple-play" services, including multi-channel broadcasting, Internet, and telephone services. As of September, 2010, KDDI had business tie-ups with over 100 CATV stations that offer "Cable-plus phone," and the number increased to 114 stations as of March 31, 2011. Sales of "Cable-plus phone" increased 45.9% year on year, to ¥28.8 billion.

We aim for tie-ups with about 150 stations to realize "quadruple-play" service of "Cable-plus phone," video on demand (VOD), Internet, and mobile phone by March 31, 2014.

Creating Synergy through Collaboration with Jupiter Telecommunications

We have worked with Jupiter Telecommunications Co., Ltd. (hereafter J:COM), which became an equity-method affiliate in the year ended March 31, 2011, on various business synergy creations such as cross-sales, unifying VOD contents to J:COM, and switching J:COM phones to KDDI relay stations. In the year ending March 31, 2012, we began offering "J:COM PHONE Plus," a J:COM cable phone service using KDDI's network. Additionally, we have introduced "au Collective Talk's" price plan.

"J:COM PHONE plus"

"Metal-plus"
Sales to Upgrade to Broadband

"Metal-plus" is a direct-access, fixed-line telephone service. Since KDDI provides the line instead of NTT, the service generates basic monthly charge revenues for KDDI in addition to the conventional call-based revenues. "Metal-plus" targets customers who only want a basic telephone service, but it also offers Internet access through either ADSL or a dial-up connection.

As the shift to FTTH service among Internet users continues to occur, "Metal-plus" users are decreasing annually. During the year, the number of "Metal-plus" subscriptions decreased 310,000, to 2.54 million subscriptions as of March 31, 2011. Total revenues, including voice telephony and Internet, amounted to ¥104.3 billion, with an ARPU of ¥3,200.

We will promote sales to users who used "Metal-plus" to upgrade our services to FTTH.

Global ICT

Our Action

Providing Reliable International Telecommunications

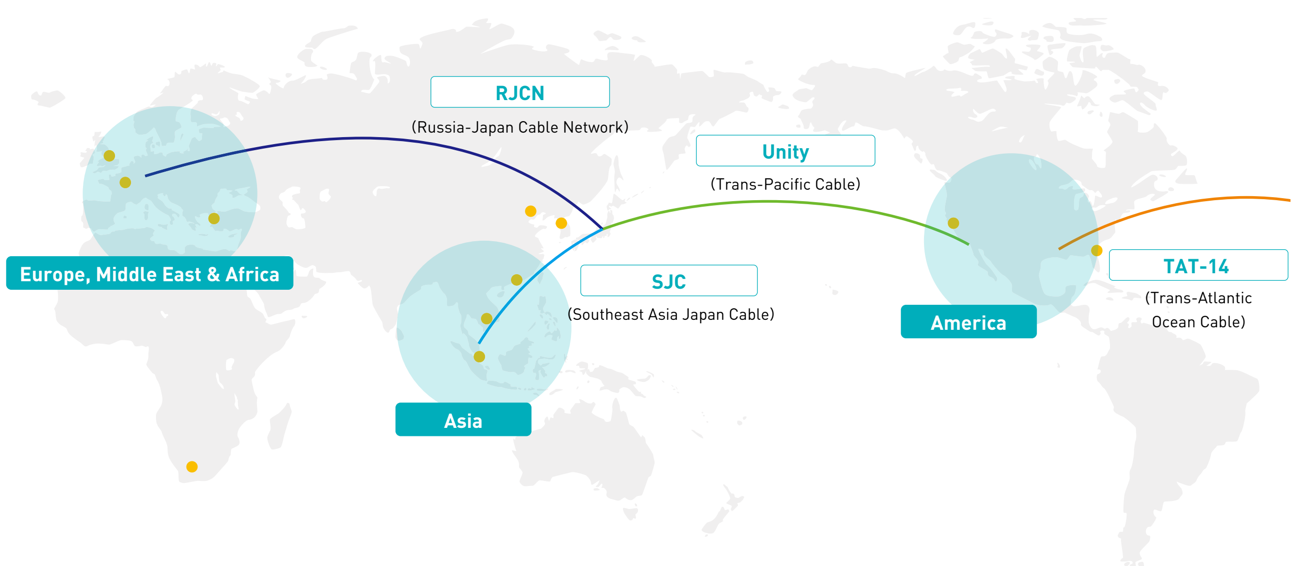
Using our international telecommunications service know-how built through over 50 years of business, along with our globe-spanning submarine cable network, KDDI provides top-quality, seamless layer network service to the entire globe varying from international telephone services for individuals and corporate clients to data,

In the Asia-Pacific region, we have a state-of-the-art submarine cable network that includes the trans-pacific 4.8Tbit/s capacity Unity cable and the SJC (Southeast Asia Japan Cable) that links points within Asia using a total capacity of 17.6Tbit/s (scheduled to begin service in 2013), to provide a high-quality, low-delay network.

To meet a variety of the ICT needs of corporate clients advancing overseas business, including telecommunications network configuration, operation, and maintenance, we are creating a global structure. In January 2011, we established "KDDI Brazil" to support the ICT environment construction of Japanese companies in Brazil, and our overseas establishments spanned 90 locations in 58 cities within 26 regions.

KDDI OCEAN LINK

KDDI's Global ICT Bases



TELEHOUSE

United Kingdom (London)
Docklands North
Docklands East
Docklands West
Metro

France (Paris)
Jeuneurs
Voltaire
Magny

Turkey
Istanbul

South Africa
Cape Town
Johannesburg

China
Beijing
Shanghai

South Korea
Seoul

Hong Kong
Hong Kong

Vietnam
Hanoi

Singapore
Singapore

America (Los Angeles)
Los Angeles

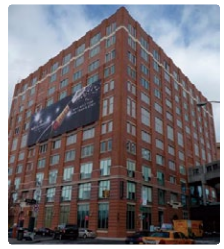
America (New York)
Broadway
Teleport
Chelsea

Proactive Overseas Development of Data Center Business

We are offering a high-quality data center service under the brand name "TELEHOUSE" in Japan and overseas.

In July 2010, we opened "TELEHOUSE SHANGHAI," the second place in China after Beijing. We also opened "TELEHOUSE NEW YORK Chelsea," the third place in New York in January 2011, and "TELEHOUSE ISTANBUL" in Turkey in March 2011 to offer data center services that match the "TELEHOUSE" global standard.

The openings brought the total number of TELEHOUSE sites to 20 sites in 13 cities straddling 10 regions worldwide (approximately 119,000 square meters) as of March 31, 2011.



TELEHOUSE NEW YORK Chelsea

TELEHOUSE SHANGHAI

TELEHOUSE ISTANBUL

Other Business

Principal Services/Operations

Call center business, research and advanced development, etc.

Principal Group Companies

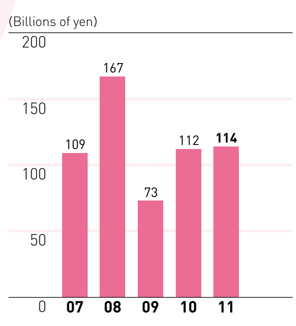
KDDI Evolva Inc., KDDI R&D Laboratories Inc., etc.

Overview of Operations in the Year Ended March 31, 2011

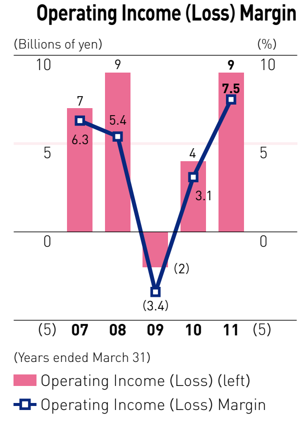
In order to raise the competitiveness of the entire KDDI Group, we are focusing on strengthening its business in fields with growth potential.

Due to a segment change in the mobile business of mediba corporation and the expansion of call center services, during the year ended March 31, 2011, operating revenues surged 1.9%, to ¥114.3 billion, and operating income surged 143.3%, to ¥8.5 billion.

Operating Revenues



Operating Income (Loss)/ Operating Income (Loss) Margin



FINANCIAL SECTION

CONTENTS

FAQ REGARDING MANAGEMENT'S DISCUSSION AND ANALYSIS

For the convenience of our shareholders and investors, we have compiled a list of frequently asked questions (FAQs) pertaining to the Management's Discussion and Analysis section. We hope the reader will find this information useful.

Q1

Why was actual operating income during the year ended March 31, 2011 higher than the Company's initial forecast?

Operating Income in the Year Ended March 31, 2011

Billions of yen

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

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

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

Q2

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

au ARPU Breakdown

Yen

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

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

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

Q3

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

Average au Sales Commissions

Yen

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

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

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

Q4

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

Operating Income

Billions of yen

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

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

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

Q5

What will be your future levels of capital expenditures?

Capital Expenditures

Billions of yen

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

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

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

Q6

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

Equity in Net Income (Loss) of Affiliates Breakdown

Billions of yen

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The consolidated financial statements of the KDDI Group have been prepared in conformity with accounting standards generally accepted in Japan. The following pages provide an analysis of the financial condition and business results of the KDDI Group for the year ended March 31, 2011. Any forecasts, predictions, projections, outlooks, plans, policies, or comments regarding the future contained in these pages constitute forward-looking statements, and as such represent the best judgment of management as of March 31, 2011, based on information available at that time. Actual results may differ materially due to the risks and uncertainties inherent in such statements.

01 Analysis of Consolidated Business Results

Executive Summary

(a) Status of the KDDI Group

The KDDI Group, consisting of the parent company, 105 consolidated subsidiaries, and 24 affiliates, is a comprehensive telecommunications company operating both mobile communications services and fixed-line communications services in Japan.

The Group's Mobile Business is provided under the "au" mobile phone service, and at March 31, 2011, it had 33 million subscriptions.

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

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

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

* FTTH, direct-access phone (Metal-plus and Cable-plus phone), and CATV excluding cross-over.

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

In the mobile communications market, competition for customers is intensifying in such areas as the provision of low pricing plans; a wide variety of handsets including smart phones, tablet terminals, and ebooks terminals; and music, video, ebooks, and other content services. In the fixed-line communications market, meanwhile, the expansion of broadband services, centered on FTTH, is accompanied by an ongoing convergence between fixed-line and mobile communications broadcasting. As a result, competition between services is entering a new phase.

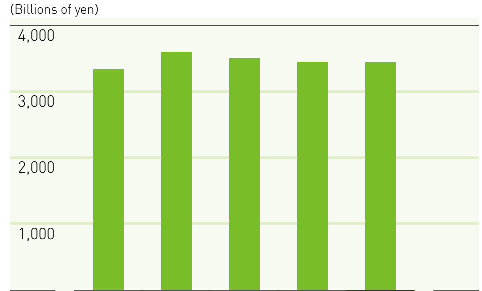
In the Mobile Business, we are developing and marketing new handsets to meet increasingly diverse demand, fueled by the mainstream acceptance of smart phones, as well as of such devices like digital photo frames, ebook readers, and mobile Wi-Fi routers. Moreover, with measures such as offering new pricing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

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

Overview

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

Consolidated Operating Revenues



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

(Years ended March 31)

Summarized Consolidated Statements of Income

Billions of yen

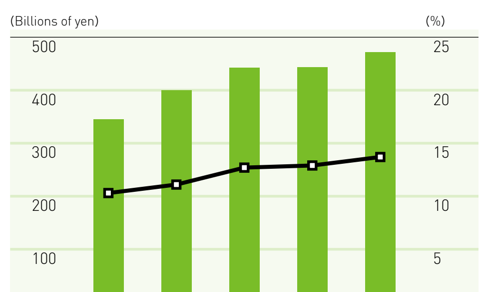
	2010	2011	Change amount	Change (%)
Operating Revenues	3,442.1	**3,434.5**	(7.6)	(0.2)
Operating Expenses	2,998.3	**2,962.6**	(35.7)	(1.2)
Operating Income	443.9	**471.9**	28.0	6.3
Other Expenses	75.2	**126.7**	51.4	68.5
Income before Income Taxes and Minority Interests	368.6	**345.3**	(23.4)	(6.3)
Total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

(Years ended March 31)

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

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

Consolidated Operating Income/Margin



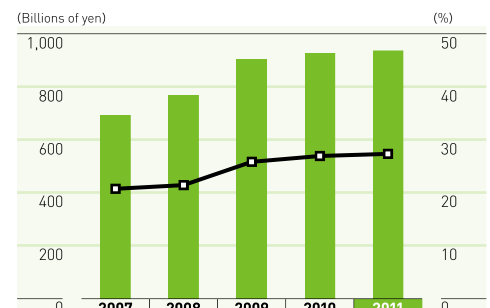
	2007	2008	2009	2010	2011
Operating Income (left)	345	400	443	444	**472**
Margin (right)	10.3	11.1	12.7	12.9	**13.7**

(Years ended March 31)

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

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

EBITDA/EBITDA Margin



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

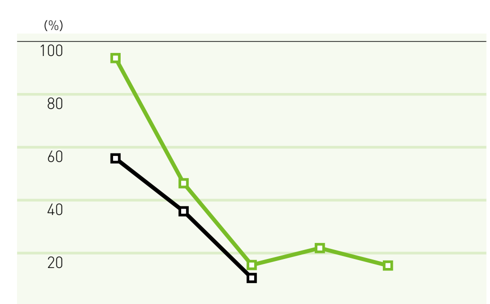
(Years ended March 31)

Review by Segment

(a) Mobile Business

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

Share of Net Additions of Mobile Business



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

(Years ended March 31)

(Reference) Cumulative Subscriptions*1

Thousands of subscriptions

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

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

Network

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

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

Handsets

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

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

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

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

Pricing Plans

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

Service/Content

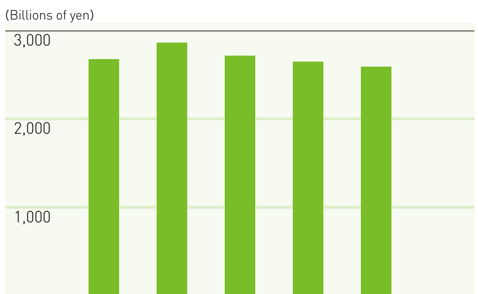
The Group started offering "Skype™ | au" service, which allows voice calls and instant messaging on au brand smart phones featuring Android™ and "au one Market," a new application market for au smart phones featuring Android™ to expand the variety of apps. "LISMO WAVE," a music streaming service that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

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

Operating Revenues

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

Operating Revenues (Mobile Business)



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

(Years ended March 31)

Fall in ARPU

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

au ARPU*

(Yen)

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

(Years ended March 31)

* ARPU is average of each years.

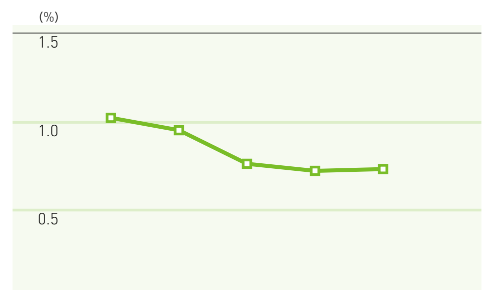
Increased Subscriptions

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

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

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

Churn Rate



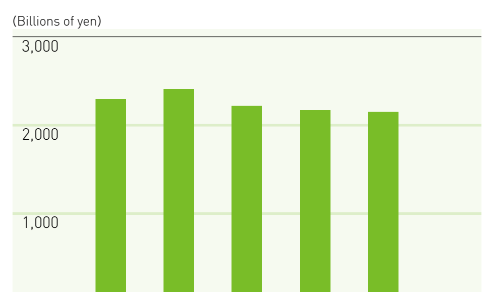
	2007	2008	2009	2010	2011
Churn Rate	1.02	0.95	0.76	0.72	**0.73**

(Years ended March 31)

Operating Expenses

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

Operating Expenses (Mobile Business)



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

(Years ended March 31)

(Reference) Cumulative Subscriptions*1

Thousands of subscriptions

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

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

Decline in Total Amount of Sales Commissions

Sales commissions are paid to retailers when contracts are entered into with customers. During the year under review, total sales commissions on mobile phone handsets fell ¥66.0 billion, to ¥299.0 billion, impacted by declines in average sales commissions per unit from the introduction of "Maitsuki Discount" despite the rise in the total number of handsets sold. During the year, average sales commissions (for new purchases and upgrades) fell by ¥10,000 per unit, to ¥26,000, as a result of such factors as "Maitsuki Discount" arising in conjunction with lower handset procurement costs.

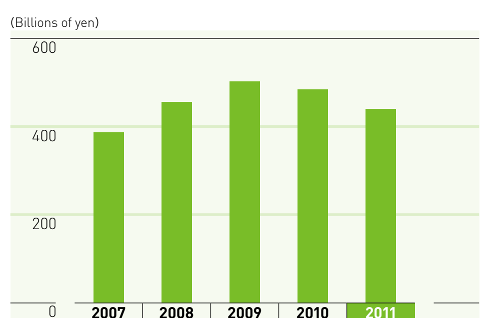
Increase in Handset Procurement Cost

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

Operating Income

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

Operating Income (Mobile Business)



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

(Years ended March 31)

(b) Fixed-line Business

In the Fixed-line Business, KDDI endeavored to expand access lines, particularly FTTH services, while reinforcing systems to support corporate clients' needs in international business development by increasing overseas locations and offering more solutions services.

Increase in Sales of Access Lines

KDDI focused on boosting sales of FTTH services through enhanced product appeal and expanded service areas, on promoting tie-ups with CATV companies, and on increasing access lines, including "Cable-plus phone" and CATV.

Services for Individual Customers

Expansion of FTTH Service Areas

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

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

Expansion of FTTH Services

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

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

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

Services for Corporate Customers

Enhanced Overseas Operations

The Company increased its overseas locations to bolster its systems that support corporate clients' international business development.

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

Establishment of "KDDI MATOMETE OFFICE CORPORATION"

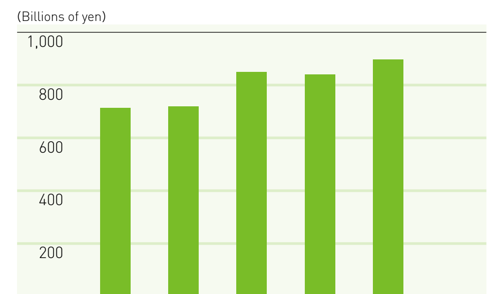
KDDI Corporation and INTELLIGENCE, LTD. jointly established "KDDI MATOMETE OFFICE CORPORATION" to manage sales of "KDDI Matomete Office" for small and medium business membership program. The establishment of the new company should allow various services including communication service, cloud service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

*3. SaaS: Software as a Service

Operating Revenues

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

Operating Revenues (Fixed-line Business)



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

(Years ended March 31)

Decreased Operating Revenues of KDDI

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

Increased Revenues of Group Companies

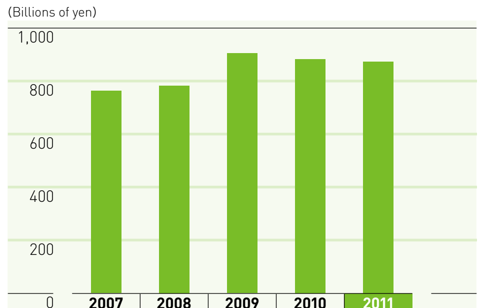
In addition to an increase in revenues due to a rise in the number of overseas consolidated subsidiaries, revenues of the Japan Cablenet (JCN) Group and Chubu Telecommunications Co., Inc. rose from the previous year.

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

Operating Expenses

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

Operating Expenses (Fixed-line Business)



	2007	2008	2009	2010	2011
Operating Expenses	763	783	905	883	**873**

(Years ended March 31)

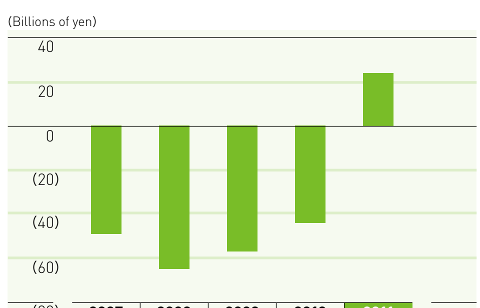
Decreased Operating Expenses of KDDI from Network Streamlining

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

Operating Income

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

Operating Income (Loss) (Fixed-line Business)



	2007	2008	2009	2010	2011
Operating Income (Loss)	(49)	(65)	(57)	(44)	**24**

(Years ended March 31)

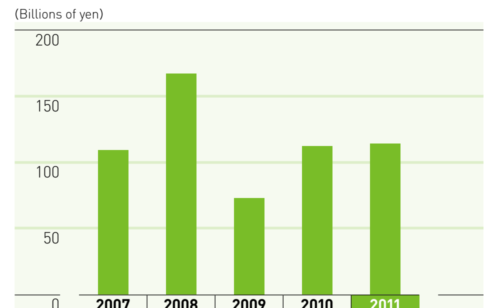
(c) Other Business

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

Operating Revenues

Operating revenues in the Other Business segment rose ¥2.1 billion, or 1.9% from the previous year, to ¥114.3 billion.

Operating Revenues (Other Business)



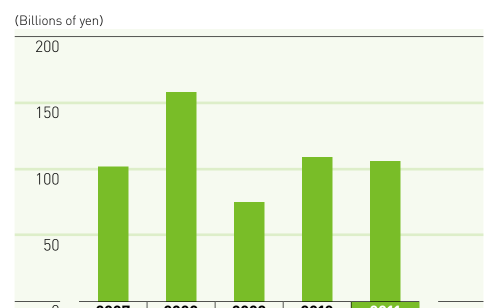
	2007	2008	2009	2010	2011
Operating Revenues	109	167	73	112	**114**

(Years ended March 31)

Operating Expenses

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

Operating Expenses (Other Business)



	2007	2008	2009	2010	2011
Operating Expenses	102	158	75	109	**106**

(Years ended March 31)

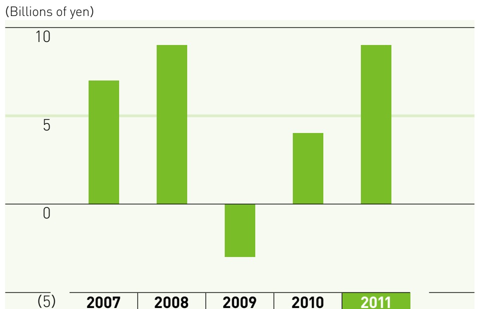
Operating Income

KDDI's Other Business segment generated operating income of ¥8.5 billion, up ¥5.0 billion, or 143.3%, from the previous year.

The primary causes of improvements to the performance by our Other Business segment were increased revenues from our call center business and telecommunications engineering services.

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

Operating Income (Loss) (Other Business)



	2007	2008	2009	2010	2011
Operating Income (Loss)	7	9	(3)	4	9

(Years ended March 31)

Other Income (Expenses)

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

Equity in Loss of Affiliates

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

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

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

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

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

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

Loss on Retirement of Noncurrent Assets of ¥31.8 Billion

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

Loss on the Great East Japan Earthquake of ¥17.6 Billion

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

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

The book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining in KDDI's Fixed-line Business. This reduction, which was recognized as an impairment loss of ¥32.8 billion, and disposal of fixed assets of ¥15.2 billion were accounted.

Impairment Loss of ¥10.7 Billion

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

Income Taxes and Tax Adjustments

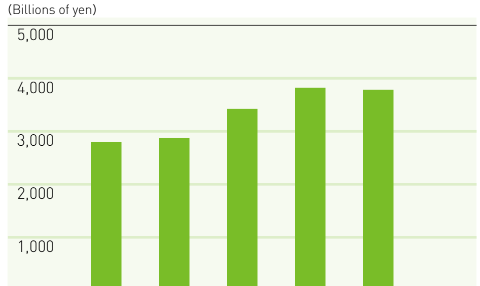
Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥102.6 billion, together with an upward income tax adjustment of ¥21.4 billion. This resulted in a ¥69.0 billion decrease in total income taxes and tax adjustments year on year. The primary factor behind this decline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

02 Assets and Capital Expenditures

Assets

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

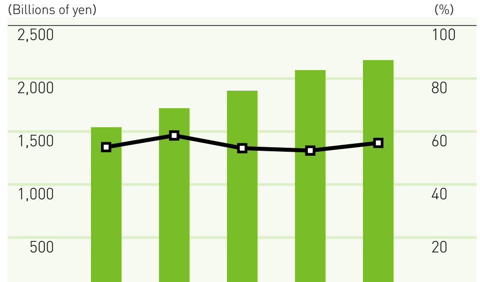
Total Assets



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

(As of March 31)

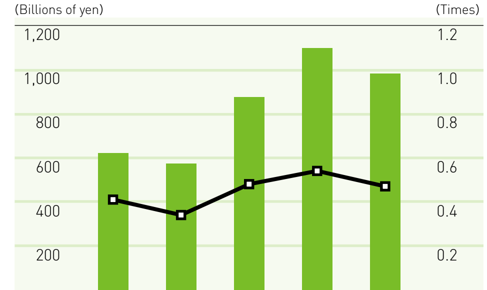
Total Net Assets, Equity Ratio



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

(As of March 31)

Debt, D/E Ratio



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

(As of March 31)

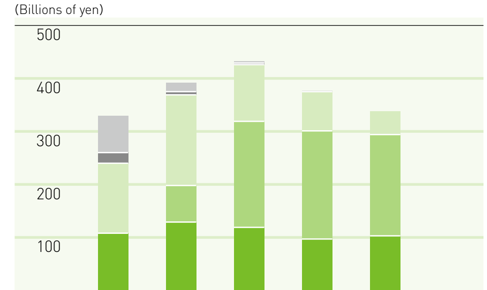
Capital Expenditures

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

(a) Mobile Business

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

Capital Expenditures (Mobile Business)



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

(Years ended March 31)

(b) Fixed-line Business

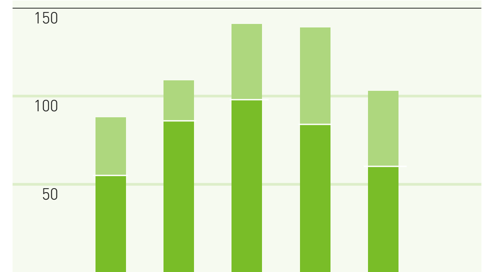
In the consumer business, accompanying its promotion of "au HIKARI" and other FTTH services, KDDI made capital expenditures to build networks, as well as to build and upgrade IP phone-related equipment and related facilities.

In the solutions business, the Company upgraded facilities in step with greater demand for IP-VPN services and wide-area Ethernet services and enhanced product appeal arising from the provision of new services, such as "KDDI Wide Area Virtual Switch."

With respect to infrastructural facilities, such as transmission circuits and base station equipment, the Company increased the capacities of its access networks and backbone network to meet growing demand, and took other actions aimed at improving service reliability and raising communication quality.

Capital Expenditures (Fixed-line Business)

(Billions of yen)



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

(Years ended March 31)

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

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

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

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

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

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

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

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

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

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

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

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

04 Sources of Capital and Liquidity

Summarized Consolidated Statements of Cash Flows

Billions of yen

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

(Years ended March 31)

Cash Flows

(a) Operating Activities

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

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

(b) Investing Activities

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

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

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

(c) Free Cash Flows

¥276.8 billion, up ¥ 461.3 billion year on year

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

(d) Financing Activities

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

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

Liquidity

Cash and cash equivalents at year-end totaled ¥159.9 billion, down ¥5.6 billion year on year, from ¥165.5 billion. Going forward, the KDDI Group expects the liquidity balance to vary in response to its financial position and the financing environment.

Financing

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

Foreign Exchange Risk

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

Debt Repayments

Contracted Debt Repayment Totals by Maturity

Billions of yen

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

Financial Policies

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

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

As a result, the balance of consolidated interest-bearing debt was ¥979.6 billion at March 31, 2011. The ratio of direct to indirect financing was 42:58, and the proportion of centralized fund procurement by the parent company was 97%.

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

Contingent Liabilities

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

05 Significant Accounting Policies and Estimates

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

Estimated Useful Lives of and Depreciation Method for Fixed Assets

The KDDI Group appropriately estimates the useful lives of its fixed assets. There are no assets to which the new estimated useful lives of machinery and equipment and its depreciation method for machinery and equipment need to be applied during the year under review. In the future, should there be rapid changes in the market, environment, or technology, or should new laws or regulations be enacted, the Group may revise estimated useful lives or the depreciation method after conducting a fair appraisal.

Impairment of Fixed Assets

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

During the year ended March 31, 2010, the book value was reduced to recoverable value for domestic transmission line assets for which utilization rates declined due to network streamlining in KDDI's Fixed-line Business. This resulted in an impairment loss (business restructuring expenses) of ¥32.8 billion. The book value was also reduced to recoverable value for KDDI's domestic transmission lines and idle assets and others for which utilization rates declined, including some domestic transmission line facilities and other assets. This resulted in an impairment loss of ¥10.3 billion. Further, the recoverable amount for the said assets is estimated based on the net selling price. The Group also recorded an impairment loss of ¥0.4 billion on operating assets of certain subsidiaries.

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

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

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

The recoverable value of these assets for the Group was estimated based on the usage value, and calculated based on a future cash flow discount rate of 5.54%. The Group also recorded an impairment loss of ¥0.4 billion on operating assets of certain subsidiaries.

Deferred Tax Assets and Liabilities

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

Retirement Benefits and Pension Obligations

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

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

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

BUSINESS RISKS

This section contains an overview of the principal business-related and other risks facing the KDDI Group that could have a material bearing on the decisions of investors. The section also discloses information on a number of other subjects that, while not explicitly considered business risks at present, could be materially relevant to investment decisions.
KDDI discloses information on possible risks in the interest of greater transparency, and assesses the likelihood of issues arising in connection with the various risk factors. Based on these assessments, it strives to take all appropriate measures to avoid risk wherever possible and to develop appropriate and timely countermeasures for situations as they arise.
This section contains various forward-looking statements that represent the best judgments of the KDDI Group as of March 31, 2011. Investors should note that future developments are also subject to unknown risks and uncertainties that by their nature cannot be covered by the following discussion.

01
Competitors, Rival Technologies, and Rapid Market Shifts

Mobile Business

In the mobile communications market, competition to acquire customers has been increasing sharply with the use of low-cost service plans, varied handset styles mainly of smart phones, tablet terminals, and ebook terminals, and content services that include music, video clips, and ebooks.

The KDDI Group has responded to meet diversifying customer needs by developing and launching an enhanced lineup of handsets and accessories, by devising and offering new pricing plans, and by enhancing its services targeting individual and corporate clients—including the new "iida" brand launched in April 2009. However, these services are subject to various uncertainties arising from competition with rival carriers, competing technologies, and rapid shifts in market conditions. As a result, the following factors could have a negative impact on the Group's financial position and/or earnings performance.

- Market demand trends out of line with KDDI Group expectations
- Subscription growth trends out of line with KDDI Group expectations
- Fall in ARPU due to tariff discounts sparked by fierce price competition, or higher sales commission and retention costs
- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to unforeseen developments
- Decrease in attractiveness of handsets or supplied content in comparison with offerings of rival carriers
- Increase in handset procurement costs associated with adoption of more advanced functions, or higher sales commissions
- Drop in customer satisfaction caused by spam or other e-mail abuse, plus related increases in network security costs
- Increase in network costs associated with construction of base stations for the 2GHz band and the new 800MHz band to accommodate new frequencies
- Increase in competition due to new high-speed wireless data technology
- Effects associated with dependence on specific communications protocols, handset technologies, network technologies, or software
- Intensifying competition resulting from convergence of fixed-line, mobile, and broadcasting, and other changes in the operating environment

Fixed-line Business

In the fixed-line market, competition among services is entering a new phase as FTTH and other broadband services expand, and as convergence continues between fixed-line and mobile communications, and between communications and broadcasting.

The KDDI Group is working to enhance ease-of-use for its services and expand access lines, particularly FTTH services, while offering more solutions services for corporate clients. The Group also strives to bolster its systems for supporting corporate clients' international business development by increasing its overseas locations. However, these services are subject to competition with rival carriers, ADSL providers, CATV operators, and other firms, and to rapid changes in market conditions. As a result, the following factors could have a negative impact on the Group's financial position and/or earnings performance.

- Market demand trends out of line with KDDI Group expectations
- Subscription growth trends out of line with KDDI Group expectations
- Fall in ARPU due to tariff discounts sparked by fierce price competition, or higher sales commissions and retention costs

- Decline in ARPU due to drop in service usage frequency by subscribers
- Drop in customer satisfaction with the quality of the network or content due to unforeseen developments
- Decrease in attractiveness of supplied content relative to rival carriers
- Drop in customer satisfaction as a result of spam or other e-mail abuse, plus related increases in network security costs
- Contraction of the fixed-line telephony market due to spread of IP telephony
- Possible increase in NTT access charges
- Intensifying competition resulting from convergence of fixed-line, mobile, and broadcasting, and other changes in the operating environment

02

Communications Security and Protection of Customer Privacy

KDDI is legally obliged as a licensed Japanese telecommunications carrier to safeguard the security of communications over its network.

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

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

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

03

System Failures due to Natural Disasters and Other Unforeseen Events

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

- Natural disasters, such as earthquakes, tsunamis, typhoons, or floods, as well as secondary damages from the spread of toxic substances caused by natural disasters
- Spread of infectious disease
- War, terrorism, accidents, or other unforeseen events
- Power brownouts or blackouts
- Computer viruses or other forms of cyber attack, hacking
- Operation system hardware or software failures
- Flaws in communications equipment and services

04

Telecommunications Sector Regulations and Government Policies

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

Regarding the policies for competition in the new era of fiber-optic and IP services, the KDDI Group advocates measures for fair competition with other telecommunications companies through various study groups with the Ministry of Internal Affairs and Communication and by offering opinions through a public comments system. However, if KDDI's market competency is lost despite the above efforts, it could have a negative impact on the financial position and/or earnings performance of the KDDI Group.

The Company's business operations are subject to the following elements of uncertainty in regard to the revision or abolishment of telecommunications laws and regulations, to government policies, and to factors affecting the competency of the KDDI Group.

Mobile Business

- Revisions to the mobile business model, such as removal of subscriber identity module (SIM) locks
- Revisions to inter-operator access charge calculation formulae and accounting methods
- Revisions to the specified telecommunications equipment system (tighter regulation)
- Revisions to systems governing universal service
- New carriers entering the mobile communication market as Mobile Virtual Network Operators (MVNOs)
- Regulations of the mobile Internet due to an increase in harmful websites
- Regulations of mobile phone usage
- Regulations regarding the operations of NTT East, NTT West, and the NTT Group as a whole
- Regulations regarding the effect of radio waves on health
- Revisions to radio wave usage rules

Fixed-line Business

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

05
General Legal and Regulatory Risk

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

06
Litigation and Patents

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

07
Personnel Retention and Training

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

08
Retirement Benefits

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

09
Asset-impairment Accounting

In the year ended March 31, 2011, the KDDI Group posted impairment loss on current 800MHz band facilities, idle assets including domestic transmission lines and a part of legacy-service facilities in the Fixed-line Business. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment, depending on the level of its utilization.

10
Telecommunications Sector Consolidation and Business Restructuring in the KDDI Group

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

CONSOLIDATED BALANCE SHEETS

KDDI Corporation and Consolidated Subsidiaries
March 31, 2010 and 2011

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

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

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

CONSOLIDATED STATEMENTS OF INCOME

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

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

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Note 14)

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

NOTES TO CONSOLIDATED FINANCIAL SATEMANTS

KDDI Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

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

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

The Company's consolidated financial statements for the year ended March 31, 2011 include 105 consolidated subsidiaries. These are; Okinawa Cellular Telephone Company, KDDI Technical & Engineering Service Corporation, KDDI Evolva Inc., Japan Cablenet Limited, Chubu Telecommunications Company, Incorporated and KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2011, significant changes in the scope were incurred as follows:

Added (Consolidated):

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

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

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

Removed (Consolidated):

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

- 1 company due to liquidation
  MediaFLO Japan Planning Inc.

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

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

Added (Equity Method):

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

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

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

Removed (Equity Method):

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

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

Reclassifications:

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

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥83.15=U.S.$1, the approximate exchange rate on March 31, 2011. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

2. Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (the "Companies").

All significant intercompany transactions and accounts are eliminated.

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

Exceptionally, investments in non-equity-method affiliates (CJSC Vostoktelecom, etc.) are stated at cost because the effect of application of the equity method is immaterial.

b. Revenue Recognition

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

c. Cash and Cash Equivalents

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

d. Inventories

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

e. Foreign Currency Translation

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

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balances sheet date. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign currency translation adjustments" and "Minority interests" of "Net assets."

f. Property, Plant and Equipment and Depreciation Other Than Leased Assets

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

The main depreciation periods are as follows:

Machinery: 9 years

Local line facilities, Long-distance line facilities, Engineering facilities, Submarine line facilities and Buildings: 5 to 38 years

g. Financial Instruments

(1) Securities

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

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

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

(2) Derivatives

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

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

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

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

h. Research and Development Expenses and Software

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

i. Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. The Company and its domestic subsidiaries have adopted the deferred tax accounting method. Under this method, deferred tax assets and liabilities are determined based on the timing differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Leased Assets and Amortization

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

k. Amortization of Goodwill

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

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

l. Net Income per Share

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

m. Allowance for Doubtful Accounts

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

n. Provision of Retirement Benefits

The amount for employee retirement benefits at March 31, 2011 is based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at March 31, 2011.

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

o. Provision for Point Card Certificate

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

p. Provision for Bonuses

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

q. Provision for Directors' Bonuses

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

r. Provision for Loss on the Great East Japan Earthquake

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

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

s. Valuation of Assets and Liabilities of Consolidated Subsidiaries

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

3. Changes to Basis of Presenting Consolidated Financial Statements

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

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

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

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

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

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

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

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

4. Financial Instruments

1. Status of Financial Instruments

(1) Policy for measures relating to financial instruments

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

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

Trade receivables—trade notes and accounts receivable and other accounts receivable—are exposed to credit risk in relation to customers and trading partners. For such risk, pursuant to criteria for managing credit exposure, the Companies have systems enabling the management of due dates and balances of each customer and trading partner as well as the analysis of credit status.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the shares of companies with which the Companies have operational relationships, and periodic analysis of market values is reported to the Board of Directors.

Almost all trade payables—trade notes and accounts payable, other accounts payable and accrued expenses—have payment due dates within one year.

Those trade payables are exposed to liquidity risk at time of settlement. However, the Companies reduce that risk by having each company review fund-raising plans every month.

Among loans payable, short-term loans payable are primarily for fund-raising related to sales transactions, and long-term loans payable are primarily for fund-raising related to capital investment and investment and financing. Loans payable with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce fluctuation risk for interest payable and fix interest expenses when it enters into long-term loans at variable interest rates—based on the premise that requirements for special treatment of interest rate swaps are met in relation to evaluation of the effectiveness of hedges—in principle, the Companies use interest rate swap transactions as a hedging method on an individual contract basis.

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

In order to conduct derivative transactions, based on their company's internal regulations and regulations stipulating associated details, finance or accounting divisions must receive approval from those with final-approval authority as stipulated by authority-related regulations through consultation via an internal memo for each derivative transaction and only conduct transactions with financial institutions with high credit ratings. In addition, such current liabilities as trade payables are exposed to liquidity risk at time of settlement. However, the Companies reduce that risk by having each company review fund-raising plans every month.

(3) Supplementary explanation of items relating to the market values of financial instruments

The market values of financial instruments include prices based on market prices, or, if there are no market prices, they include reasonably estimated prices. Because estimations of the said prices incorporate fluctuating factors, applying different assumptions can in some cases change the said prices.

2. Market Value of Financial Instruments

Amounts recognized in the consolidated balance sheets, market values and the differences between them on March 31, 2011 are as shown below. Moreover, items for which it is extremely difficult to determine market values are not included in the following table (see (note 2)).

Millions of yen

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

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

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

*2. Bonds payable and long-term loans payable included in current portion of non-current liabilities are included.

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

1) Cash and deposits, 2) Accounts receivable, 3) Income taxes receivable, 4) Short-term investment securities

Because, the settlement periods of the above items are short and their market values are almost the same as their book values, the relevant book values are used. Further, because the credit risk is extremely difficult to determine on an individual basis for notes and accounts receivable-trade, allowance for doubtful accounts is regarded as credit risk and the book value is calculated accordingly.

5) Investment securities, 6) Stock of subsidiaries and affiliates

In relation to the market value of investment securities, for shares the market prices of exchanges are used. Further, for information on investment securities categorized according to holding purpose, please see the note "5. Market Value Information."

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

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

11) Bonds payable, 12) Long-term loans payable

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

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

Note2: Financial instruments for which it is extremely difficulty to determine market value

	Millions of yen	Millions of U.S. dollars
	Book value	Book value
Investment securities		
Unlisted equity securities	¥ 4,176	$ 50
Stocks of subsidiaries and affiliates		
Unlisted equity securities	24,327	293
Investments in capital of subsidiaries and affiliates	182	2

Because it is recognized that these do not have market values and that the market values are extremely difficult to determine, they are not included in the chart above.

Note3: Planned redemption amounts after the balance sheet date for monetary assets and short-term investment securities with monetary assets and maturity dates

	Millions of yen		Millions of U.S. dollars	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year
Cash and deposits	¥136,922	¥ —	$1,647	$ —
Accounts receivable	567,834	41,162	6,829	495
Short-term investment securities	25,201	—	303	—
Total	¥729,957	¥41,162	$8,779	$495

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

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

5. Market Value Information

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

Other Securities

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

Regarding unlisted equity securities, which book value was ¥3,382 million and ¥4,176 million (U.S.$50 million) for the years ended March 31, 2010 and 2011, because it is recognized that these do not have market values and the market values are extremely difficult to determine, they are not included in the chart above.

Other securities sold

	Millions of yen						Millions of U.S. dollars		
	2010			2011			2011		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥1,207	¥1,015	—	¥15,717	¥5,590	—	$189	$68	—

Impairment of Investment Securities

For the year ended March 31, 2011, the Company recognized an impairment of ¥368 million (U.S.$4 million) on investment securities (other securities).Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment treatment was incurred for the amount recognized as required in light of the possibility of recovery.

6. Short-term Loans and Long-term Debt

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

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

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

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

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

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

Pledged Assets

The following table summarizes the book value of assets pledged as collateral for short-term loans and long-term debt, including current maturities of long-term debt of the consolidated subsidiaries at March 31, 2011.

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

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

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

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

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

7. Contingent Liabilities

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

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

8. Impairment Loss

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

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

The Companies calculate impairment loss by grouping assets according to minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

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

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

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

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

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

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

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

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

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

9. Loss on Retirement of Noncurrent Assets

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

10. Loss on the Great East Japan Earthquake

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

11. Research and Development Expenses

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

12. Income Taxes

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

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

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

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

13. Retirement Benefits

The Companies have retirement benefit plans that consist of defined benefit pension plan, a retirement lump-sum plan and a retirement benefit trust scheme. Further, certain subsidiaries have defined contribution pension plans or association-establishment-type employees' pension funds.

The reserve for retirement benefits at March 31, 2010 and 2011 are as follows:

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

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

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

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

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

Multi-employer Pension Plans

Certain subsidiaries belong to the ITOCHU Union Pension Fund, which is a multi-employer pension plan. Contributions to the said pension plan are recognized as net pension cost.

Items relating to overall status of pension plan reserves as of March 31, 2010:

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

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

*1. The principle factors relating to the balance are, based on pension plan finance calculation, prior service cost of ¥7,857 million (U.S.$94 million) and deficiency carried forward of ¥5,989 million (U.S.$72 million). For the said pension plan, prior service cost is amortized through amortization of principal and interest using the straight-line method over a period of 18 years and one month (at March 31, 2010).

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

14. Consolidated Statements of Comprehensive Income

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

Other comprehensive income

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

Comprehensive income

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

15. Stock Options

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

Also, in DMX Technologies Group Limited ("DMX") and Wire and Wireless Co., Ltd. ("Wi²"), a consolidated subsidiaries of the Company, its stock option system is in place.

The recipients of DMX's stock options are Members of the Board and employees of its company and its group companies. The recipients of Wi²'s stock option are Members of the Board, employees, and shareholders of its company.

Method for Calculating Fair Value of Stock Options for KDDI Corporation

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

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

*1. Calculation is based on actual stock prices over three years (August 2006 to August 2009) for the 8th Stock Option.
*2. Because it is difficult to make a rational estimate due to a lack of accumulated data, the value is estimated on the assumption that the exercise of stock options is carried out in the middle of the stock option rights exercise period.
*3. This is based on actual dividend payments during the past three fiscal years (FY2007.3 to FY2009.3) for the 8th Stock Option.
*4. This is the rate of return for government bonds for the period corresponding to the forecasted remaining period.

Scale of Stock Options and Changes in the Scale

The following lists the number of shares calculated for the number of stock options that existed in the year ended March 31, 2011.

1) Number of stock options

KDDI Corporation

Shares

	August 2006 5th Stock Option	August 2007 6th Stock Option	August 2008 7th Stock Option	August 2009 8th Stock Option
Before vested				
Beginning of period	—	—	5,032	5,178
Granted	—	—	—	—
Forfeited	—	—	17	32
Vested	—	—	5,015	—
Unvested	—	—	—	5,146
After vested				
Beginning of period	3,983	4,714	—	—
Vested	—	—	5,015	—
Exercised	—	—	—	—
Expired	3,983	156	210	—
Exercisable	—	4,558	4,805	—

DMX Technologies Group Limited

Shares

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

Wire and Wireless Co., Ltd.

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

* Regarding the chart for Wi2, which was consolidated during the year ended March 31, 2011, numbers in "Beginning of period" show the balance at the time of consolidation.

2) Unit value and exercise period for stock option rights

KDDI Corporation

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

DMX Technologies Group Limited

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

Wire and Wireless Co., Ltd.

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

16. Segment Information

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

Millions of yen

Year ended March 31, 2010	Mobile Business	Fixed-line Business	Other Business	Total	Elimination and corporate	Consolidation
I. Sales and Operating Income (Loss)						
Outside sales	¥2,637,806	¥751,196	¥ 53,145	¥3,442,147	¥ —	¥3,442,147
Intersegment sales	12,329	87,982	59,102	159,413	(159,413)	—
Total	2,650,135	839,178	112,247	3,601,560	(159,413)	3,442,147
Operating expenses	2,166,393	883,395	108,742	3,158,530	(160,245)	2,998,285
Operating income (loss)	¥ 483,742	¥ (44,217)	¥ 3,505	¥ 443,030	¥ 832	¥ 443,862
II. Identifiable Assets, Depreciation, Impairment Loss and Capital Expenditures						
Identifiable assets	¥1,987,650	¥990,747	¥ 57,042	¥3,035,439	¥ 784,098	¥3,819,537
Depreciation	327,985	131,754	2,266	462,005	(1,065)	460,940
Impairment loss	78	43,324	164	43,566	1	43,567
Capital expenditures	375,877	142,368	2,901	521,146	10,991	532,137

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

Business Segment	Principal Services/Operations
Mobile Business	Mobile phone services, sales of mobile phone handsets, mobile solutions services, etc.
Fixed-line Business	Local, long-distance and international telecommunications services, Internet services, solutions services, data center services, CATV services, etc.
Other Business	Call center business, content business, research and advanced development, and other mobile phone services, etc.

2. Depreciation and capital expenditures include long-term prepaid expenses and depreciation related to these expenses.
3. Impairment loss in Fixed-line Business includes ¥32,832 million of business restructuring expenses regarding network streamlining (combining and disposal of low-use facilities) in Fixed-line Business.
4. In Assets, the value of company-wide assets included in the "Elimination and Corporate" category is ¥945,975 million. The majority of these assets are surplus funds provided to companies, long-term investments, and assets related to administrative divisions. Further, in accordance with the acquisition of entire ownership of interest in intermediary holding companies which Liberty Global Inc. group owns, the ownership interest (stocks of subsidiaries and affiliates) of Jupiter Telecommunications Co., Ltd. was increased.
5. For depreciation related to company-wide assets, amounts allocated to each segment are ¥8,614 million for the Mobile Business and ¥7,218 million for the Fixed-line Business.
6. Information by geographic segment is not shown since total sales and total assets in Japan accounted for over 90% of total sales and total assets in all business segments.
7. Net sales from overseas operations are not shown since they account for less than 10% of consolidated net sales.

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

(Segment Information)

1. Outline of Business Segments Reported

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

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

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

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

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

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

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

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

Millions of yen

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

Millions of U.S. dollars

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

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

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

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

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

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

4. This includes long-term prepaid expenses.

(Relative Information)

1. Products and Services Information

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

2. Geographic Segment Information

(1) Sales

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

(2) Property, plant and equipment

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

3. Information by Major Clients

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

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

Millions of yen

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

Millions of U.S. dollars

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

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

Millions of yen

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

Millions of U.S. dollars

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

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

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

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

Millions of yen

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

17. Related Party Transaction

Transactions with the Company and related party

Affiliates of the Company

Millions of yen

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

Terms and conditions and policies for terms and conditions
* Guarantee amounts for bank borrowings as of year end are shown in the transaction colum.

18. Special Purpose Companies

1. Overview of Special Purpose Companies and Transactions Made through Such Companies

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

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

After securitization, the same properties are leased back to the Company. Since all investments in the SPCs by anonymous associations are expected to be collected, as of March 31, 2011, we have determined that there is no possibility of incurring future losses.

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

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

2. Transaction Amounts with SPCs during the year ended March 31, 2011

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

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

Major income and loss

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

*1 Transaction amounts related to the transferred properties are represented as the transfer price at the time of the transfer.

*2 Transaction amounts related to the investments made by the anonymous association are represented as the amounts invested at March 31, 2011.

19. Per Share Information

	Yen		U.S. dollars
	2010	2011	2011
Net assets per share	¥453,003	¥495,386	$5,957.74
Net income per share	47,768	58,150	699.34
Diluted net income per share	Not given as the Company has no potential stocks with dilution effect	Not given as the Company has no potential stocks with dilution effect	—

* The following shows the basis of calculating net income per share, and diluted net income per share.

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

20. Subsequent Event

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

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

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

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

(1) Background of events leading to the tender offer

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

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

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

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

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

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

(2) Overview of target entity

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

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

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

Provider (major holder)	Tower Investment Management Co., Ltd.
Number of share held	9,878 shares
Percentage ownership	15.85%

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

Common stock and stock acquisition rights

(4) Offer period

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

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

(5) Offer price

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

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

Shares

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

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

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

100.00%

(8) Purchase consideration

¥19,653 million (U.S.$236 million)

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

(9) Method of funding purchase consideration

Internal reserves

(10) Date for commencement of settlement

July 19, 2011 (Tuesday)

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

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

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

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

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

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

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

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION

We have audited the accompanying consolidated balance sheet of KDDI CORPORATION and its subsidiaries ("the Company") as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KDDI CORPORATION and its subsidiaries as of March 31, 2011, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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

Kyoto Audit Corporation

Kyoto Audit Corporation
Kyoto, Japan

July 5, 2011

CORPORATE OVERVIEW

As of March 31, 2011

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Head Office: **(Registered Place of Business):**	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan 3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 160-8003, Japan
Representative Director:	Takashi Tanaka, President
Capital:	¥141,851 million
Number of Employees:	18,418 (consolidated)

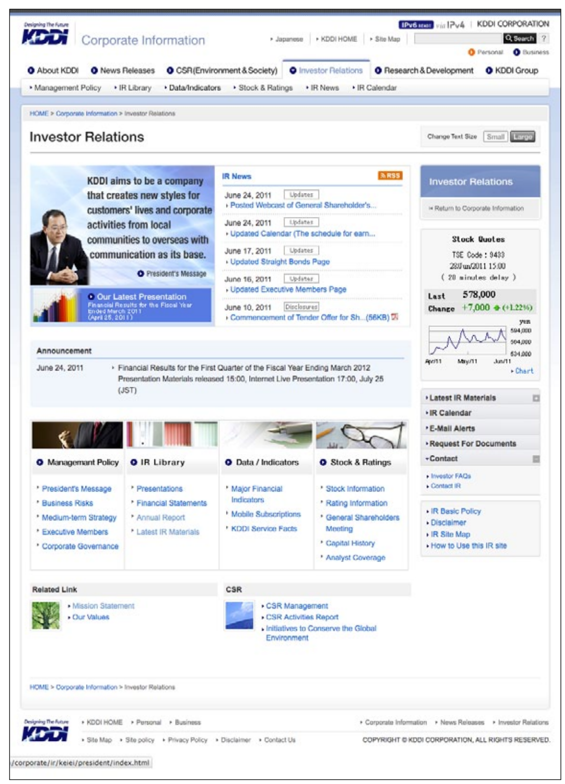
Investor Relations (IR) Website

The KDDI website offers a variety of IR-related information, including financial presentation materials, webcasts, quarterly financial results, and annual reports.

Subscribers to the e-mail alerts service receive prompt e-mail notification of website updates, as well as details of newly released au handsets and other information. Investors are encouraged to make use of this service.

The KDDI website won the "Internet IR Best Company Award in 2010" from Daiwa Investor Relations Co., Ltd., and we ranked fourth in the Best Corporate Website 2010 Survey's overall ranking and third in the information and telecommunications category by Nikko Investor Relations Co., Ltd.

The website also took eighth in the "Gomez IR Website Overall ranking 2011" from Gomez Consulting Co., Ltd.



IR website URL:

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

KDDI CORPORATION
Investor Relations Department, Corporate Management Division
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