



CSR & ANNUAL REPORT 2013

Editorial Policy for CSR & ANNUAL REPORT

Through its website, the KDDI Group discloses diverse information on matters of interest to a wide range of stakeholders. We have prepared this CSR & ANNUAL REPORT based on particularly important information selected from among these disclosures.



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Disclaimer Regarding Forward-looking Statements

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

Consolidated Financial Highlights

5 year Summary (Years ended March 31)

	Millions of yen					Millions of U.S. dollars ^{*1}
Consolidated	2009	2010	2011	2012	2013	2013
Operating Revenues	¥3,497,509	¥3,442,147	¥3,434,546	¥3,572,098	¥3,662,289	\$38,940
Operating Income	443,207	443,862	471,912	477,648	512,669	5,451
Net Income	222,736	212,764	255,122	238,605	241,470	2,567
EBITDA ^{*2}	904,030	927,253	936,315	908,499	959,571	10,203
Operating Income Margin	12.7%	12.9%	13.7%	13.4%	14.0%	14.0%
EBITDA Margin	25.8%	26.9%	27.3%	25.4%	26.2%	26.2%
Capital Expenditures	575,072	518,034	443,677	421,568	467,020	4,966
Depreciation	434,623	460,940	449,318	417,886	406,726	4,325
Interest-bearing Debt	874,951	1,096,778	979,630	1,046,754	977,563	10,394
Equity Ratio	53.7%	52.8%	55.7%	51.5%	55.1%	55.1%
Return on Equity (ROE)	12.6%	11.0%	12.4%	11.5%	11.2%	11.2%
Return on Assets (ROA)	14.1%	12.2%	12.4%	12.3%	12.7%	12.7%
Net Cash Provided by (Used in) Operating Activities	712,231	739,992	717,354	725,886	523,908	5,571
Net Cash Provided by (Used in) Investing Activities	(775,470)	(924,442)	(440,546)	(484,507)	(472,992)	(5,029)
Free Cash Flows ^{*3}	(63,240)	(184,450)	276,808	241,379	50,916	541
Net Cash Provided by (Used in) Financing Activities	191,490	149,239	(279,998)	(225,931)	(140,250)	(1,491)
Cash Dividends per Share ^{*4} (Yen)	55	65	70	80	90	0.96
Dividend Payout Ratio ^{*5}	22.0%	27.2%	24.1%	27.5%	28.5%	28.5%

*1 U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥94.05 = U.S.\$1 on March 31, 2013.

*2 From the fiscal year ended March 31, 2013, the EBITDA calculation formula has been changed.

Until the fiscal year ended March 31, 2012: EBITDA = Operating income + depreciation + noncurrent assets retirement cost

From the fiscal year ended March 31, 2013: EBITDA = Operating income + depreciation + amortization of goodwill + noncurrent assets retirement cost

*3 Free cash flows = Net cash provided by (used in) operating activities + net cash provided by (used in) investing activities

*4 KDDI implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of October 1, 2012. Further, KDDI implemented a stock split at a ratio of 2 shares for 1 share of common stock with an effective date of April 1, 2013. The cash dividends amount reflects the two above-mentioned stock splits. Also, amounts for previous fiscal years have been adjusted to reflect the stock splits.

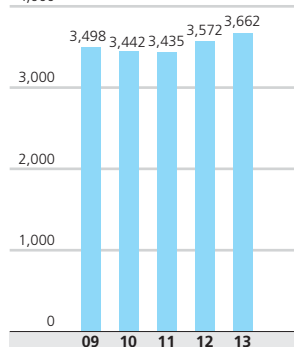
*5 Nonconsolidated until the fiscal year ended March 31, 2006. Consolidated from the fiscal year ended March 31, 2007.

Operating Revenues

YOY **+2.5%**

Operating revenues rise for the two consecutive fiscal years thanks to higher revenues from an increase in mobile data communications revenue, and FTTH services, and handset sales.

(Billions of yen)

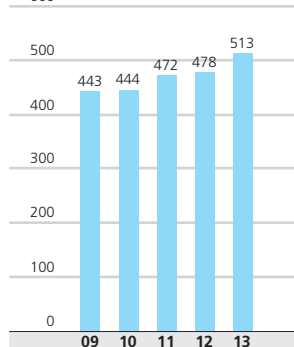


Operating Income

YOY **+7.3%**

Operating income grows for 12th fiscal year in a row, reflecting higher operating revenues and elimination of bandwidth reorganization costs.

(Billions of yen)

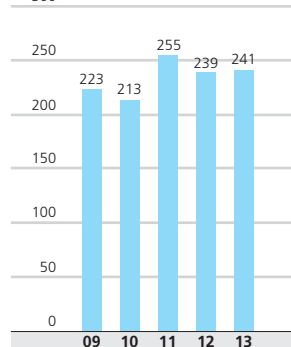


Net Income

YOY **+1.2%**

Earnings increase year on year despite recognizing extraordinary loss due to impairment loss on facilities, arising from discontinuing the use of former 800MHz frequency facilities.

(Billions of yen)

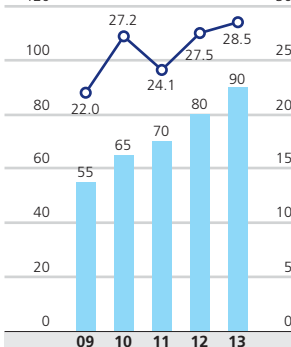


Cash Dividends per Share^{*4} / Dividend Payout Ratio^{*5}

YOY **+¥10**

Full-year cash dividends are ¥90 per share, up ¥10 year on year and the 11th consecutive year-on-year rise.

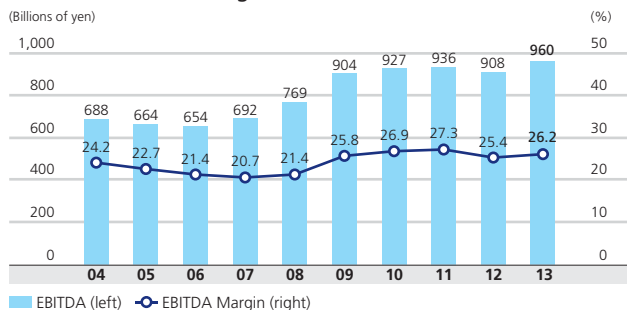
(Yen)



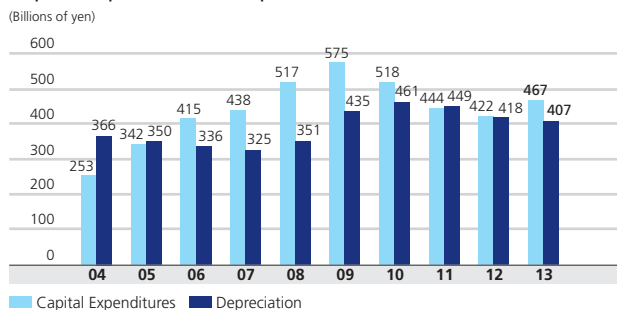
— Cash Dividends per Share (left)
— Dividend Payout Ratio (right)

10 year Consolidated Financial Data

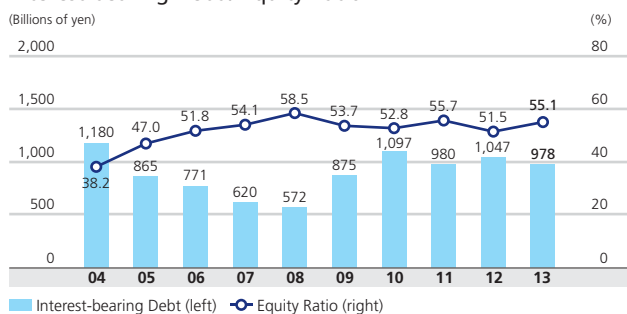
EBITDA*2 / EBITDA Margin



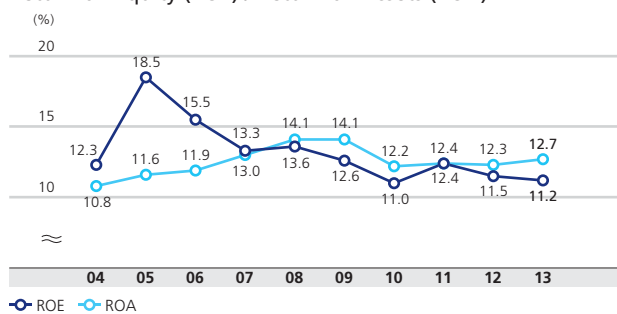
Capital Expenditures / Depreciation



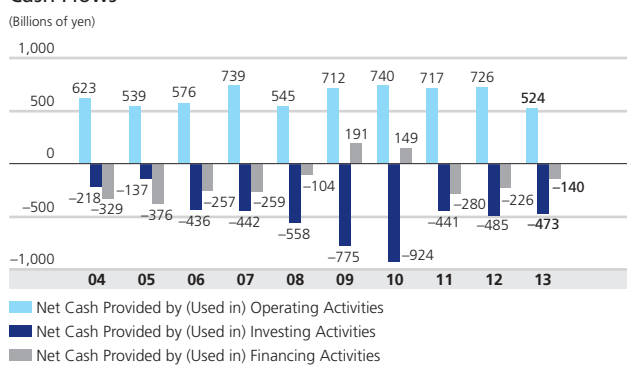
Interest-bearing Debt / Equity Ratio



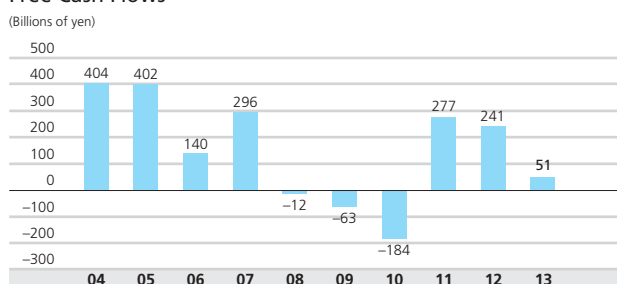
Return on Equity (ROE) / Return on Assets (ROA)



Cash Flows



Free Cash Flows*3



Market Capitalization (October 2000—March 2013 / Monthly)



KDDI's Foundation for Growth

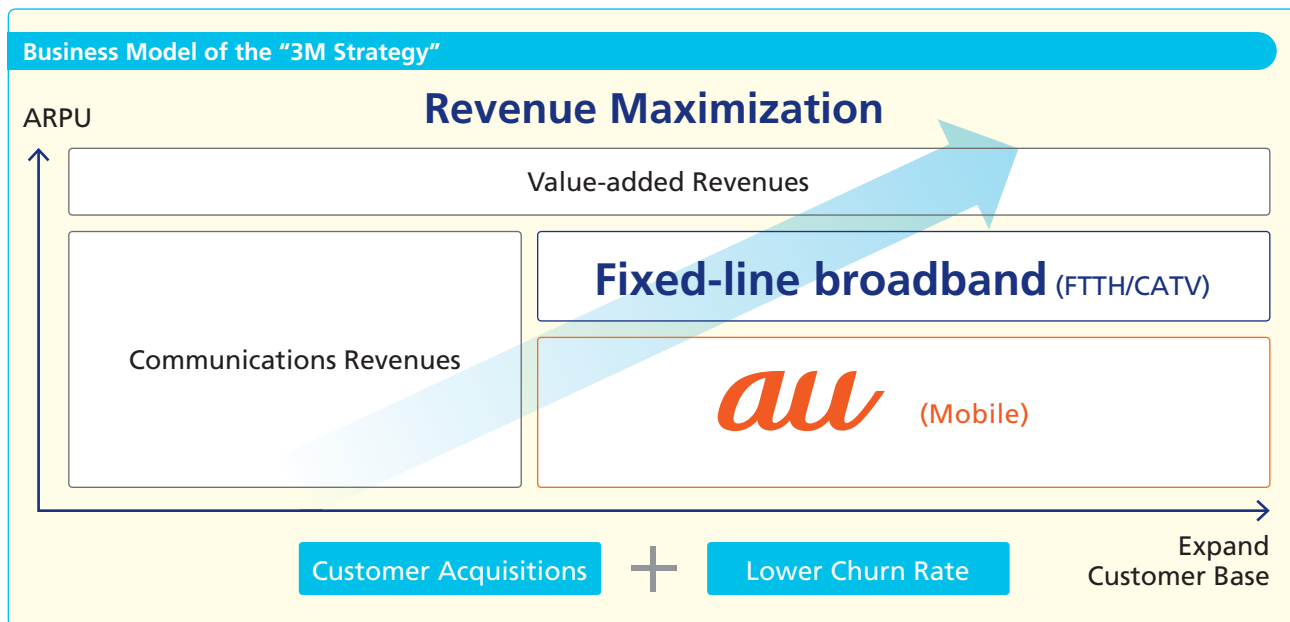
The KDDI Strengths That Enable Sustainable Income Growth

KDDI is the only telecommunications company in Japan to offer both mobile and fixed-line broadband (FTTH/CATV) services. By fully leveraging this strength, we are promoting the "3M Strategy," through which we aim to maximize revenues and income.

We launched the core services of the 3M Strategy, "au Smart Value" and "au Smart Pass," in March 2012. "au Smart Value" provides au smartphone and fixed-line broadband services as a set. Through mutual sales of mobile and fixed-line broadband services, we are working to acquire new customers and lower the churn rate as customers subscribe to cross-selling, thereby expanding the customer base. At the same time, we are striving

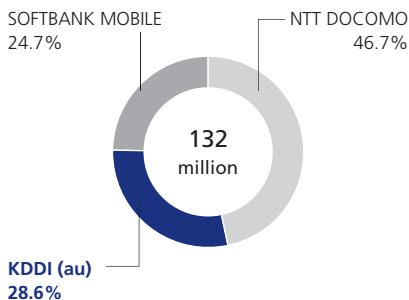
to increase value ARPU through "au Smart Pass," which provides au smartphone users with value-added services and content.

By expanding our customer base and raising both communications revenues and value-added revenues in these ways, we intend to maximize total revenues, resulting in sustainable income growth as revenues increase.



Share of Cumulative Mobile Communication Subscriptions*

(As of March 31, 2013)

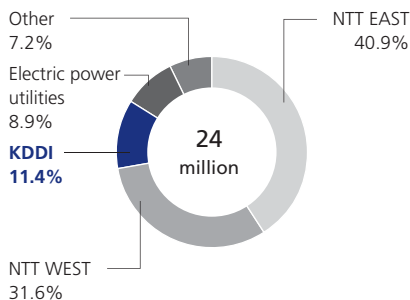


Source: Prepared by KDDI based on Telecommunications Carriers Association's data

* Share among NTT DOCOMO, SOFTBANK MOBILE, and KDDI

Share of Cumulative FTTH Subscriptions

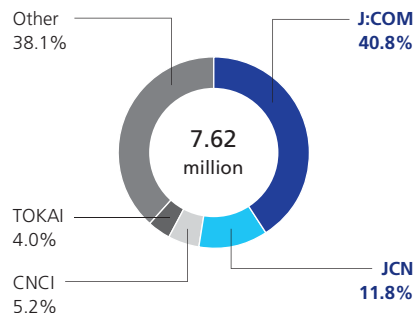
(As of March 31, 2013)



Source: Prepared by KDDI based on Ministry of Internal Affairs and Communication's data

Share of CATV Subscriptions

(As of September 30, 2012)



Source: Prepared by KDDI based on Hosono Journal (December 2012 issue)

The Foundations to Support Sustainable Growth

The KDDI Group is pursuing a host of initiatives toward building the foundations to support ongoing growth. These measures include constructing networks that are safe and secure, developing leading-edge technologies in preparation for the next generation, maintaining positive relationships with strategic partners, and enhancing customer satisfaction.

Network Reliability Underpinning High-quality Services

▶ P. 60



As a company that provides social infrastructure, KDDI recognizes the continuous provision of stable and high-quality communications services as its social responsibility. This issue is of paramount importance in securing the trust of our stakeholders. To reinforce our capabilities, we are preparing for disasters by locating base station equipment on ships, having all employees work together to improve quality throughout our communications areas, and executing business continuity plans (BCPs).

Stronger R&D Capabilities to Encourage Continuous Value Creation

▶ P. 43



The medium- to long-term competitiveness and operational sustainability of a telecommunications company depends on its response to the accelerating advancement of information and communications technology. At the KDDI R&D Laboratories, our main research arm, we pursue some of the world's most sophisticated R&D on such wide-ranging themes as fixed-line and mobile communications, links with broadcasting, next-generation networks and ultrahigh-speed wireless transmission technologies, security, and applications.

Framework for Maximizing Human Resource Diversity and Capabilities

▶ P. 68



We consider respect for and mutual understanding of KDDI employees who have diverse characters and values to be essential to KDDI's sustainable growth. Accordingly, we take an active approach toward creating a workplace environment that promotes diversity, maximizes the individual capabilities of our human resources, and enables individuals to make full use of their skills.

Building Trust-based Relationships with Business Partners

▶ P. 74



KDDI prioritizes the development of trust-based relationships with business partners that have specialized expertise in their fields. These connections enable us to respond skillfully to markets that are changing at dizzying speed, innovate tirelessly, and propose new value to our customers. Deepening mutual understandings with our business partners is therefore a win-win scenario, and we will continue to prioritize these relationships.

Maximizing Customer Satisfaction

▶ P. 61



To remain the company of choice for our customers, we need to go beyond the provision of stable, safe, and secure telecommunications, exceeding our customers' expectations by awaking customers' emotions. We are working to increase satisfaction among all customers—individuals and corporate customers alike—by providing various types of awards, contests, and training to augment our skills.



Moving on to a New Phase of Full-scale Income Growth

In the Japan's telecommunications market, the shift toward smartphones is creating opportunities for growth in communications revenues. Meanwhile, mobile telecommunications carriers are faced with the issue of efficiently handling the expansion of mobile data traffic. Furthermore, while telecommunications carriers are finding it difficult to differentiate themselves on the basis of handsets and networks, the market has entered a new phase of competitiveness.

In response to this changing environment, KDDI positioned the fiscal year ended March 31, 2013 as its starting point for growth centered on the "3M Strategy"—its business strategy for leveraging its strengths as a company that operates both mobile and fixed-line businesses—and began a full-scale implementation of this strategy. A core element of this strategy is "au Smart Value," for which subscriptions greatly exceeded our initial expectations, contributing substantially to the acquisition of both mobile and fixed-line subscriptions. Furthermore, favorable sales of smartphones pushed up data ARPU, with au ARPU bottoming out on a monthly basis in February 2013, leading to reach record levels of consolidated operating revenues and operating income.

We see the fiscal year ending March 31, 2014 as the first year in a new phase of full-scale income growth. In addition to further revenue and income increases, we are targeting operating income growth of more than 20%. We plan to make steady progress toward this goal by achieving the first increase in mobile communications revenues in five fiscal years, stably augmenting fixed-line communications revenues by bolstering FTTH subscriptions, and benefiting from the performance of Jupiter Telecommunications Co., Ltd., which was consolidated in April 2013.

Furthermore, we have set our basic policies for the next three years "Advance and Develop 3M Strategy" and "Implement Global Strategy." We intend to expand our operations in line with these policies, achieving annual double-digit growth in consolidated operating income and large increases in earnings per share accompanying income growth. At the same time, we will raise our target consolidated dividend payout ratio from "between 25% and 30%" to "more than 30%," thereby achieving sustainable growth and enhancing shareholder returns.

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

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

July 2013



Takashi Tanaka
President, KDDI CORPORATION

Message from the President



Takashi Tanaka
President, KDDI CORPORATION

There is no end to KDDI's service innovations. We aim to exceed expectations as we move on to a new stage.

This was the year when we began to fully leverage KDDI's distinctive characteristics through the "3M Strategy," and successes steadily mounted up.

During the fiscal year ending March 31, 2014, in line with our medium-term plan, we will concentrate on "Advance and Develop 3M Strategy" and "Implement Global Strategy" to achieve sustainable income growth and enhance shareholder returns.

Furthermore, with each of our employees consciousness of our role as a provider of a social infrastructure service, we will work together to build a company that helps to resolve society's issues and contribute to its development through our businesses.

THEME 01

Assessment of Financial Results for the Fiscal Year Ended March 31, 2013

In the fiscal year ended March 31, 2013, we recorded increases in consolidated revenues and income for the two consecutive fiscal years.

Operating revenues have risen for two consecutive fiscal years. In the Personal Services segment, which accounts for around 70% of consolidated operating revenue, smartphone subscription rates rose and au subscriptions grew steadily thanks to factors such as the impact of "au Smart Value." This favorable showing offsets the downward trend in mobile communications revenues. "au Smart Value" also contributed to a major net increase in FTTH subscriptions, boosting fixed-line communications revenues. As a result, overall communications revenues—the combination of revenues from mobile and fixed-line services—turned positive.

"au Smart Value" P.38

On the cost front, meanwhile, the reorganization of the 800MHz band was completed in July 2012, causing related expenses to fall sharply. Consolidated operating income accordingly grew 7.3% year on year.

ARPU bottomed out in February 2013, breaking a long-term downward trend, by benefiting from the rise in smartphone subscription rates. Having achieved the goals we set at the beginning of the year of reaching ¥500 billion in consolidated operating income and seeing au ARPU bottom out on a monthly basis, this year was truly the starting point of income growth.

Consolidated Operating Results

(Billions of yen)

	FY2012.3	FY2013.3	YOY
Operating Revenues	3,572.1	3,662.3	+90.2 (+2.5%)
Operating Income	477.6	512.7	+35.0 (+7.3%)

Looking Back on the Two Years Since Being Appointed President

Convinced of the success of the “3M Strategy”

Looking back, when I was appointed president in December 2010, the Company was experiencing negative momentum. In mobile services, which accounted for most of operating income, our smartphone launch was delayed, prompting a shift of subscriptions to other companies through mobile number portability (MNP) and resulting in slower data ARPU growth than other companies were enjoying.

During the first year of my appointment, I outlined two targets for us to focus on: “Reconstruction of foundational business” and “Preparation for medium-term strategy.”

As part of the “Reconstruction of foundational business,” we began accelerating our shift toward smartphones. In addition to expanding our Android™ smartphone offerings, we launched the first au iPhone, the iPhone 4S, in October 2011. We enhanced our smartphone lineup considerably—from six new models in the fiscal year ended March 31, 2011 to 25 in the fiscal year ended March 31, 2012—making our lineup the industry's strongest.

As a result, in September 2011 the net drop in MNP turned around and we began enjoying net increases. Also, our churn rate improved to the lowest in the industry. au had regained its momentum.

After the “Reconstruction of foundational business,” in January 2012 we announced a new growth strategy for the

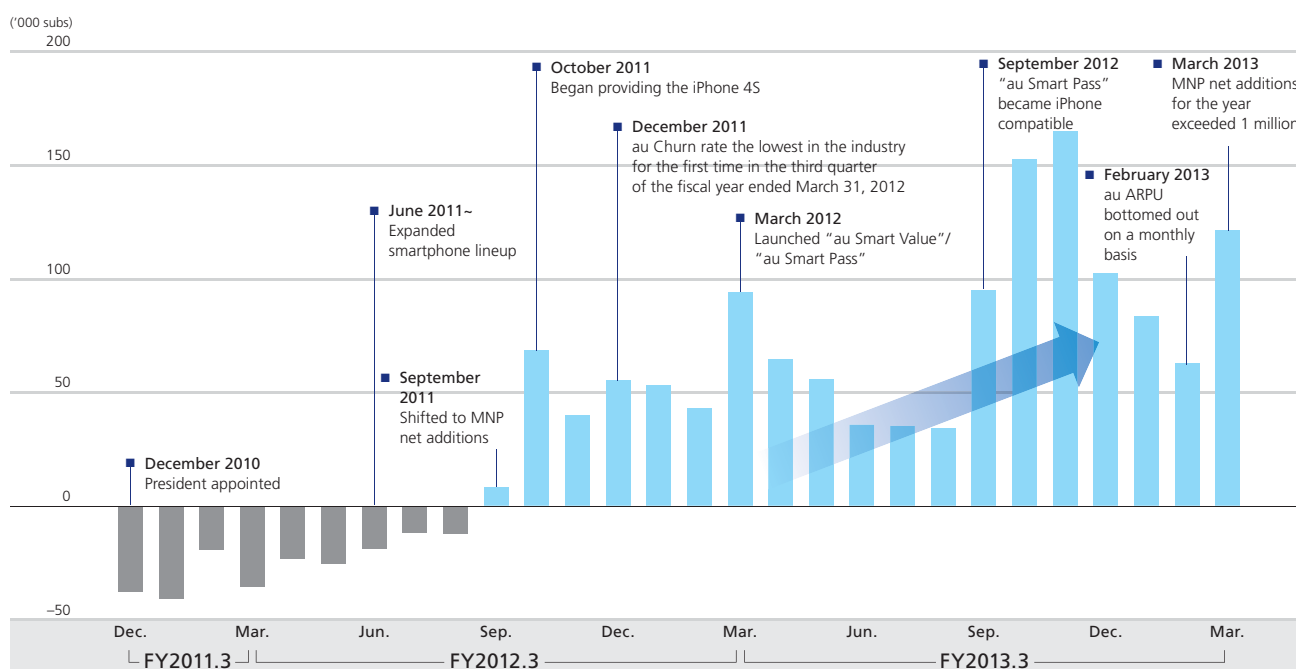
upcoming era, the “3M Strategy.” We began putting this strategy into action in March through the introductions of “au Smart Value” and “au Smart Pass.” Both services got off to a favorable start, exceeding our internal forecasts. Thus we successfully addressed the first year's achievements of “Reconstruction of foundational business” and “Preparation for medium-term strategy.”

“au Smart Pass” ▶ P.40

Positioning the second year after my appointment as the year for “growth to start,” we concentrated on a full-scale implementation of the “3M Strategy.” Compared with feature phones, smartphone sales require more explanations at sales shops, so more time is needed for customer interaction. With sales of “au Smart Value” and “au Smart Pass” expanding, we introduced such improvements as providing training for sales staff and reexamining our sales schemes. In addition, we worked to enhance recognition of our services. As a result, we succeeded in attracting many new subscribers by taking advantage of “au Smart Value,” and the impact of this higher sales volume overcame the effect of discounts and contributed to revenue increases in the first year. I therefore feel confident with the success of this strategy on a performance basis.

“Training for Sales Staff and Reexamining Our Sales Schemes” ▶ P.24

Trend in MNP Net Additions and KDDI's Initiatives



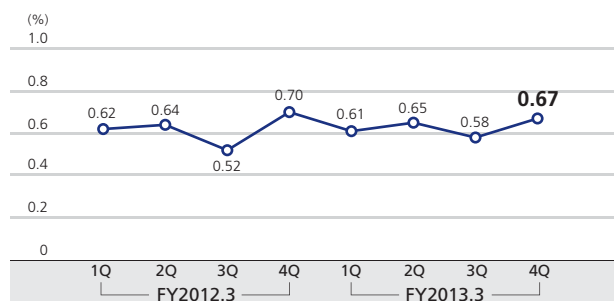
Looking at conditions up through March 31, 2013, in mobile businesses we maintained the au churn rate at the lowest levels in the industry for six consecutive quarters, and we had maintained the lead in MNP net additions for 18 consecutive months. Also, owing to the ongoing shift toward smartphones, data ARPU for the year was up 13.5% from the fiscal year ended March 31, 2012.

Our operating performance verifies that momentum has increased. In fixed-line businesses, using "au Smart Value" and expanding the service area we increased FTTH net additions in the fiscal year ended March 31, 2013 to 1.7 times the level in the fiscal year ended March 31, 2012. Our share of total subscriptions rose 1.9 percentage points, from 9.5% as of March 31, 2012, to 11.4%.

Principal KPIs Indicating Increased Mobile and Fixed-line Service Momentum

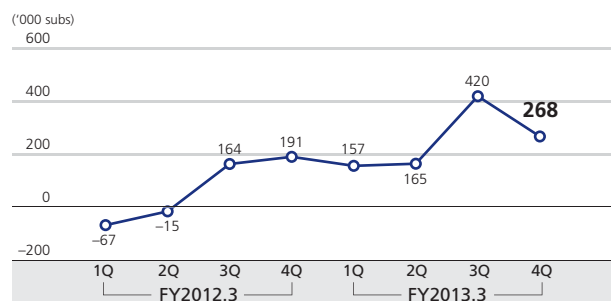
au Churn Rate

Maintaining the Lowest Levels in the Industry for Six Consecutive Quarters



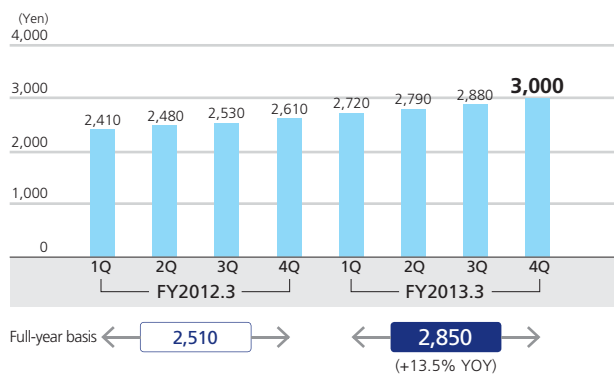
MNP Net Additions

Maintaining the No. 1 Industry Position for 18 Consecutive Months



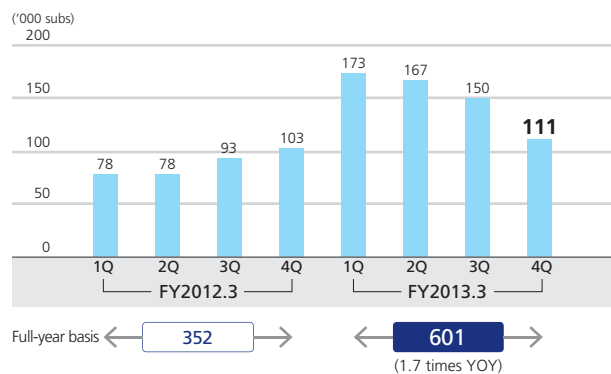
Data ARPU

Up 13.5% Year on Year



FTTH Net Additions

Up 1.7 Times Year on Year



Note: MNP net additions are on a consolidated basis. The au churn rate, data ARPU and FTTH net additions are on Personal Services basis.

Sharp Rise in Mobile Data Traffic

KDDI has resources that other companies lack.

I would like to explain the process that we went through before deciding to launch "au Smart Value."

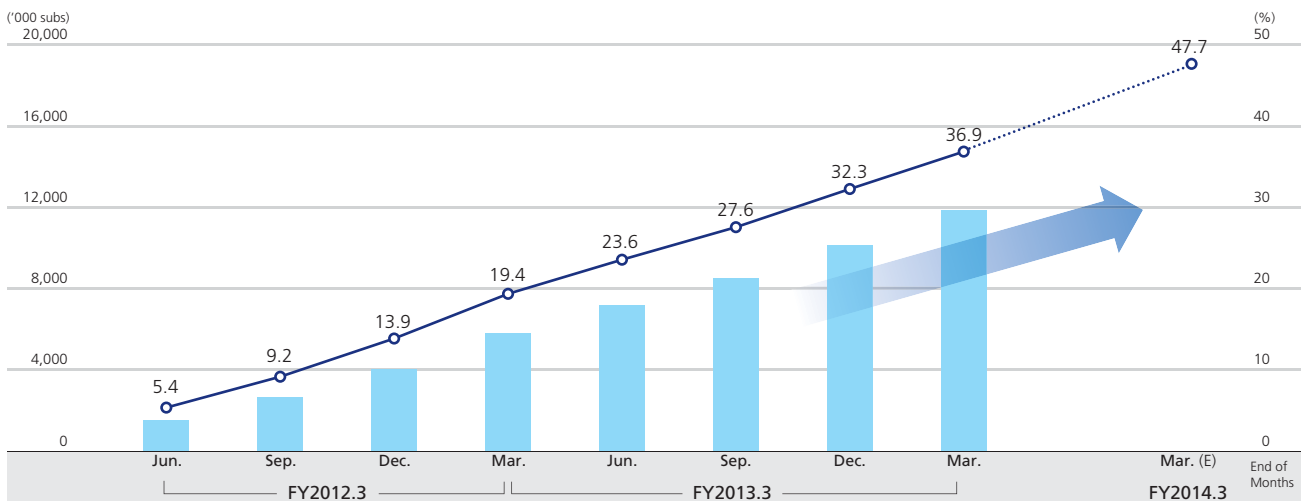
In today's mobile communications market, smartphones are proliferating rapidly. KDDI expects mobile data traffic to increase by as much as 12 times during the four years from the fiscal year ended March 31, 2012 to the fiscal year ending March 31, 2016. Also, recent trends indicate that data traffic per smartphone is around 30 times that for a feature phone. Given these conditions, it will be difficult for mobile networks to handle the traffic on their own, even assuming "au 4G LTE," which use bandwidth with high efficiency and traffic control technologies. The answer that remains is offloading mobile data onto fixed-line networks.

"au 4G LTE" ▶ P.38 "Offloading Mobile data" ▶ P.22

KDDI has resources that other companies lack in solving the problems inherent in "the limits of the smartphone." In fixed-line businesses, we offer FTTH and CATV. In the mobile business, in addition to 3G and WiMAX, we began providing "au 4G LTE" in September 2012. By combining these offerings with Wi-Fi, we can integrate multiple networks, connecting them to function as a single seamless network. We can efficiently handle the sharp rise in mobile data traffic by incorporating it into our fixed-line and other networks. As a comprehensive telecommunications company, this solution is one that KDDI is uniquely positioned to offer.

Customers can enjoy a host of content on their device of choice, anywhere and at any time, without experiencing any drops in network quality. This conviction led to the realization of "au Smart Value."

au Smartphone Penetration Rate (Personal Services)



THEME 04

The Effects of “au Smart Value”

“au Smart Value” is a strategic service, unique to KDDI.



Next, I would like to explain how “au Smart Value” affects KDDI’s operating performance.

During the first year since launching the service, the process by which customers subscribe to “au Smart Value” has become apparent. First, one family member enrolls in “au Smart Value” when he or she buys a smartphone. That person becomes our “salesperson within the family,” introducing other family members to “au Smart Value” and creating a chain reaction that encourages the others to purchase au smartphones. We call this process “chain reactions in household.” During the first year of my appointment, we reinforced our smartphone lineup, making it the strongest in the industry. I believe this move lowered the hurdle for customers switching from other companies to au and prompted “chain reactions in household.” As evidence of this

trend, au subscriptions per household increased from 1.5 as of March 31, 2012, to 1.8 as of March 31, 2013.

By offering multiple services as a set, we can also expect the churn rate to be substantially lower than for users of each service. This offering is extremely important, because as the churn rate decreases, we can expand our customer base without high acquisition costs.

On the cost front, as well, we should be able to reduce mobile network investments and network costs by offloading mobile data traffic. Our offloading ratio, which was around 20% as of March 31, 2012, had risen to 52% by March 31, 2013. This change contributes to more efficient capital expenditures amid the surge in mobile data traffic.

At first glance our ¥1,480 per month discount on “au Smart Value” may seem high. However, this amount is less significant when viewed through the lens of household ARPU, which exceeds ¥10,000 for a subscription containing one au smartphone plus fixed-line service including telephone and broadband. From this perspective, the discount rate is around 10%. Also, we have been able to allocate the resources for this discount between mobile and fixed-line, making it possible to set the discount at a level that would be difficult to afford for a single service on its own. Therefore, rather than simply being a discount service, “au Smart Value” provides a way to expand our customer base through “chain reactions in household,” lower the churn rate, and promote the offloading of mobile data. For us, “au Smart Value” equates to a strategic service that KDDI is uniquely capable of offering.

THEME 05

The Development of Multi-device and Multi-use

We will maximize value-added revenues by anticipating needs that are one step ahead of the present.

Going forward, we will focus on tying together the “3M Strategy” through Multi-device and Multi-use initiatives.

In the era of the open Internet, “au Smart Pass” provides a point of contact with customers, which we can leverage to upsell services such as “Uta Pass,” “Video Pass,” and “Book Pass.” We will also seek to further entrench “au Smart Pass,” and will strive to maximize value-added revenues by providing online to offline (O2O)* and other businesses that attract customers to physical shops. We will satisfy customer “wants” through extensive offerings of content and apps, deploying HTML5 to provide these across multiple operating systems and multiple devices.

In November 2012, we began providing the “Smart TV Box,” a CATV set-top box that links au smartphones and tablets. This offering represents major progress because it gives us access to a fourth tool—television—in addition to smartphones, tablets and PCs. We will make maximum use of these tools to communicate KDDI’s worldview to customers across broad-ranging age groups.

We aim to provide “the things that customers want next.” Rather than being a “dumb pipe” that simply offers customers beneficial pricing on connections, we aim to function as a “smart pipe” that provides them with a new sense of the world.

* O2O (online to offline) refers to utilizing information available on the Internet to encourage users to purchase items in the real world (community organizations, stores, etc.)

THEME 06

Medium-term Targets

At the next stage, we aim for double-digit income growth every year.

We are positioning the fiscal year ending March 31, 2014, as “the first year of initiatives targeting the next stage.” With au ARPU having bottomed out on a monthly basis and subscriptions steadily increasing due to the effects of “au Smart Value,” we expect mobile communications revenues to turn upward for the first time in five fiscal years, and anticipate steady growth in FTTH subscriptions, leading to revenue growth. These factors, coupled with the inclusion of J:COM into the scope of consolidation, should push consolidated operating income up 23% year on year.

We have set the goal of achieving double-digit growth in consolidated operating income during each of the three years through the fiscal year ending March 31, 2016. We will accomplish this aim by further advancing and developing the “3M Strategy,” which is going favorably, and which should boost communications revenues (mobile + fixed-line) and expand value-added revenues. We will also work toward this goal by promoting our “Global Strategy.”

Targets for the Next Stage—“Achieve Sustainable Growth and Enhance Shareholder Returns”

	Past (FY2011.3–FY2013.3)		Future (FY2014.3–FY2016.3)
Achieving Sustainable Growth	Consolidated operating income	Average annual growth 4.23%	Double-digit annual growth rate
	Earnings per share (EPS)	Average annual growth 4.24%	Large increases accompanying income growth

THEME 07

Cash Flow Allocation and Shareholder Returns

During the fiscal year ended March 31, 2013, capital expenditures increased 10.8% year on year, to ¥467.0 billion, as we invested aggressively to expand proliferating LTE networks. We expect organic capital expenditures, including for LTE and FTTH, to amount to ¥460.0 billion in the fiscal year ending March 31, 2014. J:COM, which was included in the scope of consolidation during the fiscal year ending March 31, 2014, will account for additional capital expenditures of ¥60.0 billion, and we will make strategic investments of ¥30.0 billion toward growth in new fields of business, so we forecast consolidated capital expenditures of ¥550.0 billion*1.

Free cash flow in the fiscal year ended March 31, 2013 was down ¥190.5 billion year on year, to ¥50.9 billion, due to such factors as an increase in installment sales receivables in line with smartphone sales. However, anticipating positive operating performance in the fiscal year ending March 31, 2014, we forecast free cash flow of ¥270.0 billion. In addition, we anticipate stable cash generation in line with income growth over the medium term.

With regard to shareholder returns, our basic policy is to continue concentrating on stable dividends. Total dividends*2 for the fiscal year ended March 31, 2013 amounted to ¥90 per share, up

¥10 from the fiscal year ended March 31, 2012, resulting in a consolidated dividend payout ratio of 28.5%. This figure represents 11 consecutive years of dividend increases. We plan to continue this trend in the fiscal year ending March 31, 2014, awarding dividends for the year of ¥120 per share. This amount corresponds to a major year-on-year dividend increase, at 33%, and a consolidated dividend payout ratio of 31.1%.

Our dividend policy is first to achieve a dividend payout ratio of more than 30%, taking into consideration investments needed to ensure future growth and operate the business stably. At the same time, we aim to increase dividends in a sustainable manner through the EPS growth that will result from increases in income and synergy with our dividend payout ratio.

If we have excess cash flow, we will also consider acquiring our own shares, after taking the share price into account, as long as we have no major M&A activity planned for the foreseeable future.

*1 We have decided on additional capital expenditures of ¥30.0 billion for the fiscal year ending March 31, 2014, based on the idea of putting in place fail-safes in response to a series of communications outages that occurred in 2013.

*2 KDDI implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of October 1, 2012. Further, KDDI implemented a stock split at a ratio of 2 shares for 1 share of common stock with an effective date of April 1, 2013. The cash dividends amount reflects the two above-mentioned stock splits.

Targets for the Next Stage—"Achieve Sustainable Growth and Enhance Shareholder Returns"

	Past (FY2011.3–FY2013.3)	Future (FY2014.3–FY2016.3)
Enhancing Shareholder Returns	Payout ratio Gradually raise to 25–30%	Dividend payout ratio over 30%
	Share buyback Consider as possible option for management	

THEME 08

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

A company can only fulfill its responsibilities when all of its employees are working as one.

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

As a company that provides social infrastructure, our societal mission is to deliver stable telecommunications services regardless of conditions. As our business derives from utilizing radio waves,

which are an important asset shared by all citizens, we must do our utmost to fulfill our attendant responsibilities by uniting the hearts of our employees and behaving as one.

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

THEME 09

Paying Close Attention to Customer Feedback and Creating Value Together

Providing stable telecommunications services and fulfilling our responsibilities to society are fundamental to our business. To be the company of choice for our customers, we need to take this concept to the next stage. This understanding is central to exceeding customers' expectations and stimulating them, and is inherent in the commitment of our company philosophy. We recognize that listening humbly to feedback from our customers about their needs and anticipating the things that will trouble them is essential to our ability to exceed their expectations.

Going forward, we will actively seek out dialogue with a variety of stakeholders, including the customers who use our services that underpin our businesses, partner companies, shareholders, local communities, and government institutions, as we seek to resolve issues in a host of fields. We will make contributions to society through our business, working in harmony to deliver new societal value.

THEME 10

In Closing**We will continue to innovate in KDDI's own distinctive way.**

Our strength lies in the fact that we possess mobile and fixed-line capabilities, which we can integrate. By accelerating our growth strategy, the "3M Strategy," we will pursue innovation in numerous fields that relate to our customers' lives and in a wide range of

industries by combining mobile and fixed-line offerings. We will strive to resolve the problems that society faces and contribute to sustainable development.





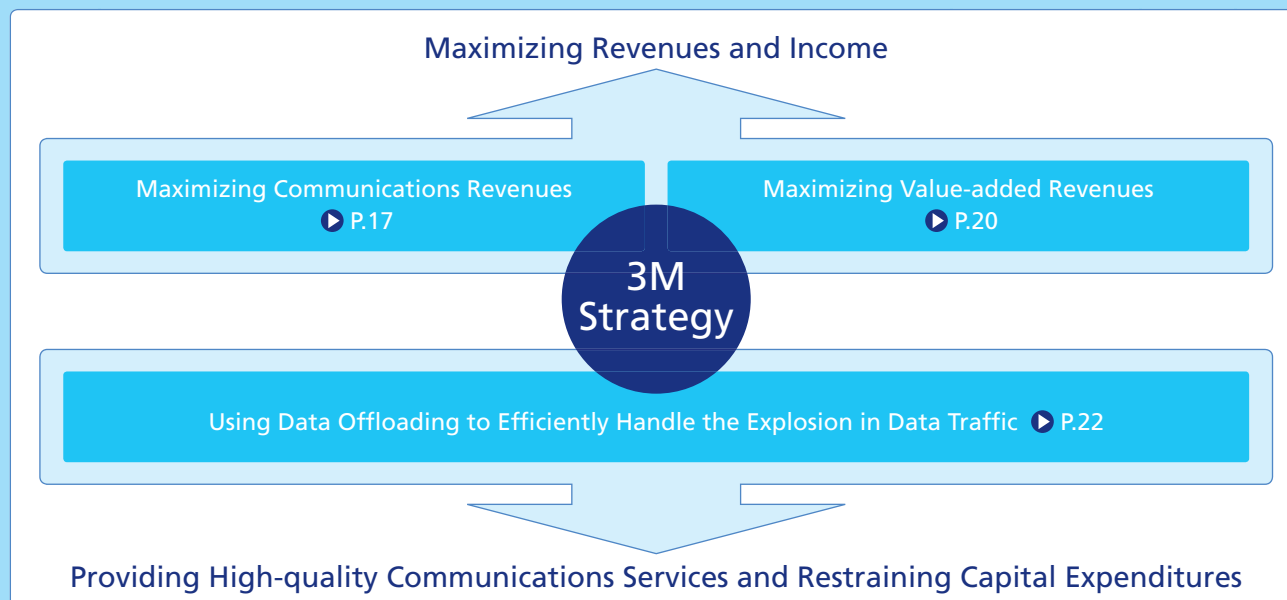
Special Feature: “3M Strategy” Progress and Outlook

KDDI began a full-scale implementation of its “3M Strategy” in the fiscal year ended March 2013, taking advantage of its unique position as a provider of both mobile and fixed-line communications amid a changing business environment. Through “au Smart Value,” we are steadily expanding our mobile and fixed-line broadband customer base, in addition, “au Smart Pass” membership has topped 6 million*, representing the fastest growth in au service history. These strategic services are making a substantial contribution to maximizing revenues and income.

In addition, KDDI is responding to the explosive growth in mobile data traffic by efficiently offloading data using its Multi-network capabilities, and this initiative is proceeding according to plan. As a result of these efforts, we are working toward the goals of providing high-quality communications services and restraining capital expenditures over the medium-to-long term.

This section focuses on “au Smart Value,” “au Smart Pass,” and “Multi-network” strategy, with the background for their introduction, results, and outlook for the future introduced by the executives in charge of them.

* As of April 2013



Maximizing Communications Revenues

By promoting “au Smart Value,” which leverages KDDI’s unique ability to provide integrated mobile and fixed-line communications, we aim to expand the customer base by both acquiring new subscriptions and reducing the churn rate.

Characteristics of “au Smart Value”

“au Smart Value” is a service that takes advantage of KDDI’s unique strength as a provider of integrated mobile and fixed-line communications. Our strategy is to use smartphones as the selling angle to promote subscriptions to fixed-line broadband services ourselves, as well as through our fixed-line allied companies. To strengthen customer appeal of the service, we have lowered the monthly smartphone usage charge for this mobile / fixed-line set by ¥1,480 (including tax) and made it available for use by all au smartphones in a household.

Two Elements Supporting “au Smart Value”

The first is alliances with fixed-line companies throughout Japan.

In addition to the KDDI Group, as of July 31, 2013, companies providing “au Smart Value” have increased to six FTTH companies (including KDDI) and 107 CATV companies with 190 channels. Our household coverage ratio has risen to approximately 80%. Augmenting our alliances with fixed-line companies allows us to attract new subscribers from customer bases that would not have been possible using conventional approaches. Other potential synergies are that we can boost selling efficiency by promoting joint sales events to common channels and offer the bundle discount to help reduce the churn rate.

For fixed-line allied companies, the benefit of “au Smart Value” is that it provides the impetus to increase “Internet + telephone” subscriptions, as this is a condition for fixed-line “au Smart Value” subscriptions, in a market characterized by sluggish

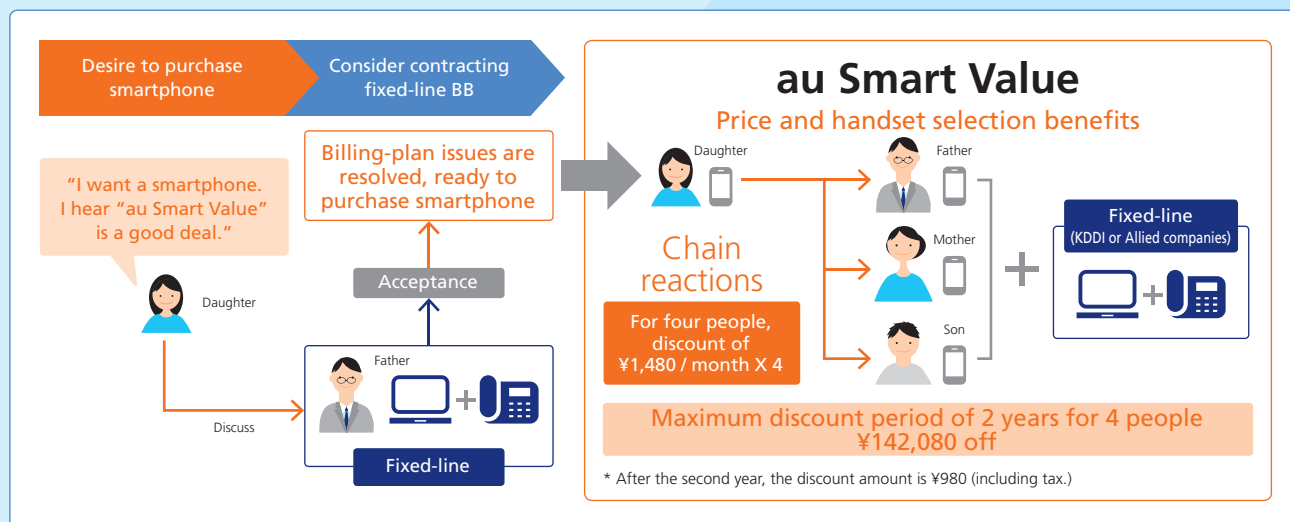


growth for their mainstay multichannel services. In short, “au Smart Value” provides an alliance scheme that offers high incentives for both parties. Attesting to the strength of this arrangement, as of March 31, 2013, some 40% of households subscribing to “au Smart Value” did so through fixed-line allied companies outside KDDI’s scope of consolidation.

The second factor is the chain reactions that “au Smart Value” provides within subscriber households.

“au Smart Value” allows for the free selection of both iPhone and Android™ handsets and provides a major price benefit, so a household subscription to “au Smart Value” starts a chain reaction that increases the likelihood of all members of that household selecting au when they purchase smartphones. Once customers who are considering a shift to smartphones actually clear the mental hurdle that concerns of usage charge increases represent, other family members also tend to shift smartphones. In the fourth quarter of the fiscal year ended March 31, 2013, we acquired nearly 30% of new au subscribers who are also “au Smart Value” subscribers due to such chain reactions in household. As the number of “au Smart Value” subscriber

“Chain Reactions” within “au Smart Value” Subscriber Households



Part 1

au Smart Value

households increases, we expect the chain reactions ratio to rise even further.

Attesting to the progress of these chain reactions, when we introduced the service the average number of au subscribers per household was 1.5. As of March 31, 2013, that figure had risen to 1.8, and we expect the number to increase to 2.0 by March 31, 2014.

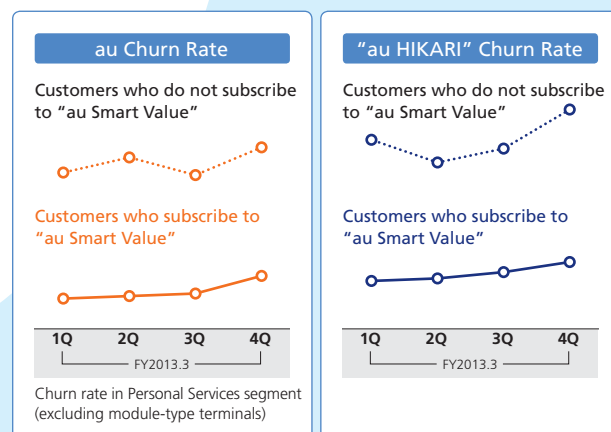
Attracting New Subscribers to Mainstay Services and Helping to Reduce the Churn Rate

Among new au smartphone and "au HIKARI" subscribers, the percentage of people who also become "au Smart Value" subscribers is increasing every quarter. By the fourth quarter, this figure had risen to 39% for mobile subscribers and 55% for fixed-line subscribers. We see this as an effective means for attracting new subscribers to our mainstay services.

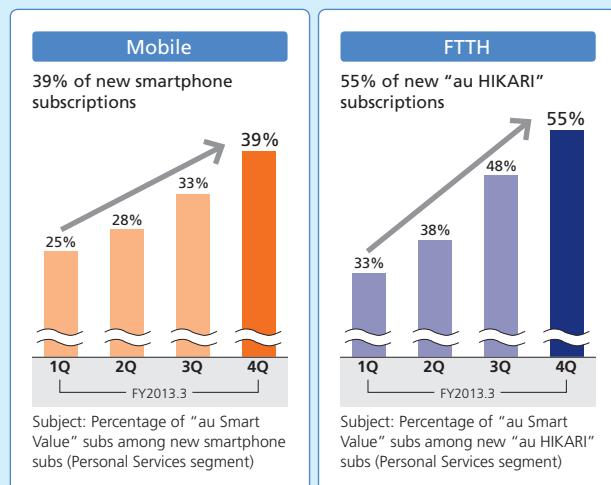
We are also beginning to see some impact in terms of lowering the churn rate. The churn rate among "au Smart Value" customers is stable at about one-third the level for customers

who subscribe to only mobile or fixed-line broadband service (au HIKARI.) The service is therefore making a significant contribution to expanding the customer base by reducing the churn rate.

Substantially Lower Churn Rate than for Customers Who Are Not Subscribers



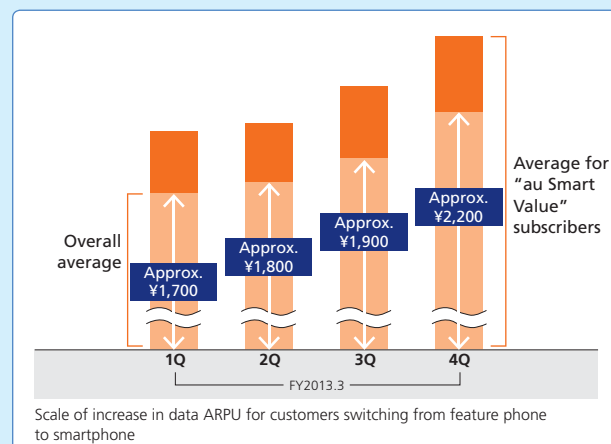
New Subscription Contributions Increase Each Quarter



Helping to Broaden the Scope of Smartphone Users

This service is made possible by apportioning the "au Smart Value" discount (of ¥1,480) among mobile and fixed-line communications, but from a marketing standpoint we look at the characteristics of users, who adopt the service via smartphone. Then we appeal to them by explaining the discount for customers on smartphone usage charges. Consequently, the service encourages users of feature phones who have hesitated to make the shift to smartphones out of concern that their usage charges would increase, to take action, thereby broadening the scope of smartphone users.

"au Smart Value" Pushing Up Data ARPU



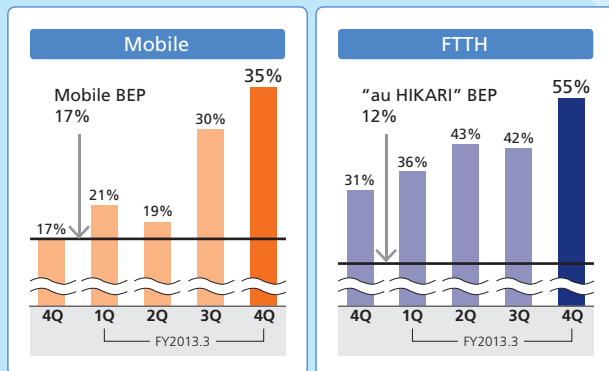
Profitability of "au Smart Value"

If 17% of new mobile subscribers and 12% of new fixed-line subscribers opt for "au Smart Value," we can cover the decrease due to discounts in revenue that results when existing subscribers choose the service.

Since launching the service, the number of mobile and fixed-line new subscribers who chose it has steadily surpassed the break-even point, so "au Smart Value" has led to a substantial revenue increase.

As the number of existing users applying for the service is likely to taper off, we expect "au Smart Value" to drive ongoing revenue growth.

Percentage of New Subscribers Opting for "au Smart Value"

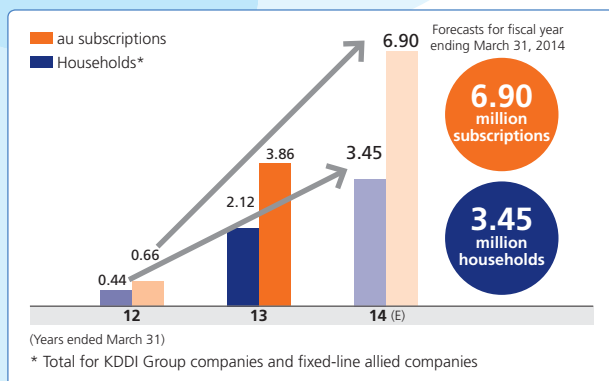


Performance of "au Smart Value"

Customer awareness of the service has grown since its launch approximately one year ago, and as of March 31, 2013, 3.86 million mobile subscribers and 2.12 million fixed-line subscribers were using the service, both substantially above our initial expectations. The introduction of "au Smart Value" has contributed greatly to our expansion of the customer base.

In the fiscal year ending March 31, 2014, we plan to further enhance alliances and chain reactions to increase the number of au subscribers among "au Smart Value" subscribers. As of March

"au Smart Value" Subscriptions (Million)

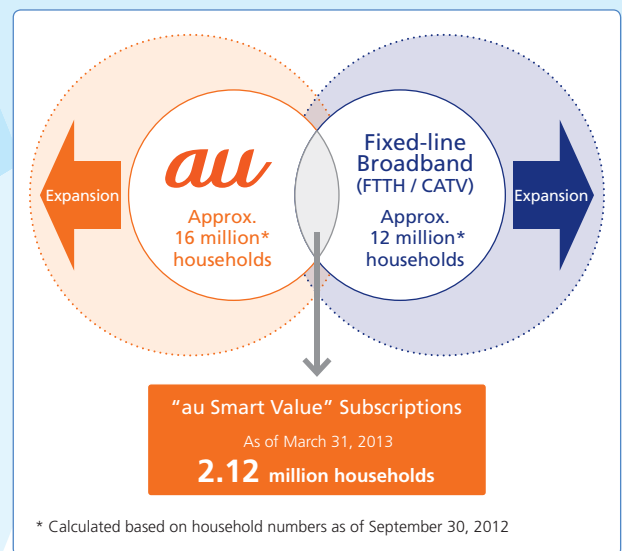


31, 2014, we forecast a rise of 3.04 million subscribers, compared with the subscribers as of March 31, 2013, to 6.90 million subscribers, and expect an increase of 1.33 million in the number of households, to 3.45 million.

Sustainability of "au Smart Value"

At present, KDDI's au subscribers total approximately 16 million households, and fixed-line broadband subscriptions number around 12 million households, including fixed-line allied companies. Within this customer base, the number of "au Smart Value" subscriber households comes to only 2.12 million. Therefore, we are convinced that ample room exists to continue expanding the customer base through cross-sales efforts.

Expansion of Customer Base via "au Smart Value" Chain Reactions



Part 2

au Smart Pass

Maximizing Value-added Revenues

We are expanding value-added revenues by promoting businesses that originate with "au Smart Pass."



Makoto Takahashi
Senior Vice President,
Member of the Board

Background and Objectives for Introducing "au Smart Pass"

"au Smart Pass" provides unlimited access to more than 500 popular apps, as well as coupons, online storage, and security services, allowing users to enjoy safe and secure access to the open Internet for ¥390 per month (including tax.)

The emergence of smartphones has led to the easy availability of content on the open Internet, but this development has also spawned new problems. In the era of the feature phone, customers were able to access content safely and securely by going through a portal site that KDDI provided. Smartphones provide customers with greater freedom and selection, but at the same time some customers hesitate to make a shift to smartphones, even when interested in doing so, concerning for app prices and security. In addition, a growing number of people who have made the transition find themselves unable to make full use of their smartphones.

From the corporate standpoint, the emergence of Over-the-top (OTT) content players that give subscribers access to the open Internet means that telecommunications carriers' services are only one of the options available to customers. This situation has led to a decrease in our number of customer contact points that we have cultivated.

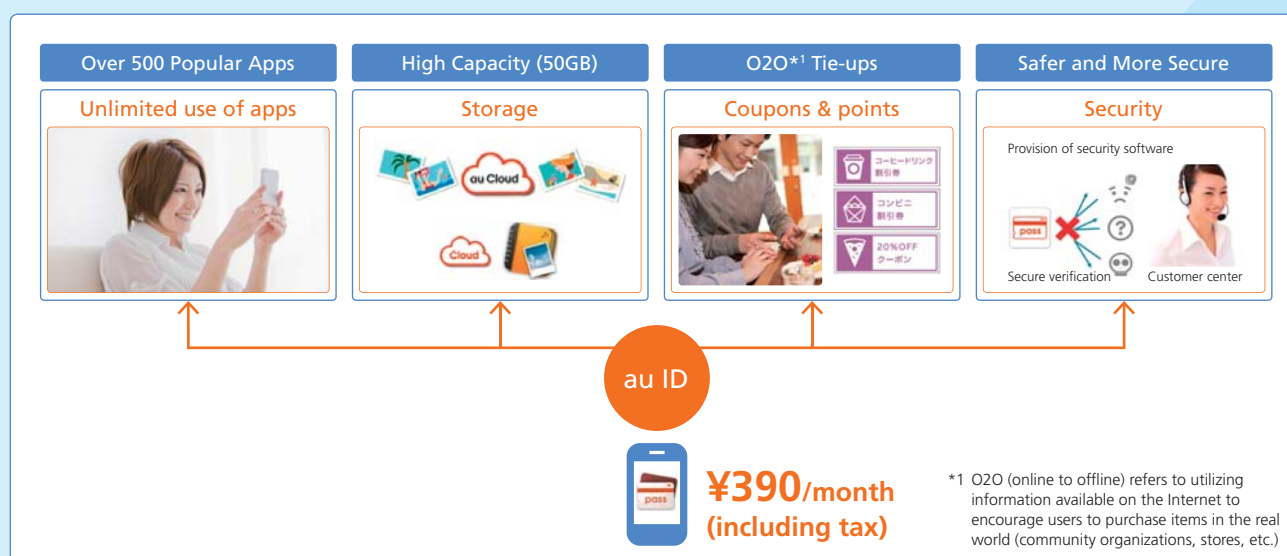
Against this backdrop, services that telecommunications carriers will need to provide in order to ensure ongoing growth of the upper layer need to act like a passport to access that provides peace of mind and convenience to customers when using their smartphones. This is the concept behind the creation of "au Smart Pass." The service both encourages the transition to smartphones across a broad layer of customers and serves as the starting point for a host of businesses that can expand value-added revenues, helping us to rebuild and increase the number of customer contact points.

The "au Smart Pass" Business Model

"au Smart Pass" is a service that provides substantial benefits to customers; we have also created a structure for sharing revenues between content providers and KDDI.

In the era of smartphone access to the open Internet, customers have unlimited choice, so attracting an increasing number of paying users is no easy task for content providers.

au Smart Pass



By using “au Smart Pass” as a customer contact point, KDDI, with its roughly 38 million users, can provide an environment that allows content providers to concentrate on the core business of developing apps. This arrangement promotes the development of compelling apps, which in turn makes “au Smart Pass” more attractive, creating a win-win relationship.

Revenue sharing is ultimately based on apps’ popularity, but we paid expenses on this service before receiving our share of revenues. Accordingly, this service operated in the red during its first year, the fiscal year ended March 31, 2013, but in May 2013 the service passed its breakeven point when we introduced fees on “au Smart Pass” for the iPhone and has now moved into the black.

A Successful Service, One Year On

Since launching “au Smart Pass” on March 1, 2012 as a service that allows customers to enjoy safe and secure access to the open Internet, we have received numerous favorable reviews from customers of all ages and both genders. Membership to the service topped 6 million in April 2013, 14 months after its introduction. Recently, some 90%*2 of customers purchasing au smartphones subscribe to “au Smart Pass,” which is steadily becoming a standard service for au smartphones.

To aid retention, we continue to introduce services that provide value in excess of ¥390, such as the handset repair fee support service for iOS users that we introduced on April 22, 2013. Since beginning this service, we have made steady progress while maintaining our customer base, even while introducing fees on “au Smart Pass” for the iPhone in May 2013.

*2 Results as of March 2013 (excludes model upgrades by existing “au Smart Pass” users)

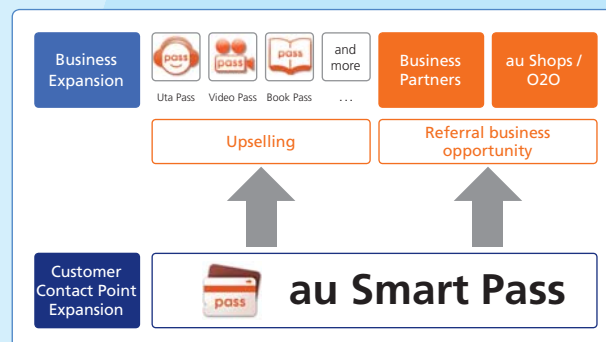
Looking Ahead

Expanding Value-added Revenues

With “au Smart Pass,” we will prioritize ongoing expansion of the membership base to increase the number of customer contact points. As of March 31, 2014, we aim to boost membership to 10 million.

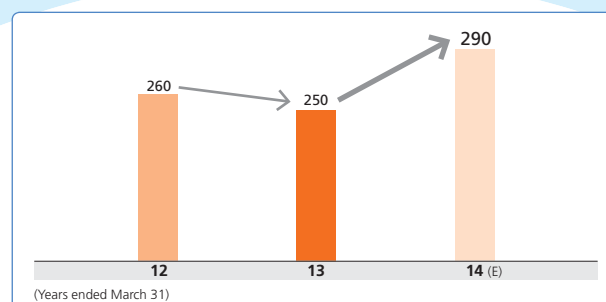
Using this platform as our base, we will continue to upsell through upper-layer services like “Uta Pass,” “Video Pass,” and “Book Pass,” which offer unlimited access for a fixed rate. We will also work with collaborating partners in the era of the open Internet to promote the construction of new business models and Online to Offline (O2O) business, forge stronger relationships between upper-layer services and real life, and expand value-added revenues in non-communications domains.

Expansion of Businesses Spawned from “au Smart Pass”



Through these initiatives, in the fiscal year ending March 31, 2014, we plan to increase value APRU—a measure of value-added revenues per customer—to ¥290, a 16% year-on-year increase.

Value APRU (Yen)



Multi-device Support

We are developing a business model based on the “au ID” that gives customers access to KDDI’s content services regardless of the device or network they use. Following our inclusion of J:COM as a consolidated company in April 2013, once the scheduled integration of J:COM and JCN is complete, we should be in a position to strengthen the connections among such devices as smartphones, tablets, PCs, and televisions. We are also focusing on HTML5, a content development technology suited for deployment across multiple devices.

At the moment, our efforts remain concentrated on smartphones, but in the near future we plan to begin offering environments that are optimally suited to the use of devices under different user scenarios.

Part 3 Multi-network

Using Data Offloading to Efficiently Handle the Explosion in Data Traffic

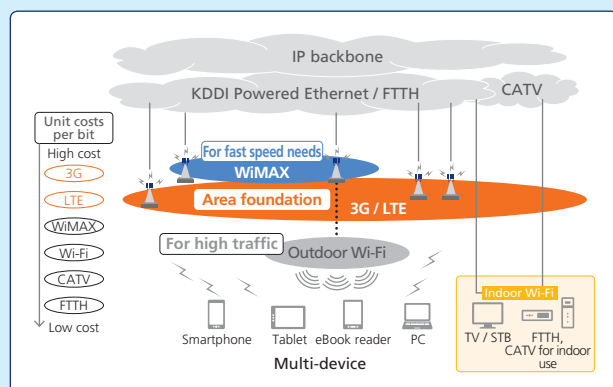
We are leveraging KDDI's Multi-network capability, which is a source of our competitiveness, to efficiently offload data, thereby providing high-quality communications services and holding down capital expenditures.



Multi-network Capability: the Source of KDDI's Competitiveness

KDDI is the only telecommunications company in Japan to provide service over both mobile and fixed-line broadband circuits. This "Multi-network" capability is the bedrock of KDDI's "3M Strategy" and the source of our competitiveness.

Multi-network



Efficiently Handling the Surge in Traffic

Promoting Data Offloading

The widespread adoption of smartphones is prompting an explosion in mobile data traffic; in the four years from the fiscal year ended March 31, 2012 to the fiscal year ending March 31, 2016, mobile data traffic is forecast to increase 12 times.

In the fiscal year ended March 31, 2013, KDDI introduced LTE, which is highly efficient in its use of bandwidth, and secured new 700MHz band allocation. However if current trends continue it will become difficult for limited-bandwidth mobile infrastructure to handle the increase in traffic.

Recognizing the ramifications, KDDI is leveraging its Multi-network capability to promote data offloading measures.

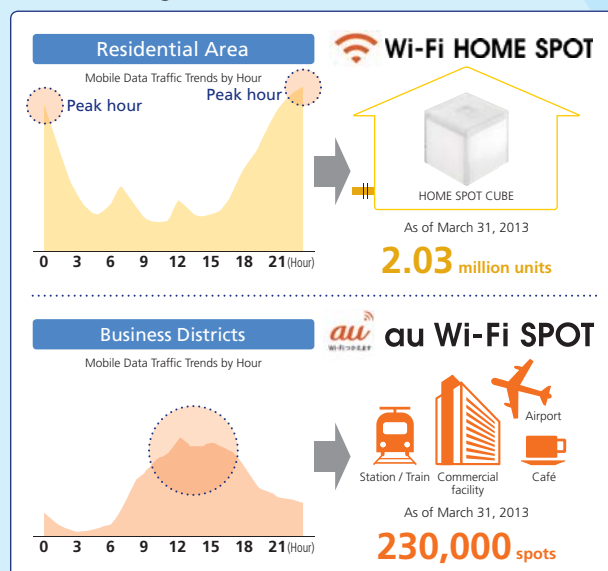
In Japan, traffic volumes in residential areas tend to peak in the nighttime hours, whereas they are highest in business areas during the lunch break and in the evening.

Based on these characteristics, we are pursuing the initiative of connecting Wi-Fi to residential fixed-line broadband circuits and rerouting mobile data traffic to handle nighttime traffic peaks in key residential areas. As part of this approach, we provide—free of charge—au's residential Wi-Fi router, the "HOME SPOT CUBE," which can be set with only one push of a button.

This approach allows all major broadband circuits to handle this traffic, as well as traffic for fixed-line communications services for "au Smart Value." If this initiative steadily takes hold, we should be able to handle traffic in residential areas with little problem.

Meanwhile, our fundamental approach on outdoor traffic is to reroute mobile data traffic to Wi-Fi access points in areas of concentrated traffic, while enabling customers to conveniently use 3G or LTE in areas where traffic is less concentrated. Providing public Wi-Fi access points is not simply a matter of adding equipment. Rather, it is important to position this equipment efficiently

Data Offloading via Wi-Fi



along routes where customers tend to congregate, such as high-traffic railway stations, commercial facilities, and cafés, providing equipment on the basis of careful area management.

By promoting this initiative, as of March 31, 2013, we had the ability to reroute 52% of all smartphone data traffic to non-mobile infrastructure.

We plan to maintain a data offloading ratio of 50% in upcoming fiscal years to handle the further increase in data traffic anticipated due to the expansion of LTE.

The Evolution of WiMAX

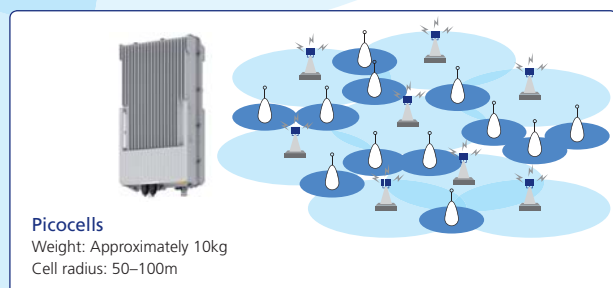
WiMAX is one element of the Multi-network framework that makes efficient data offloading possible. On October 30, 2012, the WiMAX Forum announced "WiMAX Release 2.1," a new version with an added TD-LTE interoperation mode. Following this release, after securing spectrum allocation for which it has applied to the Ministry of Internal Affairs and Communications (as of June 30, 2013), WiMAX service provider UQ Communications plans to quickly begin offering high-speed broadband wireless access (BWA) service employing this standard, expanding the KDDI Group's Multi-network capabilities.

First in the World to Introduce Picocells

KDDI has become the first company in the world to introduce picocell base stations, which allow the fine-tuned construction of areas with a 50–100 meter radius. Weighing only around 10kg and being relatively inexpensive and compact, picocells are particularly well suited for gaps between macrocells and areas of traffic congestion, allowing for better area coverage and service quality improvements. Whereas possible locations for macrocell base stations in major metropolitan areas tend to be limited to the roofs of buildings, extremely compact and lightweight picocell base stations can be erected on building walls, utility poles, and other locations. As a result, we can pinpoint areas for service quality improvement by confirming local flows of people and areas of congestion.

We have taken the lead in aggressively employing picocell base stations to improve quality in areas of traffic concentration.

In Addition to Macrocells, Configuring Areas Using Picocells



We also aim to further enhance KDDI network quality by introducing more sophisticated interference control technology and new heterogeneous network technology.

Capital Expenditures over the Medium-to-Long Term

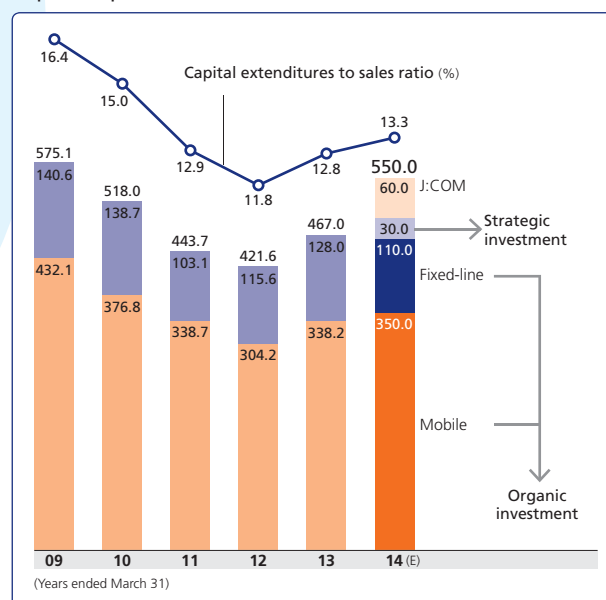
KDDI's proactive data offloading efforts have secured the Company the top industry position in terms of traffic offloading ratio among the world's mobile telecommunications companies.

Given that traffic is expected to increase further, we will continue striving to provide high-quality communications services while holding down capital expenditures by lowering traffic levels during peak periods.

As a result, we expect to maintain mobile capital expenditures at around ¥350 billion over the medium-to-long term. This figure amounts to 10–20% less than capital expenditures would be if we did not employ data offloading.

In the fiscal year ending March 31, 2014, we are planning an additional investment totaling ¥30 billion to counter the sort of LTE-related communication outages that have occurred in 2013 and to establish fail-safes in preparation for the smartphone / 4G era.

Capital Expenditure Levels (Billions of yen)



Supporting the 3M Strategy by Reinforcing Customer Contact Points

Along with changes in the business model that we made when introducing the 3M Strategy, we are working to further strengthen store capabilities.

Strengthening Store Capabilities

Enhancing Staff Training

In line with the full-scale implementation of our 3M Strategy, we have made steady progress on revamping the conventional independent selling style for mobile, FTTH, and CATV. In particular, we introduced a variety of reform measures to bring our 3M Strategy to the fore during sales at our most important customer contact point, au shops.

First of all, we revised our system for evaluating au shop staff. The new system incorporates new evaluation criteria for mobile, fixed-line, and product sales techniques in line with the 3M Strategy, and we have generally overhauled evaluation content. These changes are designed to create incentives for selling both mobile and fixed-line services.

We also focused on staff education, and established a training curriculum designed to cultivate professionals in areas covering FTTH as well as mobile and other multi-devices. In addition, we created a system for responding to market fluctuations and KDDI policy changes in real time.

Increasing Store Response Efficiency

The advancement and development of our 3M Strategy is prompting diversification of our mobile and fixed-line networks and products, which in turn has increased the operating burden on au shop sales staff. Smartphone sales, for example, involve explaining the product, filling in the necessary documentation, explaining operations, and making settings. These activities are all performed at the counter, but bringing the 3M Strategy into the limelight also requires staff to sell fixed-line subscriptions, upper-layer services, and accessories. Performing all these tasks increases customer service time and leads to reduced turnover, increasing the risk that customers will become frustrated with lengthening waits.

KDDI is addressing this situation through two measures that are designed to dramatically improve store operations.

Using Tablets to Shorten Customer Response Times

One of our keys to improving customer service efficiency has been the introduction of a system that uses tablets. Under this system, floor advisors bearing tablets interact with customers who are waiting in line, introducing products and services and consulting with them on pricing. Many such decisions can be made on the spot. The tablets contain information on a host of products and help when providing complicated explanations, so rather than relying entirely on staff skills we can interact with customers and provide proposals at a standardized level. The tablets are connected with specialized terminals at the counters, allowing

operations to be divided so that only activities requiring manual writing are performed at the counter. We are deploying this system nationwide, concentrating on shops with a high volume of customer traffic. Shops that use the system well are seeing shorter customer response times and better sales results.

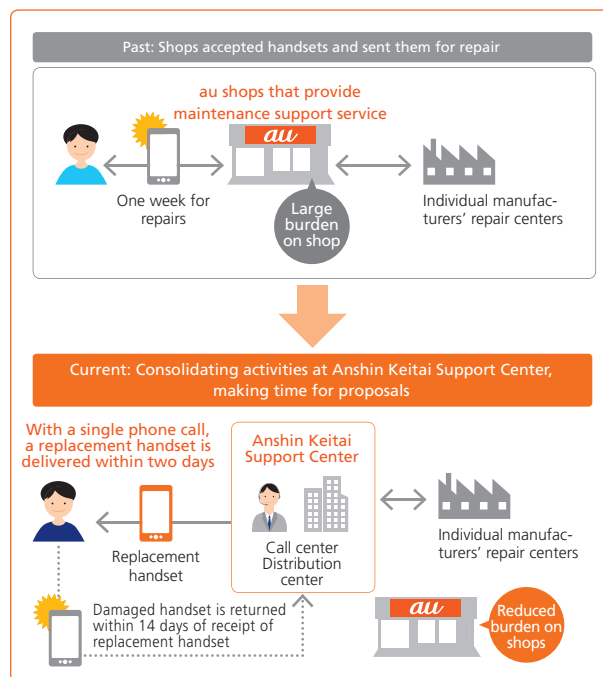
Introducing a New Handset Maintenance Scheme

Another initiative for reforming shop operations involves reducing the time needed to interact with customers who are replacing handsets that have malfunctioned or become damaged or lost.

These activities are one of the leading reasons that average customer response times at au shops have increased, placing a major burden on staff. We addressed this problem by introducing a new handset maintenance scheme whereby an alternate handset is delivered to the customer's home within two days of placing a single call to a specialized support center. This system has reduced the number of customers visiting shops about repairs and helped to create an environment that lets sales staff focus on selling.

Making service a source of competitive strength along with these dramatic improvements in store operations have led to smooth progress with the 3M Strategy.

Both Boosting Customer Satisfaction and Reducing Operating Burdens at au Shops



Performance / Operation

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Performance Analysis for the Fiscal Year Ended March 31, 2013

5 year Summary (Years ended March 31)

	Millions of yen					Millions of U.S. dollars ^{*1}
Consolidated	2009	2010	2011	2012	2013	2013
Operating Revenues	¥3,497,509	¥3,442,147	¥3,434,546	¥3,572,098	¥3,662,289	\$38,940
Telecommunications Business	2,720,675	2,606,165	2,489,403	2,394,136	2,432,726	25,866
Other Business	776,834	835,982	945,143	1,177,962	1,229,562	13,073
Operating Income	443,207	443,862	471,912	477,648	512,669	5,451
Net Income	222,736	212,764	255,122	238,605	241,470	2,567
EBITDA	904,030	927,253	936,315	908,499	959,571	10,203
Operating Income Margin	12.7%	12.9%	13.7%	13.4%	14.0%	14.0%
EBITDA Margin	25.8%	26.9%	27.3%	25.4%	26.2%	26.2%
Total Assets	3,429,133	3,819,537	3,778,918	4,004,009	4,084,999	43,434
Interest-bearing Debt	874,951	1,096,778	979,630	1,046,754	977,563	10,394
Total Net Assets	1,881,329	2,078,451	2,171,839	2,128,625	2,323,363	24,703
Net Cash Provided by (Used in) Operating Activities	712,231	739,992	717,354	725,886	523,908	5,571
Net Cash Provided by (Used in) Investing Activities	(775,470)	(924,442)	(440,546)	(484,507)	(472,992)	(5,029)
Free Cash Flows	(63,240)	(184,450)	276,808	241,379	50,916	541
Net Cash Provided by (Used in) Financing Activities	191,490	149,239	(279,998)	(225,931)	(140,250)	(1,491)
Per Share Data^{*2} (Yen and U.S. Dollars):						
Net Income	249.87	238.84	290.75	290.58	315.90	3.36
Diluted Net Income	—	—	—	283.34	289.26	3.08
Cash Dividends	55	65	70	80	90	0.96
Total Net Assets	2,066.70	2,265.02	2,476.93	2,696.03	2,943.12	31.29

*1 U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥94.05 = U.S.\$1 on March 31, 2013.

*2 KDDI implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of October 1, 2012. Further, KDDI implemented a stock split at a ratio of 2 shares for 1 share of common stock with an effective date of April 1, 2013. The cash dividends amount reflects the two above-mentioned stock splits. Also, amounts for previous fiscal years have been adjusted to reflect the stock splits.

Selected Financial Indicators	2009	2010	2011	2012	2013
Equity Ratio (%)	53.7	52.8	55.7	51.5	55.1
D/E Ratio (Times)	0.48	0.54	0.47	0.51	0.43
ROE (%)	12.6	11.0	12.4	11.5	11.2
ROA (%)	14.1	12.2	12.4	12.3	12.7
Total Assets Turnover Ratio (Times)	1.1	0.9	0.9	0.9	0.9
Shareholders' Equity Turnover Ratio (Times)	2.0	1.8	1.7	1.7	1.7
Current Ratio (%)	122.5	118.0	153.5	135.2	142.6
Fixed Assets to Equity (%)	139.0	146.2	135.3	139.1	126.0
Fixed Assets to Long-term Capital (%)	95.5	97.6	91.7	92.6	90.4
Liquidity In-hand (Times)	0.7	0.6	0.6	0.6	0.3
Interest Coverage Ratio (Times)	60.6	59.7	51.1	56.3	46.7
Dividend Payout Ratio (%)	22.0	27.2	24.1	27.5	28.5

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 = Fixed assets (end of fiscal year) ÷ (total shareholders' equity (end of fiscal year) + noncurrent 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: Shareholders' equity = Net assets – subscription rights to shares – minority interests

Analysis of Statements of Income

Operating Revenues

(Billions of yen)

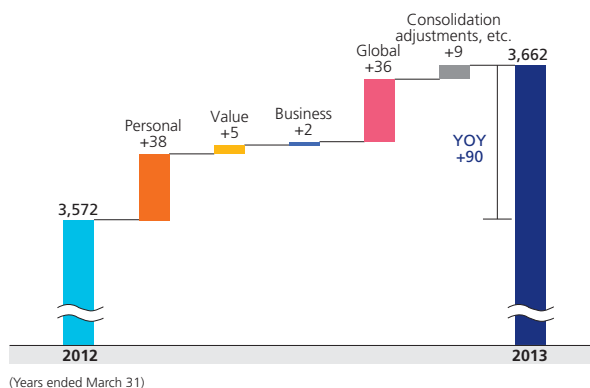
Year on Year

2.5% up



¥3,662.3 billion

In the Personal Services segment, which accounts for three quarters of operating revenues, au ARPU bottomed out on a monthly basis, and revenues from handset sales increased, leading to a ¥38.4 billion year on year rise in revenues. Revenues also grew ¥35.7 billion year on year in the Global Services segment, owing to higher revenues from existing overseas subsidiaries and the effect of consolidating new subsidiaries. As a result, operating revenues expanded 2.5%.



Operating Income

(Billions of yen)

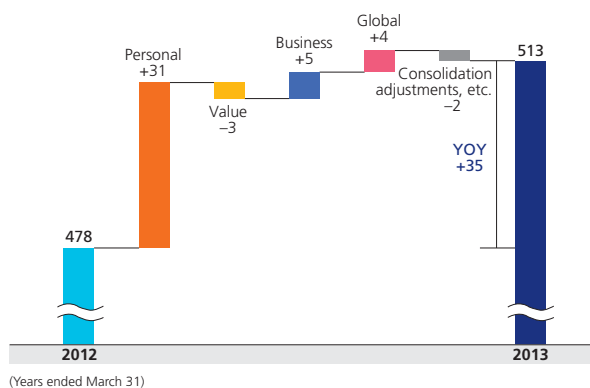
Year on Year

7.3% up



¥512.7 billion

In the Personal Services segment, which accounts for three quarters of operating income, income rose ¥31.4 billion year on year, despite up-front investment cost for the "3M Strategy." This increase was due to (1) an improvement in the amount of the decline in mobile communications revenues, (2) higher fixed-line communications revenues, mainly owing to an increase in FTTH subscriptions, and (3) the elimination of bandwidth reorganization costs. As the other three segments contributed a total of ¥5.8 billion in additional income during the year, operating income grew by a total of 7.3% year on year.



Net Income

Year on Year

1.2% up



¥241.5 billion

Net income rose 1.2% year on year, bolstered by an increase in operating income and a decrease in income taxes due to revisions in the tax code, although extraordinary losses rose ¥89.7 billion year on year. Extraordinary losses stemmed from an impairment loss and loss on retirement of noncurrent assets owing to the conclusion of service on the former 800MHz frequency facilities, as well as impairment losses on idle and legacy service facilities.

Dividends per Share*³

Year on Year

¥10 up



¥90

We awarded full-year cash dividends per share of ¥90, up ¥10 year on year, amounting to a consolidated payout ratio of 28.5%. Our dividend policy is to raise the consolidated payout ratio above 30% while taking into consideration the investments necessary to achieve growth and ensure stable business operations, and we plan to continue raising dividends through synergy between raising the consolidated payout ratio and increasing earnings per share in line with increased operating income.

*³ KDDI implemented a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of October 1, 2012. Further, KDDI implemented a stock split at a ratio of 2 shares for 1 share of common stock with an effective date of April 1, 2013. The cash dividends amount reflects the two above-mentioned stock splits.

Analysis of Balance Sheets

Total Assets

(Billions of yen)

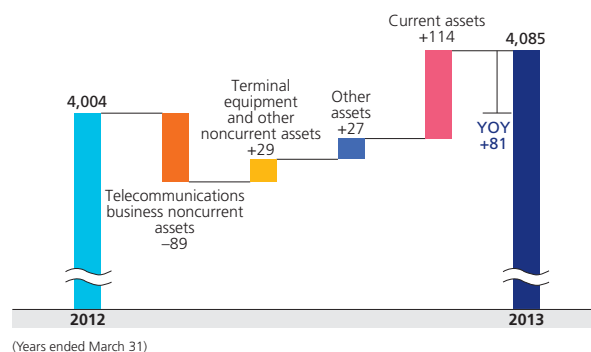
Year on Year

¥81.0 billion up



¥4,085.0 billion

Telecommunications business noncurrent assets decreased, owing to an impairment loss stemming from the conclusion of service on the former 800MHz frequency facilities in line with bandwidth reorganization, as well as depreciation. However, accounts receivable—trade rose due to higher installment sales of au mobile phone handsets, boosting total assets ¥81.0 billion year on year.



Total Net Assets

(Billions of yen)

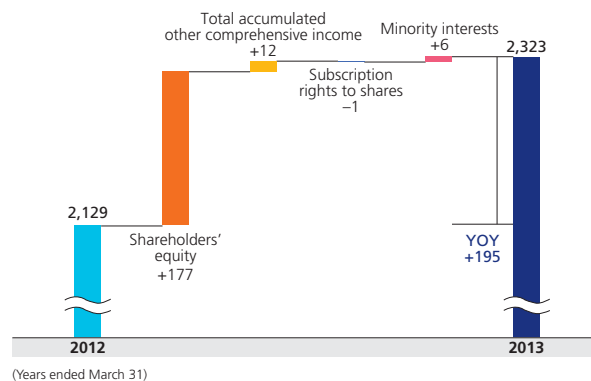
Year on Year

¥194.7 billion up



¥2,323.4 billion

Shareholders' equity expanded in line with a rise in retained earnings; total accumulated other comprehensive income grew due to an increase in the foreign currency translation adjustment, resulting from the translation to yen of overseas subsidiaries' assets and liabilities; and minority interests increased. As a result, net assets expanded ¥194.7 billion year on year.



Interest-bearing Debt

Year on Year

¥69.2 billion down



¥977.6 billion

We raised funds through loans but at the same time repaid bonds payable and long-term loans payable, resulting in a ¥69.2 billion decrease in interest-bearing debt.

The balance of interest-bearing debt as of March 31, 2013 includes ¥200.7 billion in convertible bond-type bonds with subscription rights to shares issued in the fiscal year ended March 31, 2012.

D/E Ratio

Year on Year

0.08 pt. down



0.43 time

We paid down bonds payable and long-term loans payable, causing interest-bearing debt to decline, while net assets rose due to higher retained earnings. The D/E ratio consequently decreased 0.08 percentage point.

Capital Expenditures

Mobile

Year on Year

¥34.0 billion up



¥338.2 billion

Fixed-line

Year on Year

¥12.4 billion up



¥128.0 billion

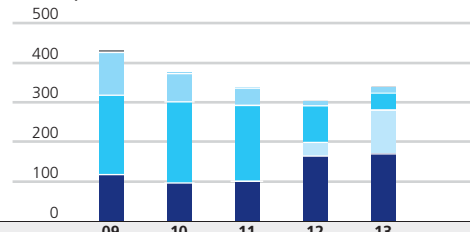
Consolidated capital expenditures rose ¥45.5 billion compared with the fiscal year ended March 31, 2012, to ¥467.0 billion.

In the mobile area, this investment chiefly went toward the expansion of base station facilities to raise communication quality and expand our service area. During the fiscal year ended March 31, 2013, we made aggressive LTE-related investments, causing capital expenditures in the mobile business to increase ¥34.0 billion year on year, to ¥338.2 billion.

In the fixed-line area, principal investments were related to the FTTH business and for the expansion of the overseas data center business. During the year, expenditures increased in line with a rise in FTTH subscriptions and spending on communication infrastructure, such as transmission circuits and base station facilities, to increase capacity. Consequently, in the fixed-line business capital expenditures rose ¥12.4 billion year on year, to ¥128.0 billion.

Mobile

(Billions of yen)

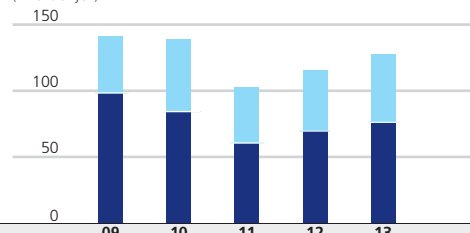


	09	10	11	12	13
Former 800MHz	6	1	1	0	0
2GHz	107	74	44	11	14
New 800MHz (excluding LTE)	200	204	191	93	43
LTE	—	—	—	34	110
Common Equipment	119	97	103	165	172
Total	432	377	339	304	338

(Years ended March 31)

Fixed-line

(Billions of yen)



	09	10	11	12	13
FTTH	43	55	43	46	52
Other	98	84	60	70	76
Total	141	139	103	116	128

(Years ended March 31)

Free Cash Flows

Year on Year

¥190.5 billion down



¥50.9 billion

Net cash provided by operating activities came to ¥523.9 billion, affected by an increase* in income taxes paid and higher installment sales receivables stemming from the rise in smartphone sales.

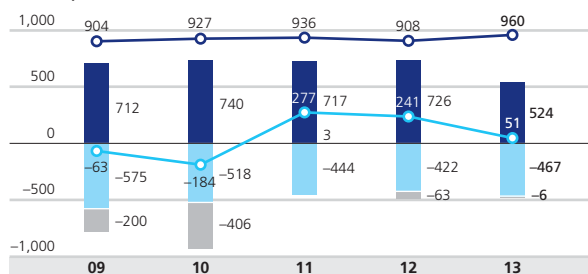
Net cash used in investing activities totaled ¥473.0 billion, due in part to increased capital expenditures.

As a result of the above-mentioned factors, free cash flow was ¥50.9 billion, down ¥190.5 billion.

* The liquidation of the intermediate holding company of J:COM caused a decrease in income taxes paid of approximately ¥100.0 billion in the fiscal year ended March 31, 2012. In the fiscal year ended March 31, 2012, income taxes paid increased by approximately ¥50.0 billion.

Free Cash Flows

(Billions of yen)



(Years ended March 31)

—○— Free Cash Flows
 ■ Net Cash Provided by (Used in) Operating Activities
 ■ Capital Expenditures
 ■ Other Net Cash Provided by (Used in) Investing Activities
 —○— EBITDA

FAQ about Operating and Financial Results

Years ended March 31

For the convenience of shareholders and investors, we have assembled the below summary of frequently asked questions (FAQ.) We hope the readers will find this information useful.

QUESTION 1

au ARPU bottomed out on a monthly basis in February 2013. How do you see this trend going forward?

We expect the rate of decline in voice ARPU to ease. The reason is that while minutes of use (MOU) billed has continued to fall, the penetration rate on "Simple Course" pricing, the main factor that has been holding down voice ARPU, has reached 95%. Meanwhile, the penetration rate for smartphones as of March 31, 2013 was only around 40%, and we believe data ARPU will continue rising in line with a steady increase in smartphone penetration.

The amount of discount applied*1 has continued to rise in line with the increasing adoption of "au Smart Value." However, we should be able to control the level of the monthly discount, "Maitsuki Discount," which accounts for the majority of the current discount.

During the fiscal year ended March 31, 2013, au ARPU was down 7.7% year on year, but in the fiscal year ending March 31, 2014, we believe the year-on-year decline will narrow to 2.9%. Our goal is to achieve a year-on-year upturn in the fourth quarter of the fiscal year ending March 31, 2014.

Breakdown of au ARPU (Personal Services)

	FY2013.3		FY2014.3	
	Results	YOY change	Forecasts	YOY change
au ARPU	¥4,180	-7.7%	¥4,060	-2.9%
Voice ARPU	¥1,980	-12.0%	¥1,860	-6.1%
Data ARPU	¥2,850	+13.5%	¥3,150	+10.5%
Amount of Discount Applied*1	-¥650	-182.6%	-¥950	-46.2%

*1 Total discount effect of "au Smart Value" and "Maitsuki Discount"

QUESTION 2

How will you achieve your objective of "double-digit annual growth in consolidated operating income?"

Our target for operating income in the fiscal year ending March 31, 2014 is ¥630.0 billion, which amounts to a year-on-year increase of ¥117.3 billion, or 23%. We expect this figure to rise because we anticipate that total communications revenues to grow substantially, by ¥75.6 billion. There are two reasons for this on the sales front in the Personal Services segment. First, we expect mobile communications revenues to increase for the first time in five fiscal years, rising ¥43.6 billion. Second, we anticipate a ¥32.0 billion rise in fixed-line communications revenues, stemming mainly from growth in FTTH subscriptions. In the Personal Services segment, the conclusion of service on the 800MHz bandwidth reorganization costs, which will reduce operating expenses

by ¥18.0 billion. Also, the impact of having consolidated J:COM in the fiscal year ending March 31, 2014 should add ¥60.0 billion.

To achieve growth over the medium term, we will expand our customer base for both mobile and fixed-line services through the stable competitiveness of "au Smart Value." Also, we expect mobile ARPU to bottom out year on year beginning in the fiscal year ending March 31, 2014. Consequently, we aim to raise communications revenues further. At the same time, we will leverage "au Smart Pass" to expand our upper layer business, boosting value-added revenues.

Furthermore, in addition to domestic business based on the "3M Strategy," we will put in place pillars of growth for our global business. As a result, we are targeting double-digit annual growth in consolidated operating income for the next three years.

Forecast for the Fiscal Year Ending March 31, 2014

Consolidated operating income:
up 23%



Goal Leading Up to the Fiscal Year Ending March 31, 2016

Consolidated operating income:
Double-digit annual growth rate

QUESTION 3

What are the reasons for changes in free cash flows (FCFs) in the fiscal year ended March 31, 2013, and in the fiscal year ending March 31, 2014?

During the fiscal year ended March 31, 2013, EBITDA rose ¥51.1 billion, but (1) installment sales receivables increased in line with higher smartphone sales and (2) income taxes paid*² and capital expenditures rose, causing FCF to decrease ¥190.5 billion year on year, to ¥50.9 billion.

We expect to raise our level of capital expenditures by ¥23.0 billion in the fiscal year ending March 31, 2014, but we anticipate a ¥55.4 billion rise in EBITDA and a ¥90.0 billion impact from the consolidation of J:COM in the fiscal year ending March 31, 2014. FCF should therefore rise ¥219.1 billion year on year, to ¥270.0 billion.

*² The liquidation of the intermediate holding company of J:COM caused a decrease in income taxes paid of approximately ¥100.0 billion in the fiscal year ended March 31, 2012. In the fiscal year ended March 31, 2012, income taxes paid increased by approximately ¥50.0 billion.

Free Cash Flows (FCFs)

(Billions of yen)

	FY2013.3		FY2014.3		
	Results	YOY change	Forecasts	YOY change	Of which, impact of J:COM
FCFs	50.9	-190.5	270.0	+219.1	+90.0
EBITDA	+959.6	+51.1	+1,160.0	+200.4	+145.0
Capital Expenditures	-467.0	-45.5	-550.0	-83.0	-60.0
Income Taxes Paid	-218.4	-163.1* ²	-340.0	+101.7	+5.0
Increase (Decrease) in Accounts Payable-trade	-10.3	-33.7			
Other	-213.0	+0.7			

QUESTION 4

What is your redemption schedule for euro zero-coupon convertible bonds?

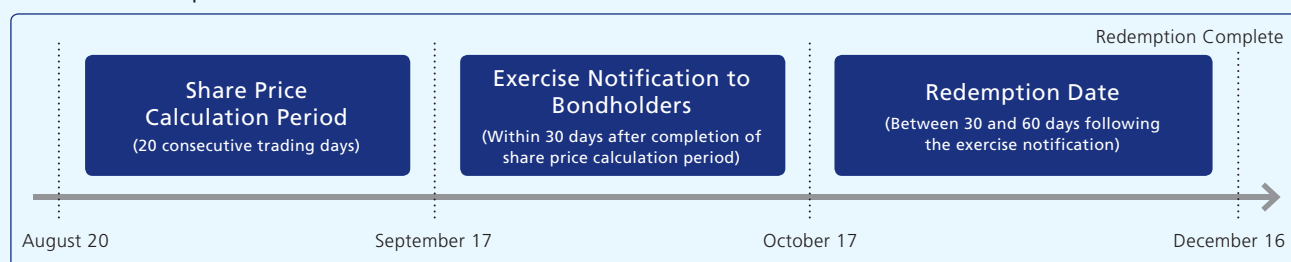
These convertible bonds mature in 2015, but they have a 120% call option rider attached. Therefore, they can be redeemed earlier—at the Company's discretion—if exercise conditions are met.

As a condition for exercising the 120% call option, the closing price must exceed the conversion price by 120%, or ¥3,440*³, during 20 continuous trading days after August 20, 2013.

If exercised on the shortest possible schedule, an exercise notice would be submitted to bondholders within 30 days after the end of the share price calculation period, with the bond redemption completed on December 16, 2013.

*³ Adjusted price reflecting a stock split at a ratio of 100 shares for 1 share of common stock with an effective date of October 1, 2012 and a stock split at a ratio of 2 shares for 1 share of common stock with an effective date of April 1, 2013.

*⁴ The maximum number of shares delivered to holders of convertible bonds would be approximately 69.8 million shares (7.8% of shares issued and outstanding.)

If the 120% Call Option Is Exercised on the Shortest Possible Schedule

Performance Analysis for the Fiscal Year Ended March 31, 2013 by Segment

Segments at a Glance

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

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

Overview



Personal Services Segment

Provision of communications services for households and individuals

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



Value Services Segment

Provision of content and settlement services for households and individuals

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



Business Services Segment

Provision of communications and solution / cloud services for companies

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



Global Services Segment

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

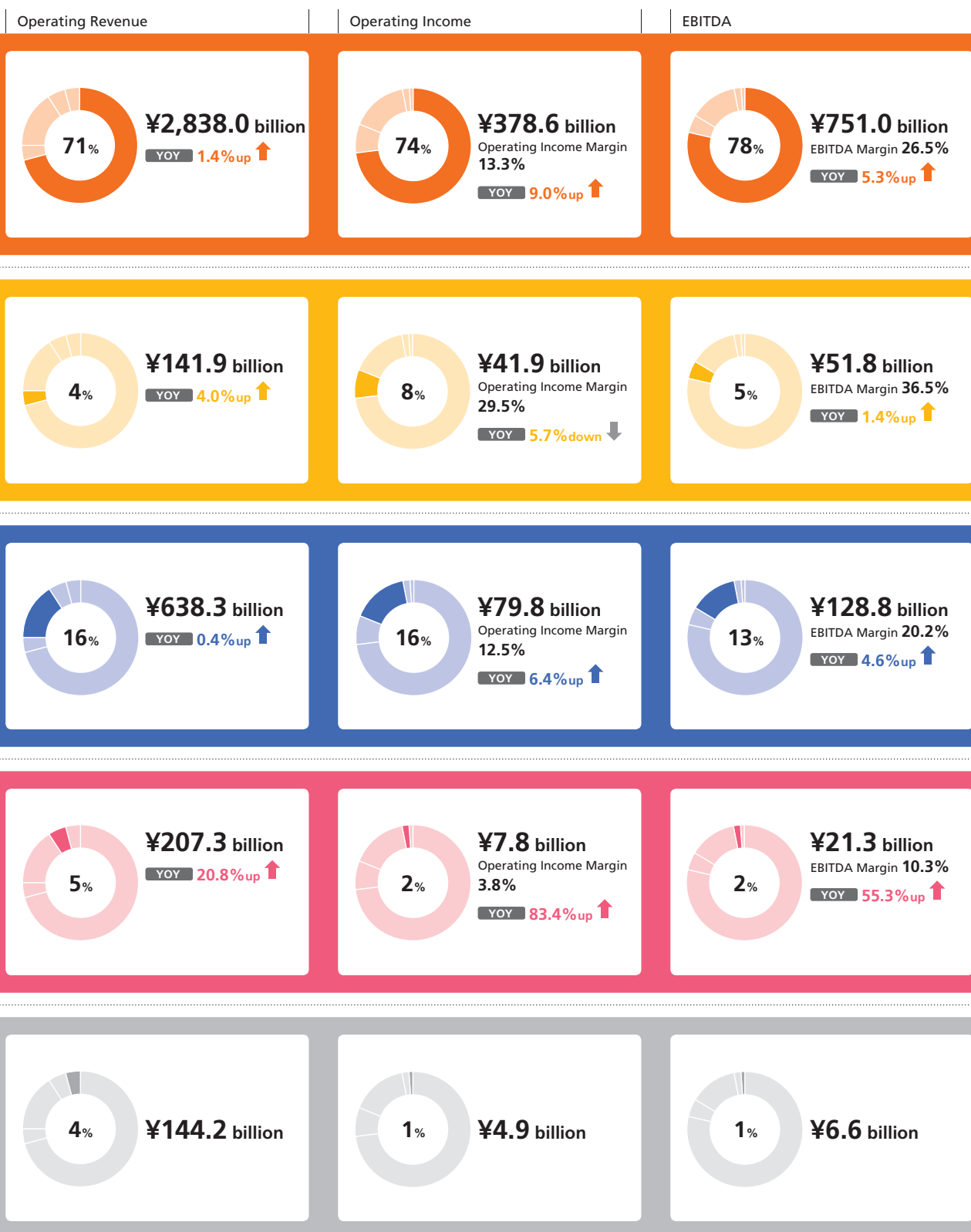
- ▶ Centered on our "TELEHOUSE" data centers, this segment provides corporate customers with one-stop ICT solutions. We are also making proactive forays into the Internet business in emerging markets, as well as the MVNO business targeting immigrants in the United States, and other consumer businesses.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



Other

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





Analysis by Segment

Personal Services Segment

Overview of Operations

During the fiscal year ended March 31, 2013, operating revenues increased 1.4%, to ¥2,838.0 billion. This result stemmed from (1) an improvement in the downward trend of mobile communications revenues and (2) an increase in fixed-line communications revenues, mainly due to FTTH net additions, pushing up communications revenues.

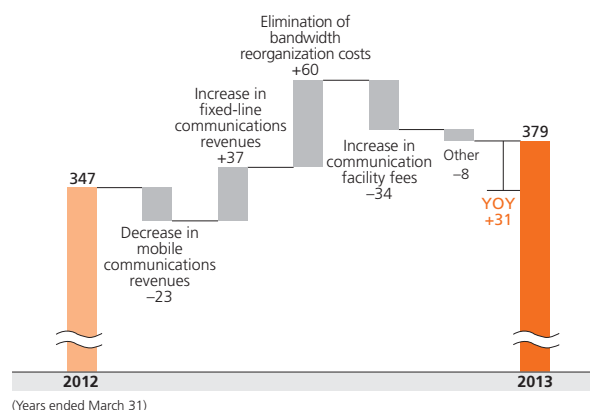
Operating expenses, meanwhile, rose 0.3%, to ¥2,459.4 billion. Although bandwidth reorganization costs were eliminated during the year under review, communication facility fees increased for purposes such as offloading data to WiMAX circuits, and the Company incurred up-front costs in relation to the "3M Strategy."

Operating income consequently increased 9.0% year on year, to ¥378.6 billion.

In the fiscal year ending March 31, 2014, we expect mobile communications revenues to rise for the first time in five fiscal years and anticipate that fixed-line communications revenues will continue to grow, boosting income. Owing to these factors, plus the impact of the J:COM consolidation and the eliminated of bandwidth reorganization costs, we forecast a ¥106.4 billion increase in operating income.

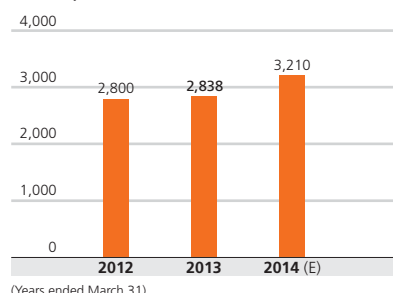
Factors Affecting Operating Income

(Billions of yen)



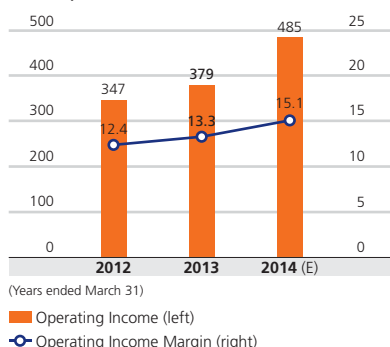
Operating Revenues

(Billions of yen)



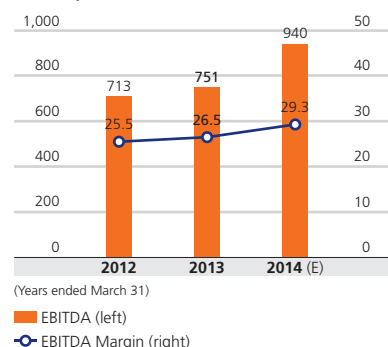
Operating Income / Operating Income Margin

(Billions of yen)



EBITDA / EBITDA Margin

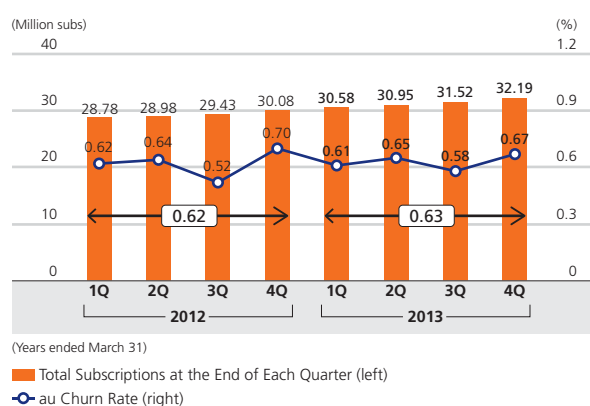
(Billions of yen)



au Subscriptions / au Churn Rate

The net addition in au subscriptions outpaced our initial expectations of 1.92 million subscriptions by 190,000, amounting to 2.11 million subscriptions, thanks to robust sales of smartphones, centering on "au Smart Value." As a result, total subscriptions numbered 32.19 million as of March 31, 2013, up 7.0% from March 31, 2012.

The au churn rate was the lowest level in the industry, at 0.63%, with low levels continuing on from the fiscal year ended March 31, 2012.

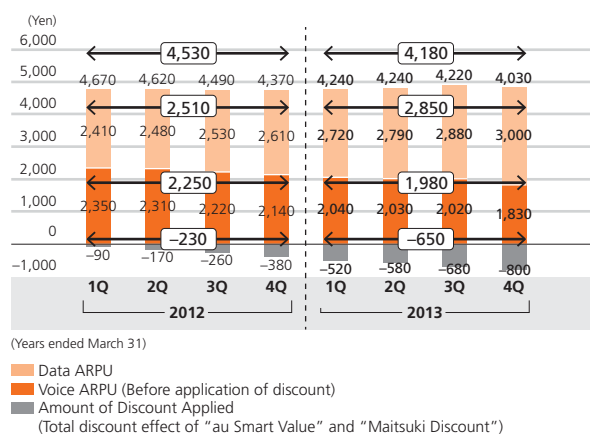


au ARPU

Voice ARPU declined 12.0% year on year, to ¥1,980, affected by the transition to inexpensive "Simple Course" pricing and the introduction of other pricing measures, a decrease in MOU billed, and the impact of access charge revisions.

Data ARPU grew 13.5% year on year, to ¥2,850, due to an increase in the number of smartphone users. The amount of discount applied was ¥650, up ¥420, owing to the spread of "Maitzuki Discount (Monthly Discount)" in line with the increase in smartphone sales.

As a result, au ARPU amounted to ¥4,180, which was down 7.7% year on year but ¥20 above our initial forecast. In the fiscal year ending March 31, 2014, we expect the rate of year-on-year decrease in au ARPU to fall to 2.9%.

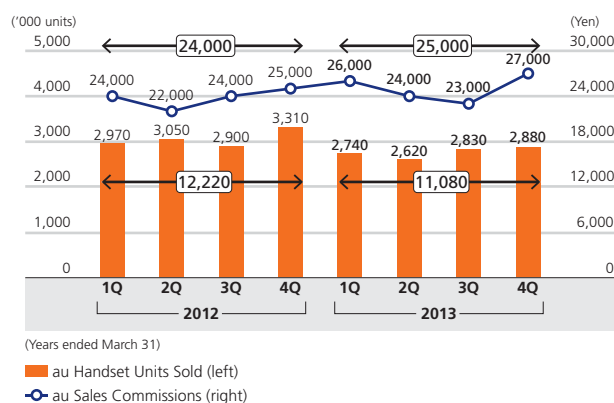


au Handset Units Sold / au Sales Commissions

au handset sales fell 9.3% year on year, to 11.08 million units. Although robust demand for new smartphones drove up new unit sales substantially, sales for handset upgrades compatible with the new bandwidth in line with the bandwidth reorganization dropped sharply after this transition was completed in July 2012.

au sales commissions increased ¥1,000 year on year, to ¥25,000. We raised sales commissions to increase their weight of discounted handset sales, thereby controlling to a lower level the "Maitzuki Discount (Monthly Discount)," which suppresses future earnings. Another reason was to attract customers amid increasing competition, centering on MNP.

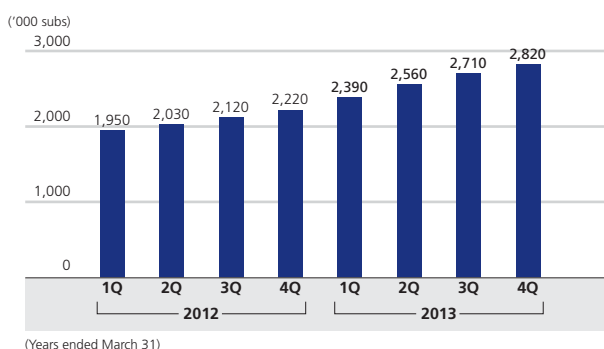
In the fiscal year ending March 31, 2014, we expect au sales commissions to increase ¥2,000, to ¥27,000, as we hold down the level of "Maitzuki Discount (Monthly Discount)" in anticipation of au ARPU bottoming out and turning upward. Despite this increase, we expect total selling costs to fall.



FTTH Subscriptions

The impact of "au Smart Value," which involves FTTH subscriptions and smartphone services cross-selling, as well as an expanded service area, led to 600,000 net additions to FTTH subscriptions, for total subscriptions of 2.82 million as of March 31, 2013.

We expect the effect of an expanded service area to be less pronounced in the fiscal year ending March 31, 2014, but believe that "au Smart Value" will encourage favorable ongoing subscriber acquisition. Consequently, we expect total FTTH subscriptions to grow by 440,000 year on year, to 3.26 million as of March 31, 2014.



Analysis by Segment

Value Services Segment

[▶ Explanation on P.40 "Overview of Operations"](#)

Overview of Operations

During the fiscal year ended March 31, 2013, operating revenues in this segment were up 4.0%, to ¥141.9 billion, as an increase in the number of "au Smart Pass" members pushed up sales, leading to higher value-added revenues.

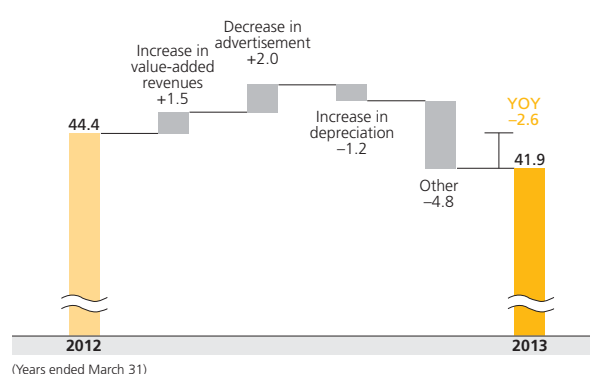
Operating expenses, meanwhile, rose 8.7% year on year, to ¥100.0 billion, due to the payment of up-front expenses such as content procurement costs to acquire "au Smart Pass" members, as well as related costs.

As a result, operating income dropped 5.7% year on year, to ¥41.9 billion.

For the fiscal year ending March 31, 2014, we anticipate an ¥8.1 billion increase in operating income, as a growing number of "au Smart Pass" members pushes up value-added revenues and due to the effect of including J:COM in the scope of consolidation.

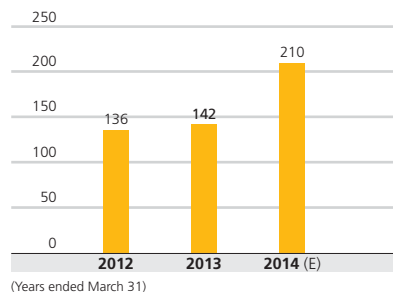
Factors Affecting Operating Income

(Billions of yen)



Operating Revenues

(Billions of yen)



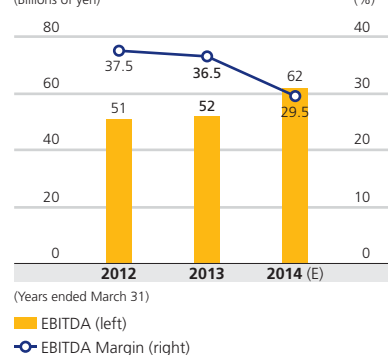
Operating Income / Operating Income Margin

(Billions of yen)



EBITDA / EBITDA Margin

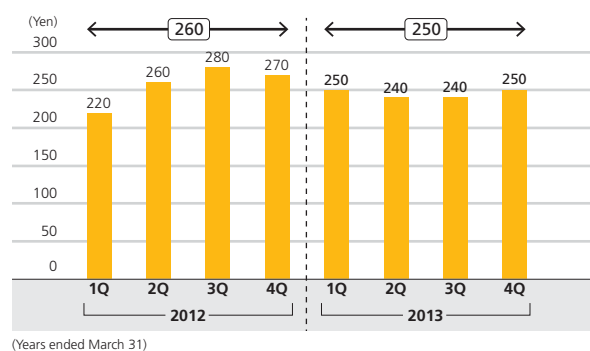
(Billions of yen)



Value ARPU

"au Smart Pass" contributed to favorable growth in value-added revenues from smartphones, but this rise was insufficient to cover the drop in value-added revenues on feature phones. Consequently, value ARPU was down 3.8% year on year, to ¥250.

For the fiscal year ending March 31, 2014, we forecast a 16.0% increase in value ARPU, to ¥290, as value ARPU levels bottomed out and began to turn upward in the second quarter of the fiscal year ended March 31, 2013, and due to the ongoing increase in the number of "au Smart Pass" members.



Business Services Segment

► Explanation on P.41 "Overview of Operations"

Overview of Operations

Operating revenues in this segment grew 0.4% year on year, to ¥638.3 billion, as the rise in revenues from mobile handset sales outpaced decreases in revenues from fixed-line legacy voice services and lower sales within the Group.

Operating expenses fell 0.5% year on year, to ¥558.5 billion, owing to falling outsourcing expenses due to lower facility maintenance costs and lower migration expenses (sales commissions) due to the conclusion of bandwidth reorganization.

Accordingly, operating income increased 6.4% year on year, to ¥79.8 billion.

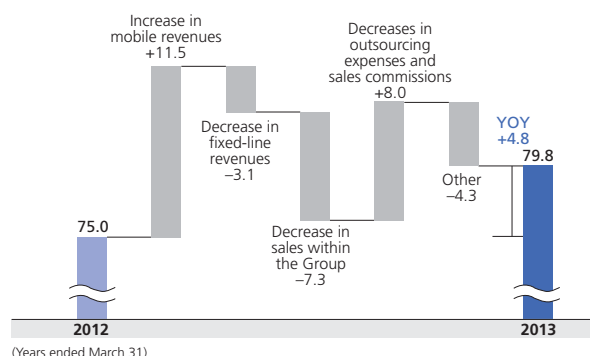
In the fiscal year ending March 31, 2014, we expect mobile revenues to rise on higher sales of smartphones and tablets, which should cover a decline in revenues from fixed-line legacy voice services, and we expect handset procurement costs to rise as we strengthen mobile handset sales, so operating income will remain approximately at the same level as in the fiscal year ended March 31, 2013.

(Billions of yen)

	FY2012.3	FY2013.3	FY2014.3 (E)
Operating Revenues	636.0	638.3	650.0
Operating Income	75.0	79.8	80.0
Operating Income Margin (%)	11.8	12.5	12.3
EBITDA	123.1	128.8	127.0
EBITDA Margin (%)	19.4	20.2	19.5

Factors Affecting Operating Income

(Billions of yen)



Performance / Operation

Global Services Segment

► Explanation on P.42 "Overview of Operations"

Overview of Operations

Operating revenues in this segment expanded 20.8% year on year, to ¥207.3 billion. In addition to the impact of CDNetworks Co., Ltd., which was newly included as a consolidated subsidiary, revenues increased at Locus Telecommunications Inc., a wholly owned subsidiary of KDDI America, Inc.

As with operating revenues, operating expenses increased 19.2% year on year, to ¥199.5 billion, due to higher expenses at overseas subsidiaries.

Operating income consequently surged 83.4%, to ¥7.8 billion.

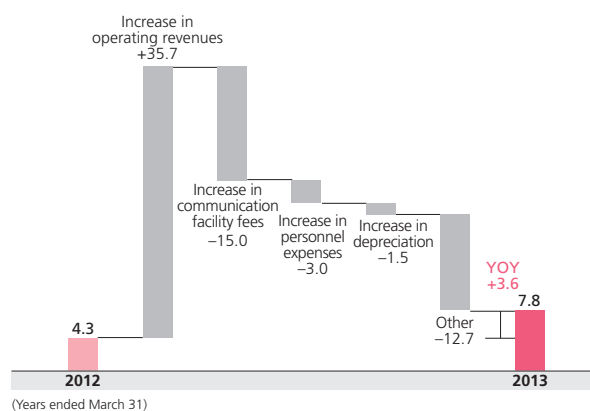
We anticipate a ¥1.2 billion increase in operating income during the fiscal year ending March 31, 2014, stemming from higher revenues at overseas subsidiaries and the effect of exchange rates, although we also expect communication facility fees and personnel expenses to rise in line with higher sales.

(Billions of yen)

	FY2012.3	FY2013.3	FY2014.3 (E)
Operating Revenues	171.6	207.3	218.0
Operating Income	4.3	7.8	9.0
Operating Income Margin (%)	2.5	3.8	4.1
EBITDA	13.7	21.3	23.0
EBITDA Margin (%)	8.0	10.3	10.6

Factors Affecting Operating Income

(Billions of yen)



Personal Services Segment

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



Yuzo Ishikawa
General Manager, Consumer Business Sector
Senior Vice President, Member of the Board

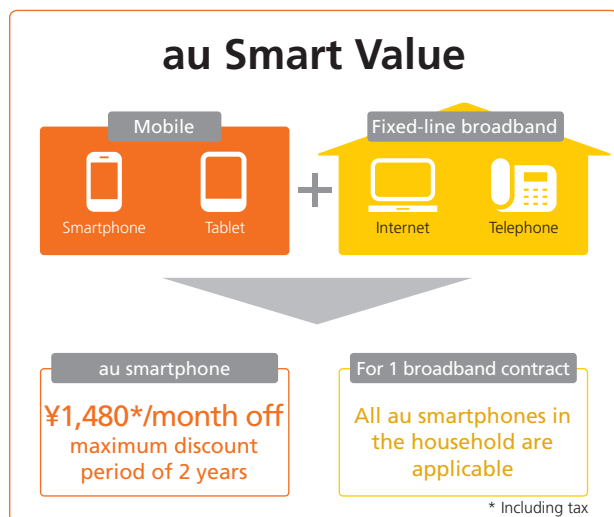
au Smart Value

"au Smart Value" is a bundled service, comprising au smartphone service and "au HIKARI" and other fixed-line broadband services (FTTH and CATV) provided by the KDDI Group and its allied companies. Customers who subscribe to "au Smart Value" receive a discount of ¥1,480 (including tax)*¹ on their monthly usage charges for au smartphones.

In March 2012, we began offering this service, which leverages KDDI's competitive advantage of possessing both mobile and fixed-line networks. Since that time, the number of subscribers has increased steadily. As of March 31, 2013, au subscriptions totaled 3.86 million and 2.12 million households.

*¹ This discount is available for up to two years. After the second year, the discount amount is ¥980 (including tax.)

au Smart Value



Commencement of "au 4G LTE"

In September 2012, we launched "au 4G LTE," a high-speed data communications service offering downlink speeds of up to 75Mbps*². We have already realized downlink speeds of up to 100Mbps*² in some areas, and in June 2013 we began to gradually expand this service throughout Japan.

The actual population coverage ratio*³ for "au 4G LTE" was 96.4%*⁴ as of March 31, 2013. By March 31, 2014, we plan to increase this ratio to 99%*⁴.

*² Speeds mentioned are maximum speeds for technical standards and do not indicate actual speeds. Actual speeds may be lower, depending on the customers' usage environment and line conditions.

*³ For calculation purposes, Japan has been divided into 500m² grid squares. Actual population coverage is the coverage ratio in comparison to the total population of grid squares designated as part of KDDI's service area.

*⁴ For LTE compatible Android™ smartphones

Smartphones

During the fiscal year ended March 31, 2013, in addition to extending our lineup of 3G smartphones, we launched 11 models compatible with "au 4G LTE."

Due in part to the impact of "au Smart Value," smartphone sales rose by 2.70 million units year on year, to 8.11 million units. As a result, as of March 31, 2013, smartphone subscriptions numbered 11.86 million, and our smartphone penetration rate had risen to 36.9%.

By March 31, 2014, we expect smartphone subscriptions to total 16.06 million, with the smartphone penetration rate rising to 47.7%.

FTTH / CATV

Thanks to the “au Smart Value” a bundle of service with au smartphone service and to service area expansion, net additions to KDDI’s FTTH service, “au HIKARI,” were 1.7 times higher than in the fiscal year ended March 31, 2012, contributing to favorable growth in subscriptions. Owing to this increase in subscriptions, “au HIKARI” moved into the black monthly on an operating basis in May 2012, excluding the cost of acquiring customers. During the fiscal year ending March 31, 2014, we expect this service to move into the black on an ordinary income basis.

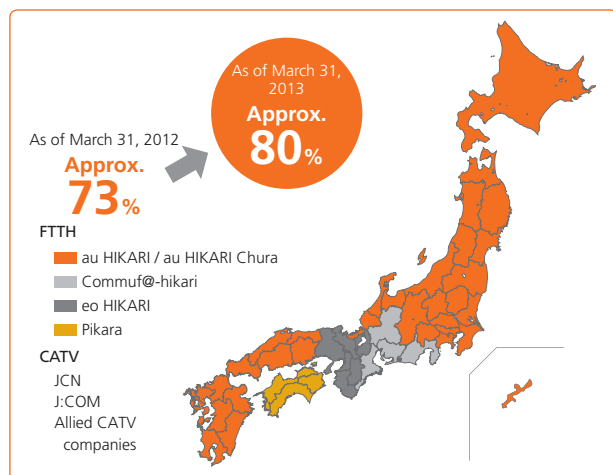
In the CATV business, we included J:COM in the scope of consolidation in April 2013. As a result of this move, based on cable television subscription figures some 50% of CATV companies in Japan are now in the KDDI Group. Going forward, in addition to synergies with “au Smart Value” and other KDDI businesses, we expect to reap the benefits of synergies between J:COM and JCN.

Expanding the Service Area by Strengthening Alliances

As of March 31, 2013, our household coverage ratio*5 for the broadband services for “au Smart Value” targets was up 7 percentage points from the fiscal year ended March 31, 2012, to 80%, thanks partly to an increase in the number of fixed-line allied companies.

*5 The household coverage ratio expresses the coverage ratio in areas where FTTH / CATV service is provided to detached homes.

“au Smart Value” Household Coverage Ratio*5 as of March 31, 2013



Economic Value

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Social Value

KDDI pays careful attention to comments from the customers who use our services, and we reflect this feedback in our business. We also strive to provide services that are safe, secure, and of high quality, as we work to enhance customer satisfaction.



Holding the “au CS AWARDS” in pursuit of quality customer service ▶ P.61



Slimmed-down operation manual ▶ P.65

Mobile Data Offloading

In addition to their traditional role in the provision of broadband services, KDDI’s fixed-line access circuits are serving an increasingly important role as a means of offloading mobile data traffic, which is increasing dramatically. We have nearly doubled the number of “au Wi-Fi SPOTs,” which we use for offloading data outdoors, since the end of the fiscal year ended March 31, 2012, to 230,000 spots. We use “HOME SPOT CUBE” for indoor data offloading, and the number of these units installed as of March 31, 2013 was 2.03 million, up 1.68 million from March 31, 2012.

Consequently, our data offload rate*6 as of March 31, 2013 was 52%, up a substantial 32 percentage points from March 31, 2012. Our operational target is to maintain a data offload rate of around 50%*7, even taking into account the increase in data traffic from LTE smartphones.

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

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

*7 From the fiscal year ending March 31, 2014, the denominator will change to include data traffic from LTE smartphones.

Mobile Data Offloading Trends



Value Services Segment

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



Makoto Takahashi
General Manager, Business Development Sector
Senior Vice President, Member of the Board

au Smart Pass

"au Smart Pass" is a service in which we provide au smartphone customers with more than 500 popular apps, security-related services, and other offerings for ¥390 (including tax) per month. We began offering this service in March 2012 to enable even first-time smartphone users to enjoy the world of the open Internet safely and securely. Membership has grown steadily since the service launched, to 5.74 million as of March 31, 2013.

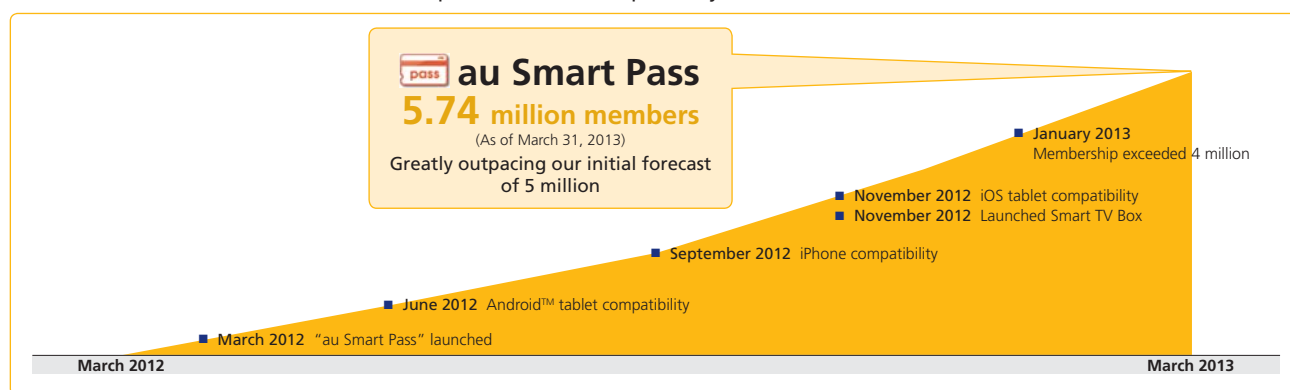
We will continue working to increase the "au Smart Pass" customer base. At the same time, we will upsell value-added services (such as music, video, and books) and create new business by directing "au Smart Pass" members to various services and physical shops.

Multi-OS, Multi-device Initiatives

Initially offering "au Smart Pass" for Android™ smartphones, we made the service iPhone-compatible in September 2012, and in the future we plan to also make it compatible with the Firefox operating system. By moving forward with the development of HTML5-based apps, KDDI plans to provide content that is compatible with a wide range of operating systems.

In November 2012, we also began offering the "Smart TV Box," a CATV set-top box using Android™. In these ways, we are increasing convenience further by creating environments that enable customers to enjoy accessing a host of content on a range of devices.

"au Smart Pass" Members and the Roadmap for Multi-OS Compatibility



Economic Value

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Social Value

KDDI works proactively to provide products and services that anticipate various societal issues and customer needs. As well as providing compelling content to the users of our services, we take a number of approaches to make content safer and more convenient.



KDDI mobile phone learning class safety and security seminar
P.58



Supporting the growth of venture companies "KDDI ∞ Labo" (Mugen Labo) P.78

Business Services Segment

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



Takashi Shouji
General Manager, Solution Business Sector

Business for Major Corporations

Of the 13,000 or so major corporations*¹ in Japan, KDDI already conducts business with around 70%*². Consequently, boosting our earnings in this category means that we need to increase our revenues per customer by offering them higher value-added services.

In July 2012, we began providing the "KDDI Cloud Platform Service," a cloud-platform service that operates as either a private or a public cloud depending on a customer's needs, as one of our efforts to meet wide-ranging customer demands.

In addition to increasing sales opportunities through smart devices (such as smartphones and tablets), we provide highly attractive cloud-based package services in an effort to offer total support for customers' communication environments.

*¹ Source: Research based on the 2009 Economic Census, with major corporations defined as those having more than 300 employees

*² KDDI's estimate

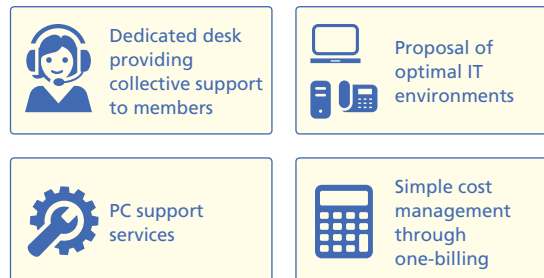
Strengthening Service Offerings for Small and Medium-sized Companies

In April 2012, we began offering "Smart Value for Business" to small and medium-sized companies with subscriptions to au smartphones, "au HIKARI Business (FTTH / FTTB)," and the "Basic Pack" of business-optimized cloud applications. "Smart Value for Business" provides a discount on au smartphone monthly usage charges of ¥1,480 (including tax).*³ Through measures such as these, we are working to expand our customer base.

To augment our service offerings for customers in small / home offices and small and medium-sized businesses, with our consolidated subsidiary KDDI MATOMETE OFFICE CORPORATION we have integrated our system for providing these customers with various communications services, OA equipment, and general IT environments. On April 1, 2013, we established four new regional companies that have begun operations, increasing the total to five companies throughout Japan, with 1,500 employees.

*³ This discount is available for up to two years. After the second year, the discount amount is ¥980 (including tax.)

Features of the KDDI MATOMETE OFFICE Member-based Support System



Economic Value

&

Social Value

By providing optimal ICT environments, KDDI helps corporate customers address a variety of issues. In addition to raising operational efficiency and reducing costs, we work proactively to provide products and services that contribute to their efforts to address societal and environmental issues.



Battery with life extended to 24 hours P.51



Holding the "Front Skills Contest" P.61

Global Services Segment

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



Hidehiko Tajima
General Manager, Global Business Sector
Associate Senior Vice President,
Member of the Board

Global ICT

With Japanese companies accelerating the global expansion of their businesses, as of March 31, 2013, KDDI has in place a network spanning 100 locations in 60 cities across 28 regions of the world to meet the range of ICT needs of customers moving into overseas markets, including the construction, operation, and maintenance of communications networks. As part of this offering, in the data center business we are developing our operations under the “TELEHOUSE” brand, through which we provide high-quality services to customers at 25 locations in 15 cities across 12 regions.

Global Consumer Business

In the United States, we are developing business targeting immigrants through MVNO prepaid mobile phone services and calling

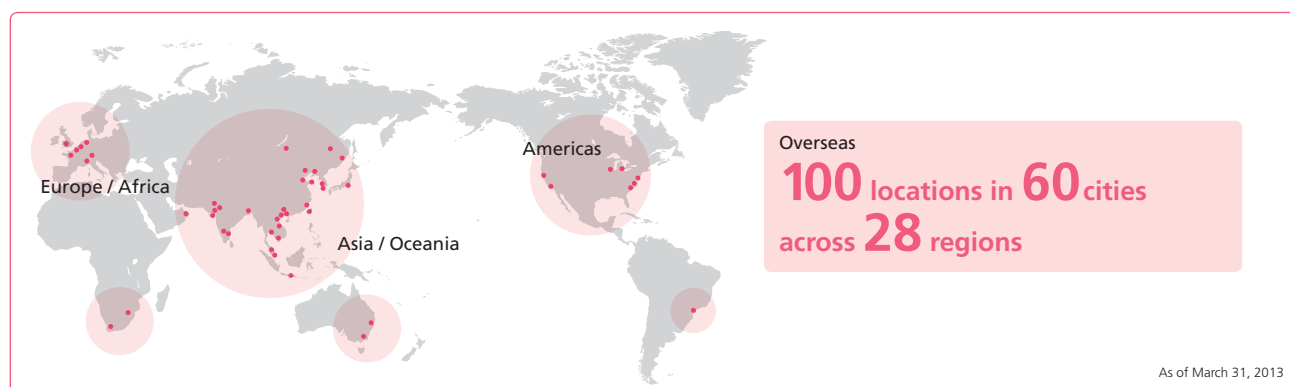
card services via Locus Telecommunications, Inc. and Total Call International, Inc., wholly owned subsidiaries of KDDI America, Inc. As the immigrant market in the United States expands, we expect this business to grow and our profitability to increase accordingly.

In emerging markets, particularly in Asia, we plan to enter the mobile phone and ISP businesses, based on the expertise we have cultivated in Japan.

Carrier Business

We provide international voice traffic transmission services for more than 600 telecommunications providers throughout the world.

Overseas Centers



Economic Value

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Social Value

In response to the rapid globalization of its operations, KDDI is putting particular effort into human resource cultivation. KDDI has various training programs in place to nurture and increase the number of personnel who can work at overseas locations and is aggressively educating global human resources in Japan. We are also pursuing measures to cultivate personnel locally hired in overseas locations.



The SJC rising from the sea
P.60



Training and Cultivating Locally
Hired Employees P.71

Research and Development

KDDI's growth strategy, the "3M Strategy," aims to realize a world in which customers are provided with a host of content and services, whenever and wherever they want, over optimal networks and on their devices of choice.

In KDDI R&D laboratories, our main research arm, we conduct leading-edge research to provide stress-free, safe and secure communications environments. We strive to provide services that customers can use with peace of mind in their daily lives, whether related to the environment or health. Furthermore, through our research and development we endeavor to deliver new and diverse value, and we conduct basic research that is designed to open up a future of exciting new possibilities.

Ultrahigh-definition Image Transmission Technology Chart 1

We have developed a method of hierarchical coding that allows full-definition and super-high-definition images to be highly compressed and transmitted simultaneously. KDDI was the first company in the world to succeed in transmission testing using this technology over CATV networks. Under existing compression methods, HDTV is transmitted over one channel, 4K transmission uses two channels, and 8K transmission requires five channels, so a total of eight channels of bandwidth are needed. Our new technology allows ultrahigh-definition images to be transmitted using only half the bandwidth necessary with conventional methods.

Advanced MIMO Technology Chart 2

KDDI has developed new Multiple-Input Multiple-Output (MIMO) technology that combines multiple antennas at both the base station and handset ends, allowing large volumes of data to be sent simultaneously. With existing technology, interference tends to increase when sending data to multiple handsets. By compressing and providing feedback on information such as handset-base station reception status, the new technology reduces interference when transmitting data from the base station. This approach also boosts bandwidth efficiency to approximately three times that of LTE.

Multicore Optical Fiber Transmission Technology Chart 3

We have succeeded in the world's first transoceanic optical transmission trial using a new seven-core optical fiber cable and optical amplifier. Typically, as the number of optical fiber cores increases, signal leakage results in interference. By minimizing this interference, we succeeded in long-distance transoceanic transmission and set a world record for the transmission capacity index, which expresses the product of transmission volume and transmission distance, at 177 petabits per second-kilometer.

"KCipher-2" High-speed Encryption Algorithm Chart 4

We have developed a symmetric key encryption algorithm that is designed to perform fast and lightweight data encryption and decryption in fields that require large amounts of processing with limited resources and that handle large data volumes, such as in multimedia content distribution. This algorithm conducts encryption/decryption 7–10 times faster than methods using the Advanced Encryption Standard (AES) specification, and in March 2013 it was selected as a "government-recommended electronic encryption" method by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.

Chart 1

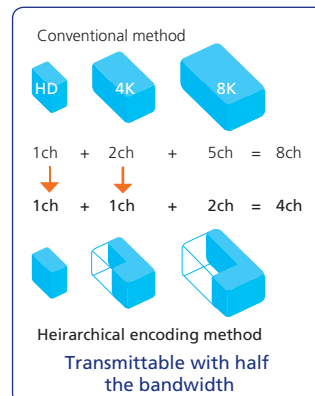


Chart 2

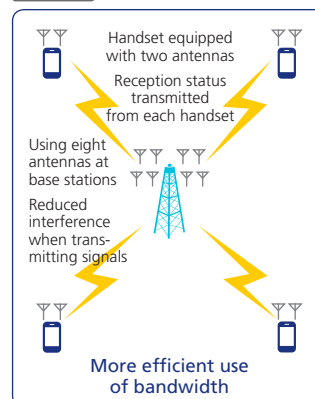


Chart 3

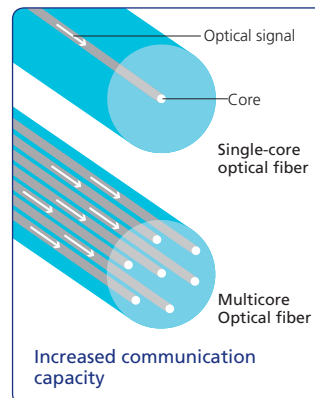
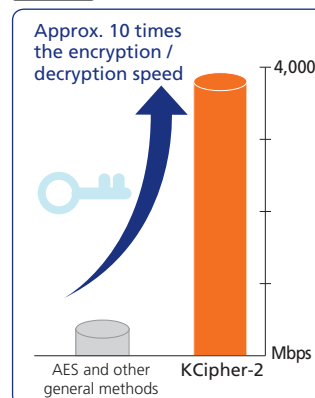


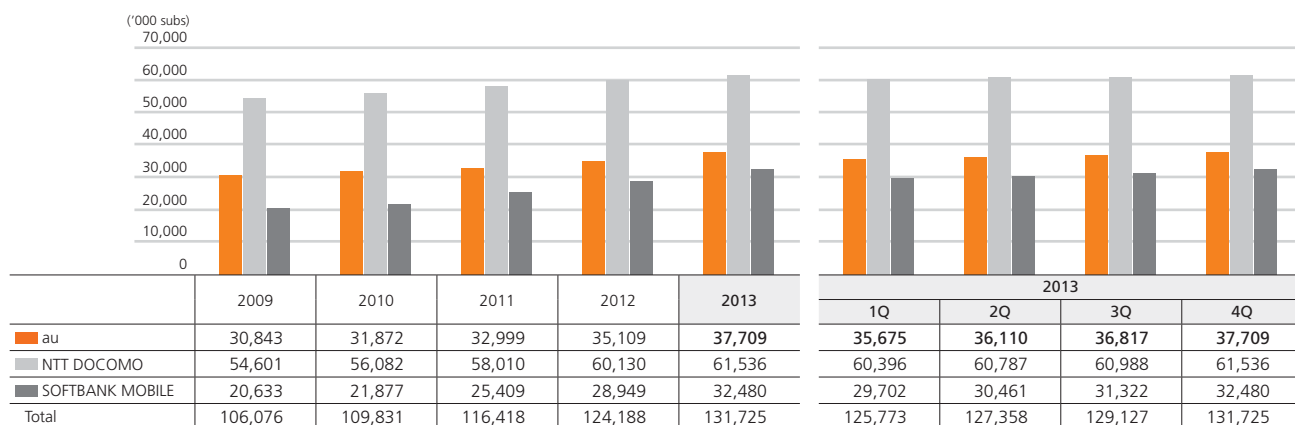
Chart 4



Market Overview

Mobile Communications Market Data (Years ended March 31)

Number of Total Subscribers



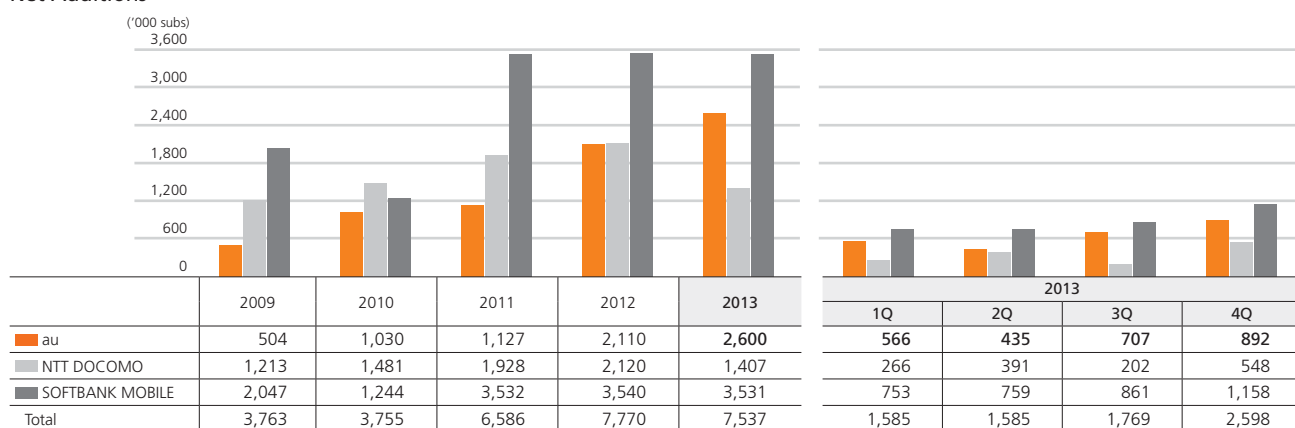
Source: Data prepared by KDDI based on materials from the Telecommunication Carriers Association

Share of Cumulative Subscriptions*1

	2009	2010	2011	2012	2013
au	29.1	29.0	28.3	28.3	28.6
NTT DOCOMO	51.5	51.1	49.8	48.4	46.7
SOFTBANK MOBILE	19.5	19.9	21.8	23.3	24.7

2013 (%)			
1Q	2Q	3Q	4Q
28.4	28.4	28.5	28.6
48.0	47.7	47.2	46.7
23.6	23.9	24.3	24.7

Net Additions



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

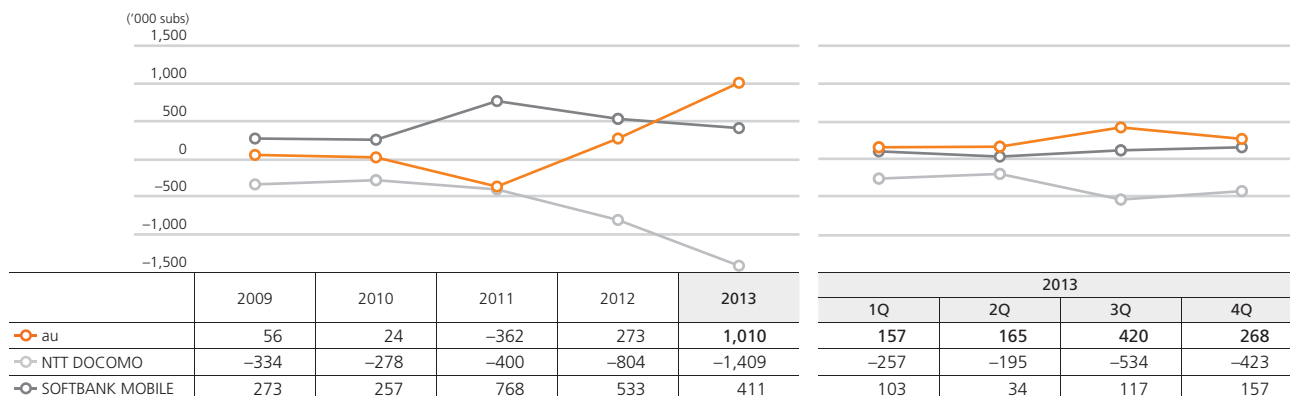
Share of Net Additions*1

	2009	2010	2011	2012	2013
au	13.4	27.4	17.1	27.2	34.5
NTT DOCOMO	32.2	39.5	29.3	27.3	18.7
SOFTBANK MOBILE	54.4	33.1	53.6	45.6	46.8

2013			
1Q	2Q	3Q	4Q
35.7	27.5	40.0	34.3
16.8	24.7	11.4	21.1
47.5	47.9	48.7	44.6

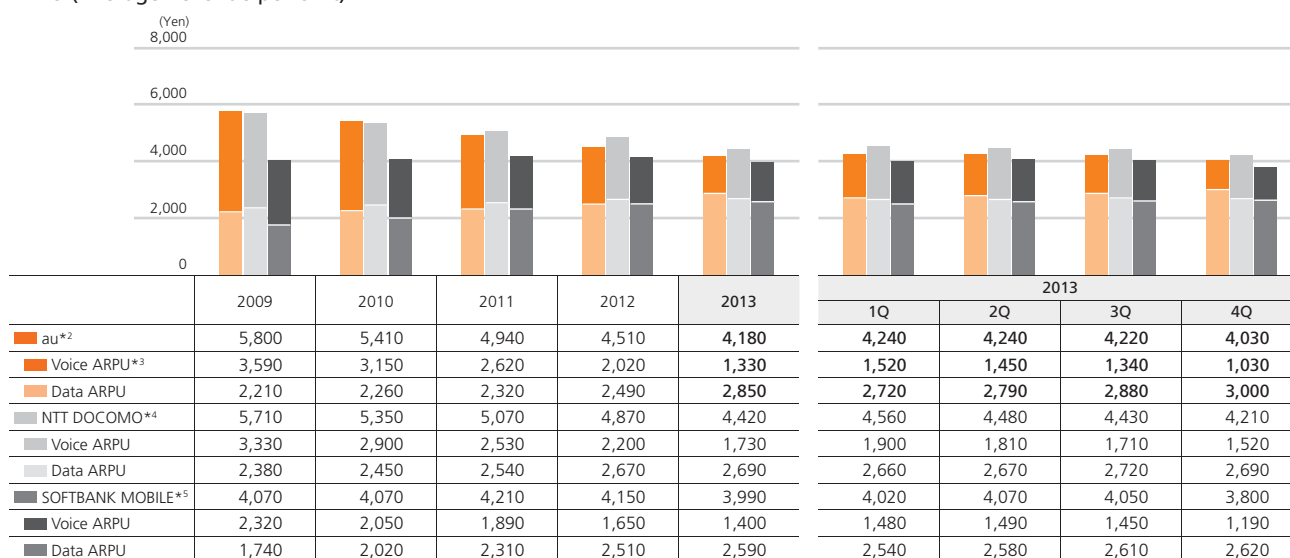
*1 Share among NTT DOCOMO, SOFTBANK MOBILE, and KDDI

MNP Net Additions



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

ARPU (Average Revenue per Unit)



Source: Data prepared by KDDI from individual companies' materials

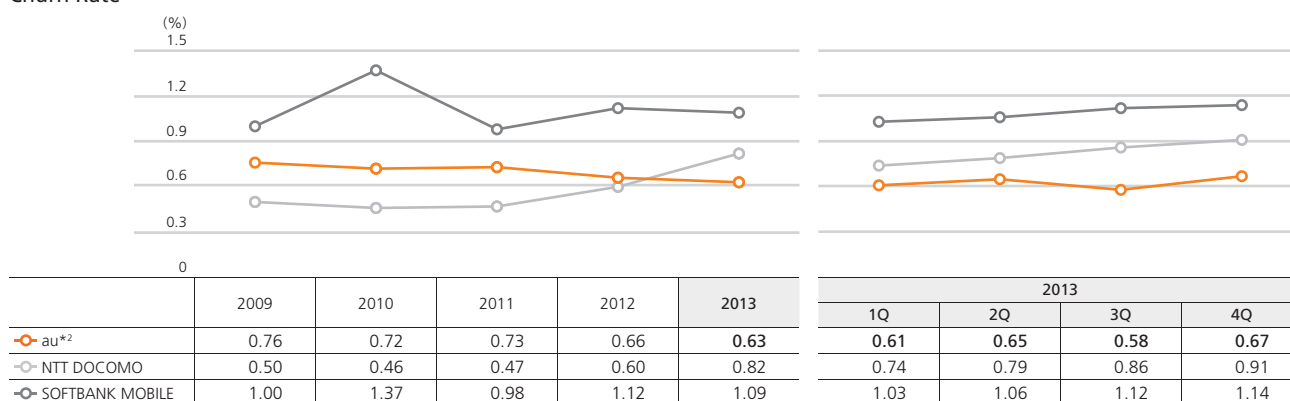
*2 Excludes module-type terminals. On a consolidated basis (Mobile Communications segment) through the fiscal year ended March 31, 2012. For the fiscal year ended March 31, 2013, based on Personal Services segment.

*3 Indicated figures for au voice ARPU for the fiscal year ended March 31, 2013 take into consideration the amount of discount applied

*4 NTT DOCOMO changed its definition of ARPU from the fiscal year ended March 31, 2013. Figures indicated above are the sum of voice ARPU and data ARPU.

*5 After applying the "Maitsuki Discount (Monthly Discount)" and including module-type terminals

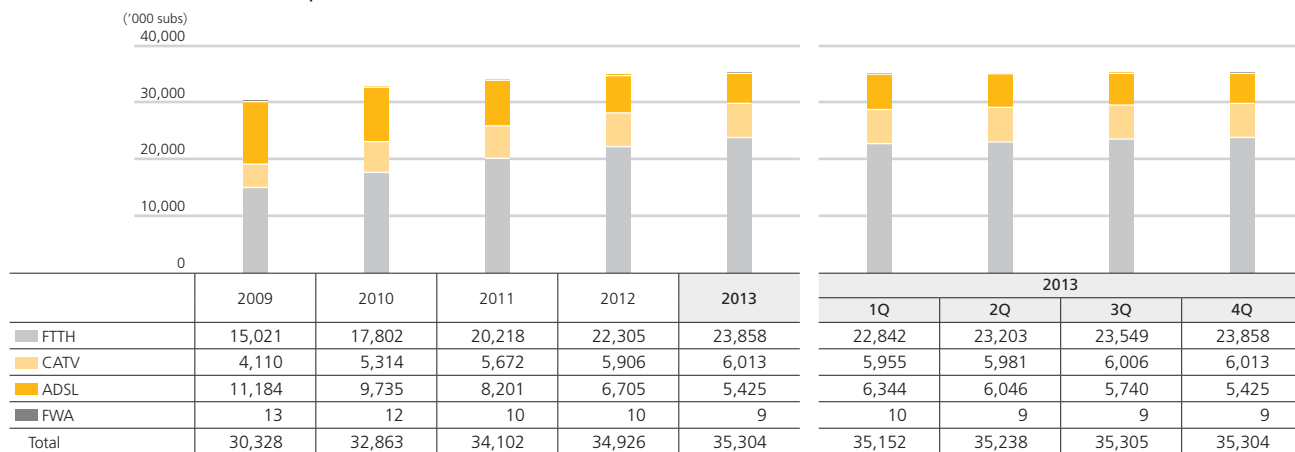
Churn Rate



Source: Data prepared by KDDI from individual companies' materials

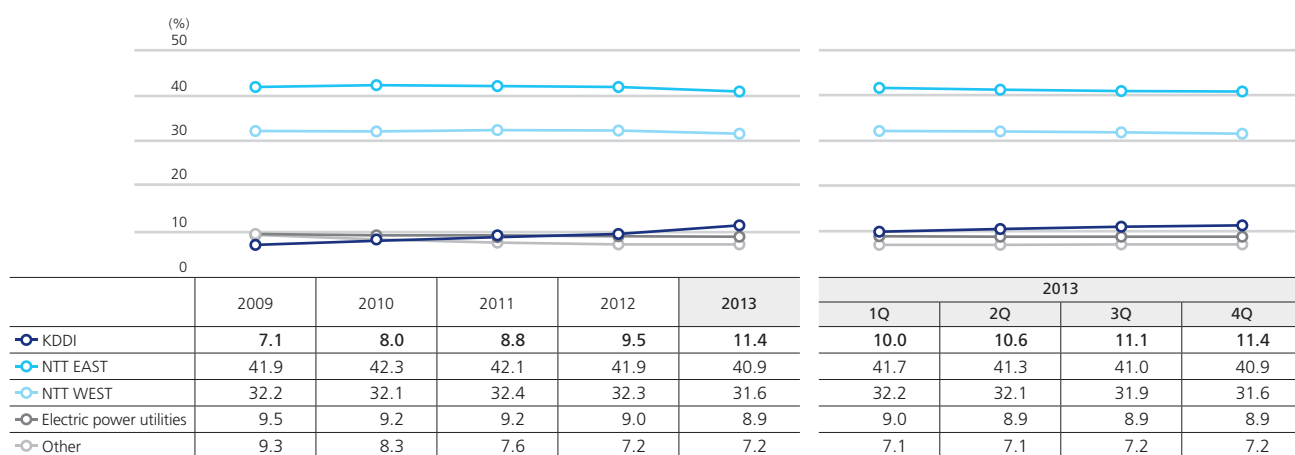
Fixed-line Communications Market Data (Years ended March 31)

Number of Broadband Subscriptions



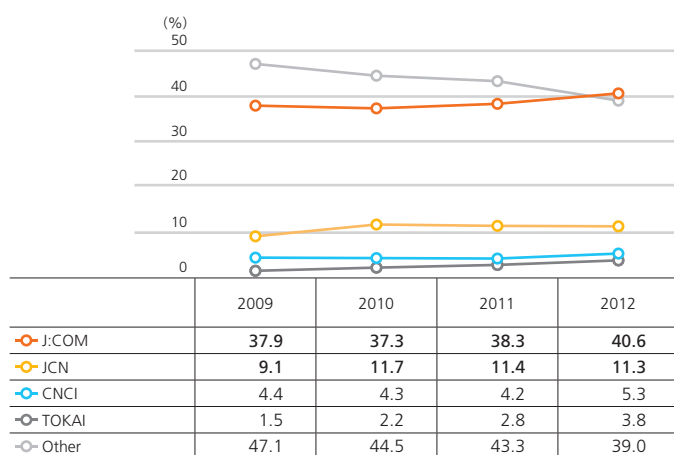
Source: Ministry of Internal Affairs and Communications

Share of FTTH Subscriptions



Source: Ministry of Internal Affairs and Communications

Share of CATV Subscriptions

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

CSR

48 **CSR Special Feature 1** Initiatives to Provide Reconstruction Support in Disaster-stricken Areas through Our Business

50 **CSR Special Feature 2** Initiatives to Reduce Environmental Burden and Boost Disaster Preparedness



52 CSR Yearly Activities Report

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67 Human Rights

68 Labour Practices

72 Fair Operating Practices

76 Community Involvement and Development

CSR activities in FY 2012 are described in this report beginning with the most prominent issues outlined under the 7 core subjects addressed by the ISO 26000 international standard for social responsibility, from the perspectives of information required for disclosure by society and of information that KDDI wishes to convey. Detailed information and comprehensive data including performance data and latest CSR topics and other matters are disclosed on the KDDI Web site (under CSR (Environment & Society)).

KDDI endeavors to actively disclose data from the 2 perspectives noted above and intends to communicate openly with all of its stakeholders as it promotes CSR.



CSR (Environment & Society) Website

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

Period Covered

This report covers business activities for FY2012 (April 1, 2012 to March 31, 2013). However, this report also contains descriptions of a few initiatives from before and after this period.

Scope of Report

Although the scope of this report is the business activities of KDDI only, this report also includes some of the activities of our Group companies.

Publication Date

Booklet: July 2013 (Next scheduled publication: July 2014)

The KDDI Web site: September 2013 (Next scheduled publication: September 2014)

Referenced Guidelines

- GRI (Global Reporting Initiative)
Sustainability Reporting Guidelines 2006
- Ministry of the Environment, 2012 Environmental Reporting Guidelines
- ISO 26000: 2010 (Guidance on Social Responsibility)
- JISZ 26000: 2012 (Guidance on Social Responsibility)
Japanese Industrial Standards



Initiatives to Provide Reconstruction Support in Disaster-stricken Areas through Our Business

Reconstruction Support Office Assisting Full-Fledged Community-building Efforts in the Tohoku Region

In July 2012, KDDI set up the Reconstruction Support Office to assist full-fledged community-building efforts in the 3 Tohoku prefectures (Iwate, Miyagi, and Fukushima) stricken by the Great East Japan Earthquake. This office is actively participating in new community-building efforts by leveraging KDDI's experience and expertise in the use of ICT and cooperating with government agencies and people in the local community.



The Value We Can Provide to the Affected Areas through Our Business

Following the Great East Japan Earthquake, departments within KDDI undertook reconstruction support initiatives independently. We established the Reconstruction Support Office in an effort to better understand the needs of the stricken areas and provide organizational support to oversee the activities being conducted by individual departments.

Until then, KDDI had proposed providing stricken municipalities with support comprising ICT-related services and physical goods. However, it became evident that government bodies faced structural problems—shortages of people with ICT-related experience and expertise and a lack of the personnel needed to increase reconstruction-related operations. At that point, KDDI began considering the establishment of a Reconstruction Support Office to dispatch employees who volunteered to work at government agencies on a temporary basis, draft and execute necessary ICT-related plans for

each region, and promote the use of ICT within government agencies. We believed that these efforts would help to improve the ICT literacy of government agencies over the medium to long term.

When setting up the office, we sought opinions and advice from people working with government agencies, as well as scholars, in an effort to better understand the needs of the stricken areas. Recognizing that many KDDI employees hailing from Tohoku or having experience working there felt a certain kinship with people in the region, we asked for employee volunteers to aid Tohoku reconstruction efforts, making zeal a condition for participation. We thought carefully about what sort of value we could provide through our business and what the future focuses were for the stricken areas and KDDI. Ultimately, we set up the Reconstruction Support Office with 5 employees with operational experience in various areas of business and began work in earnest.

Building a Structure to Liaise with a Group Company and an Outside Consulting Firm

We realized that simply proposing solutions centered on ICT products and materials that would assist reconstruction would be insufficient to meet the needs of the stricken area. We needed to put in place systems for executing our proposals, consider ways of increasing ICT literacy among the region's residents, and draft proposals on creating an environment to foster these increases. Given this situation, we decided to liaise with KDDI Research Institute, Inc.—a Group company with expertise in conducting surveys to determine smartphone usage trends—and an outside consulting firm possessing various information about the stricken areas. We set up a system to research the needs of government agencies and local residents and provide suitable proposals. One of the first activities of this 3-company coalition involved a survey to determine citizens' awareness of the information sent out by the town of Namie-cho, Fukushima Prefecture. The objective of the survey

was to meet more closely the needs of the people of the town—who were scattered throughout Japan as a result of the Fukushima No. 1 Nuclear Power Plant accident—with information disseminated by government agencies. As we conducted hearings and interviewed citizens, we gained a better understanding of the trials and suffering the affected people were experiencing. Going forward, we plan to deepen relations with the community by seconding Reconstruction Support Office members to the region. We also aim to link KDDI's services with the experience of KDDI Research Institute, Inc and the consulting company, so that we can propose reconstruction support activities that truly meet the region's needs.



Information-sharing and discussion session among the three companies

Activities Conducted in FY2012

The Reconstruction Support Office dispatches KDDI employees to government agencies in the stricken areas, plans ICT services, and provides expertise to promote the development of reconstruction support activities in a way that only KDDI can. Members of the Reconstruction Support Office live in temporary housing as they seek to meet needs that are expressed, uncover hidden needs, and direct reconstruction support activities in the regions to which they are assigned.

■ Improving Citizen Services on the Disaster Prevention and Healthcare Fronts

As the person in charge of regional information sharing for the city of Kamaishi, I am involved in creating optical and CATV networks, as well as other communications backbones. Kamaishi aims to employ ICT to turn itself into a "smart community," so using ICT to improve citizen services related to disaster prevention and healthcare is of particular importance. I am proposing plans that KDDI is uniquely capable of delivering, such as gathering information using a geographical information system (GIS) and providing solutions in the healthcare, welfare, and nursing fields as society ages. Success in these areas should lead to the rebuilding of the community and its future development.

Dispatched to the Publicity Department, Kamaishi City Office, Iwate Prefecture (From October 2012)
Assistant Manager, Reconstruction Support Office **Tomonari Ishiguro**



■ Kesennuma Disseminating Information Effectively to Communicate Its Attractions

The city of Kesennuma has its own Web site, maintains a Facebook page, and produces a newsletter. I am in charge of these city efforts to disseminate information. In addition to communicating information about the status of reconstruction to its residents, my task is to communicate Kesennuma's appeal to people outside the city in the hope of attracting new industry and tourism.

By leveraging KDDI's ICT technologies and expertise, I am working to gather and disseminate information more effectively by looking at things from the perspective of Kesennuma's citizens.

Dispatched to the Office Administration and Publicity Department, Kesennuma City Office, Miyagi Prefecture (From December 2012)
Manager, Reconstruction Support Office **Akio Iwao**



■ Better Reflecting Citizen Feedback into Reconstruction Activities

I have been seconded to the Higashimatsushima Organization for Progress and E (economy, education, energy), which the city of Higashimatsushima set up shortly after the disaster in an attempt to proactively encourage the creation of new value. By interfacing between citizens, the government, and private-sector companies, I am taking on the role of promoting reconstruction activities designed to turn the city into one with a sustainable society=environmental future. As a member of the organization's secretariat, I officiate at meetings, hold sessions to air opinions among citizens living in temporary housing, and try to close the gap between citizens, the government, and private-sector companies, promoting reconstruction activities that better reflect citizen feedback.

Seconded to the Higashimatsushima Organization for Progress and E (economy, education, energy) (From February 2013)
Assistant Manager, Reconstruction Support Office **Masayoshi Fukushima**



■ Aiming for Sustainable Reconstruction Support

By participating in a reconstruction support project that liaises between companies involved in reconstruction businesses and NPOs, we are searching for a path toward sustainable reconstruction support. Members of our office gather information on the status of activities, communicate information throughout and outside the Company, and utilize a special site we have created within the au Shopping Mall* to offer products from the stricken areas. Using this site makes use of ICT to help people using the site feel more connected with activities in the stricken areas.

Going forward, I aim to leverage KDDI's strengths in transmitting information toward activities that will boost economic development in the stricken areas.

* au Shopping Mall: A network shopping site managed by KDDI

Senior Staff, Reconstruction Support Office **Hideo Kato**



Resolving Societal Issues toward the Earliest Possible Recovery of the Stricken Areas



Hironori Abe
General Manager, Reconstruction
Support Office

A great deal of support is still needed in the areas affected by the Great East Japan Earthquake, which are also afflicted by depopulation stemming from a declining birthrate and an aging populace—factors that existed prior to the disaster. How to deal with these issues is a major societal question, the answer to which will affect the future of Japan. Through the Reconstruction Support Office, KDDI is providing the technology and expertise it possesses to address a host of issues such as these, while at the same time striving to reinvigorate the affected region as quickly as possible. Further in the future, we hope to make use of the experience we are cultivating through these reconstruction support efforts to play a larger role across Japan.

The true challenges of reconstruction support in Tohoku still lie before us; at present, only the topmost priorities of people in the affected areas are being addressed. The Reconstruction Support Office's mission is to work with the region's government agencies and citizens to create a new regional community by leveraging KDDI's businesses. We will make every effort to ensure the success of reconstruction support activities and resolve societal issues to help create a bright future for the people of the stricken areas and bring smiles back to their faces.

Initiatives to Reduce Environmental Burden and Boost Disaster Preparedness

Increasing the Number of Tribrid Base Stations and Extending Base Station Battery Life to 24 Hours

The dense blanket of au mobile phone base stations covering Japan accounts for 60% of the total energy consumed by KDDI. Furthermore, expanding our 4G LTE service area is causing this consumption to increase, so we are placing topmost priority on initiatives to reduce the electricity that base stations consume.

Other risks came to the fore in March 2011 when the Great East Japan Earthquake struck, namely the risk of base station power outages. Some 77% of the base stations that ceased to operate in the aftermath of the earthquake (in 6 Tohoku prefectures, as of March 12, 2011) did so because of power outages. Clearly, disaster preparedness measures that address power outages are a pressing topic.

KDDI has been using 3 types of power—commercial electric power, solar generation, and batteries—for its base stations since 2009. These au mobile base stations employing Tribrid* Power Control Technology (Tribrid Base Stations) determine the type of power used according to the time of day and changes in the weather. We are using this know-how to reduce environmental impact and ensure disaster preparedness by increasing our number of Tribrid Base Stations and base stations whose battery life has been extended to 24 hours.

* Term coined to refer to the combining of 3 types of industrial technologies from different fields. Generally, combining 2 types of industrial technology is called "hybrid" and three technologies "tribrid."

Increasing the Number of Tribrid Base Stations to **100** Throughout Japan

We began installing Japan's first Tribrid Base Stations in December 2009. As of March 31, 2013, the number of these stations throughout Japan totaled 100.

Reducing CO₂ Emissions by up to **30%**

Base stations that use tribrid power control technology have been verified to cut annual CO₂ emissions by as much as 30% compared with conventional base stations.

Extending Base Station Battery Life to 24 Hours at **2,000** Base Stations Throughout Japan

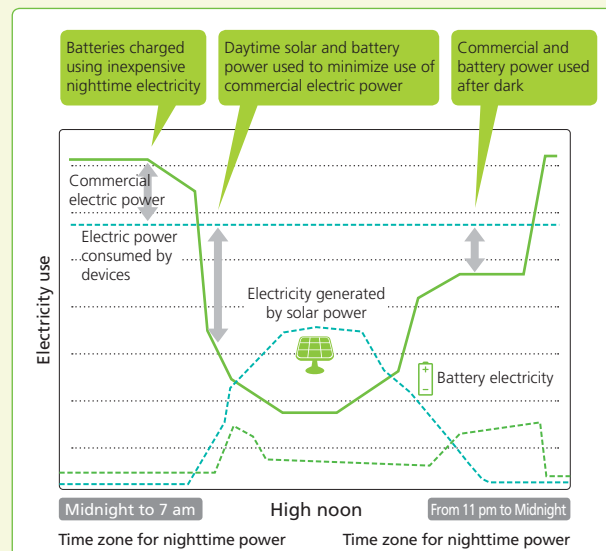
As one of our efforts to combat disaster-related power outages, we had extended the battery life of base stations at 2,000 locations as of March 31, 2013. We plan to increase this number going forward.

Tribrid Power Control Technology that Uses 3 Types of Power According to the Time of Day and Changes in the Weather

Tribrid power control involves the use of technology to efficiently control the source of electric power, combining typical commercial electric power with generation from solar panels and charging batteries with nighttime power. Solar power is used during the day when solar panels provide sufficient power. If insufficient, batteries charged with nighttime commercial electric power provide the remainder. Compared with base stations that only use conventional electric power, Tribrid Power Control is designed to reduce CO₂ emissions by as much as 30%.

In addition to working toward a low-carbon society, KDDI is using this technology to counter the risks of power outages in the event of disaster. As of March 31, 2013, we had increased our installations of a Tribrid Base Stations to 100 locations throughout Japan.

How Tribrid Power Control Works



Ensuring Backup Power during Power Outages by Extending Base Station Battery Life to 24 Hours

Batteries installed in au mobile phone base stations in the past were capable of powering this equipment for only around 3 hours if electricity was cut off as the result of a disaster or other event. Because operations at many of our base stations were interrupted due to power outages resulting from the Great



Batteries with life extended to 24 hours

East Japan Earthquake, we have made the extension of base station battery life a priority. Serving as backup in case power is interrupted, KDDI has installed batteries with life extended to 24 hours at 2,000 base stations (as of March 31, 2013) in prefectural and municipal government offices and train stations serving more than 100,000 passengers per day. We plan to continue increasing this number.

Looking to the Future



Junnou Matsuishi

Head of Planning Group Section
Mobile Technical Planning
Department
Technology Planning Division

We consider Tribrid Base Stations to be a success thanks to their use of technology to conserve power by using renewable energy. We are also fulfilling our responsibilities as a telecommunications operator by continuing to increase the number of base stations with battery life extended to 24 hours at key locations.

In addition to these initiatives, KDDI plans to increase its disaster preparedness even further by making Tribrid Base Stations more sophisticated*¹ and deploying wireless shipboard base stations*² so that we can restore communications from the sea in the event of a disaster. We will also look into wide-zone base stations that have a broader coverage area than the typical base stations of today.

*¹ Research and Development on Disaster-Resistant Network Management and Control Technology to Ensure Communications Even in the Event of a Large-Scale Disaster, sponsored by the fiscal 2011 supplementary budget, Ministry of Internal Affairs and Communications

*² Study Team for Shipboard Installation of Mobile Phone Base Stations for Use in Emergencies, Chugoku Bureau of Telecommunications, Ministry of Internal Affairs and Communications

Organizational Governance

Through various means of dialogue with all our stakeholders, we aim to contribute to the sustainable development of society and remain a company that society trusts.



KDDI's Approach to CSR

Putting the KDDI Philosophy into Practice and Contributing to the Development of a Prosperous Communications-Oriented Society

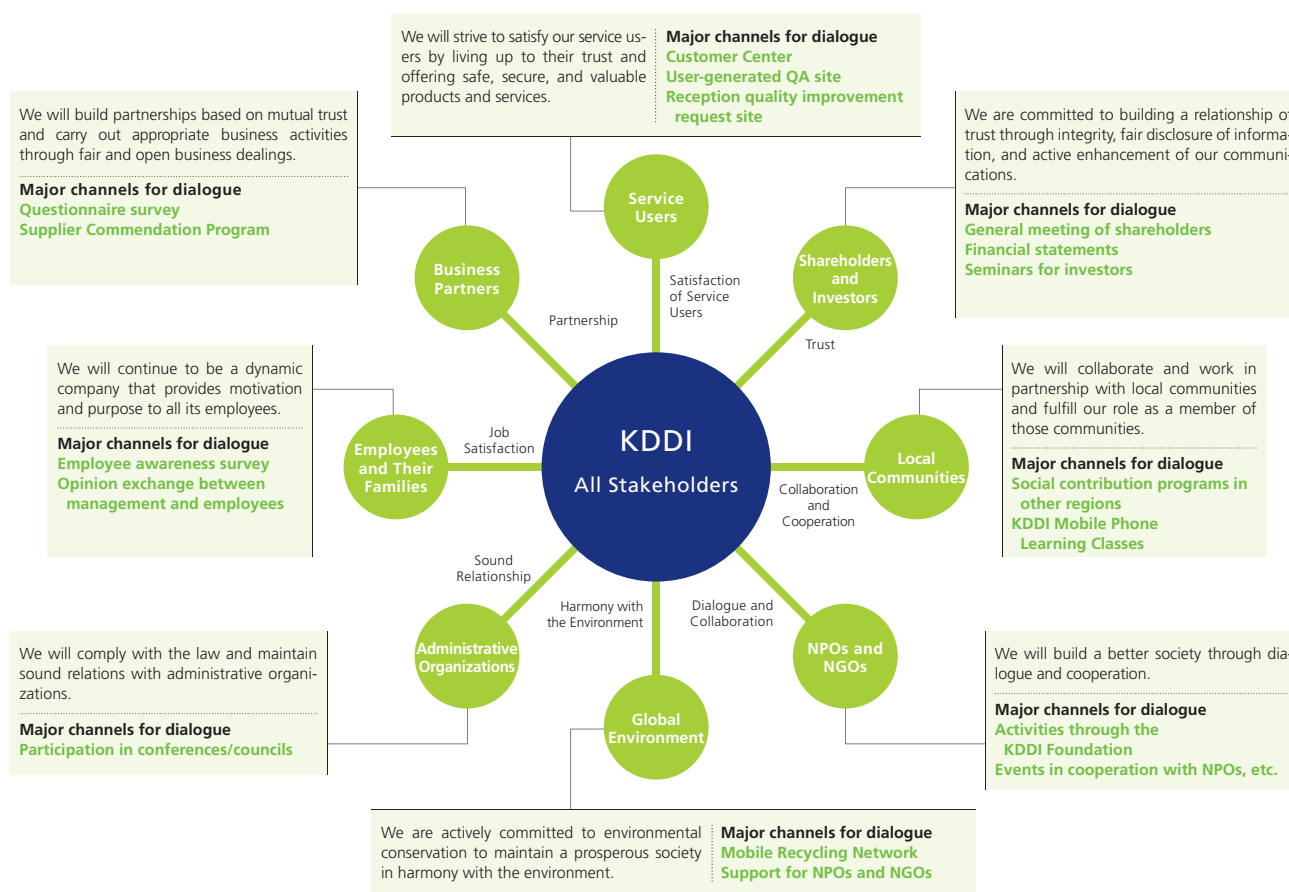
The KDDI Philosophy indicates the type of company we aim to become and expresses the attitudes, values, and behaviors that employees need to exhibit in order to reach our goal. By putting the KDDI Philosophy into practice, KDDI aims to be a company that is appreciated by all its stakeholders and trusted by society.

First and foremost, KDDI recognizes that as a telecommunications operator that provides social infrastructure, it has the important social mission of providing stable services that are available 365 days a year, regardless of conditions. Furthermore, we understand

that the telecommunications business involves utilizing radio waves and other important assets of the Japanese people. Accordingly, it is our responsibility to aim high and contribute to society by addressing the numerous issues that society faces. The KDDI Philosophy describes the sort of company that we need to become and the attitudes that employees of such a company need to maintain.

To put the KDDI Philosophy consistently into action, going forward we will continue to value dialogue with all of our stakeholders—customers, shareholders, business partners, and regional communities. We will also proactively address the issues facing society in our aim to contribute to the development of a prosperous communications-oriented society.

Principal Channels for Dialogue with KDDI Stakeholders



■ CSR Promotion

Promotion System

In October 2005, we created the CSR Management Department (currently the CSR & Environment Management Department) in our General Administration Department to promote CSR activities from an objective viewpoint. At the same time, the department works to raise employee awareness of CSR through in-house training, our Company newsletter, and our intranet. The department also promotes social contribution activities, having created an environment that makes it easy for employees to participate in volunteer activities.

In FY2008, we revised the KDDI Environment Committee to the KDDI CSR & Environment Committee, creating an integrated system to study and promote the environmental conservation efforts of KDDI and its Group companies and affiliates, as well as their policies and planning relating to CSR activities. KDDI reviews its CSR initiatives in stages, building up and enhancing its structure as necessary. In preparation for FY2013, we are considering the reconfiguration of our structures to incorporate stakeholder feedback and promote our CSR activities more fully.

CSR Promotion Activities

In FY2012, we worked aggressively to review and make improvements according to our self-evaluation of some 250 items based on the 7 core subjects addressed by the ISO 26000 global standard pertaining to social responsibility and the analysis of our CSR activities against this list. This process was used to formulate the CSR procurement policy described on page 74. Furthermore, we will actively pursue dialogue and other types of interaction with stakeholders, reflecting their opinions and comments in our future CSR activities.

■ Defining Material Issues

Of the wide range of issues that KDDI faces in the course of its business activities, in FY2008 we identified a number of topics of significant social concern as “4 material issues for CSR” that we particularly need to focus our efforts on to grow sustainably and with society at large.

We also established the KDDI CSR & Environment Committee to formulate initiatives for resolving these problems and report on these activities.

Material Issue 1 Creating a Safe and Secure Information and Communications Society

The phenomenon of children using mobile phones to access the Internet and getting trouble is becoming a social problem. KDDI is addressing this situation by conducting the KDDI Mobile Phone Learning Class, through which it aims to raise children’s “information literacy.” We also encourage the use of filtering to block harmful content. These are some of the many initiatives under way at KDDI with the aim of creating a safe and secure information and communications society.

Material Issue 2 Offering Reliable Information and Communications Services

ICT provides important “lifelines” for society. As KDDI sees it, the biggest responsibility the Company faces in its operations is to provide customers with stable information and communications services.

We are therefore committed to avoiding network outages due to natural disasters and equipment failures to the greatest extent possible, and maintaining our ability to always offer high-quality information and communications services.

Material Issue 3 Initiatives to Conserve the Global Environment

Environmental preservation is a need that all mankind faces, and one that requires long-term initiatives. Accordingly, every 5 years KDDI formulates a Medium-term Environmental Conservation Plan including initiatives involving a “low-carbon society,” “recycling-oriented society,” and “biodiversity.” To achieve these objectives, in addition to reducing its own environmental impact, KDDI provides ICT services that help to reduce the environmental impact of society and promotes a host of activities involving customers and employees.

Material Issue 4 Vitalizing the Company by Developing a Diverse Workforce

At KDDI, promoting diversity is one aspect of its management strategy for achieving sustainable corporate growth. Respecting the individuality of employees, rather than forcing different people to fit into the same box, we are working to create an organization and environment that harnesses our employees’ capabilities by leveraging external differences, internal differences, and differences in corporate organizations. Encouraging diversity puts into practice “Chapter 1: Vision” of the KDDI Philosophy, namely “Embracing diversity.”

■ Stakeholder Engagement

In FY2008, KDDI identified “4 material issues for CSR.” As part of this initiative, we entered into dialogue with various experts, receiving various advice on our activities. In FY2012, 3 times we engaged in dialogues with stakeholders themed on the core subjects of ISO 26000, and in FY2013 we referred to this input when setting objectives for each department.

1st DIALOGUE

Held on October 11, 2012, Covering Human Rights and Labour Practices

Principal Opinions Received

Understanding Future Global Development, and Issues to Consider with Regard to Human Rights Problems

Mr. Seki: I understand that KDDI has made some progress in its human rights initiatives, with activities such as a whistle-blowing system and the Business Ethics Helpline. However, going forward the Company will need to conduct human rights due diligence if it plans to expand its business globally. With regard to human rights problems, management needs to become involved in determining what risk of human rights violations exists for KDDI's business. Measures will then need to be put in place to prevent such violations and procedures enacted to respond in the event that violations arise. I would hope that KDDI will progress in line with a PDCA cycle of determining policies and structures to drive these changes, disclosing information, and then reviewing its initiatives.



Mr. Masao Seki

Senior Advisor/
ISO 26000 Working Group expert
Sompo Japan Insurance Inc.

Encouraging Diversity and Other Initiatives While Looking Ahead to Societal Issues

Ms. Shibayama: Diversity at KDDI is being positioned as one of their business management strategies, and their activities for promoting diversity have been progressing. From now on, they need to have a creative ideas to make diversity stronger for more proactive CSR. While they have fairly robust programs such as working policies and procedures as well as employee training, there is still an opportunity for how each employee can effectively use these programs with leadership in order for them to maximize individual capabilities. Now, since some initiatives have already progressed to a certain level, they need to have diverse approaches to change their employees' various understanding as a next phase. A key to success is to think how effectively accomplish some initiatives that will deeply influence their employees' opportunities.



Ms. Jun Shibayama

Diversity & Career Advisor

2nd DIALOGUE

Held on February 20, 2013, Covering Consumer Issues

Principal Opinions Received

Considerations for KDDI in a Rapidly Changing Market

Ms. Furuya: In line with the proliferation of smartphones, the market has split into manufacturers specializing in the handsets themselves, operating systems, and applications. As a telecommunications operator, KDDI cannot respond to all customer demands and instances of dissatisfaction. When responding to customer complaints, there is a tendency to think that “We’ve set up a customer response desk, and that’s enough.” I believe it is important, though, for a company to take a proactive attitude toward resolving problems when consumers are in a bind. If KDDI is unable to address a problem fully on its own, then the Company should have a system in place for cooperating with equipment manufacturers and software developers.

Mr. Akaike: In addition to educating people and increasing their awareness about using products, as much as possible consumers should participate in the product conceptualization, design, development, and prototype testing stages. It is also important to provide products, services, manuals, and other items that take into account children, seniors, people with disabilities, and others who are socially vulnerable. The practice of putting in place a cycle linking public interest and business is the CSR of the future.

Products, Services, and Innovations to Provide Consumers in the Society of the Future

Mr. Akaike: When providing products, rather than simply trying to anticipate and keep pace with changes in consumer behavior, it is extremely important to take a strategic perspective that involves creating “new-value consumption” through products and services that deliver values that society needs. Achieving this goal would require KDDI to look ahead to envision how products and services will look in the near future. For example, the Company could provide information creatively by showing people new ways of using their smartphones. I would like to see KDDI develop excellent communications that would provide society with new value and deliver synergies in creating new lifestyles. I look forward to KDDI's future product and service innovations.



Ms. Yukiko Furuya

Standing Advisor, Member of the Original
Japan Committee for ISO 26000
Nippon Association of Consumer Specialists



Mr. Manabu Akaike

Director, General Laboratory
Universal Design Co., Ltd.

3rd DIALOGUE

Held on March 6, 2013, Covering the Environment

Principal Opinions Received

Items to Consider in Promoting Further
"Green of ICT (Conserving Energy at Mobile Phone Base Stations)"

Mr. Suzuki: There are limits to what a telecommunications operator can do on its own to conserve energy at mobile phone base stations. As such, it is important to involve manufacturers of telecommunications and air conditioning equipment and to look at overall base station design. The situation becomes even more complex when involving companies related to renewable energy. Further efforts to promote conservation of energy will involve clarifying players and making energy consumption visible across the entire value chain, from providers of resources and materials through sales shops.

**Mr. Hitoshi Suzuki**

Institute for International
Socio-Economic Studies
President, Member of the Original Japan
Committee for ISO 26000

Ingenuity Required for

"Green by ICT (Reducing the Environmental Impact of Society through the Use of ICT)"

Mr. Onoda: KDDI provides various services aimed at reducing the environmental impact of society, but it seems to me that its ideas tend to put too much emphasis on the energy side of the equation. The Company should focus more on providing services that benefit consumers and save energy as a result. In addition to ICT infrastructure, KDDI possesses vast quantities of data on consumer behavior acquired in the course of its business. If the Company could maximize this information to effectively control community circulation, it seems to me that would lead to electricity savings across society. As a result, KDDI could create new services that would help to reduce the environmental impact of society.

**Mr. Hiroshi Onoda**

Director, Waseda University
Environmental Research Institute
Associate Professor, Waseda
Environmental Institute

In Summary

**Kazuhito Iizuka**

General Manager, CSR & Environment Management Department,
General Administration Department,
General Administration & Human Resources Division

This was the 1st time that our CSR managers took the opportunity to make employees aware of ISO 26000 concepts and our self-evaluations of initiatives involving its core subjects, and we held stakeholder dialogues on that basis.

We received suggestions from our stakeholders regarding the importance of innovation through our business, taking an early lead in stakeholder-participatory product planning and development, as well as others from novel perspectives. We also learned the importance to a company of prioritizing the question of "What is required of us?" over "What should we do?" and that our behavior should seek to address those issues.

By continuing this dialogue with our stakeholders, we plan to take initiatives that meet our aim of becoming a company that grows in tandem with society.



Details of the stakeholder dialogue are to be disclosed on the KDDI Website (scheduled for September 2013).

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

TOPICS

Selected by the Tokyo Stock Exchange as an "ESG Meigara" and a "Nadeshiko Meigara"

KDDI was recognized by the Tokyo Stock Exchange in FY2012 as an "ESG stock"—pointing to corporate excellence in environmental, social, and governance (ESG) endeavors. The exchange also named us as a "Nadeshiko stock," which acknowledges us as a company that has a working environment that is friendly toward women and proactively promotes women in the workplace.

We were selected for inclusion as an "ESG stock" for enriching child / elderly-focused services, enhancing communications quality, and reducing the energy use of telecommunication facilities and data centers. In the "Nadeshiko stock" category, we were evaluated highly on our internal projects to promote the advancement of female employees and the fact that our percentage of female managers has risen for 6 consecutive years*.

By appropriately responding to ESG issues and promoting the advancement of female employees, while at the same time being evaluated positively by investors for its corporate activities, we believe that a company can simultaneously work toward addressing and resolving global environmental problems and social issues as well as cultivating and developing capital market soundness.

Going forward, we aim to earn the trust of our stakeholders and contribute to the ongoing development of a sustainable society through proactive involvement in activities characteristic of KDDI.

* This selection of stocks is as of January 2013.



■ CSR Targets, Achievements, and Issues

The chart below provides an overview of principal targets and achievements during FY2012, and reports our main targets for FY2013.

	FY2012	
	Targets	
Organizational Governance	Improve promotion of CSR activities	
Consumer Issues	Strengthen large-scale disaster response measures	
	Increase number of KDDI Mobile Phone Learning Classes held and improve quality	
	Provide equipment that is easy for seniors to use and provide user support	
	Respond quickly to customers' requests to increase network quality and provide stable services	
	Provide reliable networks and increase communications quality	
Environment	Roll out Third Medium-term Environmental Conservation Plan	
	Promote environmental communications	
Human Rights and Labour Practices	Cultivate and promote diverse human resources and formulate related measures	
	Create a vibrantly healthy workplace culture	
	Enhance internal communications	
Fair Operating Practices	Reinforce communications with shareholders and investors in Japan and overseas	
	Formulate CSR Procurement Policy	
	Strengthen information security further	
	Promote risk management	
	Strengthen and promote measures to eradicate compliance-related accidents	
Community Involvement and Development	Continue implementing disaster relief efforts	
	Foster stronger ties with local communities	
	Contribute to sustained growth of the global community through the use of ICT	

[Evaluation standard] A+: Significant achievements made on the issue A: Certain achievements were made
 B : Action was taken, but with no achievements C: No achievement was made or no action was taken

Organizational Governance	Consumer Issues	Environment	Human Rights	Labour Practices	Fair Operating Practices	Community Involvement and Development
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			FY2013
	Primary Achievements	Rating	Primary Issues
	<ul style="list-style-type: none"> Promote employee awareness through in-house newsletters Engage with stakeholders 	A	<ul style="list-style-type: none"> Strengthen our system for promoting CSR activities
	<ul style="list-style-type: none"> Establish a verification and improvement system through disaster response training, including training open to the public Conduct demonstration trials of shipboard base stations, boosting disaster response capabilities that are unaffected by land-based disasters 	A	<ul style="list-style-type: none"> Increase number of KDDI Mobile Phone Learning Classes held and improve quality Enhance user support targeting seniors Meet customer demands by improving network quality and providing stable information and communications services Further strengthen large-scale disaster response measures
	<ul style="list-style-type: none"> Conducted Safety and Security Seminars 1,965 times in FY2012 (756 times more than in FY2011) Revise the program to respond more closely to schools' needs 	A+	
	<ul style="list-style-type: none"> Provide courses for seniors aged around 65 and older Support efforts at municipal institutions to provide the "Mi-Look" mobile pedometer for helping to look after elderly people 	A	
	<ul style="list-style-type: none"> Meet communication needs in Asia with high-capacity optical undersea cables Create scheme for employees to improve quality in KDDI service areas 	A	
	<ul style="list-style-type: none"> Introduce countermeasures and prepare a system to prevent the recurrence of major accidents leading to the disruption of communications 	B	
	<ul style="list-style-type: none"> Increase Tribrid Base Stations to 100 locations throughout Japan Use externally oriented Web sites to provide information on used mobile phone recycling activities Conduct appropriate material recycling for disused equipment resulting from bandwidth reorganization Establish systems in various regions of Japan to promote environmental conservation 	A+	<ul style="list-style-type: none"> Roll out Third Medium-term Environmental Conservation Plan Promote environmental preservation activities in regions throughout Japan Reinforce environmental conservation
	<ul style="list-style-type: none"> Conduct e-learning for all employees with regard to the Third Medium-term Environmental Conservation Plan 	A	
	<ul style="list-style-type: none"> Create a system for promoting female line managers Conduct "Workplace Survey of Employees with Disabilities" Hold philosophy promotion training for overseas employees Provide training for local recruits overseas and conduct personnel exchanges 	A	
	<ul style="list-style-type: none"> Conduct employee awareness survey Hold forums and seminars for employees who have taken childcare leave Conduct courses to support people who are providing nursing care in addition to working and prepare a guidebook 	A	<ul style="list-style-type: none"> Promote diversity Create a sound and worker-friendly workplace environment Enhance internal communications
	<ul style="list-style-type: none"> Provide Companywide training on organizational climate reform Introduce sign language interpretations on streaming delivery 	A	
	<ul style="list-style-type: none"> Hold individual meetings in Japan and overseas (950 times) Hold seminars for individual investors (20 times) Hold facility tours for shareholders 	A	
	<ul style="list-style-type: none"> Consider content and prepare to draw up policy (scheduled to draw up and enact in the first half of 2013) 	B	<ul style="list-style-type: none"> Enhance communication with shareholders and investors in Japan and overseas Formulate and enact CSR Procurement Policy Augment information security Promote measures to eradicate compliance-related accidents Promote risk management
	<ul style="list-style-type: none"> Put in place standards at KDDI Group companies based on the "KDDI Group Common Information Security Standards" 	B	
	<ul style="list-style-type: none"> With regard to risks in the operating environment, reduce risks, support operational improvements, and conduct internal audits on 29 important items 	A	
	<ul style="list-style-type: none"> Hold regular Business Ethics Committee meetings Conduct group training and e-learning on compliance 	A	
	<ul style="list-style-type: none"> Support region affected by the Great East Japan Earthquake (employee volunteers, educational support, etc.) Commence full-fledged activities at Reconstruction Support Office 	A	<ul style="list-style-type: none"> Expand disaster area support through collaboration Create new social value by strengthening relations with local communities Contribute to development of the international community through the utilization of ICT
	<ul style="list-style-type: none"> Through the "+α Project," increase employee-participatory regional community contribution activities Conduct career training for junior high school, senior high school, and university students 	A	
	<ul style="list-style-type: none"> Increase support for education that makes use of tablets Provide support services for venture companies Through the KDDI Foundation, support efforts to overcome the digital divide and provide technological expertise in developing countries 	A	

Consumer Issues

KDDI takes into sincere consideration the feedback from all its service users in order to improve customer satisfaction by providing more secure and higher-quality information and communications services.



Material Issue 1 Creating a Safe and Secure Information and Communications Society

KDDI supports increases in information literacy and strives to develop products that are easy to use, so that children and seniors can also employ mobile phones as beneficial tools. Through a variety of initiatives, we are working to provide safe and secure information and communications services for society to use.

Ensuring Safety and Security

Basic Policy on Safety and Security

KDDI strives to create a social environment for information and telecommunications that allows children to communicate safely and securely. To that end, we have created the KDDI Basic Guidelines Concerning Safe and Secure Communication for Young People.

KDDI Basic Guidelines Concerning Safe and Secure Communication for Young People

At KDDI we are working to safeguard young people from troubles arising from communications services such as mobile phones and the Internet. We will continue to work to create a truly safe and secure society while building smooth communications services for young people.

Holding KDDI Mobile Phone Learning Class Safety and Security Seminars

In FY2005, we began conducting the KDDI Mobile Phone Learning Class throughout Japan as a way to educate children on the safe and secure use of mobile phones and the Internet. The class provides necessary information on rules and etiquette and teaches them how to identify trouble and protect themselves.

In FY2012, KDDI held this class 1,965 times for some 335,000 participants, bringing the total number of classes to 6,700, for 1.2 million people since FY2005. During this time, the communications methods that children use have grown more sophisticated and diverse, including mobile phones, smartphones, and the Internet. As a result, we have received requests from schools to provide more detail in our classes. In FY2012, we completely revamped our program to respond appropriately to these needs. We have incorporated quiz sessions and workshops and made

more effective use of video content, encouraging children to think independently and aiming to deepen their understanding. Furthermore, we have prepared detailed programs to respond to schools' requests, such as one involving the safe use of smartphones.

In addition to courses targeting elementary, junior high, and senior high schools, as well as guardians, we offer a course designed for people with disabilities. Our objective is to augment our courses so that everyone can use mobile phones and the Internet safely and securely.



KDDI Mobile Phone Learning Class Safety and Security Seminar under way

Results of questionnaire given to participants in KDDI Mobile Phone Learning Classes in FY2012

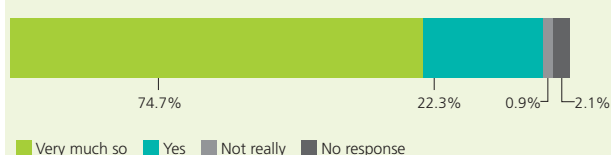
Evaluation of Learning Effectiveness (courses for pupils and students)

Did the course help you learn how to use mobile phones / the Internet safely?



Evaluation of Learning Effectiveness (courses for guardians)

Do you think the course helped your child find mobile phone / Internet information and understand it?



Offering the KDDI Mobile Phone Learning Class for Seniors

KDDI has also begun offering classes for seniors aged around 65 and older. We offer the Mobile Phone Course for Seniors, designed for people who do not have mobile phones or are not really sure how to use them, and the Smartphone Course for Seniors, for people who are planning to purchase smartphones.



KDDI Mobile Phone Learning Class for Seniors

KDDI employees serve as instructors in these courses. After liaising with government bodies, they visit regional facilities, providing video content and lend an au Simple Phone or smartphone to each person taking the class. Participants learn the basics of how to operate mobile phones and smartphones, gaining experience in sending e-mail and using the Internet. In FY2012, we held these classes 59 times, for approximately 1,100 participants.

Going forward, we plan to continue this support with the aim of helping seniors enjoy using mobile phones and smartphones effectively, as well as safely and securely.

Participating in "Tsukuba Science Edge 2013," a Science and Technology Presentation Event

In March 2013, KDDI took part in "Tsukuba Science Edge 2013", sponsored by the Tsukuba Science Edge Executive Committee and held in the city of Tsukuba, Ibaraki Prefecture. The event was effectively a "Science Workshop" provided by participating companies, and included a contest where junior high and senior high school students presented the research they had done in science-related courses and club activities. Participants also had the opportunity to experience companies' advanced, leading-edge technologies, thereby encouraging the development of scientists-to-be. We introduced several of our new technologies, including the "smart sonic receiver," which allows the accurate transmission of voices even amid the hubbub, and our audio technologies from the conservation project to measure aquatic behavior of the Ganges River dolphin.

KDDI plans to remain actively involved in encouraging children's interest in science and motivation toward research and development.



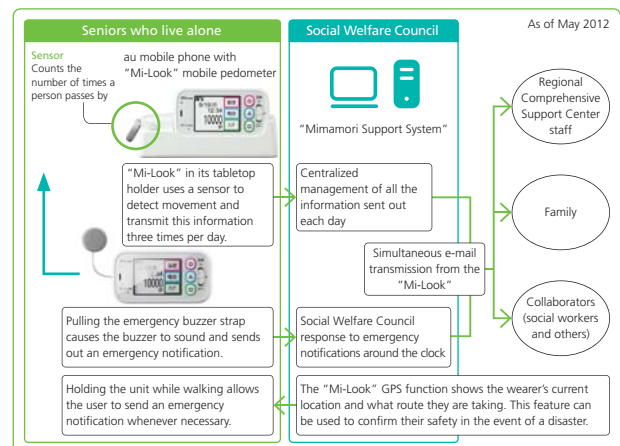
Students listening attentively to a KDDI employee's presentation

Providing Products and Services that Offer Users Peace of Mind

Supporting the Use of "Mi-Look" Mobile Pedometers in Municipalities

KDDI is providing municipalities with "Mi-Look" mobile pedometers to help them address the problems they face as the population ages. The "Mi-Look" mobile pedometer, which we launched to meet the needs of families wanting to help look after elderly members living on their own, has a sensor to detect a person's movement as well as a pedometer function. The device then regularly sends this data to a pre-registered contact person on a daily basis. The pedometer also has a GPS function that can be used to notify the contact person of the wearer's whereabouts. This feature could be useful in confirming a person's safety in the event of a disaster. Faced with ongoing depopulation, the town of Iide, Yamagata Prefecture, is working on a system to look after its elderly residents. We have provided the town with "Mi-Look" mobile pedometers for elderly residents living on their own. Information from these devices is managed centrally by the town, addressing the question of how to care for its senior citizens.

System Employing a "Mi-Look" Mobile Pedometer being Used in the Town of Iide to Help Look After Elderly Residents



VOICE Stakeholder Feedback

A model that elderly people could operate easily was our precondition when selecting a device. The "Mi-Look" mobile pedometer is equipped with a strap that the wearer can simply pull to sound an emergency buzzer if needed. The main unit can be carried into the bedroom or bathroom, which is reassuring. Even better, the unit transmits information automatically on a daily basis. These were our reasons for selecting the "Mi-Look" when creating a new system for looking after our citizens. In the town of Iide, which faces ongoing depopulation, we are building a system to look after our elderly residents by linking government and regional facilities. This system also sends out care information via e-mail, so registered family members can confirm that their loved ones living apart are safe.

Ms. Yoko Shida

Center Director
Regional Comprehensive Support Center
Iide, Yamagata Prefecture

Material Issue 2 Offering Reliable Information and Communications Services

As a telecommunications operator that supports social infrastructure, KDDI believes that its utmost responsibility lies in continuing to provide customers with stable services of consistently high quality. We undertake a wide range of initiatives to achieve this goal.

■ Initiatives in Preparation for Emergencies

Conducting Demonstration Experiments on Shipboard Base Stations

In November 2012, we conducted a shipboard test (aboard the patrol vessel *Kurose*) in the city of Kure, Hiroshima Prefecture, in cooperation with the Ministry of Internal Affairs and Communications' Chugoku Bureau of Telecommunications and the Japan Coast Guard. This demonstration experiment involved installing a mobile phone base station and satellite communications equipment on the *Kurose* and checking voice and data communications between land and sea. Radio waves sent from the ship's mobile phone base station were received in the coastal area, and we tested voice and data communications to see how they were affected by factors such as changes in tide levels and the rocking of the ship.

Learning from its experiences during the Great East Japan Earthquake, KDDI has been working on measures to quickly restore coverage in its service area following a disaster by transmission from the ocean, which is not affected by disaster conditions on land.



Satellite antenna (inside the cylindrical cover) toward the bow of the patrol vessel *Kurose*
Source: Study Team for Shipboard Installation of Mobile Phone Base Stations for Use in Emergencies

■ Technological Development to Improve Communications Quality

Responding to the Surge in Asian Communications Demand with the SJC High-Capacity Optical Submarine Cable

In November 2012, the South-East Asia Japan Cable (SJC), an international submarine fiber-optic cable linking Japan and Southeast Asia that is under construction by 10 companies including KDDI, was connected to the KDDI Chikura Cable Landing

Station. This high-capacity cable is expected to meet the surge in demand for data communications in Asia. The SJC provides a direct link between Japan and Singapore, and connects with the Unity, a submarine cable between Japan and the United States. The new cable follows essentially the shortest distance between Southeast Asia and the United States.

Once the cable commences operation in FY2013, KDDI will serve as an international submarine cable "hub," providing direct links between Japan, Southeast Asia, and the United States.



The SJC rising from the sea

■ Providing a Convenient Usage Environment

"Employees Building the au Area!" Working Together Companywide on Bandwidth Reorganization Initiatives

In line with mobile phone bandwidth reorganization, from April 2012 KDDI has launched the "Employees Building the au Area!" initiative to increase the post-reorganization signal area and to improve points of deterioration. As part of this movement, employees use specialized handsets and applications to search out points where the new bandwidth cannot be used. We have set up an internal scheme that allows failure points to be declared and are publicizing progress toward their improvement on a portal site. By working together on this initiative throughout the Company, we have succeeded in improving signal quality to the same level as or better than before the bandwidth reorganization.

Following bandwidth reorganization, we plan to leverage this initiative to increase ultrahigh-speed "4G LTE" data communications and Wi-Fi quality. Amid ongoing changes in the radio wave environment, this scheme, whereby employees take the initiative to enhance quality throughout the service area, is bringing the Company closer together.

Apology for and Report on Communications Outages

KDDI's high-speed LTE service for mobile phones experienced communications outages that affected some handsets twice, on December 31, 2012 and January 2, 2013.

As a result of the outage that occurred on December 31, 2012, LTE handset access momentarily took 7 times the typical amount of time, caused by a mistaken setting during data processing. The January 2, 2013 communications outage occurred because of a communications-related software defect that caused a failure. When restoring service, a control system was mistakenly halted.

To prevent recurrences, by the end of January 2013 KDDI had taken measures such as augmenting its data-processing servers, conducting a full check of LTE-related systems, and redeveloping its restoration manuals.

Communications outages again occurred in April and May. We offer our sincerest apologies for the inconvenience and concern that these serial outages have caused. We are working to prevent such mistakes from happening again, as we aim to provide a convenient communications environment to our customers, and are doing our utmost to recover their trust.

Enhancing Customer Satisfaction

KDDI's commitment to customer satisfaction, by each person from top management down to individual employees, is the foundation of its business activities. We will do our utmost to improve our business and to create a stable, long-term, trust-based relationship with our customers.

Striving to Maximize Customer Satisfaction (CS)

KDDI CS Policy

We have formulated the KDDI CS Policy to embody our "customer-first" philosophy and to assert that this basic guideline be shared throughout the organization.

KDDI CS Policy

1. Realization of Satisfaction

KDDI treats the opinions and feelings of customers with utmost seriousness, realizing a level of satisfaction acceptable to customers.

2. Customer-orientated Thinking and Action

All KDDI employees, from management down, consider everything from the customer's point of view, respond quickly, and provide a quality service.

3. Working with Customers to Create Better Services

KDDI works together with customers to create better services and business operations.

4. Customer Evaluation

The flip side of customer expectation, KDDI appreciates customer criticism and welcomes the excellent opportunity it presents for realizing satisfaction.

5. Customer Trust

KDDI always keeps its promises to customers, providing thorough explanations acceptable to customers and consolidating customer trust with an honest and fair relationship.

6. Building and Repaying Customer Satisfaction

KDDI is able to increase sales by building customer satisfaction; increasing profits by minimizing costs ensures a return to customers, thus further increasing satisfaction.

7. Recognition of Excellence

KDDI strives to create a workplace environment in which each employee does their utmost for customers in their decisions and actions and employees recognize each others' efforts.

Using Twitter® to Provide Active Support

The proliferation of smartphones and the surge in use of social networking services (SNS) has enabled customers to express their dissatisfaction via "tweets" and made them increasingly visible.

Realizing that it is becoming more difficult to provide support that satisfies customers through telephone inquiries and consultations at au shops, we have begun using Twitter®—a particularly prolific SNS—to provide "active support" by proactively searching for problems. One approach that has helped us to resolve issues among customers who tweet, but in an offhand manner without really intending to ask for help, has been to respond with our own

tweet, saying "We saw your tweet. We may be able to help, so could you provide us with more details?" Using an open forum like an SNS allows us to simultaneously address areas that many people may find inconvenient or dissatisfying. We have received strong positive feedback outside of the company for this initiative.

Holding the "au CS AWARDS" in Pursuit of Quality Customer Service

Each year, KDDI holds the "au CS AWARDS" in locations throughout Japan in an attempt to enhance the customer service skills of au shop staff, thereby increasing customer satisfaction at au shops.



au shop staff demonstrating their customer service skills

The theme of the FY2012 contest—our 9th—was to "Exceed customers' expectations. Show your new self." Staff members who won the contest's qualifying round in different regions went on to pit their customer service skills against their peers, scoring points for the overall selling skills they cultivate on a daily basis, covering items such as customer service etiquette, hospitality, and other fundamental customer service skills, as well as "cross-selling satisfaction*" based on our 3M Strategy. Retailers and au shop staff attend the contest, sharing outstanding customer service skills. We aim to maximize customer satisfaction by encouraging the spread of customer service on display at this contest to all our shops.

* A technique for proposing combinations of related products and services

Holding the "Front Skills Contest"

KDDI is working to augment the skills of the staff that provide technical support to corporate customers. As part of this initiative, we hold the "Front Skills Contest," aimed at improving their customer response skills when fielding reports of malfunctions. In this contest, representatives are elected by every technical support department throughout Japan and judged by an internal panel on aspects such as the appropriateness of their explanations and their communication skills. We aim to hold this contest regularly to boost the skills of our technical support staff even further.



Winner selected for the contest's top prize

Environment

We are undertaking a variety of initiatives to contribute further to environmental conservation through our business operations and social contribution activities.



Material Issue 3 Initiatives to Conserve the Global Environment

In accordance with the KDDI Environmental Charter, we are working to realize a low-carbon, recycling-oriented society and achieve biodiversity. To these ends, KDDI is moving steadily forward with a variety of initiatives, centering on "Green of ICT" (reducing the environmental impact of ICT equipment), "Green by ICT" (reducing the environmental impact of society through the use of ICT), and the "Green Road Project" (environmental preservation activities in cooperation with customers and employees).

Environmental Management

KDDI Environmental Charter

Manifesto

The KDDI Group recognizes the importance of fulfilling its duty as a responsible global corporate citizen to conserve and protect the Earth's irreplaceable environment so that it can be inherited by future generations. We are committed to pursuing our business in eco-conscious ways, through programs of activities that span the entire company.

Environmental Management Structure

The KDDI Group has formed the KDDI CSR & Environment Committee, comprising members from each division, branch, Group company, and related organization. This committee serves as the center for formulating KDDI's environmental management system and promoting efficient environmental preservation activities throughout the Group. KDDI has acquired international ISO14001 certification for this management system, which covered KDDI and 22 Group companies as the end of FY2012 (targeting 191 sites and about 46,200 people).

Internal Environmental Audits

KDDI conducts internal environmental audits once each year. In these audits, each department is provided with a checklist and asked to evaluate itself, and internal environmental auditors perform a second check on the state of conformity with environmental legislation. In addition, these audits confirm the results of environmental activities and verify the functioning of the system for ongoing improvements.

Appropriate Processing of PCB

KDDI ensures that transistors, capacitors, and other components that previously included high-concentration polychlorinated biphenyls (PCB) are disposed of properly in accordance with legislation and

the Company's internal processing regulations. We disposed of approximately 17 tons of high-concentration PCB in FY2012, and plan to complete this processing in FY2013.

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

The Third Medium-term Environmental Conservation Plan, which we formulated in FY2012, introduces 3 priority issues to be achieved by FY2016—a low-carbon society, a recycling-oriented society, and biodiversity—and sets specific targets for each. As of March 31, 2013, we had made progress toward each of our goals except achieving zero emissions*¹. Although we did not meet our target of a final processing ratio of 1.5% for retired telecommunications facilities, we will continue collaborating with outsourced companies toward this goal.

Meanwhile, we reached our goal of increasing the number of Tribrid Base Stations*² to 100 by the end of FY2012. We will persevere in using renewable energy to reduce electricity consumption.

*1 "Zero emissions" is defined as a final processing ratio of 1% or less.

*2 These are mobile phone base stations automatically select from 3 kinds of electric power—power generated by solar panels, power saved in charged storage batteries, and power supplied by power companies—and provide power to base stations in the most efficient way at the time it is used.

KDDI GREEN PLAN 2012–2016

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

Organizational Governance	Consumer Issues	Environment	Human Rights	Labour Practices	Fair Operating Practices	Community Involvement and Development
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Environmental Impact of Business Activities

Of KDDI's business activities, environmental impact is the highest in terms of the CO₂ emitted through the use of electricity in electrical telecommunications facilities and in the industrial waste generated during equipment upgrades. We are working to quantify and reduce these environmental impacts. We also see the recycling of used mobile phone handsets as a priority.

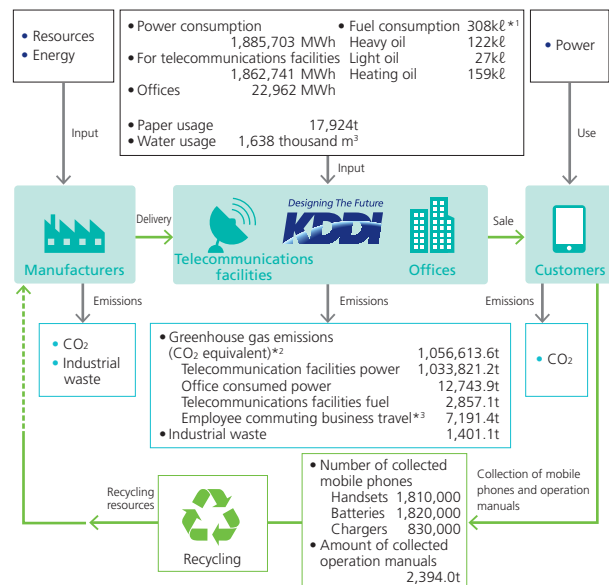
In FY2012, we confirmed the use of blown asbestos in one base station and completed its removal.

Environmental Accounting

Noteworthy changes in parameters of environmental accounting during FY2012, were fourfold: (1) the expansion of the scope of calculation and the addition of 3 consolidated subsidiaries (WebMoney Corporation, KDDI MATOMETE OFFICE CORPORATION, and Okinawa Cellular Telephone Company), (2) the cessation of dual operation at some base stations due to the conclusion of bandwidth reorganization, which reduced the amount of electricity consumed (MWh) compared with the preceding fiscal year, (3) the sale for items that had previously been considered industrial waste, thereby reducing industrial waste, communications facilities, and industrial waste related to construction (t) compared with the previous year, and (4) the reduction in paper resources used compared with the preceding fiscal year.

Environmental Impact of FY2012 Business Activities

Coverage: KDDI (KDDI non consolidated)



*1 Crude oil equivalent. Used for air conditioning of telecommunications facilities and for emergency generators.

*2 CO₂ emissions are calculated using a conversion coefficient of 0.555 kg-CO₂/kWh for the power consumption and the emission coefficients for fuel consumption applied to the calculation, reporting, and disclosure systems based on the "Act on Promotion of Global Warming Countermeasures."

*3 CO₂ emissions are calculated using emission factors indicated in the Ministry of the Environment's "Overview of Basic Conversion Guidelines Related to the Calculation of the Greenhouse Effect through the Supply Chain."

Coverage: KDDI and 13 major consolidated subsidiaries* Period: April 1, 2012 to March 31, 2013

Environmental Protection Costs		Transaction Examples	FY2012 (Millions of Yen)		FY2011 (Millions of Yen)		Change from Previous Year (Millions of Yen)	
			Investment	Cost	Investment	Cost	Investment	Cost
Business area costs	Pollution prevention costs	Pollution prevention costs stipulated by law, costs for proper disposal of PCBs, etc.	0	141	0	104	0	38
	Global environmental protection costs	Power-saving wireless equipment for mobile base stations (Investment amount is calculated proportionally based on the power-saving effect.)	7,319	5,174	24,718	2,595	(17,399)	2,579
	Resource recycling costs	Reduction of paper resources, processing and disposal of waste products	0	378	71	423	(71)	(45)
Upstream/downstream costs		Collection, recycling, and reuse of merchandise and products	0	636	0	417	0	219
Administrative costs		Operation and updating of environmental ISO standards, disclosure of environmental information	1	96	0	281	1	(185)
R&D costs		R&D of technology, equipment, handsets, products, services, and other items conducive to reducing the environmental burden	0	130	0	144	0	(13)
Social activity costs		Donations and support for forest conservation activities and to environmental protection groups	0	16	0	32	0	(16)
Environmental damage restoration costs		Measures for prevention of asbestos spraying, restoration of polluted soil	0	0	0	38	0	(38)
Total			7,320	6,572	24,789	4,033	(17,469)	2,539

1. Environmental Protection Benefits (Physical)		Indicator Category (Unit)	FY2012	FY2011	Change from Previous Year
(1) Benefits derived from business area	1) Benefits related to resources invested in business activities	Power consumption (MWh)	2,038,462	2,315,672	(277,210)
		Paper usage (t)	17,991	19,898	(1,907)
		Paper reduced by Bill on WEB (t)	3,339	3,244	95
	2) Benefits related to environmental burden and waste products discharged from business activities	Greenhouse gas emissions (t-CO ₂)	1,035,576	971,201	64,375
		Industrial waste emissions related to telecommunications facilities and buildings (t)	2,041	4,209	(2,168)
(2) Benefits derived from upstream/downstream costs	Benefits related to goods and services produced by business activities	Number of used mobile phones and other devices collected (10,000 units)	446	533	(87)

2. Economic Benefits of Environmental Protection Measures (Yen)	Substantive Benefits (Major Effects)	FY2012 (Millions of yen)	FY2011 (Millions of yen)	Change from Previous Year
Revenues	Revenues from sales through disposal of telecommunications facilities and buildings	502	235	267
Costs reductions	Reduction in energy costs by adopting the use of low-pollution vehicles	12	10	1
	Reduction in costs of new purchases by reusing disposed of telecommunications facilities	2,136	1,748	388
Total		2,650	1,993	656

* KDDI Web Communications Inc., mediba Inc., JAPAN CABLENET LIMITED (JCN), KDDI R&D Laboratories Inc., KDDI Technology Corporation (KTEC), KDDI Research Institute, Inc. KDDI Engineering Corporation, KDDI Evolve Okinawa Corporation, KDDI Challenged Corporation, TELEHOUSE International Corp. of Europe Ltd. (London), WebMoney Corporation, KDDI MATOMETE OFFICE CORPORATION, OKINAWA CELLULAR TELEPHONE COMPANY

Low-carbon Society

LCA Initiatives Green of ICT

To quantify and disclose environmental impact, KDDI conducts life-cycle assessments (LCA) of its products and services to determine the amount of CO₂ generated at each stage of operations—from manufacturing and use to disposal or recycling*¹.

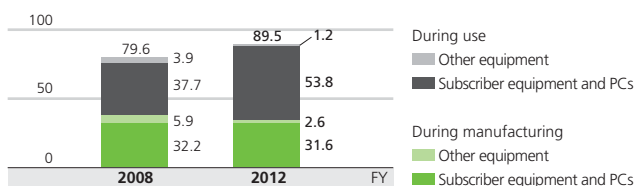
As in FY2008, in FY2012 we conducted LCA on “au HIKARI” and “au.” CO₂ emissions per “au HIKARI” subscriber were up 12.4% compared with FY2008 levels, owing to factors such as the increased electricity consumed during use as HGW*² performance rose from 100Mbps to 1Gbps. CO₂ emissions per “au” subscriber declined 13.0% from FY2008, stemming from the large-scale introduction of “Type VII” compact energy-saving wireless equipment. KDDI plans to continue its efforts to determine and disclose the environmental impact of its products and services as part of its initiatives toward achieving a low-carbon society.

*1 Environmental impact at the disposal and recycling stage includes environmental impact at the manufacturing stage.

*2 Home GateWay (HGW): In fixed-line communications services, a device that connects public networks to in-home networks.

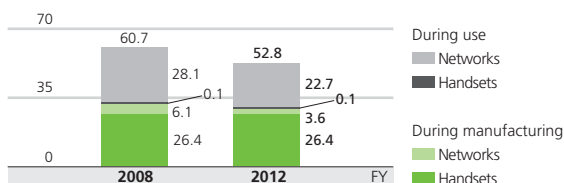
Environmental Impact of “au HIKARI” (Compared with FY2008)

Environmental impact (kg-CO₂/year per subscriber)



Environmental Impact of “au” (Compared with FY2008)

Environmental impact (kg-CO₂/year per subscriber)



KDDI TeleOffice Green by ICT

KDDI provides a visual communications service, “KDDI TeleOffice,” that enables the sharing of video camera footage, as well as documents, photographs, and other images and materials, via PC, tablets (multifunction portable terminals), and smartphones. The service can also be used like a whiteboard.

A step beyond conventional webconferencing, the “KDDI TeleOffice” service employs an ID system so that participants can use their tablets to participate freely at any time. The service has

various potential applications, including for remote and paperless meetings. In addition to boosting business efficiency for corporate customers, the service should decrease the CO₂ emissions resulting from employee movement and encourage paperless communications, thereby reducing the environmental impact of society.

Portable Batteries Green of ICT

In the past, KDDI has used mobile power supply vehicles to power mobile phone base stations during electricity outages. However, we have recently begun conducting trials to determine the commercial viability of portable batteries in reducing environmental impact.

In FY2012, we conducted a trial in the Osaka area, assuming a power outage of approximately 10 hours per base station and wireless device power consumption of 1kW. To supply this power for a single base station, a mobile power supply vehicle would consume 8.2 liters of light oil (equivalent to 21.5kg of CO₂ emissions), whereas a portable battery would require 10kWh (equivalent to 4.1kg of CO₂ emissions). Given this 17.4kg difference in CO₂ emissions, we estimated that portable batteries would reduce emissions by approximately 80%. KDDI plans to continue such trials to verify the commercial viability of portable batteries.

Trial of the “Eco-Bito” Service to Assist Customers’ Efforts to Save Electricity Green Road Project

KDDI and Sumitomo Corporation are considering the commercialization of “Eco-Bito,” a lifestyle support service that provides customers with advice on the best ways to conserve electricity through their lifestyles, based on a variety of information that also includes a customer’s family makeup, home location, and household electrical appliances used. As part of this process, we provided the “Eco-Bito Trial” service free of charge between July 2012 and February 2013.

For “Eco-Bito Trial,” we installed high-precision watt-hour sensors in subscribers’ homes. Based on prerecorded customer information, we used these sensors to make visible the amount of electricity used at home by PC and smartphones, as well as solar power generation volume. We then provided customers with detailed information on optimal electricity conservation behavior, based on their usage, location, and weather information. The service recommends what household appliances to purchase as children grow up and other lifestyle ideas for how customers can conserve energy.

By verifying the trial, KDDI and Sumitomo Corporation are making inroads into providing services that encourage energy-saving lifestyles to their customers.

Recycling-oriented Society

Reuse and Recycling of Telecommunications Facilities

Green of ICT

KDDI promotes reuse activities that effectively employ retired telecommunication facilities. We also use material recycling to effectively employ equipment, components, and materials that have become unnecessary.

Owing to the migration of au mobile phones to a new 800MHz frequency, in FY2012 we began retiring base stations using the former 800MHz band. When retiring this equipment, we employed material recycling to make effective use of resources.



Former 800MHz frequency base station battery (storage battery)



Former 800MHz frequency base station power source

Paper Reduction and Recycling

Green by ICT

Operation manuals for au mobile phones can be thick, as they need to explain a host of services and functions, but we have begun to make these slimmer with the introduction of an operation manual application for smartphones. We are also making packaging on au mobile phones more compact.



Slimmed-down operation manual (right)

To effectively reuse the high-quality paper employed in operation manuals, au shops recover the manuals that come with au mobile phones, as well as various circulars, reusing KDDI printed matter as recycled paper.

TOPICS Making Use of Materials from Thinning

Our operation manual recycling activities seek to support forest conservation, such as by contributing the funds received when delivering used paper to a collection facility to tree-thinning efforts. As part of our activities to support reconstruction following the



Bus shelter made from thinned materials

Great East Japan Earthquake, in FY2012 we worked with the Kamaishi Regional Forestry Association, Iwate Prefecture, to build 5 bus shelters and 18 benches from materials thinned around Kamaishi and contribute them to the city. We are contributing to forestry in the Tohoku region and supporting disaster-affected economies in ways such as offering mobile phone stands made from materials from tree thinning at a factory in the town of Minamisanriku, Miyagi Prefecture, and distributing 2013 desktop calendars made from recycled KDDI paper.

Promoting Recycling of Mobile Phones

Green Road Project

DATA Recycling ratio in FY2012

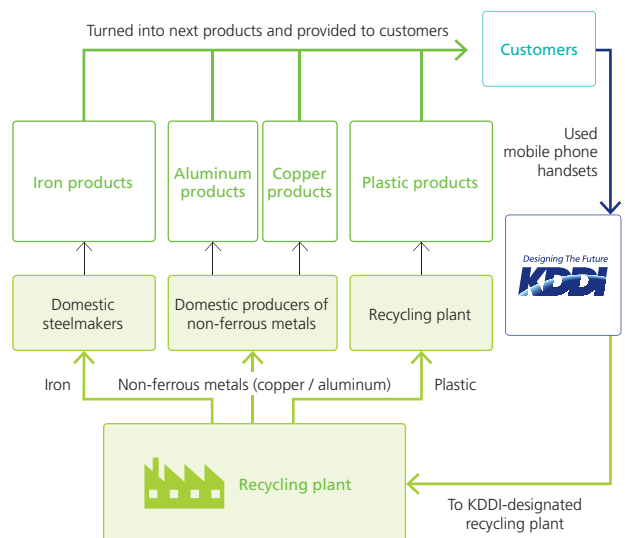
99.8%

Mobile phones use gold, silver, copper, palladium, and other precious metals and rare earths. To prevent depletion of the Earth's resources, we emphasize the role of recycled metal, plastic, and other resources. KDDI is an active proponent of "material recycling," which involves the reuse of recyclable materials.

At au shops, we manually disassemble used mobile phone handsets that have been collected from customers unit by unit, separating out substrates, displays, cameras, plastics, screws, iron, antennas, motors, speakers, and other items. The substrates are sent to refining companies to extract gold, silver, copper, palladium, and other resources; screws and antennas are dispatched to iron and steel manufacturers for use in steel products; and plastics are recycled into clothes hangers and other items.

When a machine is used to disassemble a mobile phone, substrates and LCD, plastics, and other components are shredded, so incineration processing is required to recover precious metals. Also, during incineration 20–30% of the plastic is burned up and so cannot be used as a recycled resource. KDDI disassembles phones manually to prevent recyclable resources from being wasted. During FY2012, our recycling ratio was nearly unity, at 99.8%.

Basic Flow for Recycling of Mobile Phones



Biodiversity

KDDI Group Environmental Preservation Activities throughout Japan

DATA Environmental preservation activities conducted in FY2012

12 locations

DATA Number of employees participating in environmental preservation activities in FY2012

383 people

We have formulated the KDDI Action Guidelines on the Preservation of Biodiversity. In line with these principles, we take opportunities to preserve biodiversity in a host of ways.

Environmental Preservation Activities in FY2012

Location	Activity
Miyagi Prefecture	Kesennuma Camellia Walk
Miyagi Prefecture	Kajika Forest Conservation Volunteers
Miyagi Prefecture	Miyagi Prefecture Fishing Harbor Kesennuma Karakuwa Reconstruction Support Volunteers
Miyagi Prefecture	Cleanup Hirose River
Yamanashi Prefecture	Mt. Fuji Deer Feeding Damage Countermeasure Volunteers
Nagano Prefecture	Operation Manuals Recycling Forest (Nagano) Volunteers
Ishikawa Prefecture	Kanazawa Asano River Cleanup
Kyoto Prefecture	Tennozan Forest Conservation Volunteers
Hiroshima Prefecture	Hiroshima Forest Creation Forum Volunteers
Kagawa Prefecture	Mt. Onose Forestation Volunteers
Tokushima Prefecture	Hiwasa-Ohama Beach Cleanup
Fukuoka Prefecture	Patchwork Forest Creation

Forest Protection Efforts

KDDI Group employee volunteers and their families participated in the Mt. Fuji Deer Feeding Damage Countermeasure Volunteers activity sponsored by the Organization for Industrial, Spiritual and Cultural Advancement-International in the village of Narusawa, Yamanashi Prefecture.

Young trees planted as part of a forest regeneration project on Mt. Fuji between 2008 and 2010 are suffering from feeding damage due to the proliferation of wild deer in the area. To protect these young trees, the volunteers erected nets around 255 trees planted in a 0.3-hectare area.



Nets to protect trees from feeding damage

Land-Sea Circulation

Since 2009, KDDI's TOHOKU Regional Office has participated in forest conservation activities in the village of Kajika in Tome,

Miyagi Prefecture. In 2012, the office also cleaned up oyster shells and cleared away fishing lines from the ocean to allow for aquaculture on the Karakuwa Peninsula in Kesennuma, Miyagi Prefecture. In addition to thinning away brush to allow forests to flourish, volunteers assisted in the process of cleaning the water of the Kitakami River, which flows from the village of Kajika into Ishinomaki Bay, encouraging the cultivation of quality shellfish and assisting the harvest cycle in Kesennuma Bay.



Gathering oyster shells

In FY2012, the KDDI Workers Union participated in these activities.

Government Collaboration

KDDI's KANSAI Regional Office has taken part since 2008 in the Tennozan Regional Forest Promotion Council, comprising local government bodies, citizens, and companies in the neighborhood of Tennozan in the town of Oyamazaki, Otokuni, Kyoto Prefecture. Employees worked to recharge* water resources, which have suffered from the deterioration of forests on Tennozan and are no longer able to fulfill their conventional functions, and create a beautiful woodland.

Principal activities included planting trees and thinning away brush for firewood. Firewood was donated to local childcare centers and social welfare facilities, helping to further build relations among the community.



Thinning away brush for firewood

* Cultivation to ensure proper water quality and water levels

VOICE Stakeholder Feedback



Mr. Denmei Eshita

Town Mayor
Oyamazaki, Otokuni,
Kyoto Prefecture

The bamboo forests on Tennozan, a symbol of the town of Oyamazaki, have been deteriorating for some time as they have not been cared for.

Companies and government bodies cooperated to launch the Tennozan Regional Forest Promotion Council, which has contributed to forestation activities, helping to restore the previously denuded moso bamboo to their previous vigor.

Forest conservation activities take a long time to materialize to the point where they are visible to the eye, so activities need to be long term. I hope KDDI will continue to provide support.

Human Rights

In line with the KDDI Code of Business Conduct (Basic Principles), KDDI strives to encourage respect for human rights within its management activities.



■ Our Approach on Human Rights

The “KDDI Code of Business Conduct” defines our basic principles on maintaining respect for human rights and individual characteristics throughout all our business activities. The guideline celebrates the diverse values of our employees, clearly prohibiting discrimination on the basis of such factors as gender, age, race, place of birth, religion, or disability, as well as any behavior that disrespects human rights, such as violence, sexual harassment, and power harassment.



■ Boosting Employment Opportunities

Promoting Employment Opportunities for People with Disabilities at KDDI Challenged

We set up KDDI Challenged Corporation in 2008 to further expand employment opportunities for people with disabilities.

The company strives to instill in employees with disabilities the awareness of what they can achieve. With a working environment tailored to the needs of these individuals, KDDI Challenged seeks to create and expand the types and scope of activities of each of its employees.

As of March 2013, the company employed 36 people with disabilities. Among the business that these employees handle under contract from the KDDI Group are the disassembly of mobile phone handsets, performing maintenance on business mobile phones, handling accounting procedures, PC kitting*, facility maintenance, and Refresh Room operations. In FY2013, we plan to expand the scope of this company’s operations to include such activities as intranet maintenance.

By providing new employee training at KDDI Challenged, the KDDI Group is also providing opportunities for employees to work with people with disabilities.



Mobile phone handset disassembly

* The process of setting up a PC operating system, installing applications, and other activities

■ Creating Sound Labour-management Relations

Signing a Union Shop Agreement

KDDI works with the KDDI Workers Union to promote employee welfare and social development under the banner of “Building a better KDDI.” We meet regularly to deliberate on a host of issues related to improving the working environment and strive to create sound labour-management relations. To encourage even better relations between employees and management, in December 2012 we signed a “Union Shop Agreement.” This accord makes membership in the KDDI Workers Union mandatory for all employees, except for managers and non-regular employees.

■ Efforts to Eliminate Information Disparities

Introducing a “Sign Language Support System” Using Tablets

KDDI has installed simplified communication devices at all au shops throughout Japan to aid customers with hearing or speaking difficulties. In addition, at “au NAGOYA” and au shops centered in the Tokyo metropolitan area, staff who are conversant in sign language are available to assist with purchasing, explain how to use devices, and provide repair support. In March 2013, we introduced a sign language support system using tablets at KDDI’s directly operated shop, “au NAGOYA,” which has a showroom where customers can experience the newest au products and services, as well as subscription counters.

With this service, sign language capable staff at “au NAGOYA” use tablets to assist customers with hearing difficulties who visit shops in the Chubu region (Aichi, Gifu, Mie, Shizuoka, and Nagano prefectures), employing the videophone function to provide remote customer support.



Customer service using the sign language support system

Labour Practices

KDDI is committed to being a company at which all employees feel motivated to work and are able to realize their full potential. To this end, it implements employee education programs and strives to develop the best workplace environment possible.



Material Issue 4 Vitalizing the Company by Developing a Diverse Workforce

KDDI takes part in a number of initiatives aimed at providing a workplace that is invigorating for all employees. Our efforts include promoting workforce diversity and a work-life balance and providing employee education programs.

Promoting Diversity

Our Perspective on Diversity

Chapter 1 of the KDDI Philosophy states “Embracing diversity,” setting forth clearly our belief that mutual respect for and understanding of people regardless of gender, age, nationality, religion, disability, and other diverse characteristics and values is essential to the sustainable growth of society. We promote diversity throughout the Company on this basis.

“Win-K” Project to Promote the Professional Advancement of Female Employees

KDDI has in place “Win-K,” a Companywide internal program to promote the advancement of female employees by “creating a workplace environment that celebrates and takes full advantage of the power of the individual.” We



Forum under way

have continued to promote this program since its launch in 2007.

We conduct awareness surveys of all employees and hold forums and other programs to encourage awareness and to promote networking among employees.

In FY2012, we invited managers from the Company to take part as guests in a panel discussion entitled “SMART BOSS: Setting the Tone for the Workplace.” We also held skills development seminars such as the Skill-up Seminar and the Career Design Seminar for Working Mothers at locations throughout Japan to support the professional advancement of female employees.

Encouraging the Promotion of Female Managers

DATA Number of female managers in FY2012

124 people
(approximately 3 times the FY2007 level).

We are encouraging the promotion of female employees toward our goal of having approximately 250 female managers by FY2015, accounting for 7% of all managers. KDDI had 124 female managers in FY2012, accounting for 3.3% of the total number. This was our 7th consecutive year of increases.

In FY2012, we also introduced the Ladies Initiative Program (LIP) for promoting female line managers*. The program is designed to provide a place for them to participate in corporate decision making, thereby reinforcing our power as a company.

In March 2013, we also held the Seminar on Diversity from a Strategic Perspective for Divisional and Departmental Heads, taught by instructors from outside the Company. The seminar focused on teaching participants about the leadership qualities needed to harness the potential of both male and female employees. One participant commented that “I got a strong sense that diversity is a key element of management strategy.”

KDDI will continue striving to create a worker-friendly workplace to meet its goal of having approximately 90 female line managers by FY2015.

* Organizational leaders:
Managers with the authority to
conduct personnel evaluations



Diversity from a Strategic Perspective
for Divisional and Departmental Heads

■ Promoting a Work-life Balance

Childcare and Nursing Care Support Systems

KDDI has in place a broad range of systems designed to help employees balance work with other commitments, such as childcare and nursing care. These systems include maternity leave, childcare absence, and shortened working hours for childcare and child nursing care leave, as well as nursing care absence, vacation time, and shortened working hours for nursing care.

While on childcare leave, employees use a dedicated Web site so that they can maintain communication with their superiors and take part in e-learning courses. Systems such as these help to ease the sense of uncertainty that employees may feel while on leave.

We also have an adjustable work hour system. The scheme is flexible and allows employees to adjust working hours to their availability.

Thanks to programs such as these, nearly 100% of employees who take childcare leave return to their positions in the Company. Furthermore, we have in place programs for rehiring employees who previously left for reasons of childbirth or nursing care.

Number of Employees Using the Childcare and Home Care Support System

		(People)			
	Program	Gender	FY2010	FY2011	FY2012
Childcare	Maternity leave	Women	140	143	157
		Men	3	9	5
	Childcare absence	Women	248	253	268
		Men	3	2	2
	Shortened working hours for childcare	Women	305	342	357
		Men	729	634	638
Homecare	Child nursing care leave	Women	313	322	370
		Men	3	3	4
	Home care absence	Women	0	4	2
		Men	21	100	112
	Home care leave	Women	72	28	24
		Men	0	0	1
	Shortened working hours for home care	Men	0	0	1
		Women	1	2	1

Supporting a Balance between Work and Child-Rearing

KDDI offers the Forum for Employees before Returning after Childcare Leave, which provides employees planning to return to work following childcare leave with information that may be helpful as they strive for success while balancing work and child-rearing. The forum also aims to alleviate the uncertainty that employees sometimes feel prior to returning to work. We also conduct the Career Design Seminar for Working Mothers. Encouraging workplace communication and thoughts about career planning, this program also supports balance between work and child-rearing.

In FY2012, we added a seminar for the superiors of employees planning to return to work. We introduced results of an employee



Forum for Employees before Returning after Childcare Leave

hearing survey covering successful ways to balance work and child-rearing. The seminar featured discussions with superiors with subordinates who have already returned to work, providing the opportunity to share information needed to cultivate working mothers.



Holding the Round-Table Discussion on Men Taking Childcare Leave

In June 2012, we held the Round-Table Discussion on Men Taking Childcare Leave to encourage male employees to participate in child-rearing. Male employees who had experience of taking childcare leave joined a panel discussion covering topics such as “responding to your superior and your surroundings,” “preparing to take leave,” and “communicating with the Company while on leave.”

Supporting a Balance between Work and Nursing Care

As the number of employees facing the issue of providing nursing care is on the rise, in February 2013 we held the Course on Balancing Work and Nursing Care to help them balance these responsibilities. Designed to enhance employees’ understanding about nursing care, the course covered the fundamentals of preparing for nursing care and the nursing care systems that KDDI offers.

In July 2012, we published the Guidebook Supporting Balance between Work and Nursing Care. This guidebook provides easy-to-understand explanations on how to use the Company’s systems and promotes their effective utilization, helping to prepare employees who face the issue of providing nursing care now or will in the future. A smartphone version of this guide is also available.

■ Creating an Environment with Ideal Working Conditions

KDDI Kaitai Shinsho Employee Awareness Survey

Each year, KDDI conducts the KDDI Kaitai Shinsho awareness survey targeting all employees.

The FY2012 survey looked at how awareness and behavior have changed over the past year and how the organizational climate has evolved over time, seeking to understand the current situation as well as any issues. Responses suggested that the pace of work by employees and overall workplace activity has accelerated, and that there have been marked improvements in superiors’ communication of policies and decisions, indicating that the Company is steadily changing. At the same time, many responses pointed to the need for improvements in relations between departments and the sense of overall corporate togetherness. We have publicized these survey results on our intranet and in our internal newsletter. We are also discussing the issues raised by the survey at training sessions for all levels within the Company, from general employees to directors, as we introduce measures to enhance communication and invigorate the workplace.

Companywide Training on Organizational Climate Reform

DATA Times held / participants in FY2012

310 times / 12,000 people

Since FY2011, we have included Training on Organizational Climate Reform as one of our training programs targeting line managers. To augment and accelerate organizational climate reform throughout the Company, in FY2012 we conducted Cross Organizational Training, which is extended to target all employees. Conducted 310 times at workplaces throughout Japan and with 12,000 employees attending, through this training we sought to foster a change in awareness about work and the organizational climate. Through shared experience that referred to examples at other companies, we shared the need for individual employees to drive change for the Company as a whole.

Creating a Workplace that Encourages the Development of Employees with Disabilities

KDDI strives to create a workplace that encourages the professional development of employees with disabilities. For instance, managers from the Diversity & Inclusion Department, which is within the Human Resources Department, speak directly with employees with disabilities and conduct hearings in which they communicate with their direct supervisors. In FY2012, KDDI's employment ratio of people with disabilities was 1.91%.

As part of our efforts to create a workplace that is amenable to people with hearing difficulties, we provide sign language interpretation through streaming transmission. We provided this interpretation in FY2012 during corporate policy announcements; at "SMART BOSS: Setting the Tone for the Workplace," the panel discussion held in May 2012 through the "Win-K" women's professional advancement project; and at the Global Business Seminar that the Human Resources Department conducted in June 2012.

Activities Promoting Senior Employees

KDDI has in place a "reemployment" program for employees who have reached the retirement age of 60, enabling them to work as non-regular employees until age 65. This system employs open recruiting, allowing the employee to select their desired job type and activity. Through this system, former full-time employees are working throughout the Company and providing the benefit of their skills and experience in a host of workplaces.

We also hold career development support seminars to motivate employees aged 55 and older.

Occupational Safety and Health

Enhancing Employees' Health Management

KDDI provides health checks with testing categories that are more detailed than the legal requirements, and we offer health guidance to employees who undergo regular health checks. We have also reinforced our efforts targeting the prevention of lifestyle diseases, providing a specific health checkup and specific counseling guidance.

We have a Healthcare Room and a Refresh Room to encourage employee health maintenance and recovery. Employees can take a temporary rest in the Healthcare Room when they are not feeling well, and receive first-aid care and health counseling. At the Refresh Room, nationally qualified masseurs (health keepers) work to ease away back and neck aches and soothe tired eyes, helping to support employee health.

Promotion of Mental Healthcare

Throughout society, an increasing number of people suffer from mental health issues. In response, at its Employee Counseling Center KDDI conducts counseling, proactively encouraging self-care and line care. We also require employees working more than a prescribed number of hours to consult with industrial physicians and medical staff to preempt any mental health problems.

In addition, we are aggressively promoting e-learning about mental healthcare, and have set up the "Mind Clinic" site on our intranet as a repository of information related to mental health, including stress checks and other types of self-care and line care, to cultivate employee awareness of this issue.

Testing a Health Promotion Service Using Health Check Data

From February to May 2013, we conducted a test targeting KDDI employees and using data gleaned from health checks as part of our plans to introduce a new health promotion service.

This service uses smartphones to provide information about individuals' state of health and to suggest lifestyle improvements. The test used health check data from past consultations to determine an employee's disease risk and make recommendations in 60 categories, including lifestyle improvements and developing an exercise routine. In this test, employees selected suitable improvement tasks, and we tracked their progress throughout the 3-month program.

In summer 2013, we plan to enhance the test's functions and extend it on a trial basis to include people outside the Company.

Human Resource Cultivation

Self Career Produce System (SCAP)

In FY2008, KDDI introduced a Self Career Produce System (SCAP) to spark employees' enthusiasm and evoke a spirit of challenge by enabling them to chart their own career courses. The system enables employees to transfer to departments of their choice after they have accumulated a certain amount of experience in their current positions and have earned positive evaluations.

Management by Objectives System

Under a system of management by objectives, employees and their supervisors meet to determine an employee's "personal objectives," which feature a combination of Company and organizational targets and individual targets for the employee, and are designed to encourage a sense of challenge that will spur employees on to further efforts toward personal growth. This system is linked with employee evaluations. We have also incorporated planning skills and other evaluation items as part of the process of achieving objectives and are promoting more impartial and transparent personnel evaluations.

Overseas Dispatch Employee Education Program

KDDI established a program through which employees are given the opportunity to gain experience at overseas operating sites. This system aims to cultivate and expand opportunities for global human resources and foster employee efforts to develop their careers on a global stage.

The system is open to employees who have achieved a predetermined number of years of work experience and who pass an internal examination. Following work experience and training in divisions related to international operations in Japan, successful candidates are assigned to Group companies overseas, taking into account the Company's needs and their own aptitudes.

Global Human Resource Cultivation Measures in Japan

KDDI refers to departments in Japan that have a need to quickly cultivate human resources capable of functioning on the global stage as "Global Zones." Working with the Company's personnel department, these "Global Zones" conduct intensive training in languages and global competency (such as communication, interpersonal skills, and response to diversity). Employees in these "Global Zones" also undergo skills training tailored specifically to the needs of individual divisions.

The Company holds various seminars and preparatory courses to enhance the language skills of all employees, introduces staff to language training programs, subsidizes TOEIC® exam-taking, and provides support in other ways.

* TOEIC® is a registered trademark of Educational Testing Service (ETS).

Conducting Training for Employees Being Posted Overseas

KDDI conducts Training for Employees Being Posted Overseas to prepare them to take up their positions at our overseas locations. This training covers the concepts behind the KDDI Philosophy, centering on the fundamental knowledge required for people being dispatched overseas, and provides instruction on topics such as governance and risk management. We also provide region-specific training for employees headed for English- or Chinese-speaking destinations. They receive language instruction by native speakers of those languages and learn about things to take into account when cultivating relationships with local people. This training is designed to be practical, so that employees can quickly apply it upon reaching their destination.

Training and Cultivating Locally Hired Employees

In keeping with rapid globalization, the KDDI Group is placing an emphasis on cultivating employees who have been locally hired overseas.



Practical Skills Training for Employees Working Overseas

We provide training that is differentiated according to employees' positions and skills. An understanding of the KDDI Philosophy forms the basis for training, which is augmented with training on practical skills, including business strategy and an understanding of services, through Practical Skills Training for Employees Working Overseas. We also provide Training for Managers Working Overseas for locally hired managers that is aimed at cultivating an understanding of Group strategies and the improvement of management skills as well as Upper Management Training that cultivates human resources for leadership roles as location managers.

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

TOPICS

KDDI Philosophy Overseas Promoter's Training Program

In FY2012, KDDI began conducting Philosophy Promotion Training to enable employees being posted overseas to take a lead role in spreading the KDDI philosophy at their overseas locations.



Philosophy Promotion Training

Provided in September 2012, this training was attended by 18 people designated as promotion leaders at various overseas locations. The 3-day course covered our perspective on the KDDI Philosophy, classroom lectures on such topics as the roles of a leader in promoting activities and how to conduct activities, and incorporated role-play.

Going forward, we plan to continue encouraging people studying overseas to promote the KDDI Philosophy so that we can share perspectives, values, and behavioral principles that are appropriate for KDDI employees.

Fair Operating Practices

KDDI strives to ensure the trust of its stakeholders through information security and compliance initiatives, as well as fair and impartial business activities and proper and appropriate information disclosure.



Information Security

KDDI's Security Policy—Our Basic Policy on Information Security

KDDI recognizes the appropriate management of information as a topmost management priority. Accordingly, we have formulated the Security Policy as our basic policy on information security. To earn the trust of customers and other stakeholders, we publicize this policy both inside and outside the Company and declare our observance to it, consistently taking appropriate defensive action to counter the risk of information leaks.

KDDI's Privacy Policy—Our Basic Policy on Personal Information Protection

KDDI realizes the importance of personal information. To ensure the thorough protection of such information, KDDI conforms with the Telecommunications Business Law, legislation concerning the protection of personal information, industry-specific guidelines such as those related to the protection of personal information in the telecommunications business, and other laws. We also publicize and declare adherence to our basic policy in this area, the Privacy Policy.

Strengthening Information Security

KDDI has established and administers 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 readily implements measures to enhance information security at KDDI itself and throughout the Group.

In April 2009, we acquired information security management system (ISMS) certification* (ISO/IEC 27001) for the entire Company. Since then, we have continued to implement measures to improve information security centered on the maintenance of these systems. In FY2012, we formulated regulations for KDDI Group companies based on the KDDI Group Information Security Standards that we formulated in FY2011. In FY2013, we will continue working to strengthen information security and governance

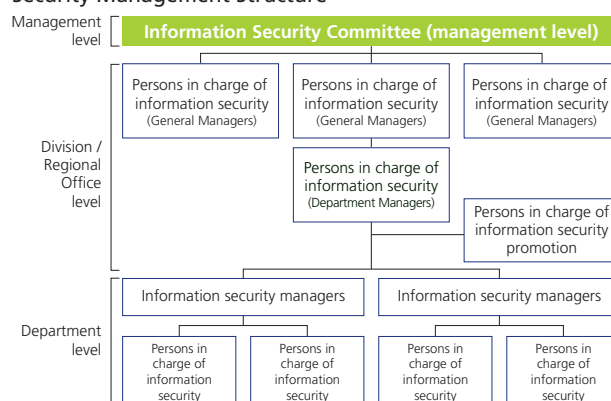
at KDDI Group companies through the appropriate execution of Group company regulations and application of a PDCA cycle.

* This is a third-party certification system for information security systems. It was established with the goal of contributing to widespread improvements in information security and encouraging companies to target levels of information security that can be trusted around the world.

Responding to Incidents Involving Information Leaks via Social Media

The expanding use of social media has prompted a spate of incidents in which corporate trust has been damaged or individual privacy compromised over the Internet. KDDI has addressed this situation by formulating and disseminating thoroughly rules that all executives and employees must follow when using social media.

Security Management Structure



ISMS Certification at KDDI

Number of Registrations	Organization	Initial Registration
IS 95253	KDDI CORPORATION ^{*1}	June 7, 2005
IS 76406	KDDI CORPORATION (Operations Division) ^{*2}	July 4, 2003
IS 85329	KDDI CORPORATION (Information Systems Division)	September 28, 2004

*1 Includes corporate, technology and sales, and customer support divisions, as well as KDDI KYOSAIKAI (now, KDDI Group Welfare Association), KDDI Health Insurance Union, KDDI Pension Fund, KDDI Research Institute, Inc. and KDDI MATOMETE OFFICE CORPORATION

*2 Includes Japan Telecommunication Engineering Service Co., Ltd.

Compliance

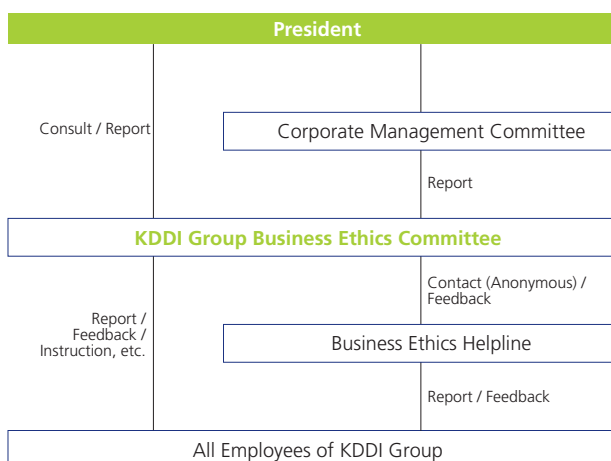
Basic Stance

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 by telecommunications providers as 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, we have established the KDDI Code of Business Conduct as a code of conduct for all employees.

Taking social circumstances into account, we revised this code in April 2011, further enhancing compliance.

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

DATA Conducted e-learning (Companywide training)

10 times in total

KDDI has set up and conducts compliance classes in an effort to enhance employee awareness.

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. We have also opened the Business Ethics Helpline to overseas companies.

In FY2012, the Helpline received 11 reports, including inquiries. Internal investigations were conducted primarily by the KDDI Group with regard to the issues reported, and information regarding reporters was kept confidential. When problems were uncovered, steps were taken to rectify the situation, including proposing improvements and instituting measures to prevent recurrence.

Basic Policy for Eliminating Anti-Social Forces and Status of Implementation

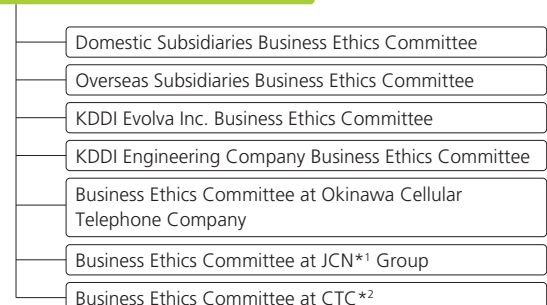
Our Basic Policy for the Creation of Internal Systems takes a firm stand on countering anti-social forces. In addition to rules defining initiatives for blocking off any relations with such forces, the KDDI Code of Business Conduct, which defines basic principles to be followed and enforced by all executives and employees, takes a firm stand against anti-social forces, rejecting any requests for illicit funds and refusing to comply with their demands.

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.

KDDI Group Business Ethics Committee Framework

KDDI Group Business Ethics Committee



*1 JAPAN CABLENET LIMITED (JCN)

*2 Chubu Telecommunications Co., INC. (CTC)

■ Working with Business Partners

Formulation of the CSR Procurement Policy

As a general telecommunications operator responsible for social infrastructure, KDDI recognizes its duty to maintain a high level of corporate social responsibility (CSR). To fulfill this obligation, in the first half of FY2013 we plan to formulate and implement a CSR Procurement Policy to cover activities required not only of KDDI but also of members throughout the entire supply chain.

The CSR Procurement Policy's objective is to request that business partners participate in initiatives under themes in which KDDI is involved, supporting efforts to extend these initiatives throughout the supply chain. Going forward, we plan to reinforce our partnership structure based on business partners' understanding of and cooperation with the CSR Procurement Policy. This move should further increase our level of CSR procurement.

CSR Procurement Policy

* KDDI's CSR Procurement Policy is under consideration as of May 2013.

1. Mutual Harmony and Benefit with Business Partners

As we consider the companies with which we do business as partners, we strive to resolve issues throughout the entire supply chain and foster long-term, trust-based relationships in our aim for mutual prosperity and continued existence.

2. Environmental Consideration

We promote procurement activities that are considerate of the environment, and by reducing the unnecessary use of resources and energy we strive to reduce costs throughout the entire supply chain.

3. Fair and Equitable Transactions

In addition to complying with domestic and overseas laws and regulations in relation to our purchasing activities, we conduct transactions with business partners fairly and on an equal basis.

4. Consideration for Human Rights and Working Environments

We promote procurement activities that encourage respect for fundamental human rights, improve working environments, and ensure health and safety.

5. Appropriate Information Management

We fulfill our duty of confidentiality on confidential information and personal information obtained through procurement activities.

6. Ensuring Product Quality and Safety

We provide valuable products and services by working with our business partners to maintain or improve product quality and safety as well as services.

7. Coexistence with Society

As a good corporate citizen, we strive to coexist with local communities and work with our business partners to contribute to the realization of a sustainable society.

Reinforcement of Partnerships with Business Partners

KDDI considers the companies with which it conducts transactions to be important business partners. Accordingly, we conduct questionnaire-based surveys of our business partners, as well as our own departments that place orders with these companies, in an attempt to deepen shared understanding, build trust-based

relationships, and achieve mutual improvements in operational quality. We also have in place systems to provide direct feedback of questionnaire results to business partners and reward systems for recognizing business partners that earn particularly high marks.

To strengthen our partnerships, we have also extended the KDDI Group's Business Ethics Helpline to business partners, which serves as a contact point for employees with questions or concerns about business ethics and legal compliance.

Educational Support to au Shop Staff

KDDI believes that training au shop staff is an essential element of its efforts to pursue customer satisfaction on a host of fronts. We encourage au shop staff to learn efficiently and effectively by conducting group training for learning essential sales skills, and e-learning for new product information, where basic operational knowledge and rapid mastery is required.

In the second half of FY2012, KDDI revised the content of its qualification and certification system, with professional training recognizing sales efforts that generate high levels of customer satisfaction as "au Advisors," "au Masters," and "au Experts."

We also conducted "Multidevice Training" covering smartphones, tablets, and other multifunctional devices, and "FTTH Training" on au HIKARI and other fixed-line services. These courses, which go beyond product explanations to include proposals on adding value to customers' lifestyles, are designed to ensure customer service that leads to higher satisfaction levels.

Support for Content Providers

We work with content providers, who are our business partners, to provide customers with unlimited access to an extensive lineup of apps, coupons, cloud services, and other items through "au Smart Pass"—one way in which we propose attractive new value offerings to our customers.

We support content providers with a counter for face-to-face discussions and a helpdesk for Web site and telephone-based inquiries. This system gives our business partners direct access on the technical and operational fronts. To enhance satisfaction among content providers, each month we hold TCS* Promotion Meetings, attended by the heads of departments and divisions that work with content providers. At these meetings, we consider content providers' opinions and the results of questionnaire-based surveys and design improvement measures.

To enable content providers to provide content quickly and without inconvenience, going forward we plan to shorten web-site-based service procedures and clarify sections that are difficult to understand.

* An abbreviation for "total customer satisfaction," through which we recognize all stakeholders as "customers" and work toward their satisfaction.

Interacting with Shareholders and Investors

IR Basic Policy and Activity Guidelines

KDDI has formulated an IR Basic Policy, which the Company discloses on its Web site, explaining such matters as fundamental thinking regarding IR activities and the system for disclosing pertinent information. KDDI conducts IR activities in accordance with its "3 IR Activity Guidelines." As a result, we aim to build long-term, trust-based relationships with our shareholders and investors and maximize our corporate value.

3 IR Activity Guidelines

- Open IR activities
- Proactive IR activities
- Organized IR activities

IR Activities in FY2012

Earnings presentation meetings are held quarterly to allow management to communicate the Company's results directly. We also enhanced communications, through such methods as meeting with investors 950 times and actively attending conferences sponsored by securities firms. Furthermore, we provide management with feedback incorporating the opinions of shareholders and investors in a timely manner.

Our communications with individual investors included holding 20 seminars for these investors (attended by approximately 1,800 people). KDDI also reinforced its communications by hosting facility tours for shareholders.

Principal IR Activities in FY2012

Content of Activity	KDDI participants	Times conducted	Number of participants
Earnings presentations	The president and executives in charge of individual businesses	4 times	400 people
For institutional investors and analysts	The president, executive in charge of IR, and others	950 times	—
Seminars for individual investors	The executive vice president, executive in charge of IR, and others	20 times	1,800 people



Earnings presentation



Company briefing for individual investors

TOPICS

Holding Facility Tours for Shareholders

KDDI held its first facility tour for shareholders in September 2012. We invited a selection of 40 shareholders to tour KDDI OCEAN LINK*, a submarine cable maintenance and repair ship that was berthed at a special dock in the Port of Yokohama.

On the day of the tour, its captain explained the ship's various equipment and instruments. The tour proved a meaningful opportunity to communicate with shareholders, who voiced such comments as "This unusual chance to tour a repair ship was a valuable experience," "It helped me understand the importance of submarine cable equipment," and "I hope to have the opportunity to tour other facilities in the future."

KDDI will continue reinforcing its communications with shareholders to encourage their understanding of the Company.

* This submarine cable maintenance and repair ship operated by KDDI subsidiary Kokusai Cable Ship Co., Ltd. (KCS), went into operation in 1992 to lay, bury, and perform repairs and maintenance on optical submarine cables. Equipped with a number of high-tech instruments, this ship is instrumental in the construction of new international communications networks.



Shareholders listening to an explanation of KDDI OCEAN LINK

Third-Party Evaluations

DATA Ranked 1st for excellence in corporate disclosure by securities analysts (Tele-communication / Internet category)

1st in the Tele-communication / Internet category

In FY2012, we earned high marks from third parties for our IR activities. We won the "Internet IR Best Company Award in 2012," by Daiwa Investor Relations Co., Ltd., marking our 8th consecutive year for this honor. We also received the "Award from Securities Analysts for Excellence in Corporate Disclosure" from the Securities Analysts Association of Japan's Corporate Disclosure Study Group and ranked 3rd overall out of 3,570 listed companies for the HP Depth Ranking by Nikko Investor Relations Co., Ltd. As of April 2013, KDDI is also included in the Morningstar Socially Responsible Investment Index*¹ in Japan, a principal indicator of socially responsible investments, and is included in investment universe*² designated "Ethibel EXCELLENCE" by Forum ETHIBEL*³ of Belgium.

*1 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.

*2 Group of stocks that can be included in the fund's investment

*3 An NPO based in Belgium, Forum ETHIBEL promotes socially responsible investment in Europe.



Community Involvement and Development

KDDI conducts a variety of social contribution activities and aids community development through the development of technologies and grant activities. In these ways, we fulfill our role as a member of local communities.



■ Social Contribution Activity Promotion

Social Contribution Policy

Basic Principles

Operating in accordance with the KDDI Philosophy, by satisfying all its stakeholders the KDDI Group seeks to contribute to society's happiness by encouraging fulfilling lives for people around the world in a sustainable manner.

Behavioral Guidelines

1. As a company involved in information and communications business, KDDI recognizes its social responsibility to address societal issues through the use of information and communications technologies (ICT). We aim to provide appropriate communication environments that are safe and secure for all people.
2. KDDI has established medium-term themes for its social contribution activities in five areas: "bridging the digital divide*," "sound development of youth," "environmental conservation," "social and cultural support," and "support in times of disaster." By maximizing our application of such resources as networks, products and services, we conduct social contribution activities through ICT, in a manner characteristic of KDDI.
3. Through communications with stakeholders, we notify and share information concerning ongoing improvements in the content of our operations, thereby contributing to society's development.
4. By sharing with KDDI Group employees our directions on social contribution activities, we pursue independent-minded activities as a good corporate citizen in the aim of achieving sustainable growth in tandem with society.

* Issue where an information disparity occurs between people who have access to information and communication technology such as the computers and the internet and those who do not.

The "+α Project" for Employee-participatory Social Contribution Activities

DATA Total contributions through the "+α Project" in FY2012

¥6,304,120

The "+α Project" is a social contribution program run proprietarily by KDDI and driven by employee participation. In this project, we grant points to project members for their social contributions, whether performed in conjunction with or independent of KDDI. Accumulated points are converted to monetary amounts, at the rate of ¥100 per point, based on which KDDI makes donations to charity groups recommended by members. As of March 31, 2013, approximately 6,800 employees throughout Japan were registered as project members. In FY2012, we made contributions

to 30 charity groups, including "Tamashiro no Sato," an institution that provides support to people with hearing and other disabilities.

"Pieces of Hope" Click Donation Site

"Bring together many small friendly feelings to make a big hope." With this wish in mind, KDDI has opened a click-based donation site, "Pieces of Hope," on its Web site. Each click on the donation page is converted to ¥1, and KDDI donates the total amount to NPOs that undertake social contribution activities. In FY2012, total donations reached ¥2,966,701.

Project Aimed at Bridging the Digital Divide

As a company that provides information and communications services, we recognize bridging the digital divide in developing countries as a social issue that requires proactive initiatives. The KDDI Foundation* has been working to resolve this problem since FY2002.

To verify the effectiveness of broadband communications technology and wide-area applications in Bhutan, in FY2012 we built WiMAX and other pilot networks in 3 rural locations in the country. Also, in Micronesia we constructed systems to provide health clinics on remote islands that tend to be isolated from traffic and communications with access to the Internet and other modes of communication.

* This public interest incorporated foundation's mission is to share the benefits of ICT more broadly throughout society and to contribute to the creation of global harmony through ICT.

TOPICS

An Award from the Republic of the Marshall Islands

At the 9th Asia Pacific Telecommunication and ICT Development Forum, sponsored by Asia-Pacific Telecommunity (APT) and held in Bangkok, Thailand, in August 2012, KDDI received an Award from the Republic of the Marshall Islands for its promotion of a project to build an ICT environment on Mejit Island.



KDDI employees receiving the award from the Republic of the Marshall Islands

This Award was in recognition of the KDDI Foundation's efforts in FY2011 to design and build Internet and other communications systems linking the island of Mejit and Majuro, the capital of the Republic of the Marshall Islands, which had previously had access only to shortwave voice communications.

■ Educational Support for Local Communities

Educational Support via Tablet Terminals (Multifunctional Portable Terminals)

Since October 2011, KDDI embarked on a trial using Android™ tablets with cooperation from the Yokohama Municipal Shirahata Elementary School. For this trial, KDDI provided the tablet terminals and the network environment, as well as a variety of applications.



Pupil using a tablet to study math

In this initiative, based on the “Vision to Introduce Information Systems into Education” announced by Japan’s Ministry of Education, Culture, Sports, Science and Technology, KDDI is contributing to the adoption of ICT for high-quality education, specifically for schools, home education, and personal learning.

In November 2012, the school offered education providers information on courses employing Android™ tablets. These courses used two types of applications. The first employs arithmetic drills whose difficulty is gauged according to a student’s progress. The second is for English, which is becoming a compulsory subject at elementary schools in Japan. This application uses English-language cards and encourages children to learn by playing games and listening to words pronounced by native English speakers. The school is also making student progress visible and has introduced an “e-portfolio” for sharing this information with guardians and teachers.

* Arithmetic drills were provided by Shogakukan Inc., and English-language content by the National Institute of Information and Communications Technology.

Career Education

A growing need exists to provide students with career training, which encourages them to consider their future roles in society and helps them decide on areas that fit the sort of life they want to lead.



KDDI employee delivering a career lecture

KDDI is addressing this situation by developing various types of career education for junior high school, senior high school, and university students.

In January 2013, KDDI employees delivered lectures about careers at the Tokyo Metropolitan Itabashi-utoku High School. Included as part of the school’s career guidance for first-year students, the lectures were designed to give students the opportunity to speak directly with people who have already taken their places in working society, help them better understand different vocations, and encourage them to think about their path for the future. A total of 70 students attended the lectures, in which KDDI Group personnel from various divisions explained the types of work they do.

Charity Concerts and School Construction

Cambodia, which was embroiled in civil war from the 1970s through the early 1990s, is currently in a recovery phase, including on the educational front. Each year since 2005, the KDDI Foundation has held charity concerts to support Cambodia. KDDI augments the funds that are raised through these concerts, which are provided to World Assistance for Cambodia, an NGO, to build schools.

Through these activities, each year a “KDDI School” is constructed to cultivate human resources that are adapted to internationalization and the use of ICT. The 8th KDDI School opened its doors in January 2013 in Cambodia’s Banteay Meanchey Province. Construction and opening of the school was 1 activity designated to publicly commemorate the 60th anniversary of friendship between Japan and Cambodia.

Yasuhiko Ito, president of the KDDI Foundation, commenced his speech at the opening ceremony with a greeting in Khmer and encouraged the children by saying “Study and you can define your own future, as well as that of your country.”



KDDI School opening ceremony



60th Anniversary
JAPAN and CAMBODIA

Educational Support in Developing Countries

In addition to the KDDI School, in FY2012 we supported the Small Art School, an NGO that teaches painting to Cambodian children.

Students’ creations were used in a charity concert program, where proceeds were donated to the Small Art School.

■ Development and Provision of Technological Expertise

Development of Grant Activities

The KDDI Foundation contributes to the proliferation and development of ICT through survey-based research, social and cultural activities at NPOs and other organizations, grant assistance to foreign exchange students and Japanese students studying overseas, and through awards for research projects of particular merit, providing approximately ¥70 million for such activities each year. The Foundation also conducts scientific demonstration classes for students at university-affiliated elementary and junior high schools.

Accepting Trainees from Overseas and Provision of Technological Consulting

The KDDI Foundation has conducted activities involving the “acceptance of trainees from overseas” since 1957, via Kokusai Denshin Denwa Co., Ltd. (KDD). As of March 2013, through this program the Foundation had accepted a total of 5,700 trainees, from 144 countries. As many of these trainees take up key positions after returning to their home countries, through this program the Foundation makes a major contribution to the cultivation of human resources in developing countries.



Hosting overseas trainees

The Foundation also conducts technological consulting as official development aid. Projects conducted in this vein include the “North-South Submarine Fiber Optical Cable Link Project in Vietnam” and the “Greater Mekong Telecommunications Backbone Network Project.”

Declaration to Support JICA Volunteer Activities

KDDI provides ongoing support of the overseas volunteer activities of the Japan International Cooperation Agency (JICA).

KDDI has set up a system that supports employees serving as Japan Overseas Cooperation Volunteers (JOCVs) and senior overseas volunteers in developing countries while maintaining their positions at the Company. Since 1967, 62 KDDI employees have taken advantage of this opportunity.

We also support JICA activities by holding corporate lectures that explain KDDI’s support structure as part of JICA’s presentations to solicit JOCVs.

* As part of this support, companies and associations whose current employees are taking part in JOCV and other JICA volunteer activities describe their activities via JICA’s public relations (PR) magazine and Web site to introduce and proactively promote their initiatives and encourage interest in JICA volunteer activities.

Supporting the Growth of Venture Companies

“KDDI ∞ Labo” (Mugen Labo)

In 2011, KDDI introduced a program called “KDDI ∞ Labo” to spark the imagination of young engineers toward the creation of innovative Internet services that could be used globally. From its perspective as a provider of communications services, KDDI screens applicants who have applied to the program through open recruitment, providing those selected with broad-ranging support, spanning development support, management support for business startups, and help with promotion, funding, and business alliances. We also provide space for communication within KDDI’s offices and lend engineers the terminals and servers

they need to develop services while also offering support in various other areas. In the 3rd phase of this program, which commenced in September 2012, from around 100 applications we selected 5 teams to participate. These teams developed applications during the 3-month course of the program.

After development, we evaluated the applications for their originality, marketability, and level of completeness. “tixee,” an application developed by Live Styles Inc., was selected as the winning application. This application allows smartphones to search for events, purchase tickets, and admit ticket holders. In March 2013, we began phase 4 of the program, providing ongoing support for the quest to commercialize original ideas and technologies.



Participants in phase four of the “KDDI ∞ Labo” program

KDDI Open Innovation Fund


We established the KDDI Open Innovation Fund, which is managed by Global Brain Corporation, in February 2012 as a corporate venture fund to support promising startup companies. We have begun providing applications developed by TOLOT Inc. (headquartered in Koto-ku, Tokyo), JMTY Inc. (Shibuya-ku, Tokyo), and 3rd Kind Inc. (Shibuya-ku Tokyo), with financial assistance from this fund on “au Smart Pass.”

Providing the “SmaBI” Business Startup and Management Support Service

In February 2013, KDDI began providing the “SmaBI” business startup and management support service in cooperation with PROJECT NIPPON Inc. (headquartered in Shinjuku-ku, Tokyo).

Leveraging the expertise that PROJECT NIPPON has built up through the operation of “DREAMGATE*,” “SmaBI” automatically creates a company’s articles of incorporation at its time of establishment and offers a legal document generation tool. This tool creates documents from a repository of more than 100 legal documents used in personnel administration, including those required when an employee joins or leaves a company. “SmaBI” also allows for the online creation of a specialized consulting body to assist with business startup and operation through a management advisory service called “The President’s Chief of Staff,” providing a full range of support for business startups.

* Launched in April 2003, “DREAMGATE” is Japan’s largest business startup support platform site and is backed by the Ministry of Economy, Trade and Industry. Used by more than 400,000 entrepreneurs, the site counts among its business startup support experts some 500 venture capitalists, attorneys, accountants, and small and medium-sized enterprise management consultants. In addition to operating the “DREAMGATE” portal site, the company conducts seminars, events, business plan contests, and an entrepreneur award system.



Corporate Governance

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Corporate Governance

Corporate Governance Promotion Framework

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

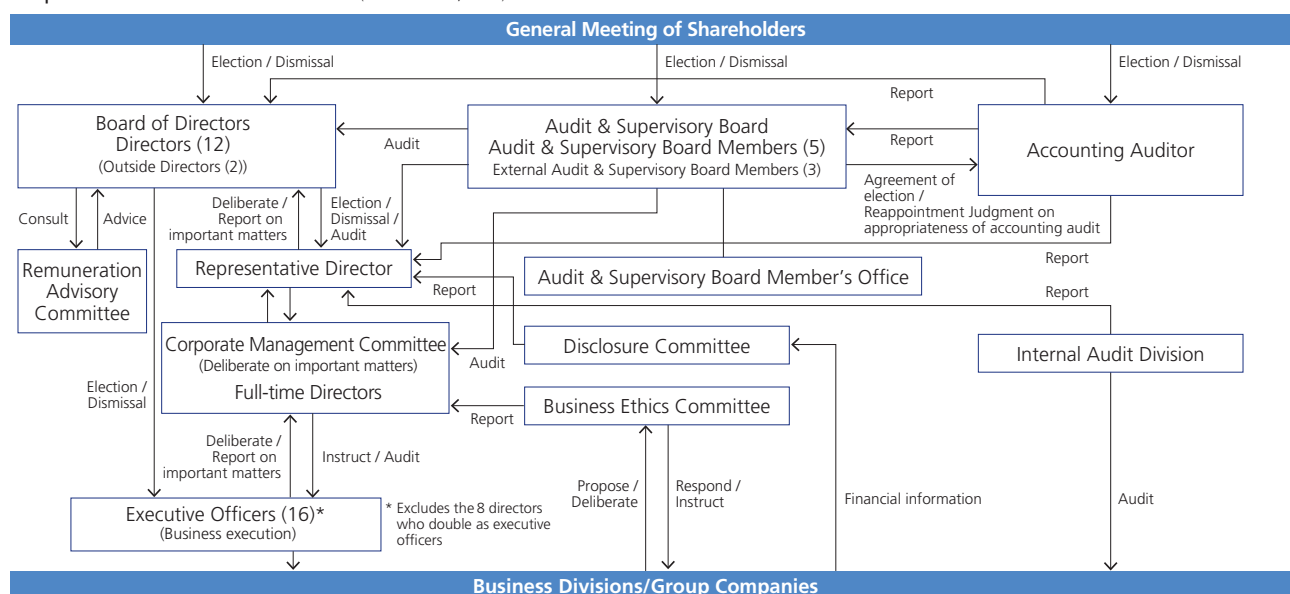
directors, provides advice on remuneration to executives.

Audit & supervisory board members 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 audit & supervisory board members' duties, exchange opinions, and collaborate with auditors. The Board also periodically listens to reports from the accounting auditor 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, in 2006, KDDI established the audit & supervisory board member's office to assist audit & supervisory board members with their duties. The opinions of the audit & supervisory board members 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 audit & supervisory board members, 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.

Corporate Governance Framework (As of June 19, 2013)



Major Activities of Outside Directors and Outside Audit & Supervisory Board Members

Outside Directors

Name	Reason for selection as an outside director of the Company (if designated as an independent director, reason for this designation)	Principal activities in FY2012
Tetsuo Kuba	Mr. Kuba was appointed because of his demonstrated effectiveness in the management of one of the Company's principal shareholders, his extensive experience as a director of other companies, and the perspective rooted in broad-based insight that he brings to supervising the Company's business activities.	Assumed office on June 19, 2013
Nobuyori Kodaira	Mr. Kodaira was appointed because of his demonstrated effectiveness in the management of one of the Company's principal shareholders, his extensive experience as a director and auditor of other companies, and the perspective rooted in broad-based insight that he brings to supervising the Company's business activities.	Assumed office on June 19, 2013

Outside Audit & Supervisory Board Members

Name	Reason for selection as an outside auditor of the Company (if designated as an independent auditor, reason for this designation)	Principal activities in FY2012
Takeshi Abe	<ul style="list-style-type: none"> Mr. Abe was appointed because of the extensive experience and broad-based insight he has developed over numerous years as an executive officer in public administration and at various foundations involving the execution of operations at those organizations. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. Mr. Abe's tenure as executive officer at the Development Bank of Japan, Inc., was short. A substantial amount of time has passed since he retired from that position, and he currently receives no benefits from that organization. Given this experience, and the fact that he hails primarily from organizations involved in administrative operations, we recognize that he has scant relationship with KDDI. Consequently, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an audit & supervisory board member, and have appointed him as an independent audit & supervisory board member. 	<p>Assumed office on June 20, 2012</p> <p>Attended 8 of 8 meetings of the Board of Directors and 7 of 7 meetings of the Audit & Supervisory Board</p>
Kishichiro Amae	<ul style="list-style-type: none"> Although Mr. Amae has no direct involvement with corporate management, he has extensive experience gained through many years as a diplomat and in the execution of operations at various organizations. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. Given his career history, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an audit & supervisory board member, and have appointed him as an independent audit & supervisory board member. 	<p>Assumed office on June 20, 2012</p> <p>Attended 8 of 8 meetings of the Board of Directors and 7 of 7 meetings of the Audit & Supervisory Board</p>
Yukihisa Hirano	<ul style="list-style-type: none"> Mr. Hirano has extensive experience and expertise as a corporate manager. Consequently, he has been appointed to supervise overall management from a position independent from that of a director with the objective of promoting even more appropriate auditing. A significant amount of time has passed since Mr. Hirano retired from his position as president of Toyota Motor Corporation, and he currently receives no benefits from that organization. In addition, after retiring he served as president of the Central Japan International Airport Co., Ltd., and we recognize that he currently has no relationship with Toyota Motor Corporation. Consequently, we judge that no danger exists of conflicts of interest with general shareholders, consider him appropriate as an audit & supervisory board member, and have appointed him as an independent audit & supervisory board member. 	<p>Assumed office on June 20, 2012</p> <p>Attended 8 of 8 meetings of the Board of Directors and 7 of 7 meetings of the Audit & Supervisory Board</p>

Remuneration for Directors and Audit & Supervisory Board Members

		Number of Directors / Auditors	Remuneration (Millions of yen)
Directors	Outside Directors	2	20
	Others	10	556
Audit & Supervisory Board Members	Outside Audit & Supervisory Board Members	6	39
	Others	2	47

Notes: 1. The above-stated remuneration for audit & supervisory board members includes amounts for 3 audit & supervisory board members who stepped down at the end of the 28th Annual Meeting of Shareholders, held on June 20, 2012.

2. The maximum monthly remuneration for directors was set at ¥40 million by a resolution of the 17th Annual Meeting of Shareholders, held on June 26, 2001. This does not include 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.

3. The maximum annual remuneration for audit & supervisory board members was set at ¥100 million by a resolution of the 28th Annual Meeting of Shareholders, held on June 20, 2012. This amount is based on the Company's fiscal year.

4. Remuneration amounts outlined above included the following Board members' bonuses, which were defined as being linked to performance and no more than 0.1% of consolidated net income for the applicable fiscal year by a resolution of the 27th Annual Meeting of Shareholders, held on June 16, 2011. 10 directors (excluding outside directors): ¥153.44 million

5. 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 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 audit & supervisory board members 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 FY2011 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.

Policies on Remuneration for Audit & Supervisory Board Members

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

Risk Management and Internal Controls

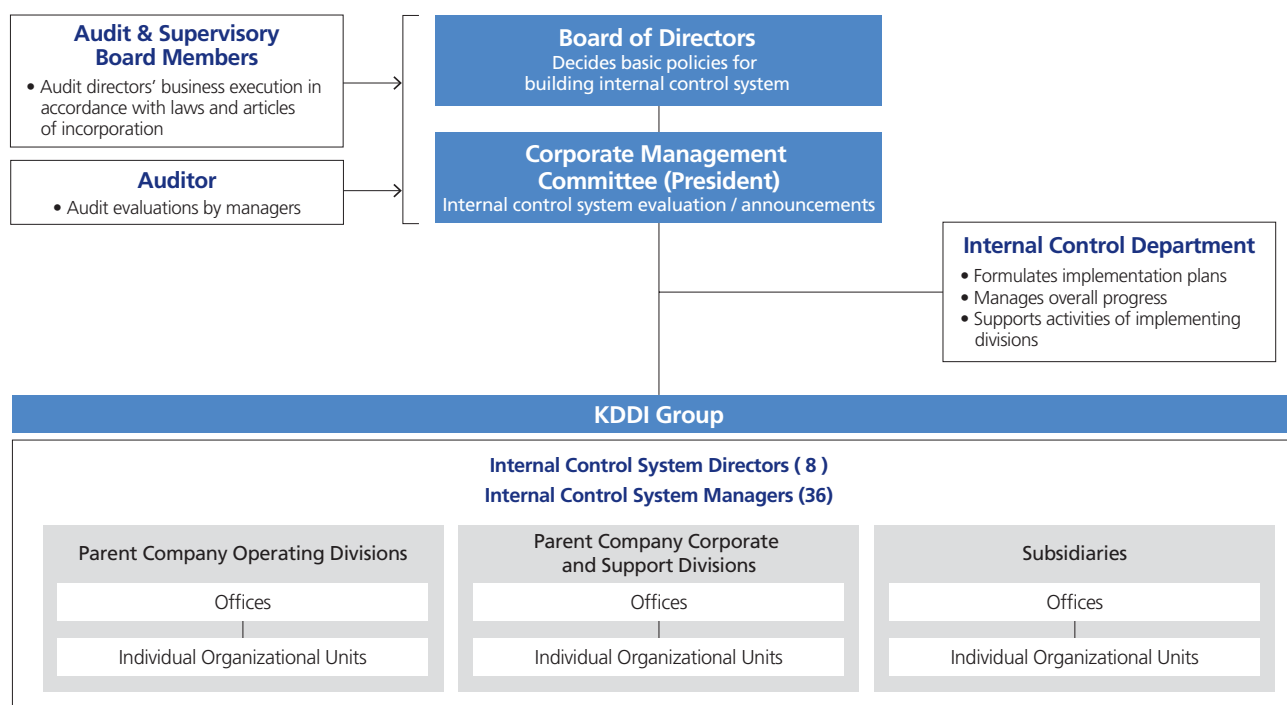
KDDI's Risk Management and Internal Control Promotion Systems

KDDI has established a system to centralize the management of risks, which it defines as factors that have the potential to block the achievement of management objectives. The Corporate Risk Management Division is the core of this system. KDDI and its principal Group subsidiaries have appointed 36 Internal Control System Managers, as well as 8 Internal Control System Directors to oversee their activities. This structure forms the basis for our internal control system and its operation, as well as risk management activities. We also promote operational quality enhancement activities to realize a corporate constitution that prevents risks from materializing.

In order to realize our management objectives with certainty, in FY2012 we designated 29 items as significant risks, reflecting on issues that have come to the fore in the past and changes in our operating environment, such as the shift from feature phones to smartphones and changes in employment conditions. We worked to foresee risks, reduce significant risks, support operational improvements, and conduct internal audits.

Furthermore, we are undertaking Companywide initiatives to improve the quality of our operations, thereby cultivating a corporate culture that prevents risks from materializing.

Internal Control Promotion System Concerning Financial Reporting



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 FY2008, 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 2013, as well as disclosed to investors.

Protecting Intellectual Property

KDDI's commitment to creating and protecting intellectual property and respecting the intellectual property rights of others is defined in the basic policies of the KDDI Code of Business Conduct.

In addition, the Company has established the Intellectual Property Department, a specialized department for the protection and management of intellectual property.

Furthermore, it has formulated intellectual property handling regulations to ensure the proper management and usage of KDDI's inventions, ideas, designs, trademarks, and other industrial property; software and other copyrighted materials; and technologies, expertise, and other rights protected under the Unfair Competition Prevention Act.

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.

To increase individual divisions' motivation to improve operating processes, KDDI has introduced the "Operational Quality Improvement Prize" to recognize excellent and motivational improvements. In addition to this system, in FY2012 we commenced a "low-cost operation" initiative aimed at boosting the motivation of each employee toward improvement and forging a link between these activities and increases in operating performance. All KDDI employees are pursuing the aims of (1) making even small business process improvements, (2) accumulating results through sustained efforts, (3) generating profits, and (4) encouraging independent action to become firmly rooted in our corporate culture.

In addition, we are undertaking a number of measures to ensure that this initiative gets through to all employees, enhancing their understanding of internal control and making the activities a permanent fixture. For example, executives involved in the movement share messages and positive case studies through a regular email magazine and our internal newsletter, and we conduct e-learning.

Business Continuity Plan (BCP) Initiatives

Following our experiences in the March 2011 Great East Japan Earthquake, we established a Companywide Disaster Response Project, and in October 2011 we formulated a Business Continuity Plan (BCP) for Large-Scale Disasters. We are pursuing a host of measures to address the plan's objectives of "ensuring the safety of employees and their families" and "fulfilling our responsibilities to continue providing telecommunications services as a designated public institution." Specifically, we have established detailed rules for each phase of response to disaster, from initial action through to full restoration. We are also creating satellite network links to principal bases throughout Japan in preparation for a scenario in which all fixed-line and mobile circuits cease to function. We have identified personnel who will, in the event of a disaster, be dispatched quickly to provide support at emergency shelters, and have stockpiled the equipment necessary for this eventuality. In parallel with these measures to shore up our structure, we are proactively conducting disaster response training throughout Japan that focuses on initial disaster response.

In February 2013, the Disaster Response Office spearheaded efforts by countermeasure offices to link communications equipment from all divisions and branches throughout Japan as part of disaster response training in anticipation of a massive earthquake in the

Nankai Trough. We employ a completely "blind" method of training, in which participants are not told what sort of disaster to expect until just before training begins. The training was held for approximately 200 emergency participants. At the start of training, they responded as information about the massive disaster began to unravel, lending the training a sense of reality.

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

Based on the "Guidelines for Taking Action against an Influenza Pandemic" (February 2009 Council on Countermeasures Related to a New Strain of Influenza and Avian Influenza), we formulated the "Plan for Maintaining Companywide Operations in the Event of an Outbreak of a New Strain of Influenza" to ensure employee health and accurate responses so that we can continue to provide our customers with communications services in the event of an outbreak of a new strain of influenza.



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

VOICE Reassuring Customers as Quickly as Possible



Kei Kisanuki

General Manager,
Disaster Prevention
Planning Office
Operations & Service
Quality Management
Department
Operations Division

Having experienced the Great East Japan Earthquake, I recognized my mission as an employee of a telecommunications company that provides a social lifeline. I also gained a greater sense of the importance that communications play in reassuring and bringing joy to customers and realized that in a disaster, every second matters. Understanding this reality, KDDI's management departments have reinforced response capabilities within everyday operations to ensure that service can be restored quickly in the event of a disaster. We are conducting 2 types of training to this end, and are dedicating a significant amount of time to testing and considering the content of this training and to determining any issues or areas for improvement that emerge.

Going forward, we will step up our training to include such assumptions as areas becoming isolated when roads are destroyed so that we can create systems for responding to all manner of disasters.

Content of Training

1. Internal Training

This training, conducted over several days, envisions a variety of scenarios and concentrates on getting services back on line quickly, paying attention to the time elapsed from when disaster strikes until service is recovered.

2. Training Open to the Public

This training, conducted at national and city disaster preparedness centers, involves setting up vehicle-mounted base stations and eliciting the understanding of as many people as possible regarding activities to recover service in the event of a disaster.



Training open to the public

Directors and Audit & Supervisory Board Members

(As of June 19, 2013)

Directors



Tadashi Onodera

Chairman

'01.6 President
'05.6 President and Chairman
'10.12 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)
'13.6 General Manager, Corporate
Communications Sector
(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
'11.6 Senior Vice President,
Member of the Board (Current position)
'12.4 Senior Vice President, Consumer
Business, Solution Business, Global
Business and Product Sector, 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)



Tsutomu Fukuzaki

Associate Senior Vice President
Member of the Board

'06.10 Vice President
'12.4 Associate Senior Vice President, General
Manager, Consumer Sales Division
(Current position)
'13.6 Associate Senior Vice President,
Member of the Board (Current position)



Hidehiko Tajima

Associate Senior Vice President
Member of the Board

'10.4 Vice President
'13.4 Associate Senior Vice President, General
Manager, Global Consumer Business
Division, Global Business Sector
(Current position)
'13.6 Associate Senior Vice President,
Member of the Board (Current position)



Tetsuo Kuba

Member of the Board*¹

'09.4 President and Representative Director,
President and Executive Officer of
Kyocera Corporation
'13.4 Chairman of the Board and
Representative Director of Kyocera
Corporation (Current position)
'13.6 Member of the Board (Current position)



Nobuyori Kodaira

Member of the Board*¹

'10.6 Senior Managing Director of Toyota
Motor Corporation
'11.6 Director and Senior Managing Officer of
Toyota Motor Corporation
'12.6 Executive Vice President of Toyota
Motor Corporation (Current position)
'13.6 Member of the Board (Current position)

Audit & Supervisory Board Members

Masataka Iki

Yoshinari Sanpei

Takeshi Abe*²

Kishichiro Amae*²

Yukihisa Hirano*²

*¹ Outside Directors

*² Outside Audit & Supervisory Board Members

Mr. Takeshi Abe, Mr. Kishichiro Amae and Mr. Yukihisa Hirano are independent directors pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.

Financial Section

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Consolidated Balance Sheets

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
ASSETS			
Current Assets			
Cash and deposits (Notes 4, 5, 7)	¥ 100,037	¥ 96,952	\$ 1,031
Accounts receivable (Notes 4, 5)	827,177	1,032,722	10,981
Short-term investment securities (Notes 5, 6)	80,188	231	2
Inventories	65,232	56,943	605
Deferred tax assets (Note 13)	57,781	58,768	625
Prepaid expenses and other current assets	21,427	25,524	271
Allowance for doubtful accounts (Note 5)	(14,960)	(20,271)	(216)
Total Current Assets	1,136,882	1,250,869	13,300
Property, Plant and Equipment			
Machinery, antenna facilities, terminal facilities, local line facilities, long-distance line facilities, engineering facilities, submarine line facilities (Note 7)	4,011,406	3,997,719	42,506
Buildings and structures (Note 7)	639,738	613,562	6,524
Machinery and tools (Note 7)	182,802	193,866	2,061
Land	251,994	249,931	2,657
Construction in progress	134,190	124,561	1,324
Other property, plant and equipment (Note 7)	29,000	30,200	321
	5,249,130	5,209,841	55,394
Accumulated depreciation	(3,365,404)	(3,379,882)	(35,937)
Net Property, Plant and Equipment	1,883,726	1,829,959	19,457
Investments and Other Assets			
Investment securities (Notes 5, 6, 7)	86,615	81,787	870
Investments in affiliates (Notes 5, 7)	352,001	348,388	3,704
Intangible assets	218,125	217,698	2,315
Goodwill	91,901	86,376	918
Deferred tax assets (Note 13)	104,829	114,577	1,218
Other assets	139,050	166,360	1,769
Allowance for doubtful accounts	(9,121)	(11,015)	(117)
Total Investments and Other Assets	983,401	1,004,171	10,677
Total Assets	¥4,004,009	¥4,084,999	\$ 43,434

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

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
LIABILITIES AND NET ASSETS			
Current Liabilities			
Short-term loans payable and current portion of noncurrent liabilities (Notes 5, 7)	¥ 185,599	¥ 264,693	\$ 2,814
Accounts payable (Notes 5, 7)	363,781	369,838	3,932
Income taxes payable (Note 5)	149,774	104,774	1,114
Accrued expenses (Note 5)	20,371	23,000	245
Provision for bonuses	20,077	20,765	221
Provision for loss on the Great East Japan Earthquake	1,993	49	1
Other current liabilities	99,057	94,077	1,000
Total Current Liabilities	840,651	877,196	9,327
Noncurrent Liabilities			
Long-term loans payable (Notes 5, 7)	301,286	244,728	2,602
Bonds payable (Notes 5, 7)	349,991	259,997	2,764
Convertible bond-type bonds with subscription rights to shares (Notes 5, 7)	200,917	200,667	2,134
Provision for point service program	91,453	91,583	974
Provision for retirement benefits and other noncurrent liabilities (Notes 5, 14)	91,086	87,465	930
Total Noncurrent Liabilities	1,034,733	884,440	9,404
Total Liabilities	1,875,384	1,761,636	18,731
Contingent Liabilities (Note 8)			
Net Assets			
Shareholders' Equity			
Capital stock:			
Authorized—7,000,000 and 700,000,000 shares at March 31, 2012 and 2013, respectively			
Issued—4,484,818 and 448,481,800 shares at March 31, 2012 and 2013, respectively	141,852	141,852	1,508
Capital surplus	367,104	367,145	3,904
Retained earnings	1,879,088	2,055,587	21,856
Treasury stock:			
Number of treasury stock—663,006 and 66,269,400 shares at March 31, 2012 and 2013, respectively	(346,164)	(346,002)	(3,679)
Total Shareholders' Equity	2,041,880	2,218,581	23,589
Accumulated Other Comprehensive Income			
Valuation difference on available for-sale securities	36,443	38,882	413
Deferred gain or loss on hedges	(677)	(1,598)	(17)
Foreign currency translation adjustments	(16,899)	(6,071)	(65)
Total Accumulated Other Comprehensive Income	18,867	31,213	332
Subscription Rights to Shares	1,129	574	6
Minority Interests	66,749	72,995	776
Total Net Assets	2,128,625	2,323,363	24,703
Total Liabilities and Net Assets	¥4,004,009	¥4,084,999	\$43,434

Consolidated Statements of Income

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Operating Revenues:			
Revenues from telecommunications business	¥2,394,136	¥2,432,726	\$25,866
Sales of mobile terminals and other	1,177,962	1,229,562	13,073
Total Operating Revenues	3,572,098	3,662,289	38,940
Operating Expenses:			
Business expenses (Note 16)	667,748	671,840	7,143
Depreciation	389,008	371,966	3,955
Communication facility fee	347,228	374,825	3,985
Cost of sales of mobile terminals and other	1,249,659	1,309,048	13,919
Other (Notes 12,16)	440,807	421,942	4,486
Total Operating Expenses	3,094,450	3,149,619	33,489
Operating Income	477,648	512,669	5,451
Other Expenses (Income):			
Interest expenses	12,891	11,118	118
Interest income	(966)	(775)	(8)
Dividends income	(1,719)	(1,987)	(21)
Equity in loss of affiliates	18,298	—	—
Equity in income of affiliates	—	(3,899)	(41)
Gain on investments in silent partnership	(654)	—	—
Dividends due to liquidation of silent partnership contract	(6,977)	—	—
Loss on valuation of investment securities	504	520	6
Gain on sales of investment securities	(138)	(1,050)	(11)
Gain on sales of noncurrent assets (Note 10)	(170)	(588)	(6)
Loss on sales of noncurrent assets (Note 10)	677	1,078	11
Gain on negative goodwill	(235)	—	—
Gain on reversal of subscription rights to shares	(493)	(512)	(5)
Gain on transfer from business divestitures	(3,615)	—	—
Impairment loss (Note 9)	9,947	80,549	856
Loss on retirement of noncurrent assets (Note 10)	—	22,713	241
Loss on the Great East Japan Earthquake (Note 11)	4,074	—	—
Reversal of provision for loss on the Great East Japan Earthquake (Note 11)	(6,815)	—	—
Compensation expenses	736	2,003	21
Other, net	(2,116)	(8,211)	(87)
Total Other Expenses	23,228	100,957	1,073
Income before Income Taxes and Minority Interests	454,420	411,712	4,378
Income Taxes (Note 13):			
Current	177,279	173,408	1,844
Deferred	30,282	(11,161)	(119)
Total Income Taxes	207,561	162,248	1,725
Income before Minority Interests	246,859	249,464	2,652
Minority Interests in Income	8,254	7,994	85
Net Income	¥ 238,605	¥ 241,470	\$ 2,567
	Yen		U.S. dollars (Note 1)
	2012	2013	2013
Per Share Data (Note 20):			
Net income	¥ 290.58	¥ 315.90	\$ 3.36
Diluted net income	283.34	289.26	3.08
Cash dividends	16,000.00	8,595.00	91.39

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

Consolidated Statements of Comprehensive Income (Note 15)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Income before Minority Interests	¥246,859	¥249,464	\$2,652
Other Comprehensive Income			
Valuation difference on available-for-sale securities	7,191	711	8
Foreign currency translation adjustments	(3,641)	12,063	128
Share of other comprehensive income of associates accounted for using equity method	(898)	1,342	14
Total Other Comprehensive Income	2,651	14,115	150
Comprehensive Income	249,510	263,579	2,803
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	242,010	253,816	2,699
Comprehensive income attributable to minority interests	¥ 7,501	¥ 9,763	\$ 104

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

Consolidated Statements of Changes in Net Assets (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Shareholders' Equity			
Capital Stock			
Balance at the beginning of the period	¥ 141,852	¥ 141,852	\$ 1,508
Balance at the end of the period	141,852	141,852	1,508
Capital Surplus			
Balance at the beginning of the period	367,092	367,104	3,903
Changes of items during the period			
Disposal of treasury stock	12	40	0
Total changes of items during the period	12	40	0
Balance at the end of the period	367,104	367,145	3,904
Retained Earnings			
Balance at the beginning of the period	1,704,171	1,879,088	19,980
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Total changes of items during the period	174,917	176,499	1,877
Balance at the end of the period	1,879,088	2,055,587	21,856
Treasury Stock			
Balance at the beginning of the period	(125,245)	(346,164)	(3,681)
Changes of items during the period			
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	50	164	2
Total changes of items during the period	(220,919)	162	2
Balance at the end of the period	(346,164)	(346,002)	(3,679)
Total Shareholders' Equity			
Balance at the beginning of the period	2,087,870	2,041,880	21,711
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	63	205	2
Total changes of items during the period	(45,990)	176,702	1,879
Balance at the end of the period	¥2,041,880	¥2,218,581	\$23,589

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

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Accumulated Other Comprehensive Income			
Valuation Difference on Available-for-sale Securities			
Balance at the beginning of the period	¥ 28,612	¥ 36,443	\$ 387
Changes of items during the period			
Net changes of items other than shareholders' equity	7,830	2,439	26
Total changes of items during the period	7,830	2,439	26
Balance at the end of the period	36,443	38,882	413
Deferred Gain or Loss on Hedges			
Balance at the beginning of the period	32	(677)	(7)
Changes of items during the period			
Net changes of items other than shareholders' equity	(709)	(921)	(10)
Total changes of items during the period	(709)	(921)	(10)
Balance at the end of the period	(677)	(1,598)	(17)
Foreign Currency Translation Adjustments			
Balance at the beginning of the period	(13,183)	(16,899)	(180)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,716)	10,828	115
Total changes of items during the period	(3,716)	10,828	115
Balance at the end of the period	(16,899)	(6,071)	(65)
Total Accumulated Other Comprehensive Income			
Balance at the beginning of the period	15,462	18,867	201
Changes of items during the period			
Net changes of items other than shareholders' equity	3,405	12,346	131
Total changes of items during the period	3,405	12,346	131
Balance at the end of the period	18,867	31,213	332
Subscription Rights to Shares			
Balance at the beginning of the period	1,505	1,129	12
Changes of items during the period			
Net changes of items other than shareholders' equity	(376)	(555)	(6)
Total changes of items during the period	(376)	(555)	(6)
Balance at the end of the period	1,129	574	6
Minority Interests			
Balance at the beginning of the period	67,003	66,749	710
Changes of items during the period			
Net changes of items other than shareholders' equity	(253)	6,245	66
Total changes of items during the period	(253)	6,245	66
Balance at the end of the period	66,749	72,995	776
Total Net Assets			
Balance at the beginning of the period	2,171,839	2,128,625	22,633
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	63	205	2
Net changes of items other than shareholders' equity	2,776	18,037	192
Total changes of items during the period	(43,214)	194,739	2,071
Balance at the end of the period	¥2,128,625	¥2,323,363	\$24,703

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

Consolidated Statements of Cash Flows

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Net Cash Provided by (Used in) Operating Activities			
Income before income taxes and minority interests	¥ 454,420	¥ 411,712	\$ 4,378
Depreciation and amortization	417,886	406,726	4,325
Impairment loss	9,947	80,549	856
Amortization of goodwill	14,276	16,444	175
Gain on negative goodwill	(235)	—	—
Loss (gain) on sales of noncurrent assets	507	535	6
Loss on retirement of noncurrent assets	12,965	23,732	252
Increase (decrease) in provision for loss on the Great East Japan Earthquake	(14,290)	(1,943)	(21)
Gain on transfer from business divestitures	(3,615)	—	—
Dividends due to liquidation of silent partnership contract	(6,977)	—	—
Increase (decrease) in allowance for doubtful accounts	1,494	7,001	74
Increase (decrease) in provision for retirement benefits	(37)	(5,238)	(56)
Interest and dividends income	(2,685)	(2,763)	(29)
Interest expenses	12,891	11,118	118
Equity in losses (earnings) of affiliates	18,298	(3,899)	(41)
Loss (gain) on valuation of investment securities	512	521	6
Increase (decrease) in provision for point service program	6,256	130	1
Changes in assets and liabilities			
Decrease (increase) in prepaid pension costs	1,738	1,844	20
Decrease (increase) in notes and accounts receivable-trade	(207,034)	(199,531)	(2,122)
Decrease (increase) in inventories	(6,945)	8,613	92
Increase (decrease) in notes and accounts payable-trade	23,442	(10,289)	(109)
Increase (decrease) in accounts payable-other	62,003	4,872	52
Increase (decrease) in accrued expenses	5,015	1,192	13
Increase (decrease) in advances received	(10,356)	(2,297)	(24)
Other, net	(4,226)	(5,841)	(62)
Subtotal	785,248	743,185	7,902
Interest and dividends income received	8,761	10,306	110
Interest expenses paid	(12,883)	(11,225)	(119)
Income taxes paid	(88,626)	(218,358)	(2,322)
Income taxes refund	33,386	—	—
Net Cash Provided by (Used in) Operating Activities	725,886	523,908	5,571
Net Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment	(318,871)	(322,817)	(3,432)
Purchase of trust beneficiary right (Note 21)	(14,994)	—	—
Proceeds from sales of property, plant and equipment	531	1,949	21
Purchase of intangible assets	(75,915)	(92,955)	(988)
Purchase of investment securities	(1,962)	(2,158)	(23)
Proceeds from sales of investment securities	3,424	6,959	74
Payments for business divestitures	(1,000)	—	—
Purchase of stocks of subsidiaries and affiliates	(25,742)	(9,679)	(103)
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 21)	(31,789)	(2,403)	(26)
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	832	—	—
Proceeds from repayment of investment and dividends due to liquidation of silent partnership contract	7,704	—	—
Purchase of long-term prepaid expenses	(26,801)	(51,322)	(546)
Other, net	75	(566)	(6)
Net Cash Provided by (Used in) Investing Activities	(484,507)	(472,992)	(5,029)
Net Cash Provided by (Used in) Financing Activities			
Net increase (decrease) in short-term loans payable	(1,020)	86,582	921
Proceeds from long-term loans payable	—	24,000	255
Repayment of long-term loans payable	(133,750)	(112,960)	(1,201)
Redemption of bonds	—	(65,000)	(691)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	201,000	—	—
Purchase of treasury stock	(220,970)	(2)	(0)
Cash dividends paid	(63,689)	(64,974)	(691)
Cash dividends paid to minority shareholders	(1,193)	(1,372)	(15)
Proceeds from stock issuance to minority shareholders	11	257	3
Other, net	(6,320)	(6,782)	(72)
Net Cash Provided by (Used in) Financing Activities	(225,931)	(140,250)	(1,491)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(1,126)	2,431	26
Net Increase (Decrease) in Cash and Cash Equivalents	14,322	(86,903)	(924)
Cash and Cash Equivalents at Beginning of the Year	159,870	174,192	1,852
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 174,192	¥ 87,289	\$ 928

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

Notes to Consolidated Financial Statements

KDDI Corporation and its Subsidiaries
Year Ended March 31, 2013

1. Basis of Presenting Consolidated Financial Statements

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

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

The consolidated financial statements disclosed in Japan have been reclassified and adjusted in order to make it easier for overseas readers to comprehend. In addition, certain reclassifications and adjustments have been made in the consolidated financial statements as of and for the year ended March 31, 2012 to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2013.

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥94.05=U.S.\$1, the approximate exchange rate on March 31, 2013. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

The Company's consolidated financial statements for the year ended March 31, 2013 include the Company and its 128 subsidiaries, comprising of; OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Engineering Corporation, KDDI Evolva Inc., JAPAN CABLENET LIMITED, Chubu Telecommunications Co., INC., KDDI America, Inc. and other subsidiaries.

During the years ended March 31, 2013, significant changes in the scope had occurred as follows:

Added (Consolidated):

- 10 companies due to new establishment
KKBOX Beijing Co., Ltd, CDN Europe Co., Ltd., KKBOX Technologies Limited.,
KKBOX Japan LLC, TELEHOUSE Shanghai Corporation,
KDDI MATOMETE OFFICE KANSAI CORPORATION,
KDDI MATOMETE OFFICE CHUBU CORPORATION,
KDDI MATOMETE OFFICE HIGASHINIHON CORPORATION,
KDDI MATOMETE OFFICE NISHINIHON CORPORATION,
KDDI Myanmar Co., Ltd.
- 2 companies due to stock acquisition
Kumagaya Cable Television, Beijing KKBar Co., Ltd.
- 1 company due to additional purchase of shares, resulting in subsidiary
Kita Cable Network, Inc.

Removed (Consolidated):

- 5 companies due to liquidation
Packet Systems Pte. Ltd., Mrasu Inc., CDNetworks Europe SARL,
Nettasking Technology (BVI) Limited, Panther Express Corp.
- 1 company due to sale of shares
LTI Cosmetics, Inc.

Also, the number of the Company's equity-method affiliates at March 31, 2013 was 21 such as Jupiter Telecommunications Co., Ltd.*, Kyocera Communication Systems Co., Ltd., UQ Communications Inc., Jibun Bank Corporation, Mobaoku Co., Ltd., MOBICOM Corporation.

* Jupiter Telecommunications Co., Ltd. transferred consolidated subsidiaries on April 17, 2013.

During the year ended March 31, 2013, changes in the scope were incurred as follows:

Added (Equity Method):

- 2 companies due to new establishment
Kagoshima Mega Solar Power Corporation, NJ Corporation

Removed (Equity Method):

- 1 company due to additional purchase of shares, result in subsidiary
Kita Cable Network, Inc.
- 1 company due to decline of substantial influence
EBS, Inc.

2. Significant Accounting Policies

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

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

All significant intercompany transactions and accounts are eliminated.

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

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 certain affiliates (CJSC Vostok-telecom, etc.) are accounted for by cost method as the effect of application of the equity method is immaterial.

b. Revenue Recognition

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

c. Cash and Cash Equivalents

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

d. Inventories

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

e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting 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 balance sheet date. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign currency translation adjustments" and "Minority interests" of "Net assets."

f. Property, Plant and Equipment and Depreciation (except for leased assets)

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

The main useful lives are as follows:

Machinery: 9 years

Antenna facilities, Local line facilities, Long-distance line facilities, Engineering facilities, Buildings and Structures: 5 to 21 years

g. Intangible Assets (except for leased assets)

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

Goodwill is amortized under the straight-line method over a period of 5 to 20 years. However, the minimal amount of goodwill is recognized as expenses for the year ended March 31, 2013.

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).

h. Financial Instruments

(1) Securities

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

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

(2) Derivatives

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

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

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

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

i. Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. Deferred tax assets and liabilities are determined based on the timing differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Lease

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

k. Deferred Assets

Bond issuance expenses: Entire amount of expenses is fully charged at time of expenditure.

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 individual allowance is accrued against specific account that is deemed to be uncollectible.

n. Provision

(1) Provision for retirement benefits

The amount for employee retirement benefits has been based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at March 31, 2013.

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.

(2) Provision for point service program

In order to prepare for the future cost generating from the utilization of points that customers have earned under 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 the following consolidated fiscal year or after.

(3) Provision for bonuses

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

(4) Provision for loss on the Great East Japan Earthquake

Amount for recovery of assets damaged by the Great East Japan Earthquake that occurred on March 11, 2011 has been estimated.

3. Changes to Basis of Presenting Consolidated Financial Statements

(Changes in Accounting Policies)

(Changes in Accounting Policies for Items that are Difficult to Categorize as Changes in Accounting Estimates) (Change in Depreciation)

In accordance with revisions to the Corporation Tax Act, the Company and its domestic consolidated subsidiaries have revised their depreciation method applicable to property, plant and equipment acquired on or after April 1, 2012, in accordance with the post-revision Corporation Tax Act, for the year ended March 31, 2013.

The impact of these changes was insignificant.

(Changes in Presentation)

(Consolidated Statements of Income)

"Compensation expenses", which had been recorded as "Miscellaneous expenses" in non-operating expenses in the fiscal year ended March 31, 2012, has been classified as a separate line item in the current fiscal year because of its increased significance in quantitative materiality.

The consolidated financial statements have been reclassified to reflect these changes in presentation.

As a result, "Miscellaneous expenses" of ¥736 million recorded in non-operating expenses on the consolidated statements of income in the fiscal year ended March 31, 2012 has been reclassified as "Compensation expenses."

4. Cash and Cash Equivalents

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

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Cash and deposits	¥100,037	¥96,952	\$1,031
Short-term investment securities	80,188	231	2
Total	180,225	97,183	1,033
Time deposits due beyond three months	(6,034)	(9,895)	(105)
Cash and cash equivalents	¥174,192	¥87,289	\$ 928

5. Financial Instruments

1. Status of Financial Instruments

(1) Policy for measures relating to financial instruments

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

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

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

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

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

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

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.

In relation to 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 internal regulations of each subsidiary and regulations stipulating associated details, finance or accounting divisions must receive approval from those with final-approval authority as stipulated by authority-related regulations through consultation via an internal memo for each derivative transaction and only conduct transactions with financial institutions with high credit ratings.

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

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

2. Market Value of Financial Instruments

Amounts recognized in the consolidated balance sheets, market values and the differences between them on March 31, 2012 and 2013 were as shown below. Moreover, items of which market values were not readily determinable were not included in the following table (see (Note 2)).

At March 31, 2012

	Millions of yen		
	Book value	Market value	Difference
(1) Cash and deposits	¥ 100,037	¥ 100,037	¥ —
(2) Accounts receivable	827,177		
Less: Allowance for doubtful accounts*1	(14,960)		
	¥ 812,217	¥ 812,217	¥ —
(3) Short-term investment securities	80,188	80,188	—
(4) Investment securities			
Bonds intended to be held to maturity	3,006	3,138	132
Other securities	72,374	72,374	—
(5) Stocks of subsidiaries and affiliates	326,297	189,568	(136,730)
Total asset accounts	¥1,394,119	¥1,257,521	¥(136,598)
(6) Accounts payable	90,662	90,662	—
(7) Short-term loans payable	1,486	1,486	—
(8) Accounts payable-other	273,119	273,119	—
(9) Accrued expenses	20,371	20,371	—
(10) Income taxes payable	149,774	149,774	—
(11) Bonds payable*2	414,989	427,728	12,739
(12) Convertible bond-type bonds with subscription rights to shares	200,917	214,500	13,583
(13) Long-term loans payable*2	414,164	419,340	5,176
Total liability accounts	¥1,565,480	¥1,596,979	¥ 31,499

*1. Allowance for doubtful accounts were deducted from account receivable.

*2. These items include current portion of bonds payable and long-term loans payable, respectively.

At March 31, 2013

	Millions of yen			Millions of U.S. dollars		
	Book value	Market value	Difference	Book value	Market value	Difference
(1) Cash and deposits	¥ 96,952	¥ 96,952	¥ —	\$ 1,031	\$ 1,031	\$ —
(2) Accounts receivable	1,032,722			10,981		
Less: Allowance for doubtful accounts*1	(20,271)			(216)		
	¥1,012,450	¥1,012,450	¥ —	\$10,765	\$10,765	\$ —
(3) Short-term investment securities	231	231	—	2	2	—
(4) Investment securities						
Bonds intended to be held to maturity	3,005	3,216	211	32	34	2
Other securities	66,442	66,442	—	706	706	—
(5) Stocks of subsidiaries and affiliates	319,808	282,408	(37,400)	3,400	3,003	(398)
Total asset accounts	¥1,498,888	¥1,461,699	¥(37,189)	\$15,937	\$15,542	\$(395)
(6) Accounts payable	82,753	82,753	—	880	880	—
(7) Short-term loans payable	88,257	88,257	—	938	938	—
(8) Accounts payable-other	287,085	287,085	—	3,052	3,052	—
(9) Accrued expenses	23,000	23,000	—	245	245	—
(10) Income taxes payable	104,774	104,774	—	1,114	1,114	—
(11) Bonds payable*2	349,996	363,244	13,247	3,721	3,862	141
(12) Convertible bond-type bonds with subscription rights to shares	200,667	271,960	71,293	2,134	2,892	758
(13) Long-term loans payable*2	325,453	330,412	4,958	3,460	3,513	53
Total liability accounts	¥1,461,985	¥1,551,484	¥ 89,499	\$15,545	\$16,496	\$ 952

*1. Allowance for doubtful accounts were deducted from account receivable.

*2. These items include current portion of bonds payable and long-term loans payable, respectively.

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

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

As the settlement periods of the above items were short and their market values were almost the same as their book values, the relevant book values were used. Further, as the credit risk were not readily determinable on an individual basis for accounts receivable, allowance for doubtful accounts was regarded as credit risk and the book value was calculated accordingly.

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

In relation to the market value of investment securities, for shares the market prices of exchanges were used. Further, for information on investment securities categorized according to holding purpose, refer to the Note 6. "Marketable Securities and Other Investments."

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

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

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

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

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

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

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

	Millions of yen		Millions of U.S. dollars
	Book value		Book value
	2012	2013	2013
Investment securities			
Unlisted equity securities	¥11,235	¥12,340	\$131
Stocks of subsidiaries and affiliates			
Unlisted equity securities	25,517	28,361	302
Investments in capital of subsidiaries and affiliates	185	219	2

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

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

	Millions of yen		Millions of yen		Millions of U.S. dollars	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year	Within 1 year	Over 1 year
	2012		2013		2013	
Cash and deposits	¥100,037	¥ —	¥ 96,952	¥ —	\$ 1,031	\$ —
Accounts receivable	719,625	107,551	896,525	136,197	9,532	1,448
Securities	80,000	—	—	—	—	—
Short-term investment securities	—	3,006	—	3,005	—	32
Total	¥899,663	¥110,557	¥993,477	¥139,202	\$10,563	\$1,480

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

At March 31, 2012

	Millions of yen					
	Within 1 year	Over 1 year Within 2 year	Over 2 year Within 3 year	Over 3 year Within 4 year	Over 4 year Within 5 year	Over 5 year
Short-term loans payable	¥ 1,486	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	65,000	90,000	85,000	20,000	25,000	130,000
Convertible bond-type bonds with subscription rights to shares	—	—	—	200,000	—	—
Long-term loans payable	112,878	80,656	78,708	91,343	25,108	25,471
Total	¥179,364	¥170,656	¥163,708	¥311,343	¥50,108	¥155,471

At March 31, 2013

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

	Millions of U.S. dollars					
	Within 1 year	Over 1 year Within 2 year	Over 2 year Within 3 year	Over 3 year Within 4 year	Over 4 year Within 5 year	Over 5 year
Short-term loans payable	\$ 938	\$ —	\$ —	\$ —	\$ —	\$ —
Bonds payable	957	904	213	266	213	1,170
Convertible bond-type bonds with subscription rights to shares	—	—	2,127	—	—	—
Long-term loans payable	858	837	972	267	364	162
Total	\$2,754	\$1,741	\$3,311	\$533	\$577	\$1,331

6. Marketable Securities and Other Investments

At March 31, 2012

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

Bonds intended to be held to maturity

		Millions of yen		
		Book value	Actual value	Difference
Bonds for which market value exceeds book value on consolidated balance sheets	National bonds and local bonds, etc.	¥3,006	¥3,138	¥132
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥3,006	¥3,138	¥132
Bonds for which market value does not exceed book value on consolidated balance sheets	National bonds and local bonds, etc.	¥ —	¥ —	¥ —
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥ —	¥ —	¥ —
Total		¥3,006	¥3,138	¥132

Other securities

		Millions of yen		
		Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥ 71,627	¥ 3,510	¥68,117
	Bonds	—	—	—
	Others	40	35	5
	Subtotal	¥ 71,667	¥ 3,545	¥68,122
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 853	¥ 2,770	¥ (1,918)
	Bonds	—	—	—
	Others	80,042	80,047	(4)
	Subtotal	¥ 80,895	¥82,817	¥ (1,922)
Total		¥152,562	¥86,362	¥66,200

Regarding unlisted equity securities, which book value was ¥11,235 million for the year ended March 31, 2012, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

Other securities sold

		Millions of yen		
		Amount of sale	Total gain on sale	Total loss on sale
Stock		¥3,986	¥138	¥89

Impairment of investment securities

For the year ended March 31, 2012, the Companies recognized an impairment loss of ¥509 million on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment loss was recognized in light of the possibility of recovery.

At March 31, 2013

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

Bonds intended to be held to maturity

		Millions of yen			Millions of U.S. dollars		
		Book value	Actual value	Difference	Book value	Actual value	Difference
Bonds for which market value exceeds book value on consolidated balance sheets	National bonds and local bonds, etc.	¥3,005	¥3,216	¥211	\$32	\$34	\$ 2
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥3,005	¥3,216	¥211	\$32	\$34	\$ 2
Bonds for which market value does not exceed book value on consolidated balance sheets	National bonds and local bonds, etc.	—	—	—	—	—	—
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Total		¥3,005	¥3,216	¥211	\$32	\$34	\$ 2

Other securities

		Millions of yen			Millions of U.S. dollars		
		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥65,900	¥10,353	¥55,547	\$701	\$110	\$591
	Bonds	—	—	—	—	—	—
	Others	87	78	9	1	1	0
	Subtotal	¥65,986	¥10,431	¥55,556	\$702	\$111	\$591
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 686	¥ 2,530	¥ (1,843)	\$ 7	\$ 27	\$ (20)
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥ 686	¥ 2,530	¥ (1,843)	\$ 7	\$ 27	\$ (20)
Total		¥66,673	¥12,960	¥53,712	\$709	\$138	\$571

Regarding unlisted equity securities, which book value was ¥12,340 million (U.S.\$131 million) for the year ended March 31, 2013, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

Other securities sold

		Millions of yen			Millions of U.S. dollars		
		Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Stock		¥8,457	¥1,050	—	\$90	\$11	—

Impairment of investment securities

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

7. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2012 and 2013 were ¥1,486 million and ¥88,257 million (U.S.\$938 million), respectively and the annual average interest rates applicable to them for the years ended March 31, 2012 and 2013 were 4.51% and 0.27%, respectively.

Long-term debt at March 31, 2012 and 2013 consist of the following:

		Millions of yen	Millions of U.S. dollars
	2012	2013	2013
Unsecured straight bonds			
Year ended March 31, 2012 (Interest rate per annum: 0.713%–2.046%) (Due: years ending March 31, 2013–2021)	¥ 394,989	¥ —	\$ —
Year ended March 31, 2013 (Interest rate per annum: 0.713%–2.046%) (Due: years ending March 31, 2013–2021)	—	329,996	3,509
General secured bonds (Note)			
Year ended March 31, 2012 (Interest rate per annum: 3.20%) (Due: year ending March 31, 2018)	20,000	—	—
Year ended March 31, 2013 (Interest rate per annum: 3.20%) (Due: year ending March 31, 2018)	—	20,000	213
Convertible bond-type bonds with subscription rights to shares (unsecured)			
Year ended March 31, 2012 (No interest shall be paid on the bonds) (Due: year ending March 31, 2016)	200,917	—	—
Year ended March 31, 2013 (No interest shall be paid on the bonds) (Due: year ending March 31, 2016)	—	200,667	2,134
Total bonds	¥ 615,905	¥550,663	\$5,855
Loans from banks			
Year ended March 31, 2012 (Average rate per annum: 1.26%) (Due: years ending March 31, 2012–2021)	414,164	—	—
Year ended March 31, 2013 (Average rate per annum: 1.26%) (Due: years ending March 31, 2012–2021)	—	325,453	3,460
Other interest-bearing debt	15,199	13,190	140
Subtotal	¥1,045,268	¥889,306	\$9,456
Less, amount due within one year	184,112	176,436	1,876
Total long-term debts	¥ 861,155	¥712,870	\$7,580

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

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

	Millions of yen	Millions of U.S. dollars
Year ended March 31	2013	2013
2014	¥176,436	\$1,876
2015	167,488	1,781
2016	314,332	3,342
2017	51,259	545
2018 and thereafter	179,791	1,912
Total	¥889,306	\$9,456

Pledged Assets

The following table summarizes the book value of assets pledged as collateral for short-term loans and long-term debt, including current maturities of long-term debt of the subsidiaries at March 31, 2012 and 2013. In addition, the Company had secured overall assets as general collateral for the corporate bonds.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Machinery, etc.	¥ 732	¥ 515	\$ 5
Buildings and structures	165	145	2
Other property, plant and equipment	76	46	0
Investment securities	695	672	7
Stocks of subsidiaries and affiliates	—	768	8
Other investments and other assets	171	28	0
Cash and deposits	878	162	2
Short-term investment securities	188	231	2
Total	¥2,904	¥2,567	\$27

(Assets denominated in foreign currencies included U.S.\$12 million at March 31, 2012 and U.S.\$11 million and others at March 31, 2013.)

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

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Investment securities	¥3,005	¥3,005	\$32
Cash and deposits	2,000	2,300	24

Summary of annual maturities of long-term debt subsequent to March 31, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Long-term loans payable	¥1,224	¥ 894	\$10
Short-term loans payable and current portion of noncurrent liabilities	1,858	1,590	17
Accounts payable	32	165	2
Total	¥3,115	¥2,648	\$28

(Liabilities denominated in foreign currencies included U.S.\$20 million at March 31, 2012 and U.S.\$15 million at March 31, 2013.)

Note: The share of Kagoshima Mega Solar Power Corporation that has been accounted for under equity method was pledged for its bank loan, however the loan has not been executed as of March 31, 2013.

8. Contingent Liabilities

At March 31, 2012 and 2013, the Companies' contingent liabilities were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
As a guarantor for			
Contingent liabilities existing in cable system supply contract	¥ 4,110	¥ 4,703	\$ 50
Contingent liabilities resulting from the liquidation of Minex Corporation	377	—	—
Loan of UQ Communications Inc., etc.	156,935	157,962	1,680
Contingent liabilities for notes receivable-trade discounted	297	—	—
Total	¥161,719	¥162,665	\$1,730

9. Impairment Loss

For the year ended March 31, 2012

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

In the year ended March 31, 2012, for domestic transmission system with declining utilization rates and idle assets, the book value had been reduced to recoverable value. The said reduction was recognized as impairment loss of ¥8,515 million. This consists of ¥4,455 million for local line facilities, ¥1,941 million for long-distance line facilities and ¥2,120 million for others.

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

In addition, impairment loss of ¥1,431 million on business assets in certain subsidiaries was recognized as impairment loss.

For the year ended March 31, 2013

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

In the year ended March 31, 2013, the Companies discontinued the use of former 800MHz frequency facilities in July 2012 in line with the reorganization of frequencies and drew up a plan for conversion to other frequencies on the shared portion of these facilities. Facilities not part of this conversion were determined to be idle

assets that were expected to have no future value. The book value of these assets was reduced to their recoverable value, and the decrease was recorded as an impairment loss of ¥68,891 million. This consists of ¥29,456 million for buildings, ¥17,964 million for antenna facilities, ¥17,954 million for machinery and ¥3,516 million for others.

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

In the year ended March 31, 2013, for domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥10,039 million. This consists of ¥6,213 million for local line facilities, ¥1,106 million for right of using submarine line facilities, ¥900 million for long-distance line facilities and ¥1,820 million for others.

Further, the recoverable amount 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.

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

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
The Company and the other: Facilities for the former 800MHz band	¥ —	¥68,891	\$732
The Company: Domestic transmission line facilities and idle assets, etc.	8,515	10,039	107
Consolidated subsidiaries: Business assets, etc.	1,431	1,620	17
Total	¥9,947	¥80,549	\$856

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

Gain and loss on sales and retirement of noncurrent assets for the years ended March 31, 2012 and 2013 were as follows:

		Millions of yen	Millions of U.S. dollars
	2012	2013	2013
Gain on Sales of Noncurrent Assets			
Gain on sales of real estate accompanying disposal of land, etc.	¥ 62	¥ 325	\$ 3
Gain on sale of other facilities, etc.	107	264	3
Total	¥170	¥ 588	\$ 6
Loss on Sales of Noncurrent Assets			
Loss on disposal of real estate accompanying disposal of land, etc.	¥597	¥ 1,050	\$ 11
Loss on disposal of other facilities, etc.	80	28	0
Total	¥677	¥ 1,078	\$ 11
Loss on Retirement of Noncurrent Assets			
Disposal cost of former 800MHz frequency facilities	¥ —	¥19,857	\$211
Retirement cost of former 800Mhz frequency facilities	—	1,870	20
Others	—	985	10
Total	¥ —	¥22,713	\$241

11. Loss on the Great East Japan Earthquake

Year ended March 31, 2012

The loss of ¥4,074 million comprised of replacement costs of handsets for subscribers and other recovery costs. As a result of the investigation at damaged areas and reassessment of the scope of recovery works, a ¥6,815 million gain was recognized on the reversal of the provision during the year ended March 31, 2012.

Year ended March 31, 2013

None

12. Research and Development Expenses

Research and development expenses were ¥32,855 million and ¥28,881 million (U.S.\$307 million) for the years ended March 31, 2012 and 2013 respectively.

13. Income Taxes

At March 31, 2012 and 2013, significant components of deferred tax assets and liabilities were summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Deferred tax assets			
Depreciation and amortization	¥ 41,103	¥ 40,235	\$ 428
Allowance for doubtful accounts	9,526	15,437	164
Disposal of fixed assets	2,253	1,823	19
Inventory write down	1,267	2,459	26
Impairment loss	44,622	60,011	638
Provision for retirement benefits	4,356	3,297	35
Provision for bonuses	8,313	8,588	91
Accrued expenses	3,007	4,024	43
Net operating loss carried forward	2,945	1,305	14
Unrealized profits	2,352	3,590	38
Provision for point service program	34,700	34,693	369
Accrued enterprise taxes payable	10,807	7,640	81
Advances received	20,230	19,490	207
Provision for the Great East Japan Earthquake	758	20	0
Other	10,471	6,941	74
Gross deferred tax assets	¥196,715	¥209,551	\$2,228
Valuation allowance	(8,055)	(8,980)	(95)
Total deferred tax assets	¥188,660	¥200,571	\$2,133
Deferred tax liabilities			
Special depreciation reserve	¥ (1,696)	¥ (1,737)	\$ (18)
Valuation difference on other securities	(19,659)	(20,191)	(215)
Retained earnings for overseas affiliates	(1,446)	(2,217)	(24)
Gain on transfer from business divestitures	(1,692)	(1,692)	(18)
Other	(4,019)	(4,321)	(46)
Total deferred tax liabilities	¥ (28,513)	¥ (30,159)	\$ (321)
Net deferred tax assets	¥160,146	¥170,413	\$1,812

The following table summarizes significant components of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2012 and 2013.

	2012	2013
Statutory tax rate	40.6%	
Adjustments:		
Permanently non-deductible items including entertainment expenses	0.1	Note omitted because the difference between the statutory tax rate and the Company's effective tax rate is less than 5% of the statutory tax rate.
Inhabitant tax on per capital levy	0.1	
Tax credit for research and development expenses	(0.2)	
Goodwill amortization	1.2	
Effect of equity-method investment income	1.6	
Permanently non-deductible items including dividend income	(0.2)	
Reserve for loss carry forward	(0.1)	
Valuation allowance	(1.3)	
Effects of tax rate differences for subsidiaries	(0.2)	
Reversal of reserve for tax	0.3	
Effect of change in tax rate	3.3	
Other	0.5	
Effective tax rate	45.7%	

14. 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 provision for retirement benefits at March 31, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Projected benefit obligations	¥(308,509)	¥(309,628)	\$(3,292)
Plan assets	253,746	291,107	3,095
Retirement benefit trust	8,177	8,268	88
Funded status	¥ (46,586)	¥ (10,253)	\$ (109)
Unrecognized actuarial differences	39,973	4,039	43
Unrecognized prior service cost	3,198	6,114	65
Net amount recognized in the consolidated balance sheets	(3,414)	(101)	(1)
Prepaid pension cost	15,330	13,409	143
Provision for retirement benefits	¥ (18,744)	¥ (13,509)	\$ (144)

Net pension expenses related to the retirement benefits for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Service cost	¥10,953	¥10,989	\$117
Interest cost	6,032	6,137	65
Expected return on plan assets	(4,908)	(5,075)	(54)
Amortization of prior service cost	(2,915)	(2,915)	(31)
Amortization of actuarial differences	10,277	5,279	56
Net pension cost	¥19,439	¥14,414	\$153

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

	March 31 2012	March 31 2013
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits over average remaining service period	Straight-line	
Average remaining service period	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 Kanto IT Software Pension Fund, which is a multi-employer pension plan. Contributions to the said pension plan are recognized as net pension cost.

At March 31, 2012

Items relating to overall status of pension plan reserves as of March 31, 2011 (as of the most recently available year-end date of the Kanto IT Software Pension Fund):

	Millions of yen
Plan assets	¥171,945
Benefit obligation based on pension plan finance calculation	172,108
Balance* ¹	¥ (164)

Percentage of total pension plan accounted for by contributions from those subsidiaries in the year ended March 31, 2011 0.08%*²

*1. The principle factors relating to the balance were composed of general reserve of ¥14,983 million, actuarial asset value adjustment of 3,494 million and shortage of ¥11,653 million. For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2011).

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

At March 31, 2013

Items relating to overall status of pension plan reserves as of March 31, 2012 (as of the most recently available year-end date of the Kanto IT Software Pension Fund):

	Millions of yen	Millions of U.S. dollars
Plan assets	¥186,190	\$1,980
Benefit obligation based on pension plan finance calculation	186,649	1,985
Balance* ¹	¥ (459)	\$ (5)

Percentage of total pension plan accounted for by contributions from those subsidiaries in the year ended March 31, 2012 0.09%*²

*1. The principle factors relating to the balance were composed of general reserve of ¥3,330 million (U.S.\$35 million), actuarial asset value adjustment of -9,623 million (U.S.\$-102 million) and shortage of ¥13,412 million (U.S.\$143 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years (at March 31, 2012).

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

15. Consolidated Statements of Comprehensive Income

The comprehensive income for the years ended March 31, 2012 and 2013 were as follows.

		Millions of yen	Millions of U.S. dollars
	2012	2013	2013
Valuation difference on available-for-sale securities			
Amount recognized in the period under review	¥ 6,846	¥ 128	\$ 1
Amount of recycling	449	1,005	11
Before income tax effect adjustment	7,295	1,133	12
Amount of income tax effect	(105)	(422)	(4)
Valuation difference on available-for-sale securities, net of tax effect	¥ 7,191	¥ 711	\$ 8
Foreign currency translation adjustments			
Amount recognized in the period under review	(3,641)	12,158	129
Amount of recycling	—	—	—
Before income tax effect adjustment	(3,641)	12,158	129
Amount of income tax effect	—	(95)	(1)
Foreign currency translations adjustment, net of tax effect	¥(3,641)	¥12,063	\$128
Share of other comprehensive income of associates accounted for using equity method			
Amount recognized in the period under review	(1,118)	1,221	13
Amount of recycling	220	121	1
Share of other comprehensive income of associates accounted for using equity method, net of tax effect	(898)	1,342	14
Total other comprehensive income	¥ 2,651	¥14,115	\$150

16. Stock Options

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

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

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

Impacts to operating expenses for the years ended March 31, 2012 and 2013 were ¥131 million and nil, respectively. Also due to the nullification of rights, gains on reversal of subscription rights for the years ended March 31, 2012 and 2013 were ¥493 million and ¥512 million (U.S.\$ 5 million), respectively.

Method of Estimating Reasonable Price for Share Options

Consolidated subsidiary Wire and Wireless Co., Ltd., is an unlisted company, and consequently the reasonable price of the December 2009 No. 1 share options of Wire and Wireless was calculated by estimating the intrinsic value. The discounted cash flow method was employed for estimation of the intrinsic value.

The total intrinsic value at March 31, 2013 was ¥0.

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, 2013.

(1) Number of stock options

The Company

	Shares	
	August 2008 7th Stock Option	August 2009 8th Stock Option
Before vested		
Beginning of period	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested	—	—
After vested		
Beginning of period	465,800	486,000
Vested	—	—
Exercised	—	31,500
Expired	465,800	13,600
Exercisable	—	440,900

Note: Number of the stock options has been retroactively adjusted based on the 100 for 1 stock split effectively on October 1, 2012.

DMX

	Shares		
	October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
Before vested			
Beginning of period	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
After vested			
Beginning of period	3,305,544	3,896,858	15,220,000
Vested	—	—	—
Exercised	—	10,000	3,309,000
Expired	—	—	—
Exercisable	3,305,544	3,886,858	11,911,000

Wi2

	Shares	
	December 2009 Stock Option	
Before vested		
Beginning of period		1,357
Granted		—
Forfeited		15
Vested		—
Unvested		1,342
After vested		
Beginning of period		—
Vested		—
Exercised		—
Expired		—
Exercisable		—

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

The Company

	August 2008 7th Stock Option		August 2009 8th Stock Option	
	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price	¥6,490	\$69.01	¥5,390	\$57.31
Average share price at exercise	—	—	6,150	65.39
Fair value unit price (Date of grant)	1,067.18	11.35	1,112.81	11.83
Exercise period	From October 1, 2010		October 1, 2011	
	To September 30, 2012		September 30, 2013	

Note: Number of the stock options has been retroactively adjusted based on the 100 for 1 stock split effectively on October 1, 2012.

DMX

	October 2003 Stock Option		April 2008 Stock Option		November 2008 Stock Option	
	Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars
Exercise price	SGD 0.6778	\$0.55	SGD 0.2260	\$0.18	SGD 0.0930	\$0.07
Average share price at exercise	—	—	0.2550	0.21	0.2550	0.21
Fair value unit price (Date of grant)	0.7900	0.64	0.2500	0.20	0.0900	0.07
Exercise period	From October 2, 2004		April 24, 2009		November 27, 2009	
	To May 26, 2013		April 26, 2018		November 28, 2018	

Note: Exchange rate of Singapore dollars into U.S. dollars were made as follows: SGD1 = ¥75.79 U.S.\$1 = ¥94.05

Wi2

	December 2009 Stock Option		December 2009 Stock Option	
	Yen		U.S. dollars	
Exercise price	¥24,000		\$255.18	
Average share price at exercise	—		—	
Fair value unit price (Date of grant)	—		—	
Exercise period	From December 1, 2011			
	To October 29, 2019			

17. Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2012

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

	As of April 1, 2011	Increase during the year ended March 31, 2012	Decrease during the year ended March 31, 2012	As of March 31, 2012
Shares outstanding				
Common stock	4,484,818	—	—	4,484,818
Total	4,484,818	—	—	4,484,818
Treasury stock				
Common stock	238,976	424,126	96	663,006
Total	238,976	424,126	96	663,006

Note 1: The increase of 424,126 shares in the Company's holdings of its own shares of common stock resulted from the acquisition of its treasury stock in accordance with a resolution at a meeting of the Board of Directors held on November 28, 2011.

Note 2: The decrease of 96 shares in the Company's common stock resulted from the exercise of stock options.

Note 3: The subscription warrants were not bifurcated with the convertible bond-type bonds.

(2) Subscription warrants and own share option

	Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants				Balance as of March 31, 2012
			As of April 1, 2011	Increase during the year ended March 31, 2012	Decrease during the year ended March 31, 2012	As of March 31, 2012	
Millions of yen							
The Company (parent company)	Subscription warrants as stock options	—		—			¥1,038
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) ^{Note}	Common stock	—	348,979 shares Upper limit	—	348,979 shares Upper limit	—
Consolidated subsidiaries	Subscription warrants as stock options	—		—			91
Total		—	—	—	—	—	¥1,129

Note: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)

1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.

2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.

3: The increase in the number of shares was due to issuance.

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 16, 2011 Annual meeting of shareholders	Common stock	¥31,844	¥7,500	March 31, 2011	June 17, 2011
October 24, 2011 Meeting of the Board of Directors	Common stock	¥31,844	¥7,500	September 30, 2011	November 21, 2011

2. Dividend payment recognized during the fiscal year ended March 31, 2012 but effective on the next fiscal year ended March 31, 2013

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	¥32,485	Retained earnings	¥8,500	March 31, 2012	June 21, 2012

For the year ended March 31, 2013

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

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

Note 1: The Company conducted a 1:100 stock split on common stock, with an effective on October 1, 2012.

2: The increase of 443,996,982 shares during the fiscal year resulted was due to split on common stock.

3: The increase of 65,637,894 shares in the Company's common stock is due to split on common stock 65,637,594 shares, due to purchase of share less than one unit 300 shares.

4: The decrease of 31,500 shares in the Company's common stock resulted from the exercise of stock options.

5: The subscription warrants were not bifurcated with the convertible bond-type bonds

(2) Subscription warrants and own share option

Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants				Balance as of March 31, 2013	
		As of April 1, 2012	Increase during the year ended March 31, 2013	Decrease during the year ended March 31, 2013	As of March 31, 2013	Millions of yen	Millions of U.S. dollars
The Company (parent company)	Subscription warrants as stock options	—	—	—	—	¥491	\$5
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) ^{Note}	Common stock	348,979 shares Upper limit	34,548,944 shares Upper limit	—	34,897,923 shares Upper limit	—
Consolidated subsidiaries	Subscription warrants as stock options	—	—	—	—	83	1
Total		—	—	—	—	¥574	\$6

Note: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)

1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.

2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.

3: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.

4: The increase in the number of shares was due to split on common stock.

(3) Dividends

1. Cash dividends payments

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

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	\$345	\$90.38	March 31, 2012	June 21, 2012
October 24, 2012 Meeting of the Board of Directors	Common stock	\$345	\$90.38	September 30, 2012	November 20, 2012

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

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

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividend resource	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	\$386	Retained earnings	\$1.01	March 31, 2013	June 20, 2013

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

18. Related Party Transaction

Year ended March 31, 2012

Transactions with related parties

Affiliates of the Company

Millions of yen

Type	Company Name	Head Office	Capital Stock	Business Objective	Percentage for Possession of Voting Rights	Relationship with Related Party	Contents of Transaction	Amount for Transaction	Title of Account	Amount as of March 31, 2012
Equity-method affiliate	UQ Communications Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	¥156,700	—	¥—
						Concurrent director	Receiving fee for the guarantee	¥495	Account receivable	¥132

Terms and conditions and policies for terms and conditions

* Guarantee for bank borrowings and the amount represents maximum exposure of the Company.

Year ended March 31, 2013

Transactions with related parties

Affiliates of the Company

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

Type	Company Name	Head Office	Capital Stock	Business Objective	Percentage for Possession of Voting Rights	Relationship with Related Party	Contents of Transaction	Amount for Transaction	Title of Account	Amount as of March 31, 2013
Equity-method affiliate	UQ Communications Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	¥157,800 (U.S.\$1,678)	—	¥— (U.S.\$—)
						Concurrent director	Receiving fee for the guarantee	¥329 (U.S.\$3)	Account receivable	¥79 (U.S.\$1)

Terms and conditions and policies for terms and conditions

* Guarantee for bank borrowings and the amount represents maximum exposure of the Company.

19. Segment Information

Segment information for the years ended March 31, 2012 and 2013 were as follows:

a. Segment Information

1. Outline and Change of Reportable Business Segments

(1) Outline of reportable business segments

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

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

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

In "Personal Services," the Companies provide households and individual customers with mobile handset sales and other services in addition to a variety of communications services. In "Value Services," we provide households and individual customers with various types of content, settlement services, and other services. In "Business

Services," we provide various types of communication services, mobile handset sales, data center services, various types of ICT solution/cloud services, and other services for corporate customers. In "Global Services," we provide various types of communications services, data center services, various types of ICT solution/cloud services, and other services for companies and individuals overseas.

(2) Change in reportable business segments

For the year ended March 31, 2013, the Companies commenced a full-scale launch of such services as "au Smart Value" and "au Smart Pass," based on its growth strategy, the "3M Strategy." In accordance with this launch, the Companies have reclassified its reportable segments into four—"Personal Services," "Value Services," "Business Services," and "Global Services"—in order to manage its operating results by segments that reflect service and customer characteristics. Segment information for the year ended March 31, 2012 has been revised based on above change.

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

Accounting method for reportable business segment is the same as presentations on "Basis of Presenting Consolidated Financial Statements." Income by reportable business segments are calculated based on operating income.

Intersegment trading prices are calculated based on third-party trading prices or determined by negotiating prices that take overall costs into consideration. Assets are not allocated to reportable segments.

(3) Information on sales and income (loss), identifiable assets, and other items by business segment reported

Year ended March 31, 2012

	Reportable Segments					Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
	Personal Services	Value Services	Business Services	Global Services	Subtotal				
Sales									
Outside sales	¥2,721,295	¥110,013	¥562,650	¥141,546	¥3,535,503	¥ 36,595	¥3,572,098	¥ —	¥3,572,098
Intersegment sales	78,283	26,412	73,389	30,068	208,152	121,013	329,165	(329,165)	—
Total	¥2,799,577	¥136,425	¥636,039	¥171,614	¥3,743,655	¥157,608	¥3,901,263	¥(329,165)	¥3,572,098
Income by business segment	¥ 347,202	¥ 44,440	¥ 74,996	¥ 4,268	¥ 470,905	¥ 7,249	¥ 478,154	¥ (506)	¥ 477,648
Other items									
Depreciation ³	355,504	5,718	46,820	9,375	417,416	1,684	419,099	(1,213)	417,886
Amortization of goodwill	10,185	2,626	416	825	14,052	224	14,276	—	14,276

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

2. Adjustment of segment income refers to elimination of intersegment transactions.

3. Inclusive of long-term prepaid expenses.

Year ended March 31, 2013

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

	Reportable Segments					Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
	Personal Services	Value Services	Business Services	Global Services	Subtotal				
Sales									
Outside sales	\$29,383	\$1,169	\$6,085	\$1,859	\$38,496	\$ 444	\$38,940	\$ —	\$38,940
Intersegment sales	792	340	702	345	2,179	1,089	3,269	(3,269)	—
Total	\$30,175	\$1,509	\$6,787	\$2,204	\$40,675	\$1,533	\$42,209	\$(3,269)	\$38,940
Income by business segment	\$ 4,026	\$ 445	\$ 849	\$ 83	\$ 5,403	\$ 52	\$ 5,455	\$ (4)	\$ 5,451
Other items									
Depreciation ³	3,641	74	492	115	4,321	18	4,339	(15)	4,325
Amortization of goodwill	119	18	10	27	175	—	175	—	175

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

2. Adjustment of segment income refers to elimination of intersegment transactions.

3. Inclusive of long-term prepaid expenses.

b. Relative Information

(1) Products and services information

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

(2) Geographic segment information

1. Sales

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

2. Property, plant and equipment

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

(3) Information by major clients

Information by major clients was not presented since no individual clients accounted for greater than 10% of operating revenue on the consolidated statements of income.

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

Year ended March 31, 2012

The Company does not allocate impairment losses to reportable segments. During the period under review, the Company recorded an impairment loss of ¥9,947 million.

Year ended March 31, 2013

The Company does not allocate impairment losses to reportable segments. During the period under review, the Company recorded an impairment loss of ¥80,549 million (U.S.\$856 million).

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

Year ended March 31, 2012

						Millions of yen
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	¥10,185	¥2,626	¥416	¥ 825	¥224	¥14,276
Year end balance	53,667	19,486	416	18,333	—	91,901

Year ended March 31, 2013

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

						Millions of U.S. dollars
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	\$119	\$ 18	\$10	\$ 27	\$—	\$175
Year end balance	502	193	—	224	—	918

e. Information on Negative Goodwill by Business Segment

Year ended March 31, 2012 and 2013

No significant items to be reported.

20. Per Share Information

	Yen		U.S. dollars
	2012	2013	2013
Net assets per share	¥2,696.03	¥2,943.12	\$31.29
Net income per share			
Basic	290.58	315.90	3.36
Diluted	283.34	289.26	3.08

* The following shows the basis of calculating net income per share, and diluted net income per share for the years ended March 31, 2012 and 2013.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Net income for the fiscal year	¥238,605	¥241,470	\$2,567
Monetary value not related to common stockholders	—	—	—
Net income related to common stock	238,605	241,470	2,567
Effect of dilutive securities:			
Amortization of bond premium (after deduction of an amount equivalent to tax)*	(49)	(155)	(2)
Net income on which diluted net income per share is calculated	¥238,555	¥241,315	\$2,566

	Number of shares	
	2012	2013
Number of weighted average common shares outstanding during the fiscal year	821,133,107	764,378,162
Increase in number of shares of common stock (subscription warrants)	20,793,324	69,870,302
(Convertible bond-type bonds with subscription rights to shares)	(7,130)	(74,455)
(Convertible bond-type bonds with subscription rights to shares)	(20,786,194)	(69,795,847)
Number of shares on which diluted net income per share is calculated	841,926,431	834,248,464
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	One types of subscription Warrant-August 2008, 7th Stock Option (4,658 subscription warrants)	—

Notes 1. The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.

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

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

21. Other

1. Reduction Entry Due to Subsidies, etc.

Reduction entry due to Subsidies, etc. for the acquisition of property, plant and equipment as of March 31, 2012 and 2013 were ¥159 million and ¥3 million (U.S.\$0 million). Cumulative reduction amounts were ¥18,075 million and ¥17,909 million (U.S.\$190 million).

2. Notes Relating to Affiliates

The following table summarizes the amounts related to affiliates as of March 31, 2012 and 2013.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Investments in affiliates	¥351,815	¥348,169	\$3,702
(of which investment in jointly controlled entities)	687	718	8
Other investments in affiliates	186	219	2

3. Supplemental Information of Cash Flow Statement

(1) Non-monetary transaction

The following table summarizes the amounts of assets and obligations as of March 31, 2012 and 2013 related to finance lease transactions entered by the Companies.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Finance lease assets	¥5,170	¥4,006	\$43
Finance lease obligations	5,643	4,284	46

Notes related to lease transactions were omitted due to its immateriality.

(2) Assets and liabilities of newly consolidated subsidiaries

Year ended March 31, 2012

WebMoney Corporation was newly consolidated due to the acquisition of the shares. The following table summarizes the breakdown of assets acquired and liabilities assumed existed at the time of consolidation.

	Millions of yen
Current assets	¥ 17,902
Noncurrent assets	3,401
Goodwill	16,345
Current liabilities	(18,208)
Minority interests	(86)
Amount paid for the acquisition of shares of WebMoney Corporation	19,353
Cash and cash equivalents of WebMoney Corporation	(8,440)
Net amount paid for the acquisition of WebMoney Corporation	¥ 10,912

Year ended March 31, 2013

No significant items to be reported.

(3) Assets with transferred ownership from acquisition of trust beneficiary right

Year ended March 31, 2012

In regard to the acquired beneficial interest in trust, accompanying the termination of the real estate investment trust contract, the ownership of the assets that had been held in trust were transferred to the Company.

These acquired assets were recorded in the consolidated balance sheets as of March 31, 2012 as Machinery: ¥1,065 million; Buildings: ¥6,125 million; Structures: ¥97 million; Land: ¥7,697 million; and other property, plant and equipment: ¥9 million.

Year ended March 31, 2013

None

22. Subsequent Event

(Notice Concerning Share Split)

At the meeting of the Board of Directors held on January 28, 2013, the Company resolved to conduct a stock split, with an effective date of April 1, 2013. The details were as follows.

1. Purpose of Share Split

The stock split will be conducted with the aim of increasing the liquidity of the Company's stock and expanding its investor base by reducing the price of share-trading units.

2. Outline of Stock Split

(1) Method of stock split

The stock split shall have a record date of Sunday, March 31, 2013 (because this date falls on a holiday, for all practical purposes the date in substance is Friday, March 29, 2013) and shall involve the splitting of common stocks held by shareholders whose names appear or are recorded in the latest Registry of Shareholders on the record date at a ratio of 1:2.

(2) Number of increase in shares by stock split

- 1) Total number of issued shares before stock split 448,481,800 shares
- 2) Number of increase in shares by stock split 448,481,800 shares
- 3) Total number of issued shares after stock split 896,963,600 shares
- 4) Total number of authorized shares after stock split 1,400,000,000 shares

(3) Schedule of stock split

- 1) Public notice date of the record date Thursday, March 14, 2013
- 2) Record date Sunday, March 31, 2013
- * For all practical purposes the record date in substance is Friday, March 29, 2013.
- 3) Effective date Monday, April 1, 2013

3. Others

(1) Changes in capital

The stock split will not result in changes in capital.

(2) Share information

Information on the impact of this stock split is included in the "Per share information" section.

(Acquisition of Jupiter Telecommunications Co., Ltd. Shares)

On April 17, 2013, the Company acquired through public tender an additional 644,115 shares in Jupiter Telecommunications Co., Ltd. (hereafter, "J:COM"). As a result, the Company's ownership of J:COM amounted to 2,777,912 shares (Note), and voting rights came to 40.47%. In accordance with effective control standards, J:COM was converted to a consolidated subsidiary as of that date.

Note: The Company also owns an additional 152,904 shares in J:COM, which is entrusted for a securities custodial trust. As the trust agreement precludes the Company from exercising voting rights on these shares, they are not included in the share numbers stated above.

1. Overview of Business Combination

(1) Name and Business activities of acquired company

	Millions of yen
Name	Jupiter Telecommunications Co., Ltd.
Business activities	Cable TV broadcast and telecommunications business through supervision and operation of cable TV stations; Supervision of programming business for Cable TV stations and digital satellite broadcasters etc.
Operating Revenues (Note)	376,835
Net income attributable to J:COM shareholders	41,623
Total J:COM shareholders' equity	454,547
Total assets	812,030

Note: As of December 31, 2012 (J:COM annual report (the 19th period))

J:COM prepares consolidated financial statements based on accounting principles generally accepted in the United States of America.

(2) Principal reasons for conducting a business combination

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

(3) Date of business combination

April 17, 2013 (Date of commencement of TOB settlement)

(4) Legal form of business combination

Acquisition of shares

(5) Name of company after business combination

Jupiter Telecommunications Co., Ltd.

(6) Acquisition of voting rights

Voting rights held immediately before the business combination 31.08%

Additional voting rights acquired on the day of the business combination 9.38%

Voting rights after the acquisition 40.47%

NJ Corporation (The Company's equity-method affiliate), in which The Company and Sumitomo Corporation hold the same number of voting rights, acquired 553,679 shares (voting rights of 8.09%) through this tender offer. Accordingly, the Company holds 4.05% of the voting rights indirectly through NJ Corporation.

(7) Main factors in determination of acquirer

The Company, which provided the cash, was determined to be acquirer because the type of consideration was cash.

2. Acquired Company Acquisition Cost: Amount and Breakdown

(1) Consideration for acquisition

¥341,683M (Reference) NJ Corporation ¥68,338M

(2) Costs directly incurred for acquisition

Unconfirmed

(3) Income on step acquisition

Unconfirmed

(4) Amount of goodwill recognized and basis for recognition of goodwill

Unconfirmed

(5) Amounts and breakdown for assets acquire and liabilities assume in the business combination

Unconfirmed

Report of Independent Auditors

KDDI Corporation and its Subsidiaries

Independent Auditor's Report

To the Board of Directors of KDDI CORPORATION

We have audited the accompanying consolidated financial statements of KDDI CORPORATION and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDDI CORPORATION and its subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of matter

As described in Note 22 to the consolidated financial statements, on April 17, 2013, KDDI CORPORATION acquired an additional shares in Jupiter Telecommunications Co., Ltd. through public tender and made it as a subsidiary as at that date. This event did not have an impact on our opinion.

Convenience translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Kyoto

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 20, 2013

Corporate Overview

As of March 31, 2013

Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984
Business Objective:	Telecommunications business
Head Office:	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
Registered Place of Business:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-8003, Japan
Capital:	¥141,851 million
Number of Employees:	20,238 (consolidated)
Representative Director:	Takashi Tanaka, President

Major Shareholders

Name of Corporate Entity	Number of Shares Held	Ratio of Controlling Share*	Ratio of Voting
Kyocera Corporation	57,267,700	12.76%	14.98%
Toyota Motor Corporation	49,748,800	11.09%	13.01%
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,187,500	4.94%	5.80%
Japan Trustee Services Bank, Ltd. (Trust Account)	18,635,082	4.15%	4.87%
State Street Bank & Trust Co.	14,912,488	3.32%	3.90%
State Street Bank & Trust Co. 505223	7,016,095	1.56%	1.83%
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	4,557,683	1.01%	1.19%
CITIBANK, N.A. - NY, AS DEPOSITARY BANK FOR DEPOSITARY SHARE HOLDERS	4,283,226	0.95%	1.12%
State Street Bank & Trust Co. 505225	3,943,921	0.87%	1.03%
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	3,482,600	0.77%	0.91%

* Controlling shares are calculated including treasury stock (66,269,400 shares.) KDDI excludes treasury stock from the list of major shareholders above.

Inquiries

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KDDI CORPORATION

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