Designing The Future

Ubiquitous Solution Company

Annual Report 2009

Results for the year ended March 31, 2009

The Challenge:

Creating New Value That Is Unique To KDDI

KDDI strives to achieve the No. 1 ranking in customer satisfaction in every service area while also seeking sustainable growth. In order to achieve sustainable growth, KDDI considers it essential to continuously work to enhance the business base to create new value that is unique to KDDI.

We hope that through this report readers will gain a greater understanding of KDDI's businesses and feel the power of KDDI's growth potential as we rise to the challenge of creating new value and improving our corporate value.

About the Cover
The theme of this year's annual report is The Challenge: Creating New Value That Is Unique To KDDI. The cover expresses the Company's resolution to deliver new, high-value-added services to its customers.

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

Contents

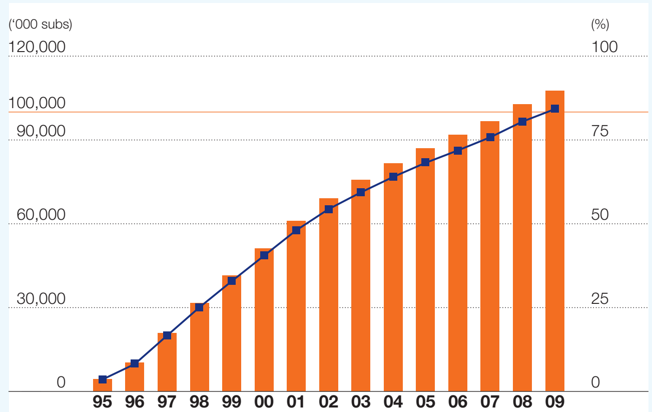
Mobile Business

As Japan's consumer mobile phone market reaches maturity, the increasing penetration of plans that separate tariffs from handset prices, and the effects of the economic downturn, have led to a significant decline in handset sales. Competition continued to escalate in services to attract new customers.

Japan's Maturing Consumer Mobile Phone Market

As of the end of 2007, the total number of mobile phone subscriptions in Japan had climbed past 100 million, with more than 80% penetration rate to population. The consumer market, which has provided the traction for this growth until today, is maturing as the increase in new subscription has gradually slowed down. Continued growth can be expected in communications modules subscriptions and in the corporate market, centered around small and medium-sized enterprises.

Number of Mobile Phone Subscriptions in Japan and Penetration Rate



Souce: Ministry of Internal Affairs and Communications and Telecommunications Carriers Association (TCA)

Note: The number of mobile phone subscriptions is as of March 31 of each year. Penetration rate figures are as of October 1 of each year.

Significant Decline in Handsets Sales Due to Pricing Plans Separating Tariffs from Handset Prices

The Ministry of Internal Affairs and Communications has established a Study Group on Mobile Business as part of its "New Competition Program 2010" to formulate rules for fair competition in the field of mobile communication. In light of the study group's findings, new pricing plans were introduced to separate tariffs from handset prices in addition to existing schemes under which carriers subsidize handset costs. In FY 2009.3, marketing of mobile phones in Japan focused on these new pricing plans, bringing a major change to the conventional business model.

au Purchase Program Illustration

(prices include tax)

au Purchase Program Course name	Simple Course	Full Support Course
Purchase support (handset subsidy)	No	Yes (¥21,000)
Contract on period of handset use	No (except installment payments)	2-year contract
Price plan	Plan SS Simple to Plan LL Simple etc.	Plan SS to Plan LL etc.
Basic monthly charge (for Plan SS)*	¥980/month (includes ¥1,050 free calls)	¥1,890/month (includes ¥1,050 free calls)
Installment payment	Yes (12, 18 or 24 installments)	No

*Basic monthly charge when customer signs "Everybody Discount" contract.

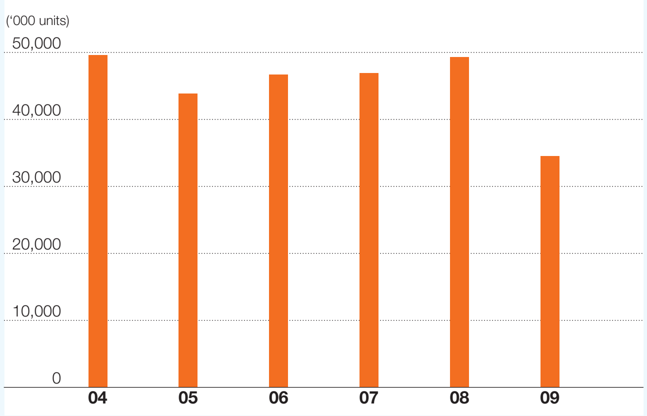
Under the new pricing plans, basically, carriers no longer subsidize handset costs for customers purchasing mobile phones. As a result, the cost of purchasing a handset became higher in comparison with conventional plans.

In addition to the introduction of new pricing plans, FY 2009.3 also saw the effects of the economic recession, and as a result of customers refraining from replacing their handsets, or keeping their existing handsets for a longer time, sales of handsets in Japan declined significantly, by approximately 30% year on year. KDDI saw handset sales fall 32% year on year, and a gap arose between the number of handsets ordered with the manufacturers and numbers sold, resulting in high inventory levels, particularly in the first half of the period.

The number of handsets sold in Japan in FY 2009.3 declined significantly over the previous year's levels, due to the increasing penetration of multi-year service plans, and a percentage of subscribers choosing installment payments when purchasing handsets under the new pricing plans. All these factors contributed to an overall drop in churn rates and replacement rates among all carriers, pointing to a significant decline in consumer mobility in the Japanese mobile phone market.

Under the separate-tariff/handset price plans, an amount equal to the separate handset subsidy is discounted from the monthly basic charges. Thus, as the number of subscribers choosing such plans increases, the average voice ARPU will also decline.

Number of Domestic Handsets Shipped



(Years ended March 31)
Source: Japan Electronics and Information Technology Industries Association (JEITA)

Effects of the Recession

In the midst of this once-in-a-century global recession, the Japanese economy faced extremely difficult conditions in FY 2009.3. One of the effects on the Mobile Business was the significant decline in handset sales, partly attributable to the rise in handset prices brought about by the new separate-tariff/handset price plans. At the same time, particularly in the consumer market, the recession did not result in any significant change in KDDI's ARPU for either voice or data communication. On the other hand, there has been an effect on the corporate market, with existing customers cancelling contracts for unused handsets, and cutbacks, postponements, and cancellations of some new deals.

Content and Media Market

The spread of Packet Flat-rate pricing data plans and the expansion of the 3G network has made it possible to offer a high volume of content at high speed, resulting in steady growth for content and media markets. In addition to traditional downloadable content, use of user-generated content such as social network services (SNS), and video distribution services such as YouTube, have continued to expand to mobile phones.

Although the majority of mobile Internet sites offer useful information, there are others of a more circumspect nature, such as fraudulent or malicious sites, online dating sites and adult content sites that are illegal for anyone under 18 years old to access. To combat this issue, in April 2009 the Law for Promotion of a Safe, Secure Internet Environment for Minors (the "Law for Improvement of the Internet Environment for Youth") was implemented, requiring that filtering services restricting access to harmful Internet content be put in place for anyone under 18 years old purchasing mobile and PHS phones, unless authorized by a parent or guardian. This is one of several efforts to restrict access by young people to such harmful sites, so called "filtering services," being promoted through a collaboration between the government, telecommunications carriers, and content providers.

Note: YouTube is a registered trademark of YouTube, LLC

Fixed-line Business

The shift from long-distance business to access line business continues, as do trends toward direct access, IP, and broadband services.

FTTH Becomes Driver in Broadband Market

Japan's fixed-line market is in a period of transition, entering a new era of direct-access, IP, and broadband services.

About 20 years ago, when long-distance operators entered the fixed-line business in Japan, access portion fees to the owner of the access line, NTT, amounted to less than 10% of the fees paid by customers. With the increasing use of IP systems, however, access portion fees now amount to about 75% of customer payments, a dramatic contraction in net revenues.

From the perspective of securing revenue and income, therefore, in today's market it is essential to shift from a long-distance business that focuses on voice telephony to the access line business.

In the continually growing market for broadband service, the number of subscriptions to FTTH (Fiber to the Home), ADSL, and CATV services combined topped 30 million for the first time as of the end of December 2008, and at the end of March 2009, reached 30.33 million subscriptions. With price competition among FTTH service providers, and products made more attractive through the introduction of "triple play" services combining Internet access, phone, and video, the shift from ADSL to FTTH has progressed to the point where, by June 2008, FTTH subscriptions had exceeded those for ADSL.

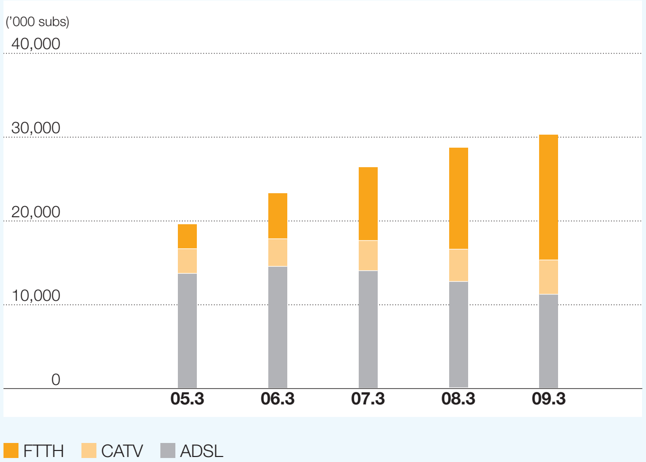
However, customers who do not use video distribution sites or other large-volume data downloads find ADSL service adequate for their needs, and this has slowed the growth in FTTH service subscriptions somewhat.

In addition, issues such as those regarding copyrights have prevented video distribution services, which meant to take advantage of the high-speed, high-definition features of FTTH—features also a factor in ARPU growth—from being developed on a full scale.

For Internet access, meanwhile, there was the development of technology that enables the transmission of Ethernet frames as they are between the carrier exchange facility and the home, while services that achieve uplink and downlink speeds of as much as 1Gbps are gaining attention.

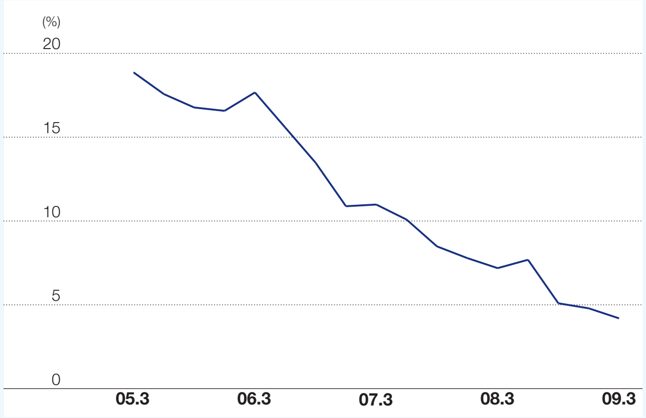
Under these circumstances, in April 2008, KDDI made Chubu Telecommunications Co., Inc. (CTC) a consolidated subsidiary, expanding the Company's customer base so that as of the end of March 2009, FTTH subscriptions had increased by 54.8% year on year, to reach 1.099 million.

Number of Domestic Broadband Subscribers



Source: Ministry of Internal Affairs and Communications, Media Release "Broadband Service Subscriptions" (June 19, 2009)

Domestic FTTH Subscription Growth Rate



Shift from Fixed-line to IP Phone Services Progresses

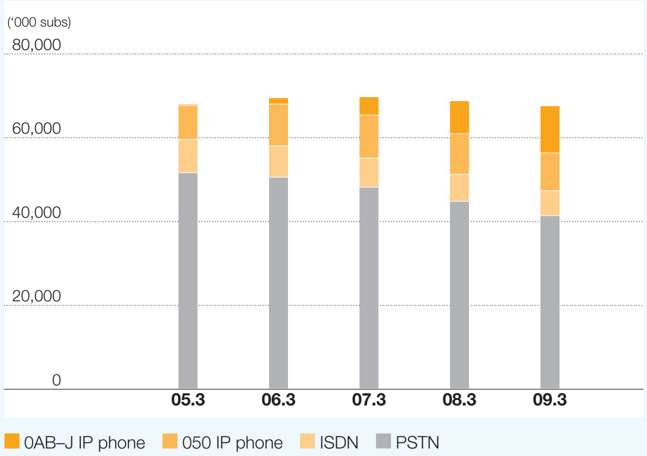
In the fixed-line telephony market (which covers all fixed-line phone subscription, namely, PSTN, ISDN, and IP phone services), subscriptions dropped by 1.8% to 67.52 million, continuing a downward trend partly resulting from the widespread use of mobile phones.

Of these, fixed-line phone and ISDN subscriptions totaled 47.30 million, down 7.7% year on year, and 24.7% below the peak of 62.85 million subscriptions at the end of FY 1998.3.

As fixed-line phone services decline, IP phone services are trending upward, with 0AB-J type and 050 type IP services, which uses FTTH or CATV access lines, growing by 15.3% year on year, to 20.22 million subscriptions.

KDDI has worked aggressively to expand its FTTH and CATV-based services, including "HIKARI-one phone" and "Cable-plus phone", and they now hold a 9.9% share of IP phone services.

Domestic Fixed-line Subscriptions



Source: Ministry of Internal Affairs and Communications Media Release "Status of Subscriptions to Electronic Communications Services" (May 29, 2009)

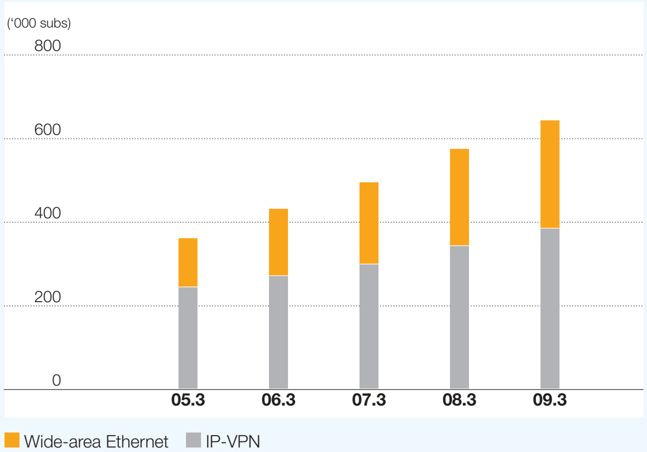
Effects of the Recession

As Japan continues to experience severe economic conditions, the effects of the recession on the consumer market can be seen in a stronger money-saving, which has slowed the shift from ADSL to FTTH, resulting in slowing down of the growth speed in FTTH service subscriptions and a delay in the expansion of multi-channel broadcasting, VOD, and other video-based services utilizing FTTH.

In the corporate market, the recession, in the short term, has brought cutbacks in corporate communications costs and a scaling back of the size or number of sites, resulting in a temporary drop in per-customer revenue and some cancellations.

On the other hand, in response to the growth in high-volume communications between companies, there has been a shift in services used for internal corporate networks, from leased circuit services with guaranteed bandwidth, to IP-VPN and low-priced wide-area Ethernet services, and in the long term, VPN services are expected to grow.

VPN Service Subscriptions



Source: Ministry of Internal Affairs and Communications, Media Release "Broadband Service Subscriptions" (June 19, 2009)

Financial Highlights

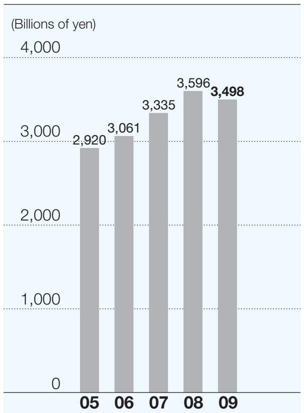
Years ended March 31

	2005	2006	2007	2008	Millions of yen 2009	Millions of U.S. dollars[*1] 2009
Operating revenues	¥ 2,920,039	¥ 3,060,814	¥ 3,335,260	¥ 3,596,284	**¥ 3,497,509**	**$ 35,605**
Operating income	296,176	296,596	344,701	400,452	**443,207**	**4,512**
Income before income taxes and minority interests	293,531	180,606	309,074	379,205	**394,863**	**4,020**
Net income	200,592	190,569	186,747	217,786	**222,736**	**2,267**
Capital expenditures (cash flow basis)	342,391	414,726	438,463	517,002	**575,072**	**5,854**
<At year-end>						
Total assets	2,472,322	2,500,865	2,803,240	2,879,275	**3,429,133**	**34,909**
Interest-bearing debt	864,627	770,692	620,471	571,945	**874,951**	**8,907**
Net assets (former Shareholders' equity)[*2]	1,162,192	1,295,531	1,537,114	1,715,731	**1,881,329**	**19,152**
Per share data (yen & U.S. dollars)						
Net income	47,612	45,056	42,505	48,810	**49,973**	**509**
Cash dividends	6,900	8,000	9,500	10,500	**11,000**	**112**

[*1] U.S. dollar amounts are translated into yen, for convenience only, at the rate of ¥98.23=U.S.$1 on March 31, 2009.
[*2] Beginning with FY 2007.3, Net assets is used instead of Shareholders' equity.
Net assets: Sum of Shareholders' equity, Share warrant and Minority interests

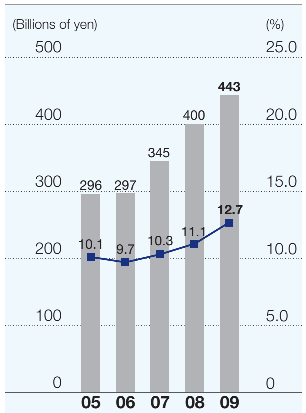
Operating Revenues

–2.7%
3,497.5 billion
First Decline in Six Years



Operating Income/ Operating Income Margin

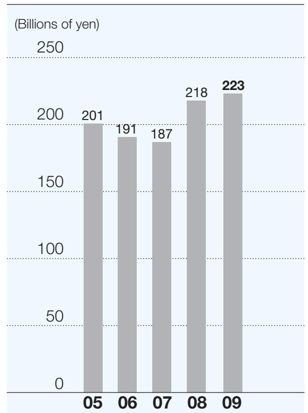
+10.7%
443.2 billion
8 Consecutive Years of Increased Operating Income



Operating income
Operating income margin

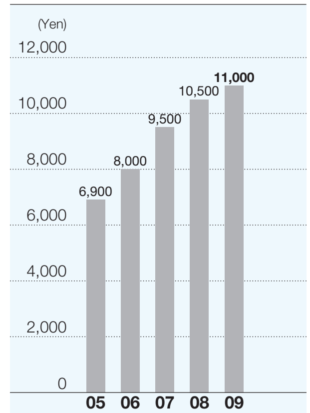
Net Income

+2.3%
222.7 billion
A New Record

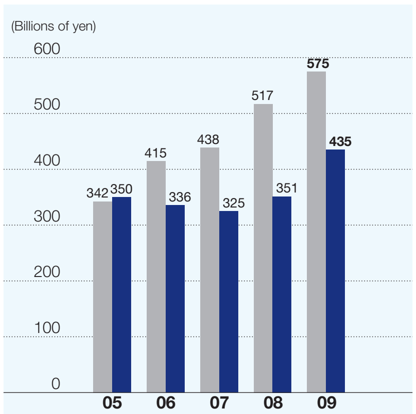


Cash Dividends

+¥500
Annual cash dividends per share ¥11,000
7 Consecutive Years of Increased Dividends

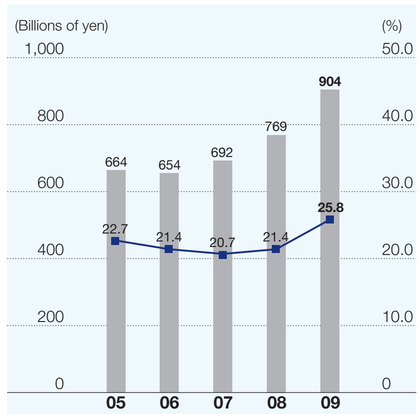


Capital Expenditures/ Depreciation Expenses



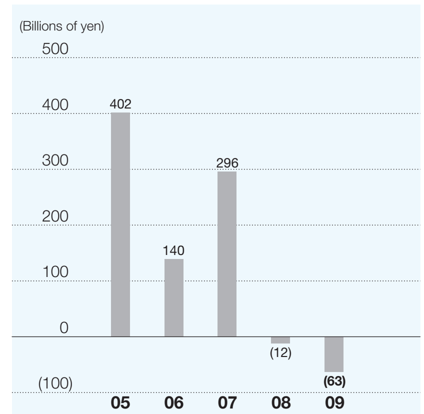
Capital expenditures
Depreciation expenses

EBITDA/EBITDA Margin

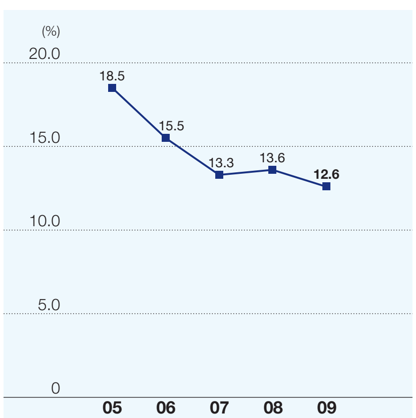


EBITDA EBITDA margin

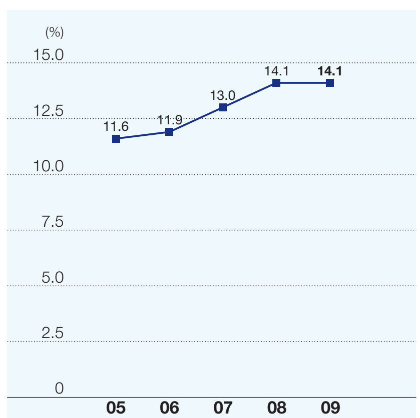
Free Cash Flows



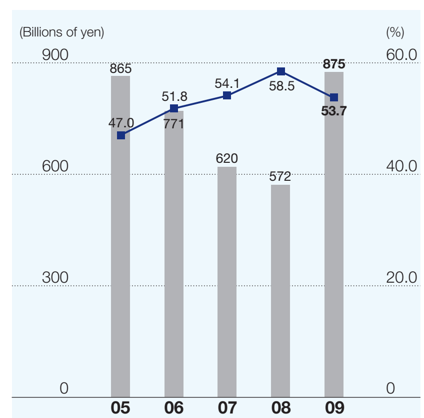
Return on Equity (ROE)



Return on Assets (ROA)

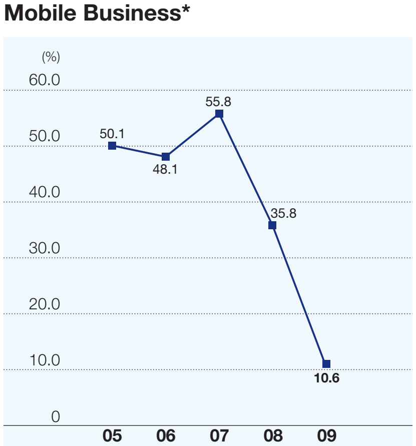


Debt/Shareholders' Equity Ratio



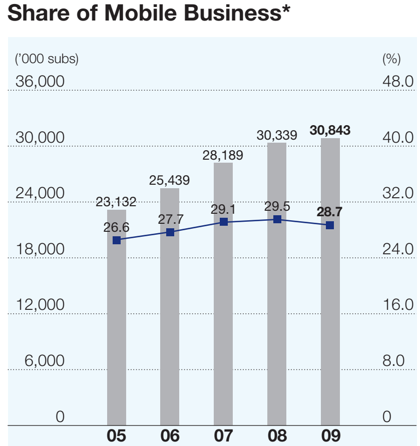
Debt Shareholders' equity ratio

Share of Net Additions of Mobile Business*



*au+Tu-Ka

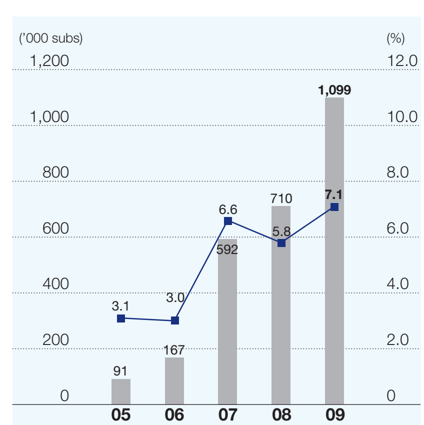
Subscriptions/ Share of Mobile Business*



Subscriptions Share

*au+Tu-Ka

FTTH Subscriptions/Share



FTTH subscriptions Share

*Created by KDDI based on data from the Ministry of Internal Affairs and Communications

Message to Shareholders and Investors

An eighth consecutive year of record earnings. With the earnings structure changing significantly, KDDI's next tasks are to strengthen the business structure and boldly take on "the challenge of New Value Creation."

The global economic crisis precipitated by the subprime loan problems in the United States led to an unprecedented serious situation for the Japanese economy. Despite these circumstances, and although consolidated operating revenues were down in FY 2009.3, we achieved record earnings for the eighth consecutive fiscal period.

In the Mobile Business, the consumer market has matured, and handset sales have fallen significantly with the prevalence of pricing plans separating tariffs from handset prices. This has increased competition to acquire customers, and led to a major shift in the earnings structure that existed before. In response, we recognize that we are required to introduce attractive products and services to meet diverse customer needs, generating a positive business cycle. We also recognize that it is vital for us to continue efforts to increase already high levels of customer satisfaction.

In the Fixed-line Business, the market is undergoing a transformation to IP and broadband services. We are expanding “the direct-access business” in which we provide the access lines ourselves, and stepping up efforts to reduce costs and secure new sources of revenues.

Today, we are facing an era of significant transformation not only in the earnings structure, but in the communications market itself as technology steadily advances. The reforms that KDDI makes of its own accord, anticipating the shifts in the market, should create new value. We are confident that these will allow us to further meet customer expectations, and we will continue to boldly take on challenges.

I would like to offer my sincere appreciation to our shareholders and investors for your continued support of KDDI.

July 2009

Tadashi Onodera
President and Chairman

Interview with the President

Answers on market conditions and performance in FY 2009.3, KDDI's medium-term growth strategy, and the future direction of the Company.

1. Market Environment

Q. Please describe the impact of the global economic slowdown on business performance for FY 2009.3 and FY 2010.3. Is the decline in handset sales an effect of economic trends?

A. The economic downturn did affect our corporate client business, but the impact on consolidated performance overall has been minimal.

The telecommunications industry, in which KDDI operates, is said to be in general relatively immune to the state of the economy. In fact, we do not believe we suffered a serious impact even during the latter half of FY 2009.3, when slowdown in the economy became apparent. Since the start of FY 2010.3, there has been a falloff in new inquiries in the corporate Mobile Business market, but the impact on our business overall is limited.

The significant year-on-year decline in handset sales volume in the consumer market can not be attributed simply to the impact from the economy. Instead, I think the bigger factor is the widespread adoption of pricing plans separating tariffs from handset prices, which were introduced in FY 2008.3. Customers are now more inclined to hold on to their phones longer. Through FY 2008.3 subscribers kept the same phone for an average of around two years, but in FY 2009.3 that increased to around three years.

Consequently, we feel that it is important to establish a competitive position that will allow us to overcome the decline in handset demand and reduced liquidity, and to take steps to invigorate the market.

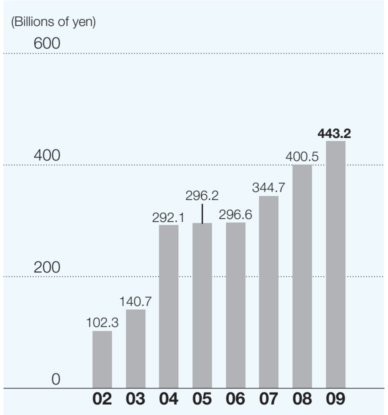
2. Assessment of Operating Results

Q. Looking at the results for FY 2009.3, it seems that KDDI's competitiveness in the Mobile Business declined relative to the competitors. What is your view on this?

A. Although we achieved an increase in earnings for the eighth consecutive year, a breakdown of that increase also reveals the issues we need to address.

KDDI posted a decline in revenues with an increase in earnings during FY 2009.3. Consolidated operating revenues totaled ¥3,497.5 billion (down 2.7% year on year), with operating income of ¥443.2 billion (up 10.7%). We recognize that not every factor behind the rise in earnings was positive. Earnings rose in large part because of the considerable reduction in sales costs following the significant decline in mobile handset sales, rather than as a result of KDDI's competitiveness.

Consolidated Operating Income



(Years ended March 31)

It's true that KDDI's product competitiveness was relatively weak during the past year, particularly for mobile phone handsets. This was due mainly to delays in completing "KDDI Integrated Platform (KCP+)," the common software platform developed to lower handset procurement costs and shorten development lead time, and as a result we failed to launch handsets with sufficient functionality and performance in a timely manner. However, as a result of efforts begun in FY 2009.3 to prioritize regaining product competitiveness, the handset models launched from spring 2009 have overcome these limitations in functionality and performance, and helped us to steadily regain product competitiveness.

I also think that during FY 2009.3 we did not sufficiently communicate to customers about the advantages of KDDI, such as the cutting-edge aspects of our products and services that had been so highly rated by customers in the past. Focusing on this point, in FY 2010.3 we are working to actively draw attention to KDDI's overall strengths and cutting-edge features with, for example, the launch of our new mobile phone brand "iida," and improve our image among customers.

3. Medium-term Growth Strategies

Q. What were the reasons behind the decision to withdraw the targets for operating revenues and operating income in the "Challenge 2010" Mid-term Target? What are your views on the new targets?

A. Although we have withdrawn our ¥4,000 billion in consolidated operating revenues and ¥600 billion in operating income targets for FY 2011.3, we will take responsible action to turn the Fixed-line Business back around into profitability.

Revenues in the Mobile Business declined year on year in FY 2009.3, which we did not anticipate at all when setting the medium-term targets. Behind this decline was the impact from the pricing plan devised and promoted by regulatory authorities separating tariffs from handset prices, which all the mobile carriers have adopted. Under the former business model the prospect for revenues increases was more than sufficient, but with this change we determined that it would be extremely difficult to achieve the FY 2011.3 targets of ¥4,000 billion in operating revenues, and ¥600 billion in operating income on a consolidated basis.

At the same time, we will take responsible action to make the Fixed-line Business profitable by the end of FY 2011.3. There are two major elements involved in achieving profitability. The first is to increase the subscription for FTTH services, aiming to boost sales in order to narrow the losses in the FTTH business. The second is cost reductions. KDDI maintains redundant network infrastructure left over from past mergers—we are going to cut the operation, maintenance and other costs by reorganizing this infrastructure. The Fixed-line Business is basically profitable except for the FTTH business, and we believe that

Interview with the President

by enhancing the profitability of the FTTH business and cutting infrastructure costs, there is sufficient potential for getting the Fixed-line Business back into the black overall.

We are currently holding internal discussions on medium- to long-term business directions and management plans ahead of the tenth anniversary of KDDI's launch in October 2010. It's unclear at this point exactly when or how, but we would like to make some sort of announcement of the results from these discussions.

Q. What are your medium- to long-term strategies for realizing sustainable growth going forward?

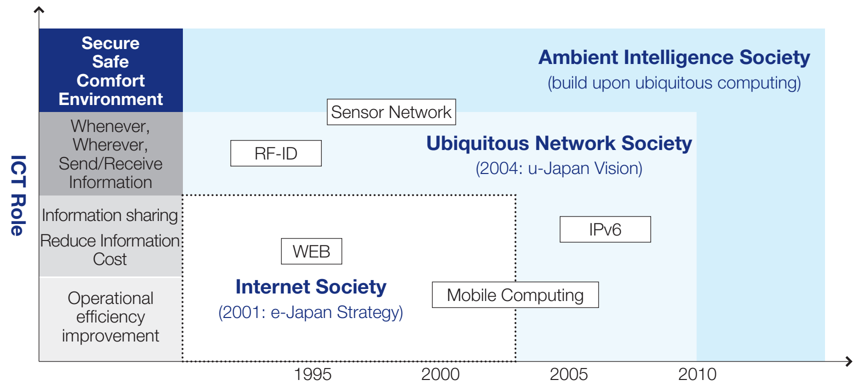
A. Along with profitability in the Fixed-line Business, we believe it is important to create new value by pursuing new business, strengthening the content business, and developing global business.

Over the medium to long term, I believe that we will be unable to rely solely on the operating revenues in the telecommunication business that has been the growth driver up to this point, and must expand revenues in other areas. Specifically, we will strengthen efforts through UQ Communications Inc. and Jibun Bank Corporation, and in completely new businesses related to the telecommunications field. We will also seek growth in the content business, which has been one of the areas with the highest rates of growth among existing businesses, as well as in the system integration and data center businesses overseas.

Q. What will be the future direction for KDDI's business?

A. We will create scenes in which people use our services in the emerging "ambient intelligence society," and generate business opportunities by offering new value and styles.

The word "ambient," though it may sound unfamiliar to you, refers to one's surroundings, an awareness of one's environment. As opposed to the "ubiquitous network society," the "Wherever, Whenever, Whoever" environment in which the customers connect to the network themselves, the "ambient intelligence society" is a "For now, Right here, Only you" service that exists on top of the ubiquitous network, helping to support a customer's activities in a safe, secure, comfortable, and environmentally friendly manner. In the ambient intelligence society the telecommunications company needs to create scenes for using services tailored to each individual customer. This is exactly what KDDI has done up to now, offering new value and lifestyles by creating scenes in which its services are used. I believe that the most important role we will play in the emerging ambient intelligence society is to make integrated efforts from the standpoint of creating scenes for people to use our services.



Note: Composed by KDDI Research Institute based on Hitachi Research Institute documentation.

Q. The number of mobile phone subscriptions in Japan has surpassed 100 million, which has had a profound influence on society. What is KDDI doing to help promote the safe use of mobile phones, and what environmental initiatives have you adopted?

A. We are taking proactive steps to educate customers, along with recycling and other environmental measures.

The widespread use of mobile phones has led to their use in ways that we could not have imagined initially, such as minors accessing harmful websites. This is one of the hidden liabilities of the usefulness of mobile phones, and I think it is vitally important for customers to understand what the potential problems are, and how to use the services properly. KDDI has been helping to educate customers with a program of classes on mobile phones, which we plan to expand further in FY 2010.3. We also provide a filtering service for accessing Internet sites through mobile phones to ensure a safe and secure environment for young people. Going forward, we plan to allow for further control of the access environment by sharing information with website developers.

KDDI also has a proactive program of environmental initiatives, such as the collection and recycling of used mobile phone handsets, including those from other carriers. The disassembly of the handsets is conducted by KDDI Challenged, a special subsidiary established to help provide work opportunities for people with disabilities. Also, through our mobile content services we actively sponsor environmental conservation campaigns in which customers participate, such as the “au Smart Sports Yakushima Walk” begun in November 2008, and the “Green Road Project” launched in February 2009.

Interview with the President

4. Results Forecast

Q. What are your forecasts for FY 2010.3 and the underlying assumptions, based on your relative competitiveness with other companies?

A. Our product competitiveness has risen sufficiently, and we forecast a ninth consecutive period of rising earnings.

For FY 2010.3, we forecast operating revenues of ¥3,480.0 billion (down 0.5% year on year), with operating income of ¥470.0 billion (up 6.0%), and net income of ¥255.0 billion (up 14.5%). (For the breakdown by business segment and underlying assumptions, see the Overview of Operations on page 25.)

While adapting to the changes in the business environment, to achieve sustainable growth KDDI is strengthening its business foundations, and accelerating its efforts for further development of the KDDI group as a whole. We are also taking on “the challenge of New Value Creation” with the goal of being the leader in customer satisfaction in all aspects of service. By actively taking on new challenges we give a boost to activity internally, while at the same time project a buoyant image of KDDI outside the company.

Result Forecast (Consolidated)

Operating Revenue (Billions of yen)

2009	2010 (E)	YoY
3,497.5	**3,480.0**	(0.5)%

Operating Income (Billions of yen)

2009	2010 (E)	YoY
443.2	**470.0**	6.0%

5. Capital Expenditures

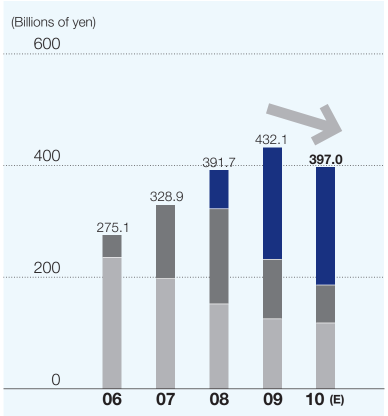
Q. Capital expenditures rose in FY 2008.3 and FY 2009.3. What is the outlook for investment going forward?

A. Capital expenditures peaked in FY 2009.3.

KDDI’s capital expenditures have remained high because the 800MHz band KDDI uses as its main frequency in the Mobile Business will be reorganized with a new frequency by July 2012 in line with government policy, requiring substantial capital investment. However, capital expenditures peaked in FY 2009.3, and for FY 2010.3 we anticipate investment on a consolidated basis will decrease 6.1% year on year to ¥540 billion. Capital expenditures related to the reorganization of the 800MHz band will be completed in FY 2012.3, and we expect spending to continue to decline.

Depreciation costs, considering that capital expenditure peaked in FY 2009.3, will likely peak in FY 2010.3 or FY 2011.3.

Capital Expenditures (Mobile Business)



(Years ended March 31)
New 800MHz 2GHz Others

6. Shareholder Returns and Capital Policy

Q. KDDI's competitors increased their payout ratios in FY 2009.3. What is KDDI's policy regarding shareholder returns?

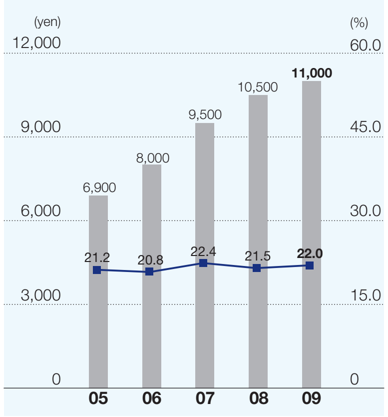
A. Within five years' time, we target a steady increase in payout ratio to between 25% and 30%.

The first management priority for KDDI following the three-way merger of DDI, KDD and IDO in 2000 was reducing interest-bearing debt. As growth potential increased, centered on the Mobile Business, we set a target for a payout ratio of 20% or higher. However, with the increase in capital expenditures in recent years as a result of the reorganization of the 800MHz band and other factors, we have maintained the payout ratio at the same level so far, opting instead to increase the dividend amount in line with the steady growth in earnings.

In FY 2009.3, free cash flow amounted to a negative ¥63.2 billion as a result of the buy-back of four securitized buildings, and an increase in installment liabilities stemming from the introduction of an installment payment plan in the Mobile Business. As a result, full-year dividends for FY 2009.3 were increased ¥500 from the previous fiscal year to ¥11,000 per share, for a consolidated payout ratio of 22.0%.

KDDI considers dividends to be its main method of shareholder returns. We recognize, however, that the current payout ratio is not necessarily adequate. While we need to improve profitability in the Fixed-line Business, there is sufficient basis for stabilizing free cash flow and revising the payout ratio in FY 2010.3 or FY 2011.3. We plan to steadily increase the payout ratio, targeting between 25% and 30% within five years' time.

Cash Dividends/ Dividend Payout Ratio



(Years ended March 31)

Cash dividends — Dividend payout ratio

Special Feature

The Challenge: Creating New Value That Is Unique To KDDI

KDDI strives to achieve sustainable growth, enhance existing businesses, and create new, high-value-added businesses based on communications.

iida

The new “iida” brand is a development and expansion of the “au design project,” created in collaboration with guest designers to reflect customers’ lifestyles. This section introduces the background, aims, and brand concept behind the creation of “iida,” and the new possibilities for “iida” going forward.

iida → P.17

Jibun Bank

Jibun Bank Corporation opened its digital doors for mobile banking services in July 2008. This section describes the current status and future direction of the business.

じぶん銀行

Jibun Bank

→ P.22

UQ Communications

UQ Communications Inc. started commercial service in July 2009. This section describes the current status of the business and its future prospects.

UQ WiMAX

→ P.23

The Challenge for New Value Creation

iida

Four elements comprise the new iida brand

innovation Even the briefest flash of inspiration can be an evolutionary leap that transforms your everyday world.

imagination Is it really true that the imagination of the creator surpasses the imagination of a person who owns a mobile phone? Not with an idea.

design The right design is the one that can thrill a person just by its feel.

art The idea that the seemingly ordinary things closest to you should be works of art.

Brand Concept

LIFE > PHONE

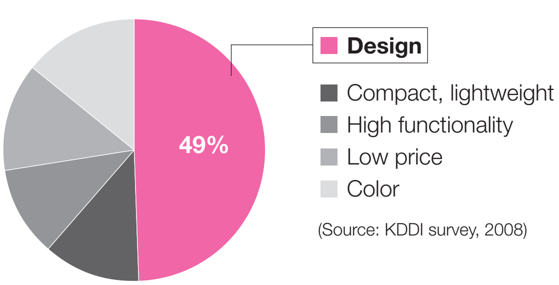
Issues and Initiatives

In the past, KDDI's performance growth has been driven by its Mobile Business. Due to the delays in the completion of the KDDI Integrated Platform during FY 2009.3, however, KDDI was unable to release sufficiently functional and high-performance handsets, which resulted in a loss of market competitiveness, making it clear that KDDI needed more attractive products as a solution.

In order to ensure growth going forward in a maturing and saturated consumer mobile phone market, it is critical that KDDI not only work to lower product procurement costs, but take up the challenge of developing new distribution methods that do not rely solely on existing sales channels. And, with the Company soon approaching its tenth year in business, KDDI needs to avoid the inertia that can plague any large corporation, revitalize its organization with an eye to the next ten years, and create a corporate environment in which every employee has the mettle to take on the challenge of new value creation.

As one initiative in response to these issues, KDDI has launched its new "iida" brand.

What Customers Look for in a Mobile Handset



(Source: KDDI survey, 2008)

The Value "iida" Brings

KDDI has provided a variety of attractively designed mobile phones through its "au design project" and other efforts. The basic concept of the new brand is to design products with peoples' lifestyles in mind, by developing and expanding these efforts in the past and collaborating with outside designers. The brand name "iida" is an acronym for the four words which are the basic elements of this concept: innovation, imagination, design, and art. The theme of the new brand is "LIFE>PHONE," and its keyword is not "mobile phone," but "lifestyle."

KDDI will continue to strengthen its "au" brand with strategic models that meet the needs of its customers by responding to their requests for emphasis on innovation, lifestyle, price, and other factors with mobile phone functions that meet their needs. At the same time, the new "iida" brand will use these strategic models as a platform, introducing new mobile phones and peripheral devices targeting those customers who wish to emphasize quality of design, ease of use, and other aesthetic considerations over function. By combining these two brands in a single, balanced product offering, the Company will also work to lower its procurement costs. In addition to its existing au shop and large-volume retailer outlets, KDDI will also explore new sales channels for the "iida" brand, taking on the challenge of developing product distribution matched to the specific characteristics of each model.

By making effective use of existing frameworks, while also providing a virtual platform for creating new business models, the "iida" brand is being positioned as a kind of internal MVNO, and in that sense is expected to bring fresh energy to the Company while generating a new, positive business cycle.

Developer Interview

An integration of art and product, these new Art Editions have a presence that breaks through traditional wisdom.

Satoshi Sunahara
Assistant Manager, Concept Planning Group
Product Planning Dept., Consumer Service & Product Planning Division

Encounter with Yayoi Kusama

As we took the first step in moving from the “au design project” to the new “iida” brand, our goal was not only to create the “iida” brand, but to deliver what would be a new flagship product for KDDI, and for our customers. This product needed to meet the lofty ambition of contributing to Japan’s unique design culture, while being worthwhile of the efforts of KDDI as a company.

We began by focusing on a single avant-garde artist. Known for her many years of work in developing unique modes of expression, Yayoi Kusama enjoys an international reputation. Her characteristic dot motif and vivid color have brought to her works a new and strangely appealing level of “kawaii,” or “cuteness,” and we knew instinctively that these works were exactly the concept we had been looking for. When we explained to Ms. Kusama that we hoped to create a new value based on the integration of art and product, and to use a mobile phone company to present that creation to the world, she graciously accepted our proposal to collaborate on the project.

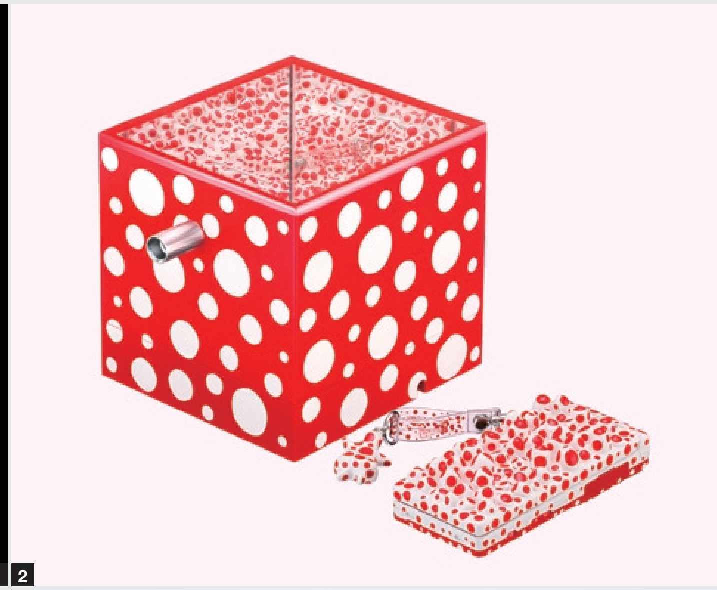
A New Kind of Art

The first Art Editions model attempted under the new “iida” brand, then, was to be a mobile phone as work of art, conceived by world-renowned avant-garde artist Yayoi Kusama. Our role was to use the mobile phone-based art-work created by Ms. Kusama as a model, ensuring that the product would lose none of its quality or functionality as a mobile phone, while enhancing its value and presence as a work of art. For example, each and every dot represented on the body of the phone is the product of the detailed handiwork of experienced technicians and the use of advanced printing technology. And, despite its unique form, unheard of in traditional mobile phone design, the final product has cleared the strictest of quality standards, at the hands of mobile phone manufacturers both in Japan and abroad. This project thus represents a new approach to “monozukuri,” a true manufacturing, and the process itself becomes a new kind of art.

Creation of a New Genre

The desire of Ms. Kusama and our team to “share the excitement of art, the wonder of attempting to make art of a mobile phone, the wonder of being alive,” found its final expression in the three Art Editions YAYOI KUSAMA models first revealed at the announcement of the new “iida” brand in April 2009. The creation of a new “mobile phone as art” genre generated a wide range of reactions, and we later learned that the presence of the Art Editions had a significant impact on subsequent surveys of brand recognition.

The “iida” product line now consists of the Art Editions, along with the “G9” and “misora” models and other peripheral items announced at the same time, representing a diverse lifestyle brand. Going forward, we hope to see “iida” evolve into a creative design ecosystem, in which a wide variety of creative minds—product designers, artists, the famous and the unknown—can be free to participate across traditional boundaries.



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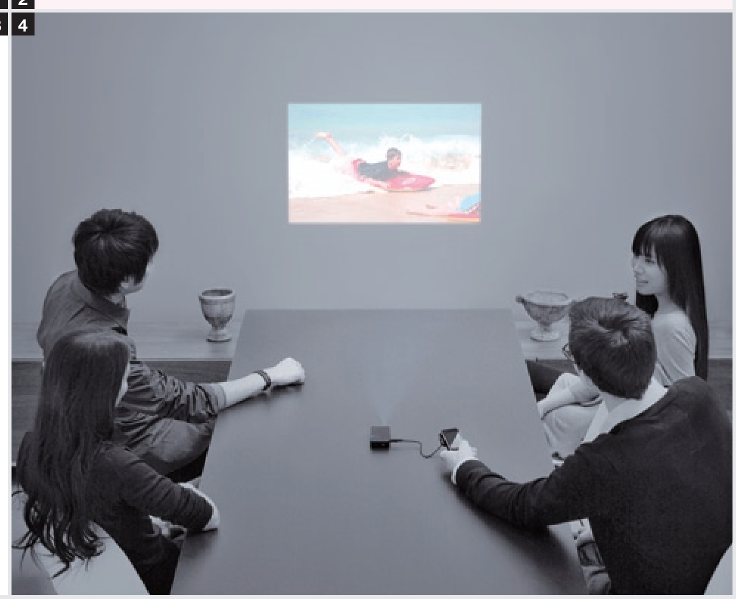
3 4



1 G9

A sophisticated design from product designer Ichiro Iwasaki, the inaugural “iida” model combines the high-quality feel and practical usability of an instrument. This is the first model from “iida,” with global connectivity.

2 Dots Obsession, Full Happiness with Dots

This product set features a mobile phone and a box-shaped stand. The dot-and-emboss-ful mobile phone is placed inside the box, recreating the world of Yayoi Kusama’s iconic 1965 work, ‘Infinity Mirror Room—Phalli’s Field (or Floor Show).’

3 misora

Free of all extraneous or superfluous features, this handset seeks an easy-to-hold, simple-to-use design that fits perfectly with the human body.

4 MOBILE PICO PROJECTOR

A micro projector lets users share 1seg broadcasts or pictures from their camera phone with those around them. This groundbreaking mobile projector is about the same size as the “G9.”

iida

Developer Interview

The competitiveness of the au brand is tied to the success of the iida brand, and that was our objective.

Ryota Fujima

Assistant Manager, Concept Planning Group
Product Planning Dept., Consumer Service & Product Planning Division

Positioning as an In-house MVNO

The mobile phones being rolled out under the new "iida" brand first announced in April 2009 appear to be off to a smooth start. The "G9," a work by product designer Ichiro Iwasaki, who continues to work with us on "iida" after his participation in the "au design project," along with his hyper-compact "MOBILE PICO PROJECTOR," have attracted considerable notice for their elegant design. According to surveys, in fact, the strong initial showing by the "G9," and the "iida" brand in general, have worked to boost the image of the "au" brand as well. This is exactly the result we had hoped for.

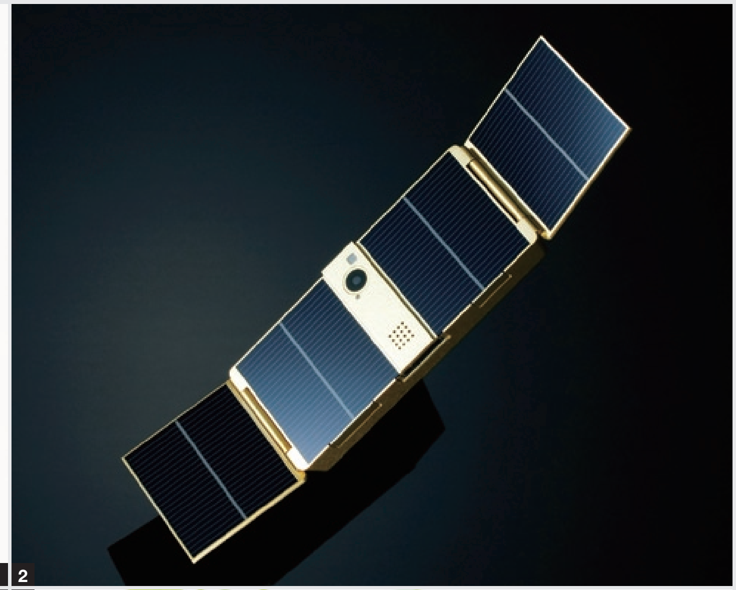
As can be seen from KDDI's positioning of the "iida" brand as an in-house MVNO, our goal is to make effective use of "au" resources, while taking a different approach in developing new markets. While this will involve installing new dedicated promotional points in our existing sales channels, we will also move proactively in attempting to develop new modes of distribution, introducing "iida"-exclusive content and services, exhibiting our Art Editions at art galleries, and selling peripheral products over the Web.

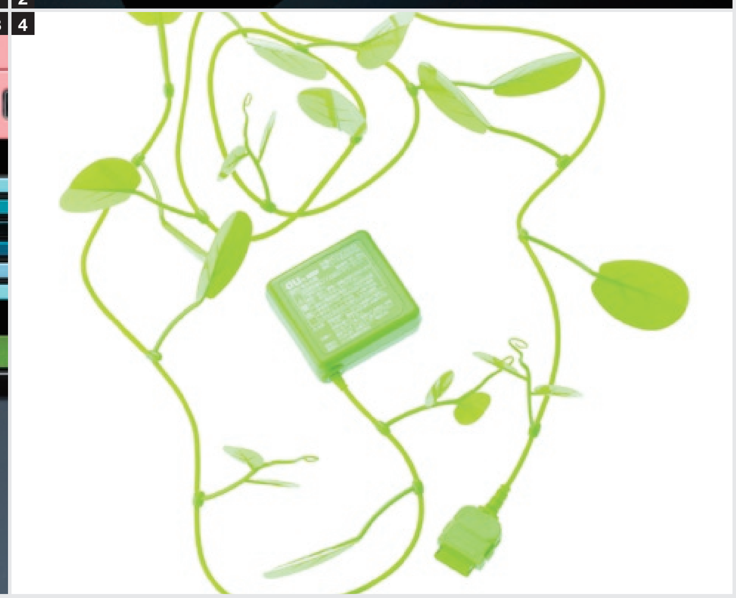
Lifestyle Design Products

The concept behind the new "iida" brand is "LIFE>PHONE," a theme for bringing lifestyle design to our customers. For example, the "misora" handset, produced by Yoshitaka Mukai, who has been intimately involved in the design of kitchens and other lifestyle components, offers a simple, comfortable design that slips easily into the everyday life of the user. In the survey mentioned earlier, "misora" was well-received as the kind of product well-suited to communicating the appeal of the "iida" brand. The "AC Adapter MIDORI," produced in collaboration with up-and-coming product designer Shunsuke Umiyama, has also garnered attention for breaking the "all AC adapters are black" stereotype—its design is modeled after a house plant—with the entire limited edition of 20,000 selling out shortly after being shipped. This is how "iida," as a lifestyle design brand, is steadily opening doors to new markets for mobile phones and peripherals.

Synergies Born from Differences in Approach

Going forward, KDDI plans to continue to aggressively expand its lineup of "iida" brand mobile phones. With the world of technology evolving at a dizzying pace, we believe the "au" brand is best suited to the early adoption of technical innovation. While we have announced a solar-powered conceptual model mobile phone under the "iida" brand, this was strictly because we found the sight of the phone charging, its solar panels spread like wings, so beautiful. We hope to bring this sense of aesthetics and playfulness to our customers' lives in a variety of forms, not limited to mobile phones and their peripherals. This difference in approach between the "au" and "iida" will generate new synergies, and our objective is for those synergies to lead to the improved competitiveness of the "au" brand. We hope you will look forward to how the "iida" brand develops going forward.





1 Musical Instruments and Mobile Phones
"Musical Mobile Phones/Instruments You Can Carry." From this concept, an emotional design creating a fusion of musical instruments and mobile handsets.

2 SOLAR PHONE CONCEPTS
This concept handset is equipped with solar panels, allowing users the pleasure of charging their phone with energy from the sun.

3 PLY
PLY means "lamination layers." The history of mobile phones has already laid down the first layers, what additions will the future bring?

4 AC Adapter MIDORI
Adapters have always been called "accessories," but now they play a central role. "iida" has created new possibilities for this indispensable item as a "lifestyle product."

Jibun Bank

Jibun Bank Provides a New Lifestyle Option

"Jibun Bank" is a personalized, built-in bank in customer's mobile phone, offering both convenience and security while providing banking service that can be used anywhere, anytime, by anyone. We provide our customers with a new lifestyle option.

Characteristics of Jibun Bank

In June 2008, Jibun Bank Corporation (Jibun Bank) was established through a joint venture between KDDI and the Bank of Tokyo-Mitsubishi UFJ, Ltd. The bank's management objective is to become our customers' most familiar bank, by providing high quality financial and payment services over the mobile phones which are now said to be owned by virtually every individual in the nation. With a base of 30 million "au" subscribers and the approximately 40 million customers of the Bank of Tokyo-Mitsubishi UFJ, Jibun Bank offers a wide range of easy-to-use services that take full advantage of the unique attributes of mobile phones.

Status of Operations

Jibun Bank commenced service in July 2008. As of April 4, 2009, the bank has 500,000 accounts with deposits totaling ¥73.1 billion.

Since its start, Jibun Bank has offered basic banking functions including yen-denominated savings accounts, electronic transfers, and ATM services. There are also functions unique to Jibun Bank which fully leverage the functionality of the mobile phone, including Quick account opening, Jibun Bank Passbook, Mobile phone number bank transfers, Jibun Bank Payment service, Charging electronic money, E-mail notification service, and Jibun Bank Loans. In April 2009, the Bank also began handling automobile insurance, and from May, has begun offering new foreign currency denominated savings account services.

Future Direction

Going forward, Jibun Bank will continue to expand its lineup of services, making them more convenient and enjoyable for customers to use. KDDI and the Bank of Tokyo-Mitsubishi UFJ will work together in an aggressive roll-out of new promotions, aiming for a goal of 2.4 million accounts and ¥1 trillion in deposits by FY 2011.3, its third year in business.

New Value for KDDI

A variety of appealing new services will be offered to "au" users from the main menu of their mobile phones, including one-touch access to the Jibun Bank Passbook, Mobile phone number bank transfers, and a highly secure au Information Linkage service.

We expect that this new feature will stimulate greater phone use involving Jibun Bank among "au" users, and that commercial transactions will spread, contributing to the increased appeal of the "au" brand, and bringing added value.

Depiction of Jibun Bank Services Screen

au mobile phone main menu screen

Jibun Bank application top menu screen

Available Services

- Yen-denominated Savings
- Bank Transfer
- Charging Electronic Money
- Shopping (Jibun Bank Payment Service)
- ATM/PC Lock
- Payment Memo
- Savings Plan
- "Split-the-bill" Calculator

Company Overview

Company name:	Jibun Bank Corporation	
Representative:	Takeo Tohara, President	
Established:	June 17, 2008	
Shareholders:	KDDI Corporation	(50%)
(Equity ratio)	The Bank of Tokyo-Mitsubishi UFJ	(50%)
Capitalization:	¥20.0 billion	
URL:	http://www.jibunbank.co.jp/pc/	

UQ Communications

Mobile WiMAX to Open New Markets

Through its WiMAX network, UQ Communications Inc. (UQ) works to provide critical communications infrastructure for the creation of a true mobile broadband society. Working with a variety of industries and businesses, UQ is driven to create new markets and new value, and will bring greater convenience and richness to people's lives.

Characteristics of Mobile WiMAX

Mobile WiMAX is a new world standard telecommunications technology offering high-speed broadband and "always-on" connections accessible even for users in rapidly moving vehicles. Currently, construction of the infrastructure and development of the user devices are going on around the world with the aim of launching services in the near future. As the only domestic mobile WiMAX operator in Japan, UQ is working to establish a nationwide network.

High Speed	40Mbps* downlink/10Mbps* uplink * Maximum speed
Mobility	Can be used even when moving at speeds of up to 200km/hour*. * 120km/hour under standard WiMAX configuration. Usability in environments up to 200km/hour evaluated using phasing simulator.
Always-On	Freed from the frustration of dial-up connections, opens up possibilities for new ways of use.
Global Standard	Enables low-cost user device development. Provides an environment that enables those devices to be used as is overseas.
Over the Air	Online contract application available using WiMAX frequency, eliminating traditional in-store sign-up procedures.

Status of Operations

On February 26, 2009, UQ began providing high-speed mobile data communications through its UQ WiMAX service in Tokyo's 23 wards, in Yokohama, and in parts of Kawasaki. During the trial period extending to the end of June 2009, UQ gathered feedback from 6,000 trial users, and is working to improve service quality based on those responses. From July 2009, UQ started the commercial service as had been planned and the service area has been expanded beyond the Tokyo metropolitan area to include Nagoya, Osaka, Kyoto, and Kobe. By the end of FY 2010.3, coverage is expected to include all 18 government-designated major cities nationwide.

Future Direction

To use the UQ WiMAX service, customers insert a UQ data communications card in their PC. In addition, from July 2009 PCs with a pre-installed WiMAX module started to show up in the market. In the future, cameras, portable game devices, and a wide variety of devices will be available with WiMAX modules already installed, expanding WiMAX beyond the PC into a broader domain of use.

UQ is also working as an MNO*1 in building an open network, and by opening its WiMAX network to MVNOs*2 and a wide range of other industry partners, it will create new markets and generate new value as these partners begin to provide an unprecedented variety of devices and services.

*1 Mobile Network Operator
*2 Mobile Virtual Network Operator

New Value for KDDI

As UQ's largest shareholder, KDDI uses its technology and business expertise to help UQ Communications build network infrastructure and develop its operations. The addition of WiMAX services to KDDI's service lineup will expand the range of solution services that the Company is able to offer, and allow KDDI to provide clients with the convenience and satisfaction that the latest technology makes possible.

Company Overview

Company name:	UQ Communications Inc.	
Representative:	Takashi Tanaka, Representative Director	
Established:	August 29, 2007	
Shareholders:	KDDI Corporation	(32.26%)
(Ratio of voting shares)	Intel Capital Corporation	(17.65%)
	East Japan Railway Company	(17.65%)
	Kyocera Corporation	(17.65%)
	Daiwa Securities Group Head Office	(9.80%)
	The Bank of Tokyo-Mitsubishi UFJ	(5.00%)
Capitalization:	¥47.0 billion	
URL:	http://www.uqwimax.jp	

Business at a Glance

FY 2009.3 Results by Segment

Mobile Business

Mobile Phone Services, Sale of Mobile Phone Handsets, Mobile Solutions Services, etc.

→ P.26

Operating Revenues . . . **¥2,719.2 billion (–5.0%)**
Operating Income. . . . . . . **¥501.5 billion (+10.2%)**

The Mobile Business in FY 2009.3 saw a 5.0% drop in operating revenues year on year to ¥2,719.2 billion, mainly due to a significant drop in the number of handset units sold. Operating income was up 10.2% to ¥501.5 billion, also due to the effects of the decrease in handset sales and a decline in sales commissions due to the shift to the "Simple Course," which separates tariffs from handset prices.

Fixed-line Business

Local, Long-Distance, and International Telecommunications Services, Internet Services, Solutions Services, Data Center Services, Cable Television Services, etc.

→ P.40

Operating Revenues . . . . . **¥848.7 billion (+18.1%)**
Operating Income (Loss) . . **¥(56.6) billion (—)**

Operating revenues in the Fixed-line Business rose 18.1% to ¥848.7 billion as a result of the addition of CTC as a consolidated subsidiary in April 2008, as well as the reclassification of the JCN Group and an overseas fixed-line subsidiary from the Other Business to the Fixed-line Business. Operating loss improved by ¥8.1 billion year on year to ¥56.6 billion thanks to improvements in the balance of payments for "Metal-plus," which offset higher costs related to the FTTH business.

Other Business

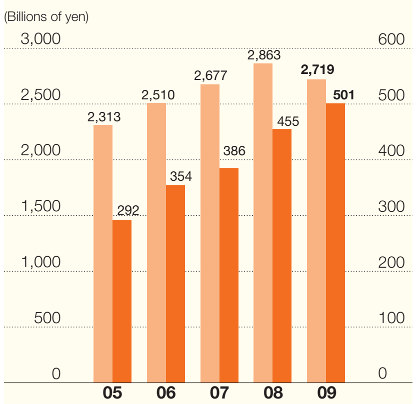
Call Center Business, Content Business, Research and Advanced Development, and Other Mobile Phone Services

→ P.50

Operating Revenues . . . . . . **¥72.8 billion (–56.5%)**
Operating Income (Loss) . . . **¥(2.5) billion (—)**

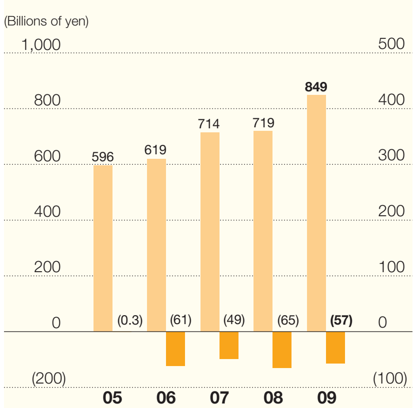
Other Business recorded operating revenues of ¥72.8 billion in FY 2009.3, 56.5% lower year on year due in part to the reclassification of an overseas fixed-line subsidiary and the JCN Group from the Other Business to the Fixed-line Business. Operating loss amounted to ¥2.5 billion.

Operating Revenues/Operating Income



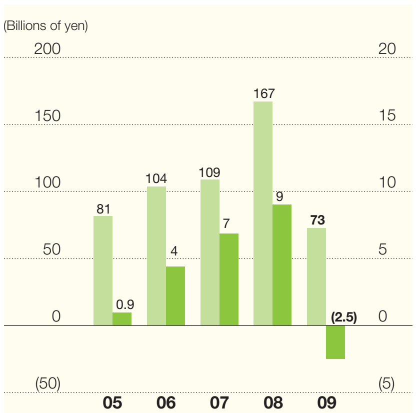
Years ended Marchi 31
Operating revenues Operating income

Operating Revenues/Operating Income



Years ended Marchi 31
Operating revenues Operating income (loss)

Operating Revenues/Operating Income



Years ended Marchi 31
Operating revenues Operating income (loss)

FY 2010.3 Forecasts by Segment

Operating Revenues . . . **¥2,650.0 billion (–2.5%)**
Operating Income. . . . . . .**¥510.0 billion (+1.7%)**

KDDI management predicts that operating revenues for the Mobile Business in FY 2010.3 will fall 2.5% to ¥2,650.0 billion as customers shift to simple course subscriptions and total ARPU falls. Operating income is expected to rise by 1.7% to ¥510.0 billion due to the reduction in sales commissions associated with the shift to the simple course and the decreasing number of handsets sold.

Operating Revenues . . . . .**¥880.0 billion (+3.7%)**
Operating Income (Loss) . .**¥(40.0) billion (—)**

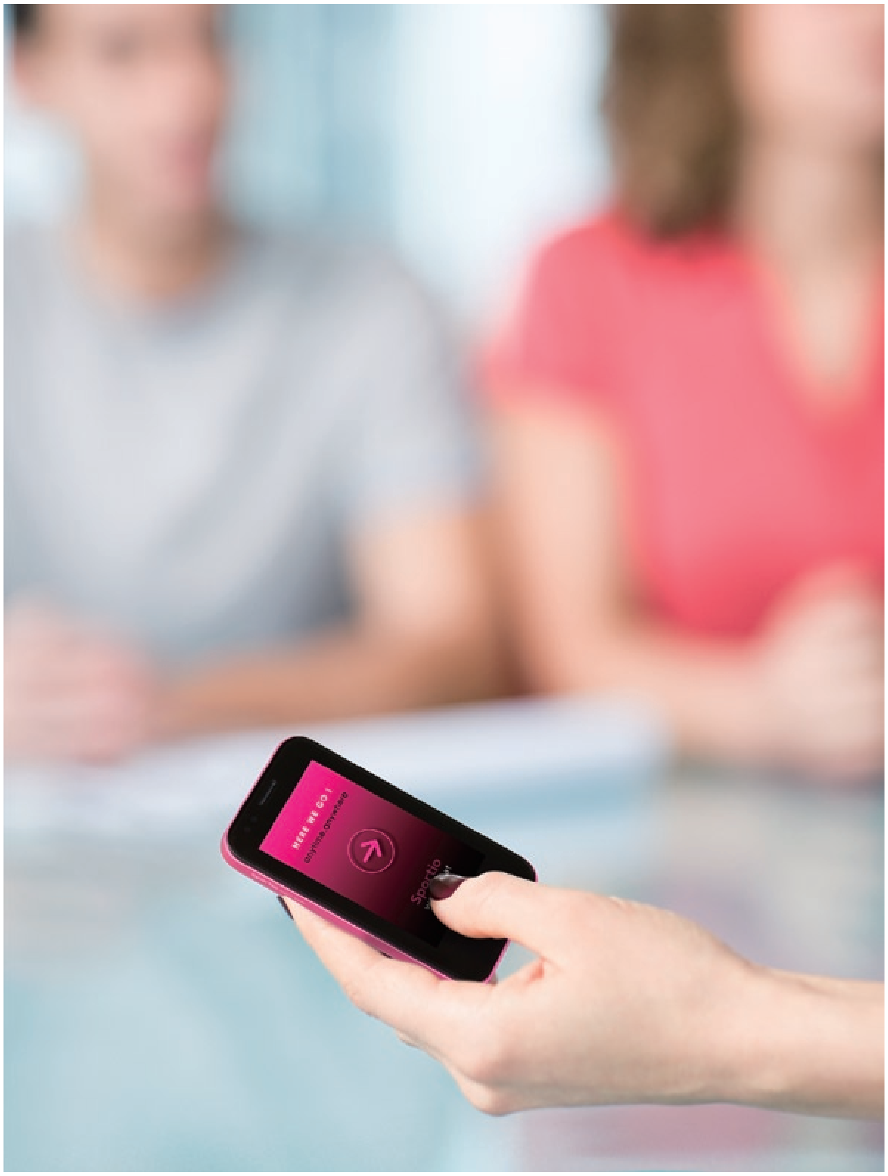
KDDI management predicts that operating revenues in the Fixed-line Business will increase 3.7% to ¥880.0 billion as progress in the FTTH business leads to increased subscription numbers. Operating loss is expected to improve by ¥16.6 billion to a loss of ¥40.0 billion due to such factors as lower depreciation costs associated with the depreciation of FTTH equipment in the previous fiscal year.

Operating Revenues . . . . .**¥100.0 billion (+37.4%)**
Operating Income. . . . . **¥3.0 billion (—)**

KDDI management predicts that operating revenues in the Other Business will rise 37.4% to ¥100.0 billion due to the expansion of business of a consolidated subsidiary. Operating income is expected to total ¥3.0 billion.

Mobile Business

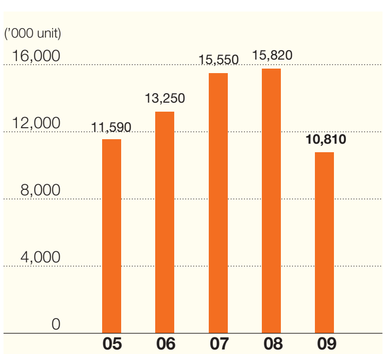
Increasing Customer Satisfaction by Strengthening Overall Product Appeal



Sportio water beat
Featuring functions to be enjoyed during sports such as a workout or golf, this strategic handset model features all of the "au Smart Sports" functions. With a compact and rounded form that make is easy to carry, it is also fashionable and colorful enough for use in social situations. Easy-to-use, the screen is a touch panel with a side cursor key to assist with operation.

Competition for Acquiring Customers has Intensified Amid Significant Drops in Handset Sales.

au Handsets Sold During the Fiscal Year



(Years ended March 31)

Overview of Fiscal Year 2009.3

Operating revenue fell but operating income rose in the Mobile Business for FY 2009.3, with operating revenue down 5.0% year on year, to ¥2,719.2 billion, and operating income up by 10.2%, to ¥501.5 billion. Operating income increased despite the posting of an extraordinary loss on impairment of ¥43.5 billion related to the current 800MHz band facility, use of which will cease after July 2012 with the reorganization of bandwidth. As a result of these developments, net income rose 2.5% year on year, to ¥273.1 billion.

■ Subscriptions

The accumulated subscriptions as of the end of March 2009 stood at 30.84 million, up 1.7% year on year. This represents a 28.7% share of the market.

Of these, 99% (30.53 million) subscribed to 3G mobile phone services. CDMA 1X WIN ("WIN") subscriptions were 22.72 million, accounting for 74% of all subscriptions.

■ Churn Rate

The churn rate for FY 2009.3 was 0.76%, down 0.19 percentage points year on year. This was due in part to the spread of multi-year contract services, the spread of the new "Simple course" pricing plan, and the effects of the recession.

■ Handset Sales and Inventory

The number of handsets sold fell 31.7% year on year, to 10.81 million. This was due partly to the spread of pricing plans separating tariffs from handset prices.

Handset inventory as of the end of March 2009 totaled 1.69 million units, up 29% (390,000 units) year on year. This number included 360,000 units already written off. With handset sales down significantly, particularly in the first half of the fiscal year, a gap arose between the number of handset orders placed with manufacturers and numbers sold, resulting in high inventory levels.

Sales commissions on such models were increased in an effort to reduce inventory. Write-offs and disposal of excess inventories led to write-off/disposal losses for FY2009.3 totaling ¥25.7 billion. By making adjustments to bring orders to manufacturers more in line with the market needs, the Company expects to see inventory returning to an appropriate level in FY 2010.3.

Mobile Business

■ Sales Commissions

Commissions (average subscriber acquisition and subscriber retention costs) rose 5% year on year, to ¥39,000. As a result of a wholesale handset sales review in November 2007, done at the same time as the introduction of a the “au Purchase Program,” the handset wholesale price increased. KDDI took measures to soften the impact of this change on retailers and subscribers, and sales commissions climbed in comparison with the original base. While a rise in the ratio of “Simple course” helped to lower costs, sales commissions rose overall due to inventory adjustments resulting from the significant decline in handset sales and higher handset procurement costs due to increased adoption of handsets with more advanced functions.

■ ARPU

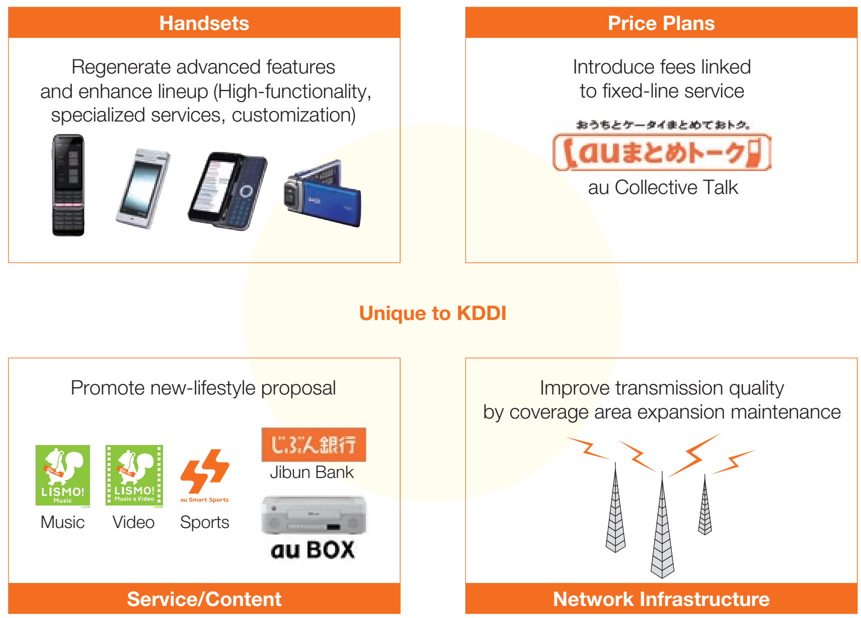
Average Revenue per Unit (ARPU) for FY 2009.3 declined 7.3% year on year, to ¥5,800. Of this total, voice ARPU fell 13.1% year on year, to ¥3,590, due to the popularization of the “Everybody Discount” and “Family Discount” services, and a decrease in MOU chargeable. Data ARPU rose 3.8% to ¥2,210, boosted in part by a steady increase in the proportion of “WIN” subscription, a high-end service.

KDDI has differentiated its mobile service from its competitors’ by drawing on the advantages of its 3G infrastructure to enhance the appeal of its overall product strategy, including handsets, price plans, and content. The Company believes that to continue to be the customers’ service of choice, it must work diligently to increase customer satisfaction levels through improvements in four areas—network infrastructure, handsets, price plans, and content. Reflecting that dedication, in 2008, “au” was recognized as first in customer satisfaction for mobile services for the third year in a row.* KDDI believes that its consistently strong performance is a result of the recognition by the customers of these patient and steady efforts.

*Source: J.D. Power Asia Pacific 2006–2008 Japan Mobile Telephone Service Satisfaction Study[SM]
2008 study conducted across 10 regions throughout Japan including Okinawa. Based on responses from a total of 7,500 mobile phone subscribers living in each region.

Measures to Strengthen Overall Product Appeal

KDDI aims to increase customer satisfaction by strengthening overall product appeal through improvements in four areas: network infrastructure, handsets, price plans, and services/content. This section introduces the Company's initiatives in these four areas in FY 2009.3.



KDDI Is Preparing and Expanding EV-DO Rev. A and Preparing for the Reorganization of the 800MHz Bandwidth While Setting Policies for the Next Generation Systems.

Network

KDDI has differentiated itself from other carriers with the CDMA2000 1x EV-DO ("EV-DO") format* currently used for its "WIN" services. Progress in establishing and expanding coverage for EV-DO Rev. A, an upgraded version of EV-DO, has enabled us to cover virtually all major regions of all 47 prefectures in Japan as of the end of March 2009. EV-DO Rev. A downlink speed has been improved to a maximum of 3.1Mbps, and uplink speed to a maximum of 1.8Mbps.

In addition to expanding and enhancing coverage to improve transmission quality in response to rising subscriber numbers and increased demand for data communications, KDDI is also expanding the 2GHz band, and working to prepare for the allocation of a new 800MHz band, based on the 800MHz band reorganization.

The reorganization of the 800MHz band calls for switching the direction of the current uplink (handset to base station) and downlink (base station to handset), and reallocating the current narrow and scattered frequencies into solid blocks by July 2012. Currently, the 800MHz band is KDDI's main operating band, but the Company is pressing ahead with expansion of 2GHz band coverage, and also is increasing the area coverage for the new 800MHz band in preparation for full conversion by July 2012.

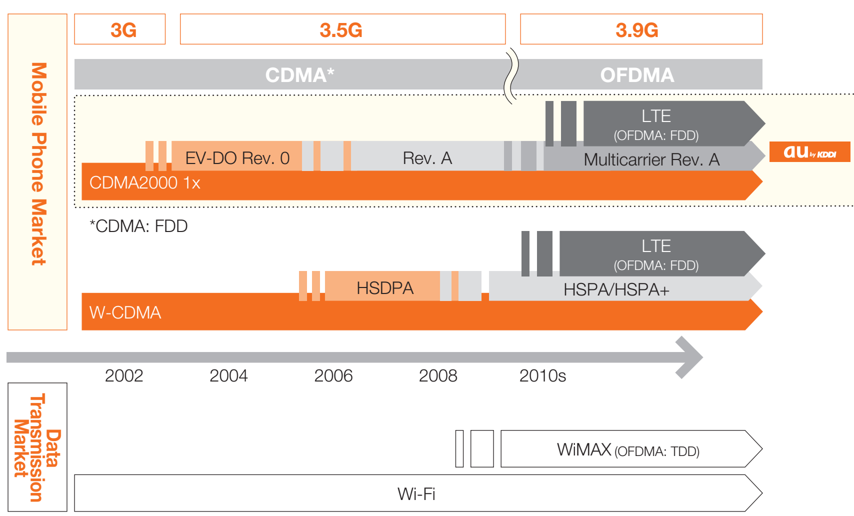
***The CDMA2000 1xEV-DO Format**

Because EV-DO is a technology specifically for data communications, it is suited for high-speed, large-volume data transmission. With the introduction of EV-DO, KDDI was able to significantly lower per-bit transmission costs. Drawing on the strengths of the EV-DO infrastructure, KDDI has been able to stay ahead of other carriers in offering appealing services such as "EZ Chaku-Uta-Full®" and attractive price plans such as the "Double-Teigaku-Light" (Packet Flat-rate) plan.

Mobile Business

In addition to the current 800MHz band and the 2GHz band, KDDI has made available tri-band (current 800MHz, 2GHz and new 800MHz) compatible handsets, and as of the end of March 2009, approximately 15.7 million, or about 50% of all au handsets under contract, were tri-band compatible. The Company will continue working to provide more tri-brand handsets over the next three years, so that by the time of the July 2012 switch to the new band, all au subscribers will be using tri-band handsets.

As part of its efforts to respond to current growth trends in data communications traffic, while also ensuring efficient capital investment, KDDI has decided to introduce a 3.9G system based on the LTE technology, with a view to providing services from 2012. Furthermore, to respond to subscriber needs for high-speed data communications until the introduction of the LTE based service, the Company plans to upgrade the software behind its EV-DO Rev. A infrastructure in the latter half of FY 2011.3, introducing Multicarrier Rev. A to bring downlink speeds to up to 9.3 Mbps.



Note: LTE: Long Term Evolution
OFDMA: Orthogonal Frequency Division Multiple Access
LTE achieves interworking with existing systems, realizing seamless handover to other systems, through the handset's dual-mode, etc.

Handsets

To support the diverse lifestyles of its customers, KDDI has rebuilt an innovative lineup of "au" handsets, including the "Walkman® Phone," which provides high-quality sound, the "EXILIM-Keitai" and "Cyber-shot™ phone," which combine organic EL displays and 8.1 megapixel cameras for full photographic enjoyment, the "Wooo-Keitai," the world's first handsets capable of displaying 3D movies and games, and the "Sportio," geared towards sports enthusiasts.

The Company has also released a "Simple Phone" series targeting seniors, and the "Security Junior Phone" series for pre-teens, all in pursuit of greater ease of use, and safer, more secure mobile services. In all, FY 2009.3 featured the introduction of 36 new models (including models for the corporate market).

A Diverse Line-Up to Support Lifestyles

Walkman® Phone Premier3 by Sony Ericsson

EXILIM ケータイ W63CA by CASIO

Cyber-shot™ケータイ S001 by Sony Ericsson

Security Junior Phone
K001

Sportio
water beat
by SHARP

Growth in Separate-Tariff/Handset Pricing Plans and Differentiation Through Links with FMC (Fixed and Mobile Convergence) Service

To further lower handset costs and shorten development times, KDDI has continued its efforts to improve the usability and functionality of handsets equipped with "KCP+," a shared software platform with an expanded scope of standardization, development of which was completed in October 2007. In FY 2009.3, the Company introduced 21 new "KCP+" models.

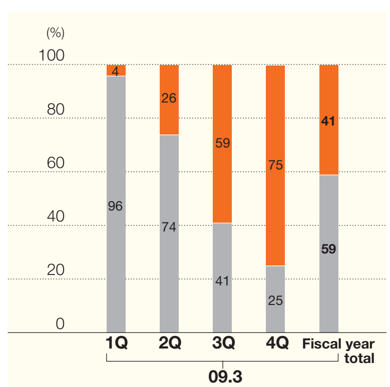
In addition to adding features and higher functionality, the platform has been effective in reducing costs and shortening development lead time, even though lower orders with manufacturers are leading to rising procurement costs in the overall market.

*"Walkman" and "Cyber-shot" are trademarks or registered trademarks of Sony Corporation.
*"EXILIM" is a registered trademark of Casio Computer Co., Ltd.
*"Wooo" is a registered trademark of Hitachi Ltd.

Price Plans

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

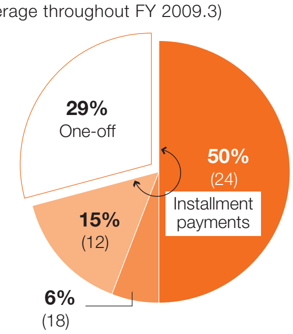
Plans Selected as a Percentage of Total Handsets Sold



Simple course Full Support course

Payment Methods Under the "Simple Course"

(Average throughout FY 2009.3)



Note: Figures in ( ) show number of payments.

Mobile Business

"au Collective Talk"

"au Collective Talk" is another new service that takes full advantage of KDDI's ability to offer both mobile and fixed-line services from a single carrier. Introduced in August 2008, the service not only provides enhanced convenience for subscribers, but is the first full-scale FMC (Fixed Mobile Convergence) service expected to add to the Company's profitability.

"au Collective Talk" enables subscribers to the "KDDI Collective Billing service" to place free domestic calls to au mobile phones and au home phones from their au home phones 24 hours a day. Subscribers with an au home phone under the "au My Home Discount" plan can also enjoy free domestic calls 24 hours a day to their home phone from their au mobile phones.

By combining the free calling offered within "au Collective Talk" and the "Family Discount" plus "Everybody Discount" plans introduced in March 2008, subscribers can enjoy even greater convenience through KDDI services. The Company hopes that this will encourage more au service subscribers to use KDDI fixed-line services as well.

As subscriber use of data communications continues to rise, KDDI has stepped ahead of the competition by leveraging the cost advantages of EV-DO to introduce the "Double-Teigaku-Light" plan, which affords customers easy access to a rich variety of content for as little as ¥1,050 per month (tax inclusive). This plan has successfully enticed existing users who had not previously used data services to any significant extent, as well as new subscribers, to sign up for flat-rate plans. As of the end of March 2009, 72% of "WIN" subscribers had adopted either this or the "Double-Teigaku" packet flat-rate service.

Service/Content

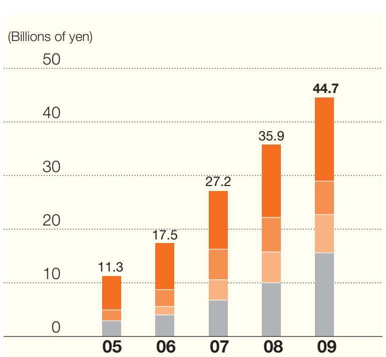
Strengthening Efforts in Music, Movies, and Sports Field

Sales in the content and media business for FY 2009.3, which include fee-collection for content providers, advertising, e-commerce (EC), and collaborative content, rose 25% year on year to ¥44.7 billion yen, a nearly four-fold increase compared to five years ago.

In addition to an expansion of digital content, including the "EZ Chaku-Uta®" and "EZ Chaku-Uta Full®" music services, games, and electronic books for which KDDI provides fee collection services, KDDI has collaborated with GREE, Inc. to provide the "au one GREE" mobile SNS. The service had more than five million subscriptions as of May 2009, and is just one of the new growth areas into which the business is steadily expanding.

KDDI is focused on providing services tailored to customers' lifestyles through mobile phones, which are always close to customers. In FY 2009.3, KDDI worked to strengthen its efforts in the areas of music, videos, and sports.

Content/Media Business Sales



(Years ended March 31)

Content-fee collection · Advertising · EC · Collaborative content & others

Note: There were changes in accounting treatment for advertising sales in FY2008.3 and FY2009.3.

au BOX

In November 2008, KDDI began offering rental of its “au BOX”, entertainment equipment specifically for mobile handsets that makes it easy to enjoy music and video content. The “au BOX” provides a simple way for customers to play their own CDs and DVDs, as well as “EZ Chaku-Uta Full®” content they have downloaded to their au mobile phones, and by making it possible to transfer content from the “au BOX” without using a PC to an au mobile phone, customers can also enjoy their CD and DVD content outside on their au mobile phones, just like the “EZ Chaku-Uta Full®” music. In December 2008, KDDI also began offering the “EZ Chaku-Uta Full Plus™” service, which offers a high AAC320Kbps bit-rate in response to music listeners looking for even higher sound quality.

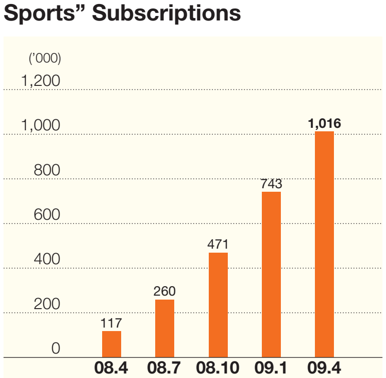
In sports, KDDI offers a comprehensive service called “au Smart Sports,” in support of subscribers hoping to improve themselves through sports. In November 2008, KDDI began offering an addition to “au Smart Sports” known as “Karada Manager,” a health care service that helps customers reach their goals by offering exercise, diet, and other advice. Along with the “Run & Walk” service begun in December 2007, “au Smart Sports” has over one million registered subscribers as of April 2009.

*“EZ Chaku-Uta”, “EZ Chaku-Uta Full” and “EZ Chaku-Uta Full Plus” are trademarks or registered trademarks of Sony Music Entertainment (Japan) Inc.

To enable young people to safely and securely enjoy the use of EZweb services, KDDI now offers filtering via the “EZ Safety Access Service,” which restricts viewing of sites inappropriate for younger users and blocks access to harmful sites. With the passage of the “Law for Improvement of the Internet Environment for Youth,” KDDI will continue to work to provide a safe, secure environment for young users, and encourage further educational activities in this area.

au Smart Sports

Number of “au Smart Sports” Subscriptions



Run & Walk

- Expert advice available for reference
- Tracks the course, distance, speed and calorie expenditure of a walk or run
- BEAT RUN helps sync your pace to the beat of the music

Karada Manager

- Diet support to help you reach your targets
- Features a diary for recording daily food intake and body weight
- Advice on calorie intake/burning

Mobile Business Targeting Corporate Clients

Development and Promotion of Enterprise-Scale Sales and Product Strategies

As growth in the consumer market slows, KDDI is working proactively to target corporate mobile business, a market which is expected to grow going forward. For large enterprises, KDDI offers mobile solutions that enable clients to improve and enhance their operations through use of mobile phones, and with rising demand in the small and medium-sized enterprise market, the Company is also moving ahead with the development of product, and marketing strategies as well as the formation of sales organization for the SME segment.

While the effects of the global recession in FY 2009.3 saw some customers postponing implementation of KDDI proposals, and others canceling contracts for excess handsets, by offering more than just simple handset sales, and focusing on solutions which improve clients' operational efficiency and lower total costs, the Company is working to increase handset sales and prevent further contract cancellations.

For large-scale enterprises, KDDI is leveraging its comprehensive strengths in solution proposals, coverage area, lineup of corporate-use mobile handsets, and communications quality to steadily expand its corporate client base.

KDDI mobile solutions have achieved recognition, including being awarded the Grand Prize/Internal Affairs and Communications Prize/Mobile Technology Award by the Mobile Computing Promotion Consortium (MCPC) for its "Haiden Mobile Ke-tai" system, developed for Kyushu Electric Power Company. This was the fourth consecutive Grand Prize for KDDI, following its award for a "Guard Dispatch System" for SOHGO SECURITY SERVICES CO., LTD. in 2008, another in 2007 for its "Mimamori-kun Online Service," a commercial vehicle telematics system developed for Isuzu Motors, Ltd., and in 2006 for the "Cargo Information Real Time System" developed for YAMATO TRANSPORT CO., LTD.

For emerging small and medium-sized enterprises, KDDI has strengthened its sales efforts by developing and enhancing its office visit-based sales corporate agents, increasing its collaboration with au shops, and making active use of direct marketing, telemarketing, and Web sales systems.

KDDI Wins the Grand Prize in the Mobile Computing Promotion Consortium's MCPC Award for the Fourth Consecutive Year

2009 Kyushu Electric Power Company
"Haiden Mobile Ke-tai" system

2008 SOHGO SECURITY SERVICES CO., LTD.
"Guard Dispatch System"

2007 Isuzu Motors, Ltd.
"Mimamori-kun Online Service"

2006 YAMATO TRANSPORT CO., LTD.
"Cargo Information Real Time System"

Initiatives Targeting Corporate Clients

Segment	Marketing System		Competitive Elements	KDDI Initiatives
Medium-Large Corporations (more than 100 employees)	Offering mobile solutions	Direct	Ability to offer solutions	■ Expand provision of optimal solutions that meet customer needs (Win numerous awards from MCPC award 2009) ■ True FMC offering by "KDDI Business Call Direct" ■ Broaden market with specialized handsets (E05SH) for corporate clients
Small Business (more than 10 employees)	Push-strategy by marketing experts	Agency for corporate clients		<Services> ■ "Destination au Mobile Discount" service discount revised Discount increased from 15% to 50% <Marketing channel> ■ Strengthen in-shop marketing for corporate customers <Promotions> ■ Promote visits to shop by TV and newspaper advertising
Small Business (less than 10 employees)	Standardized pull-strategy	au shop	Mobile+Fixed-line FMC sales activity	

Among products offered, in January 2009 the Company revised its discount rate for companies with at least one or more au mobile contract under the same corporate name, from 15% to 50% for all calls made from KDDI* and NTT–subscribed telephones to any au mobile phone under the "Destination au Mobile Discount" service. In April 2009, the Company also rolled out its "KDDI Business Call Direct" plan, a true FMC service that enables users in the same company to place calls between au mobile phones and KDDI phones they have registered in their group at a flat fee for domestic calls using internal extension numbers. KDDI continues to expand and improve services for corporate clients by focusing on their needs.

*KDDI Phones: KDDI Metal-Plus (for business), KDDI HIKARI Direct, KDDI HIKARI Direct over Powered Ethernet, and KDDI-IP Phone

E30HT

E05SH

Handsets geared toward corporate clients such as "E05SH" (on sale from April 2009) as well as the Company's first smart phone "E30HT" (on sale from May 2009) were introduced. These models are equipped with features such as waterproofing and security, and compatibility to SDIO Card* to enable use of PHS and Wi-Fi-based extension services. KDDI will continue to enhance its lineup of models for the corporate client.

*SDIO Card: Secure Digital Input/Output Card, an expanded card that can be used in the same card slot as SD Memory Cards.

Towards Future Growth

Leveraging its 30.84 Million-strong au Subscriber Base, KDDI Will Work to Enhance its Competitiveness by Building Product Strengths Through the Timely Introduction of Handsets and Services Such as Only KDDI can Provide, and Which Meet the Needs of its Users.

Based on changes to its business model brought by the introduction of separate tariff/handset pricing plans, and subsequent drastic shifts in the market environment, KDDI conducted a review of its "Challenge 2010" plan first announced in April 2007, and concluded that reaching its goal of achieving ¥600 billion in consolidated operating income had become increasingly unlikely. At the same time, the Mobile Business, which currently accounts for three quarters of consolidated operating revenues, and is the chief driver for operating income, is expected to remain the core source of earnings going forward. With our base of 30.84 million au subscribers as of the end of March 2009, the Company has entered its next phase of challenge to the growth, by creating new values unique to KDDI.

In the current environment of dropping market mobility, KDDI will continue to focus on the consumer market on strengthening its competitiveness, by meeting the diverse needs of the subscribers with the timely development and introduction of new handsets and services. At the same time, the Company will continue to enhance its sales capabilities by improving its customer interactions, primarily through its au shops. Going forward, the corporate mobile business is also expected to grow, and by working proactively to expand its mobile business in that market, KDDI hopes to grow its corporate contract base, and achieve a cumulative share of 30% of enterprise subscriptions.

As voice ARPU continues to trend downward with the spread of the "Simple course," KDDI will continue to grow its data ARPU by offering attractive content services and expanding the reach of its flat-rate pricing plans. The Company will also continue to expand revenue outside of the traditional ARPU tariff stream by expanding its content

***Anshin Mobile Support**

Service enables customers to enjoy 5 year handset warranties (3 years free), discounts on handset repair fees, and discounts on handset replacements in case of water damage or complete loss.
The service costs ¥315 per month.

business, by focusing on the "Anshin Mobile Support,*" which is seeing a broad increase in subscribers as customers own their handsets for longer periods of time, and by otherwise providing services that closely meet the needs of its customers.

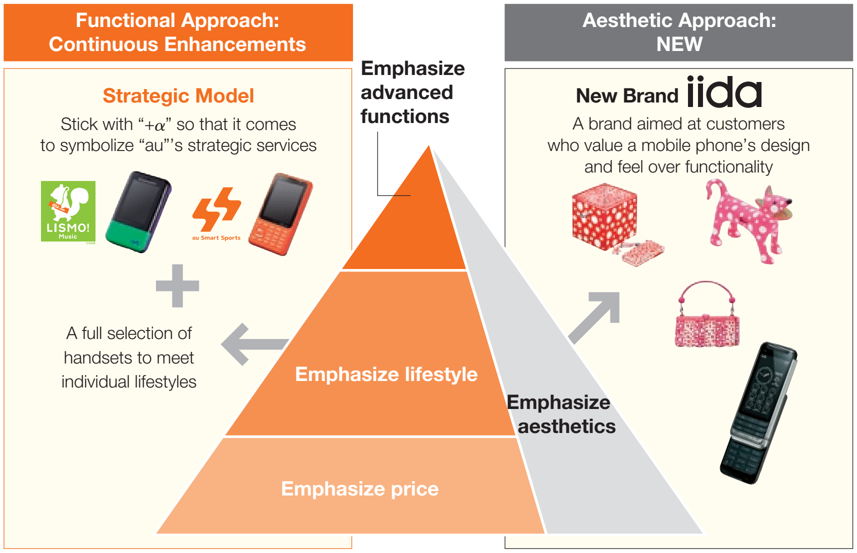
At the same time, while reducing handset procurement costs and maintaining a close watch over the competitive environment, by also reducing customer acquisition costs, primarily through promotion of the "Simple course," KDDI will push ahead in its operations with an even greater focus on profit.

The following is a brief introduction to KDDI's efforts to strengthen the competitiveness of its handsets, and its efforts in the corporate-client market, which represents a future driver for subscriber growth.

Lower Procurement Costs and More Competitive Handset Development

As customers' values regarding mobile handsets become increasingly diversified, there is also a clearer division between an emphasis on innovation, an emphasis on lifestyle, and an emphasis on price. At the same time, in addition to these three segments, a fourth layer is emerging that places a greater value on aesthetics and design. In response to this diversification of values, in FY 2010.3, KDDI focused on progress in its pursuit of innovation and a diversification of its product lineup by providing specialized handsets designed to function with au strategic services. With an eye on the emerging segment that emphasizes aesthetics and design values, in April 2009, the Company introduced its new "iida" brand, and going forward will seek to expand this customer base using the experience it has accumulated through its "au design project" efforts.

In addition to developing and introducing more attractive handsets, KDDI will work to lower handset procurement costs, in part by providing relatively low-priced handsets with



greater added value, such as the design of new brands, to users who support less functionality in favor of lower pricing, and also by reducing prices through the expansion of KCP+ based handsets. With these efforts, KDDI will enhance its brand strength while also addressing the more urgent issue of increasing the competitiveness of its handsets.

Growing Subscription Numbers Through Proactive Development of Corporate Clients

KDDI has extended its market share by targeting the emerging large enterprise segment of the corporate client market based on the strengths of its ability to propose mobile solutions, its coverage area, and its telecommunications quality, and today that share has grown to nearly equal that of the Company's share in the consumer market. There has also recently been an expansion in the use of mobile phones for business within the small and medium-sized enterprise segment. In order to further build its share of the overall corporate market, KDDI will focus on the development of products and sales channels targeting this segment.

Finally, in order to maximize KDDI's ability to provide unified mobile and fixed-line services, under its corporate restructuring of April 1, 2009, the Company has integrated the mobile and fixed-line sales organizations which were previously split, and has reorganized them according to customer size. By so doing, KDDI will become better positioned to extend and strengthen its reach into not only large enterprises, but also in the fast-growing small and medium-sized enterprise market, providing further subscription growth.

We will take on the challenge of new value creation to enhance customer satisfaction and achieve sustainable growth in the mobile communications business.

FY 2009.3 was a year of major upheaval in the market environment, including a significant drop in handset units sold due in part to the ongoing shift to pricing plans that separate tariff from handset prices. In addition, there were delays in the completion of the KDDI Integrated Platform (KCP+), and we were thus unable to release attractive new handsets in a timely manner, leading to deterioration in our competitiveness. On the other hand, we developed and introduced unique-to-KDDI FMBC-type services such as "au Collective Talk" and "au BOX," which helped improving customer satisfaction and brought us a certain level of success in cross-selling initiatives with fixed-line services.

There have been great performance improvements in KCP+. By introducing strategic handsets that meet customer needs as well as the new "iida" platform, we are actively providing our customers with more attractive handsets and services than ever.

Total ARPU is declining due to the increasing number of subscribers shifting to the "Simple Course" and other factors, however we will boost our non-communications sales by continuing to provide appealing content, new settlement services through Jibun Bank, which topped 500,000 accounts in April 2009, and mobile phone accessories through the "iida" lineup. We hope you look forward to the development of "au" going forward.

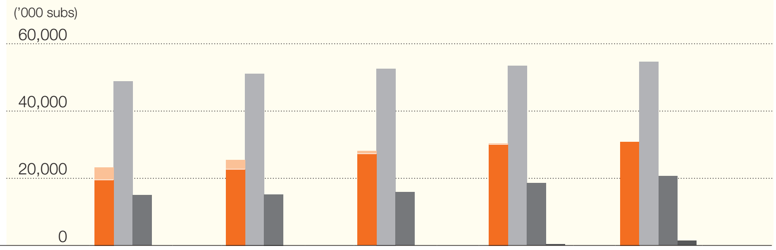
Makoto Takahashi

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

Mobile Business

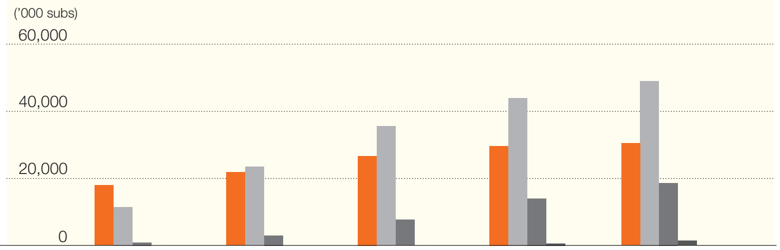
Market Data (Years ended March 31)

Number of Total Subscribers



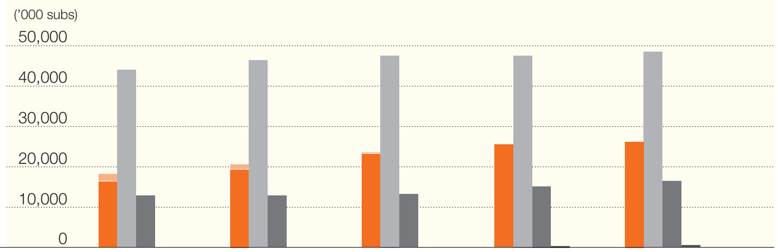
	2005	2006	2007	2008	2009
KDDI	23,132	25,439	28,189	30,339	**30,843**
au	19,542	22,699	27,317	30,105	**—**
Tu-Ka	3,590	2,739	872	234	**—**
NTT DOCOMO	48,825	51,144	52,621	53,388	**54,601**
SOFTBANK MOBILE	15,041	15,210	15,909	18,586	**20,633**
EMOBILE	—	—	—	412	**1,410**
Total	86,998	91,792	96,718	102,725	**107,487**

Number of 3G Subscribers



	2005	2006	2007	2008	2009
1X+WIN (au)	17,935	21,828	26,720	29,689	**30,527**
FOMA (NTT DOCOMO)	11,501	23,463	35,530	43,949	**49,040**
SoftBank 3G (SOFTBANK MOBILE)	917	3,038	7,660	14,007	**18,654**
EMOBILE	—	—	—	412	**1,410**

Number of Subscribers for Mobile Internet Connection Service

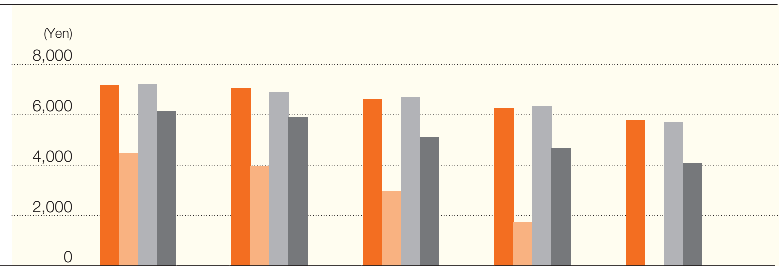


	2005	2006	2007	2008	2009
EZweb	18,259	20,523	23,533	25,512	**26,190**
au	16,469	19,390	23,322	25,505	**—**
Tu-Ka	1,790	1,133	211	8	**—**
i-mode (NTT DOCOMO)	44,021	46,360	47,574	47,993	**48,474**
Yahoo! mobile (SOFTBANK MOBILE)	12,874	12,875	13,265	15,171	**16,465**
EMnet (EMOBILE)	—	—	—	10	**55**

Source: Company Data, Telecommunication Carriers Association (TCA)

ARPU

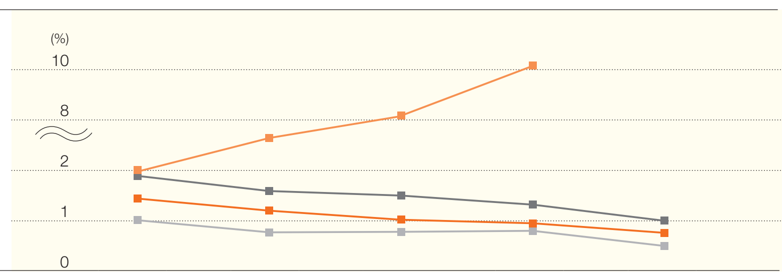
(Average Revenue Per Unit)



	2005	2006	2007	2008	**2009**
au	7,170	7,040	6,610	6,260	**5,800**
of which Data ARPU	1,740	1,890	2,020	2,130	**2,210**
Tu-Ka	4,470	3,960	2,960	1,750	**—**
NTT DOCOMO	7,200	6,910	6,700	6,360	**5,710**
of which Data ARPU	1,870	1,880	2,010	2,200	**2,380**
SOFTBANK MOBILE*	6,150	5,890	5,120	4,660	**4,070**
of which Data ARPU*	—	—	—	1,490	**1,740**

* ARPU from FY2007.3 is average of quarterly results

Churn Rate

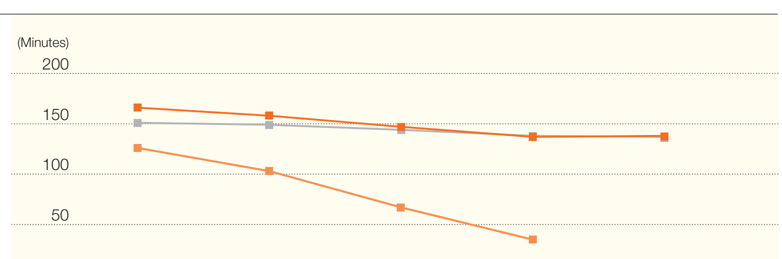


	2005	2006	2007	2008	**2009**
au	1.44	1.20	1.02	0.95	**0.76**
Tu-Ka	2.00	3.60	8.20	10.2	**—**
NTT DOCOMO	1.01	0.77	0.78	0.80	**0.50**
SOFTBANK MOBILE*	1.89	1.59	1.50	1.32	**1.00**

*Churn rate from FY2007.3 is average of quarterly results

MOU

(Minutes Of Use)



	2005	2006	2007	2008	**2009**
au	166	158	147	137	**138**
Tu-Ka	126	103	67	35	**—**
NTT DOCOMO	151	149	144	138	**137**
SOFTBANK MOBILE	—	—	—	—	**—**

Fixed-line Business

KDDI Will Strengthen the Business Base Around Efforts in the Access Line Business

HIKARI-one
au's optical fiber service HIKARI-one enables users to enjoy surfing the Internet and watching video. The "triple play" lineup of service (Internet + telephone + TV) come to the home through a single fiberoptic cable. Since the service was launched with the "Giga Value Plan," it has steadily increased customer acquisitions.

CTC FY 2009.3 Results

Operating Revenue	¥39.2 bil.
Operating Income	–¥7.1 bil.

JCN FY 2009.3 Results

Operating Revenue	¥57.8 bil.
Operating Income	¥5.1 bil.

Overview of Fiscal Year 2009.3

KDDI supplies consumers and corporate clients with a full range of fixed-line telecommunications services, such as voice telephony and data transmission services including broadband Internet access.

Operating revenues for the Fixed-line Business in FY 2009.3 moved up 18.1%, to ¥848.7 billion. While revenue from legacy voice telephony services continued to decline, the April 2008 move to make CTC a subsidiary, and the impact of the reclassification of the JCN Group and overseas fixed-line subsidiaries to the Fixed-line Business entity, helped the segment produce its fourth consecutive year of operating revenue growth since FY 2006.3. Profitability continued to be affected by a drop in revenue from telephony and other legacy services, and cost increases associated with development of the FTTH business, but boosted by positive income from "Metal-plus" services, saw an improvement of ¥8.1 billion since the last fiscal year end, with overall operating losses ending this fiscal year at ¥56.6 billion.

During this period of a shift in the market to direct access and IP and broadband services, the Fixed-line Business is proceeding with strategic initiatives to convert its traditional telephone services to an access line business based on FTTH, direct access voice telephony ("Metal-plus" and "Cable-plus" phone), and cable television (CATV). The number of fixed access lines as of the end of March 2009 has exceeded the initial target of the fiscal year, 5.3 million, reaching 5.34 million lines.

Efforts in Access Line Business for the IP Era

Strengthening Product Capabilities and Expanding Customer Base

Access Line Business Strategies

October 2003 Launched HIKARI-one (formerly Hikari-plus)	
February 2005 Launched Metal-plus	
October 2005 Launched Cable-plus phone	
January 2006 Absorbed POWEREDCOM (TEPCO subsidiary)	
January 2007 Integrated TEPCO's FTTH business	
June 2007 Consolidated JCN Group (CATV) as subsidiaries	
April 2008 Consolidated CTC as subsidiary (CTC: Chubu Electric's subsidiary)	

■ FTTH

KDDI markets the segment's FTTH business under the brand name "HIKARI-one," offering customers the triple-play services of voice telephony, Internet, and video. With the January 2007 integration of Tokyo Electric Power Company (TEPCO)'s FTTH business, and the April 2008 consolidation of CTC as a subsidiary, KDDI now has a FTTH network reachable to approximately 10.5 million households in the Tokyo metropolitan area, and 2.8 million households in the Chubu region, with services being marketed primarily to detached houses. In other major cities in Japan, "HIKARI-one" services are offered to residential customers in large-scale housing complexes such as condominiums and apartment blocks, using NTT's local lines.

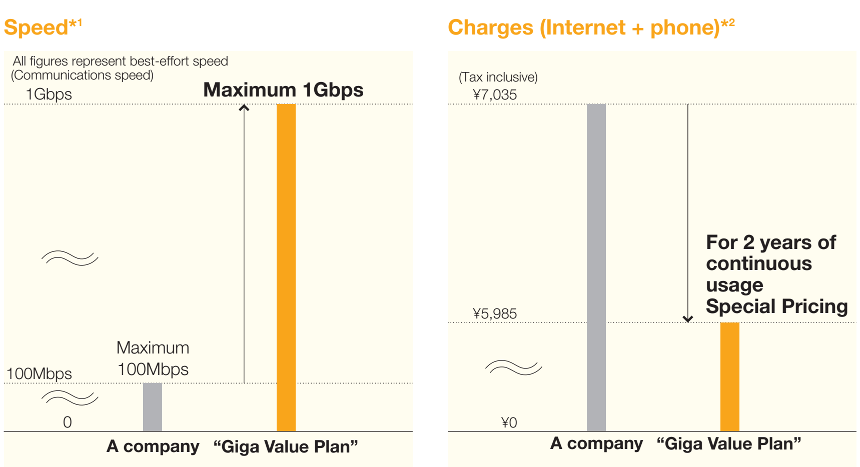
During FY 2009.3, "HIKARI-one" operations worked to boost the competitiveness of its products, while expanding service availability and reviewing sales channels.

A revamp of the "HIKARI-one Home" service now offers Internet plus phone service at an industry-low monthly basic rate of ¥5,985 (tax inclusive), with a two year contract, at super-high speeds of a maximum 1Gbps (best-effort) for both uplink and downlink through the "Giga Value Plan," launched on October 1, 2008 in the Kanto area and some parts of Hokkaido. This marks the first 1Gbps residential service in the Eastern Japan region.

Fixed-line Business

With the "Giga Value Plan," an all-new "Giga Home Gateway" device enables maximum 1Gbps high-speed communications, and also makes it possible to link to game devices and network-enabled audio-visual equipment, making it easy to share data files at home, and providing even greater convenience.

Features of the "Giga Value Plan"



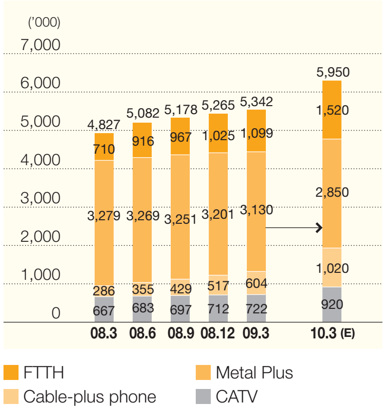
*1 Represents speed to individual homes. Speeds may vary due to differences in PC performance and other factors.
*2 Represents charges to individual homes. "Giga Value Plan" charges include discounts for automatic account withdrawal or credit card payments with au one net as the designated provider. "A company" charges are those to individual homes with OCN as the provider.

Review of Sales Channels, Strengthened Cross-Selling

In marketing, KDDI continues its shift of sales channels from traditional large-scale retailers to door-to-door sales and telemarketing. The Company is promoting cross-selling through au shops of fixed-line services to its mobile subscriber base, while also controlling costs, via promotion of the "au Collective Talk" program launched in August 2008.

Boosted by the consolidation of CTC as a subsidiary, FTTH subscribers as of the end of March 2009 grew by 389,000 year on year, to 1.099 million. Including voice, Internet, and video services, total revenues were ¥54.7 billion, with an ARPU of ¥4,690. In terms of profitability, the business, however, remains in the red due to the costs of acquiring customers and developing a sales and marketing organization. The negative contribution of the FTTH operation is a primary factor in the operating deficit of the Fixed-line Business as a whole.

Fixed-access Lines



Achieving Profitability Through Expanded Customer Base

■ "Metal-plus"

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

In FY 2009.3 the number of "Metal-plus" subscriptions dropped by 149,000 year on year, to 3.13 million. A little more than 20% of these customers used the service in combination with the ADSL service.

Total revenue, including voice telephony and Internet, reached ¥130.7 billion, with an ARPU of ¥3,370. Improvements to profitability continued further as the business topped the 3 million subscriptions mark, and successfully moved into the black for FY 2009.3.

■ CATV

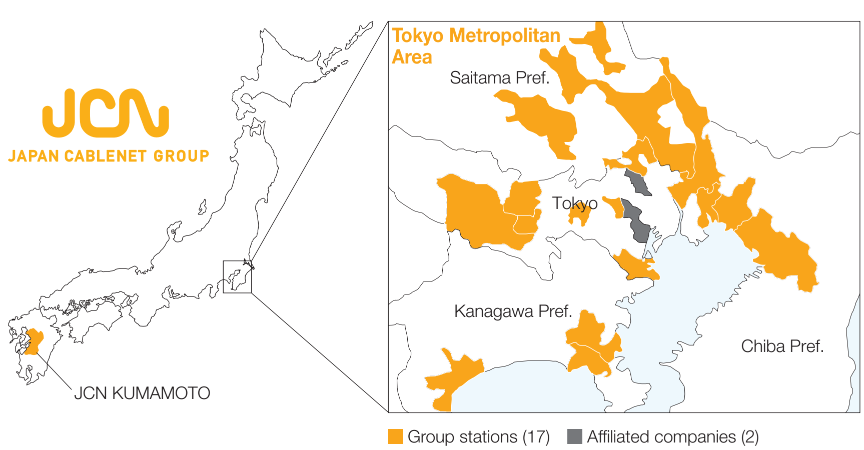
Expanding Providers of Cable-plus Phone Service

"Cable-plus phone" service allows CATV operators to provide fixed-line telephony services using their coaxial cable network and KDDI's backbone network. The Company supports the CATV operators through this service, which enables CATV stations to offer full-scale "triple play" services, including multi-channel broadcasting, Internet, and telephone services. For KDDI, "Cable-plus phone" represents a new source of telephone basic charges. At the end of FY 2009.3, the Company had business tie-ups with 70 CATV stations, and 604,000 telephone line subscriptions. Going forward, KDDI will continue to build business alliances with CATV operators to expand its customer base.

Growth in (JCN Group) CATV Subscriptions

In June 2007, JCN Group, the second largest multiple system operator (MSO) in Japan, became a consolidated subsidiary of KDDI. As of March 31, 2009, the JCN Group had 15 CATV stations* and 722,000 subscriptions, mainly in the Tokyo metropolitan area. In February 2009, the Company launched sales of the "JCN Keitai," a mobile phone featuring a portal function specifically for JCN subscribers. This will strengthen the

JCN Group Service Area (As of April 2009)



alliance between "triple play" multi-channel broadcasting, high-speed Internet, and telephone services and au mobile phones, an initiative that will further enhance this "quadruple play" offering and expand the subscriber base.

*Two stations added as of April 1, 2009, for a total of 17 stations.

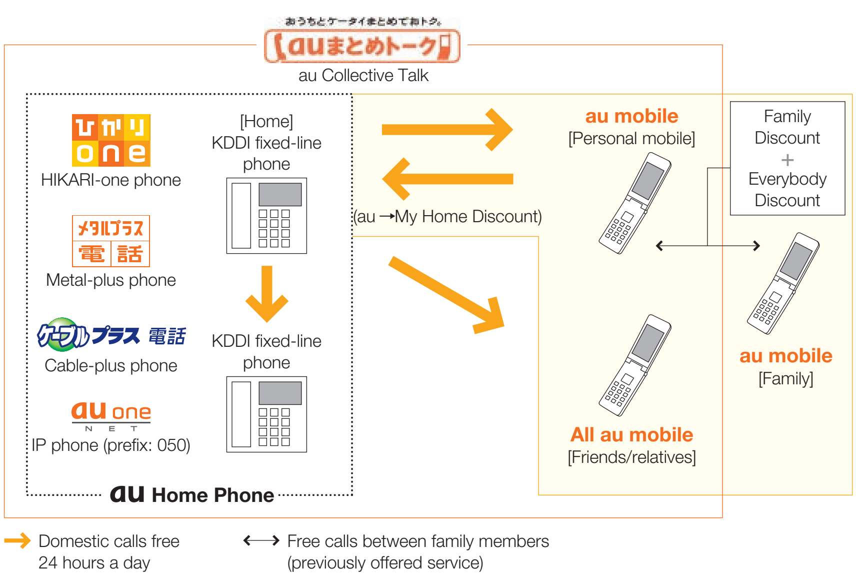
Consumer-Oriented FMBC Strategies

Shift Toward Integrated Fixed-line and Mobile Services

Leveraging its advantages as a comprehensive communications company operating both fixed-line and mobile communications services, KDDI is promoting fixed, mobile, and broadcast convergence (FMBC) services focused on the 30.84 million subscribers to its mobile phone services. As part of that effort, the "au Collective Talk" service was launched on August 1, 2008 as the first full-scale service to integrate fixed-line and mobile phone communications. "au Collective Talk" allows members of households subscribed to "KDDI Collective Billing" to make free domestic calls 24 hours a day to and from "au Home Phones" and au phones, and if the home phone is an "au Home Phone" under the "au→My Home Discount," domestic calls from au phones to home are also free 24 hours a day.

In combination with free calls to family members through the "Family Discount" and "Everybody Discount" for au mobile phones introduced in March 2008, free calls through "au Collective Talk" further broaden the various situations in which au mobile phones and KDDI fixed-line phones can be used.

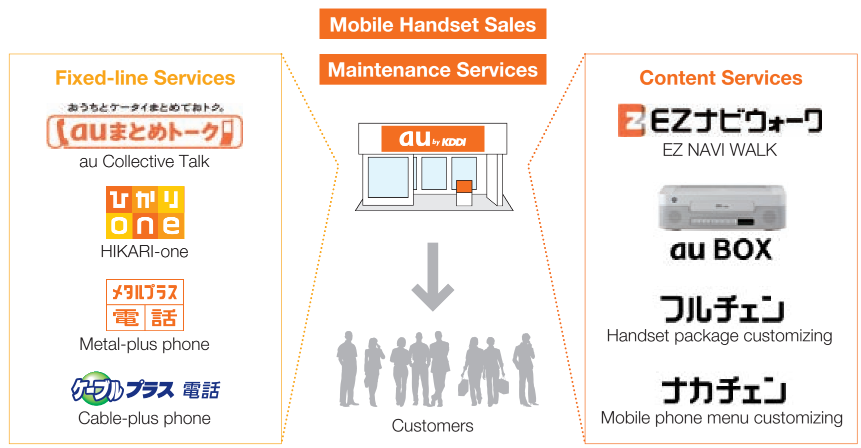
Feature of au Collective Talk



Strengthening Sales Capabilities of au Shops

On the marketing side, KDDI is also promoting cross-selling at its au shops. au shops used to serve as sales sites for the mobile phone business, focusing mainly on handset sales, and handset repairs and other after-sales services. From FY 2009.3, in addition to these key services, the Company has been working to reform the function of the shops to serve as sites for promoting FMBC, including providing in-store FTTH and other fixed-line services, content distribution, and other diverse products.

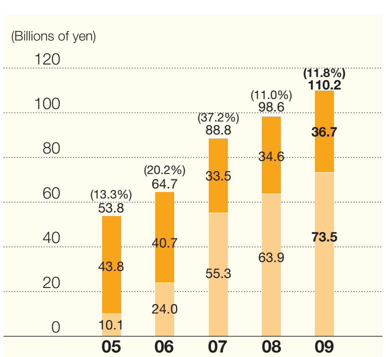
FMBC Initiatives at au Shops



Developing the Corporate ICT Business

Within the corporate client business, virtual private network (VPN) services such as wide-area Ethernet services exhibit strong growth potential. Already, KDDI's merger with POWEREDCOM, one of the leading companies in the wide-area Ethernet market, is steadily producing results. VPN service revenues in FY 2009.3 totaled ¥110.2 billion, rising 11.8% year on year, and maintaining a double-digit annual growth rate.

VPN Service Sales



(Years ended March 31)
IP-VPN Wide-area Ethernet
*( ) shows yoy

Promotion of a One-Stop Strategy

The ratio of overseas production and overseas sales at the Japanese companies which are KDDI's clients continues to increase, and with this increase has come a global division of labor and an expansion of overseas locations. This has brought an increase in data traffic among head offices in Japan and overseas sites, with clients looking more and more for wide-area, low cost services. Given this background, KDDI is working to meet customer needs by laying more undersea fiber optic cable and enhancing its regional networks around the world, strengthening the infrastructure needed to ensure customers can utilize one-stop ICT solutions around the globe.

Integration of the Telehouse Brand

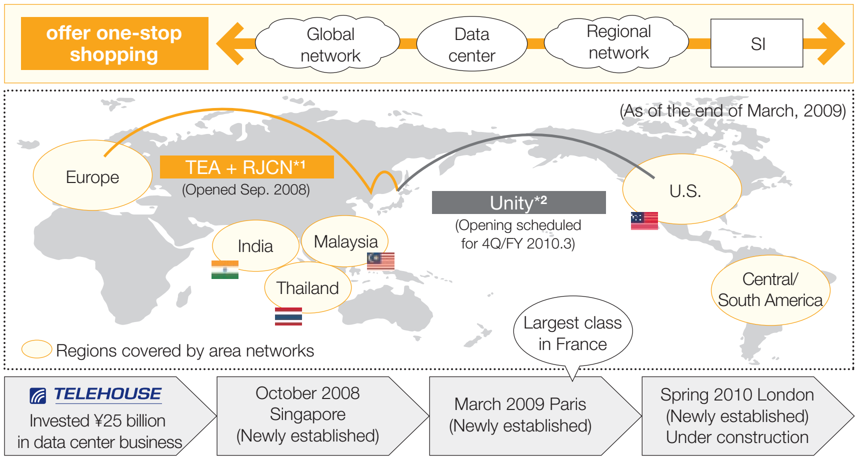
In October 2008, the Data Center business, which houses customer network equipment, integrated its expanding domestic and overseas data center brand under the name of TELEHOUSE, ensuring that clients can be confident in using the same high-specification data center services wherever they may be located.

Fixed-line Business

KDDI now has locations to support client overseas expansion in 48 cities and 63 locations* around the world, and, building on its ability to provide one-stop network, data center, and system integration (SI) services, will continue to expand its global business.

*As of the end of March 2009

Global ICT Strengths



*1 Transit Europe Asia: A high-capacity multiplexing optic network owned by Rostelecom. Russia-Japan Cable Network: A Japanese-Russian seabed optic cable jointly constructed with Rostelecom. For TEA and RJCN, Japan and Europe have been seamlessly connected by the shortest route.

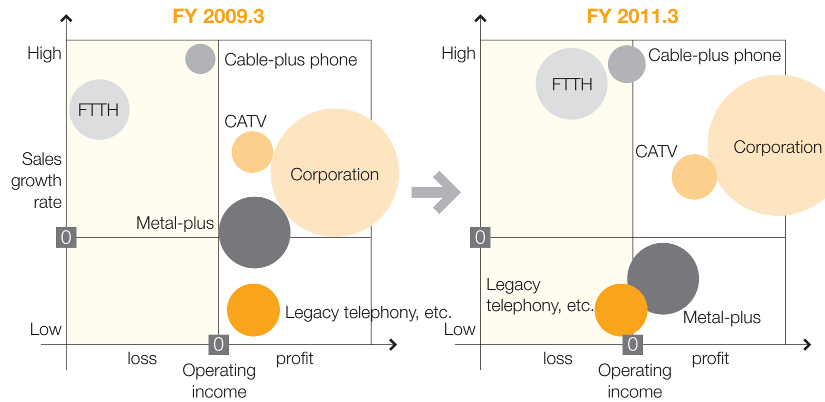
*2 An undersea fiber optic cable that connects Japan and the U.S.

Strategies for the Future

Aiming for Profitability in the Fixed-line Business in Fiscal Year 2011.3

Japan's fixed-line market is at a turning point, with legacy services giving way to direct access, IP, and broadband services. KDDI is also moving in this direction and developing access line services towards the next phase of growth. Current losses in the Fixed-line Business are primarily due to costs related to expanding the customer-base for FTTH. However, by achieving increased revenues from this expansion, and by bringing other fixed-line services into profitability, the Company can absorb the losses generated by the

Image of Fixed-line Business Portfolios (The sizes of the circles show images on those of sales)



FTTH business, and by continuing to reduce fixed costs, will aim to bring the entire Fixed-line Business into the black in FY 2011.3.

This section introduces the initiatives being implemented by the Fixed-line Business for the future.

FTTH Strategies

In January 2007, KDDI integrated the FTTH business of Tokyo Electric Power Company, followed by the consolidation of Chubu Electric Power Co., Inc.'s subsidiary, CTC, in April 2008. Thanks to these measures, it has become possible to flexibly expand the Company's business in the Tokyo metropolitan and Chubu regions, using KDDI's own access lines. The Company aims to improve profitability by promoting both the enhancement of its product appeal and cost containment, primarily in these two regions.

On the product side, KDDI is promoting sales of its well-received "Giga Value Plan" in the Tokyo metropolitan and Sapporo area. The Company is also taking advantage of the video services that are FTTH's strength, and will continue negotiations with a wide range of content providers to further enhance the current lineup of 5,000 VOD offerings and 45 channels of multichannel broadcasting. At the same time, KDDI is pushing ahead with development of technology that will make an environment for enjoying high-definition video a reality as well.

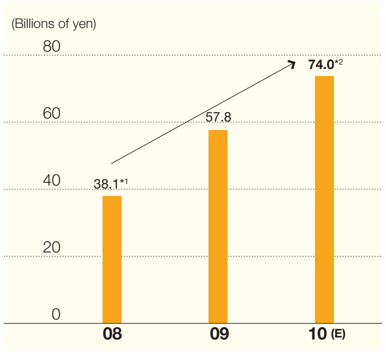
In order to expand its marketing capabilities, KDDI is shifting to a broader network of sales channels, including telemarketing, door-to-door sales, and its au shops. Through this process, the Company aims to strengthen sales capabilities and rein in sales costs, while expanding the subscriber base by appealing "Giga Value Plan" as a core service.

CATV Initiatives

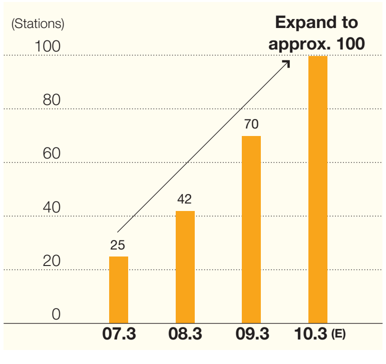
Operating revenues at the JCN Group, a KDDI consolidated subsidiary that is expanding its operations in the Tokyo Metropolitan area, were ¥57.8 billion in FY 2009.3, and are expected to grow by approximately 1.3 times to ¥74.0 billion in FY 2010.3.

Stations providing Cable-plus phones have steadily increased from 25 stations at the end of March 2007, and are expected to reach 100 stations by the end of March 2010.

JCN Group Revenues



Growth in Number of Stations Affiliated With Cable Plus Phone



*1 Revenue in 9 months following consolidation as KDDI subsidiary
*2 Includes JCN Kanto, Kawagoe Cablevision, consolidated upon acquisition of their stock in April 2009.

Fixed-line Business

With CATV added to FTTH as part of KDDI's fixed-line access coverage, the Company will continue to expand its customer base.

Strengthening the Corporate Services Business

Promotion of a One-Stop Strategy

KDDI believes that growth in the Fixed-line Business for corporate clients will require such measures as fixed and mobile convergence (FMC) services, working in conjunction with corporate clients' mobile services and expansion of businesses to peripheral areas. By combining the already-established high-quality network and reliable and convenient ICT services, and providing one-stop ICT solutions maximized with the customer in mind, KDDI will support the growth of its clients' business.

Corporate clients must also put in place measures to streamline operations and reduce costs, establish internal controls, disaster recovery measures, and a business continuity plan, and this has fueled a continuing shift away from corporate ownership of ICT to outsourcing of ICT functions. The focus is now on consolidating distributed servers and corporate networks, and concentrating ICT assets in the data center. Demand is expected to continue to grow in the domestic and overseas data center business, and to meet that demand, especially in overseas locations, KDDI will invest ¥25.0 billion over the three years between 2008 and 2010, expanding total floor space from 70,000m^2 to 100,000m^2.

Through these measures, the Company plans to expand the subscriber base around its network, to include both fixed-line and mobile customers, small to medium as well as large-scale corporate clients, and overseas as well as domestic customers. KDDI intends to become an all-around player in this field, capable of offering one-stop ICT solutions.

We seek to become an all-around ICT player in the corporate services field.

In the corporate fixed-line communications market, as companies seek to allocate resources more efficiently by outsourcing their information systems departments, KDDI will take advantage of the strengths of its dual fixed-line and mobile infrastructure, and continue to reinforce the structure it has built for providing one-stop fixed-line, mobile, and ICT solutions.

In particular, regarding our solution services field, placing mobile technologies as its core, our efforts on FMC services have borne results and KDDI clients were named the Grand Prize winner for the fourth consecutive year at the MCPC Awards.

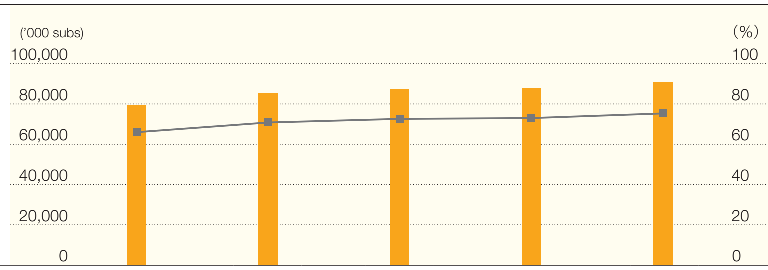
As outsourcing needs expand beyond the large-scale enterprise market and into the small- and medium-sized enterprise segment, in April 2009 KDDI restructured its organization in response to that change in scale, and has begun initiatives to actively develop new customers in the SME market.

Going forward, we seek to become an all-round ICT player in the corporate services field by providing one-stop solutions, not only in domestic fixed-line and mobile services but also in fixed-line telecommunications related services such as overseas network, data center and SI services including its peripheral fields.

Takashi Tanaka
Associate Senior Vice President
Member of the Board
Solution Business

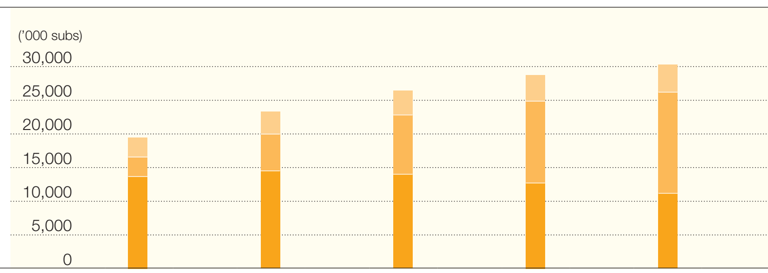
Market Data

Number of Internet Subscribers



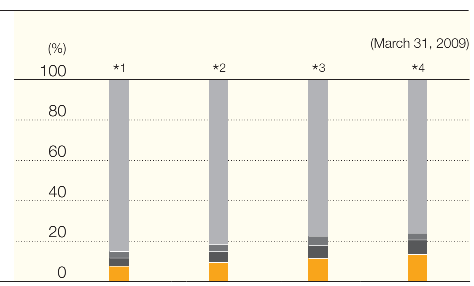
(Years ended December 31)	2004	2005	2006	2007	2008
Total subscribers in Japan	79,480	85,290	87,540	88,110	**90,910**
Penetration rate	66.0%	70.8%	72.6%	73.0%	**75.3%**

Number of Broadband Subscribers



(Years ended March 31)	2005	2006	2007	2008	2009
ADSL Subscribers	13,676	14,518	14,013	12,711	**11,184**
FTTH Subscribers	2,889	5,448	8,794	12,153	**15,017**
CATV Subscribers	2,961	3,310	3,607	3,874	**4,111**
Total	19,533	23,285	26,427	28,738	**30,312**

Market Share of Myline by Operator



(Years ended March 31)	2007				2008				2009			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local*1	In-prefecture long-distance*2	Out-of-prefecture long-distance*3	International*4
KDDI	9.1%	11.3%	14.1%	16.5%	8.3%	10.3%	12.7%	14.8%	**7.6%**	**9.4%**	**11.5%**	**13.4%**
SoftBank TELECOM	5.0%	6.7%	8.3%	9.3%	4.4%	5.9%	7.1%	8.0%	**4.0%**	**5.4%**	**6.4%**	**7.2%**
Other companies total	4.2%	4.7%	5.9%	4.6%	3.5%	4.1%	5.2%	4.1%	**3.2%**	**3.6%**	**4.6%**	**3.5%**
NTT	81.8%	77.2%	71.7%	69.5%	83.8%	79.7%	75.0%	73.1%	**85.2%**	**81.6%**	**77.5%**	**75.9%**
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Ministry of Internal Affairs and Communications and Myline Carriers Association

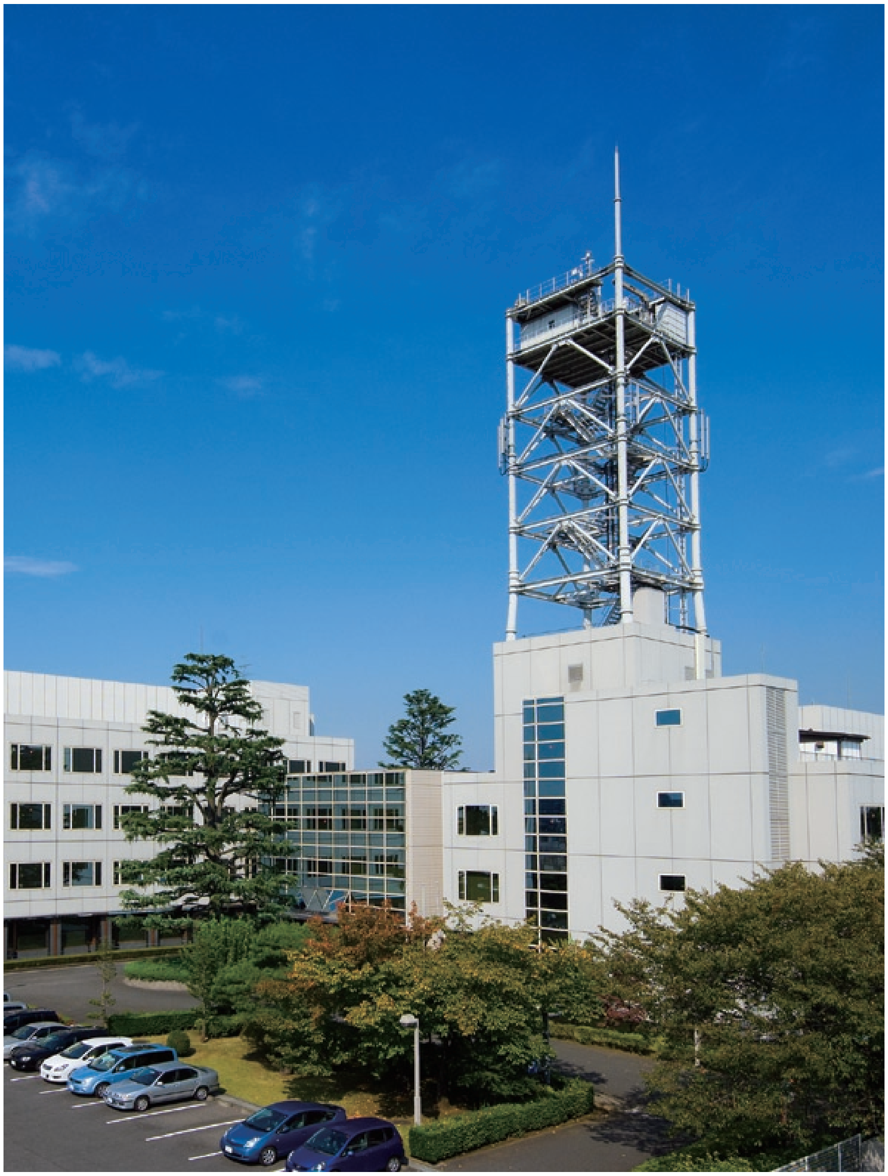
Other Business

Overview of Fiscal Year 2009.3

KDDI is focusing on strengthening business fields with growth potential in order to strengthen the competitiveness of the entire KDDI Group. From FY 2009.3, JCN Group and overseas fixed-line subsidiaries have been reclassified and incorporated into the Fixed-line Business segment, with operating revenues for FY 2009.3 declining by 56.5% year on year, to ¥72.8 billion, and operating loss to ¥2.5 billion.

Main Services and Group Companies in the Other Businesses

Main Services	Main Group Companies
• Call center business • Content business • Research and development • Other mobile phone services, etc.	• KDDI Evolva inc. • mediba corporation • KDDI R&D Laboratories, Inc. • HOLA PARAGUAY S.A.



KDDI R&D Laboratories, Inc.
(Fujimino, Saitama Prefecture)
KDDI R&D Laboratories are at the heart of the KDDI Group's research and development efforts, providing surveys, R&D, and consulting on new information and communications technologies. The laboratories promote top-level information and communications R&D activities in a wide range of fields, from FMBC to next-generation networks and ultra-high-speed wireless technologies to security and applications.

Research and Development

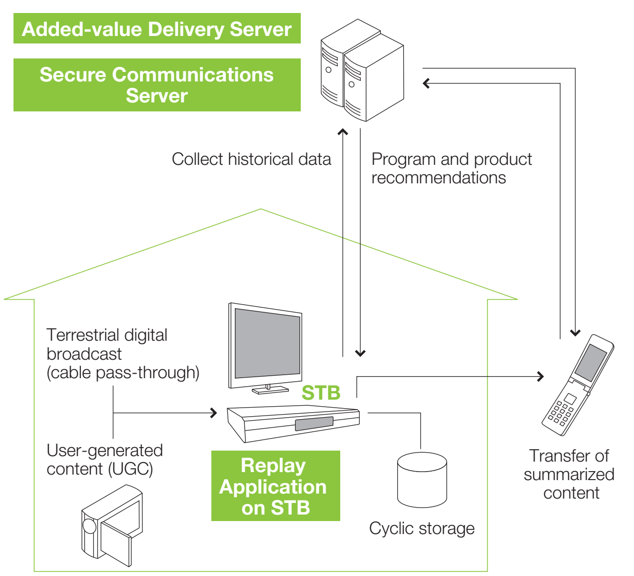
Development of a Summary Content Replay Technology

KDDI has developed technology that provides automatic replay and viewing of summarized content from terrestrial digital broadcast programming. Because content can be viewed as pages made up of a combination of subtitles and still images which can be flicked through one after another, the viewer can control the speed at which they move through the content. For example, a thirty-minute news program can be viewed in just about ten minutes. Like this, the technology makes a quick viewing simple. And because the size of the content is kept small, it can easily be stored on a mobile phone.

The subtitle data received through a broadcast is processed using KDDI R&D Laboratories' proprietary technology which enables reformatting and displaying easy-to-read subtitles, and appropriate still images selected and matched with the content of the subtitles. This technology thus offers the world's first automated editing, high-quality, low-volume summarized content.

Using this technology, it now becomes possible to transfer news, variety shows, and other programs recorded with a set-top box (STB) connected to CATV or IP networks capable of receiving terrestrial digital broadcasts, to a mobile handset, and enjoy them whenever the viewer has spare time. KDDI plans to consider implementing this technology on "one seg" enabled handsets, while working to improve both display quality and usability.

Depiction of Summary Content System



"Real-world Virtual See-through System Using Mobile Phone"

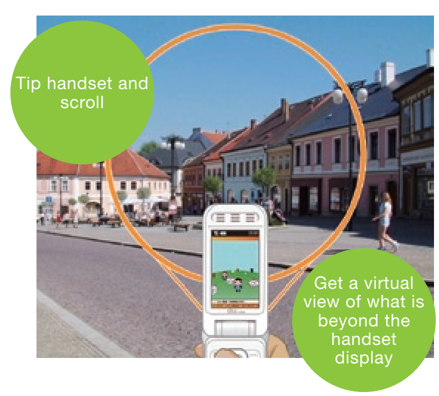
KDDI has developed a mobile AR (augmented reality) application for mobile handsets called the "Real-world virtual see-through system using mobile phone".

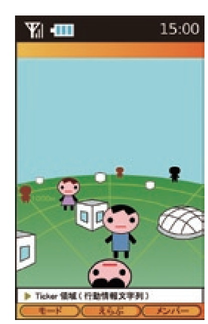
The objective of this technology is to provide an intuitive grasp of objects and people existing in real space, something which is accomplished through two component technologies: 1) a tangible human interface linked to the position of the handset, and 2) a method for automatically inferencing user movements.

The tangible human interface linked to the handset position involves a six-axis sensor installed on the mobile phone (three–axes acceleration sensor and three–axes geomagnetic sensor) used to measure handset posture, providing the ability to tangibly display on the handset the relative location of the object or person at which the handset is pointed. Unlike with traditional map services, by displaying only objects and people, and not a road map, this technology allows for accelerated processing and improved visibility.

The method for automatically inferencing user movement uses the acceleration sensor, microphone, and GPS installed on the mobile handset to automatically, with 80% accuracy, measure seven types of movement states of the handset holder (run, walk and stop / on bicycle, train, automobile and bus). Unlike traditional methods which require a dedicated device, by taking advantage of the multiple functions of the sensors already installed on the handset, the design of a practical technology has been enabled.

These two technologies both utilize sensor data, and have in common their ability to generate useful information for the handset user by processing and transforming that data (sensor data mining technology). By establishing this technology, KDDI plans to deliver a variety of services, and promote the realization of an ambient intelligence society.





A "Real-world virtual see-through system using mobile phone" display

Corporate Governance

Contents

Manifesto

KDDI's Manifesto

KDDI is committed to an uncompromising quest for

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

Total Customer Satisfaction (TCS)

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

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

KDDI CS Policy

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

In accordance with this policy, every division and department in KDDI is required to prepare its own written CS Mission Statement, clearly stating the roles and objectives to be fulfilled to enhance customer satisfaction. Each division is responsible for realizing their stated objectives by undertaking an annual management cycle of planning and execution followed by verification to obtain feedback in order to refine the plan for subsequent cycles. KDDI believes there is nothing more important to the Company's future than reflecting the opinions and preferences of the customers in its products, services and the way it works, and rapidly implementing quality improvements based on objective evaluations by the customers.

Directors and Auditors

As of June 18, 2009

Directors

Sadanori Amano

Vice Chairman

Tadashi Onodera

President and Chairman

Satoshi Nagao

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

Hirofumi Morozumi

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

Takashi Tanaka

Associate Senior Vice President
Member of the Board
Solution Business

Makoto Takahashi

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

Yoshiharu Shimatani

Associate Senior Vice President
Member of the Board
Technology Officer

Makoto Kawamura*

Shinichi Sasaki*

Tsunehisa Katsumata*

Auditors

Standing Statutory Auditors

Nobuo Nezu

Susumu Oshima

Masayuki Yoshinaga**

Statutory Auditors

Yoshihiko Nishikawa**

Katsuaki Watanabe**

* Outside Directors
** Outside Auditors

Corporate Governance

Basic Policy Regarding Corporate Governance

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

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

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

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

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

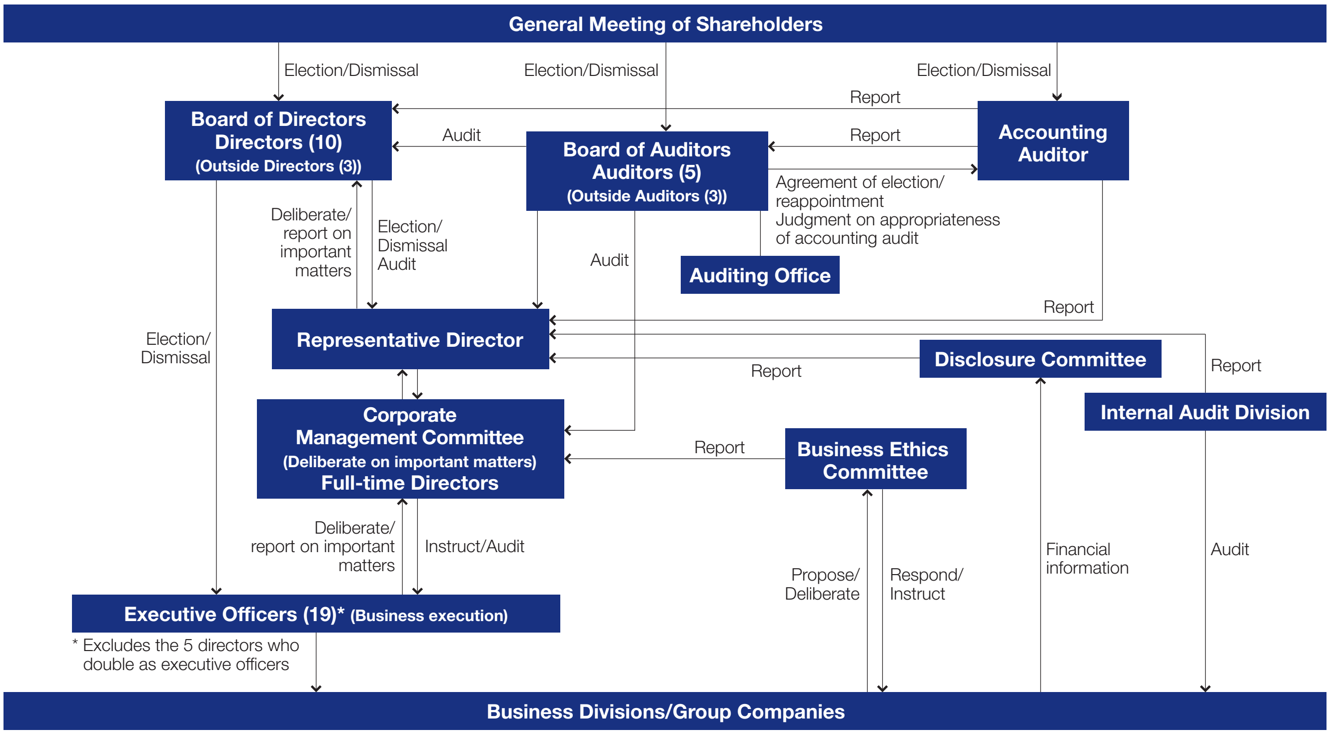
All KDDI Group operations are subject to internal audits to regularly assess the appropriateness and effectiveness of internal controls. The results of internal audits are reported to the president and to auditors, along with recommendations for improvement and correction of problem areas.

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

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

Corporate Governance

Corporate Governance Framework



(As of June 18, 2009)

Remuneration for Directors and Auditors

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

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

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

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

4. Remuneration amounts outlined above included the following board members' bonuses, as determined by a resolution of the 25th Annual Meeting of Shareholders held on June 18, 2009.
   11 Directors: ¥80.20 million (3 Outside Directors: ¥7.50 million)
   5 Auditors: ¥19.25 million (3 Outside Auditors: ¥9.75 million)

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

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

Major Activities of Outside Directors and Outside Auditors

Directors

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

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

Auditors

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

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

Risk Management

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

Risk Management Structure

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

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

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

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

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

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

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

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

Structure as a Telecommunications Carrier

(1) Protecting communications privacy

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

(2) Information security

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

(3) Restoration of networks and services following a disaster

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

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

Corporate Governance

Approach to Compliance

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

Compliance Promotion System

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

Compliance Education and Training

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

Key Training Accomplishments

FY2009.3

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

Business Ethics Helpline

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

Enhancing the Compliance Structure of KDDI Group Companies

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

Sadanori Amano

Vice Chairman
KDDI Group Business Ethics Committee Chairman

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

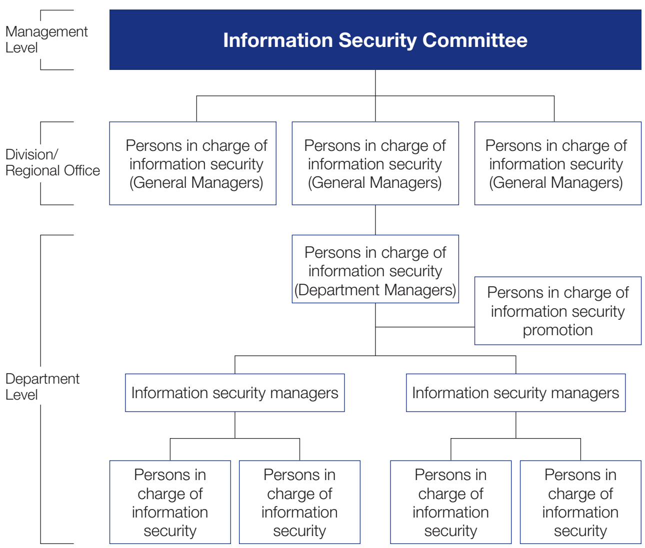
By acting in accordance with high ethical standards and respect for the law, we work to be a company that is deeply trusted and respected by customers and society.

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

Information Security

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

Security Management Structure



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

During FY 2009.3 the Company implemented physical countermeasures such as increasing the number of security gates at building entrances and CCTVs, technical countermeasures such as system renovations and additional tools that help prevent human error, and human countermeasures such as e-learning sessions using actual security violation examples. KDDI also continued efforts from the previous fiscal year to ensure information security for commercial telecommunications equipment from the design and development stage. In addition, to meet the goal of acquiring company-wide Information Security Management System (ISMS*) certification for enhanced security management, the Company started acquiring certification and continued its effort to add divisions certified, and achieved the goal of Company-wide ISMS certification for all divisions in April 2009.

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

ISMS Certification at KDDI

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

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

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

Yoshiharu Shimatani

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

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

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

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

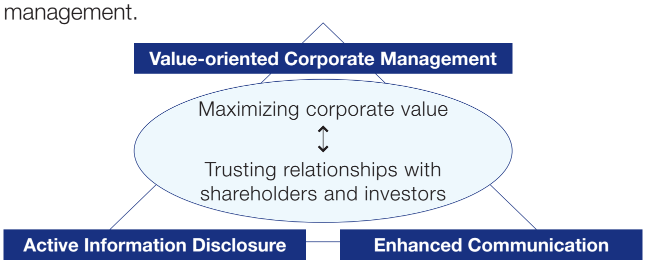
Corporate Governance

Disclosure and Investor Relations

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

IR Basic Policy

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



IR Activity Guidelines

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

Three IR Activity Guidelines

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

Investor Relations Activities during FY 2009.3

Open and In-depth Communication


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

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

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

More Investor Relations Tools

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

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

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

Internal Controls

Measures to Improve Overall Corporate Quality

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

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

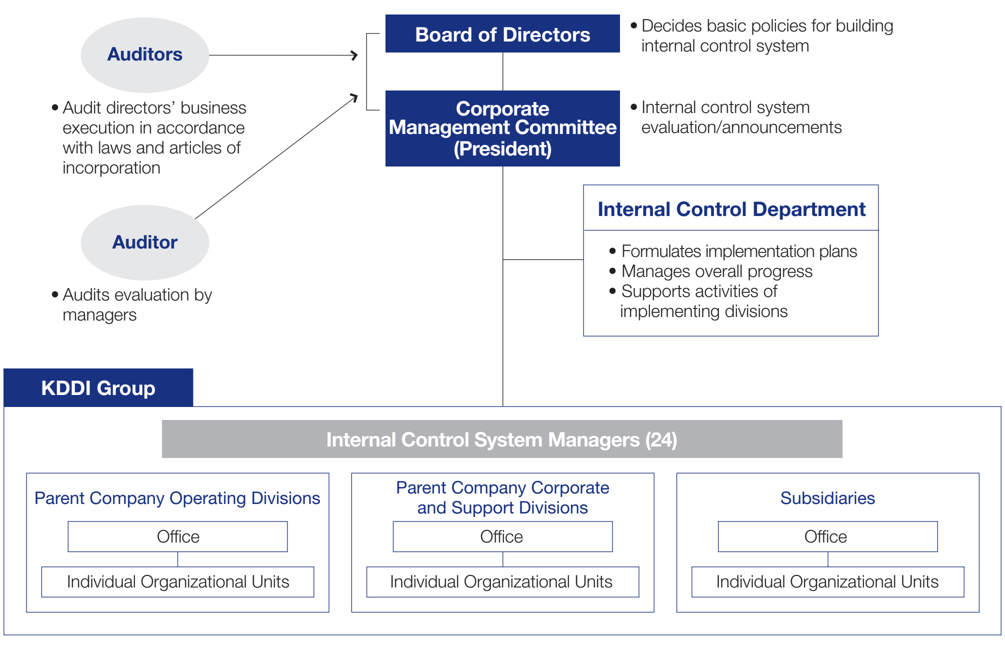
Initiatives in Response to the Internal Control Reporting System

In response to the Internal Control Reporting System based on the Financial Instruments and Exchange Law implemented in FY 2009.3, KDDI established the Internal Control Department to manage the Company's efforts, and to ensure reliability in its financial reporting put in place internal control systems at the Company and major group subsidiaries, and conducted evaluations of its internal controls. The results of these evaluations were compiled in an internal controls report, which was submitted to the prime minister in June 2009, as well as disclosed to investors on EDINET and the KDDI website.

Enhancing Operational Quality to Improve Overall Corporate Quality

KDDI considers its initiatives in response to the Internal Control Reporting System to be part of its ongoing effort to improve overall corporate quality. The Internal Control Department established as part of the response to this system acts as the managing authority for the entire company's internal control efforts, working to improve overall corporate quality by enhancing operational efficiency and providing standardization, while at the same time raising the quality of operations and the degree of added value. In FY 2010.3 KDDI will appoint 24 officers for internal control within its organization and at major group subsidiaries. Under this system, the entire organization will implement and operate an internal control system, furthering the improvement in overall corporate quality. We will also conduct regular training and e-learning for all employees in order to deepen their understanding of internal control.

Internal Control Promotion System Concerning Financial Reporting



Corporate Social Responsibility

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

KDDI's CSR

As a comprehensive telecommunications company and a social infrastructure provider, KDDI believes that its corporate social responsibility (CSR) lies in supporting all aspects of social and economic activity through the provision of telecommunication services. In its CSR activities, KDDI recognizes the highly public and social nature of telecommunications, and strives to encourage each and every employee to follow KDDI's basic principles in this area.

KDDI's Manifesto and CSR

KDDI's Manifesto
- Ensuring customer satisfaction and trust
- Happy workforce and a dynamic company
- The confidence of our shareholders and business partners
- The advancement of society

The sustainable development of society

KDDI's CSR
- Total Customer Satisfaction
- Provision of secure and communication services (Conscientious business activities)
- Contributions to the development of society
- Management foundations (Corporate governance, compliance, information disclosure, risk management, etc.)

The Foundation of CSR: TCS (Total Customer Satisfaction)

KDDI considers all stakeholders "customers"— not just those who use its services, but suppliers, employees, shareholders, investors, and government institutions, and local communities. In all its processes, KDDI is promoting Total Customer Satisfaction (TCS) activities throughout the Company in its quest for customer satisfaction (see page 53). TCS initiatives underpin KDDI's business activities and form the foundations for its CSR initiatives, as all employees, from top management to general employees, work to enhance the satisfaction of all its stakeholders.

CSR Priority Issues

Advancement in information and telecommunications services has enhanced the convenience of everyday life and economic activity, but at the same time has given rise to new social problems connected with information and telecommunications, such as young people with little experience in recognizing potentially harmful information who have gotten into trouble with mobile phones or the Internet. During FY 2009.3, KDDI selected four priority issues from among all the social issues connected with its business activities, on which it focused its company-wide CSR program.

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

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

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

KDDI employees teach classes on the proper use of mobile phones

Priority Issue 2: Provide a Stable Information and Telecommunications Service

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

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

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

Disaster response training conducted in January 2009

Priority Issue 3: Global Environment Conservation

The KDDI Environmental Charter was formulated in March 2003. In January 2007, an environmental management regime was put in place as part of the first Medium-Term Environmental Conservation Plan. In July 2007 we formulated the second Medium-Term Environmental Conservation Plan, with the goals of cutting of greenhouse gas emissions, reducing waste and encouraging recycling, and improving the quality of environmental management. In addition to these company-wide measures, the Company has conducted research on reducing CO_2 emissions in society in the information and telecommunications services it provides, and is studying new measures to adopt based on the results.

Second Medium-Term Environmental Conservation Plan

(1) Global Warming Countermeasures	Reduce energy consumption by 16% from expected fiscal 2011 levels, and achieve greenhouse gas emissions of 1,520,000 tons (CO_2 equivalent).
(2) Waste Reduction and Recycle Promotion	■ Achieve a resource-recycling ratio of at least 99% for mobile phones, retired communication equipment, and the like ■ Thoroughly reduce and separate office waste, and achieve a resource-recycling ratio of at least 70%
(3) Improving the quality of environmental management	■ Enhance compliance assessments and internal auditing ■ Enhance internal environmental education and awareness-raising activities

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

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

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

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

A KDDI Challenged employee disassembles mobile phone handsets for recycling

Social Contribution Activity

Employee Social Contribution Activity “+α Project”

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

Charity bazaar held in the company cafeteria

KDDI’s Long History of International Cooperation Activities

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

Students at the Sanlong KEC School in Sanlong, Cambodia

Business Risks

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

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

1. Competitors, Rival Technologies and Rapid Market Shifts

Mobile Business

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

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

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

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

Fixed-line Business

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

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

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

2. Communications Security and Protection of Customer Privacy

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

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

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

Business Risks

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

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

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

4. Telecommunications Sector Regulations and Government Policies

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

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

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

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

Mobile Business

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

Fixed-line Business

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

5. General Legal and Regulatory Risk

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

6. Litigation and Patents

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

7. Personnel Retention and Training

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

8. Retirement Benefits

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

9. Asset-impairment Accounting

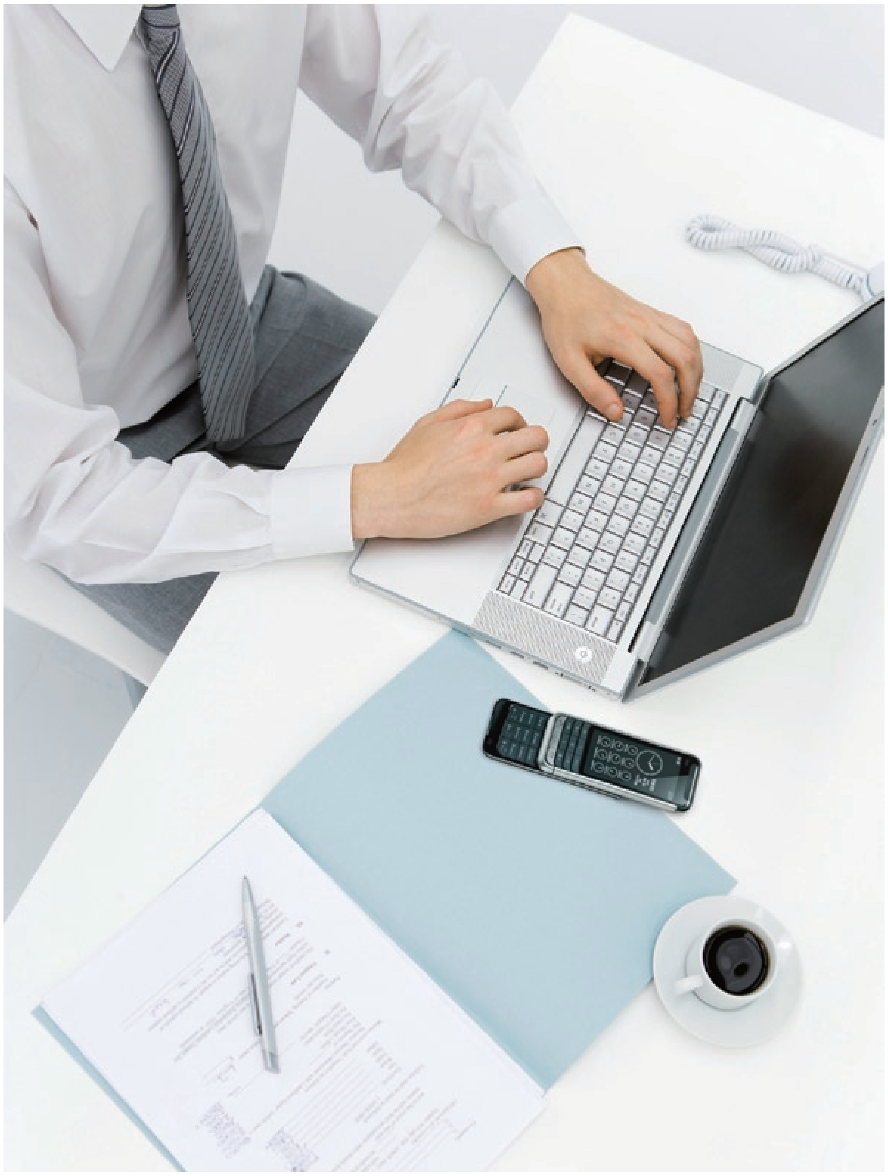
In FY 2009.3 the KDDI Group posted impairment losses primarily for current 800MHz band and "HIKARI-one Home 100" equipment, etc. Going forward, the KDDI Group may post other impairment losses against property, plant and equipment, depending on the level of its utilization.

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

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

Financial Section

Contents



Message from the Executive Vice President

Satoshi Nagao

Executive Vice President
Member of the Board

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

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

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

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

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

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

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

Five-year Summary

Years ended March 31

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

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

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

Selected Financial Indicators

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

Equity ratio = Shareholders' equity (end of fiscal year) ÷ total assets (end of fiscal year)

D/E ratio = Interest-bearing debt (end of fiscal year) ÷ shareholders' equity (end of fiscal year)

ROE = Net income ÷ average shareholders' equity over fiscal year

ROA = Operating income ÷ average total assets over fiscal year

Total assets turnover ratio = Operating revenues ÷ average total assets over fiscal year

Shareholders' equity turnover ratio = Operating revenues ÷ average shareholders' equity over fiscal year

Current ratio = Current assets (end of fiscal year) ÷ current liabilities (end of fiscal year)

Fixed assets to equity = Fixed assets (end of fiscal year) ÷ total shareholders' equity (end of fiscal year)

Fixed assets to long-term capital = Total fixed assets ÷ (total shareholders' equity (end of fiscal year) + non-current liabilities (end of fiscal year))

Liquidity in-hand = Liquidity in-hand (cash + marketable securities among the current assets) ÷ (operating revenues ÷ 12)

Interest coverage ratio = Operating cash flows ÷ Interest payments (method of calculation has changed starting from Annual Report 2009)

Dividend payout ratio = Annual dividend amounts ÷ net income
(The dividend payout ratio is presented on a non-consolidated basis until FY 2006.3, and on a consolidated basis from FY 2007.3.)

Note: Sum of Shareholders' equity, Share warrant and Minority interests

Segment Data

Years ended March 31

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

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

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

Management's Discussion and Analysis

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

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

Analysis of Consolidated Business Results

Executive Summary

(a) Status of the KDDI Group

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

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

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

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

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

(Reference)

Scope of Consolidation

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

KDDI Group

(As of March 31, 2009)

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

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

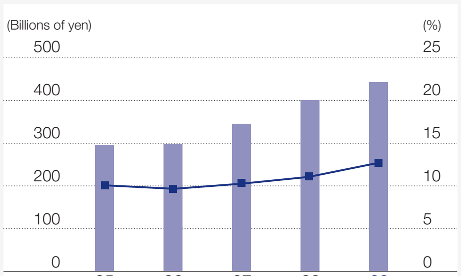
In the mobile communications market, carriers are facing sharp decline in the unit sales of handsets as pricing plans that separate tariffs from handset prices become mainstream. Other factors include rising prices of handsets, proliferation of multiple-year service contracts, and the current economic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

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

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

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

Consolidated Operating Income/Margin



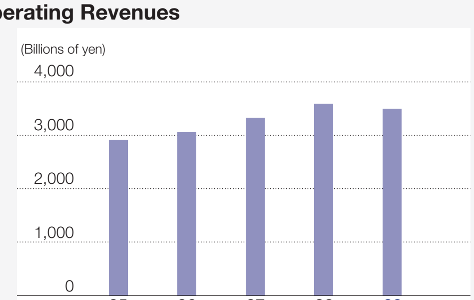
(Years ended March 31)

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

Overview

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

Consolidated Operating Revenues



(Years ended March 31)

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

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

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

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

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

Management's Discussion and Analysis

Summarized Consolidated Statements of Income

(Billions of yen)

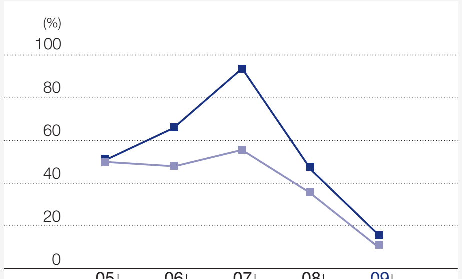
	2008.3	2009.3	Change amount	Change (%)
Operating Revenues	3,596.3	**3,497.5**	(98.8)	(2.7)
Operating Expenses	3,195.8	**3,054.3**	(141.5)	(4.4)
Operating Income	400.5	**443.2**	42.8	10.7
Other Expenses	21.2	**48.3**	27.1	127.5
Income before Income Taxes and Minority Interests	379.2	**394.9**	15.7	4.1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

Review by Segment

(a) Mobile Business

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

Share of Net Additions of Mobile Business



(Years ended March 31)

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

Network

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

Handsets

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

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

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

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

Price Plans

• Expansion of "Simple Course" price plans

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

Service/Content

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

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

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

*mora is a registered trademark of Label Gate Co., Ltd.

*Chaku-Uta Full and Chaku-Uta Full Plus are registered trademarks or trademarks of Sony Music Entertainment.

Corporate Services

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

Major New Services for Corporate Clients

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

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

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

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

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

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

• MCPC Awards received

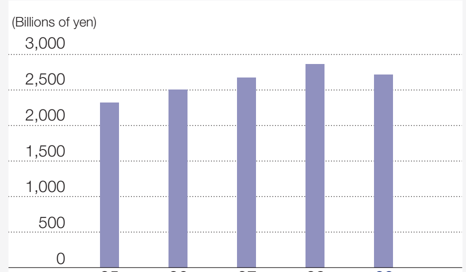
In 2009, Kyushu Electric Power Co., Ltd. received three prizes at the annual MCPC (Mobile Computing Promotion Consortium) Awards for its "Haiden Mobile Ke-tai System": the Grand Prix Award, Minister of Internal Affairs and Communications Award, and the Mobile Technology Award. This marks the fourth consecutive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

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

Operating Revenues

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

Operating Revenues (Mobile Business)



(Years ended March 31)	05	06	07	08	09
Operating Revenues	2,313	2,510	2,677	2,863	**2,719**

Management's Discussion and Analysis

(Reference) Total Subscriptions*

('000 subs)

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

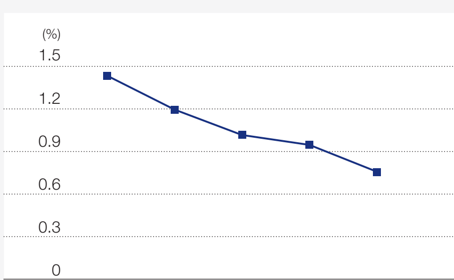
*Subscribers is as of March 31 of each year
**Net Additions=New Subscriptions-Churn

Increased Subscriptions and Lower Churn Rate

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

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

Churn Rate



(Years ended March 31)

	05	06	07	08	09
Churn Rate	1.44	1.2	1.02	0.95	**0.76**

Decline in ARPU (Average Revenue Per Unit)

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

Decline in Revenue from Handset Sales

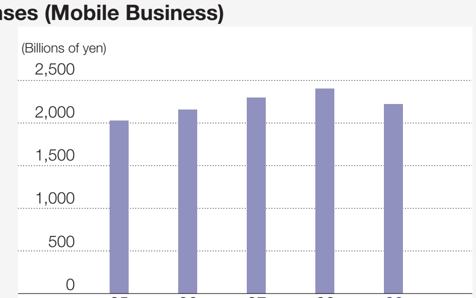
Unit sales of handsets for all mobile phone carriers declined significantly, due to an increase in handset prices as more and more customers opted for pricing plans separating the tariffs from handset prices. KDDI experienced a 32% drop in unit sales of handsets for FY 2009.3, causing a decline in revenue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

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

Operating Expenses

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

Operating Expenses (Mobile Business)



(Years ended March 31)

	05	06	07	08	09
Operating Expenses	2,021	2,154	2,292	2,408	**2,218**

au ARPU*

(Yen)

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

*ARPU is average of each year.

WIN ARPU*

(Yen)

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

Cost of Sales for Mobile Handsets

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

Decline in Total Value of Commissions

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

Depreciation

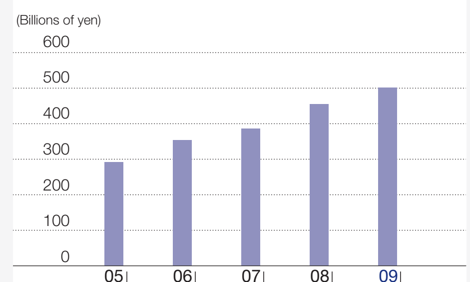
In addition to the development of the 2GHz band network, in line with the increased subscriptions and improved transmission quality and the expansion of the EV-DO Rev. A coverage area, KDDI has started full-scale preparation of the new 800MHz band allocated to it in anticipation of the reorganization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

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

Operating Income

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

Operating Income (Mobile Business)



(Years ended March 31)	05	06	07	08	09
Operating Income	292	354	386	455	**502**

(b) Fixed-line Business

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

Increase in Access Lines

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

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

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

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

Management's Discussion and Analysis

(Reference) Total Subscribers*

('000 subs)

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

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

FTTH Services

• "Giga Value Plan" Unveiled

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

Charges

• "au Collective Talk" Unveiled

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

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

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

Corporate Services

• Russia-Japan Cable Network (RJCN) Starts Operation

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

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

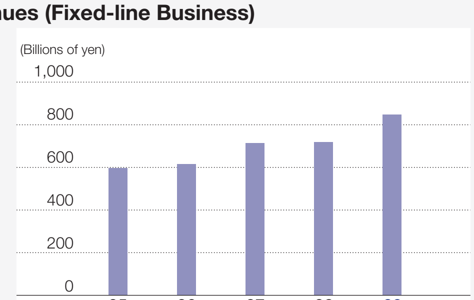
• Data Centers Expanded

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

Operating Revenues

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

Operating Revenues (Fixed-line Business)



(Years ended March 31)	05	06	07	08	09
Operating Revenues	596	619	714	719	**849**

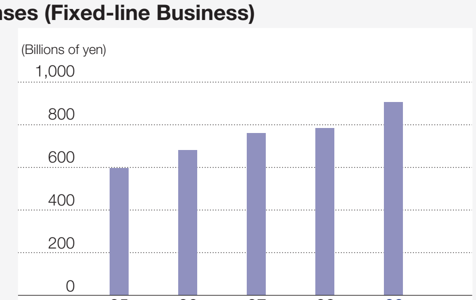
• Impact of consolidation of CTC
In April 2008, CTC was transformed into a consolidated subsidiary of KDDI, with the aim of strengthening the Group's services for corporate customers and reinforcing its FTTH services for consumers in Japan's Chubu area. The new consolidation added strength to the Group's customer and business bases and boosted revenues in this segment.
• Effect of business reclassification
Seeking to better clarify the strategies and scope of its Fixed-line Business, the KDDI Group undertook a segment reclassification in FY 2009.3. As a result, four businesses previously included in Other Business—cable television business, other fixed-line services, overseas fixed-line business, and related services—were shifted to the Fixed-line Business, providing a boost to segment revenues.

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

Operating Expenses

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

Operating Expenses (Fixed-line Business)



(Years ended March 31)	05	06	07	08	09
Operating Expenses	596	680	763	783	**905**

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

Accordingly, although the rise in companies operating in the Fixed-line Business led to increased expenses for the Group on a consolidated basis, some non-consolidated expenses declined as described below.
• Depreciation
Under a revision to the Corporate Taxation Law, in FY 2009.3 the estimated useful lives of machinery and equipment were changed from six years to nine years. KDDI reviewed the depreciation method accordingly* and this led to a decline in depreciation costs.

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

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

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

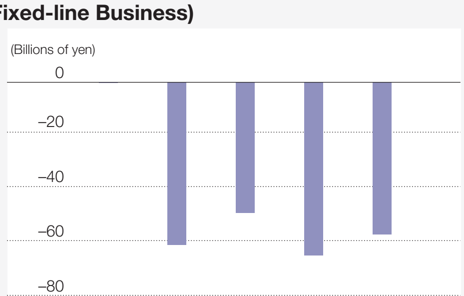
Management's Discussion and Analysis

Operating Income (Loss)

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

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

Operating Loss (Fixed-line Business)



(Years ended March 31)	05	06	07	08	09
Operating Loss	–0.3	–61	–49	–65	**–57**

(c) Other Business

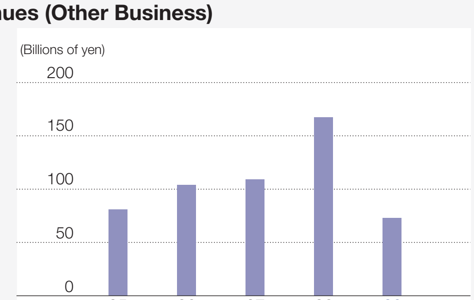
In Other Business, the KDDI Group strove to raise its overall competitiveness by strengthening its presence in fields expected to grow in the future.

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

Operating Revenues

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

Operating Revenues (Other Business)

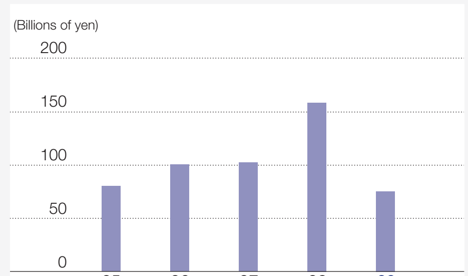


(Years ended March 31)	05	06	07	08	09
Operating Revenues	81	104	109	167	**73**

Operating Expenses

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

Operating Expenses (Other Business)



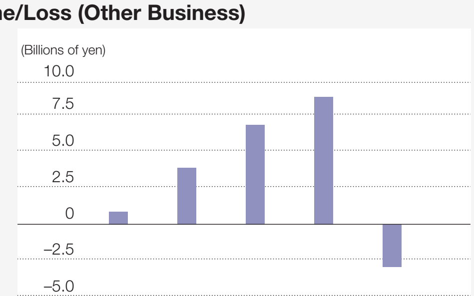
(Years ended March 31)	05	06	07	08	09
Operating Expenses	80	100	102	158	**75**

Operating Income (Loss)

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

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

Operating Income/Loss (Other Business)



(Years ended March 31)	05	06	07	08	09
Operating Income/Loss	0.9	4	7	9	**–3**

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

Other Income/Expenses

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

Interest Expense

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

Equity in Gain (Loss) of Affiliates

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

(Reference)

• UQ Communications Inc.

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

• Jibun Bank Corporation

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

Dividend on Conclusion of Silent Partnership Agreement

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

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

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

(FY 2009.3)

• ¥68.0 billion impairment loss

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

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

(Impairment loss on HIKARI-one Home 100 facility)

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

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

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

(FY 2008.3)

• ¥21.2 billion impairment loss

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

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

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

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

Income Taxes and Tax Adjustments

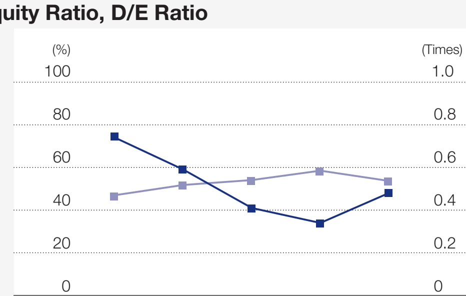
Total income taxes, consisting of corporation, resident, and enterprise taxes, amounted to ¥200.9 billion, together with an income tax adjustment that resulted in deferred taxes of ¥30.6 billion, representing a ¥12.6 billion increase in total income taxes and tax adjustments year on year. This mainly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

Assets and Capital Expenditures

Assets

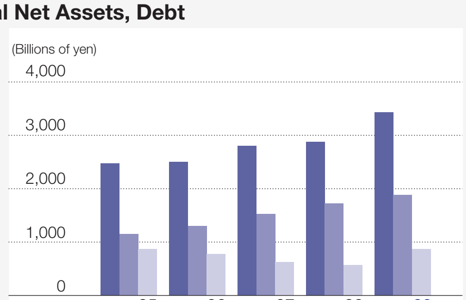
As of March 31, 2009, consolidated total assets amounted to ¥3,429.1 billion, up ¥549.9 billion year on year. Net assets increased ¥165.6 billion, to ¥1,881.3 billion. The shareholders' equity ratio declined 4.8 percentage points, to 53.7%. The rise in total assets stemmed mainly from increases in tangible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

Shareholders' Equity Ratio, D/E Ratio



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

Total Assets, Total Net Assets, Debt



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

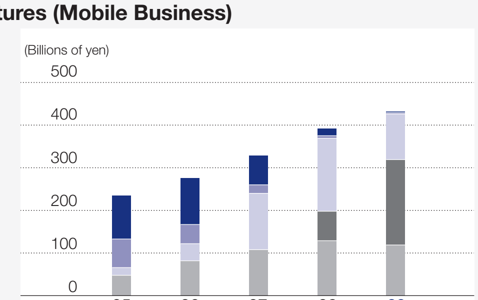
Capital Expenditures

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

(a) Mobile Business

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

Capital Expenditures (Mobile Business)

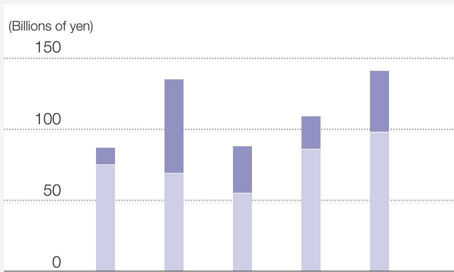


(Years ended March 31)	05	06	07	08	09
800MHz 1X	101	108	69	17	**3**
800MHz EV-DO	67	45	20	6	**3**
2GHz	18	40	132	171	**107**
New 800MHz	—	—	—	69	**200**
Common Equipment	48	82	108	129	**119**
Total	234	275	329	392	**432**

(b) Fixed-line Business

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

Capital Expenditures (Fixed-line Business)



(Years ended March 31)

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

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

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

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

Sources of Capital and Liquidity

Cash Flows

Summarized Consolidated Statements of Cash Flows

(Billions of yen)

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

(a) Operating Activities

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

(b) Investing Activities

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

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

(c) Free Cash Flow

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

(d) Financing Activities

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

Liquidity

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

Financing

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

Debt Repayments

Contracted debt repayment totals by maturity are given below.

(Billions of yen)

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

Foreign Exchange Risk

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

Financial Policies

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

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

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

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

Contingent Liabilities

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

Significant Accounting Policies and Estimates

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

Depreciation Method for and Estimated Useful Lives of Fixed Assets

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

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

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

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

Impairment of Fixed Assets

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

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

Deferred Tax Assets

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

Retirement Benefits and Pension Obligations

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

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

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

Consolidated Balance Sheets

KDDI Corporation and Consolidated Subsidiaries

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

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

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

Consolidated Statements of Income

KDDI Corporation and Consolidated Subsidiaries

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

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

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

Consolidated Statements of Changes in Net Assets

KDDI Corporation and Consolidated Subsidiaries

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

Consolidated Statements of Changes in Net Assets

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

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

Consolidated Statements of Cash Flows

KDDI Corporation and Consolidated Subsidiaries

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

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

Notes to Consolidated Financial Statements

KDDI Corporation and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

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

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

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

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

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

Added (Consolidated):

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

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

Removed (Consolidated):

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

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

Added (Equity Method):

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

Reclassifications:

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

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

2. Significant Accounting Policies

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

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

All significant intercompany transactions and accounts are eliminated.

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

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

b. Revenue Recognition

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

c. Cash and Cash Equivalents

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

d. Inventories

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

e. Foreign Currency Translation

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

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

f. Property, Plant and Equipment and Depreciation

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

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

(Change in Accounting Policy)

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

Notes to Consolidated Financial Statements

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

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

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

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

(Additional Information)

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

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

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

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

g. Financial Instruments

(1) Securities

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

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

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

(2) Derivatives

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

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

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

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

h. Research and Development Expenses and Software

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

i. Income Taxes

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

j. Leased assets and Amortization

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

(Change in Accounting Policy)

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

k. Amortization of Goodwill

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

l. Net Income per Share

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

m. Allowance for Doubtful Accounts

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

n. Reserve for Retirement Benefits

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

o. Reserve for Point Service Program

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

p. Allowance for bonuses

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

q. Allowance for directors' bonuses

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

r. Evaluation of assets and liabilities of consolidated subsidiaries

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

Notes to Consolidated Financial Statements

3. Changes to Basis of Presenting Consolidated Financial Statements

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

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

(Changes in presentation)

(Consolidated statements of income)

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

4. Assets and Liabilities of Newly Consolidated Subsidiaries

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

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

Note: Percentage of subsidiary voting rights held by the Company
Chubu Telecommunications Co., Inc. 80.5%
Note: Date of acquisition of shares April 1, 2008

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

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

6. Market Value Information

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

Bonds intended to be held to maturity that have market value

No items to be reported.

Other securities that have market prices

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

Other securities sold during the current consolidated fiscal year

	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	Amount of sale	Total gain on sale	Total loss on sale
	2008			2009			2009		
Other securities sold	¥ 123	¥ 96	¥ 2	**¥ 40**	**¥ 21**	**¥ 8**	**$ 0**	**$ 0**	**$ 0**

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

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

Notes to Consolidated Financial Statements

7. Short-Term Loans and Long-Term Debt

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

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

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

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

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

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

8. Contingent Liabilities

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

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

9. Impairment Losses

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

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

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

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

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

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

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

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

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

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

The recoverable amount for this asset group is estimated based on the net sales price. The calculation of market value is based on appraised value and other factors, with the value of assets that are difficult to sell or convert to other uses set at ¥0 (U.S. $0).

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

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

Notes to Consolidated Financial Statements

10. Lease Payment

Lessee side

Finance leases without transfer of ownership

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

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

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

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

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

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

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

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

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

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

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

Operating leases

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

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

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

11. Shareholders' Equity

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

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

12. Research and Development Expenses

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

Notes to Consolidated Financial Statements

13. Income Taxes

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

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

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

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

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

14. Retirement Benefits

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

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

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

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

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

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

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

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

15. Stock Option

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

Method for calculating fair value of stock options

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

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

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

Scale of stock options and changes in the scale

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

(1) Number of stock options

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

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

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

16. Segment Information

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

Millions of yen

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

Millions of yen

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

Millions of U.S. dollars

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

Notes to Consolidated Financial Statements

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

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

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

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

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

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

Millions of yen

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

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

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

17. Special Purpose Companies

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

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

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

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

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

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

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

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

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

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

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

Main income and loss

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

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

Notes to Consolidated Financial Statements

18. Per Share Data

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

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

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

19. Subsequent Event

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

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

2. KDDI to Subscribe to UQ Communications Private Share Placement

KDDI Corporation will officially subscribe to a private placement of shares by equity-method affiliate UQ Communications Inc. (Head Office: Minato-ku, Tokyo; President and Representative Director: Takashi Tanaka; "UQ") due to the fulfillment of conditions. KDDI's Board of Directors decided on March 13 to subscribe to part of the capital increase, subject to the respective decision-making bodies of UQ and all UQ shareholders, with the exception of KDDI, approving the private placement.

Payment for this capital increase was completed on May 21, 2009.

The following provides an overview of the subscription, which will have an immaterial effect on income.

1. Details of Subscription by KDDI

(1) Name of stock: UQ Communications Inc. Class A preferred stock

(2) Number of shares to be purchased: 304,668 shares

(3) Total payment for shares: 15.23 billion yen

(4) Details of preferred stock

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

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

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

(1) Founded August 29, 2007

(2) Head Office Minato-ku, Tokyo

(3) Representative President and Representative Director Takashi Tanaka

(4) Capital 17.0 billion yen

(5) Number of Employees 208

(6) Shareholders

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

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

Report of Independent Accountants

KDDI Corporation and Consolidated Subsidiaries

Report of Independent Auditors

To the Board of Directors and Shareholders of KDDI CORPORATION,

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

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

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

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

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

Kyoto Audit Corporation

Kyoto Audit Corporation
Kyoto, Japan

July 8, 2009

Organization

As of June 18, 2009

- **Shareholders' Meeting**
- **Board Meeting**
- **Chairman**
- **Vice Chairman**
- **President**
- **Corporate Management Committee**

- **Office of Corporate Auditors**
- **Auditors**
- **Auditors Office**

- HOKKAIDO Administration Office
- TOHOKU Administration Office
- KITA-KANTO Administration Office
- SHINJUKU Office
- SHINAGAWA Office
- MINAMI-KANTO Administration Office
- CHUBU Administration Office
- HOKURIKU Administration Office
- KANSAI Administration Office
- CHUGOKU Administration Office
- SHIKOKU Administration Office
- KYUSHU Administration Office
- Corporate Risk Management Division
- Corporate Strategy Planning Office
- Corporate Communications Division
- Marketing Division
- Corporate Management Division
- General Administration & Human Resources Division
- Corporate Purchasing Division
- Information Systems Division
- Operations Sector
  - Network Operations Division
  - Service Operations Division
- Engineering Sector
  - Mobile Engineering Division
  - Network Engineering Division
- Technology Sector
  - Emerging Technologies and Spectrum Division
  - Network Engineering Division
  - IP Network Engineering Division
- Solution Strategy Division
- Solution Product Planning Sector
- Solution Business Sector
  - Solution Sales Division 1
  - Solution Sales Division 2
  - Solution Engineering Division
  - Service Promotion Division
  - Global Business Division
- Consumer Business Sector
  - Consumer Business Strategy Division
  - CATV Alliance Division
  - Customer Service Division
- Consumer Sales Sector
  - Consumer Sales Planning Division
  - Consumer Sales Division
- Consumer Service & Product Sector
  - Consumer Service & Product Planning Division
  - Content and Media Division
- Mobile Technology Sector
  - Mobile Network Development Division
  - Platform Development Division

Major Consolidated Subsidiaries

As of March 31, 2009

Mobile Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
OKINAWA CELLULAR TELEPHONE COMPANY	Jun. 91	¥ 1,415	51.5%	Cellular phone service under the “au” brand in Okinawa Prefecture

Fixed-line Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
Chubu Telecommunications Company, Incorporated	Jun. 86	¥ 38,816	80.5%	Fixed-line business in Chubu area
KMN Corporation	Jun. 98	¥ 626	100.0%	Internet provider service through CATV
JAPAN CABLENET HOLDINGS LIMITED	Mar. 01	¥ 32,500	77.0%	Management of cable TV operator
JAPAN CABLENET LIMITED	Mar. 01	¥ 34,872	95.4%	Management of cable TV operator
KDDI Technical & Engineering Service Corporation*	Apr. 05	¥ 1,500	100.0%	Construction, maintenance and operations support of communications equipment

*A company also offers mobile-related business.

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
TELEHOUSE International Corporation of America	Jun. 87	US$ 45	62.8%	Secure IT housing, telecommunications facilities management in the U.S.
Telehouse International Corporation of Europe Ltd.	Jun. 87	£ 47	84.5%	Secure IT housing, telecommunications facilities management in Europe
KDDI HONGKONG LIMITED	Jan. 89	HK$ 96	100.0%	Telecommunications services in Hong Kong
KDDI America, Inc.	Jul. 89	US$ 84	100.0%	Telecommunications services in the U.S.
KDDI Europe Limited	Jul. 89	£ 43	100.0%	Telecommunications services in Europe
KDDI Singapore Pte. Ltd.	Sep. 89	S$ 10	100.0%	Telecommunications services in Singapore
KDDI DEUTSCHLAND GMBH.	Apr. 92	EUR 0.6	100.0%	Telecommunications services in Germany
KDDI France S.A.S.	Sep. 96	EUR 4	100.0%	Telecommunications services in France
KDDI AUSTRALIA PTY. LIMITED	Apr. 98	AU$ 16	100.0%	Telecommunications services in Australia
KDDI CHINA CORPORATION	Nov. 01	RMB 13	80.0%	Telecommunications consulting services in China
KDDI India Pvt. Ltd.	Sep. 07	INR 25	100.0%	Telecommunications consulting services in India
TELEHOUSE BEIJING CORPORATION LTD.	Oct. 07	RMB 82	90.0%	Secure IT housing, telecommunications facilities management in Beijing

Other Business

Domestic

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
KDDI Technology Corporation	Aug. 88	¥ 494	100.0%	Development and consulting of mobile handset platform
KDDI Evolva Inc.	May 96	¥ 588	100.0%	Call center services, security services, a temporary staff agency, etc.
KDDI R&D Laboratories, Inc.	Apr. 98	¥ 2,283	91.7%	Research and development of new technologies and sales of developed products
Japan Telecommunication Engineering Service Co., Ltd.	Jun. 99	¥ 470	73.6%	Construction and maintenance of optical fiber network along highways
mediba corporation	Dec. 00	¥ 1,035	51.0%	Planning, producing and distribution of advertisements on mobile Internet

Overseas

Company Name	Date Established	Paid-in Capital (millions)	Voting Right Percentage	Business Field
HOLA PARAGUAY S.A.	Sep. 98	GS 288,650	70.0%	Cellular phone service in Paraguay

Corporate History

	DDI	IDO	KDD	TWJ	Telecommunications sector
1953			established		
1961			listed on the Second Section of the Tokyo Stock Exchange		
1964			joined in the INTELSAT the TPC-1 launched		
1970			listed on the First Section of the Tokyo Stock Exchange		
1973			International Direct Dialing service launched		
1976			the TPC-2 launched		
1977			joined in the INMARSAT		
1984	established			established	
1985					liberalization of the telecommunication sector
1987	domestic telephone service launched			domestic telephone service launched	
1988	cellular companies established	established	the TPC-3 launched		
1989	analog cellular telephone service launched				
1992			the TPC-4 launched		
1993	listed on the Second Section of the Tokyo Stock Exchange				
1994	digital cellular telephone service “PDC” launched				liberalization of sales of cellular telephones
	PHS Company (DDI Pocket) established				
1995	PHS service launched listed on the First Section of the Tokyo Stock Exchange				
1996			the TPC-5 launched		
1997	Internet service “DION” launched				the KDD law abolished
1998	digital cellular telephone service “cdmaOne” launched		Merger of KDD and TWJ		
1999	Acquisition of Tu-Ka Group		the JIH launched		
2000	Merger of DDI, KDD and IDO				
2001	au CORPORATION merged to KDDI				MYLINE registration started
2002	the Third-Generation cellular telephone service “CDMA2000 1x” launched				
2003	VoIP (Voice over IP) service launched “KDDI Hikari Plus” (FTTH Service) launched the Third-Generation cellular telephone service “CDMA 1X WIN” launched				
2004	Transferred PHS business (DDI Pocket)				
2005	“Metal-plus” launched Merger with three Tu-Ka group companies				
2006	Merger with POWEREDCOM Inc. “HIKARI-one” (former “KDDI Hikari Plus”) launched				MNP started
2007	Integration of TEPCO’s FTTH business Acquisition of JCN Group				
2008	Cessation of Cellular “Tu-Ka” Service Acquisition of Chubu Telecommunications Co., Inc. Jibun Bank, the mobile network bank jointly established with the Bank of Tokyo-Mitsubishi UFJ, begins service.				
2009	“UQ WiMAX” service of UQ Communications Inc. launched.				

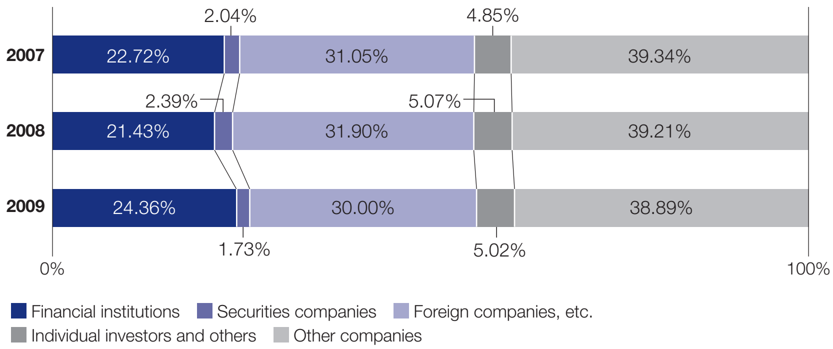
Notes
1) TPC: Trans Pacific Cable
2) INTELSAT: International Telecommunications Satellite Organization
3) INMARSAT: International Mobile Satellite Telecommunications Organization
4) TWJ: Teleway Japan Corporation
5) JIH: Japan Information Highway (the submarine fiber-optic cable that encircles the Japanese archipelago in a loop configuration)
6) MNP: Mobile Number Portability
7) TEPCO: Tokyo Electric Power Company

Stock Information

Total Number of Shares Issued and Outstanding

Authorized	7,000,000
Issued	4,484,818
Number of Shareholders	75,428

Composition of Shareholders



Changes in Capital

	Total number of shares issued and outstanding (shares)		Capital (Millions of yen)		Capital surplus (Millions of yen)	
	Increase	Balance	Increase	Balance	Increase	Balance
Mar. 3, 1998 1)	100,000.00	2,274,442.00	19,230	72,635	19,230	87,920
Sep. 30, 2000 2)	123,448.00	2,397,890.00	60,002	132,637	60,002	147,922
Oct. 1, 2001 3)	1,345,260.60	3,743,150.60	6,726	139,363	115,780	263,702
Mar. 31, 2001 4)	497,729.78	4,240,880.38	2,489	141,852	40,394	304,096
Sep. 26, 2001 5)	—	4,240,880.38	—	141,852	94	304,190
Jan. 1, 2006 6)	186,376.48	4,427,256.86	—	141,852	1,486	305,676
Jan. 1, 2007 7)	57,562.00	4,484,818.86	—	141,852	61,596	367,272

Notes:

1) Allocation of new shares to Kyocera Corporation
Number of shares issued: 100,000 shares
Price of shares issued: 384,600 yen
Price of capitalization: 192,300 yen

2) Allocation of new shares to Toyota Motor Corporation
Number of shares issued: 123,448 shares
Price of shares issued: 972,100 yen
Price of capitalization: 486,050 yen

3) Merged with KDD Corporation and IDO CORPORATION
Merger ratio
DDI CORPORATION : KDD Corporation
1 : 92.1
DDI CORPORATION : IDO CORPORATION
1 : 2.9

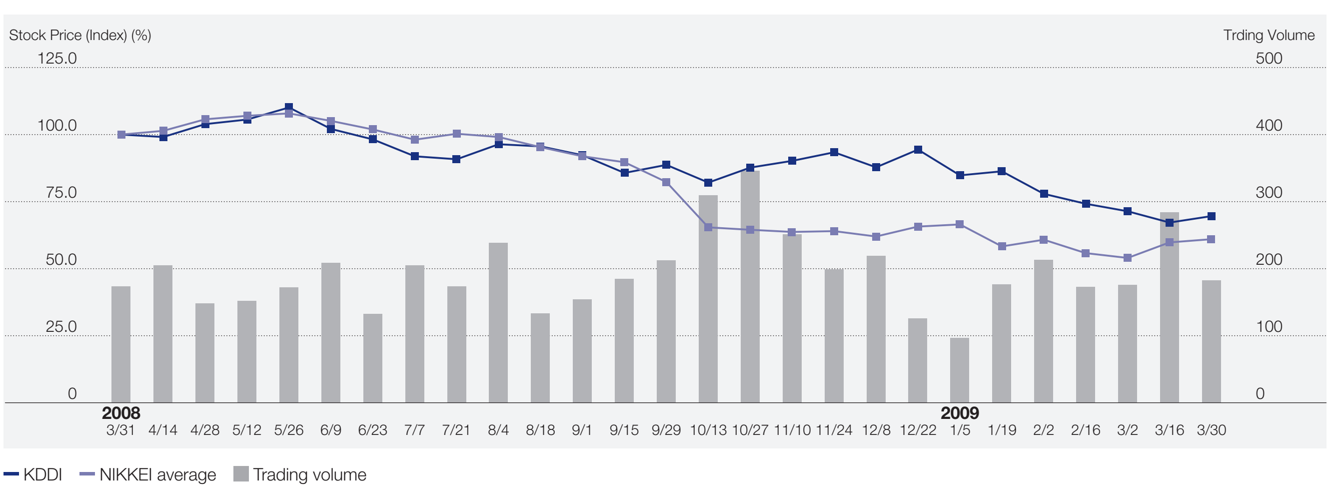
4) Made au CORPORATION a 100%-owned subsidiary of KDDI CORPORATION through share exchange
Exchange ratio
KDDI CORPORATION : au CORPORATION
1.000 : 2.015

5) Merged with KDD (Tokyo Central) Sales Inc., KDD (Tokyo south) Sales Inc., KDD (Tokyo West) Sales Inc. and KDD (Osaka) Sales Inc.

6) Issued new shares upon merger with POWEREDCOM Inc.

7) New share issue due to share allotment under absorption-type corporate split in which Tokyo Electric Power Company was the splitting company.

Stock Prices and Trends of Stock Transactions



Corporate Overview

As of March 31, 2009

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 160-8003, Japan)

Representative Director: Tadashi Onodera, President and Chairman

Capital: ¥141,852 million

Number of Employees: 16,967 (consolidated)

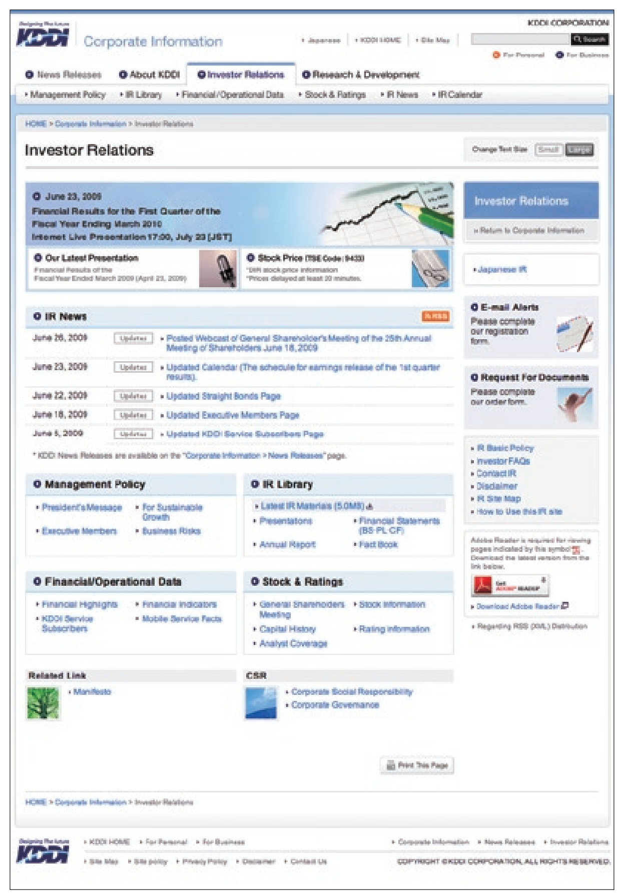
Investor Relations Website

The website offers a variety of IR-related information including financial presentation materials, webcasts, quarterly financial results and annual reports. Subscribers to the e-mail alerts service receive prompt e-mail notification of website updates, as well as details of newly released au handsets and other information. Investors are encouraged to make use of this service.

The KDDI website won “the Internet IR Best Company Award in 2008” from Daiwa Investor Relations Co., Ltd., ranked seventh overall in the Best Corporate Website 2008 Survey by Nikko Investor Relations Co., Ltd. and took fifth in the “the Gomez IR website overall ranking” from Gomez Consulting Co., Ltd.

IR Website URL:

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



Designing The Future

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