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

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

Takashi Tanaka
KDDI Corporation President

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

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

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

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

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

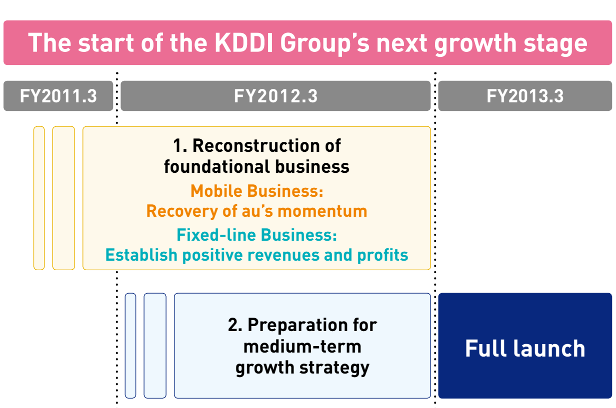
When I took the position as president, I saw it as my mission to bring KDDI back into fighting condition, and launch the Company back onto a growth trajectory. My first action was to send out a strong message to communicate a sense of crisis to all our employees and ensure that all understood the problem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

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

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

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

Positioning of FY2012.3



Outlook for FY2012.3

Billions of yen

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

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

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

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

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

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

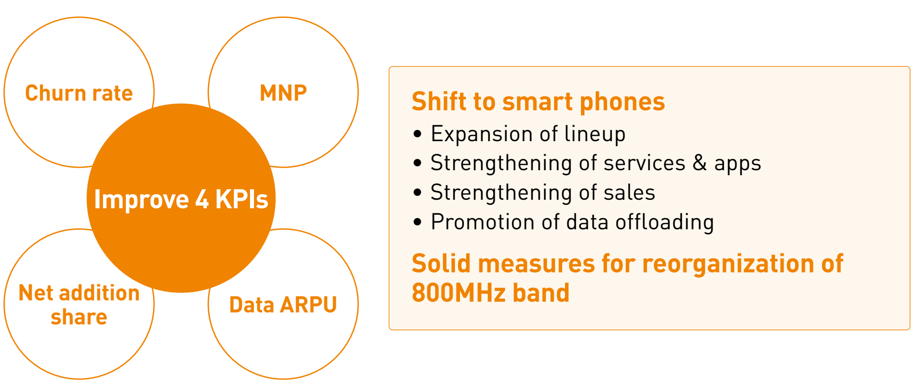
To attain "recovery of au's momentum," even more importantly than sales and profit targets, we need indicators that are easy for all employees—including sales staff—to understand. For this reason, I defined our four most important KPIs as the churn rate, MNP, share of net additions and data ARPU.

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

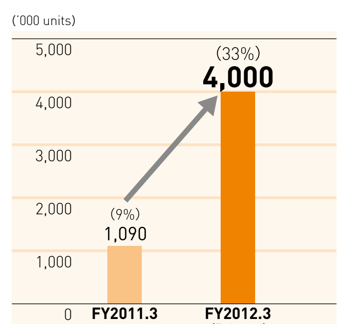
Therefore, it is vital to retain customers. The second indicator, MNP, is a barometer of our competitiveness and capability as a telecommunications operator. Improving the share of net additions, which includes such new markets as communications modules, is next in terms of priority. Next, we try to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

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

Mobile Business: Recovery of au's Momentum



Smart Phone Sales



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

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

Q4 Please describe your specific handset strategies.

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

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

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

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

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

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

Q5 How will you strengthen your sales capabilities?

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

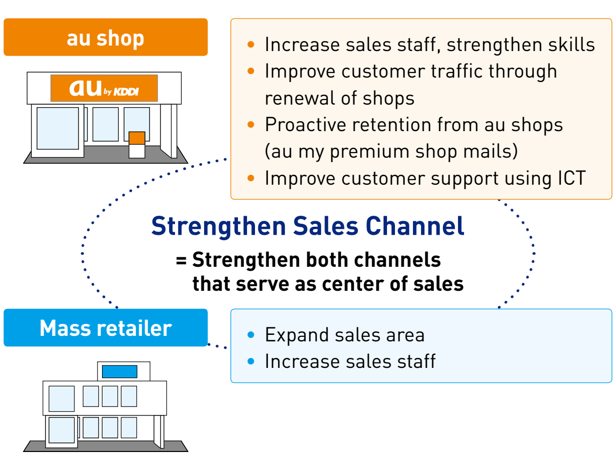
During the era of feature phones, growth in subscriptions slowed and market activity concentrated on retention. At that time, a marketing strategy that centered on boosting customer satisfaction through au shops made sense. Now that we have entered the age of smart phones, for which the market is expanding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

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

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

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

Strengthen Sales Channel



Expand Smart Phone Usage through "Maitsuki Discount"

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

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

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

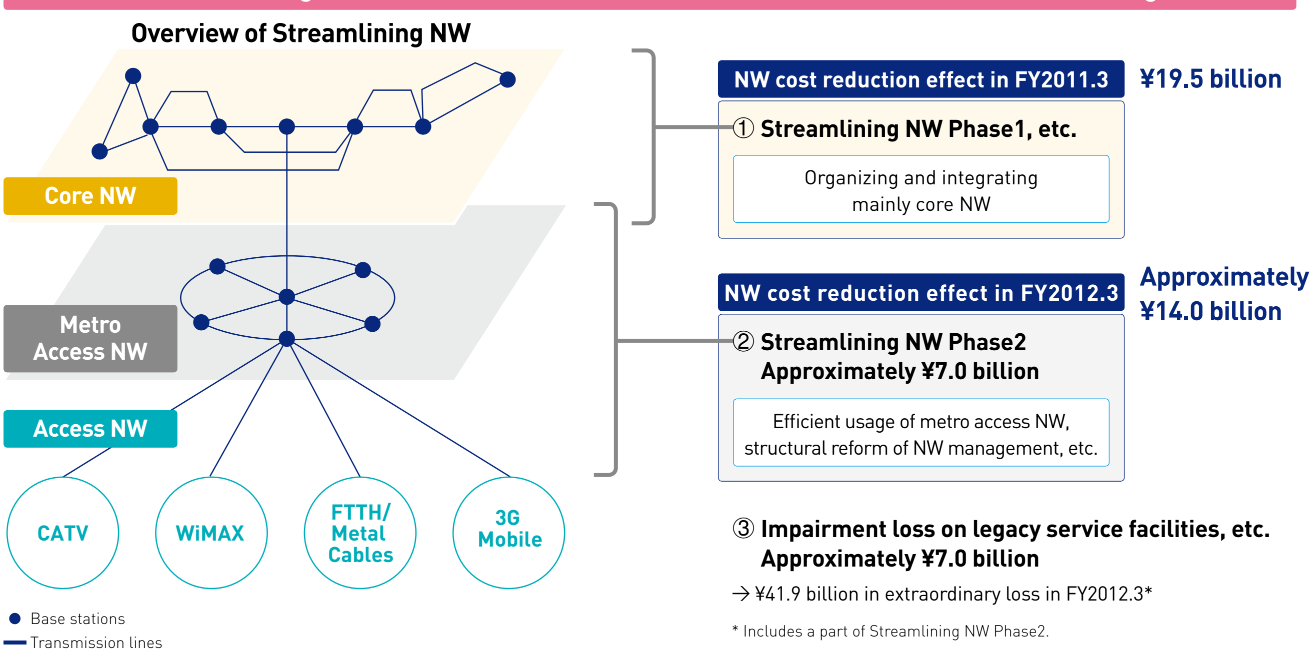
During the year ended March 31, 2011, we achieved cost reductions chiefly by streamlining networks, thereby fulfilling our commitment to move the Fixed-line Business into the black. Going forward, we will concentrate on expanding top-line revenues.

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

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

Fixed-line Business—Streamlining Network (NW)

Reduce NW cost to strengthen Fixed-line Business foundation and concentrate resources on strategic services



* Includes a part of Streamlining NW Phase2.

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

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

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

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

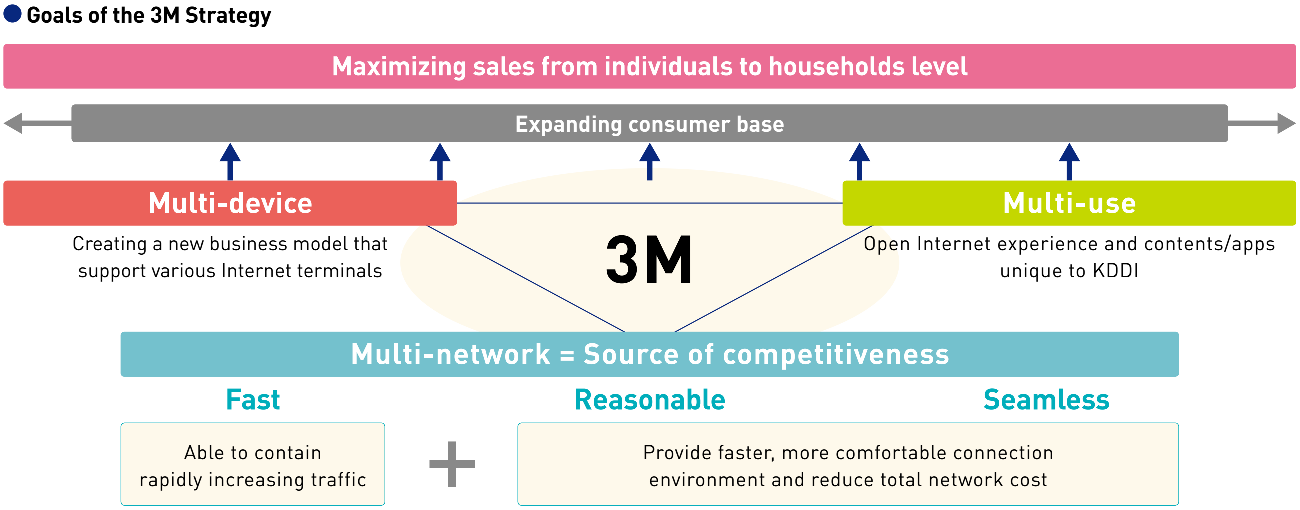
This upheaval in the environment provides a perfect opportunity for KDDI to achieve new growth, as we have a "multi-network" advantage over our competitors.

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

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

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

Goals of the 3M Strategy



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

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

"We will maximize revenue on a household basis."

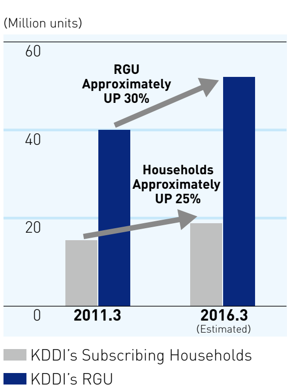
Offloading data traffic to fixed-line communication networks essentially means that fixed-line and mobile communications are linked to form a single network.

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

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

* RGUs: Revenue-generating units

Targets for Subscribing Households and RGU



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

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

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

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

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

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

Q11 Please outline your Global Strategy.

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

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

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

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

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

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

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

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

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

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

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

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

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

Global Strategy