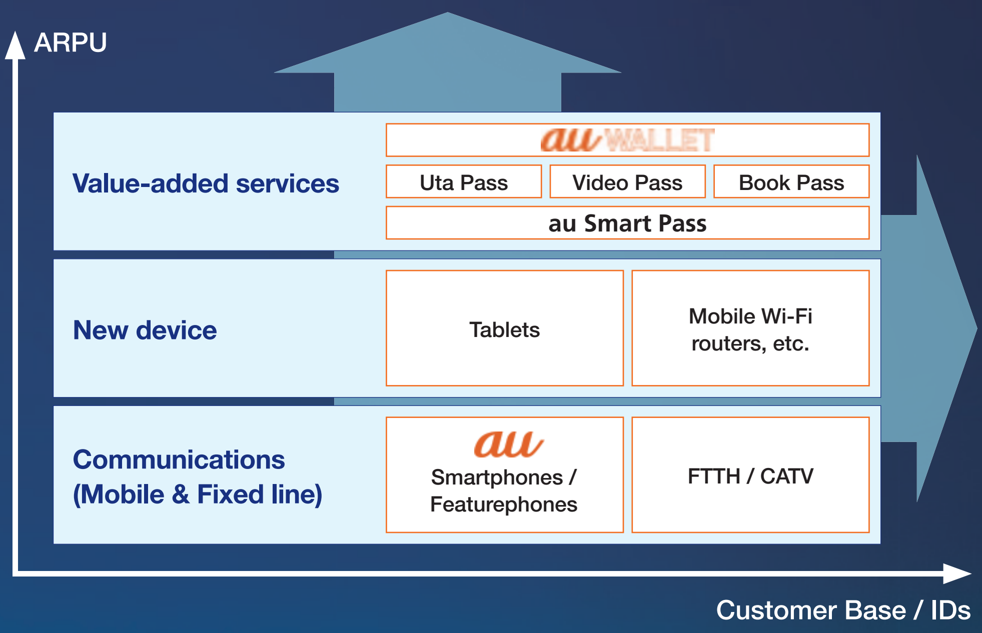
Maximizing ARPU (Average Revenue per Unit)

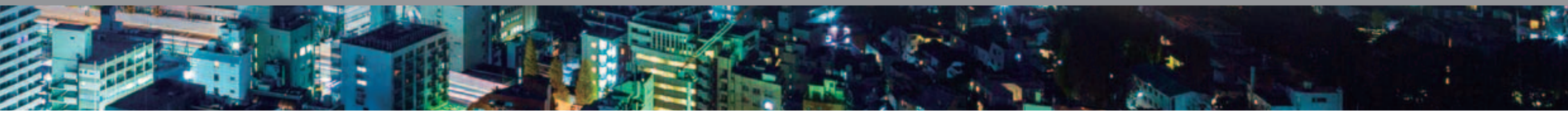
In the Japanese telecommunications market, mobile carriers' handset and networks offerings are growing increasingly similar, making competition on the basis of differentiation difficult. Under this scenarios, the market is advancing rapidly into the "multi-device" era, in which smartphone customers are likely to also own a tablet, mobile Wi-Fi router, or other device.

Operating under these circumstances, KDDI is working to further expand the customer base it has cultivated to date. At the same time, we are taking the initiative on expanding ARPU in a manner that will allow stable growth and be impervious to competition.

We succeeded in reversing the downward trend in au ARPU year on year in the fourth quarter of the fiscal year ended March 31, 2014. We expect this figure to continue rising as the smartphone penetration rate increases. In addition, the multi-device transition will enable us to generate new ARPU. Meanwhile, we should be able to expand value ARPU in non-communications domains—a unique feature of the Japanese market, thereby maximizing ARPU.

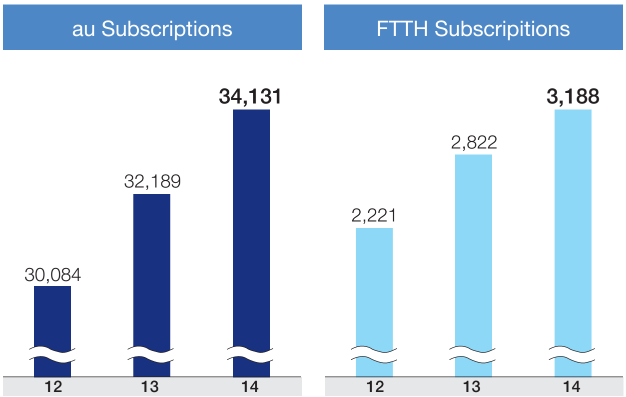
Expanding "Customer Base / IDs" and ARPU





Increasing Customer Base / IDs

Cumulative Subscriptions (Personal Services) ('000 subs)

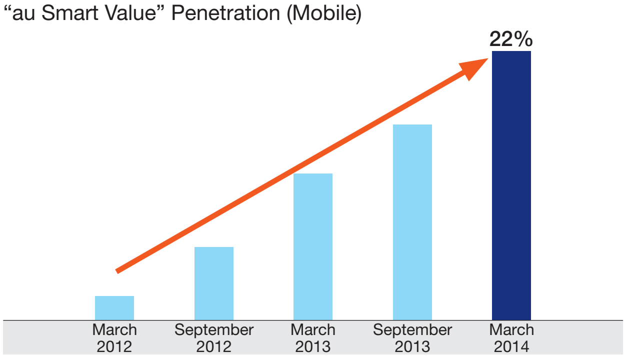


(Years ended March 31)

The core of KDDI's business strategy, the "3M Strategy" (Multi-device, Multi-use, Multi-network), lies in leveraging our combination of mobile and fixed-line communications networks to enhance customer satisfaction and maximize revenue. In March 2012, we adopted the "au Smart Value" sales strategy of offering smartphones and fixed-line communications as a set. This move enabled us to augment our base of customers for the mobile and fixed-line communications owned by the KDDI Group with a new customer base: those of fixed-line companies throughout Japan with whom we entered into alliances. Through cross-selling, we have been able to increase our customer base for mobile and fixed-line communications alike.

As a result, our total number of au subscriptions exceeded 40 million in February 2014. As of March 31, 2014, "au Smart Value" subscriptions numbered 7.05 million for mobile and 3.58 million households for fixed-line, increasing the penetration rate*1 to 22% of mobile subscribers in the Personal Services segment.

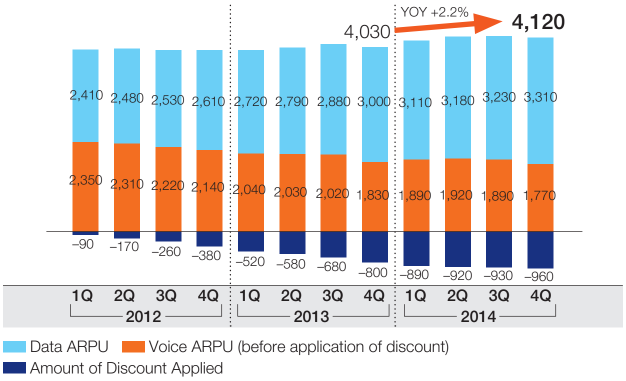
"au Smart Value" Penetration (Mobile)



*1 ("au Smart Value" subscribers (mobile)) ÷ (au subscribers, excluding data-only terminals and modules)

Going forward, while maintaining our focus on "au Smart Value" we will promote the shift toward smartphones and strive to expand the customer bases for both mobile and fixed-line (FTTH and CATV) communications.

au ARPU*2 on Quarterly Basis (Yen)



(Years ended March 31)

*2 au ARPU = [Voice ARPU (before application of discount)] + [Data ARPU] – [Amount of discount applied]

au ARPU (before revision): Mobile subscriptions (on aggregate basis, excluding tablets and modules)

Reversing the Trend on au ARPU

au ARPU has three components: data ARPU, voice ARPU, and amount of discount applied (the impact of "Maitsuki Discount (Monthly Discount)" and "au Smart Value".) Although au ARPU had been falling for some time on a year-on-year basis, we resolved to boost data ARPU by promoting the shift toward smartphones and halting the decline in voice ARPU. We also controlled the amount of the "Maitsuki Discount," which corresponds to a deduction from monthly communications fees over a 24-month period for a portion of the sales commissions on mobile phone handsets. Through this combination, in the fourth quarter of the fiscal year ended March 31, 2014, we succeeded in reversing the downward trend on au ARPU for the first time in 12 fiscal years.

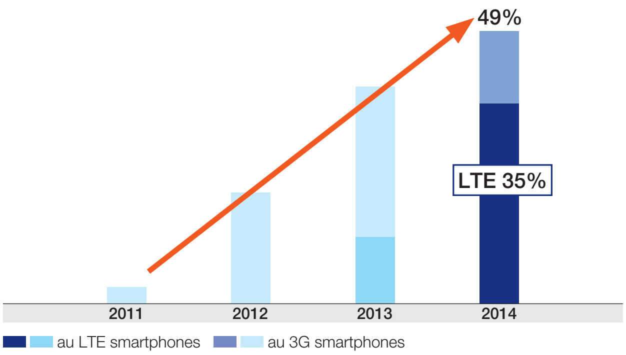
Promoting the Shift toward Smartphones while Controlling the "Maitsuki Discount" Amount

Rise in data ARPU in line with the shift toward smartphones

Through efforts to promote the shift toward smartphones, as of March 31, 2014, the smartphone penetration rate was 49%, up more than 10 percentage points year on year. Of this figure, the penetration rate of LTE smartphones, for which monthly fees are ¥500 per month higher than 3G smartphones*3, was 35%. (More than 70% of all smartphones are LTE.) These trends contributed to the rise in data ARPU.

*3 Excluding iPhone campaign fees

au Smartphone Penetration Rate*4 (Personal Services)



(Years ended March 31)

*4 (au LTE smartphones + au 3G smartphones) ÷ (au subscriptions – (data-only terminal subscriptions + tablet subscriptions + modules subscriptions))

Minimizing the impact of discounts by controlling the "Maitsuki Discount" amount

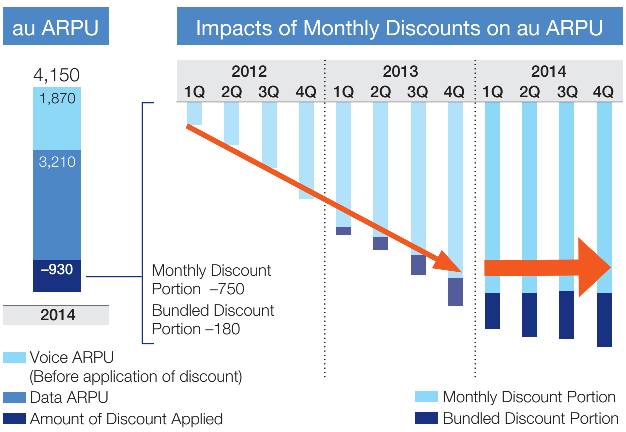
"Maitsuki Discount" is a discount service whereby we deduct a portion of sales commissions on mobile phone handsets from monthly communications charges over a 24-month period. While this approach has the effect of holding down operating costs at the time handsets are sold, it also tends to pull down future au ARPU. We introduced this discount system when we started offering smartphones, and the system's impact on ARPU tends to increase as smartphone penetration rises.

To turn au ARPU around in the fiscal year ended March 31, 2014, we restrained the monthly discount portion of handset sales commissions, exercising control over this discount by accepting a higher percentage of operating expenses.

The "Maitsuki Discount" amount consequently flattened at a level down approximately ¥750 for each quarter of the fiscal year ended March 31, 2014, halting the downward trend in au ARPU.

Controlling the "Maitsuki Discount" Amount to Keep Its Impact from Expanding

(Yen)



By successfully promoting the shift toward smartphones and controlling the "Maitsuki Discount" amount, in the fourth quarter of the fiscal year ended March 31, 2014, we met our initial goal of reversing year-on-year the downtrend in au ARPU—for the first time in the 12 years since the fiscal year ended March 31, 2002.

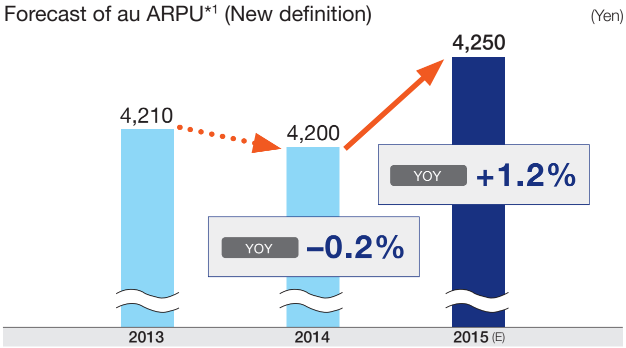
Outlook for the Future

We expect the smartphone penetration rate to continue rising, increasing to more than 70% over the next few years. In line with this trend, we will continue making an effort to control the "Maitsuki Discount" amount.

We expect au ARPU to rise 1.2% in the fiscal year ending March 31, 2015. This trend will allow us to put in place a stable base for income growth that does not overly rely on momentum from net additions.

Forecast of au ARPU*1 (New definition)

(Yen)



(Years ended March 31)

*1 au ARPU = [Voice ARPU (before application of discount)] + [Data ARPU] – [Amount of discount applied]
au ARPU (new definition): Mobile subscriptions (on aggregate basis, excluding data-only terminals, tablets, and modules)

Boosting ARPU from New Devices

The multi-device trend is quickly gaining traction. We will encourage this shift and aim to maximize the total amount of revenue we generate across multiple devices, comprising revenues from communications and value-added service revenue.

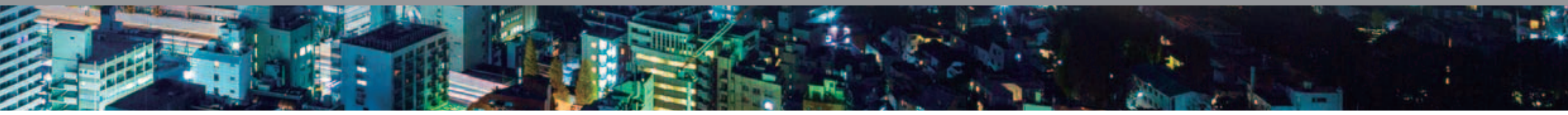
To promote the multi-device trend, we will endeavor to expand sales by reinforcing our rate plans, mainly on tablets and mobile Wi-Fi routers.

The household penetration rate for tablets is 20%*2, and we expect that figure to rise further. To encourage this, we will strengthen sales campaigns offering set discounts for purchases that include a smartphone.

We are addressing the strong demand among customers in single-person households for service via mobile Wi-Fi routers, which is higher than that for access to fixed-line broadband services. We are targeting these customers by reinforcing sales of mobile Wi-Fi routers via "au Smart Value mine," which provides a set discount when bundled with a smartphone.

Compared with the conventional ARPU from just a smartphone or a featurephone, we will become able to generate ARPU from tablets, mobile Wi-Fi routers, and other new devices. This opportunity should link to higher ARPU per customer (ID).

*2 Source: Results of a consumer trend survey conducted by the Cabinet Office of Japan in March 2014.



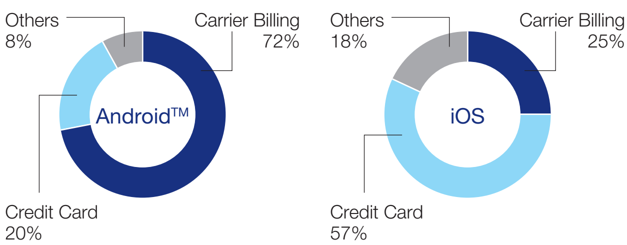
Expanding Value ARPU

Reasons Why Telecommunications Carriers are Able to Monetize the Content Business

KDDI is moving aggressively to expand value-added sales*3 in non-communications domains. At present, value-added sales is centered on the billing revenue generated when mobile users purchase digital content. A unique characteristic of Japan's mobile content business is that customers typically use the content-fee collection services provided by telecommunications carriers (carrier billing) as their settlement method when purchasing content. For Android™ handsets, carrier billing can account for as much as 70% or more of the total settlement amount. As a result, telecommunications carriers are able to monetize the content business.

*3 Revenue derived from "au Smart Pass" and other upselling services based on "au Smart Pass," as well as existing cooperative services, commissions on settlements, and advertising revenues, divided by the number of subscribers in the Personal Services segment.

Settlement Variation per OS Type in Japan



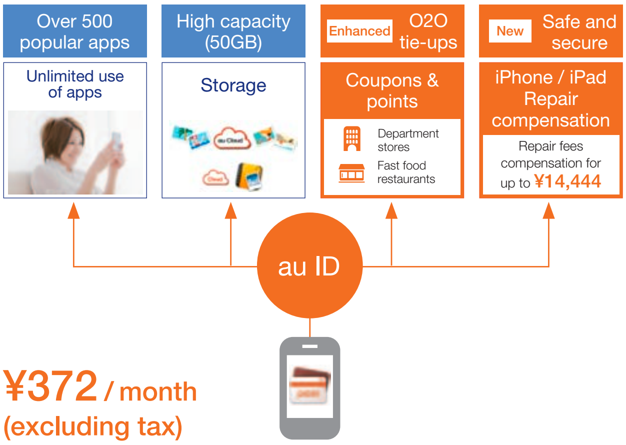
Source: Mobile Content Forum as of May 2012

For KDDI, the key to this business is "au Smart Pass." "au Smart Pass" gives customers unlimited access to more than 500 popular smartphone apps, as well as coupons, online storage, and security services, plus functionality that enables them to safely and securely enjoy the world of the open Internet for only ¥372 per month (excluding tax.)

During the era of featurephones, customers purchased content via the portal sites that telecommunications carriers provided. Settlement was through the carrier billing services offered by telecommunications carriers, who received a percentage as commission income, resulting in a vertically integrated business model for telecommunications carriers. As we moved to the era of smartphones and the world of the open Internet, customers began to have options in addition to the services provided by their telecommunications carrier. To help customers navigate the enormity of the open Internet and use content safely and securely, in March 2012 we began offering this service, which also provides a contact point to reconnect customers and telecommunications carriers. As of March 31, 2014—two years since the service launched—membership accounts for more than 60% of au smartphone users, at 10.25 million. Some 80% of customers*4 purchasing a new au smartphone elect to join this service, and member numbers continue to rise.

*4 Excluding sales from model upgrade by existing "au Smart Pass" users

au Smart Pass

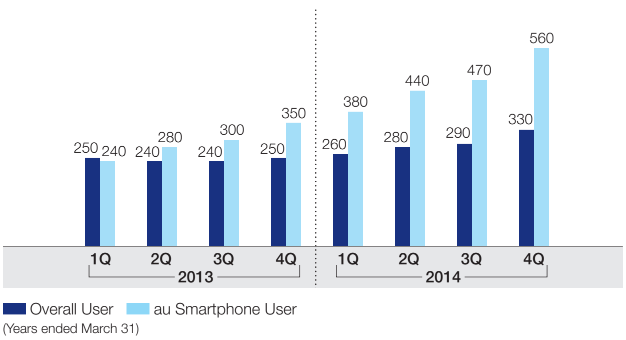


Trend in Value ARPU

We are leveraging our prowess in the content business to boost value-added sales per customer, or "value ARPU." In the fourth quarter of the fiscal year ended March 31, 2014, this figure was ¥330, up 32% year on year.

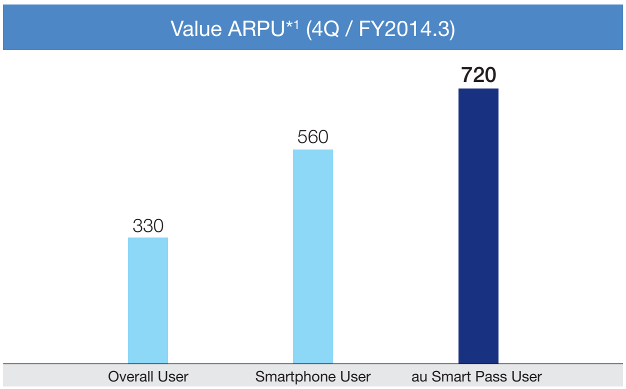
Looking just at smartphone users, value ARPU had risen even higher, to ¥560. As smartphone penetration rises, we believe value ARPU will grow accordingly.

Value ARPU on Quarterly Basis (Yen)



Based on our “au Smart Pass” offering, we will continue to upsell fixed-rate services that offer unlimited access to music, videos, and e-books. We will also promote online to offline (O2O) business in an effort to further increase value ARPU. For the fourth quarter of the fiscal year ended March 31, 2014, value ARPU resulting from “au Smart Pass” members was ¥720, significantly higher than the value ARPU figure for smartphone users as a whole.

Expansion of Value ARPU (Yen)



*1 Excluding tax

Using “au WALLET” as a New Revenue Source in the Physical Economic Zone

As one means of raising value ARPU further, we will augment the previous online economic zone centered on content billing with a new revenue source: an economic zone based on settlement at physical shops. To realize this goal, on May 21, 2014, we launched a new e-money service called “au WALLET.” This service provides an authentication key, the “au ID,” that provides access to various au network services. This e-money service also comes with a settlement function that facilitates use at physical shops.

A tie-up with MasterCard® means that “au WALLET” can be used at some 38.1 million stores worldwide. Furthermore, charging is convenient, as the service uses carrier billing, which has recovery rates of around 99%. The service therefore simultaneously addresses two weaknesses endemic to e-money systems—limits to where the user’s credit card could be used and limitations and the limited availability of e-money systems. By overcoming these disadvantages, we believe market penetration will increase rapidly. Our initial aim is for the usage level to reach ¥1 trillion by the fiscal year ending March 31, 2017, and the initial response far exceeds our expectations. Shortly after we began accepting applications, the number had risen to 1 million as of May 30, 2014. A month later, on June 30, we had received 3 million applications.

Another major advantage of this service is that it requires only a limited outlay for capital expenditure and other related expenses. This means we should be able to start generating profits quickly.

We see “au WALLET” as a new business development opportunity, as it combines our Internet business approach with revenues generated in the physical economy, generating a “Net + physical economic zone” that should allow us to maximize value ARPU.

Creation of a New Economic Sphere by Developing au WALLET with Partners

*2 Some stores and services are not applicable

“au WALLET” Card