MARKET OVERVIEW

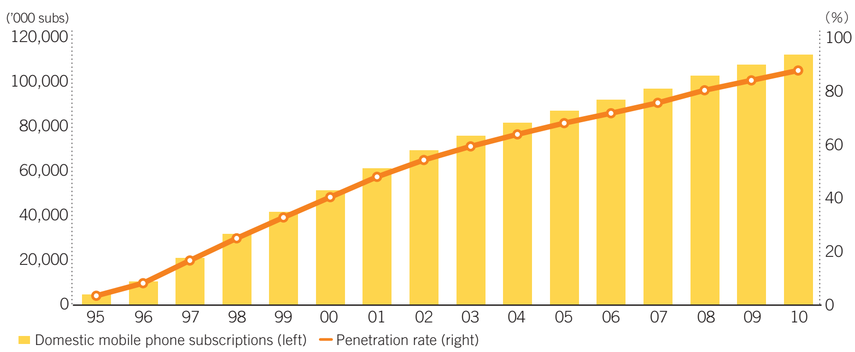
MOBILE BUSINESS

A Maturing Market and a Changing Business Model

By the end of 2007, the total number of mobile phone subscriptions in Japan topped 100 million. By March 31, 2010, the figure reached 112.18 million, occupying 87.8% of the population. However, growth in the use of regular handset terminals is leveling off in the consumer market, which has driven the expansion until now. At the same time, increases are expected in the areas of smart phones and telecommunications modules such as photo frame terminals and data cards. Corporate demand, centered on small and medium-sized enterprises, is also likely to contribute to growth.

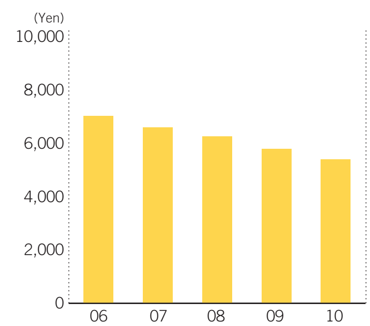
The Ministry of Internal Affairs and Communications has established a Study Group on Mobile Business as part of its “New Competition Promotion Program 2010” to formulate rules for fair competition in the field of mobile communications. In light of the group’s findings, in the year ended March 31, 2008, new pricing plans were introduced to separate the telecommunications bill from the handset price. Marketing of mobile phones in Japan focused on these new pricing plans, bringing a major change to the conventional business model. Under the separate-bill/handset price plan, an amount equal to the separate handset subsidy is discounted from the monthly basic charge. Thus, as the number of subscribers choosing such a plan increases, the average voice ARPU will also decline.

Domestic Mobile Phone Subscriptions/Penetration Rate



Source: Mobile Phone and PHS Subscription Trends, Ministry of Internal Affairs and Communications, Ministry of Internal Affairs and Communications Media Release

au Total ARPU



(Years ended March 31)

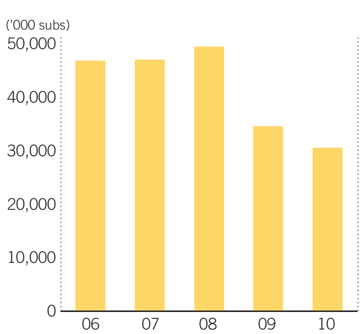
Raising Data ARPU and Creating Value by Building Traffic-Independent Models

As new pricing plans become popular and voice ARPU falls, how to raise data ARPU becomes a major issue for all mobile phone carriers.

With regard to packet pricing for data communications, carriers have introduced flat-rate plans with the aim to expand potential data usage by customers currently using a limited amount of data commutation, and hence boost data ARPU. Additionally, carriers are providing various kinds of content to encourage data usage by users with low data ARPU in order to reach the upper limit charge. Carriers are also trying to attract subscribers who pay premium prices for data usage by introducing smart phones. Furthermore, modular terminals that employ data cards and photo frames present a new market opportunity with the potential for rapid growth.

In various fields, efforts are underway to create businesses that use mobile handsets as a platform but do not depend on telecommunications traffic. Attempts to use mobile phones as a gateway for financial services and multimedia broadcasting for mobile terminals are among them.

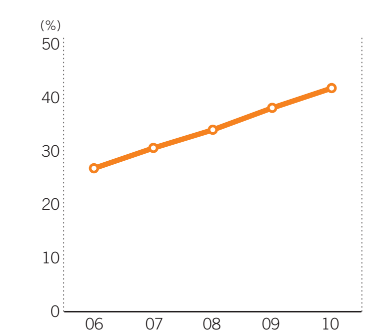
Domestic Sales of Mobile Phone Handsets



(Years ended March 31)

Source: Japan Electronics and Information Technology Industries Association (JEITA)

au Data APRU Ratio



(Years ended March 31)

Please refer to P.36–41 of the Market Overview section for an explanation of KDDI’s Mobile Business strategy in the current market environment.

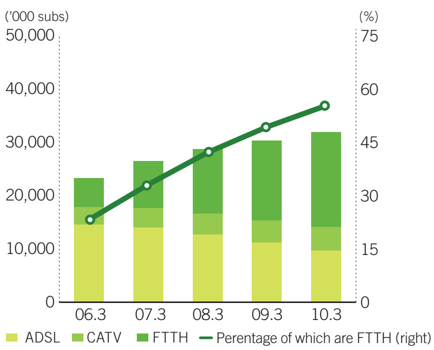
FIXED-LINE BUSINESS

Evolving into Direct Access and Broadband Services

Japan's market for fixed-line telecommunications is facing a change to giving way to direct access, IP, and broadband services. To secure revenues and profits, the industry is steadily evolving from the interconnection service business to the access line business.

The market for broadband services continues to expand. The total number of subscriptions to Fiber to the Home (FTTH), ADSL, and CATV services topped 30 million for the first time by December 31, 2008. By March 31, 2010, this figure reached 32.04 million. Consumers have shifted from ADSL to FTTH, largely owing to price competition and the introduction of "triple play" service that combines Internet access, phone, and video. In June 2008, FTTH subscriptions exceeded those of ADSL. However, customers who do not use video distribution sites or other large-volume data download services find ADSL service sufficient for their needs, leading to stagnation in the growth of FTTH service subscriptions. Carriers are consequently seeking new measures to promote the spread of FTTH.

Domestic Broadband Service Subscribers/ Percentage of Which are FTTH



Source: Ministry of Internal Affairs and Communications Media Release

Rate of Growth in Domestic FTTH Service Subscriptions

Source: Ministry of Internal Affairs and Communications Media Release

Shift to IP Service

As of March 31, 2010, fixed-line telephone subscriptions* declined 2.0% from a year earlier, to 66.17 million, showing a continual decrease due to the spread of mobile phone usage.

Of the above amount, fixed-line phone and ISDN subscriptions totaled 43.34 million, down 8.4% from the previous year, while IP phone service subscriptions employing FTTH or CATV access expanded to 22.83 million, up 12.9% from the previous year.

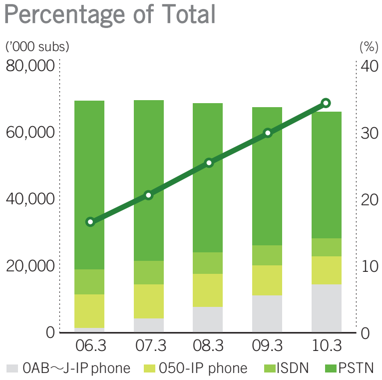
KDDI has aggressively developed IP telephone services such as the "au HIKARI" phone service and "Cable-plus phone" service. The company currently occupies 11.6% share of the IP phone market.

In response to the growth in high-volume communications between companies in the corporate market, 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. In the long term, VPN services are expected to grow.

Within the IP telephony market, some carriers have begun offering cloud-computing type services where customers pay a monthly fee to use services provided by carriers, instead of possessing their own facilities.

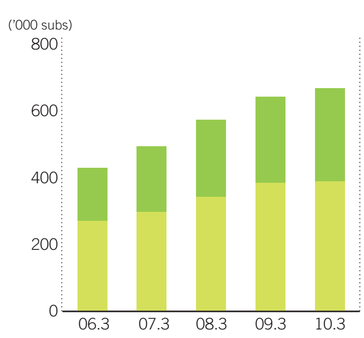
* The total number of fixed-line services, including PSTN, ISDN, and IP phone services

IP Telephone Subscriptions/ Percentage of Total



Source: Ministry of Internal Affairs and Communications Media Release

IP-VPN and Wide-Area Ethernet Service Contracts



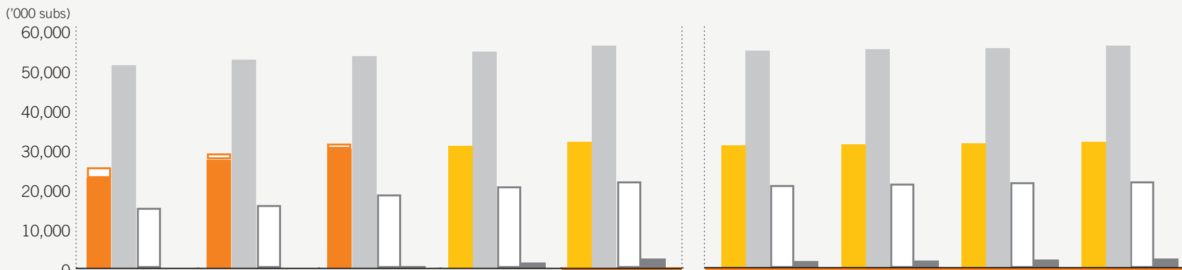
Source: Ministry of Internal Affairs and Communications Media Release

Please refer to P.43–45 of the Market Overview section for an explanation of KDDI's Fixed-line Business strategy in the current market environment.

MOBILE COMMUNICATIONS MARKET DATA

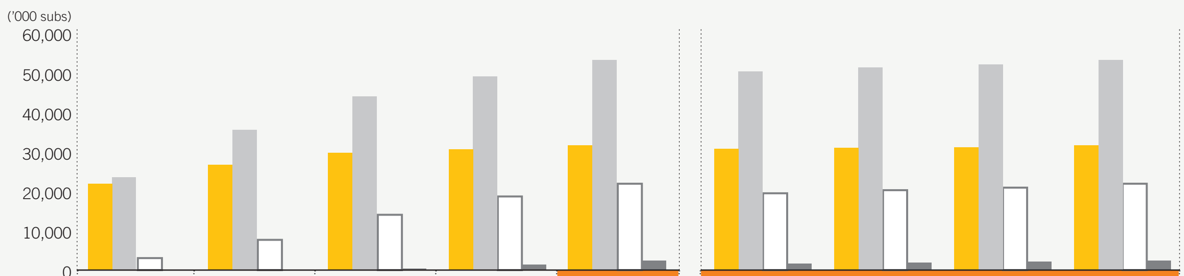
(Years ended March 31)

Number of Total Subscribers



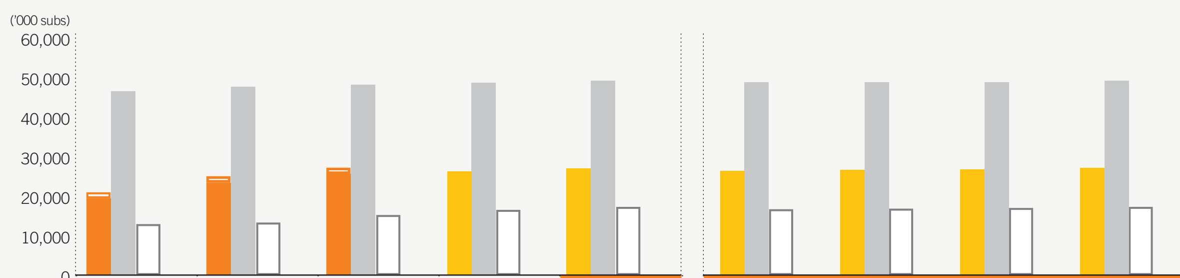
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	25,439	28,189	30,339	30,843	31,872	30,996	31,233	31,393	31,872
au	22,699	27,317	30,105	—	—	—	—	—	—
Tu-Ka	2,739	872	234	—	—	—	—	—	—
NTT DOCOMO	51,144	52,621	53,388	54,601	56,082	54,864	55,187	55,436	56,082
SOFTBANK MOBILE	15,210	15,909	18,586	20,633	21,877	20,956	21,317	21,667	21,877
EMOBILE	—	—	412	1,410	2,352	1,672	1,898	2,121	2,352
Total	91,792	96,718	102,725	107,487	112,183	108,489	109,634	110,617	112,183

Number of 3G Subscribers



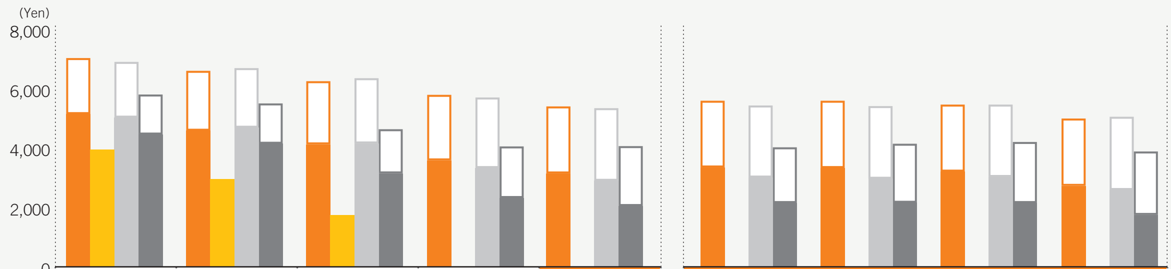
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	21,828	26,720	29,689	30,527	31,625	30,697	30,949	31,122	31,625
NTT DOCOMO	23,463	35,530	43,949	49,040	53,203	50,246	51,258	52,045	53,203
SOFTBANK MOBILE	3,038	7,660	14,007	18,654	21,877	19,455	20,238	20,885	21,877
EMOBILE	—	—	412	1,410	2,352	1,672	1,898	2,121	2,352

Number of Subscribers for Mobile Internet Connection Service



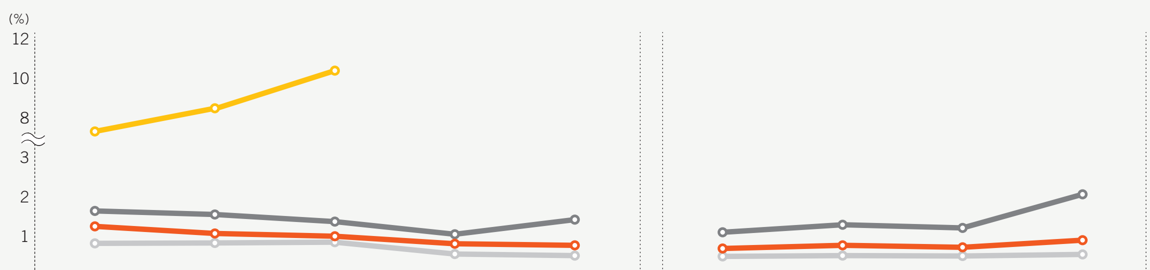
	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
KDDI	20,523	23,533	25,512	26,190	26,974	26,319	26,510	26,597	26,974
au	19,390	23,322	25,505	—	—	—	—	—	—
Tu-Ka	1,133	211	8	—	—	—	—	—	—
NTT DOCOMO	46,360	47,574	47,993	48,474	48,992	48,597	48,670	48,688	48,992
SOFTBANK MOBILE	12,875	13,265	15,171	16,465	17,218	16,622	16,770	16,946	17,218
EMOBILE	—	—	10	55	54	58	58	57	54

ARPU (Average Revenue Per Unit)



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	7,040	6,610	6,260	5,800	5,410	5,600	5,600	5,470	5,000
Voice ARPU	5,150	4,590	4,130	3,590	3,150	3,350	3,330	3,210	2,730
Data ARPU	1,890	2,020	2,130	2,210	2,260	2,250	2,270	2,260	2,270
Tu-Ka	3,960	2,960	1,750	—	—	—	—	—	—
NTT DOCOMO	6,910	6,700	6,360	5,710	5,350	5,440	5,420	5,470	5,060
Voice ARPU	5,030	4,690	4,160	3,330	2,900	3,010	2,970	3,030	2,590
Data ARPU	1,880	2,010	2,200	2,380	2,450	2,430	2,450	2,440	2,470
SOFTBANK MOBILE	5,810	5,510	4,650	4,070	4,070	4,030	4,150	4,200	3,890
Voice ARPU	4,460	4,150	3,150	2,320	2,050	2,150	2,160	2,150	1,750
Data ARPU	1,350	1,360	1,490	1,740	2,020	1,880	1,990	2,060	2,140

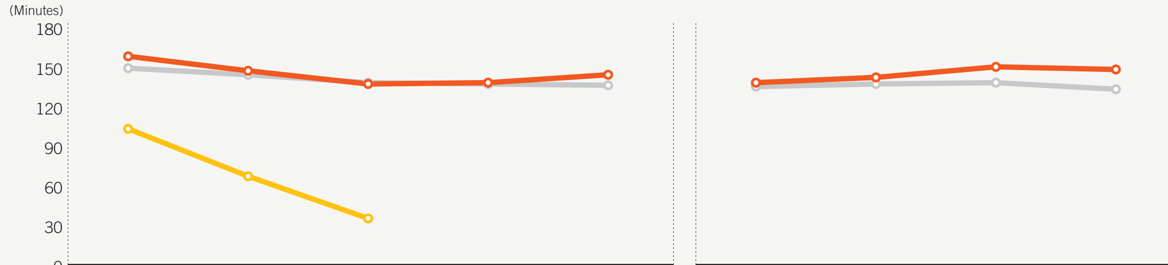
Churn Rate



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	1.20	1.02	0.95	0.76	0.72	0.64	0.72	0.67	0.85
Tu-Ka	3.60	8.20	10.20	—	—	—	—	—	—
NTT DOCOMO	0.77	0.78	0.80	0.50	0.46	0.44	0.46	0.45	0.49
SOFTBANK MOBILE	1.59	1.50	1.32	1.00	1.37	1.05	1.24	1.16	2.01

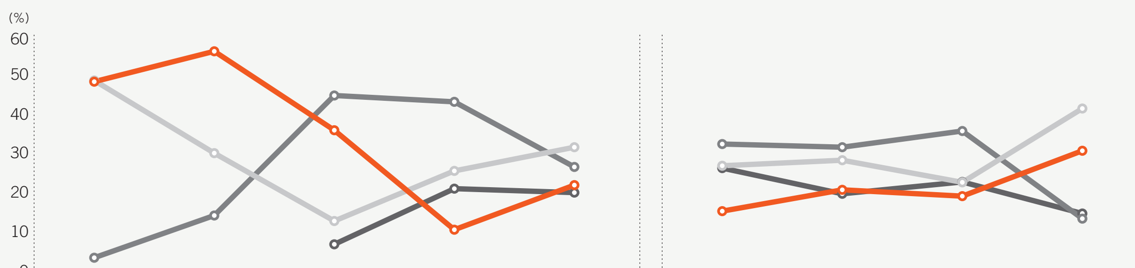
MOBILE COMMUNICATIONS MARKET DATA

MOU (Minutes Of Use)



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au	158	147	137	138	144	138	142	150	148
Tu-Ka	103	67	35	—	—	—	—	—	—
NTT DOCOMO	149	144	138	137	136	135	137	138	133
SOFTBANK MOBILE	—	—	—	—	—	—	—	—	—

Share of Net Additions



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au + Tu-Ka	48.1	55.8	35.8	10.6	21.9	15.3	20.7	19.1	30.6
NTT DOCOMO	48.4	30.0	12.8	25.5	31.5	26.3	28.2	22.6	41.3
SOFTBANK MOBILE	3.5	14.2	44.6	43.0	26.5	32.3	31.5	35.6	13.4
EMOBILE	—	—	6.9	21.0	20.0	26.2	19.7	22.7	14.7

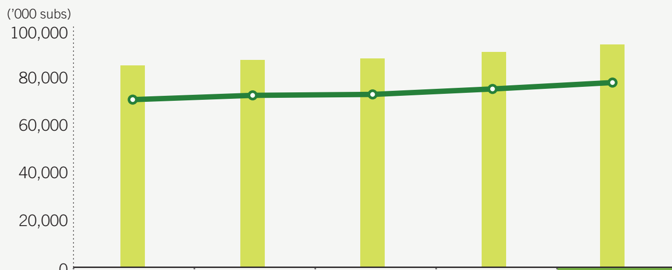
Share of Subscriptions

	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
au + Tu-Ka	27.7	29.1	29.5	28.7	28.4	28.6	28.5	28.4	28.4
NTT DOCOMO	55.7	54.4	52.0	50.8	50.0	50.6	50.3	50.1	50.0
SOFTBANK MOBILE	16.6	16.4	18.1	19.2	19.5	19.3	19.4	19.6	19.5
EMOBILE	—	—	0.4	1.3	2.1	1.5	1.7	1.9	2.1

FIXED-LINE COMMUNICATIONS MARKET DATA

(Years ended March 31)

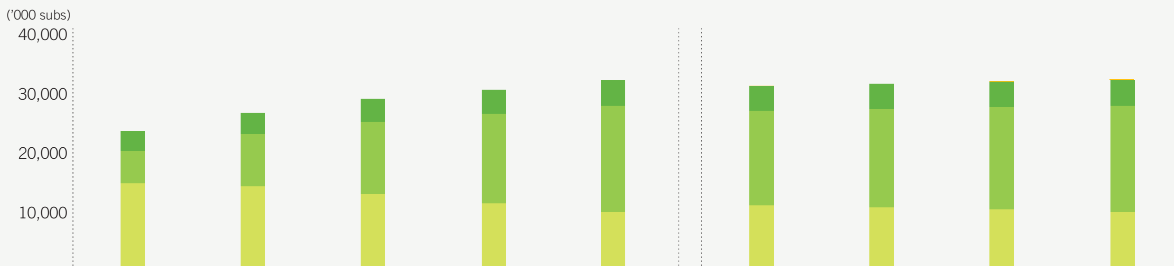
Number of Internet Subscribers



	2005	2006	2007	2008	2009
Total subscribers in Japan	85,290	87,540	88,110	90,910	94,080
Penetration rate	70.8	72.6	73.0	75.3	78.0

(Years ended December 31)
Source: Ministry of Internal Affairs and Communications

Number of Broadband Subscribers



	2006	2007	2008	2009	2010	2010 1Q	2010 2Q	2010 3Q	2010 4Q
ADSL subscribers	14,518	14,013	12,711	11,184	9,735	10,835	10,505	10,134	9,735
FTTH subscribers	5,448	8,794	12,153	15,017	17,789	15,889	16,512	17,196	17,789
CATV subscribers	3,310	3,607	3,874	4,111	4,353	4,181	4,243	4,301	4,353
Other	9	13	12	20	164	22	35	78	164
Total	23,285	26,427	28,750	30,332	32,041	30,927	31,295	31,709	32,041

Source: Ministry of Internal Affairs and Communications

Market Share of Myline by Operator

	2008				2009				2010			
	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International	Local	In-prefecture long-distance	Out-of-prefecture long-distance	International
KDDI	8.3%	10.3%	12.7%	14.8%	7.6%	9.4%	11.5%	13.4%	7.1%	8.7%	10.4%	12.1%
SoftBank TELECOM	4.4%	5.9%	7.1%	8.0%	4.0%	5.4%	6.4%	7.2%	3.6%	4.8%	5.7%	6.3%
Other companies total	3.5%	4.1%	5.2%	4.1%	3.2%	3.6%	4.6%	3.5%	3.0%	3.4%	4.2%	3.4%
NTT	83.8%	79.7%	75.0%	73.1%	85.2%	81.6%	77.5%	75.9%	86.3%	83.1%	79.7%	78.2%
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