

Message from the President



Takashi Tanaka
President, KDDI CORPORATION

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

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

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

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

THEME 01

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

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

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

"au Smart Value" P.38

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

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

Consolidated Operating Results

(Billions of yen)

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



Looking Back on the Two Years Since Being Appointed President

Convinced of the success of the “3M Strategy”

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

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

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

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

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

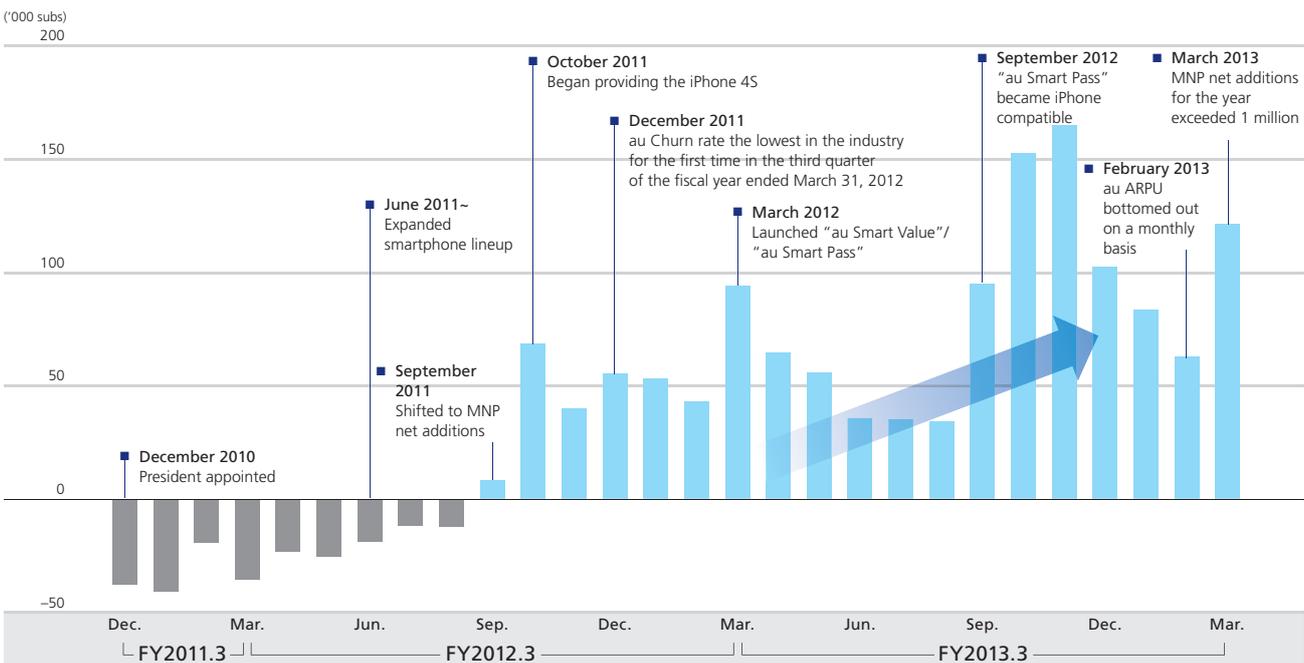
upcoming era, the “3M Strategy.” We began putting this strategy into action in March through the introductions of “au Smart Value” and “au Smart Pass.” Both services got off to a favorable start, exceeding our internal forecasts. Thus we successfully addressed the first year’s achievements of “Reconstruction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

“au Smart Pass” ▶ P.40

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

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

Trend in MNP Net Additions and KDDI’s Initiatives



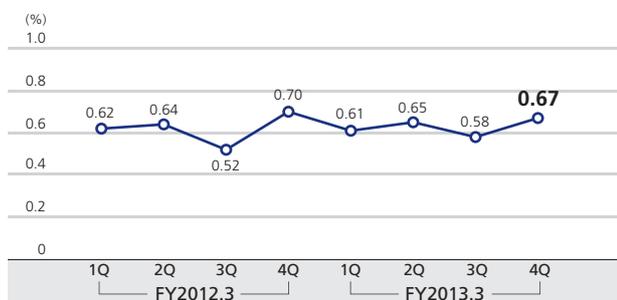
Looking at conditions up through March 31, 2013, in mobile businesses we maintained the au churn rate at the lowest levels in the industry for six consecutive quarters, and we had maintained the lead in MNP net additions for 18 consecutive months. Also, owing to the ongoing shift toward smartphones,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

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

Principal KPIs Indicating Increased Mobile and Fixed-line Service Momentum

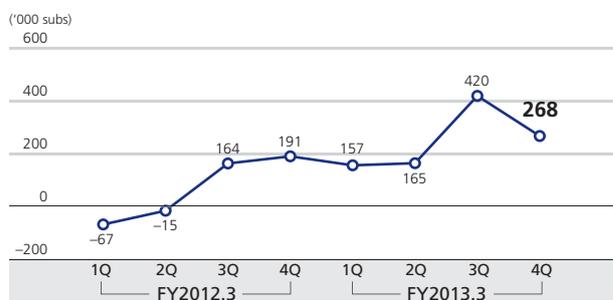
au Churn Rate

Maintaining the Lowest Levels in the Industry for Six Consecutive Quarters



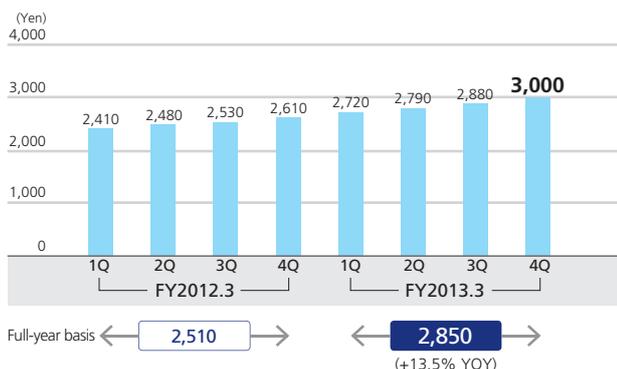
MNP Net Additions

Maintaining the No. 1 Industry Position for 18 Consecutive Months



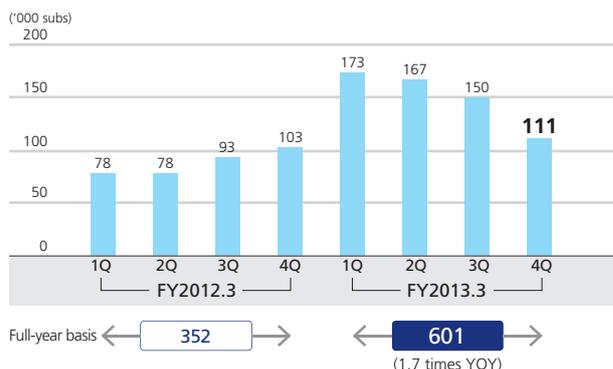
Data ARPU

Up 13.5% Year on Year

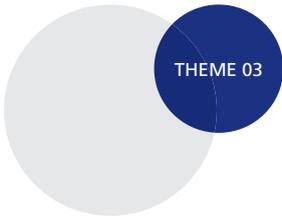


FTTH Net Additions

Up 1.7 Times Year on Year



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



Sharp Rise in Mobile Data Traffic

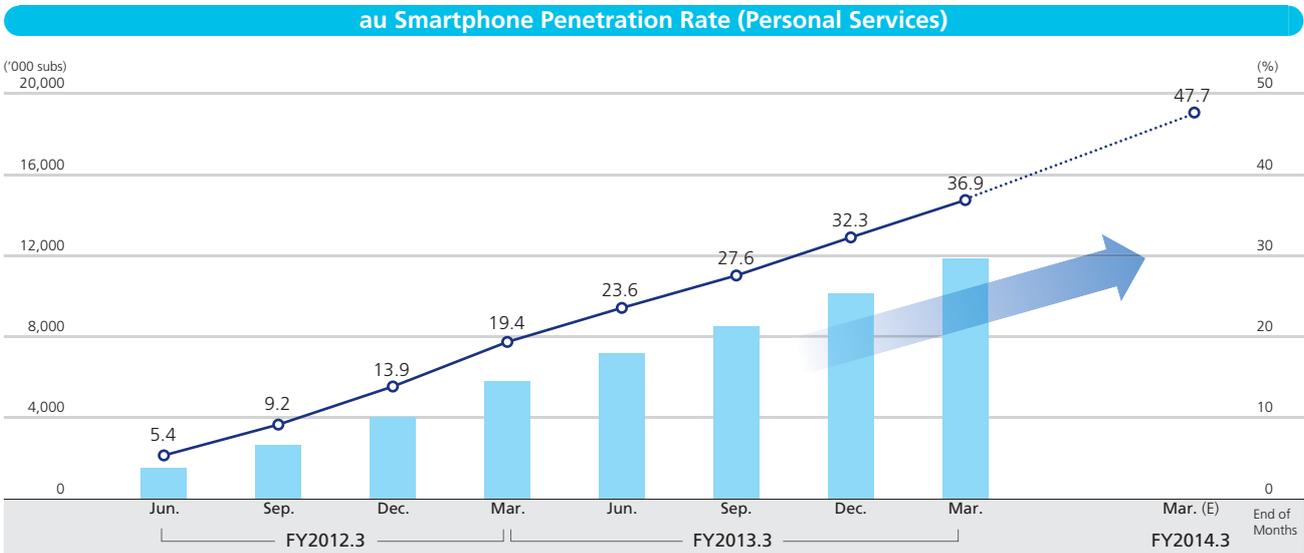
KDDI has resources that other companies lack.

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

In today's mobile communications market, smartphones are proliferating rapidly. KDDI expects mobile data traffic to increase by as much as 12 times during the four years from the fiscal year ended March 31, 2012 to the fiscal year ending March 31, 2016. Also, recent trends indicate that data traffic per smartphone is around 30 times that for a feature phone. Given these conditions, it will be difficult for mobile networks to handle the traffic on their own, even assuming "au 4G LTE," which use bandwidth with high efficiency and traffic control technologies. The answer that remains is offloading mobile data onto fixed-line networks. "au 4G LTE" ▶ P.38 "Offloading Mobile data" ▶ P.22

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

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



THEME 04

The Effects of “au Smart Value”

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



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

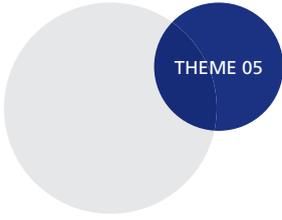
During the first year since launching the service, the process by which customers subscribe to “au Smart Value” has become apparent. First, one family member enrolls in “au Smart Value” when he or she buys a smartphone. That person becomes our “salesperson within the family,” introducing other family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

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

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

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

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



The Development of Multi-device and Multi-use

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

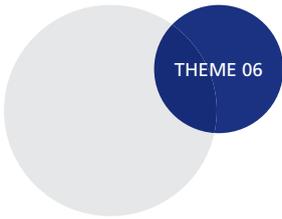
Going forward, we will focus on tying together the “3M Strategy” through Multi-device and Multi-use initiatives.

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

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

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

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



Medium-term Targets

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

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

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

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

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

THEME 07

Cash Flow Allocation and Shareholder Returns

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

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

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

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

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

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

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

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

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

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

THEME 08

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

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

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

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

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

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

THEME 09

Paying Close Attention to Customer Feedback and Creating Value Together

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

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

THEME 10

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

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

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



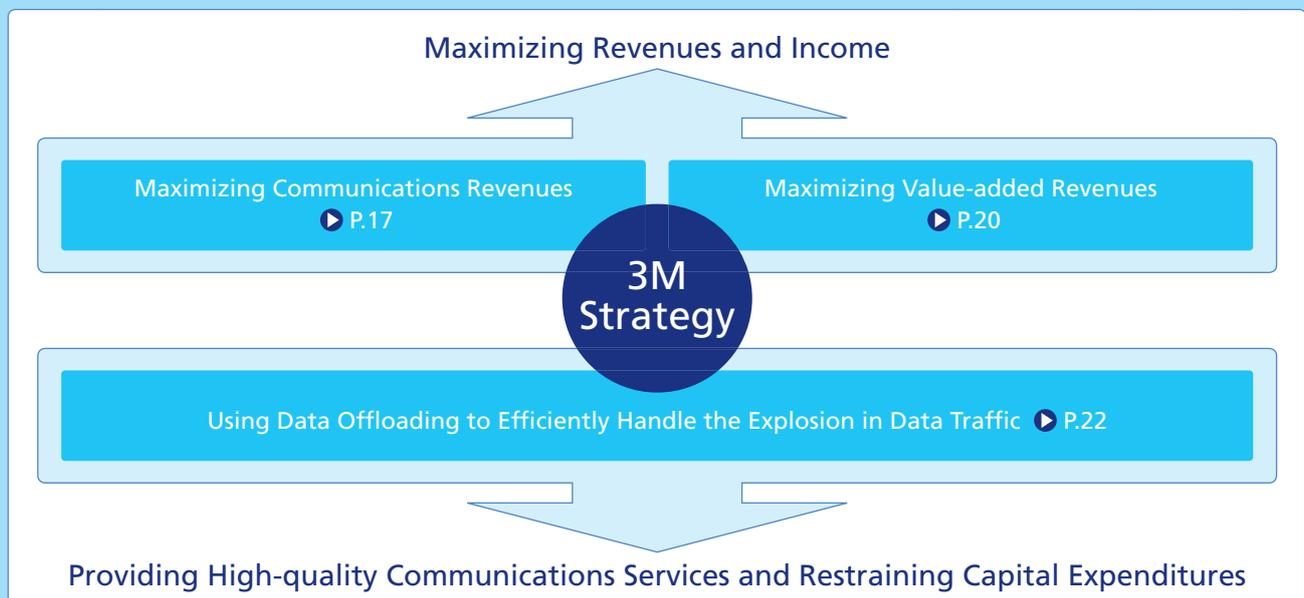
Special Feature: "3M Strategy" Progress and Outlook

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

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

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

* As of April 2013



Maximizing Communications Revenues

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

Characteristics of "au Smart Value"

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

Two Elements Supporting "au Smart Value"

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

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

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

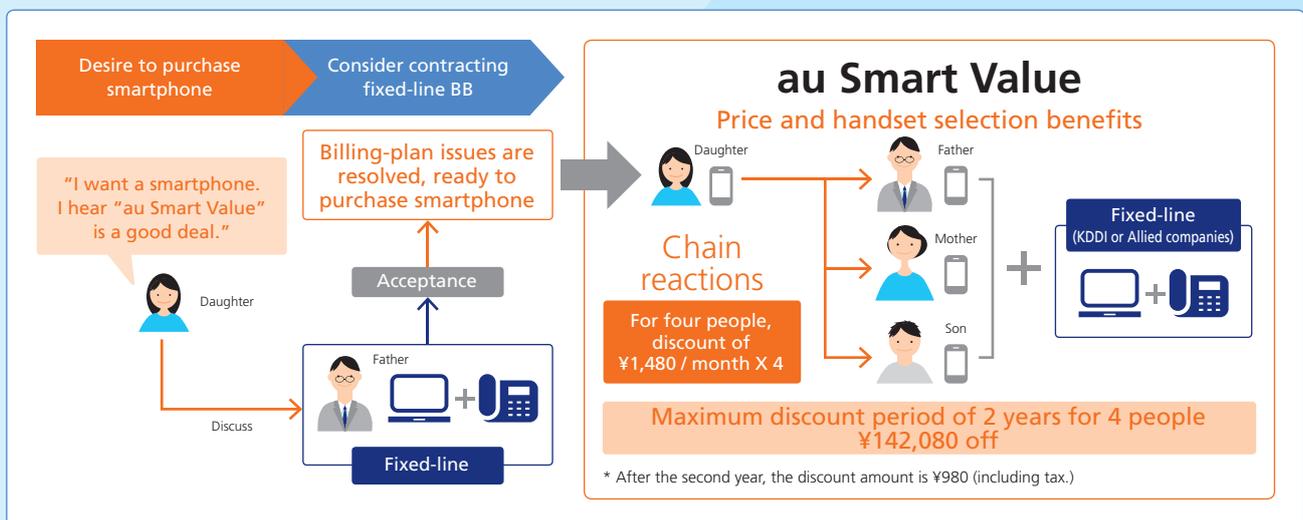


growth for their mainstay multichannel services. In short, "au Smart Value" provides an alliance scheme that offers high incentives for both parties. Attesting to the strength of this arrangement, as of March 31, 2013, some 40% of households subscribing to "au Smart Value" did so through fixed-line allied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

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

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

"Chain Reactions" within "au Smart Value" Subscriber Households



Part 1 au Smart Value

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

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

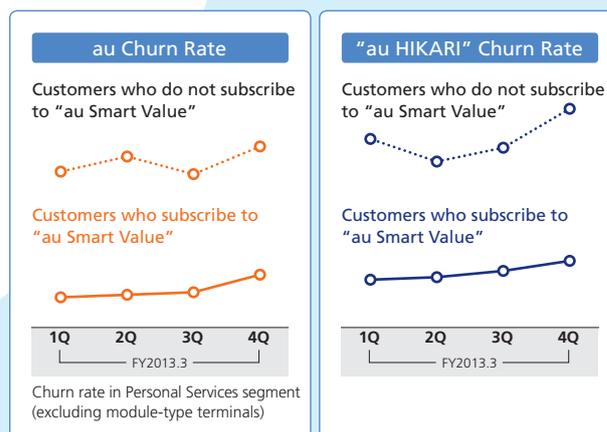
Attracting New Subscribers to Mainstay Services and Helping to Reduce the Churn Rate

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

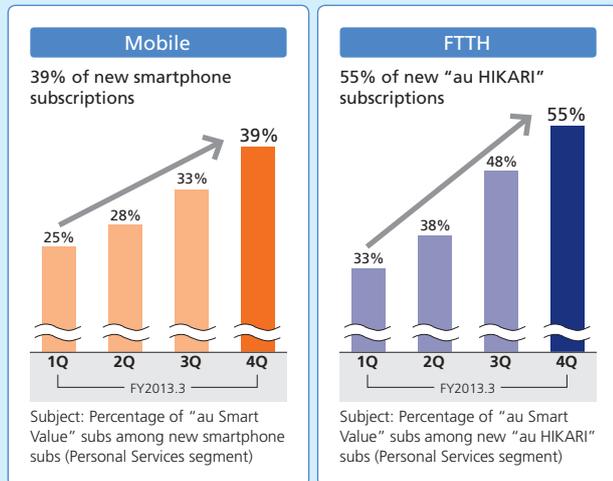
We are also beginning to see some impact in terms of lowering the churn rate. The churn rate among "au Smart Value" customers is stable at about one-third the level for customers

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

Substantially Lower Churn Rate than for Customers Who Are Not Subscribers



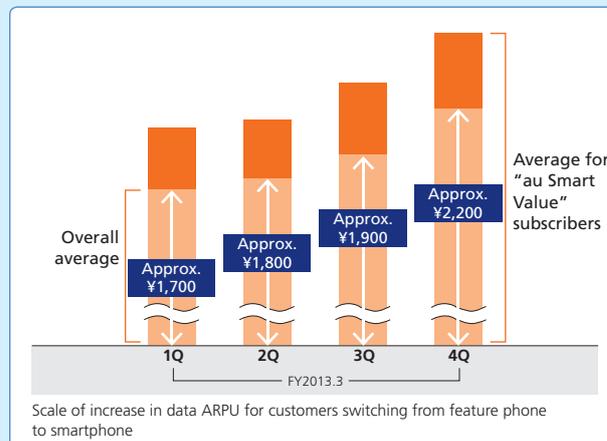
New Subscription Contributions Increase Each Quarter



Helping to Broaden the Scope of Smartphone Users

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

"au Smart Value" Pushing Up Data ARPU



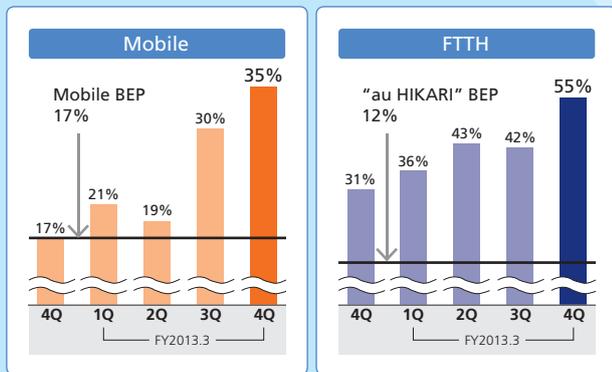
Profitability of "au Smart Value"

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

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

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

Percentage of New Subscribers Opting for "au Smart Value"

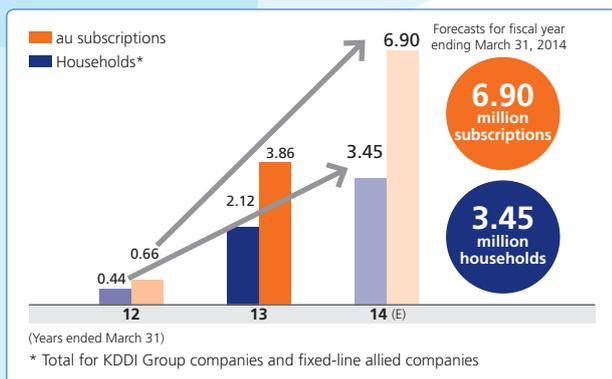


Performance of "au Smart Value"

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

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

"au Smart Value" Subscriptions (Million)

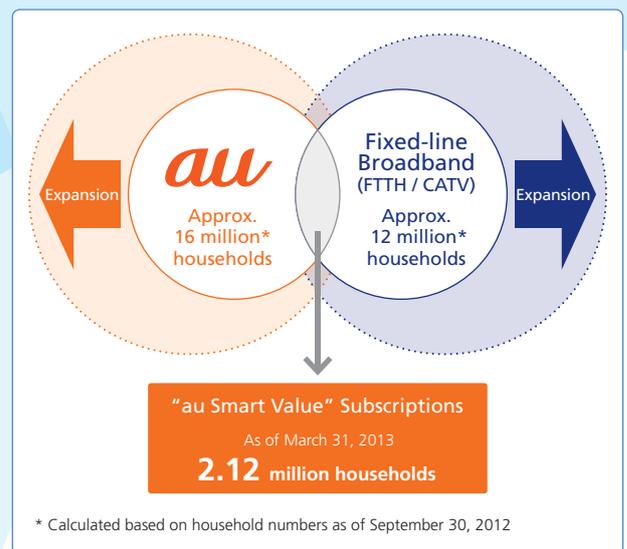


31, 2014, we forecast a rise of 3.04 million subscribers, compared with the subscribers as of March 31, 2013, to 6.90 million subscribers, and expect an increase of 1.33 million in the number of households, to 3.45 million.

Sustainability of "au Smart Value"

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

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



Maximizing Value-added Revenues

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



Makoto Takahashi
Senior Vice President,
Member of the Board

Background and Objectives for Introducing "au Smart Pass"

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

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

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

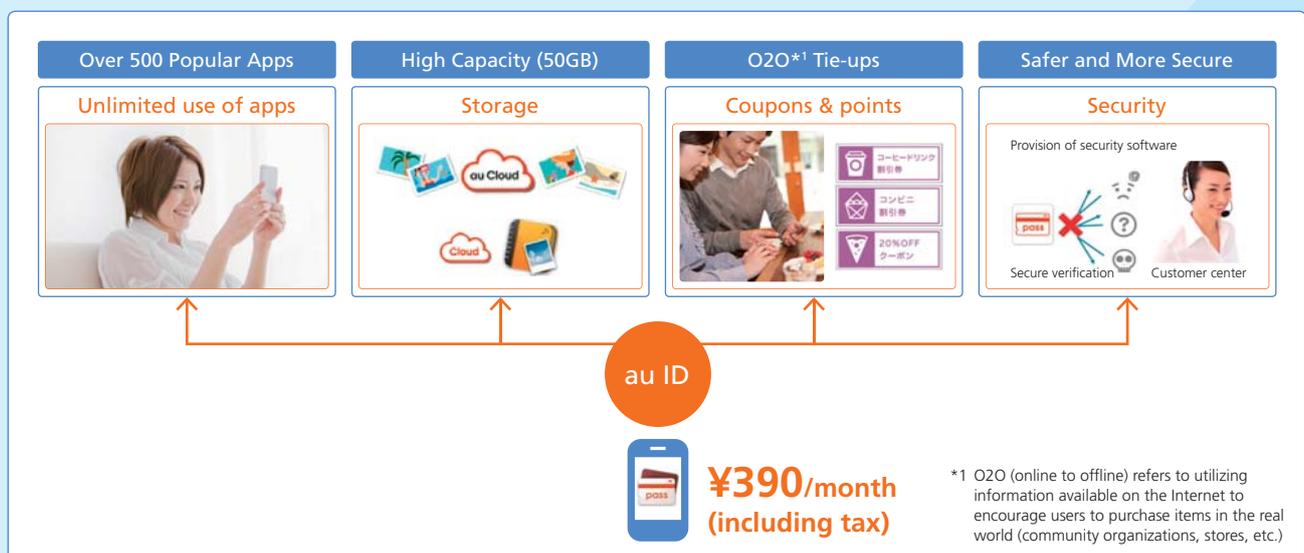
Against this backdrop, services that telecommunications carriers will need to provide in order to ensure ongoing growth of the upper layer need to act like a passport to access that provides peace of mind and convenience to customers when using their smartphones. This is the concept behind the creation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

The "au Smart Pass" Business Model

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

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

au Smart Pass



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

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

A Successful Service, One Year On

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

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

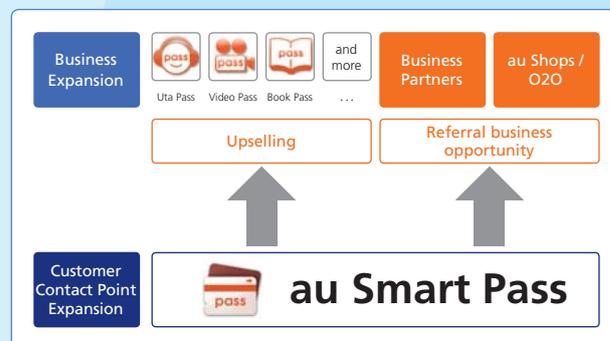
*2 Results as of March 2013 (excludes model upgrades by existing “au Smart Pass” users)

Looking Ahead Expanding Value-added Revenues

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

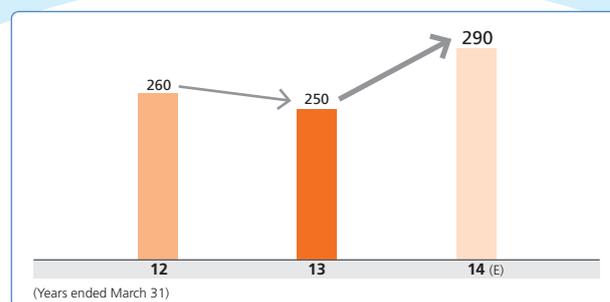
Using this platform as our base, we will continue to upsell through upper-layer services like “Uta Pass,” “Video Pass,” and “Book Pass,” which offer unlimited access for a fixed rate. We will also work with collaborating partners in the era of the open Internet to promote the construction of new business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

Expansion of Businesses Spawned from “au Smart Pass”



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

Value ARPU (Yen)



Multi-device Support

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

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

Part 3 Multi-network

Using Data Offloading to Efficiently Handle the Explosion in Data Traffic

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

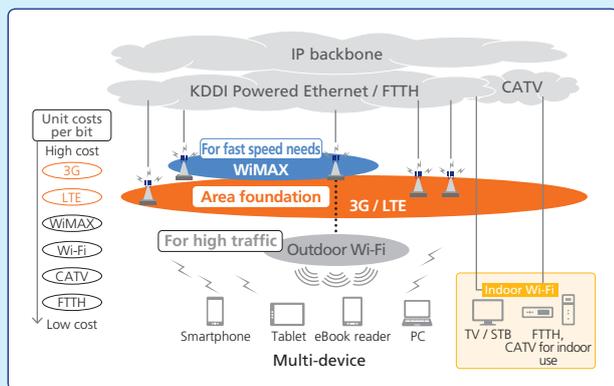


Yoshiharu Shimatani
Senior Vice President,
Member of the Board

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

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

Multi-network



Efficiently Handling the Surge in Traffic

Promoting Data Offloading

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

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

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

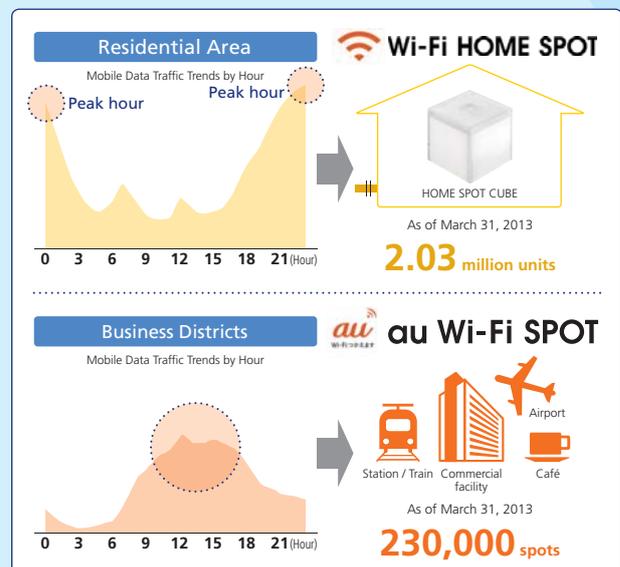
In Japan, traffic volumes in residential areas tend to peak in the nighttime hours, whereas they are highest in business areas during the lunch break and in the evening.

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

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

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

Data Offloading via Wi-Fi



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

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

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

The Evolution of WiMAX

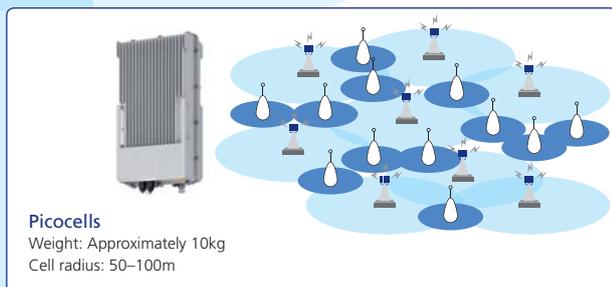
WiMAX is one element of the Multi-network framework that makes efficient data offloading possible. On October 30, 2012, the WiMAX Forum announced “WiMAX Release 2.1,” a new version with an added TD-LTE interoperation mode. Following this release, after securing spectrum allocation for which it has applied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

First in the World to Introduce Picocells

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

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

In Addition to Macrocells, Configuring Areas Using Picocells



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

Capital Expenditures over the Medium-to-Long Term

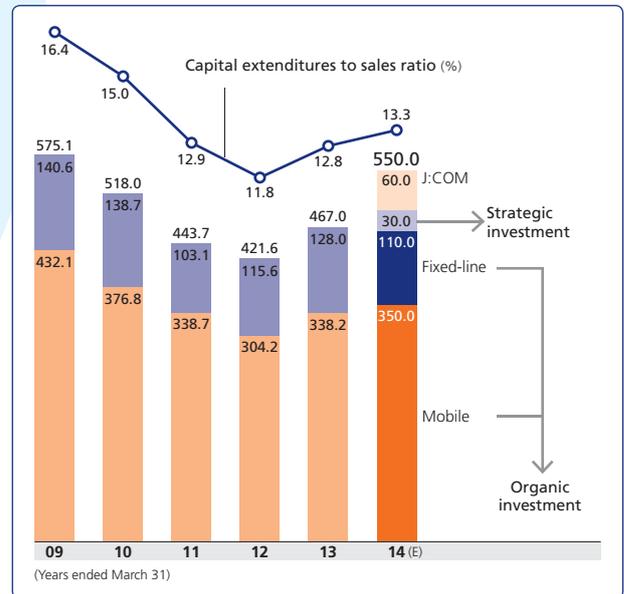
KDDI’s proactive data offloading efforts have secured the Company the top industry position in terms of traffic offloading ratio among the world’s mobile telecommunications companies.

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

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

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

Capital Expenditure Levels (Billions of yen)



Supporting the 3M Strategy by Reinforcing Customer Contact Points

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

Strengthening Store Capabilities

Enhancing Staff Training

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

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

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

Increasing Store Response Efficiency

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

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

Using Tablets to Shorten Customer Response Times

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

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

Introducing a New Handset Maintenance Scheme

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

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

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

Both Boosting Customer Satisfaction and Reducing Operating Burdens at au Shops

