Performance Analysis for the Fiscal Year Ended March 31, 2014 by Segment

Segments at a Glance

From the fiscal year ended March 31, 2013, KDDI has realigned its reportable segments into four business segments based on management resource allocation and financial results evaluation in accordance with management's approach.

The Personal Services segment, which provides mobile and fixed-line services for consumers, accounts for more than 70% of operating revenues and operating income.

Personal Services Segment

Provision of communications services for individuals

This segment provides mobile and fixed-line communications services to individual customers. The segment's main activities are the provision of "au" brand mobile communication services and the sale of mobile handsets. In addition, in fixed-line communications we provide "au HIKARI"-brand FTTH and CATV services.

Value Services Segment

Provision of content and settlement services for individuals

In this segment, we provide individual customers with content, settlement, and other services. We are also reinforcing our Multi-device and Multi-network initiatives, and creating environments to facilitate more convenient and comfortable use of value-added services.

Business Services Segment

Provision of communications and solution / cloud services for companies

In this segment, which targets corporate customers ranging from small and medium-sized businesses to major corporations, we propose cloud-based solutions that enable the seamless use of mobile handsets such as smartphones, tablets, and networks, as well as applications.

Global Services Segment

Provision of communications and solution / cloud services for companies and individuals overseas

Centered on our "TELEHOUSE" data centers for corporate customers, this segment provides one-stop ICT solutions. We are also making proactive forays into the Internet business in emerging markets, as well as the mobile virtual network operator (MVNO) business, focusing on immigrants in the United States, and other consumer businesses. Furthermore, we provide international voice traffic transmission services for more than 600 telecommunications providers throughout the world.

Other

Communications facility construction as well as maintenance, call centers, R&D, etc.

Segment	Operating Revenues	Operating Income	EBITDA
Personal Services Segment	72% ¥3,367.9 billion YOY 18.7% up	76% ¥507.2 billion Operating Income Margin 15.1% YOY 34.0% up	81% ¥955.7 billion EBITDA Margin 28.4% YOY 27.3% up
Value Services Segment	5% ¥212.5 billion YOY 49.8% up	8% ¥51.6 billion Operating Income Margin 24.3% YOY 23.2% up	5% ¥64.5 billion EBITDA Margin 30.3% YOY 24.5% up
Business Services Segment	14% ¥674.9 billion YOY 5.7% up	13% ¥86.5 billion Operating Income Margin 12.8% YOY 8.3% up	11% ¥130.7 billion EBITDA Margin 19.4% YOY 1.5% up
Global Services Segment	6% ¥263.6 billion YOY 27.2% up	2% ¥11.4 billion Operating Income Margin 4.3% YOY 45.7% up	2% ¥27.3 billion EBITDA Margin 10.4% YOY 28.1% up
Other	3% ¥150.0 billion	1% ¥7.1 billion	1% ¥8.7 billion

Analysis by Segment: Personal Services Segment

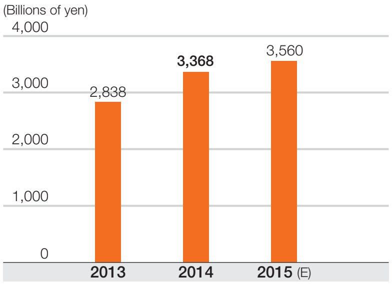
Overview of Operations

During the fiscal year ended March 31, 2014, operating revenues increased 18.7%, to ¥3,367.9 billion. This rise stemmed from higher data communications revenues, thanks to favorable increases in the number of subscribers, the ongoing shift toward smartphones and the resulting increase in revenues from handset sales, and the contribution to earnings of J:COM, as this company was included in the scope of consolidation.

Meanwhile, operating expenses increased 16.3%, to ¥2,860.7 billion. In addition to higher sales commissions stemming from increasingly stringent competition, we experienced a rise in handset procurement costs in line with greater unit sales of smartphones, plus the additional costs of converting J:COM to a consolidated subsidiary.

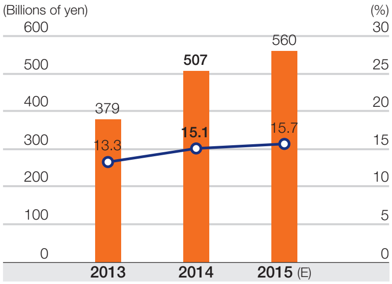
Operating income consequently increased 34.0% year on year, to ¥507.2 billion. In the fiscal year ending March 31, 2015, we expect the shift toward smartphones to continue. Given the turnaround in ARPU, we should be able to expect steady growth for the year as a whole without overly relying on net additions. Owing to these factors, we forecast a ¥52.8 billion year-one-year increase in operating income.

Operating Revenues



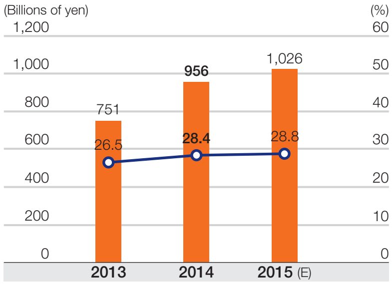
(Years ended March 31)

Operating Income / Operating Income Margin



(Years ended March 31)
Operating Income (left)
Operating Income Margin (right)

EBITDA / EBITDA Margin

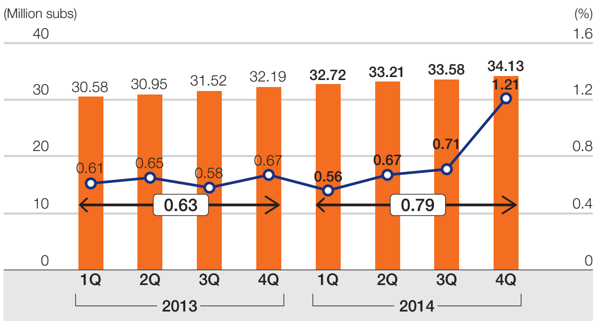


(Years ended March 31)
EBITDA (left)
EBITDA Margin (right)

au Subscriptions / au Churn Rate

The net addition in au subscriptions outpaced our initial expectations of 1.50 million subscriptions by 440,000, amounting to 1.94 million subscriptions. As a result, total subscriptions numbered 34.13 million as of March 31, 2014, up 6.0% from March 31, 2013.

The au churn rate was the lowest level in the industry, at 0.79%, with low levels continuing on from the fiscal year ended March 31, 2013.



(Years ended March 31)
Total au Subscriptions at the End of Each Quarter (left)
au Churn Rate (right)

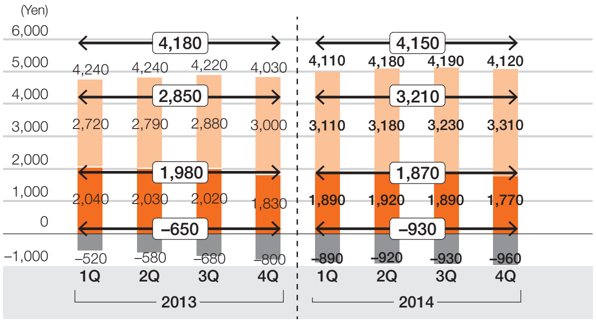
au ARPU

Voice ARPU declined 5.6% year on year, to ¥1,870, mainly due to smartphone subscribers spending less time with voice communications and the impact of access charge revisions.

Data ARPU was up 12.6%, to ¥3,210, owing to an increase in smartphone subscriptions.

The amount of discount applied was ¥930, up ¥280 year on year. This rise was attributable mainly to the increased use of "Maitsuki Discount (Monthly Discount)" pricing in line with the increased smartphone penetration rate and rising penetration of "au Smart Value." However, our efforts to control "Maitsuki Discount" levels have succeeded in slowing its rate of increase.

As a result, au ARPU amounted to ¥4,150, which was down 0.7% year on year. Even so, the downward trend in au ARPU reversed in the fourth quarter, and in the fiscal year ending March 31, 2015, we expect au ARPU to rise on an annual basis, to ¥4,250.



(Years ended March 31)

Data ARPU

Voice ARPU (before application of discount)

Amount of Discount Applied

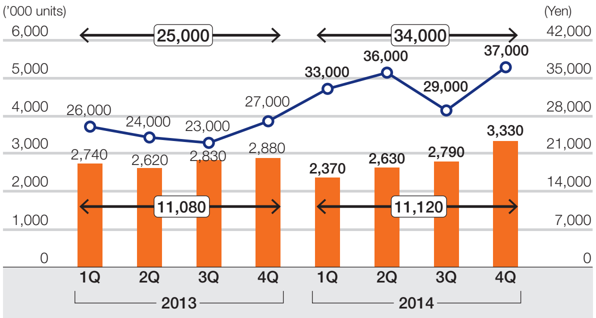
(total discount effect of "au Smart Value" and "Maitsuki Discount")

au Handset Units Sold / au Sales Commissions

au handset sales rose 0.4% year on year, to 11.12 million units.

au sales commissions increased ¥9,000 year on year, to ¥34,000, as we controlled the level of "Maitsuki Discount" to encourage a bottoming out of au ARPU, putting a greater operational weight on sales commissions, as well as to attract new subscribers through MNP in the fourth quarter in the face of stiff competition.

In the fiscal year ending March 31, 2015, we expect sales commissions to decrease ¥3,000 as we differentiate ourselves from competitors through value offerings in a host of areas—spanning networks, services, and sales channels—based on our "3M Strategy" and centering on "au Smart Value," which should enable us to control the year-on-year change in "Maitsuki Discount."



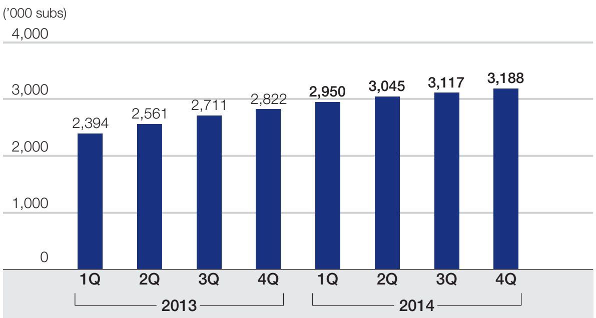
(Years ended March 31)

au Handset Units Sold (left)

au Sales Commissions (right)

FTTH Subscriptions

The net increase in FTTH subscriptions was 370,000, to 3.19 million, as of March 31, 2014, as "au Smart Value" drove new subscriber acquisitions, as well as to lowered churn.



(Years ended March 31)

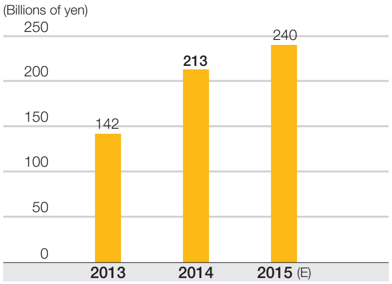
Analysis by Segment: Value Services Segment

Overview of Operations

During the fiscal year ended March 31, 2014, operating revenues in this segment surged 49.8%, to ¥212.5 billion. Centered on "au Smart Pass," members of "Video Pass" and other content services grew steadily. We also benefited from program distribution revenue from J:COM, owing to its inclusion in the scope of consolidation.

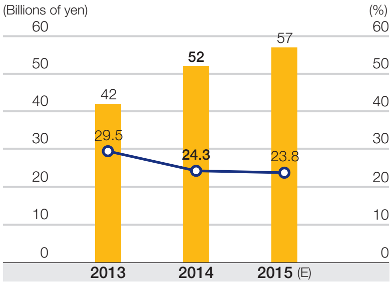
Operating expenses, meanwhile, rose 60.9% year on year, to ¥160.9 billion, due to an increase in cost of sales and expenses stemming from the inclusion of J:COM in the scope of consolidation. As a result, operating income rose 23.2% during the fiscal year ended March 31, 2014, to ¥51.6 billion.

Operating Revenues



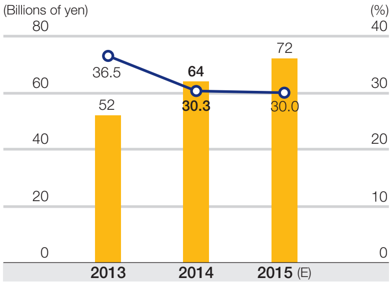
(Years ended March 31)

Operating Income / Operating Income Margin



(Years ended March 31)
Operating Income (left)
Operating Income Margin (right)

EBITDA / EBITDA Margin

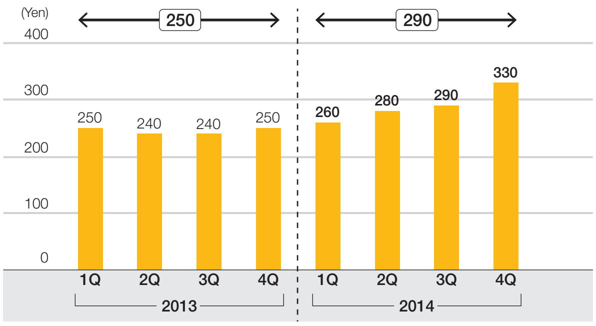


(Years ended March 31)
EBITDA (left)
EBITDA Margin (right)

Value ARPU*

In the fiscal year ended March 31, 2014, value ARPU grew ¥40, to ¥290. Contributing to this rise were a steady increase in the number of members to content services such as "au Smart Pass" and "Video Pass," as well as the May 2013 introduction of charges for "au Smart Pass" of iOS.

For the fiscal year ending March 31, 2015, we expect the number of "au Smart Pass" members to continue rising. We will also upsell through services like "Uta Pass" and "Video Pass," which offer unlimited access for a fixed rate, and promote Online to Offline (O2O) business through collaborating partners. We aim to boost value ARPU as a result.



(Years ended March 31)

* 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.

Analysis by Segment: Business Services Segment

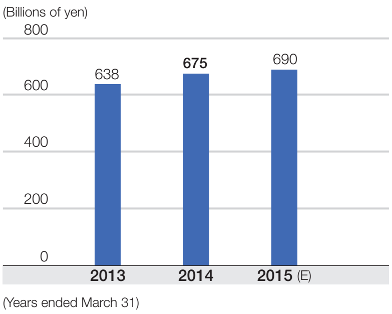
Overview of Operations

Operating revenues in this segment grew 5.7% year on year, to ¥674.9 billion, as increased sales of smart devices to large companies bolstered data communications revenue and revenues from handset sales, and solution sales such as cloud-related business and IT outsourcing rose. Sales also grew for services from consolidated subsidiary “KDDI MATOMETE OFFICE” targeting small and medium-sized companies.

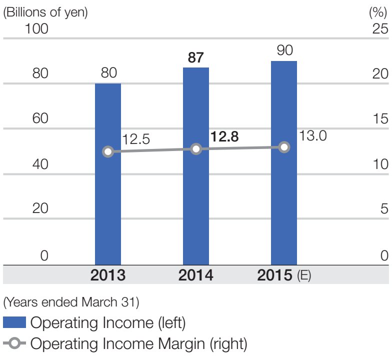
At the same time, operating expenses grew 5.4%, to ¥588.4 billion, affected by an increase in sales commissions to attract customers to smart devices, higher handset procurement costs, and rising cost of sales on solutions. As a result, operating income was up 8.3% year on year, to ¥86.5 billion.

In the fiscal year ending March 31, 2015, we will continue to target major corporations with our provision of one-stop cloud services that seamlessly integrate smart device networks over the cloud. “KDDI MATOMETE OFFICE” will continue to cultivate business among small and medium-sized firms. We anticipate higher revenues and income as a result of these efforts.

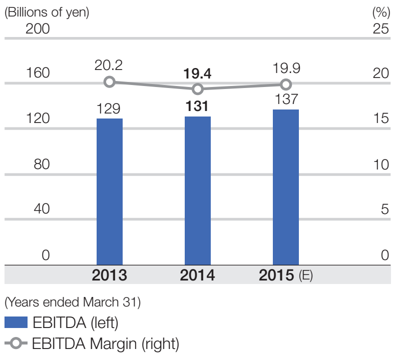
Operating Revenues



Operating Income / Operating Income Margin



EBITDA / EBITDA Margin



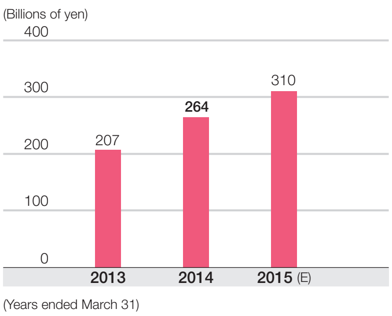
Analysis by Segment: Global Services Segment

Overview of Operations

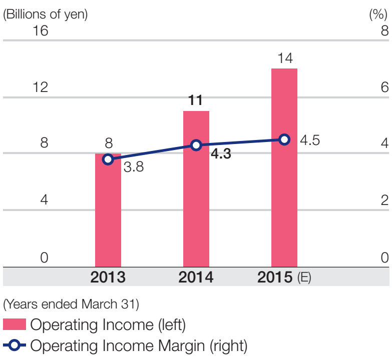
Operating revenues in this segment grew 27.2%, to ¥263.6 billion, and operating income expanded 45.7%, to ¥11.4 billion, in the fiscal year ended March 31, 2014, thanks to higher revenues and income from “TELEHOUSE”-brand data centers and expanded MVNO business through overseas subsidiaries in the United States.

KDDI expects high levels of ongoing growth in this segment, due to the expansion of the highly profitable data center business in Europe and Asia, mobile phone and ISP businesses in emerging economies, and the mobile phone business focusing on immigrants in the United States.

Operating Revenues



Operating Income / Operating Income Margin



EBITDA / EBITDA Margin