



STRATEGY

- 16 The Japanese Telecommunications Market and KDDI
- 20 SPECIAL FEATURE: Targeting the New Growth Stage
- 21 Launch of the “au WALLET” Service
- 22 Entry into the Telecommunications Business in Myanmar



The Japanese Telecommunications Market and KDDI

Characteristics of the Japanese Mobile Telecommunications Market

Mobile

As of March 31, 2015, cumulative mobile communication subscriptions in Japan totaled 150 million*¹, up 5.4% year on year.

Smartphone subscriptions increased, due mainly to the transition from feature phones, boosting the smartphone penetration rate to 60.6%*² on a household basis as of March 2015. As the penetration rate is still low in comparison with countries that are more advanced in this respect, such as the United States and South Korea, we expect the rate to grow further.

The Japanese market is characterized by the advancement of LTE networks, which enable high-speed data communications, leading to the creation of communications environments that facilitate diverse services and are independent of handset and location. Against this backdrop, the trend toward "multi-devices,"

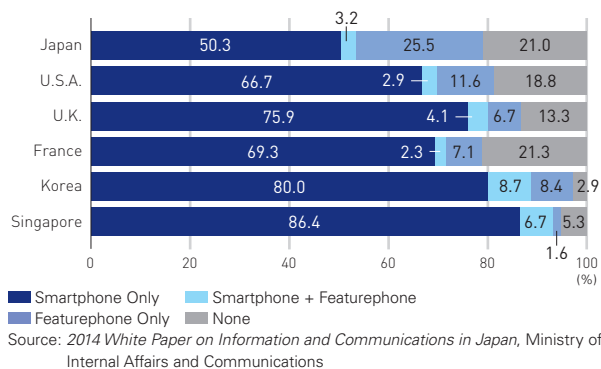
in which a customer may also own a tablet or Wi-Fi router, is gaining traction, so the Japanese mobile telecommunications market is projected to continue expanding.

Furthermore, advances in networks and handsets are making mobile usage environments more convenient, and the scale of the mobile content and mobile commerce markets is increasing. This scenario points to further opportunities to generate revenues.

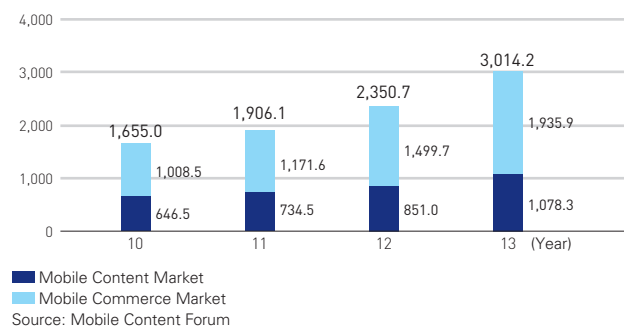
*1 Source: Official Announcement of Quarterly Data on the Number of Telecommunications Service Subscriptions and Market Shares (FY 2014 Q4 (End of March 2015)), Ministry of Internal Affairs and Communications

*2 Source: Results of a consumer trend survey conducted in March 2015 by the Cabinet Office of Japan

Smartphone Ownership by Country



Scale of the Mobile Content and Mobile Commerce Markets (Billions of yen)



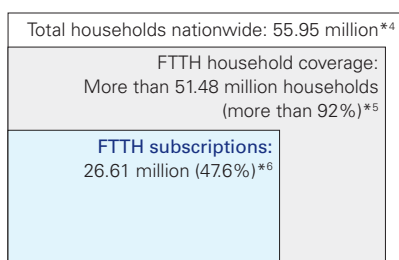
Fixed-Line Broadband

The nationwide FTTH household coverage ratio is more than 90% and "homes passed"*³ is more than 70%, indicating that high-speed broadband environments are essentially in place nationwide.

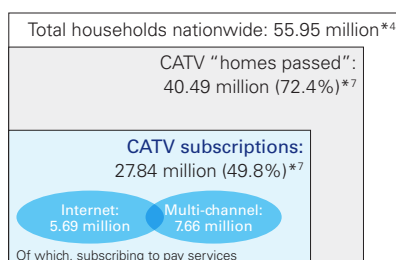
As of March 31, 2015, fixed-line broadband service subscriptions numbered 36.80 million, up 2.7% from the preceding fiscal year.

Fixed-line broadband service penetration is almost at 70%. Amid a gradual market expansion, in March 2015 regional NTT companies began wholesaling fiber access services (FTTH).

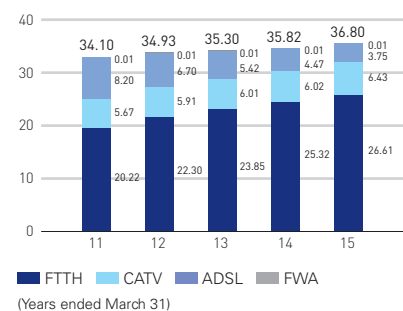
FTTH



CATV



Number of Broadband Subscriptions*⁶ (Million subs)



*3 In regions where the installation of CATV facilities is permitted, households in areas where installation of transit routes is complete

*4 Source: Ministry of Internal Affairs and Communications (as of January 1, 2015)

*5 Source: Information NTT East Japan: Overall Management (2014): Telecommunications Facilities: Access Going Optical. As of March 31, 2015, Nippon Telegraph and Telephone East Corporation (NTT East)'s FTTH household coverage ratio is 95% and Nippon Telegraph and Telephone West Corporation (NTT West)'s is approximately 92%.

*6 Source: Ministry of Internal Affairs and Communications (as of March 31, 2015)

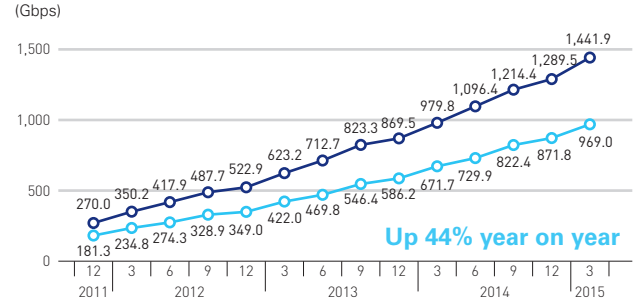
*7 Source: Hoso Journal, December 2014 edition (as of September 31, 2014)

Growth in Mobile Traffic

Due to the proliferation of smartphones and tablets, mobile traffic in Japan is growing at a rapid pace, with average monthly traffic recently rising at 44% year on year.

In particular, average traffic during the peak hours for mobile customers (11–12pm) is up by around 50% per year. This situation poses a dilemma for mobile telecommunications companies, which are working to efficiently absorb this increase in mobile traffic while restraining capital expenditures and maintaining stable network operations.

Total Mobile Traffic in Japan (Monthly)



Legend: Average Monthly Traffic (light blue line), Traffic during Peak Hours (Average Traffic 11–12pm) (dark blue line).
 Source: "The State of Mobile Communications Traffic in Japan," Ministry of Internal Affairs and Communications (March 2015)

Allocation of Bandwidth among Japan's Mobile Telecommunications Operators

	KDDI Group <i>au</i> + <i>UQ WiMAX</i>	NTT DOCOMO	SoftBank
3.5GHz (Slated to commence operations in 2016)	40MHz	40MHz	40MHz
2.6GHz	50MHz <i>UQ WiMAX</i>		30MHz
2.1GHz	40MHz	40MHz	40MHz
1.7GHz		40MHz	30MHz
1.5GHz	20MHz	30MHz	20MHz
800-900MHz	30MHz	30MHz	30MHz
700MHz	20MHz	20MHz	20MHz
Total Bandwidth	200MHz	200MHz	210MHz

* As of July 1, 2015

KDDI's Status

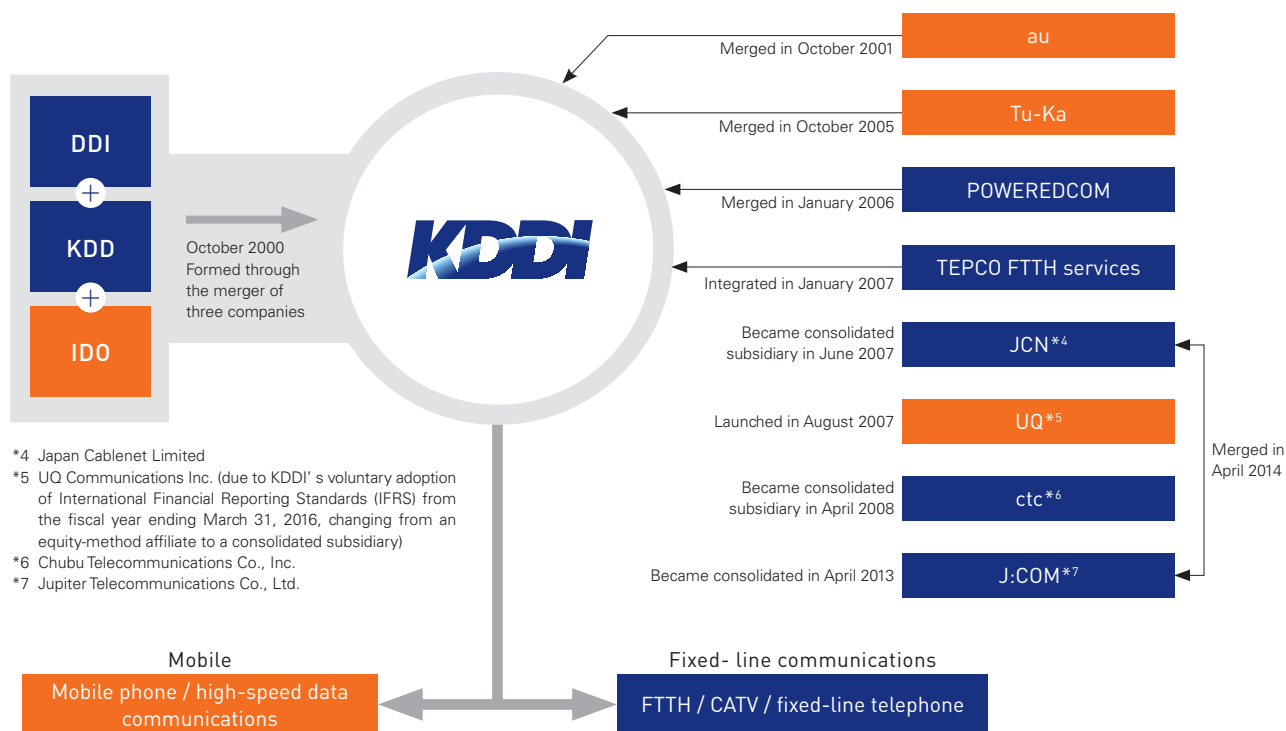
Leveraging the KDDI Group's Comprehensive Mobile and Fixed-Line Capabilities

The KDDI CORPORATION was established in October 2000 through the merger of DDI CORPORATION, a long-distance communications company; KDD Corporation, an international communications company; and IDO CORPORATION, which provided mobile communications. Thereafter, we expanded our business through mergers in both the mobile and fixed-line businesses.

As a result, KDDI has amassed a host of access lines. In the mobile category, these include 3G/LTE and WiMAX networks. In the fixed-line category, we have FTTH and CATV. The KDDI

Group's customer base includes approximately 53 million mobile subscriptions*¹ and around 8.5 million fixed-line broadband subscriptions*². We are leveraging this situation by promoting the "3M Strategy*³."

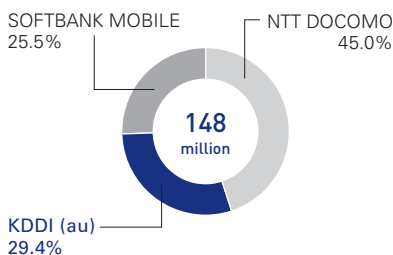
*¹ Total for au + UQ
 *² Total for FTTH + CATV pay multi-channel
 *³ 3M stands for Multi-network, Multi-device, and Multi-use. Our growth strategy calls for the establishment of an environment that seamlessly provides a variety of content and services to customers through an optimal network that can be used any-time and anywhere, with a variety of devices, including smartphones and tablets.



*⁴ Japan Cablenet Limited
 *⁵ UQ Communications Inc. (due to KDDI's voluntary adoption of International Financial Reporting Standards (IFRS) from the fiscal year ending March 31, 2016, changing from an equity-method affiliate to a consolidated subsidiary)
 *⁶ Chubu Telecommunications Co., Inc.
 *⁷ Jupiter Telecommunications Co., Ltd.

Share of Mobile Communication Subscriptions*⁸

(As of March 31, 2015)

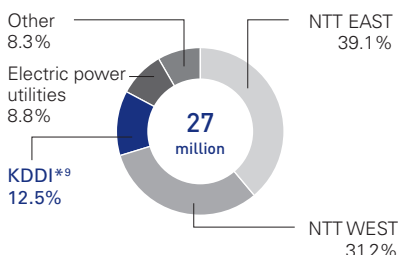


Source: Prepared by KDDI based on Telecommunications Carriers Association's data

*⁸ Share among NTT Docomo, Inc. (NTT Docomo), SoftBank Mobile Corp. (SoftBank Mobile), and KDDI (au)

Share of FTTH Subscriptions

(As of March 31, 2015)

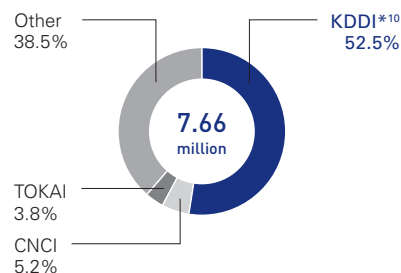


Source: Prepared by KDDI based on Ministry of Internal Affairs and Communication's data

*⁹ KDDI + ctc + OKINAWA CELLULAR TELEPHONE COMPANY (Okinawa Cellular)

Share of Pay Multi-Channel CATV Subscriptions

(As of September 30, 2014)



Source: Prepared by KDDI based on *Hoso Journal* (December 2014 issue)

*¹⁰ J:COM + JCN

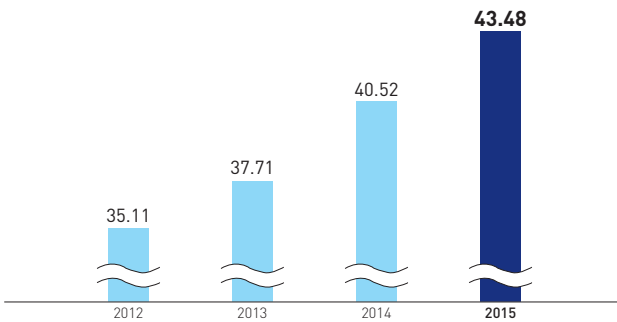
Principal Businesses of the KDDI Group

► Mobile

As of March 31, 2015, au mobile subscriptions numbered 43.48 million, up 7.3% year on year and accounting for a 29.4% share of the mobile market, which has three major carriers.

Of this figure, in the Personal Services segment, which accounts for more than 70% of KDDI's consolidated operating revenues, smartphone penetration had risen to 54% (50% if limited to LTE).

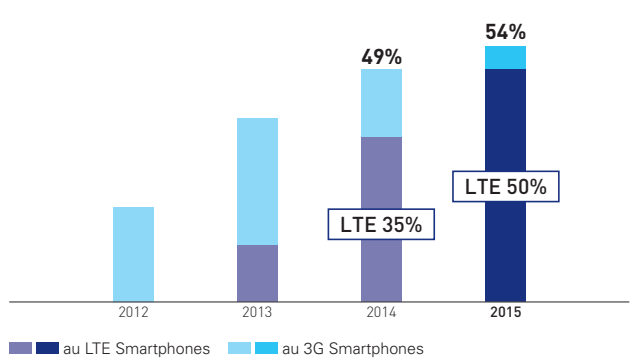
Cumulative au Subscriptions*11
(Million subs)



(Years ended March 31)
*11 KDDI + Okinawa Cellular

UQ Communications Inc., an equity-method affiliate that provides WiMAX service and "WiMAX 2+" (compatible with TD-LTE) service using 50MHz bandwidth of frequency in the 2.6GHz band, reinforced its lineup of devices compatible with "WiMAX 2+", boosting its subscriptions significantly. As a result, as of March 31, 2015, its subscriptions totaled 9.54 million, a 137.8% year-on-year increase.

au Smartphone Penetration*12 (Personal Services)



(Years ended March 31)
*12 (au LTE smartphones + au 3G smartphones) ÷ (au subscriptions minus data-only terminals, tablets, and modules)

► Fixed-Line Broadband

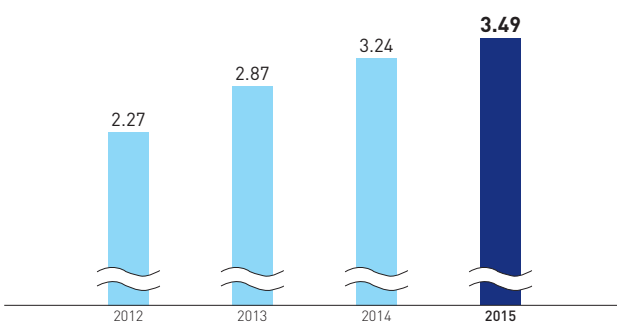
As of March 31, 2015, FTTH subscriptions stood at 3.49 million, up 7.7% year on year and accounting for a market share of 12.5%.

In CATV, the industry's largest company and a consolidated subsidiary, J:COM, merged with the second-largest, JCN. Consequently, KDDI's market share led the industry. With the birth

of the newly combined J:COM, household subscriptions numbered 5.05 million for the fiscal year ended March 31, 2015, giving KDDI a market share in multichannel services exceeding 50%.

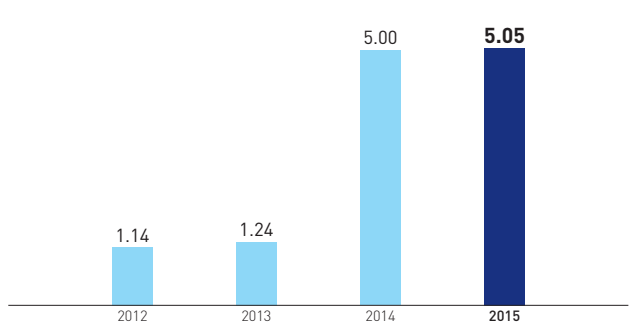
By cross-selling FTTH and CATV services to the au customer base, we expect our customer base to continue growing.

Cumulative FTTH Subscriptions*9
(Million subs)



(Years ended March 31)

Cumulative Pay Multi-Channel CATV Subscriptions*13
(Million subs)



(Years ended March 31)
*13 JCN only for the fiscal years ended March 31, 2012 and 2013. J:COM + JCN for the fiscal year ended March 31, 2014. In line with the inclusion of JCN into the scope of J:COM's consolidation in December 2013, the method of calculating the total number of subscribing households has been unified to J:COM's standard.

SPECIAL FEATURE

Targeting the New Growth Stage

We are putting in place the pillars for sustainable new growth by further developing our “3M Strategy” and “Global Strategy.”

FEATURE
1

▶ P.21



Developing the “3M Strategy”

Launch of the “au WALLET” Service

As part of our promotion of the “3M Strategy,” in May 2014 we launched “au WALLET,” a new platform service aimed at boosting value-added revenues through offline services. As part of our efforts to create new revenue sources to boost value-added revenues, we set up a settlement platform for offline services, such as issuing a prepaid e-money card with a settlement function that enables use in physical shops as well.

au WALLET

FEATURE
2

▶ P.22



Developing the “Global Strategy”

Entry into the Telecommunications Business in Myanmar

As one aspect of our “global strategy,” we entered the telecommunications business in Myanmar. By leveraging the experience and sophisticated technologies we have accumulated as a comprehensive telecommunications carrier, we aim to contribute toward the development of Myanmar’s economy and industry, as well as to the lives of the country’s citizens. At the same time, we will focus on this business as a pillar of our growth strategy.

 **MPT**
Moving Myanmar Forward



Launch of the “au WALLEET” Service

Creating a New Source of Revenues with “au WALLEET”

As part of our efforts to add sources of value-added service revenues to communications revenues, in the fiscal year ended March 31, 2015, we began working to augment conventional carrier billing (= “au Simple Payment”) for generating revenues by adding offline service transactions (i.e., at physical shops). On May 21, 2014, we launched the “au WALLEET” service as a settlement platform for generating these revenues with the “au ID.” An “au ID” serves as an authentication key that allows customers to use various au network services. “au WALLEET” acts as a prepaid e-money service with a settlement function for use at physical shops. A tie-up with MasterCard® means that “au WALLEET” can be used at roughly 38.1 million stores worldwide. By forging a link with carrier billing, which has extremely high recovery rates, and the added convenience of charging, we have overcome the hurdle of age restrictions associated with credit cards, as well as e-money cards being limited to certain shops. As well as making settlements possible in a wealth of scenarios, the new service enables customers to accumulate points that they can apply toward further purchases, thereby heightening convenience still further.

Cumulative “au WALLEET” applications have significantly outpaced our initial expectations. In the first nine months after service launch, applications topped 10 million, reaching 11.2 million as of March 31, 2015.

Meeting demand from customers wanting to use the service for more expensive purchases, in November 2014 we added a credit function, launching the “au WALLEET” credit card service.

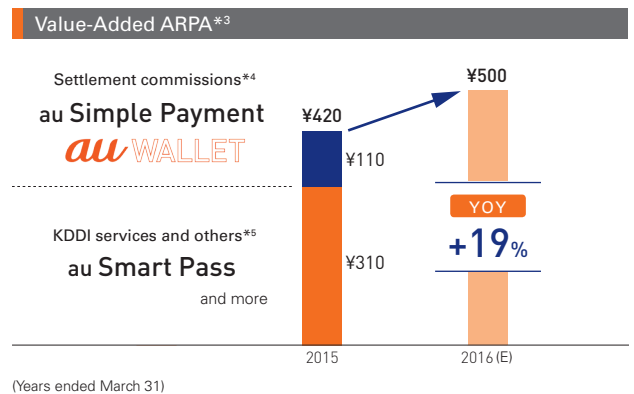
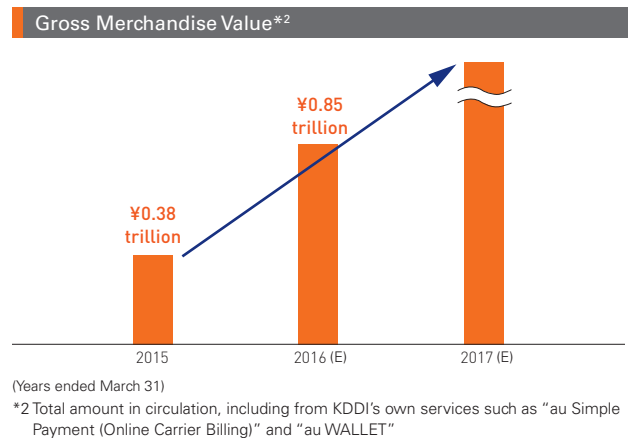
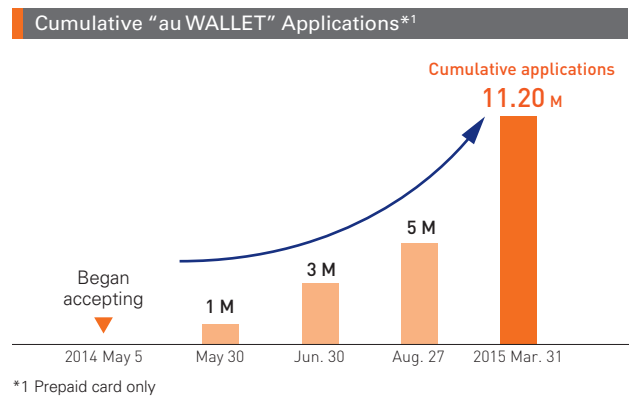
In the fiscal year ended March 31, 2015, combined transaction volumes, in other words, for our conventional carrier billing service, “au Simple Payment,” and the new “au WALLEET” service came to approximately ¥380 billion.

The settlement business is expected to continue expanding, with transaction volume more than doubling in the fiscal year ending March 31, 2016, to ¥850 billion.

Boosting Value ARPA in Line with Increases in Gross Merchandise Value

In the fiscal year ended March 31, 2015, value ARPA—value-added revenues sales per au customer—amounted to ¥420. Of this amount, KDDI services such as “au Smart Pass” accounted for ¥310, and settlement commissions from the two settlement platforms (“au Simple Payment” + “au WALLEET”) the remaining ¥110.

As commission revenues rise in line with higher transaction volumes, we expect value ARPA to grow 19% year on year in the fiscal year ending March 31, 2016, to ¥500.



*3 Value-Added ARPA = Value-Added ARPA revenues (Settlement commissions + KDDI services and others) ÷ au customers
 *4 Settlement commissions = Settlement commissions revenue of au Simple Payment (carrier billing) and au WALLEET
 *5 KDDI services and others = Sales from KDDI services (such as “au Smart Pass” and product sales) and advertising revenues, etc.

Entry into the Telecommunications Business in Myanmar

Developing the Telecommunications Business in Myanmar

In June 2014, KDDI and Sumitomo Corporation jointly established KDDI Summit Global Myanmar Co., Ltd. (KSGM), as a Yangon-based consolidated KDDI subsidiary to develop the telecommunications business in Myanmar.

At the end of 2013, the mobile phone penetration rate among Myanmar's population of more than 50 million was only 10%, much lower than its ASEAN neighbors, and optical fiber networks and facilities were weak. Recognizing that economic growth and open markets would require development of the telecommunications and ICT industries, the government of Myanmar set a target to achieve a smartphone penetration rate of 80% by the end of 2016.

Anticipating substantial future subscriber growth in Myanmar's telecommunications market, KSGM and Myanma Posts & Telecommunications (MPT) are jointly providing telecommunications services that should contribute to economic and industrial growth in Myanmar, as well as to the lives of the country's citizens.

Achieving Competitiveness through Joint Operations

KSGM and MPT have entered into a business cooperation contract (BCC) to leverage each other's resources. By taking advantage of KDDI's experience and sophisticated technological expertise as a comprehensive telecommunications carrier, Sumitomo's long-standing business experience in Myanmar, and MPT's nationwide networks and customer base, we expect to enjoy a major competitive advantage.

Working with MPT, KSGM aims to provide "Japanese-quality" communications services across all domains, including mobile, fixed-line, and Internet. As a result, the company intends to become an optimal communications operator in Myanmar, which is slated for major growth.

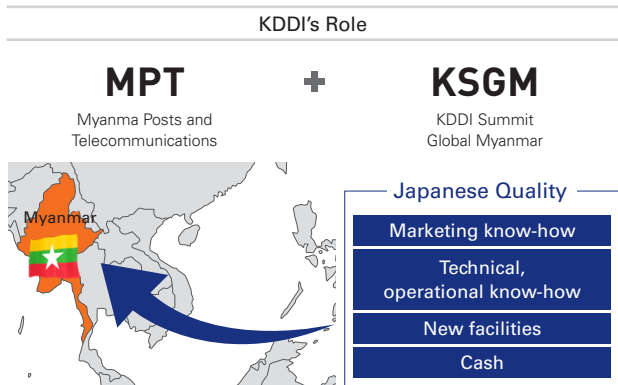
Enjoying Success in the Initial Year of Joint Operations

Since the start of joint operations in September 2014, communications service quality has improved in Myanmar's principal cities, the service area has expanded, and we have augmented local call centers. In addition to reinforcing these communications infrastructures, on the sales front we have enhanced sales channels at directly operated and specialized shops, as well as run various subscriber promotion campaigns. To build our brand, we have announced a joint business operating structure and a new brand logo.

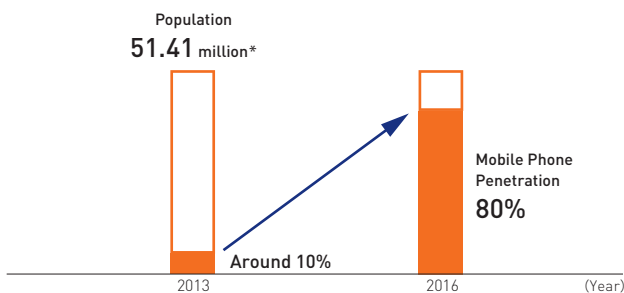
Through these initiatives, in the seven months since joint business began cumulative SIM card sales exceeded 8 million. Through ongoing improvements in communications quality and steady sales channel enhancements, we aim to become the telecommunications service provider of choice for customers in Myanmar.

Entry into the Telecommunications Business in Myanmar

Contributing to Development of Telecommunications in Myanmar through a Joint Business with MPT



Mobile Phone Penetration Target Provided by the Government of Myanmar



* According to an announcement by the Ministry of Immigration and Population of Myanmar

New Brand Unveiled in September 2014

