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The Japanese Telecommunications Market and KDDI

Characteristics of the Japanese Mobile Telecommunications Market

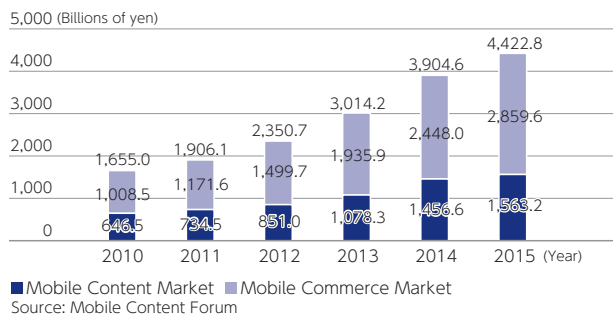
Mobile

As of March 31, 2016, cumulative mobile communication subscriptions in Japan totaled 156.48 million*1, up 4.3% year on year.

The mobile market continues to expand, driven by the shift from feature phones to smartphones and the trend towards single users owning multiple devices.

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. As these trends continue, telecommunications carriers are gradually expanding their operations in domains other than telecommunication services to foster new earnings streams.

>> Scale of the Mobile Content and Mobile Commerce Markets

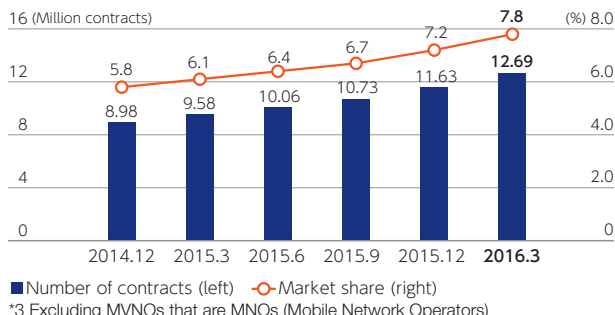


Meanwhile, Japan's mobile market environment is changing with the new entry of MVNOs*2, who procure networks from telecommunications carriers that have received bandwidth allocation. As of March 31, 2016, the number of MVNO service contracts stood at 12.69 million,*1 up 32.5% from a year earlier, and MVNO's share of the mobile telecommunications market had grown to 7.8%. The number of contracts is expected to continue expanding to meet the target of around 15 million by 2016 set by the Ministry of Internal Affairs and Communications' "Mobile Creation Plan" announced in October 2014.

*1 Source: Official Announcement of Quarterly Data on the Number of Telecommunications Service Subscriptions and Market Shares (FY 2014 Q4 (End of March 2016)), Ministry of Internal Affairs and Communications

*2 MVNO: Mobile Virtual Network Operator

>> Number of MVNO Contracts and Market Share*1,3



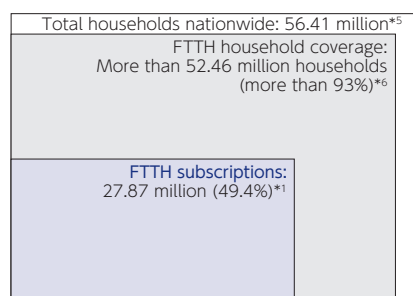
Fixed-Line Broadband

The nationwide FTTH household coverage ratio is more than 90% and "homes passed*4" is more than 70%, indicating that high-speed broadband environments are essentially in place nationwide.

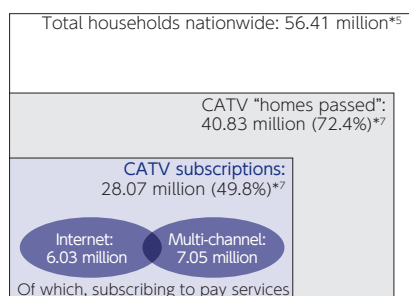
As of March 31, 2016, fixed-line broadband service subscriptions numbered 37.81 million*1, up 2.8% from the previous fiscal year.

Although fixed-line broadband service penetration has reached around 70%, the market continues to expand gradually, driven by the entry of new operators using the wholesaling fiber access service of NTT East and NTT West that started in March 2015 and sales of discount bundled mobile and fixed-line services by telecommunications carriers.

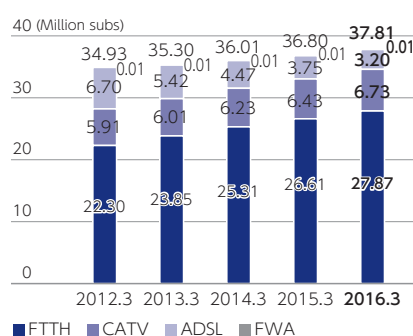
>> FTTH



>> CATV



>> Number of Broadband Subscriptions*1



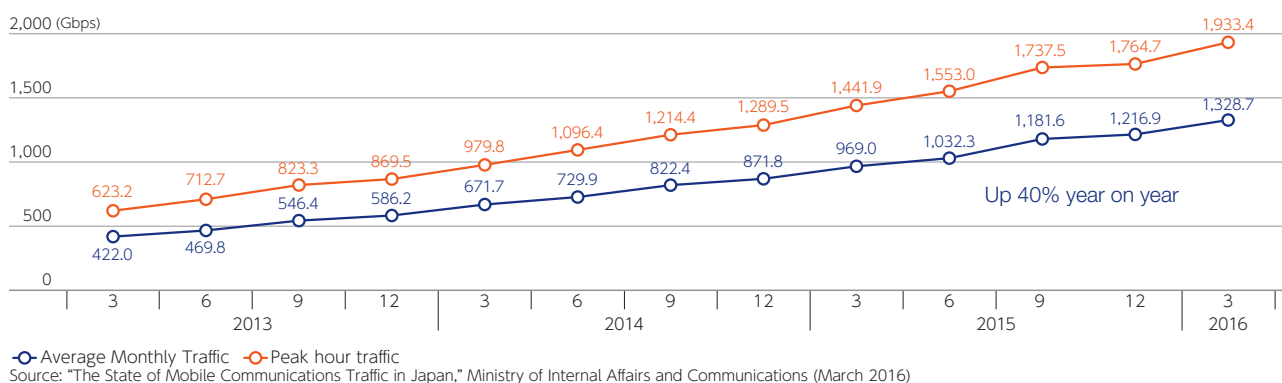
*4 In regions where the installation of CATV facilities is permitted, households in areas where installation of transit routes is complete
 *5 Source: Ministry of Internal Affairs and Communications, Population, Population Trends, and Number of Households based on Residents Register (as of January 1, 2015)
 *6 Source: Information NTT East Japan: Overall Management (2015): Telecommunications Facilities: Access Going Optical. As of March 31, 2016, 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 93% (estimated).
 *7 Hoso Journal, December 2015 edition (as of September 31, 2015)

Growth in Mobile Traffic

Due to the proliferation of smartphones and tablets, along with the increased performance of devices and advances in telecommunications technology, mobile traffic in Japan is growing at a rapid pace, with average monthly traffic recently rising at about 40% year on year.

In particular, average traffic during the peak hours for mobile customers 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)



Allocation of Bandwidth among Japan's Mobile Telecommunications Operators

		KDDI Group <i>au</i> + <i>UQ</i> WiMAX	NTT DOCOMO	SoftBank Group*8
3.5GHz (Band 42)	TD-LTE	40MHz	40MHz	40MHz
2.6GHz (Band 41)	TD-LTE WiMAX	50MHz*9 <i>UQ</i> WiMAX		30MHz*10 Wireless City Planning
2.1GHz (Band 1)	FD-LTE	20MHz × 2	20MHz × 2	20MHz × 2
1.7GHz (Band 3)	FD-LTE		20MHz*11 × 2	15MHz × 2
1.5GHz (Band 11)	FD-LTE	10MHz × 2	15MHz × 2	10MHz × 2
900MHz (Band 8)	FD-LTE			15MHz × 2
800MHz (Band 18/19/26)	FD-LTE	15MHz × 2	15MHz × 2	
700MHz (Band 28)	FD-LTE	10MHz × 2	10MHz × 2	10MHz × 2
Total Bandwidth		200MHz	200MHz	210MHz

As of March 31, 2016

*8 SoftBank Corp. + Wireless City Planning

*9 Currently, a 40MHz section is used for WiMAX 2+ (TD-LTE) and a 10MHz section is used for WiMAX.

*10 TD-LTE

*11 Only in Tokyo, Nagoya, and Osaka

The Japanese Telecommunications Market and KDDI

KDDI's Domestic Status

KDDI Group's History

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.

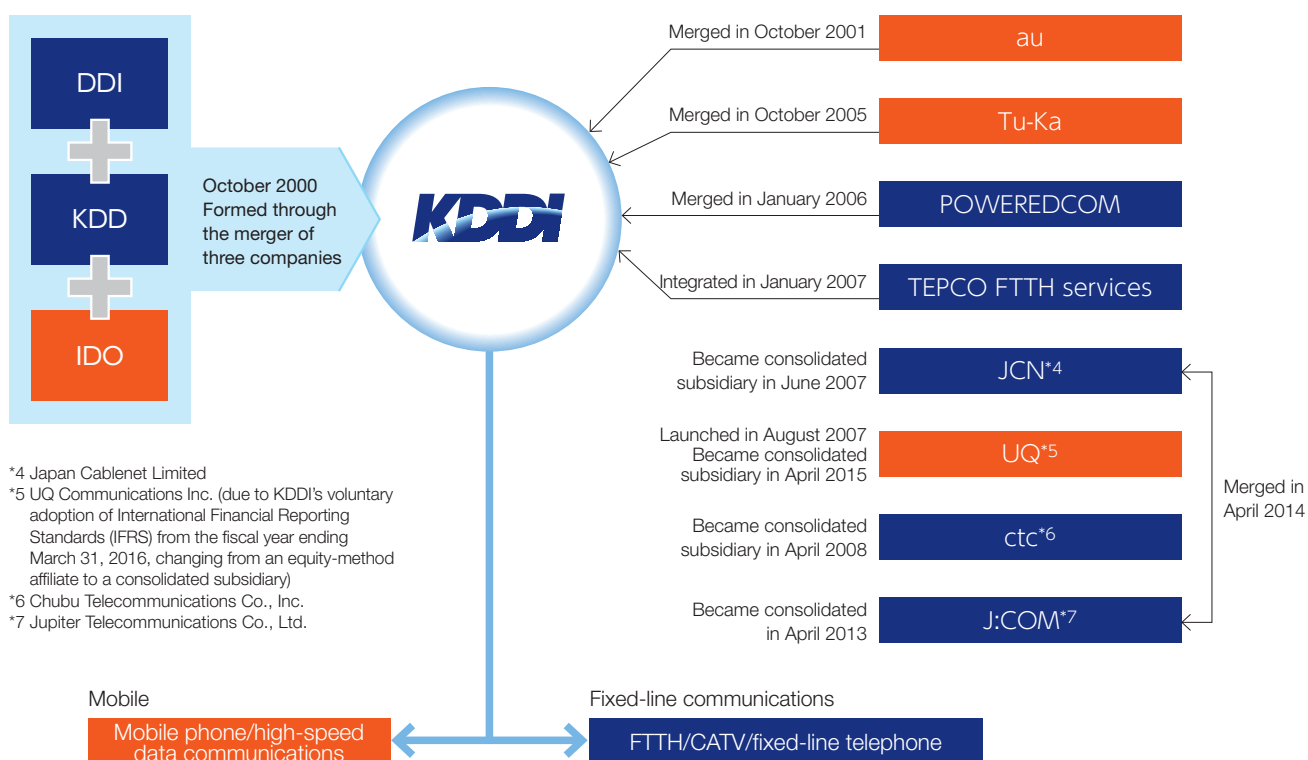
As a result, KDDI has amassed a host of access lines. In the mobile category, these include 3G/4G LTE and WiMAX

networks. In the fixed-line category, we have FTTH and CATV. The KDDI Group's customer base includes approximately 64 million mobile subscriptions*1 and around 8.8 million fixed-line broadband subscriptions*2. We are leveraging this situation by promoting the "3M Strategy*3."

*1 Total for au + UQ (as of March 31, 2016)

*2 Total for FTTH + RGU households (as of March 31, 2016)

*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 anytime and anywhere, with a variety of devices, including smartphones and tablets.



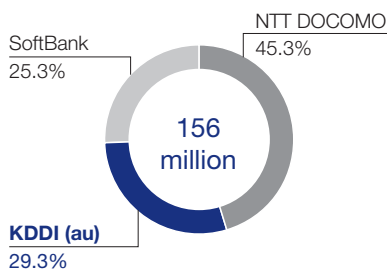
*4 Japan Cablenet Limited

*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.

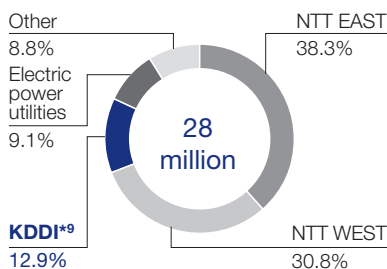
》》 Share of Mobile Communication Subscriptions*8 (As of March 31, 2016)



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

*8 Share among NTT DOCOMO, INC. (NTT DOCOMO), SoftBank Corp. (SoftBank), and KDDI (au)

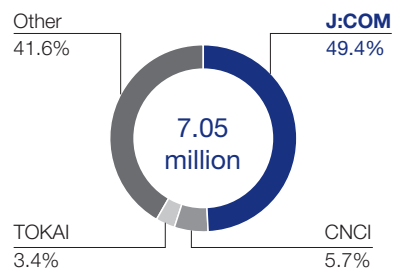
》》 Share of FTTH Subscriptions (As of March 31, 2016)



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, 2015)



Source: Prepared by KDDI based on *Hoso Journal* (December 2015 issue)

Principal Businesses of the KDDI Group

● Mobile

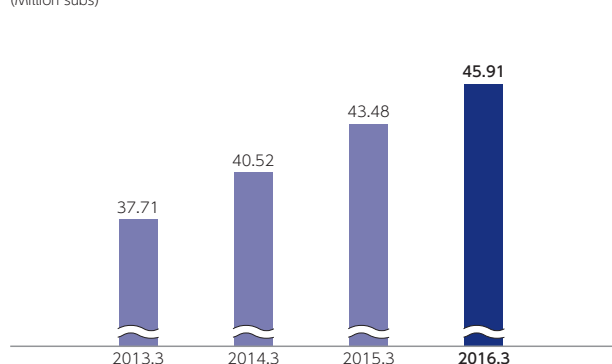
As of March 31, 2016, au mobile subscriptions numbered 45.91 million, up 5.6% year on year and accounting for a 29.3% share of the mobile market, which has three major carriers.

Of this figure, in the Personal Services segment, which accounts for more than 70% of KDDI's consolidated operating revenue, smartphone penetration had risen to 58% (56% if limited to LTE).

UQ that provides WiMAX and WiMAX 2+ service (TD-LTE) had a total of 18.05 million subscriptions as of March 31, 2016, an increase of 89.1% year on year. Moreover, in October 2015 UQ also started operations as an MVNO under the name UQ mobile, and is working to expand its customer base in the MVNO market.

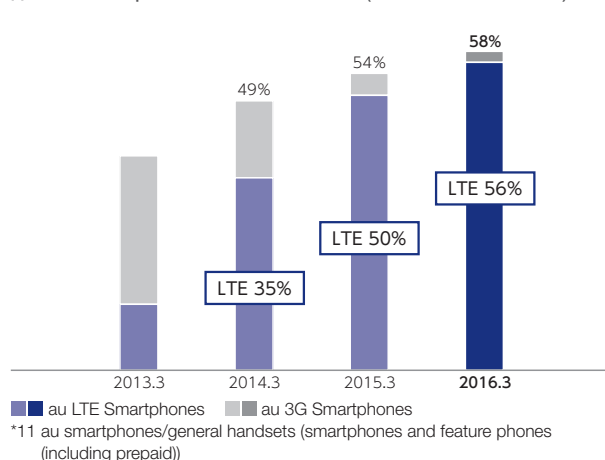
>> Cumulative au Subscriptions*10

(Million subs)



*10 KDDI + Okinawa Cellular

>> au Smartphone Penetration*11 (Personal Services)



*11 au LTE Smartphones, au 3G Smartphones, au smartphones/general handsets (smartphones and feature phones (including prepaid))

● Fixed-Line Broadband

As of March 31, 2016, the cumulative number of FTTH subscriptions stood at 3.75 million, up 7.6% year on year and accounting for a market share of 12.9%.

In CATV services, the number of RGU households*12 as of March 31, 2016 stood at 5.05 million, up 3.5% year on year.

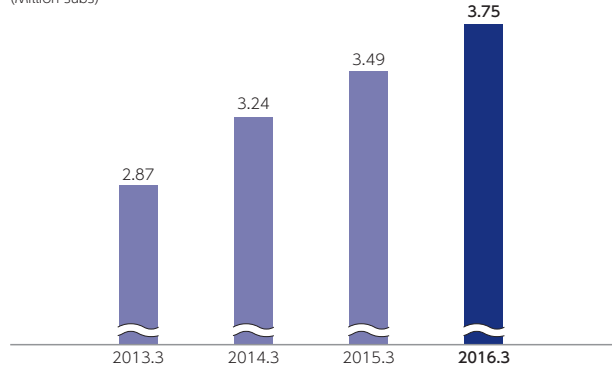
KDDI's share of pay multi-channel CATV subscriptions as of September 30, 2015 stood at around 50%.

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

*12 RGU: Revenue Generating Units. Each household's subscription to CATV, high-speed Internet connection, and telephony services each represent one RGU respectively.

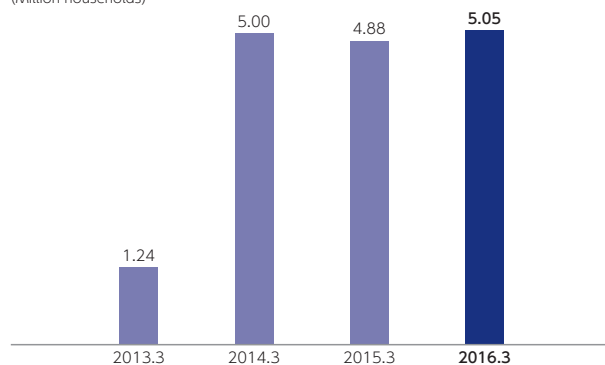
>> FTTH Subscriptions*9 (Cumulative)

(Million subs)



>> Number of RGU Households*13

(Million households)



*13 JCN only for the fiscal year ended March 31, 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. From the fiscal year ended March 31, 2015 onward, the definition was changed from "Number of Subscribing Households" to "Number of RGU Households". Households on the number of subscribing households basis in the fiscal year ended March 31, 2015 was 5.05 million.