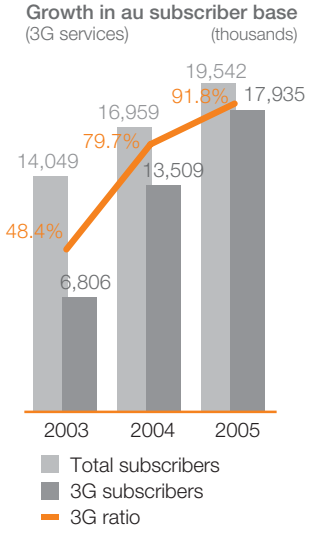
au business

Leading the way

In tune with the needs of tomorrow, enhanced performance and sleek design bring the future to the now.



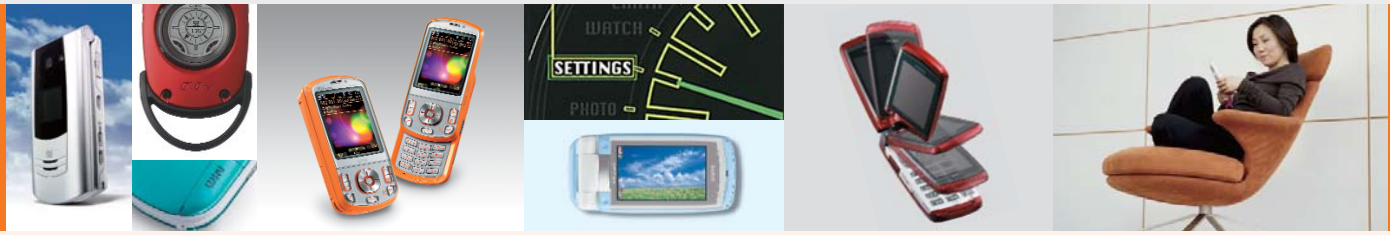
Overview of services

KDDI's au business operates CDMA mobile services throughout Japan. The introduction of 3G services under the CDMA 1X and CDMA 1X WIN brands has underpinned strong au subscriber growth in the past few years. Advanced services and attractive handset design have made au a popular choice of carrier relative to the competition. Over 90% of the au subscriber base had migrated to 3G services by the end of March 2005.

Using connection speeds of up to 2.4Mbps based on CDMA2000 1x EV-DO technology, au has leveraged the efficiency of its network infrastructure to offer EZweb Internet connection services and a series of other advanced data services to CDMA 1X WIN subscribers. In November 2004, au introduced the EZ Chaku-Uta Full™ service, the first in Japan to allow users to download and play entire songs. Total downloads passed the 10 million mark on June 15, 2005.

Flat-rate tariffs for mobile e-mail and EZweb services have been a major factor contributing to the popularity of CDMA 1X WIN. KDDI extended this pricing to all packet-switched data communications, renaming the "EZ Flat" tariff "Double Teigaku." This pricing plan is proving extremely popular with a broader range of users.

For the second consecutive year, au secured the largest share (50.4%) of net additions, with a net rise of 2.58 million subscribers. Total subscriber numbers reached 19.54 million



CDMA2000 1x EV-DO technology is specifically designed to realize high-speed data communications.

at the end of March 2005, increasing au's overall share of users to 22.5%. The number of CDMA 1X WIN subscribers increased steadily to 3.25 million, accounting for one-sixth (16.6%) of the au total by the year-end.

Market trends and strategy

Growth in the Japanese mobile phone market has dwindled in recent years. The net increase in subscribers in the year ended March 2005 was 5.13 million, a fall of 13% compared with the previous year. Competition is set to intensify over the next few years with the introduction of mobile number portability (MNP) in fiscal 2006 . Several firms also have plans to enter the market.

The key to the success of the au business to date has been a carefully cultivated balance between attractive handset design, 3G content and low service usage fees for subscribers. This combination has created competitive products and strong brands. The benefits derived from the technical superiority of CDMA2000 1x EV-DO promise to remain a major point of differentiation for au's CDMA 1X WIN services as the competition starts to heat up.

Connection technology optimized for high-speed data communications

CDMA2000 1x EV-DO technology is specifically designed to handle high-speed data communications. Voice and data traffic are carried on different frequencies with au mobile phone services, in direct contrast to the W-CDMA services of rival carriers, which carry all data over the same frequency bands. This major difference results in extremely high transmission efficiency with au services, enabling users to enjoy the benefits of a system that is optimized for bandwidth.

Fast network construction

CDMA2000 1x EV-DO technology also builds on one of the main strengths of the CDMA protocol: backward compatibility. So the upgrade of the network infrastructure from cdmaOne and CDMA2000 1x to CDMA2000 1x EV-DO only involved the installation of small amounts of new equipment. This allowed KDDI to extend the service area virtually nationwide within a short period after launch, contributing to the swift growth in subscribers numbers.

au business

EZweb contents

EZ「着うたフル」 EZ「着うた」	*EZ Chaku-Uta Full™* *EZ Chaku-Uta®* *(ringtones/songs)*	These services allow downloads of CD-quality songs and music clips. The most popular of all au services, they have boosted au's reputation as a mobile music carrier. The EZ Chaku-Uta Full™ service enables download and handset playback of single tracks by leading recording artists, while EZ Chaku-Uta® enables users to download 15 to 30-second song clips for use as ringtones.
EZチャンネル	*EZ Channel*	With the CDMA 1X WIN service, this feature functions as a broadcasting medium for original programs featuring full audio and video playback, as well as text. Selected programs can be downloaded automatically overnight for customers to view at their leisure. Movie previews, music chart rankings and quiz programs are popular selections from the 30 channels available.
EZムービー	*EZ Movie*	This service allows users to download high-quality short movies onto handsets. The CDMA 1X WIN service permits downloading of movie clips of up to three minutes in length. The service also supplies Flash® animations.
EZアプリ	*EZ Appli*	This service allows users to download games and other software programs. A variety of applications for the BREW™ platform (by Qualcomm) are available to enhance the functionality of handsets.
EZナビウォーク	*EZ Navi Walk* *(GPS navigation)*	This street-navigation service based on GPS technology turns the phone into the portable equivalent of a car navigation system. The screen image scrolls automatically depending on walking speed and can be enlarged or reduced. Users are alerted that they have reached a target destination by an audio signal or handset vibration.
EZブック	*EZ Book*	A service that enables e-books such as novels and manga (comics) to be downloaded onto handsets. With the EZ Book Land! portal, users can search for, download and even purchase books.

Flat-rate prices made possible by EV-DO technology

The technological characteristics also result in a network design with extremely low data communication costs on a per bit basis. This has allowed au to offer CDMA 1X WIN users fixed-rate pricing plans ahead of other carriers.

Technical superiorities have enabled au to offer customers high-value services with the shift to 3G. KDDI plans to maintain these points of differentiation with other mobile carriers by continuing to offer more data-intensive content and related services, such as EZ Chaku-Uta Full™, games, video and books, within a flat-rate pricing system.

Flat-rate tariffs encourage broader range of content

Third-party providers supply all the content offered to au subscribers. The introduction of flat-rate tariffs for CDMA 1X WIN users has encouraged more customers to try content-based services, in the process widening the potential user base for providers. The success of CDMA 1X WIN has, in turn, spawned new content. au receives part of the content-related fees as a commission.

Portal site improvements

Fixed-rate pricing has turned mobile digital content into something that users regularly access on a daily basis. Daily hits have risen dramatically on the portal site for EZweb services through which au subscribers gain Internet access. In response, au has upgraded the portal site to further broaden the usage of content. The improved site features a genre-based menu that uses Flash® animation to give users an attractive and easy-to-navigate way of choosing between content options, along with advertising.

Since searching for the content to download can be time-consuming on the small screen of a mobile handset, KDDI created separate portal sites for the most popular genres. These genre portal sites also feature links that enable users to purchase related merchandise online. For instance, the EZ Book Land! portal site allows users to download portions of electric books to test and compare the contents and then purchase the desired model. Similarly, the EZ Music! site enables users to conduct searches for songs and music clips to download using the EZ Chaku-Uta® or EZ Chaku-Uta Full™ services and to buy music CDs. As with other content-based services, KDDI gives subscribers the option of having the cost of ordered merchandise billed along with au service charges. KDDI sees such features as enhancing the connection between au mobile services and real-world products, thus boosting usage frequency and expanding the non-communications revenue base.

au design project

Born in 2001, the concept of the au design project was to adopt a completely fresh approach to handset development by leading from a design perspective. The project has yielded a number of concept models and commercial handsets through collaborations with outside designers. The year ended March 2005 saw the release of two new models, talby (October 2004) and РЕИСК (February 2005). The project is not merely a design showcase—it also plays a major role in influencing all au handset and product designs, thereby enhancing the value of the product range and the brand. Its mission remains to design the future of the mobile handset.

talby (creative design: Marc Newson)

РЕИСК (creative design: Makoto Saito)

Mobile solutions boosting sales to corporate sector

In the consumer market, most people have only one handset. To expand the au subscriber base and build a broader business, KDDI is targeting the corporate market with mobile phones that boast a range of innovative mobile solutions and other special features tailored to the needs of corporate users. In this sector, handsets are sold bundled with the services as part of mobile solutions packages.

The use of the BREW® application platform makes it easy to customize au mobile phones for specific company requirements. Sales are increasing, particularly in those corporate sectors where mobility is a core part of business. For instance, salespeople can use au mobile phones to schedule and manage appointments or to compile and send reports for various administrative purposes by using the BREW® application to design specific report formats. Alternatively, the GPS function is an effective way of determining the location of staff, which could be important in an emergency.In response to the Personal Information Protection Law that came into force in Japan in April 2005, which laid down strict provisions on the obligations of companies to keep all personal information confidential, KDDI introduced a security measure for the personal data recorded in address books on mobile phones. As part of KDDI's Business Convenience package, administrators have the ability to send a message from an office-based PC that erases any address book data on an employee's phone if the phone is lost. KDDI continues to develop other service functions to boost mobile phone sales to corporate users.

Office Wise provides internal phone solution for corporate customers

KDDI is also aggressively pursuing the large-scale corporate mobile solutions market. Under the Office Wise service launched in November 2004, the installation of equipment in an office building allows all communications on registered au mobile phones inside the building or within a designated area to be charged at a flat rate. The system is compatible with internal PBX exchanges, allowing all conversations between mobile phones and system extensions to be charged at the same flat rate. KDDI is marketing this system to companies with relatively large operating bases. But the system is flexible enough to accommodate individual employees' au phones. Given the low cost barriers for business owners, KDDI expects this service to contribute strongly to its business growth in the corporate sector.

Fixed-line business

Creating greater network efficiencies

In the forefront of the industry, KDDI offers state-of-the-art services and solutions in the fixed-line arena at a price that's hard to beat.

Overview of services

Our fixed-line business includes voice telephony services as well as broadband Internet access and other services delivered to individuals and corporate users over a wire connection.

February 2005 marked the launch of KDDI Metal Plus, a new fixed-line service that uses the latest IP technology to create a high-quality, efficient network at low cost. This combination enables users to benefit from much lower prices than previously available. The service marked an advance for KDDI in that the company supplies the line instead of NTT—although users are still able to use the same phone number assigned to the original NTT line. The service mainly targets customers who need home telephone service only, but it also offers optional ADSL or dial-up Internet connections.

KDDI offers the KDDI Hikari Plus service to customers that want a high-speed Internet access service. Marketed to residential customers in condominiums and detached homes, KDDI Hikari Plus combines Internet access and IP telephone services with multichannel television broadcasts through a single optical fiber connection. Although ADSL has become a popular means in Japan of gaining a broadband Internet connection at home, KDDI sees FTTH as the true future of broadband. KDDI expects the penetration of optical fiber connections to start rising rapidly in Japan within the next few years. As with KDDI Metal Plus, KDDI provides the line instead of NTT for KDDI Hikari Plus, but users can keep the same number.

The KDDI Metal Plus service is also marketed to small businesses. For corporate customers with larger operations that generate substantial voice and data traffic, KDDI provides telecommunications connections with various added functions. The full corporate menu includes data center services, IP-VPN and Ether-VPN services (used for intranet development) and original systems consulting and development. Solution design is optimized to precise requirements.

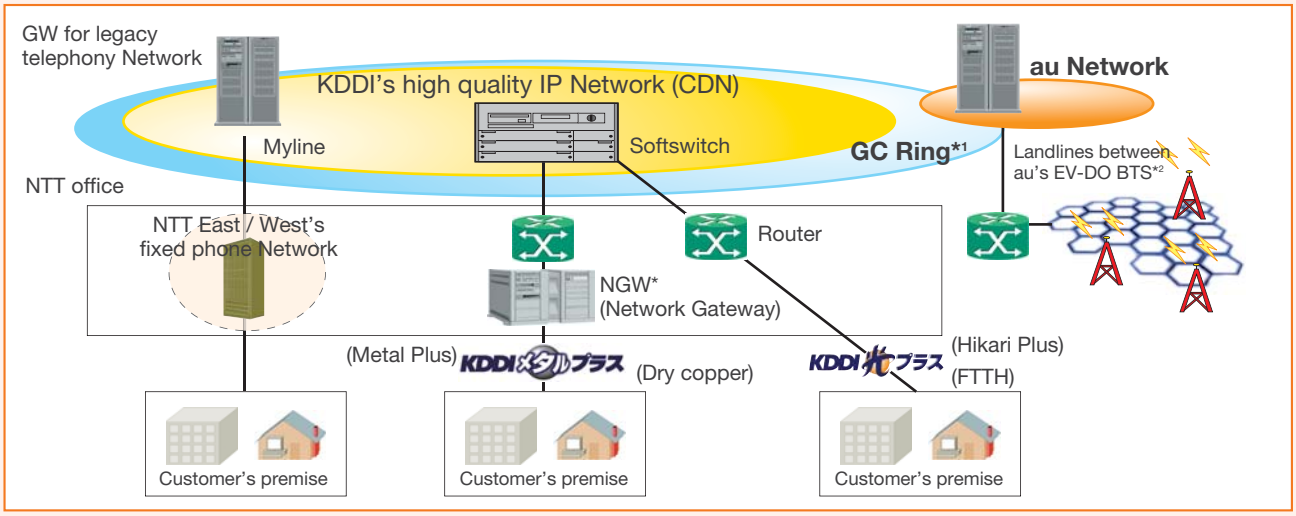
Market trends and strategy

Traditionally, NTT has enjoyed a monopoly in the fixed-line telephone services market, with other carriers being limited to providing relay connections. The introduction of the MYLINE service in May 2001 sparked fierce competition for market share by allowing users to register preferred carriers. However, the share of each carrier became virtually frozen after the service was introduced. Market competition dropped off markedly as a result, and the market dwindled in size further as the usage of mobile phones and e-mail continued to rise. In addition, steep access charges paid to NTT put significant pressure on profit margins.

Deregulation has since opened up new business opportunities in the sector by allowing carriers to lease capacity cheaply from NTT. This, in turn, has enabled carriers other than NTT to offer consumers an alternative fixed-line telephone service featuring lower basic service charges. KDDI Metal Plus is KDDI's version of this. Rivals are responding by

Expand CDN (Content Delivery Network)

CDN: an efficient backbone for KDDI Metal Plus and KDDI Hikari Plus



1. GC Ring: Network of local switch stations 2. BTS: Base Tranceiver Station

developing similar services, while NTT is trying to preserve its market share by reducing the basic monthly fee. These moves have resulted in a revival of competition within a shrinking market.

The broadband market is still undeveloped in Japan. ADSL remains the leading broadband access technology to date, but the penetration of faster FTTH services of higher quality has been delayed by a lack of suitable content. KDDI's strategy is to focus initially on using advanced IP technology services to supply low-priced telephone services (KDDI Metal Plus) to the large base of residential customers who are happy with just a phone connection. KDDI plans to shift greater resources toward the marketing of FTTH services (KDDI Hikari Plus) once the signals indicate that broadband penetration is ready to take off.

KDDI's strengths

The KDDI Metal Plus service primarily targets residential customers who only want a telephone connection. In this respect, it differs little from the traditional model for fixed-line telephony. One major point of differentiation with rival services arises from KDDI's use of the latest IP technology, which results in a highly efficient network that can support high call quality but still keep tariffs low. KDDI has also begun offering consolidated billing for KDDI Metal Plus and au mobile phone services. This is the first stage of a plan to develop greater convergence between fixed-line and mobile services. Such FMC solutions would be unique to KDDI, enabling the company to raise its market share in the fixed-line segment.

The KDDI Metal Plus service makes use of the CDN (Content Delivery Network) backbone, an advanced IP network that was originally constructed to support the development of the KDDI Hikari Plus service. The service area of the CDN is now being extended for KDDI Metal Plus to include the whole of Japan. This network can also support KDDI Hikari Plus services with minimal investment in upgraded equipment. KDDI is therefore able to pursue a flexible sales strategy, since resources can easily be shifted to the increased marketing of KDDI Hikari Plus.

The central importance of the CDN to fixed-line operations is set to increase as KDDI implements its plan to convert the entire network to IP technology by March 2008. KDDI is also promoting a shift toward network sharing between au mobile phone and fixed-line operations. By achieving FMC over the entire network, KDDI plans to create greater network efficiencies that will ultimately translate into more-competitive services.

TU-KA business

Wide-ranging appeal

Simplicity over sophistication. A focus on the basics has uncovered a new market niche that KDDI has cornered.

Overview of services

KDDI's TU-KA business is operated by three cellular-phone subsidiaries that provide PDC-based services in the three Japanese regions of Kanto (Tokyo and surrounding areas); Tokai (central Japan)l and Kansai (Osaka, Kyoto, Kobe). Unlike au, the TU-KA business does not possess a 3G license, and concentrates on supplying low-priced 2G mobile services. TU-KA users also have access to e-mail, Internet, ringtone melody download and other basic content-based data services through EZweb. The service is targeted mainly at those users who are interested in a simple mobile phone service based around voice and e-mail.

In the year ended March 2005, KDDI augmented the TU-KA mobile handset lineup with an ultrasimplified model, the TU-KA S. This handset even does away with the conventional liquid-crystal display in the name of simplicity, providing users with a device that purely functions as a phone. Other TU-KA handset features that target the need for simplicity and clarity in phone-based communication include a bone-conductive speaker system and ultraslim handsets just 15 mm thick (achieved through the elimination of bulky advanced functions). This functional simplicity, aimed at satisfying specific user needs, clearly differentiates the TU-KA business from au.

Market trends and strategy

The Japanese mobile phone market mainly features competition between different 3G services, and most of the handsets on display in shops are 3G models. Convenient, function-packed and fashionable, 3G cellular phones are highly popular among youthful users. For many elderly people, however, such phones offer unnecessary functions that make them difficult to use. Since 2003, TU-KA has adjusted its strategy to target customers who want a simpler mobile communications solution by focusing exclusively on basic models built around 2G phone and e-mail functions. This strategy involves minimizing and simplifying all the aspects of products and services, from billing fee structures and handset operation to the instruction manual.

This change in strategy manifests itself a shift in the TU-KA customer base. The proportion of TU-KA subscribers in the 50 to 69 age bracket is rising compared with other users. While users under 40 years of age have adopted 3G, many older users are embracing the simplicity of TU-KA. And older users tend to want to use the mobile phone handset they buy for a much longer period than the average younger customer, who switches models regularly. This lowers handset costs for KDDI. Capital investment is also lower because there is no

The idea was simple. And it's caught on.

Model	TU-KA S
Dimensions (WxHxD, mm)	48 x 121 x 18 (approx.)
Weight (g)	87 (approx.)
Continual-use battery life (mins.)	240 (approx.)
Standby battery life (hrs.)	840 (approx.)

TU-KA S handset

need to upgrade the network beyond 2G. In the year ended March 2005, TU-KA was able to generate higher profits despite a slight net decline in its subscriber base. By its nature, the TU-KA business acts as a cost-efficient cash cow.

TU-KA S handset designed for seniors

In November 2004, TU-KA launched a new cellular handset that is the epitome of the ultrasimplification strategy. The TU-KA S handset is a portable phone designed for voice communications only. Dispensing even with such commonplace functions as a directory and call register, the specifications include only those things that are strictly necessary for voice telephony. The design concept was to make it as simple to use as a standard home phone—making even an instruction manual unnecessary. The standby battery life is extremely long, at around 840 hours (the typical figure for au WIN handsets is 250–300 hours). Other senior-friendly features include a prominent speaker to make it easy to hear the other person's voice and large buttons to aid in dialing.

Looking completely unlike anything else on the market, the TU-KA S handset has attracted a lot of attention since its launch, contributing to a near doubling in total unit sales volume at TU-KA during the initial sale period. On a net basis, monthly subscriber numbers rose for the first time in three years in the first three months of the new handset being on the market.

In fact, the TU-KA S concept was shelved in the early years of KDDI because it was assumed that such a model would not sell in a function-obsessed market. Extensive market research, including questionnaire surveys in neighborhoods with high elderly residential concentrations, subsequently found that there was strong demand for such a simplified phone. Market development prospects for TU-KA appear good given the low birth rates and steadily growing population of seniors in Japan.

Special topics

2005 Aichi World Exposition

The first world exposition of the 21st century opened in Aichi Prefecture, Japan, on March 25, 2005. Under the theme "Nature's Wisdom," the event showcases a vision from Japan of advanced technologies and new systems to support the society of the future, focusing in particular on environmental, IT and social aspects.

Apart from co-sponsoring events at the World Expo 2005 in Aichi, KDDI is playing a central role in providing solutions through IT and ITS technology together with other leading Japanese companies.

Attraction reservations

For the first time ever at an EXPO, visitors are able to reserve pavilion viewing times and events at least a day in advance using a PC or mobile phone. The system also allows same-day reservations on special terminals outside each pavilion. The reservations system developed by KDDI applies to 17 pavilions and a number of related events.

Support navigation

The support navigation service provides visitors that register at the official EXPO site with up-to-the-minute information on traffic, transportation, crowds and events, enabling people to better plan their journey to and from the EXPO. The data provided by visitors is also useful for event managers in coordinating site and local transportation needs. KDDI played a key role in the overall construction and operation of these systems.

AI-MATE hybrid communicator

The AI-MATE is a hybrid communications device that combines phone, e-mail, browser and address book functions. It is used for many purposes at the event, including communications between EXPO staff, guiding visitors, checking event reservations and providing site management information. Demonstrations of advanced IT also feature the product. KDDI's solution includes a special center for monitoring the on-site usage of the approximately 5,000 AI-MATE handsets (including all downloads to the devices) and controlling handset inventory.

Event sponsorship

KDDI created the official site and information center for the World Expo 2005 in Aichi to transmit important information regarding the event. KDDI operates the futuristic multi-source, multi-device information center by gathering, editing and sending a diverse array of information to various media, such as PCs, mobile phones, large imaging monitors and TVs. Handling admission reservations and providing supporting navigation are other roles that KDDI is undertaking at the expo.

Official site and information center

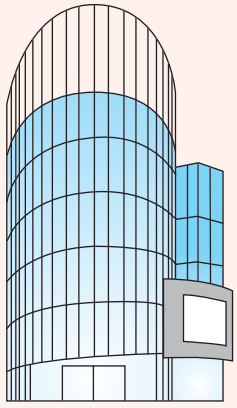
KDDI operates the official site and information center, providing all EXPO-related information to visitors and the media. This information is fully integrated with the reservation and support navigation services.

KDDI DESIGNING STUDIO

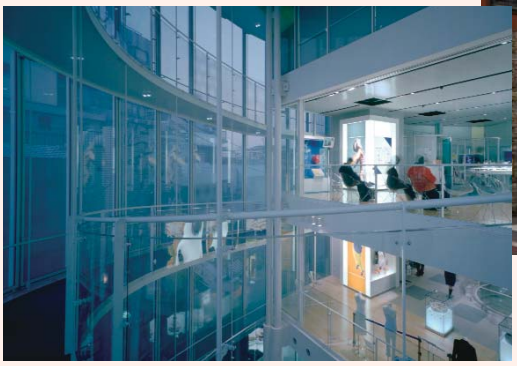
The KDDI DESIGNING STUDIO opened in Harajuku in March 2005 as a central corporate communications facility with marketing and collaborative functions. Housed in a striking building in the capital's bustling center of creative fashion, the studio offers visitors the opportunity to enjoy trying out au and other KDDI services. The choice of location at the cutting edge of youth culture in central Tokyo emphasizes the desire on KDDI's part to discover the future possibilities of communications together with customers. The studio will help to make KDDI's corporate slogan "Designing the Future" a reality.

Floor Introduction

5th	Relaxation Studio	Café on the rooftop with gardening
4th	Collaboration Studio	Room for seminars and workshops
3rd	Creation Studio	A space to experience the future of KDDI that includes virtual videos and next-generation handsets
2nd	Presentation Studio	Showcases various au mobile phones and provides chance to experience content first-hand, such as EZ Chaku-uta®
1st	Communication Studio	Event stage for live talk shows



Exterior



Interior