

Special Feature: The Challenge for New Value Creation

In addition to strengthening our existing businesses to attain ongoing growth, KDDI also places great importance on strengthening our initiatives to create new added-value businesses based around information communications.

In the consumer-oriented field, we are taking on the challenge of creating new value by taking advantage of the au customer base to create new businesses, including in the field of non-traffic business. For corporate clients, we aim to become an all-around player in ICT* based on fixed and mobile convergence (FMC).

Aiming to be No. 1 in customer satisfaction in all services, KDDI will provide new value to our customers and to society.

*ICT: Information and Communication Technology

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New Value Creation I

Developing the Mobile Internet Financial Business ~Jibun Bank~

In July 2008, a new style of bank was born out of a joint venture between KDDI and The Bank of Tokyo-Mitsubishi UFJ, Ltd. This new bank aims to provide value to each individual customer by taking advantage of the unique features of mobile handsets.

■ Creating New Value

Profit opportunities lost due to high thresholds

For many people, the phrase “bank transaction” conjures up images of cumbersome procedures and a long wait in line for the teller, or the annoyance of having to boot up the computer to access Internet banking. But if people could perform bank transactions at any time and place, whenever they found something they wanted to buy—or if a simple bank transaction

allowed them to easily split the bill after a dinner out with friends—banking would be a familiar, low-threshold experience, and the number of opportunities to make use of banking services would increase dramatically. For many people, products such as Certificates of Deposit and foreign currency deposits may seem difficult, but in an era when nearly every Japanese person has a mobile phone, we decided we could create a new business opportunity using the special features of

mobile phones to handle transactions involving these products.

KDDI and The Bank of Tokyo-Mitsubishi UFJ propose an optimal solution

“We want to eliminate the high threshold, and create a bank that users find more familiar and comfortable.”

Jibun Bank was born when KDDI and The Bank of Tokyo-Mitsubishi UFJ came together with this same strong desire. KDDI was searching for new

Jibun Bank Corporation

Jibun Bank has a big advantage over previous Internet banking services in Japan: the roughly 30 million au subscribers and the approximately 40 million individual customers of The Bank of Tokyo-Mitsubishi UFJ. Going forward, we have set our sights on providing the major financial services to individual customers, aiming for 2.4 million accounts and ¥1 trillion in deposits in fiscal 2010 (the third year of operations). We are aiming for 3.4 million accounts, ¥1.5 trillion in deposits, and recovery of our losses in fiscal 2012 (the fifth year of operations).

Services

Continuously develop and introduce high-added-value services that only mobile phones can offer, in addition to basic banking functions.

	From July 2008	From Fall 2008	From Spring 2009
Mobile phone interface	Download of specialized applications (au) Enable quick and easy transactions by browser	Pre-install application on new phone models, creating an entryway to Jibun Bank in launcher (au)	
Services only mobile phones can offer	Mobile bankbook Bank transfers via mobile phone number	Fast card loan applications by mobile phone Intermediary services for securities and insurance purchases by mobile phone	Flexibly enable deposits in foreign currencies Mobile phone credit cards (Contactless IC)
Fee settlement and e-commerce alliances	Settlement for online shopping, auction and other purchases via Jibun Bank through au mobile e-commerce E-Money charge purchases		Expansion of e-commerce alliances Develop options for more diverse settlement scenarios (publicly run gambling races, etc.)

Reaffirming the compatibility of mobile phones and financial services

In the preparation stages before the establishment of Jibun Bank, KDDI oversaw mobile handset operation and transmission access, while The Bank of Tokyo-Mitsubishi UFJ handled banking services. We already felt that mobile phones and financial services were compatible, but as the preparations progressed, our feeling turned to conviction. In addition to giving full consideration to system structure and security, the new bank is also successively expanding its service lineup. We hope that the public will look forward to making use of the new financial services to be provided by Jibun Bank.



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businesses as Japan's mobile phone market matures. The Bank of Tokyo-Mitsubishi UFJ was searching for a mobile Internet strategy to meet customer needs that traditional bank services were unable to cover. Jibun Bank can truly be called an optimal solution for resolving the problems both companies were facing.

Resolving the difficulty of new value creation

One of the key features of Jibun Bank is that it has been designed for ease of use via a mobile phone handset. We believe there is great value in creating an environment where users can complete a transaction whenever and wherever they want with just a click or two.

In creating this environment, a strong alliance between a communications company and a bank was needed in order to build applications into the handset software.

Such major example of the new bank is "mobile phone number bank transfers."* This new service, unlike anything previously available from a bank, allows users to make easy bank transfers just by entering the telephone number and the first two characters of the recipient's name. Users can search for individuals listed in their "address book" to use the transfer service. Bringing this service to life required accurately matching mobile phone number data possessed by the communications company with the bank account number

data held by the bank, raising a host of issues that had to be resolved in terms of compliance, systems, and security. We believe we have been able to overcome these issues by establishing a framework for full cooperation between our two companies and through our enthusiasm for creating original value via the new bank.

*Business model patent pending

■ New Value for KDDI

Helping to boost au's appeal and increase customer satisfaction through an attractive, easy-to-use financial service

au handsets released in the future will have specialized software pre-installed, with an extremely easy-to-use interface. Attractive services such as "mobile phone number bank transfers" and "Jibun Bank payment," which makes it possible to pay simply and quickly for online auction items, will be available for use only by au contract holders. We expect that this new feature will stimulate greater phone use involving Jibun Bank among au users, and that commercial transactions will spread. We also believe that it will make the au services more appealing, and contribute to raising customer satisfaction.

Enabling Various Financial Services* through Simple Navigation

The diagram illustrates the Jibun Bank application interface. On the left, a mobile phone screen displays the application's main menu with various icons. An arrow points from this screen to a detailed view of the menu on the right. The detailed view shows a hierarchical menu structure:

- Deposit transfers
- E-money
- E-commerce settlement
- Card loans
- Foreign currency deposits
- Securities/Insurance
- Credit cards

A legend at the bottom indicates that solid lines represent services available at launch (July 17, 2008).

*Solid line represents services available at launch (July 17, 2008)

New Value Creation II

UQ Communications ~ Developing the Mobile WiMAX Business ~

The mobile WiMAX network will provide the crucial social infrastructure needed to allow customers to use broadband services anytime, anywhere. Through the mobile WiMAX business, KDDI aims to create new markets and new ways of providing value.

■ Creating New Value

Japan's only provider of mobile WiMAX telecommunications

Mobile WiMAX is a new telecommunications technology of a global standard offering high-speed broadband and always-on connections even for users in rapidly moving vehicles. The first such network was launched in South Korea in 2006, and other countries including the United States are currently building infrastructure and developing terminals with the aim of launching services in the near future.

In Japan, KDDI joined a consortium of six companies to set up Wireless Broadband Planning K.K. (current name: UQ Communications Inc.), which in December 2007 received a license to develop telecommunications base stations using the 2.5GHz frequency band. The company will establish a nationwide network, making it the only mobile WiMAX operator in Japan.

The New World of Mobile WiMAX

Mobile WiMAX technology aims to provide a broadband connection environment that users can access at any time, whether at home, at the office, or out on the street. UQ Communications envisions a service that will allow users to easily access the mobile WiMAX network using a variety of devices, at any time or place, as

indicated by the company's slogan: "Broadband always with you."

The company is trying to develop a new business model and new markets that do not replace the old market, but rather incorporates it by allowing a wide range of different products and communications devices to access the network. This is the world that mobile WiMAX

seeks to create, and it is in this flexibility that its value as a business lies.

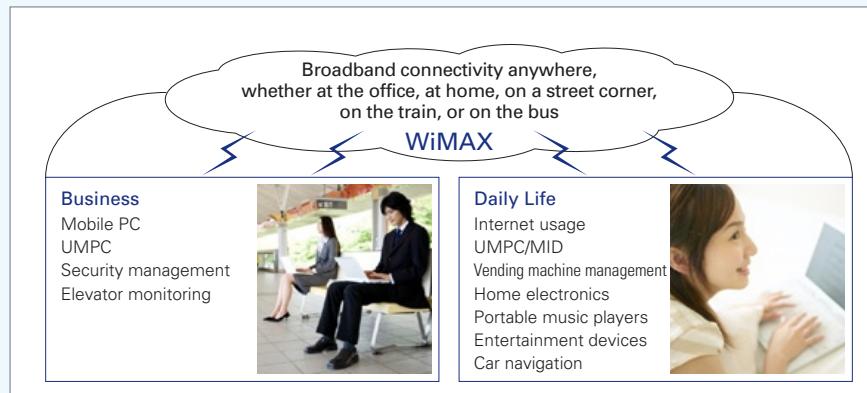
Stimulating the market by encouraging MVNOs

Mobile virtual network operators (MVNOs) are a critical element that will be needed to help develop and stimulate the markets that mobile WiMAX makes possible.

Characteristics of Mobile WiMAX

High Speed Broadband	<ul style="list-style-type: none"> Maximum transmission rate of 40Mbps, expandable to 80Mbps in the future
Mobility	<ul style="list-style-type: none"> Network can be utilized even while in moving vehicles at speeds of over 200kph* *By using a phasing simulator, connections were confirmed to be possible even while users were moving at speeds of 200kph. Under the standard specifications, connections are possible at 120kph.
Always On	<ul style="list-style-type: none"> New uses based on connections that are always "on" The disadvantages of dial-up connections are eliminated
Global Standard	<ul style="list-style-type: none"> Terminals can be used without any adjustment even outside of Japan Cost of devices is likely to be less expensive as common specifications are used worldwide

The World that Mobile WiMAX will Make Possible



As large numbers of customers begin using the network, it will be necessary for providers to develop and offering increasingly attractive services in various business segments. When the mobile WiMAX network will be a fully open to MVNOs, a host of new players will be able to enter the market, offering users an ever-expanding range of services.

UQ Communications has already begun conducting explanatory meetings for companies interested in developing MVNO businesses. The sessions have proven even more popular than expected, with nearly 200 companies from a number of business sectors taking part. The high level of participation reflects the strong interest and high expectations of companies hoping to develop businesses on the WiMAX network. In developing new markets, UQ Communications plans to pursue

From increasing awareness to expanding markets

Although the amount of time remaining before the launch of services in February 2009 is rather short, public awareness of mobile WiMAX remains low; the word itself is not yet well known. The company will need to start by drawing up a public relations strategy to raise awareness of and increase interest in mobile WiMAX.

The company recognizes that it will need to take a substantial business risk and expand considerable energies in the early period following the launch of services in order to prime the market for eventual expansion. Once the initial steps have been taken, the company will work with a variety of MVNOs to explore new market possibilities.



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UQ Communications Inc.

business alliances with many of the MVNOs set up by these participants.

■ New Value for KDDI

KDDI holds a 32.26% stake in the company. As a largest shareholder, it is contributing technology and business expertise to help UQ Communications build network infrastructure and

develop its operations. The addition of WiMAX services to KDDI's other services will expand the range of solutions that the company is able to offer and allow KDDI to provide clients with the convenience and satisfaction that the latest technology makes possible.

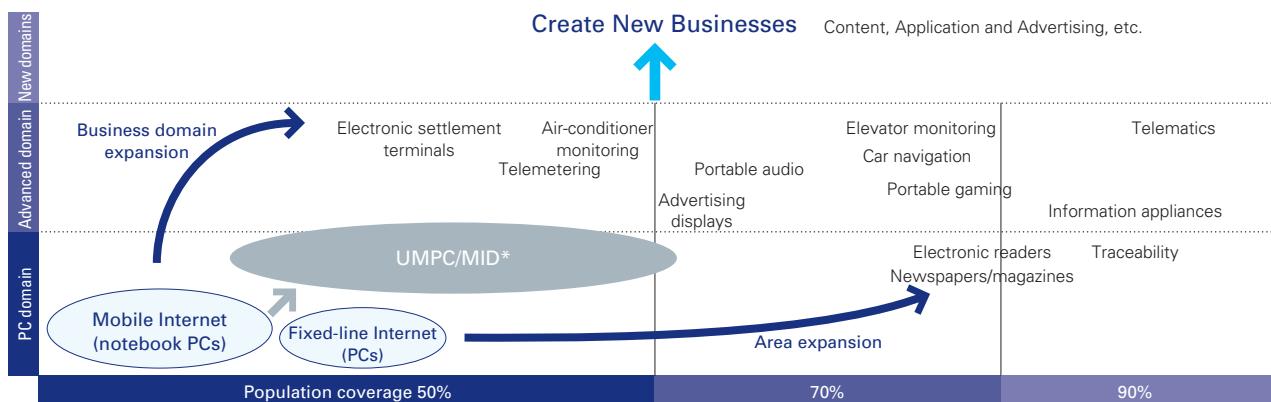
UQ Communications Inc.

UQ Communications is a mobile WiMAX operator established by a consortium of six companies, each of which has taken a capital stake: KDDI, Intel Capital Corp., East Japan Railway Company, Kyocera Corporation, Daiwa Securities Group Inc., and The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The company intends to launch services in the Central Tokyo/Yokohama/Kawasaki area on a trial basis in February 2009, and add commercial service for the Tokyo Metropolitan Area, Nagoya, Osaka, Kyoto and Kobe areas by the summer.

The company then plans to expand the coverage area to all government ordinance cities by the end of March 2010, with network services reaching over 90% of Japan's population coverage by the end of March 2013.

Marketing strategy



*UMPC: Ultra Mobile PC, MID: Mobile Internet Device

New Value Creation III

Advancing the Corporate Client Business

In the corporate market, KDDI aims to be an all-around player offering one-stop ICT*. Based on "Challenge 2010", we will promote our corporate customer business, centered around network services, by developing and providing ICT solutions that lead to creation of new value for our customers.

* ICT: Information and Communication Technology

Diversifying Customer Demands

KDDI provides fixed-line and mobile services as a comprehensive communications company. The company became involved in fixed and mobile convergence (FMC) early on, and has provided competitive services.

Recently, many customers have been taking advantage of ICT to boost their operating capability, and are seeking one-stop solutions not only for networks, but also for peripheral areas.

As the communications infrastructure evolves, there is a growing demand

for smooth collaboration between employees inside and outside the office through seamless use of fixed-line and mobile communications.

In addition, customers, particularly those of small and medium-scale, are increasingly interested in improving the efficiency of their operations by using software without high capital expenditure and maintenance costs.

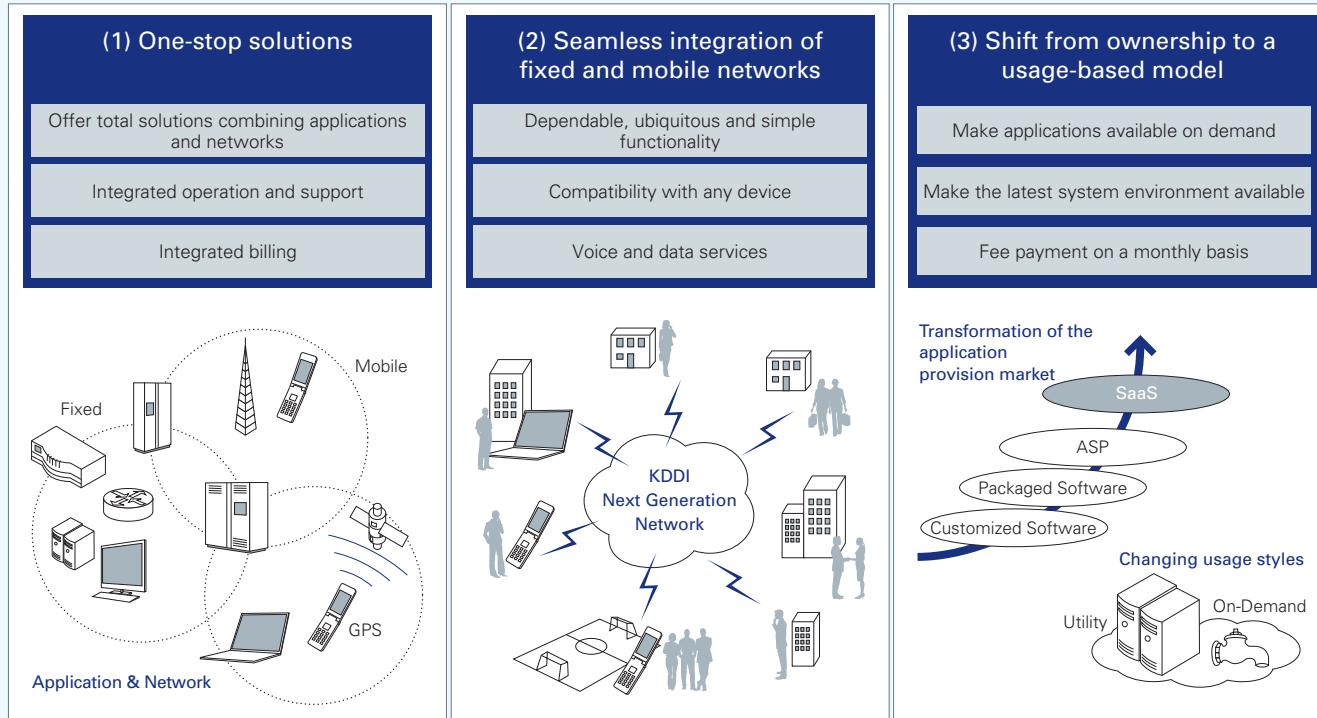
New Value for KDDI

KDDI aims to be an all-around player providing one-stop ICT solutions to meet diversifying customer demands.

We will further hone our fundamental network services, including FMC services. In addition to these essential communications company services, we are aiming to expand into new fields. This expansion will allow us to offer Systems Integration services, such as construction of office LAN systems, as well as so-called "top layer services," including server-side applications—all in one-stop.

These new initiatives by KDDI are introduced below.

Customers' Three Main Demands



Mobile Solutions Offer Comprehensive Client Business Support

Serving primarily large and medium-sized companies, KDDI delivers significant results by offering mobile solutions that support the efficiency of customer business activities and enhance security.

■ Creating New Value ALSOK's "Guard Dispatch System"—an example of a client solution

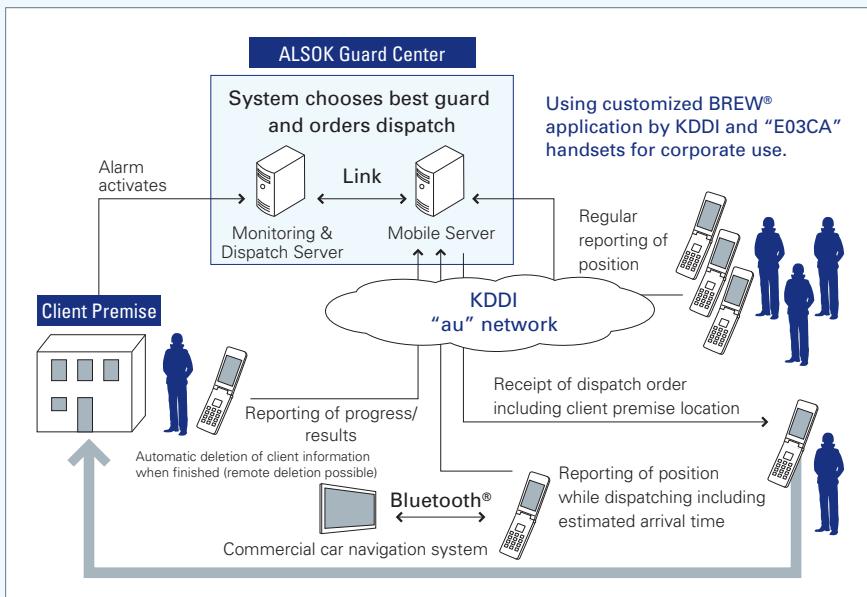
Background

SOHGO SECURITY SERVICES CO., LTD. (better known by its brand name—ALSOK) is one of Japan's leading general security service companies. The company's electronic security services dispatch guards to a customer's premises in case of unauthorized entry, fire or other incident, to deal with the problem. In the past, when an incident occurred, it took some time to determine which security personnel should be dispatched based on their current location and how best to direct them to the site. However, KDDI is now providing valuable support by providing the "Guard Dispatch System", which determines the nearest security staff member and fastest route in a systematic manner, greatly relieving the burden on coordinating staff.

Summary

The key to success on this project was to utilize mobile phone capabilities, including Bluetooth®, to allow them to communicate with ALSOK's core in-house computer system. These link-ups are

Linking au mobile phones with ALSOK's core computer system enabled the company to achieve reduced security staff response times.



achieved in several ways. Specifically, the global positioning system (GPS) functions built into the mobile phones are used to identify the location of all security personnel, and a short message service (SMS) has been incorporated to transmit and confirm instructions in real-time. In addition, Bluetooth® transmission is used to automatically relay the destination and estimated time of arrival to the navigation system of the dispatched car.

■ New Value for KDDI

In addition to network services, KDDI is creating advantages in the increasingly competitive market for corporate telecom services by using phones to provide customers with mobile solutions. KDDI's mobile solutions are earning positive customer responses and being used in a wide range of industry sectors including the auto industry, transport, and security services. As evidence of KDDI's accomplishment, customers who received support from KDDI have won the grand prize in the Mobile Computing Promotion Consortium's MCPC award for the past three consecutive years. In the future, KDDI intends to continue offering mobile solutions to help customers to boost efficiency and improve security, in order to extend the Company's success in corporate mobile telecommunications operations.



Mr. Toshifumi Takemure
Director
Tohoku Sohgo Security Services Co., Ltd. (ALSOK)

ALSOK's "Guard Dispatch System" won the Grand Prize/the Minister of Information and Communications' Prize in the MCPC award 2008

"When choosing a business partner to help us develop this system, ALSOK received proposals from a number of other telecom operators as well. However, we decided to use the system proposed by KDDI because it offered the easiest mobile network connectivity and included Bluetooth® transmission between handsets and car navigation systems. These were key elements of added value that guided our decision. Since implementing the system, we have been able to greatly reduce the response time of security guards and improve service, while at the same time greatly reducing costs. In the future, we are looking forward to more proposals from KDDI to leverage their technology and know-how to help us cut our telecommunications costs further and make other improvements."

Developing the SaaS Business Model

SaaS (Software as a Service) is a service that utilizes telecommunications networks to allow users to select the software they need and use it for a monthly fee, with no need to purchase an expensive software package or invest in a large-scale system. KDDI is actively contributing to the creation and development of the SaaS market in Japan.

■ Creating New Value

Enhancing the competitiveness of small and medium-sized enterprises

Japan's broadband infrastructure has already achieved significant levels of performance in terms of both speed and environment. Nevertheless, corporate utilization of ICT remains low. The Japanese government is therefore promoting utilization of these technologies with a view to enhancing labor productivity at small and medium-sized enterprises and ensuring international competitiveness.

The SaaS model by KDDI

In order to create new value in this area of high social need, through tie-ups with software providers, KDDI is also starting to provide SaaS services based around mobile services that offer customers a one-stop ICT solution.

Tie-up with Microsoft Corporation

In June 2007, KDDI came to a broad-based agreement with Microsoft Corporation to work together to create an SaaS market in Japan. The agreement was grounded in a shared desire on the part of both companies to contribute to improving the productivity of Japanese enterprises by developing the SaaS market in a sound manner. In April 2008 the partnership began providing its first SaaS model service, "KDDI Business Outlook." This new communications service allows users to use Microsoft's "Microsoft® Office Outlook®" application from their au

mobile phone handset as well as their PC. It has earned positive reviews.

Future Development

In expanding the menu of other SaaS model services, KDDI is providing support programs to our various application partner companies. As of June 2008, there are already over 50 companies taking advantage of the support program. Going forward, we are working to further expand our pool of business partners and enhance our service offerings.

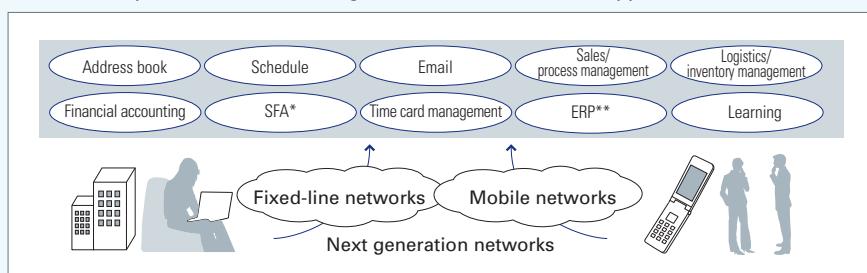
■ New Value for KDDI

Developing a SaaS model business will enable KDDI to provide new software

and business-oriented applications. Previously, our corporate client business centered around provision of network services. In this business area, if we are able to provide a one-stop, integrated solution from device (PC, mobile phone, etc.) all the way to the system and even the network, the scope of our business will expand, and we will improve the added value of our network services themselves.

As an all-around player providing one-stop ICT solutions, KDDI will contribute to value creation for our customers, including increased sales, expanded profit, improved customer satisfaction, and enhanced competitiveness.

Offer one-stop ICT services covering communications lines to applications



Contributing to the business efficiency of Japan's small and medium-sized enterprises

Centered around its fixed-line and mobile communications networks, KDDI's corporate client business aims to eliminate the barriers between ICT services in order to provide one-stop solutions for everything from networks to the software service area.

The SaaS model presents a new and challenging field. At KDDI, we have asked ourselves what we can do to help improve overall enterprise efficiency. With the cooperation of our partner companies, we will work to make a contribution by expanding the services we offer our customers.



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