

Being KDDI, Being More **ENERGETIC**

**SPECIAL FEATURE:
PURSUING THE UNIQUENESS OF KDDI,
CREATING NEW VALUE**

KDDI will pass on the winning formulas—
“Based on unique ideas,” “Creating new demand,”
and “Utilizing our unique management resources”—that
have driven its development by creating new value.
By honing these formulas, we will pursue further growth
and aim to be a company that has energy.



NEXT ►
THE WINNING FORMULA THAT HAS
UNDERPINNED KDDI'S DEVELOPMENT

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THE WINNING FORMULA THAT HAS UNDERPINNED KDDI'S DEVELOPMENT

2000 2001 2002 2003 2004 2005 2006 2007 2008

Based on Unique Ideas

“au design project”

When it began in 2001, the “au design project” caused a stir in the industry. Rather than offering mobile phone handsets simply as means of communication, the project cast them in a new light as fashion items. The subsequent array of highly original concept models realized through collaborations with outside designers earned resounding endorsement from young customers and established “au” as a brand with strong design appeal.



INFOBAR

Creating New Demand

“Chaku-Uta[®],” “Chaku-Uta Full[®],” and “LISMO!”

Today, listening to music with high-quality sound via mobile phones has become a common service. Yet, it was the “au” brand that pioneered such services. By resolving copyright protection issues, the “Chaku-Uta[®]” service began in December 2002. With the introduction of CDMA 1x WIN and “EZ Flat,” this service evolved into a service enabling the downloading of entire songs, EZ “Chaku-Uta Full[®]” in November 2003. Through these initiatives, we created a new market for music distribution via mobile phones. A service enabling customers to link PCs and mobile phones and download music, “LISMO!,” marketed in January 2006, signaled a further evolutionary stage by building the framework of an original new content distribution platform, while extending our services to include videos and e-books.

* “Chaku-Uta[®]” and “Chaku-Uta Full[®]” are trademarks or registered trademarks of Sony Music Entertainment (Japan) Inc.



Utilizing Our Unique Management Resources

“KDDI Collective Billing Service” and “au Collective Talk”

KDDI offers both mobile communications and fixed-line communications businesses. We can pass on this advantage to customers by offering them preferential billing services. For example, in May 2005 we introduced the consolidated billing service “KDDI Collective Billing Service,” while in August 2008 we began offering “au Collective Talk,” which is the price discount services for calls between “au” mobile phones and KDDI fixed-line phones.

おうちとケータイまとめておトク。



“au Collective Talk”

2009

2010

Progressiveness and originality form the base of KDDI's venture business spirit. Through a broad spectrum of products and services, we bring fresh perspectives to the industry.

"iida"

Debuting in April 2009, "iida" has inherited the strong emphasis on design of "au." As its "LIFE>PHONE" slogan suggests, the brand focuses on everyday life.

▶▶ P.19, 37



G9

"au one Market"

In the rapidly growing smart phone market, we are trying to differentiate the "au" brand based on our unique approach concentrating on the convenience of Japanese customers. "au one Market" is one of such attempt.

▶▶ P.20, 37



IS01

Providing new ideas based on using mobile phones as lifestyle tools or trailblazing markets beyond existing areas has always been part of the DNA of KDDI, and characterizes its initiatives to this day.

"au Smart Sports"

Having established the new concept of enjoying music through mobile phones under the "au" brand, we introduced the service of listening to music on your mobile phone while playing sports with the launch of "au Smart Sports."

▶▶ P.20, 40



Mobile WiMAX

Enabling the realization of true mobile broadband through the incorporation of compatible modules in a wide range of devices, mobile WiMAX offers burgeoning potential for the creation of new mobile markets.

▶▶ P.23, 41



DATA01
by HITACHI

DATA02
by HITACHI

DATA03
by HITACHI

DATA04
by HITACHI

With respect to pricing and convenience, KDDI is beginning full-fledged initiatives to return to customers the benefits of having both mobile and fixed-line communications businesses.

"KDDI Business Call Direct"

Contributing significantly to improving the operational efficiency of corporate customers, the FMC service "KDDI Business Call Direct" is a solution that KDDI is uniquely qualified to provide because it combines mobile and fixed-line communications businesses.

▶▶ P.22



"Ultra 3G"

"Ultra 3G" is a next-generation network concept that seeks to aggregate mobile communications, fixed-line communications, CATV, and other services into an integrated IP network. Only KDDI can pursue this initiative because it has diverse access lines.

▶▶ P.23



● SPECIAL FEATURE: PURSUING THE UNIQUENESS OF KDDI, CREATING NEW VALUE

“au” CONTINUES TO FOCUS CLOSELY ON CUSTOMERS’ LIFESTYLES

What is the unique quality that has supported the growth of “au?” How will KDDI create new value through the brand? Makoto Takahashi, Senior Vice President in charge of the Group Strategy Sector, discusses these questions.



Makoto Takahashi

Senior Vice President, Member of the Board

- '03.4 Vice President, General Manager, Contents Division, Solution Business Sector
- '07.6 Associate Senior Vice President, Member of the Board
- '09.4 General Manager, Consumer Service & Product Sector
- '10.4 General Manager, Group Strategy Sector (Current position)
- '10.6 Senior Vice President, Member of the Board (Current position)

Q1 Over the past decade, KDDI has embarked upon some highly original strategies under the “au” brand. What was the thinking that led to these strategies?

When the merger of the three companies established KDDI in 2000, data services were spreading rapidly. Around the same time, we began the Internet connection service “EZweb.” However, until about 2001, we had a really hard time due to delay in developing proper billing methods and rich contents. At the time, trying to establish the “au” brand, we were rigorously examining what we could offer under the “au” brand that competitors were unable to match.

Ahead of competitors, KDDI introduced the 3.5G mobile phone CDMA2000 1x EV-DO (“EV-DO”) in 2003. “EV-DO” is a system capable of high-speed, high-volume data communications as it specializes in data communications. “EV-DO” represented a quantum leap in communications speed, realizing 2.4 Mbps as opposed to 154 Kbps, which was the maximum speed achieved by the conventional CDMA2000 1x method available at the time. However, based on the lessons we learned from the difficulties we faced immediately after our establishment, we knew we had to avoid emphasizing the superiority of the communications speed and other aspects of the technology. Instead, we approached “EV-DO” from the perspective of how to make maximum use of this new infrastructural advantage—the outstanding communications efficiency—to provide appealing products and pass on pricing benefits to customers.

This approach led to the creation of innovative services such as “Chaku-Uta Full®”* and “LISMO!,” which propelled the “au” brand upward. Also, I should mention that our data flat-rate pricing plans “EZ Flat” and “Double-Teigaku”—both of which were industry firsts—played a major role in spreading these services.

Transforming from a technology-oriented approach to a service-oriented approach is the concept we have nurtured in creating our unique services.

* “Chaku-Uta Full®” is a trademark or a registered trademark of Sony Music Entertainment (Japan) Inc.

An approach centered on customers' lifestyles underpins the originality of "au"

Q2 Can you explain the background of KDDI's efforts in building the brand by incorporating sophisticated designs for "au" handsets?

This is another major reason why customers choose "au." Our initial initiative in this regard began in 2001, just after we were established.

At the time, customer-oriented marketing was not that well established within KDDI nor other companies that provided communications infrastructure. To make it simple, the approach to customers was like; "This is the price. Please go ahead and use it." This attitude was also obvious in mobile phone handsets. The market was overflowing with very similar handsets. Against this backdrop, KDDI sought to differentiate by reconsidering mobile phones from design perspective after listening to the voices of customers who viewed handsets as a part of their fashion and claimed that they wanted mobile phones with good designs.

As part of these efforts, we began the "au design project" through collaborations with outside designers in 2001. We also undertook adventurous initiatives such as issuing concept models, which is common among automobile manufacturers, as a way of suggesting future design trends for mobile phones. In recent years, such collaborations have become common, but the history of "au" collaborations goes way back. Reflecting favorable responses from numerous customers to prototype handsets we had released, we commercialized a straight-type mobile phone "INFOBAR," which was unusual because foldable handsets were the mainstays at the time.

Subsequently, we continued releasing handsets that accentuated customers' lifestyles. Thinking out of the box and seeking originality built "au" into an unshakable brand known for scrupulous attention to design.

Q3 Currently, competitors are trying to catch up.

Because competitors' efforts have reduced our comparative advantage, we decided to take another step forward. Accordingly, in April 2009 we launched a new brand, "iida," which originated from the "au design project."

Befitting a brand that takes its name from the acronym of "innovation," "imagination," "design," and "art," "iida" appeals to customers' tastes and suggests lifestyle ideas, not just through handsets, but also through an all-around lineup of products that extends to accessories and content. I think that we must always look one step ahead to ensure that the "au" brand's reputation for good design remains firm.

"iida," heir to a legacy of design excellence built by the "au design project"



Q4 Is there anything distinctive about KDDI's handset development initiatives?

For example, rather than just adding in a lot of functions from the outset, we start by determining what functions a customer might want. This serves as our basis for development. In terms of design, in case of "iida," we have contracts exclusively with certain designers. Moreover, when we ask handset manufacturers to develop a model, we take the initiative saying: "This model will target these people, so development should pay particular attention to such areas." In such cases, we convey designers' instructions down to the smallest details. This is one distinguishing feature of our development. For "iida," we recruit superb industrial designers, first finding them and then entering into exclusive contracts, so handset development starts with a strong design focus. KDDI's management is fully aware of the important role played by industrial design, and they leave development in the hands of the people on the ground.

“au” CONTINUES TO FOCUS CLOSELY ON CUSTOMERS’ LIFESTYLES

Maintaining Our Unwavering Commitment to Entertainment

Q5 The popular impression is that there is not much difference in handset functions and services across mobile carrier. What would you say is unique about KDDI handsets?

Current-day handsets offer a host of features, but there are questions as to how much customers actually use these functions. Conversely, consumers will not support handsets whose features have been scaled back too extensively, so finding that minimum feature level accepted by customers becomes the key. For example, customers might not use the cameras attached to their mobile phones very frequently, but want to have a camera of at least 5-megapixels quality just in case they do. On its own, this approach is not a sufficient differentiator. In the future, rather than competing on the basis of brand, mobile carriers will need to differentiate themselves from competitors through collaboration with companies that have robust brands and strong connection with customers. Always keeping these facts in mind, we will continue to pursue an “au”-specific path.

Q6 What is your strategy with regard to smart phones?

Rather than simply using handsets that are made overseas, “au” aims to offer handsets that are designed for easy usage by Japanese customers. For that reason, our entry into the smart phone market lagged that of competitors. But delaying our market entry enabled us to offer the “ISO1,” a smart book based on the Android™*1 platform. Announced in March 2010, the “ISO1” has a strong flavor of our uniqueness. In addition to including functions that Japanese customers are accustomed to using, it offers easy website browsing and other characteristic smart phone features. From its initial launch, the “ISO1” offered “one seg” broadcasting reception and infrared communication functions. We also plan to gradually augment the model with functions such as “LISMO!” and “Osai-fu-Keitai™”*2 as well as other features. From the initial planning phase, we had intended to offer these handsets as feature phones to meet demand for second handsets. In the future, we will expand our lineup of such phones designed for the main market.

Applications are also strong distinguishing characteristics of “au.” We plan to commence the “au one Market” as our unique market for applications. Its main advantage is the fact we confirmed the security of the safety of applications and only such applications will be on the market. In addition, application purchases and communication fees

can all be handled simultaneously through “au simple settlement.” Both of these features are designed with the convenience of Japanese customers in mind. We also offer the Android market™*1 simultaneously, allowing customers to move seamlessly between the two markets.

*1 “Android” and “Android market” are trademarks of Google Inc.

*2 “Osai-fu-Keitai” is a registered trademark of NTT DoCoMo, Inc.

Q7 How are you progressing in the development of business in non-traffic fields?

As it becomes ever more difficult to differentiate on the basis of handsets, we will have to differentiate ourselves through our services and contents. Also, with voice ARPU trending downward, boosting data APRU has become a higher priority.

During the past 10 years, “au” has worked to remain strong in the area of entertainment, particularly in areas that have become an important part of customers’ lives and that are highly compatible with mobile phones, such as music, video, and e-books. One KDDI characteristic is the importance we place on forging alliances with our partners to develop services and contents. This is because we believe it is best to make use of our expertise in different areas and our points of contact with customers to respond to the diverse needs of our customers. We respect our partners’ technologies and approaches, and hold the core belief in the importance of win-win relationships. Just as we elicited cooperation from the music industry when we created a new market with “Chaku-Uta®”*, in recent years we have cooperated with GREE, Inc.—an SNS provider—when creating “au one GREE” and “au Smart Sports.” We were able to realize these services with the belief mentioned above.

Our other services in non-traffic fields include customer-specific “banks” built into mobile handsets, helping to further maximize mobile phone characteristics. “Jibun Bank” services are highly secure financial services that can be used anywhere and at anytime. These services fall into the category of “entertainment” because—in the case of “Jibun Bank,” for example—they enable customers to easily send money to pay for different sorts of entertainments they enjoy. Rather than the mechanical terms often used commonly among telecommunications companies, we provide services by taking an entertainment-oriented approach featuring easy-to-understand expressions. We will maintain this approach in the future.

* “Chaku-Uta®” is a trademark or a registered trademark of Sony Music Entertainment (Japan) Inc.



Promoting FMBC as We Develop the Services of the Future

“au” Aims to Entertain



Q8 What will be your future directions in non-traffic fields?

Once the 3.9G system based on LTE technology becomes available, it will be difficult to differentiate ourselves on the basis of infrastructure. In the future, we believe that competitive advantage will be defined by the ability to propose new communications-based lifestyle options to the elderly and other people who do not currently use these services. For example, providing larger tablet-type handsets with easy-to-operate touch panels for the elderly will offer the opportunity to use mobile communications in new ways.

Infrastructure upgrades will be important if usage of smart phones continues to increase and the current trend of video viewing, including that of user-participatory videos, continues to expand. It will be extremely important to use fixed-line infrastructure to back up mobile communications. KDDI, which has both fixed-line and CATV infrastructures, is in a position to create hybrid infrastructures that provide customers with stable services.

Looking into the future, I imagine that each of the various devices around us will gain communication functionality, and that cloud computing will become common in terms of contents services. As a result, people are likely to have access to their own specialized environment using communications regardless of fixed or mobile. Although it is unclear what kind of services will be available at this stage, KDDI will promote FMBC by utilizing fixed-line communications, mobile communications, WiMAX, and CATV. Through these efforts, we are taking a proactive approach toward business development on the basis of this new environment.

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A NEW WORLD OF COMMUNICATIONS THAT KDDI IS UNIQUELY POSITIONED TO CREATE

How will KDDI leverage the advantages it derives from providing both mobile and fixed-line communications? How will it take advantage of the possibilities of mobile WiMAX? We ask Takashi Tanaka, Senior Vice President in charge of the Solution and Consumer businesses and the Product Development Sector, to share his thoughts on these topics.



Takashi Tanaka

Senior Vice President, Member of the Board

- '03.4 Vice President, General Manager, Solution Product Development Division, Solution Business Sector
- '07.6 Associate Senior Vice President, Member of the Board
- '07.8 President of Wireless Broadband Planning Inc. (now UQ Communications Inc.)
- '09.4 Solution Business
- '10.4 Consumer Business, Solution Business, and Product Development Sector (Current position)
- '10.6 Chairman of UQ Communications Inc., Senior Vice President, Member of the Board (Current position)

FMBC

Q1 What is the concept behind FMBC?

FMBC is an acronym for “Fixed Mobile and Broadcast Convergence,” referring to fixed-line and mobile communications, and broadcasting, which in KDDI’s case is CATV. The acronym creates a certain amount of misunderstanding that networks themselves will actually converge. Rather, the idea is that there will be an integration of devices that sit atop these various networks as the upper layer. More correctly, “convergence” will be achieved among services. For that reason, some people refer to it instead as the “multi-screen concept.” This expresses the idea that whether customers are viewing the displays, or screens, of mobile phone handsets, PC monitors, or televisions, they will be able to access convergent services without having to think about their different communication infrastructures.

Q2 What is the current status of FMBC?

About three years ago, we started reorganizing the structure that until then had been separated into mobile and fixed-line communications into divisions based on individual and corporate customers. We have now completed organizational integration to offer services in a unified way. At that time, we began providing services that linked mobile and fixed-line communications. Specific services include “au Collective Talk,” a discounted pricing plan that bundles together mobile and fixed-line communications and cross-sellings at au shop. Furthermore, in April 2009, KDDI launched the “KDDI Business Call Direct Service,” service, which enables corporate customers to place calls between au mobile phones and KDDI phones* at a flat rate by making them as internal extension calls. This solution is an example of reducing customers’ investment costs, raising their operating efficiency, and holding down their communication costs, by taking advantage of the strength we derive from having both fixed-line and mobile communications. Going forward, in addition to pursuing developments from the pricing perspective, we will move gradually to the stage where we can create the structure that will enable us to offer “three-screen” services.

* All KDDI circuits

KDDI Yet to Leverage the Competitive Advantage of Its “Three Screens”

Q3 What advantages does KDDI have in the promotion of FMBC?

Various companies are espousing the same worldview. However, realizing FMBC and FMC services that are truly attractive to customers goes beyond the services; it involves an integrated offering that includes the unique networks and pricing structures. Our advantage of holding all three networks—mobile, fixed-line, and CATV—and our ongoing investment in networks as we envision the services of the future is going to show its strength.

Q4 What are some of the distinguishing features of “Ultra 3G,” which will serve as the base of FMBC?

The most important point of the “Ultra 3G” vision is that rather than depending on advances in network technologies, initiatives begin by conceptualizing how networks should look in response to customers’ requests. Based on the understanding that customer needs are services and content, rather than communication itself, this idea has resulted in the integration of diverse access methods into an IP network.

In October 2007, we commenced commercial services offering FTTH and ADSL, fixed-line IP telephony, CATV, and IP-VPN, all on an integrated IP network. In 2009, we plan to add WiMAX and mobile voice traffic, and in the future will integrate LTE. Our aim is to create networks that KDDI is uniquely able to offer, which are not dependent on access method.

Mobile WiMAX

Q5 What was the strategic objective behind your acquisition of a mobile WiMAX license?

Mobile WiMAX is a high-speed mobile broadband service that UQ Communications Inc. (“UQ”) launched in July 2009. Let me explain the objectives of the service, as well as its characteristics.

One of the service’s characteristics is that it realizes high-speed broadband communications with downlink speeds of up to 40 Mbps, far exceeding that of current-day 3G mobile phones. Broadband characteristics with small delays will make this service optimal for cloud computing, which is expected to be adopted among mobile communications.

Service availability in any location that has a base station support is a substantial difference from public wireless LAN, which can only be used in limited access points. Furthermore, the service supports mobile access even during the time the user is moving at speeds of more than 200kph. The major goal in promoting mobile WiMAX lies in taking advantage of the same level of access to broadband as is available in homes and companies regardless of location or equipment—something that has not been possible in the past with mobile phones or public wireless LAN. This service represents the realization of true mobile broadband.

Also, WiMAX is a global-standard specification. It allows the same terminal to be used overseas, and common global specifications will hold down costs. Already, a number of notebook PCs have built-in modules that are compatible with this service, a factor that should encourage proliferation.

Q6 Please explain the potential of mobile WiMAX as an open model.

Mobile WiMAX is an open model from two perspectives: networks and equipment. Network openness means opening networks to MVNOs. This will allow various industry partners to participate in the communications business. Equipment openness, meanwhile, offers a possibility for promoting built-in compatible modules different from those that have been used in mobile devices to date. “Always on” connectivity also will open up the potential to use equipment in entirely new ways.

The day when digital signage, telemetering, and the monitoring of vending machine inventories will shift to WiMAX is not far in the future in the real life. Gradually, compatible modules will be incorporated into the devices around us, enabling mobile network connectivity. For example, such modules are likely to be incorporated into industrial equipment that requires remote operation or monitoring of status, as well as televisions and portable game devices, cameras, and a wide variety of home electronics. The inclusion of modules into car navigation systems would allow on-demand download of content, and Internet connectivity would promote their proliferation. UQ can provide the platform to unlock the potential of this huge market.

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UQ Able to Provide Platform for Growing Potential Market

Q7 How is WiMAX different from LTE?

LTE is a mobile phone communications technology, whereas mobile WiMAX is a technology that acts like an extension of wireless LAN services. Regardless of how far mobile phone development progresses, they are unlikely to become substitutes for PCs, which enjoy the ability to connect conveniently to network environments via FTTH and wireless LAN, as mobile handsets are required to be small and light in size due to their purpose of usage and they will have a limited capability as an input device. Furthermore, as data traffic is expected to increase further, we anticipate the creation of multi-networks designed to accommodate various communication formats—a likely outcome of the next-generation communications environment. In terms of infrastructure investment, compared with the trillions of yen that are required for existing mobile phones, mobile WiMAX can create networks at a much lower investment cost. In the upcoming generation, having two networks surely will not be an inefficient option.

Q8 Please explain your directions for the future.

UQ aims to move into black on an operating basis during the year ending March 31, 2013. In the year ending March 31, 2011, we plan to expand the number of subscribers to 800,000. Pricing, communication speed, and network will be key factors behind the service's proliferation. Of these, pricing is already the lowest in the industry. Although communication speed is satisfactory at present, the introduction by 2012 of downlink speeds of up to 330Mbps through the initiation of IEEE802.16m will present the need for higher communication speeds and a response to expanding traffic volume. A major issue for the future will be expanding service areas. As of March 31, 2010, we had about 7,000 base stations, and will increase this number to 15,000 by March 31, 2011, by accelerating the construction ahead of our initial plan.

In addition to increasing the number of PCs with built-in WiMAX-compatible modules, we will incorporate WiMAX-compatible modules into unconventional devices to differentiate the service from mobiles phones.

We plan to offer support to MVNOs in a range of ways, such as cooperating in promotions and setting prices.

Partner Expansion

