

Toward sustainable growth: Our mid- to long-term FMC strategy

KDDI's strategy for remaining competitive over the midterm to long term is based on leveraging its strengths as Japan's only integrated carrier to provide services that combine fixed-line and mobile communications. KDDI aims to become Japan's leading supplier of FMC services by developing innovative solutions ahead of the competition. By capturing a large share of this emerging market, KDDI plans to put its business on a strong foundation for sustained growth.

Time to broaden the customer base

Since its establishment by merger in October 2000, KDDI has implemented major structural reforms and focused resources on au mobile operations, in the process generating high earnings growth. But to sustain such growth and expand the scale of the business, the time has come for a new strategy. Rather than focusing on increasing revenues and making operations more profitable, the next phase of growth demands a focus on broadening the customer base.

The next two or three years are projected to be a period of major change in the telecommunications industry, with the introduction of new systems and services. KDDI looks at these market shifts not as a threat but as a significant opportunity to gain customers by developing attractive new services. In other words, the time has come for KDDI to adopt a more aggressive business strategy.

KDDI for the entire household

KDDI sees FMC services as a critical element in achieving its goal. Since KDDI is the only integrated carrier in Japan that has both fixed-line and mobile capabilities, FMC is the logical path for future service development. It could also become an important differentiator for KDDI.

The numbers of subscribers using KDDI's three main consumer services are approximately 19.5 million au mobile users, 8.7 million MYLINE users (fixed-line telephony) and 2.9 million DION users (Internet access). At present, only a small proportion of the KDDI user base subscribes to all three of these services. KDDI aims to expand its customer base by persuading the users of one service to subscribe to the other KDDI services. The strategy is to offer these customers FMC services that combine a fixed-line connection for the home with mobile services. Such a combination would deliver extra

convenience plus an attractive mix of content and services. The ultimate aim is make KDDI the core supplier of telecommunications services for the entire household.

FMC development steps

KDDI envisions the development of FMC services in three steps.

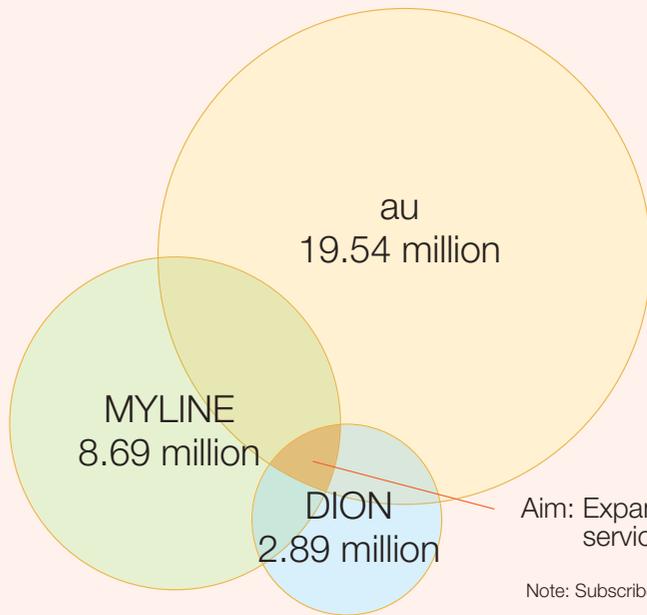
Step 1 (May 2005 —)

The initial stage involves the introduction of optional consolidated billing for au and fixed-line services. KDDI began offering this service to customers in May 2005. Besides receiving a discount, customers who opt for consolidated billing can also accumulate points each month based on total usage. KDDI has offered this service to corporate clients in the past and has since adapted its systems to extend the option to residential customers as well.

KDDI has also begun cross-selling operations between its au and fixed-line networks. Service personnel in au shops are marketing the KDDI Metal Plus fixed-line service and the DION ADSL Internet connection service from over 2,000 retail locations across Japan. This service network is a key point of contact with customers. Cross-selling and marketing activities promise to maximize synergy and to utilize this asset to the best effect.

Step 2 (in planning)

In the second step, KDDI plans to introduce bundled charges. This will involve integrating pricing tariffs and policies across all fixed-line and mobile services. For instance, a household with at least a certain number of au phones might be entitled to discounts on the basic au charge and on the fees for fixed-line and Internet connections. Alternatively, families using both



Aim: Expand area of overlap to develop KDDI services for the entire household.

Note: Subscriber numbers as of March 31, 2005.

au mobile and KDDI fixed-line services could benefit from reduced call charges for the family. KDDI is studying various marketing and policy options based on targeting residential users at the household and family level.

The au service already offers family discounts, and families with multiple handsets receive discounts on basic fees and call charges. With the advent of FMC services, such discounts would be extended to include a household's fixed-line connection, providing families with more incentives to use KDDI for all their telecommunications needs.

Step 3 (in planning)

In the final step, KDDI plans to offer users special handsets and new services that provide a fusion of fixed-line and mobile capabilities. The distinction between the two would disappear, enabling customers to access high-speed data services and high-quality multimedia services anywhere at any time. This ubiquitous broadband solution represents the full incarnation of FMC services. Development work continues.

Mobile content and computers linked through Duogate portal

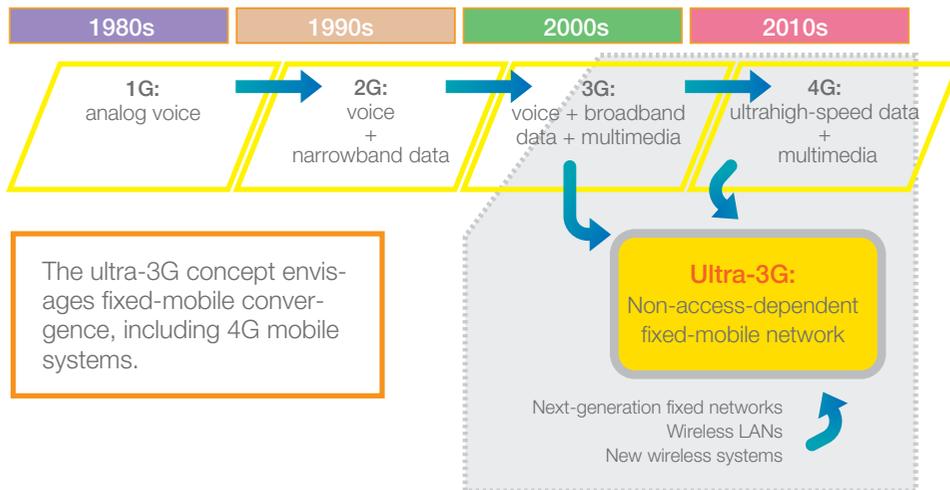
KDDI is already operating an FMC service that provides a computer link to mobile content available on the au network. In April 2005, Duogate Inc., a joint venture between KDDI and Excite Japan Co., Ltd., launched a portal site for PCs under the Duogate name. This is a new kind of portal site that can be accessed through a computer from home or office or through a mobile handset when on the run. It combines the convenience of mobile phone accessibility and the security of a closed network (for electronic payments) with large-screen formats designed for viewing on a computer monitor. By offering users the twin advantages of mobile access and computer-screen viewing, Duogate provides customers with a highly useful and convenient FMC service.

A lot of popular web content accessible using a computer is already available on au EZweb. Besides the main portal sites, EZweb users can access auction, electronic payment and e-commerce services. The main limitation with mobile

FMC development steps

May 05 ~	Step 1	Consolidated fixed-mobile billing, cross selling
(in planning)	Step 2	Bundled fixed-mobile charges
(in planning)	Step 3	Development of FMC handsets and new services

The ultra-3G concept



access is the restricted size of the handset screen for viewing web pages. The dual link to the Internet through the Duogate portal site compensates for this.

Duogate provides an example of the benefits that FMC services can offer. For instance, suppose you want to participate in an online auction. First, you access the portal site through a computer connection to get the benefit of the larger screen when checking items. Next, you send the auction site your mobile e-mail address so that you can participate in the auction fully by entering bids at any time. Compared with participating purely through a home computer, this service is highly convenient because it ensures you do not miss any bidding opportunity.

A number of other services are also available through the Duogate portal. These include search functions for official EZweb sites, access to special e-mail composition symbols normally restricted to mobile users and the ability for subscribers to create weblogs while on the move.

Linking au services with the PC universe through the Duogate portal creates a more attractive package—although the underlying concept is very different from that of other computer portal providers to adapt popular Internet content for mobile access. The value of the Duogate service is further enhanced by the flat-rate data-communication tariffs that au offers users. The application of FMC vision to the development of au content and related services thus promises to create a key point of differentiation while enabling KDDI to gain market share.

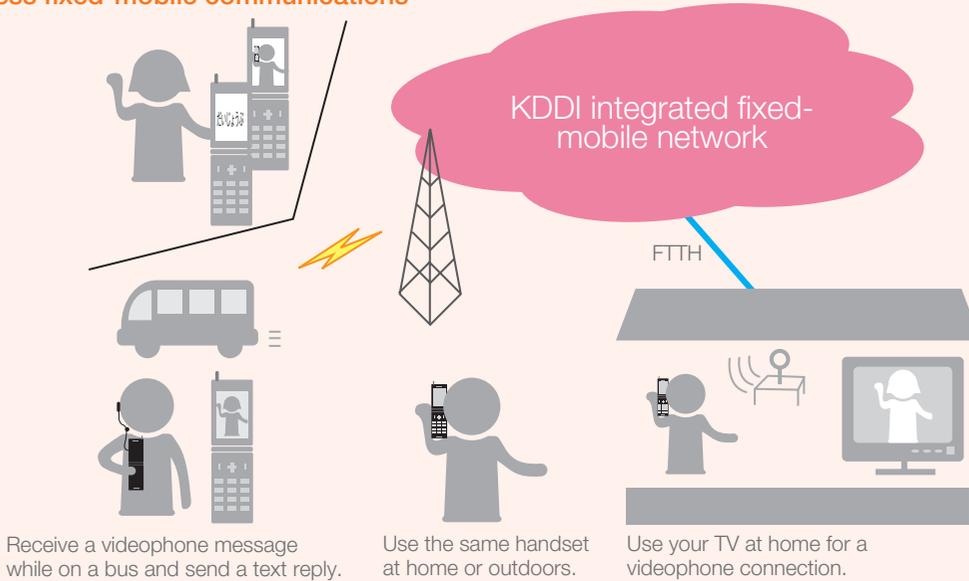
Organizational changes to ensure FMC promotion

KDDI has made management and other organizational changes to promote a smooth transition to FMC. The au mobile and fixed-line operations have been managed as completely separate profit centers—an arrangement that naturally makes it difficult to develop services that straddle both seg-

FMC portal



Seamless fixed-mobile communications



ments. In April 2005, KDDI made a number of far-reaching revisions to create a new system aimed at promoting the development of FMC services.

First, KDDI appointed Nobuhiko Nakano, an executive vice president, who was head of the au business sector, to a new position overseeing sales for both the au and fixed-line operations. Mr. Nakano also leads a new division created to conduct market research and other marketing activities for both the mobile and fixed-line sectors. A department within this division has been established to develop new FMC services.

Similar organizational changes have been made to KDDI's technology division to promote FMC. Executive vice president Yasuhiko Ito has been appointed to a new position overseeing all technical development, including mobile and fixed-line operations. KDDI expects the key to the development of FMC services to lie in the integration of backbone networks, so that the question of whether a service is mobile or fixed line eventually becomes irrelevant. There is also the issue of how to make the best use of important new technologies, such as IPv6. The role of KDDI's technology development is set to increase.

Going beyond 3G

KDDI unveiled its vision of the next stage beyond 3G in June 2005. Based on the company's franchise in fixed-line and mobile services, KDDI's ultra-3G concept revolves around a fully integrated non-access-dependent network system that spans mobile and fixed-line capabilities. This vision is compatible with current 3G mobile and wireless LAN technologies and such new wireless systems as WiMAX, as well as fixed-line technologies as ADSL and FTTH. Its rationale also represents a direct evolution toward 4G mobile services that are faster than 3G. The ultra-3G conceptual framework visualizes

the provision of fully integrated FMC services, which will be at the core of KDDI's future lineup. KDDI is preparing for the start of construction of an ultra-3G network, which is scheduled for 2007.

In the ultra-3G world, FMC services will provide seamless communications whether at home or outside—making the fixed-mobile distinction irrelevant. For instance, a person could carry on a conversation on the same handset after leaving home and then getting on a bus. While on the bus, the same handset could be used as a videophone, with the added capability of sending text replies. The conversation could continue without annoying other passengers. At home, the same handset could be linked to a large-screen television for video-phone calls. In effect, fixed-line and mobile services will have morphed into a single communications service.

FMC presages the ubiquitous network society

KDDI sees the promotion of FMC leading to highly evolved communications services that provide people with ubiquitous access to other people and content on various networks. KDDI believes that the advent of this "ubiquitous network society" is not that far in the future. And KDDI, in its steadfast position as a ubiquitous solution company, plans to play a leading role in creating this new world of communications.