



**Financial Results  
for the Year Ended March 2002**

**May 16, 2002**

**KDDI Corporation**

**President and Representative Director: Tadashi Onodera**

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**Note 1: Figures in this material for the fiscal year ended March 31, 2001 are in principle the sum of figures for DDI, KDD and IDO.**

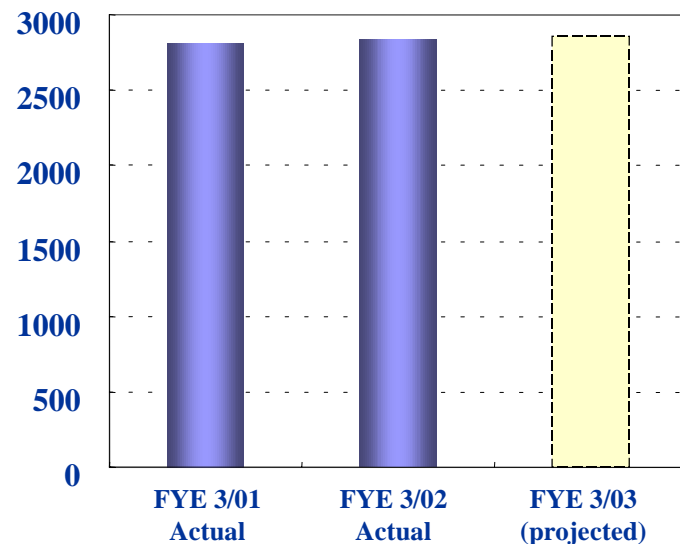
**Note 2: Business performance targets, subscriber targets etc. contained in this material are projections based on the information obtainable by KDDI Group at the present time, and may be influenced by such uncertainties as economic environment, competition, the success of new services and so forth.**

**As such, actual performance and subscriber numbers may differ considerably from the projections contained in this material.**

# Consolidated Basis

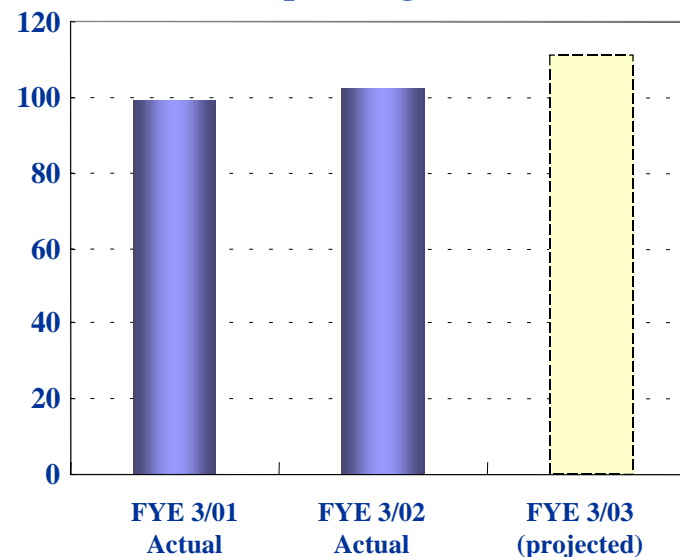
(In billions of yen)

## Operating Revenues



(In billions of yen)

## Operating Income



(In billions of yen)	FY 3/01	FY 3/02	FY 3/03 Projected
Operating revenues	2,816	2,834	2,860
Operating income	99 (3.5%)	102 (3.6%)	110 (3.8%)
Ordinary income	60 (2.1%)	79 (2.8%)	85 (3.0%)
Net income	22	13	49
Free cash flow	-170	291	228
EBITDA	514 (18.2%)	545 (19.2%)	540 (18.9%)

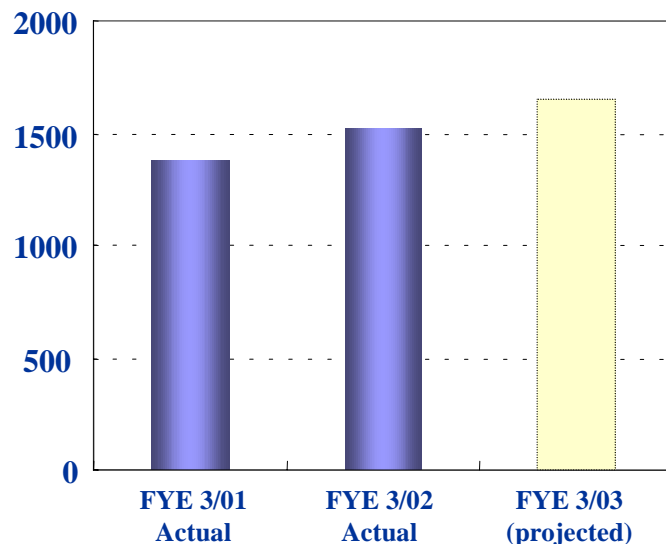
\*Bracketed figures represent ratio with respect to operating revenues.

\*We adopted "end-to-end charging" for calls between mobile phone services from April 1, 2001. Due to this change, mobile phone (au, Tuka) sales have increased ¥ 101.9 billion, and operating costs have risen by the same amount.

# “au” Business

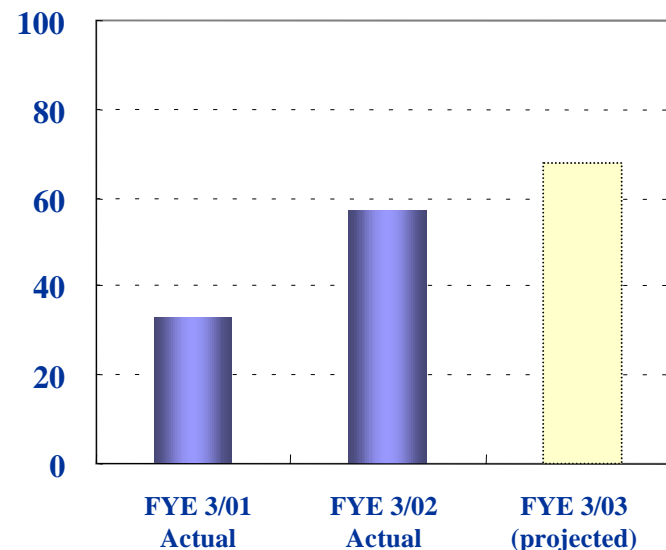
(In billions of yen)

## Operating Revenues



(In billions of yen)

## Operating Income



(In billions of yen)	FY 3/01	FY 3/02	FY 3/03 Projected
Operating revenues	1,373	1,525	1,653
Operating income	33 (2.4%)	57 (3.8%)	66 (4.0%)
Ordinary income	20 (1.5%)	53 (3.5%)	53 (3.2%)
Net income	7	-59	30
Free cash flow	-124	16	-10
EBITDA	217 (15.8%)	269 (17.7%)	268 (16.2%)

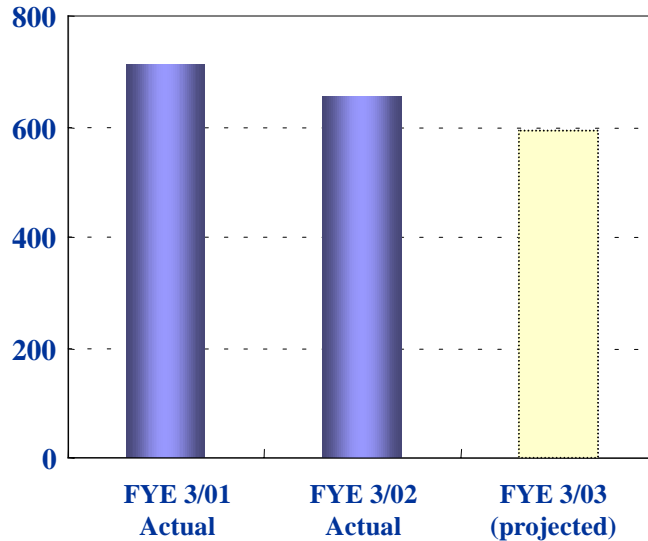
\*Bracketed figures represent ratio with respect to operating revenues.

\*We adopted "end-to-end charging" for calls between mobile phone services from April 1, 2001. Due to this change, sales of au have increased ¥ 84.8billion, and operating costs have risen by the same amount.

# NW & Solution Business

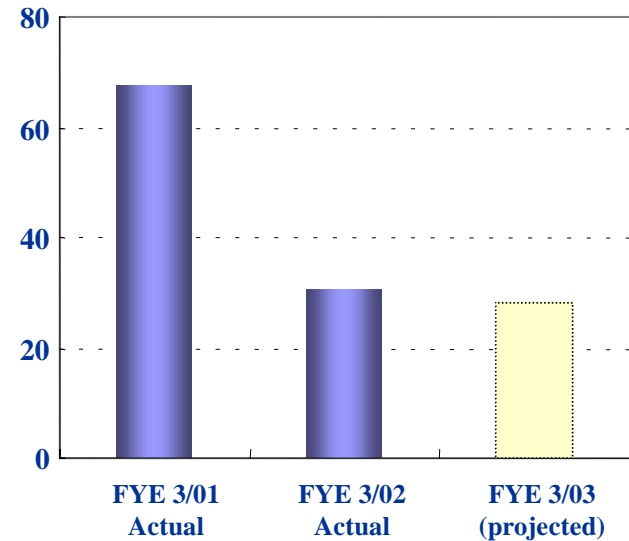
(In billions of yen)

## Operating Revenues



(In billions of yen)

## Operating Income



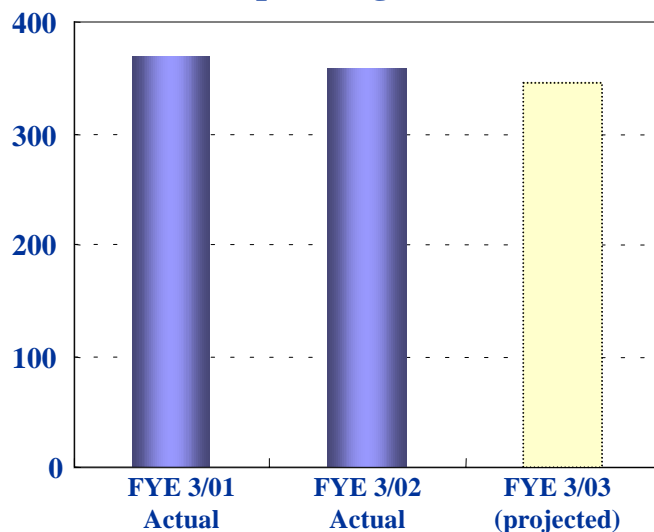
(In billions of yen)	FY 3/01	FY 3/02	FY 3/03 Projected
Operating revenues	712	652	592
Operating income	68 (9.5%)	31 (4.7%)	28 (4.7%)
Ordinary income	67 (9.4%)	25 (3.8%)	21 (3.5%)
Net income	38	4	12
Free cash flow	-21	56	57
EBITDA	203 (28.5%)	158 (24.2%)	139 (23.5%)

Bracketed figures represent ratio with respect to operating revenues.

# TUKA business

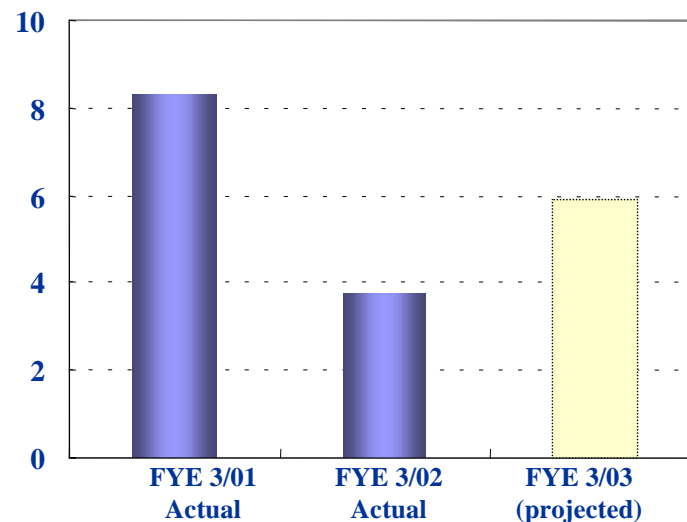
(In billions of yen)

## Operating Revenues



(In billions of yen)

## Operating Income



(In billions of yen)	FY 3/01	FY 3/02	FY 3/03 Projected
Operating revenues	369	358	344
Operating income	8 (2.3%)	4 (1.1%)	6 (1.7%)
Ordinary income	4 (1.0%)	-2 -(0.6%)	0 (0.0%)
Net income	2	-3	-1
Free cash flow	-81	15	45
EBITDA	58 (15.8%)	63 (17.7%)	68 (19.8%)

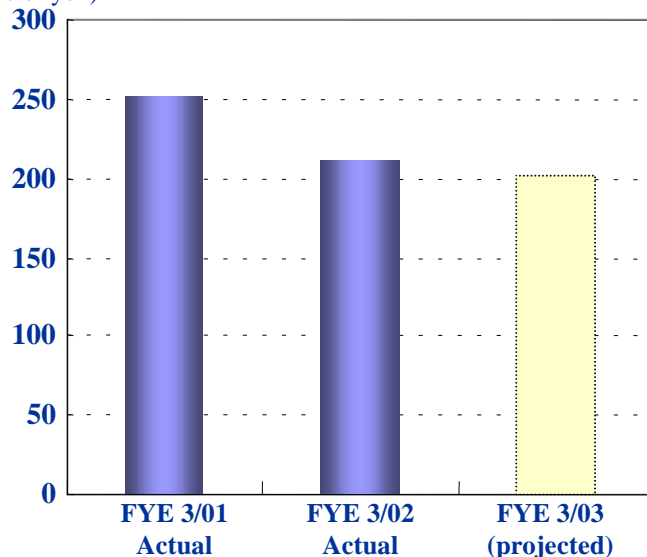
\*Bracketed figures represent ratio with respect to operating revenues.

\*We adopted "end-to-end charging" for calls between mobile phone services from April 1, 2001. Due to this change, sales of Tuka have increased ¥ 17.1 billion, and operating costs have risen by the same amount.

# Pocket(PHS) business

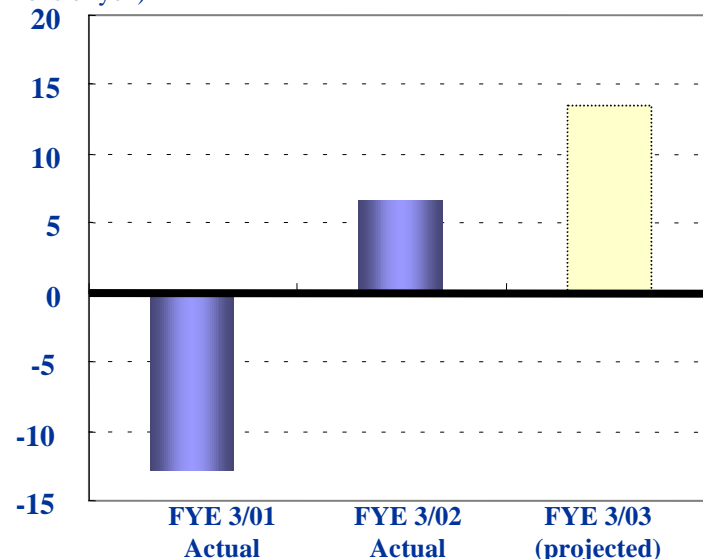
## Operating Revenues

(In billions of yen)



## Operating Income

(In billions of yen)



(In billions of yen)	FY 3/01	FY 3/02	FY 3/03 Projected
Operating revenues	252	211	201
Operating income	-13 (-5.1%)	7 (3.2%)	13 (6.5%)
Ordinary income	-18 (-7.0%)	3 (1.4%)	10 (5.0%)
Net income	-18	15	10
Free cash flow	12	14	38
EBITDA	50 (19.8%)	48 (22.5%)	55 (27.4%)

\*Bracketed figures represent ratio with respect to operating revenues.

\*From FY 3/02, DDI Pocket's Wireless base station's asset life has changed from 6 to 9 years. Therefore, the depreciation has been reduced ¥ 23.6 billion for the full year.

# Subscribers & CAPEX

## Subscribers ('000)

		3/01	3/02	3/03E
au		10,986	12,214	13,500
TUKA		3,954	3,891	3,840
Pocket(PHS)		3,123	2,942	3,100
DION	Dial up	1,823	2,020	1,800
	ADSL	-	130	650

## ARPU (yen)

		3/01	3/02	3/03E
au	Total	8,030	* 8,080	7,900
	Voice	7,600	7,190	6,700
	Data	430	890	1,200
TUKA		6,270	# 5,790	5,740
Pocket(PHS)		5,910	5,330	4,850

\* au includes ¥ 670 increase due to introduction of access charges for mobile-to-mobile calls.

# TUKA includes ¥ 460 increase due to introduction of access charges for mobile-to-mobile calls.

(In billions of yen)

		3/01	3/02	3/03E
CAPEX	Consolidated	560	375	330
	au	318	226	225
	NW&Si	117	86	58
	TUKA	102	39	16
	Pocket(PHS)	33	17	14
Depreciation	Consolidated	408	424	407
	au	174	199	194
	NW&Si	124	123	101
	TUKA	49	59	61
	Pocket(PHS)	62	39	40
Interest-bearing debt	Consolidated	2,098	1,747	1,586
	au & NW&Si	1,341	1,067	-
	TUKA Pocket(PHS)	385 259	371 226	- -



# Operating Policy For Each Business

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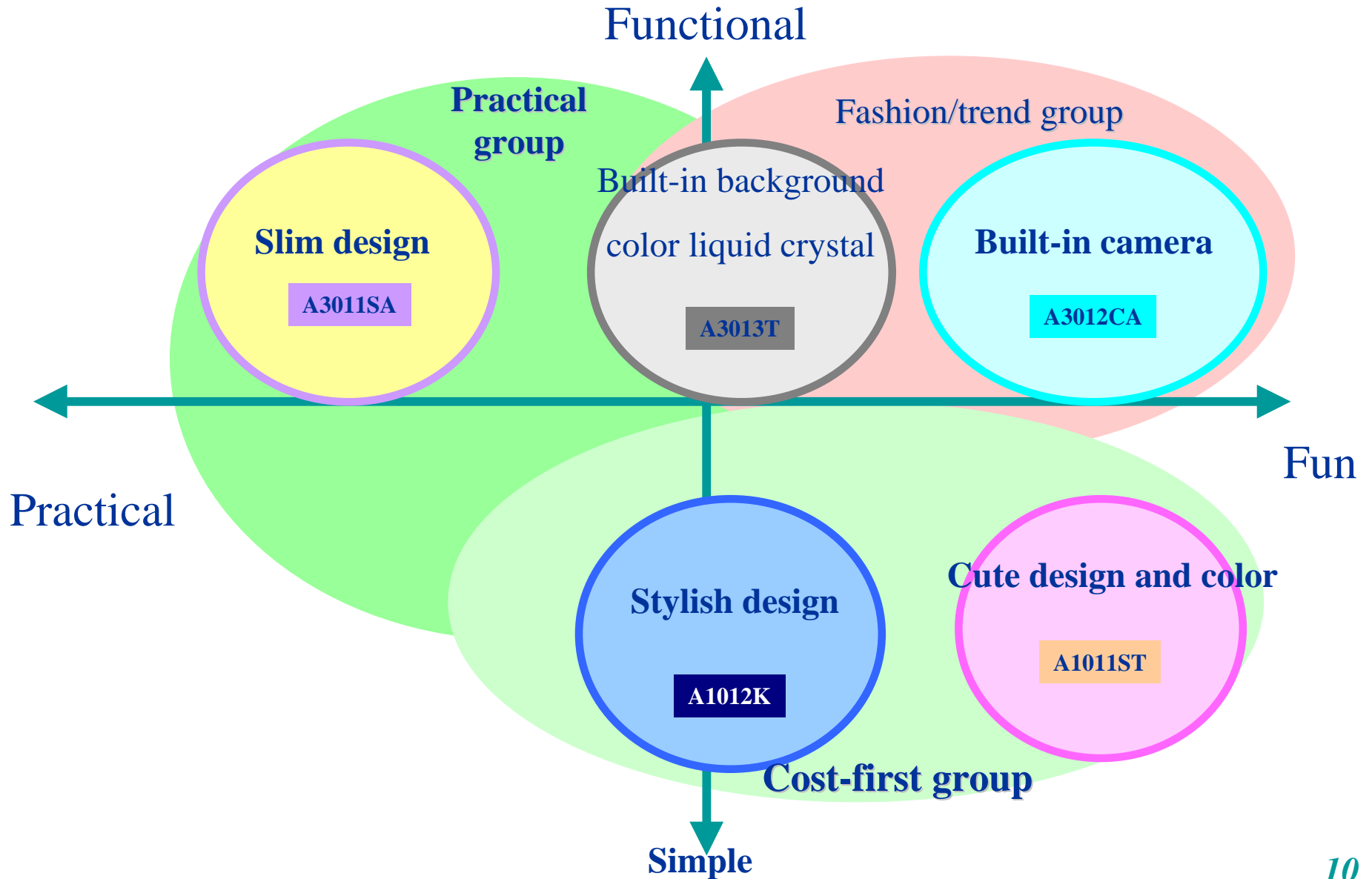
**au**

**NW & Solution**

**TUKA**

**Pocket(PHS)**

# Marketing Targets

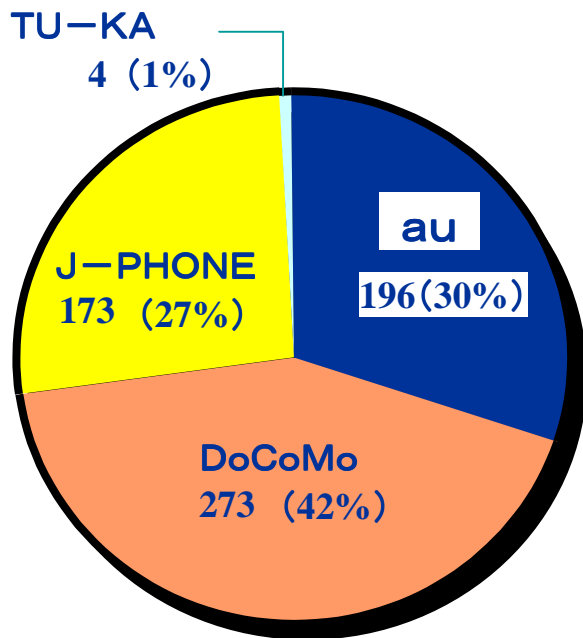


# The Mobile Phone Market in April

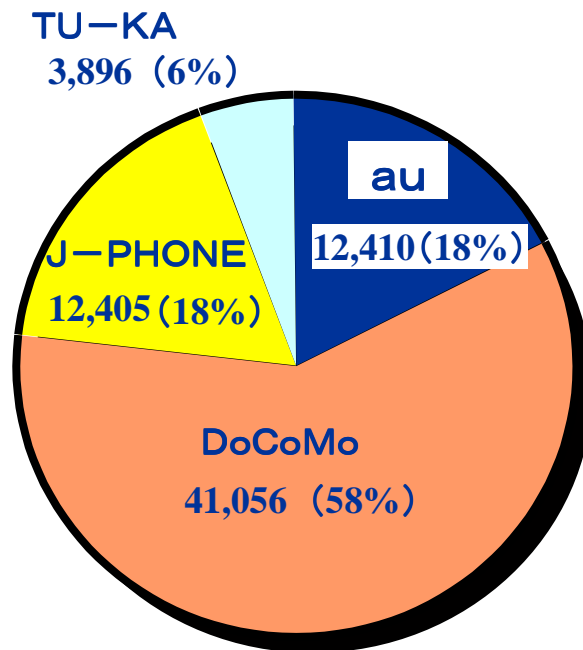
1x contributed to increases in market share of au

AU ranked top among net increases in the Kanto

● Increase of Subscribers ('000)



● Accumulated Subscribers ('000)



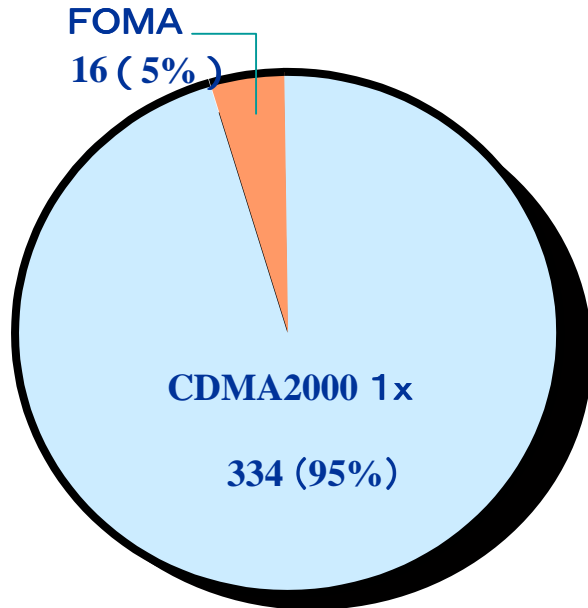
# 3G Market in April

## CDMA2000 1x gets top position of 3G brand

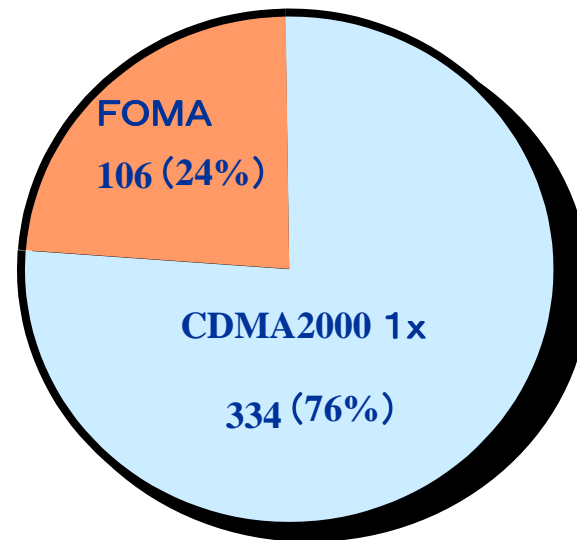
3GSubscribers ('000)

	Hokkaido	Tohoku	Kanto	Chubu	Hokuriku	Kansai	Chugoku	Shikoku	Kyusyu	Okinawa
1x	17	24	128	40	7	47	23	9	30	9
FOMA	2	1	87	4	1	5	3	1	1	

● Increase of 3G Subscribers ('000)



● Accumulated 3G Subscribers ('000)

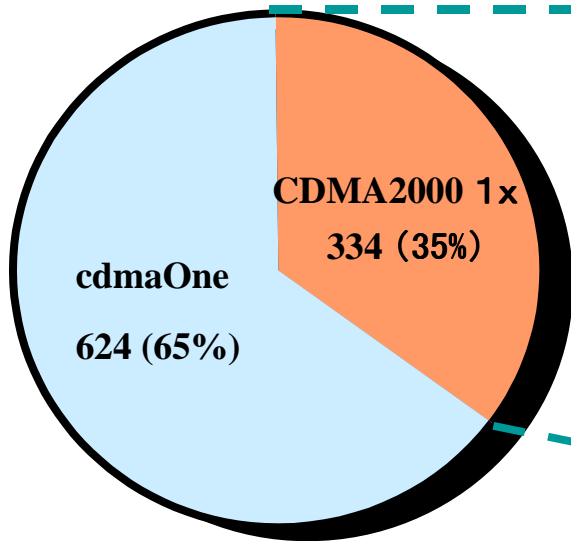


# April Subscriber Analysis

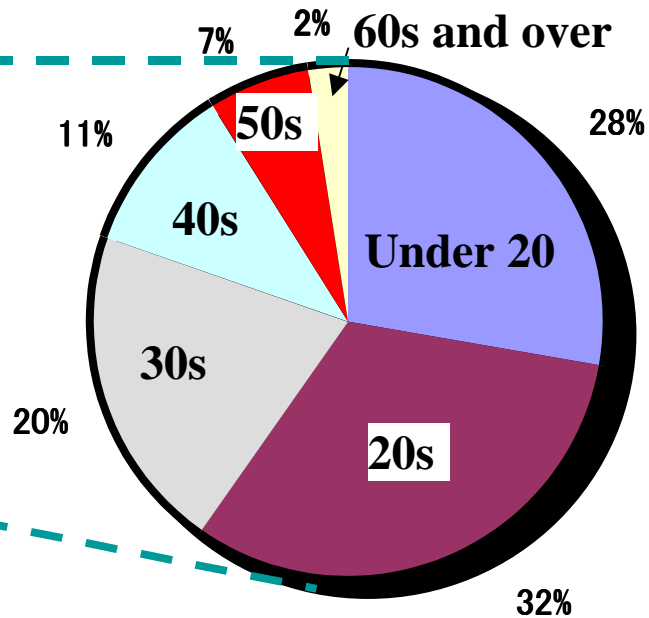
**70% of 1x are GPS KEITAI**

**Users in their 20s give it high ratings**

● Handsets sold by system ('000)



● 1x user age



Handset change	57%
New customers	43%

GPS keitai	70%
1000 Series	30%

1x sales breakdown

## Marketing strategy

**Increase product strength**

- Focus on usability
- High function handsets
- 3G application

**Generate high ARPU**

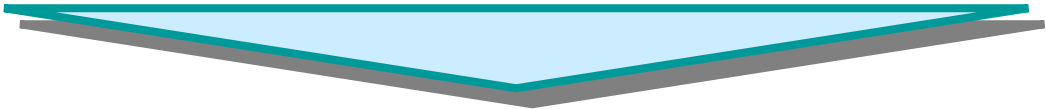
- Targeting high ARPU group
- Promotion of EV-DO

**Strengthen sales power and reduce churn**

- Establish 3G brand
- Customer care through strengthening au shops
- Shift from PDC to CDMA

**Strengthen cost competitiveness**

- Keep price of handsets down
- Reduce incentives
- Eliminate PDC



# Building high profit-earning structure

# 1x Product Concept

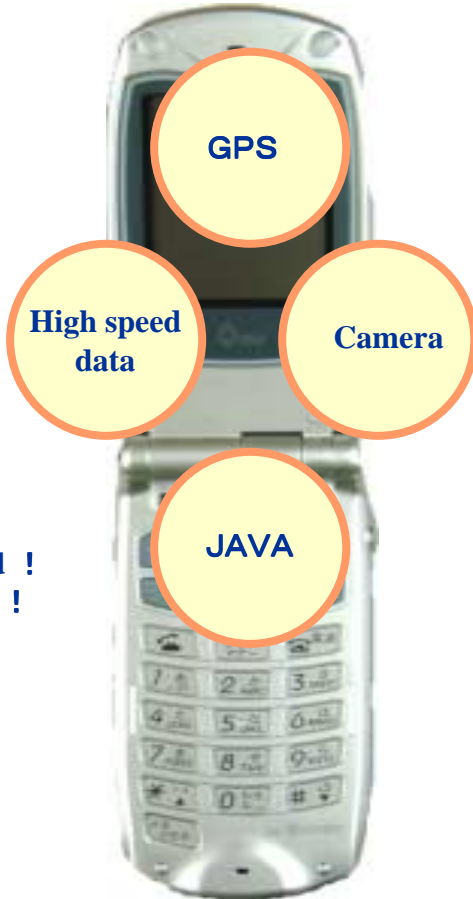
Collaboration between au marketing division + consulting company

## Focus on usability

- **Useable**      Easy to see !  
Easy to hold !  
Good support !
- **Pleasurable**      Stress-free !  
Attractive !  
Secure !
- **Recognizable**      Easy to understand !  
Easy to remember !



Assessment from market survey



## Introduction of 1x handsets with advanced functionality

- Video and still picture camera
- GPS
- High-performance liquid crystal



Clear differentiation from other companies

# Communication Application

What is the next generation killer application?



**Next generation e-mail**

**Video**  
**Still images**

**Text**

**GPS map**

*Built-in camera*    *High speed down road*  
*MPEG4*    *High capacity memory*    *GPS*    *JAVA*

**1:1 communication**  
**Images and location information**  
**Expansion of map contents**

**1:n communication**  
**Utilization of mobile phone Web sites**  
**Group communication services**

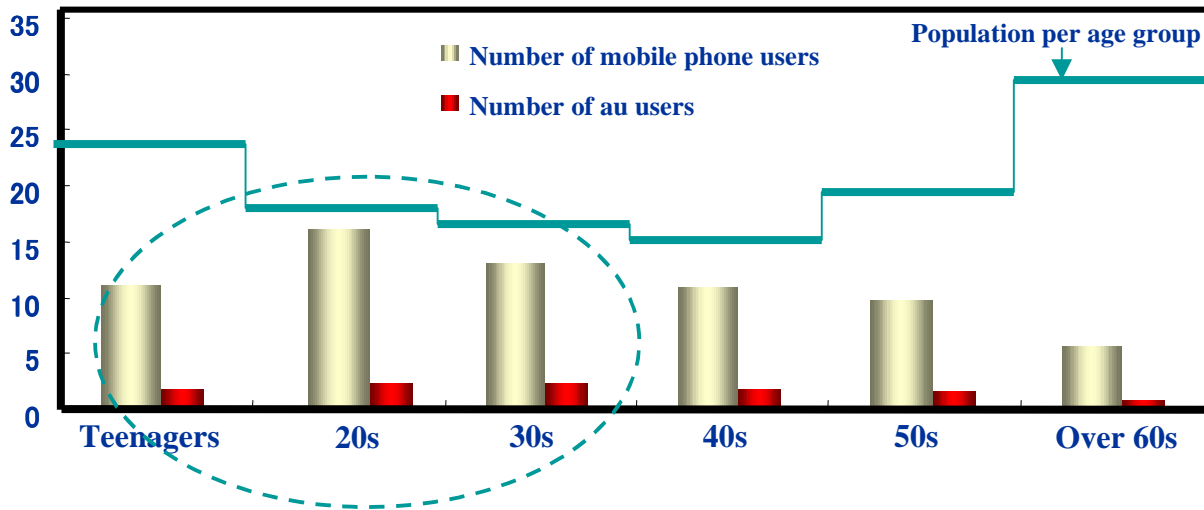


# Targeting High ARPU Group

● **Operating status by generation**

(Company estimates as of March 31, 2002)

Population (units of million)



● **ARPU (cdmaOne)**

Total Data

96	124	96	82	79	67
201	114	67	37	20	13

\* ARPU weighted average = 100

● **Features of Teenagers to 30s age groups**

ARPU is high (particularly data transmission)

High business use

Good response to advanced services

Mobile phone penetration already high

# Plan for the Introduction of CDMA2000 1x EVDO

**2.4Mbps max. high speed data transmission service**

**Minimize capex. through shared use of existing equipment**

**1x+EVDO into one chip  
Handsets and module types**

**Secure sufficient capacity through effective use of 800Mz and 2GHz frequency bands**

May 1, 2002

**Set up EVDO Project**

Spring 2003

**2GHz EVDO trial service**

May 10, 2002

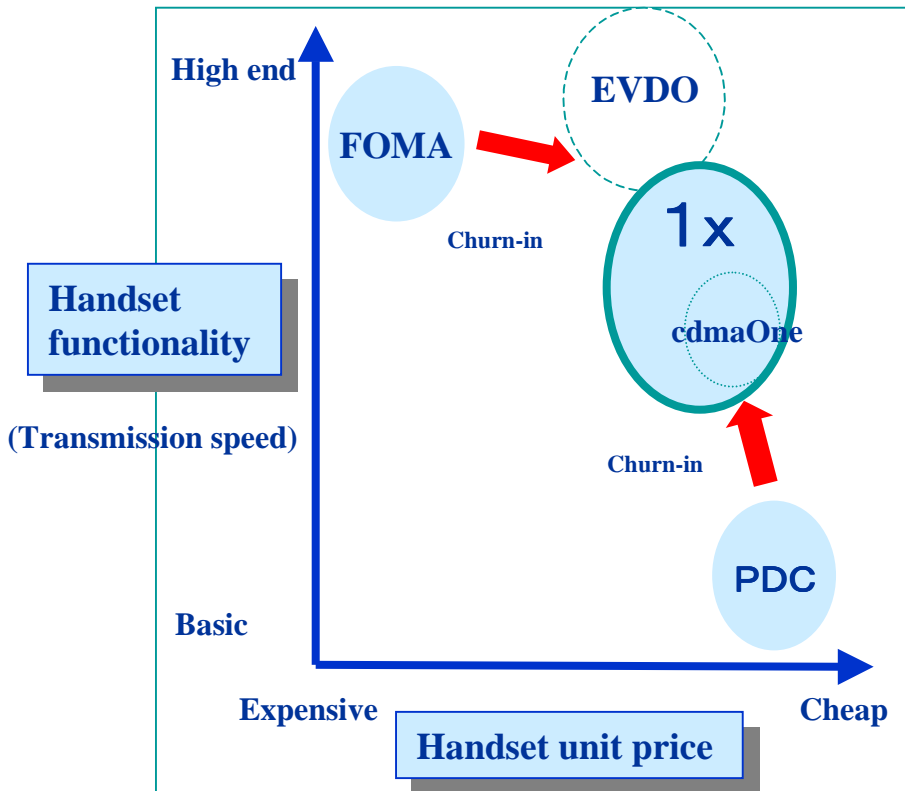
**Apply for 2GHz EVDO**

Autumn 2003

**EVDO full service  
800MHz & 2GHz**

# Churn-In Through 3G Branding

## ● Establishment of top 3G brand



## ● 3G specs comparison (As of April, 2002)

		1x	FOMA
2G compatibility		cdmaOne-compliant	×
Area cover	High speed transmission	54%	60%
	Voice	Nationwide	60%
	Mail/ Web	Nationwide	60%
Max.data speed		144kbps	384kbps
Charge per packet		¥ 0.27	¥ 0.2
Handset unit market price	High end	¥ 14,800	¥ 50,000
	Popular	¥ 6,800	¥ 20,000
Functions	Videophone	×	○
	Camera	○	○
	GPS	○	×
Battery	Continuous standby time	200-230 hours	55 hours
	Continuous talk time	140 mins	60-90 mins
Weight		Approx. 100g	100-160g

\* Sample studies at large metropolitan stores

# Customer Retention Strategy:

## Strengthening “au shops”

**Criteria for establishment and operation**

- Sales commission
- Location
- Shop exterior
- Uniforms

**Educational programs**

- Manners and knowledge of products
- Staff qualification and accreditation system

**Boosting diversity of product lineup**

- KDDI services (DION, ADSL etc.)
- CO-CO SECOM EZ (location data service)



## Improving au user satisfaction



Increased capture of new users, and retention of existing users

# Strengthen cost competitiveness

## Blanket Wind Up of PDC

- Cost cutting effect

Reduced depreciation costs: ¥44 billion(FY 3/03)

Reduced communication network usage fees: ¥22 billion (based on average year)

(PDC-dedicated dedicated lines and maintenance costs)

- PDC to CDMA shift ratio

FY 3/2002		March 2002	April 2002
First half	Second half		
45%	46%	66%	73%

PDC shift campaign

- Direct mail
- "Out-band" calls by full-time team
- Individual visits from full-time team

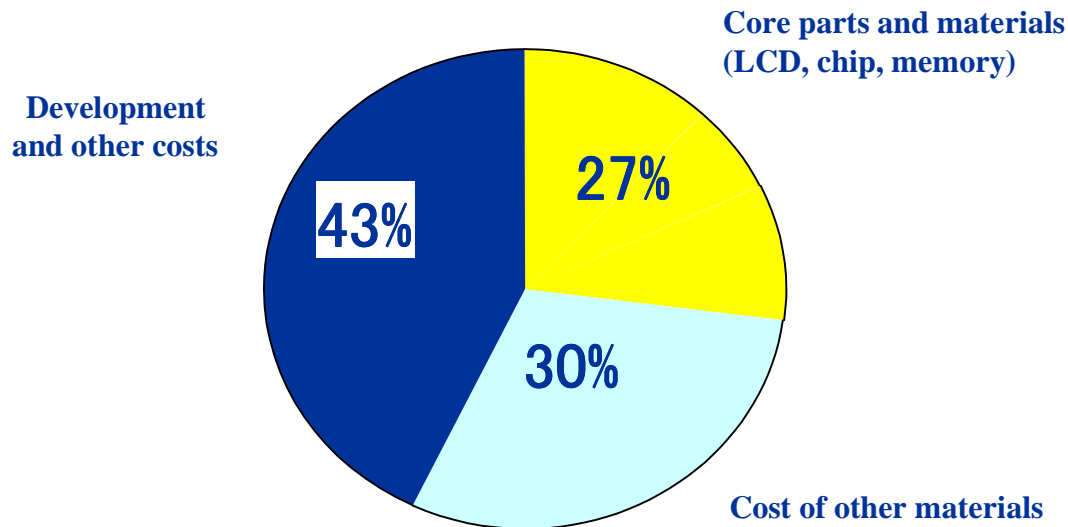
# Strengthen cost competitiveness

## Holding down cost of handsets

- Reduction of development expenses and material costs through promotion of common software and components
- Unit price reductions by limiting number of models

【Handset cost structure】

Ratio of 1Xchip is less than 10%



# Sum-Up : Toward a high profit company

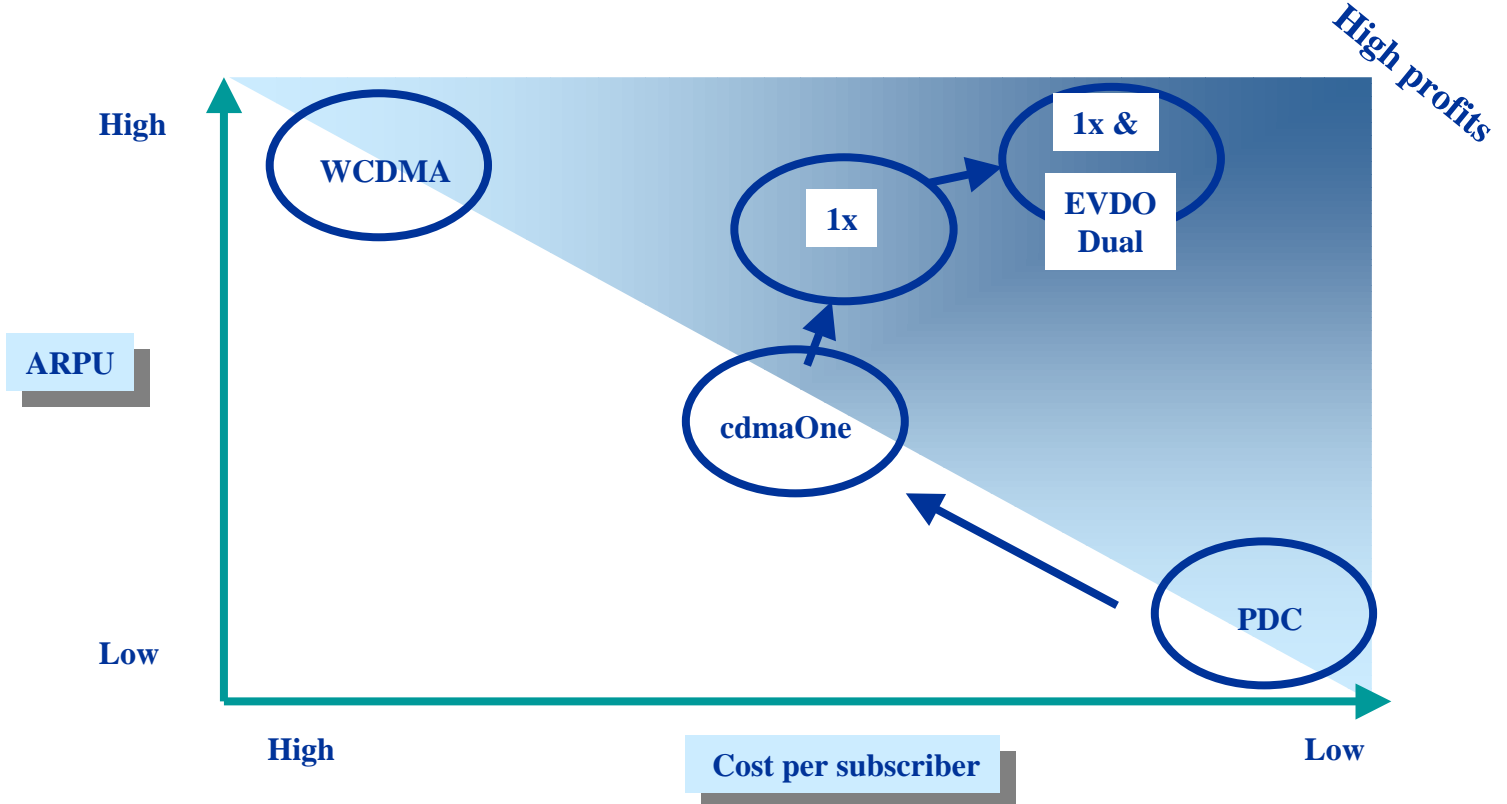
## Marketing strategy

Increase product strength

Generate high ARPU

Strengthen sales power and reduce churn

Strengthen cost competitiveness



# Business Policy

## Fixed & Mobile convergence

### ADSL & broadband business

- ADSL area expansion
- Sales of AirH“+ DION as sets
- Broadband condominium

### Promote conversion to IP

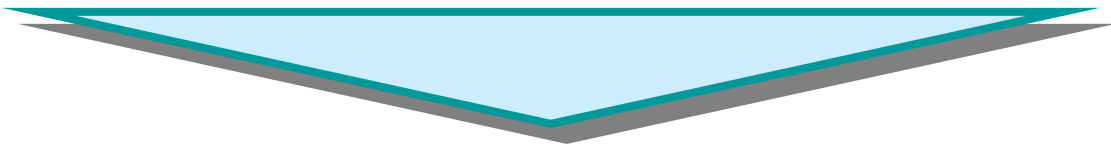
- IP phone service
- IP-VPN
- Integration of IP networks

### Promotion of solutions

- MEGA consortium
- Data center
- GPS solution

### Strengthen cost competitiveness

- Reduce My Line-related costs
- Hold down capital investment



**Building high profit-earning structure**



# Broadband and IP

## Strategy for ADSL

- Associate carrier expansion
- Expansion of service area 42% --> 60%
- Sales of AirH™+DION as sets

## Strategy for shift to IP

- Integrated development of IP-related service network
- Launch of IP phone (best effort)
- IP-VPN and Ether VPN services

## 'F-mansion' roll-out

- Conduct intense marketing to condominiums within the service provision area to establish this business as a new component for FTTH business infrastructure.
- Initially Tokyo, Osaka and selected cities with prefectural status
- Progress to remaining cities of prefectural status as service provision area expands.

# Establishment of Megaconsortium

Establish late  
May 2002

June 2002 Start  
of operations

**10 million subscribers**

**KDDI  
DION  
2.15 million  
subscribers**

**Japan Telecom  
ODN  
1.90 million  
subscribers**

**NEC  
BIGLOBE  
4.05 million  
subscribers**

**Matsushita  
hi-ho  
1.67 million  
subscribers**

**Joint development of  
contents and services**

**Reciprocal access to  
infrastructure**

Subscribership figures are for February 2002

# Sharp Rise in GPS Solution Projects

- **Business vehicle management needs:**  
business vehicles (18 million) / all vehicles (72 million)
- **Employee attendance and location management needs**
- **Security business, surveillance business and maintenance business**  
(HELPNET)

## GPS solution projects (April 2002)

### Operation and management systems: 29

-- automobile manufacturers, home appliance manufacturers, system integrators, and government ministries

### Emergency information systems: 5

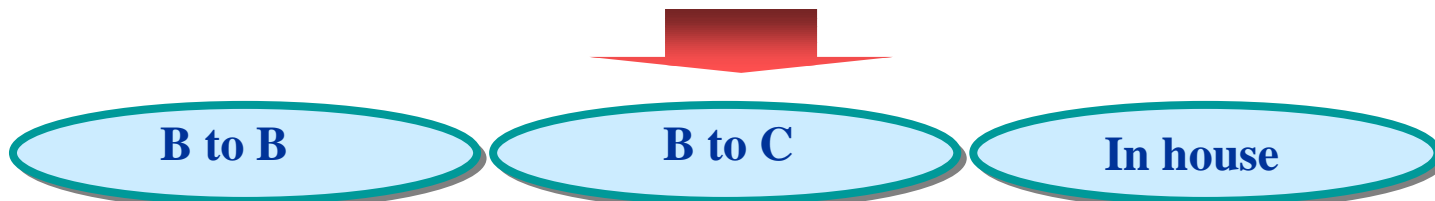
-- security companies and local governments

### Attendance management systems: 5

-- general construction contractors and education-related

### Location information systems: 31

-- mass media, universities, government ministries, and system integrators

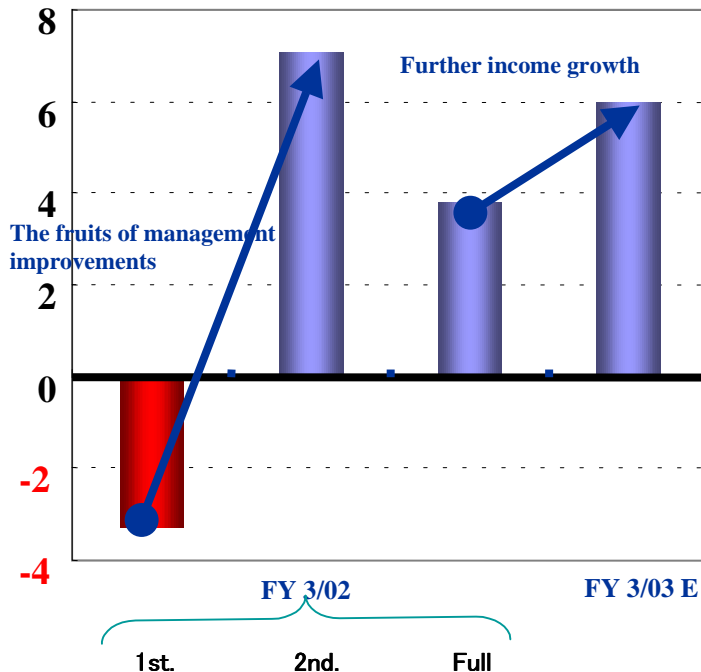


# Going Steadily Into The Black

- Best carrier for those not needing 3G, offering good quality voice service at reasonable prices
- Tuka is penetrating as a brand among customers seeking simple functions, and is recovering pace of net increase.

## 【 Operating income 】

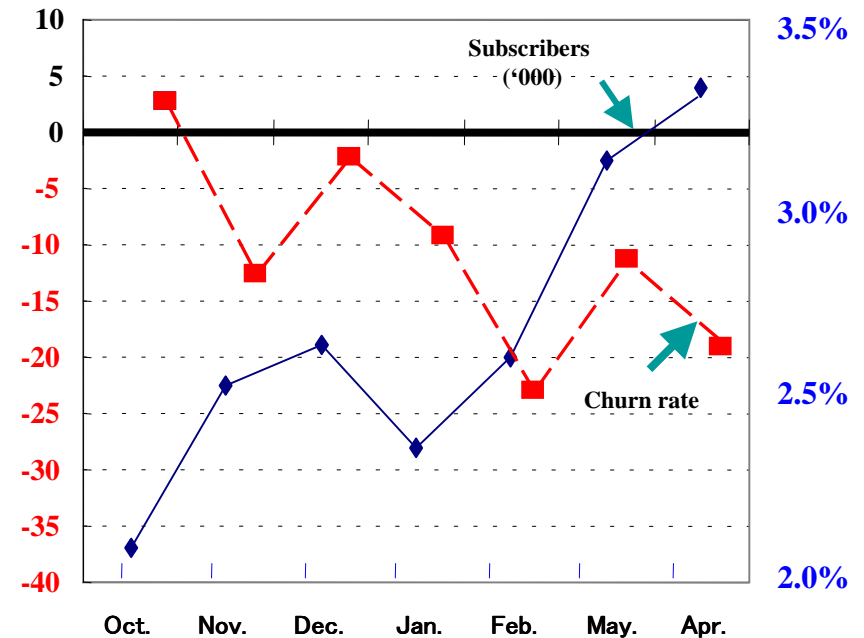
(In billions of yen)



## 【Subscriber numbers】

Subscribers ('000)

Churn rate



# Results of Data Specialization Strategy

- Digital data transmission-based business operations

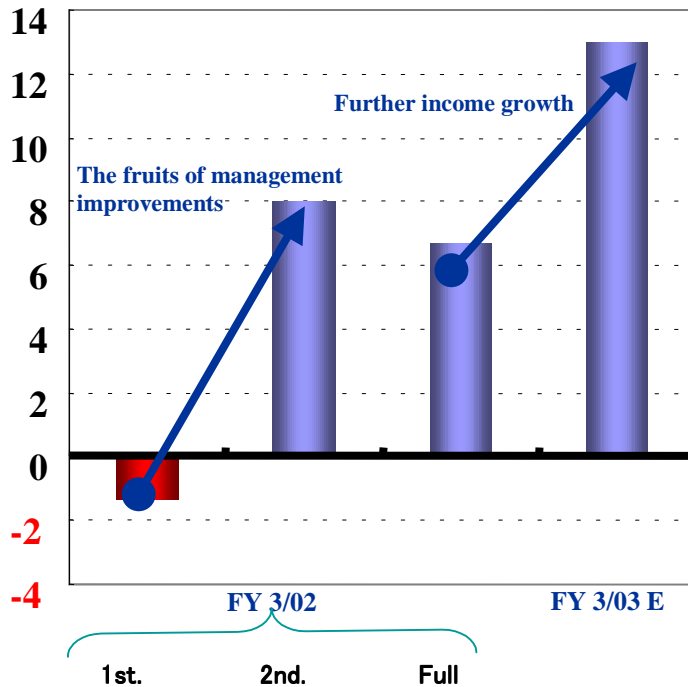
Raise data-enabled phone subscriber ratio from 27% in March 2002 to over 45% in March 2003

- Reduce commissions

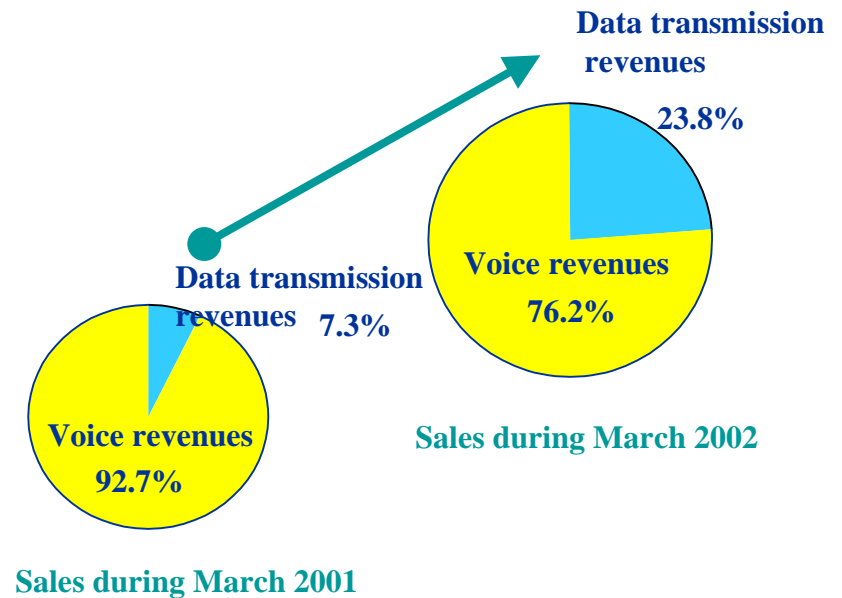
- Installation of new nodes in NTT facilities and conversion of backbone networks to IP enable reduction of Access charge

## 【 Operating income 】

(In billions of yen)



## 【 Data transmission sales 】



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**KDDI**