

Ubiquitous Solution Company

# **KDDI CORPORATION**



## **Financial Results of the Fiscal Year Ended March 2008**

April 24, 2008

The figures included in the following brief, including the business performance target and the target for the number of subscribers are all projected data based on the information currently available to the KDDI Group, and are subject to variable factors such as economic conditions, a competitive environment and the future prospects for newly introduced services.

Accordingly, please be advised that the actual results of business performance or of the number of subscribers may differ substantially from the projections described here.

# 1.1. Financial Results Highlights for FY2008.3

## 1 Consolidated basis

- Operating revenues rose by +7.8% and operating income was up +16.2% yoy, as steady Mobile Business (“au”+ Tu-Ka) absorbed loss of Fixed-line Business which is in the middle of a new service expansion.

## 2 Mobile Business (“au”+ Tu-Ka)

- Operating revenues increased by +6.9% and operating income rose by +18.0% yoy.
- Total net additions for full-year were +2.15M (“au”: +2.79M, Tu-Ka: -0.64M) of which +597k (“au”: +625k, Tu-Ka: -28k) were through MNP <sup>note 1</sup>. Achieved the March-end target of “au” 30M customers.
- No. of “au” WIN subs is steadily increasing, totaling 19.70M at end-March, of which 74% of users sign up for Packet Flat-rate plans.
- Tu-Ka shut down the operation at end-March with 2.60M migrants to “au” (since Sep. 2005).

## 3 Fixed-line Business

- Operating revenues slightly increased by +0.6% yoy (with sales outside the group increased by +3.2%) and operating loss was ¥64.7B.
- No. of Metal-plus <sup>note 2</sup> subs rose to 3.28M and no. of FTTH (HIKARI-one) subs increased to 0.71M at end-March.

# 1.2. Full-Year Outlook for FY 2009.3 (1)

FY2008.3 Result	FY2009.3 Forecast (Change)
-----------------	----------------------------

- 1** On a consolidated basis, Company forecasts an increase in sales and double-digit growth in OP yoy.
- Mobile Business:  
 OP is up by an increase in total subs. Also, factor in enhanced scheme on new purchasing option, “au Purchase Program”.
  - Fixed-line Business:  
 OP loss continues as expanded sales of FTTH despite profitability of Metal-plus in 4th year.

➤ Operating revenues	: ¥3,596.3B	¥3,700.0B (+ ¥103.7B / yoy + 2.9%)
Operating income	: ¥400.5B	¥443.0B (+ ¥ 42.5B / " +10.6%)
- Mobile Business	: ¥455.0B	¥497.0B (+ ¥ 42.0B / " + 9.2%)
- Fixed-line Business	: ¥ 64.7B	¥ 58.0B (+ ¥ 6.7B / - )

➤ Key performance index

✓“au” ARPU	: ¥6,260	¥5,660 ( ¥600)
✓“au” total subs	: 30.11M	31.60M (+ 1.49M)
✓“au” handset no. of unit sold	: 15.82M	14,40M ( 1.42M)
✓Metal-plus total subs	: 3.28M	3.08M ( 0.20M)
✓FTTH total subs	: 0.71M	1.14M (+ 0.43M)

# 1.2. Full-Year Outlook for FY 2009.3 (2)

FY2008.3 Result	FY2009.3 Forecast (Change)
-----------------	----------------------------

- 2** Forecast +¥13.0B in Mobile Business and ¥13.0B in Fixed-line Business as the effect of reviewing the depreciation by the changes in estimated useful lives of machinery and equipment (6 9 years) in accordance with FY2008-tax system revision and changing the depreciation method on machinery and equipment (straight-line method declining-balance method) for Mobile Business.
  
- 3** Factor in this year's outlook of ¥39.0B in sales and ¥ 7.5B in OP loss for Chubu Telecommunications Co., Inc. (CTC) as a consolidated subsidiary from April 1, 2008.
  
- 4** Forecast CAPEX at ¥590.0B (+¥73.0B) due to investments in 2GHz and new 800MHz for "au".

# 1.3. FY2009.3 Challenges

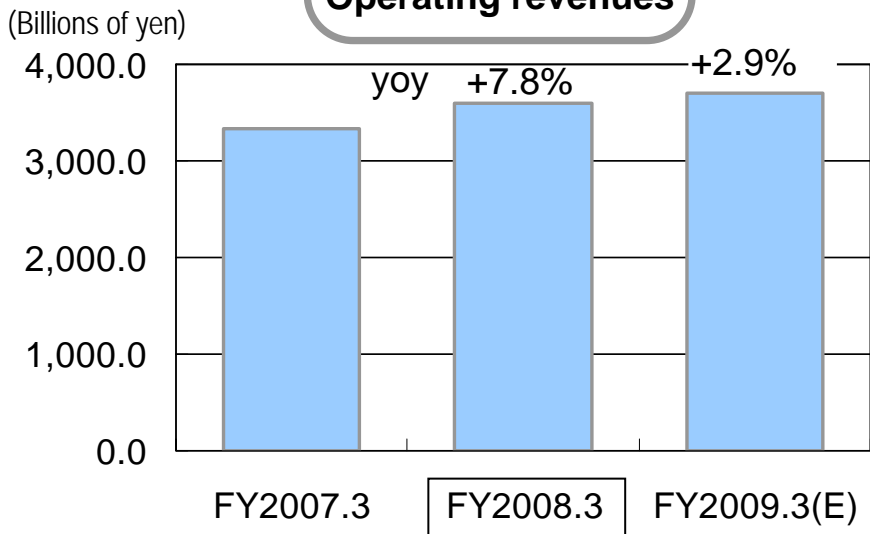
- 1** Address “Customer Satisfaction No. 1” in every service in the second year of “Challenge 2010”, aiming at “Sustainable Growth.”
  - Strengthen the existing business base and expand business domain to realize a mid-term system for increasing both sales and income.
- 2** Mobile Business (“au”)
  - Boost product attractiveness by timely release of “distinctly KDDI” handsets and services aimed at meeting a range of customer needs.
  - For corporate customers: Reinforce mobile solutions for large corporations and sales promotion for small business.
- 3** Fixed-line Business
  - Secure stable profitability of Metal-plus.
  - For consumers: Ensure customer base of 5M fixed access lines <sup>note 1</sup>.
  - For corporate customers: Establish system to offer one-stop shopping for ICT <sup>note 2</sup> services.
- 4**
  - Support UQ Communications Inc. for the launch of mobile WiMAX service in 2009.
  - Establish smooth operations of mobile internet banking (scheduled start in mid-FY2009.3).

Note 1: FTTH, direct-revenue telephony (Metal-plus, Cable-plus phone) and CATV and the number excludes crossover subs.

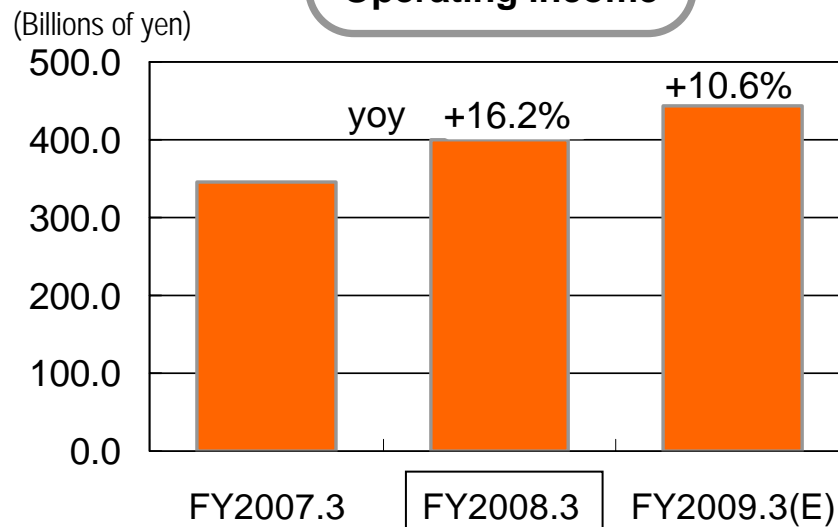
Note 2: Information and Communication Technology

# 2. Consolidated Financial Results

**Operating revenues**



**Operating income**

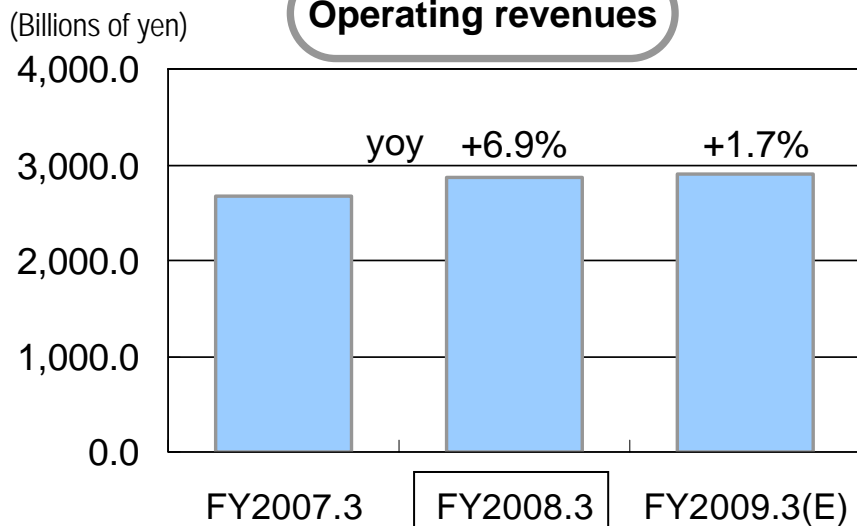


(Billions of yen)

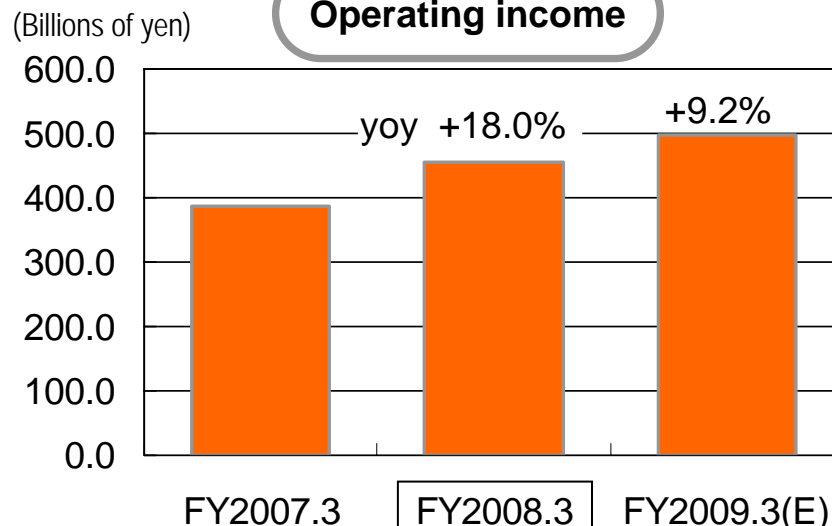
	FY2007.3	FY2008.3		FY2009.3(E)	
			yoy		yoy
Operating revenues	3,335.3	3,596.3	7.8%	3,700.0	2.9%
Operating income	344.7	400.5	16.2%	443.0	10.6%
<i>Operating margin</i>	<i>10.3%</i>	<i>11.1%</i>	-	<i>12.0%</i>	-
Ordinary income	350.9	407.9	16.2%	440.0	7.9%
Net income	186.7	217.8	16.6%	250.0	14.8%
Free Cash Flow	296.5	-12.5	-	-17.0	-
EBITDA	691.7	769.2	11.2%	881.0	14.5%
<i>EBITDA margin</i>	<i>20.7%</i>	<i>21.4%</i>	-	<i>23.8%</i>	-

# 3. Mobile Business

**Operating revenues**



**Operating income**



(Billions of yen)

	FY2007.3	FY2008.3	FY2009.3(E)		
			yoy	yoy	
Operating revenues	2,677.4	2,862.6	6.9%	2,911.0	1.7%
"au"	2,610.6	2,851.7	9.2%	2,911.0	2.1%
Tu-Ka	66.8	10.9	-83.7%	0.0	-
Operating income	385.7	455.0	18.0%	497.0	9.2%
<i>Operating margin</i>	14.4%	15.9%	-	17.1%	-
Ordinary income	393.5	463.5	17.8%	503.0	8.5%
Net income	209.5	266.5	27.2%	292.0	9.6%
Free Cash Flow	294.8	82.4	-72.0%	127.0	54.1%
EBITDA	598.1	692.2	15.7%	794.0	14.7%
<i>EBITDA margin</i>	22.3%	24.2%	-	27.3%	-

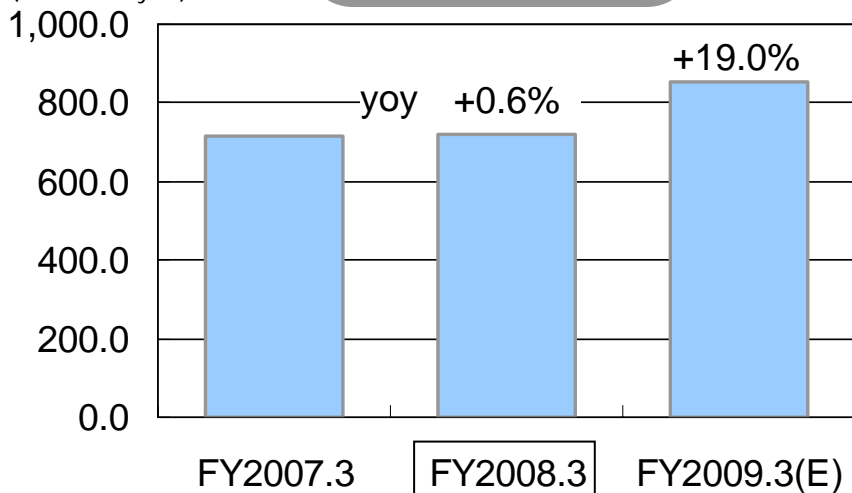
( '000 )	FY2007.3	FY2008.3	FY2009.3(E)
Total Subs	28,188	30,339	31,600
of module-type	699	814	1,000
"au" total	27,317	30,105	31,600
WIN(EV-DO)	14,549	19,695	24,000
1X	12,170	9,993	-
cdmaOne	597	417	-
Tu-Ka(PDC)	872	234	0



# 4. Fixed-line Business

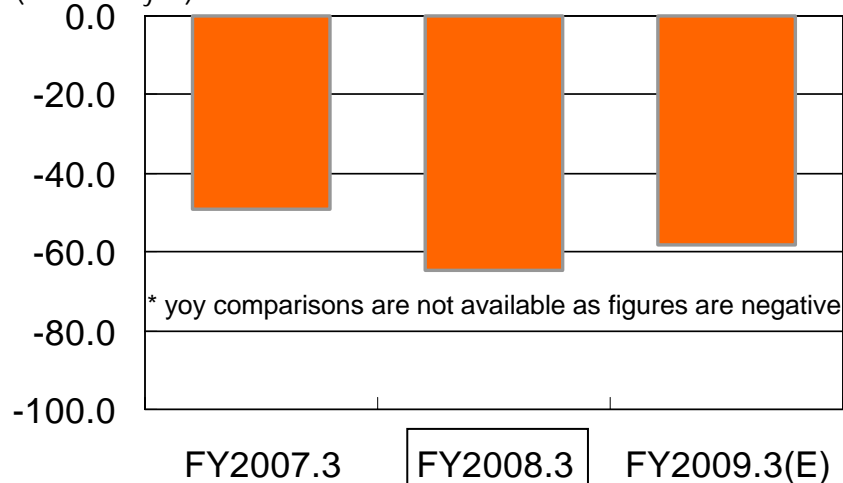
**Operating revenues**

(Billions of yen)



**Operating income**

(Billions of yen)



(Billions of yen)

	FY2007.3	FY2008.3	FY2009.3(E)	
			yoy	yoy
Operating revenues	714.4	718.6	0.6%	19.0%
Operating income	-49.0	-64.7	-	-
<i>Operating margin</i>	-6.9%	-9.0%	-	-
Ordinary income	-47.2	-64.8	-	-
Net income	-23.4	-51.7	-	-
Free Cash Flow	6.3	-53.9	-	-
EBITDA	80.9	58.1	-28.1%	39.3%
<i>EBITDA margin</i>	11.3%	8.1%	-	-

Subs	FY2007.3	FY2008.3	FY2009.3(E)
( ' 000)			
ADSL	1,512	1,396	1,280
FTTH	592	710	1,140
Metal-plus <sup>Note 1</sup>	2,813	3,279	3,080
Cable-plus phone	-	286	580
CATV <sup>Note 2</sup>	-	667	700
Fixed access lines <sup>Note 3</sup>	-	4,827	5,300

Note 1 : Including ADSL one (ADSL used over Metal-plus).

Note 2: CATV subs include number of households with at least one contract via broadcasting, internet, or telephone.

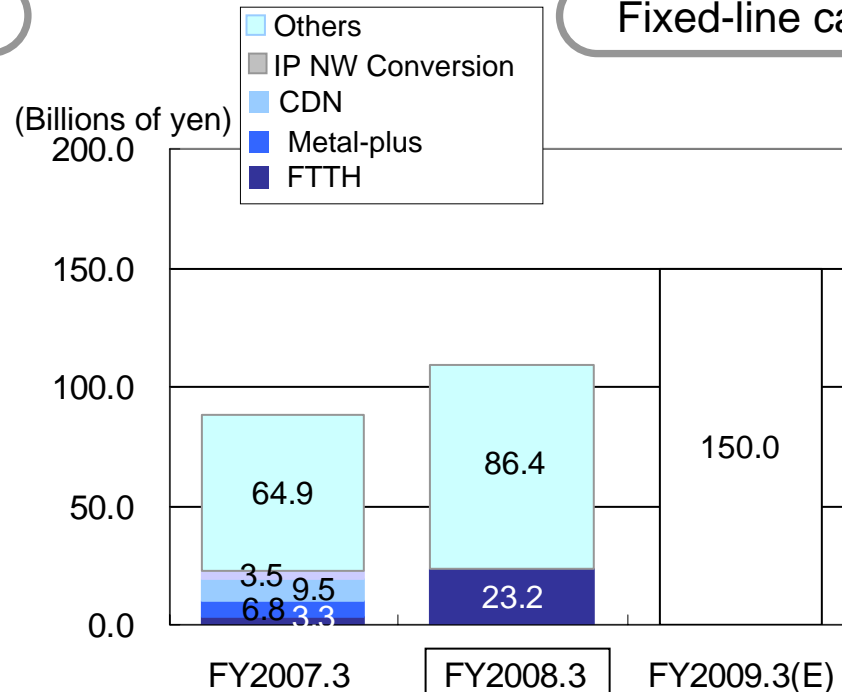
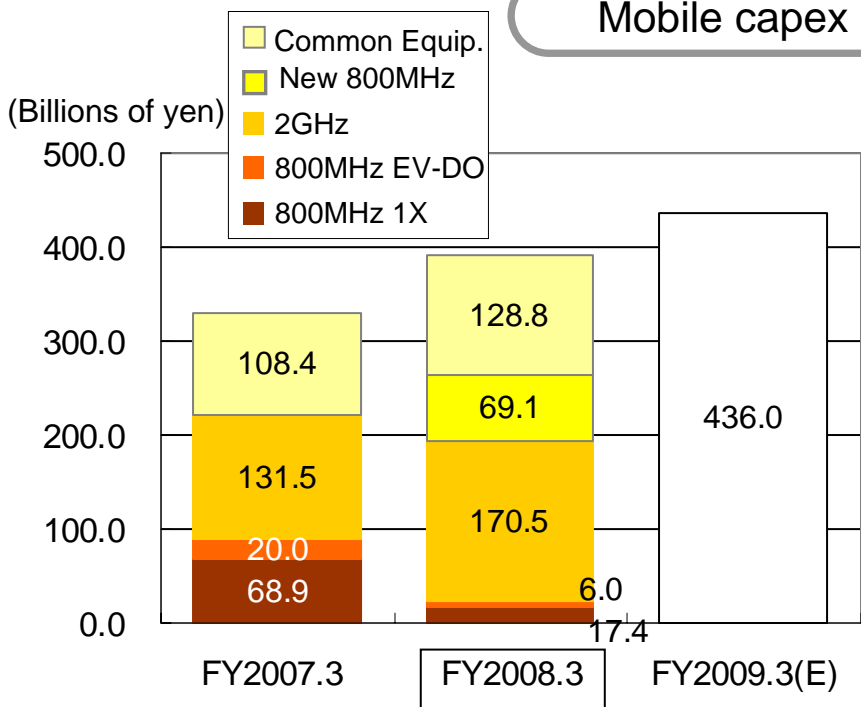
Note 3: Fixed access lines are FTTH, direct-revenue telephony (Metal-plus, Cable-plus phone) and CATV subs and the number excludes crossover subs.

Note 4: The FY2009.3 outlook includes CTC as a subsidiary as well as JCN Group and overseas network subsidiaries included up till now in the Other Business segment.

# 5. Capital Expenditures

Mobile capex

Fixed-line capex



Note: Items other than FTTH are included in "Others" in FY2008.3.

(Billions of yen)

		FY2007.3	FY2008.3	FY2009.3(E)		
			yoy		yoy	
CAPEX (Cash basis)	Consolidated	438.5	517.0	17.9%	590.0	14.1%
	Mobile	328.9	391.7	19.1%	436.0	11.3%
	Fixed-line	88.0	109.6	24.5%	150.0	36.8%

# Segment Discussions & Strategies

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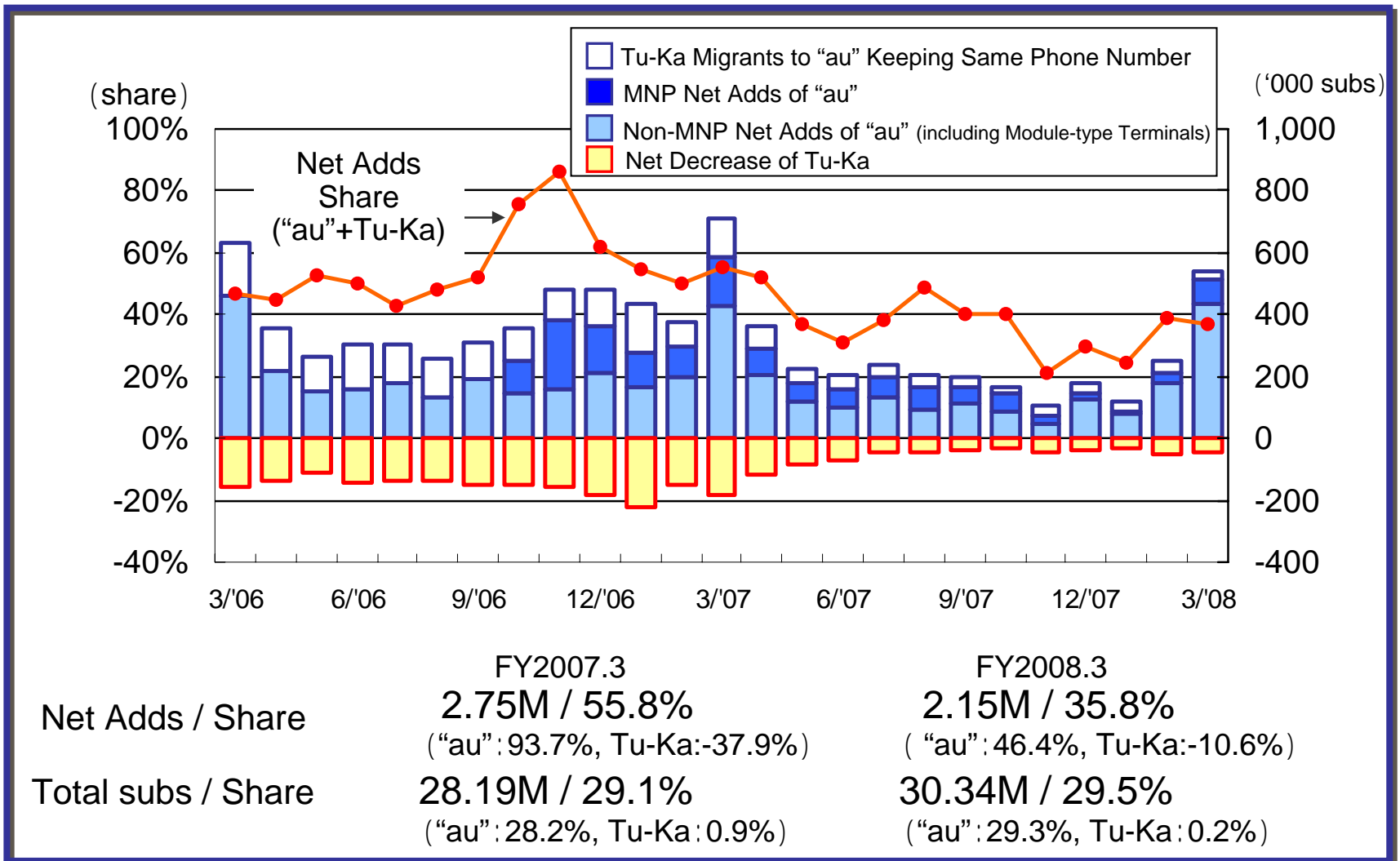
Mobile Business

Fixed-line Business

Challenge 2010

# 1.1. Net Additions of KDDI("au" + Tu-Ka)

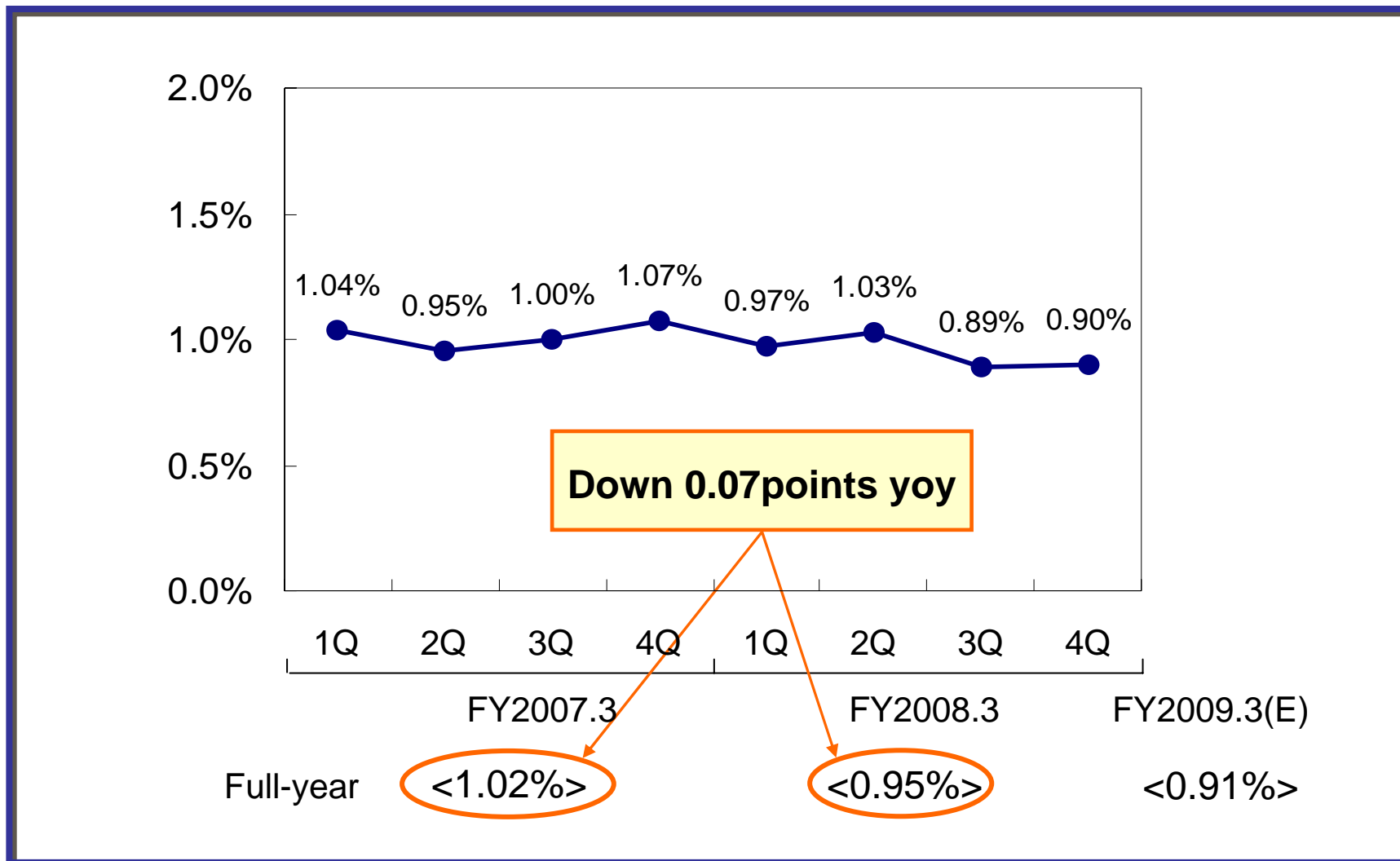
KDDI achieved the March-end target of 30M (30.11M) "au" customers with net additions of 2.15M for full-year.



Note: The graph of the net adds share excludes EMOBILE until December 2007.

# 1.2. "au" Churn Rate

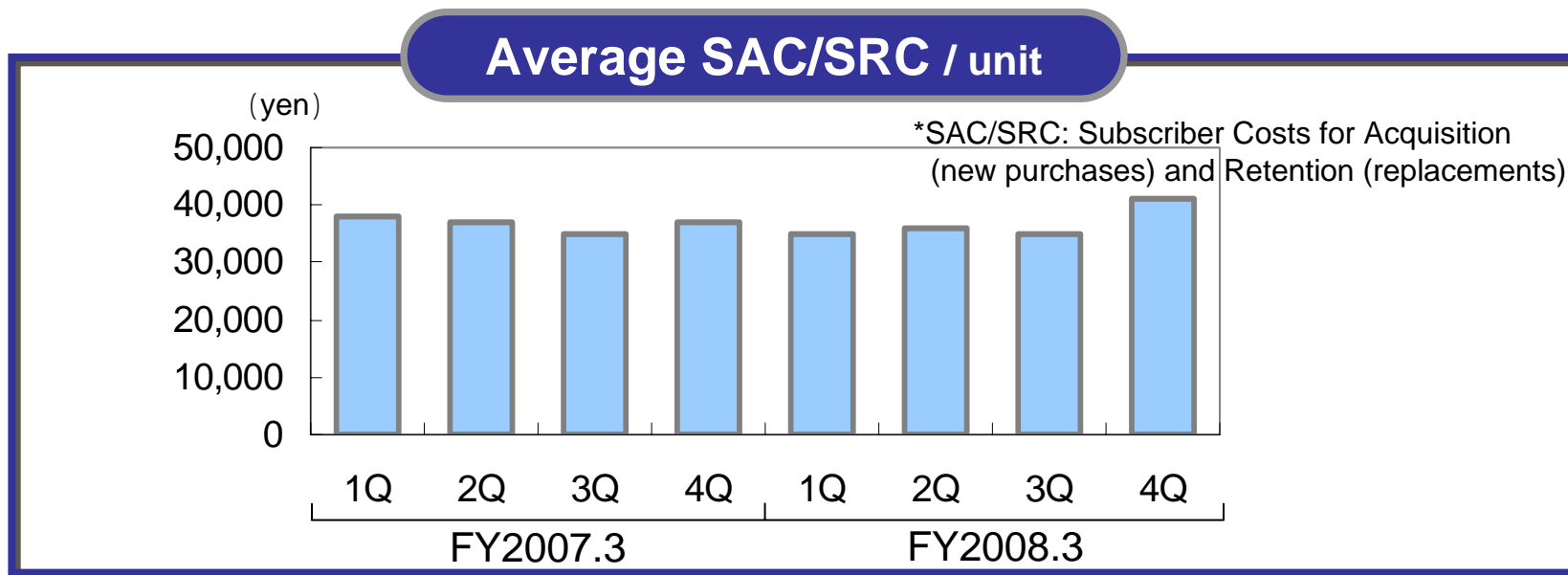
Churn rate in FY2008.3 was 0.95%, down 0.07points yoy.



Note: Churn rate is calculated for ordinary handsets which exclude module-type terminals.

# 1.3. "au" SAC/SRC

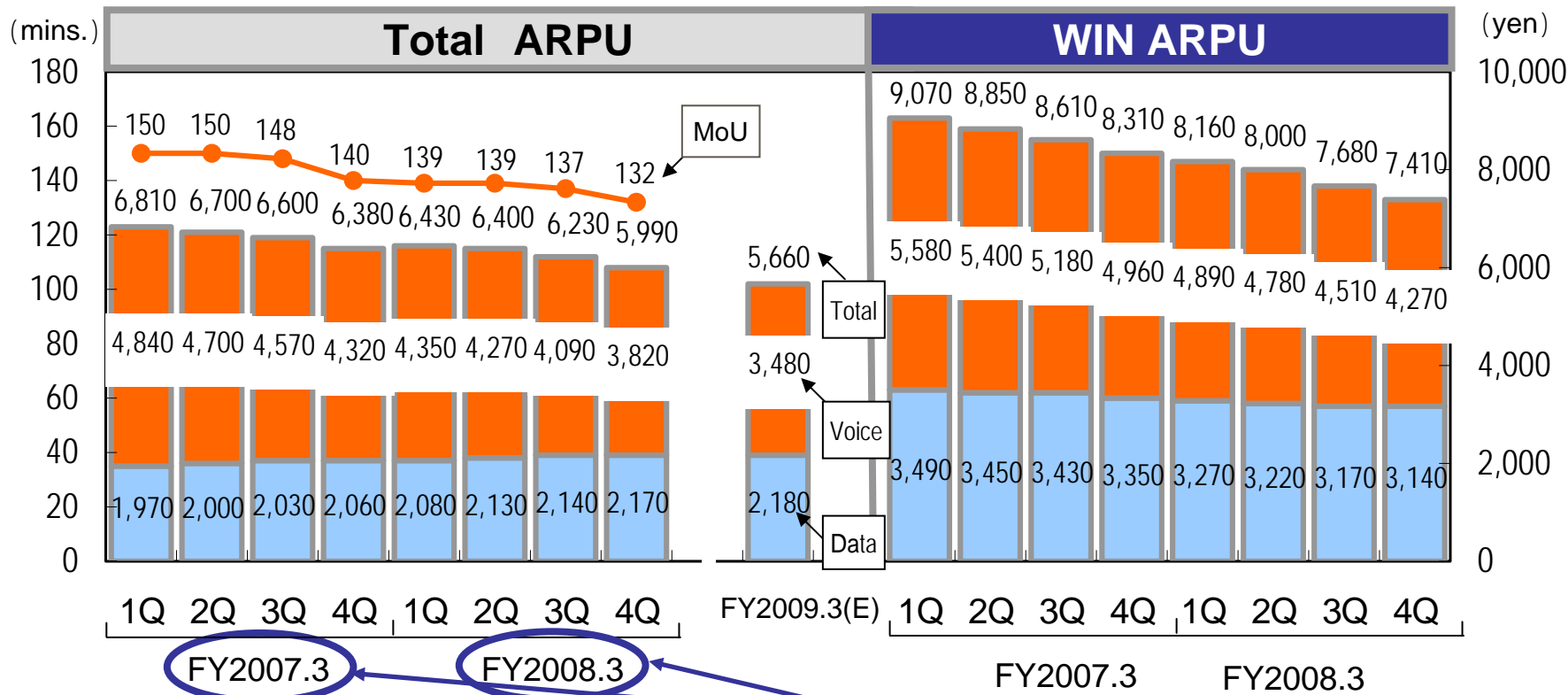
SAC/SRC in FY2008.3 was ¥37,000, which was on a par with previous year's result.



	FY2007.3					FY2008.3				
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q	
Total SAC/SRC (Billions of yen)	124.0	129.0	145.0	170.0	568.0	124.0	149.0	130.0	183.0	586.0
Average SAC/SRC / unit (yen)	38,000	37,000	35,000	37,000	37,000	35,000	36,000	35,000	41,000	37,000
Number of units sold ('000 units)	3,270	3,520	4,110	4,650	15,550	3,530	4,080	3,700	4,510	15,820

# 1.4. Trend of "au" ARPU

Rise in the percentage of high-ARPU WIN subs is supporting overall ARPU.



Full-year	FY2007.3	FY2008.3	FY2009.3(E)
Total ARPU	¥6,610	¥6,260	¥5,660
of Voice	¥4,590	¥4,130	¥3,480
of Data	¥2,020	¥2,130	¥2,180

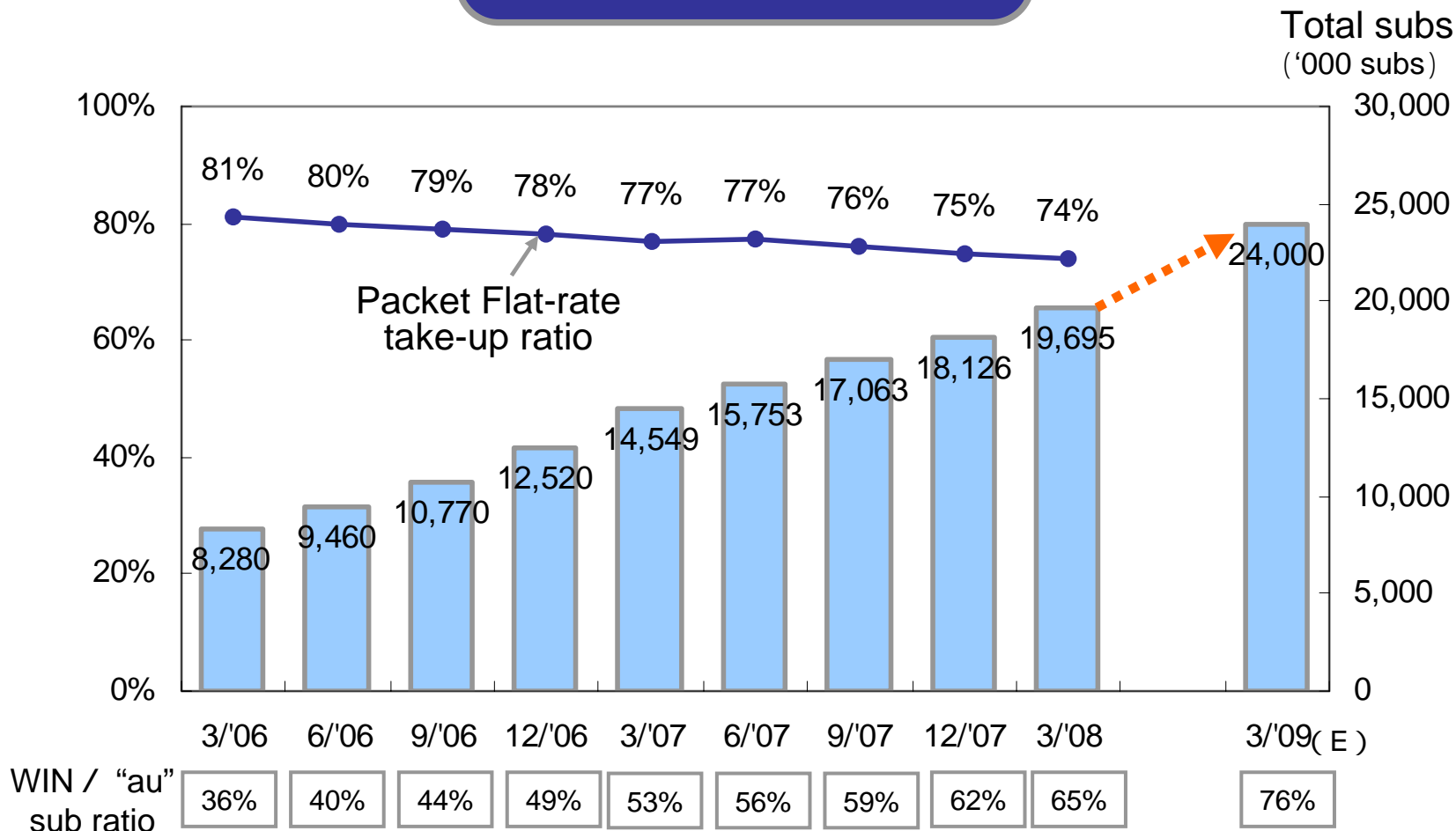
yoy change	
Total ARPU	¥350 ( 5.3%)
of Voice	¥460 ( 10.0%)
of Data	+ ¥110 ( + 5.4%)

# 1.5. Update on WIN



65% of "au" users are with WIN at end-March, of which as high as 74% of customers sign up for Packet Flat-rate plans.

Growth of WIN Subs





# 2. Corporate Business (1)

Reorganize corporate mobile business system for each target segment to reinforce solutions for medium-large corporations and sales promotion for small business.

Launch campaign targeting corporate customers in March.

First month went smoothly.



Corporate corner in an "au" shop

Segment	Business System	
Medium-Large Corporations (more than 100 employees)	Solutions business	Direct
Small Business (more than 10 employees)	Push-strategy by marketing experts	Agency
Small Business (less than 10 employees)	Standardized pull-strategy	"au" shop

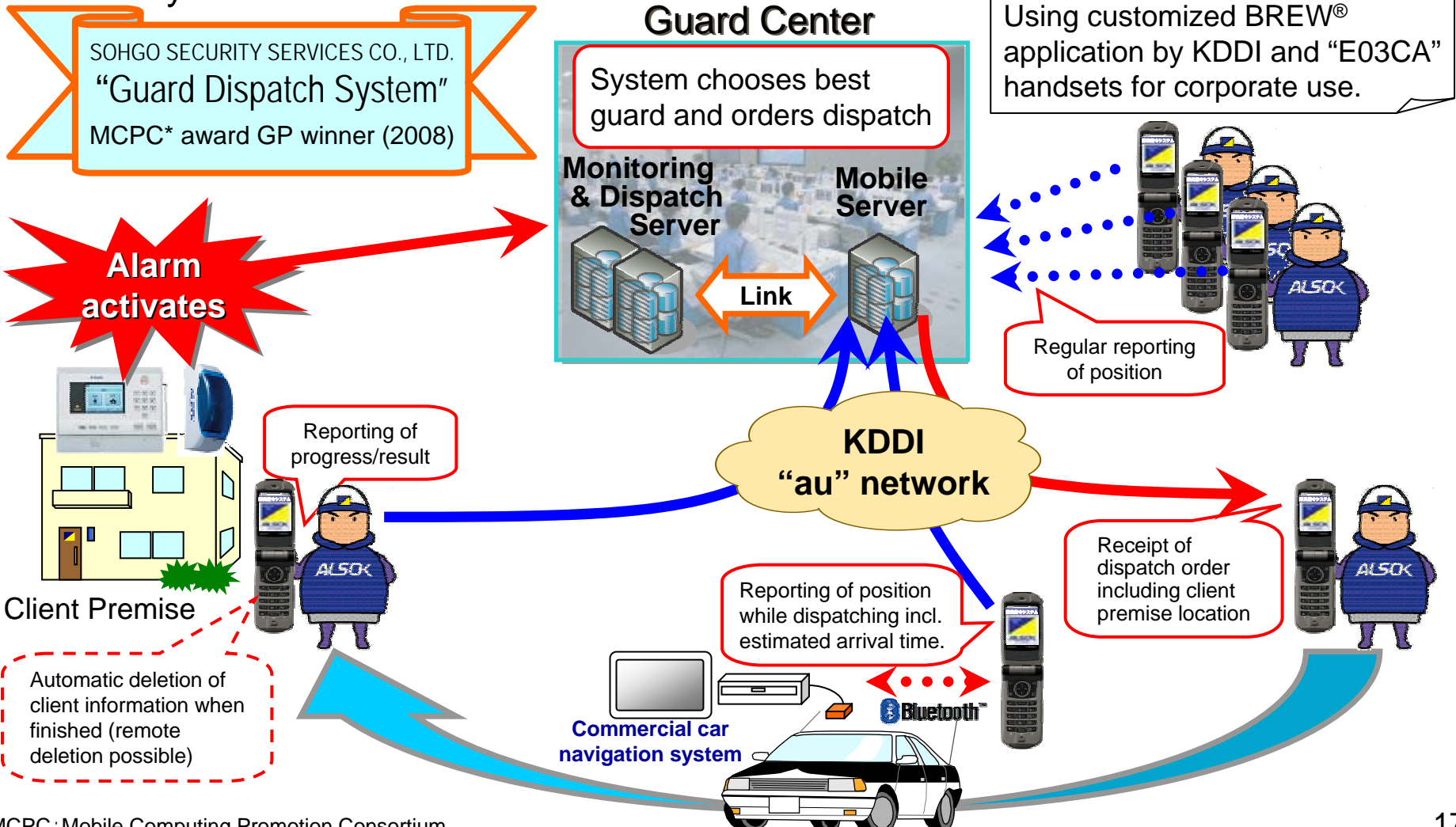
## Strategies for Small Business

Products	<ul style="list-style-type: none"> <li>· "Everybody Discount" + "Business Discount"</li> <li>→ On-net free calls among employees</li> </ul>
Promotions	<ul style="list-style-type: none"> <li>· "Welcome Campaign for Corporate Customers"</li> <li>· Promote visits to shop by TV and newspaper advertising.</li> </ul>
Marketing channel	<ul style="list-style-type: none"> <li>· Strengthen in-shop marketing for corporate customers.</li> </ul>

Note: Offer applies to corporate new customers who purchase an "au" handset, from March 1 to May 31, 2008, by the "Simple Course," and choose "Plan SS," "Business Discount," and "Everybody Discount." Special rate includes basic monthly fee of ¥980 (tax incl.) + ¥1,050 (tax incl.) for free calls until May 2010.

# 2. Corporate Business (2)

Mobile solutions ensure a rapid and efficient deployment of security guards, by using GPS phones, customized BREW® application and mobile network (all KDDI), when client premise alarm activates. KDDI contributes to improvement of business efficiency.

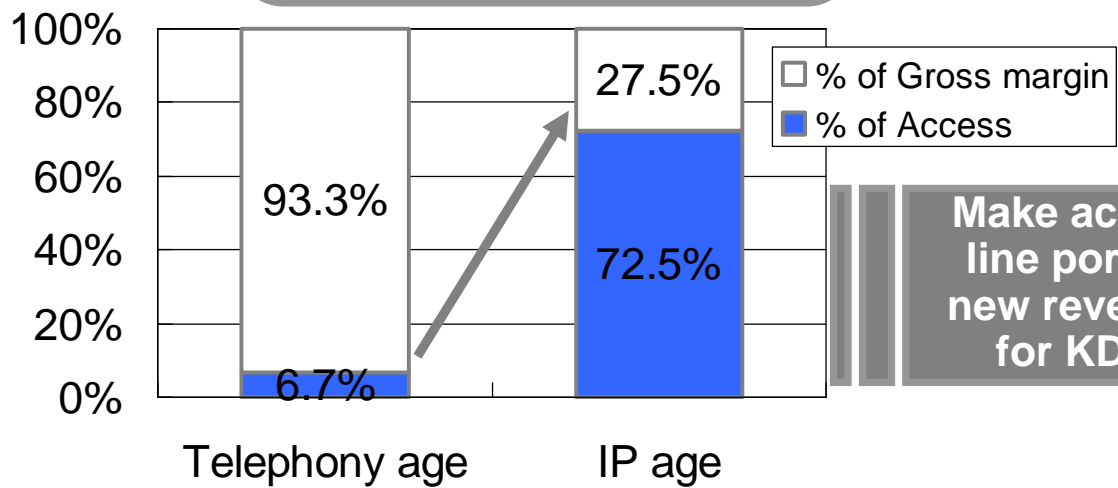


\*MCPC: Mobile Computing Promotion Consortium

# 1. Access Lines in the IP Age

Enhance efforts to make access lines partly of our own since revenue source in the IP age has shifted to access lines compared with telephony age.

## Fixed-line Revenues



Make access line portion new revenue for KDDI

## Fixed access lines

- ◆ FTTH
- ◆ Metal-plus
- ◆ Cable-plus phone
- ◆ CATV

Call fee for 3 min in 1987 between Tokyo–Osaka

Charged to user	: ¥300
- Access cost	: ¥20
<hr/>	
Gross margin	: ¥280

Monthly Internet connection fee of FTTH for detached house <sup>Note</sup>

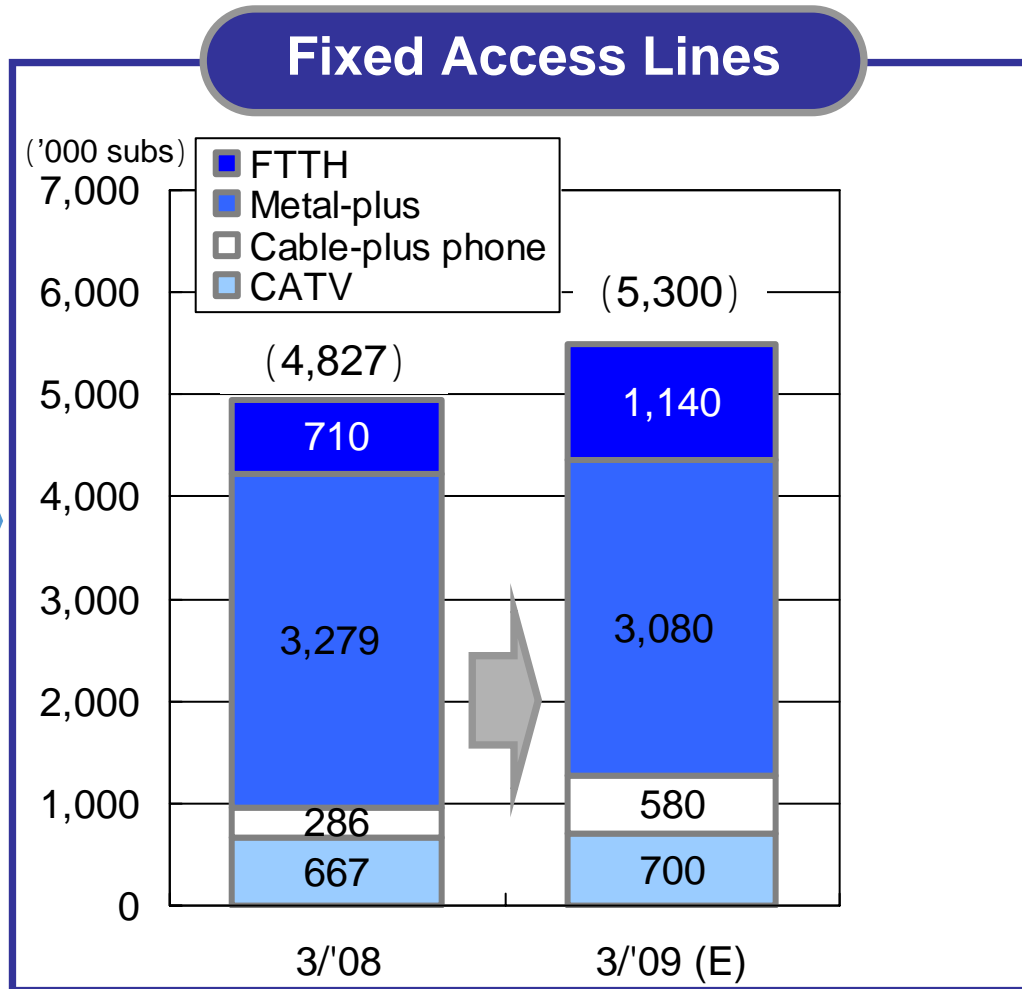
Charged to user	: ¥7,528
- FTTH cost	: ¥5,460
<hr/>	
Gross margin	: ¥2,068

Note: Charge when KDDI's ISP (au one net) is used on NTT East's B FLET'S (Hyper Family or New Family Type).  
 Included in the gross margin portion are expenses for use of NTT East's network infrastructure.

# 2. Fixed Access Lines (1)

At end-March fixed access lines were 4.83M based upon our new efforts to expand access lines such as FTTH, direct revenue phone (Metal-plus, Cable-plus phone) and CATV.

- October 2003  
 Launched HIKARI-one (ex. Hikari-plus)
- February 2005  
 Launched Metal-plus
- October 2005  
 Launched Cable-plus phone
- January 2006  
 Absorbed POWEREDCOM  
 (TEPCO's subsidiary)
- January 2007  
 Integrated TEPCO's FTTH biz
- June 2007  
 Consolidated JCN Group (CATV)  
 as subsidiaries
- April 2008  
 Consolidated CTC as subsidiary  
 < CTC: Chubu Electric's subsidiary >



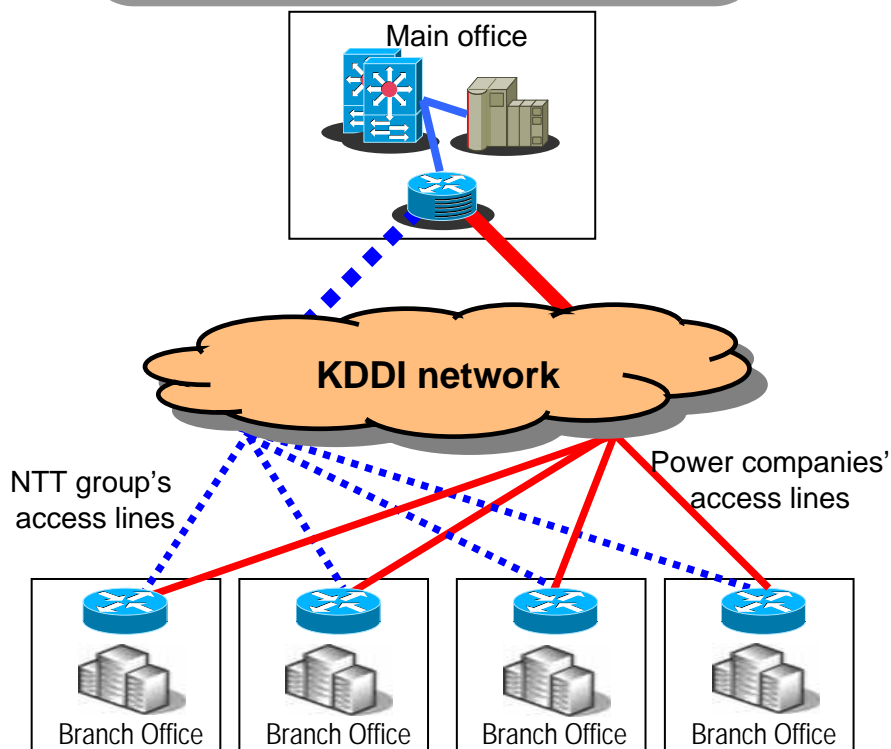
Note: ( ) shows total subs of access lines excluding crossover subs.

# 2. Fixed Access Lines (2)

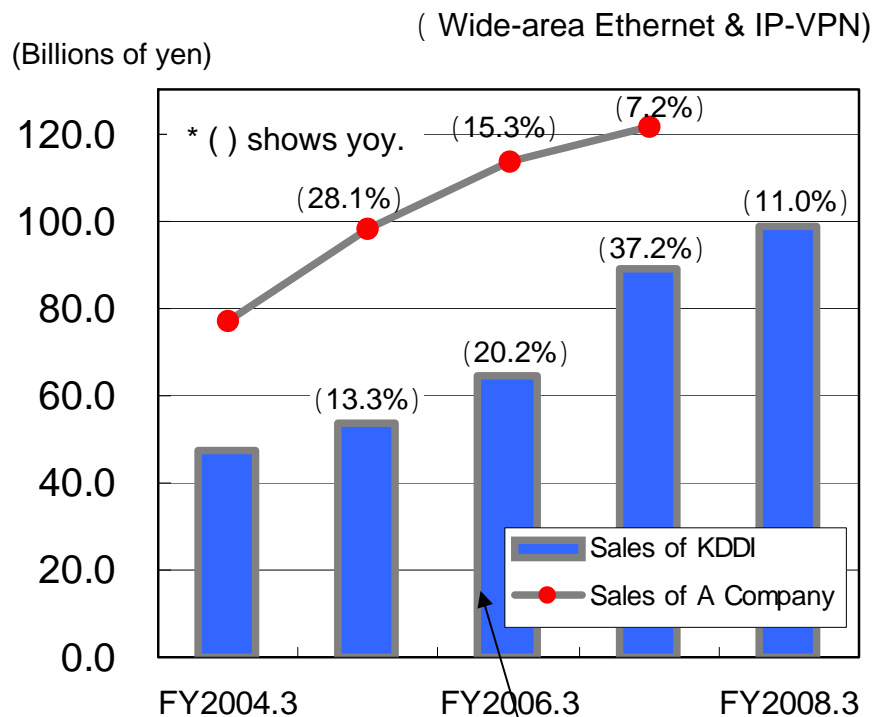
For corporate customers: Improved reliability with dual access network through merger with POWEREDCOM. Also, enhance network service in Chubu area as Chubu Telecommunications Co., Inc. (CTC) becomes a consolidated subsidiary.

Steady rise in VPN service sales is a result of merger with POWEREDCOM.

## Dual Access Networks



## VPN Service Sales




Merger with POWEREDCOM (Jan. '06)

# 3. Global Corporate Business

Fixed-line Business

48 offices in 39 cities across the world support clients' overseas business.

To better address data-centric needs, plan to invest ¥25.0B in data centers (  **TELEHOUSE** ) to expand total floor area to over 100,000m<sup>2</sup>, 1.5 x current area.



Integrate network, data center and SI to help clients' overseas expansion.



# 1. Core Messages of “Challenge 2010”

■ Aim for “Customer Satisfaction No.1” in every service.

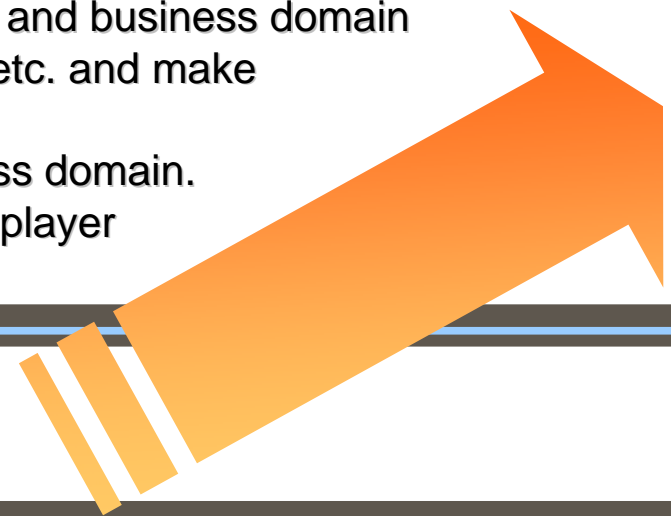
■ Realize sustainable growth through simultaneous pursuit of “Quantitative Expansion” and “Qualitative Enhancement.”

## ■ Targets in FY2010 (FY2011.3 consolidated)

Operating revenues: ¥ 4 trillion, Operating income: ¥ 600 billion

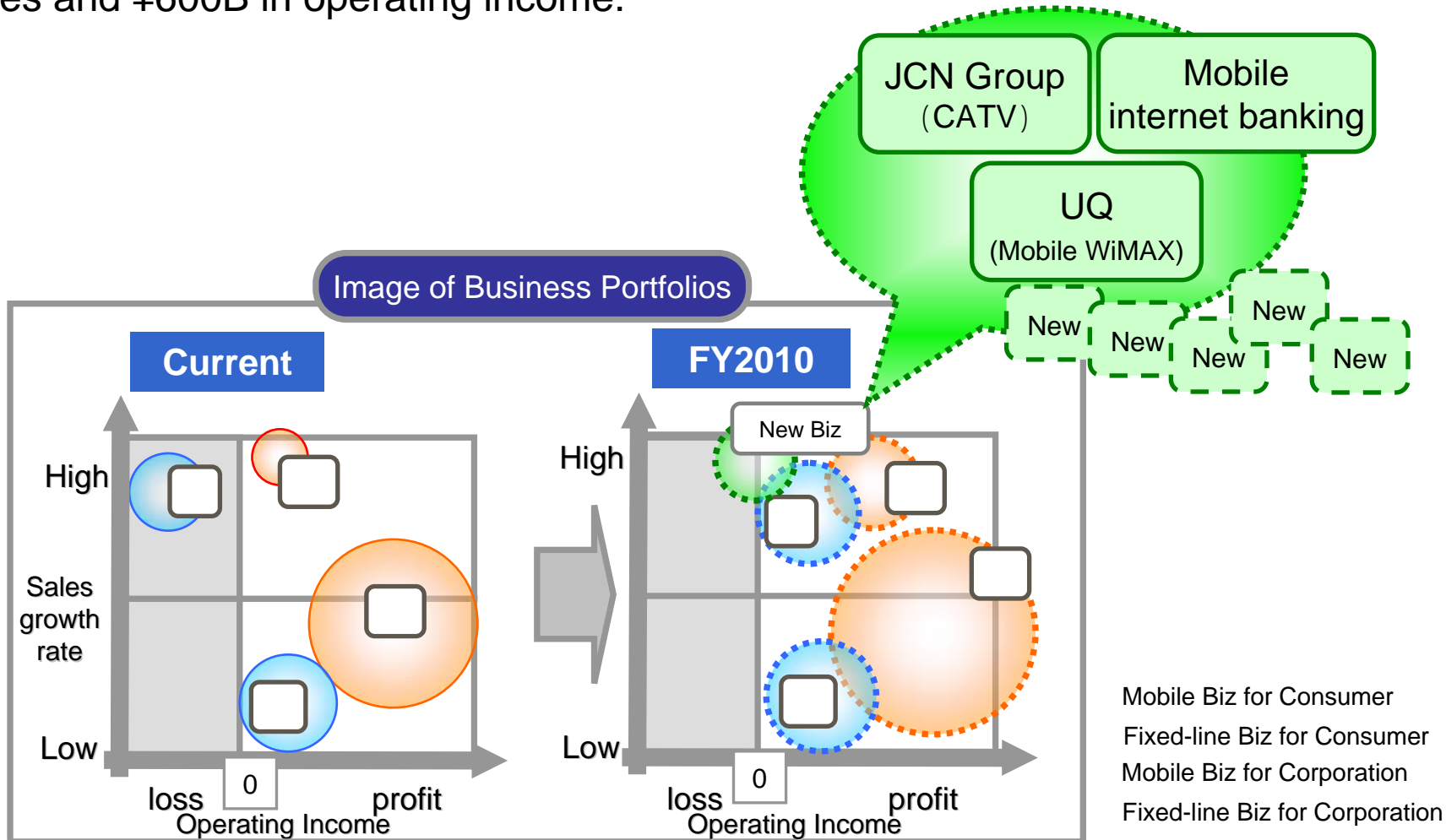
- Maintain the momentum of increasing revenues and income in Mobile Business.
  - Enlarge sales by expanding customer base and business domain
- Promote broadband business such as FTTH, etc. and make a turnaround in Fixed-line Business.
- Develop FMBC and expand non-traffic business domain.
- Expand corporate business to be an all-round player which can offer ICT as one-stop shopping.

■ Enhance the return to shareholders.



# 2. Growth Driver

Besides strengthening existing businesses, create new businesses based upon customer base of 30M “au” subs for consumers, and expand FMC-based ICT solution sales to corporate customers to achieve FY2010 targets of ¥4 trillion in sales and ¥600B in operating income.



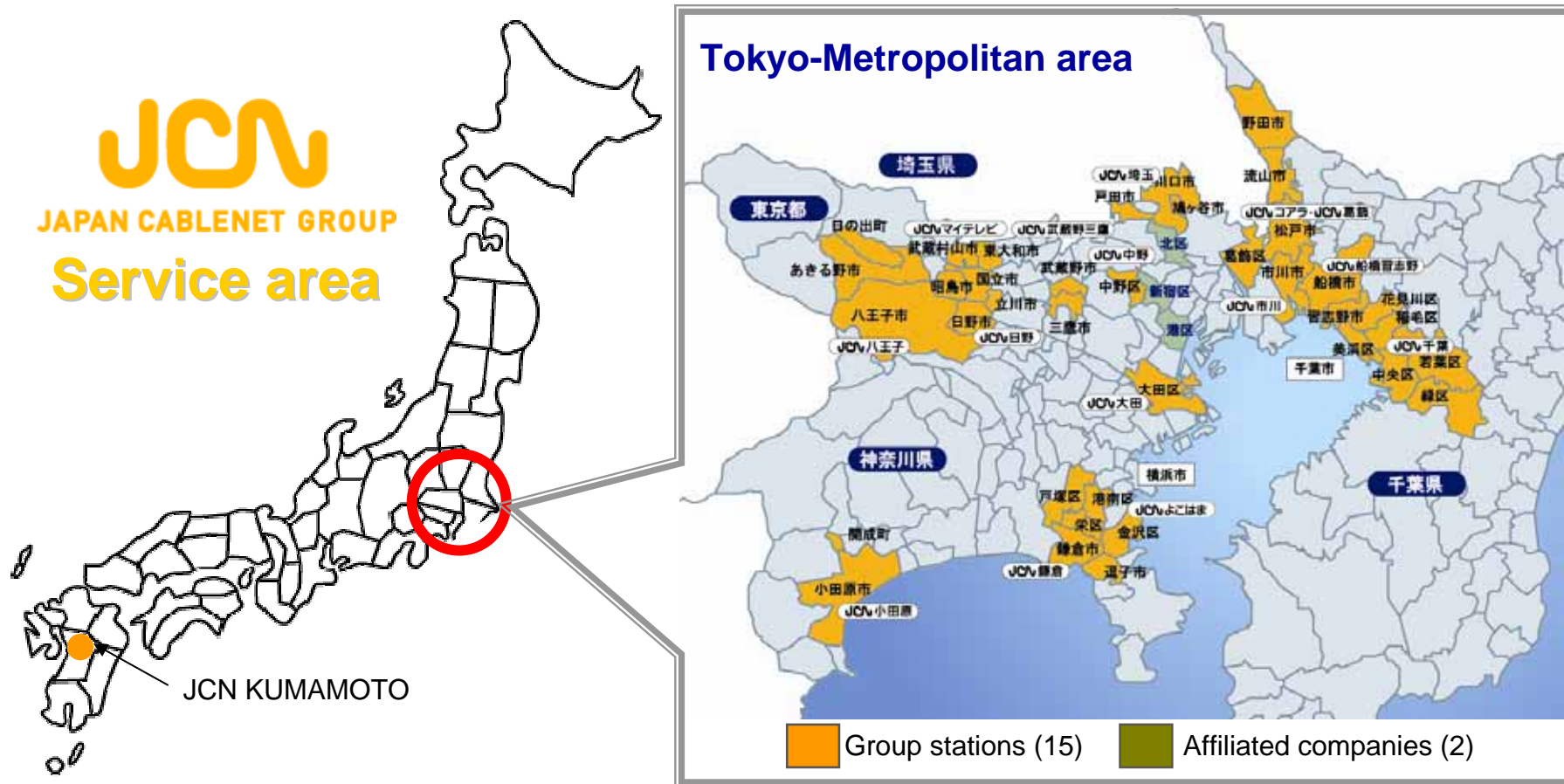
Note: The size of the circles show images on those of sales.



# 3. New Business ~ JCN

KDDI subsidiary JCN (MSO) deployed 15 CATV stations mostly in the Tokyo-Metropolitan area and at end-March subs were 0.67M.

Sales for FY2008.3 (for 9 months as a consolidated subsidiary) were ¥38.1B.



# 3. New Business ~ Mobile WiMAX

UQ Communications Inc. successfully received an approval for its plan to set up base stations for the 2.5GHz frequency band and plans to start services in 2009.

## Business Plan

2008	2009	2010	2011	2012	2013	(FY)
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**Facilities**

Pop Coverage

**50%**

**70%**

**90%+**

Main Service Area

Tokyo-Metropolitan area

17 Major cities

Major cities

Chubu area  
Kansai area

Prefectural capitals

Other area

Base Stations (Outdoor)

approx. 4,000

approx. 14,000

approx. 18,500

**Business**

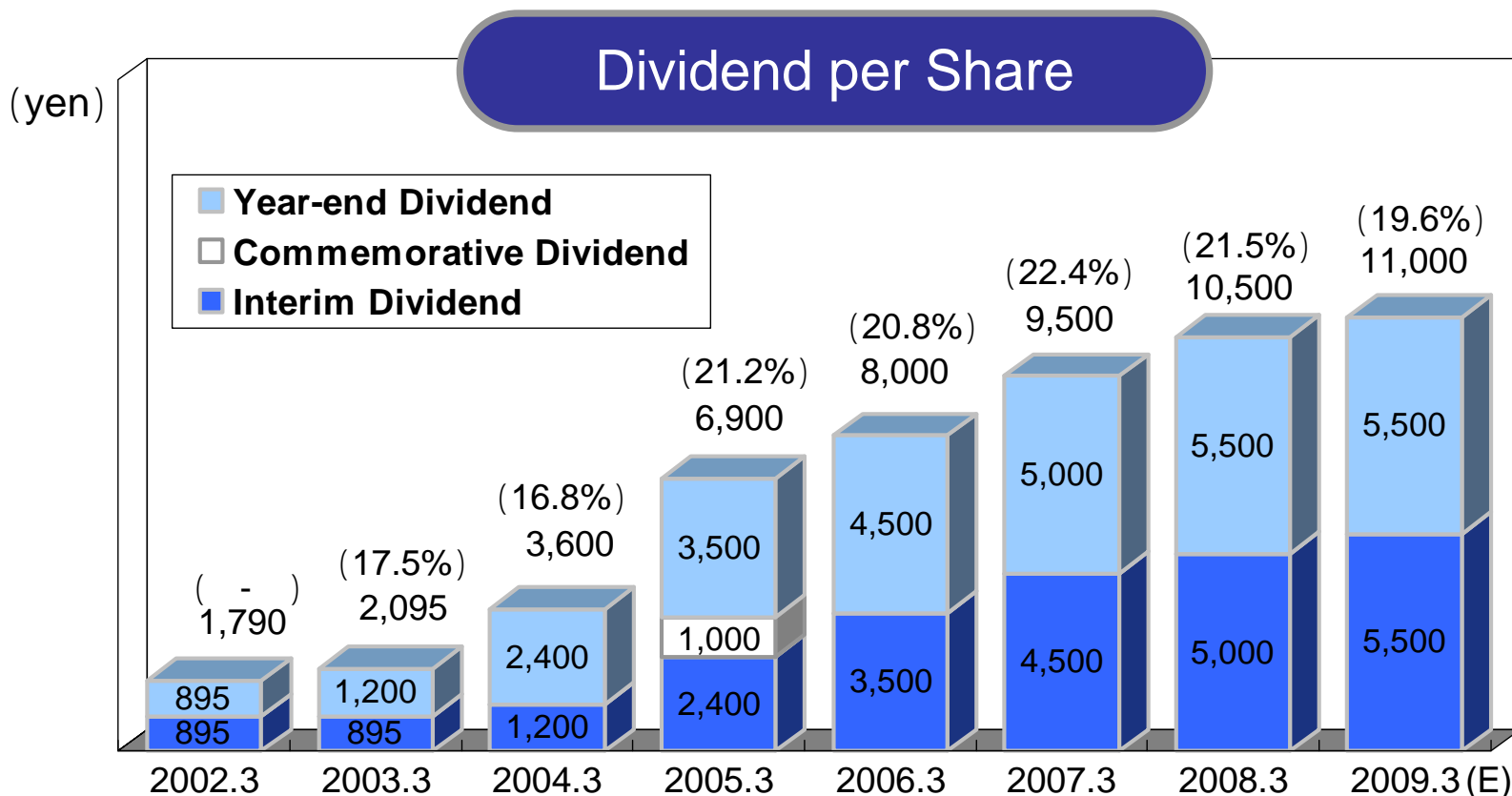
Feb. 2009: Start of trial service  
 (Tokyo , Yokohama, Kawasaki)

Summer 2009: Start of commercial service  
 (Tokyo-Metropolitan area, Nagoya, Osaka, Kyoto, Kobe)

FY2012  
 Achieve annual profit

# 4. Shareholder Returns

- Maintain stable dividend – aim for consolidated payout ratio of 20% or more, taking investments for sustainable growth into consideration.



Note: ( ) refers to payout ratio, which shows on a company basis until FY2006.3 and on a consolidated basis in FY2007.3 and onwards. FY2002.3 posted net loss, therefore, shown as ( - ).

