

# KDDI CORPORATION

Financial Results for the 1<sup>st</sup> Quarter  
of the Fiscal Year Ending March 2014

July 30, 2013

President Takashi Tanaka

# Disclaimer

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.

# Highlights of 1Q Performance

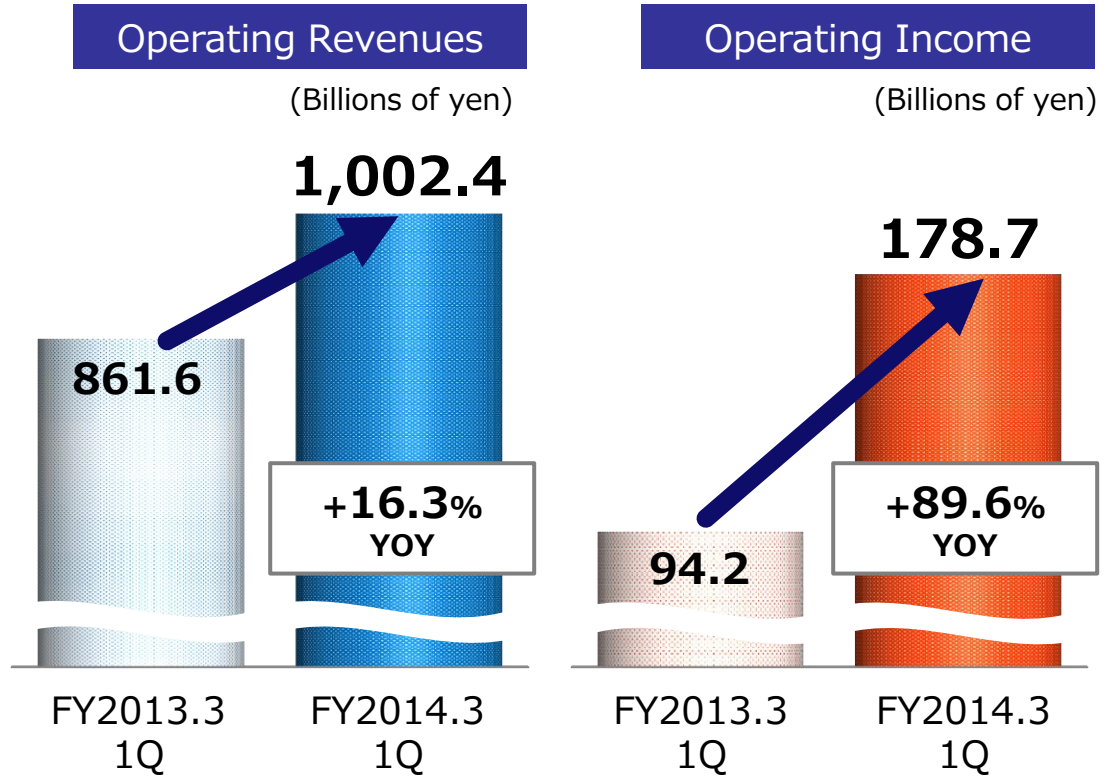
## Income up sharply, based on rise in communications revenues

- Consolidated Operating Income +90% YOY  
(Progress rate 28%)
- Steady progress on mobile and FTTH net additions, thanks to “au Smart Value” effect
- au ARPU progress favorable, outpacing expectations

# 1Q Performance

# Consolidated Performance

**Robust Growth in  
Operating Revenues  
and Income, YOY**



# Consolidated Performance

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(Billions of yen)

	FY13.3 1Q	FY14.3 1Q	Influence of J:COM consolidation	yoy	FY14.3 (Forecast)	Progress
Operating revenues	861.6	1,002.4	88.2	+16.3%	4,140.0	24.2%
Operating income	94.2	178.7	16.2	+89.6%	630.0	28.4%
Operating margin	10.9%	17.8%	-	-	15.2%	-
Ordinary income	90.2	181.9	16.3	+101.7%	620.0	29.3%
Net income	51.3	68.2	-36.0	+32.9%	295.0	23.1%
EBITDA	199.7	305.0	37.4	+52.7%	1,160.0	26.3%
EBITDA margin	23.2%	30.4%	-	-	28.0%	-
Free cash flow	-109.7	55.0	47.5	-	270.0	20.4%

# Segment Performance (1)

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## Personal Services

Revenues Up, Income Up	(Billions of yen)					
	FY13.3 1Q	FY14.3 1Q	Influence of J:COM consolidation	yoy	FY14.3 (Forecast)	Progress
Operating revenues	665.8	784.6	81.4	+17.8%	3,210.0	24.4%
Operating income	65.1	135.2	14.6	+107.8%	485.0	27.9%
Operating margin	9.8%	17.2%	-	-	15.1%	-
EBITDA	152.7	244.8	35.4	+60.3%	940.0	26.0%
EBITDA margin	22.9%	31.2%	-	-	29.3%	-

## Value Services

Revenues Up, Income Up	(Billions of yen)					
	FY13.3 1Q	FY14.3 1Q	Influence of J:COM consolidation	yoy	FY14.3 (Forecast)	Progress
Operating revenues	34.7	49.1	11.2	+41.4%	210.0	23.4%
Operating income	10.1	13.6	1.8	+34.9%	50.0	27.2%
Operating margin	29.1%	27.7%	-	-	23.8%	-
EBITDA	12.3	16.3	2.1	+32.4%	62.0	26.3%
EBITDA margin	35.4%	33.2%	-	-	29.5%	-

# Segment Performance (2)

## Business Services

### Revenues Up, Income Up

(Billions of yen)

	FY13.3 1Q	FY14.3 1Q	yoy	FY14.3 (Forecast)	Progress
Operating revenues	156.3	157.7	+0.9%	650.0	24.3%
Operating income	15.2	25.5	+67.9%	80.0	31.9%
Operating margin	9.7%	16.2%	-	12.3%	-
EBITDA	27.6	36.0	+30.6%	127.0	28.3%
EBITDA margin	17.6%	22.8%	-	19.5%	-

## Global Services

### Revenues Up, Income Up

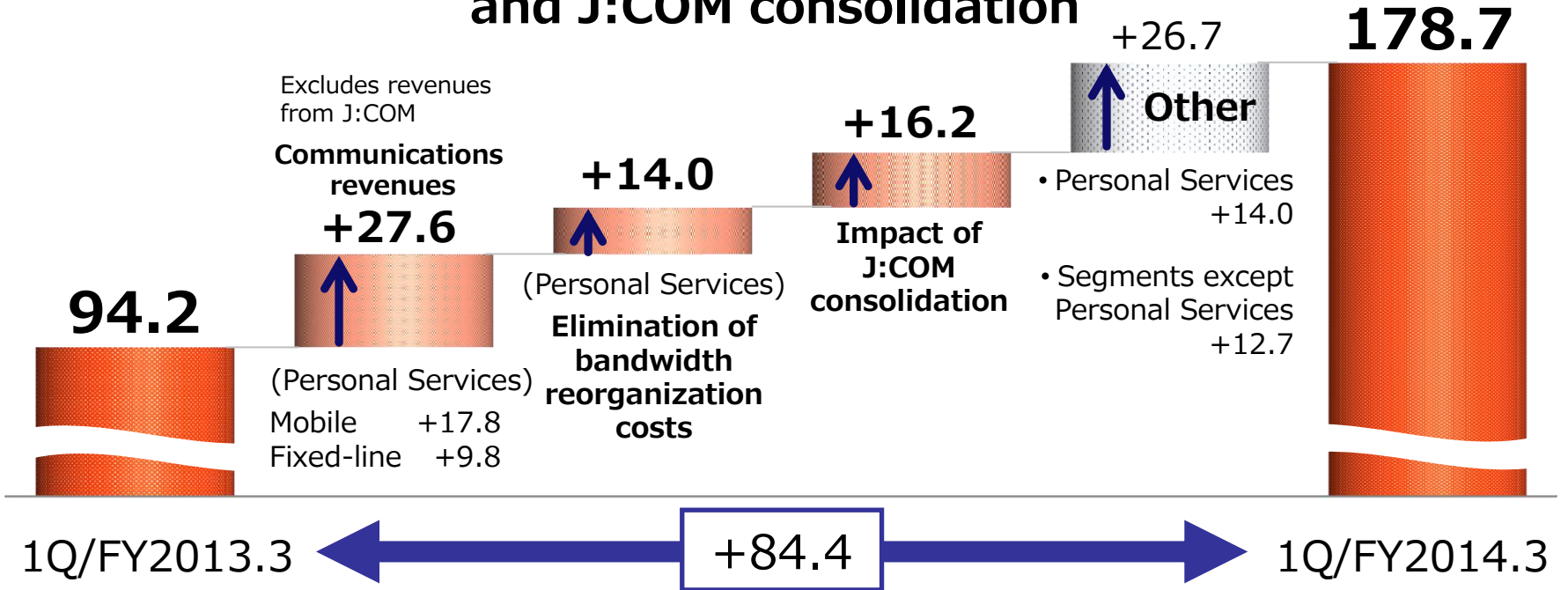
(Billions of yen)

	FY13.3 1Q	FY14.3 1Q	yoy	FY14.3 (Forecast)	Progress
Operating revenues	46.3	58.7	+26.8%	218.0	26.9%
Operating income	1.4	2.2	+61.0%	9.0	24.8%
Operating margin	3.0%	3.8%	-	4.1%	-
EBITDA	4.5	5.9	+29.3%	23.0	25.6%
EBITDA margin	9.8%	10.0%	-	10.6%	-



# Consolidated Operating Income: Factor for Change, YOY

Contributions from higher communications revenues,  
elimination of bandwidth reorganization costs,  
and J:COM consolidation (Billions of yen)

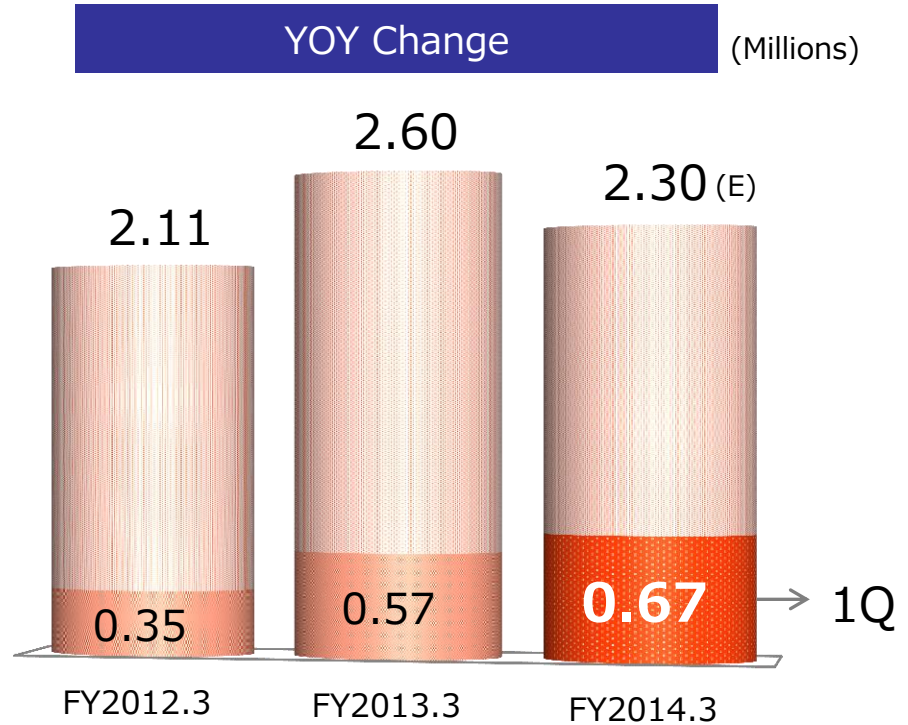


# **Progress on Principal KPIs**

# au Net Additions

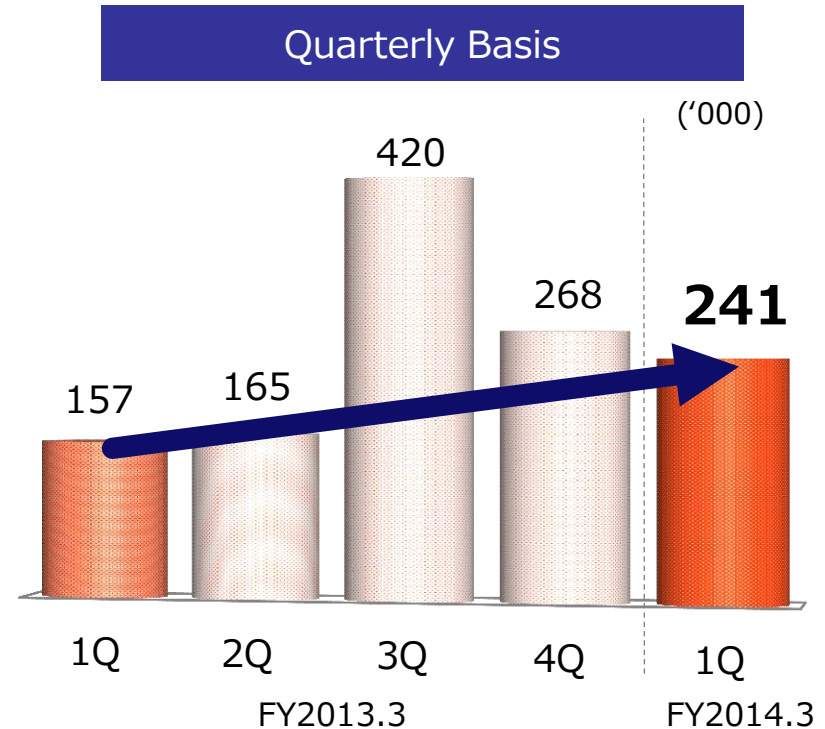
## Favorable Progress

Progress Rate **29.1%**



**MNP Net Additions**  
**No.1 for**  
**21 consecutive months**  
from October 2011

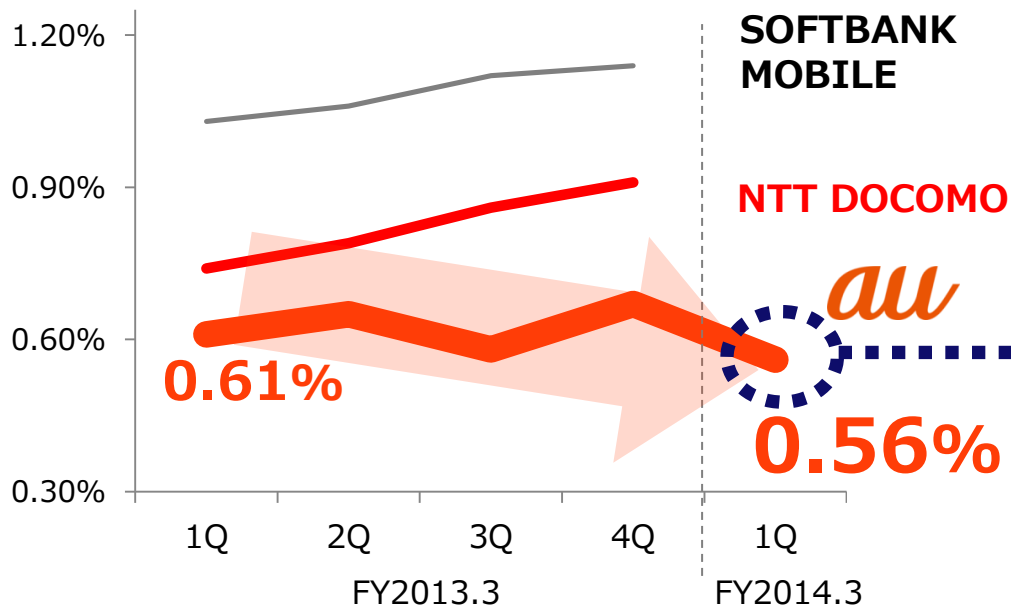
**YOY +53.8%**



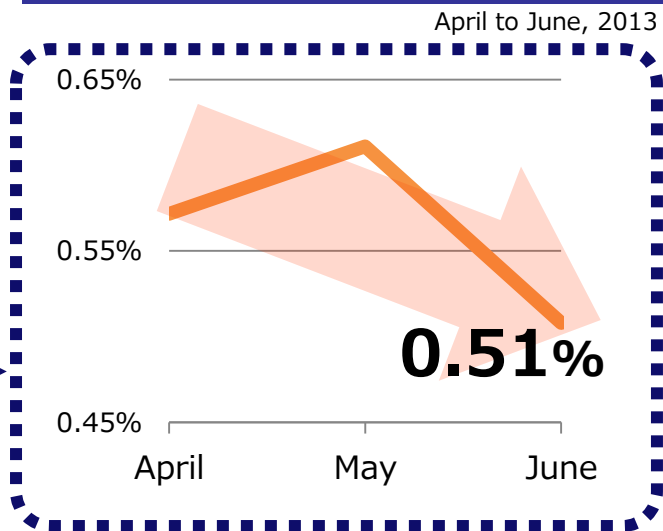
# au Churn Rate

## Maintaining lowest rate in the industry, and the lowest rate in au 1Q records

Quarterly Basis

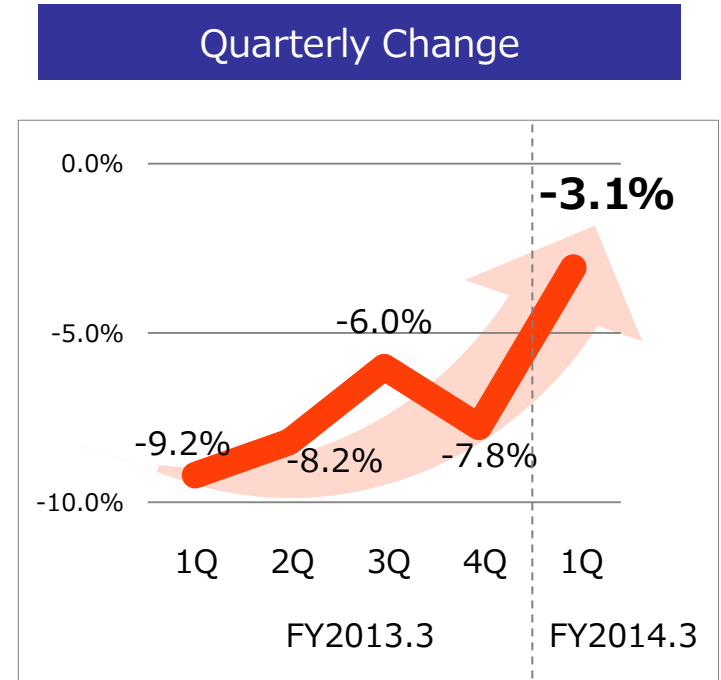
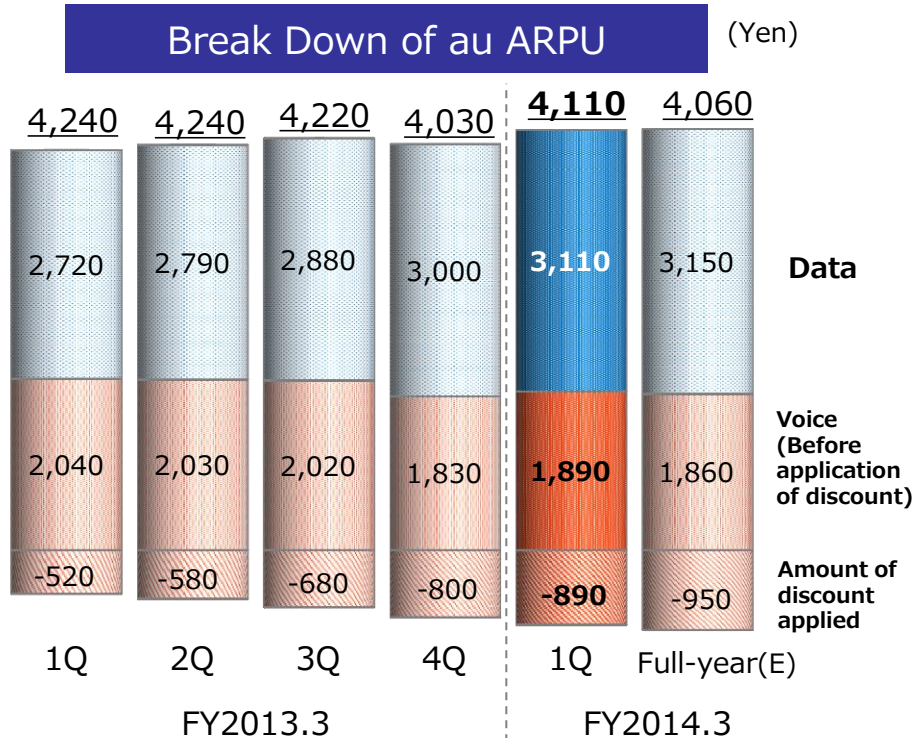


Monthly Basis



Note: au churn rate is calculated for ordinary handsets based on Personal Services segment, which exclude module-type terminals. Based on financial results materials, etc. of each company.

## Favorable progress toward YOY upturn in 4Q



# Data ARPU

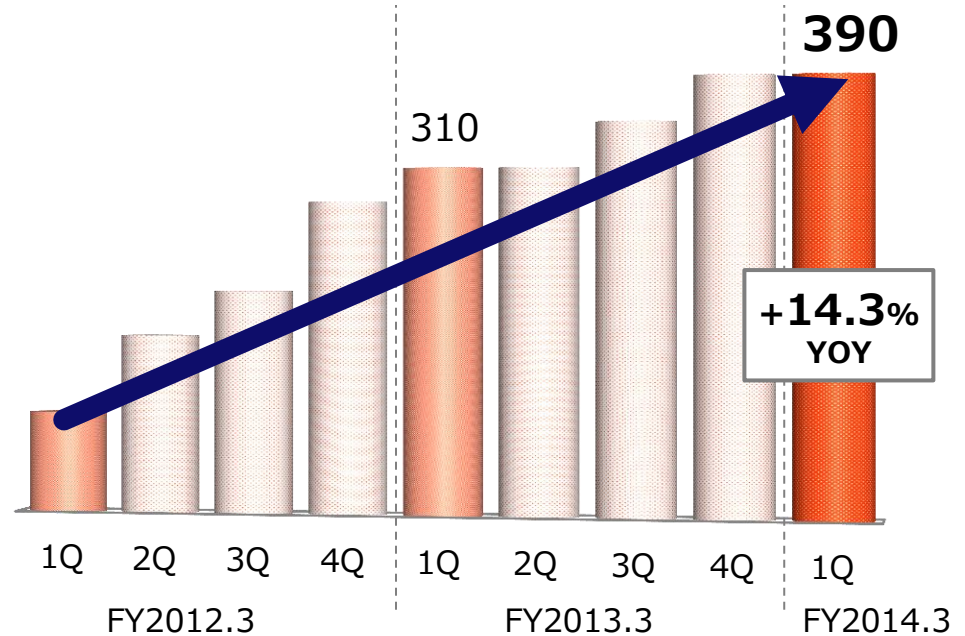
A Greater  
Year on Year  
Increase

+¥390

YOY Increase of Data ARPU

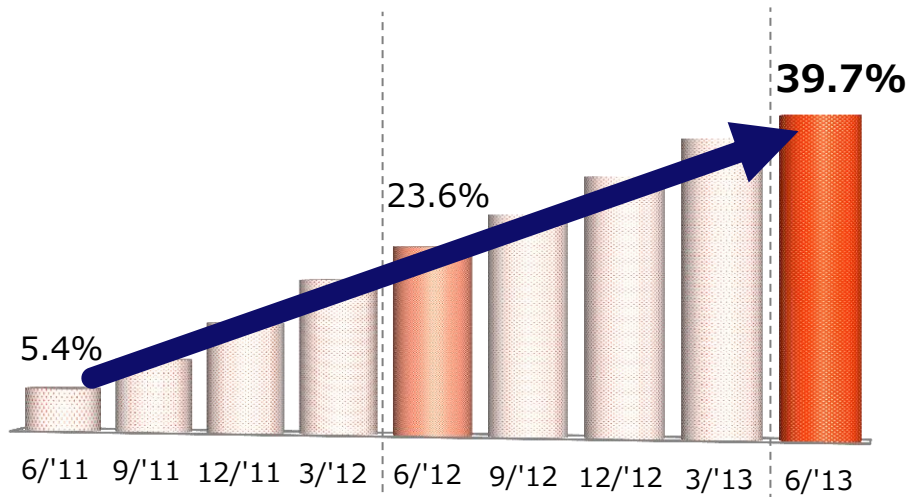
(Yen)

Note: % is YOY Change of Data ARPU



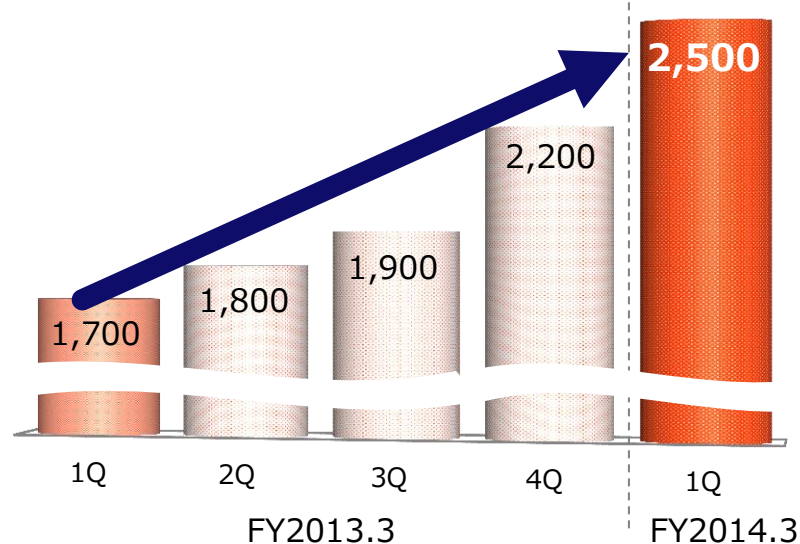
## Data ARPU up due to an expanded user base

au Smartphone Penetration



Increase in Data ARPU<sup>Note</sup> around the Time of Upgrades to Smartphones

(Yen)



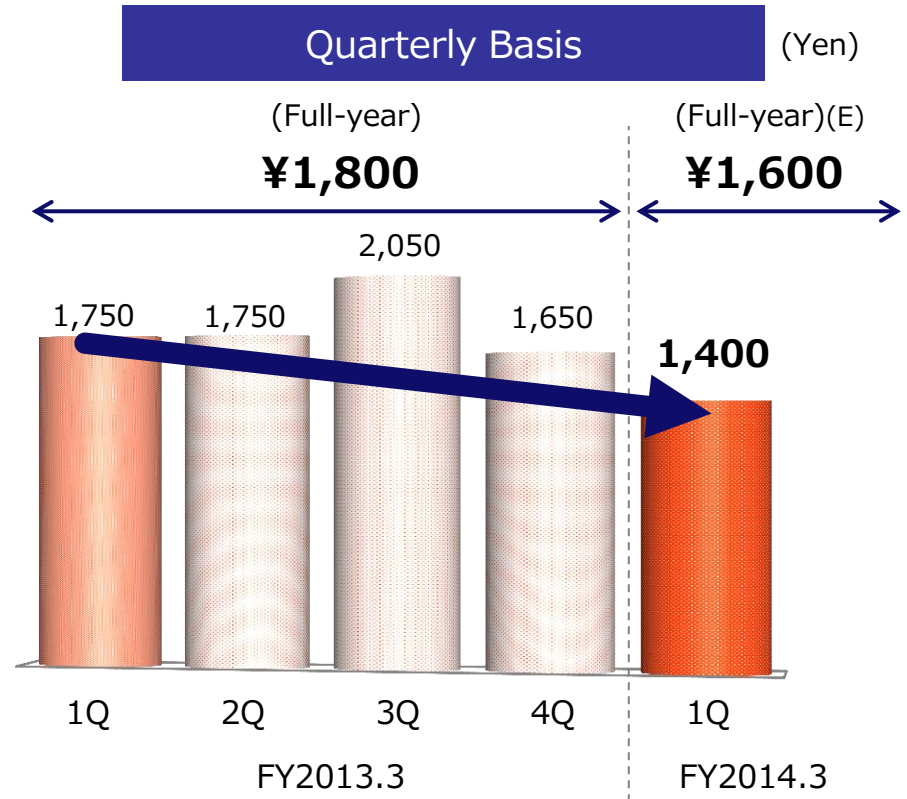
\* Comparison of data ARPU between the month before users upgrade from feature phones to smartphones and the month after



# Maitsuki Discount (Monthly Discount)

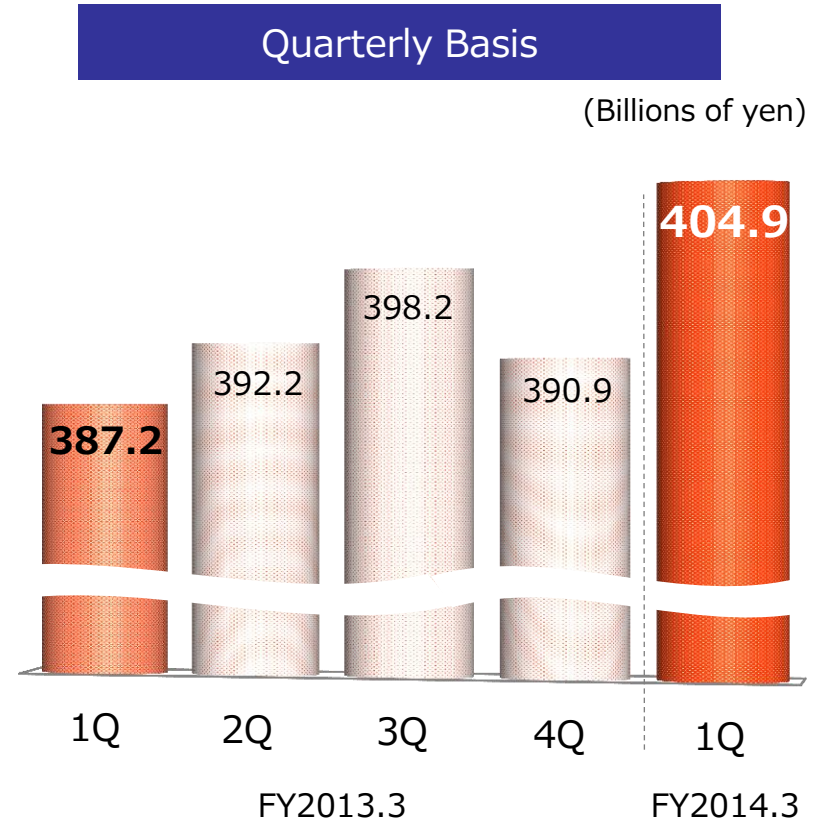
## Steadily Control

### YOY -20%



# Mobile Communications Revenues

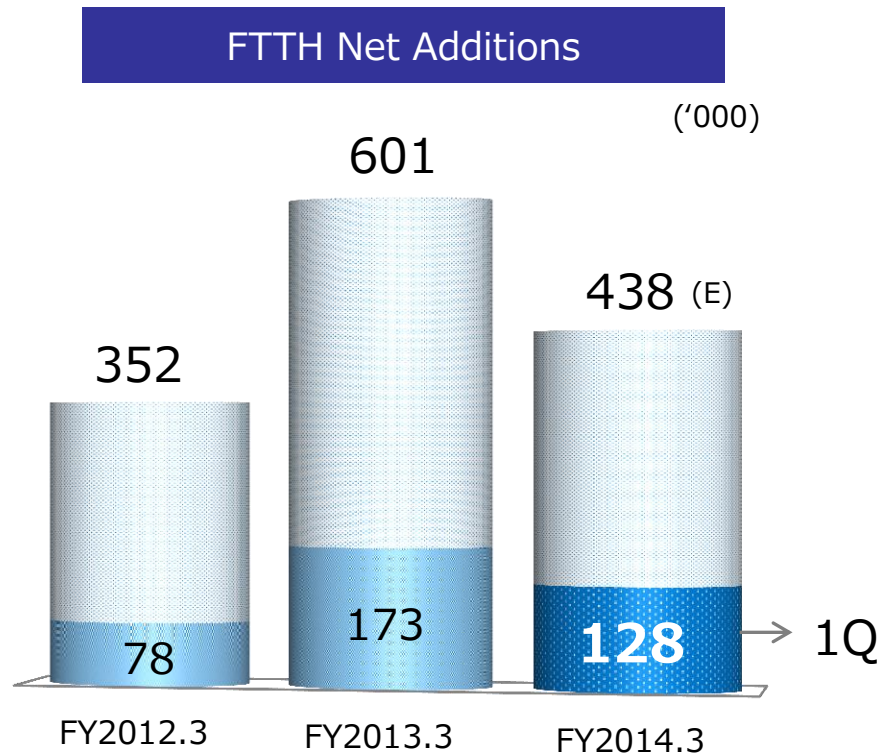
YOY +4.6%



# FTTH Net Additions

## Favorable Progress

Progress Rate **29.2%**



Note: FTTH net additions: total for KDDI group's FTTH services (au HIKARI, au HIKARI Chura, and Commuf@-hikari)

# Fixed-line Communications Revenues

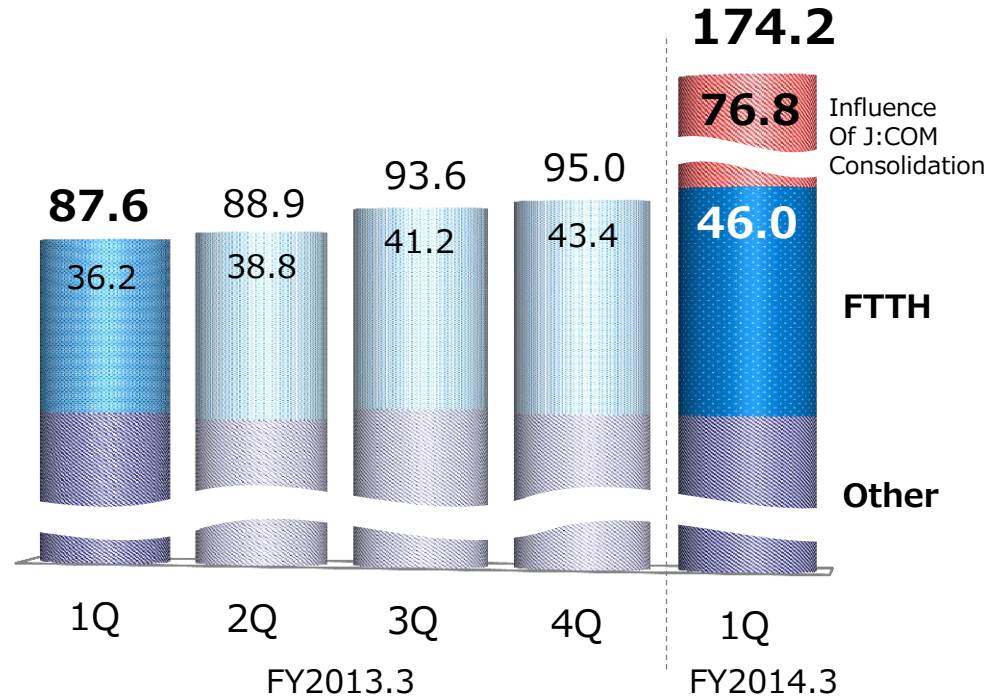
YOY +98.9%

(Except J:COM consolidation)

+11.2%

Quarterly Basis

(Billions of yen)



Note: Other (Cable-plus phone, CATV, Metal-plus, etc.)

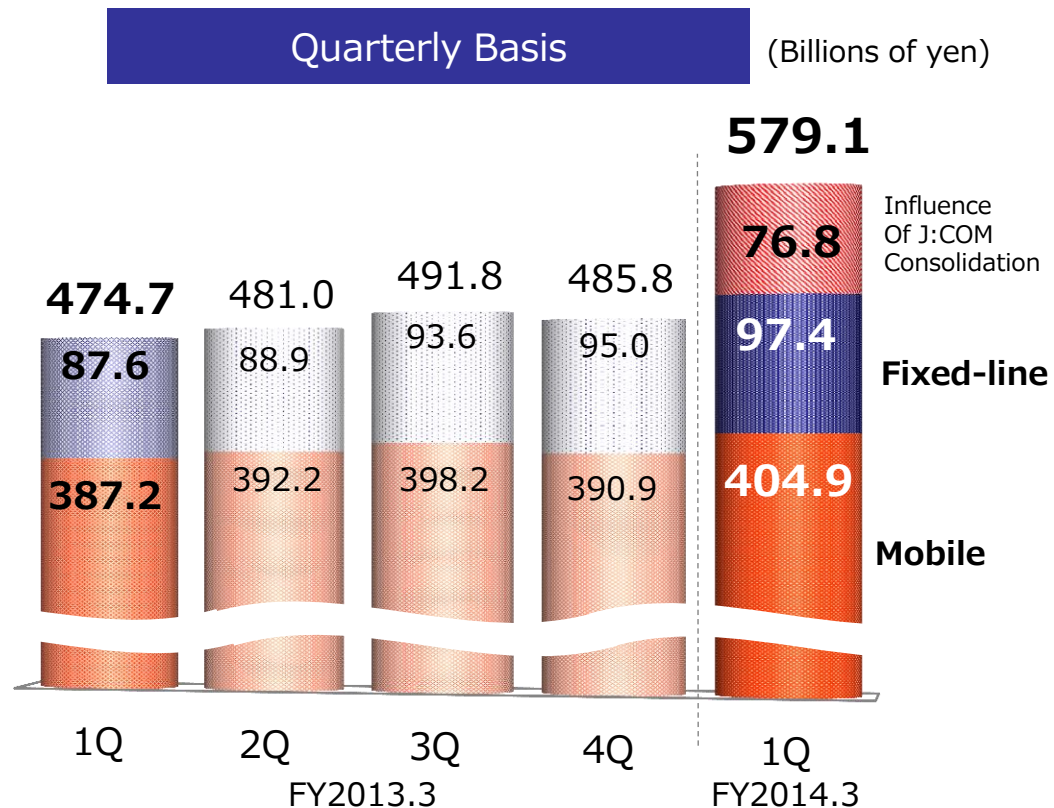
# Total Amount of Communications Revenues

(Mobile & Fixed-line)

YOY +22.0%

(Except J:COM consolidation)

+5.8%

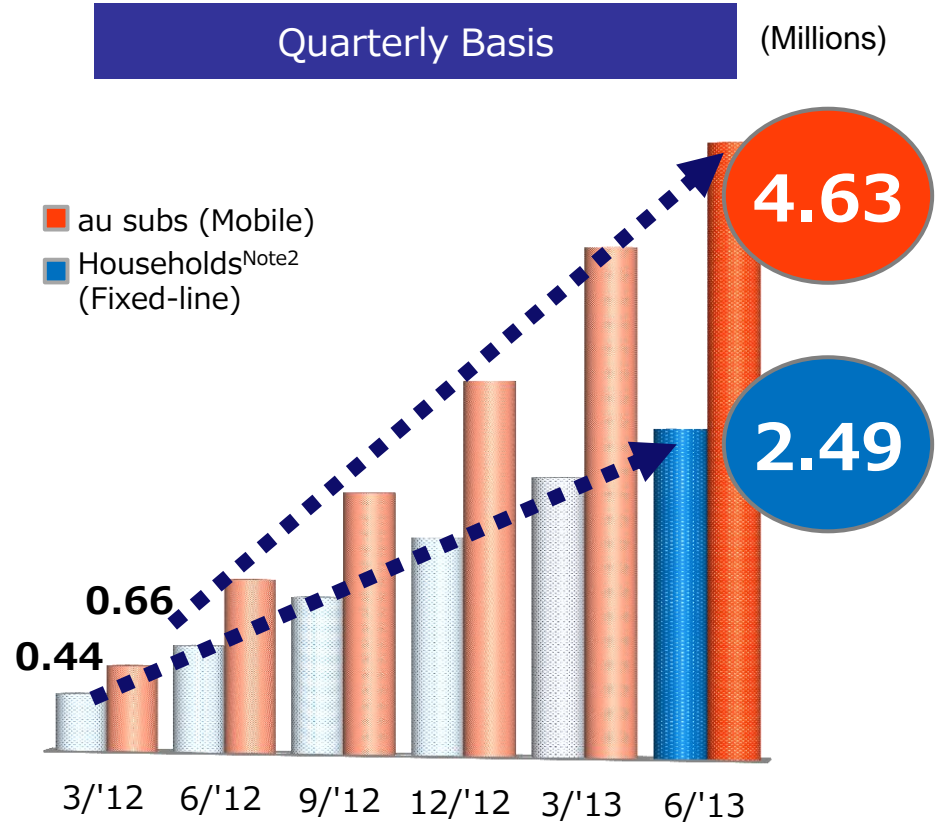


# **Advancement of "3M Strategy"**

# au Smart Value Increasing Steadily

Per-household au  
subscriptions to 1.86<sup>Note1</sup>

Note: Smart Value is a registered trademark of Energy Management Corporation.  
Note1: au subscriptions divided by households  
Note2: Households: total for KDDI group companies and fixed-line allied companies

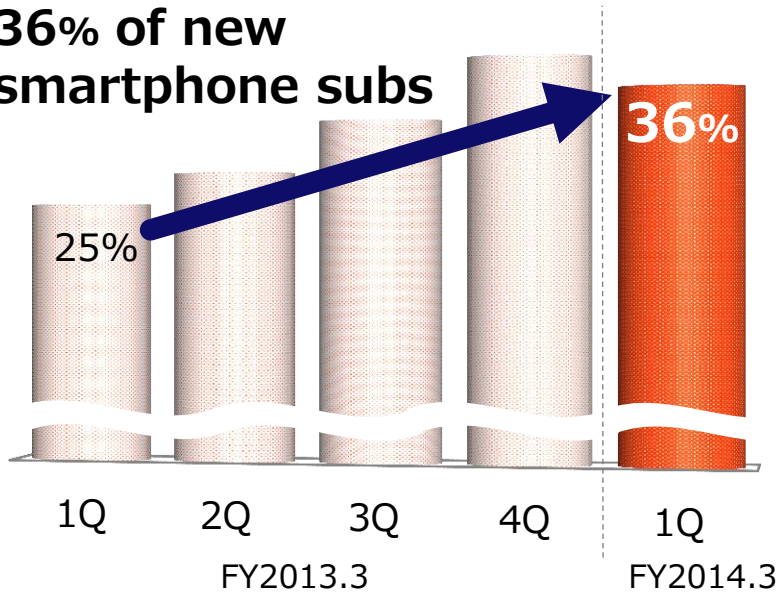


# au Smart Value

## Steady Acquisition Contributions

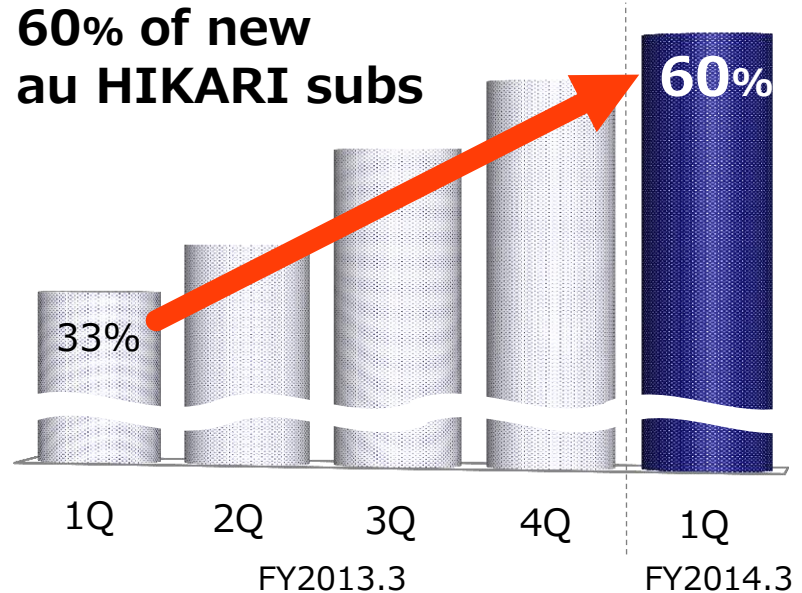
Smartphone

36% of new smartphone subs



FTTH

60% of new au HIKARI subs



Subject: Percentage of au Smart Value subs among new smartphone subs (Personal Services segment)

Note: Excludes existing au users changing to smartphones

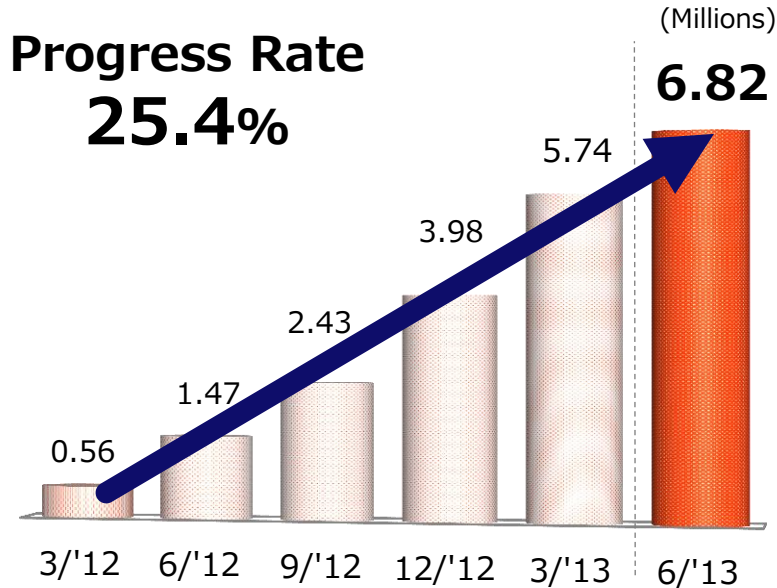
Subject: Percentage of au Smart Value subs among new au HIKARI subs (Personal Services segment)



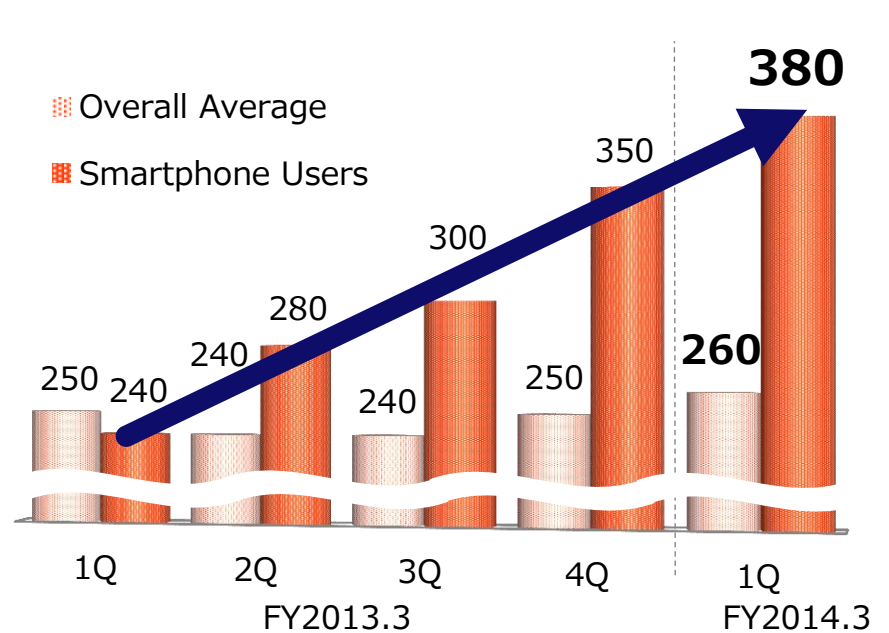
# au Smart Pass

## Boosting Value ARPU with "au Smart Pass"

Trends in Members

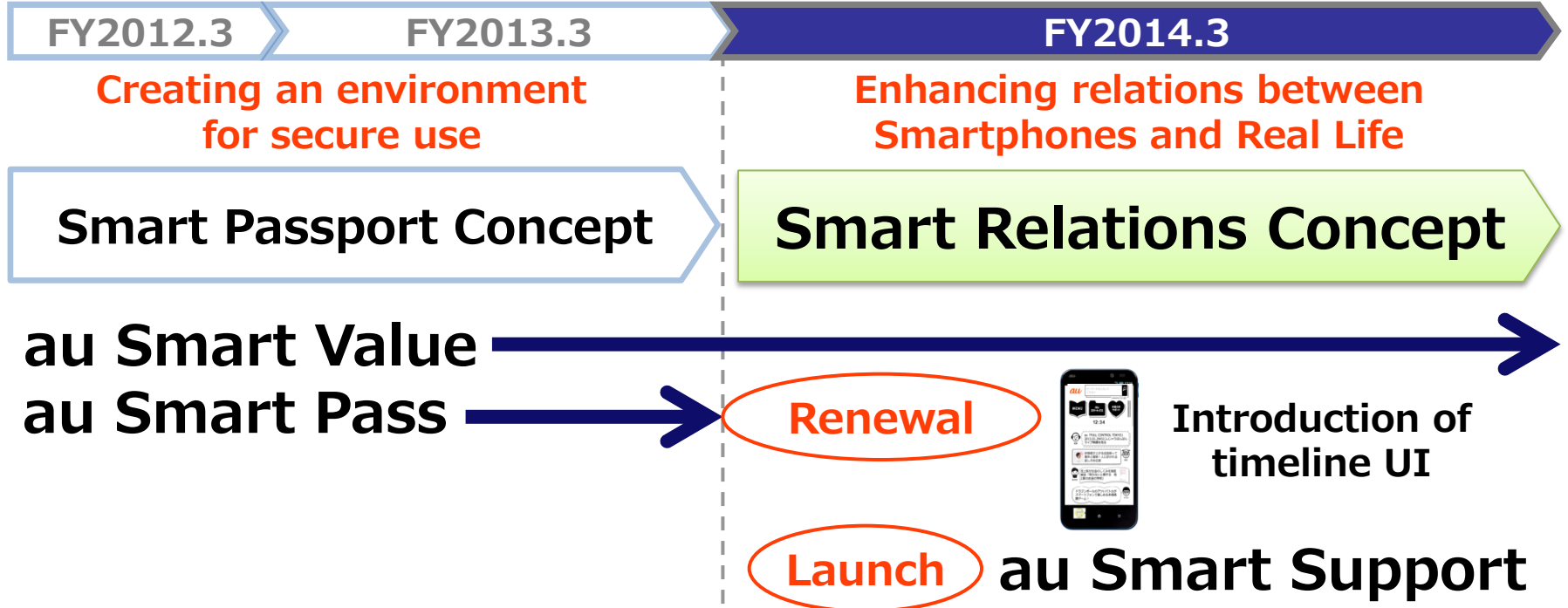


Value ARPU on Quarterly Basis (Yen)



# Developing the "3M Strategy"

## So That Anyone Can Master a Smartphone



# au Smart Pass Renewal

Promotion of referral traffic  
by providing latest information to the consumers

## Timeline UI



## au Shopping Mall

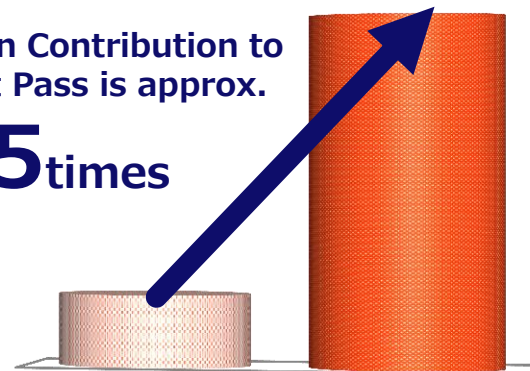


## Effect of the Case

Limited edition that was  
announced to “the sold out”

Acquisition Contribution to  
au Smart Pass is approx.

×5 times



Before Renewal  
(May 1~31)

After Renewal  
(June 6~14)

# au Smart Pass Renewal

## Enhancing relations between Smartphones and Real Life

Live music and movie pre-releases limited to au Smart Pass users

PIA Corporation



GHIBLI

au loves ジブリ



The Wind Rises (Kaze Tachinu)

# au Smart Support

## Enhance Support Structure to Expand Smartphone User Base

### au Smart Support Center

Advisors from dedicated customer team provide round-the-clock telephone support

### Smartphone On-site Support

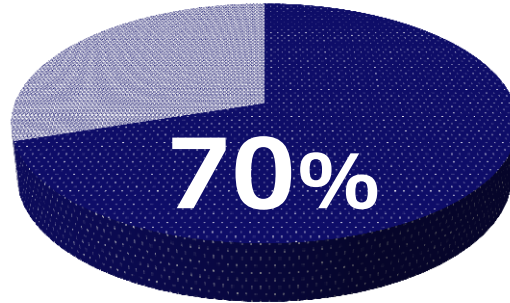
Go directly to homes and explain how to use

### “Try It Out” Smartphone Rental

“Try before you buy” au smartphone rental

Users' Age Composition

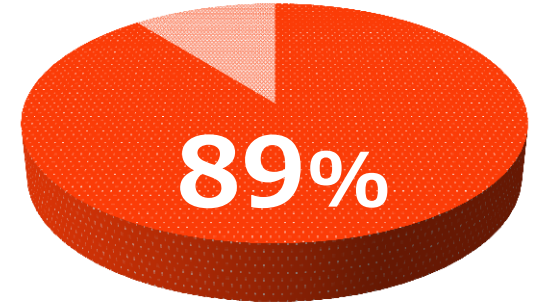
- 40 or older
- ▨ Younger than 40



**40 or elder**  
main user base

Telephone Response Satisfaction

- Satisfied
- ▨ Other



**Much higher**  
customer satisfaction

# Summary

- Consolidated operating income up substantially (YOY +90%)
- Favorable operations thanks to “3M Strategy” advancement
- Favorable au ARPU progress toward YOY upturn in 4Q



**Smooth start toward full-scale income growth**

# Appendix

# Progress of KPIs in FY2014.3 (1)

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## Consolidated

		3/'13	6/'13	Change	3/'14(E)	Progress
au subscriptions	'000	37,709	38,378	+669	40,009	29.1%

## Personal Services

		3/'13	6/'13	Change	3/'14(E)	Progress
au subscriptions	'000	32,189	32,717	+528	33,689	35.2%

		FY13.3-1Q	FY14.3-1Q	Change	FY14.3(E)	yoy
au churn rate	%	0.61	0.56	-0.05	0.69	-
au ARPU	yen	4,240	4,110	-130	4,060	-3.1%
au handset sales	'000	2,740	2,370	-370	10,900	-13.5%
of smartphone sales	'000	1,670	1,820	+150	8,600	+9.0%
au handset shipments	'000	2,560	2,220	-340	10,680	-13.3%
Maitsuki Discount unit price	yen	1,750	1,400	-350	1,600	-20.0%



# Progress of KPIs in FY2014.3 (2)

Personal Services

		3/'13	6/'13	Change	3/'14(E)	Progress
[Utilizing au Smart Value] au subscriptions	'000	3,860	4,630	+770	6,900	25.3%
[Utilizing au Smart Value] Households	'000	2,120	2,490	+370	3,450	27.8%
FTTH subscriptions	'000	2,822	2,950	+128	3,260	29.2%

Value Services

		3/'13	6/'13	Change	3/'14(E)	Progress
au Smart Pass members	'000	5,740	6,820	+1,080	10,000	25.4%
		FY13.3-1Q	FY14.3-1Q	Change	FY14.3(E)	yoy
Value ARPU	yen	250	260	+10	290	+4.0%

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		6/'12	9/'12	12/'12	3/'13	6/'13	3/'14(E)
Data offload rate	%	32	39	43	52	56 <sup>Note</sup>	54 <sup>Note</sup>

Note: Data offload rate for FY14.3 includes data traffic of LTE compatible smartphones.

# Capital Expenditures

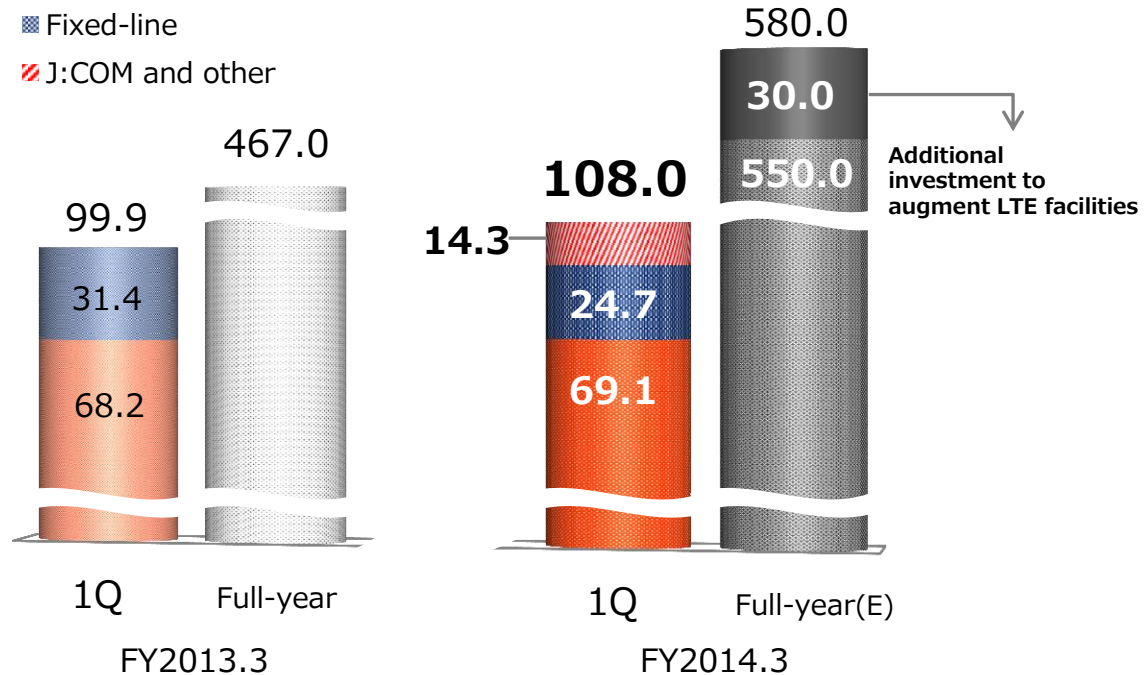
CAPEX (cash flow basis)

(Billions of yen)

- Mobile
- Fixed-line
- J:COM and other

1Q/FY2014.3  
**¥108.0B**

YOY +¥8.1B  
 Progress Rate 18.6%



*Designing The Future*

**KDDI**