

Ubiquitous Solution Company

# **KDDI CORPORATION**

**Interim Financial Results of the Fiscal Year ending March 2003**

**November 8, 2002**

**KDDI Corporation**

**Tadashi Onodera**

**President**

**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.**

## Management Tasks Achieved

Tasks set at the beginning of the Fiscal Year	Results achieved to date
Launch 3G (CDMA 2000 1X)	<ul style="list-style-type: none"> <li>● Commenced the service in April. The number of subscribers exceeded 3 million in 7 months.</li> <li>● Completed lineups for '3G with camera', 'Movie Mail', etc.</li> </ul>
Launch Solution Business	<ul style="list-style-type: none"> <li>● Launched GPS-MAP in October. Already received orders from more than 30 customers.</li> <li>● Cooperate with Toyota, Pioneer, and Hino Motors in the field of 'Telematics'.</li> </ul>
Realize the effect of merger	<ul style="list-style-type: none"> <li>● Completed integration of 'au' information systems in July.</li> <li>● Commercialized technologies of KDDI R&amp;D Laboratories (e.g. ezmovie).</li> <li>● Improved operational efficiency through organizational consolidation of au and NW facility operations and business bases</li> </ul>
Achieve the profit target for the current Fiscal Year	<ul style="list-style-type: none"> <li>● Based on the 1st Half financial results, revised the full-year forecast upward.</li> <li>● Allocated an advanced expenditure of ¥17.7 billion this period in relation to the removal of PDC.</li> <li>● Set aside provision of ¥13.4 billion to prepare for the nation-wide deployment of "point system".</li> </ul>
Reduce interest-bearing debts	<ul style="list-style-type: none"> <li>● Reduced such debts to ¥1,675 billion before the end of the First Half. Aim to accelerate the reduction to ¥1,560 billion before the end of this Fiscal Year.</li> </ul>
Improve the management of the Group business	<ul style="list-style-type: none"> <li>● In TUKA business, structural reform made progress through cost reduction, but ARPU had an adverse affect on the business.</li> <li>● In Pocket business, achieved a substantial increase of subscribers and recorded highest ever profit due to the good business of AirH".</li> </ul>

## Future Tasks

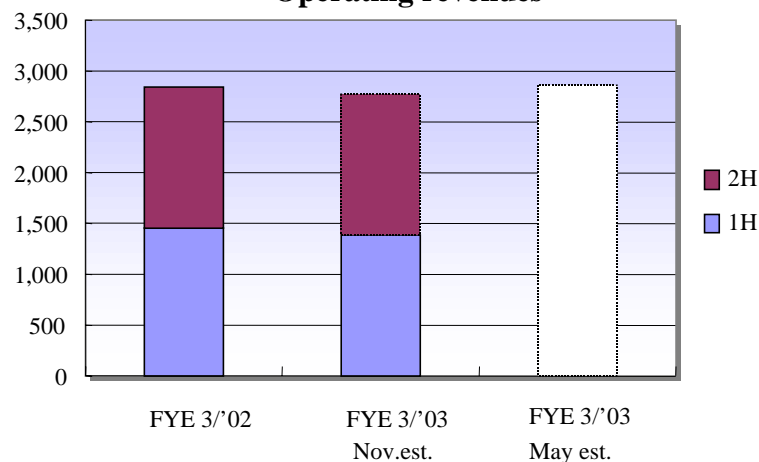
Implement following measures in order to put  
the Plan for the Fiscal Year ending March 2003 into effect

Future tasks	Approach to the task
Develop strategy for macro environmental aspects of the mobile phone business such as the maturing of the market and the reduction of ARPU.	<ul style="list-style-type: none"> <li>● Induce churn from competitors through the introduction of attractive products.</li> <li>● Enhance lineups of movies etc. to improve Data ARPU.</li> <li>● Develop new markets such as Corporate Solutions and Telematics.</li> </ul>
Implement measures to cope with the full-scale expansion of 3G business by competitors.	<ul style="list-style-type: none"> <li>● Push forward the development of terminal devices and service planning in preparation for the introduction of EV-DO.</li> <li>● Hold down production cost of terminal devices.</li> </ul>
Shift to 'Data' in the NW business	<ul style="list-style-type: none"> <li>● Expand sales of ADSL through the enhancement of customer support services.</li> <li>● Develop a business strategy to meet the arrival of the broadband age.</li> </ul>
Expand FMC solution business further.	<ul style="list-style-type: none"> <li>● Expand sales of GPS-MAP and Telematics.</li> <li>● Develop applications for companies through the introduction of BREW.</li> </ul>
Enhance management of the Group companies.	<ul style="list-style-type: none"> <li>● Fine tune 'TUKA' to meet the needs of voice mail, and continue internal reforms.</li> <li>● Tailor AirH" to 'Pocket' business and pursue micro-miniaturization.</li> </ul>
Drive cost reduction further throughout the Group.	<ul style="list-style-type: none"> <li>● Reduce selling cost.</li> <li>● Reduce capital expenditure budget from ¥330 billion to ¥291 billion through enhanced efficiency of equipment and reduction of unit costs.</li> </ul>

# Consolidated Financial Statement

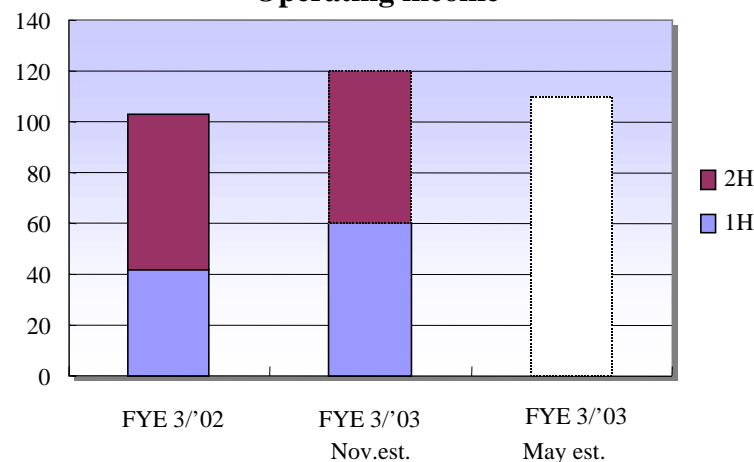
Billions of yen

## Operating revenues



Billions of yen

## Operating income



Billions of Yen

	FYE 3/0 2			FYE 3/0 3			FYE 3/0 3
	1H	2H	Year	1H	2H Nov.est.	Year Nov.est.	Year May est.
Operating revenues	1,464	1,370	2,834	1,393	1,377	2,770	2,860
Operating income	41	61	102	60	60	120	110
Margin	2.8%	4.4%	3.6%	4.3%	4.4%	4.3%	3.8%
Ordinary income	24	55	79	42	48	90	85
Net income	7	6	13	20	29	49	49
Free cash flow	-23	313	291	81	135	216	228
EBITDA	257	288	545	258	278	535	540
Margin	17.5%	21.0%	19.2%	18.5%	20.2%	19.3%	18.9%

Millions of Yen - Except Per Share Data and Percents

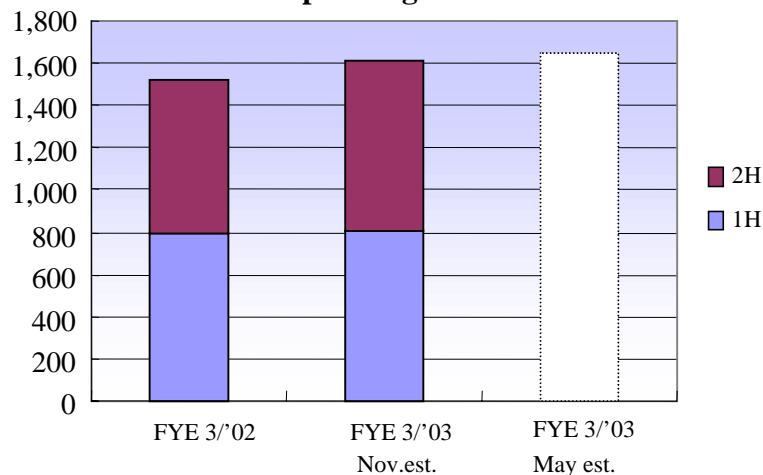
	Sep.01	Mar.02	Sep.02
Total assets	3,459	3,203	2,925
Stockholder's equity	850	857	857
Stockholder's equity ratio	24.6%	26.8%	29.3%
Stockholder's equity per share thousand of Yen	200.47	202.11	203.13

\*The expenditures related to PDC removal, which were scheduled to be allocated for the next period and reflected in the forecast released in May, are allocated in advance as operational costs, totaling 4.5 billion yen for the First Half, 13.2 billion yen for the Second Half and 17.7 billion yen for the full year.

\*Due to the nationwide deployment of the point system and enhanced services for au and other businesses, operational costs were set aside, totaling 5.2 billion yen in the First Half, 1.4 billion yen in the Second Half and 6.6 billion yen for the full year. 6.8 billion yen was set aside as extraordinary loss for the previous period during the First Half.

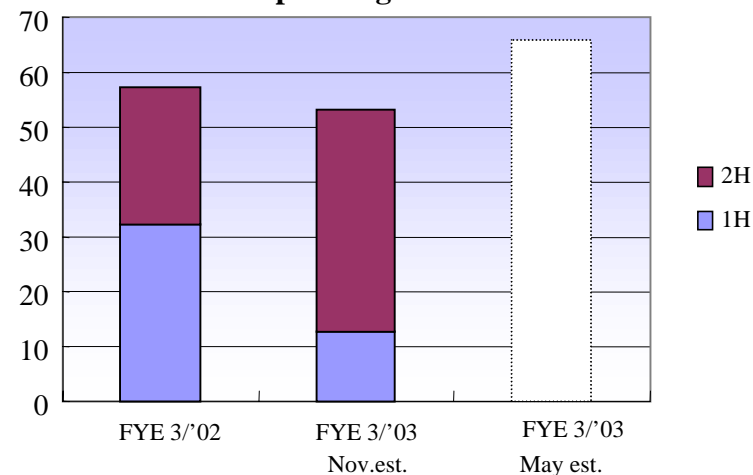
Billions of yen

### Operating revenues



Billions of yen

### Operating income



Billions of Yen

	FYE 3/0 2			FYE 3/0 3			FYE 3/0 3
	1H	2H	Year	1H	2H Nov.est.	Year Nov.est.	Year May est.
Operating revenues	790	735	1,525	807	803	1,609	1,653
Operating income	32	25	57	13	40	53	66
Margin	4.1%	3.4%	3.8%	1.6%	5.0%	3.3%	4.0%
Ordinary income	26	27	53	6	33	39	53
Net income	14	-73	-59	1	19	20	30
Free cash flow	-42	58	16	40	-10	30	-10
EBITDA	135	134	269	104	142	246	268
Margin	17.1%	18.3%	17.7%	12.9%	17.7%	15.3%	16.2%

	FYE 3/02		FYE 3/03		FYE 3/03
	1H	Year	1H	Year Nov.est.	Year May est.
Subs('000)	11,798	12,214	13,054	13,700	13,500
1X	-	-	2,652	-	-
cdmaOne	9,851	10,822	9,955	-	-
PDC	1,947	1,392	447	-	-
ARPU (yen)	8,480	8,080	7,610	7,520	7,900
Voice	7,610	7,190	6,530	6,270	6,700
Data	870	890	1,080	1,250	1,200

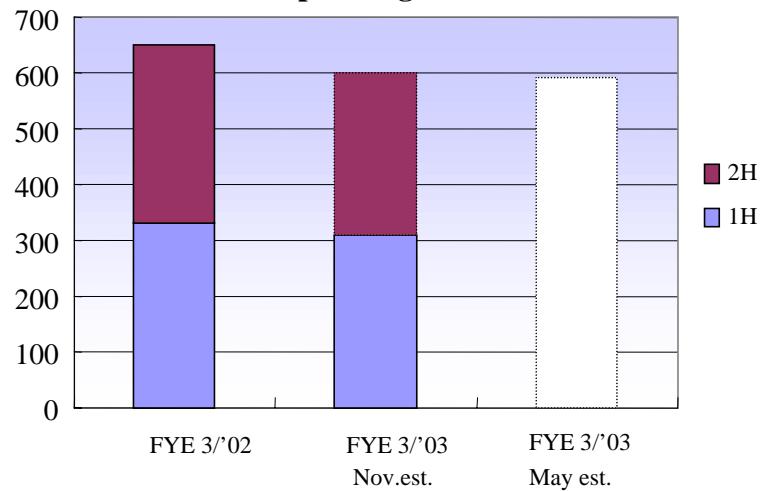
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\* Due to the nationwide deployment of the point system, operational costs were set aside, totaling 4.6 billion yen in the First Half, 0.8 billion yen in the Second Half and 5.4 billion yen for the full year. 4.1 billion yen was set aside as extraordinary loss for the previous period during the First Half.

# NW & Solution Business

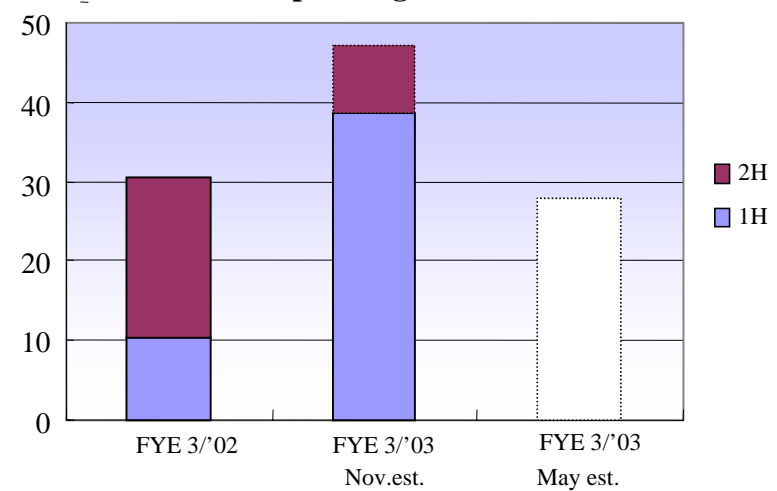
Billions of yen

**Operating revenues**



Billions of yen

**Operating income**



Billions of Yen

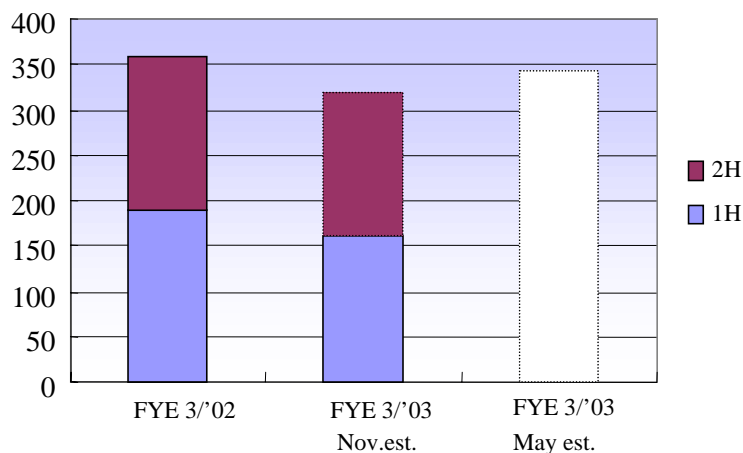
	FYE 3/0 2			FYE 3/0 3			FYE 3/0 3
	1H	2H	Year	1H	2H Nov.est.	Year Nov.est.	Year May est.
Operating revenues	331	321	652	309	291	600	592
Operating income	10	20	31	39	8	47	28
Margin	3.1%	6.3%	4.7%	12.6%	2.8%	7.8%	4.7%
Ordinary income	6	19	25	38	7	45	21
Net income	-1	5	4	21	5	26	12
Free cash flow	17	38	55	31	42	73	57
EBITDA	74	83	157	90	68	158	139
Margin	22.3%	26.0%	24.2%	29.1%	23.3%	26.3%	23.5%

	FYE 3/02		FYE 3/03		FYE 3/03
	1H	Year	1H	Year Nov.est.	Year May est.
DION('000)	2,022	2,150	2,270	2,430	2,450
ADSL	-	130	265	540	650

# TUKA Business

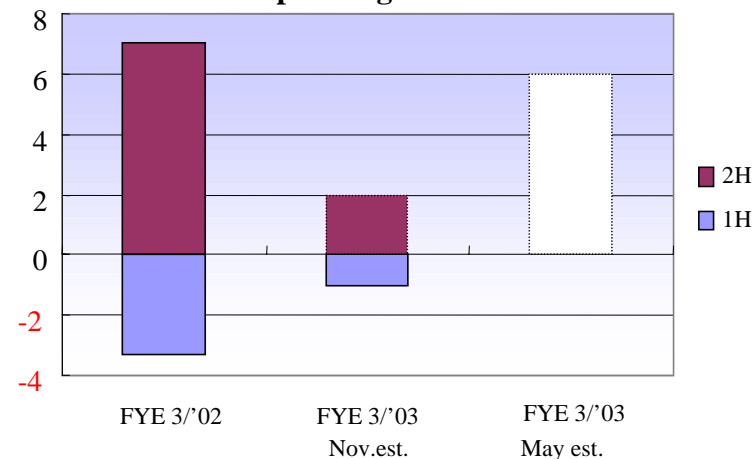
Billions of yen

**Operating revenues**



Billions of yen

**Operating income**



Billions of Yen

	FYE 3/02			FYE 3/03			FYE 3/03 Year May est.
	1H	2H	Year	1H	2H Nov.est.	Year Nov.est.	
Operating revenues	191	168	358	162	157	319	344
Operating income	-3	7	4	-1	2	1	6
Margin	-1.7%	4.2%	1.1%	-0.6%	1.3%	0.3%	1.7%
Ordinary income	-6	4	-2	-4	0	-4	0
Net income	-5	1	-3	-7	-2	-9	-1
Free cash flow	-1	16	15	22	25	47	45
EBITDA	26	38	63	29	33	62	68
Margin	13.4%	22.5%	17.7%	17.9%	21.1%	19.4%	19.8%

	FYE 3/02		FYE 3/03		FYE 3/03 Year May est.
	1H	Year	1H	Year Nov.est.	
Subs('000)	4,020	3,891	3,864	3,860	3,840
ARPU (yen)	6,040	5,790	5,370	5,330	5,740

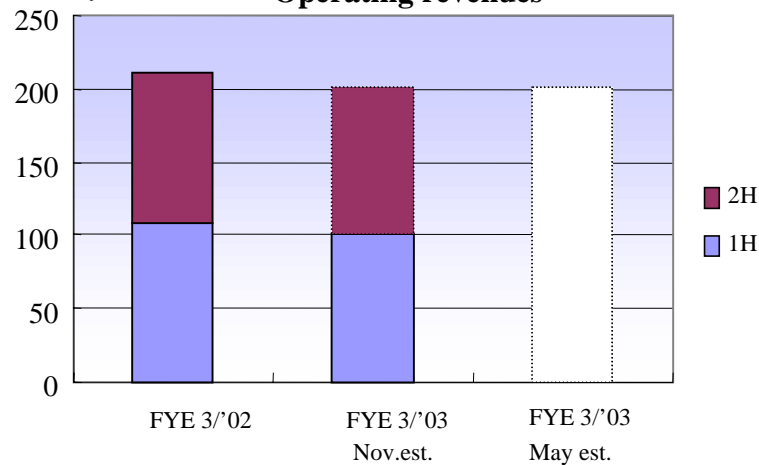
\* Due to enhancement of the point system, operational costs were set aside, totaling 0.4 billion yen in the First Half, 0.1 billion yen in the Second Half and 0.5 billion yen for the full year. 1.7 billion yen was set aside as extraordinary loss for the previous period during the First Half.



# Pocket Business

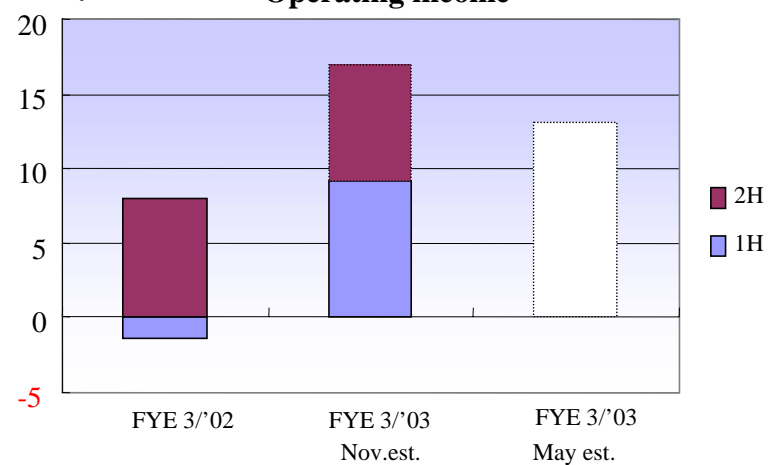
Billions of yen

**Operating revenues**



Billions of yen

**Operating income**



Billions of Yen

	FYE 3/0 2			FYE 3/0 3			FYE 3/0 3
	1H	2H	Year	1H	2H Nov.est.	Year Nov.est.	Year May est.
Operating revenues	109	102	211	100	101	201	201
Operating income	-1	8	7	9	8	17	13
Margin	-1.2%	7.8%	3.2%	9.1%	7.8%	8.5%	6.5%
Ordinary income	-3	6	3	8	6	14	10
Net income	-8	23	15	7	6	13	10
Free cash flow	-2	16	14	14	24	38	38
EBITDA	18	29	48	30	29	59	55
Margin	16.7%	28.7%	22.5%	30.0%	28.7%	29.4%	27.4%

	FYE 3/'02		FYE 3/'03		FYE 3/'03
	1H	Year	1H	Year Nov.est.	Year May est.
Subs('000)	2,953	2,942	2,953	3,070	3,100
Air H"	75	334	568	-	-
ARPU(yen)	5,460	5,330	5,080	5,010	4,850

\* Due to enhancement of the point system, 0.6 billion yen was set aside as extraordinary loss for the previous period during the First Half.

## Capital Expenditure and others

- Reduce capital expenditure from the original budget of 330 billion yen to 291 billion yen through enhanced efficiency of equipment and reduction of unit price of equipment.
- Reduce interest bearing debts by ¥26 billion during this fiscal year and revise this fiscal-year-end balance target to ¥1,560 billion.
- Decrease the Debt/EBITDA multiple to 2.9 at this fiscal-year-end, and attain financial soundness.

Billions of yen

		FYE 3/'02			FYE 3/'03			FYE 3/'03
		1st alf	2nd Half	Year	1st Half	2nd Half Nov.est.	Year Nov.est.	Year May est.
CAPEX(Cash basis)	Consolidated	192	182	375	126	165	291	330
	au	111	115	226	83	114	197	225
	NW&Solution	54	32	86	19	34	53	58
	TUKA	20	19	39	9	7	16	16
	Pocket	11	6	17	8	7	14	14
Depreciation	Consolidated	212	212	424	193	200	393	407
	au	100	99	199	89	94	183	194
	NW&Solution	63	60	123	50	50	100	101
	TUKA	29	31	59	30	30	60	61
	Pocket	19	20	39	19	21	40	40
Interest bearing debts	Consolidated	2,049	—	1,747	1,675	—	1,560	1,586
	au,NW&Solution	1,301	—	1,067	1,043	—	950	—
	TUKA	387	—	371	348	—	328	—
	Pocket	262	—	226	211	—	188	—
Debt/EBITDA multiple		—	—	3.2	—	—	2.9	2.9

*au business*

*NW & Solution business*

*TUKA business*

*Pocket business*

## **Self-Assessment of 'au' Business in the 1st Half, and Development Strategy in the 2nd Half**

### **Self-Assessment of the 1st Half results: Steadily achieved the targeted tasks**

- 'au' achieved an increase of market shares in a lackluster market.
- Transition to 3G made smooth progress.
- Cancellation rate was steadily reduced.
- Brought in core users.
- While Voice ARPU was lower than original expectation, Data ARPU grew steadily.
- Achieve tasks by inventories control and aggressive marketing

### **Development strategy in the 2nd Half: A further leap forward**

- Strike a balance between profitability and increase of market shares.
- Improve Data ARPU by launching 'Movie Mail' service.
- Enhance lineups of movie models.
- No. of 3G users hit 50% of au total through the expansion of CDMA2000 1X.

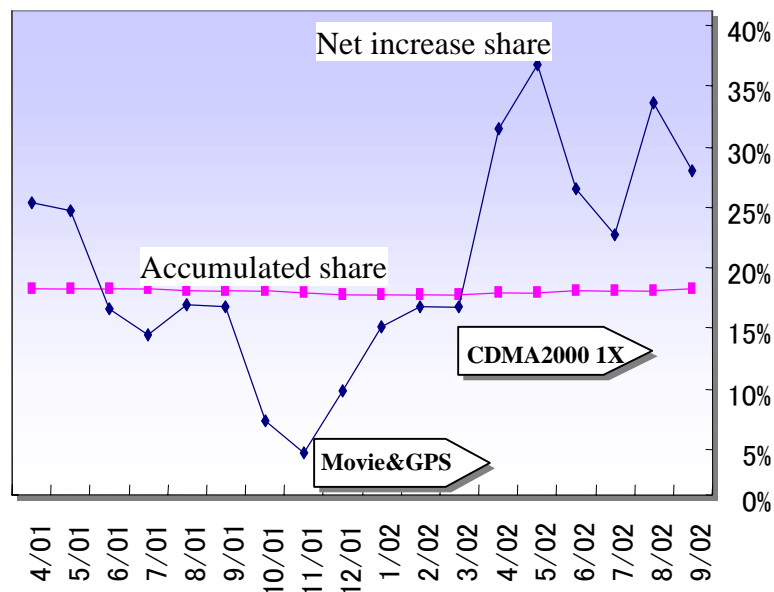
## Trend for Subscribers in the Mobile Phone Market

### Progress of 'au' market shares for a net increase of subscribers

■ Comparison of the net increase between 1st Half '01 and 1st Half '02

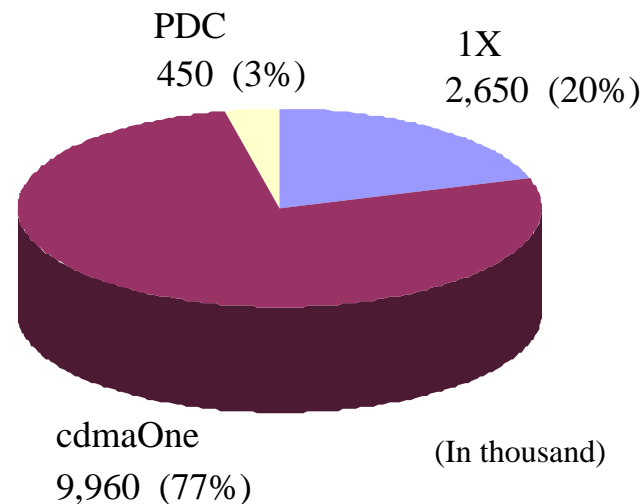
(In thousand)

	1st H. '01	1st H. '02	% Chg.
Market total	4,410	2,960	-33%
au	810	840	+3%



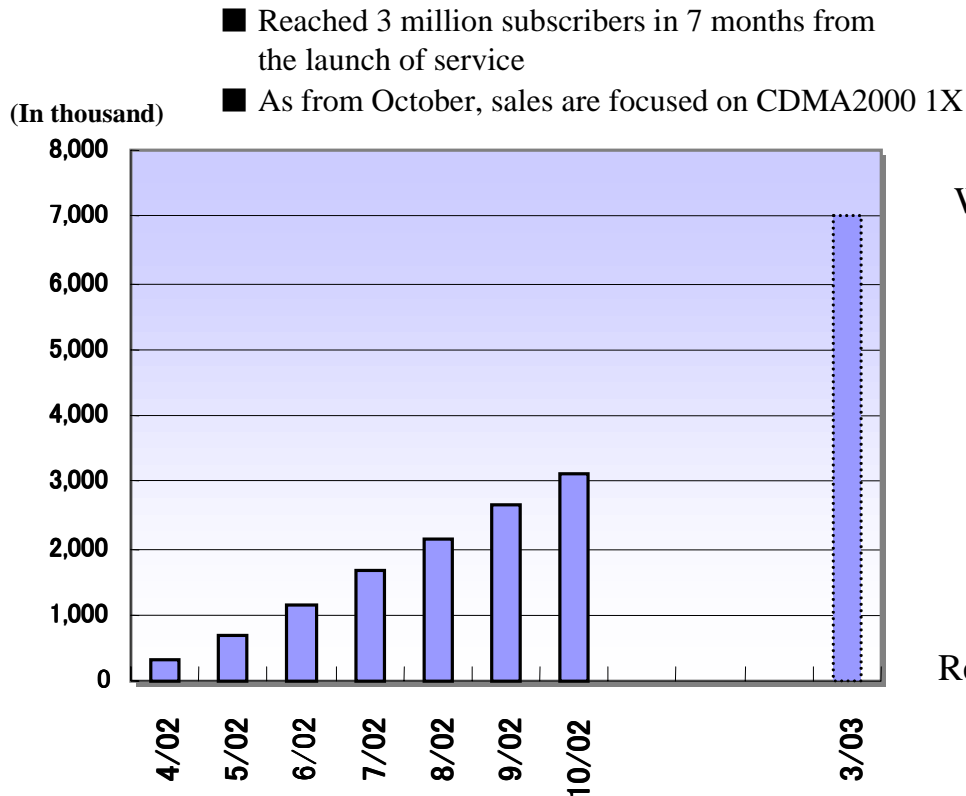
### Breakdown of cumulative 'au' subscribers by system

Total number of 'au' terminals in operation at the end of Sep.'02  
= 13,050 thousand

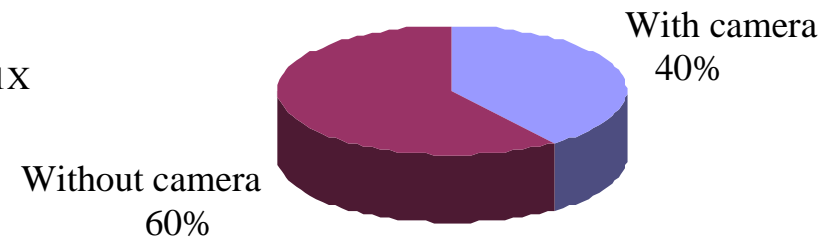


## Trend for CDMA2000 1X Subscribers

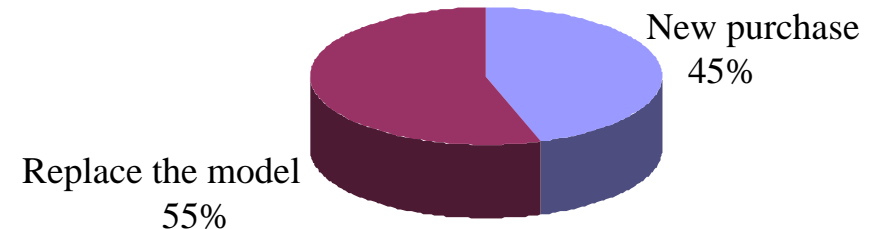
### Increase in cumulative number of CDMA2000 1X subscribers



### Breakdown of 1X subscribers at the end of Sep. '02



### Breakdown of 1X sales in the 1st Half of this Fiscal Year



## Behind the Strong Sales of CDMA2000 1X

### ■ Successful marketing strategy with a focus on terminal equipment

- Basic terminal platforms are common to 2G and 3G.
  - Reasonable price of terminal
- Backward compatibility between 2G and 3G.
  - From the launch of service, 3G is available for use nationwide regardless of area.
- Business strategy focuses on introduction of new products on 3G=1X.
- Launch of highly functional models equipped with camera.
- Precise customer analysis  
(Mobile cluster, coloring, design, orientation of terminal price range)

## **CDMA Spreading Worldwide**

**cdmaOne/CDMA2000 1X are in use worldwide.**

**cdmaOne : 127,150,000 subscriptions**

**CDMA2000 1X : 13,370,000 subscriptions** *(As of June 2002)*

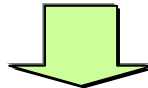
**Currently 22 carriers provide CDMA2000 1X services commercially throughout the world.**

Japan: KDDI, Korea: SK Telecom, KT Freetel, LG Telecom, United States: Sprint, Verizon Wireless,  
Canada: Telus Mobility, Bell Mobility

and 14 other carriers in other regions, mostly in Asia and South America.

**Additionally, many other carriers are scheduled to start CDMA2000 1X services.**

United States: ALLTEL, China: China Unicom etc.



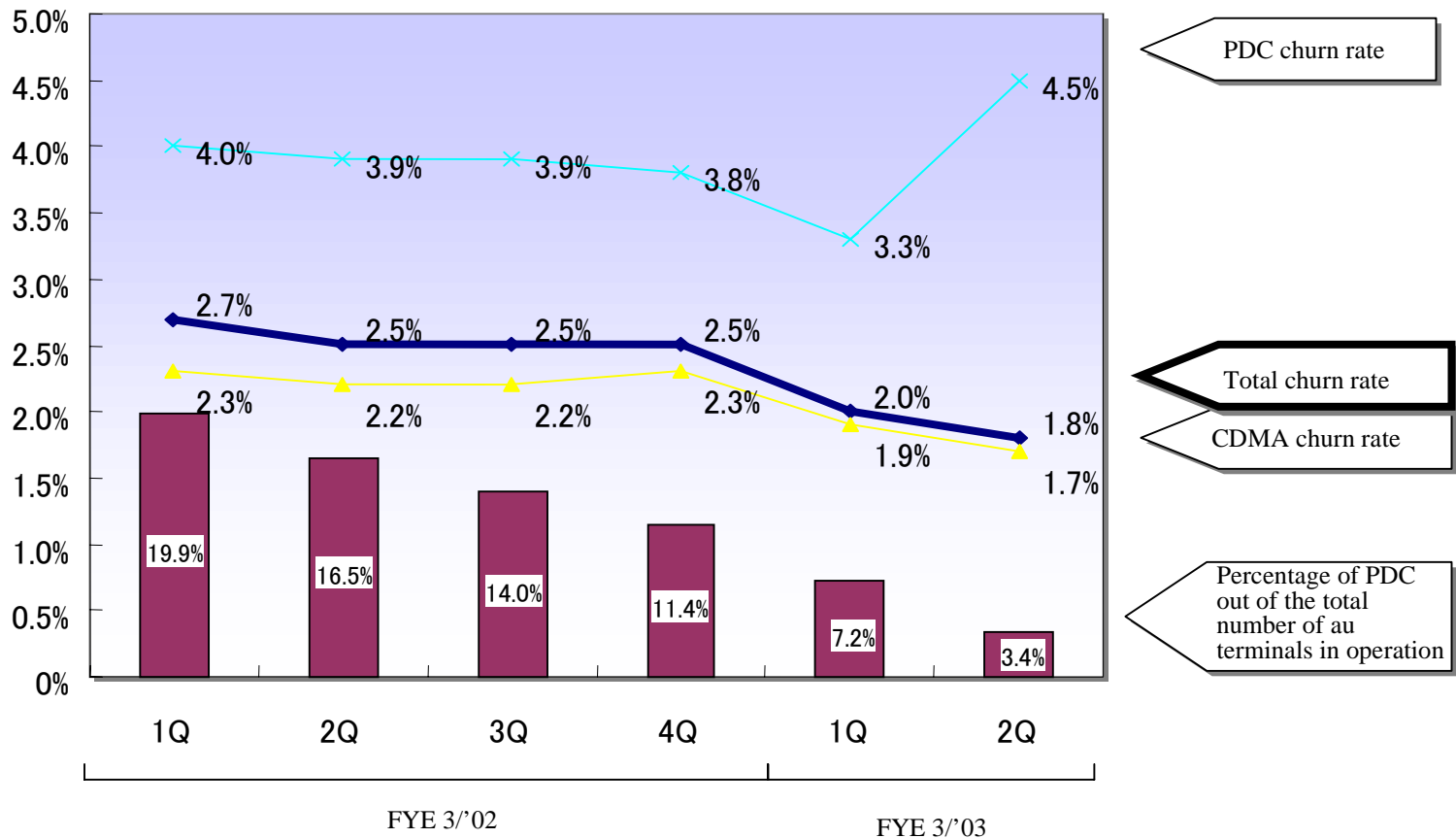
**In the future, further cost reduction in the infrastructure facilities and terminal equipment is expected through the effect of global mass production.**

Source: CDG



## Reduction of Churn Rate

- Due to the introduction of high-value terminal equipment and various retention measures.
- Improve from 2.7% in the first quarter of FY2002 to 1.8% in the second quarter of FY2003.
- Nearly 80% of PDC users switch to CDMA when they replace terminals.

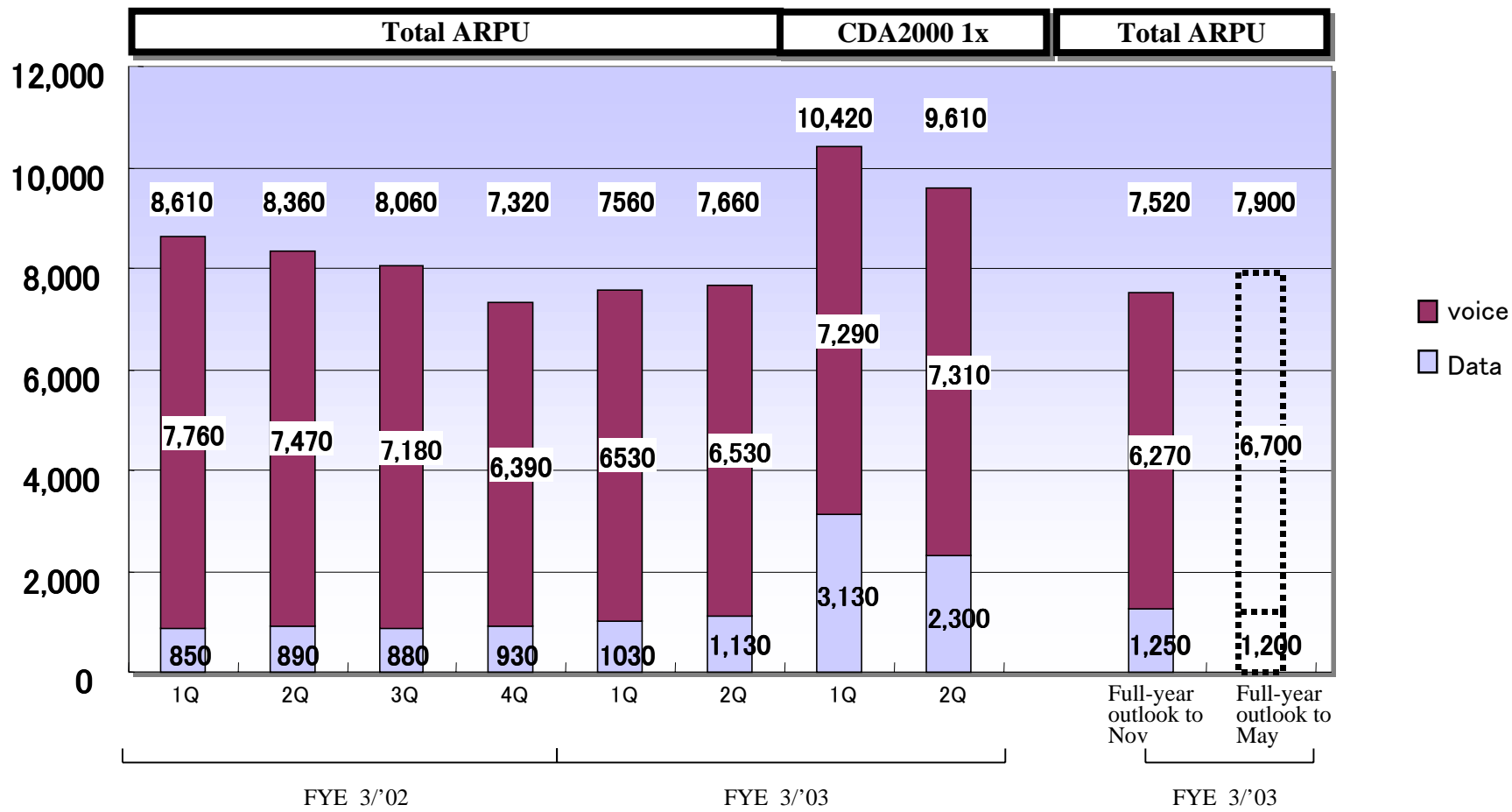


# Changes in ARPU

■ Voice ARPU will bottom out. Data ARPU will increase.

■ 1X ARPU will continue at a high level.

(yen)



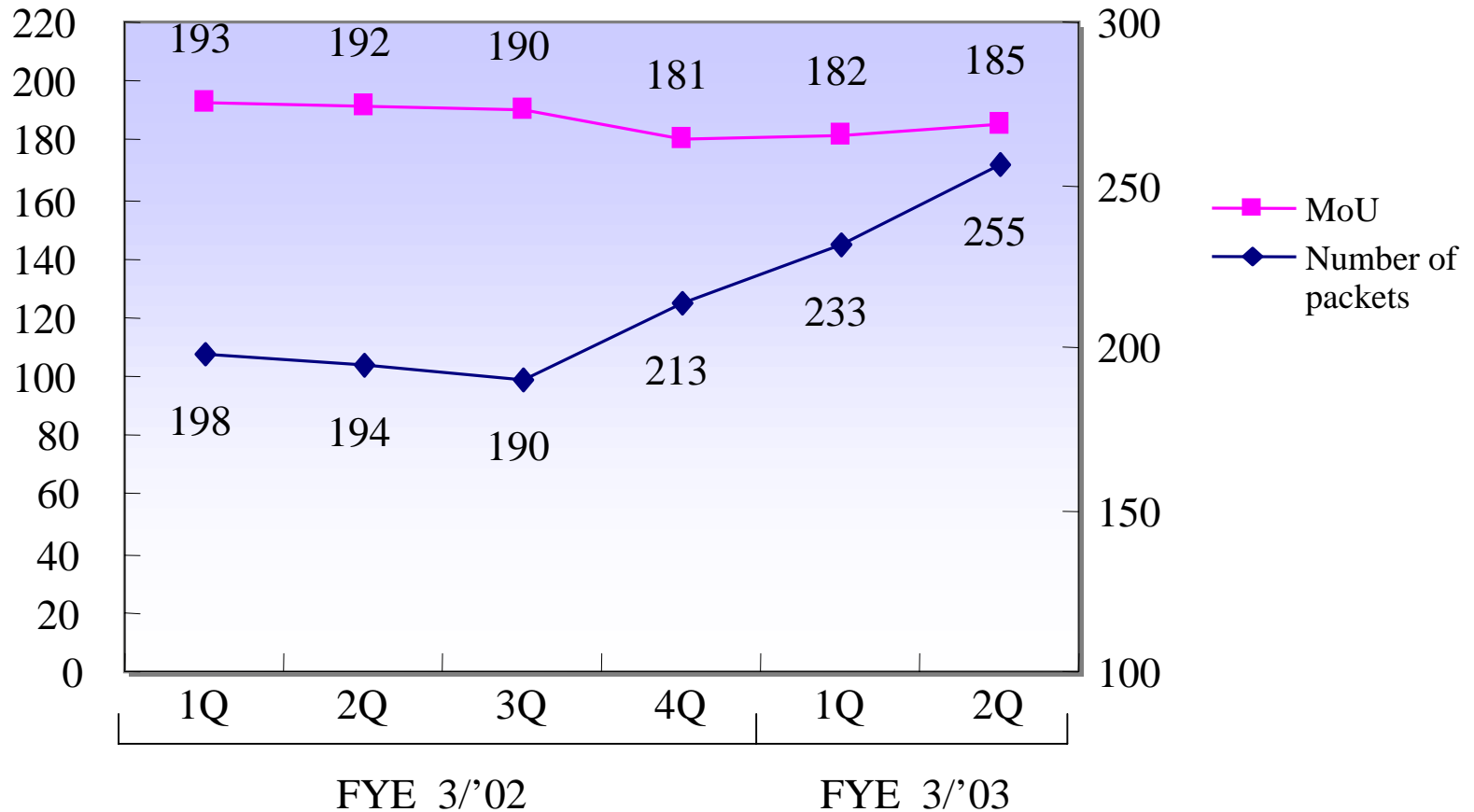
\* For ARPU of CDMA2000 1X series, the entire series (5000, 3000, 1000) is included.

## Progress of MoU/Number of Packets

- MoU is likely to bottom out in the 2nd Quarter of this Fiscal Year
- Number of packets increases following the permeation of 1X.

MoU (In minutes)

Number of packets  
(Per subscriber/day)



## Steady Achievement of Business Tasks

### Strengthened retention business

- Started point system nationwide. (Jul.)
- Enforced 'au' shop accreditation system and nationwide qualification test. (Sep.)
- Strengthened out-bound calling.

### Held down selling cost

- Brought commission fees to reasonable level through the enhancement of product value.
- Gained market shares in net increase of subscribers in the 1st Half while holding down selling cost.

### Suspension of PDC service

- 1,390 thousand (end Mar.)    450 thousand (end Sep.)
- Approx. 80% of PDC users convert to CDMA when repurchasing.

### Thorough control of inventories

- Achieved proper inventory monthly target through improving precision of orders. (Internal inventory: 0.6 month at the end of Sep.)

### Development/purchase of terminal equipment

- Enhanced co-development system with makers and made each responsibility clear through introduction of product manager system.
- Introduced common platform for cdmaOne and 1X.
- Introduced detailed control method for each component.

## Business Development Strategy in the 2nd Half:

### 1. Service

Dec. 2001

Apr. 2002

Sep. 2002

End of 2002 and after

Autumn 2003

Movie GPS

Launched  
CDMA2000 1X

Movie Mail

Enhance Movie Mail  
lineups

Start 1X EV-DO  
commercial service



#### ■ Launch new equipment corresponding to Movie Mail :

Launched 1 model in September → Launch additional models consecutively from year-end to next spring.

#### ■ Standardize to equip with still picture camera

#### ■ Expand movie contents :

Dec. '01: 69 sites → Sep. '02: 119 sites → Expand further in 2nd Half and after in line with the increase of movie terminals.

#### ■ Introduce 'Packet Discount' (October) :

Promote the use of Movie Mail, movie contents, etc.

## Competitive Features of Movie

- Compliance with the international standard MPEG4 (Transmittable to PC)
- Available for after-recording, sub-titling and stereo sound recording.
- Packet Discount
- Movie-recording time : Max. 15 sec.
- Frame rate : Movie site = 15fps., Video = 7fps.
- Copyright management system

(This system makes it possible to control reproduction time etc. by using GPS standard clock, and to provide contents with constraints such as copyrights, time limits etc.)



Subtitle of up to 80 characters  
(20 characters x 4 screens)  
can be input.

Problems of PDC  
system

- Limitation on the size of files attached to mails.
- Limitation on the download speed = Max. 28.8kbps.
- Relatively high packet fee rate.

Problems of W-CDMA

- Limitation of addressees due to the delay in dissemination.
- Relatively high price of terminal equipment corresponding to movie.

## Business Development Strategy in the 2nd Half

### 2. Introduction of 'Packet Discount', its objectives and effects

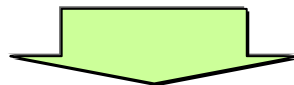
Accelerate dissemination of enhanced contents → Introduce 'Packet Discount'

Fee rate	300 character text		Photo	5 sec. movie picture	15 sec. movie picture	High-quality movie picture	
	byte (Packet)	0.9k (7)	7k (55)	20k (156)	60k (469)	100k (781)	200k (1,562)
Standard (yen)	0.27	2	15	43	129	215	430
<b>Packet Discount (yen)</b>	<b>0.1</b>	<b>0.7</b>	<b>6</b>	<b>16</b>	<b>48</b>	<b>80</b>	<b>160</b>

1 packet = 128 bytes

(Outline of 'Packet Discount')

- Basic charge : ¥1,200/month
- Packet transmission fee rate : ¥0.1/packet
- Free transmission service : ¥800 equivalence/month at ¥0.1/packet (¥2,160 equivalence/month at ¥0.27/packet)

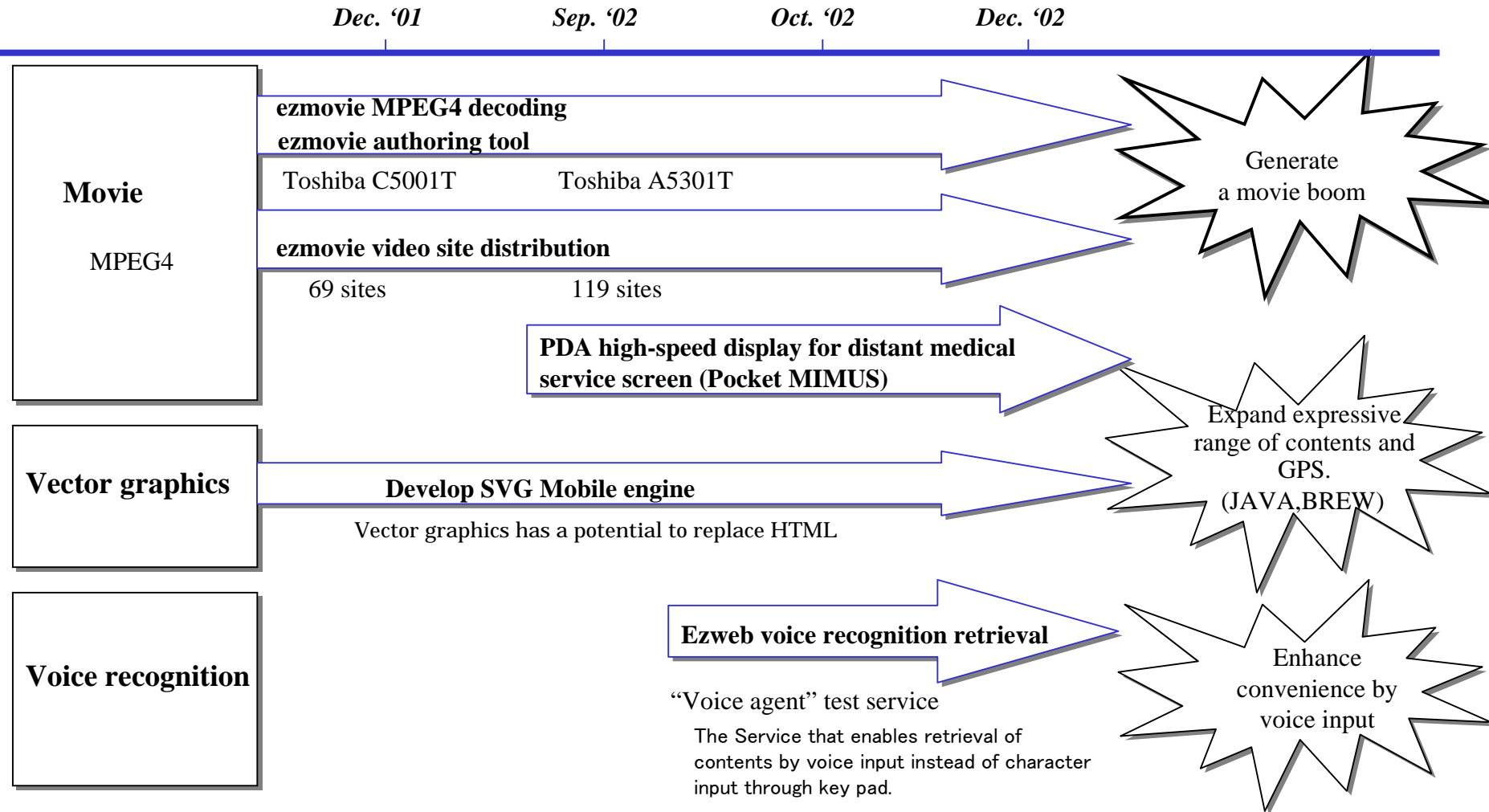


- Generate a movie boom → Heighten motivation of contents providers, terminal equipment manufacturers and sales agents.

⇒ "Formation of value chains"

- User groups who mostly use low-cost data → Increase Data ARPU

**Toward the Fiscal Year ending March 2004**  
**Commercialize the Technology of KDDI R&D Laboratories**







## NW & Solution Business: Active Development of DION ADSL

**Challenge the competition with customer-oriented service, not with bargain prices.**

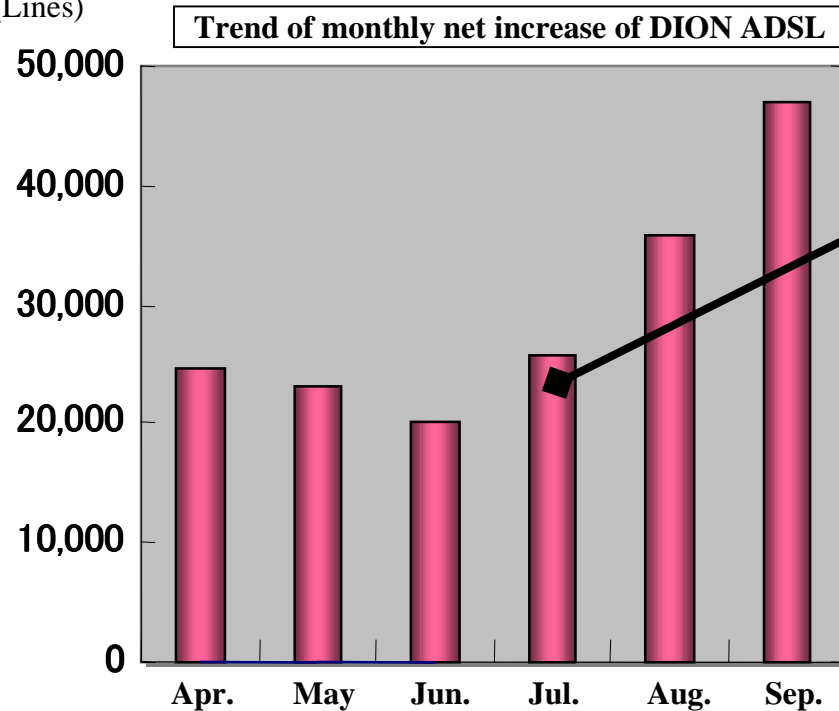
Respond to questions on the ADSL configuration problem, 24 hours a day, 365 days a year, over the phone.

### **“Phone Call Support”**

Visit homes and support customers from installation of modem to configuration of PC

### **“House Call Support”**

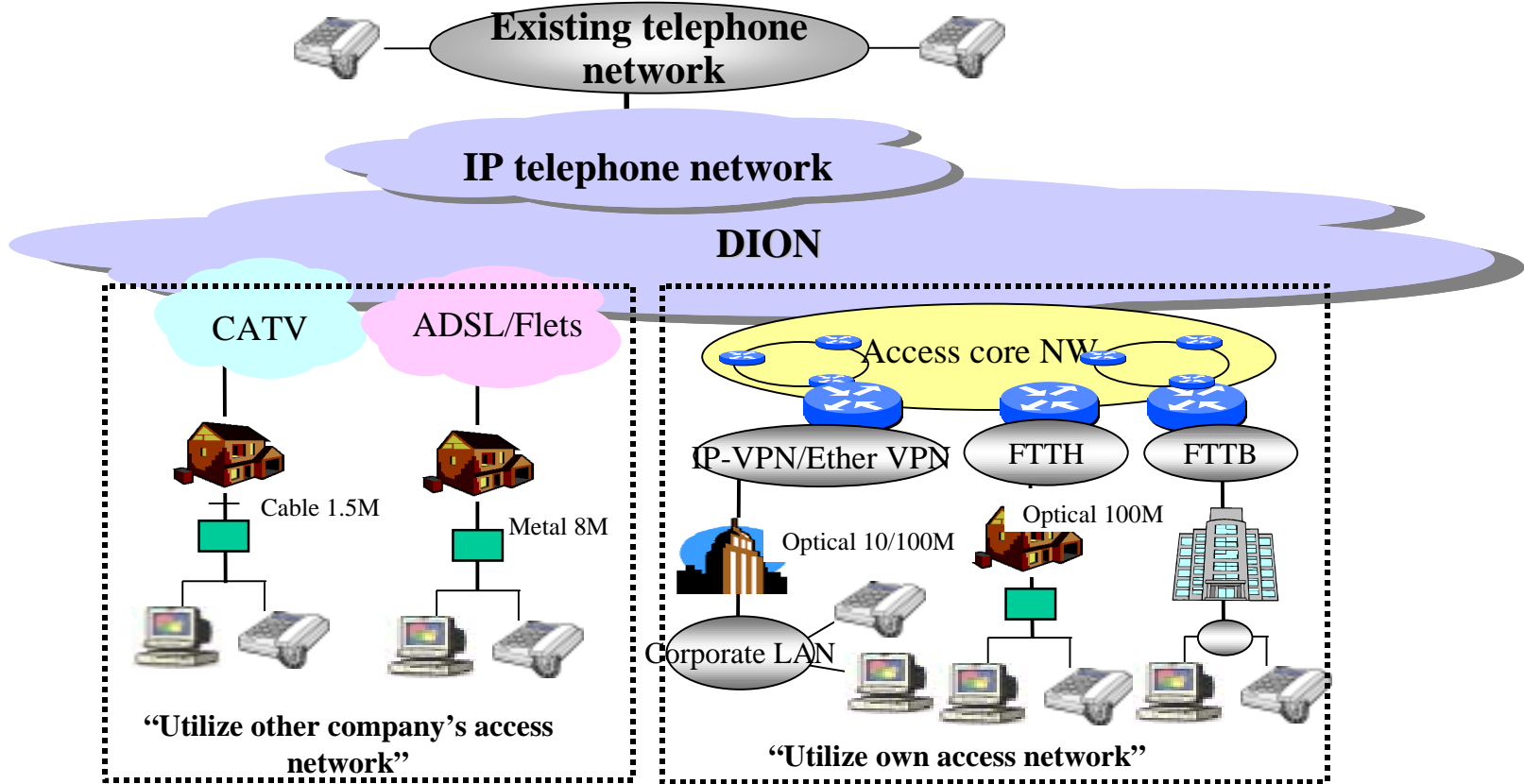
Number of net increase  
(Lines)



**“Phone Call Support”  
and  
“House Call Support”  
services started  
On July 1**

**A great many users currently make use of  
“House Call Support” services.**

# NW & Solution Business: Future Development



## ■ Approach to IP telephone

For corporate users: Value-added solutions

For personal users: Applications of ADSL

## ■ Expand IP-VPN, Ether VPN.

■ Work on an FTTH strategy.

■ Build up an access core network.

■ Obtain direct revenue from ‘au’ base station lines

## NW & Solution Business: Mobile Solutions

### GPS-MAP

Location control and management service with GPS

**Received more than 30 formal applications for service, and more than 100 enquiries, to date.**

### Telematics

Enhance IT application for automobiles with 3G network

**Toyota (GBOOK), Pioneer (Air Navi)  
Hino Motors (Bus operation control system)**

### Application Customization

Development of new products that meet the needs of customers, including IrDA, ie. infrared data communication, and BREW.

**Seino Transportation (Ordering system using infrared communication)**

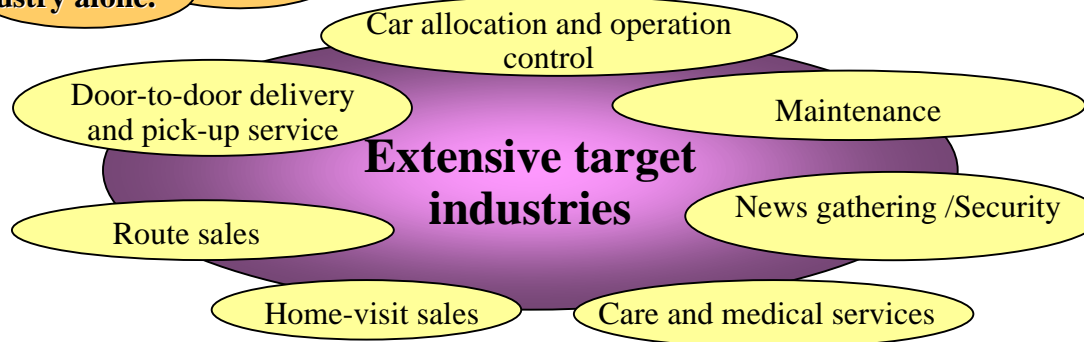
### Movie transmission server

A system that imports movie pictures from camera installed at home to mobile phone via the internet using Movie Mail service.

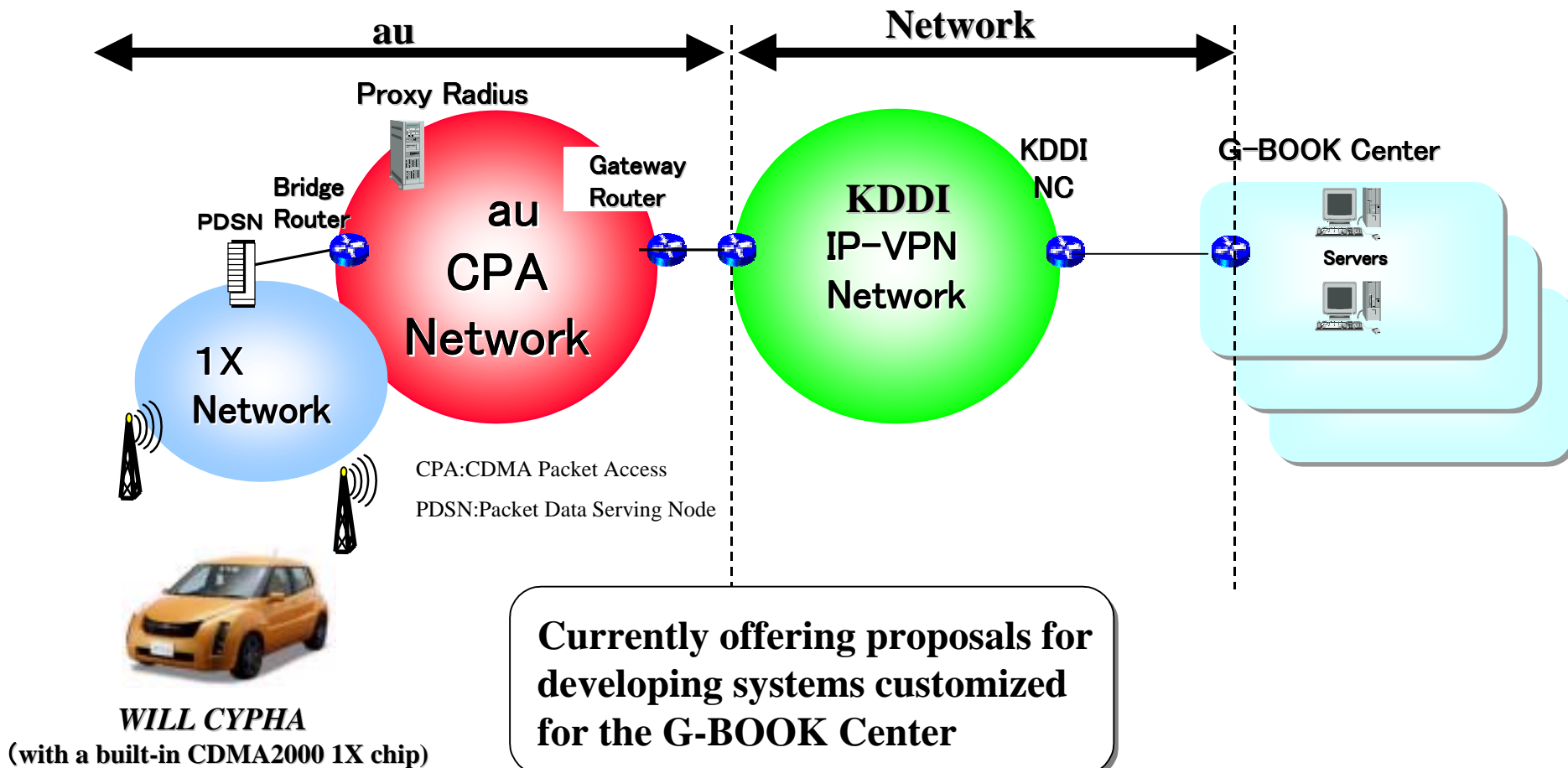
For checking on the children, pets, home, etc.

**FMC**  
**Materialize combined services of mobile and fixed-line phones.**

**Number of automobiles totals 10 million in the logistics industry alone.**



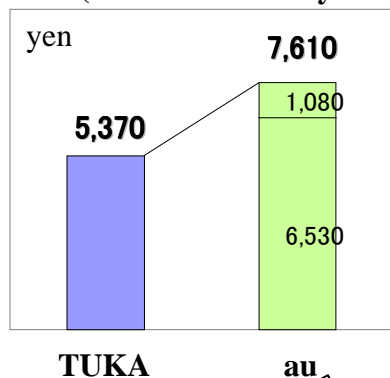
Realization of Fixed & Mobile Convergence (FMC)



## TUKA Business: Specializing in the Voice-related Market

### ■ Target voice/mail users

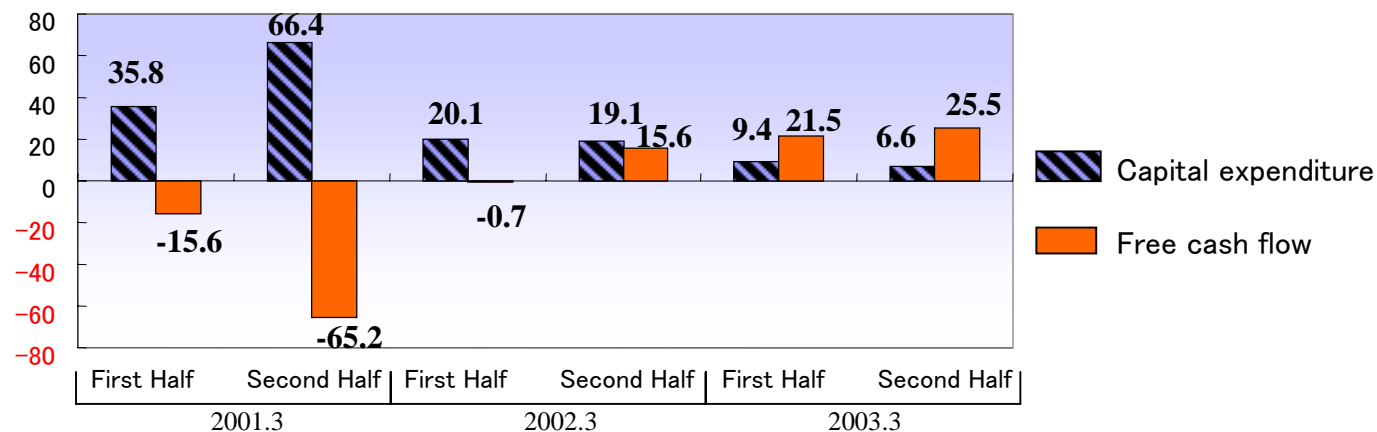
ARPU (First Half of the year ending 3/03)



### ■ Improve management

- Reduce purchasing cost of terminals by limiting functions
- Reduce selling cost
- Focus on sales of long-term subscription plans
- Eliminate surplus lines and consolidate information systems

Billions of yen **Changes in Free Cash Flow from TUKA Business (Total of all three TUKA companies)**





## Pocket Business: Specializing in the Fixed Charge Data Market

### SD Type & USB Type

*World's smallest mobile module*



### Data Card Type



### Compact Flash Type



■ Reduced the cost of terminals by half through the introduction of AirH''.

■ Steadily gained subscribers.

AirH'' subscribers as at the end of Sep:  
570 thousand

■ Will realize record-high profits this Fiscal Year.

Operating income: ¥17 billion

FCF: ¥ 38 billion

Provide  
unique and exclusive  
service

	Charge	Area	Transmission rate	Power savings
AirH''	◎ Fixed charge system	○ Population coverage ratio 93.5%	○ ~128kbps	◎
FOMA	× Metered charge system	△ Population coverage ratio Approx.70% (Current)	◎ ~384kbps	×
Wireless LAN	◎ Free service/ Fixed charge	×	◎ Some Mbps	×

Develop  
corporate market

Ubiquitous Solution Company

**KDDI Corporation**