



Ubiquitous Solution Company

# KDDI CORPORATION

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Financial Results for the 1st Quarter  
of the Fiscal Year Ending March 2009

July 22, 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. 1st Quarter - Financial Results Highlights

## 1 Consolidated basis

- Operating revenues increased by +3.1% and operating income fell by -11.7% yoy. On-track performance: 28.1% of full-year's operating income forecast.

## 2 Mobile Business

- Operating revenues up by +0.7% and operating income down by -8.0% yoy.
- No. of "au" subs at end-Jun. was 30.30M with a cumulative share at 29.2%.
- From Jun.10, "Simple course" of "au Purchase Program" was expanded to include new simple price plans and installment payments for handset purchases.

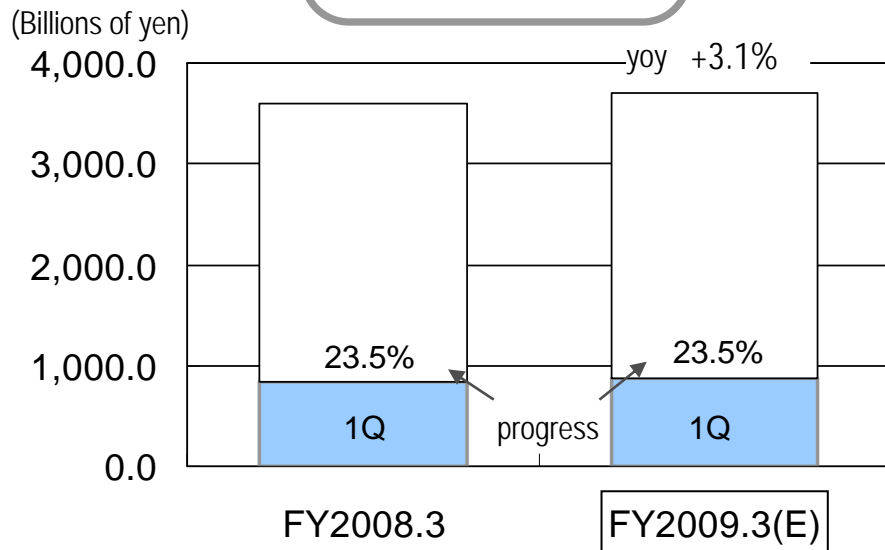
## 3 Fixed-line Business

- Operating revenues up +17.4%, impacted partly by changes to segment's scope. Operating loss was ¥14.9B.
- At end-Jun., No. of fixed access lines was 5.08M. Note
- Chubu Telecommunications Co., Inc. (CTC) became subsidiary (Apr. 1).

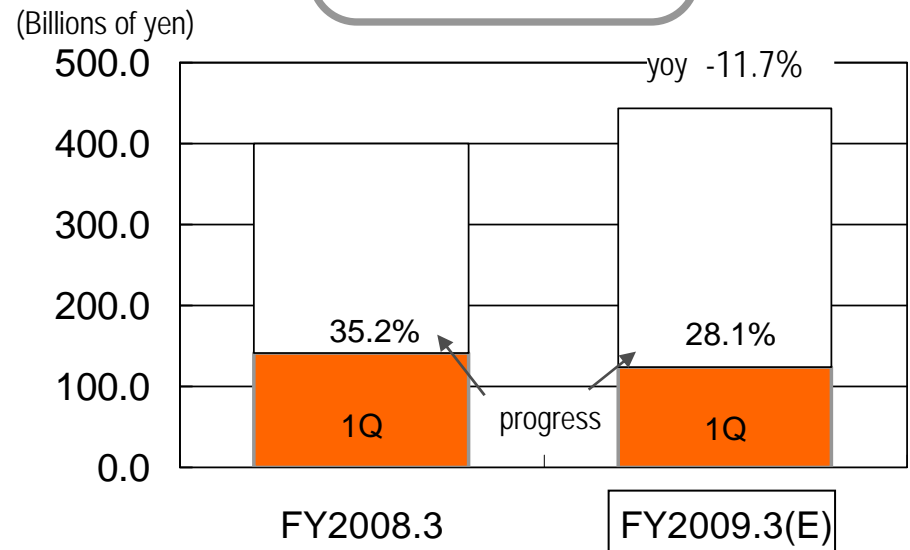
## 4 Jibun Bank Corporation obtained banking license on Jun. 17 and started client service on Jul. 17. KDDI obtained banking agent license on Jun. 25 (first telecom operator to do so) and commenced banking agent business involving setting up savings accounts with Jibun Bank for customers.

# 2. Consolidated Financial Results

**Operating revenues**



**Operating income**

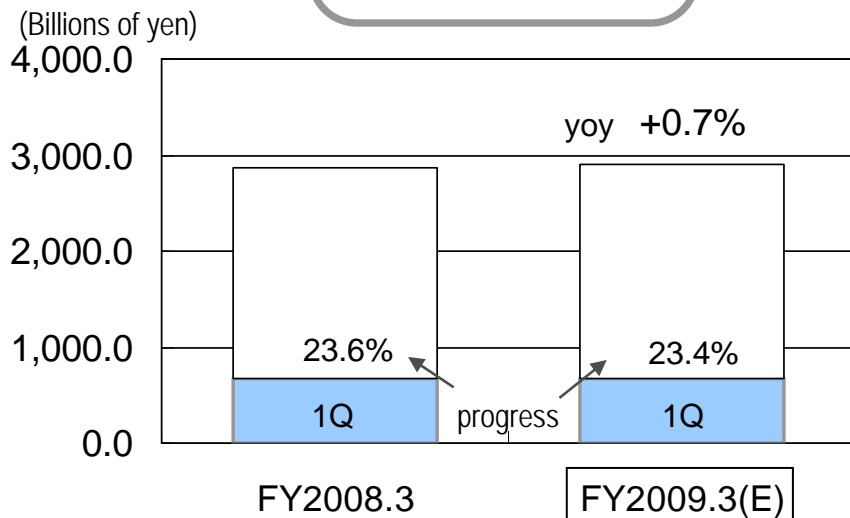


(Billions of yen)

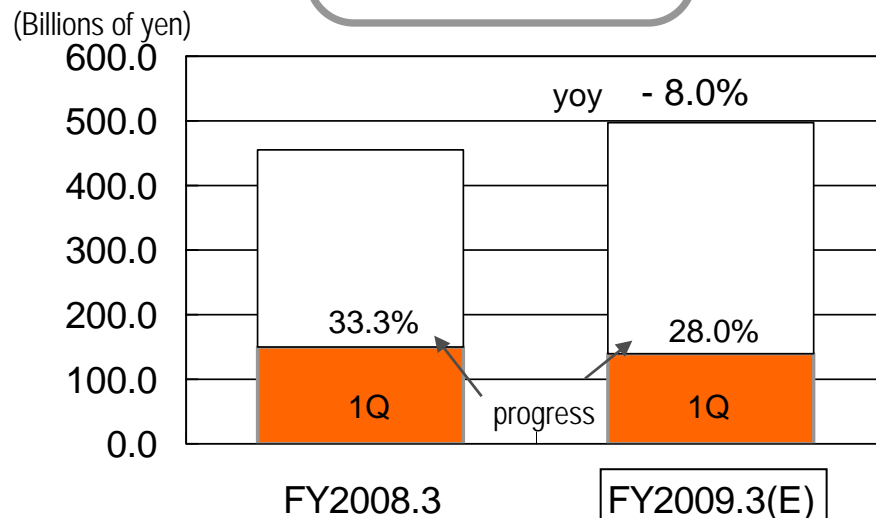
	FY2008.3		FY2009.3(E)			
	1Q		1Q	yoy	progress	
Operating revenues	844.1	3,596.3	870.5	3.1%	23.5%	3,700.0
Operating income	140.9	400.5	124.4	-11.7%	28.1%	443.0
<i>Operating margin</i>	16.7%	11.1%	14.3%	-	-	12.0%
Ordinary income	142.7	407.9	124.8	-12.5%	28.4%	440.0
Net income	82.5	217.8	72.5	-12.2%	29.0%	250.0
Free Cash Flow	-60.5	-12.5	-74.9	-	-	-17.0
EBITDA	225.3	769.2	223.4	-0.8%	25.4%	881.0
<i>EBITDA margin</i>	26.7%	21.4%	25.7%	-	-	23.8%

# 3. Mobile Business

**Operating revenues**



**Operating income**



(Billions of yen)

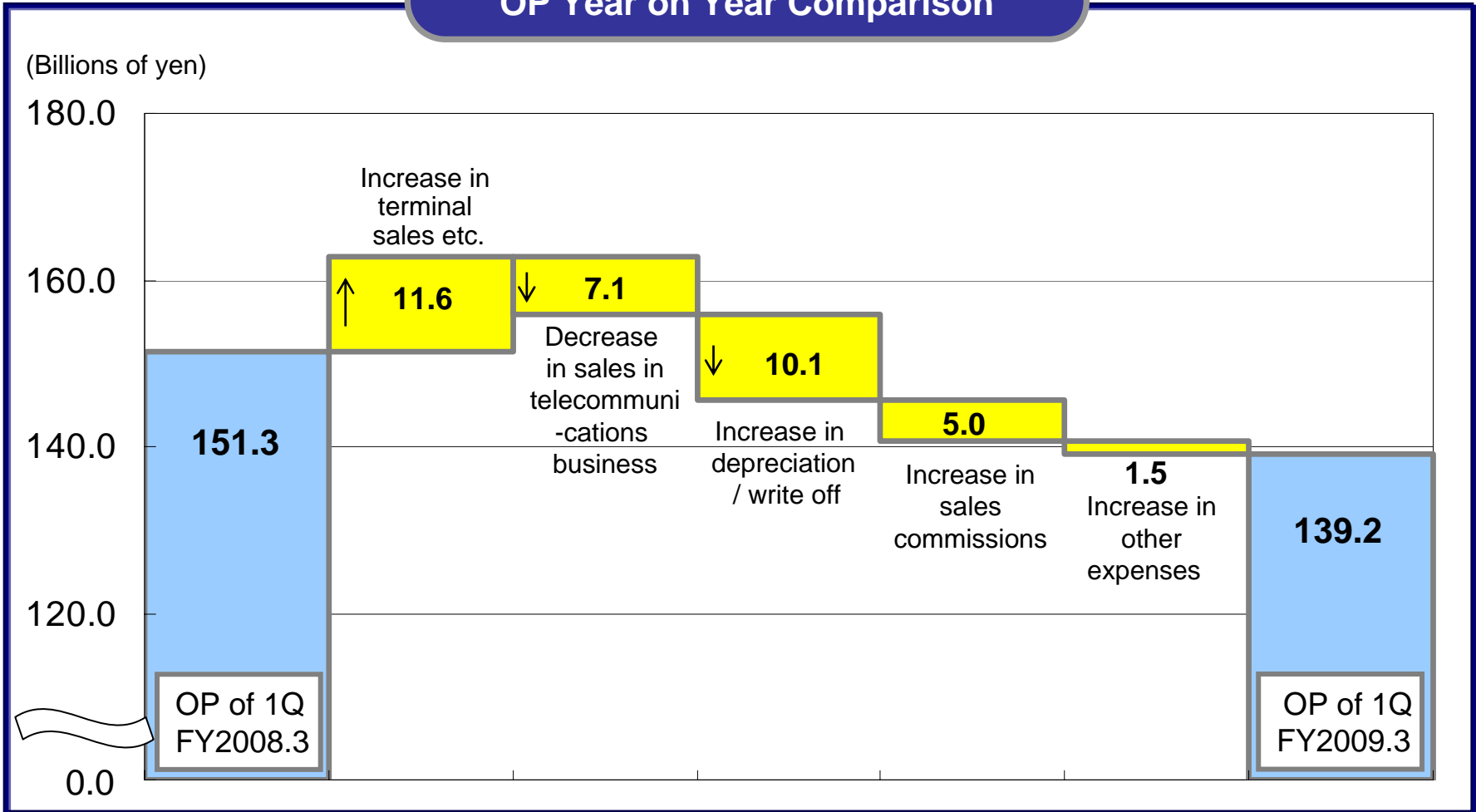
	FY2008.3		FY2009.3(E)			
	1Q		1Q	yoy	progress	
Operating revenues	674.8	2,862.6	679.8	0.7%	23.4%	2,911.0
"au"	670.0	2,851.7	679.8	1.5%	23.4%	2,911.0
Tu-Ka	4.8	10.9	-	-	-	-
Operating income	151.3	455.0	139.2	-8.0%	28.0%	497.0
<i>Operating margin</i>	22.4%	15.9%	20.5%	-	-	17.1%
Ordinary income	153.2	463.5	141.3	-7.8%	28.1%	503.0
Net income	88.2	266.5	82.8	-6.1%	28.3%	292.0
Free Cash Flow	-28.6	82.4	-16.5	-	-	127.0
EBITDA	207.2	692.2	205.1	-1.0%	25.8%	794.0
<i>EBITDA margin</i>	30.7%	24.2%	30.2%	-	-	27.3%

	FY2008.3		FY2009.3(E)	
	1Q		1Q	
Total Subs	28,709	30,339	30,305	31,600
of module-type	736	814	841	1,000
"au" total	28,110	30,105	30,305	31,600
WIN(EV-DO)	15,753	19,695	20,473	24,000
1X	11,805	9,993	9,444	-
cdmaOne	552	417	389	-
Tu-Ka(PDC)	600	234	0	0

# (Reference) Mobile Business OP

Operating income in 1Q fell yoy, mainly because of an increase in depreciation and sales commissions.

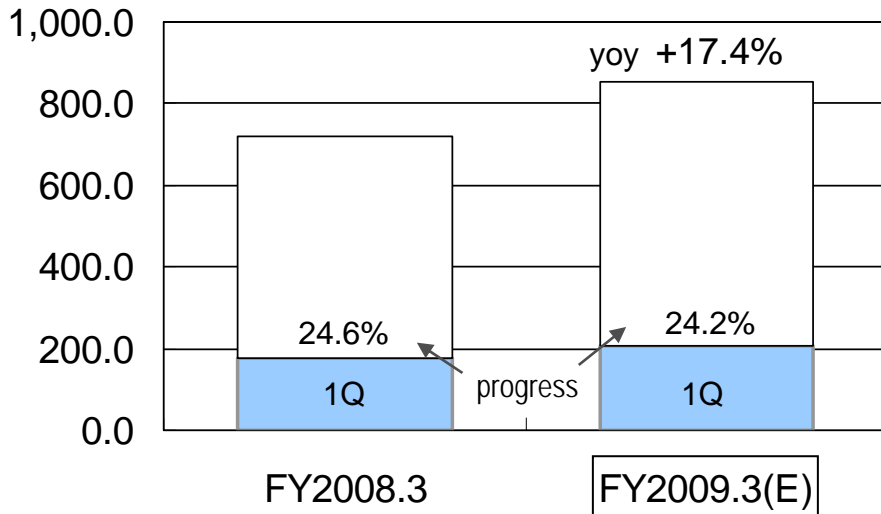
**OP Year on Year Comparison**



# 4. Fixed-line Business

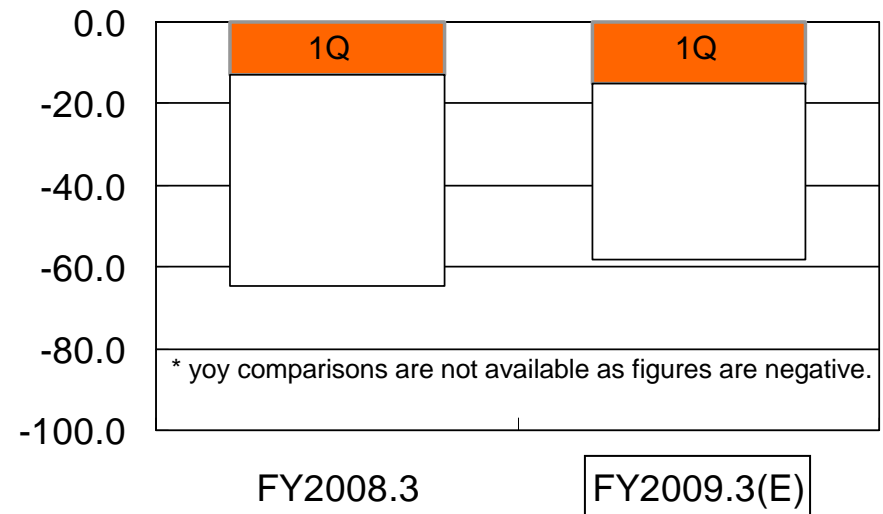
**Operating revenues**

(Billions of yen)



**Operating income**

(Billions of yen)



(Billions of yen)

	FY2008.3		FY2009.3(E)			
	1Q		1Q	yoy	progress	
Operating revenues	176.5	718.6	207.2	17.4%	24.2%	855.0
Operating income	-13.1	-64.7	-14.9	-	-	-58.0
Operating margin	-7.4%	-9.0%	-7.2%	-	-	-6.8%
Ordinary income	-12.8	-64.8	-15.8	-	-	-62.0
Net income	-7.4	-51.7	-9.8	-	-	-38.0
Free Cash Flow	-8.5	-53.9	-53.1	-	-	-117.0
EBITDA	15.3	58.1	17.8	16.3%	21.9%	81.0
EBITDA margin	8.7%	8.1%	8.6%	-	-	9.5%

Subs	('000)	FY2008.3		FY2009.3(E)	
		1Q		1Q	
ADSL		1,495	1,396	1,347	1,280
FTTH		635	710	916	1,140
Metal-plus	Note1	3,010	3,279	3,269	3,080
Cable-plus phone		-	286	355	580
CATV	Note2	-	667	683	700
Fixed access lines	Note3	-	4,827	5,082	5,300

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

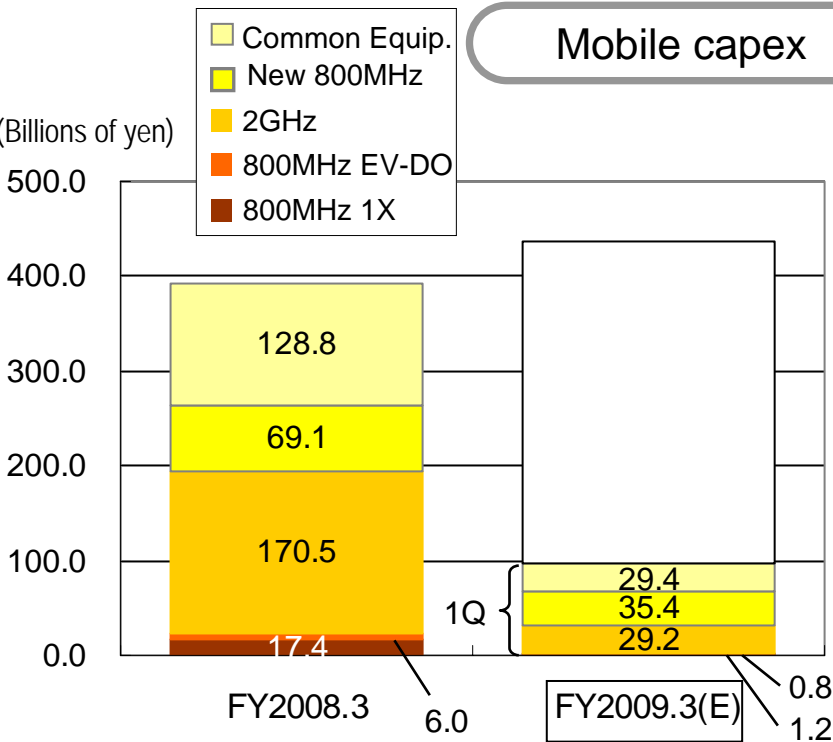
Note 2: CATV subs include number of households with at least one contract via broadcasting, internet, or telephone.

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

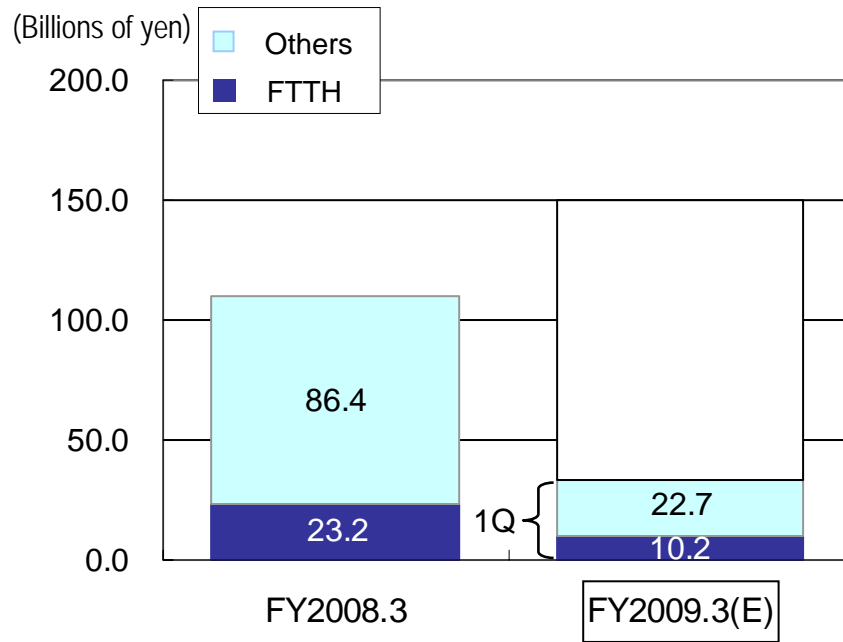
Note 4: The FY2009.3 figures include CTC as a subsidiary as well as JCN Group and overseas network subsidiaries included up till FY2008.3 in the Other Business segment.

# 5. Capital Expenditures

Mobile capex



Fixed-line capex



(Billions of yen)

		FY2008.3		FY209.3(E)			
		1Q		1Q	yoy	progress	
CAPEX (Cash basis)	Consolidated	88.8	517.0	130.0	46.4%	22.0%	590.0
	Mobile	61.0	391.7	96.0	57.5%	22.0%	436.0
	Fixed-line	24.5	109.6	32.9	34.3%	21.9%	150.0

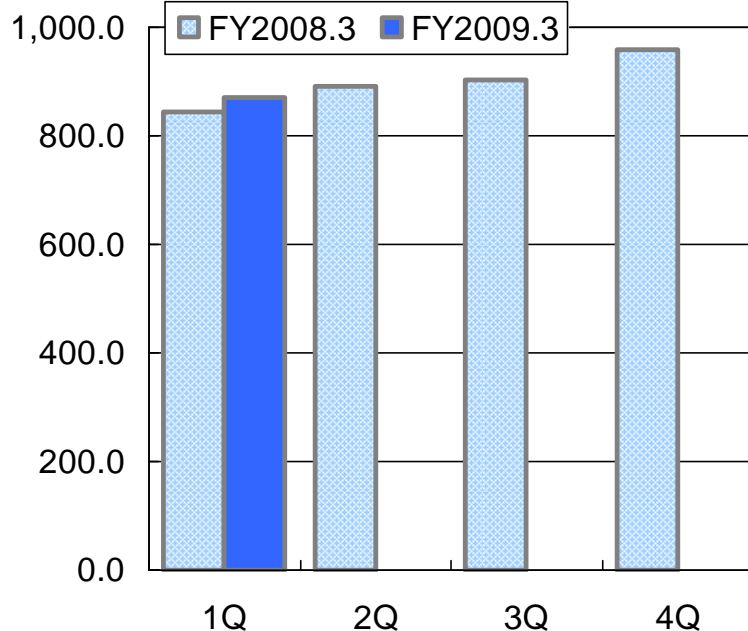


# (Reference) Quarterly Performance

More stable progress is expected in quarterly OP unlike the past pattern as we factor in the reduction of costs including sales commissions in the Mobile Business.

## Consolidated Sales

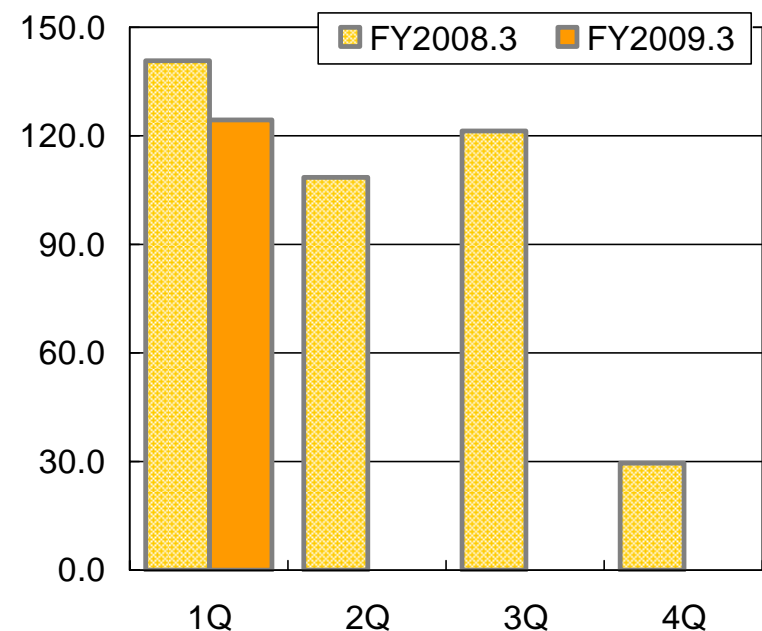
(Billions of yen)



	FY2008.3	FY2009.3(E)	yoy
Full-year	¥3,596.3B	¥3,700.0B	+2.9%

## Consolidated OP

(Billions of yen)



	FY2008.3	FY2009.3(E)	yoy
Full-year	¥400.5B	¥443.0B	+10.6%

# Segment Discussions

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Mobile Business



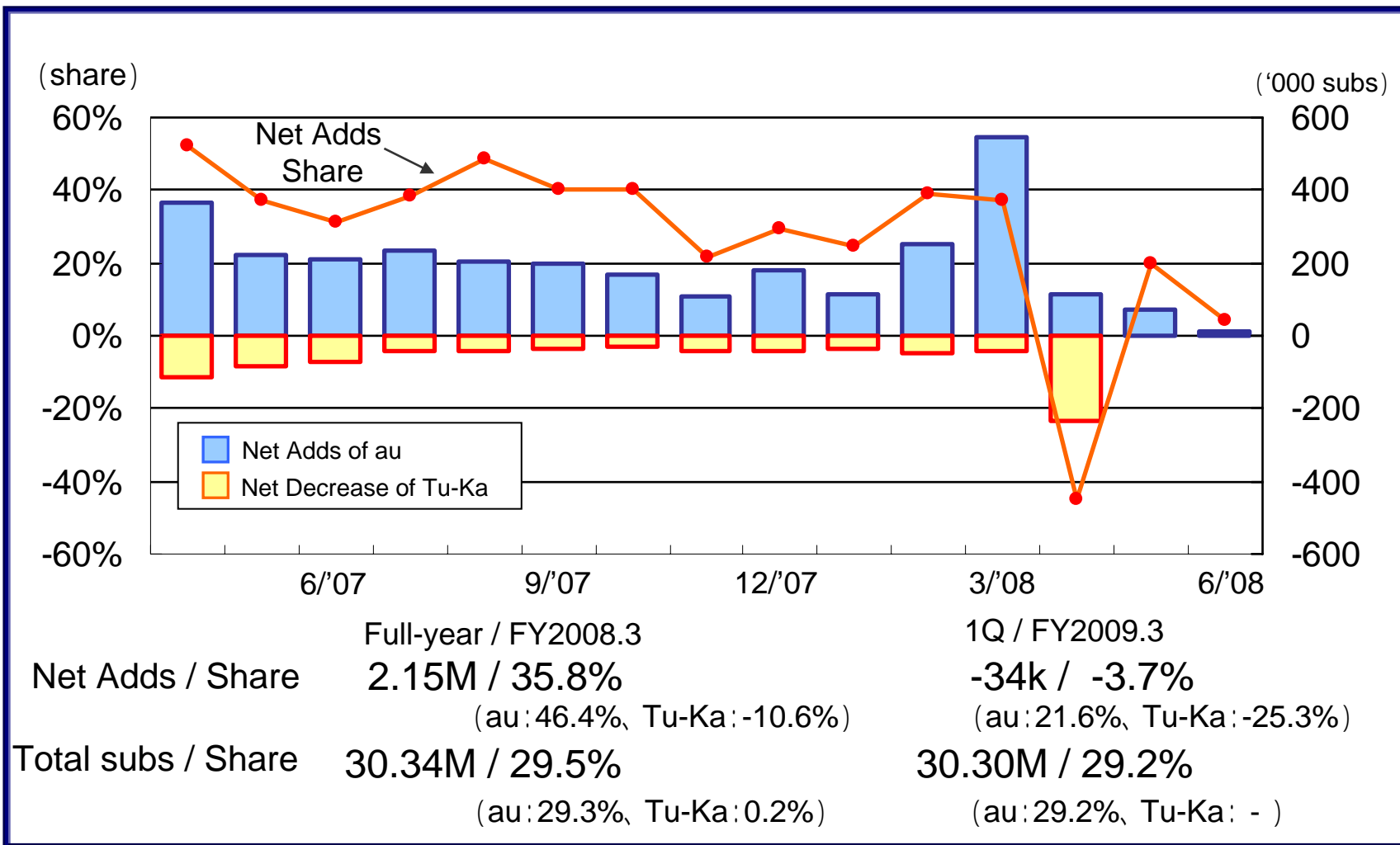
Fixed-line Business



Other Topic

# 1.1. Net Additions of KDDI

KDDI posted a net decrease by 34k in 1Q partly due to a net decline of Tu-Ka subs in Apr. (-234k). Total KDDI subs at end-Jun. : 30.30M, a share of 29.2%.

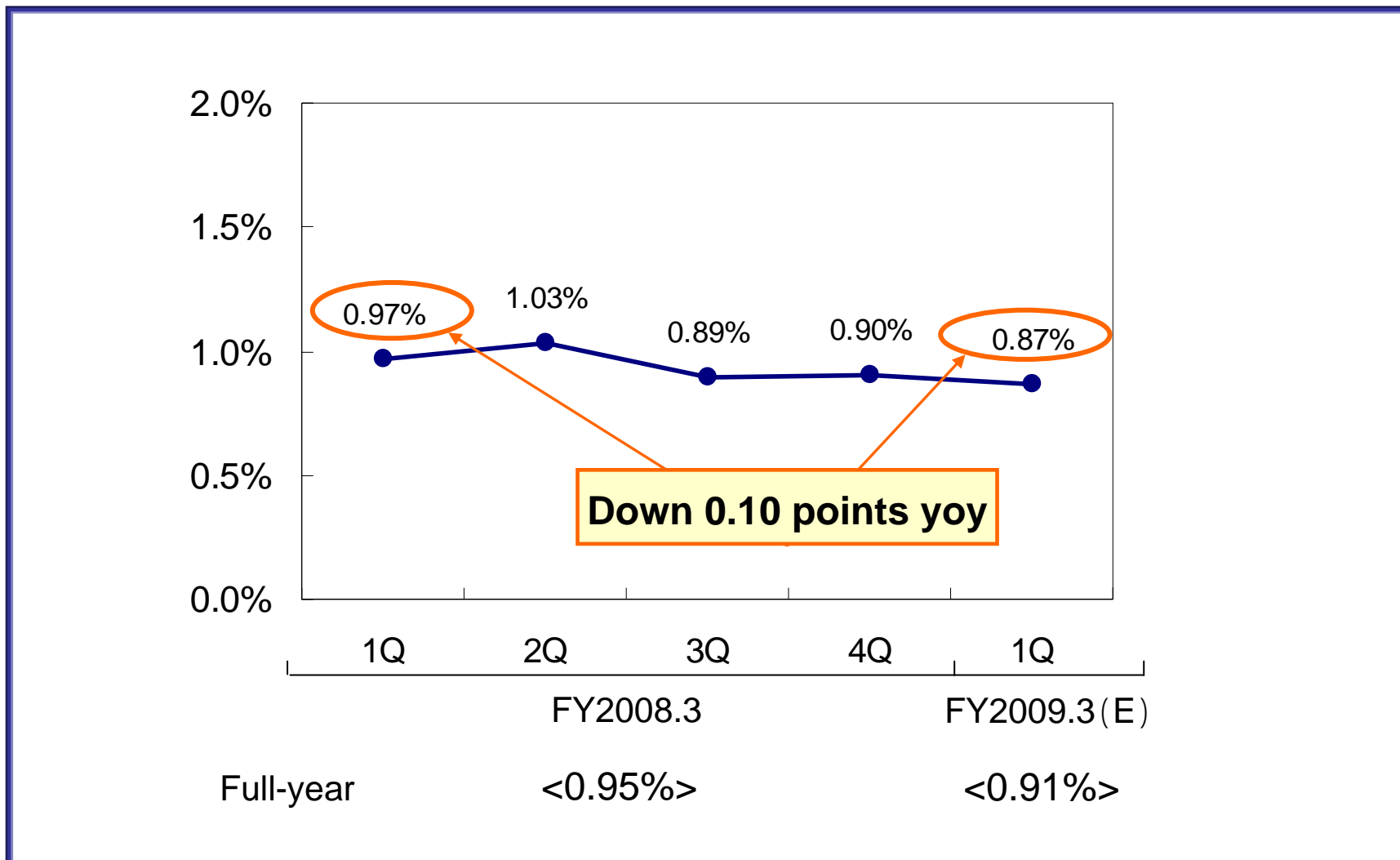


Note1: The graph of the net adds share excludes EMOBILE until December 2007.

Note2: Tu-Ka shut down the operation at end-Mar. 2008.

# 1.2. "au" Churn Rate

Churn rate in 1Q was 0.87%, down 0.10 points yoy.

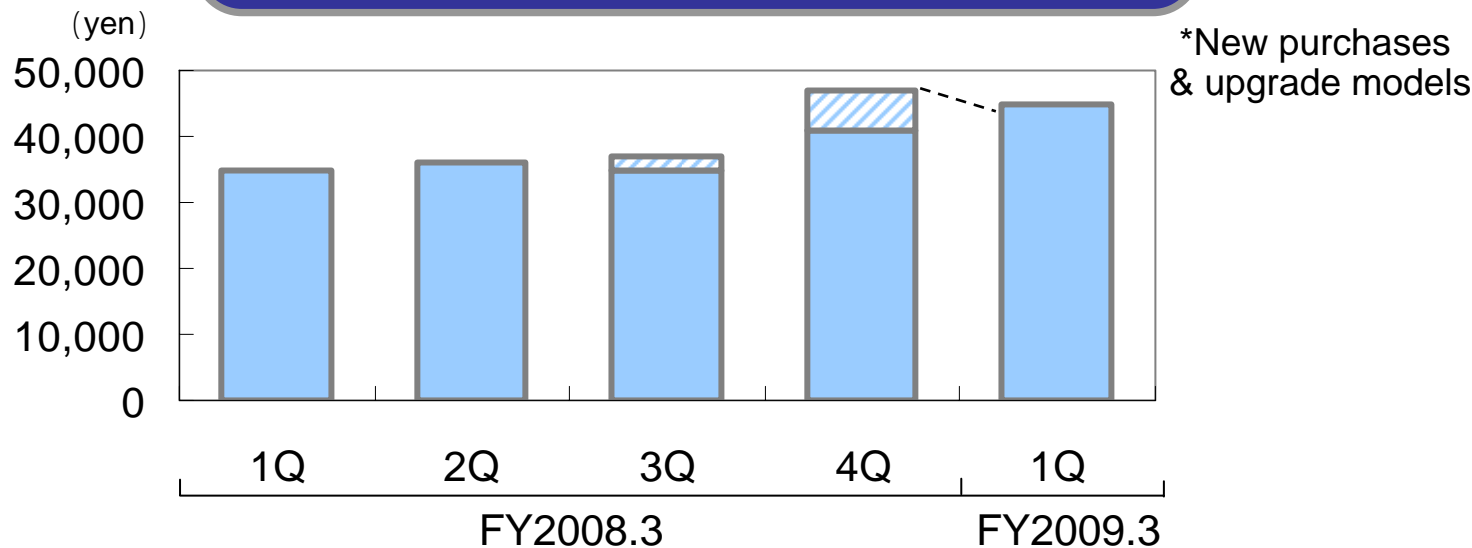


Note: Churn rate is calculated for ordinary handsets which exclude module-type terminals.

# 1.3. "au" Sales Commissions

Average sales commissions in 1Q was ¥45,000.

**Average Commissions / Unit \***

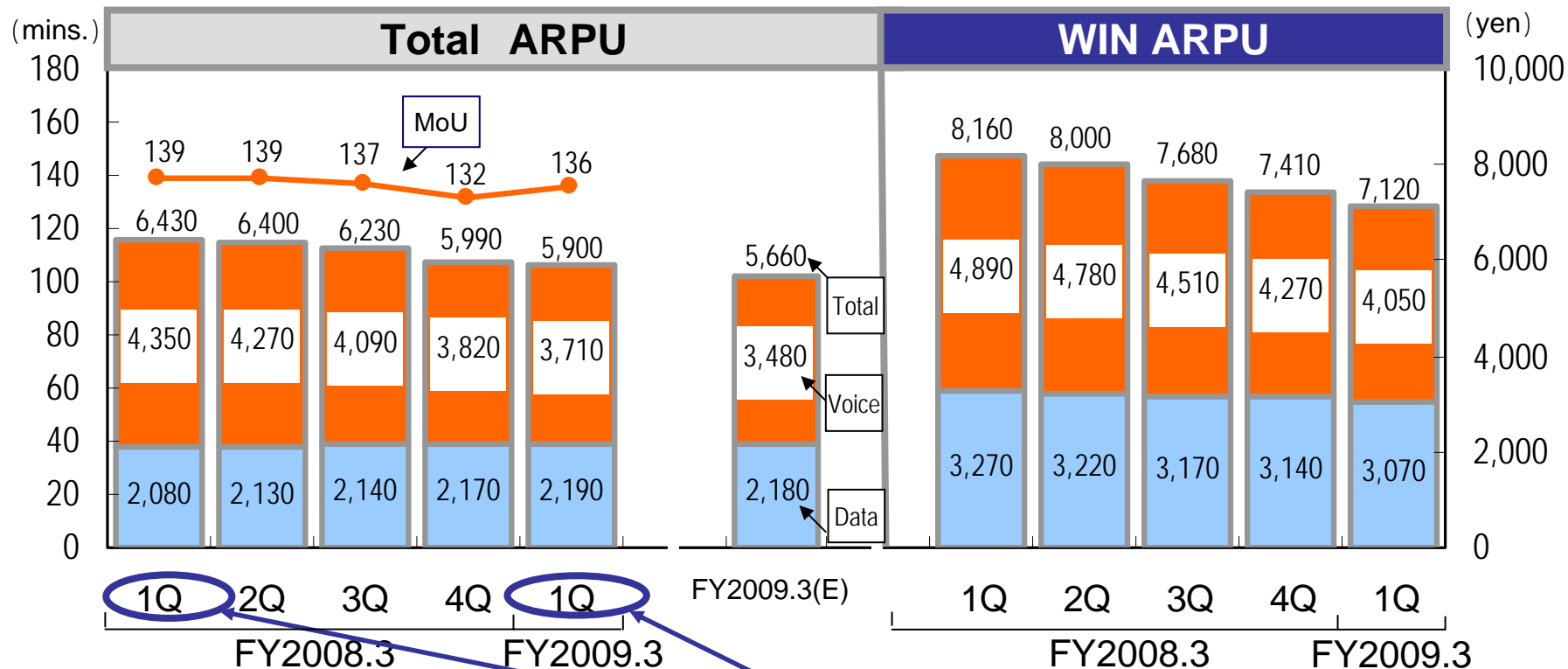


	FY2008.3					FY2009.3(E)	
	1Q	2Q	3Q	4Q		1Q	
Total sales commissions (Billions of yen)	124.0	149.0	130.0	183.0	586.0	129.0	-
Average commissions / unit (yen)	35,000	36,000	35,000	41,000	37,000	45,000	-
Number of units sold ('000 units)	3,530	4,080	3,700	4,510	15,820	2,860	14,400

Note: Beginning from 3Q / FY2008.3, when the "au Purchase Program" was introduced, average commissions per unit was calculated after deducting the increase in gross profit margin attributable to handset sales (shaded portion), but beginning from FY2009.3, the basis of calculation is without the deduction step.

# 1.4. Trend of "au" ARPU

Data ARPU continuously shows a steady increase.



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

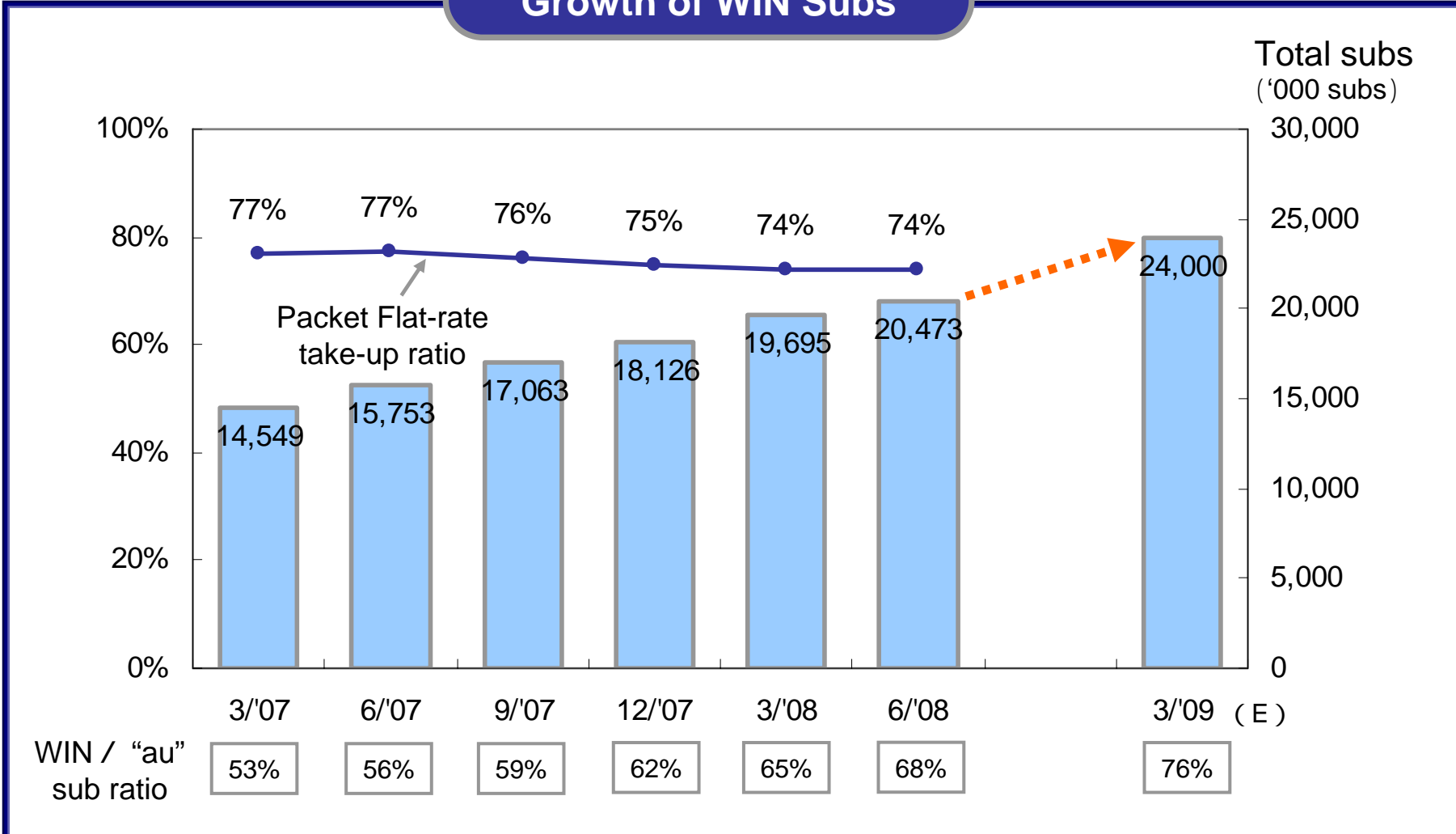
yoy change	
Total ARPU	¥530 ( 8.2%)
of Voice	¥640 ( 14.7%)
of Data	+ ¥110 (+ 5.3%)

# 1.5. Update on WIN

68% of “au” users are with WIN at end-Jun., of which as high as 74% of customers sign up for Packet Flat-rate plans.



**Growth of WIN Subs**



# 2.1. au Purchase Program

~ Introduction of new simple plan and installment payments ~

From Jun.10, “Simple course” of “au Purchase Program” was expanded to include new simple price plans and installment payments for handset purchases.

## au Purchase Program

(prices include tax)

Course Name	Simple course <sup>note1</sup>	Full Support course
Purchase Support (subsidy to users)	No	Yes (¥21,000)
Contractual Period for Handset	No (except installment payments)	2 years
Price Plan	Plan SS Simple to Plan LL Simple etc.	Plan SS to Plan LL etc.
Basic Monthly Charge <sup>note2</sup> (for Plan SS Simple)	¥980 / month (includes ¥1,050 free calls)	¥1,890 / month (includes ¥1,050 free calls)
Installment Payment	Yes (12 or 24 installments)	No

Note 1: Conditions for the new simple plan that began on Jun. 10.

Note 2: Basic monthly charge when customer signs “Everybody Discount” contract.

### Advantages of new simple plan / installment payments

- Customers can easily compare the two courses and make a simple choice according to personal needs.
- Installment payments alleviate the initial burden of purchasing a new high-function handset.

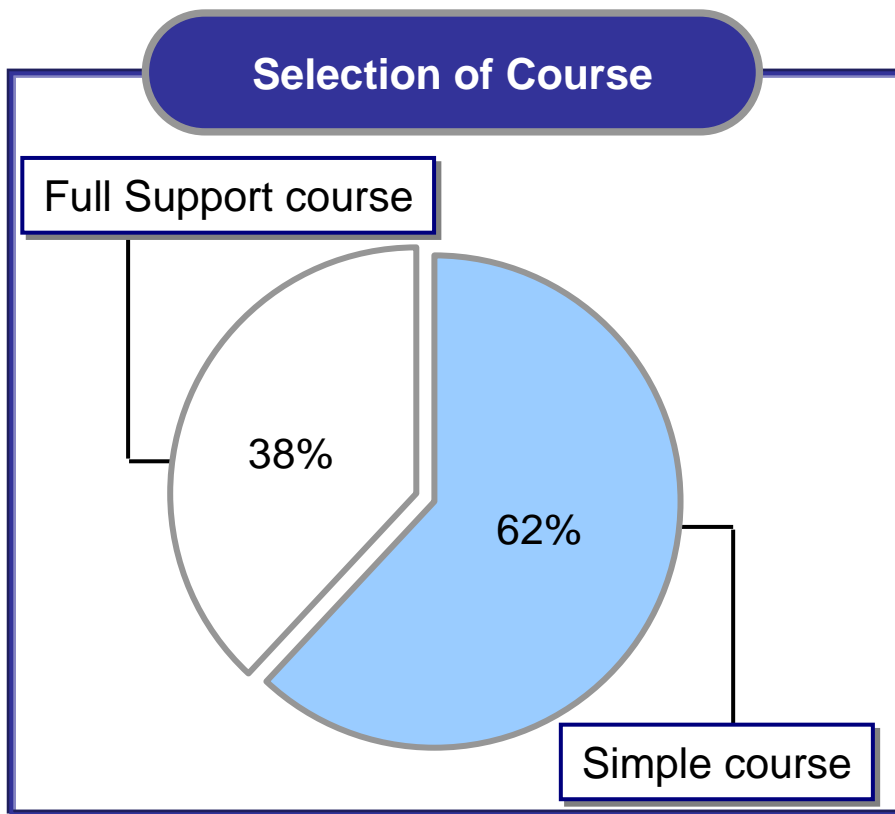


# 2.2. au Purchase Program

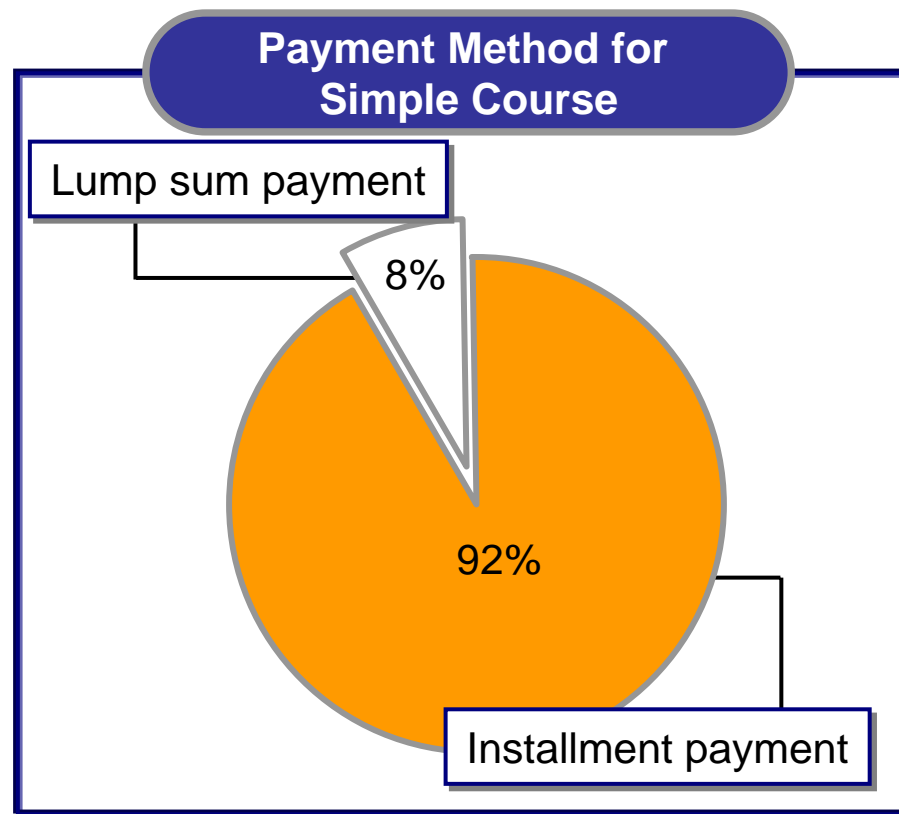
~ Introduction of new simple plan and installment payments ~

62% of customers select the Simple course. The inclination to select the Simple course was much higher among purchasers of high-function handsets.  
 92% of customers selecting the Simple course chose installment payments.

**Selection of Course**



**Payment Method for Simple Course**



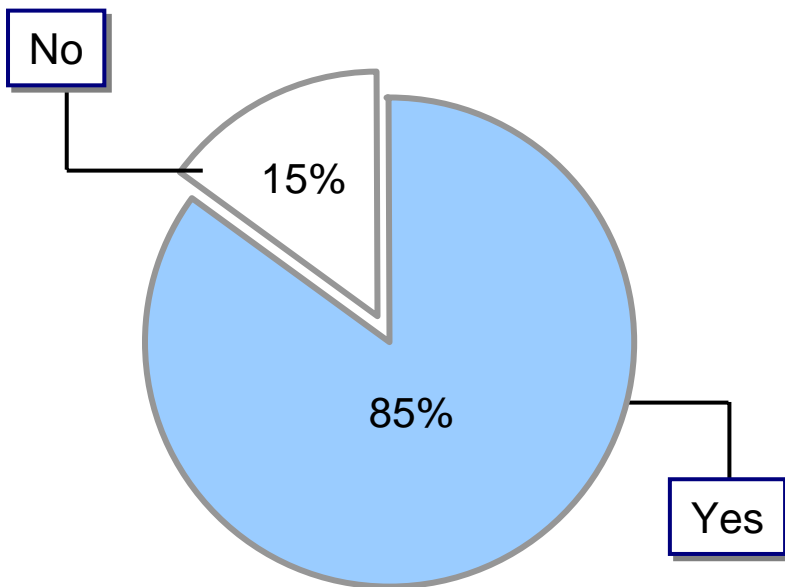
Note: The target of the above survey was purchases of the W61S and the five 08 summer handset models (Jun.10 to Jun.30).

# 3. Keitai Guarantee Service

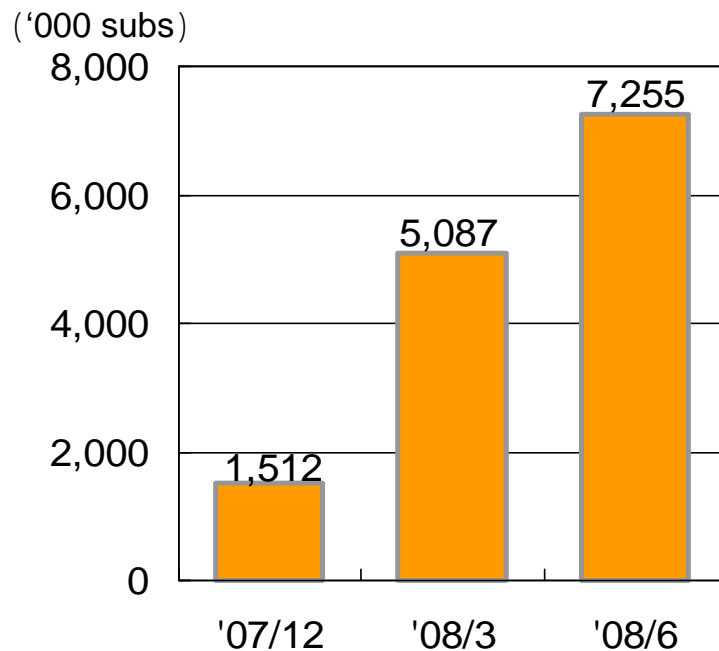
When purchasing handsets, 85% of users sign up for Keitai Guarantee Service.<sup>Note 1</sup>  
 (¥315/month)

No. of Keitai Guarantee Service subs were 7.26M at end-Jun. 2008. Since this service's introduction in Nov. last year, the number of contracts has been steadily increasing, creating a new revenue opportunity.

**Share of purchasers choosing Keitai Guarantee Service** <sup>Note 2</sup>



**Number of Keitai Guarantee Service Subs**



Note 1: 5 year warranty, repair cost discount, refurbishing service for water damage or total loss, security service for loss or theft, free battery pack replacement, point refund for no claims.

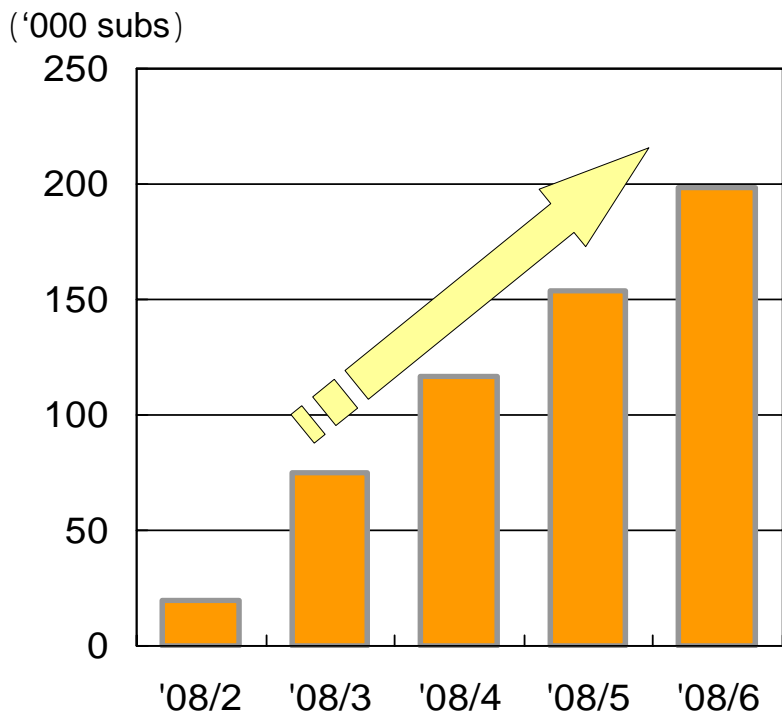
Note 2: Percentage of purchasers choosing Simple course or Full Support course (Apr. 1 to Jun. 30.) who chose the service.

# 4. Expand Use of Content

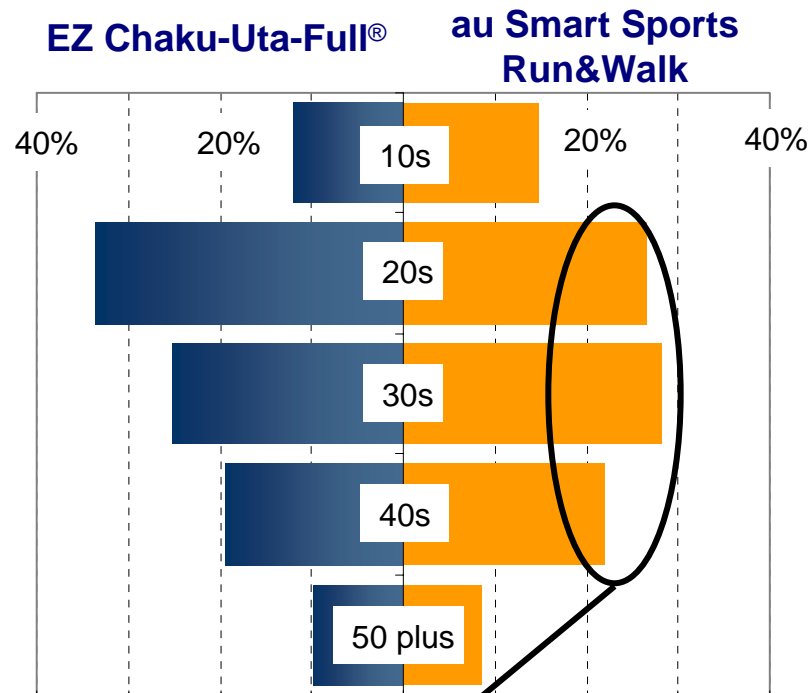
Steady increase in “au Smart Sports Run&Walk” with 200k subs at end-Jun. 2008.  
(Began end-Jan. 2008)

Tie-ups, such as with adidas Japan K.K., strengthen KDDI’s image and allow the provision of services matched to individual lifestyles. KDDI aims to further expand the content user base.

**au Smart Sports Run&Walk Subs**



**au Smart Sports Run&Walk User Base**



**A broad user base (20s – 40s)**

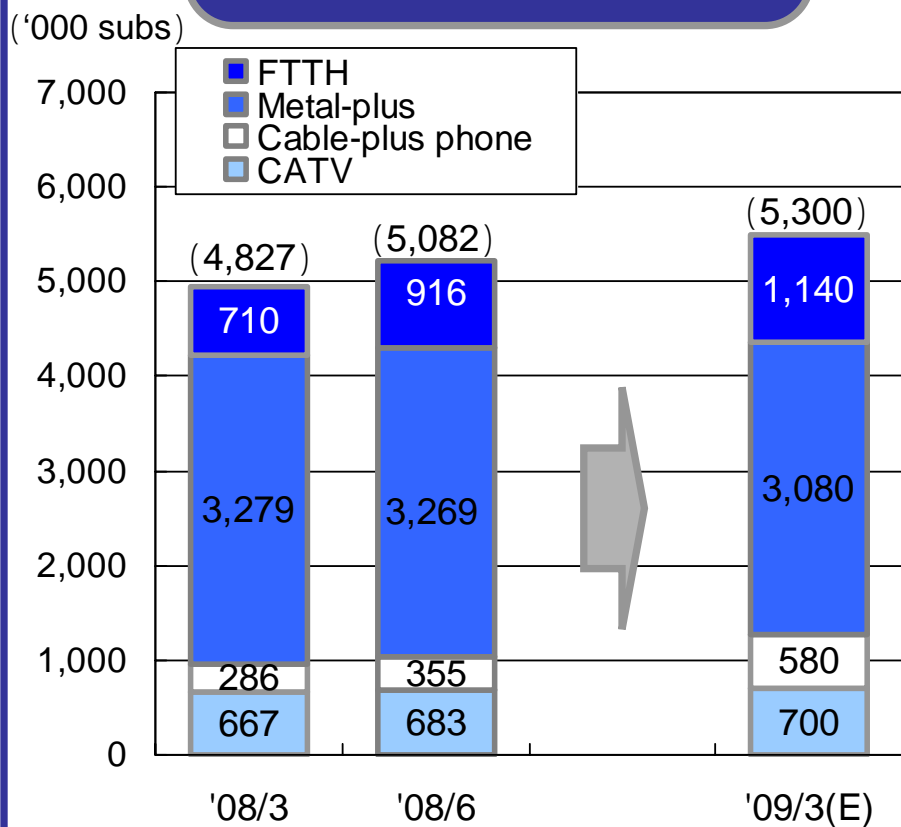
Note: The distribution of the user base was extracted from mainly consumer use in the single month of Jun. 2008.

# 1. Fixed Access Lines

At end-Jun., no. of fixed access lines was 5.08M.

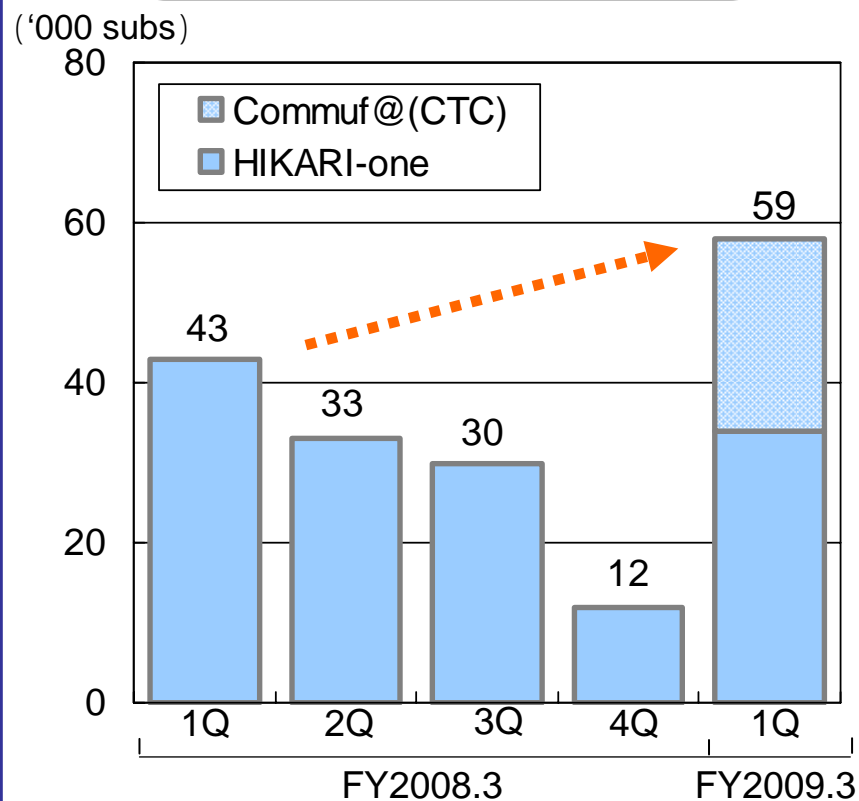
FTTH net additions for this 1Q period showed firm growth even by yoy comparison impacted partly by CTC becoming a subsidiary on Apr. 1.

**Fixed Access Lines** Note1



Note1: ( ) shows total subs of access lines excluding crossover subs.

**FTTH Net Additions** Note2



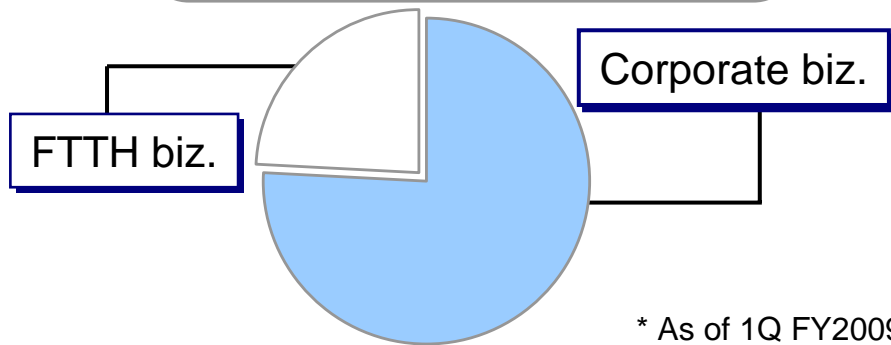
Note 2: Net additions of Commuf@ (CTC) does not include the cumulative 147k subs as of end-Mar. 2008.

# 2. Corporate Services in Chubu Region

Through business tie-ups, KDDI aims to expand sales of corporate services in Chubu region.

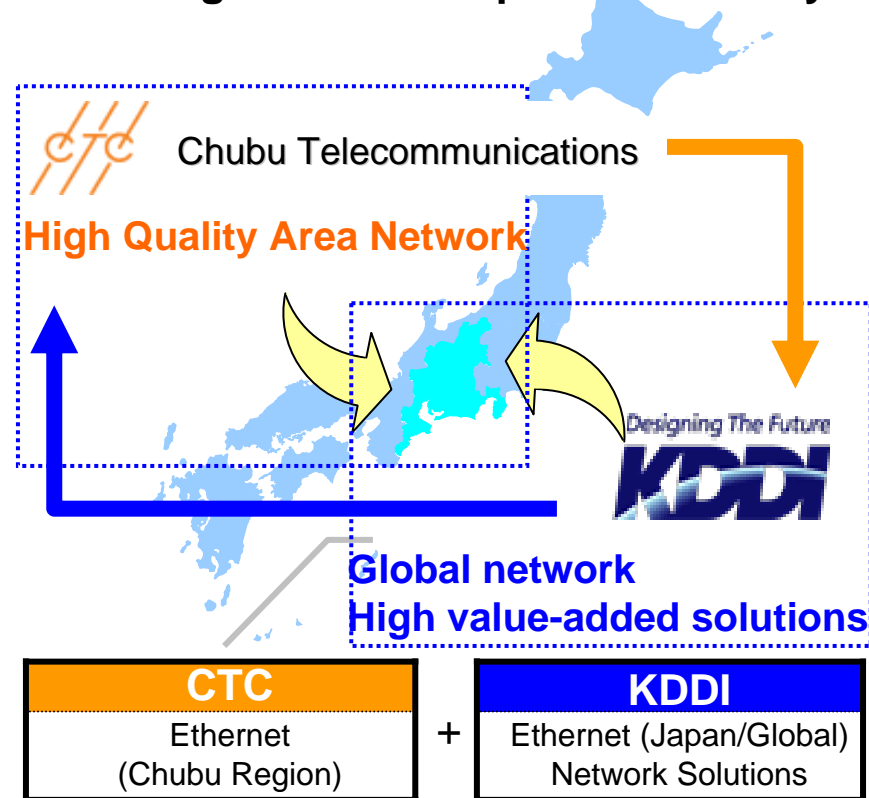
KDDI services will be introduced to strengthen CTC product appeal, and sales will be expanded using the combined strengths of the KDDI Group.

## Breakdown of CTC Sales



## Strengthen Tie-ups in Chubu Region

Provision of one-stop solutions in Chubu region can be expanded Globally



## Appraisal of CTC & KDDI Corporate Services

**CTC** Ranked by J.D. Power as No. 1 in “WAN Service Satisfaction Survey” for two consecutive years (2006–2007)

**KDDI** Ranked by Nikkei Computer as No.1 Network Service Division (New Services) (2007)

Future Initiatives

Joint development of data center business

Source: J.D. Power Asia Pacific 2007 Japan WAN Service Satisfaction Survey <sup>SM</sup>  
 Source: Nikkei Computer 12<sup>th</sup> Customer Satisfaction Survey, Aug. 20, 2007.

# 1.1. Mobile Internet Financial Business

Together with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (BTMU), KDDI is developing a new mobile internet banking business that take maximum advantage of mobile phone functions. Jibun Bank Corporation, which KDDI jointly established with BTMU, obtained a banking license on Jun. 17 from the Financial Services Agency and started its client services on Jul. 17.

## Outline of Company

Name: Jibun Bank Corporation  
 Capital: ¥20.0 Billion  
 Share holders: KDDI Corporation(50%)  
 The Bank of Tokyo-Mitsubishi UFJ, Ltd (50%)

## Business Plan

<u>3<sup>rd</sup>Year (FY2010)</u>	<u>5<sup>th</sup>Year (FY2012)</u>
Accounts: 2.40 million	3.40 million
Deposits: Around ¥1 trillion	Around ¥1.5 trillion
Profits: Profitable on individual year basis	Elimination of cumulative loss

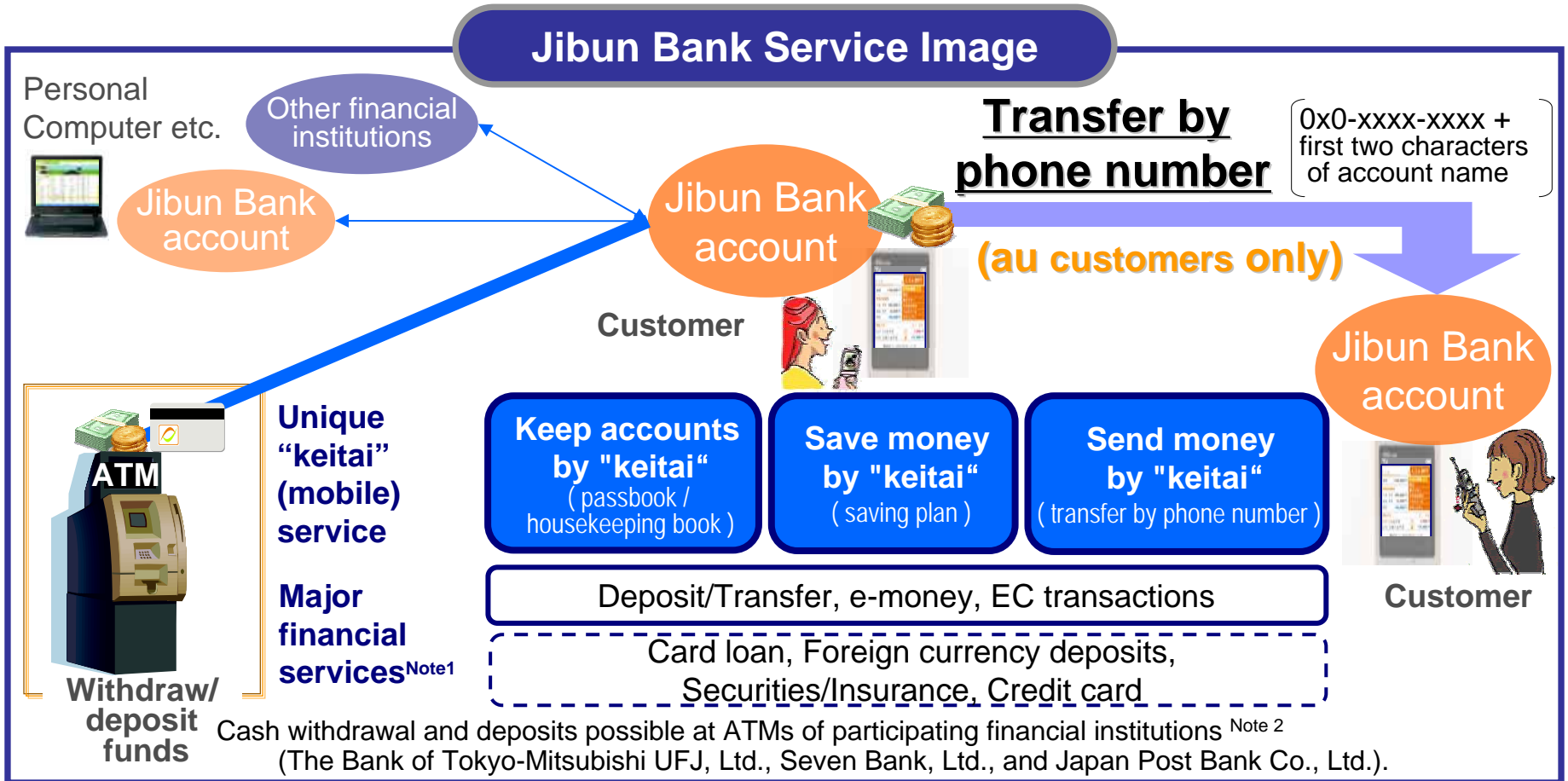
## Business Model

Offer secure and convenient service via mobile phone.  
 Ensure competitive edge through the services provided only by mobile handsets and by offering high interest on savings and low banking charges.

Utilize the abundant resources of parent companies (customers, brand, sales and promotional strengths) to quickly establish a customer base.

# 1.2. Mobile Internet Financial Business

Concept: “mobile phone with built-in bank”  
 Ability to use, simply and securely, major financial services anywhere, anytime.  
 Contribute to enhancing the attractiveness of au and raising customer satisfaction by pursuing attractive operational features such as “Transfer by phone number” between au customers by the special purpose application.



Note 1: When service starts on Jul. 17, services indicated by solid lines will be available.

Note 2: Participating financial institutions by end-Jul. 2008.

