



Ubiquitous Solution Company

# KDDI CORPORATION

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Financial Results for the 1st Half of  
the Fiscal Year Ending March 2011

October 22, 2010

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. 1H/FY2011.3 – Financial Results Highlights

## 1 Consolidated basis

- Operating revenues declined 0.3% yoy. Operating income declined 1.2% yoy. This performance represented 55.7% of the full-year's operating income forecast.

## 2 Mobile Business

- Operating revenues declined 2.4% yoy. Operating income declined 9.0% yoy.
- Number of “au” subscription as of September 30, 2010 was 32.29M, with a cumulative share of 28.0%.<sup>Note</sup>
- Number of non-triband handset units was 6.58M as of September 30, 2010.

## 3 Fixed-line Business

- Operating revenues increased 5.7% yoy. Operating loss recovered ¥18.6B yoy to ¥3.7B. Achieved a turnaround operating profit in 2Q on quarterly basis.
- Fixed access line subscription counted 6.22M as of September 30, 2010. Of which, FTTH subscription rose to 1.74M.
- The number of CATV stations under alliance with Cable-plus phone topped 100.

## 4 Decided on purchase of its own shares up to ¥100.0B, or up to 230,000 shares. (October 22, 2010)

## 1.2. 2H/FY2011.3 – Challenges

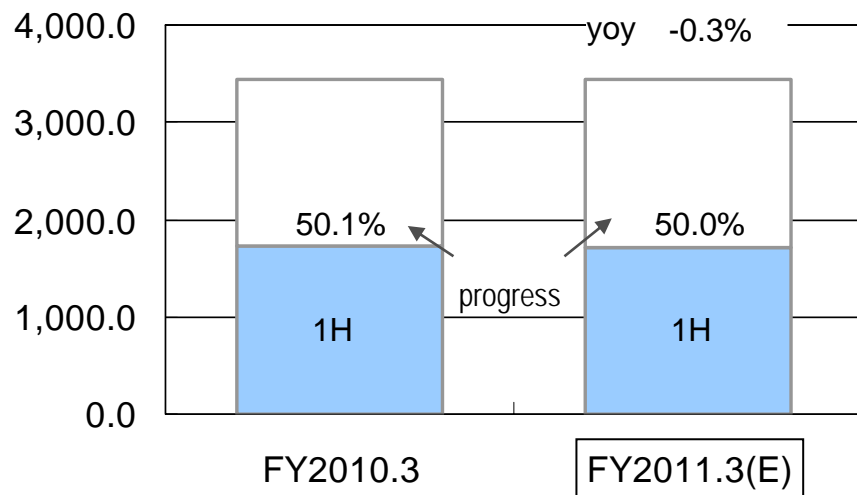
- 1** Amid dramatic change in markets and earnings structures, advance business restructuring for sustainable growth.
- 2** Mobile Business
  - Strengthen smartphone lineup and proactive introduction of new devices such as ebook reader, Wi-Fi router, tablet-type terminal.
  - Promote data usage, push measures further to increase data ARPU.
  - Steady progress on transfer to tri-band compatible handsets in preparation for reorganization of the 800MHz band.
  - Strengthen infrastructure for mobile broadband era.
- 3** Fixed-line Business
  - Achieve profitability on operating income basis.
  - Expand FTTH customer base even further.
  - Promote measures to realize synergies with J:COM.
- 4** For sustainable growth
  - Expand content/media business and overseas business.
  - Create a foundation to realize full-fledged FMBC services.



## 2. Consolidated Financial Results

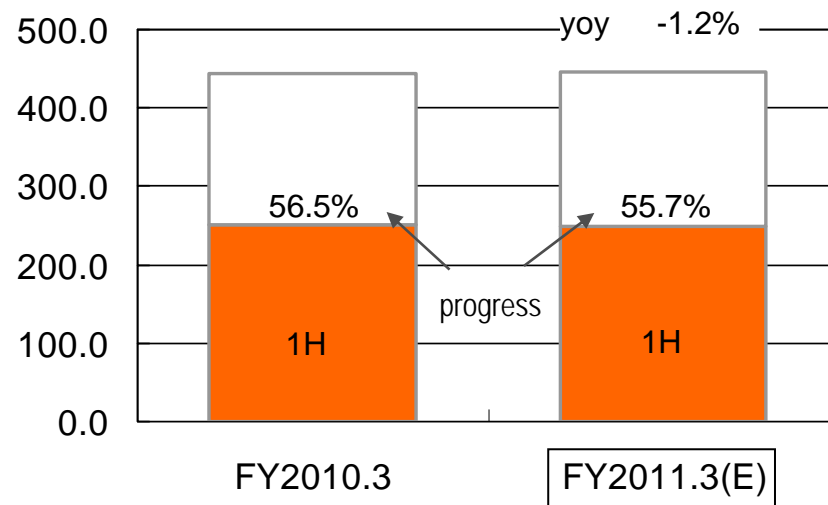
**Operating revenues**

(Billions of yen)



**Operating income**

(Billions of yen)



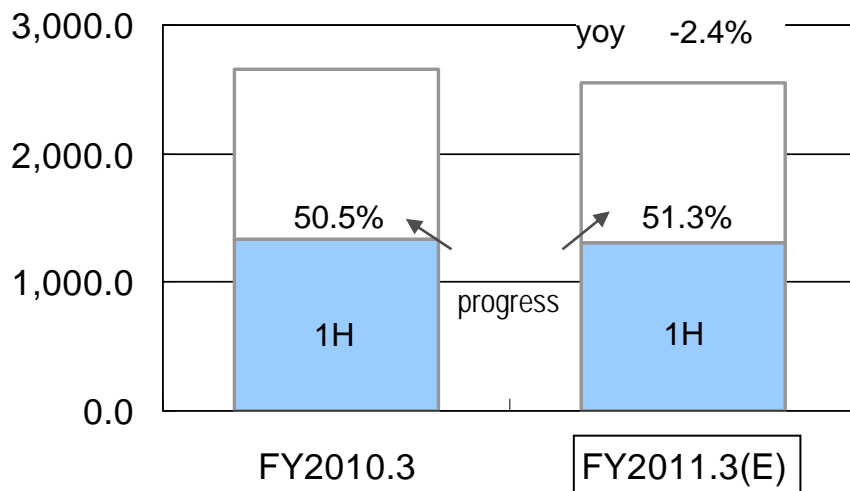
(Billions of yen)

	FY2010.3		FY2011.3(E)			
	1H		1H	yoy	progress	
Operating revenues	1,723.1	3,442.1	1,718.4	-0.3%	50.0%	3,440.0
Operating income	251.0	443.9	247.9	-1.2%	55.7%	445.0
Operating margin	14.6%	12.9%	14.4%	-	-	12.9%
Ordinary income	241.5	422.9	234.0	-3.1%	55.7%	420.0
Net income	145.3	212.8	137.0	-5.7%	57.1%	240.0
Free Cash Flow	49.5	-184.4	136.9	-	-	230.0
EBITDA	479.1	927.3	467.4	-2.4%	51.4%	910.0
EBITDA margin	27.8%	26.9%	27.2%	-	-	26.5%

# 3. Mobile Business

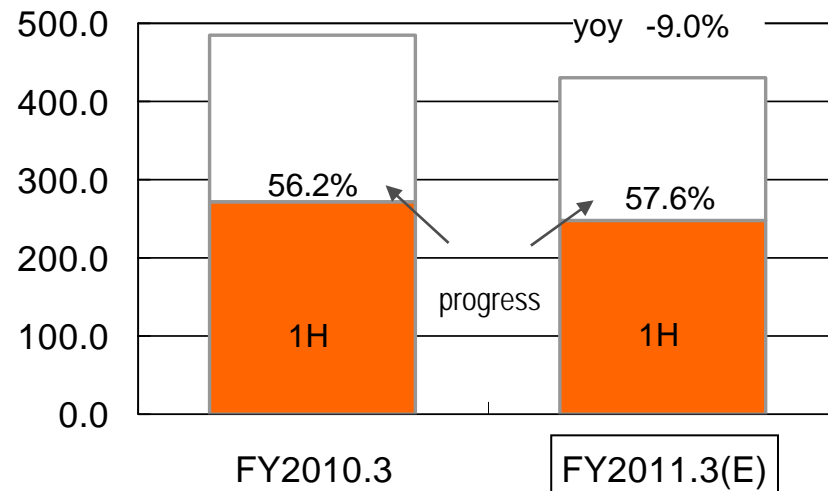
## Operating revenues

(Billions of yen)



## Operating income

(Billions of yen)



(Billions of yen)

	FY2010.3		FY2011.3(E)			
	1H		1H	yoy	progress	
Operating revenues	1,337.9	2,650.1	1,305.2	-2.4%	51.3%	2,545.0
Operating income	272.0	483.7	247.7	-9.0%	57.6%	430.0
Operating margin	20.3%	18.3%	19.0%	-	-	16.9%
Ordinary income <sup>Note</sup>	275.4	490.6	243.6	-11.6%	58.7%	415.0
Net income	166.8	293.2	140.9	-15.6%	59.9%	235.0
Free Cash Flow	115.2	276.5	137.6	-	-	235.0
EBITDA	432.5	826.8	404.6	-6.5%	52.9%	765.0
EBITDA margin	32.3%	31.2%	31.0%	-	-	30.1%

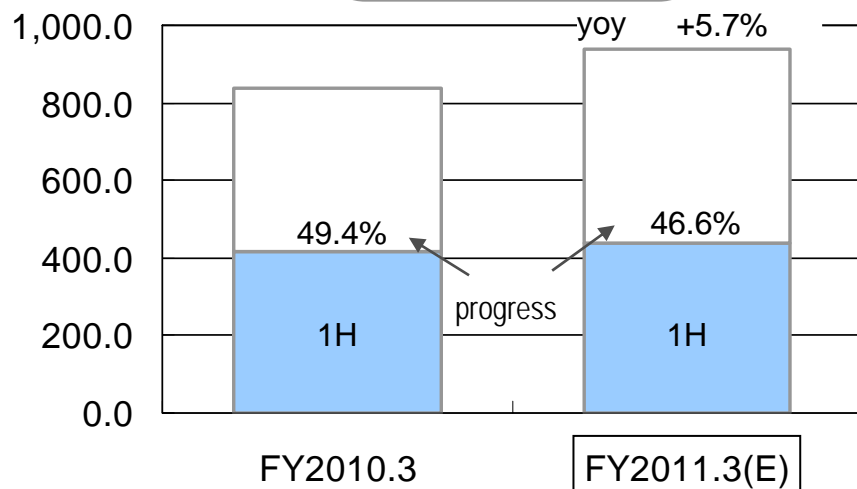
Subs	FY2010.3		FY2011.3(E)	
( ' 000 )	1H		1H	
"au" Total	31,233	31,872	32,291	32,800
of module-type	999	1,085	1,230	1,300
WIN(EV-DO)	24,391	26,174	27,989	29,900
1X	6,558	5,451	4,116	-
cdmaOne	284	247	186	-
UQ WiMAX	22	150	337	800
(Ref.) au + UQ WiMAX	31,254	32,023	32,628	33,600

Note: For FY2011.3 and its expected figures, equity-method investment income/loss, which used to be excluded from segment, is allocated to each segment. 5

## 4. Fixed-line Business

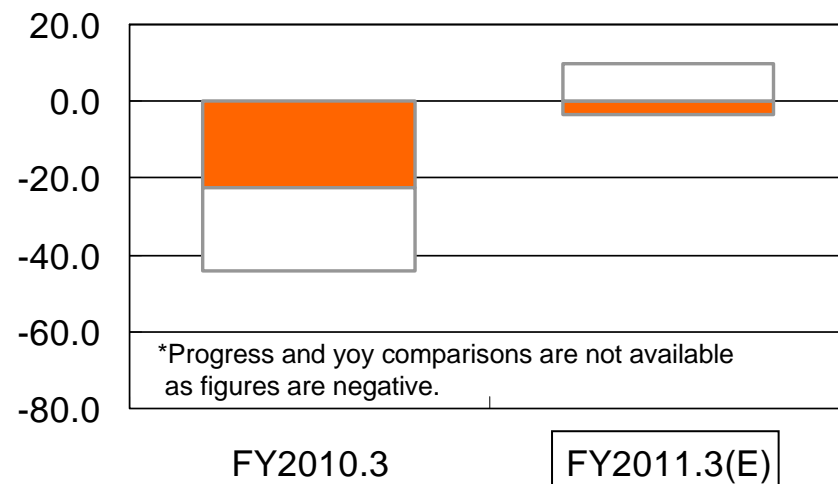
### Operating revenues

(Billions of yen)



### Operating income

(Billions of yen)



(Billions of yen)

	FY2010.3		FY2011.3(E)			
	1H		1H	yoy	progress	
Operating revenues	414.9	839.2	438.5	+5.7%	46.6%	940.0
Operating income	-22.3	-44.2	-3.7	-	-	10.0
Operating margin	-5.4%	-5.3%	-0.8%	-	-	1.1%
Ordinary income <sup>Note4</sup>	-29.2	-56.8	-10.7	-	-	0.0
Net income	-16.7	-68.4	-4.3	-	-	0.0
Free Cash Flow	-51.4	-75.7	1.2	-	-	0.0
EBITDA	44.7	94.7	58.6	+31.2%	41.9%	140.0
EBITDA margin	10.8%	11.3%	13.4%	-	-	14.9%

Subs (' 000)	FY2010.3		FY2011.3(E)	
	1H		1H	
ADSL	1,135	1,031	932	840
FTTH	1,319	1,513	1,741	2,040
Metal-plus <sup>Note1</sup>	3,000	2,852	2,702	2,570
Cable-plus phone	778	960	1,152	1,280
CATV <sup>Note2</sup>	896	972	1,042	1,040
Fixed access lines <sup>Note3</sup>	5,700	5,944	6,220	6,480

Note1 : Including ADSL one (ADSL used over Metal-plus).

Note2: CATV subs include number of households with at least one contract via broadcasting, internet, or telephone.

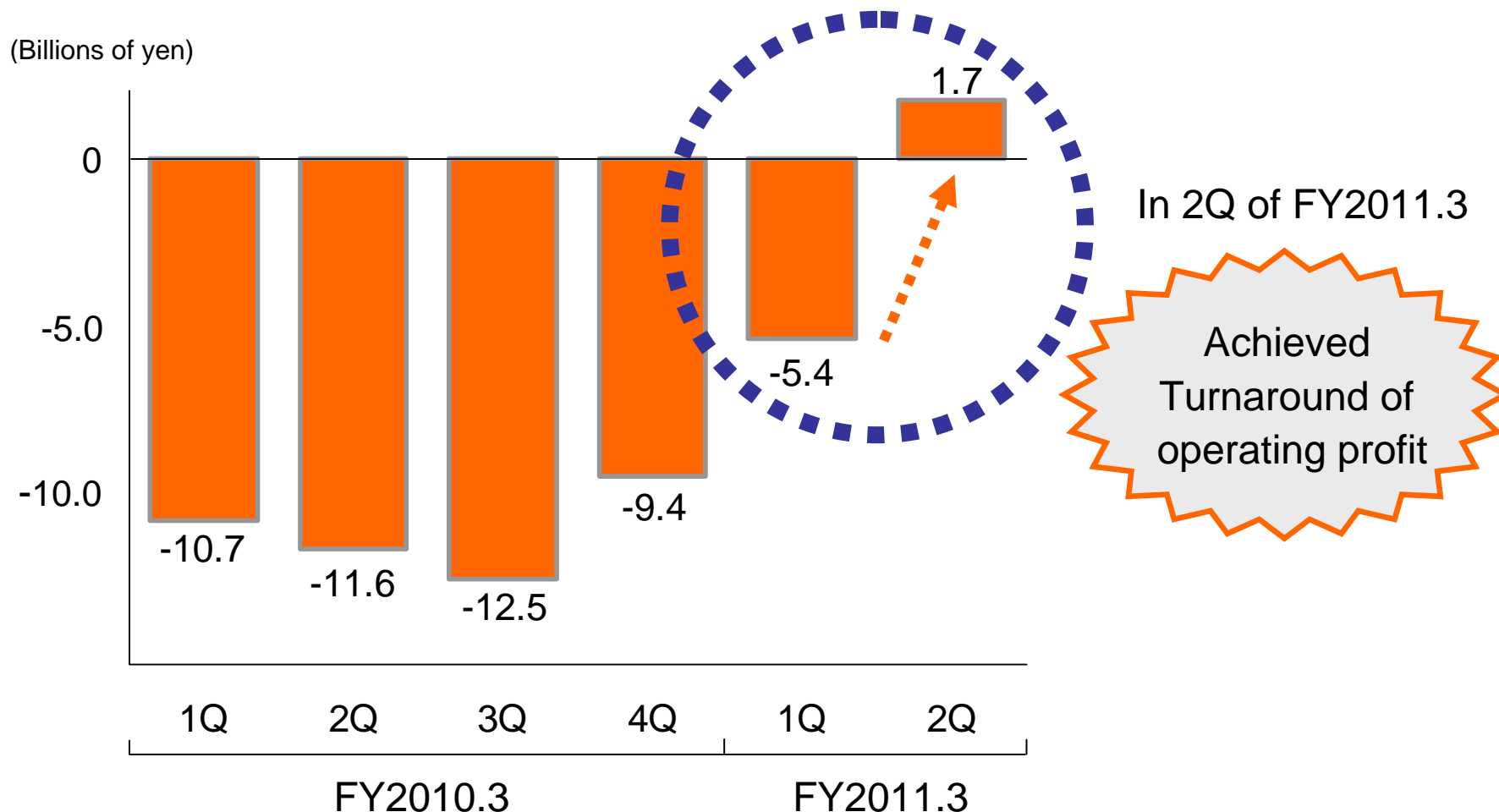
Note3: Fixed access lines are FTTH, direct-revenue telephony (Metal-plus, Cable-plus phone), and CATV subs. The number excludes crossover subs.

Note4: For FY2011.3 and its expected figures, equity-method investment income/loss, which used to be excluded from segment, is allocated to each segment.

# (Ref.) Fixed-line Business Operating Income (1)

- Accomplished a turnaround in operating profit, posting ¥1.7B in 2Q/FY2011.3.

## Operating Income on Quarterly Basis (Fixed-line Business)

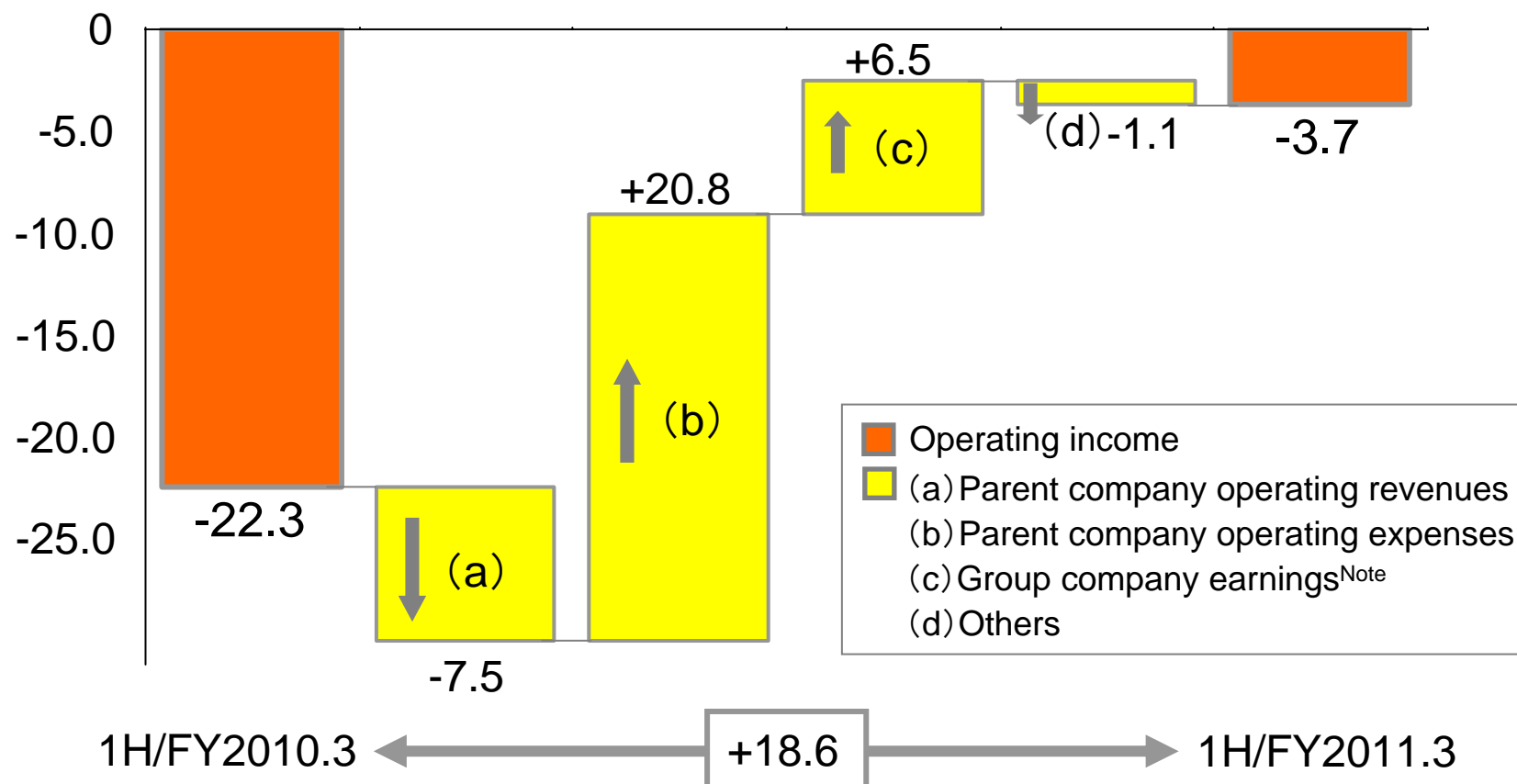


# (Ref.) Fixed-line Business Operating Income (2)

- Operating loss of Fixed-line Business recovered ¥18.6B yoy to ¥3.7B in 1H/FY2011.3. Stead progress to achieve a turnaround in operating profit in FY2011.3.

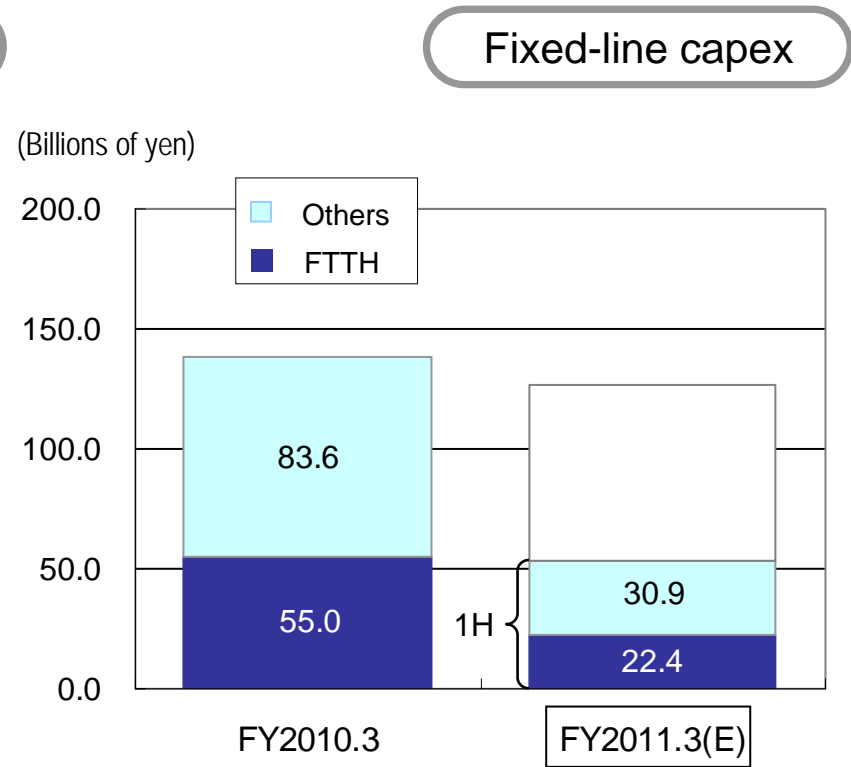
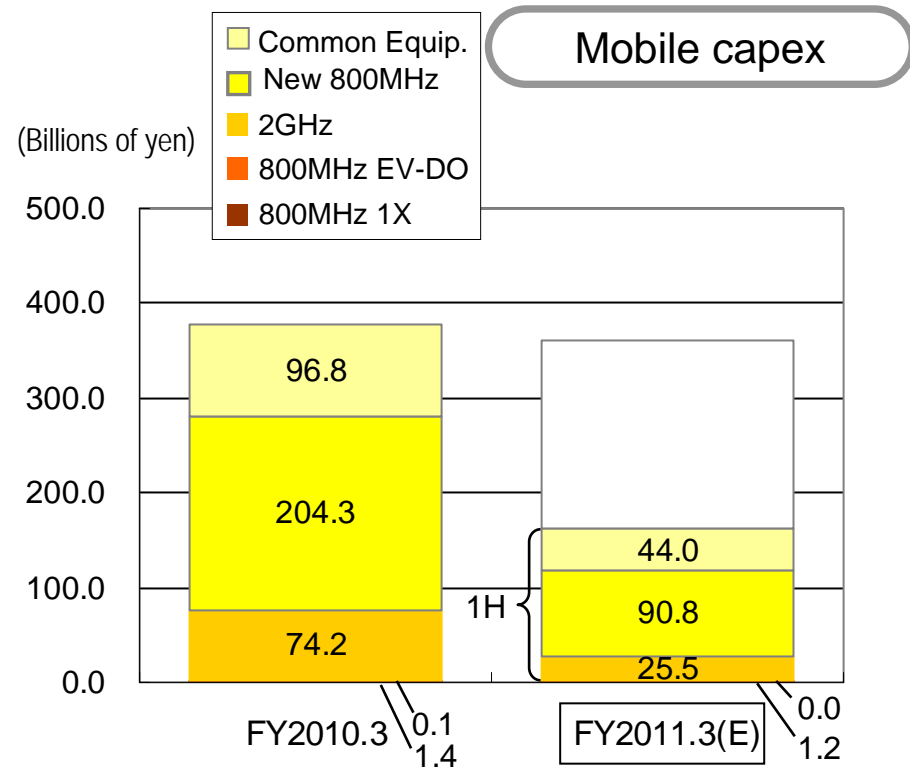
## Factors for Change (Year-on-Year)

(Billions of yen)



Note: CTC, JCN and overseas subsidiaries

# 5. Capital Expenditures



(Billions of yen)

		FY2010.3		FY2011.3(E)			
		1H		1H	yoy	progress	
Capex (Cash basis)	Consolidated	252.5	518.0	215.7	-14.6%	44.0%	490.0
	Mobile	186.3	376.8	161.5	-13.3%	44.9%	360.0
	Fixed-line	65.1	138.7	53.3	-18.1%	42.0%	127.0

## 6. Share Buyback

- Decided on purchase of its own shares to implement flexible capital policies in response to the change in the business environment and to provide shareholders return.

Type of shares  
to be acquired

Shares of common stock

Total number of shares  
to be acquired

Up to 230,000 shares

➤ Representing 5.16% of 4,454,113 shares outstanding.

Total amount of purchase

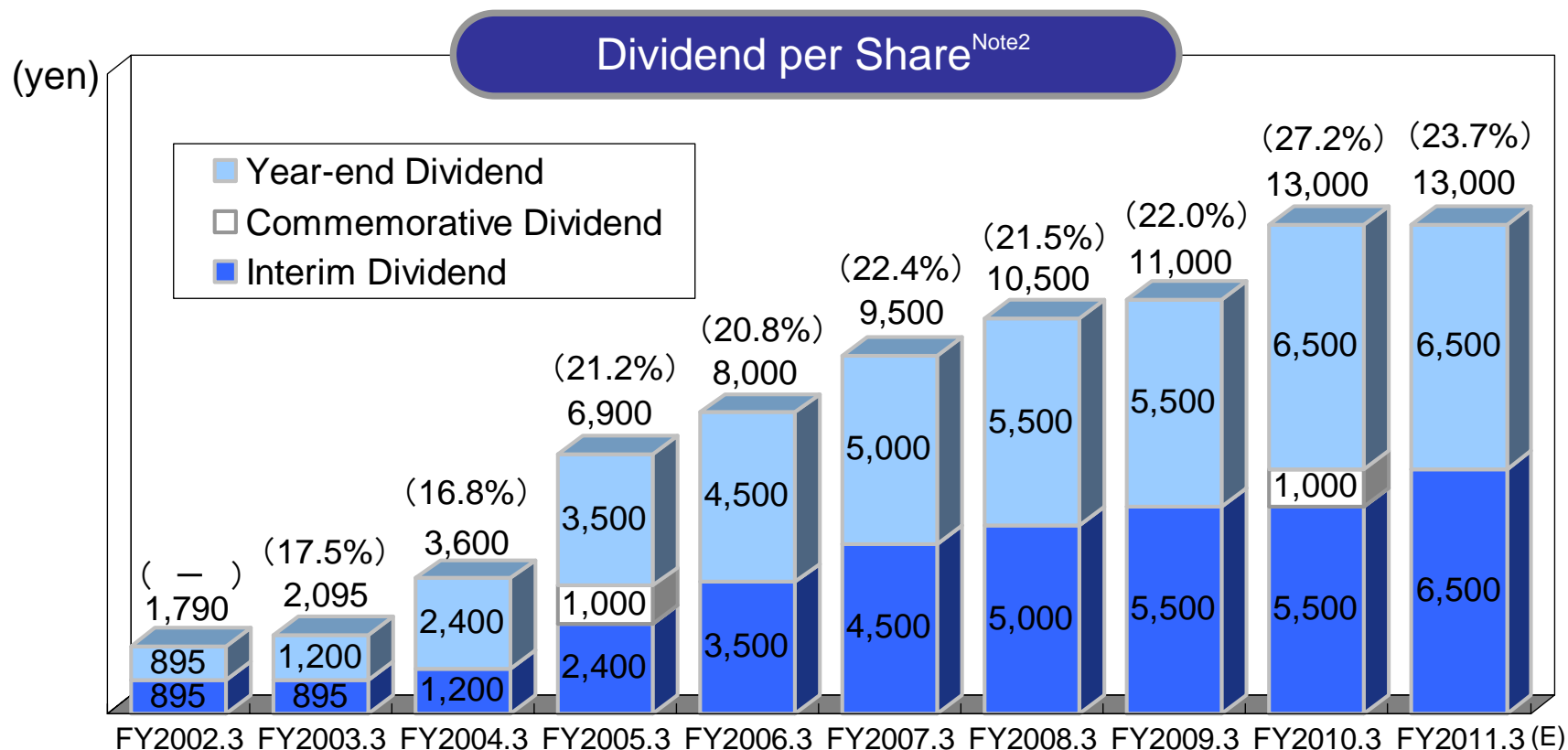
Up to ¥100.0 billion

Period of purchase

From October 25, 2010 to March 31, 2011

# 7. Shareholder Returns

- Steadily increasing consolidated payout ratio to 25%–30% range while considering investment for sustainable growth remains.
- Total return ratio<sup>Note1</sup> for FY 2011.3 is planned to be 65.2%.



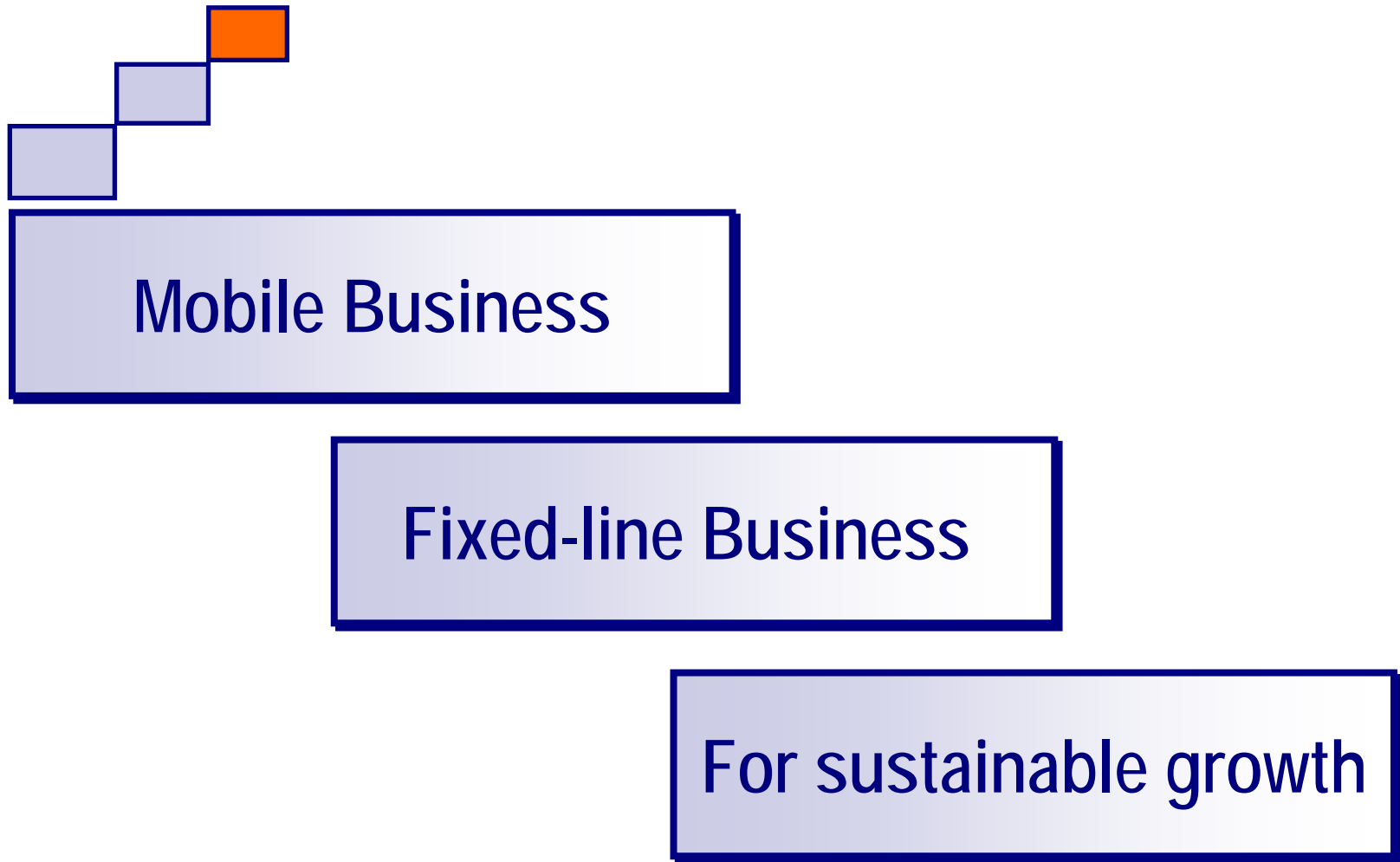
Note1: Calculated by (total dividend + total purchase of its own shares) ÷ net income

Note2: ( ) refers to payout ratio, which shows on non-consolidated basis until FY2006.3 and on a consolidated basis from FY2007.3. FY2002.3 posted net loss.



# Segment Discussions & Strategies

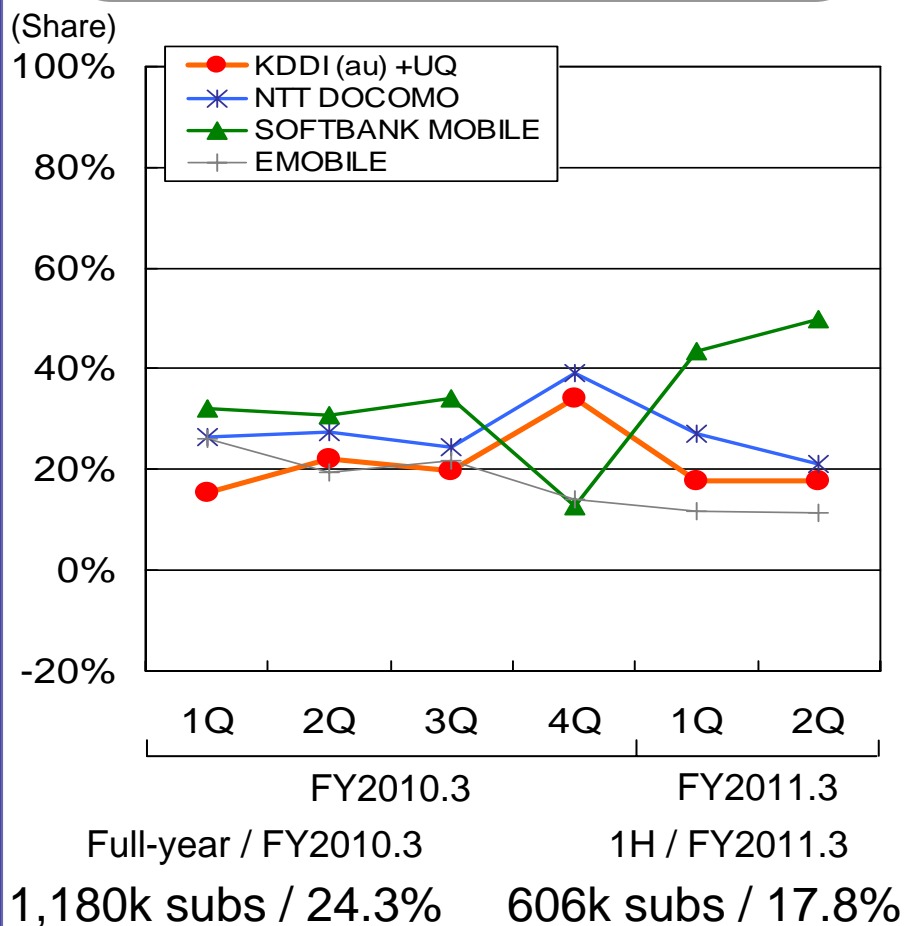
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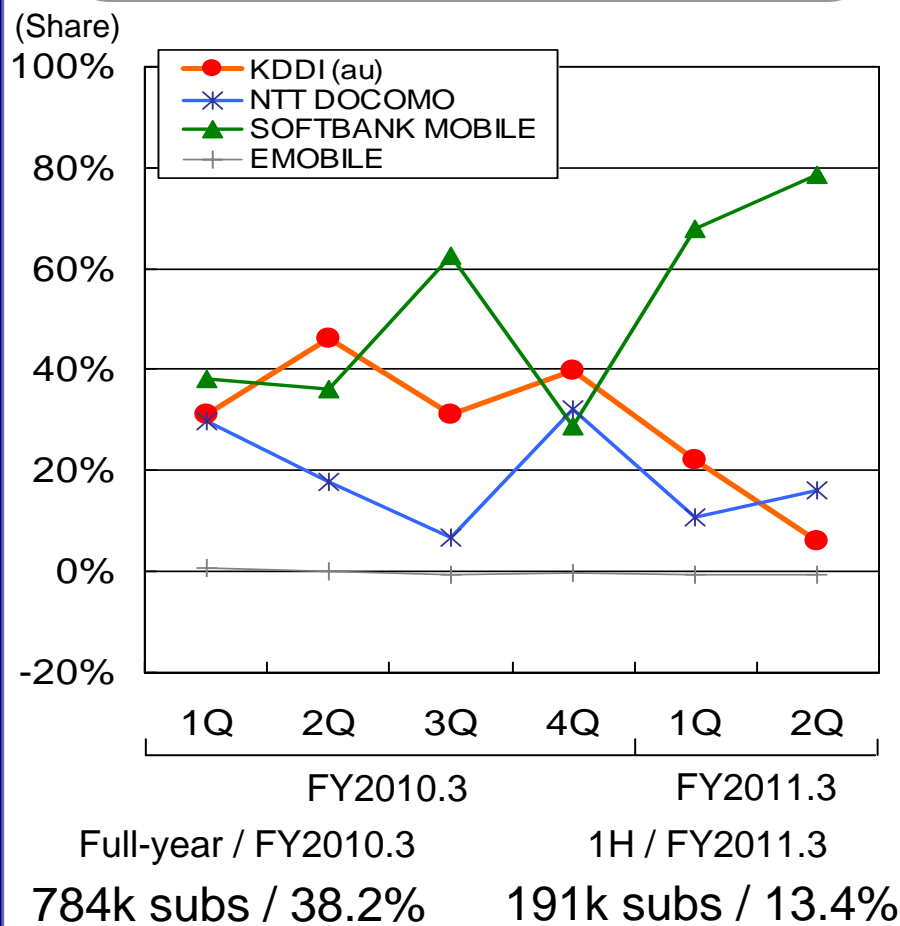
# 1.1. Net Additions

- Net additions of subs incl. UQ in 1H/FY2011.3 were 606k with a share of 17.8%.
- Net additions of mobile Internet subs were 191k with a share of 13.4%.

On Total Sub Basis <sup>Note</sup> (including BWA)

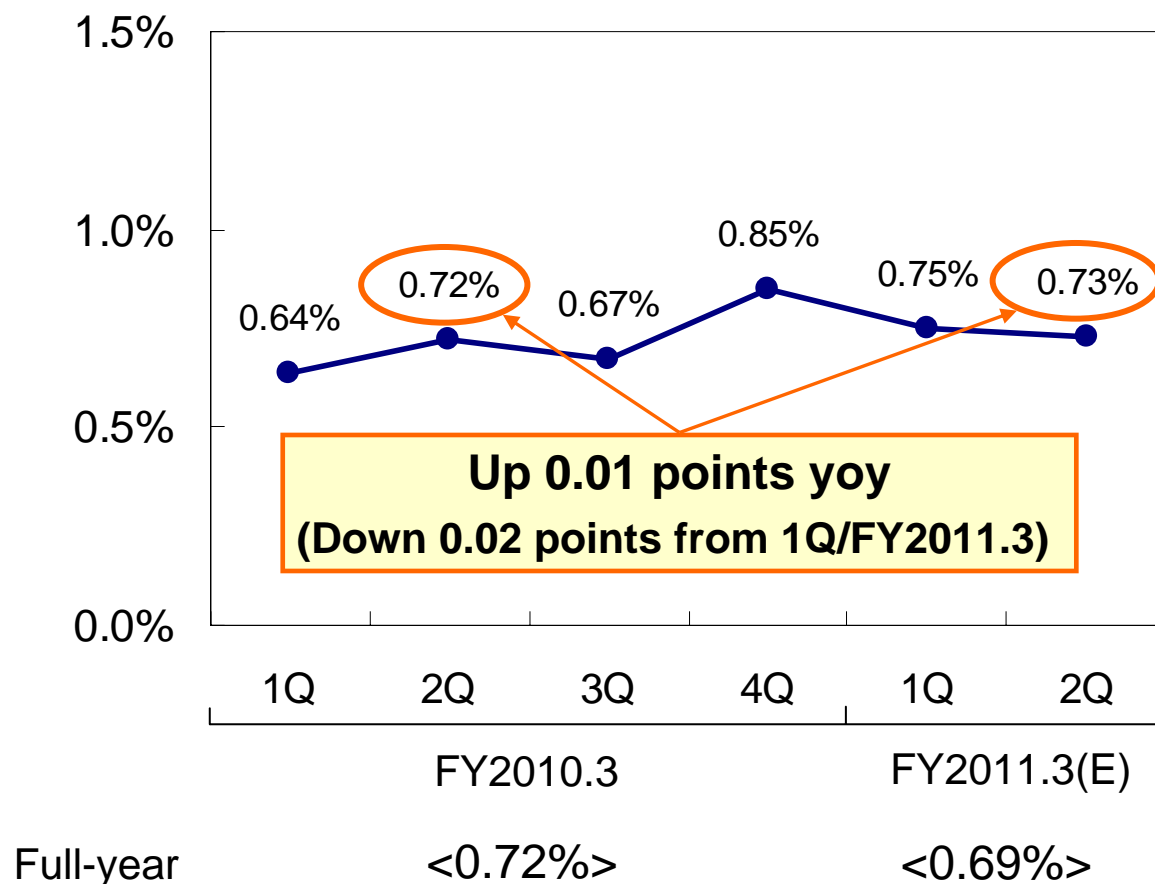


On Mobile Internet Sub Basis



# 1.2. Churn Rate

- Churn rate in 2Q was 0.73%, down 0.02 points from 1Q and up 0.01 points yoy.

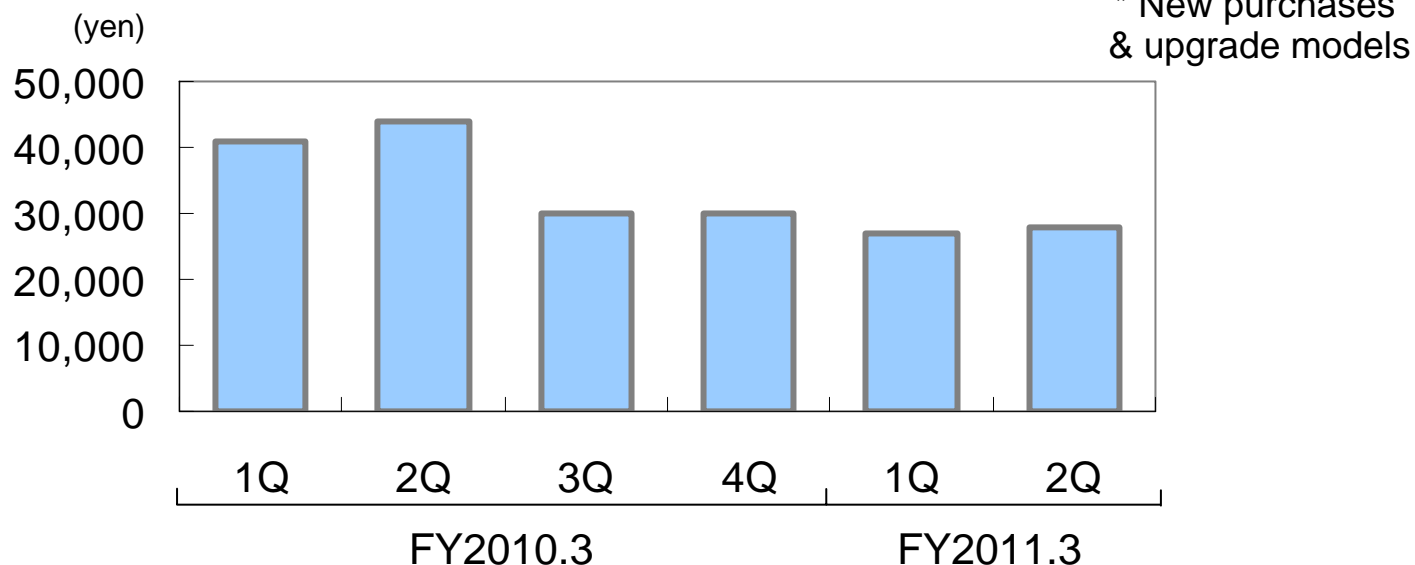


Note: Churn rate is calculated for ordinary handsets which exclude module-type terminals.

# 1.3. Sales Commissions

- Average sales commissions in 2Q was ¥28,000, substantial fall of ¥16,000 yoy.

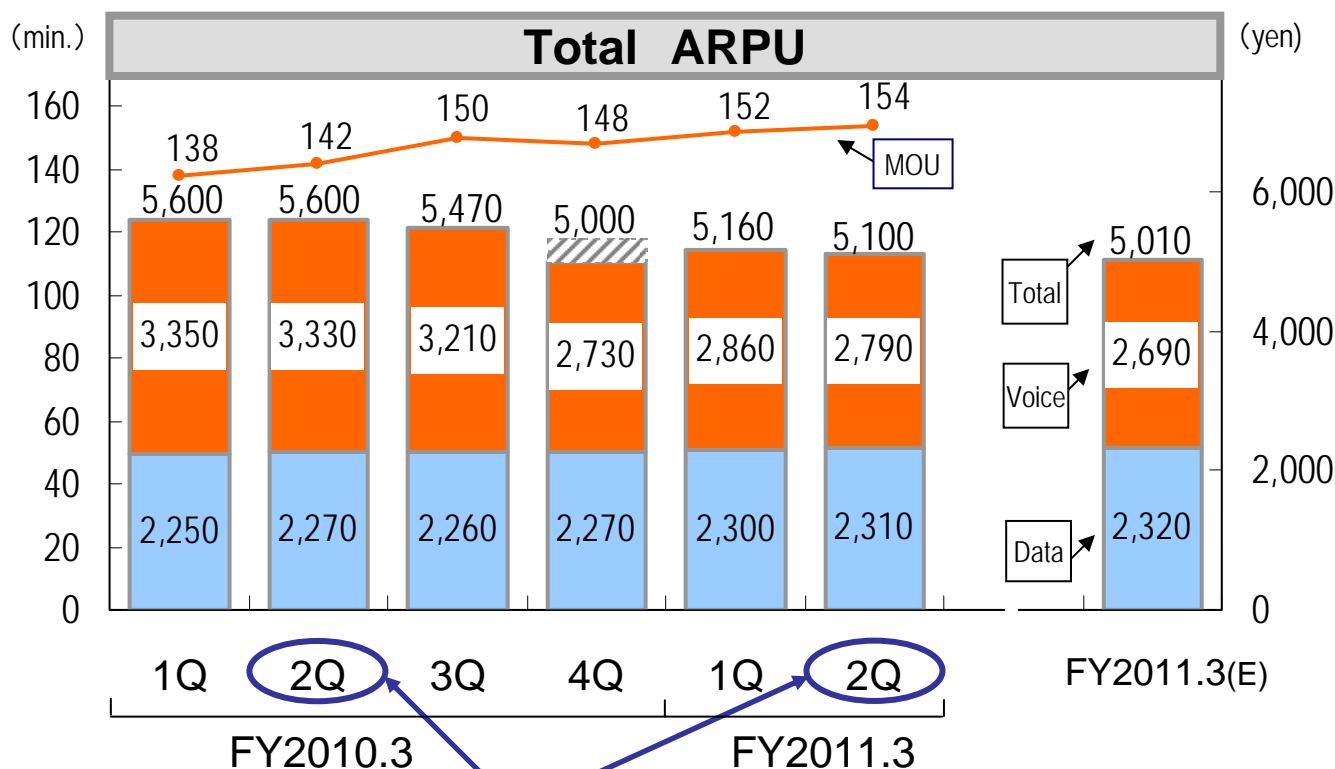
Average Commissions / Unit \*



	FY2010.3					FY2011.3(E)		
	1Q	2Q	3Q	4Q		1Q	2Q	
Total sales commissions (Billions of yen)	90.0	112.0	71.0	93.0	365.0	76.0	80.0	303.0
Average commissions / unit (yen)	41,000	44,000	30,000	30,000	36,000	27,000	28,000	29,000
Number of units sold ('000 units)	2,210	2,560	2,330	3,100	10,200	2,810	2,830	10,600

# 1.4. ARPU

- Total ARPU in 2Q dropped 8.9% yoy to ¥5,100 due to the fall in voice ARPU resulted from the rise in the Simple Course users.



yoy	
Total ARPU	▲ ¥500 (▲ 8.9%)
of Voice	▲ ¥540 (▲ 16.2%)
of Data	+ ¥40 (+ 1.8%)

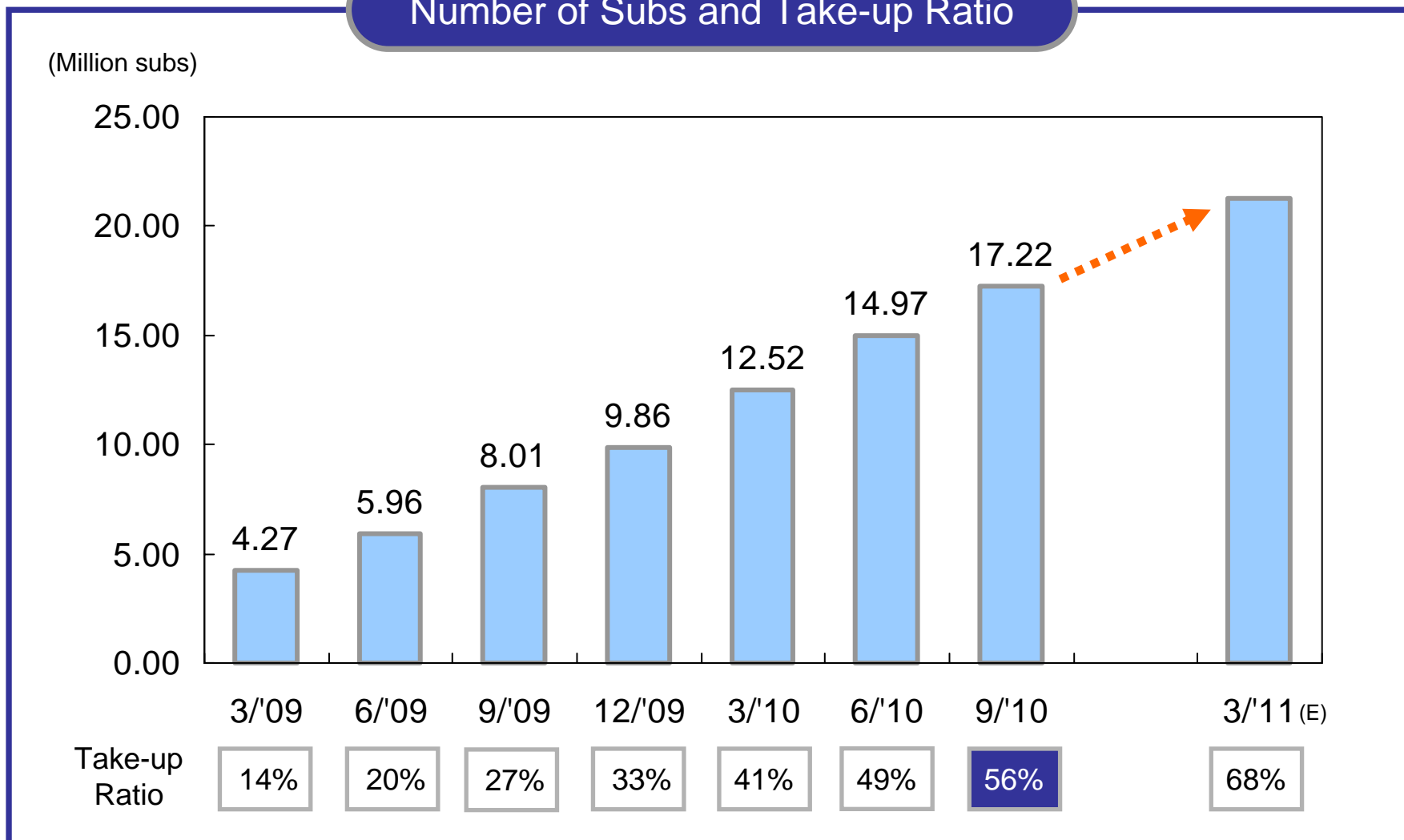
Full-year	FY2010.3	FY2011.3(E)
Total ARPU	¥5,410	¥5,010
of Voice	¥3,150	¥2,690
of Data	¥2,260	¥2,320

Note: The  portion of FY2010.3 4Q was negative due to the settlement of access charges among carriers.

# 1.5. " Simple Course "

■ 17.22M subs as of September 30, 2010, making cumulative take-up ratio of 56%<sup>Note</sup>.

## Number of Subs and Take-up Ratio



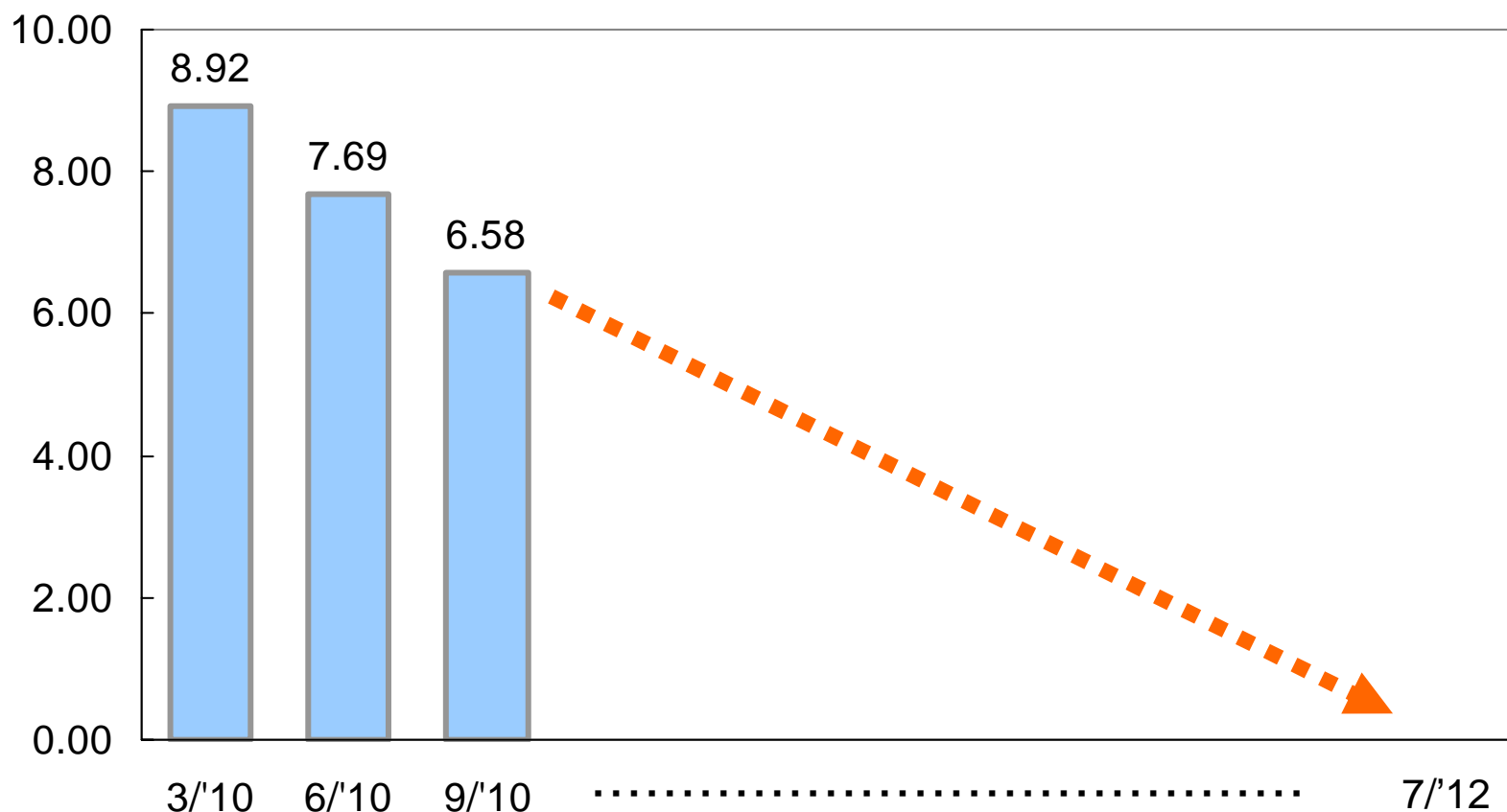
Note: Module-type and pre-paid contract are excluded from take-up ratio calculation.

# 1.6. Reorganization of 800MHz Band

- Transfer from non-triband handset units to triband handset units was 1.89M in 1H. The number of non-triband handset units was 6.58M as of September 30, 2010.

Number of Non-triband Handset Units

(Million units)



Note: The number excludes module-type terminals.

## 2. Expansion of Product Lineup

- Introduce total of 24 products, including 22 au brand terminals and 2 others <sup>Note1</sup>, to expand product lineup in 2H. Especially strengthening smartphones and new devices.

<b>Smartphones</b> (4)	 IS03	  REGZA Phone IS04	 WIN HIGH SPEED  IS05	 WIN HIGH SPEED  SIRIUS α IS06	<b>Others (2)</b> <sup>Note1</sup>  SMT-i9100 7.0 inch tablet  For wire-less LAN NEX-fi IDEACROSS INC. Mobile wireless LAN terminal	
<b>ebook reader</b> (1)	 biblio Leaf SP02	<b>Wi-Fi router</b> (1)	 Wi-Fi WALKER DATA05	<b>iida</b> (2)	 X-RAY  G11	
<b>au mobile phones</b> (All waterproof) (14)	 G'zOne TYPE-X	 "Cyber-shot™ phone" Cyber-shot™ ケータイ S006	 BRAVIA® Phone S005	 T005	 SH009	 URBANO MOND PT002  "Simple Phone" 簡単ケータイ K008  EXILIM ケータイ CA006  AQUOS SHOT SH010  T006  SH011  K007  K006 (without camera)

Note1: Sales of these products will not be counted as au subscriptions. In addition to Wi-Fi environment, "SMT-i9100" can be used in au 3G/3.5G areas when used with a mobile Wi-Fi router, etc. "NEX-fi" can be connected to an au mobile phone to make wireless-LAN compatible machines connected to internet.

Note2: Compatible to Wi-Fi WIN card. \*\*"REGZA" is a registered trademark of Toshiba Corporation. "G'zOne" is a registered trademark of Casio Computer Co., Ltd. "EXILIM" and "EXILIM-Keitai" are registered trademarks of Casio Computer Co., Ltd. "Cyber-shot" is a registered trademark of Sony Corporation. "BRAVIA" is a registered trademark of Sony Corporation. "AQUOS" and "AQUOS SHOT" are a registered trademarks of Sharp Corporation. "Wi-Fi" is a registered trademark of Wi-Fi Alliance®.



# 3. Smartphone Strategies

- Introduce 4 Android™ smartphone models in 2H. Change to the offensive with models adopting functions unique in Japan to be used as the main mobile terminal.



IS03 by SHARP

Global model



REGZA Phone IS04 by TOSHIBA

IS05 by SHARP

SIRIUS α IS06 by PANTECH

au only

Merits of  
Japanese  
Feature  
phones

Evolution of communication

App market



Hold strategic alliance  
with Skype

**au one Market**

1,800 titles planned  
by March 31, 2011

Standard functions in Japan

Osaifu-Keitai®



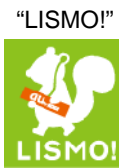
Infrared light  
communication

Earthquake  
Early Warning

E-mail  
(@ezweb.ne.jp)

Decoration Mail

Development of au services



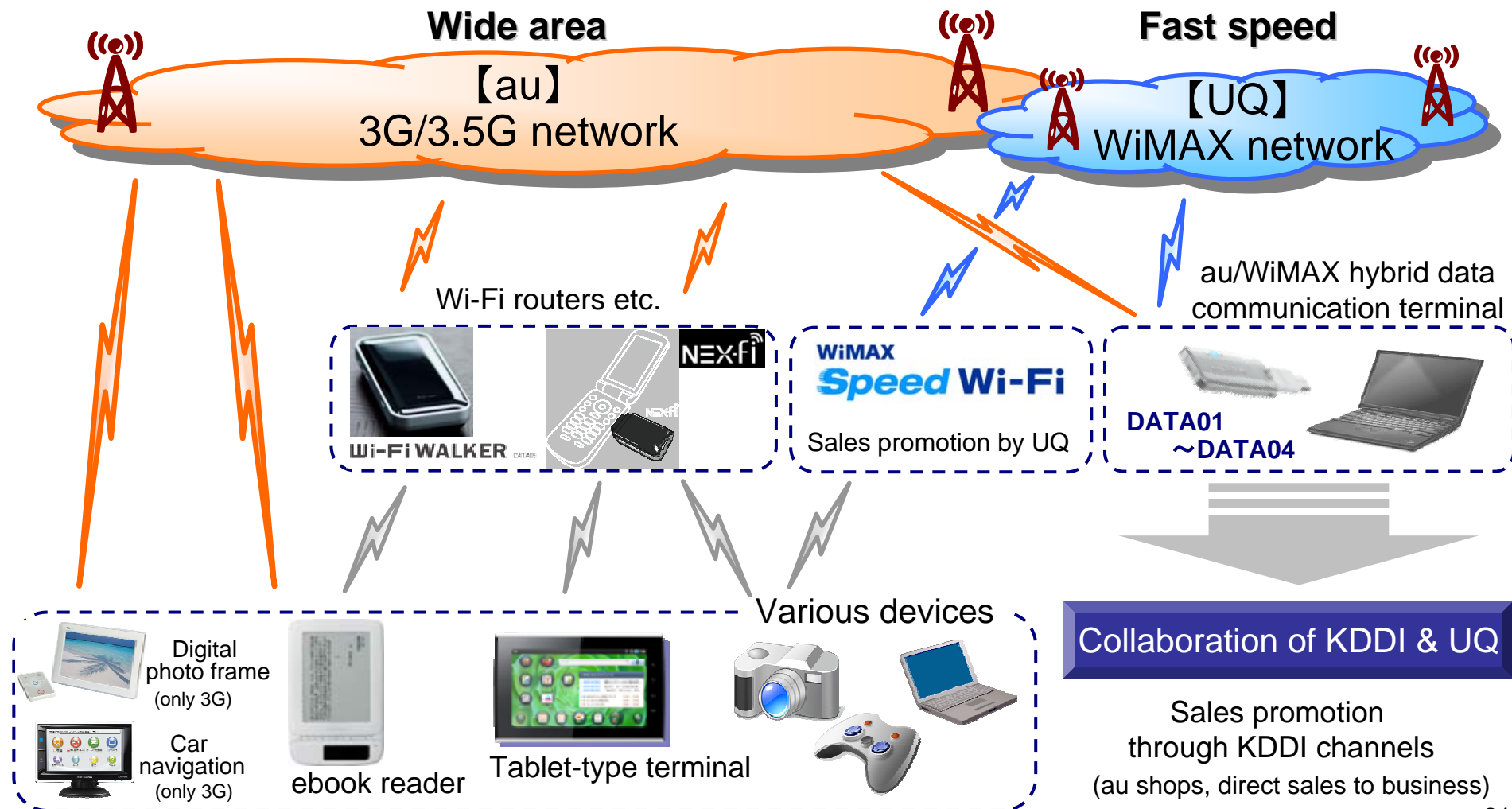
Note: Preinstalled functions, services and launch dates of services vary depending upon models.

“Google,” “Google” logo, and “Android™” are a registered trademark or a trademark of Google Inc. “REGZA” is a registered trademark of Toshiba Corporation.

“Skype” and its logo, “S” logo are trademarks of Skype Limited. \* “Osaifu-Keitai” is a registered trademark of NTT DOCOMO, Inc.

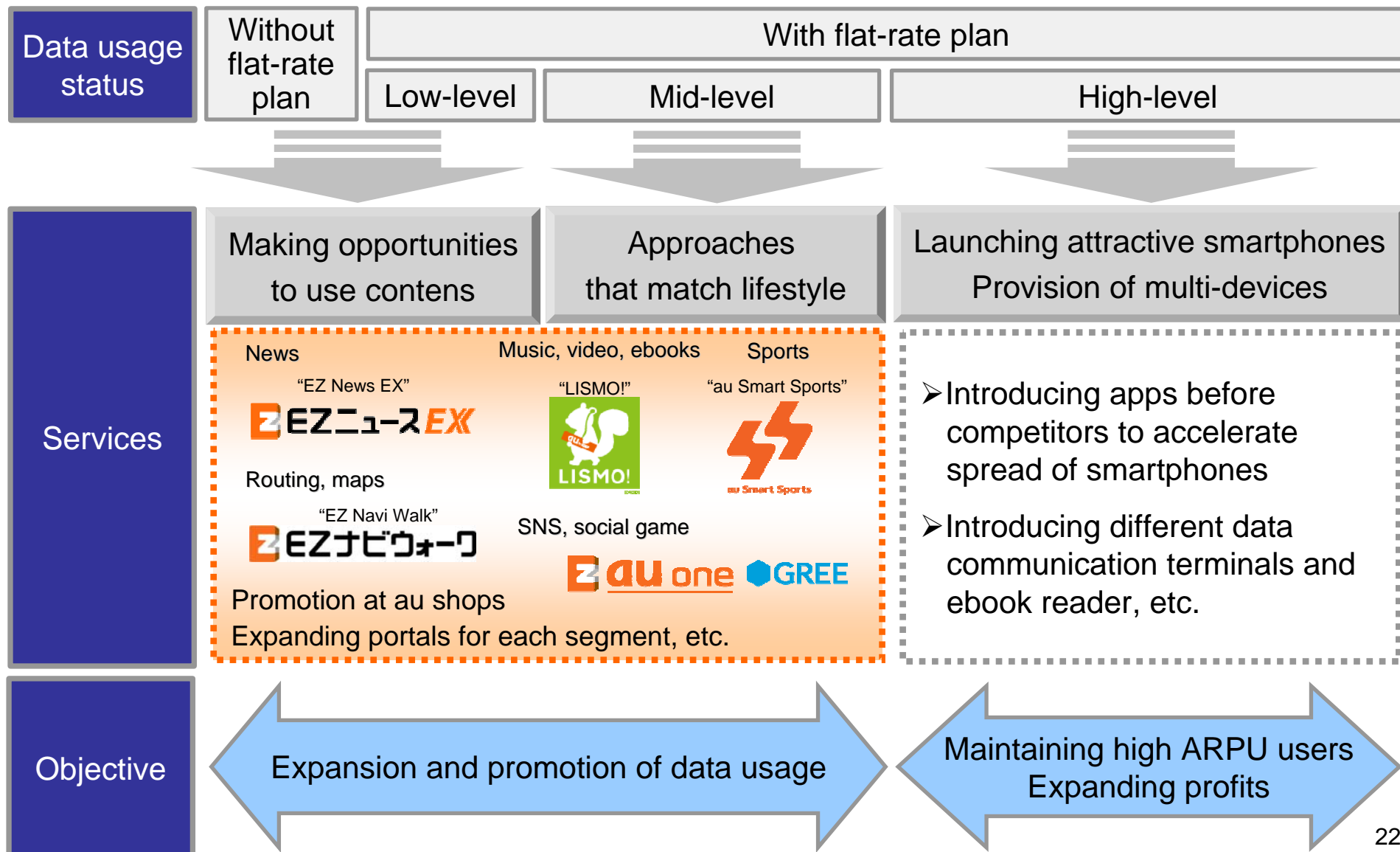
# 4. Proactive Introduction of New Devices

- Proactive introduction of new devices such as data communication terminals like mobile Wi-Fi routers and ebook reader to improve profitability. Sales promotion with UQ in data communication area.



# 5. Promotion of Data Usage (1)

- Promoting different services depending upon clients' data usage status.



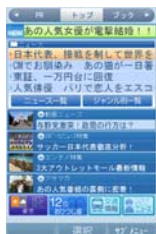
## 5. Promotion of Data Usage (2)

- Developing various services to match different lifestyles to expand and promote data usage. Establish touch points with users through “LISMO!” and “au Smart Sports,” etc.

“EZ News EX”

**EZニュースEX** (News)

- Topped 1 million members. (Sep. 2010)
- Effective service for users in 30s and up.



Ultra quick delivery to mobile

More than 200 news a day

Tailored to user preference

**LISMO!** (Music, video, ebooks)



- Approx. 8.5M users.<sup>Note1</sup> (Sep. 2010)
- Mainly young users in teens and 20s.
- More than 90% reach the data flat-rate limit<sup>Note2</sup>



Produce an original drama every month

**au Smart Sports** (Sports)

- Topped 2 million members. (July 2010)
- Wide usage, main users in 20s and 30s.
- Approx. 80% reach the data flat-rate limit.

**Run & Walk**

**Karada Manager**

**Fitness**

**Golf**

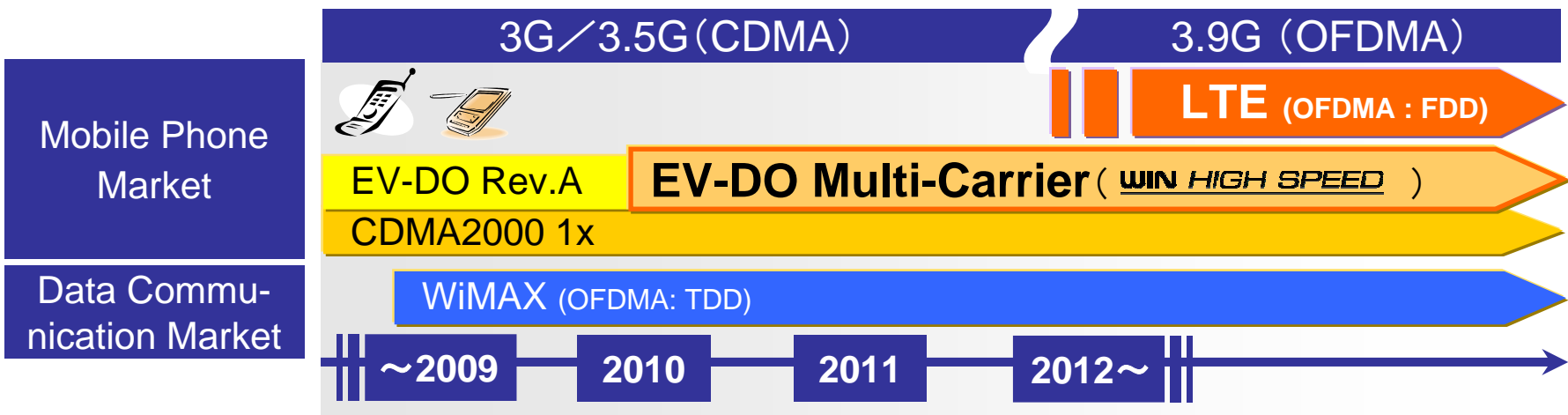
**au one GREE** (SNS, social game)

- Topped 5M in membership in May, 2009. Currently expanding users in teens to 40s and aiming for 10M membership<sup>Note3</sup>.

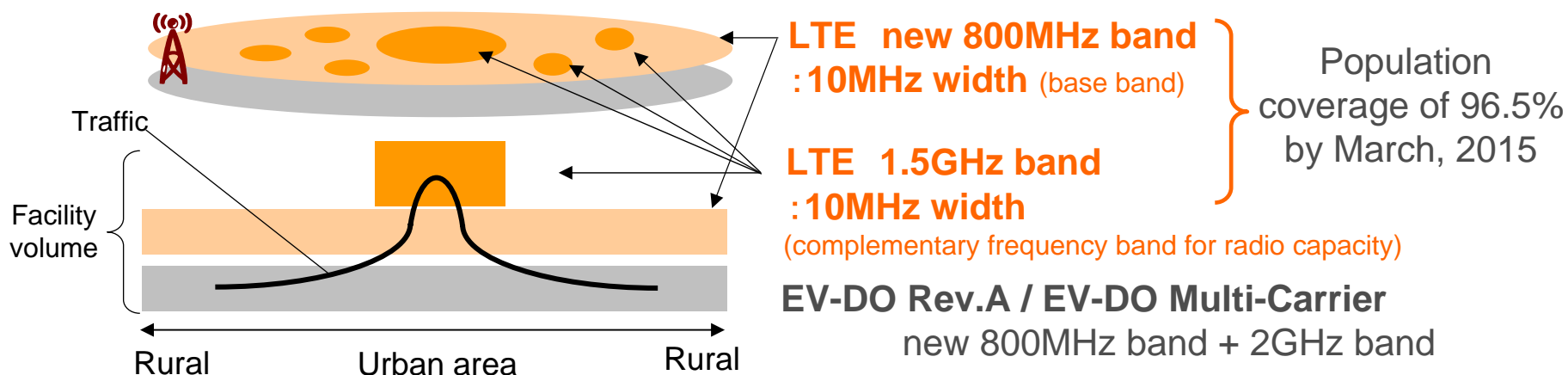


# 6. Strengthening Wireless Infrastructure

- Improve data volume efficiency and speed to strengthen competency with multi-carrier Rev.A.
- Adopt LTE in Dec. 2012 to improve frequency usage efficiency & to lower bit-rate cost.

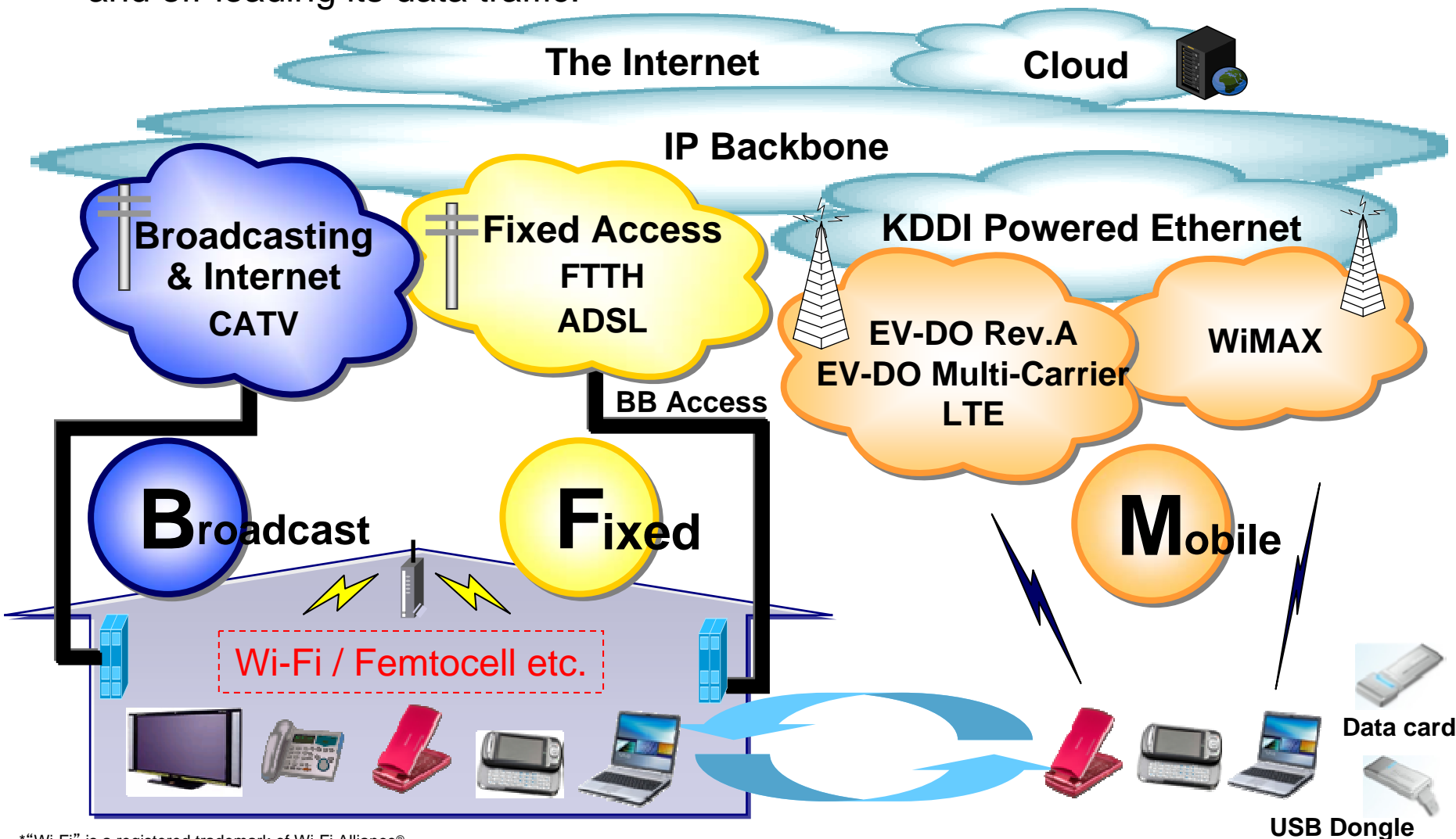


## Development of LTE



# 7. Competitiveness in the Mobile BB Era

- In addition to strengthening wireless infrastructure, fixed-line broadband becomes as important in the mobile broadband era as backhaul of mobile communication and off-loading its data traffic.

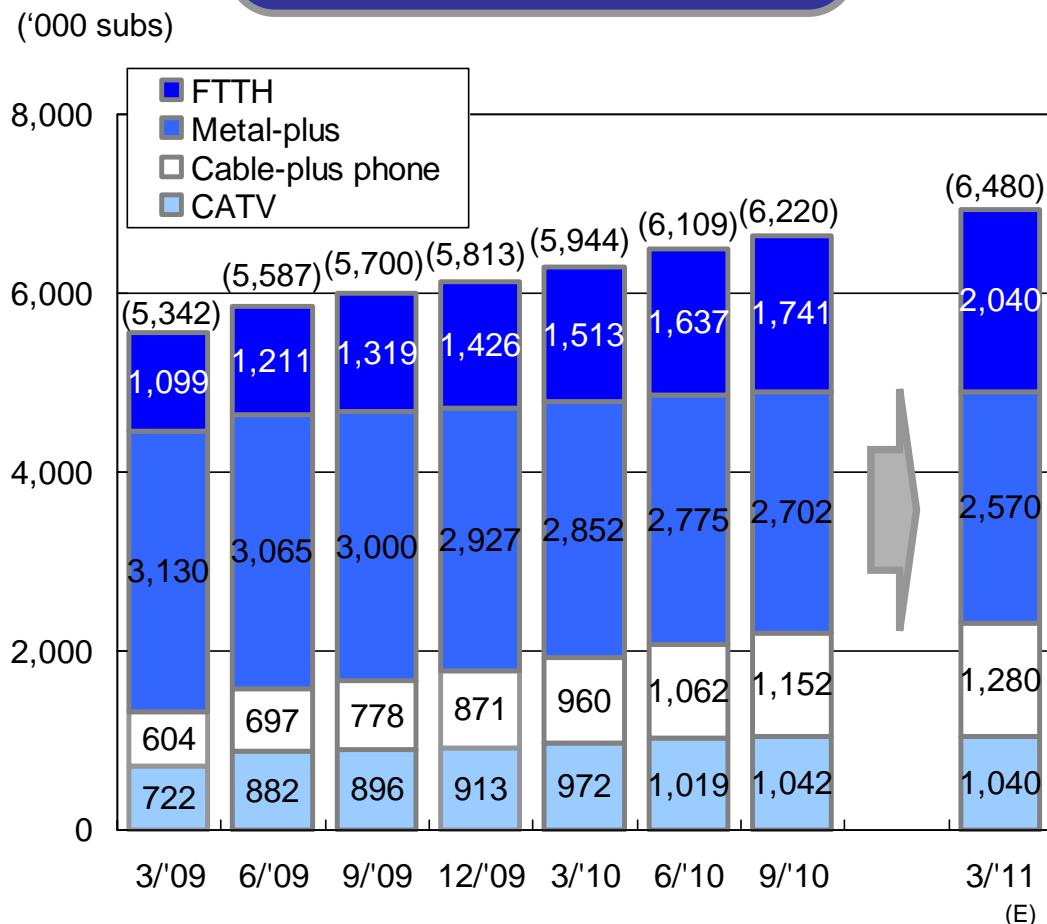




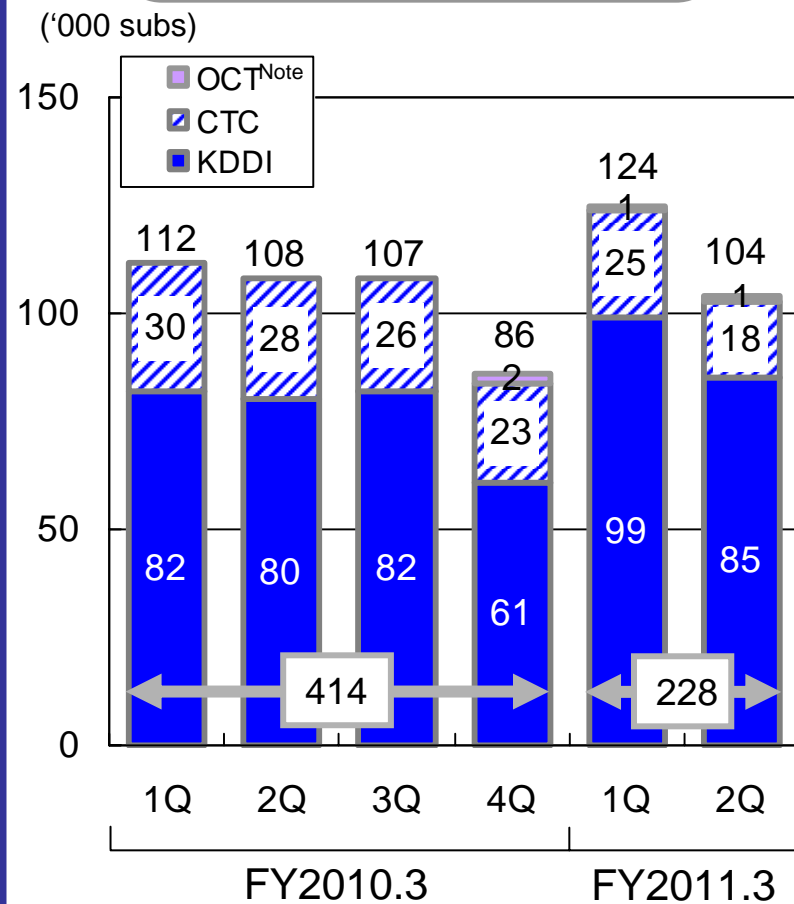
# 1. Fixed Access Lines

- Number of fixed access lines was 6.22M as of September 30, 2010.
- Net additions of FTTH subscription was 104k in 2Q.

Fixed Access Lines Note



FTTH Net Additions



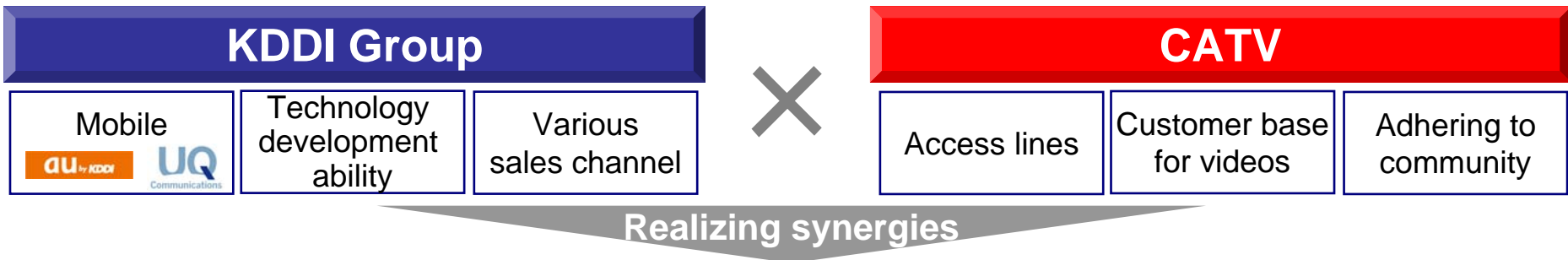
Note: ( ) shows total subscriptions of access lines excluding crossover subscriptions.

Note: Okinawa Cellular Telephone Company. Subs of Okinawa Telecommunication Network Co., Inc. included.

## 2. CATV(1)

Fixed-line  
Business

- Construct a new business model leading to competitiveness and business growth for CATV industry as a whole through cooperation of CATV operators, centering in J:COM/JCN, and KDDI Group.



**Establishing new business model of KDDI Group and CATV**

**< KDDI Group's synergies >**

Expanding access lines

Promoting FMBC services

Strengthening community biz.

Improving competitiveness



**Win-Win relationship**

Growth of business

**< CATV's synergies >**

Collaboration with mobile service

Strengthening technology

Expanding sales channel



## 2. CATV(2)

Fixed-line  
Business

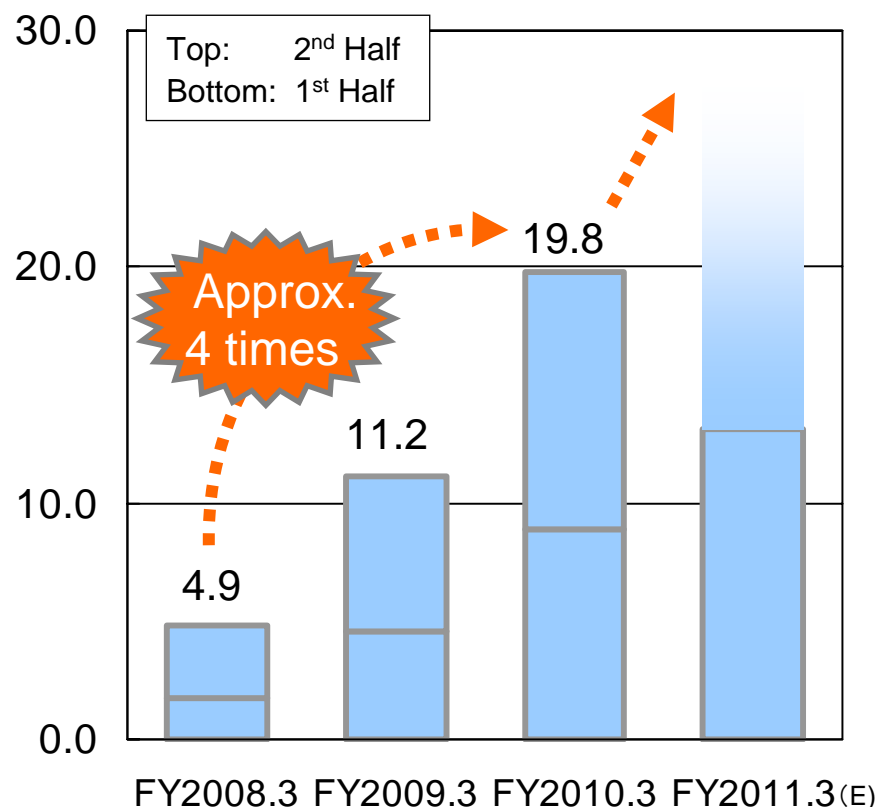
- Sales of Cable-plus phone quadrupled in 2 years as allied CATV stations increased.
- Consolidated subsidiary JCN provides FMBC services to improve clients' convenience.

### Sales of Cable-plus phone

**100 allied CATV stations / 1.15M subs**

(As of Sep. 30, 2010)

(Billions of yen)



### FMBC services by JCN

**JCN-Keitai**  
(since Feb., 2009)



Original wallpaper, main menu, mobile phone site

#### Concept

au mobile phone connected to JCN services


#### Special features

- Distributing recommended programs by JCN and program promotion videos
- Recording terrestrial digital, BS programs with mobile
- Distribution of local, lifestyle, and administrative info.
- Promotion collaboration with LISMO! original dramas
- Easy access to JCN-Keitai sites, etc.

# 3. Alliance with J:COM

- Promoting services to realize synergies with J:COM.
- Established a sales cooperation working group to mutually use sales channels.

WG	Measures		Starting date/ Status
Telecom Business / Product Collaboration	Fixed-line	J:COM's new phone service using Cable-plus phone	April 2011
	Mobile	<b>Cross-selling promotion in Kansai area</b>	<b>Ongoing Aug. 2010</b>
		"au Collective Talk" for J:COM's new phone service	April 2011
		Integrating the billing of services	April 2011
	WiMAX	<b>J:COM provides WiMAX service (MVNO of UQ)</b>	<b>Dec. 2010</b>
Media Business	VOD	<b>Centralize contents procurement to J:COM</b>	<b>Completed Aug. 2010</b>
	Contents	<b>Distribute au content (LISMO!) to VOD, community channel</b>	<b>Ongoing Aug. 2010</b>
CATV Business	J:COM / JCN	<b>Mutual introduction of clients who moved, etc.</b>	<b>Ongoing July 2010</b>
		<b>Joint promotion of advertisement</b>	<b>Ongoing Oct. 2010</b>
Technology/ Infrastructure	NW integration	<b>J:COM phone traffic switchover to KDDI relay net</b> <small>Note</small>	<b>Feb. 2011</b>
	Next gen. STB	Development and introduction of Android™ STB	In 2012

Note: Switchover will take place sequentially. \*  shows items aimed this FY. \*\*Android™ is a trademark of Google Inc.

# 1. Content/Media Business

- Provide various business with partner companies before competitors. Aim for further sales expansion through promotion of new business areas.

## Promoting New Biz. through Alliance



Partner company



Brand

Contents

Experiences

Safety

Identification  
billing

Rights

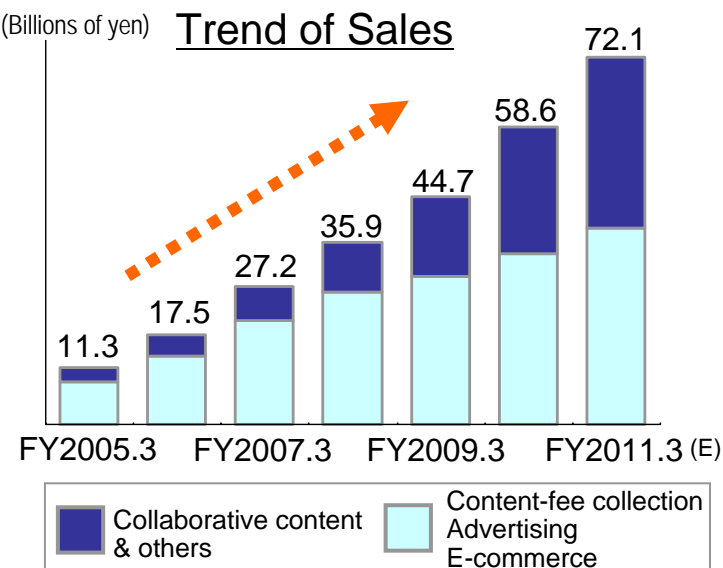
Technology

Knowledge  
of industry

High-quality  
network

Customer base

(Billions of yen) Trend of Sales



2003

2006

2009

2010

Navi-  
gation

Search



News

Weather  
Info.

“Soratena”



ebooks

ebook distribution  
preparation company

(Sony, Toppan Printing,  
Asahi shimbun)

SNS



(GREE)

“EZ News EX”



(TV Asahi, Asahi Shimbun)

(Weathernews)

AR <sup>Note</sup>



(Tonchidot)

Visual  
portal



(Rekoo Media, Rekoo Japan)

  involves capital alliance. Note: Augmented Reality

## 2. Overseas Business

- Post approx. ¥200.0B by FY2013.3 in overseas business sales through expansion of ICT business including development of (  **TELEHOUSE** ) and entry into growth markets.

