

# KDDI CORPORATION

Tender Offer for J:COM,  
Privatization, and Merger with JCN

October 24, 2012

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.

# Agenda

1. Consolidation of J:COM
2. Merger of J:COM and JCN
3. Realization of Expanded Synergies with the 3M Strategy
4. Strengthening the Alliance with Sumitomo Corporation

# **Consolidation of J:COM**

# Transaction Outline and Schedule

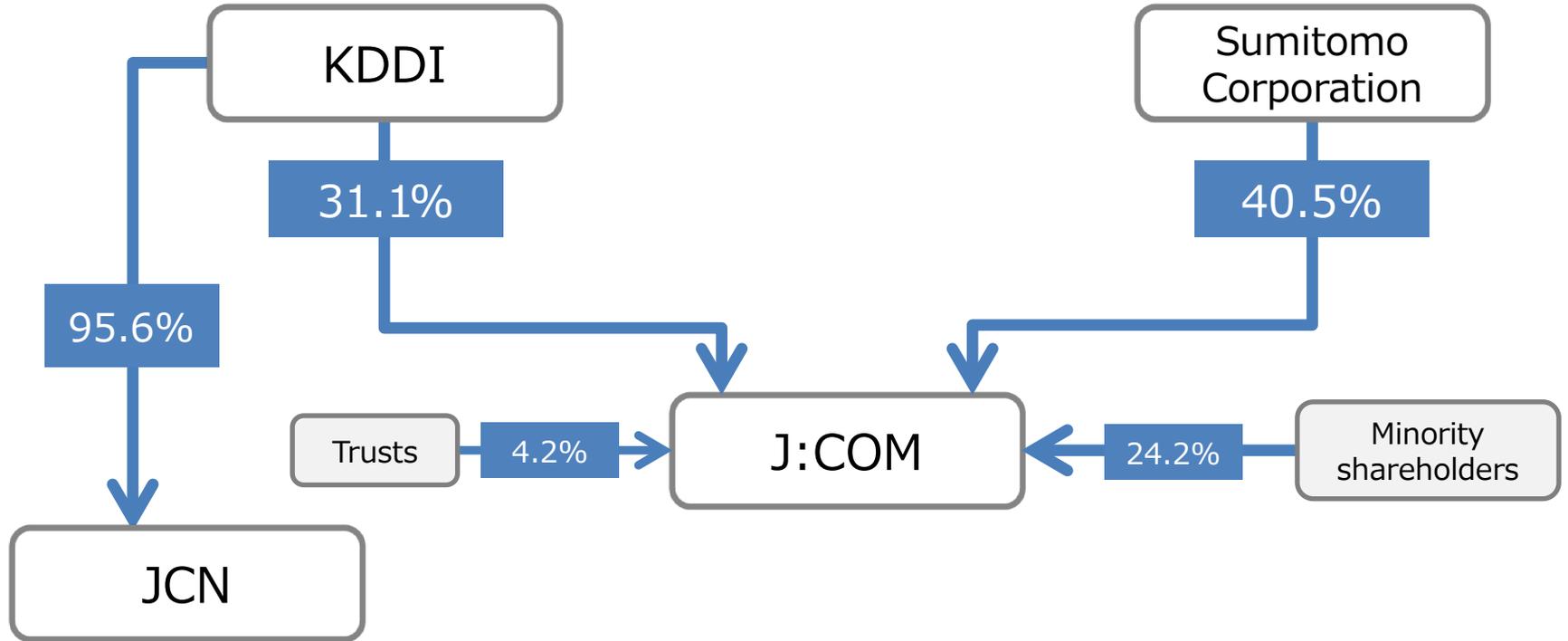
- 1** -Jan. 2013 Establishment of an SPC for the tender offer of J:COM
- 2** Jan. 2013-  
Mar. 2013 Joint tender offer by KDDI and the SPC  
and consolidation of J:COM
- 3** Jul. 2013-  
Sep. 2013 Privatization of J:COM
- 4** Jul. 2013-  
Sep. 2013 Merger of J:COM and the SPC
- 5** Sep. 2013- Sale of JCN and merger with J:COM

\*The schedule detailed above is preliminary and subject to change

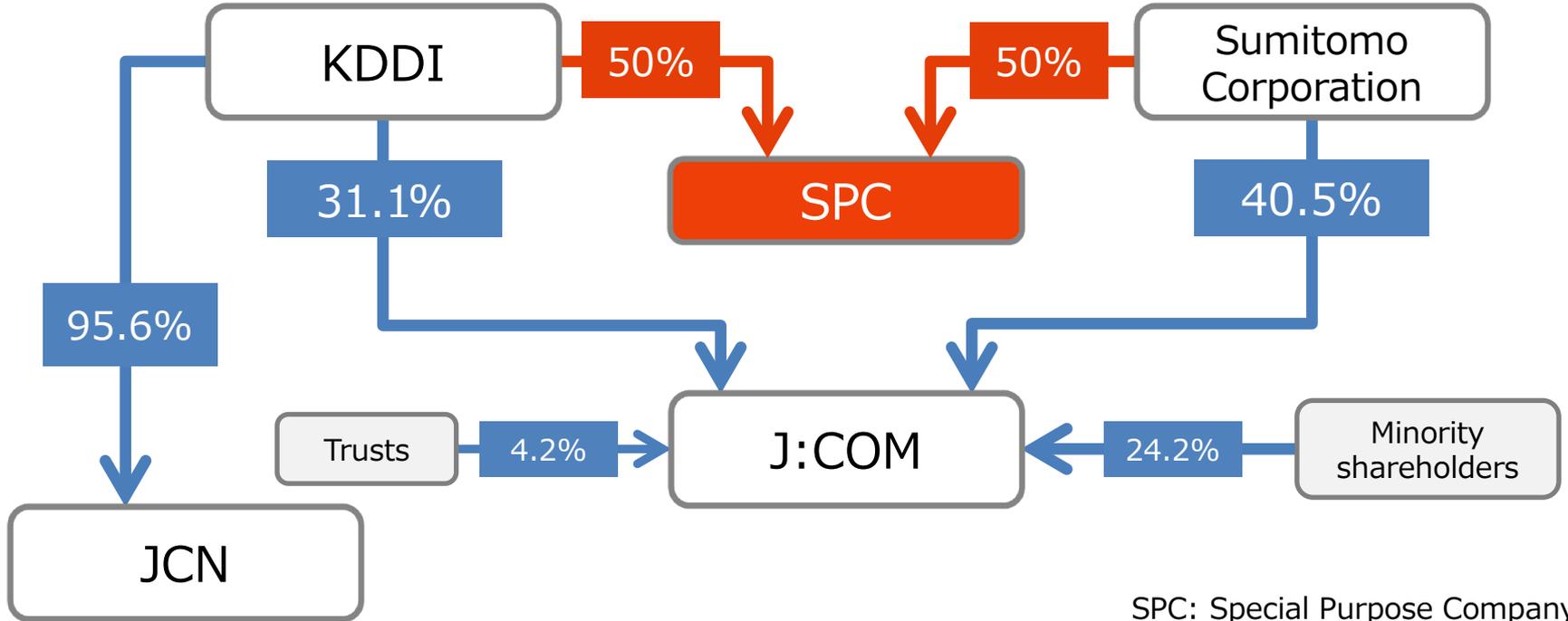
\*J:COM: Jupiter Telecommunications \*JCN: Japan Cablenet \*SPC: Special Purpose Company

# Current Ownership Structure

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# 1. Establishment of an SPC for the Tender Offer of J:COM

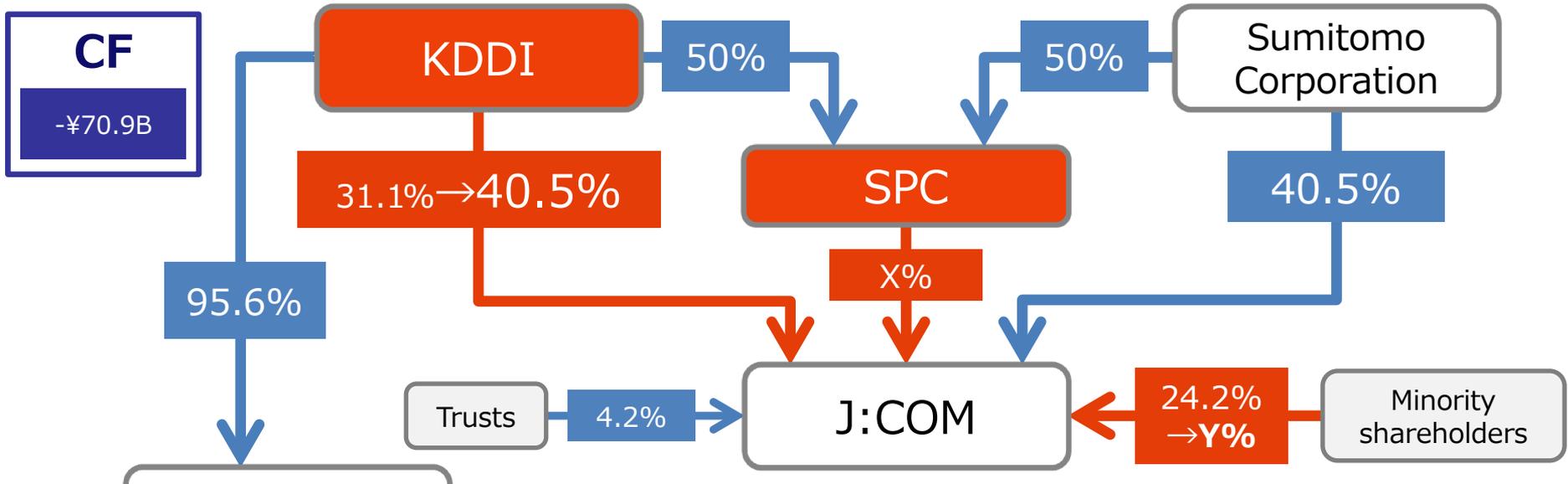


SPC: Special Purpose Company



Before tender offer

## 2. Joint Tender Offer by KDDI and the SPC and Consolidation of J:COM

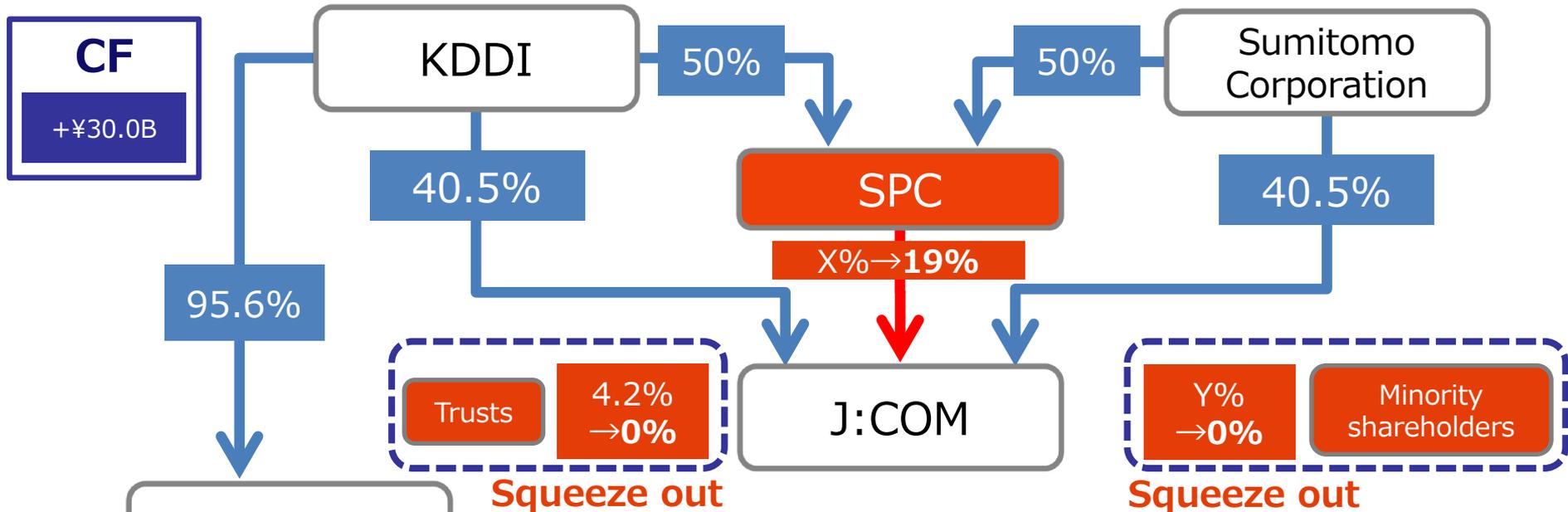


\*CF figure (top left) for KDDI standalone  
 \*Units: JPY bn

Establishment of SPC	Joint tender offer	Squeeze out	Merger with SPC	JCN sale and merger
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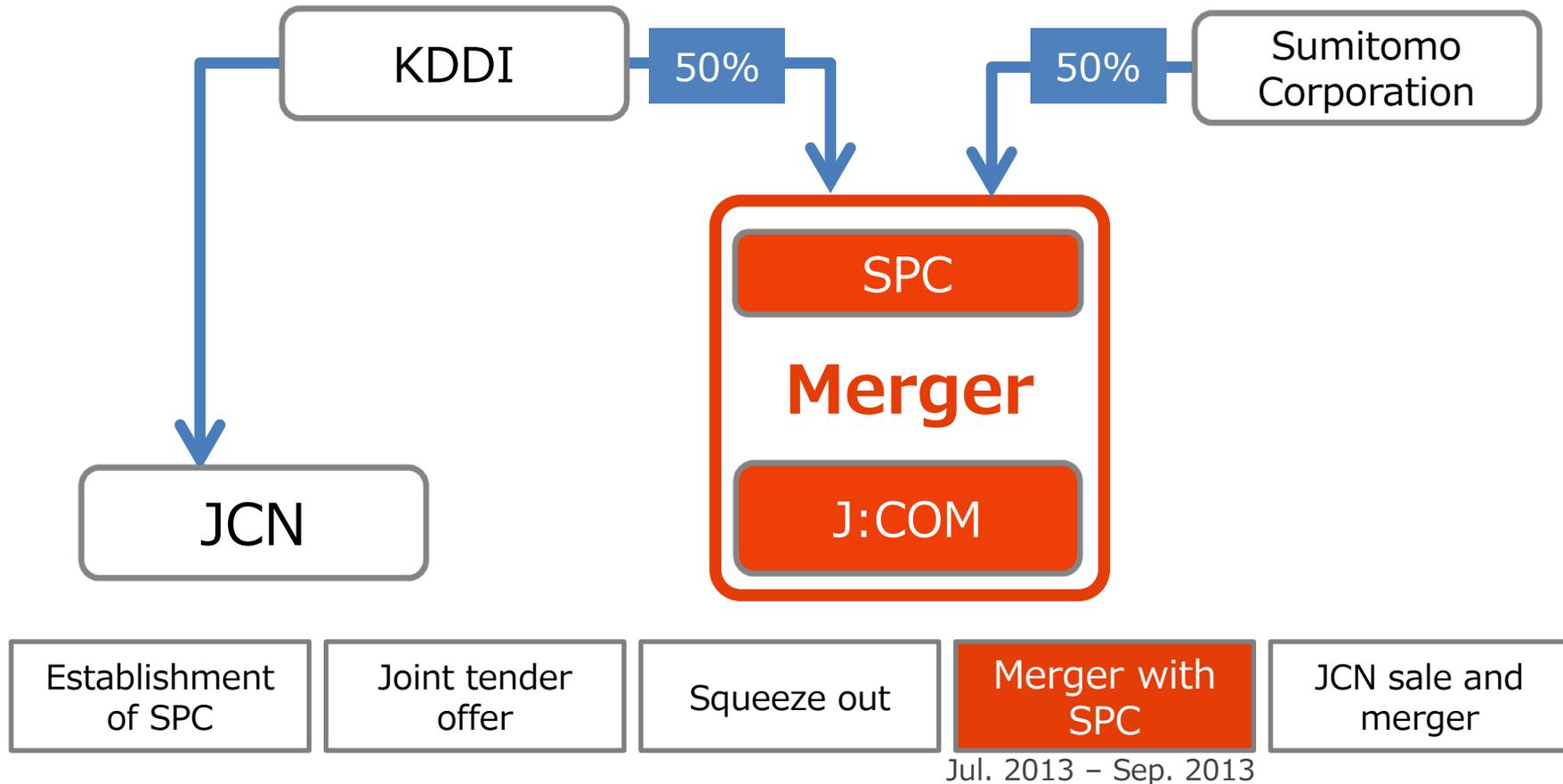
Jan. 2013 - Mar. 2013

# 3. Privatization of J:COM

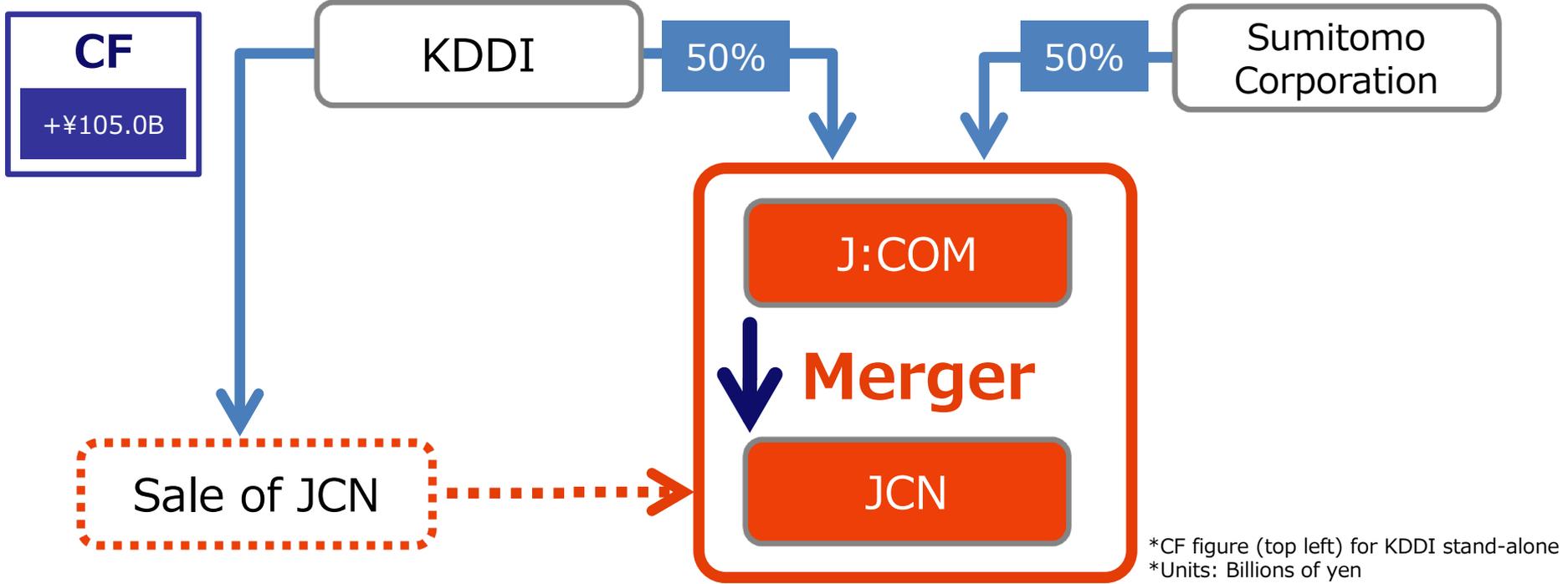


\*CF figure (top left) for KDDI standalone  
 \*Units: JPY bn

## 4. Merger of J:COM and the SPC



# 5. Sale of JCN and Merger with J:COM



\*CF figure (top left) for KDDI stand-alone  
\*Units: Billions of yen

- Establishment of SPC
- Joint tender offer
- Squeeze out
- Merger with SPC
- JCN sale and merger

# Transaction Summary

## Joint management of J:COM with Sumitomo Corporation

### **1. KDDI to consolidate J:COM as of March 31, 2013**

✓ KDDI and Sumitomo Corporation will nominate equal numbers of board members to J:COM

### **2. KDDI to nominate the President of J:COM beginning in Jan. 2014\***

✓ KDDI and Sumitomo Corporation will each nominate J:COM's President (Co-CEO), and Chairman (Co-CEO)

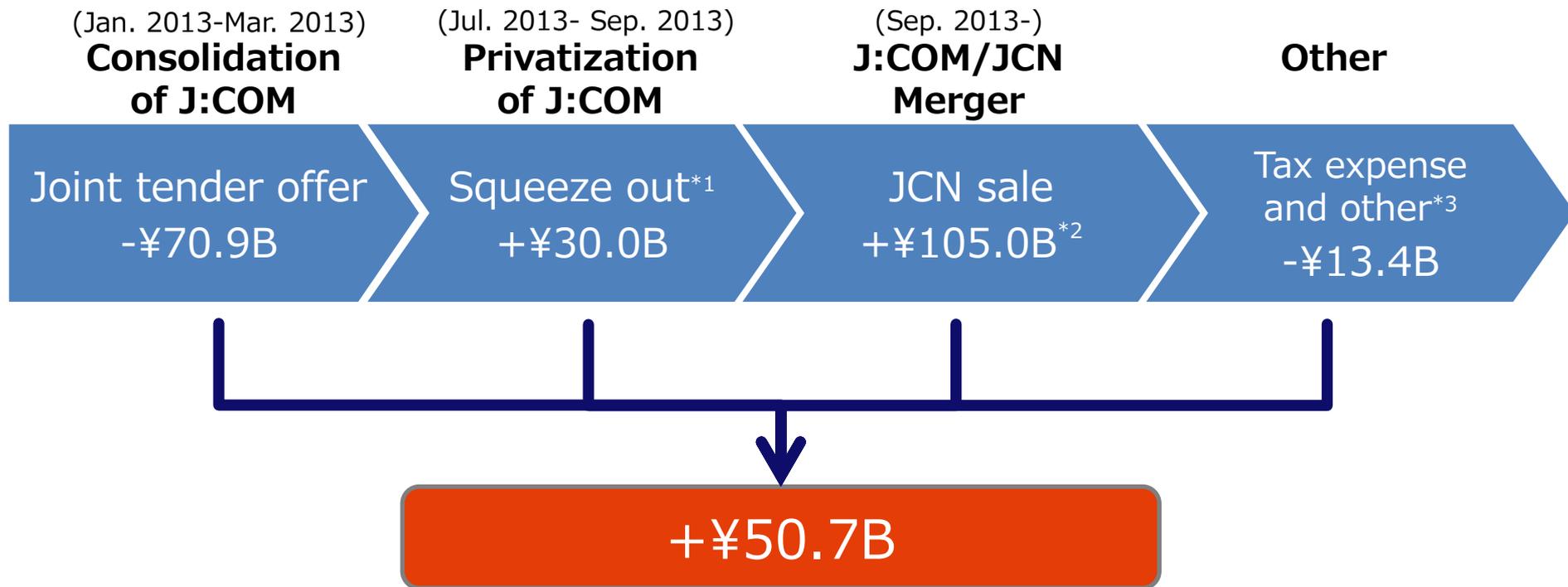
### **3. KDDI and Sumitomo Corporation will jointly and equally guarantee the transaction debt**

\*From 2017 onwards, nomination of the President and Chairman will be determined by discussion between KDDI and Sumitomo Corporation.

# Transaction Cash Flow

(KDDI stand-alone basis)

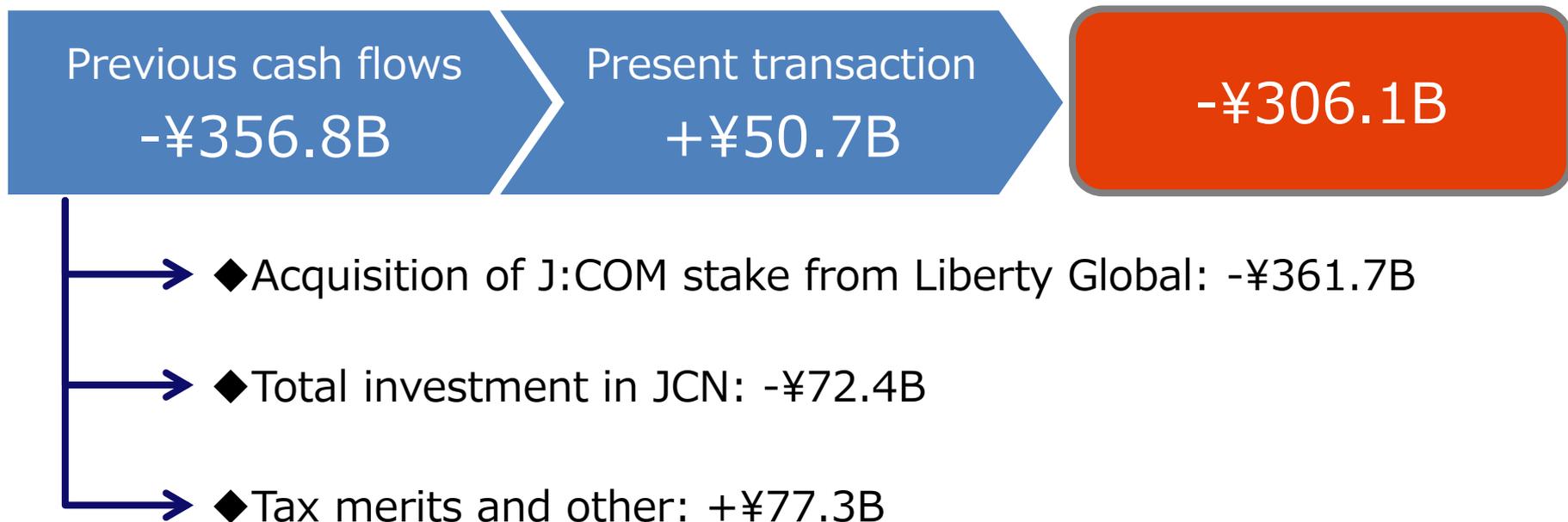
**Cash inflow of approx. ¥50.0B**



\*1: Includes sale of entrusted shares after Oct. 2012. \*2: Schedule \*3: Corporate taxes on the sale of JCN shares and other

# Total Cash Flow(KDDI stand-alone)

**Total cost to consolidate J:COM approx. ¥300.0B**

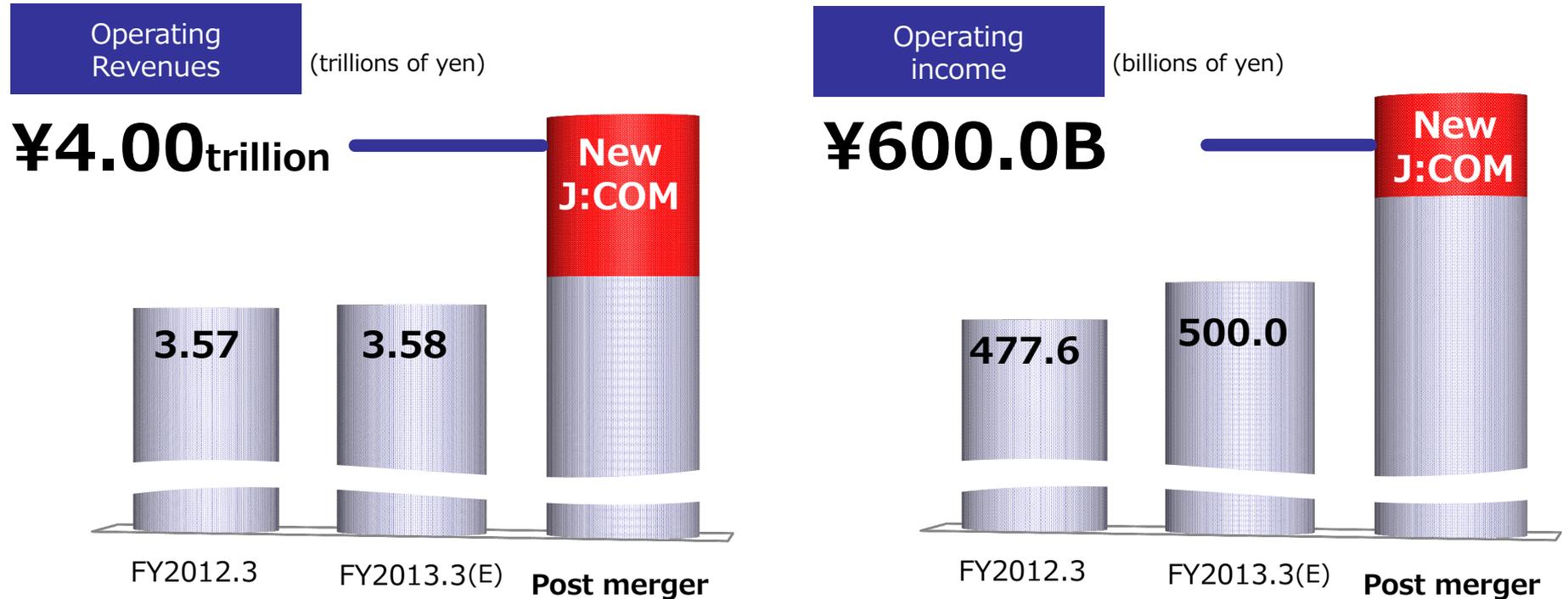


\*Includes tax merits arising from liquidation of intermediate holding company of J:COM (approx.¥56.2B)

# **Merger of J:COM and JCN**

# Financial Impact of the Consolidation

**Consolidated revenues over ¥4.00 trillion**  
**Consolidated operating income over ¥600.0B**  
(Additional ¥50.0B FCF per year)

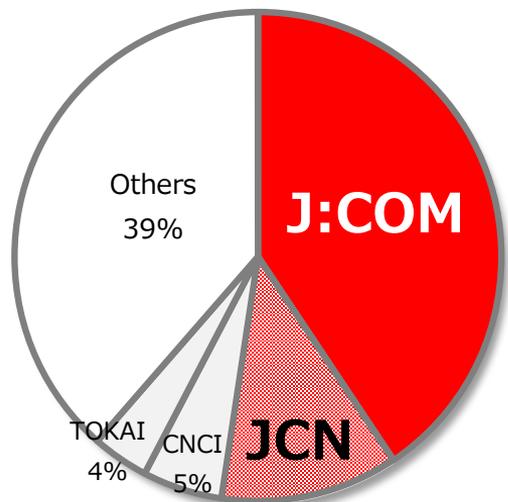


# Post Merger “New J:COM”

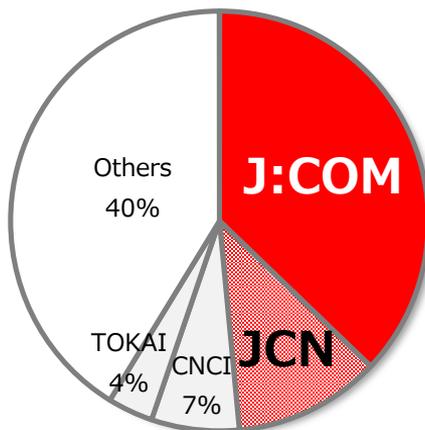
Merger of the two top CATV players significantly expands market share and customer base

Market share

Multi-channel **52%**



Internet **49%**



Users/ARPU

Total no. of subs	~4.8M households
Total RGU	~9.2M households
CATV	~4.0M households
Internet	~2.4M households
Telephony	~2.8M households
ARPU	~¥7,000
Bundle ratio	~1.9

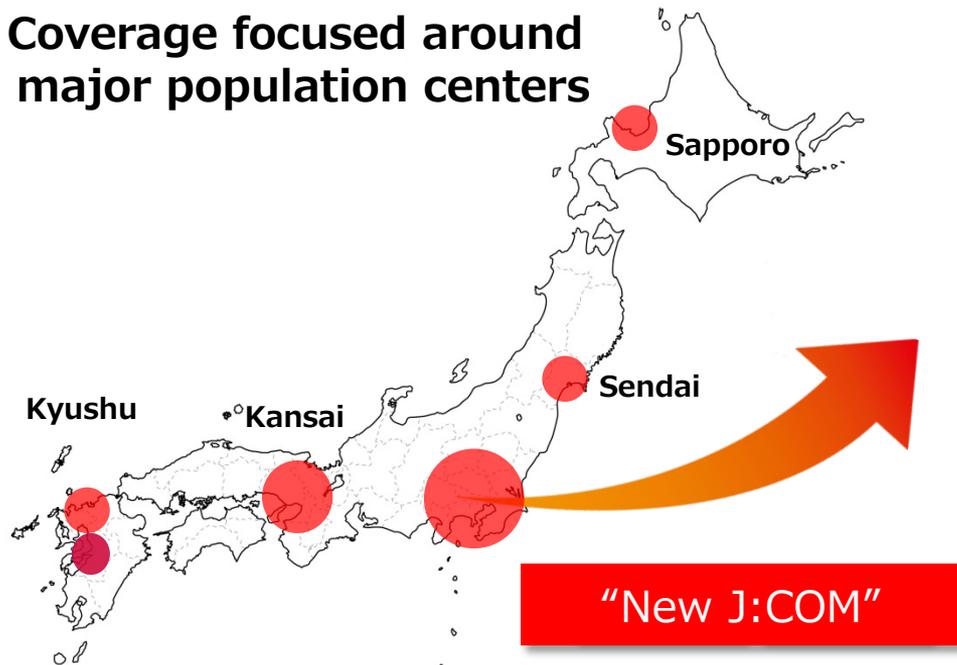
# “New J:COM” Geographic Coverage

Greater Tokyo area coverage increases significantly with the Merger

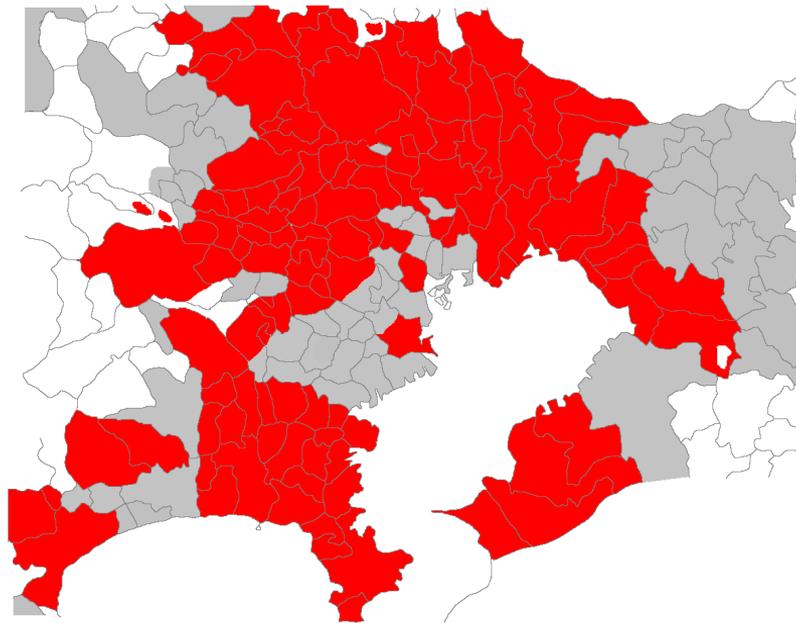
82%\*

Nationwide

Coverage focused around major population centers



Greater Tokyo Area



\*Home path households/Total households  
Mar. 2012[Hoso Journal]/Mar. 2012 [Census]

# Merger Synergies

## Acceleration of J:COM/JCN synergies

(Transaction aims to reduce a proportion of the ¥80.0B in shared costs)

### Revenue synergies

Reduce churn rate

Increase programming offerings

Strengthen product portfolio

Increase advertising capabilities

Strengthen product development

### Cost synergies

Consolidate business centers

Consolidate back office functions

Consolidate logistics

Increase purchasing power

Maximize efficiency and productivity via human resource allocation

**Realization of Expanded  
Synergies with the  
3M Strategy**

# Implementation of the 3M Strategy

KDDI's Competitive Edge

Offering all FMC services by one company  
(Mobile, FTTH, CATV)

Shifting Business Environment

Multi-device, Multi-use  
and Rapid increase in  
mobile data traffic

**Business growth through the 3M strategy**

(Multi-network, Multi-device, Multi-use)

# 3M Strategy Synergies

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## Synergies with CATV

Multi-  
use

**Diverse program offering**

Multi-  
network

**Large geographic coverage**

Home paths: **18.0M** households\*  
Total no. of subs: **4.8M** households\*

Multi-  
device

**Smart TV Box → Synergies with TV**

# Evolution of the 3M Strategy through the CATV Alliance

Multi-use



au Smart Pass



Video Pass



Uta Pass



Book Pass

Multi-network

*au* 4G LTE

au-WiFi  
WiMAX

FTTH

Strengthen alliance

**CATV**



TV      STB

Multi-device



Smartphones



Tablets



PC

# Realizing "Closeness to the Customer" through Broadcast and Telecommunication Services



Strengthen alliance

*au* 4G LTE  
au Smart Value

Enjoy apps

au Smart Pass Google Play™

Enjoy video

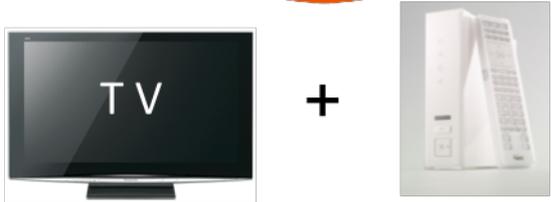
Multi-channel broadcasting VoD

Video Pass YouTube™ niconico

Enjoy music

LISMO WAVE Uta Pass

Enjoy life



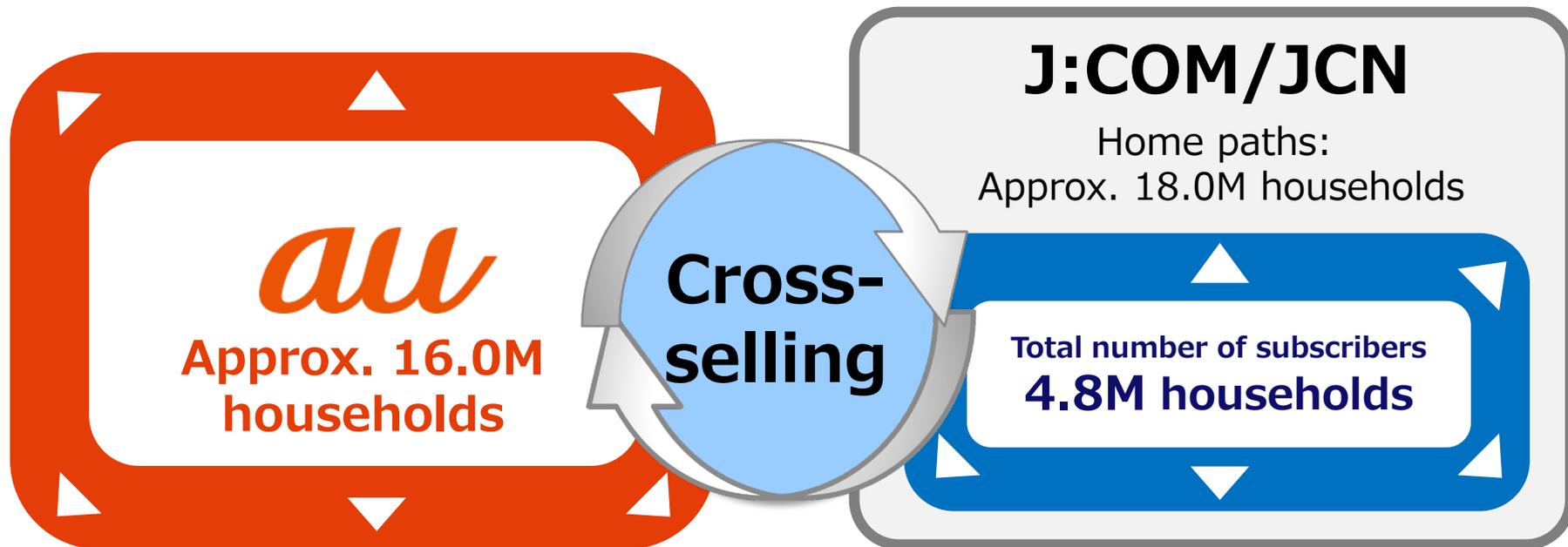
Smart TV Box

Enjoy shopping

\*Google Play, YouTube, and their respective logos are brands of Google Inc. \*Smart Value is a registered trademark of Energy Management Corporation

# Strengthening the Customer Base

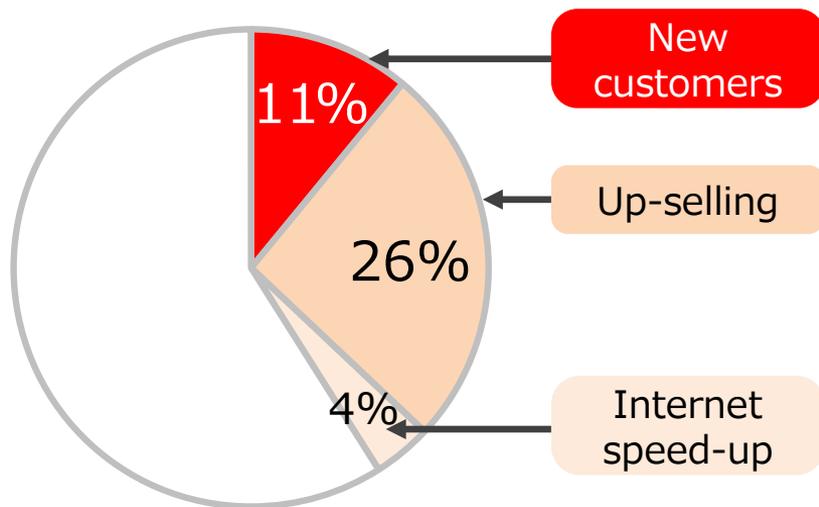
Maximizing the respective customer bases through cross-selling of products and services



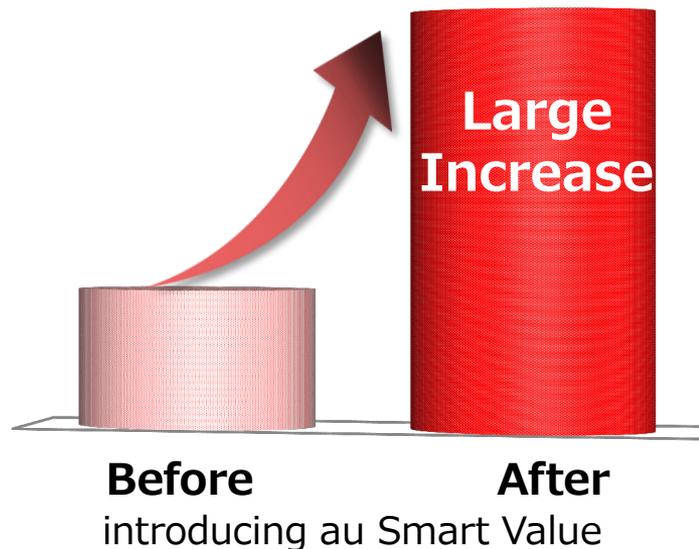
# The au Smart Value Effect on CATV

Significant increases in up-selling and internet subscriber additions  
Decrease in churn rate to 1/3\*

au Smart Value subscriptions  
at partner CATV stations



Internet subscriptions  
at Kansai cable station A

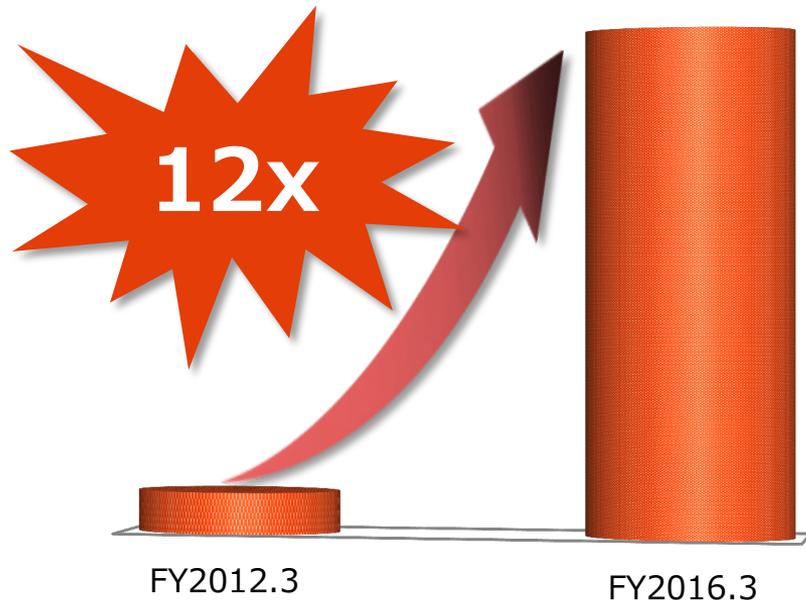


\*Calculation of churn rate calculated off of users that registered for Cable Plus phone in 2009, against those users still subscribed to au Smart Value as of 1Q/FY2011

# Promotion of Data Offloading

## Usage of CATV infrastructure for mobile data storage

KDDI Mobile Data Traffic Estimates



Mobile data traffic in FY2016.3

12 times the mobile data  
traffic in FY2012.3

**A mobile infrastructure alone is  
insufficient for this magnitude  
of data storage**

# Synergies with KDDI

## Increase in au subscribers

Increase au subscription rates of J:COM/JCN users to 50%

Approx. **¥120.0B**  
revenue increase

## Promoting data offloading

Viable tool in promoting data offloading in certain areas

Data offload ratio<sup>\*</sup>  
consistent at **50%**

**Strengthening the  
Alliance with  
Sumitomo Corporation**

# Contribution to the Further Growth of CATV

Supporting the CATV business via a strategic alliance with Sumitomo Corporation



Sumitomo Corporation



# Appendix

# J:COM's Media Business

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Users

CATV

Sky Perfect TV

IPTV

Sports



Dramas



Movies



Entertainment



*Designing The Future*

**KDDI**