

感動を生む。想いをつなぐ。  
The Entertain**media** Company

**J:COM**

# Financial Results for FY2011

January 25, 2012

Jupiter Telecommunications Co., Ltd.

**The financial information in this presentation was prepared in accordance with U.S. GAAP.**

**This presentation includes forward-looking statements reflecting our plans and expectations, which are based on currently available information and may be influenced by uncertain factors, including but not limited to economic circumstances, competition, and potential new services. Therefore, please be advised that our actual business results may differ substantially from the forward-looking statements in this presentation.**

**In addition, we expressly disclaim any obligation or intention to disseminate any updates or revisions to these forward-looking statements after this presentation.**

**1**

**FY2011 Overview and Results**

2

Explanation of Performance and Financials

3

FY2012 Business Plan & Strategy

4

FY2012 Full Year Forecast & Dividend Policy

5

Mid-term Business Plan

# 1. Summary of FY2011

Even though there were negative impacts on ARPU, maintain growth and high margin

(Billions of yen)

	FY2010	FY2011	YOY Changes	
			YOY Changes	YOY Changes
Revenue	360.1	369.1	2.5%	9.0
Operating Income	66.8	71.1	6.5%	4.3
Income before noncontrolling Interests and income taxes	63.2	68.5	8.5%	5.4
Net income attributable to J:COM shareholders	37.7	37.3	-1.1%	-0.4
EBITDA*	152.6	156.4	2.5%	3.8

\*EBITDA=(Revenue) – (Operating & programming costs) – (Selling, general & administrative expenses)

# 1-1. Summary of Principal Operations

Expand customer base >> Impact on ARPU decrease

(million)

	End of Dec 2010 (Ave. Jan-Dec 2010)	End of Dec 2011 (Ave. Jan-Dec 2011)	YOY Changes
Cable Television	2.69	2.88	6.9%
High-Speed Internet Access	1.70	1.83	7.7%
Telephony	1.97	2.22	12.5%
Total RGUs* <sup>1</sup>	6.36	6.92	8.8%
Total subscribing households	3.43	3.66	6.7%
ARPU* <sup>2</sup>	7,680 yen	7,499 yen	-181 yen
Bundle Ratio* <sup>3</sup>	1.86	1.89	0.03
Average Monthly Churn Rate per RGU	1.11 %	0.97%	- 0.14pts

\*1 Total number of revenue generating units (RGUs) for services supplied

\*2 ARPU= Monthly Average Revenue Per Unit

\*3 Bundle ratio = Average number of services received per subscribing household

# 1-2. Result for FY2011 (1)

## CATV Business

- Acceleration of growth in number of subscribing households, taking in demand for terrestrial digital broadcasting
- Steady expansion in customer base after digitalization of terrestrial broadcasting
- Churn rate at record low due to system enhancement and customer satisfaction activities
- Acquisition of majority stake in Yokohama Cable Vision Inc. (YCV)

## Media Business

- Initiation of broadcasting of 2 channels via new BS channels
- Promoted channel Integration
- Promoted re-branding of Channel



## Alliance with KDDI

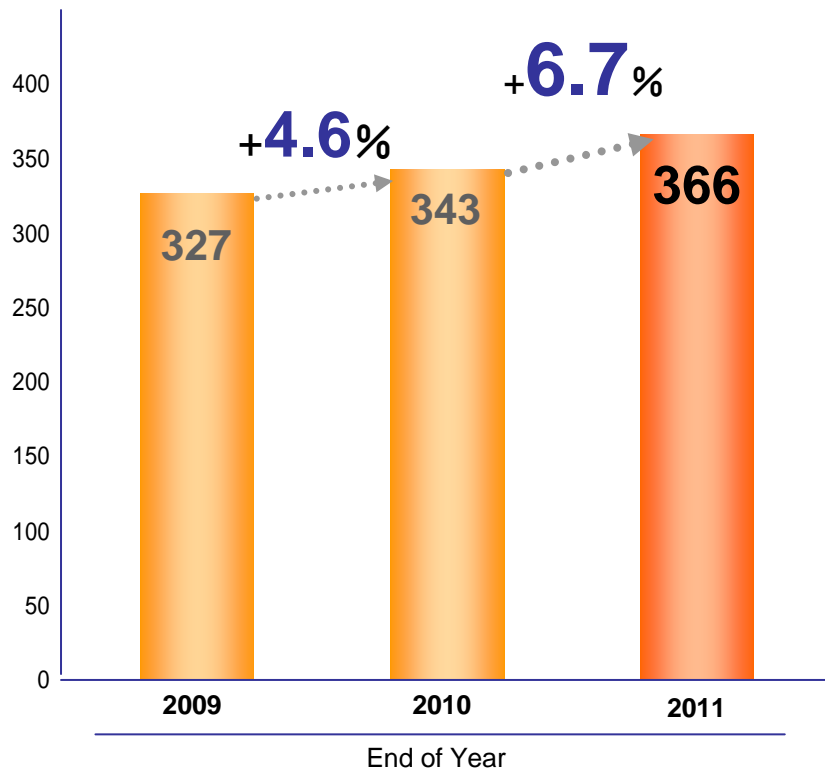
- Launch of and expansion of sales for new telephone service "J:COM PHONE Plus"
- Expansion of areas for cross-sales promotions, with favorable progress in Kansai area
- Promotion of network upgrading and concentration on telephone network

# 1-2. Result for FY2011 (2)

## Expansion of Customer Base

### Trend of total subscribing households

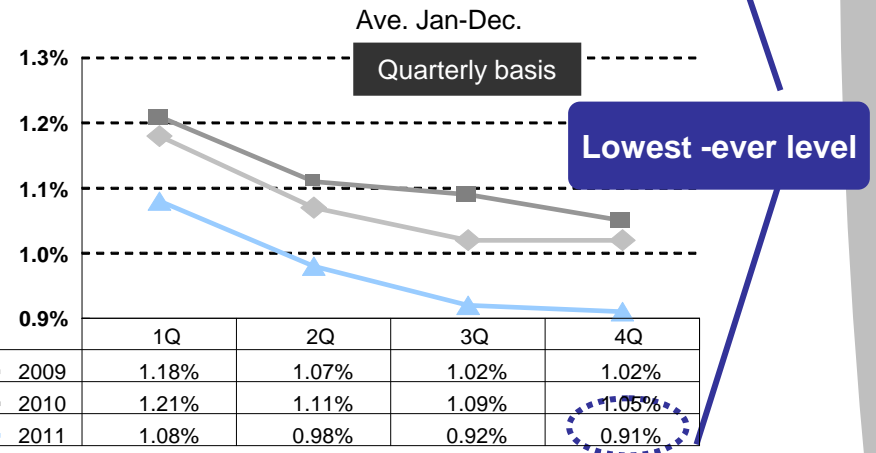
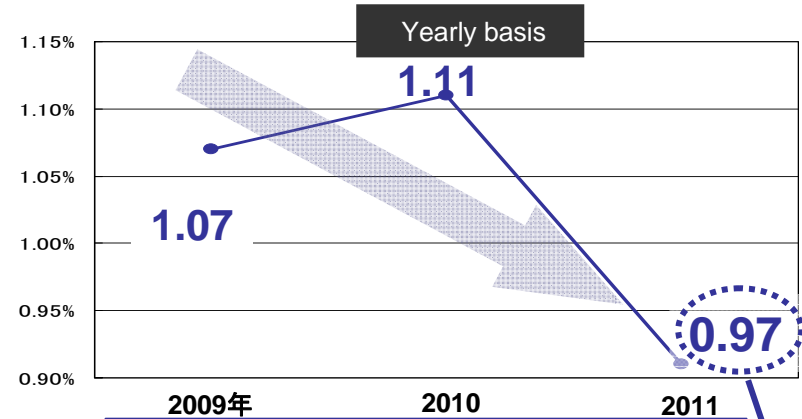
(ten thousand Households)



➔ Steady expansion in customer base after digitalization of terrestrial broadcasting

## Deepen ties with cusotmers

### Average Monthly Churn Rate per RGU\*



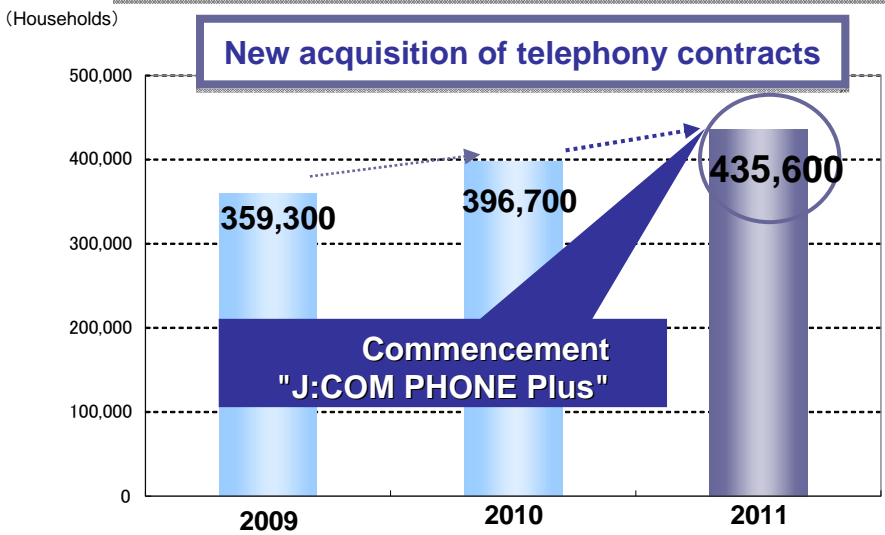
➔ Vastly improved and reach record low level

\* Average monthly churn rate = (Total no. of churns in a given period) / (Weighted average RGUs over the same period) / (No. of months)

# 1-2. Result for FY2011 (3)

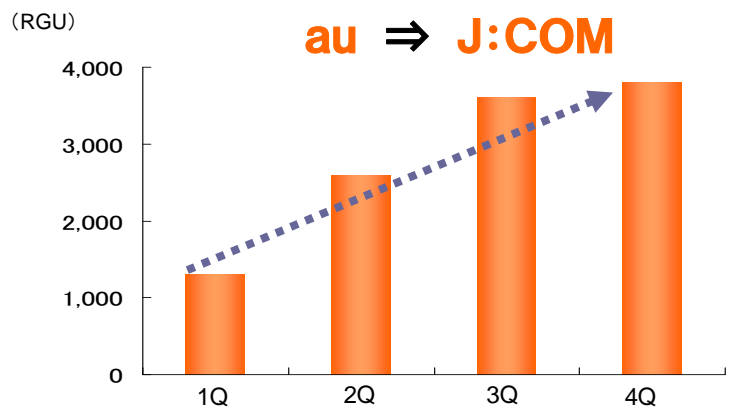
## Alliance with KDDI carrying out a variety of ongoing measures

### Product collaboration

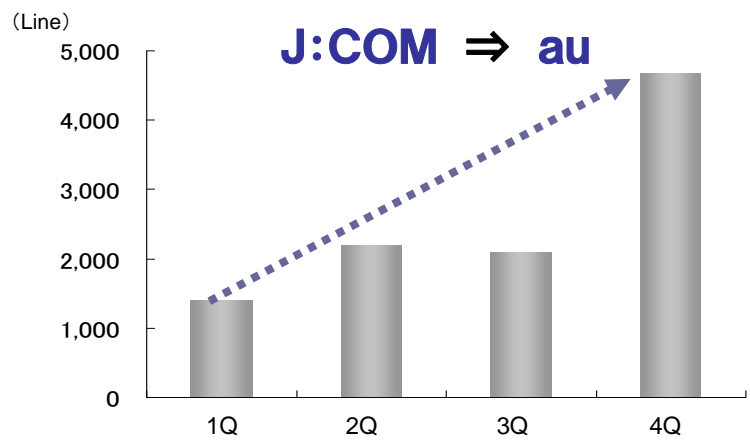
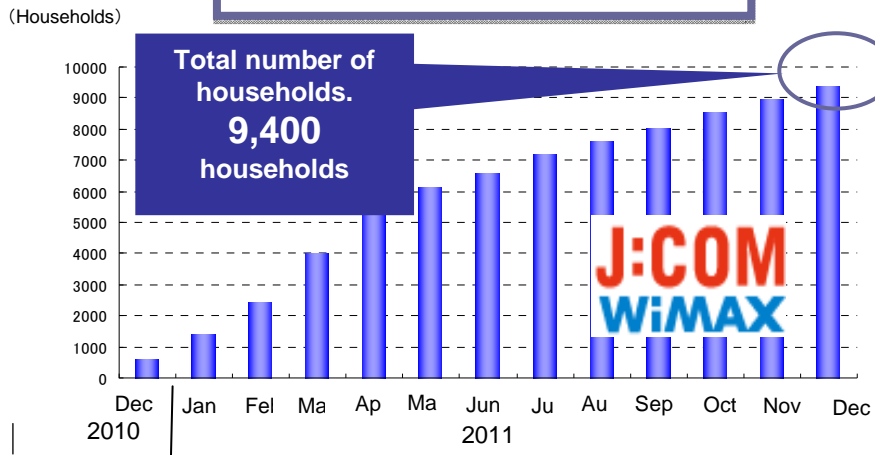


### Cross-sales promotions

**Good start in Kansai area**



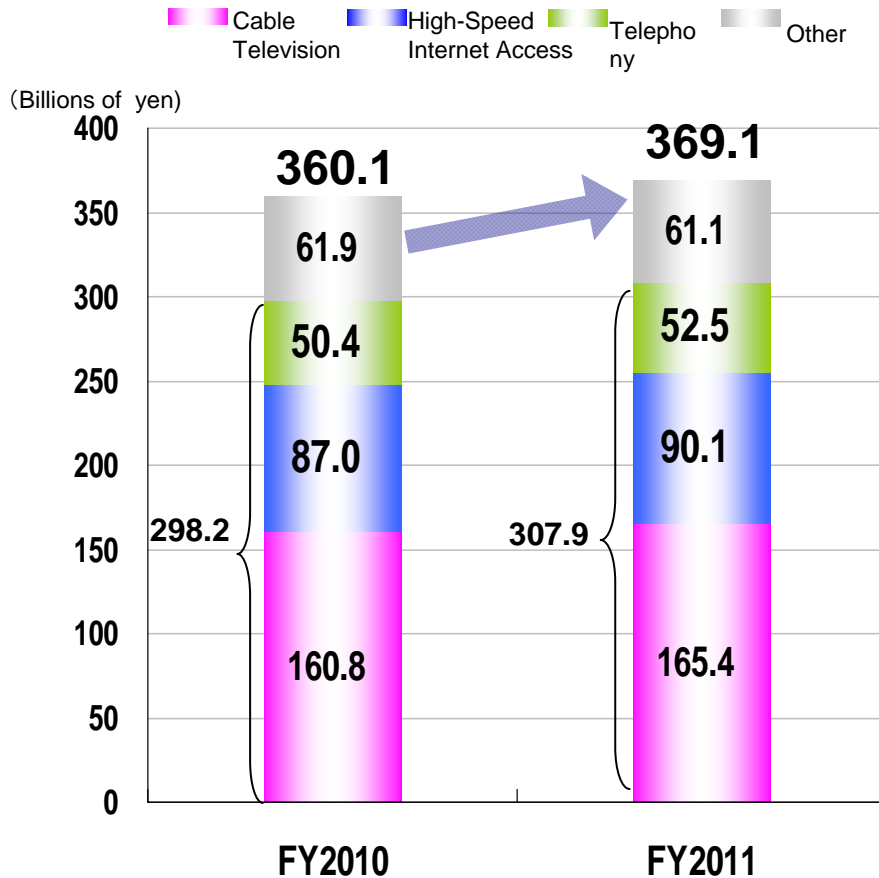
**J:COM WiMAX**



**1****FY2011 Overview and Results****2****Explanation of Performance and Financials****3****FY2012 Business Plan & Strategy****4****FY2012 Full Year Forecast & Dividend Policy****5****Mid-term Business Plan**

# 2-1. Revenue

**Revenue 369.1 bn yen (+2.5%、+9.0 bn yen)**



## Topics (YOY Change)

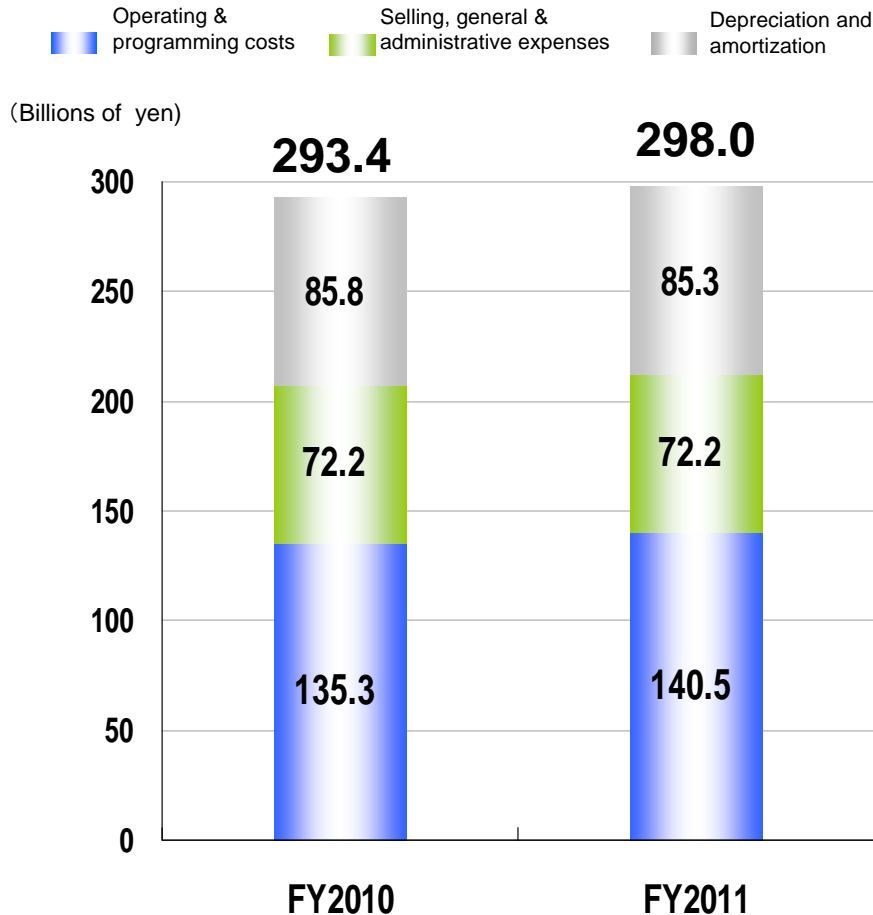
- **Subscription fees : 307.9bn yen(+3.3%)**

  - Increase in total subscribing households and RGUs
  - Increase in usage of such value-added services as “Blu-ray HDR”
  - Increase of VOD revenue (Including “J:COM TV My style”)
  
- **Other revenue : 61.1bn yen(-1.3%)**

  - Decrease in revenue relating to poor reception compensation of analogue service.
  - Increase of media business revenue from external J:COM group

# 2-1. Operating Costs and Expenses

**Operating Cost and Expenses 298.0 bn yen (+1.6%、+4.6bn yen)**



## Topics (YOY Change)

- **Operating & programming costs : 140.5bn yen (+3.9%, +5.3bn yen)**

  - Increase In programming-related and outsourcing costs
- **Selling, general & administrative expenses : 72.2bn yen (-0.1%, -90mn yen)**

  - Decrease in sales promotion-related expenses
- **Depreciation & amortization : 85.3bn yen (-0.6%, -0.5bn yen)**

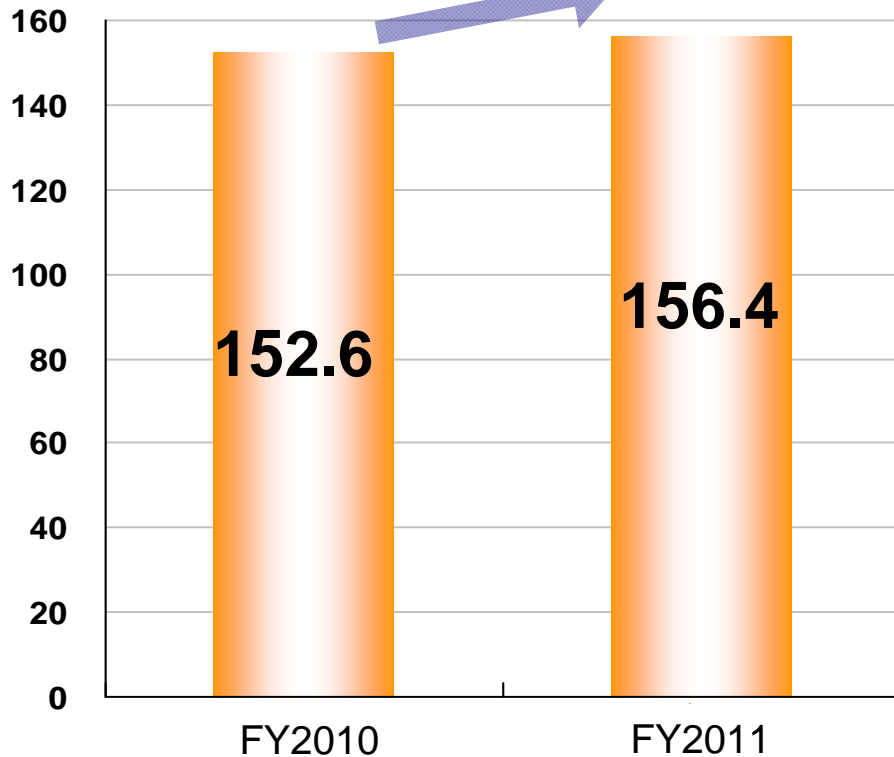
  - Decrease due to certain assets like STBs fully depreciated

## 2-1. EBITDA\* and Operating Income

### EBITDA\*

**+2.5% (+3.8bn yen)**

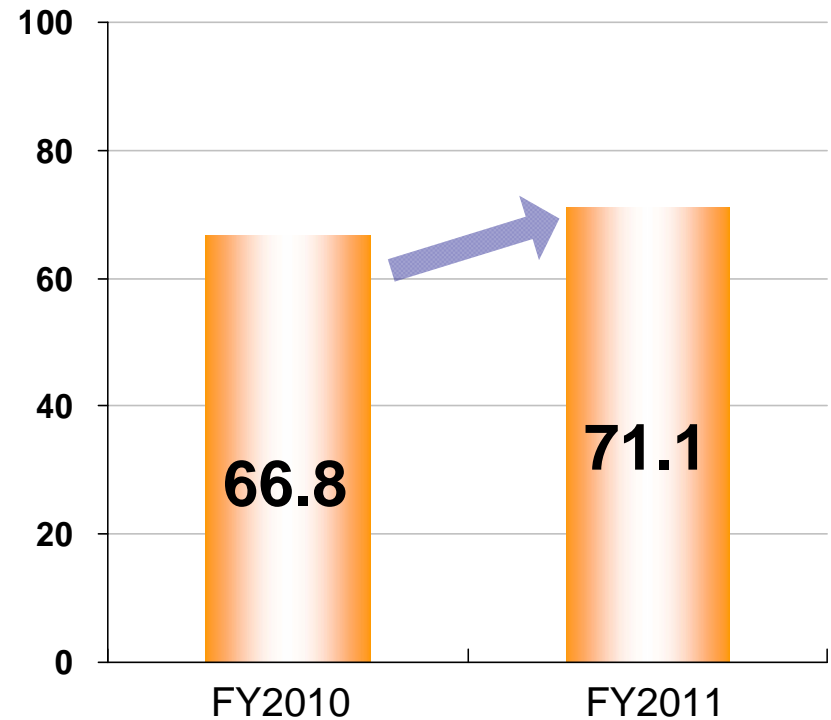
(Billions of yen)



### Operating Income

**+6.5% (+4.3bn yen)**

(Billions of yen)



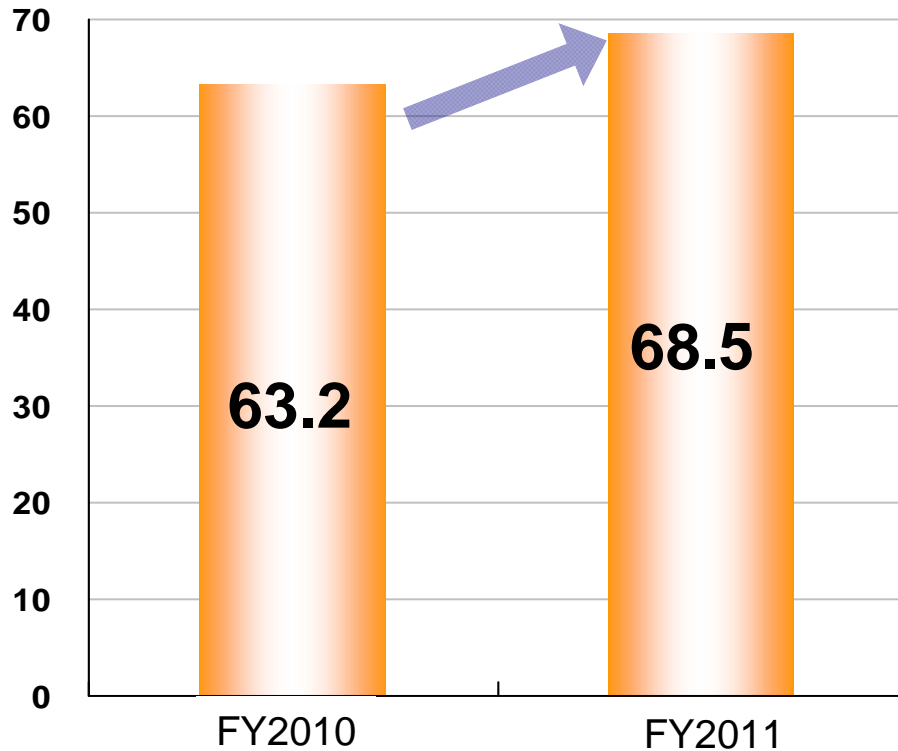
\*  $EBITDA = (\text{Revenue}) - (\text{Operating \& programming costs}) - (\text{Selling, general \& administrative expenses})$

## 2-1. Income Before Noncontrolling Interests and Income Taxes, Net Income Attributable to J:COM Shareholders

### Income Before Noncontrolling Interests and Income Taxes

(Billions of yen)

**+8.5% (+5.4bn yen)**

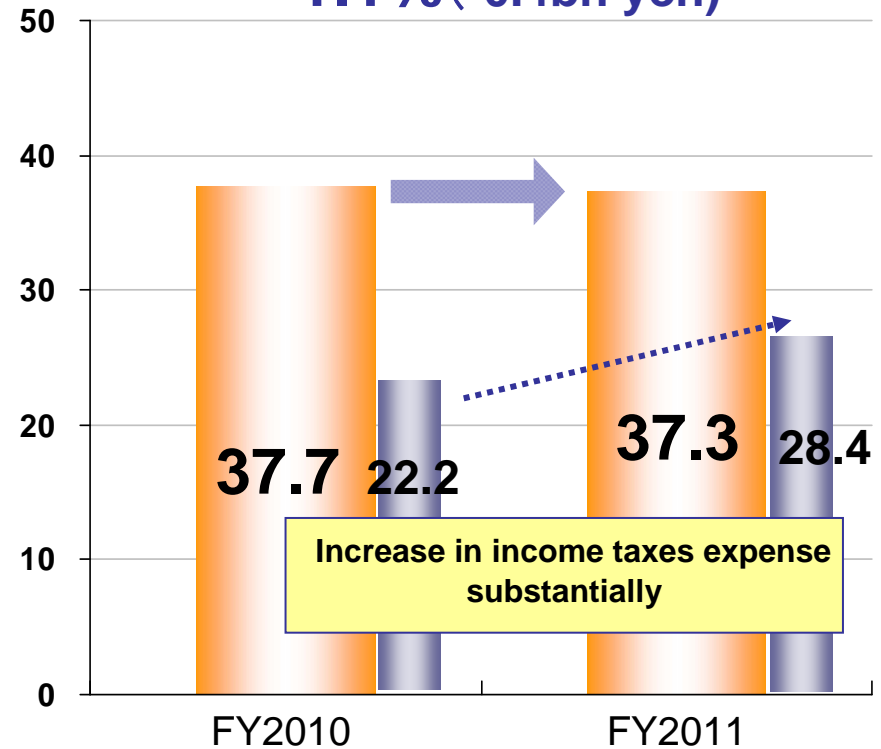


### Net Income Attributable to J:COM Shareholders

(Billions of yen)

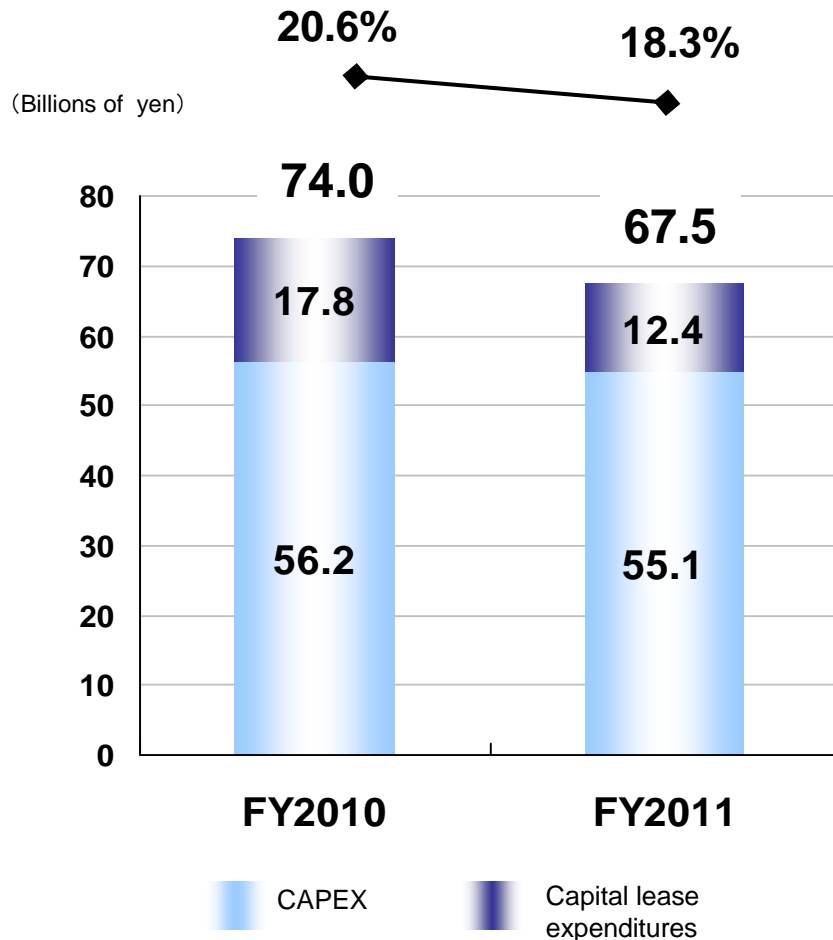
**-1.1% (-0.4bn yen)**

Net Income Attributable To J:COM Shareholders (Orange bar)  
Income taxes expense (Blue bar)



## 2-2. Capital Expenditures

### CAPEX Ratio\*



\* CAPEX Ratio is defined as the ratio of total capital expenditures to revenue

### Topics (YOY Change)

#### 1. CAPEX -1.2 bn yen

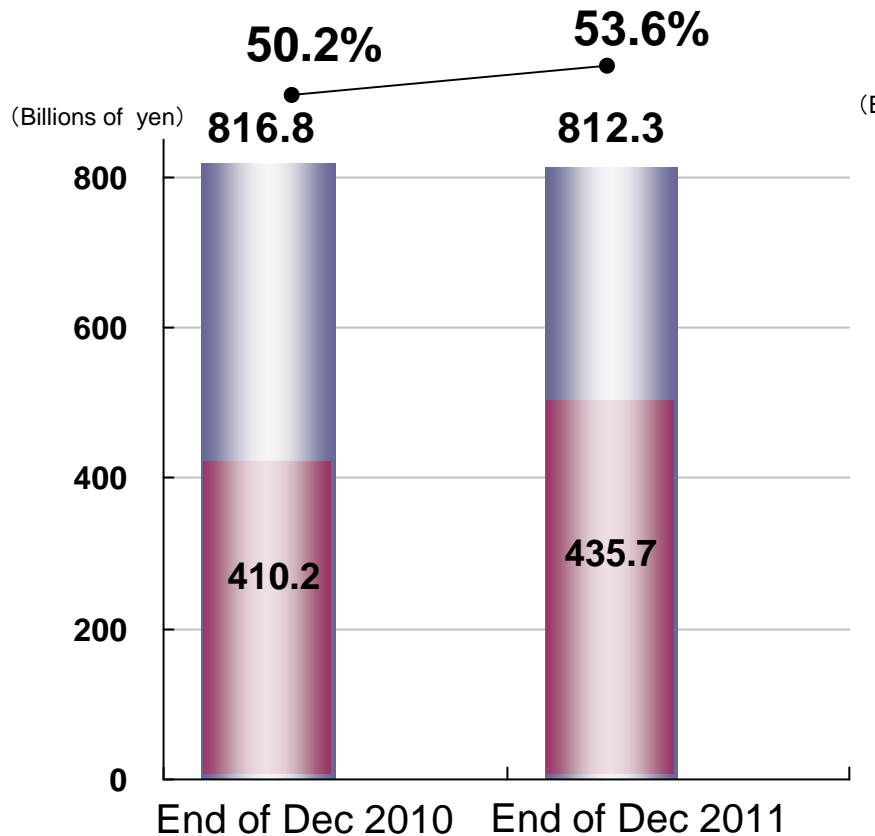
- Decrease in installation expenses due to drop in unit cost
- Suspension of plan of trunk line extension due to earthquake disaster

#### 2. Capital lease expenditures -5.4 bn yen

- Drop in quantity purchase of STB owing to completion of digitization, and drop in the average procurement cost of STBs.

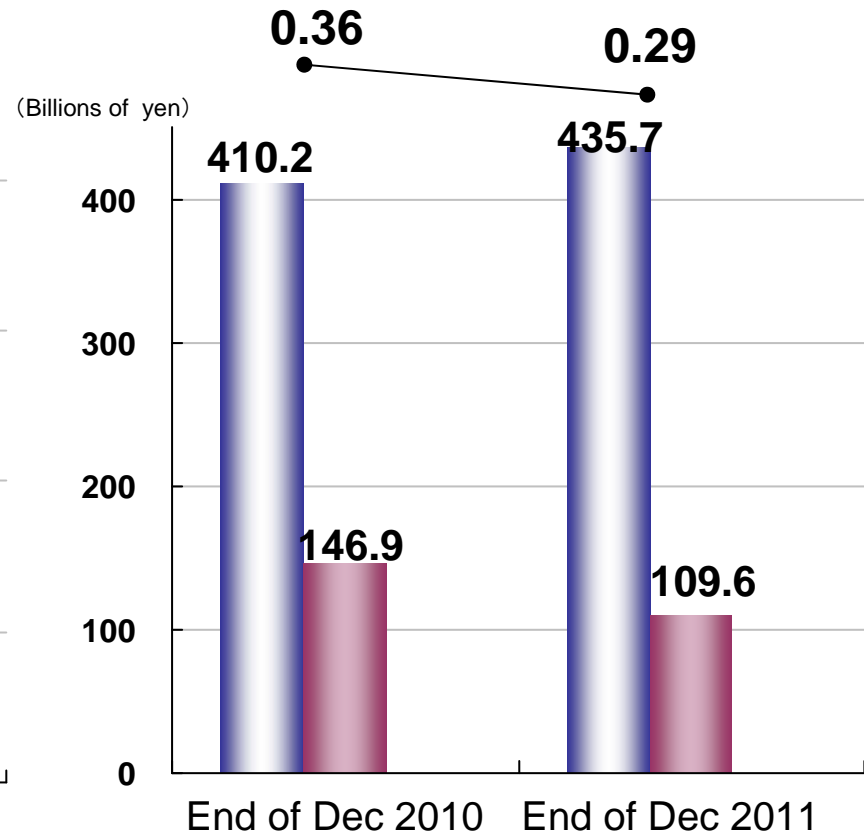
## 2-3. Principal Financial Indicators

### J:COM Shareholders' Equity Ratio to Total Assets



■ Total Liabilities and Shareholders' Equity  
■ J:COM Shareholders' Equity

### D/E Ratio



■ J:COM Shareholders' Equity  
■ Net Debt

## 2-4. Consolidated Cash Flows

(Billions of yen)

	FY2010	FY2011	YOY Changes
<b>Cash flows from operating activities</b>	124.4	123.3	-1.0
<b>Cash flows from investing activities</b>	-57.0	-58.3	- 1.3
<b>Cash flows from financing activities</b>	-53.5	-53.4	0.2
<b>Free cash flow*</b>	50.4	55.8	5.5

### 【Outline】

Income before noncontrolling Interests and income taxes +5.4 billion yen  
Increase and decrease in asset and debt +3.2 billion yen  
Increase in tax payment -10.9 billion yen

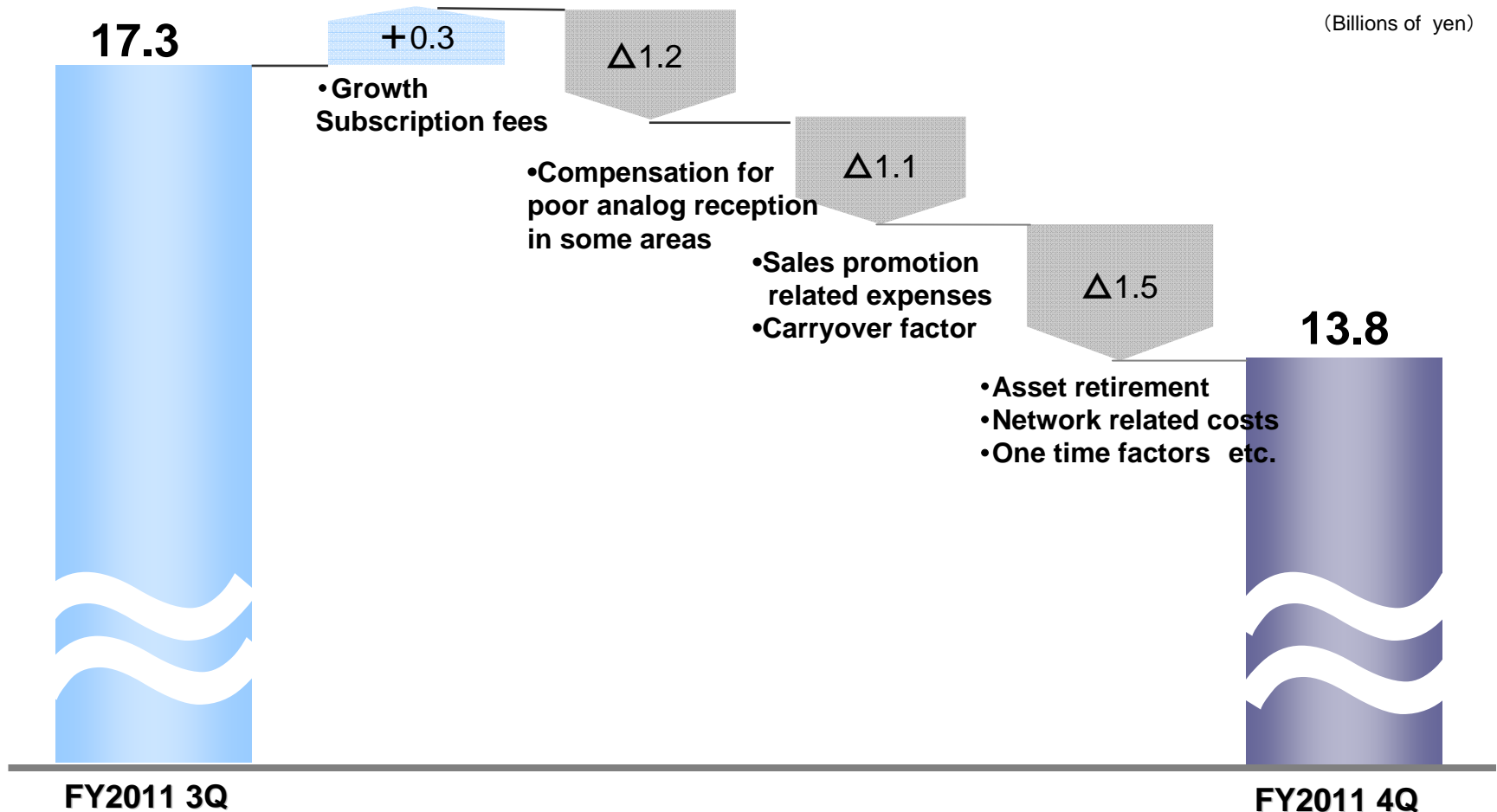
Capital expenditures +1.2 billion yen  
Acquisition of new subsidiaries - 3.4 billion yen (FY2011)  
Acquisition of operating assets +1.1 billion yen (FY2010)

Cash dividend paid to shareholders -4.9 billion yen  
Acquisition of noncontrolling interests in consolidated subsidiaries +1.3 billion yen  
Repayments of debt +3.7 billion yen

\* Free cash flow = (Cash flows from operating activities) – (Capital expenditures)

## 2-5. Change in Operating Income (Q3 vs. Q4)

The numerous factors for increased Q3 and Q4 operating expenses were only temporary



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# 3-1. Operating Environment for J:COM

2012 ... Curtain opens on era of new, pay-tv multi-channel broadcasting

## 1. First year for New Pay-TV multi-channel Broadcasting

- Further growth in number of new BS channels (24 channels → 31 channels from March 1, 2012)

 Pursue multi-channel subscription opportunities using new BS channels as entry

## 2. Entering Era of Major Competition

- Full scale entry by IPTV and OTT in addition to traditional broadcasting industry

 Differentiation of content capability and community service strength necessary


## 3. Clarification of Diversifying Needs

- Respond to changing family structure and diversification of television viewing needs

 Pursue new subscription opportunities outside of the multi-channel base

## 4. Diversifying of Viewing Methods and Tools

- Diverse range of terminals becoming popular, including smart phones and tablet PCs.

 Link with terminals vital in design of TV and Internet service products

## 3-2. FY2012 Management Policy

Fundamental  
Policy

Consolidate the base for medium- to long-term growth while maintaining sustained growth

### 1. Expand customer base and boosting earnings potential

- From revenue generating unit (RGU) orientation to sales and earnings orientation

### 2. Evolution of new product, new service, new content strategy and enhancement of convenience for customer satisfaction

### 3. Cultivate of Alliance

- Promote alliance with KDDI and utilize Sumitomo Corporation's resources

### 4. Implement M&A Actively

- Cable television business + Media business + New business

### 5. Promote Robust Network

### 6. Promote Increased Business Efficiency

### 3-3. FY2012 Key Measures (CATV Business)

Expand customer base × Boosting Earnings Potential

New product strategy

- Introduce new products that address increasingly diverse needs
- Expansion Internet based services
- Actively market high ARPU products
- Bolster wireless-type value-added services
- Utilize “au Smart Value”

Expansion of sales channels

- Nation-wide promotion of “ZAQ” character
- Expansion of cross-sales promotions with KDDI
- Promotion of Metal-plus Phone transition

Accelerate improvement of churn rate

- **Increase the proportion of long-term contracts by diversifying the menu of long-term contract products**
- **Strengthen after-sales service structures and systems**

Community-based business

- High-definition (HD) programs for Community channels
- Experimental evolution of life-style support business

### 3-3. au Smart Value



A discount of ¥1,480 on monthly usage fees for a maximum period of two years on each au smartphone line (monthly discount of ¥980 after two years)

Main Target

**au subscribers who are yet to subscribe to J:COM**

The significance and Impact on J:COM

Revenue	<ul style="list-style-type: none"> <li>■ Capture untapped customer base</li> <li>■ Increase ARPU through upselling activities</li> <li>■ Contribute to the prevention of cancellations</li> <li>■ Bear a portion of discount (Deduction from revenue)</li> </ul>
Costs	<ul style="list-style-type: none"> <li>■ Normally occurring subscriptions-related expenses</li> </ul>

**Launch TV Commercials in the Kansai area from February and nationally from March**  
**At the same time, pursue Web and transportation advertising as well as local promotions**

# 3-4. FY2012 Key Measures (Media Business)

## Strengthen the Channel Business

### New BS Broadcasting



Commence broadcasting on March 1, 2012



Bring to the market the largest BS four-channel sports television station

Expand the lineup of MLB games to 400, doubling the number of games broadcast in 2011

### Promote Channel Integration



Acquire broadcasting rights from the U.S.-based Golf Channel from April 2012

Bring to the market Japan's only thematic golf channel, Golf Network

Strengthen the lineup of major U.S., Europe and Japan tournaments; expand independent hookups

### Rebranding



Bolster original program production through "Women's Channel ♪ LaLa TV"

Bring to the market a diverse content lineup based on the image of a "toy box for women"; establish channels that attract the support of all women

Image character: Hayato Ichihara



## Obtain original content

Investment in documentary film: *51 (Wu Yi) – The Smallest Panda Ever Born*

Broadcast by J:COM on Demand on February 11, 2012, the same day as the theater opening

▶ We aim to actively engage in the upstream area of content distribution.



## 3-5. Promoting Reform of the Company's Cost Structure

### Rapid growth through M&A, versus pending issues with respect to the business structure and organization, as well as operating processes

- A residual Group structure of 24 companies resulting in functional duplication throughout the organization
- Remnants of independent area operating rules and workflows within the Group
- Inadequate adherence to a consolidated purchasing structure

### Implementing comprehensive Group wide cost structure reform

Areas subject to reduction	Specific measures
Streamline head office functions	<ul style="list-style-type: none"> <li>• Rationalize MSO by implementing a selection system that focuses on a small number of individuals; strengthen frontline sales and customer service capabilities</li> <li>• Integrate the current 24-company Group structure; reduce operating costs with respect to transactions within the Group</li> </ul>
Unify operating rules and work flows within the Group	<ul style="list-style-type: none"> <li>• Abolish unique rules to each system acquired through M&amp;A ; unify operations that lack efficiency                             <ul style="list-style-type: none"> <li>- Unify, wherever possible, rules and operating work flows on A nationwide basis (for example: process relating to construction logistics), while retaining community channel Production that makes the most of each region's unique attribute</li> </ul> </li> </ul>
Reduce costs that flow outside the Company	<ul style="list-style-type: none"> <li>• Review cost levels through a thorough evaluation of business costs                             <ul style="list-style-type: none"> <li>- Recognition, for example, of the need to review costs relating to equipment used in construction (approximately 8,000 items)</li> </ul> </li> </ul>

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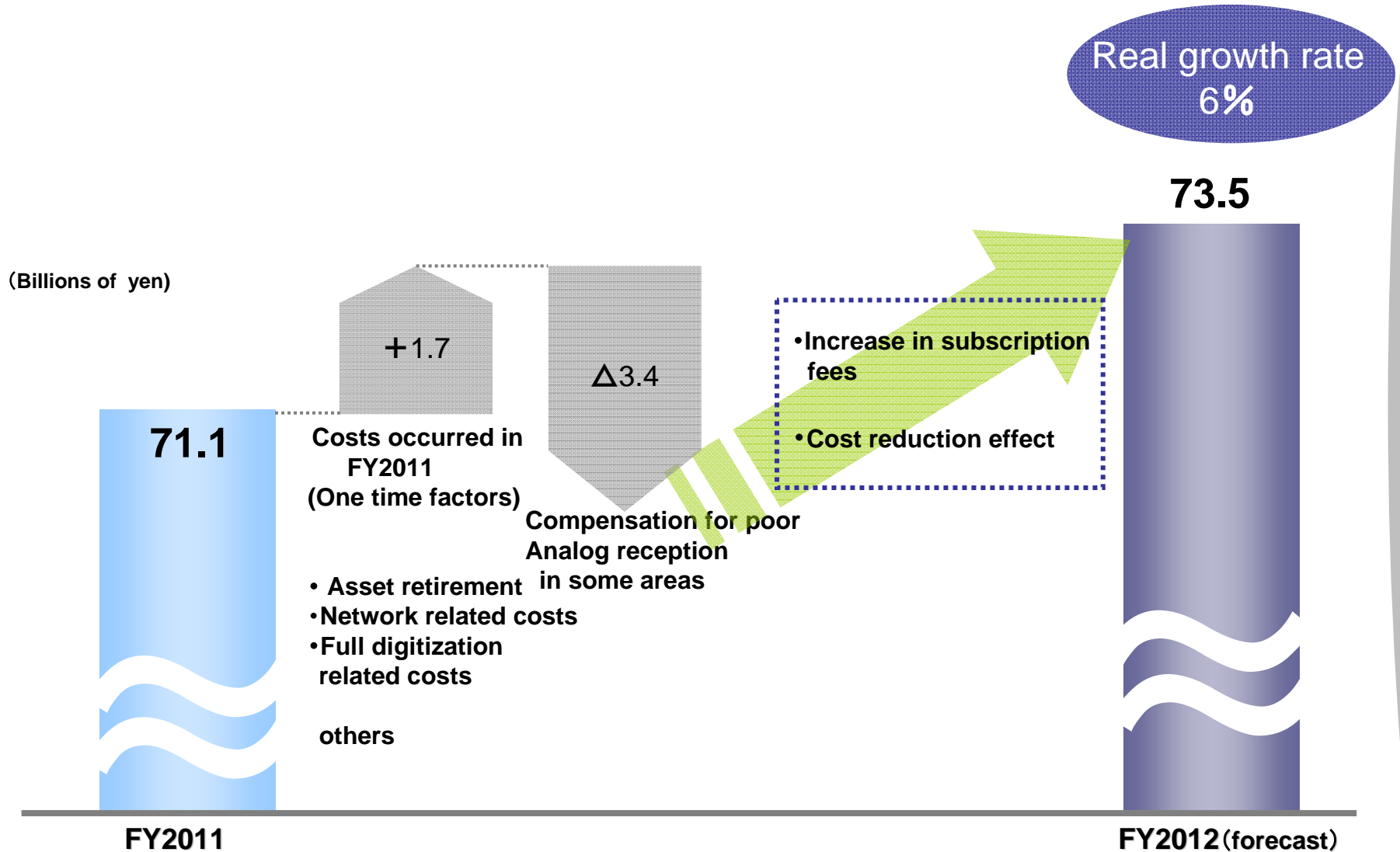
## 4. FY2012 Full Year Forecast

(Billions of yen)

	FY2011 (Actual)	FY2012 (Forecast)	Change	
Revenue	369.1	378.0	2.4%	8.9
Operating Income	71.1	73.5	3.4%	2.4
Income before noncontrolling interests and income taxes	68.5	71.0	3.6%	2.5
Net income attributable to J:COM shareholders	37.3	39.0	4.6%	1.7
EBITDA*	156.4		2-3%	

\*EBITDA=(Revenue) – (Operating & programming costs) – (Selling, general & administrative expenses)

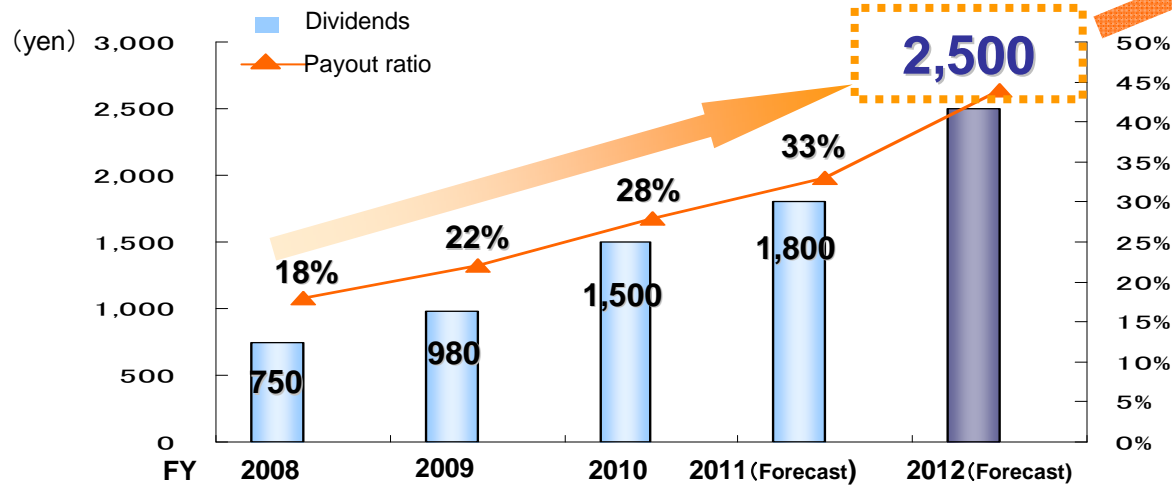
# 4-1. Change in Operating Income



# 4-2. FY2012 Dividend Policy

Background	<ul style="list-style-type: none"> <li>◆ Stable earnings structure and trends</li> <li>◆ Generation of FCF and an increase in liquidity on hand</li> </ul>
Objectives	<ul style="list-style-type: none"> <li>◆ Further clarification of the Company's shareholder focus after taking into consideration the aforementioned</li> <li>◆ Improvements in ROE and balance sheet efficiency</li> </ul>
Dividend Policy	Forecast dividend: <b>¥ 2,500</b> per share

## Trend of Dividends per share



**Payout ratio**  
**44 %**

**Total return ratio**  
**57 %**

Besides, Setting frame of repurchase J:COM common stocks up to 5 billion yen

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# 5-1. Direction of the Medium-Term Business Plan

## Cable television business

From a “triple-play service provider”  
to a “**community service partner**”

Contributing to the convenience and enrichment of communities through home information and communication technologies (ICT)

## Media business

From a “multi-channel operator”  
to a “**comprehensive media business group**”

Contributing to the enhancement of media lifestyles through content

**Demonstrating comprehensive capabilities (“J:COM Everywhere”)**

**High-level technology support functions**

**Technology infrastructure**

**Stable growth in existing business + Promote Alliance • M&A**

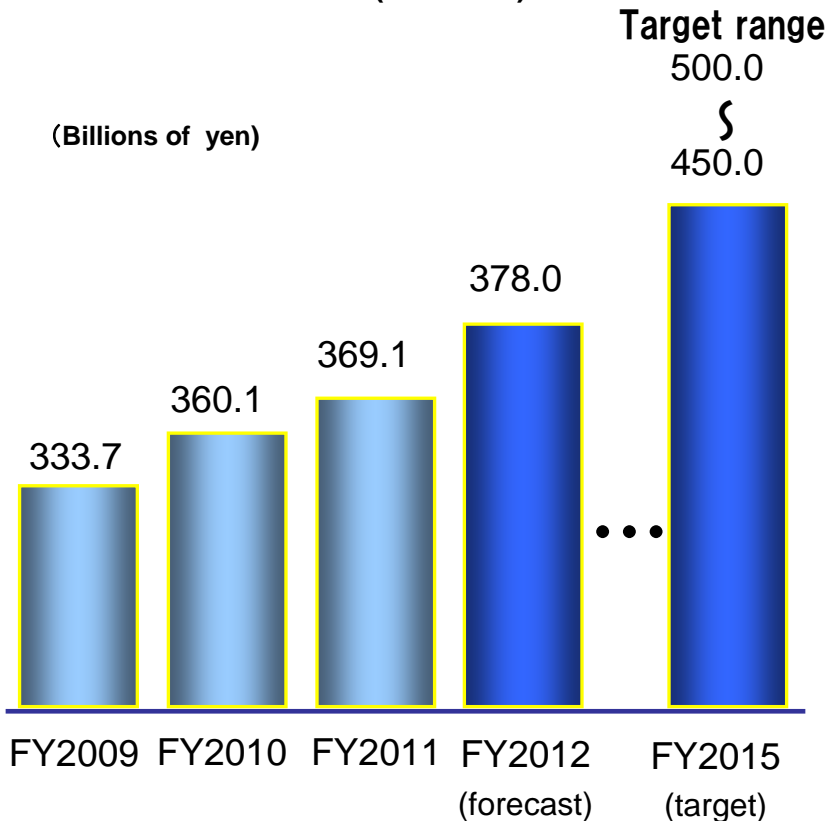
## Targets

- |                                |                              |
|--------------------------------|------------------------------|
| ○ Revenue                      | 450 – 500 billion yen        |
| ○ Total subscribing households | 4.5 – 5.0 million households |

## 5-2. Goals for Fiscal 2015 under the Medium-Term Business Plan

Accelerate growth by pursuing M&A in life-style support service business in sight, as well as CATV and Media business

Growth in Company business (Revenue)



Achieve stable growth in existing business domains

- Complete the launch of initiatives according to fiscal 2012 management policies

Cultivate new business domain by promoting aggressive alliance and M&A

### ■ CATV Business

- Pursue continuous expansion of service areas through M&A

### ■ Media Business

- Produce and obtain original content
- Promote consolidation of channels

### ■ New Business domains

- Promote Lifestyle support service businesses, particularly "J:COM Everywhere"
  - Narrow 1,800 business concepts down to 16 and continue ongoing assessment of their potential
  - Leverage mutual collaboration with Tokyu Corporation

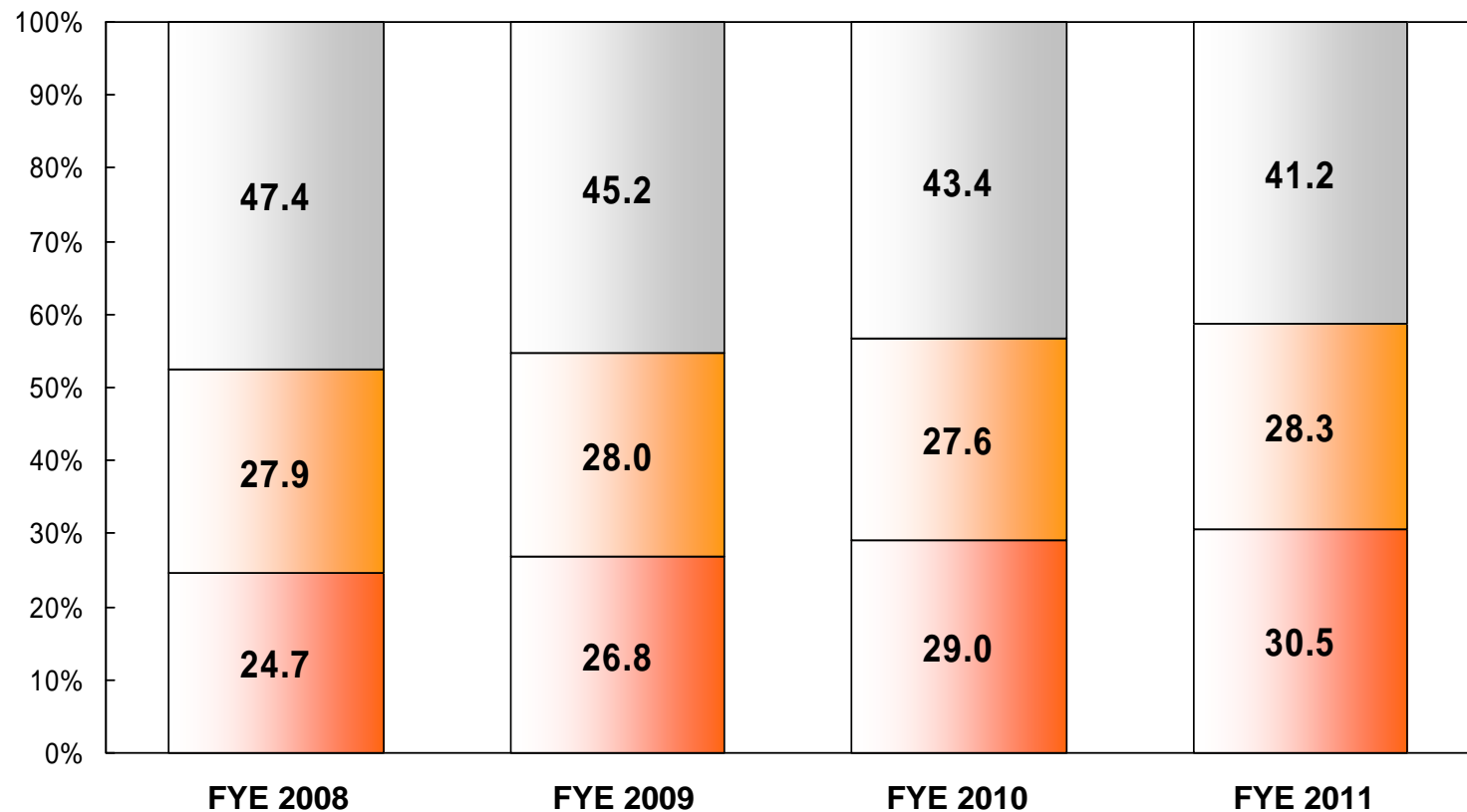
Announcement of outline of medium-term business plan goals for fiscal 2015 during presentation of financial results at the end of April

## Appendix

- Bundling Progress
- "HDR" STB with Internal Hard Disk Drive
- J:COM NET 160Mbps Service
- Number of Households with Service Available by Channel

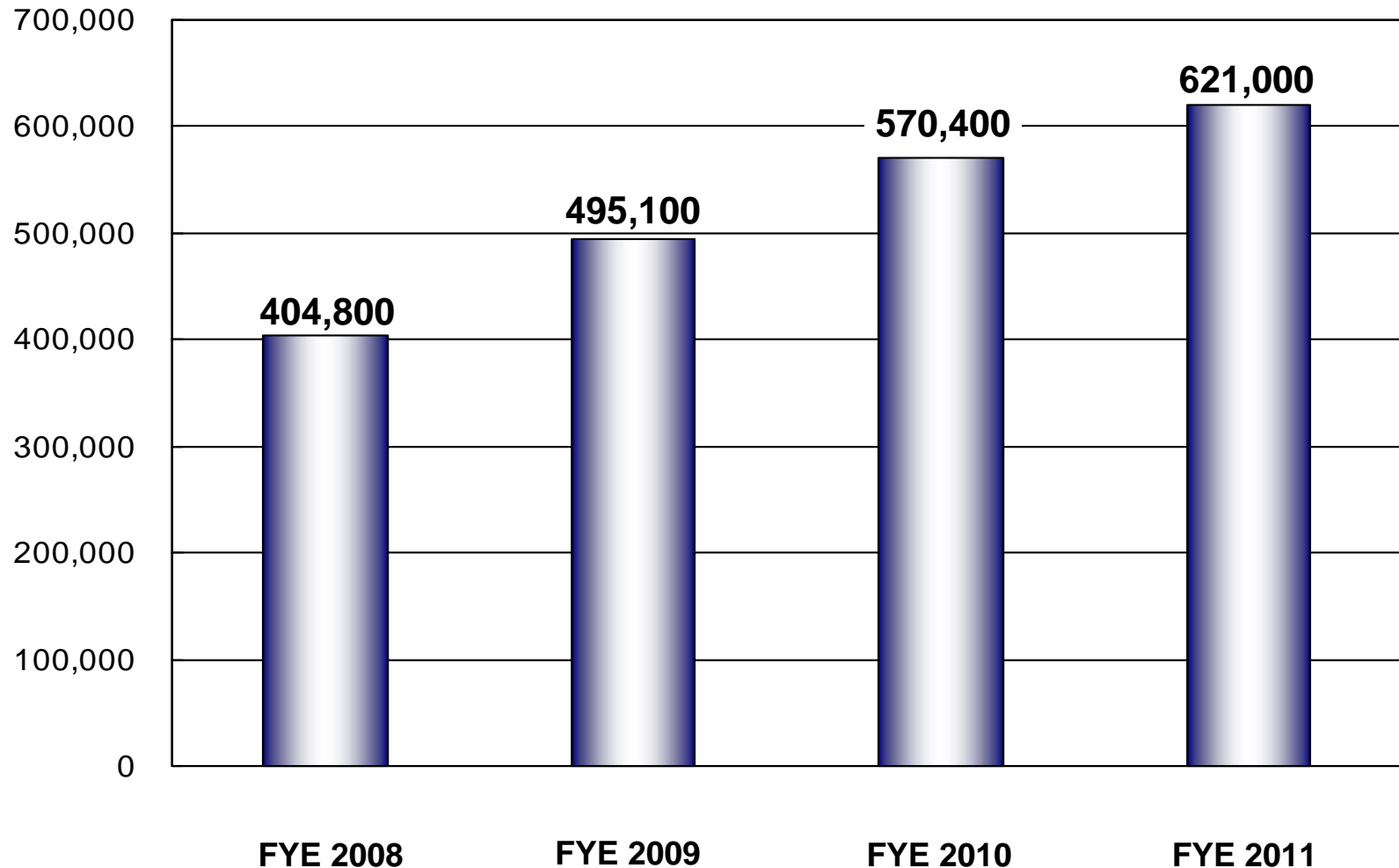
## Composition of Households by No. of Services Subscribed

■ Households with 3 services   ■ Households with 2 services   □ Households with 1 services



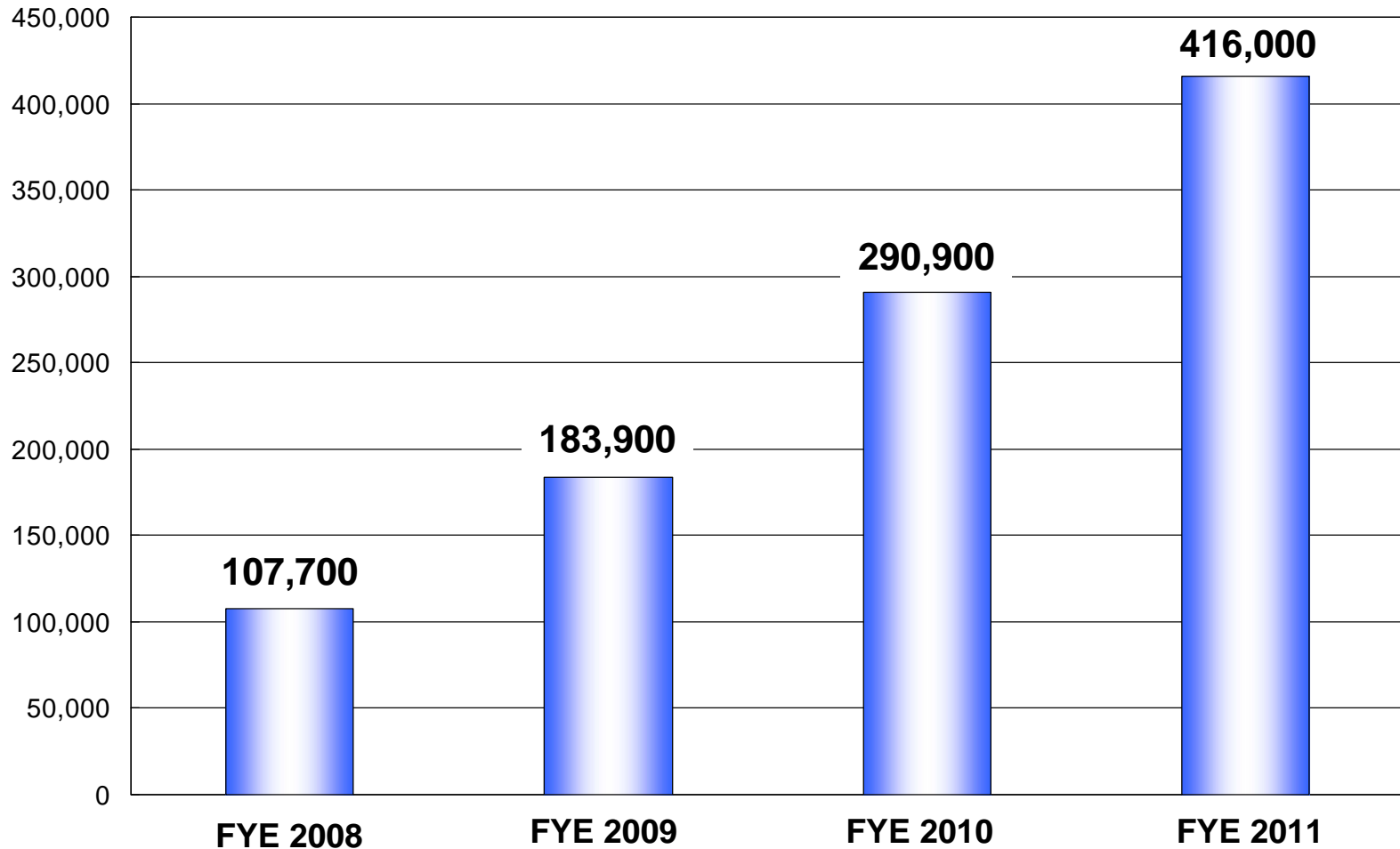
# “HDR” STB with Internal Hard Disk Drive

## Total HDR STB Distribution



## Number of Subscribing Households

(Unit: Households)



# Number of Households with Service Available by Channel

(As of Nov 31, 2011)

Name of channel/company	Classification Equity stake	No. of households	Name of channel/company	Classification Equity stake	No. of households
<b>Basic channels</b>					
	Movie Plus	7,490K (7,500K)		AXN	7,500K (7,430K)
Jupiter Entertainment Co., Ltd.	Consolidated		AXN Japan Inc.	Equity method 35%	
	LaLa TV	6,800K (6,800K)		Kids Station	8,650K (8,610K)
Jupiter Entertainment Co., Ltd.	100%		Kids Station Inc.	Other 15%	
	Act On TV	4,060K (3,950K)		Japanese Movie Channel	7,610K (7,540K)
JUPITER VISUAL COMMUNICATIONS CO., LTD.	Consolidated 90.00%		Nihon Eiga Satellite Broadcasting Corp.	Other 9.99%	
	GOLF NETWORK	7,350K (7,340K)		SAMURAI DRAMA CHANNEL	8,190K (8,130K)
Jupiter Golf Network Co., Ltd.	Consolidated 89.41%		Nihon Eiga Satellite Broadcasting Corp.		
	J sports 1, J sports 2, J sports 3, J sports 4 *	7,490K (7,640K)		Nikkei CNBC	7,580K (7,570K)
J SPORTS Corporation	Consolidated 80.5%		Nikkei CNBC Japan Inc.	Other 9.75%	
	Channel Ginga	4,070K (4,020K)	<b>Optional channels</b>		
Channel Ginga Co., Ltd.	Consolidated 76%			Anime Theater X (AT-X)	140K (140K)
	Discovery Channel	7,020K (7,020K)	AT-X, Inc.	Other 12.28%	
Discovery Japan Co., Ltd.	Equity method 50%				
	Animal Planet	6,130K (6,120K)			
Discovery Japan Co., Ltd.	Equity method 33.3%				

Source: Companies involved

Number of households with service available as of Aug. 31, 2011, are shown in parentheses.

\* J sports 4 is an optional channel at J:COM systems.