

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

**J:COM**

# Financial Results for the 2nd Quarter of the FY2011 ending December 2011

July 26, 2011

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.**

|          |   |
|----------|---|
| <b>1</b> | <b>Summary of 2Q FY2011</b>               |
| 2        | Explanation of Performance and Financials |
| 3        | Major Initiatives in and after 3Q FY2011  |
| 4        | Appendix                                  |

# 1. Summary of 2Q FY2011

Performance is progressing generally in line with plans

(unit: billion yen)

|   | FY2010 2Q | FY2011 2Q | YOY Changes | Forecast for FY2011 | YTD Progress |
|---|-----------|-----------|-------------|---------------------|--------------|
| Revenue   | 177.5     | 184.0     | 3.6%        | 370.0               | 50%          |
| Operating Income  | 32.9      | 40.0      | 21.4%       | 73.0                | 55%          |
| Income before noncontrolling interests and income taxes | 31.2      | 38.4      | 23.4%       | 69.5                | 55%          |
| Net income attributable to J:COM shareholders           | 20.2      | 20.5      | 1.3%        | 37.5                | 55%          |
| EBITDA*   | 75.6      | 81.4      | 7.8%        | +4-6%               |              |

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

# 1-1. Summary of Principal Operations



Earnings contributions from J:COM My style and sales trends remain strong

(unit: million)

| <b><i>Principal Operations</i></b>            | <b>End of Mar 2010<br/>(Ave. Jan-Jun 2010)</b> | <b>End of Mar 2011<br/>(Ave. Jan-Jun 2011)</b> | <b>YOY<br/>Changes</b> |
|---|--|--|------------------------|
| <b>Cable Television</b>                       | <b>2.61</b>                                    | <b>2.77</b>                                    | <b>6.1%</b>            |
| <b>High-Speed Internet Access</b>             | <b>1.64</b>                                    | <b>1.76</b>                                    | <b>7.0%</b>            |
| <b>Telephony</b>                              | <b>1.86</b>                                    | <b>2.09</b>                                    | <b>12.3%</b>           |
| <b>Total RGU*</b>                             | <b>6.11</b>                                    | <b>6.61</b>                                    | <b>8.3%</b>            |
| <b>Total subscribing households</b>           | <b>3.34</b>                                    | <b>3.52</b>                                    | <b>5.4%</b>            |
| <b>Average Monthly Churn Rate<br/>per RGU</b> | <b>1.16 %</b>                                  | <b>1.03%</b>                                   | <b>- 0.13pts</b>       |

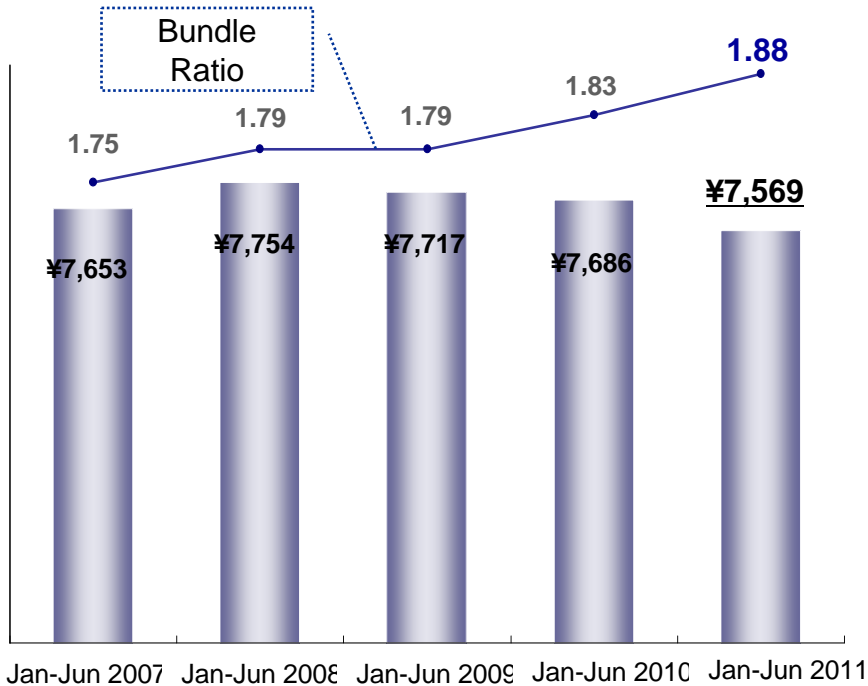
\*Total RGU (Revenue generating unit) = Total number of services provided

# 1-1. FY2011 2Q Consolidated Performance Highlights I:COM

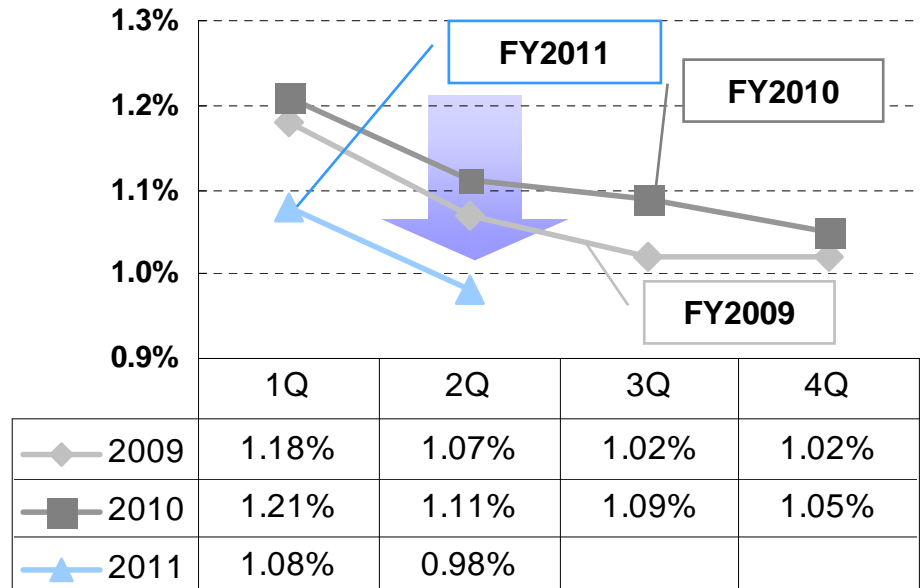
**Favorable Progress in Bundle Ratio**

**Vastly Improved of Churn Rate per RGU**

ARPU\* and Bundle Ratio\*



Average Monthly Churn Rate\* per RGU



\*ARPU=Monthly Average Revenue Per Unit  
 \*Bundle ratio=Average number of services received per subscribing household

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

## 1-2. Measures Taken in 2Q FY2011

Made progress in expanding the Customer Base and Deepen Ties with Customers

Expanding the subscriber base

1. Increased number of subscribing households

- Final efforts to capturing terrestrial digital demand

2. Alliance with KDDI

- Strengthened and expanded various initiatives

Deepen ties with customers

3. Promoted the use of high-value-added services

- Offered a full range of VOD services and promoted subscription to Blu-ray HDR

4. Improved churn rate

- Promoted long-term contracts to subscribers

5. Improved customer satisfaction and raised awareness of J:COM

- Promoted a wide range of events

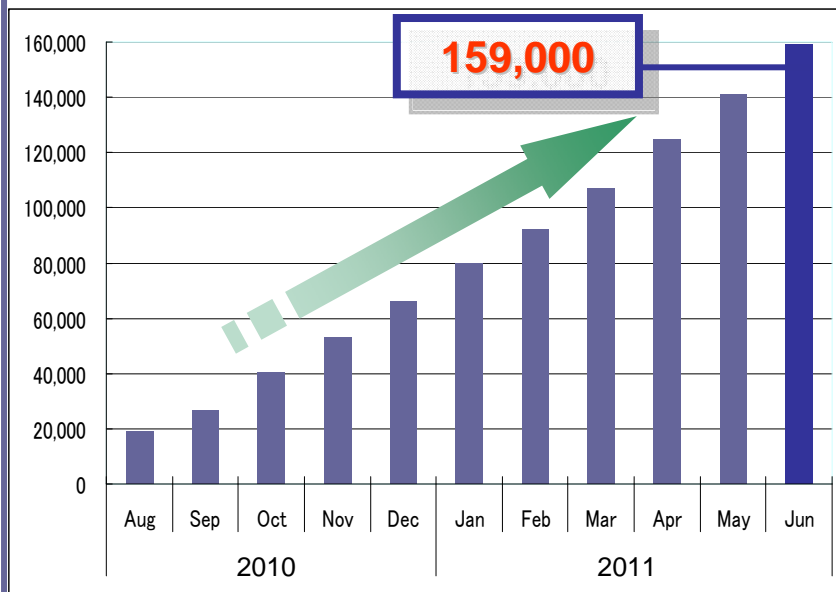
# 1-2-1. Increased Number of Subscribing Household

## Final effort to capturing terrestrial digital demand

- **Total subscribing households + 178,900** (compared with 2Q FY2010)
- **CATV subscribing households + 159,300** (compared with 2Q FY2010)

### Dynamic adoption to “J:COM TV My style”

Number of J:COM TV My style Subscribing Households (Cumulative)



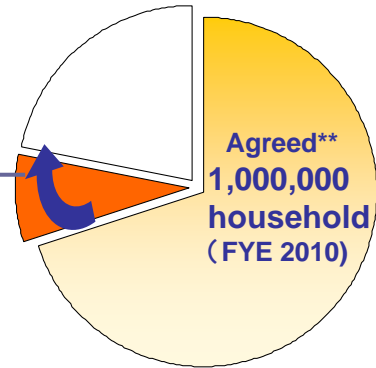
### Acquisition of communal reception Household\*

Agreed\*\* with approx. **1.12 million** household (approx. 80%)

Estimated 1.43million communal reception households\*  
In the J:COM area (at the end of June, 2011)

Increased by **120,000 household** (Jan-June, 2011)

Subscription to J:COM service **approx. 35,000 RGU** (Jan-June, 2011)



\*Communal reception households are defined as households that receive terrestrial broadcasts through communal reception facilities, which were set up to solve poor reception in shadow areas created by buildings, transmission lines and related structures.

\*\* Households that agreed with facilities management companies by promoting the sales of J:COM's services .

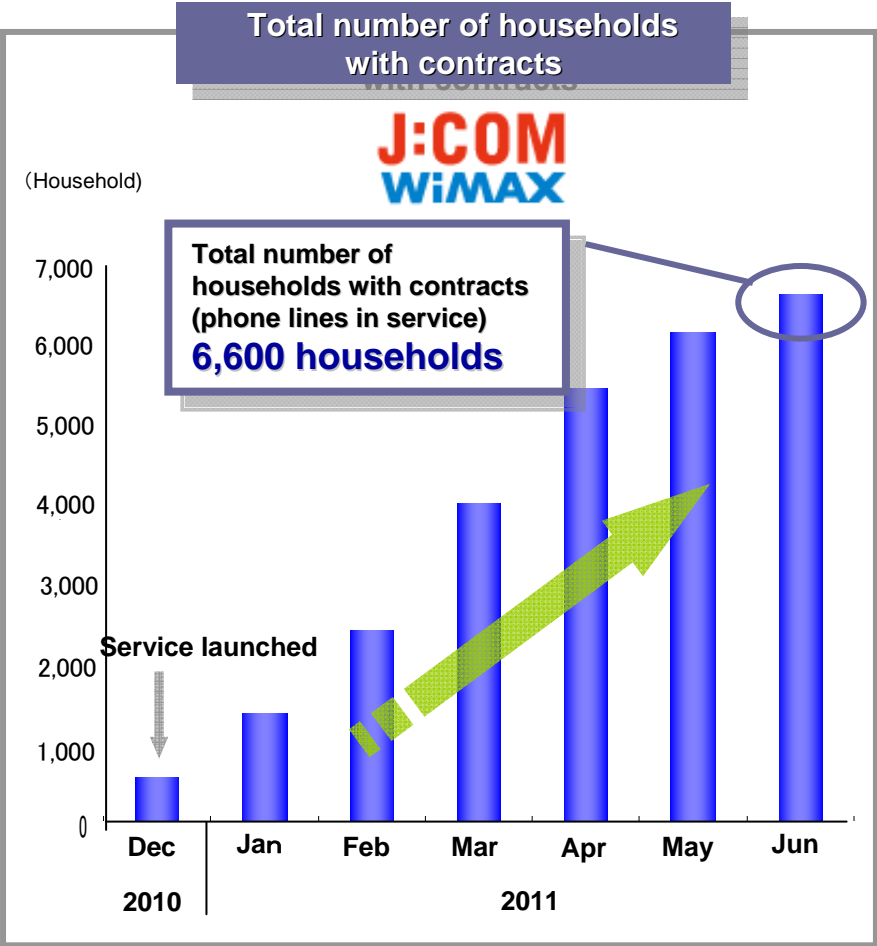
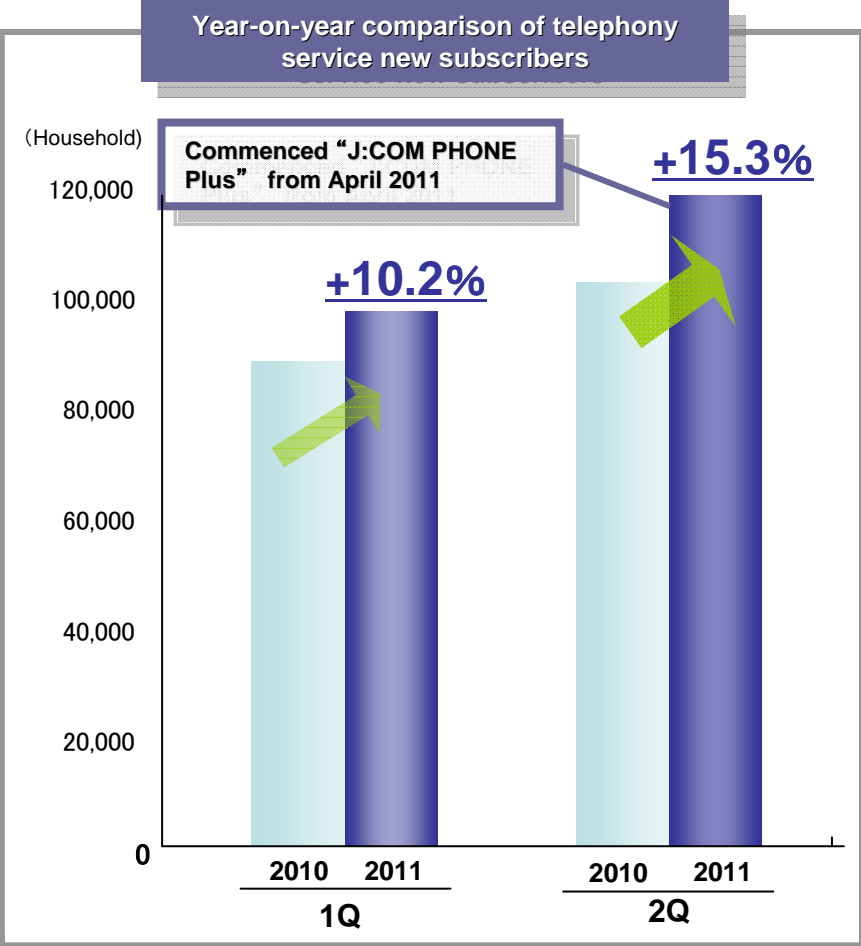
# 1-2-2. Alliance with KDDI



## Strengthening and expanding various initiatives

### Commencement of "J:COM PHONE Plus"

### Commencement of "J:COM WiMAX"



# 1-2-3. Promoting the Use of High-Value-Added Services

## Expanding VOD services and promoting Blu-ray HDR

### VOD

#### Broadcast movies on the same day as DVD release

• Offering early release of major western and Japanese films on VOD

- “The Social Network”
- “Harry Potter and the Deathly Hallows Part One”
- “Norwegian Wood”
- “The Last Message – Umizaru”



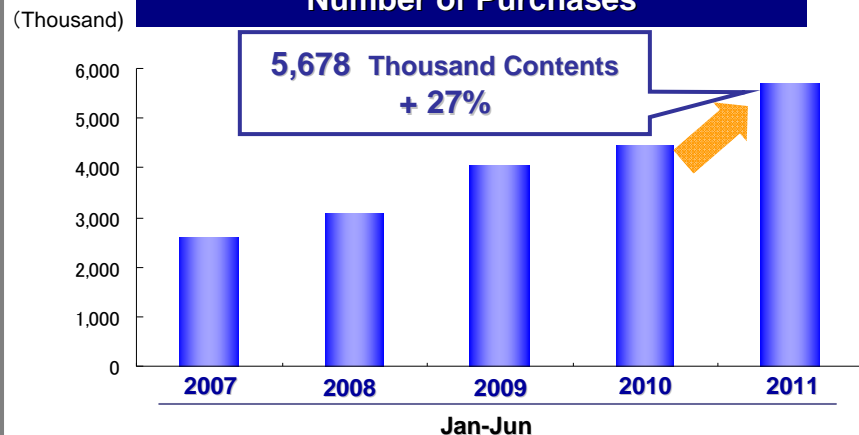
#### Furthering collaboration with Terrestrial Broadcaster

• Pay-for-view broadcasts released before scheduled terrestrial television broadcasts

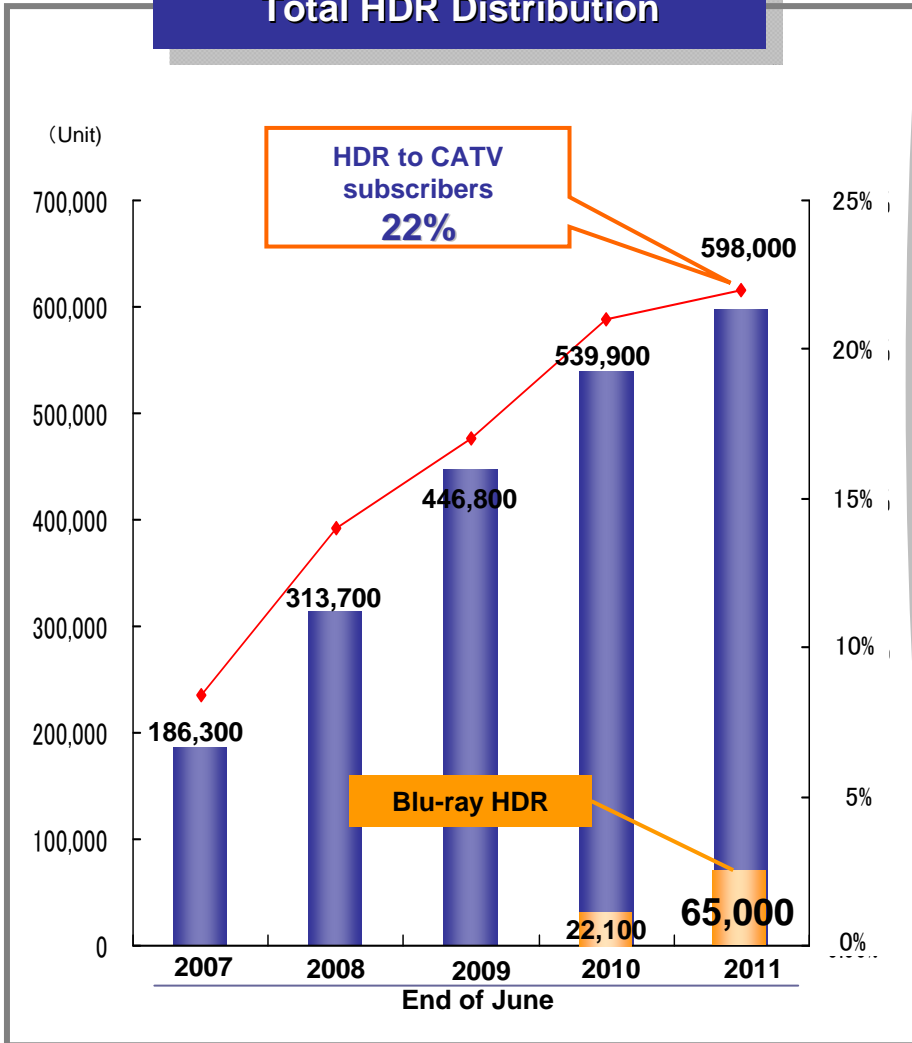


- TBS program, Friday Break

### Number of Purchases



### Total HDR Distribution



# 1-2-4. Initiatives Aimed at Improving Churn Rate

The churn rate decreased compared to the second quarter of the previous fiscal year as a result of various initiatives

## Initiatives

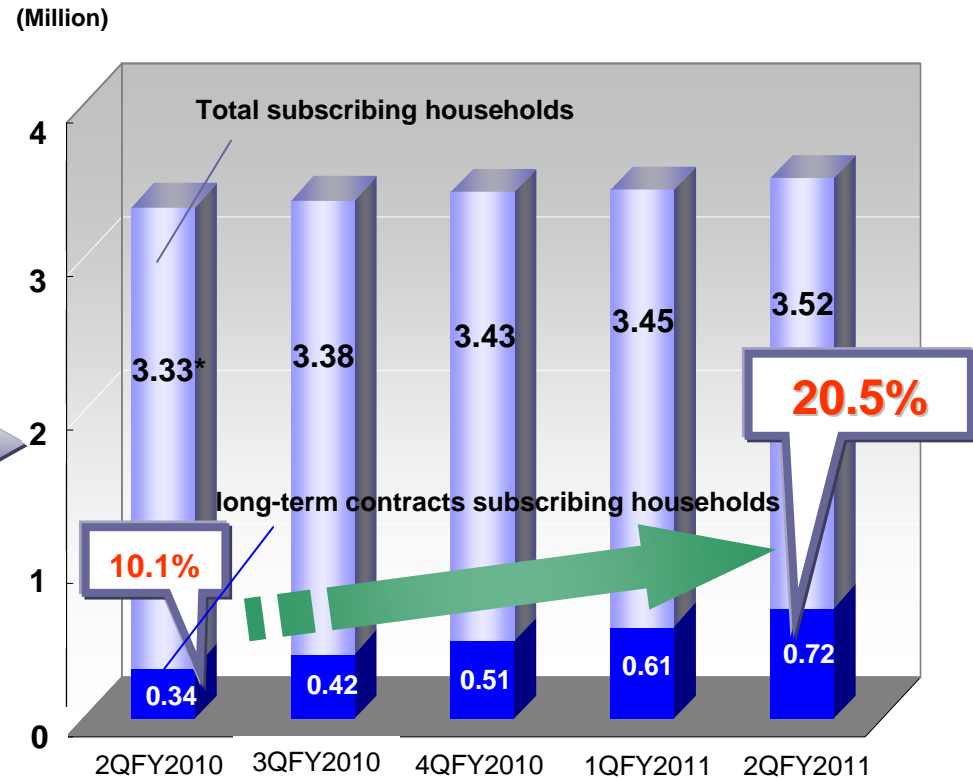
- Implemented a new evaluation system for sales representatives based on the customer's subscribing period from April 2011

- Improved quality of customer service

- Increasing long-term contracts

- Implemented measures targeting each subscriber group that is more likely to cancel contracts

## Shift toward long-term contracts



\* The "total subscribing households do not include those of J:COM systems that don't offer long term contracts.

## 1-2-5. Initiatives to Improve Customer Satisfaction and Raise Awareness of J:COM



Music to support areas affected by the Great East Japan Earthquake

### MTV VIDEO MUSIC AID JAPAN



|       |  |
|-------|--|
| Date  | Saturday June 25, 2011                   |
| Venue | Makuhari Event Hall,<br>Chiba Prefecture |

1. Gave away 100 pairs of tickets to J:COM subscribers

**16,100 applicants**

2. Broadcast the event live on community channels for the first time

Over **9 million households**

(Number of households with community channel services)

3. Set up a joint J:COM and JCN exhibit

Jointly held first photo exhibition  
of  
Jang Keun Suk in Japan

Jointly held by J:COM and Frau International Co., Ltd.

### Jang Keun Suk Photo Exhibition

Tuesday June 28, 2011 to Wednesday July 4, 2011, at Yokohama Sogo



1. Photo exhibition approx. **23,000 visitors**

2. Gave away tickets for the open press conference to J:COM subscribers

**9,300 applicants**

3. TV Broadcast • J:COM free-on-demand (FOD)

• Community channels Over **9 million households**

(Number of households with community channel services)

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# 2-1. Revenue and Operating Costs and Expenses **J:COM** [US GAAP]

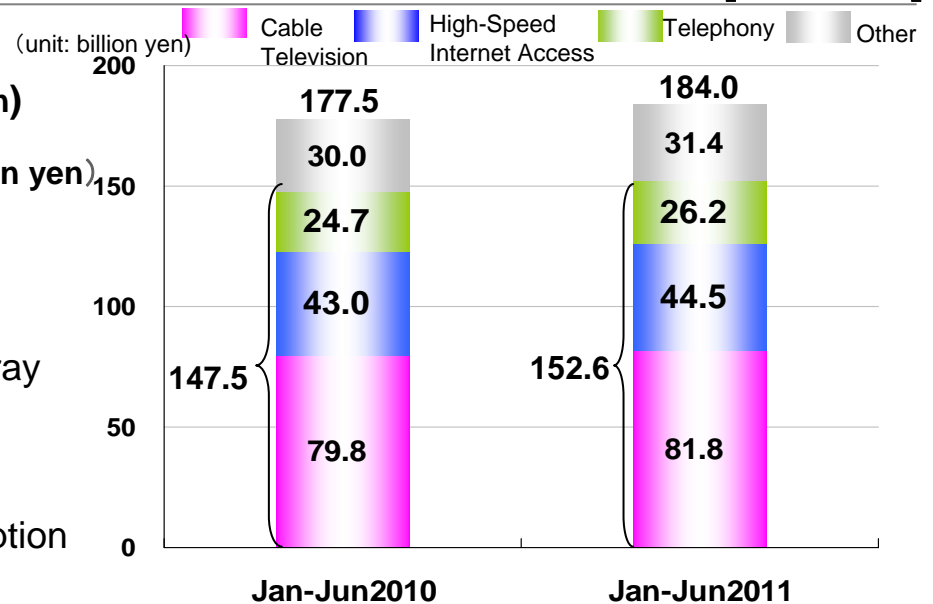
## Revenue

**184.0bn yen(+3.6%、+6.5bn yen)**

■ **Subscription fees:152.6bn yen (+3.4%,+5.0bn yen)**

■ **Other : 31.4bn yen (+4.8%,+1.4bn yen)**

- Increase in total subscribing households
- Increase in usage of digital service (“VOD” or “Blu-ray HDR” service)
- Increase in revenue relating to poor reception compensation due to acquisition of communal reception households



## Operating Costs and Expenses

**144.0bn yen(-0.4%、- 0.6bn yen)**

■ **Operating & programming costs: 67.1 bn yen(+2.5%, +1.6 bn yen)**

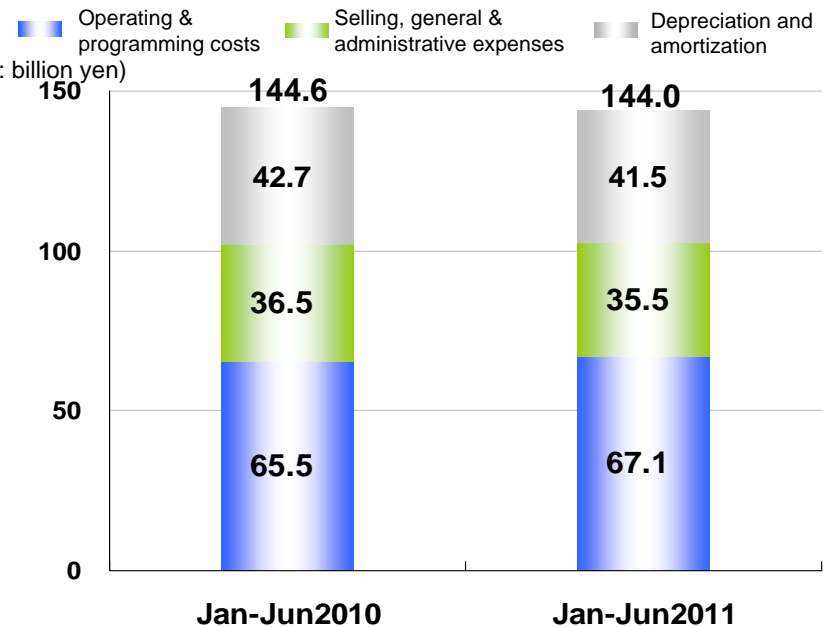
- Increase in cost of programming-related and outsourcing

■ **Selling, general & administrative expenses : 35.5bn yen (-2.8%,-1.0 bn yen)**

- Expenses for sales promotion-related decreased

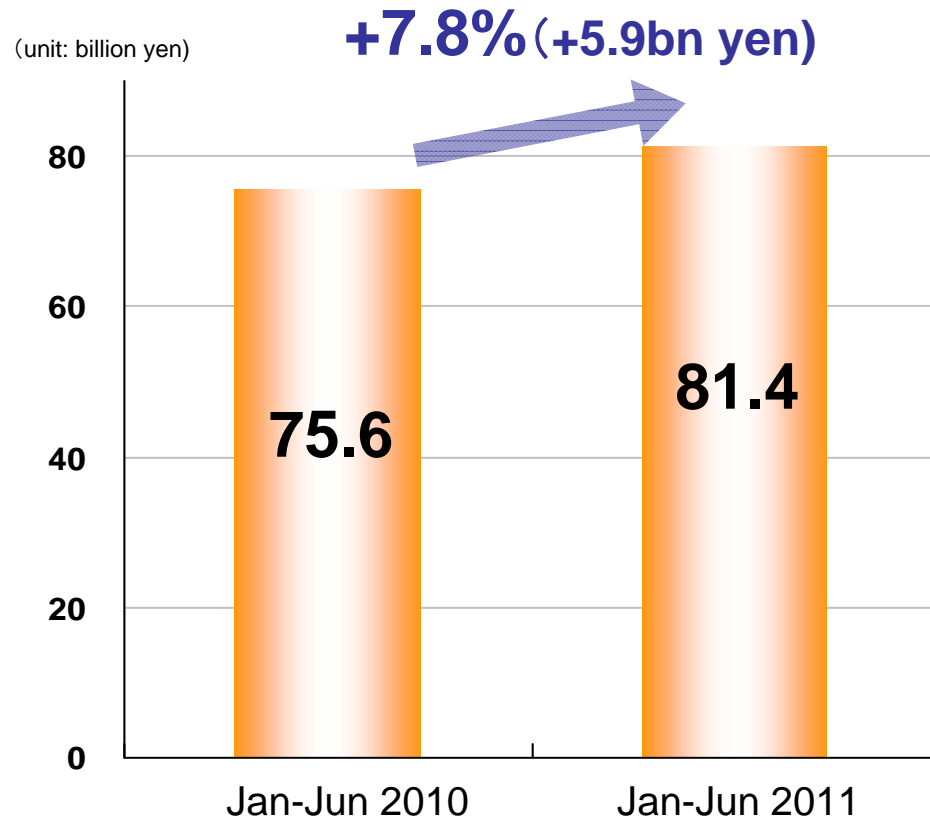
■ **Depreciation & amortization : 41.5 bn yen (-2.8%, -1.2 bn yen)**

- Decrease due to certain assets like legacy phones equipment fully depreciated

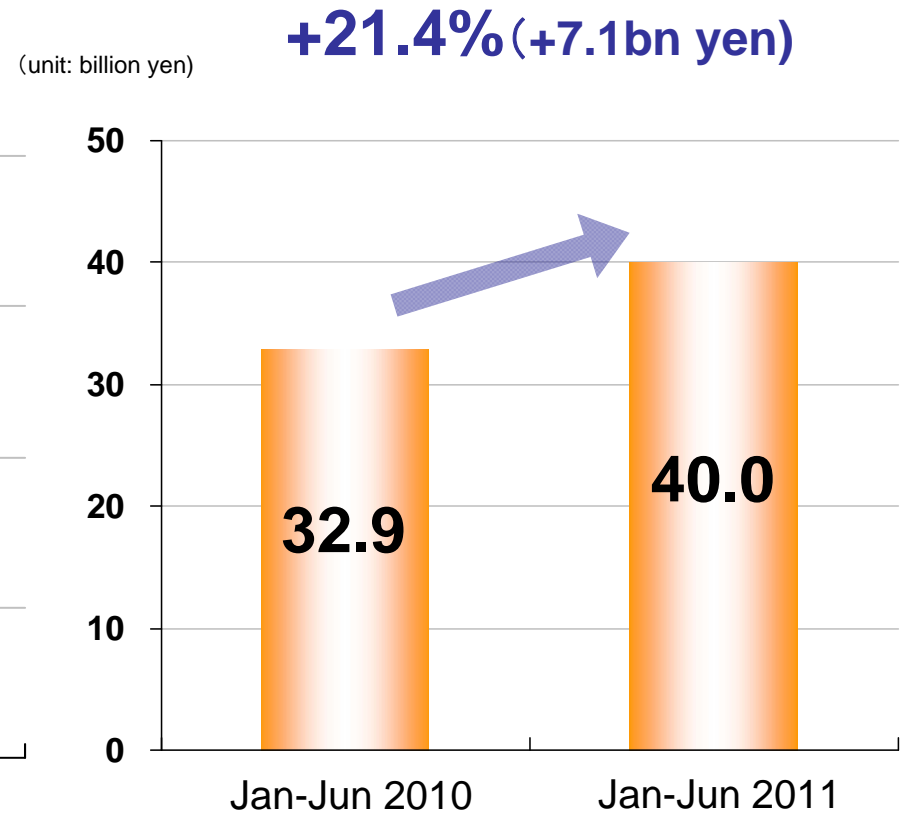


## 2-1-1. EBITDA\* and Operating Income

### EBITDA\*



### Operating Income

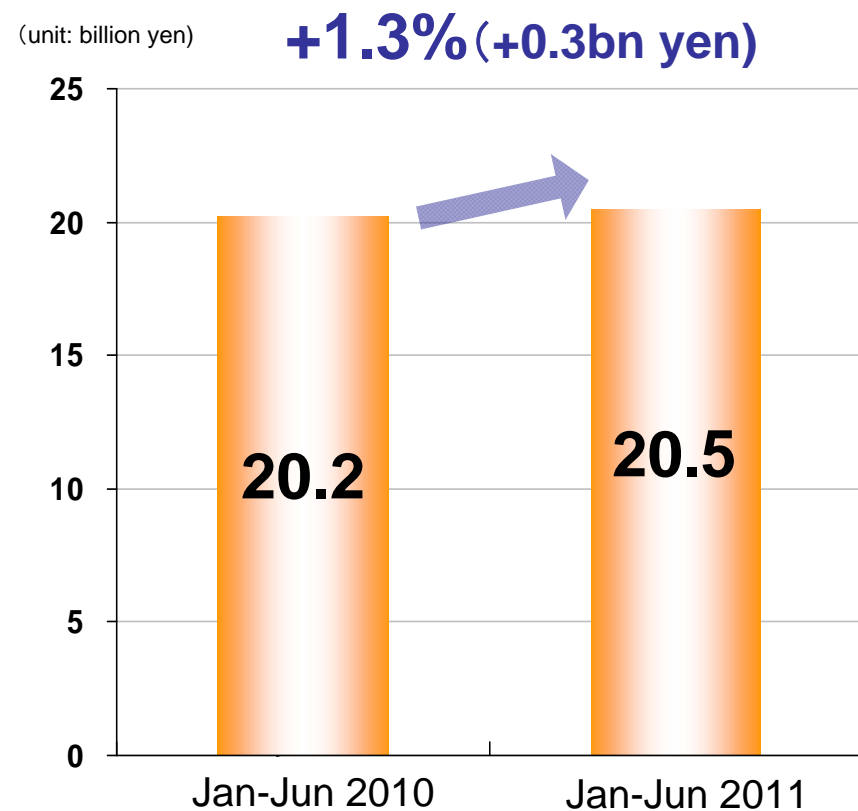
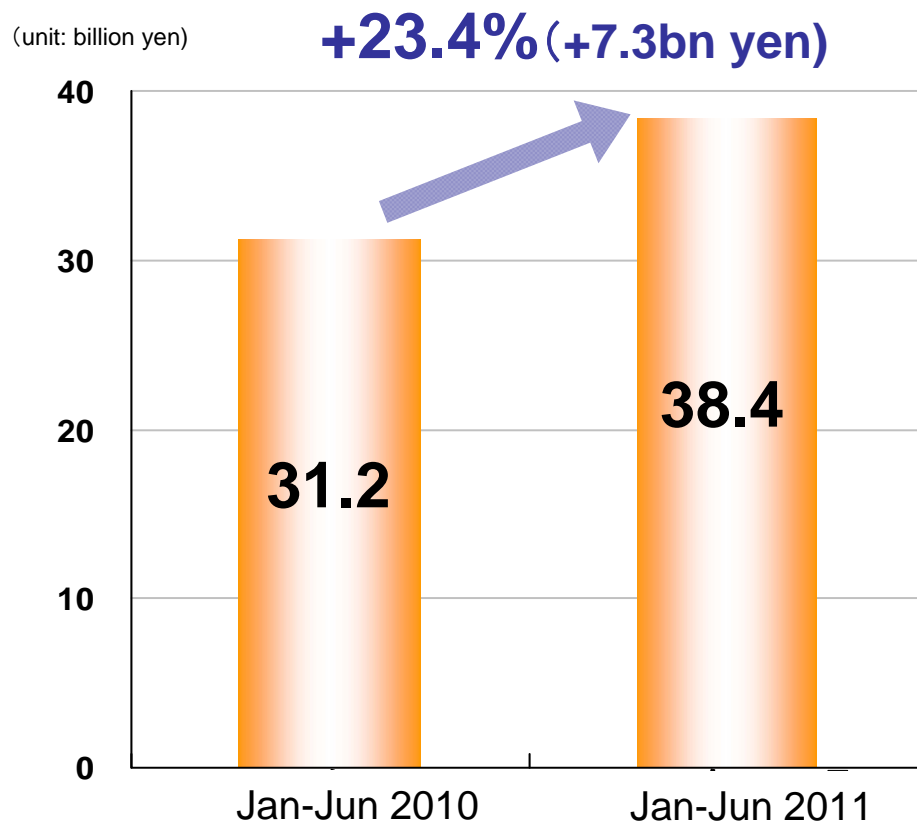


\*:  $EBITDA = (\text{Revenue}) - (\text{Operating and programming costs}) - (\text{Selling, general and administrative expenses})$

## 2-1-2. Income Before Noncontrolling Interests and Income Taxes, **J:COM** Net Income Attributable to J:COM Shareholders [US GAAP]

Income Before Noncontrolling Interests and Income Taxes

Net Income Attributable to J:COM Shareholders



## 2-2. Capital Expenditures

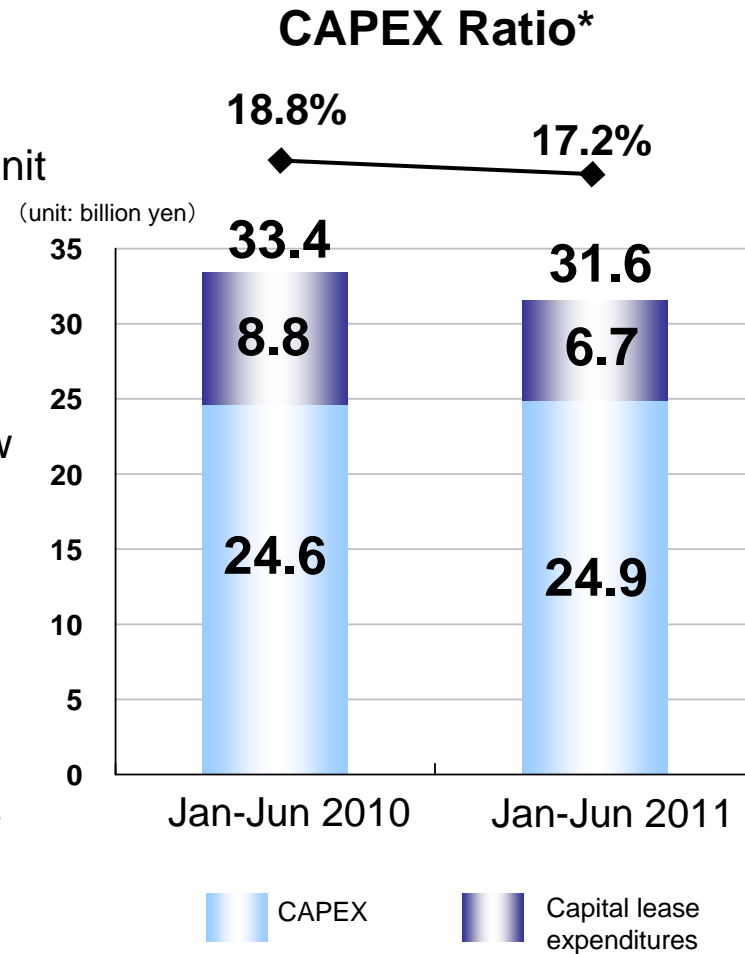
### Outline (YOY Changes)

#### 1. CAPEX +0.3 bn yen

- Decrease in installation expenses due to drop in unit cost
- Increase in trunk-line extension expenses in a certain area
- Increase in investment in system by launch of new services such as J:COM PHONE Plus

#### 2. Capital lease expenditures -2.1 bn yen

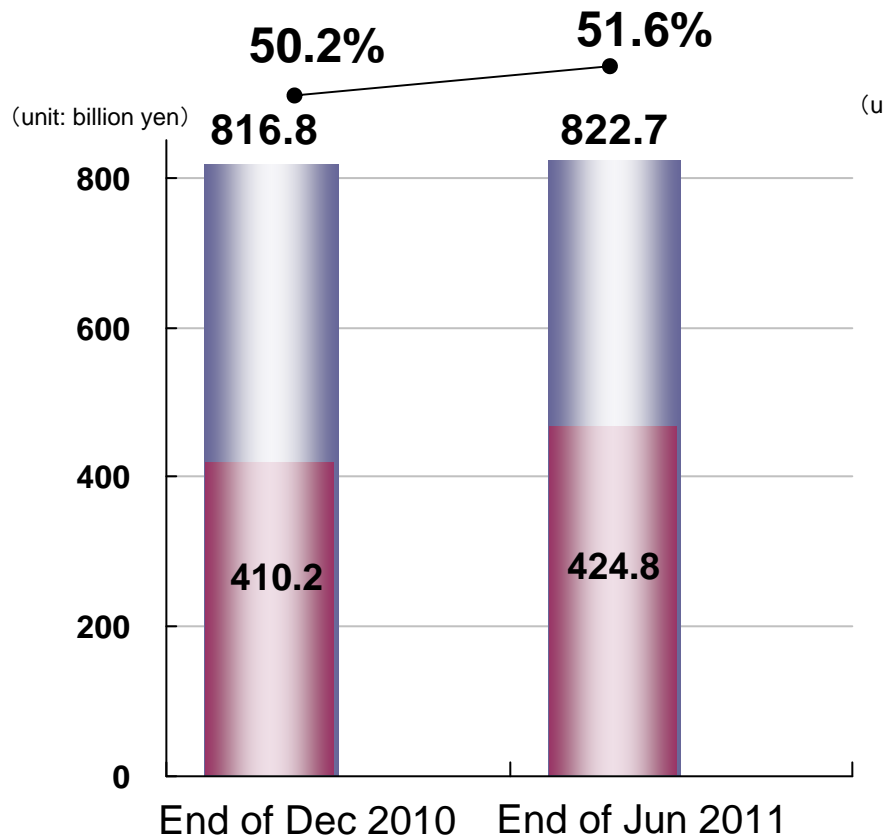
- Drop in quantity purchase of STB owing to completion of digitization, and drop in the average procurement cost of STBs.



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

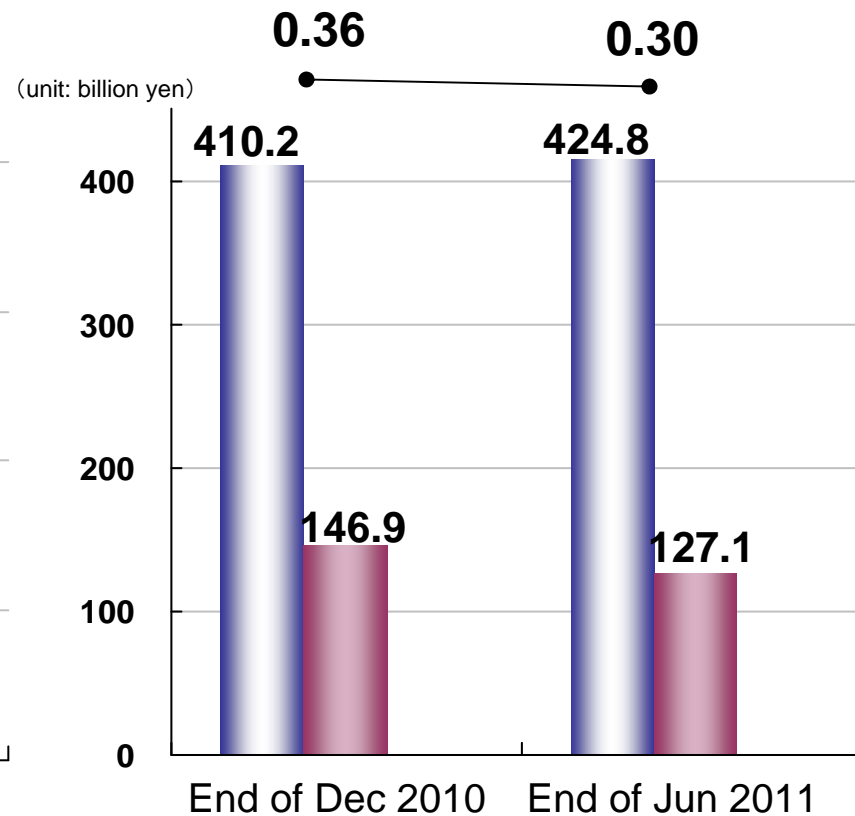
## 2-3. Principal Financial Indicators

### 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

(unit: billion yen)

|   | Jan-Jun<br>2010 | Jan-Jun<br>2011 | YOY<br>Changes |  |
|---|-----------------|-----------------|----------------|--|
| <b>Cash flows from operating activities</b> | 60.0            | 57.9            | -2.1           | <b>【Outline】</b><br>Net income +0.4 billion yen<br>Tax adjustment accompanied with liquidation of subsidiary +4.1 billion yen<br>Income tax payment -7.3 billion yen<br>Capital expenditures -0.3 billion yen<br>Acquisition of operating assets +1.1 billion yen<br>Cash dividend paid to shareholders -2.9 billion yen<br>Allocation of treasury stock relating to the exercise of stock options -4.7 billion yen<br>Repayments of long term-debt +4.5 billion yen |
| <b>Cash flows from investing activities</b> | -25.4           | -24.7           | 0.7            |  |
| <b>Cash flows from financing activities</b> | -15.2           | -18.4           | -3.2           |  |
| <b>Free cash flow*</b>                      | 26.7            | 26.3            | -0.4           |  |

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

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### 3. Major Initiatives in and after 3Q FY2011

Further implement to expand the customer base and deepen ties with customers

**Post July 24 measures**  
(Measures to gain new customers after Japan's complete switchover to digital terrestrial broadcasting from July 24)



- Promote multi-channel service plans
- Strengthen the competitiveness of internet service plans
- Target the Kansai region

**Bolster measures to prevent cancellations**



- Newly established the Customer Relations Management Division
- Integrating the management and administration of customer service and putting forth various initiatives

**Alliance with KDDI**



- Expanding sales of telephony services
- Continuous progress in cross-sales promotions
- Improving the quality and efficiency of the J:COM network

**Strengthen Media Business**



- Bringing in a new broadcasting system
- Enhancing the J SPORTS brand
- BS broadcasting

## 3-1. Post July 24 Measures

Aiming to increase new subscriptions and prevent cancellations through measures to improve competitiveness and enhance the attractiveness of service plans

### ■ Promote multi-channel service plans

- Offer a new menu of service plans with long-term contracts:  
**Multi-channel combined with telephony services on a long-term basis**
- Improve service plans:  
**Promotion of HD Channels, TV Everywhere service**

### ■ Strengthen competitiveness of Internet Service plans

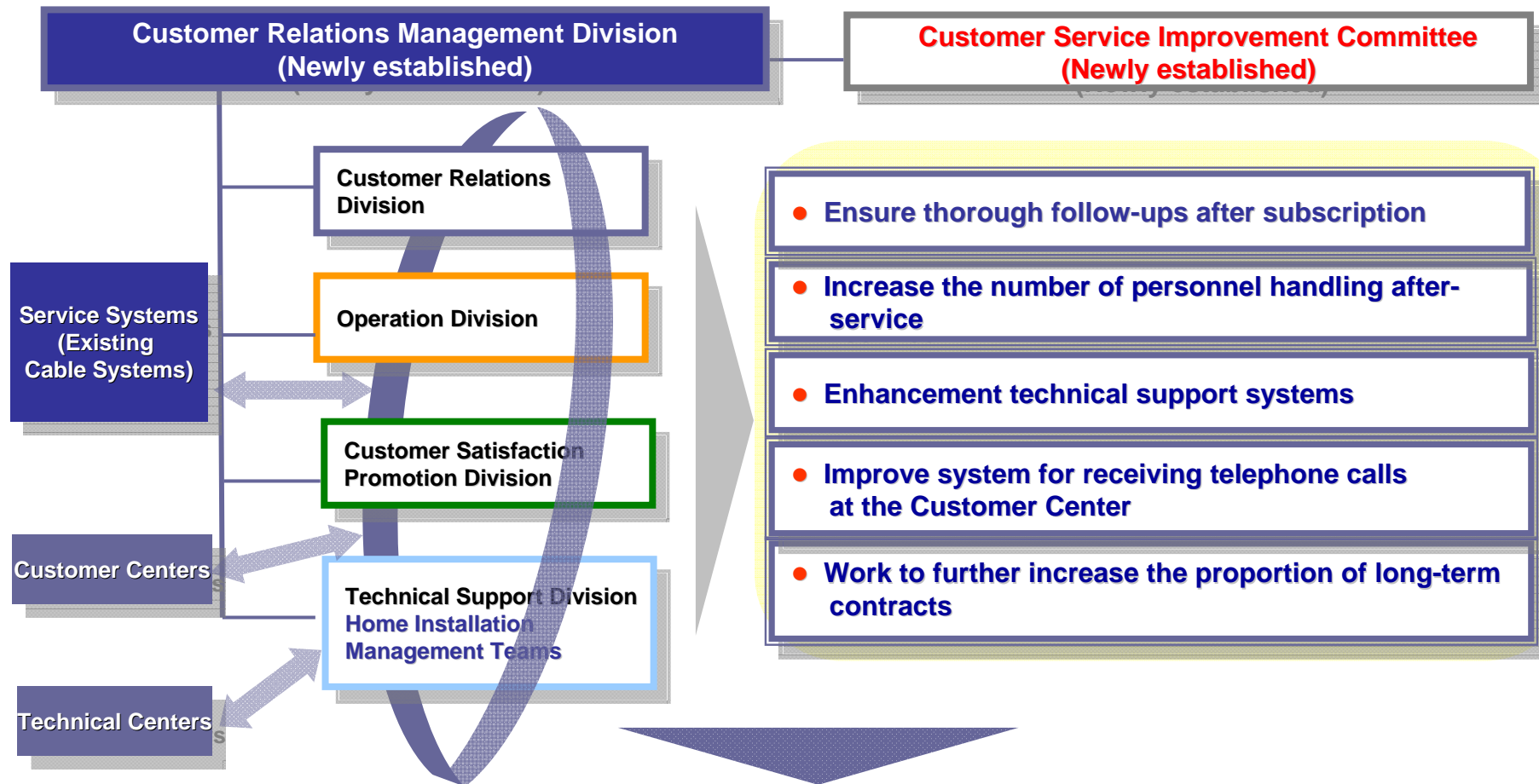
- Offer new bulk service plans:  
**Bundled service plans with 1-Mbps Internet speed**

### ■ Target the Kansai region

- Establishment of Kansai Division
- Review the pricing structure of the “J:COM TV My style”

## 3-2. Bolster Measures to Prevent Cancellations

Integrating the Management and Administration of Customer service, and Moving forward with Company-wide Improvements and Reforms based on Customer Voices

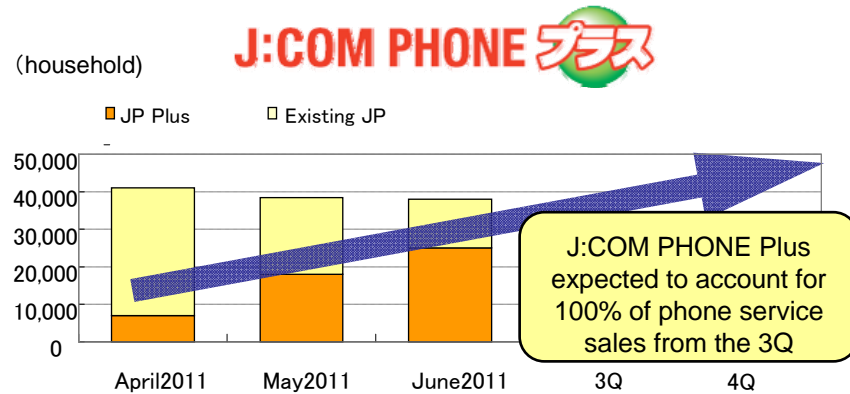


**Working to maximize customer satisfaction**

# 3-3. Alliance with KDDI

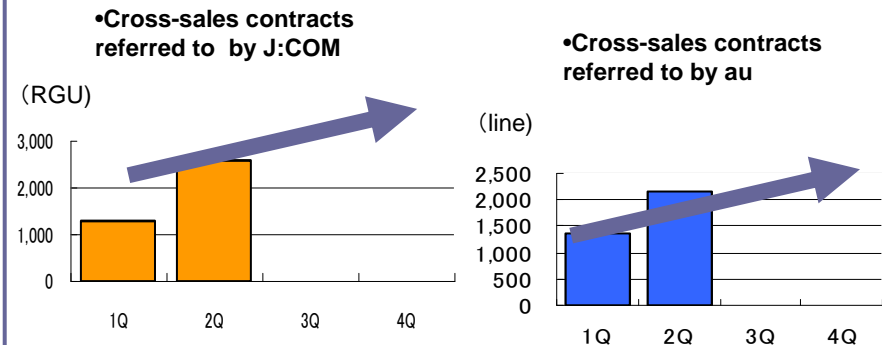
## Shift to sales of J:COM PHONE Plus

Steady progress in shifting sales



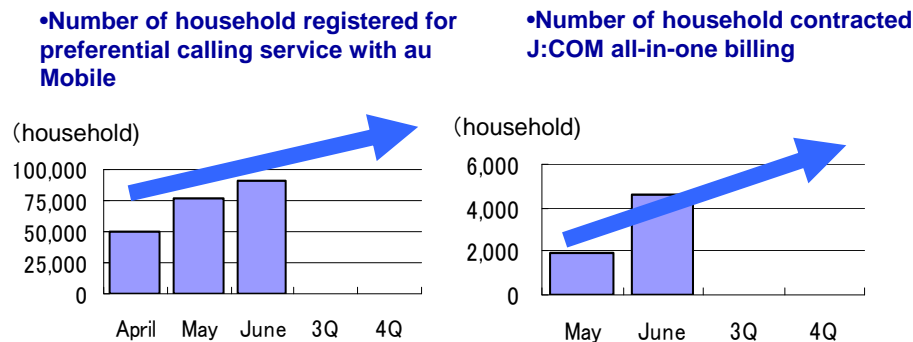
## Continuous progress in cross-sales promotions

Steady growth in new cross-sales contracts acquired



## Continued promotion of preferential calling service with au Mobile and all-in-one billing

Increasing customer satisfaction and reducing the churn rate



## Improving the quality and efficiency of the J:COM network

- J:COM and KDDI have decided to use KDDI's integrated IP core network to improve the quality of the main network for J:COM's services
- Using the network will reduce costs by 30% compared to continuing employing the current system
- Use of the integrated IP core network will commence from February 2012

# 3-4. Strengthen Media Business (J SPORTS) **J:COM**

Bringing in a new broadcasting system in July 2011

- Complete shift to high-definition television
- Enhancing live broadcasts
- High-quality broadcasting system designed to commence BS broadcasting
- Increasing efficiency by concentrating broadcast functions of group channels

Full upgrade of broadcasting and production equipment

1. Broadcast management system
2. Line center and recording server
3. Sub-control studios
4. Transmission server and archives
5. Master control studio



Master control studio



Sub-control studios

Enhancing the J SPORTS brand from October 2011

Renewing the J Sports brand with a new company name and all-new channel brands

(New Company Name) **J SPORTS Corporation**

(Channel brands)



Mainly Japanese content

Mainly Overseas content

Sports News and Information

Live broadcasts of extended sporting events

BS broadcasting from October 2011

Birth of a new sports television station with the most channels – four in total

- Four channels will be transmitted in high-definition and feature BS, CS and cable television platforms
- Full-scale improvements to live broadcasts

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**Summary of 2Q FY2011**

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**Explanation of Performance and Financials**

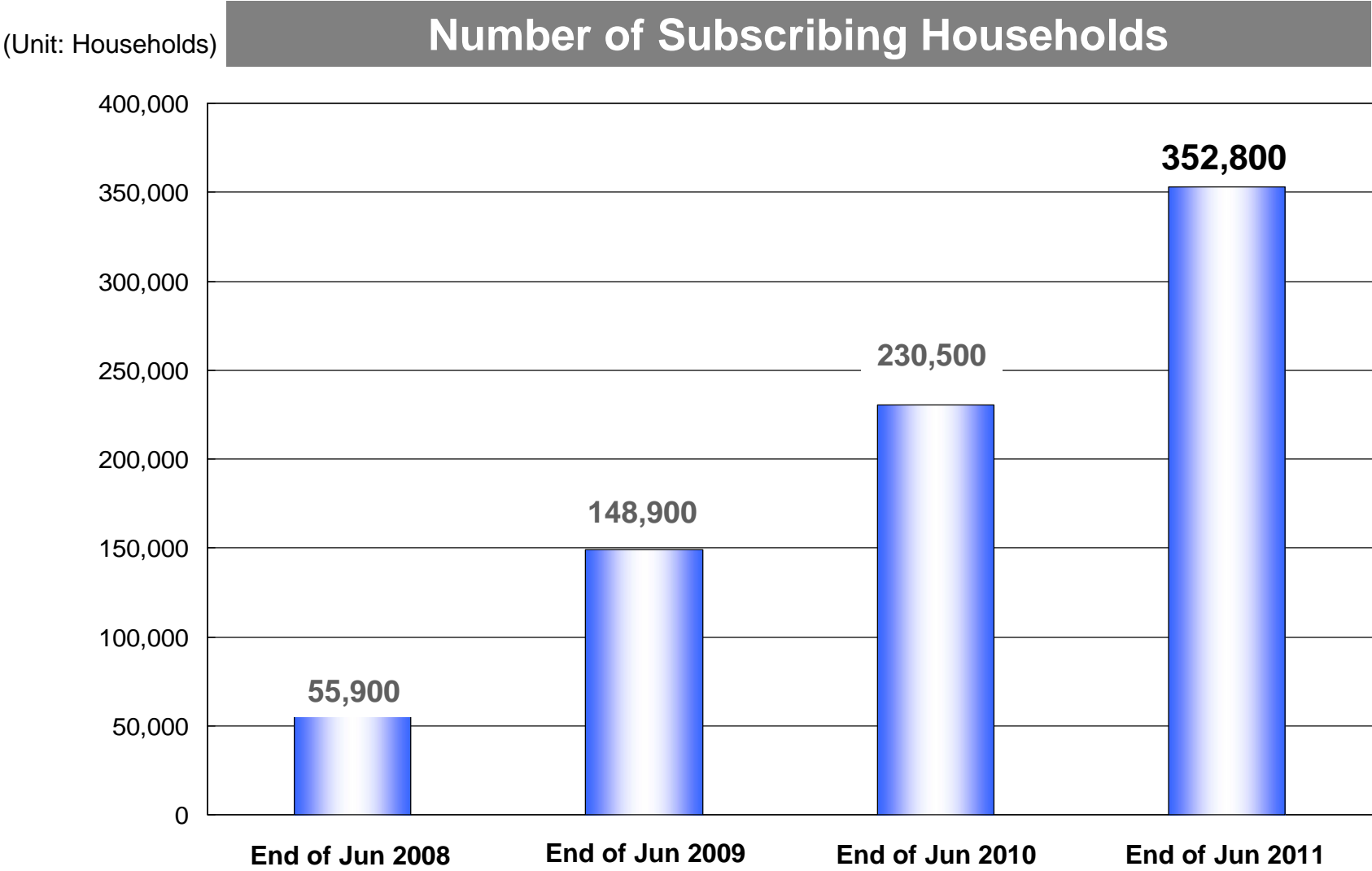
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**Major Initiatives in and after 3Q FY2011**

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**Appendix**

# J:COM NET 160Mbps Service

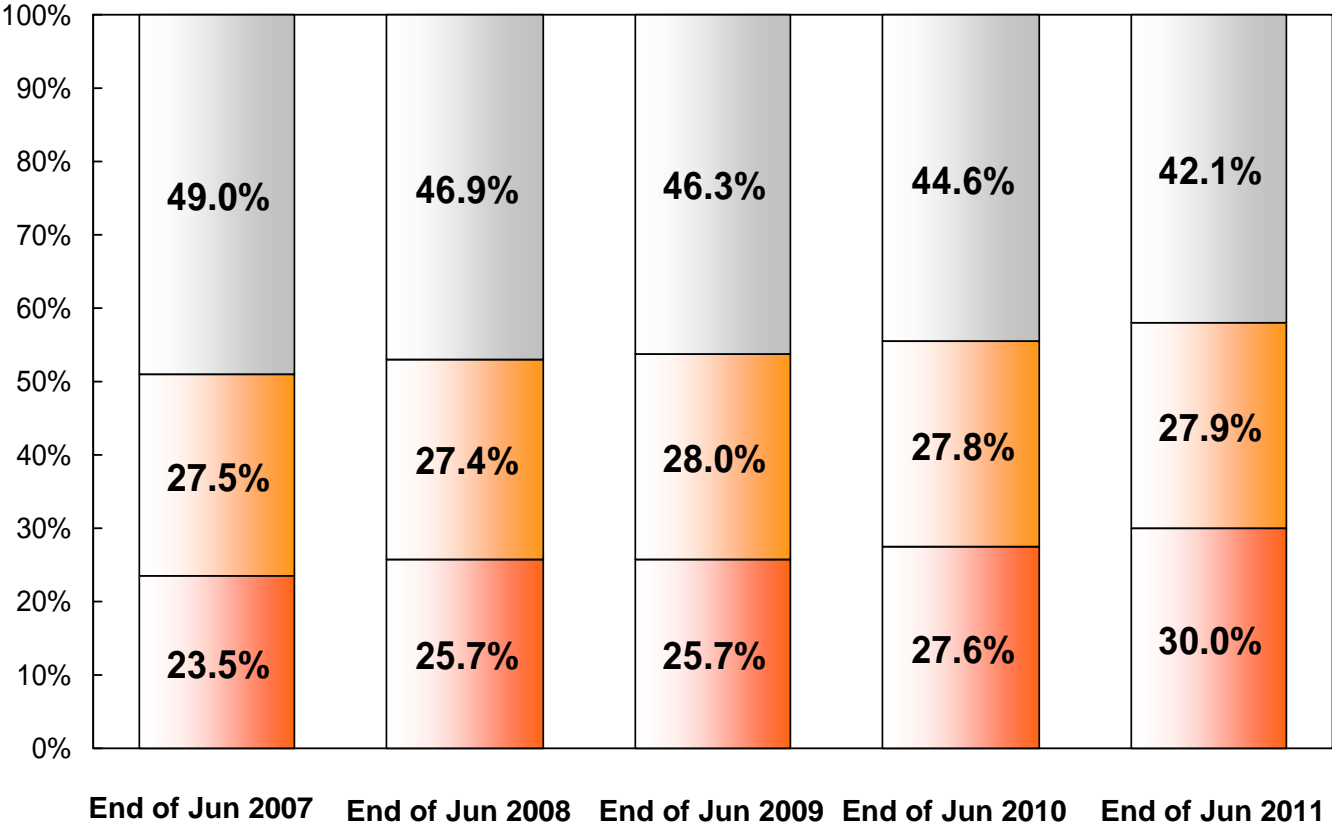


# Bundling Progress



## Composition of Households by No. of Services Subscribed















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



# Number of Households with Service Available by Channel



(As of May 31, 2011)

| Name of channel/company   | Classification<br>Equity stake | No. of<br>households | Name of channel/company  | Classification<br>Equity stake | No. of<br>households |
|---|--------------------------------|----------------------|--|--------------------------------|----------------------|
| <b>Basic channels</b>   |                                |                      |  |                                |                      |
|  <b>Movie Plus</b><br>Jupiter Entertainment Co., Ltd.  | Consoli dated<br>100%          | 7,550K<br>(7,560K)   |  <b>AXN</b><br>AXN Japan Co., Ltd.  | Equity method<br>35%           | 7,350K<br>(7,260K)   |
|  <b>LaLa TV</b><br>Jupiter Entertainment Co., Ltd.   |                                | 6,690K<br>(6,650K)   |  <b>Kids Station</b><br>Kids Station Co., Ltd.                            | Other<br>15%                   | 8,480K<br>(8,450K)   |
|  <b>Act On TV</b><br>Entertainment and lifestyle information for adults<br>JUPITER VISUAL COMMUNICATIONS CO., LTD. | Consoli dated<br>90.00%        | 3,990K<br>(4,020K)   |  <b>Japanese Movie Channel</b><br>Nihon Eiga Satellite Broadcasting Corp. | Other<br>9.99%                 | 7,380K<br>(7,300K)   |
|  <b>Golf Network</b><br>Jupiter Golf Network Co., Ltd.   | Consoli dated<br>89.41%        | 7,220K<br>(7,210K)   |  <b>SAMURAI DRAMA CHANNEL</b><br>Nihon Eiga Satellite Broadcasting Corp.  |                                | 7,930K<br>(7,840K)   |
|  <b>J sports ESPN, J sports 1, J sports 2, J sports Plus *</b><br>J SPORTS Broadcasting Corporation               | Consoli dated<br>80.5%         | 7,700K<br>(7,620K)   |  <b>Nikkei CNBC</b><br>Nikkei CNBC Japan Co., Ltd.                       | Other<br>9.75%                 | 7,450K<br>(7,650K)   |
|  <b>Channel Ginga</b><br>Channel Ginga Co., Ltd.   | Consoli dated<br>76%           | 3,770K<br>(3,640K)   | <b>Optional channels</b>   |                                |                      |
|  <b>Discovery Channel</b><br>Discovery Japan Co., Ltd.   | Equity method<br>50%           | 6,450K<br>(6,930K)   |  <b>Anime Theater X (AT-X)</b><br>AT-X Co., Ltd.                        | Other<br>12.28%                | 130K<br>(130K)       |
|  <b>Animal Planet</b><br>Animal Planet Japan Co., Ltd.   | Equity method<br>33.3%         | 6,000K<br>(5,940K)   |  |                                |                      |

Source: Companies involved

Number of households with service available as of Feb. 28, 2011, are shown in parentheses.

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