

# eAccess Limited 【9427】

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Full-Year Results for Fiscal Year 3/2005



**May 12<sup>th</sup>, 2005**

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## Better-Than-Expected Financial Results

- Both revenue and profits exceeded our forecasts. FY3/2005 revenue rose by 52% and operating profits doubled from FY3/2004.

## Synergy from AOL Japan Acquisition

- Financial and operational synergies through the acquisition of AOL Japan's ISP business since 7/2004.

## Successful Financing

- Raised 23 billion yen through the issuance of CB in 6/2004 and an additional 60 billion yen through straight bonds in 3/2005.

## Fastest Listing on the TSE First Section

- Listing on the TSE1 from TSE Mothers. Plan to pay the first dividends (¥1,000 and a commemorative dividend of ¥200 per share).

## Strong Balance Sheet and Cash Position

- Secured over 100 billion yen cash as of 3/2005. Achieved a net cash position of 8.2 billion.

## Entry To The High- Growth Mobile Business

- Plans to commence the nation's first 1.7GHz band W-CDMA field trial at the end of 5/2005.

# FY3/2005 Financial Results

Financial results exceeded our forecast. Sharp growth in revenue and profits

	FY 3/2004	FY 3/2005		Increase (Decrease) / Changes (%)		
		Forecast (on 2/10/2005)	Amount	Changes (%)		
Revenue	¥38.14 billion	¥58.00 billion	<b>¥57.91 billion</b>	± 0 %	+¥19.77 billion	+52 %
Operating expense	¥34.00 billion	¥50.00 billion	<b>¥48.60 billion</b>	-3 %	+¥14.60 billion	+43 %
Operating profit	¥4.14 billion	¥8.00 billion	<b>¥9.31 billion</b>	+16 %	+¥5.17 billion	+125 %
Recurring profit	¥2.72 billion	¥7.00 billion	<b>¥8.07 billion</b>	+15 %	+¥5.35 billion	+197 %
Net income	¥2.36 billion	¥8.00 billion	<b>¥9.35 billion</b>	+17 %	+¥6.99 billion	+296 %
EBITDA	¥14.37 billion	¥20.00 billion	<b>¥20.93 billion</b>	+5 %	+¥6.56 billion	+46 %
Capex	¥9.18 billion	¥12.50 billion	<b>¥9.78 billion</b>	-22 %	+¥0.60 billion	+7 %
Operating free cash flow	¥5.19 billion	¥8.50 billion	<b>¥11.15 billion</b>	+31 %	+¥5.96 billion	+115 %
Depreciation	¥10.41 billion	¥12.00 billion	<b>¥11.93 billion</b>	-1 %	+¥1.52 billion	+15 %

Operating free cash flow : EBITDA - Capex

# FY3/2006 Financial Forecast

Expect a 12% increase in ADSL/ISP operating cash flow. Plan to invest in Mobile.

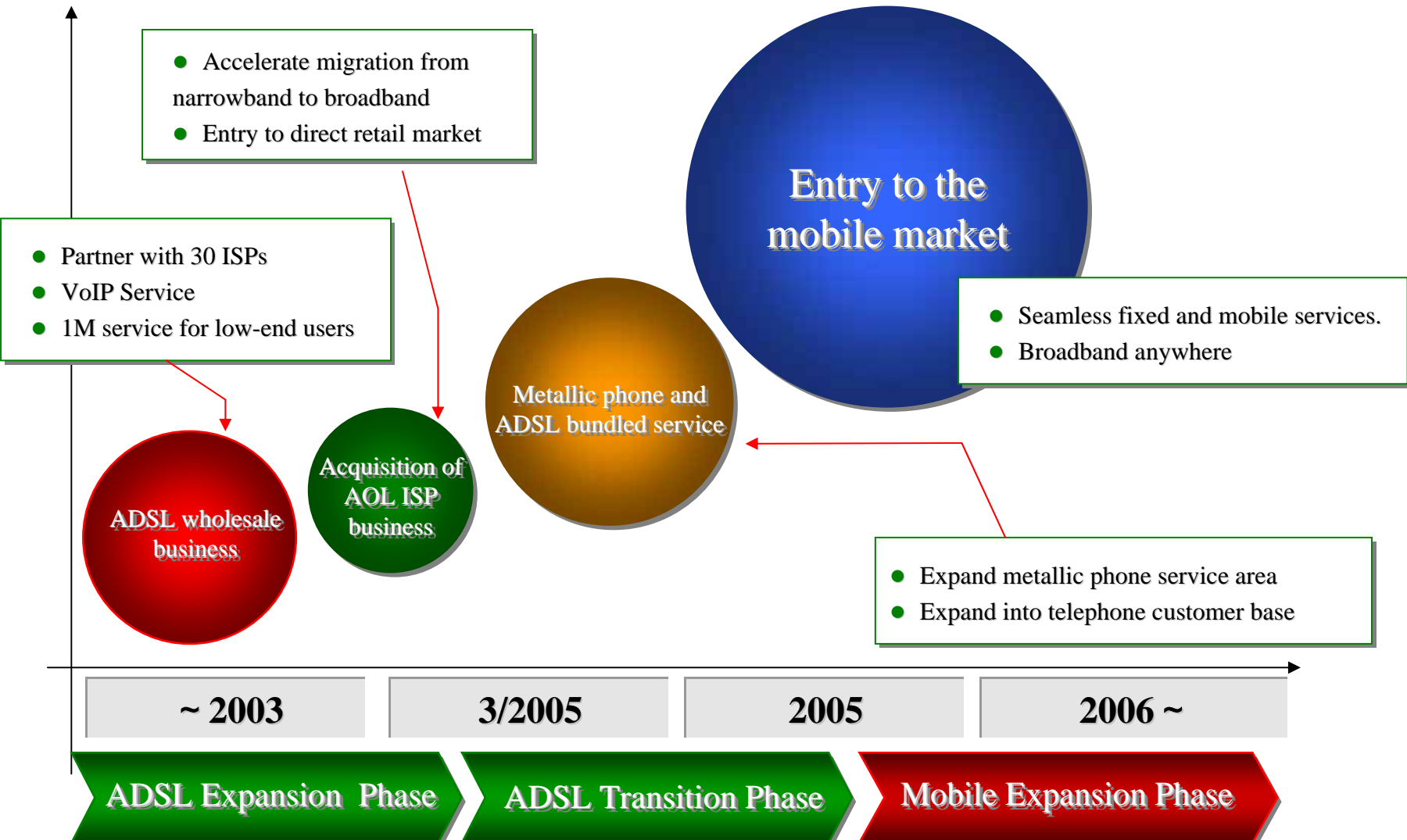
	FY3/2005	FY3/2006 Forecast				
		ADSL · ISP	+	Mobile	=	Summary
Revenue	¥57.91 billion	¥58.50 billion		¥0 billion		¥58.50 billion
Operating expense	¥48.60 billion	¥49.00 billion		¥2.50 billion		¥51.50 billion
Operating profit	¥9.31 billion	¥9.50 billion		-¥2.50 billion		¥7.00 billion
Recurring profit	¥8.07 billion	¥8.00 billion		-¥2.50 billion		¥5.50 billion
Net income	¥9.35 billion	¥5.20 billion		-¥2.50 billion		¥2.70 billion
EBITDA	¥20.93 billion	¥20.00 billion		-¥2.50 billion		¥17.50 billion
Capex	¥9.78 billion	¥7.50 billion		¥0.50 billion		¥8.00 billion
Operating free cash flow	¥11.15 billion	¥12.50 billion		-¥3.00 billion		¥9.50 billion
Depreciation	¥11.93 billion	¥10.50 billion		¥0 billion		¥10.50 billion

Operating free cash flow is expected to increase by 12% YoY

Start paying taxes in FY3/2006.

Mobile costs include personnel, trial fees etc...

## Product Roadmap - From ADSL to Mobile



# New Challenges in FY3/2006

Board of Directors

Administration

- Finance,
- Public Affairs,
- Organization Management
- President office

ADSL

- Promote ADSL-Metal Phone bundled services.
- Suppress churn.
- Maintain growth and profitability.

ISP (AOL)

- Increase broadband migration.
- Strengthen content business.
- Expand mobile application

Mobile

- To win the 1.7GHz 3G mobile license.
- Commence the first 1.7GHz band W-CDMA field trial in Tokyo.

**Separated the Company into 3 Individual Business Units in April 2005 to Diversify Long-Term Growth.**

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## **Name of the Plan**

eAccess Rights Plan

To maximize Corporate Value Through The Issuance of Trust Company Stock Option Plan

## **Purpose of the Plan**

1. To Protect Corporate Value and Interests of eAccess Shareholders
2. To Maximize Negotiation Power of the Company Against Unsolicited Buyers.
3. To Protect the Quality of Customer Services

## eAccess is well positioned to implement the Rights Plan

**eAccess has already established a strong global standard Corporate Governance Structure with the following characteristics:**

- Majority of our Board of Directors are independent Directors
- Our independent Directors have extensive domestic and global experience in the telecom, IT and financial areas.

## Process of eAccess Rights Plan (Trigger Point)

When a takeover proposal is initiated from an unsolicited buyer, the following process will be taken:

1. A **Corporate Value Enhancement Committee with our independent Directors** will be established.
2. The committee will review the proposal from the unsolicited buyer.
3. If the committee determines that the offer does not maximize long-term corporate value and no protection in shareholders' interests, then
4. **eAccess shareholders (except only the unsolicited buyer)** are able to **exercise their stock options to protect the shareholders' value.**

## US Statistics on the Rights Plan

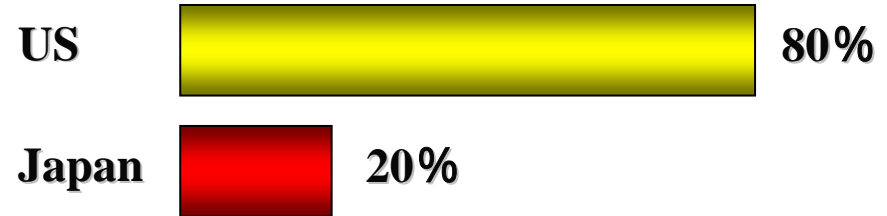
(Source : O'Melveny & Myers)

1. Well over 2,000 US public companies (about 18% of total US public companies and about 60% of S&P companies) have already implemented similar version of Rights Plans.
2. No company has ever been required to trigger the Rights Plan over the last 20 years in the US.

## Independent Directors (US vs Japan)

(Source: METI)

### Independent Directors as a % of total number of Directors (large companies)



- The NYSE and the Nasdaq require all public company to have the majority of Board of Directors to be independent.
- Only 5.9% of Japanese companies have majority independent directors on their Board.

## Global Style Corporate Governance Structure to enforce the Rights Plan

### 【 3 Internal Board of Directors 】

<b>CEO Sachio Semmoto</b>	<b>COO Haruo Taneno</b>	<b>CFO Eric Gan</b>
Co-Founder of DDI (KDDI)	Former KDDI Senior Vice President	Ex-Goldman Sachs Managing Director

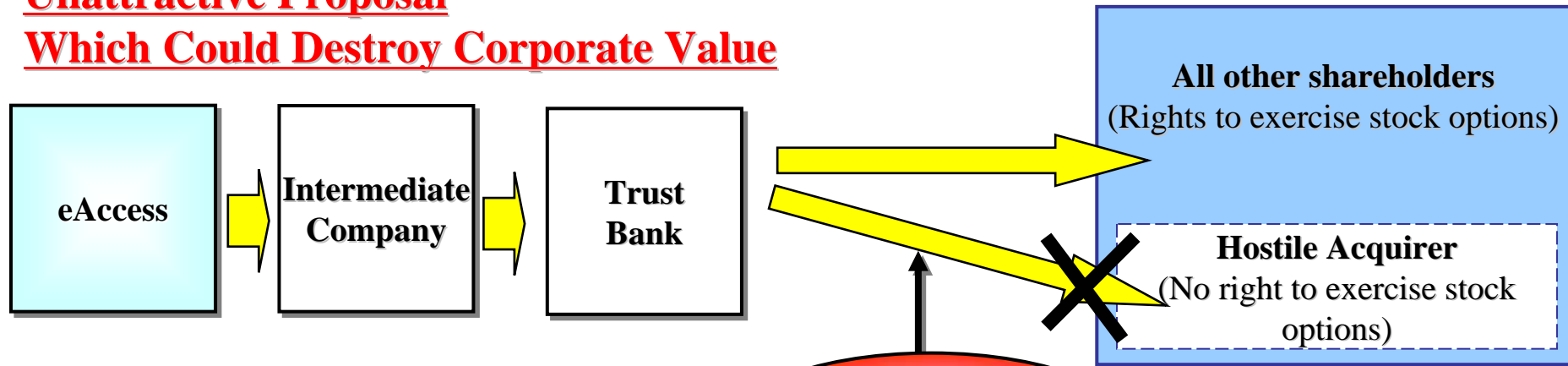
### 【 7 External Board of Directors 】・・・Extensive Experience in the Global and Domestic Telecom, IT and Financials

<b>William Kennard</b>	<b>Paul Reynolds</b>	<b>Raymond Kwok</b>	<b>Toru Hashimoto</b>
Former chairman of the FCC (Federal Communications Commission)	Chief Executive of BT Wholesale	Vice Chairman of Sun Hung Kai Properties Ltd.	Chairman of Deutsche Securities Ltd, Tokyo Branch Former CEO of Fuji-bank (Currently Mizuho bank)
<b>Morihiko Tashiro</b>	<b>Dr. Toshio Yasui</b>	<b>Professor Jiro Kokuryo</b>	
Former President of Tomen Corporation	Former President of Solectron Japan	Professor of Keio University	

**The Corporate Value Enhancement Committee consists of independent directors.**

# eAccess Rights Plan Implementation Process

## Unattractive Proposal Which Could Destroy Corporate Value



## Attractive Proposal To Maximimize Corporate Value



(Note) The plan is expected to be approved in the annual shareholders meeting on 6/22/2005.

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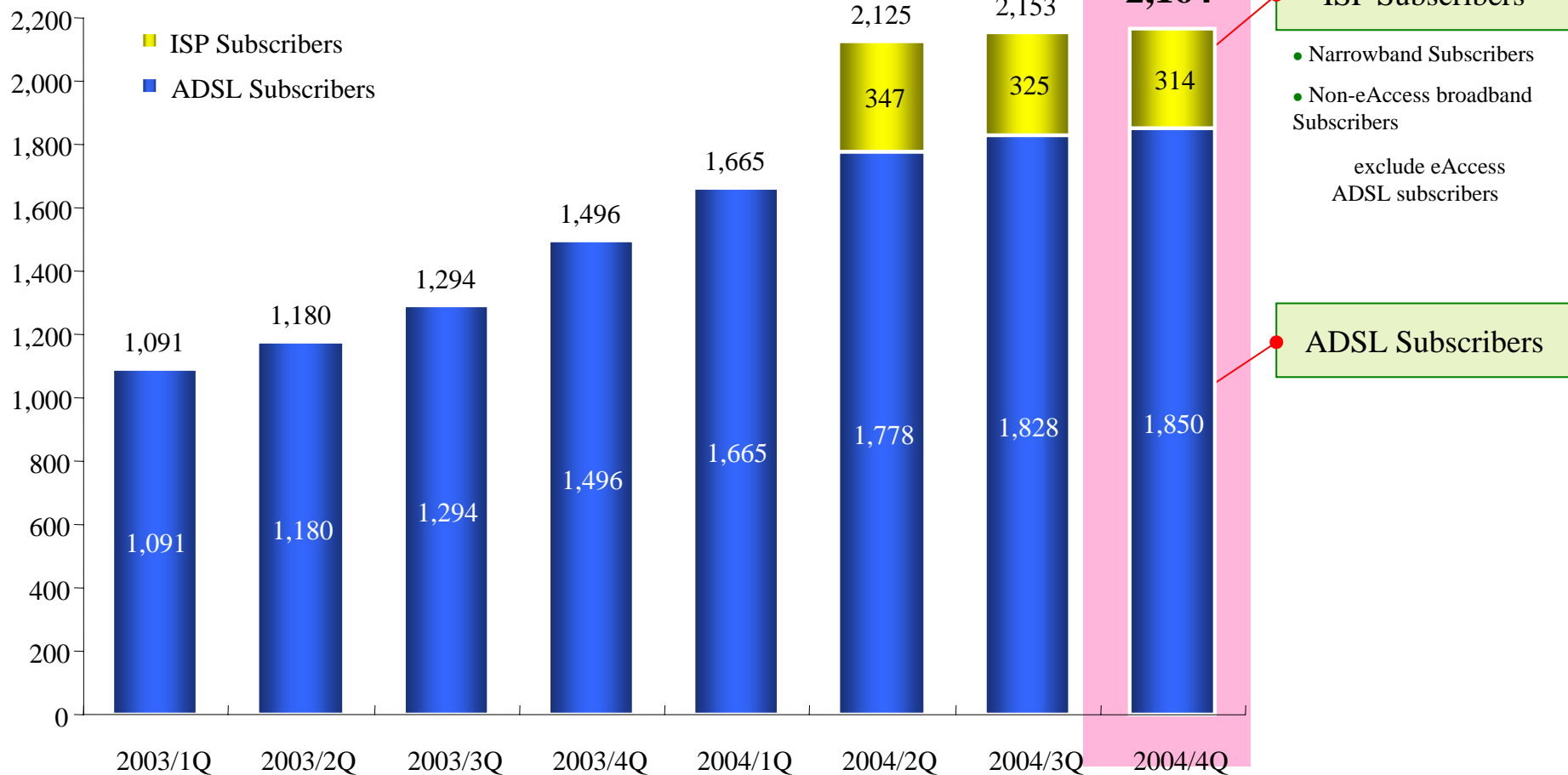
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# eAccess Subscriber Growth

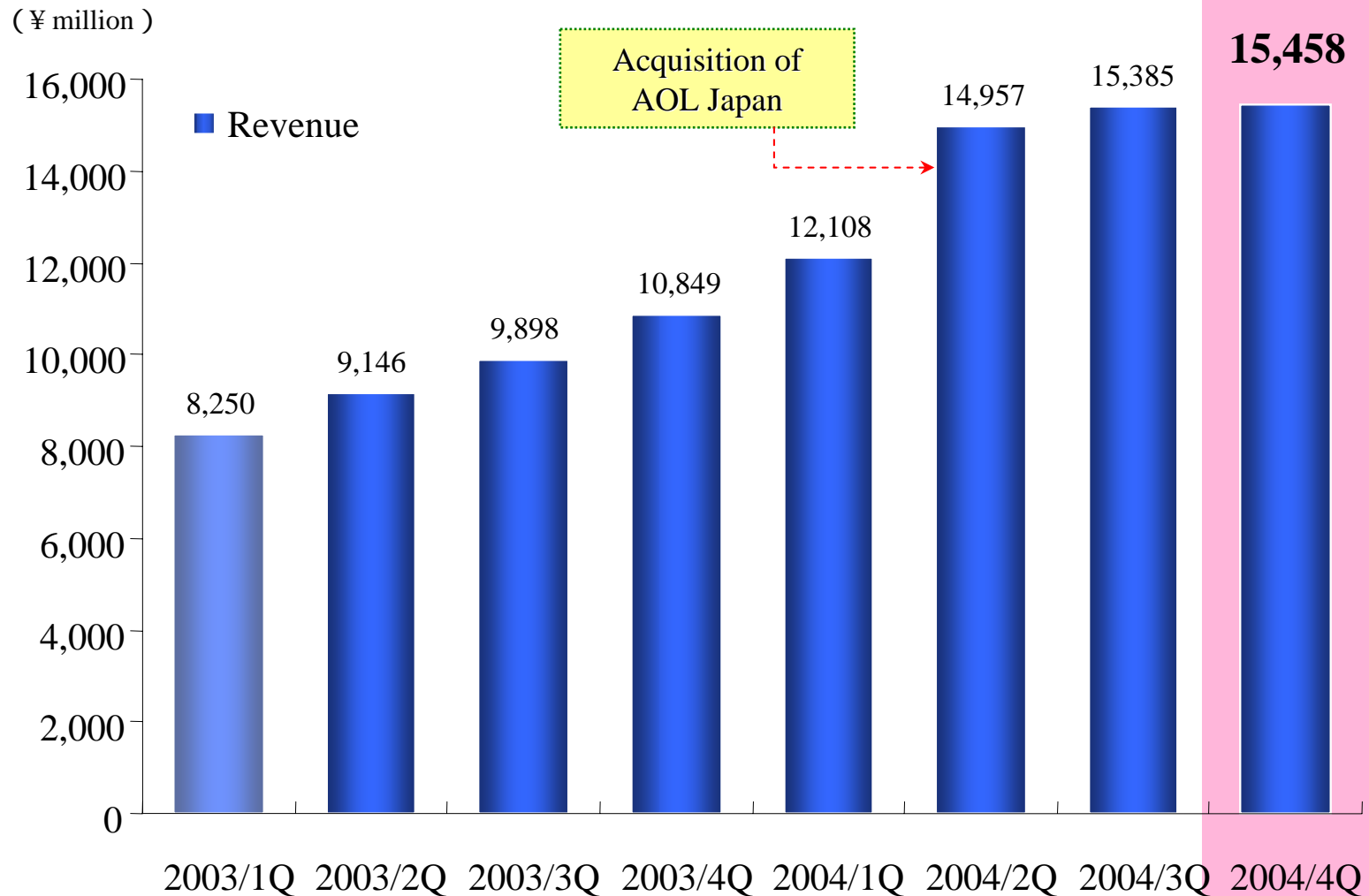
Total subscribers reached 2.16 million, an increase of 24% YoY

( thou. Subscribers )



# Revenue Growth

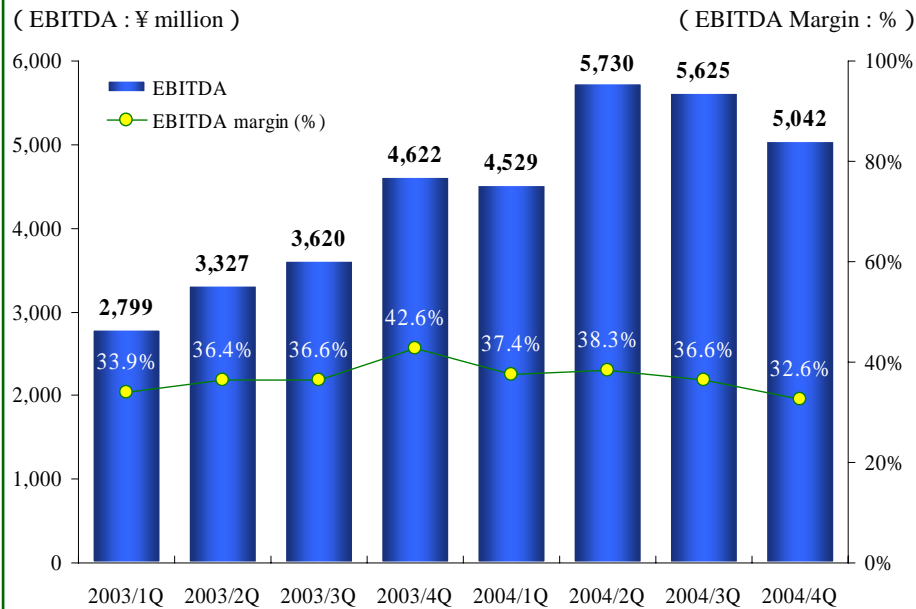
Quarterly revenue grew 42% QoQ on higher ADSL subscribers & AOL acquisition



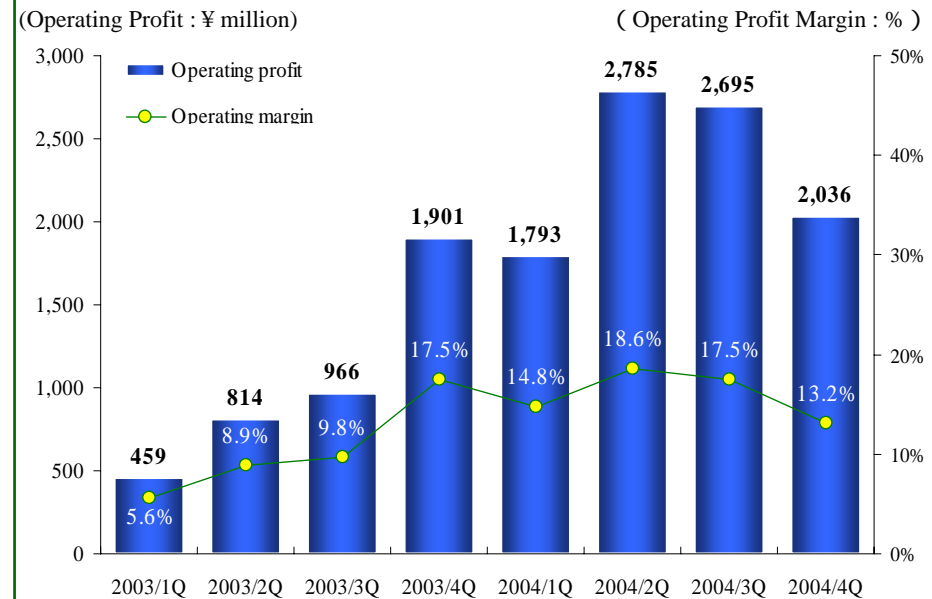
# EBITDA and Operating Profit Trend

Decline in margins due to temporary increase in sales & marketing expenses

## EBITDA and EBITDA Margin Trend



## Operating Profit and Operating Margin Trend

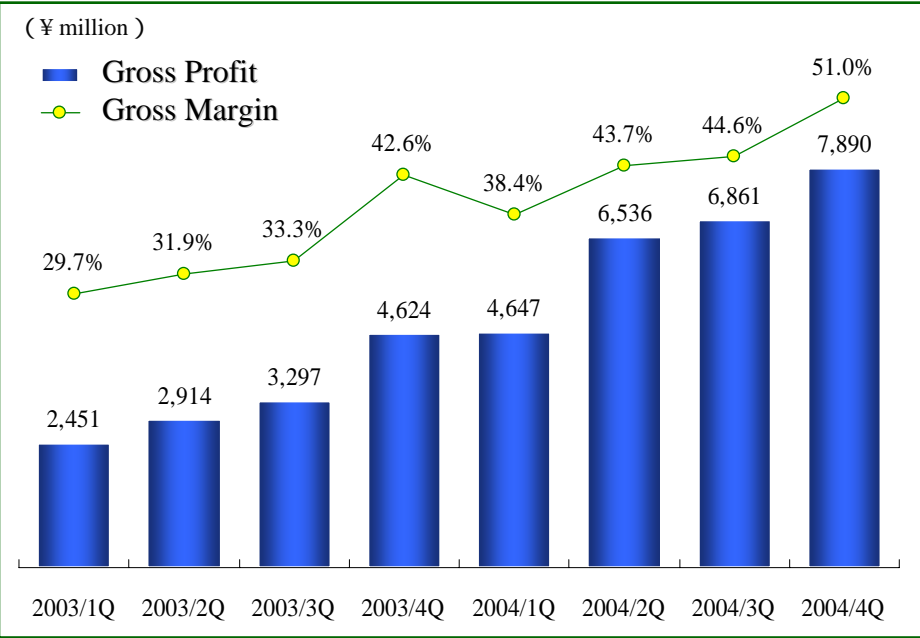


- Subscriber acquisition costs increased in the 4Q, primarily due to the year-end marketing campaigns and the initial promotion of the new ADSL-Metal Phone bundled services.

# Gross Profits and Margins Trend

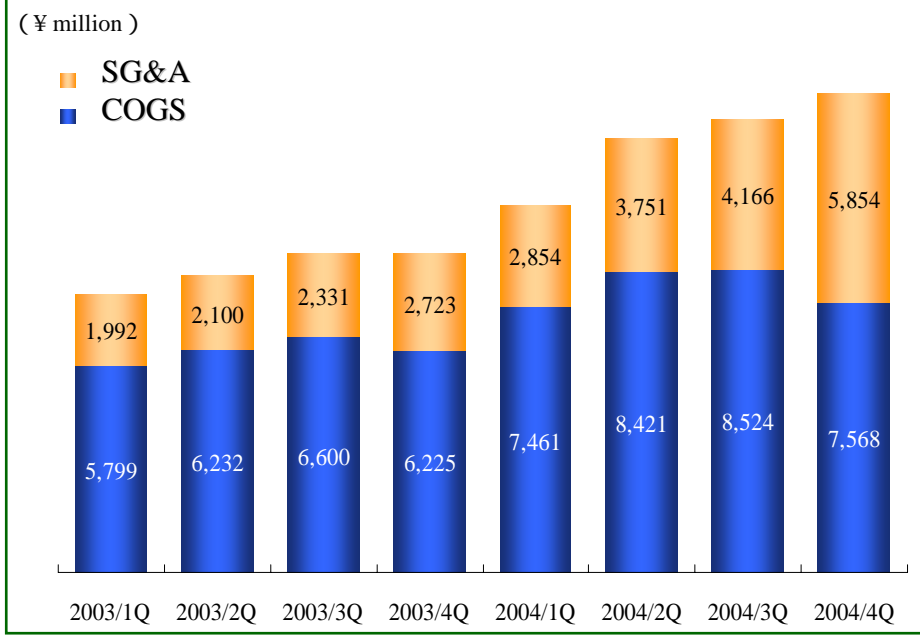
Improvement in gross margin due to higher network operating efficiency

## Gross Profits and Gross Margins



- Continued improvement in gross margin due to higher network operating efficiency and lower backbone expenses from our optical IP network.
- Achieved 51% gross margin in the 4Q.

## COGS and SG&A Trend

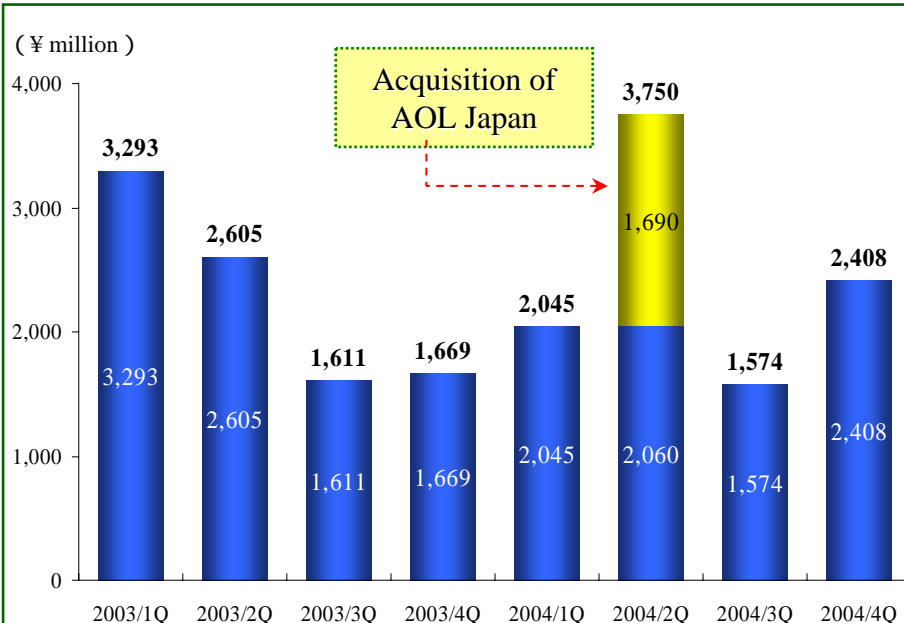


- New product launch promotion of ADSL Metal Phone bundle services in 4Q.

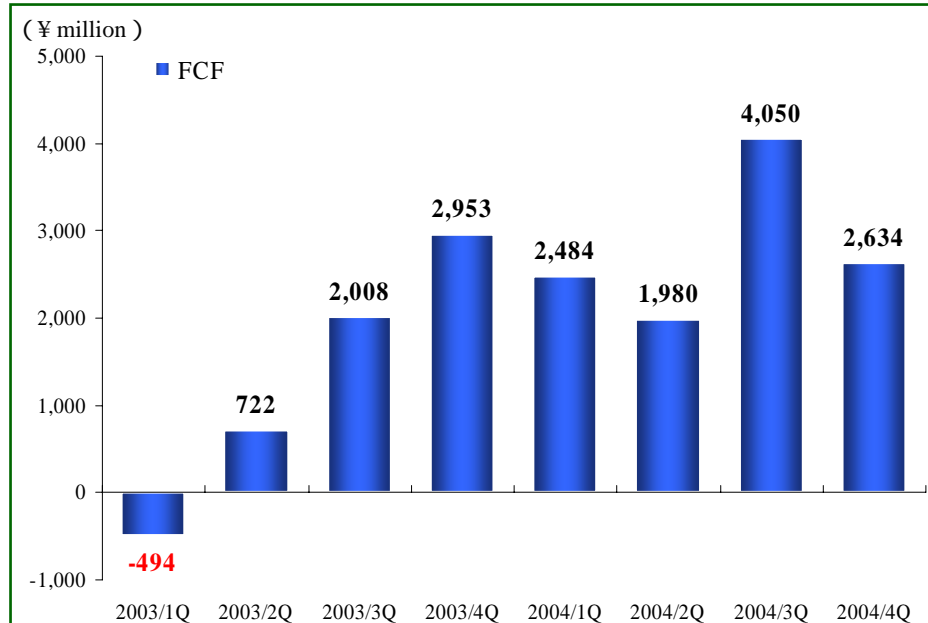
# Quarterly Capex and Operating FCF Trend

Maintain high-level operating free cash flow generation

## Capital Spending Trend



## Operating Free Cash Flow (FCF)



- ADSL related capex amount remained relatively flat throughout FY 3/2005. The sharp jump in capex in 2Q was mainly due to a one-time acquisition of AOL goodwill.
- Annual capex was 9.8 billion yen in FY 3/2005, much lower than our forecast of 12.5 billion yen.

## eAccess Ltd. #1 and #2 Unsecured Straight Bonds

- Payment Date : March 24, 2005
- Issue Amount : JPY 60 billion
- Terms
  - 5-year Maturity : JPY 50 billion ( rate : 1.95% )
  - 7-year Maturity : JPY 10 billion ( rate : 2.75% )

## BBB rating from R&I

- Obtained “BBB” credit rating from Rating and Investment Information, Inc.
- Rating was determined based on the current ADSL business operation and the potential growth opportunities in the new mobile broadband business.



**Capital secured for The Future Mobile Business Investment**

# Healthy Balance Sheet

Strong improvement in cash balance and net debt

	FY 3/2004		FY 3/2005		Increase (Decrease)
	Balance	Share of total	Balance	Share of total	
Cash and cash deposit	¥18.40 billion	37.4 %	¥104.77 billion	77.6 %	+¥86.37 billion
Debt	¥27.18 billion	55.2 %	¥96.56 billion	71.5 %	+¥69.38 billion
Net debt	¥8.79 billion	--	-¥8.21 billion	--	-¥17.00 billion
Total Shareholders' Equity	¥15.96 billion	32.4 %	¥28.48 billion	21.1 %	+¥12.52 billion
Total Asset	¥49.20 billion	100.0 %	¥134.99 billion	100.0 %	+¥85.79 billion
Net debt / Equity ratio (%)	55.0 %	--	-28.8 %	--	--

- Shareholders' equity increased by 78% YoY to 28.5 billion yen. Achieved a high ROE (tax credit inclusive) of 32.8%.
- Net debt position improve by 17 billion yen YoY to a net cash position of 8.2 billion in FY 3/2005 from a net debt of 8.8 billion in FY3/2004. Achieved net cash in five years since the inception.

# Shareholders Return Policy

Plan to pay 1,000yen dividend per share & a commemorative dividend of Y200

- Plan to pay an annual cash dividend of 1,000 yen per share.
- Plan to pay an additional commemorative dividend of 200 yen per share to celebrate the listing on the Tokyo Stock Exchange First Section.
- Based on March 31, 2005 share price of 91,000 yen, the dividend yield is estimated at around 1.3%.
- Expect to maintain the same amount of annual cash dividend at 1,000 yen per share for FY 3/2006



**Focus on Growth and Return Balance Policy**

# Shareholders as of March 31, 2005

No. of Shareholders

36,173

Outstanding Shares

1,364,940

## Shareholders Distribution (%)

Security Firms 0.8%

Operating Companies  
/Other institutions  
2.3%

Financial  
Institutions  
14.6%

Foreign Institutions  
48.1%

Individuals/Others  
34.2%

- 6/2004: Completion of share tranche from pre-IPO private equity investors (i.e. Carlyle, Goldman Sachs etc.)
- 10/2004: Completion of tranche of all shares and warrants held by Japan Telecom.



- Minimize pre-IPO investors selling pressure
- Improve liquidity for public shareholders

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# ADSL & ISP Businesses



# ADSL Business Strategy

Expand ADSL customer base & customer satisfaction  
Expand new bundled ADSL-Metal phone services

## ADSL-Metal phone bundled services

- Commenced new marketing campaign of ADSL-Metal Phone bundled services from 2/2005
- Service area expansion to increase coverage
- Expand targeted ADSL subscriber base into telephone users

## Retention scheme to lower churn

- Waive user commission costs for moving locations
- Strengthen back office customer consultation to suppress churn
- Conduct customer survey and implement long-term discount plan



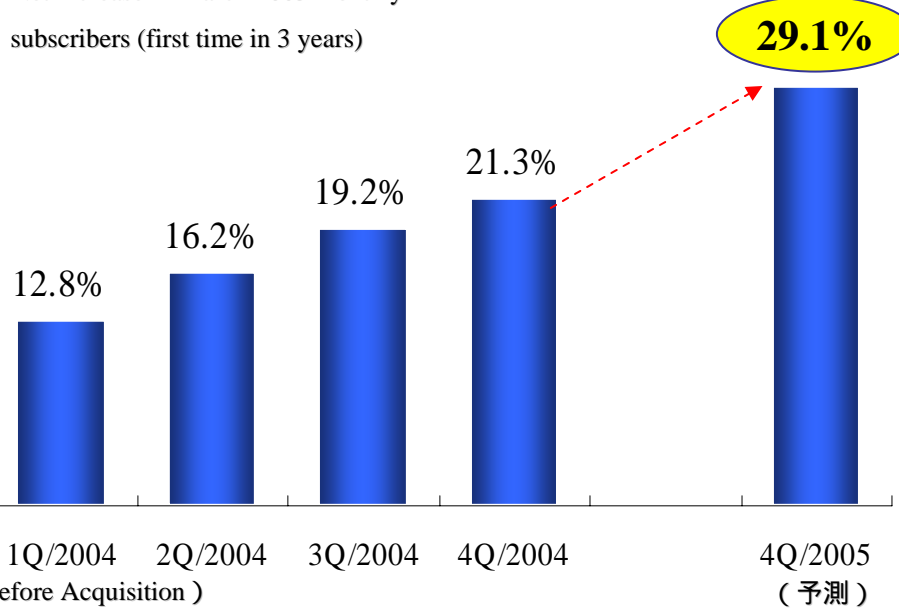
**Maintain Subscriber Growth and Profitability**

Synergies with ADSL business - higher broadband migration and lower churn

## AOL Broadband Migration Trend

Net increase in March 2005 monthly subscribers (first time in 3 years)

【Forecast of 2006/3】



## Value-Added Services

- Strengthen on-line advertising
- Strengthen on-line e-Commerce business
- Improve content collaboration with AOL Inc.
- Improve local content aggregation
- Develop new mobile portal applications

**Focus on broadband migration and content value-added services**

# eMobile Strategy

# Mobile License Schedule

## Study Process

- October 2004 eAccess announced interest to apply for the 1.7GHz FDD band
- October 2004 ~ Feb. 2005 Participated in MIC discussion meetings on mobile allocation plan
- Apr - May 2005 (Plan) Participated in 1.7GHz Technology Condition Working Group of MIC

## Timetable (Estimated)

- May 2005 Commencement of 1.7GHz W-CDMA field trial in Tokyo
- June 2005 MIC's Licensing Policy First Draft announcement  
↓ Public Comments ✓ MIC to announce availability of spectrum for new entrants and existing operators
- July 2005 Finalized MIC's Licensing Policy announcement
- Aug. - Sep. 2005 Applications for Mobile License Start  
↓ Due Diligence
- Nov. - Dec. 2005 New 1.7GHz licenses to be granted

# W-CDMA Field Trial in the 1.7GHz Band

Plan to commence Japan's First FULL Field Trial in May 2005,

## Purpose

To test the equipment and technology in the field and collect field data for the commercial services.

## Field Trial

- To test the radio transmission in the 1.7GHz Band
- To test new 3.5G W-CDMA extension HSDPA technology

## Trial Area

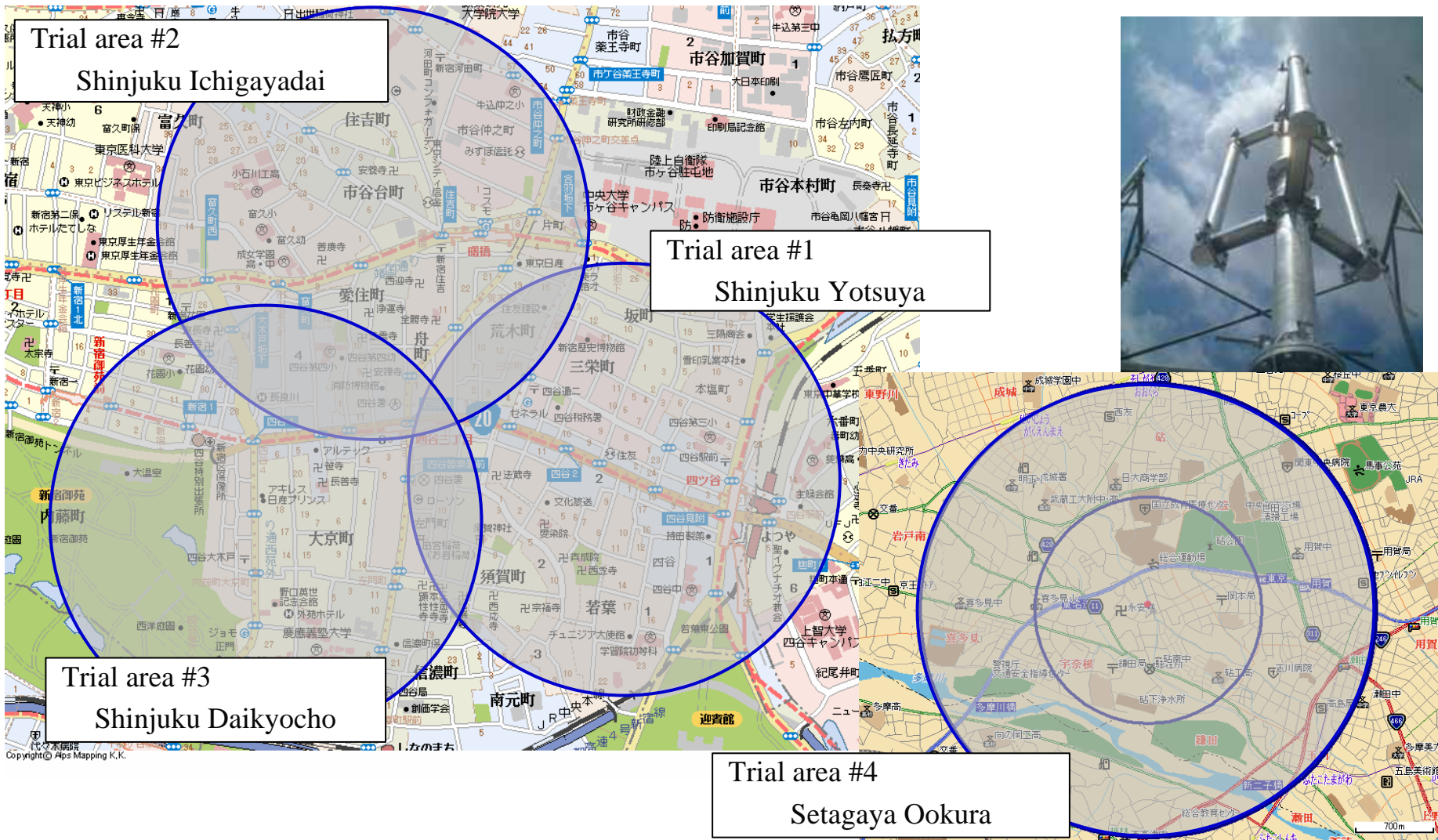
- First operator to conduct field trials in Tokyo

## Schedule

- Preliminary trial license granted in April 2005
- Full field trial license expected in May 2005

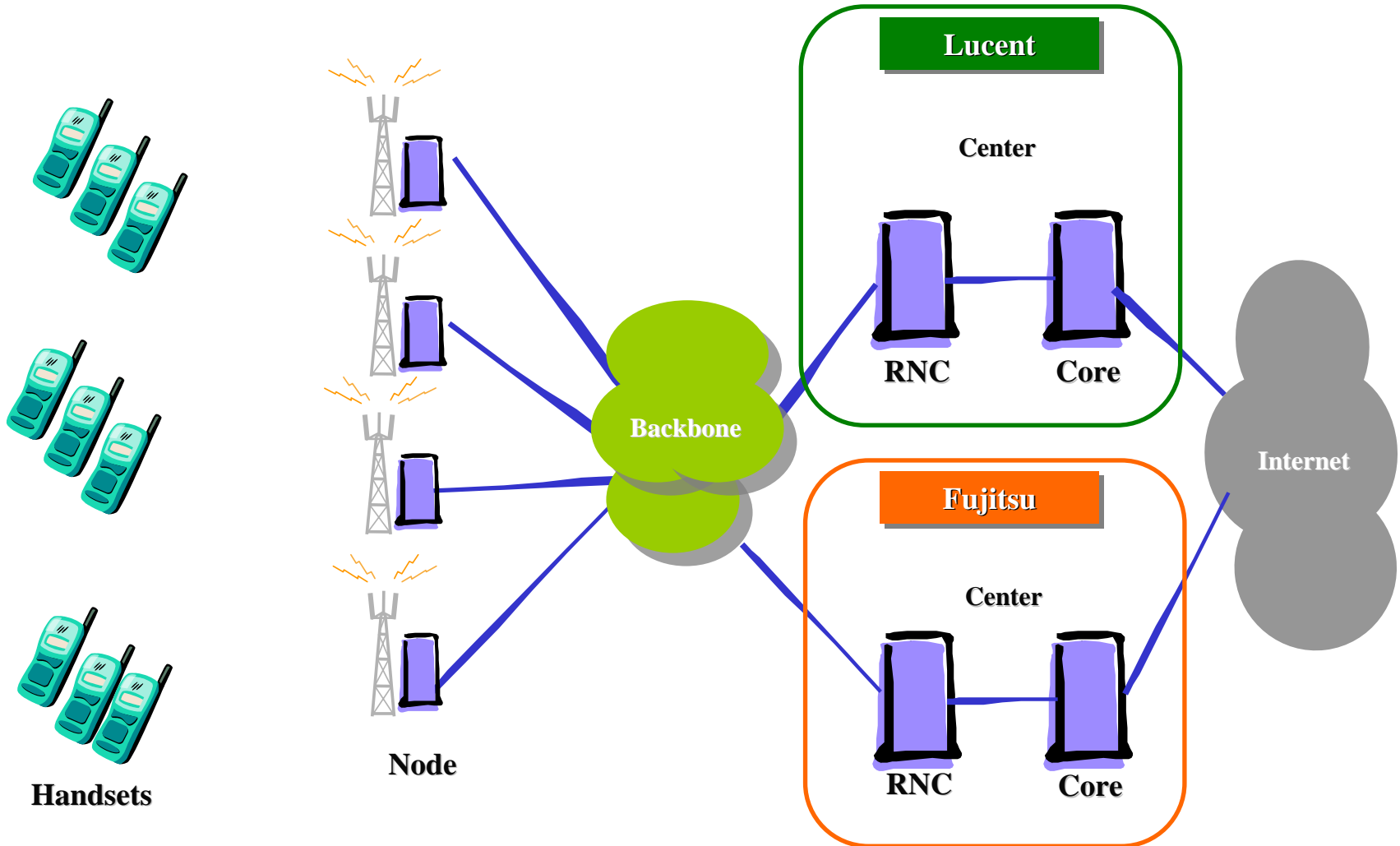
# 1.7 GHz Field Trial Sites in Tokyo

Four trial sites in the Tokyo metropolitan and residential area



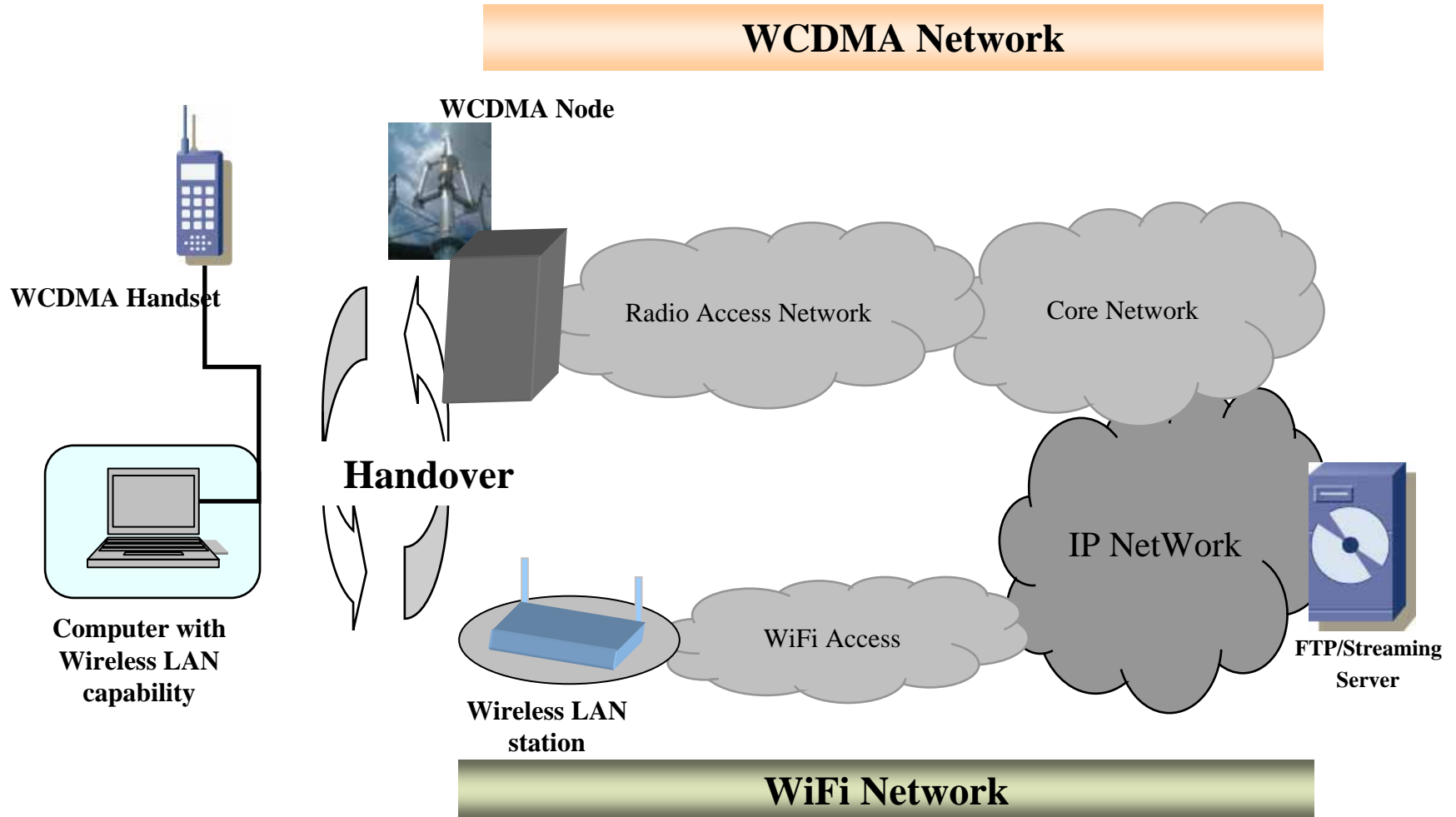
# Field Trial Network

Launch a full field trial with Lucent and Fujitsu



## Conduct a field trial of W-CDMA and WiFi. Feasibility study of FMC

\*FMC: Fixed Mobile Convergence



# eMobile Service Concept

**To offer seamless fixed and mobile broadband (Fixed Mobile Convergence).  
Target new mobile application users market**

**Adopt 3.5G W-CDMA extension technology (HSDPA)**

**Simple and Inexpensive call rate plan**

**New service concept & business model**

**1) Focus on mobile data applications**

- open Internet access
- anywhere broadband concept

**2) Focus on new “enjoy life-style” handsets**

- Develop new mobile communication module in daily life-style appliances

**3) Develop new users market**

- Smart Phone
- Open MVNO network

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# Conclusion

## ADSL Business

- Maintain subscriber growth, positive cash flow and profit margins.

## ISP Business (AOL)

- Accelerate broadband migration and strengthen content business.

## Mobile Business

- Commence mobile field trial in Tokyo and prepare license application.

## Balance Sheet

- Strengthen cash flow and balance sheet for mobile business

## Shareholder Returns

- Maintain shareholder return policy and same dividend per share

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