

*IR Meeting*

Ubiquitous Solution Company


# **KDDI CORPORATION**



Interim Financial Results of the Fiscal Year ending March 2006

October 21, 2005

Tadashi Onodera  
President & Chairman



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/FY2006.3 - Financial Results Highlights

## 1 Consolidated basis

- Operating revenues became flat ( -0.2%) yoy and operating income was up 2.6% as strong “au” Business almost absorbed impact of transfer of PHS Business in 2004.

## 2 “au” Business

- Operating revenue increased by 10.4% and operating income rose by 29.0% yoy.
- Steady growth in Chaku-uta Full®; total downloads topped 20 million (on September 28).
- Share of “au” total subs at 23.2% at end-September with top share of net adds in 1H (54.5%).
- No. of WIN subs continues to increase, totaling 5.55 million at end-September, of which 82% of users have signed up for flat-rate plan.

## 3 TU-KA Business

- Three TU-KA companies merged into KDDI parent company on October 1.

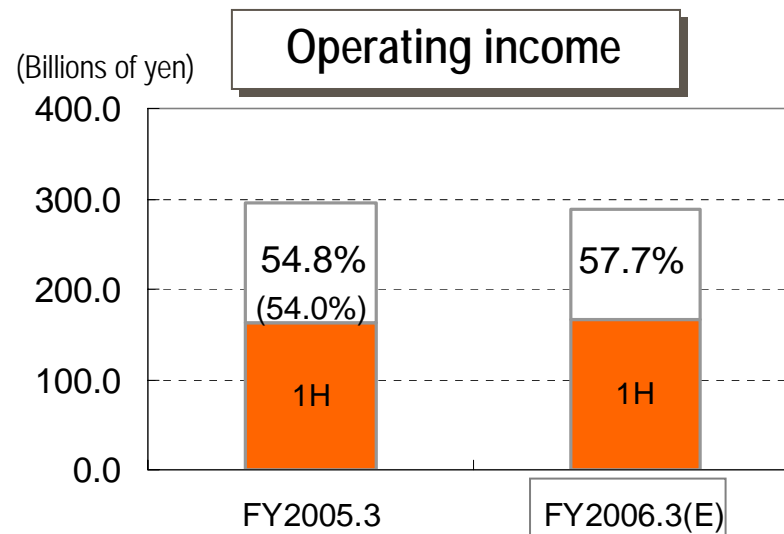
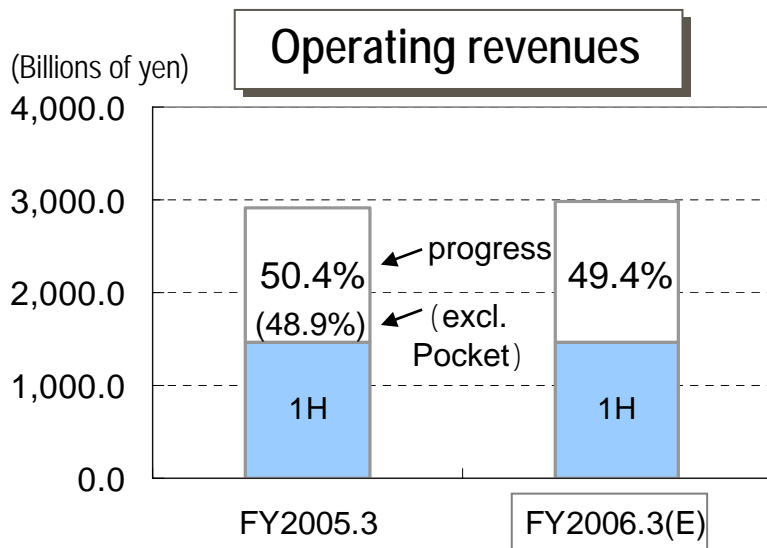
## 4 Fixed-line Business

- Operating income amounted to ¥29.5 billion due to expanded sales of Metal Plus.
- Activated lines of Metal Plus totaled 680 thousand at end-September due to delay in sales area expansion.

# 1.2. 2H/FY2006.3 Challenges

- 1** Secure new customers to strengthen business foundations and drive sustainable growth.
  - Build up brand strength, enhance customer satisfaction and ensure compliance.
  - Develop FMC (Fixed & Mobile Convergence) services by exploiting KDDI's competitive advantages.
  
- 2** “au” Business
  - Promote sales of unique “au” services such as EZ Chaku-uta Full<sup>®</sup> and navigation etc. along with flat-rate plan.
  - Reinforce customer acquisition in wide range of agegroups together with their family members, by “Family Discount -Wide Support-” plan for MNP (Mobile Number Portability).
  - Strengthen retention measures such as expanded family and yearly discount plans, and point service for battery pack replacement.
  - Mobile Solutions: Enhance product development capability and promote sales along with solutions
  
- 3** TU-KA Business
  - Promote smooth migration of TU-KA users to “au”
  
- 4** Fixed-line Business
  - Swiftly activate Metal Plus lines by steadily expanding sales area.
  - Prepare for planned merger with POWEREDCOM and integrated FTTH service with TEPCO.

# 2. Consolidated Financial Results



(Billions of yen)

	FY2005.3		FY2006.3(E)			
	1H		1H	yoy	progress	
Operating revenues	1,471.3	2,920.0	1,468.8	-0.2%	49.4%	2,976.0
Operating income	162.4	296.2	166.7	2.6%	57.7%	289.0
<i>Operating margin</i>	11.0%	10.1%	11.3%	-	-	9.7%
Ordinary income	156.3	286.3	164.9	5.5%	57.5%	287.0
Net income	77.8	200.6	101.4	30.3%	-	187.0
Free Cash Flow	113.1	402.2	99.0	-12.5%	-	43.0
EBITDA	351.8	664.3	337.4	-4.1%	52.5%	643.0
<i>EBITDA margin</i>	23.9%	22.7%	23.0%	-	-	21.6%

(ref.) Results excluding Pocket

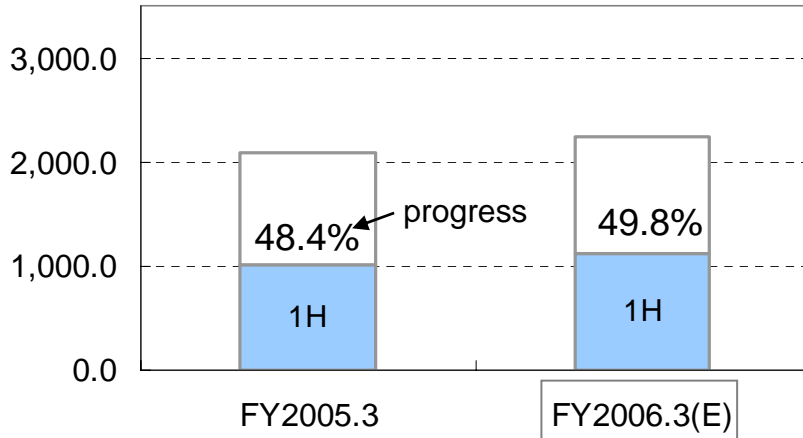
	FY2005.3	FY2006.3(E)
	1H	yoy
Operating revenues	1,384.5	6.1%
Operating income	157.0	6.2%
<i>Operating margin</i>	11.3%	-
Ordinary income	151.4	9.0%
Net income	74.6	36.0%
Free Cash Flow	92.2	7.4%
EBITDA	327.2	3.1%
<i>EBITDA margin</i>	23.6%	-

Note: For FY 2005.3 results excluding Pocket, 1H results and effect of divestiture of PHS Business are deducted from the consolidated figures.

# 3. "au" Business

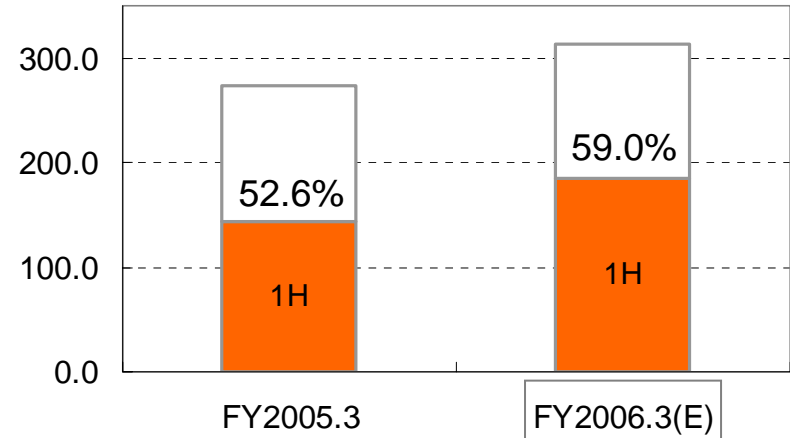
## Operating revenues

(Billions of yen)



## Operating income

(Billions of yen)



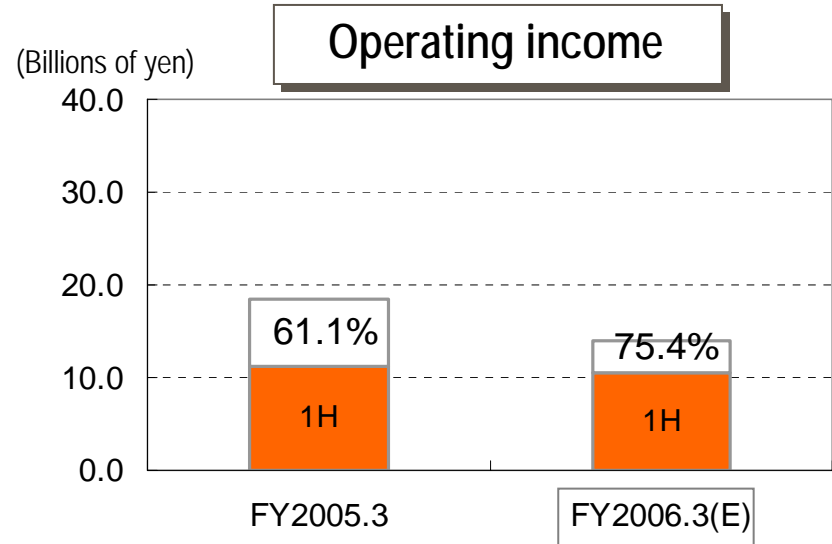
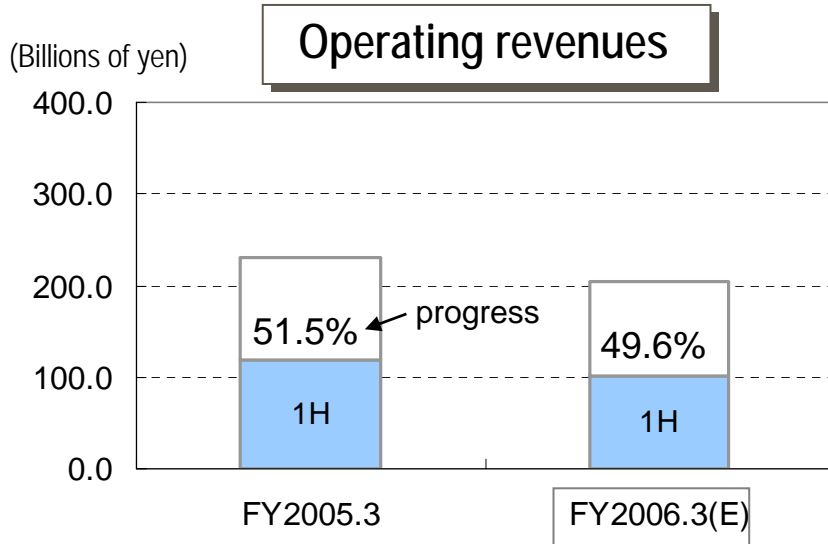
(Billions of yen)

	FY2005.3		FY2006.3(E)		
	1H		1H	progress	
Operating revenues	1,012.3	2,092.7	1,117.8	49.8%	2,245.0
Operating income	143.6	273.1	185.2	59.0%	314.0
<i>Operating margin</i>	14.2%	13.1%	16.6%	-	14.0%
Ordinary income	141.3	269.9	184.6	59.0%	313.0
Net income	83.3	161.2	111.3	-	186.0
Free Cash Flow	44.0	132.6	119.9	-	119.0
EBITDA	246.5	481.4	290.4	55.4%	524.0
<i>EBITDA margin</i>	24.4%	23.0%	26.0%	-	23.3%

	FY2005.3		FY2006.3(E)	
	1H		1H	
Subs ('000)	18,189	19,542	20,704	21,540
of module-type	421	487	548	610
WIN(EV-DO)	1,191	3,252	5,550	7,660
1X	14,667	14,683	13,997	-
cdmaOne	2,331	1,608	1,156	-
ARPU (yen)	7,280	7,170	7,120	6,810
Voice	5,560	5,430	5,270	5,020
Data	1,720	1,740	1,850	1,790

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

# 4. TU-KA Business (PDC)

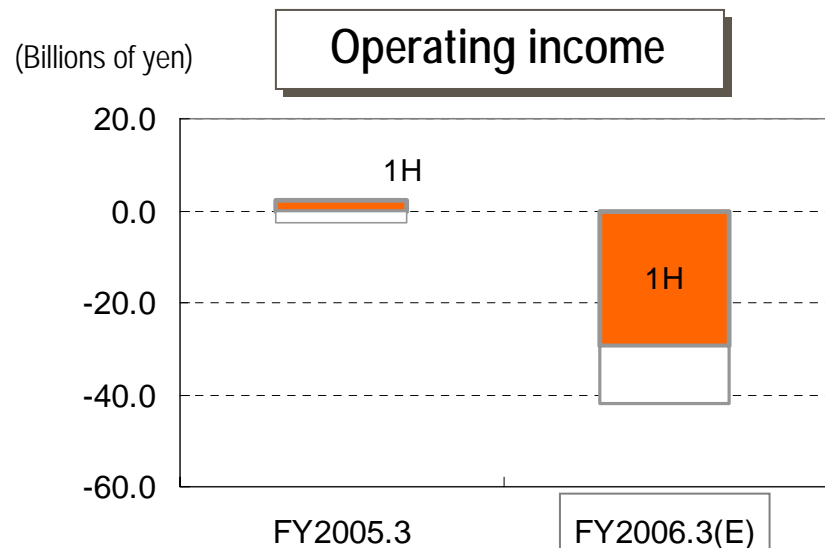
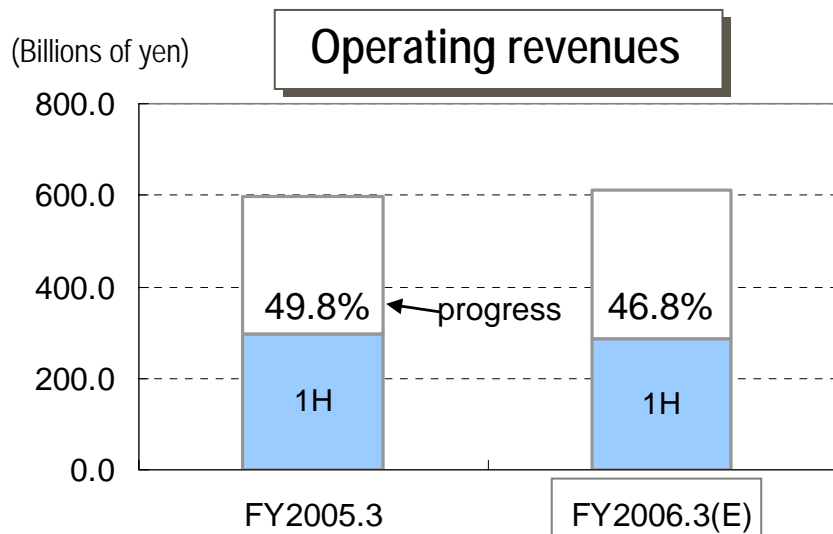


(Billions of yen)

	FY2005.3		FY2006.3(E)		
	1H		1H	progress	
Operating revenues	119.2	231.4	101.3	49.6%	204.0
Operating income	11.3	18.4	10.6	75.4%	14.0
<i>Operating margin</i>	9.5%	8.0%	10.4%	-	6.9%
Ordinary income	9.4	15.2	9.7	74.3%	13.0
Net income	5.3	10.5	6.7	-	8.0
Free Cash Flow	27.9	58.1	25.7	-	41.0
EBITDA	36.0	66.8	31.5	58.2%	54.0
<i>EBITDA margin</i>	30.2%	28.9%	31.1%	-	26.5%

	FY2005.3		FY2006.3(E)	
	1H		1H	
PDC Subs ('000)	3,588	3,590	3,528	3,490
ARPU (yen)	4,630	4,470	4,080	4,040

# 5. Fixed-line Business



Progress is not available as full-year figures are negative.

(Billions of yen)

	FY2005.3		FY2006.3(E)		
	1H		1H	progress	
Operating revenues	296.8	596.0	286.2	46.8%	612.0
Operating income	2.4	-0.3	-29.5	-	-42.0
<i>Operating margin</i>	<i>0.8%</i>	<i>-0.1%</i>	<i>-10.3%</i>	-	<i>-6.9%</i>
Ordinary income	3.0	-0.4	-29.0	-	-43.0
Net income	-8.0	-4.4	-16.2	-	-22.0
Free Cash Flow	16.5	-3.1	-49.6	-	-114.0
EBITDA	42.6	87.5	13.5	22.8%	59.0
<i>EBITDA margin</i>	<i>14.3%</i>	<i>14.7%</i>	<i>4.7%</i>	-	<i>9.6%</i>

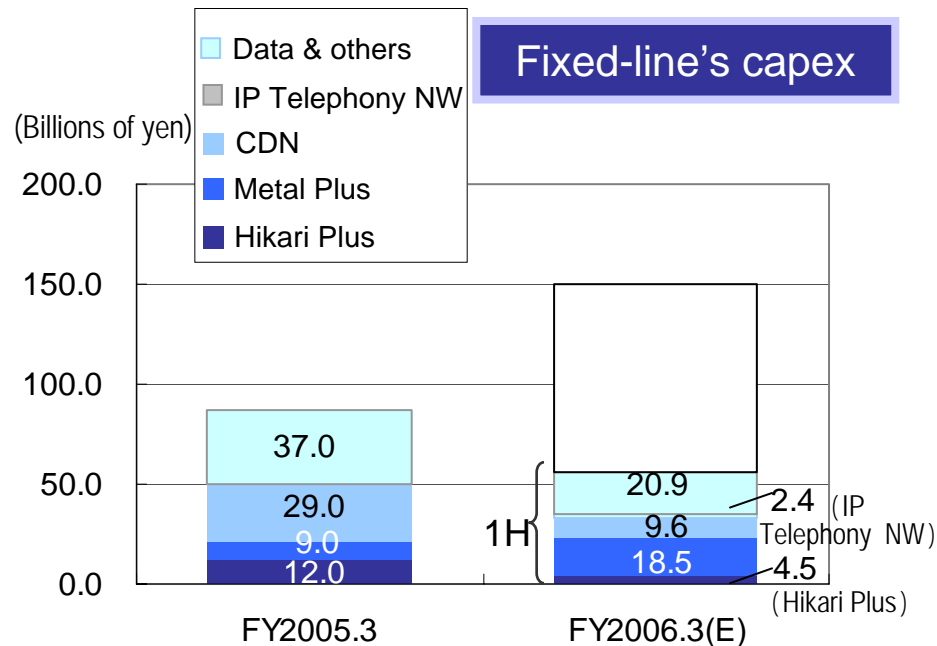
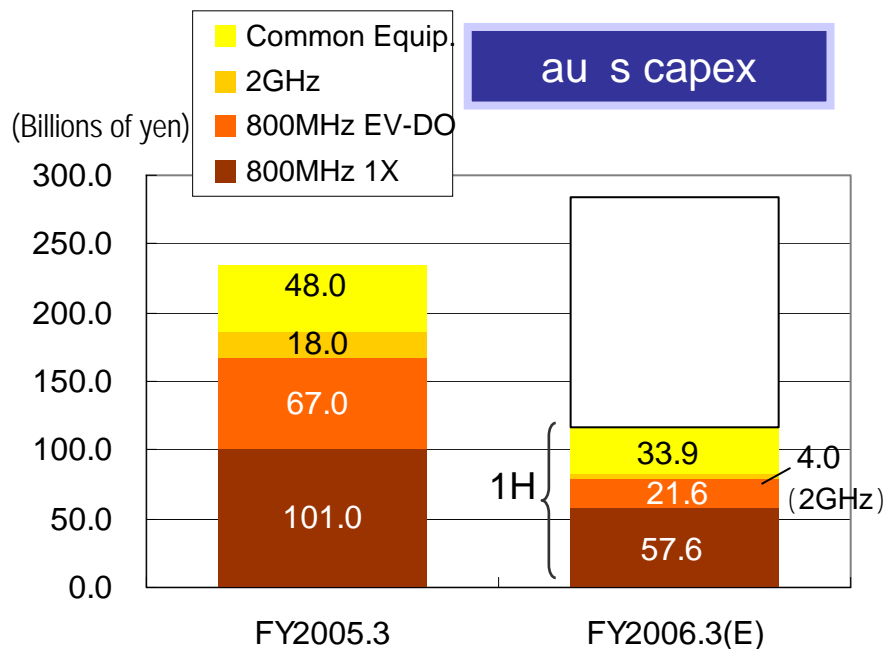
	FY2005.3		FY2006.3(E)	
	1H		1H	
DION subs('000) <small>(Note1)</small>	2,873	2,885	2,850	2,880
of ADSL	1,428	1,494	1,495	1,500
FTTH subs('000)	60	91	138	180
of Hikari Plus	44	79	134	-
Metal Plus subs('000)	0	41	<small>(Note2)</small> 677	2,200

Note 1: DION subs of Hikari Plus are included in the number of DION subs from end-March 2005.

Note 2: No. of Metal Plus line subscriptions (incl. those not yet activated) at end-Sept. 2005 was 1,362,000.



# 6. Capital Expenditures and others



(Billions of yen)

		FY2005.3		FY2006.3(E)		
		1H		1H	Progress	
CAPEX (Cash basis)	Consolidated	115.5	342.4	176.1	40.0%	440.0
	au	87.0	233.5	117.2	41.8%	280.0
	TU-KA	3.1	7.7	1.1	28.5%	4.0
	Fixed-line	17.2	86.6	55.9	37.3%	150.0
Depreciation	Consolidated	183.3	349.9	166.6	49.7%	335.0
	au	100.1	201.7	103.1	51.3%	201.0
	TU-KA	23.6	46.6	20.3	52.1%	39.0
	Fixed-line	38.6	78.7	41.5	45.1%	92.0

# Segment Discussions & Strategies

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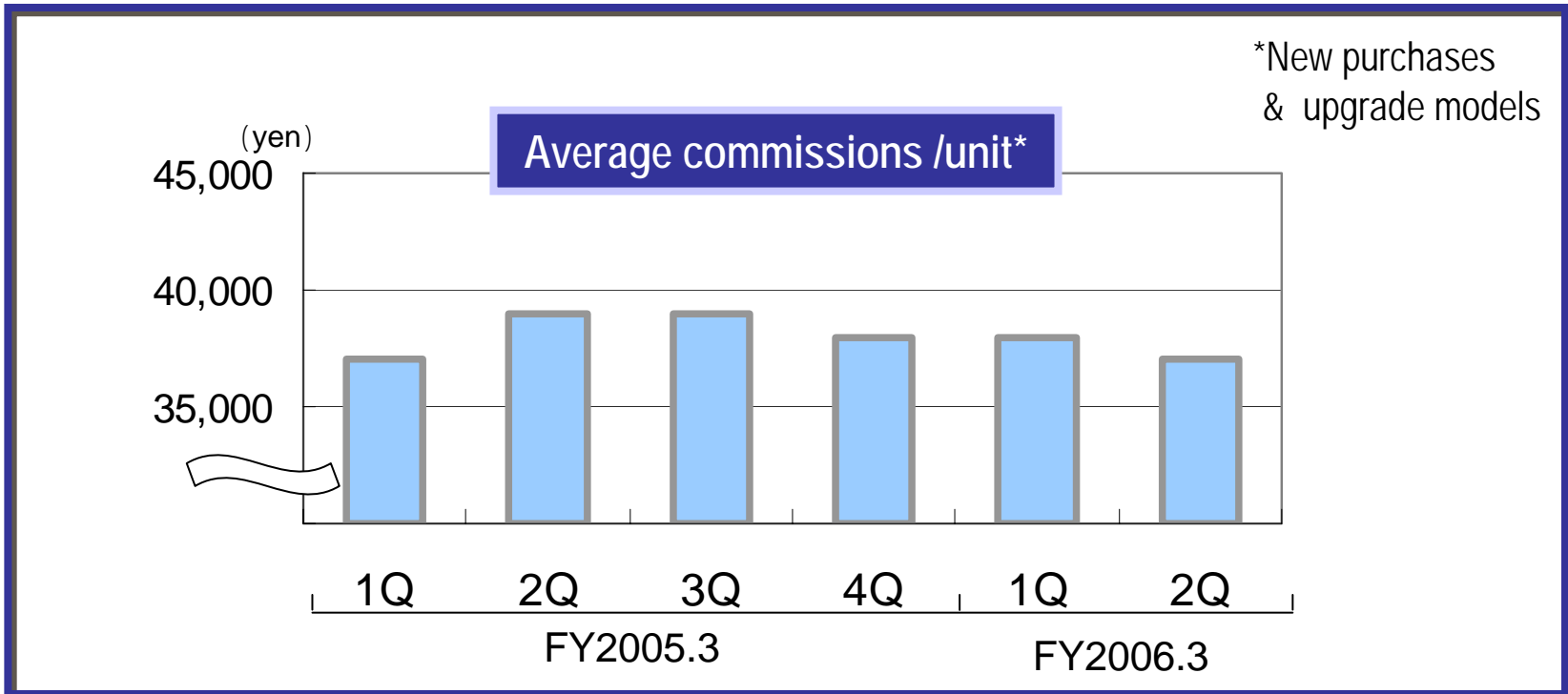
"au" Business

TU-KA Business  
(PDC)

Fixed-line  
Business

KDDI-wide  
Measures

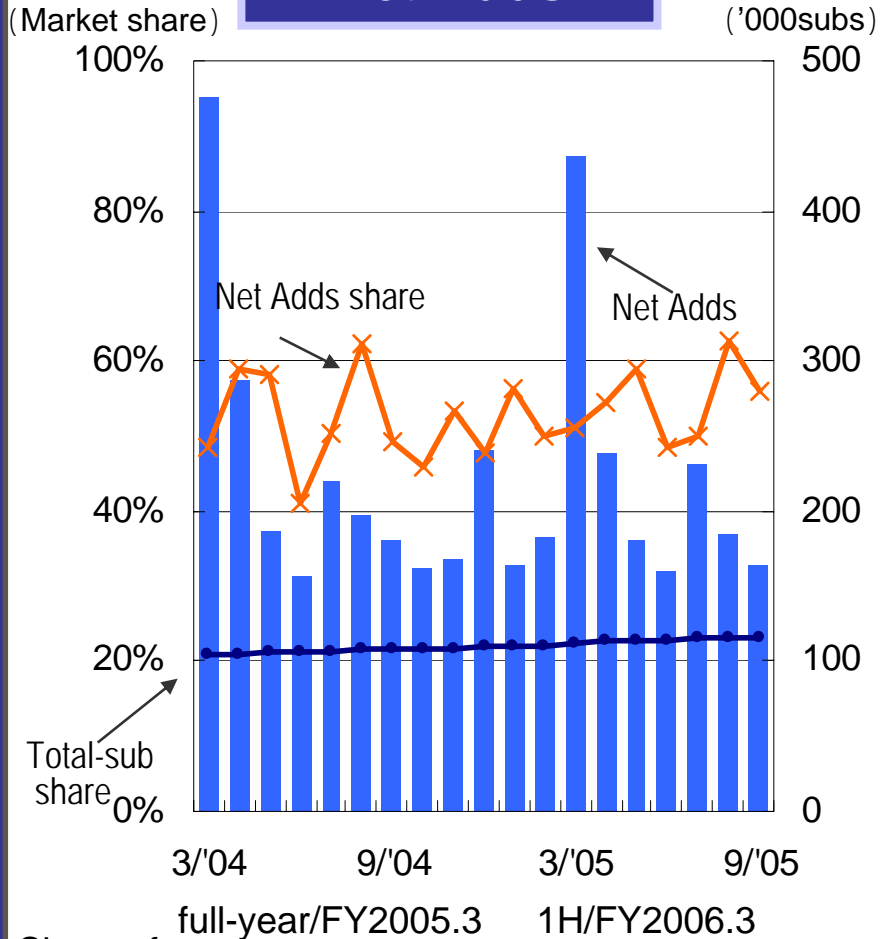
# 1.1. Sales Commissions



	FY2005.3					FY2006.3(E)		
	1Q	2Q	3Q	4Q		1Q	2Q	
Sales commissions (Billions of yen)	94.0	114.0	112.0	124.0	444.0	102.0	119.0	457.0
Average commissions/unit (yen)	37,000	39,000	39,000	38,000	38,000	38,000	37,000	38,000
Number of units sold ('000 units)	2,550	2,930	2,870	3,230	11,590	2,700	3,220	12,100

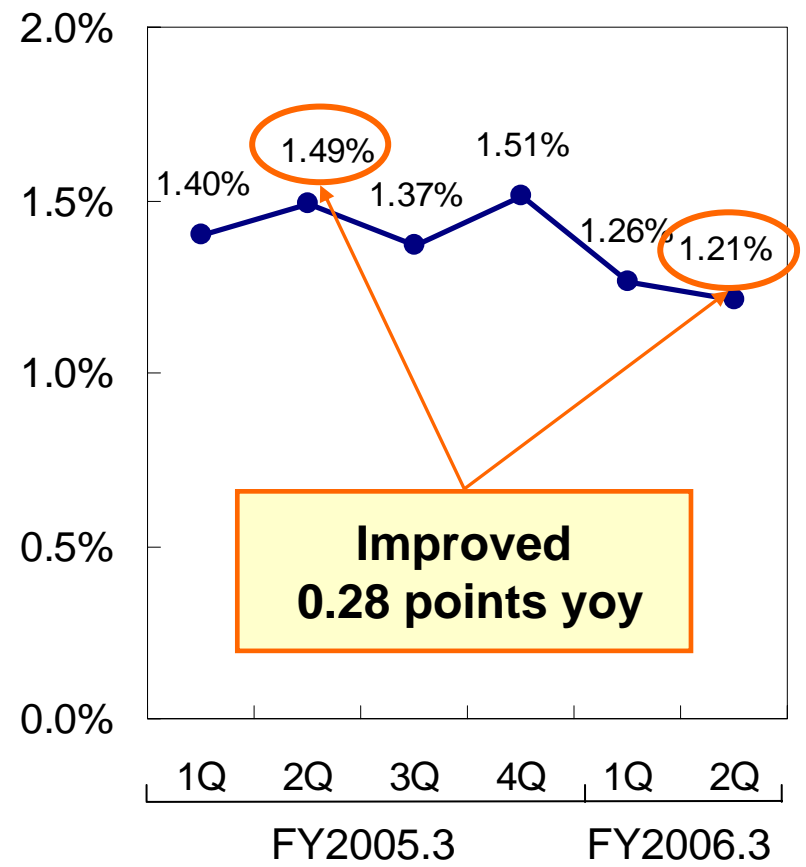
# 1.2. Net Adds & Churn Rate

## Net Adds



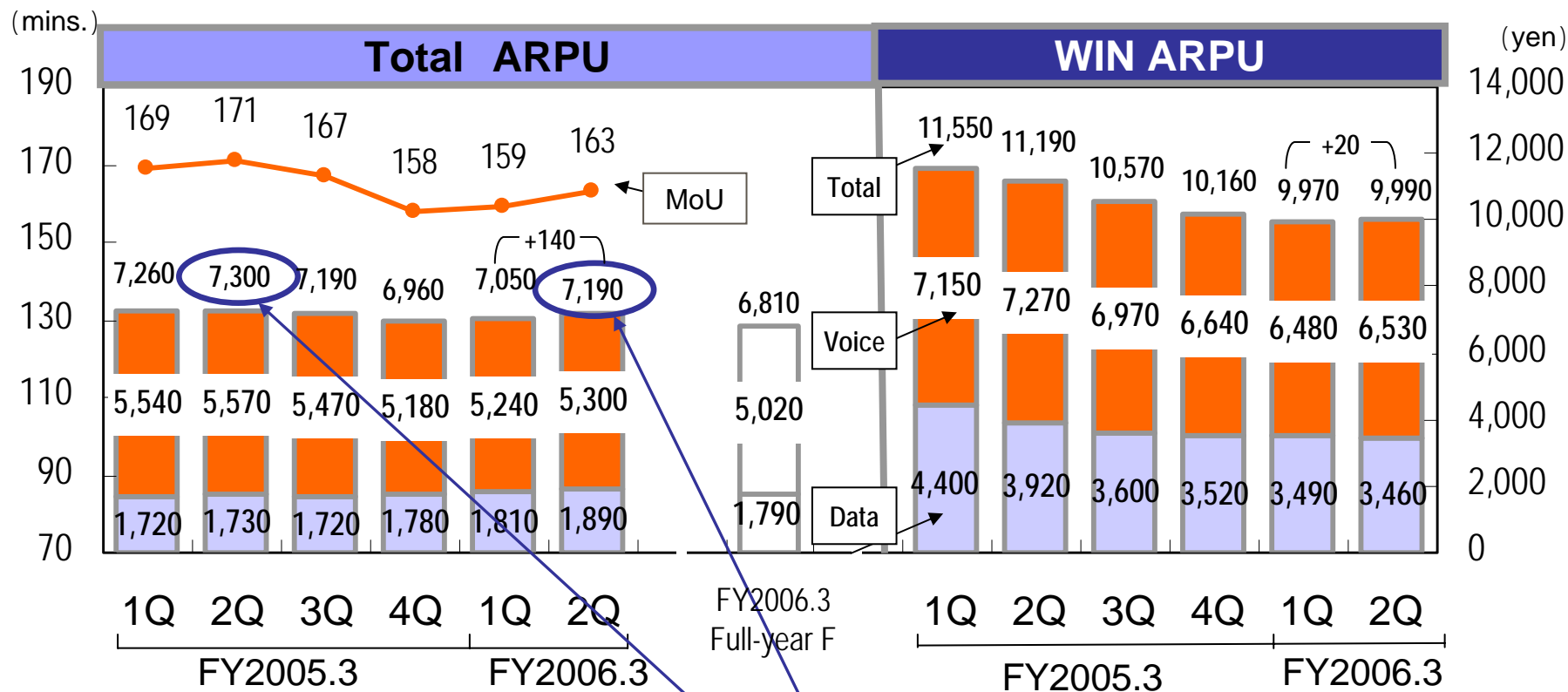
Share of :		
Net Adds	<50.4%>	<54.5%>
Total subs	<22.5%>	<23.2%>

## Churn Rate



Full-year <1.44%>

# 1.3. Trend of ARPU



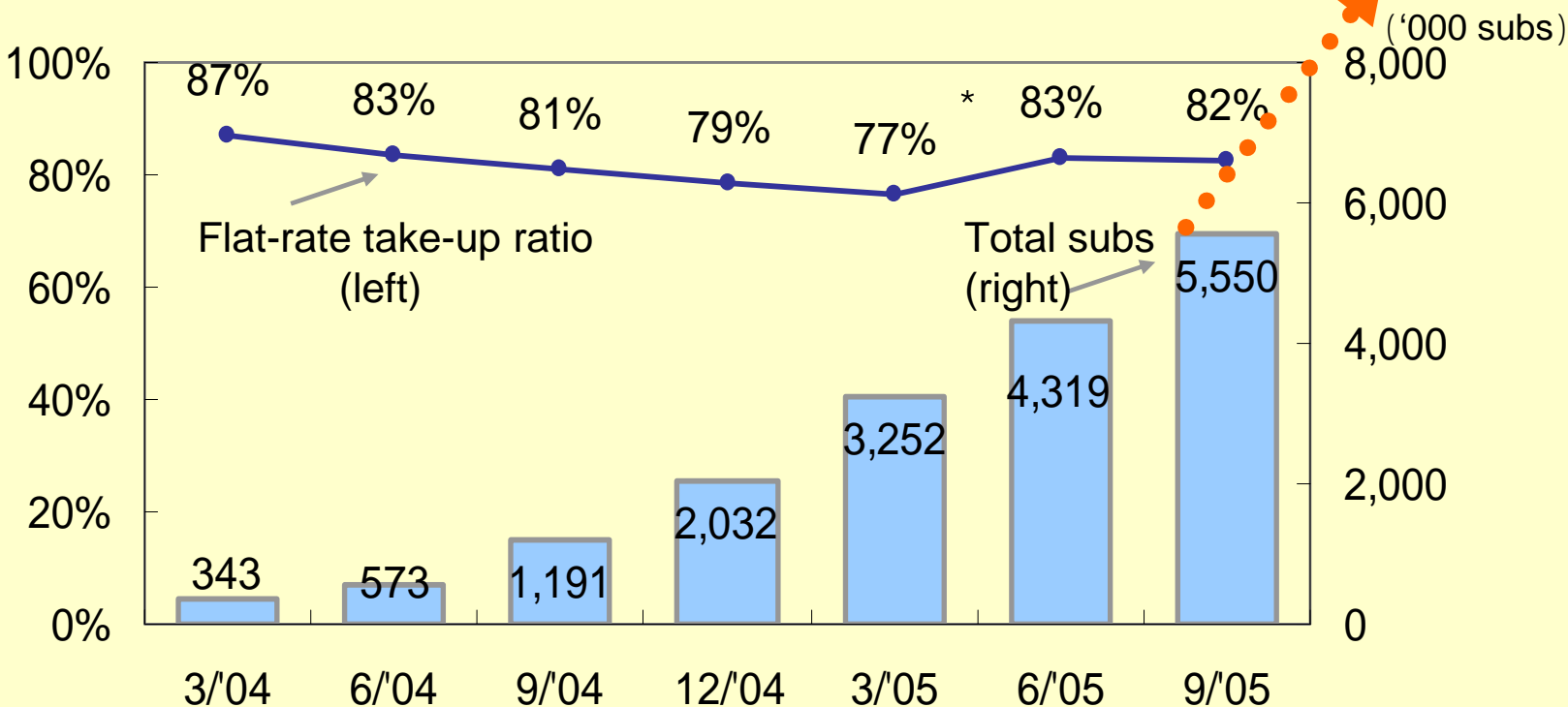
Full-year total ARPU <¥ 7,170>  
of Voice <¥ 5,430>  
of Data <¥ 1,740>

yoy change  
total ¥ 110 ( 1.5%)  
of Voice ¥ 270 ( 4.8%)  
of Data + ¥160 ( + 9.2%)

# 2. Update on WIN(1)

Expanded flat-rate plan to even wider customer base through commencement of Double Teigaku “Light” in May 2005.

**Growth of WIN & Flat-rate Subs**



**3/06 Target**  
approx. 7,660k

('000 subs)

8,000

6,000

4,000

2,000

0

3/04

6/04

9/04

12/04

3/05

6/05

9/05

Flat-rate take-up ratio  
(left)

Total subs  
(right)

5,550

343

573

1,191

2,032

3,252

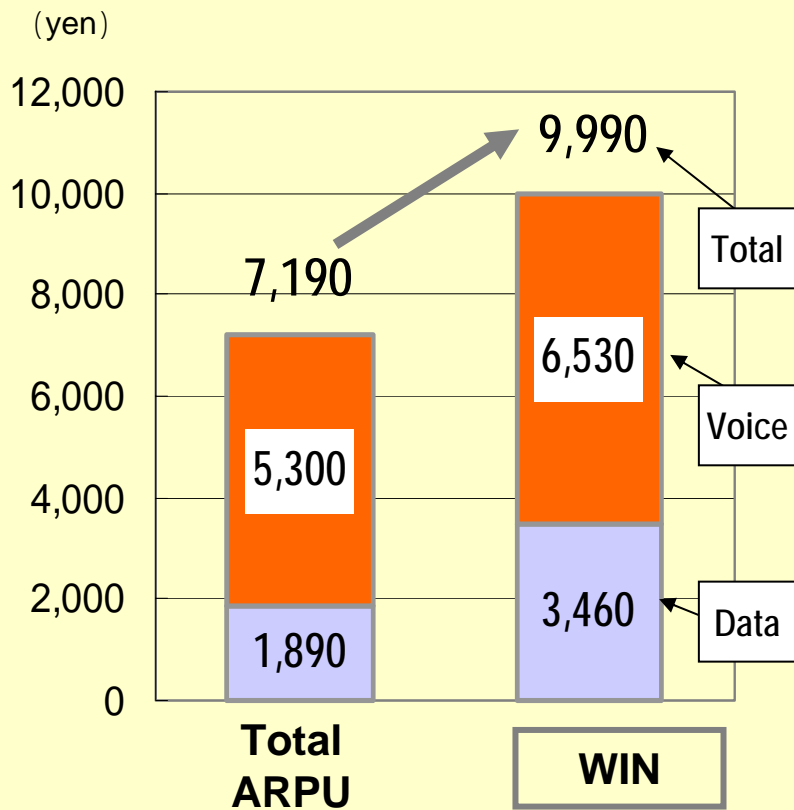
4,319

Note: Flat-rate take-up ratio at end-June and thereafter includes Double Teigaku “Light ” subs in line with the launch of service in May 2005. Former Packet-Discount WIN subs, who were automatically shifted into Double Teigaku “Light” after May 2005, account for 6% at end-March 2005.

# 2. Update on WIN(2)

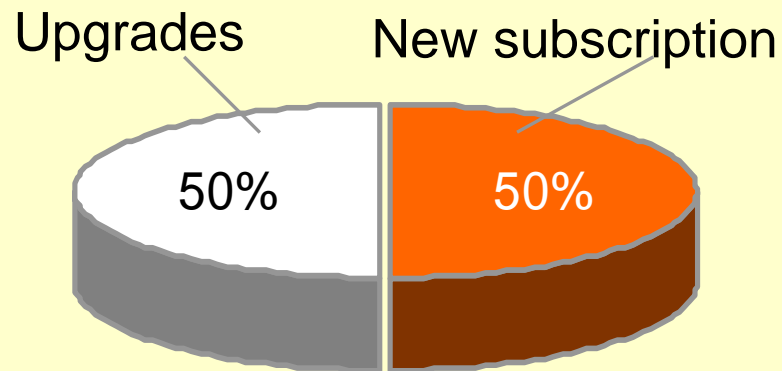
WIN has continued to capture high-end users from other companies with proportion of new subscriptions at around half.

## ARPU



Note: ARPU of 2Q/FY06.3.

## Breakdown of WIN Subs

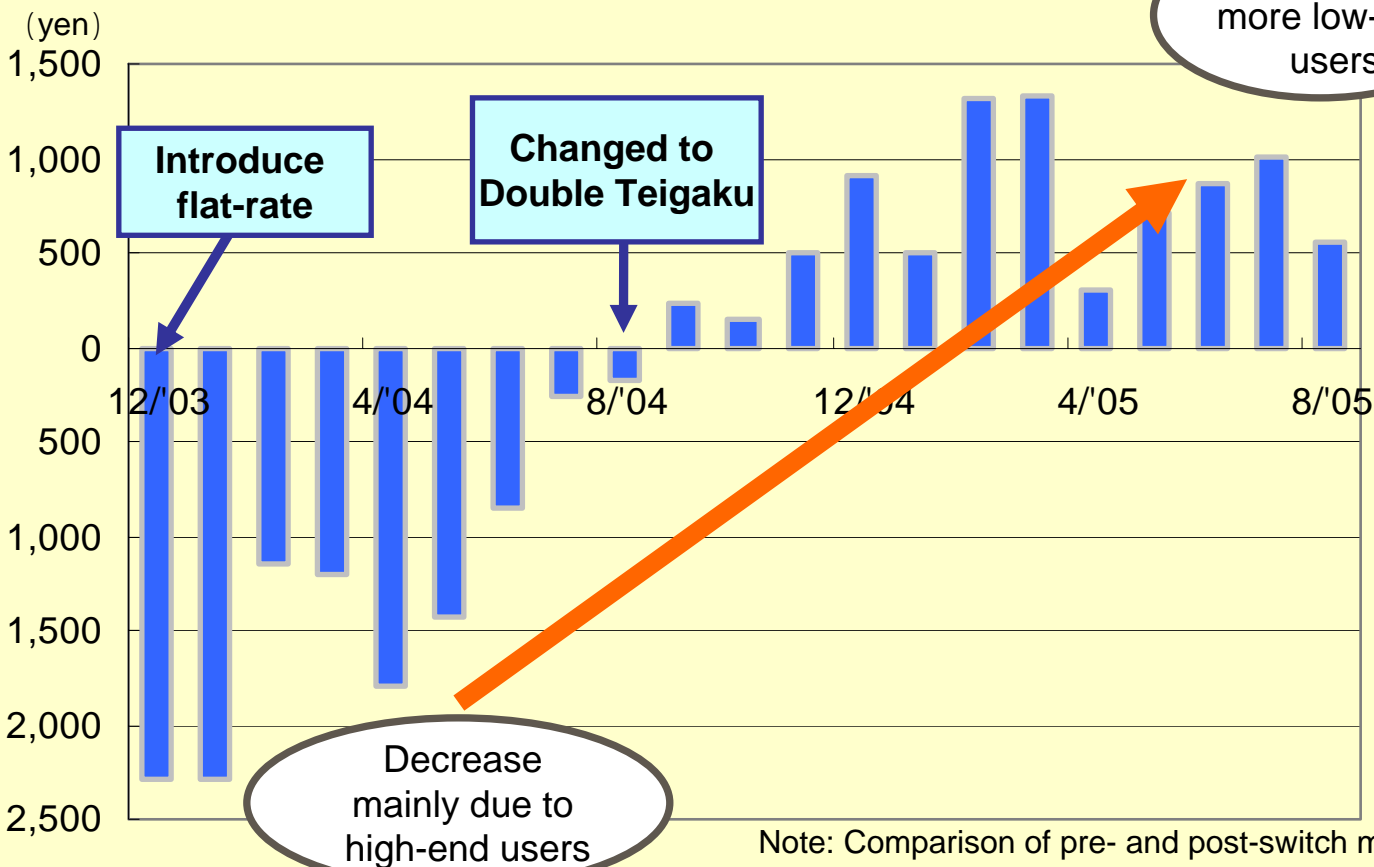


Note: Percentage of the simple total of subs who sign up in 2Q/FY06.3.

# 2. Update on WIN(3)

During launching period, WIN had a negative effect with data high-end users shifting to flat-rate but post-switched ARPU turns to be on an upward trend since DoubleTeigaku (Two-tiered flat-rate plan) was introduced.

## Changes of ARPU : 1X WIN

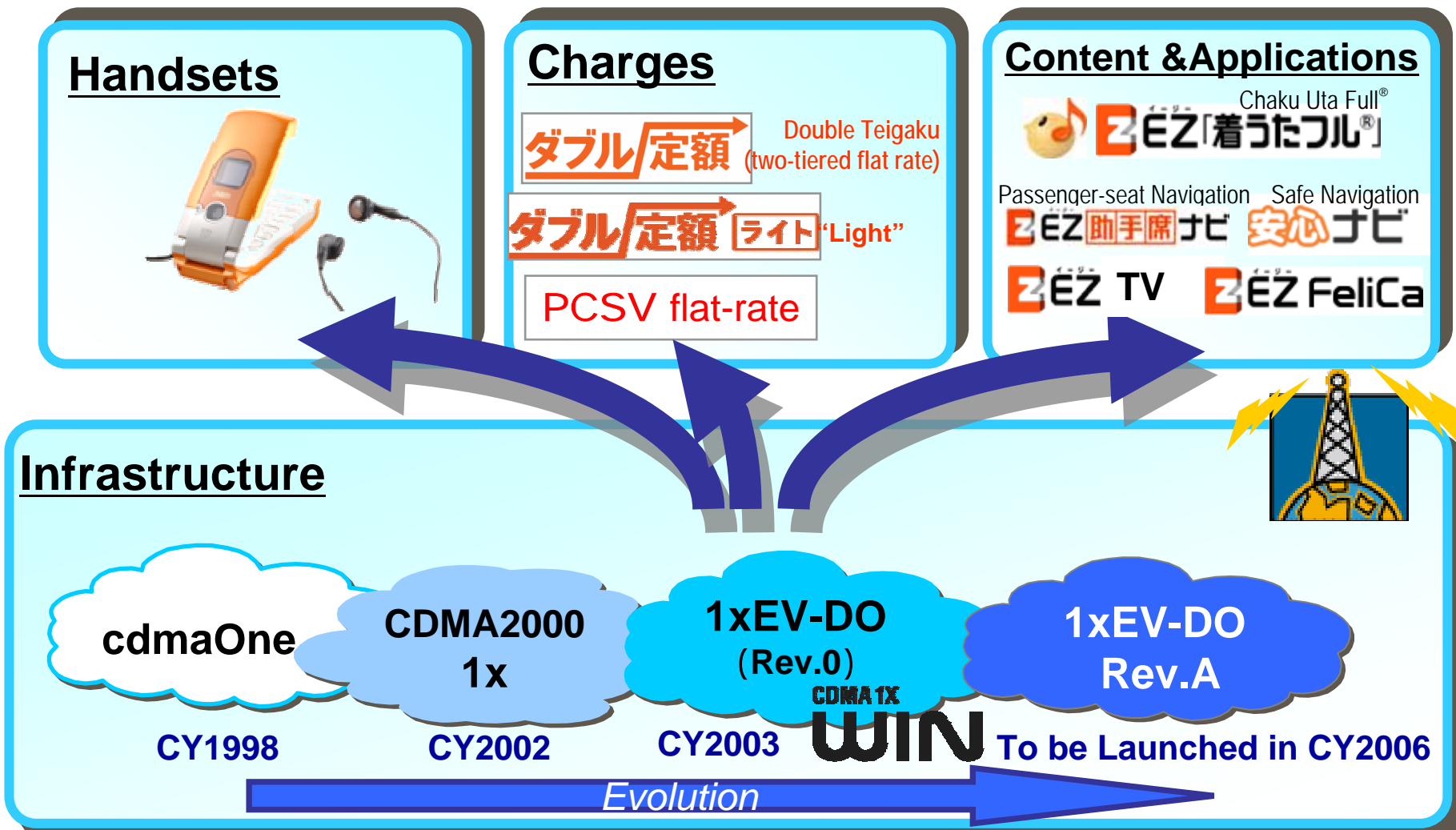


Note: Comparison of pre- and post-switch monthly ARPU for the month when users switched to WIN.



# 3. Boost All-Round Product Attractiveness (1)

Promote differentiation by leveraging competitive advantage in infrastructure to boost all-round product attractiveness in terms of handset, charges and content.

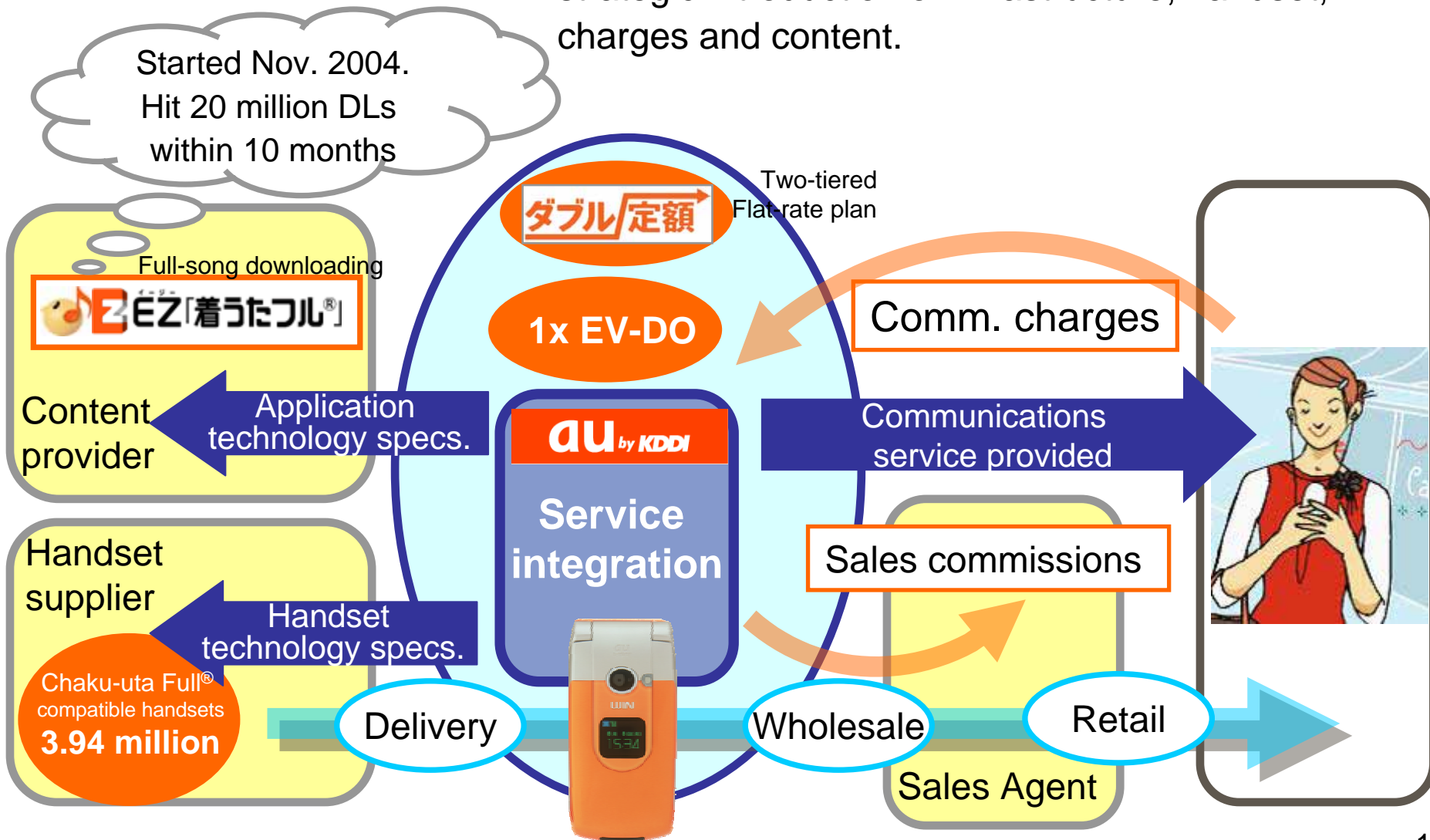


Note: PCSV stands for PC site viewer.

# 3. Boost All-Round Product Attractiveness (2)

Quickly proliferate attractive services through strategic introduction of infrastructure, handset, charges and content.

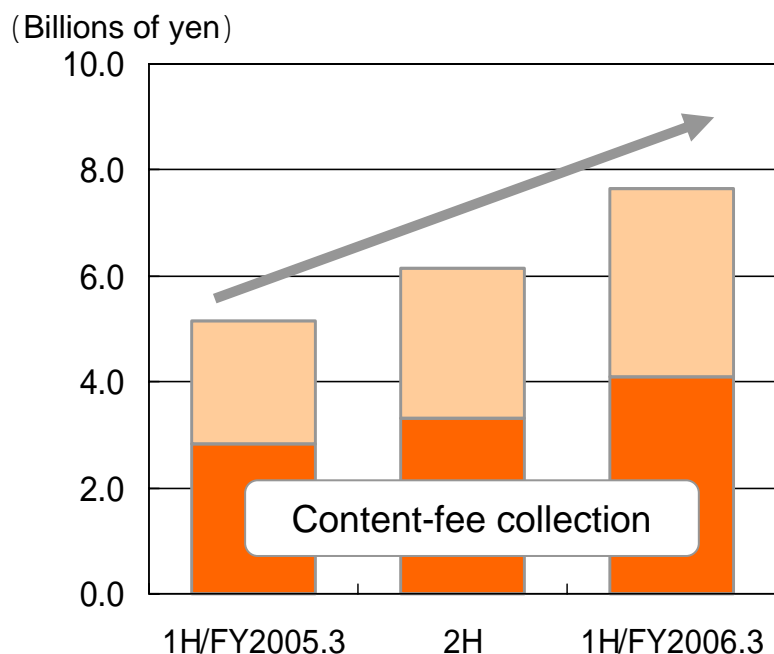
Started Nov. 2004.  
Hit 20 million DLs  
within 10 months



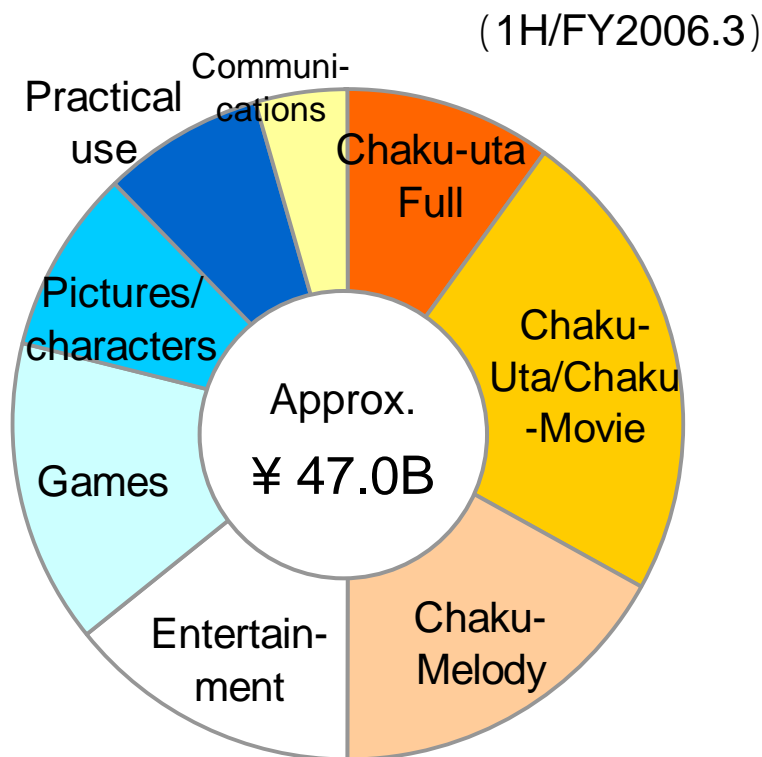
Steady growth in sales of Content/Media Business, reaching ¥7.7B in 1H.

Music content such as Chaku-uta Full® and Chaku-Uta® is strong.

## Sales of Content/Media Biz

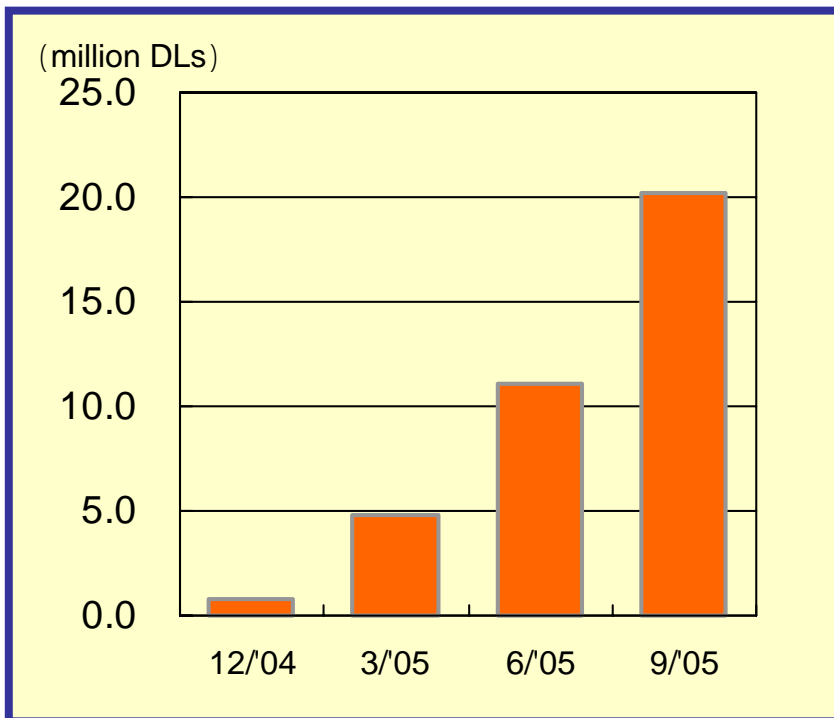


## Use of Paid-Content

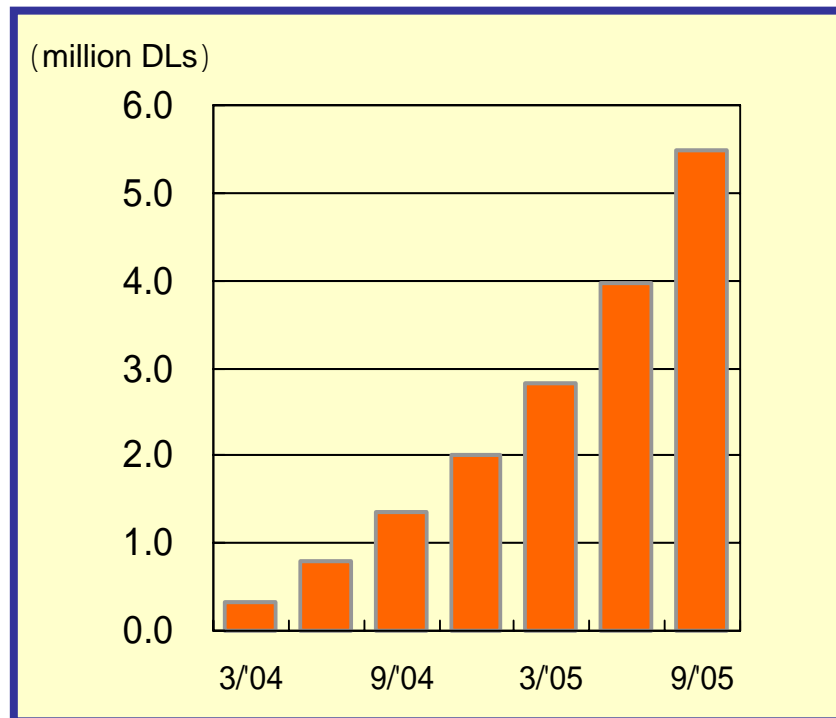


Note: Paid-content sales go to content service providers of which KDDI receives less than 10% of total as commission for fee-collection.

Chaku Uta Full®  
**EZ「着うたフル」** total downloads



e-book  
**EZブック** total downloads



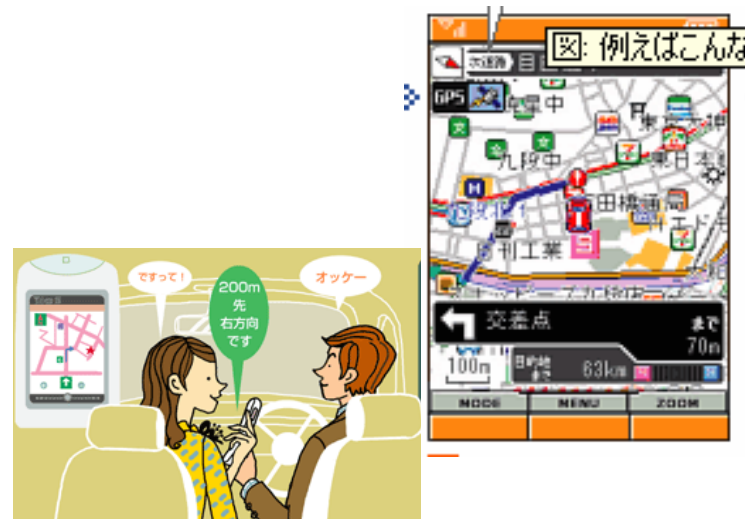
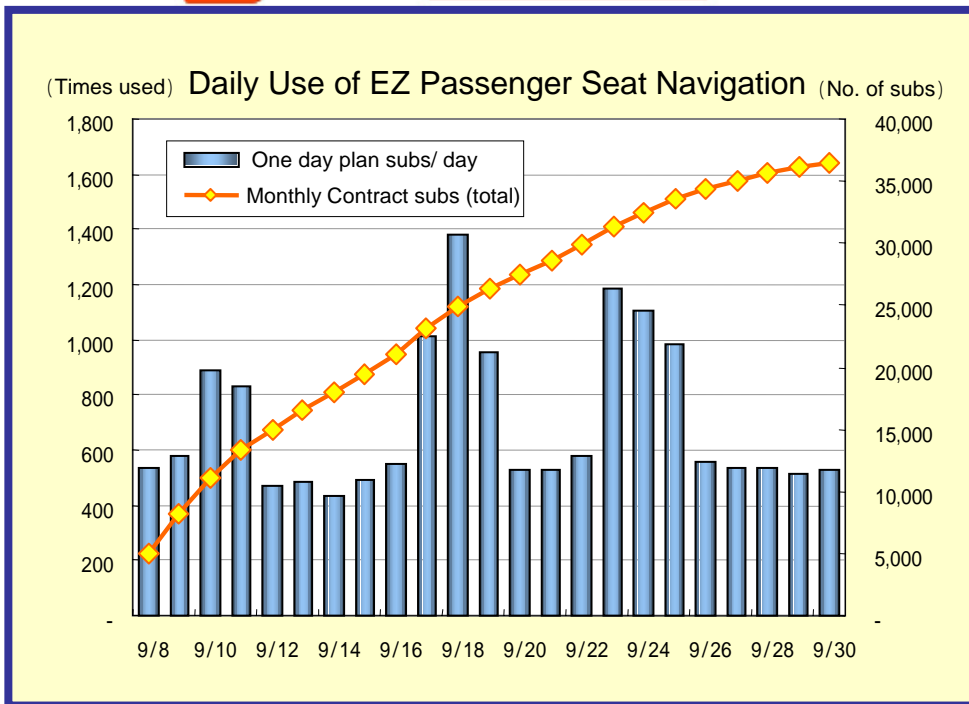
Total downloads topped 20 million songs on Sept. 28, 2005.  
Over 60,000 songs available  
3.94 million handsets at end-Sept. 2005

Total downloads reached approx. 5.5 million units at end-Sept. 2005.

\* Total No. of downloads using KDDI Official e-book viewer (ComicsSurfing).



Route to destination displayed on map then voice guide begins



Commenced service on Sept. 8, 2005; solid start with results far exceeding initial targets.

Uncover potential needs by proposing new usage with driving.

Provide two types of service plans; monthly / one-day plan considering use of customers

# 5. Measures to Reduce Handset Costs

## Handset Cost Reduction

- Co-develop handsets with an overseas supplier for Japanese market.
- Standardize hardware and software between handset makers using KCP.

### Procure from Korea’s Pantech & Curitel

- Utilize 5<sup>th</sup> largest CDMA maker’s economies of scale for component procurement & production.
- Jointly developed simple and convenient user interface as well as handset design customized for Japanese market.



Planned release: Late Nov. 2005

### Promote KCP (KDDI Common Platform)

- Compatible with WIN 05 summer models by 2 suppliers.
- To be followed by all suppliers in FY06



**KDDI Task Mgr.**

**KCP(BREW+KTM)**

OEM layers

**Baseband chip**

## 6. “Family Discount-Wide Support-” Plan

Family Discount -Wide Support-



Introduce “Family Discount-Wide Support-” plan to make it easier for the whole family, from primary and junior high school students to the over 60s agegroup, to use “au” mobile phones together

Automatically apply discount to the customers who meet all three conditions

1. Primary and junior high school students, and the over 60s agegroup
2. CDMA 1X “support plan” subs
3. Family and yearly discount plan subs

### CDMA 1X “Support Plan”

Monthly basic charge

**¥ 3,400**

¥ **1,500** (¥ **1,575** with tax)\*

( ¥ **3,570** with tax)

No free minutes

Call charge ¥10/10sec. ( ¥10.5 with tax)

\* Applied to “au” subs beyond their 4th month.  
Within three months ¥2,000 (¥2,100 with tax).

**Increase upper limit of family discount plan from 6 to 10 lines**

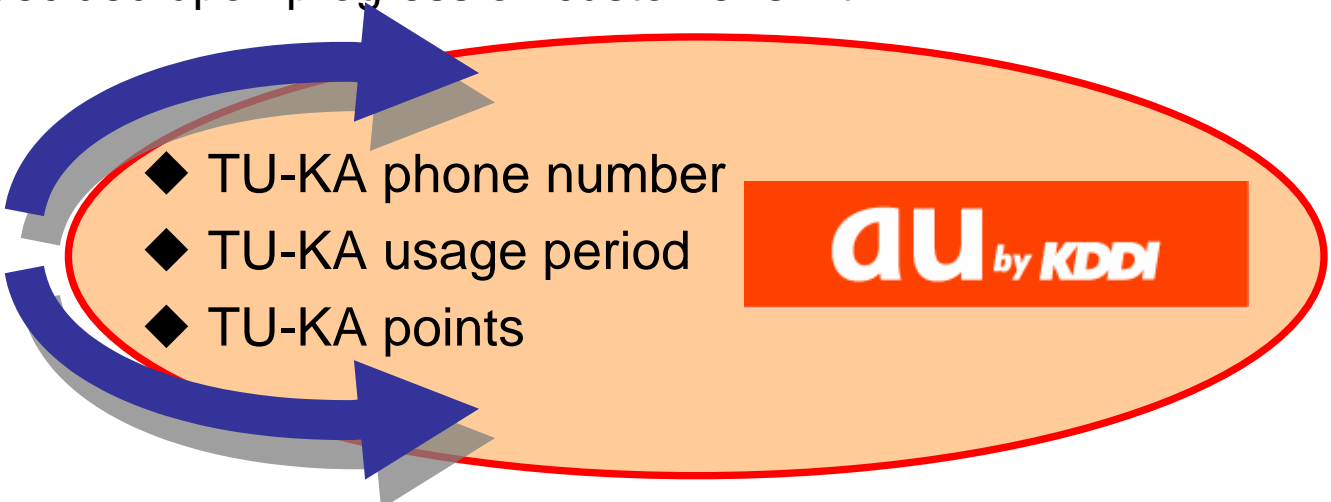
## 7. Shift of TU-KA Customers into “au” in 2H

Support smooth migration to “au” by enabling TU-KA customers to keep the same phone numbers (by cancel TU-KA contract & commence “au” contract) even before introduction of MNP.

Continue TU-KA handset sales for the time being. When to terminate PDC system is to be decided upon progress of customer shift.

**TU-KA**

Start takeover on  
October 11, 2005

- 
- ◆ TU-KA phone number
  - ◆ TU-KA usage period
  - ◆ TU-KA points

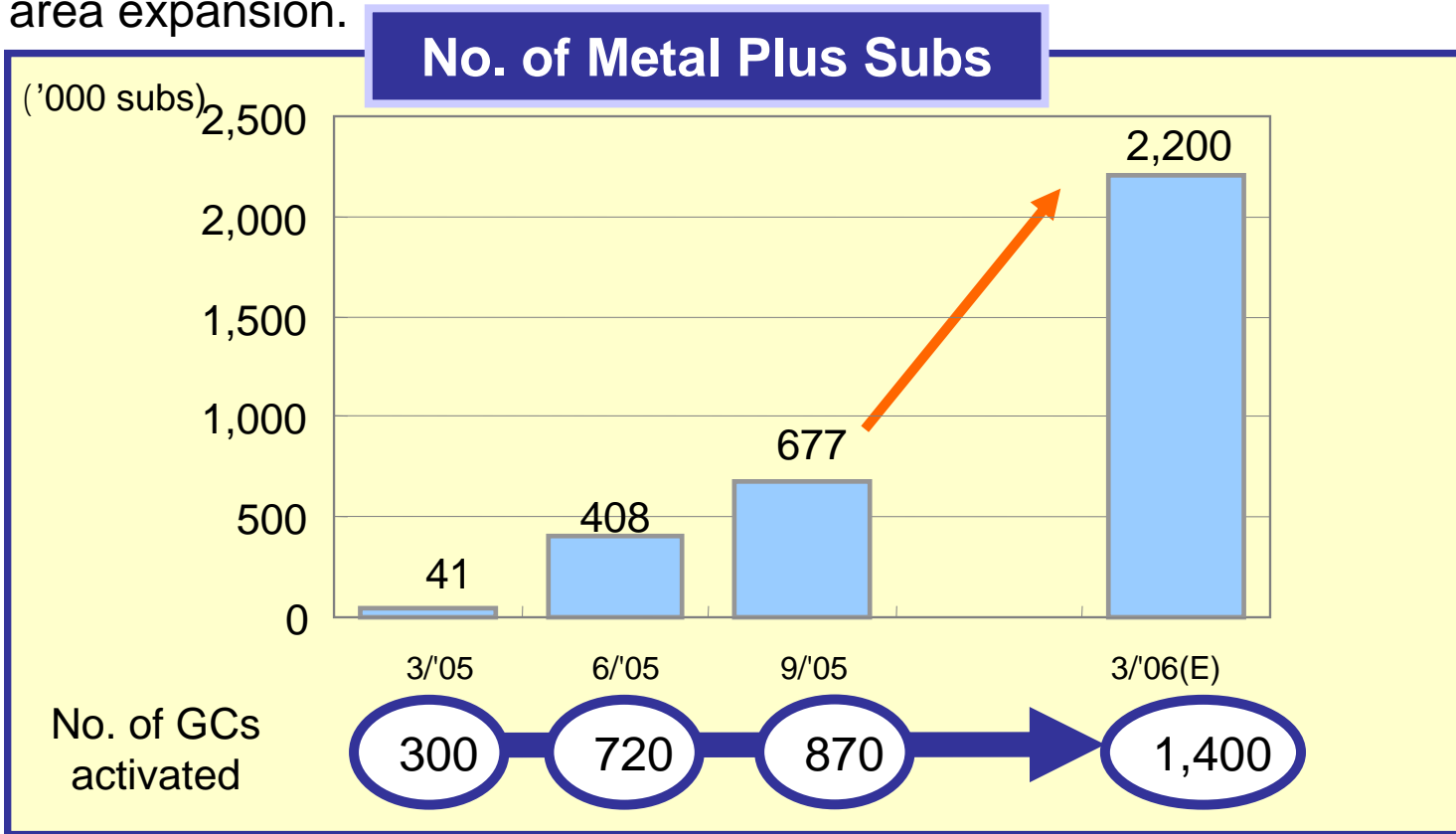
**au** by KDDI

- All services after contract change, including tariff, will become “au” mobile phone services.
- Exempt from contract cancellation fee:  
People who subscribe to fixed term contracts, such as “au” yearly or student discount plans, when canceling TU-KA’s one-year or two-year contracts etc.



# 1. Update on Metal Plus Sales

Activated lines of Metal Plus totaled 680 thousand at end-Sept. due to delay in sales area expansion.



Note : No. of Metal Plus line subscriptions (incl. those not yet activated) at end-Sept. 2005 was 1,362,000.

## Measure in 2H

- Strive to swiftly activate Metal Plus lines by steadily expanding sales area and focus on boosting sales figures to improve profitability.

## 2. Merger with POWEREDCOM

Scheduled to Merge with POWEREDCOM, TEPCO's subsidiary on January 1, 2006, which is strong in corporate data business.

### Effect of Merger

#### POWEREDCOM

(millions of yen)

	FY2004.3	FY2005.3	FY2006.3E*
Operating Revenues	169,327	117,561	130,000
Operating Income	-7,876	2,608	15,100
Ordinary Income	-12,056	-708	13,000
Net Income	-14,376	-80,347	N.A.

Note: Financial plan at beginning of the fiscal year.

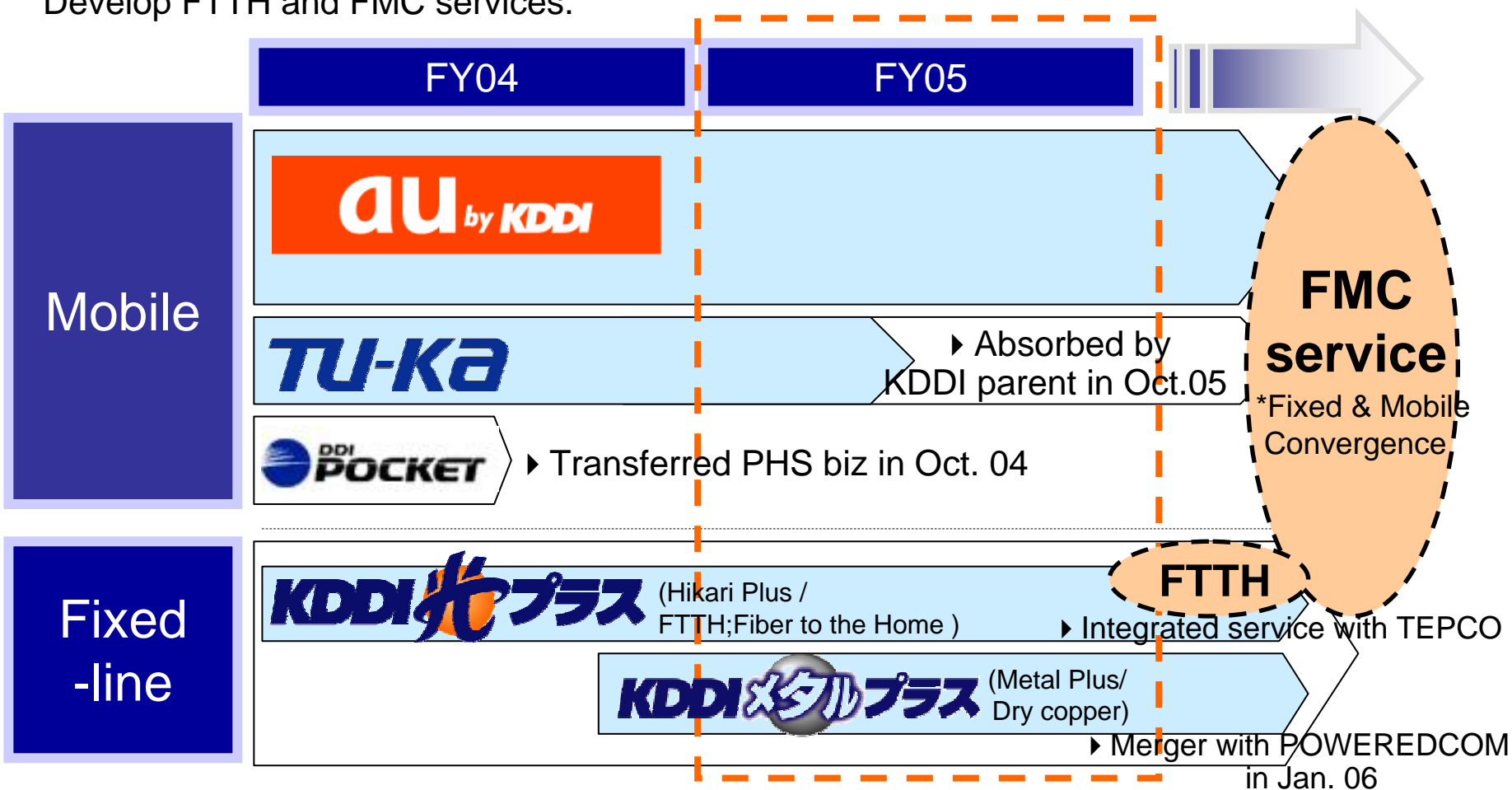
- Reinforce Corporate Data business :
    - Wide-Ether market share up to 43.8%(No.1)
    - Revenues : approx. 360.0B up (3 years)
    - Ordinary Income : approx. 43.0B up ( " )\*
- \*including synergy of merger
- Provide integrated FTTH service based upon comprehensive alliance with TEPCO group in telecom business

# 1. Future Challenges

Reorganize mobile business to eliminate duplication at time of Oct-2000 merger by transferring Pocket Business and absorbing TU-KA. Aim to raise mobile market share of “au” and TU-KA combined from current 27% to more than 30% over mid-term.

Promote shift to direct access services such as Hikari Plus and Metal Plus in Fixed-line Business.

Develop FTTH and FMC services.



# 2.1. Integrated IP Core Networks

## Mobile

**CDMA2000**  
Circuit Switch NW



**MMD**  
(3GPP2)

**GSM**  
Circuit Switch NW



**IMS**  
(3GPP)



MMD: MultiMedia Domain  
IMS: IP Multimedia Subsystem  
NGN: Next Generation Network

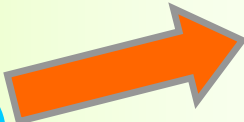
**Integrated  
Fixed & Mobile  
IP Network**

## Fixed

**Fixed-line**  
Circuit Switch NW



**NGN**  
(ITU-T)

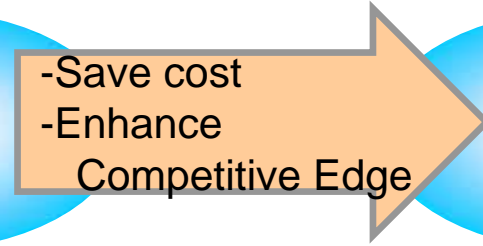


**Circuit  
Switch  
Network**



Save cost

**IP  
Network**



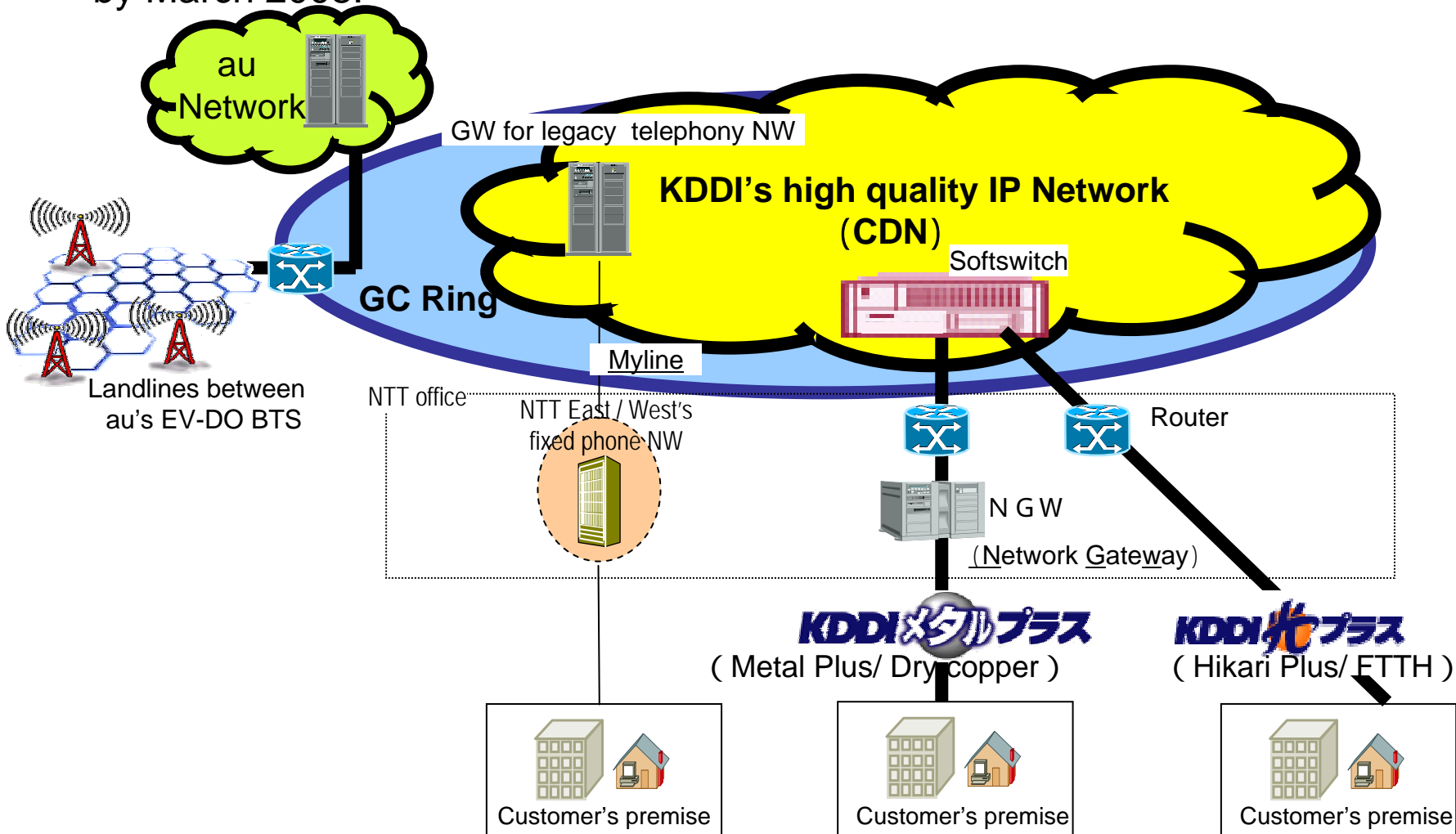
-Save cost  
-Enhance  
Competitive Edge

**FMC**

## 2.2. Change Fixed-line NW into IP

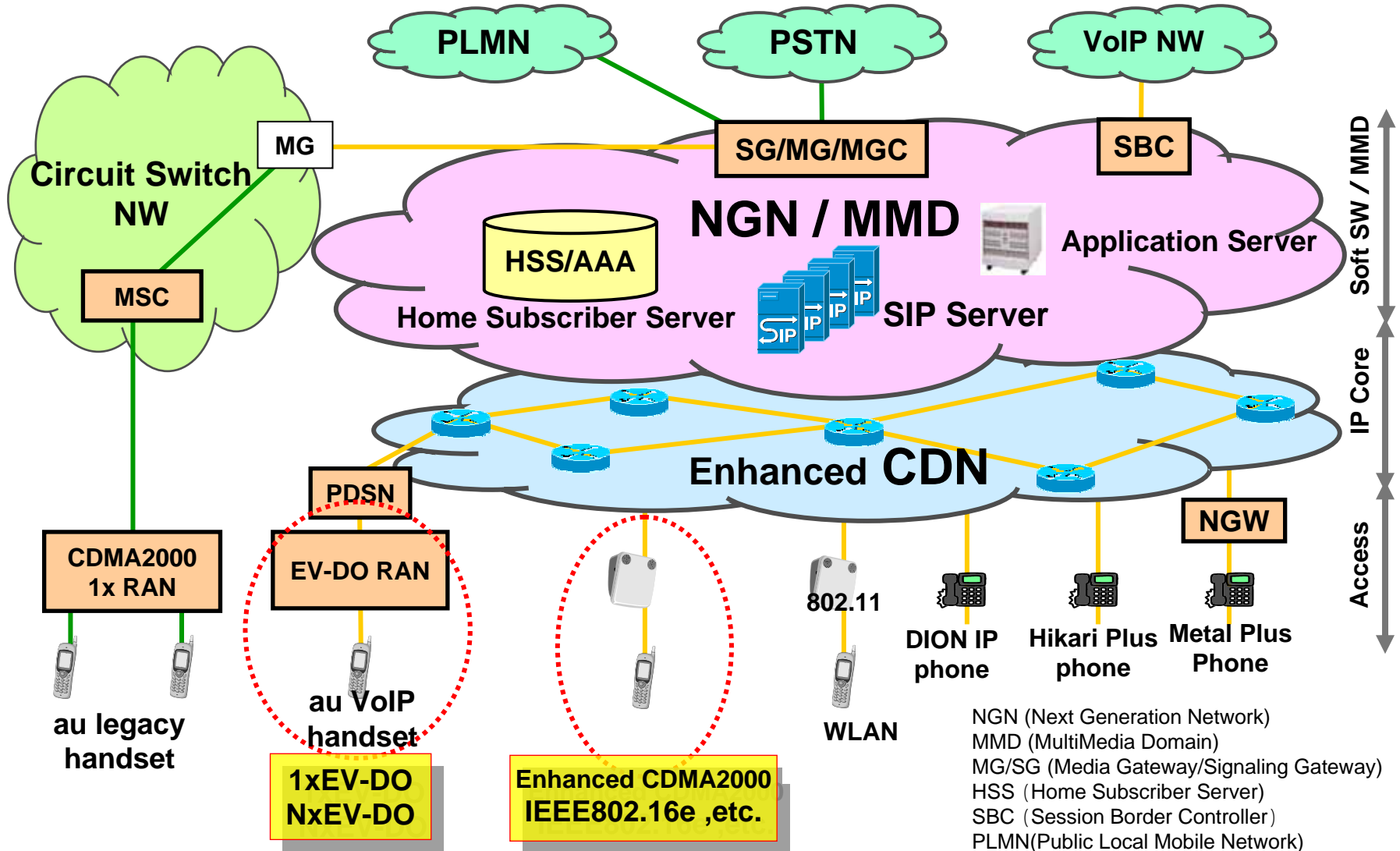
Expand GC link and CDN (Contents Delivery Network) to promote shift to direct-access business models through Hikari Plus and Metal Plus.

Plan to be first in the world to complete shift to IP-based fixed-line networks by March 2008.



# 2.3. Integrated Fixed & Mobile IP Network

Aim to create cost-competitive infrastructure and achieve seamless provision of FMC services through integration of fixed & mobile networks



# 3. Response to Regulatory Environments

## Review of Universal Service Charge System

### ■ Situation

MIC is promoting a review of universal service charge systems and plans to release a report on Oct. 25, 2005.

### ■ Responses & Implications

Besides contraction of fixed-line market, effects in FY2006 include an imposition of Universal Service System through reduction in non-traffic costs in line with a review of interconnection charges and lower basic phone charges of NTT East/NTT West.

## Mobile Number Portability (MNP)

### ■ Situation

In May 2004, MIC announced guidelines to introduce MNP. MNP is expected to be implemented by all mobile carriers by the earliest date possible in FY2006.

### ■ Responses & Implications

Detailed specifications on how to actualize the system and allocate costs will be decided going forward. KDDI plans to comply with the introduction by the target date.

## Open-up of Fiber Optics

### ■ Situation

Wider range of services offered via fiber optics, including FTTH, as access lines along with development of broadband. No. of FTTH subs was approx. 3.4 million as of June 2005.

### ■ Responses & Implications

Designated service providers, NTT East/NTT West, should maintain their fiber optics open for inexpensive broadband services. KDDI will advance FTTH biz for the merit of convenience for customers.

## New 3G Market Entry

### ■ Situation

In Aug. 2005, it was announced that 1.7GHz and 2GHz are to be open to mobile phone base stations. In line with this authorization, two companies applied as new entrants for use of 1.7GHz and one for 2GHz (TDD) before the deadline of end-Sept. Decision to be made on this by year-end.

### ■ Responses & Implications

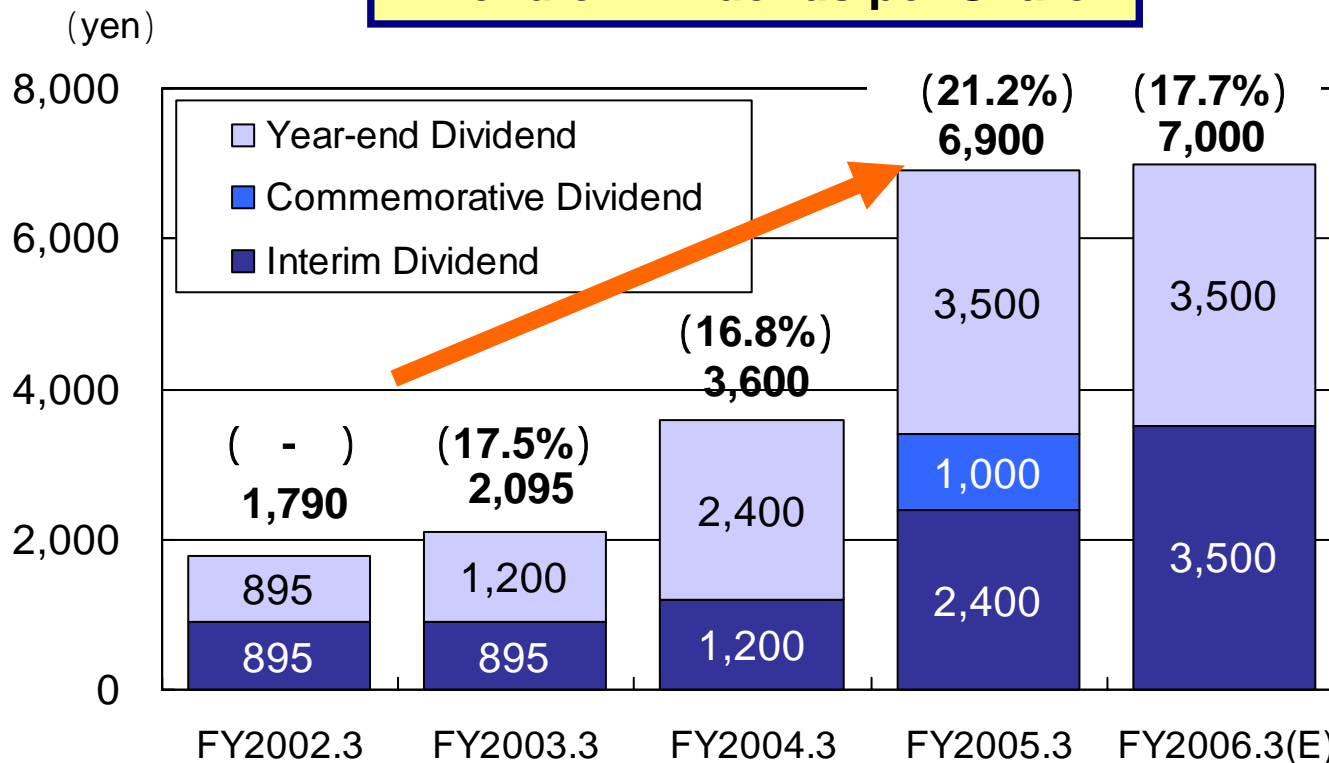
Maintain superiority on service front when new companies enter the market.

# 4. Shareholder Returns

Return to shareholders

Maintain stable dividend payment with considerations for investment for future growth.

**Trend of Dividends per Share**



Note: ( - ) refers to payout ratio. FY2002.3 posted net loss, therefore, shown as ( - ).



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Ubiquitous Solution Company

