

Ubiquitous Solution Company


KDDI CORPORATION



Financial Results of the Fiscal Year ended March 2006

April 25, 2006

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. Financial Results Highlights for FY2006.3

1 Consolidated basis

- Operating revenues rose by +4.8% yoy and operating income was up +0.1%, as strong Mobile Business (“au” + TU-KA) absorbed increased loss of Fixed-line Business in the middle of expanding new services.

2 Mobile Business (“au” + TU-KA)

- Operating revenue increased by +8.6% and operating income rose by +21.3% yoy.
- Share of total subs at 27.7% (“au”: 24.7%, TU-KA: 3.0%) at end-March with strong share of net adds for full-year at 48.1% (“au”: 65.8%, TU-KA: -17.7%).
- No. of “au” WIN subs continues to increase, totaling 8.28 million at end-March, of which 81% of users have signed up for flat-rate plan.
- Promoted smooth migration of TU-KA users to “au” allowing same phone numbers; total who switched at 710 thousand in 2H.

3 Fixed-line Business

- Operating income amounted to ¥61.3B due to expanded sales of Metal Plus.
- Accelerated number of activated lines of Metal Plus in 2H in line with expanded service area, reaching 1.8 million at end-March.
- Strengthened business foundations such as agreement on comprehensive alliance with Tokyo Electric Power Co.(TEPCO) in telecom business and merger with POWEREDCOM.

4 Other (Net income)

- Recorded extraordinary loss of ¥115.7B including impairment loss on TU-KA PDC equipment (¥104.3B). The impact on net income was absorbed by loss carryforward and others due to merger with POWEREDCOM.

1.2. Full-Year Outlook for FY 2007.3

FY2006.3 Result	FY2007.3 Forecast (Change)
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1 On a consolidated basis, Company forecasts an increase in operating revenues & operating income.

- Mobile Business: Slight increase in OP due to expand sales with MNP (mobile number portability) in 2H.
- Fixed-line Business: OP loss narrowed as improving profitability in Metal Plus covers increased FTTH costs.

➤ Operating revenue	: ¥3,060.8B	¥3,293.0B (+ ¥232.2B)
Operating income	: ¥296.6B	¥318.0B (+ ¥21.4B)

➤ Key performance index

✓“au” ARPU	: ¥7,040	¥6,580 (¥460)
✓Mobile Business total subs (“au”+TU-KA)	: 25.44 million	27.44 million (+ 2.0 million)
✓Total TU-KA migrants keeping same numbers:	0.71 million	1.61 million (+ 0.9 million)
✓Metal Plus total subs	: 1.8 million	2.75 million (+ 0.95 million)
✓FTTH total subs	: 0.17 million	0.29 million (+ 0.12 million)

2 Forecast capex at ¥450.0B (+¥35.3B) due to increased investment in 2GHz for “au.”

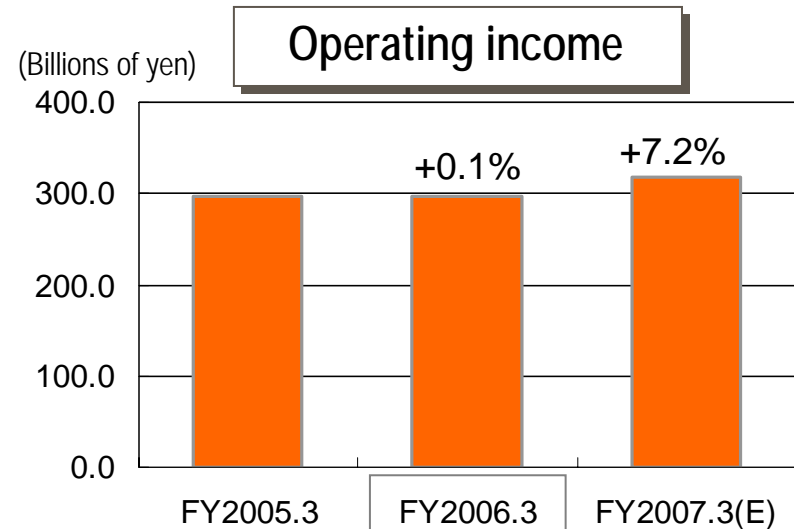
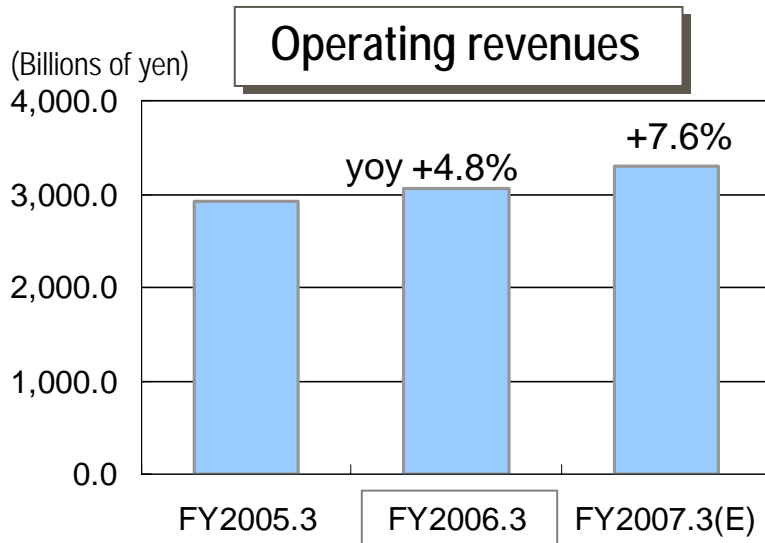
1.3. FY 2007.3 Challenges

- 1** Secure customer acquisitions to strengthen business foundations for sustainable growth.
 - Build up brand strength, enhance customer satisfaction and bolster compliance.
 - Develop FMC (Fixed & Mobile Convergence) services by exploiting KDDI's competitive advantages.

- 2** Mobile Business ("au" + TU-KA)
 - Enhance retention in 1H and retention plus customer acquisition in 2H through MNP by increasing all-round product attractiveness toward MNP.
 - Reinforce competitive edge in terms of handset, charges and content by continuing to enhance infrastructure through introduction of Rev.A (during CY2006).
 - Promote smooth migration of TU-KA users to "au."
 - Mobile Solutions: Secure new customers with MNP by improving product development capabilities and promoting sales together with solutions services.

- 3** Fixed-line Business
 - Bolster business foundations towards future development of FMC services by promoting direct access services, IP and broadband.
 - Expand sales of Metal Plus and boost profitability.
 - Ensure smooth launch of integrated FTTH services with TEPCO.

2. Consolidated Financial Results



(Billions of yen)

	FY2005.3	FY2006.3		FY2007.3(E)	
			yoy		yoy
Operating revenues	2,920.0	3,060.8	4.8%	3,293.0	7.6%
Operating income	296.2	296.6	0.1%	318.0	7.2%
<i>Operating margin</i>	10.1%	9.7%	-	9.7%	-
Ordinary income	286.3	294.0	2.7%	315.0	7.1%
Net income	200.6	190.6	-5.0%	186.0	-2.4%
Free Cash Flow	402.2	139.6	-65.3%	235.0	68.3%
EBITDA	664.3	654.4	-1.5%	668.0	2.1%
<i>EBITDA margin</i>	22.7%	21.4%	-	20.3%	-

(ref.) FY2005.3-results excluding Pocket

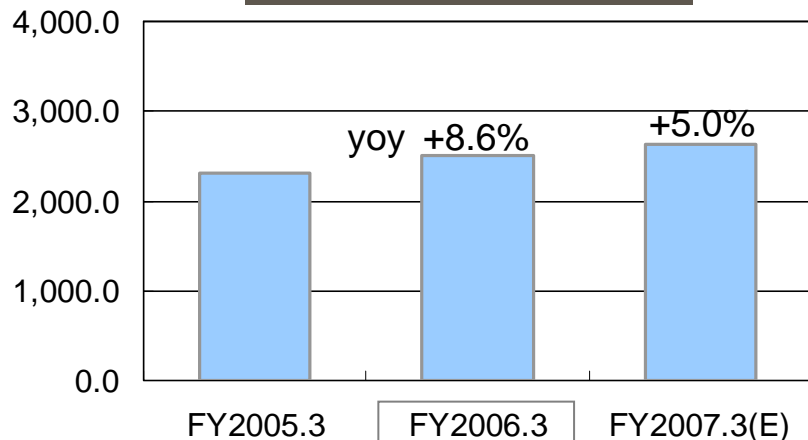
	FY2005.3	FY2006.3	
			yoy
Operating revenues	2,833.2		8.0%
Operating income	290.7		2.0%
<i>Operating margin</i>	10.3%		-
Ordinary income	281.4		4.5%
Net income	169.0		12.8%
Free Cash Flow	198.5		-29.7%
EBITDA	639.6		2.3%
<i>EBITDA margin</i>	22.6%		-

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

3. Mobile Business/ "au"+TU-KA(PDC)

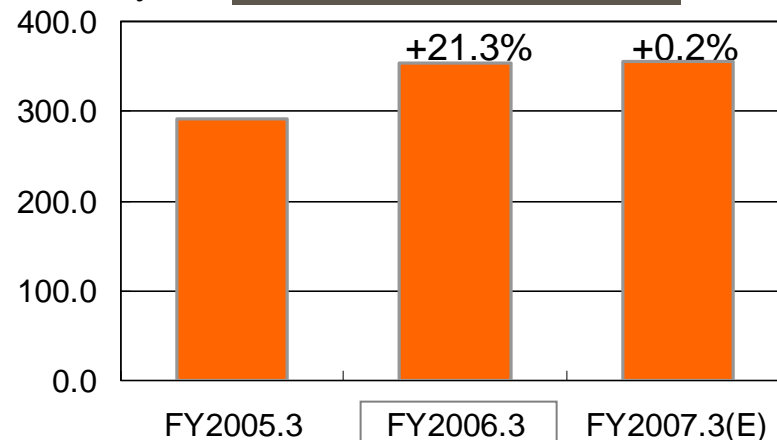
Operating revenues

(Billions of yen)



Operating income

(Billions of yen)



(Billions of yen)

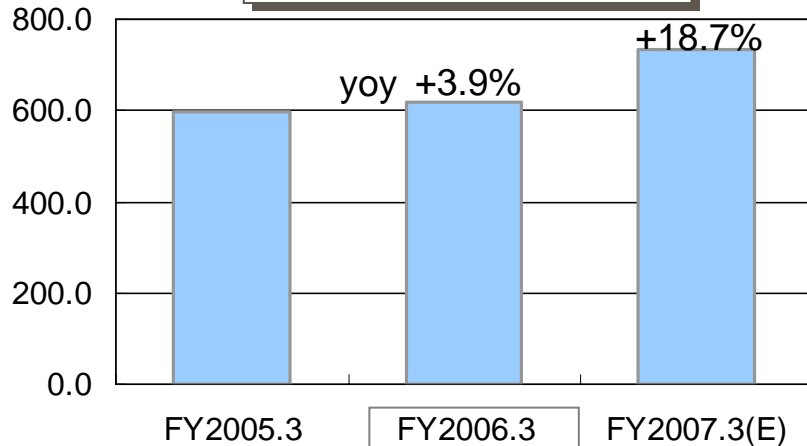
	FY2005.3	FY2006.3		FY2007.3(E)	
				yoy	yoy
Operating revenues	2,312.5	2,510.4	8.6%	2,636.0	5.0%
"au"	2,085.9	2,335.2	12.0%	2,567.0	9.9%
TU-KA	226.6	175.2	-22.7%	69.0	-60.6%
Operating income	292.3	354.4	21.3%	355.0	0.2%
<i>Operating margin</i>	12.6%	14.1%	-	13.5%	-
Ordinary income	285.1	352.8	23.7%	357.0	1.2%
Net income	171.7	145.3	-15.4%	211.0	45.2%
Free Cash Flow	190.6	266.2	39.6%	256.0	-3.8%
EBITDA	548.9	605.2	10.3%	582.0	-3.8%
<i>EBITDA margin</i>	23.7%	24.1%	-	22.1%	-

	FY2005.3	FY2006.3	FY2007.3(E)
Subs ('000)	23,132	25,439	27,440
of module-type	487	586	670
"au" total	19,542	22,699	26,210
WIN(EV-DO)	3,252	8,280	14,330
1X	14,683	13,548	-
cdmaOne	1,608	871	-
TU-KA(PDC)	3,590	2,739	1,230

4. Fixed-line Business

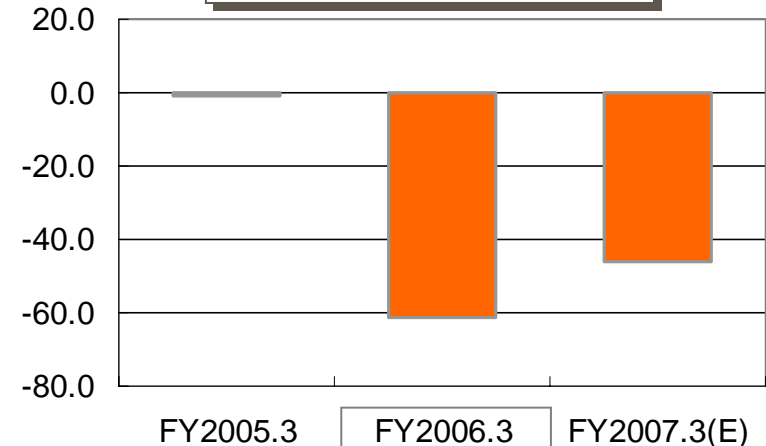
(Billions of yen)

Operating revenues



(Billions of yen)

Operating income



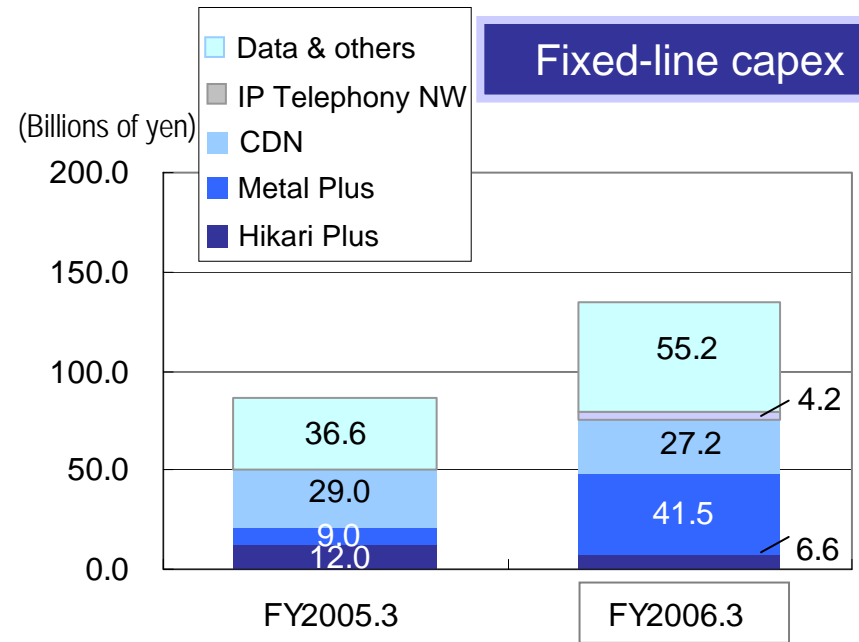
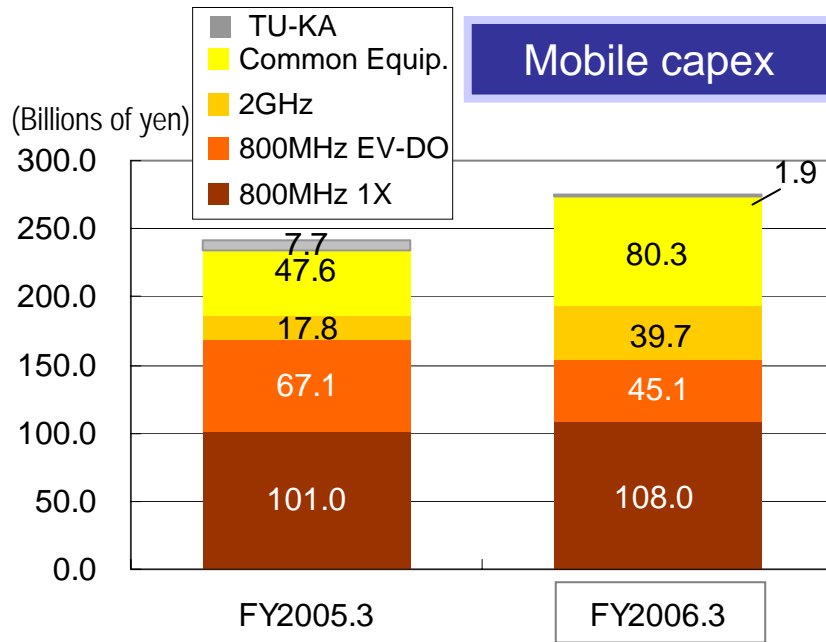
* yoy comparison is not available as figures are negative.

(Billions of yen)

	FY2005.3	FY2006.3		FY2007.3(E)	
			yoy		yoy
Operating revenues	596.0	619.3	3.9%	735.0	18.7%
Operating income	-0.3	-61.3	-	-46.0	-
Operating margin	-0.1%	-9.9%	-	-6.3%	-
Ordinary income	-0.4	-62.2	-	-48.0	-
Net income	-4.4	26.4	-	-28.0	-
Free Cash Flow	-3.1	-102.3	-	-9.0	-
EBITDA	87.5	41.5	-52.6%	72.0	73.7%
EBITDA margin	14.7%	6.7%	-	9.8%	-

	FY2005.3	FY2006.3	FY2007.3(E)
DION subs	2,885	2,847	2,680
of ADSL	1,494	1,516	1,470
FTTH subs	91	167	290
of Hikari Plus	79	165	-
Metal Plus subs	41	1,799	2,750

5. Capital Expenditures and others



(Billions of yen)

		FY2005.3	FY2006.3	FY2007.3(E)
CAPEX (Cash basis)	Consolidated	342.4	414.7	450.0
	Mobile	241.2	275.1	333.0
	"au"	233.5	273.1	333.0
	TU-KA	7.7	1.9	-
	Fixed-line	86.6	134.7	88.0
Depreciation	Consolidated	349.9	335.7	333.0
	Mobile	248.2	237.5	218.0
	"au"	201.7	-	-
	TU-KA	46.6	-	-
	Fixed-line	78.7	94.2	111.0

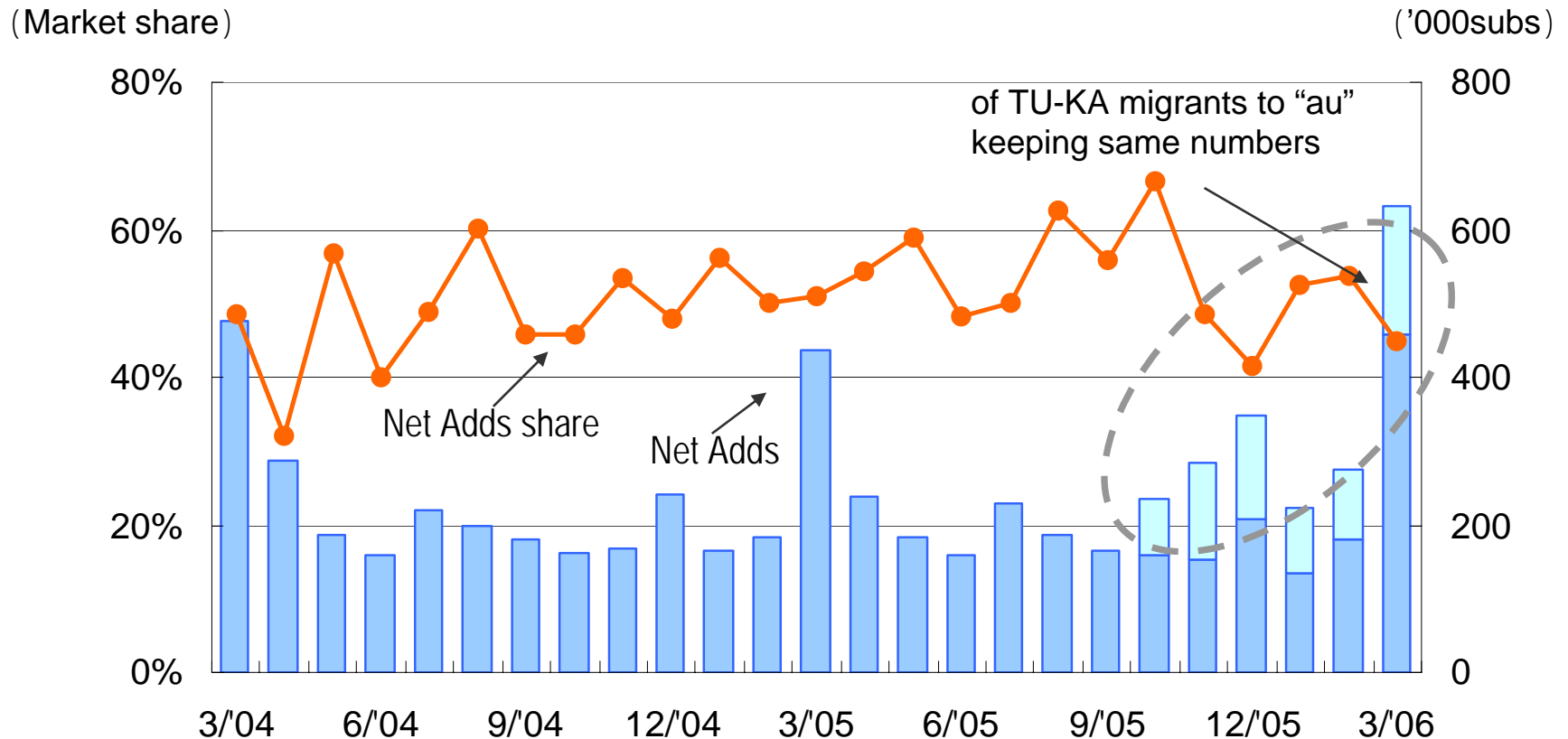
Segment Discussions & Strategies

Mobile Business
"au" / TU-KA(PDC)

Fixed-line
Business

KDDI-wide
Measures

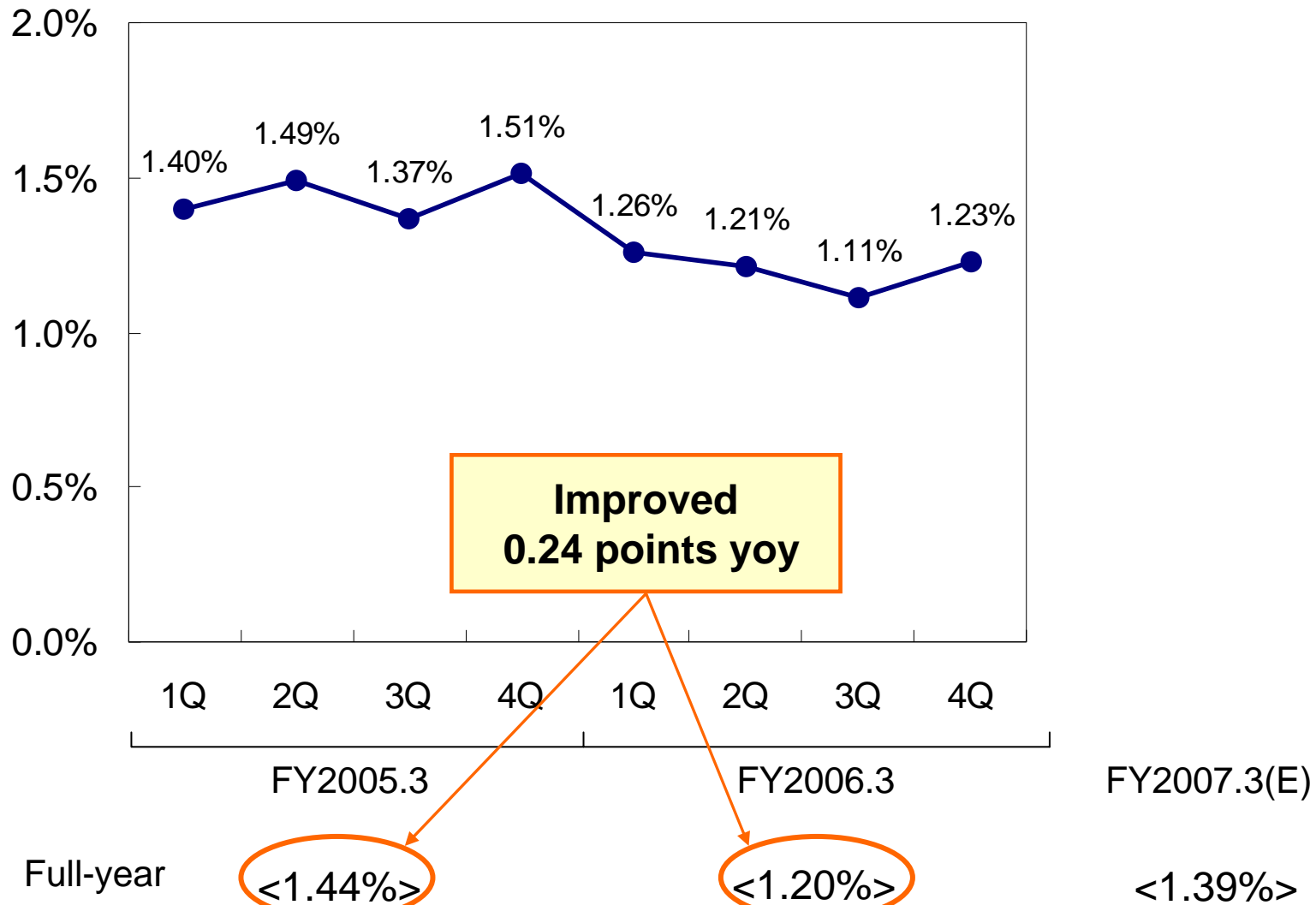
1.1. Net Additions



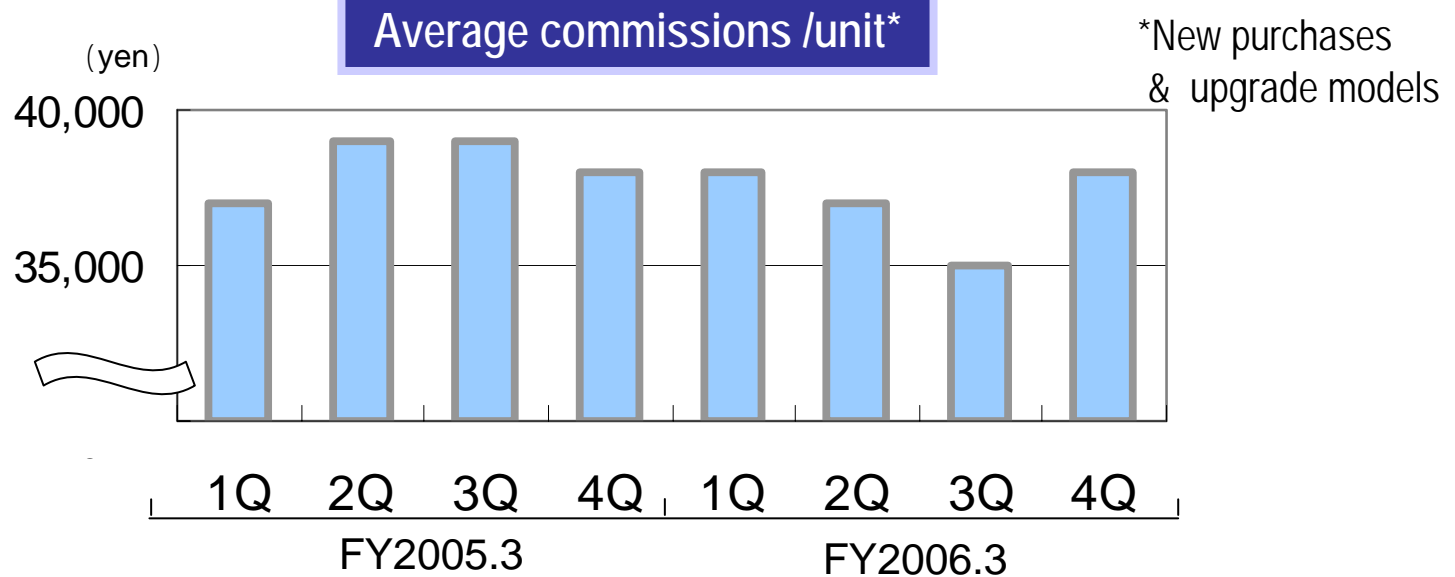
*The line chart excludes the effect of TU-KA migration in the net-adds share.

Share of :	full-year/FY2005.3	full-year/FY2006.3
Net Adds	<50.4%>	<65.8%>
Total subs	<22.5%>	<24.7%>

1.2. Churn Rate

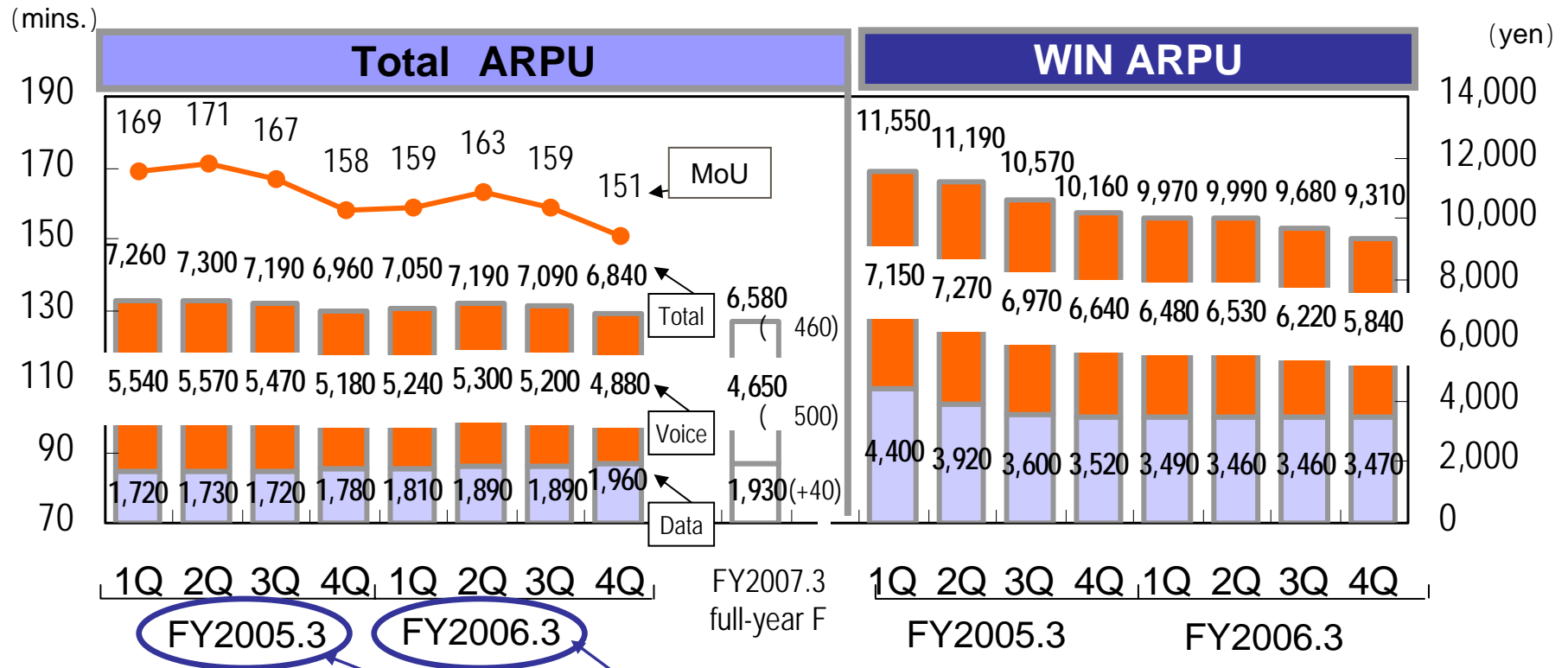


1.3. Sales Commissions



	FY2005.3					FY2006.3					FY2007.3(E)
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	4Q		
Sales commissions (Billions of yen)	94.0	114.0	112.0	124.0	444.0	102.0	119.0	119.0	152.0	492.0	551.0
Average commissions/unit (yen)	37,000	39,000	39,000	38,000	38,000	38,000	37,000	35,000	38,000	37,000	37,000
Number of units sold ('000 units)	2,550	2,930	2,870	3,230	11,590	2,700	3,220	3,370	3,960	13,250	14,920

1.4. Trend of ARPU



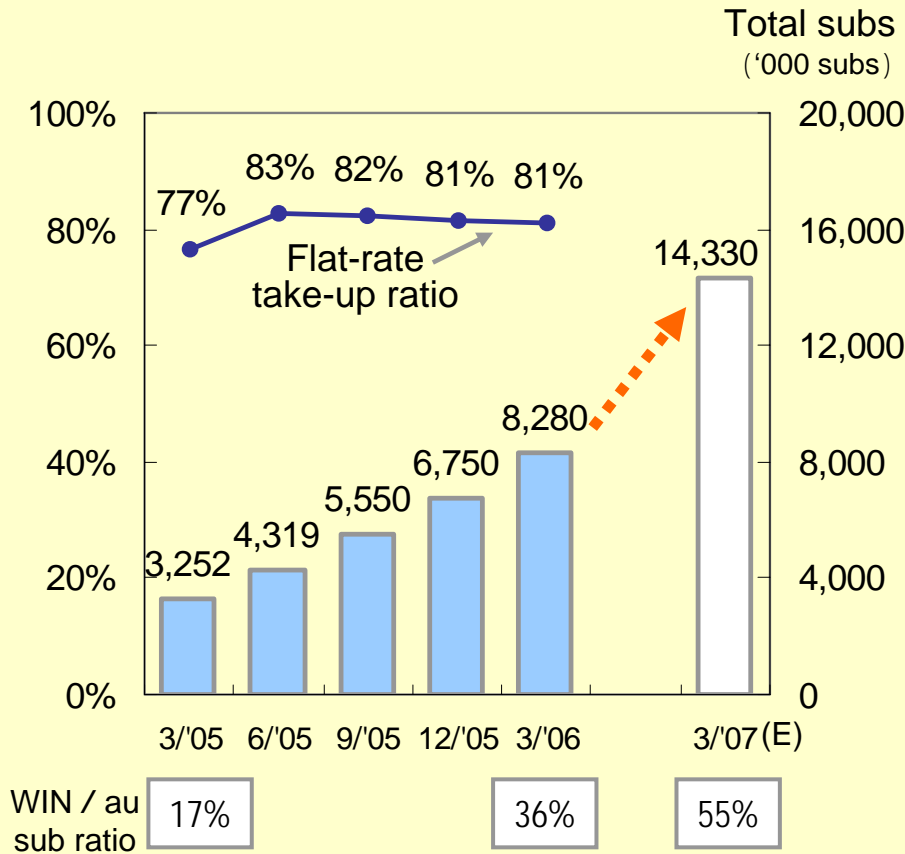
Full-year total ARPU < ¥ 7,170 > < ¥7,040 >
of Voice < ¥ 5,430 > < ¥5,150 >
of Data < ¥1,740 > < ¥1,890 >

yoy change
total ¥130 (1.8%)
of Voice ¥280 (5.2%)
of Data + ¥150 (+ 8.6%)

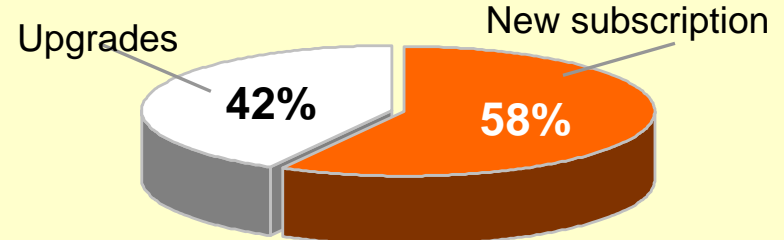
2. Update on WIN

Expanded flat-rate plan to even wider customer base through Double Teigaku (Light), resulting increased data ARPU among users.

Growth of WIN Subs

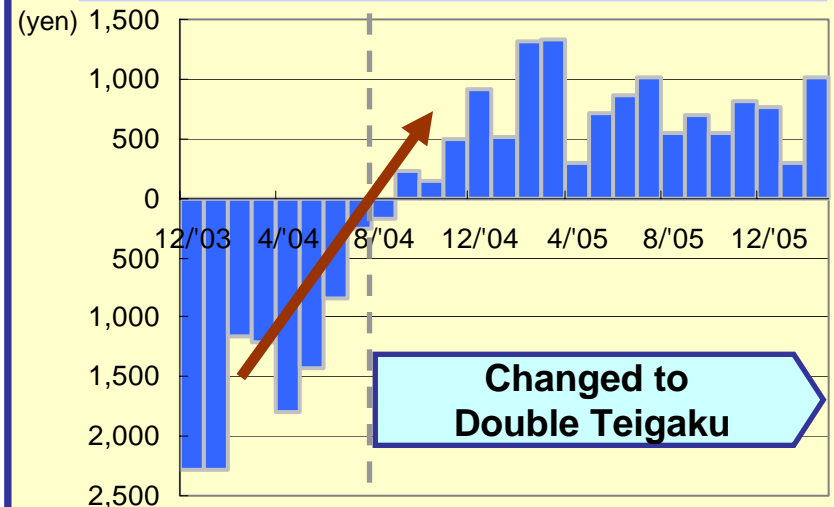


Breakdown of WIN Subs



Note: Percentage of the simple total of subs who sign up in 4Q/FY06.3.

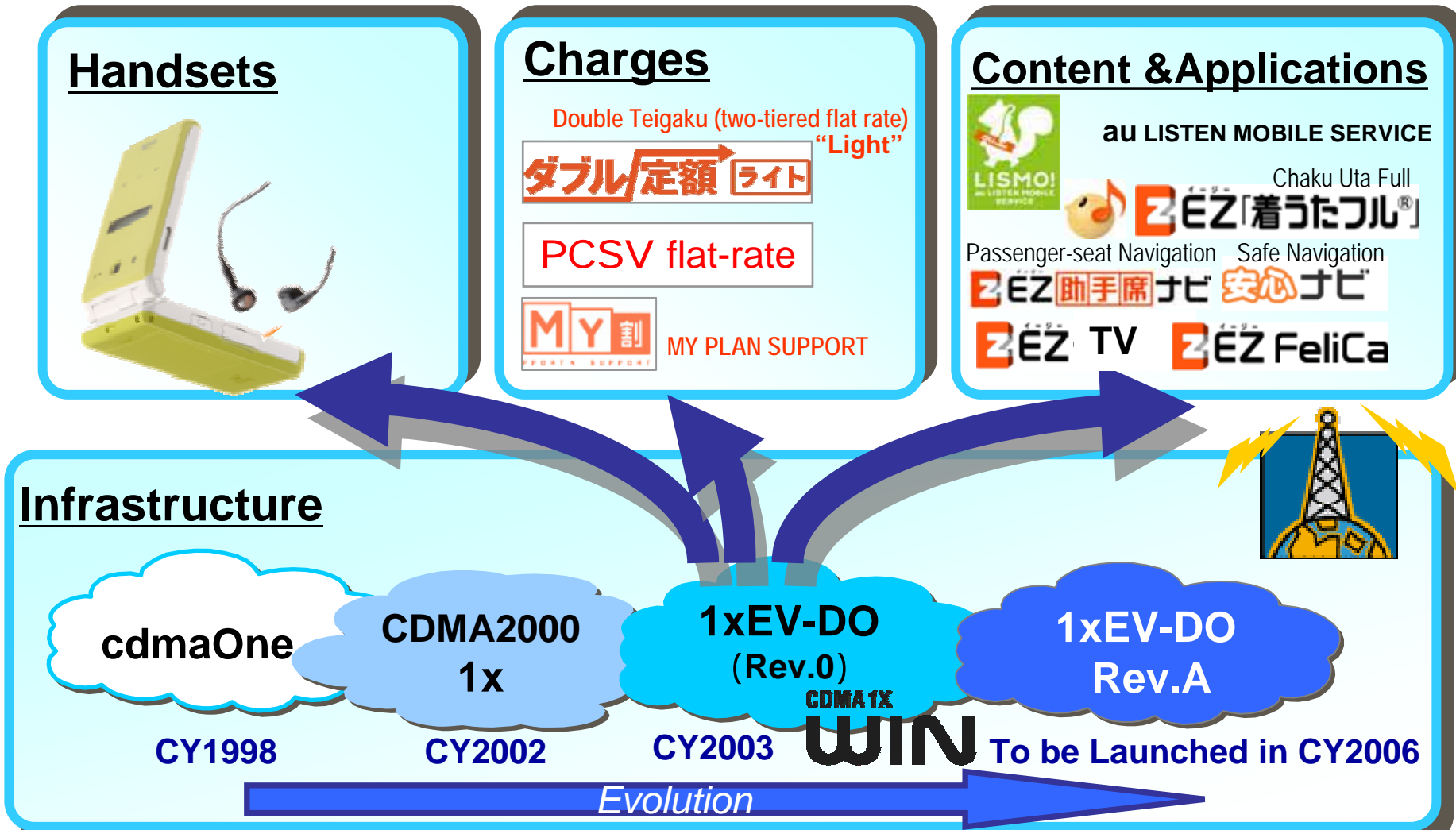
Changes of ARPU : 1X WIN



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

3. Boost All-Round Product Attractiveness(2)

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



* PCSV : PC site viewer

3. Boost All-Round Product Attractiveness (2)

Boost all-round product attractiveness in spring selling season via 7 new WIN spring models, MY Discount Plan and LISMO.

LISMO: Link with PCs

au Music Port


About 20% of LISMO-capable handset-users installed special software in PCs

(Note) No. of subs downloaded and updated latest software from the website during March 17 – 31, 2006.



Chaku-Uta Full®

- No. of total downloads: approx. 4.7 million
* downloads of free-content included.
- No. of downloads per active user
* only downloads of paid content included.

-W41T (HDD-enabled)  : 4.9DL ↑
-Ave. LISMO-capable models: 3.8DL
- Ave. Chaku-uta Full® models: 2.9DL

(Note) Results for March 2006.

harmonization

7 WIN Spring Models



Individuals Given
Family Discount Rate
(with two-year contract)



Music Content



4. Boost Sales from Content/Media Biz. (1)

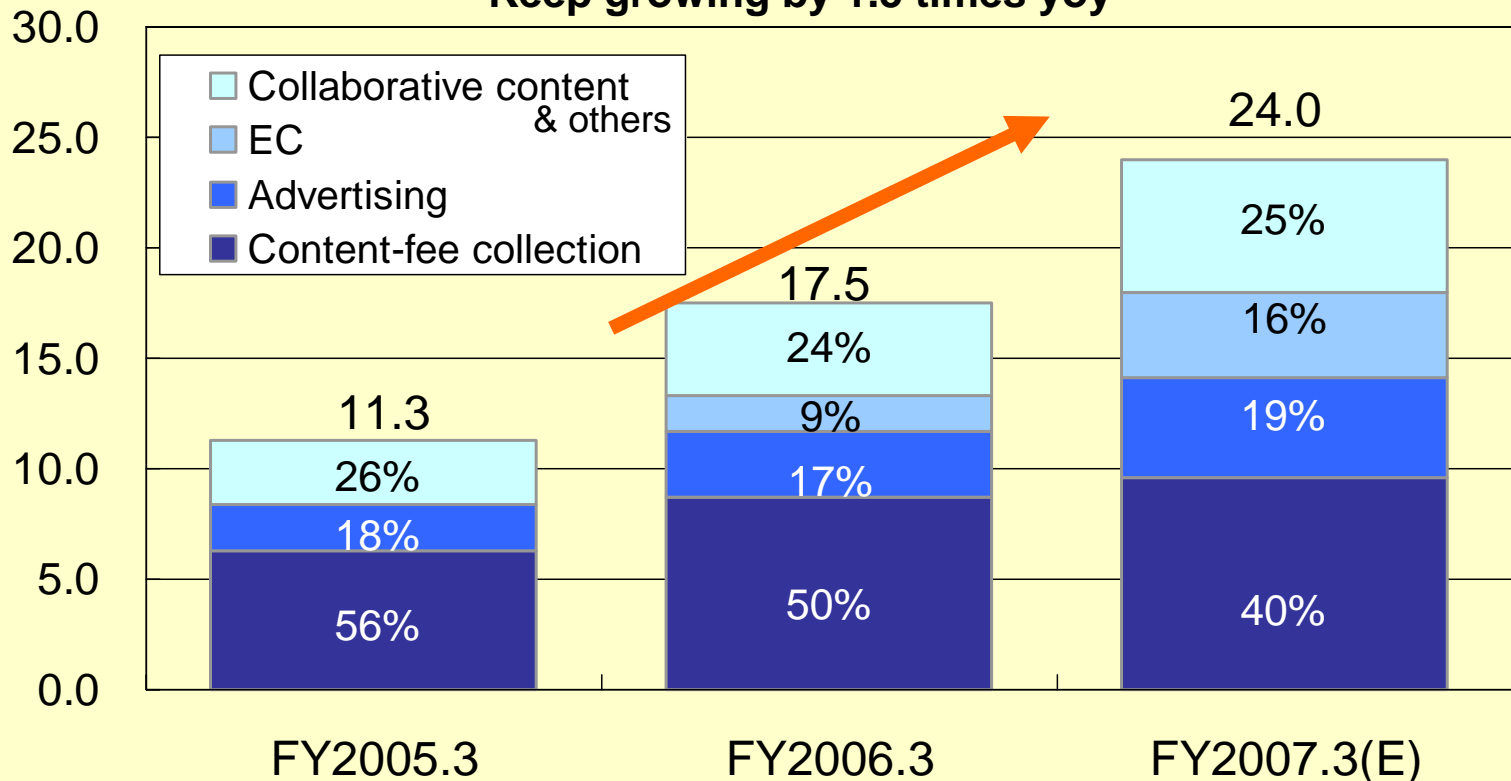
Steady growth in sales of Content/Media Business, reaching ¥17.5B in FY2006.3.

Shift from focus on content-fee collection and aim for growth in new areas including advertising businesses, EC(e-commerce), and collaborative content.

Sales of Content/Media Biz

(Billions of yen)

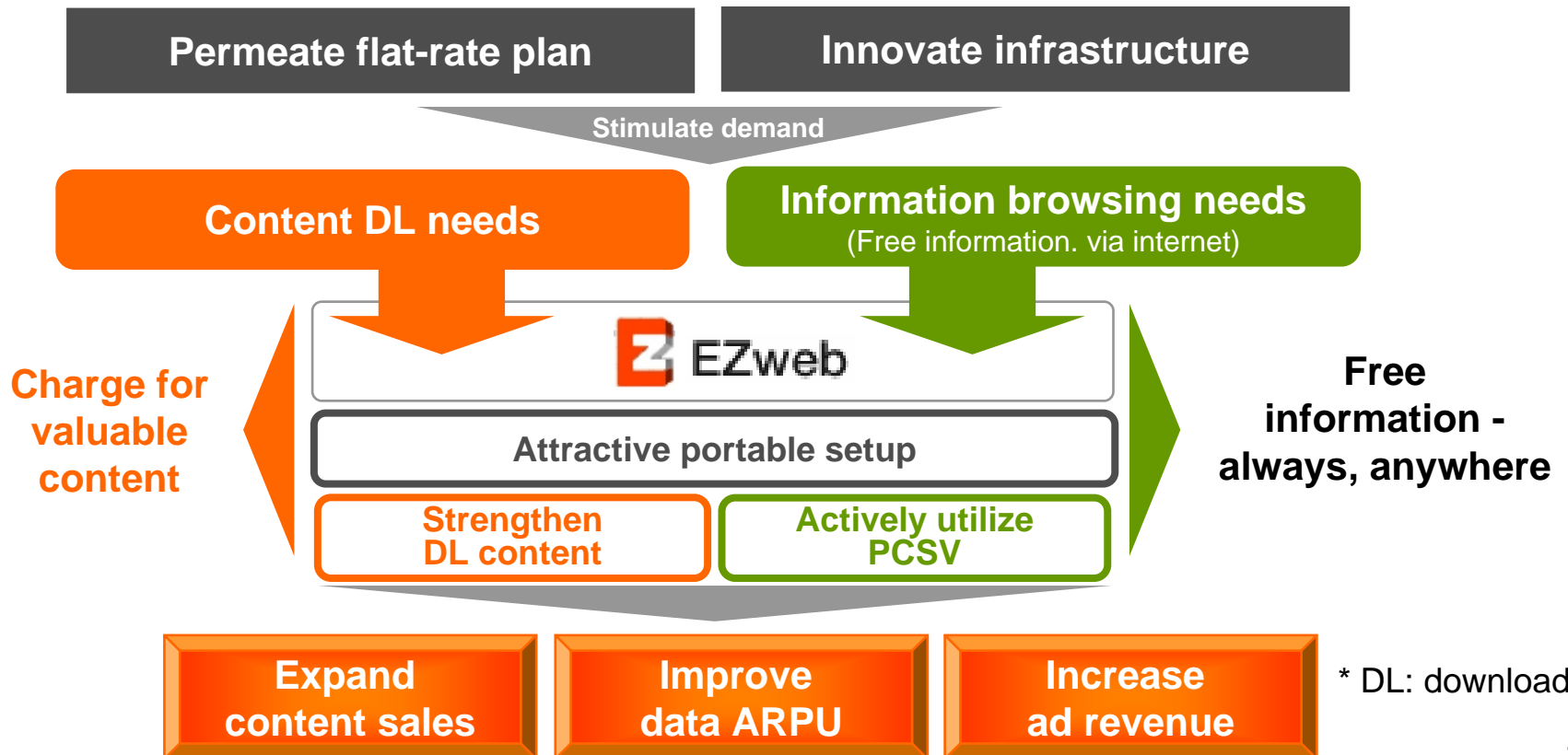
Keep growing by 1.5 times yoy



4. Boost Sales from Content/Media Biz. (2)

Introduction of flat-rate plan have stimulated a desire to download rich content (high quality, high capacity) and need for information browsing along with growing number of free sites.

Improve business model and maximize sales by developing measures to address changing customer needs.



5. Measures to Reduce Handset Costs

Reduce WIN handset costs through KCP (KDDI Common Platform) etc.

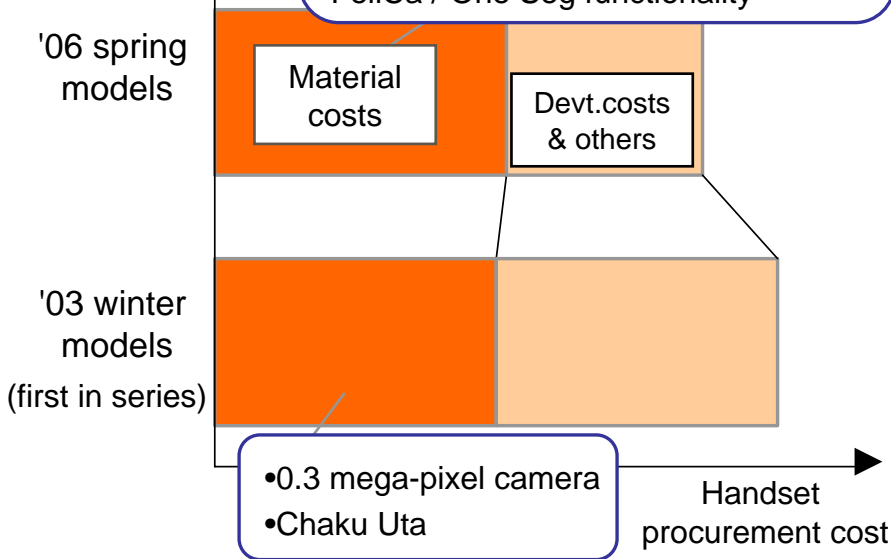
Average "au" handset procurement costs/unit is expected to be below previous year's result despite enhancing lineup, adding functions and increasing the sales ratio of WIN handsets.

WIN handset cost reduction

- Reduce development costs via KCP

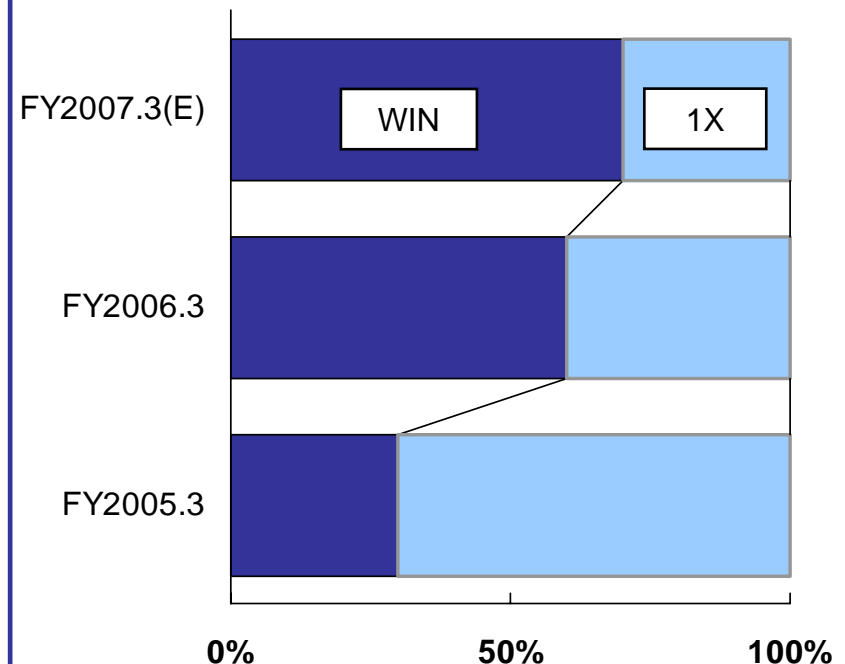
Enhance functions

- Max. 3 mega-pixel camera
- Standard equipped with LISMO / Chaku-uta Full
- Some models with HDD / PCSV / FeliCa / One Seg functionality



WIN:1X - ratio of handset sales

- Increase ratio of WIN handsets

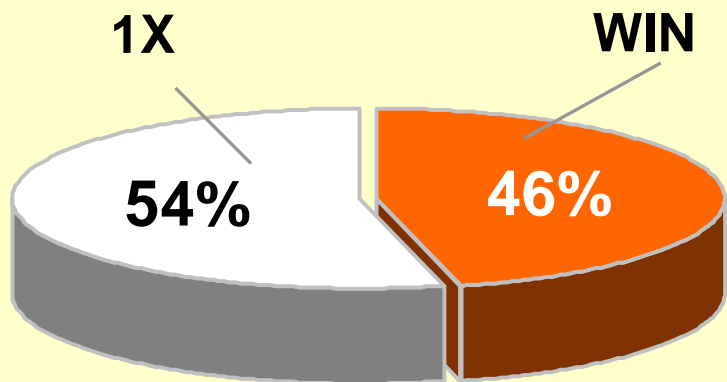


6. Update on Initial Shift of TU-KA Subs into "au"

Support smooth migration to "au" by enabling TU-KA customers to keep the same phone numbers even before introduction of MNP (by canceling TU-KA contract & subscribing to "au").

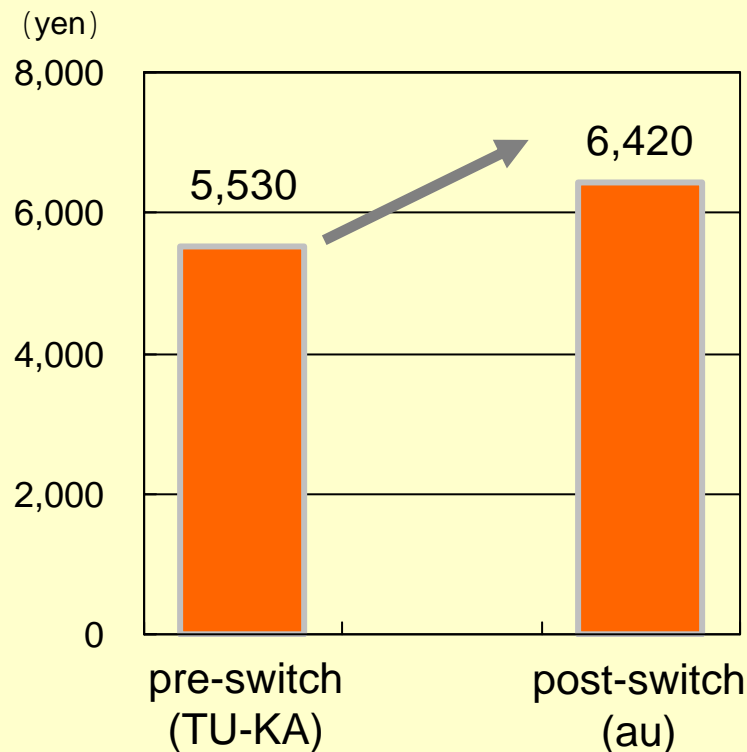
Half of TU-KA customers chose WIN handsets, resulting increased ARPU.

Breakdown of Subs



Note: Percentage of the simple total of subs who migrated into "au" in 2H/FY06.3.

ARPU



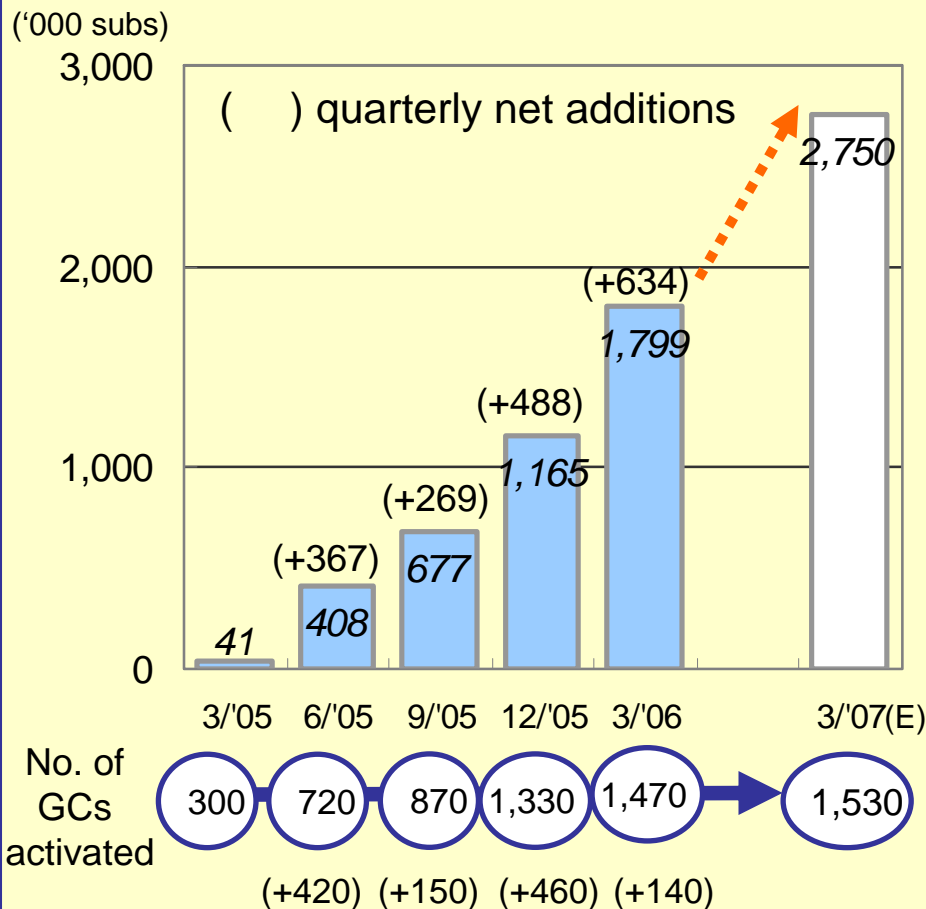
Note: Comparison of pre- and post-switch monthly ARPU for the month when users switched to "au" during Oct.05 - Jan.06.

1. Metal Plus (1)

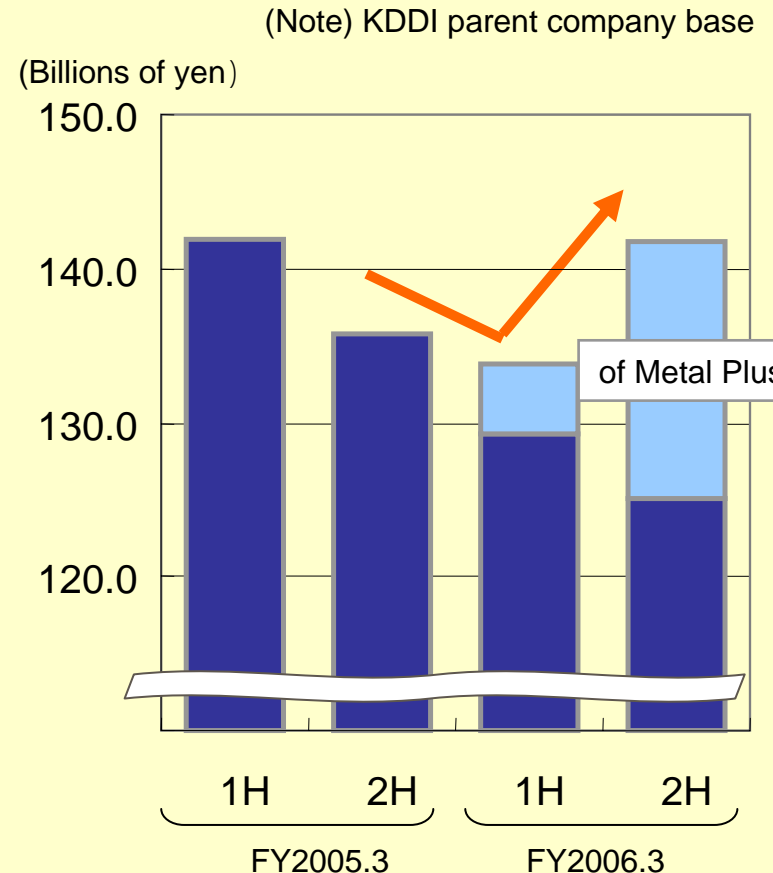
Accelerated number of activated lines of Metal Plus in 2H in line with expanded service area, reaching 1.80 million at end-March, larger than the forecast.

Upbeat sales of voice services through expanded sales of Metal Plus.

No. of Metal Plus Subs



Voice Service Sales (Note)

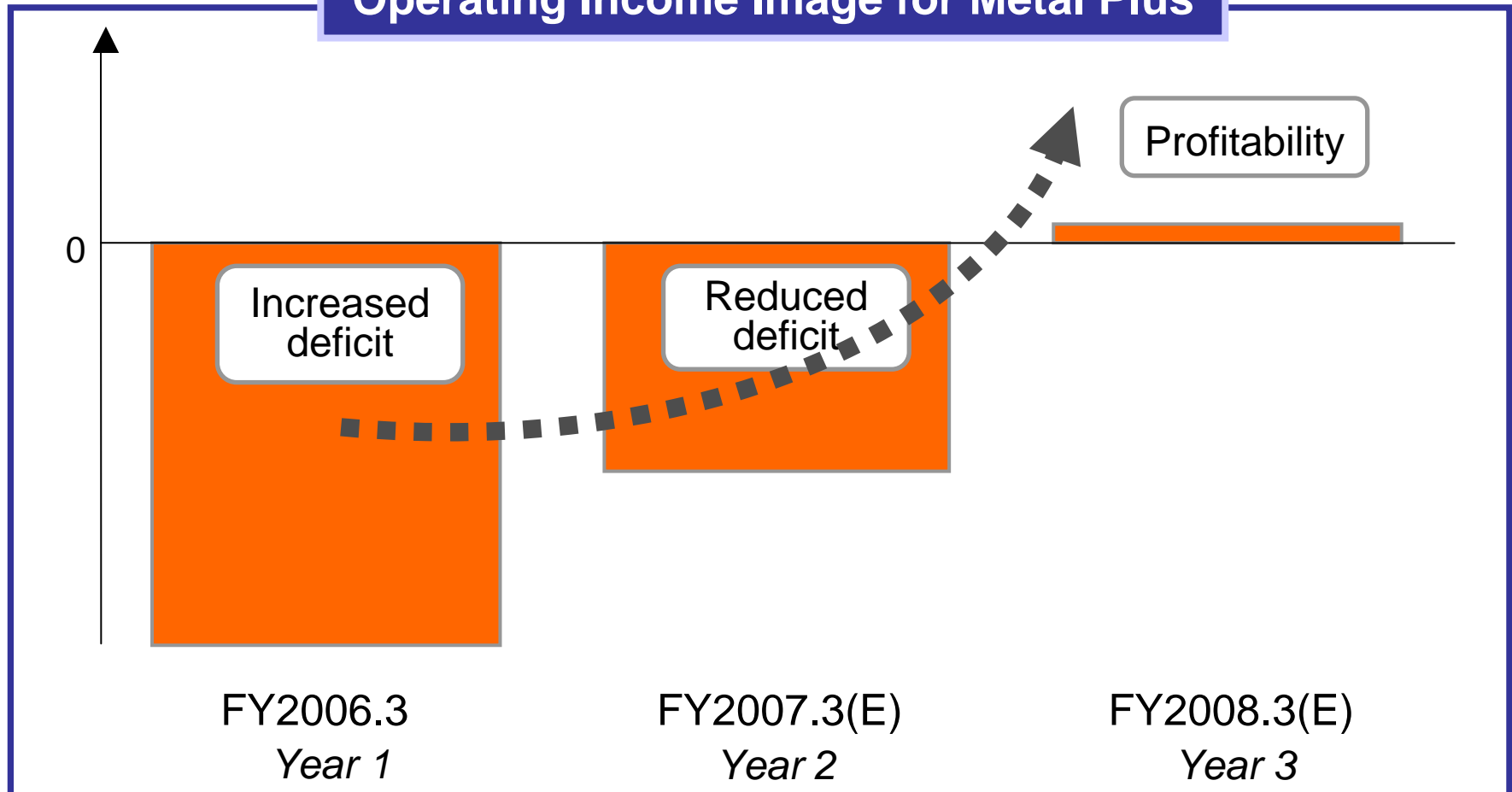


1. Metal Plus (2)

Continue expanding sales of Metal Plus in FY2007.3.

Forecast profitability on a full-year basis for Metal Plus in FY2008.3 in line with the original plan.

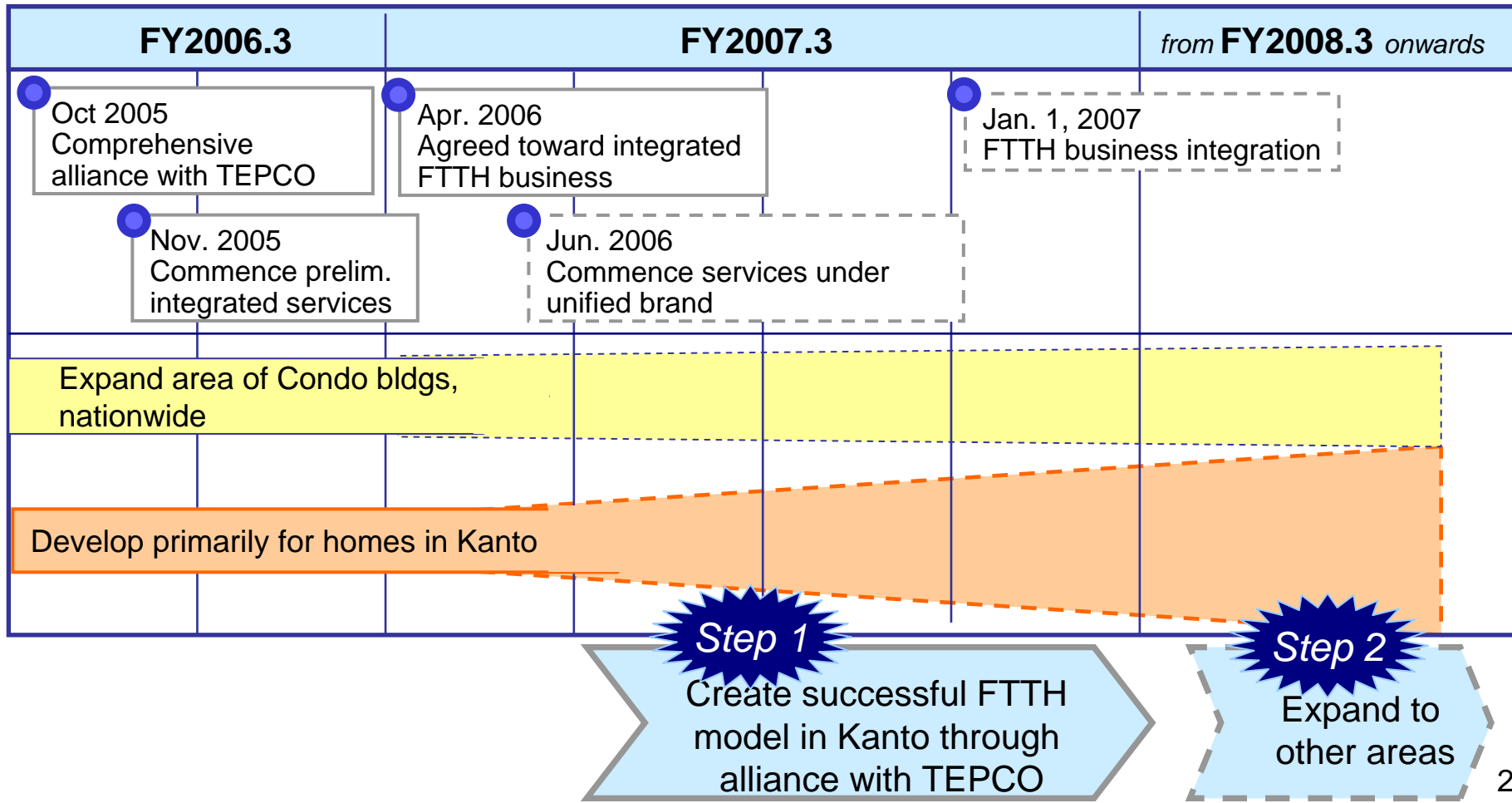
Operating Income Image for Metal Plus



2. FTTH Initiatives

Promote smooth launch of FTTH services in Kanto region after commencing integrated services with TEPCO in around June 2006.

Agreed to the direction of consolidating TEPCO's FTTH business (Optical Network Company) into KDDI, scheduled for Jan.1, 2007, to promote efficient and swift development of FTTH.

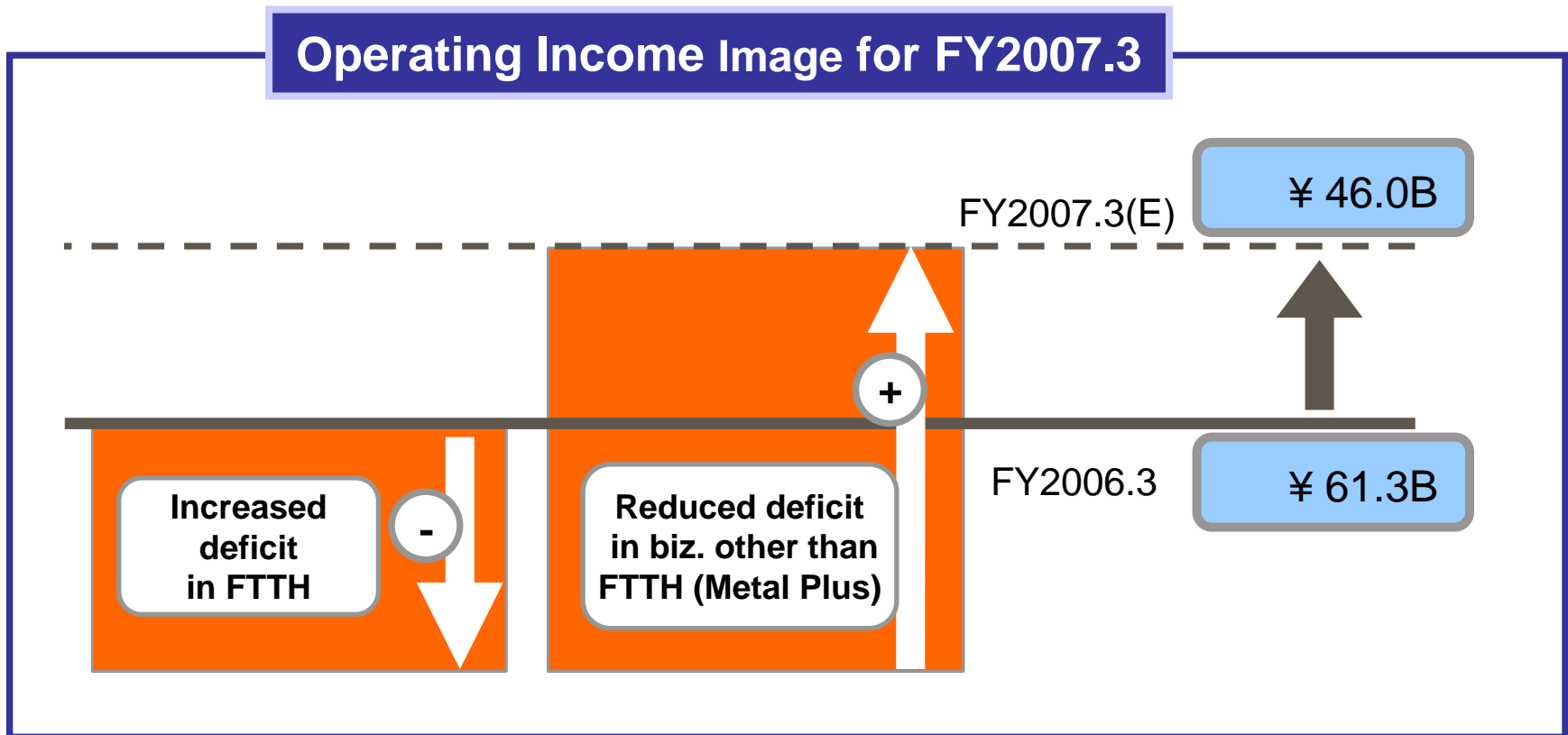


3. Business Outlook

In FY2007.3, forecast reduced deficit; improving profitability of Metal Plus helps to cover costs for developing FTTH.

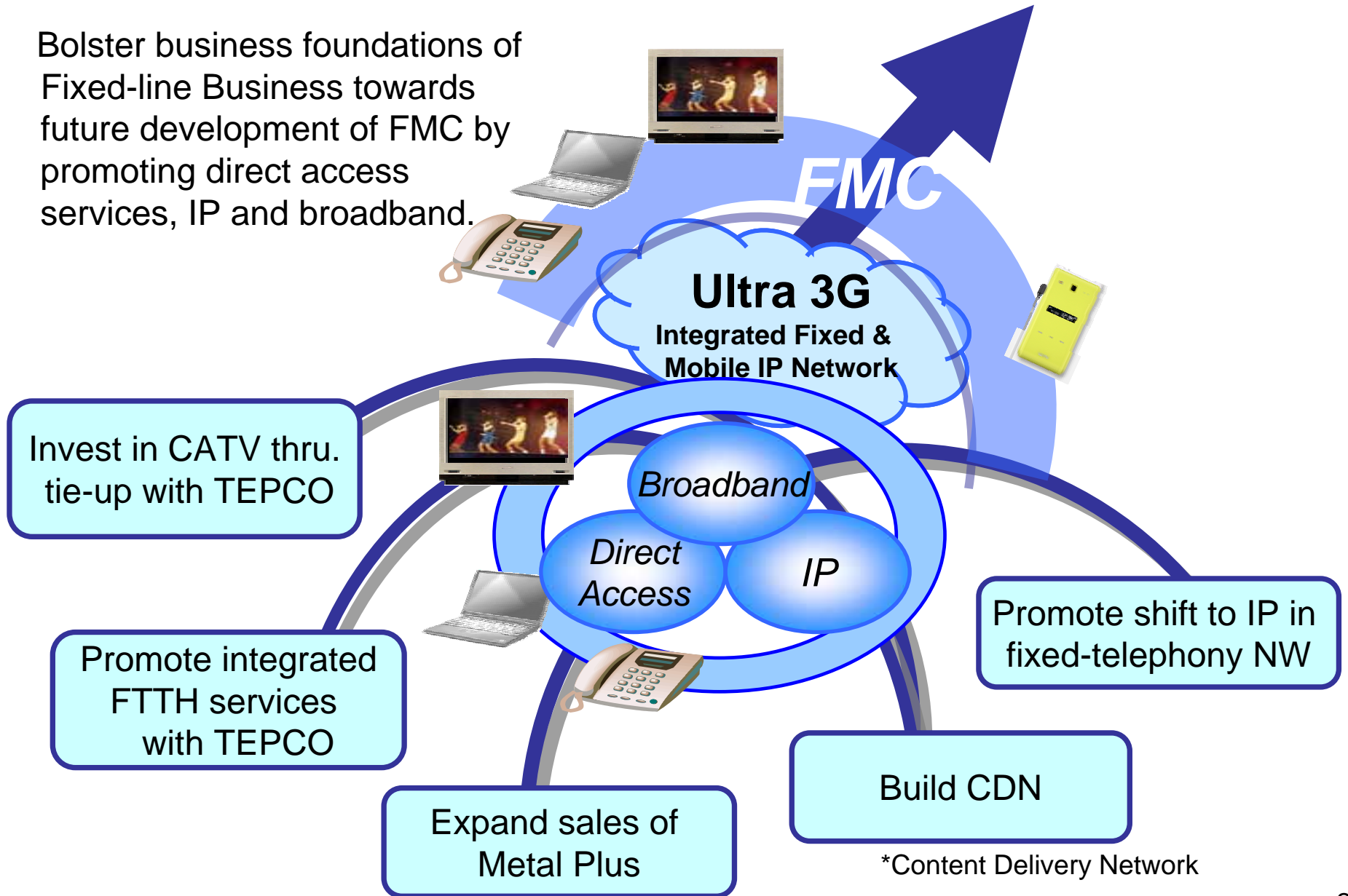
In FY2008.3, expect to make a turnaround in Fixed-line Business (excl. FTTH).

Project operating loss to bottom out in FY2006.3, in Fixed-line Business incl. FTTH, even taking into account absorption of TEPCO's FTTH business.



4. Summary

Bolster business foundations of Fixed-line Business towards future development of FMC by promoting direct access services, IP and broadband.



1. FMC Initiatives

Step 1

Fixed-line/mobile combined bill, cross-selling

May 2005: Started consolidated billing

Jun. 2005: Announced “Ultra 3G Plan” (Integrated Fixed & Mobile IP network)

Dec. 2005: Established Consumer Business Sector and Solutions Business Sector to promote FMC

Step 2

Bundle fixed-mobile charges etc.

In planning

Step 3

Develop new services such as fixed-line/mobile integrated terminal

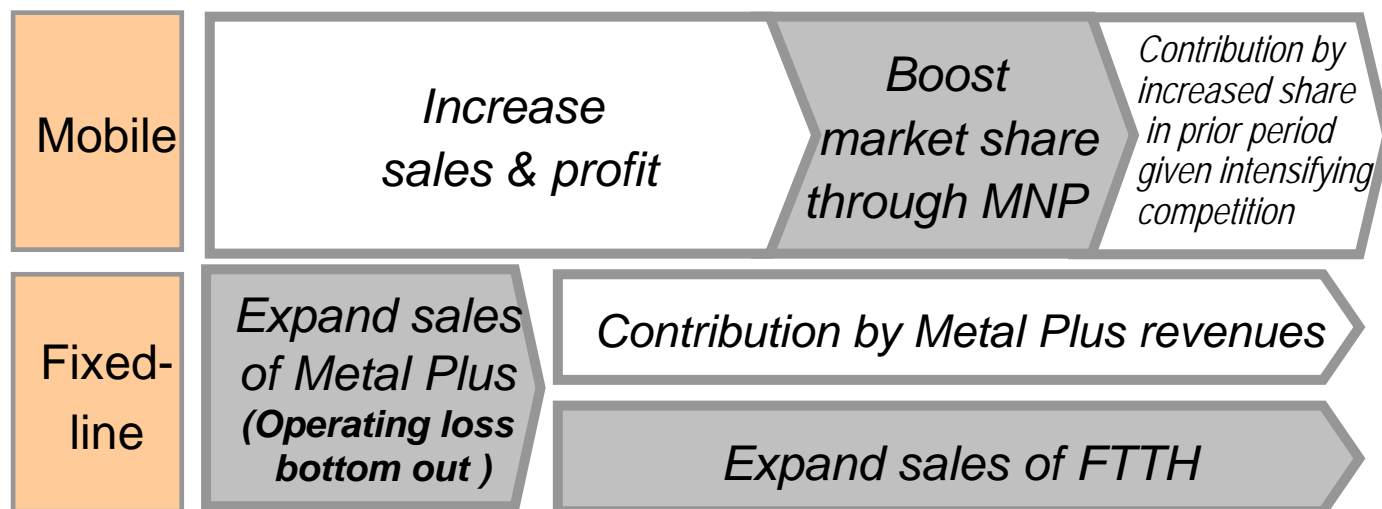
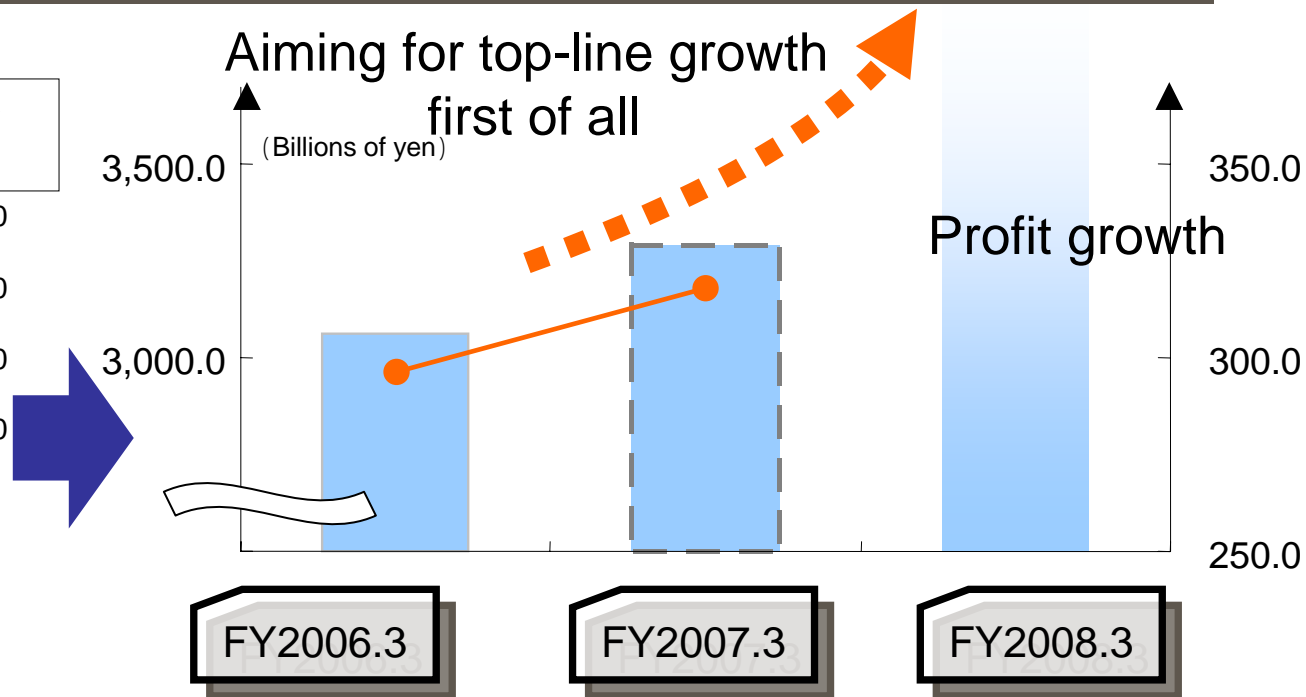
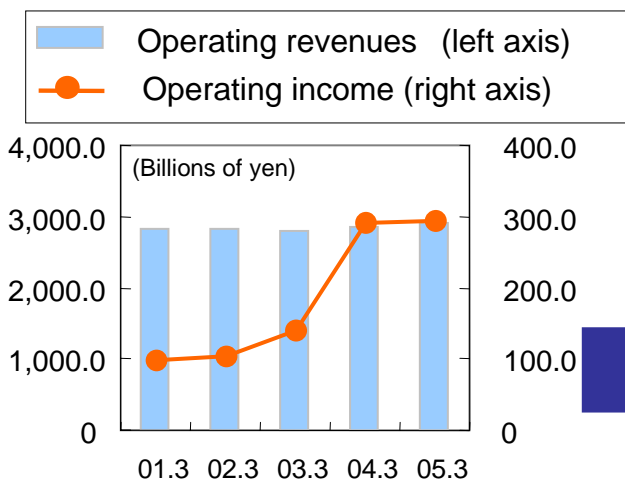
Feb. 2006: Commenced “LISMO”
(Links handset and PC)

Jun. 2006: Plan to start “Incoming call alert service to “au” for KDDI fixed-line phones”

Jul. 2006: Plan to start “OFFICE FREEDOM”
(FMC solutions for corporations)

Develop new services for “Ultra 3G”

2. Toward Sustainable Growth



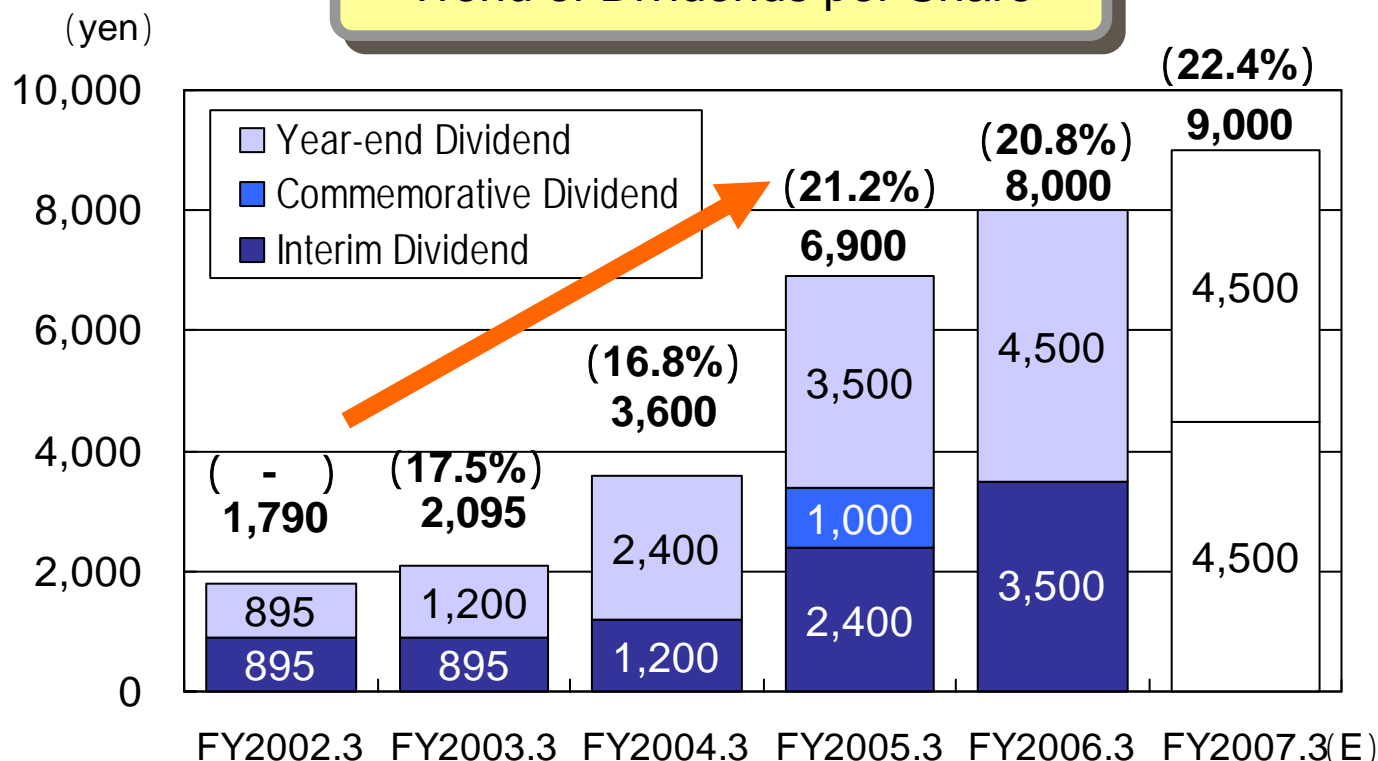
3. Shareholder Returns

Return to shareholders

Continued to achieve a 20% pay-out ratio target in FY2006.3.
(non-consolidated basis)

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

Trend of Dividends per Share



Ubiquitous Solution Company

