

Ubiquitous Solution Company


# **KDDI CORPORATION**



Third Quarter Financial Results of the Fiscal Year ending March 2006

January 24, 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 (1-3Q/9 months ended Dec. 2005)

## 1 Consolidated basis

- Operating revenues rose by 1.6% yoy and operating income was up by 6.2%, as strong Mobile Business (“au” + TU-KA) absorbed declined revenues in Fixed-line Business.

## 2 Mobile Business (“au” + TU-KA)

- Operating revenue increased by 7.5% and operating income rose by 30.7% yoy.
- Share of total subs at 27.4% (“au”: 23.9%, TU-KA: 3.5%) at end-December with top share of net adds for nine-month period at 49.2% (“au”: 63.8%, TU-KA: -14.6%).
- No. of WIN subs continues to increase, totaling 6.75 million at end-December, 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 350,000 in 3Q.

## 3 Fixed-line Business

- Operating income amounted to -¥43.8 billion due to expanded sales of Metal Plus.
- Accelerated number of activated lines of Metal Plus in 3Q in line with expanded service area, reaching 1.17 million at end-December.
- Merger with POWEREDCOM (Jan. 1).

## 4 Other

- Set up Consumer / Solutions Business Sector to promote FMC (Dec. 1).

# 1.2. Full-Year Outlook for FY 2006.3 (1)

Previous	Latest Forecast	(Change)
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- 1** On a consolidated basis, company forecasts factor in effects of TU-KA users' migration to "au" by keeping same phone numbers and merger with POWEREDCOM.

Operating income in line with initial forecast as strong Mobile Business covers declined earnings in Fixed-line Business due to a delayed activation of Metal Plus lines.

- ▶ Operating revenue: ¥2,976.0B    ¥3,041.0B (up ¥ 65.0B)
- Operating income: ¥ 289.0B    ¥ 289.0B (    ¥ - B)
  - Mobile Business                    : (up    ¥21.0B)
  - Fixed-line Business                : (down ¥21.0B)

▶ Main reasons

- ✓"au" ARPU                                : ¥6,810                                ¥7,000                                (up    ¥190)
- ✓Mobile Business total subs: 25.03 million                                25.28 million (up    0.25 million)
- ✓TU-KA migrants keeping same numbers: n.a.                                0.7 million                                (up    0.7 million)
- ✓Metal Plus total subs:                                2.2 million                                1.7million                                (down 0.5 million)

# 1.2. Full-Year Outlook for FY 2006.3 (2)

Previous	Latest Forecast (Change)
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**2** No change to net income forecast at ¥187.0B as income tax savings due to merger with POWEREDCOM covers impairment loss on TU-KA PDC equipment etc.

▶ Main reasons

✓ Impairment loss on PDC equipment : Approx. ¥ 90.0B

✓ Impairment loss on fixed domestic networks (information BOX cables) etc. : Approx. ¥ 10.0B

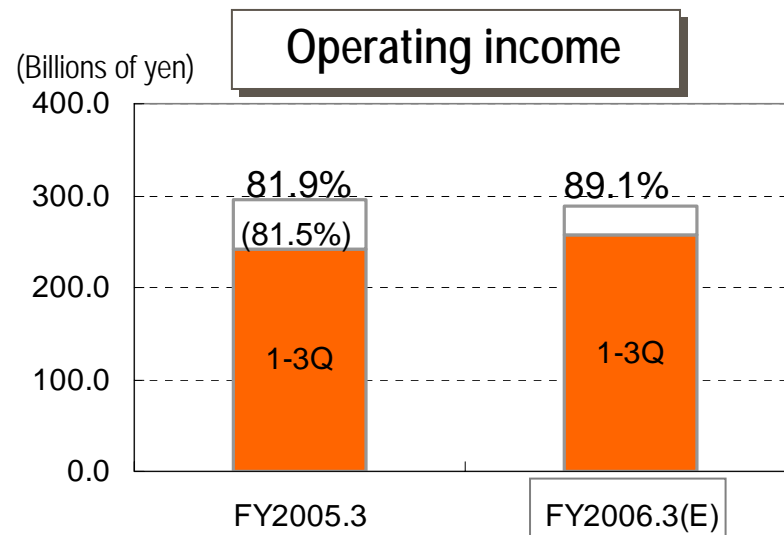
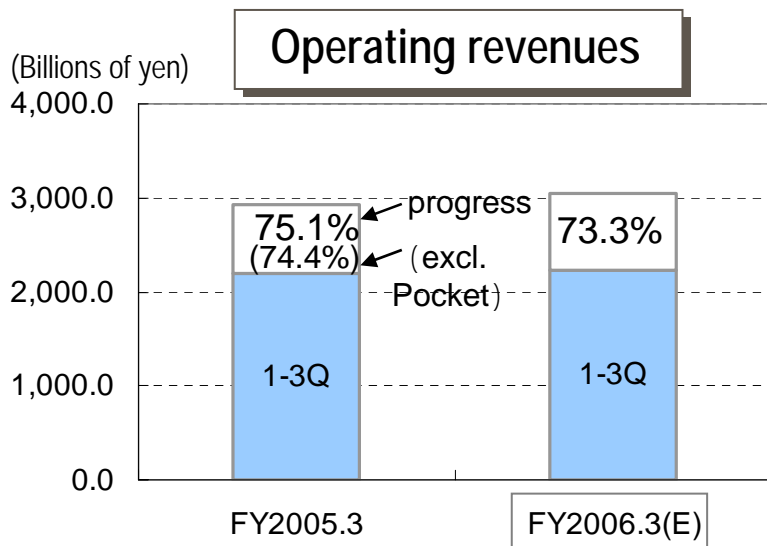
After tax effect (40%) : Approx. ¥ 60.0B

✓ Tax savings for income tax and income taxes-deferred due to merger with POWEREDCOM : Approx. ¥ 60.0B

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

**3** No change to capital expenditure forecast at ¥440.0B.

# 2. Consolidated Financial Results



(Billions of yen)

(ref.) Results excluding Pocket

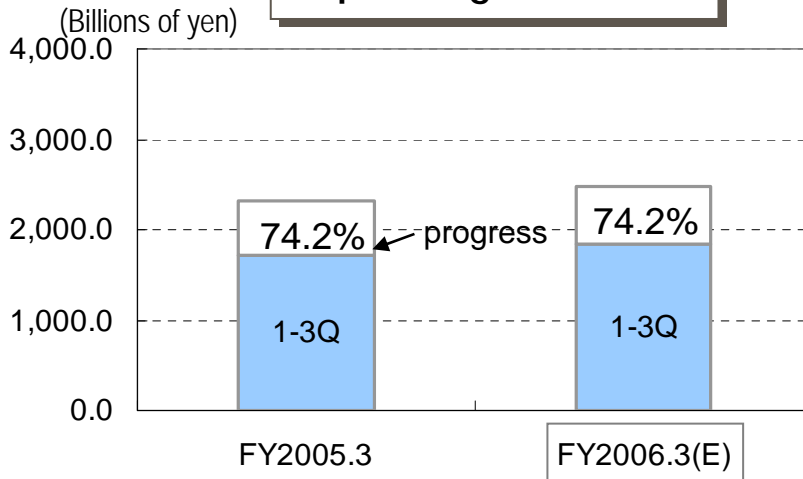
	FY2005.3		FY2006.3(E)				FY2006.3 Previous F
	1-3Q		1-3Q	yoy	progress	Latest F	
Operating revenues	2,194.3	2,920.0	2,230.2	1.6%	73.3%	3,041.0	2,976.0
Operating income	242.5	296.2	257.6	6.2%	89.1%	289.0	289.0
<i>Operating margin</i>	11.1%	10.1%	11.6%	-	-	9.5%	9.7%
Ordinary income	235.6	286.3	255.9	8.6%	89.2%	287.0	287.0
Net income	154.1	200.6	158.0	2.5%	-	187.0	187.0
Free Cash Flow	410.3	402.2	168.1	-59.0%	-	113.0	43.0
EBITDA	516.8	664.3	510.8	-1.1%	78.7%	649.0	643.0
<i>EBITDA margin</i>	23.6%	22.7%	22.9%	-	-	21.3%	21.6%

	FY2005.3	FY2006.3(E)
	1-3Q	yoy
Operating revenues	2,107.4	5.8%
Operating income	237.0	8.7%
<i>Operating margin</i>	11.2%	-
Ordinary income	230.7	10.9%
Net income	122.5	29.0%
Free Cash Flow	206.7	-18.7%
EBITDA	492.2	3.8%
<i>EBITDA margin</i>	23.4%	-

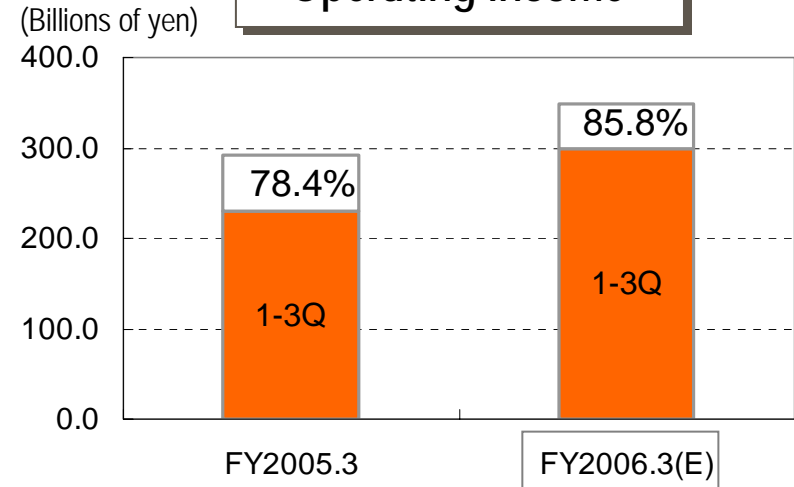
Note: For FY 2005.3 results excluding Pocket, 1H results and effect of divestiture of PHS Business are deducted from the consolidated figures.

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

## Operating revenues



## Operating income



(Billions of yen)

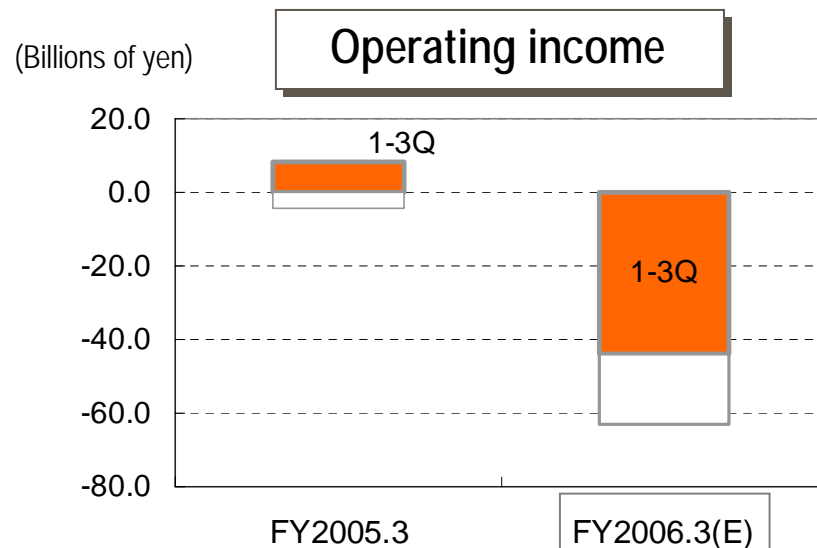
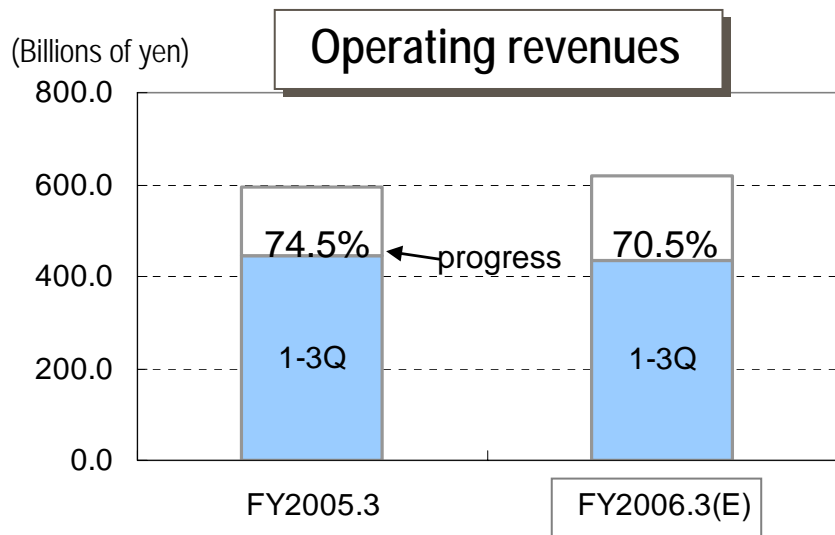
	FY2005.3		FY2006.3(E)			FY2006.3 Previous F
	1-3Q	Latest F	1-3Q	progress	Latest F	
Operating revenues	1,716.5	2,312.5	1,845.7	74.2%	2,486.0	-
"au"	1,542.9	2,085.9	1,704.1	-	-	2,245.0
TU-KA	173.6	226.6	141.6	-	-	204.0
Operating income	229.3	292.3	299.6	85.8%	349.0	328.0
<i>Operating margin</i>	13.4%	12.6%	16.2%	-	14.0%	-
Ordinary income	223.3	285.1	298.1	85.9%	347.0	326.0
Net income	131.8	171.7	179.9	-	159.0	194.0
Free Cash Flow	168.0	190.6	233.6	-	251.0	160.0
EBITDA	420.1	548.9	483.6	80.3%	602.0	578.0
<i>EBITDA margin</i>	24.5%	23.7%	26.2%	-	24.2%	-

	FY2005.3		FY2006.3(E)		FY2006.3 Previous F
	3Q	Latest F	3Q	Latest F	
Subs ('000)	22,359	23,132	24,695	25,280	25,030
of module-type	452	487	567	590	610
"au" total	18,759	19,542	21,571	22,610	21,540
WIN(EV-DO)	2,032	3,252	6,750	8,180	7,660
1X	14,797	14,683	13,833	-	-
cdmaOne	1,930	1,608	987	-	-
TU-KA(PDC)	3,600	3,590	3,125	2,670	3,490

Note : Operating revenues of previous FY2006.3 - forecast are those before eliminations in Mobile Business segment.

# 4. Fixed-line Business



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

(Billions of yen)

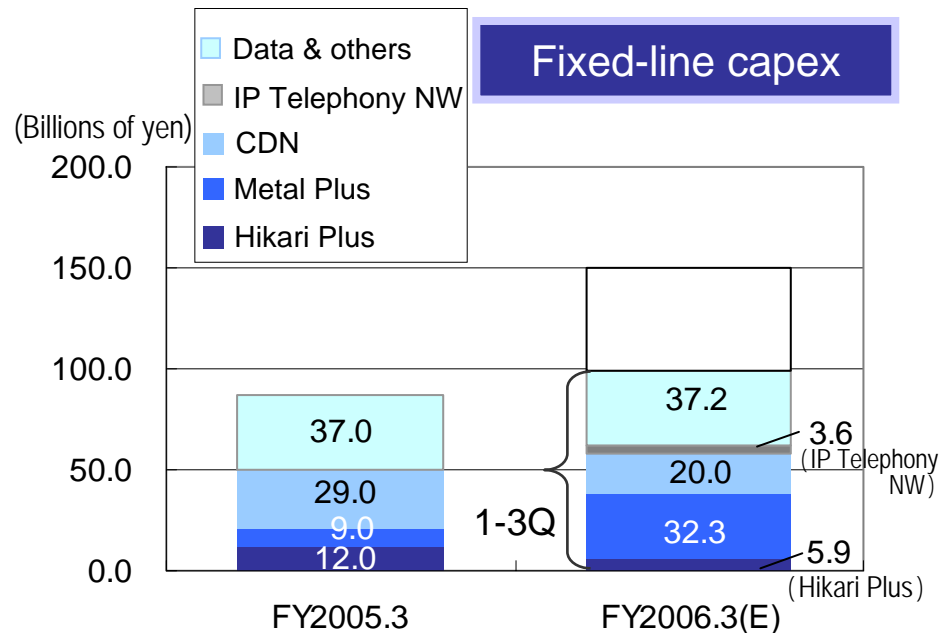
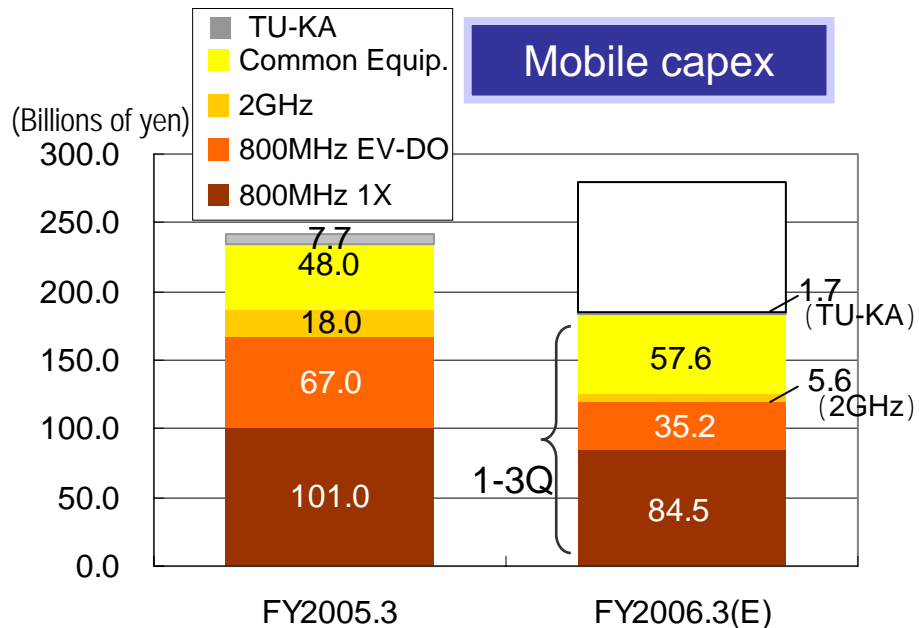
	FY2005.3		FY2006.3(E)			FY2006.3 Previous F
	1-3Q		1-3Q	progress	Latest F	
Operating revenues	443.9	596.0	435.8	70.5%	618.0	612.0
Operating income	8.3	-0.3	-43.8	-	-63.0	-42.0
<i>Operating margin</i>	1.9%	-0.1%	-10.1%	-	-10.2%	-6.9%
Ordinary income	9.1	-0.4	-43.8	-	-64.0	-43.0
Net income	-3.2	-4.4	-22.8	-	16.0	-22.0
Free Cash Flow	34.8	-3.1	-69.0	-	-138.0	-114.0
EBITDA	69.1	87.5	22.8	57.0%	40.0	59.0
<i>EBITDA margin</i>	15.6%	14.7%	5.2%	-	6.5%	9.6%

	FY2005.3		FY2006.3(E)		FY2006.3 Previous F
	( <sup>'000</sup> )		( <sup>'000</sup> )	Latest F	
DION subs <small>(Note)</small>	2,874	2,885	2,848	2,850	2,880
of ADSL	1,497	1,494	1,510	1,500	1,500
FTTH subs	78	91	156	180	180
of Hikari Plus	61	79	153	-	-
Metal Plus subs	0	41	1,165	1,700	2,200

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



# 5. Capital Expenditures and others



(Billions of yen)

		FY2005.3		FY2006.3(E)			FY2006.3 Previous F
		1-3Q		1-3Q	Progress	Latest F	
CAPEX (Cash basis)	Consolidated	200.0	342.4	287.4	65.3%	440.0	440.0
	Mobile	155.3	241.2	184.7	65.0%	284.0	284.0
	"au"	149.4	233.5	183.0	65.4%	280.0	280.0
	TU-KA	5.9	7.7	1.7	42.5%	4.0	4.0
	Fixed-line	33.7	86.6	99.1	66.0%	150.0	150.0
Depreciation	Consolidated	265.1	349.9	247.0	73.3%	337.0	335.0
	Mobile	185.4	248.3	180.3	75.4%	239.0	240.0
	"au"	150.3	201.7	-	-	-	201.0
	TU-KA	35.1	46.6	-	-	-	39.0
	Fixed-line	57.6	78.7	64.1	68.2%	94.0	92.0

# Segment Discussions

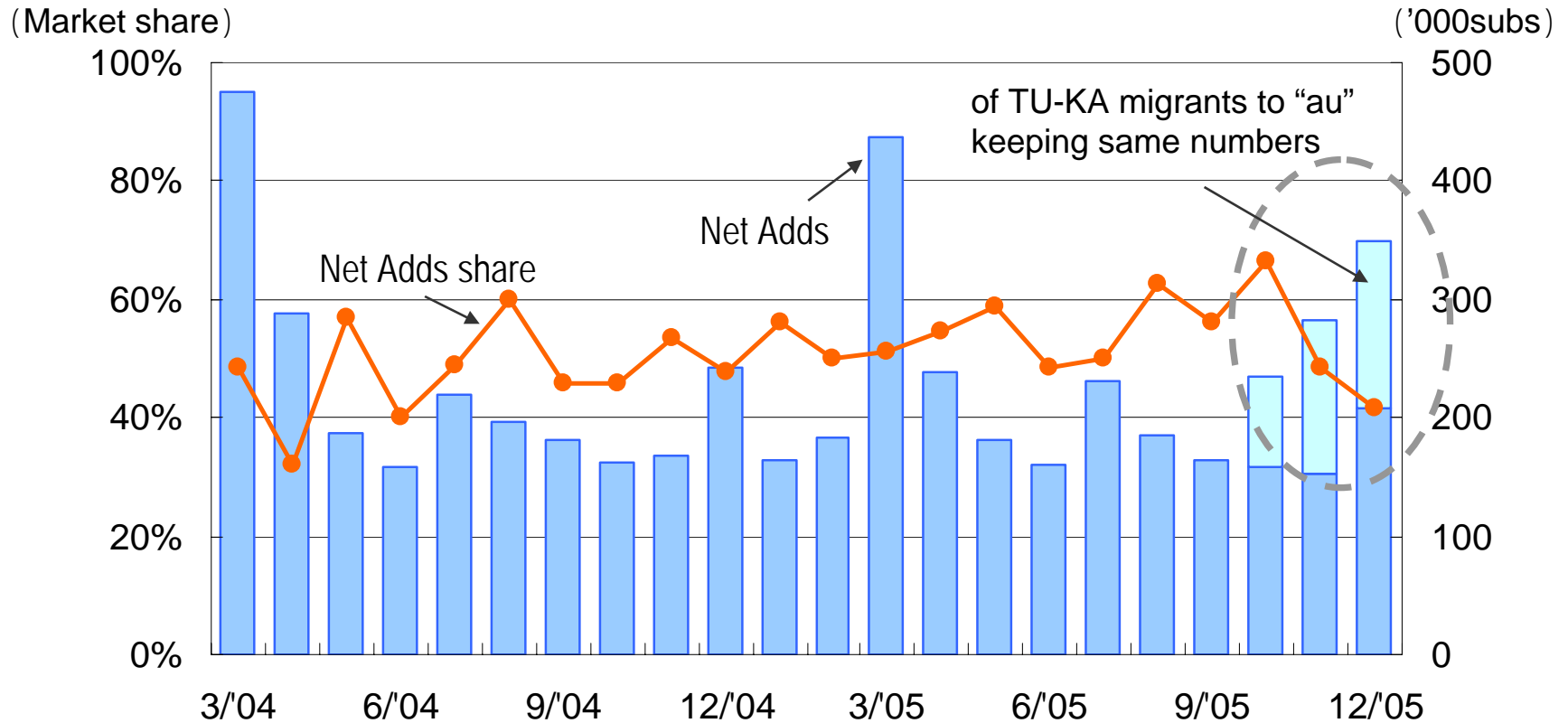
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Mobile Business  
"au" / TU-KA(PDC)

Fixed-line  
Business

KDDI-wide  
Measures

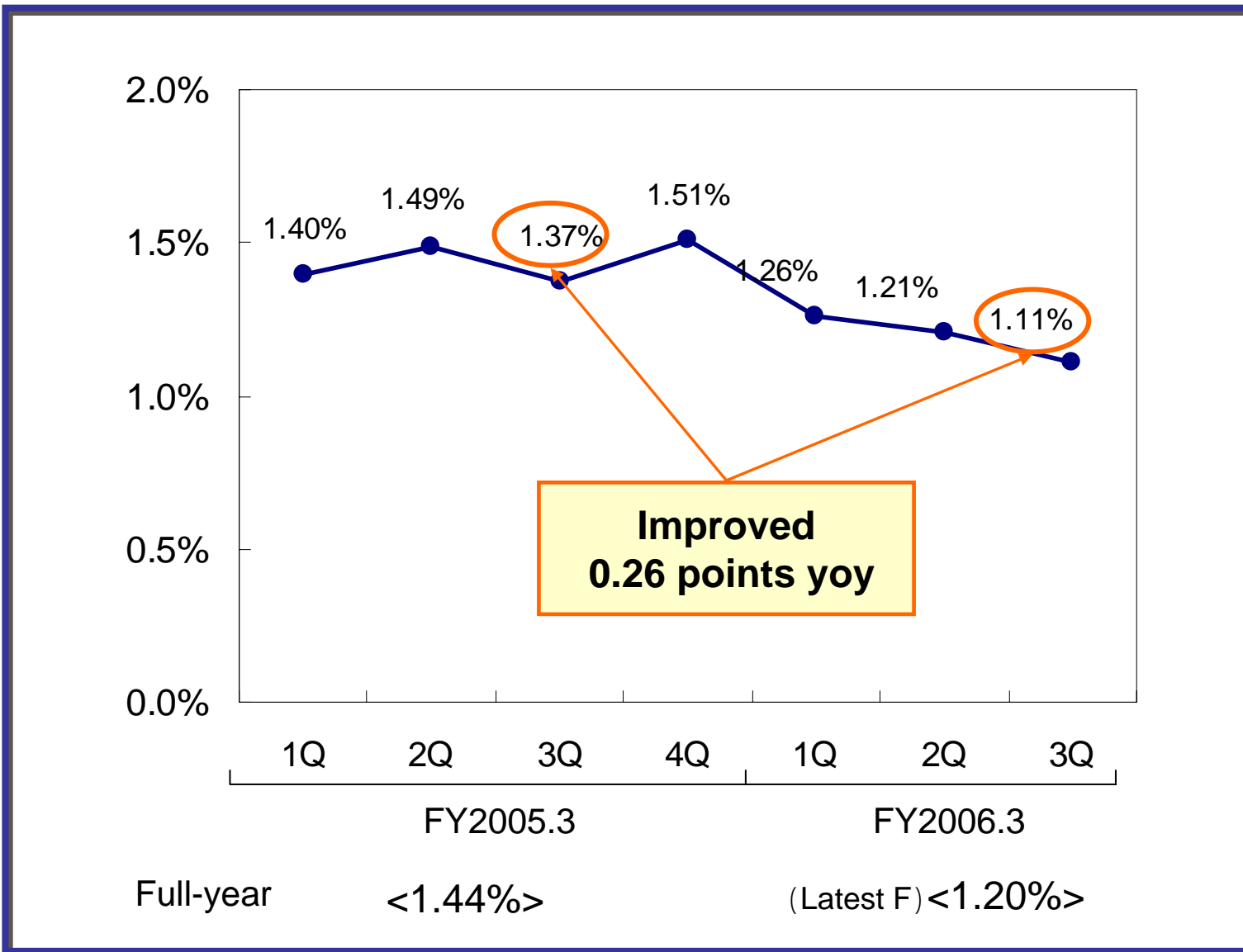
# 1.1. Net Additions



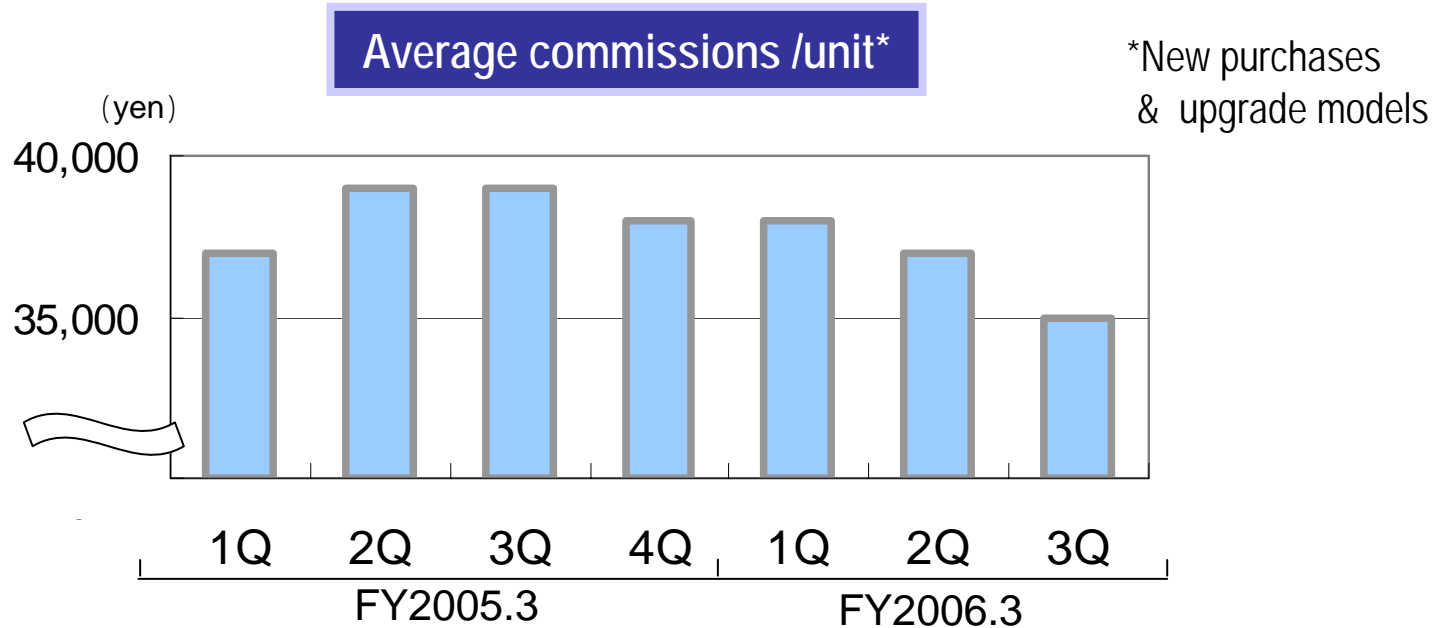
Share of :	full-year/FY2005.3	1-3Q/FY2006.3
Net Adds	<50.4%>	<63.8%>
Total subs	<22.5%>	<23.9%>

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

# 1.2. Churn Rate

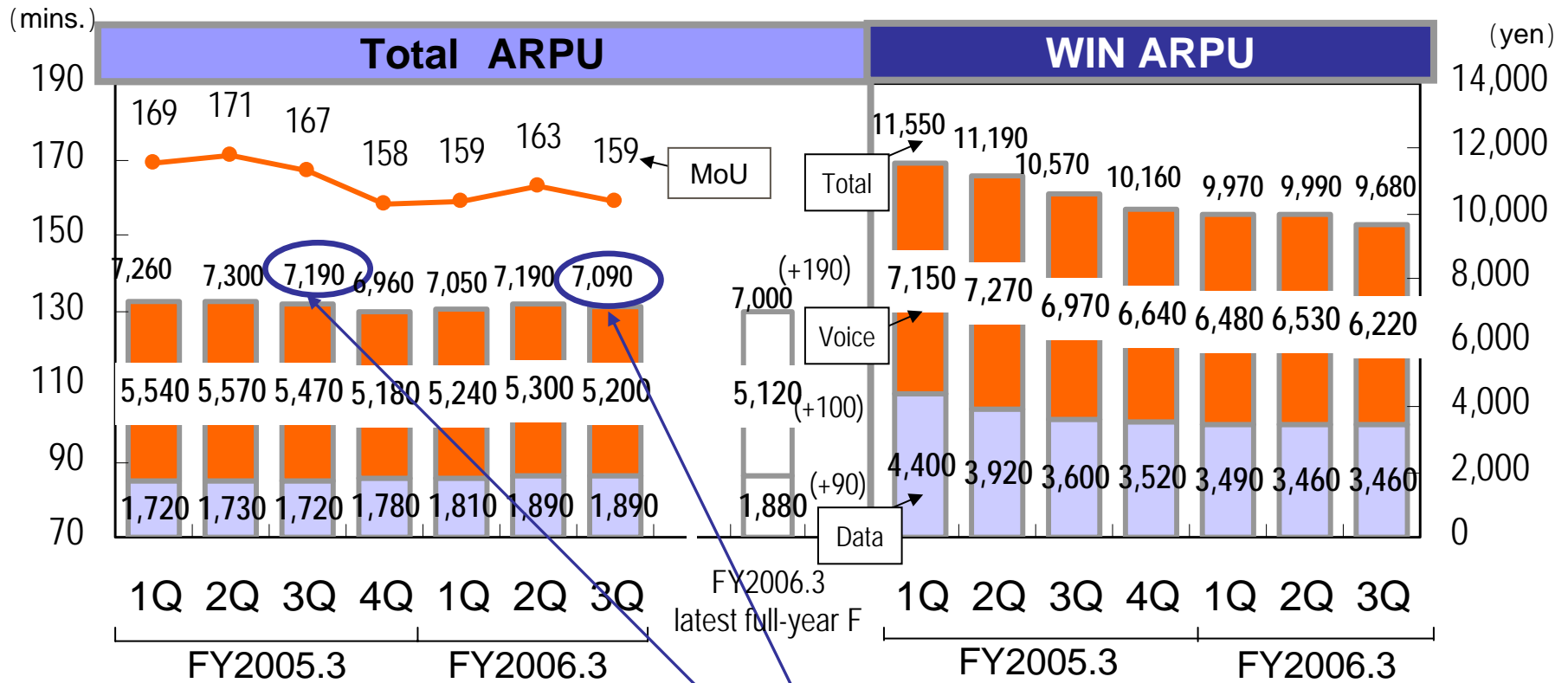


# 1.3. Sales Commissions



	FY2005.3					FY2006.3(E)				FY2006.3 Previous F
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	Latest F	
Sales commissions (Billions of yen)	94.0	114.0	112.0	124.0	444.0	102.0	119.0	119.0	488.0	457.0
Average commissions/unit (yen)	37,000	39,000	39,000	38,000	38,000	38,000	37,000	35,000	37,000	38,000
Number of units sold ('000 units)	2,550	2,930	2,870	3,230	11,590	2,700	3,220	3,370	13,120	12,100

# 1.4. Trend of ARPU



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

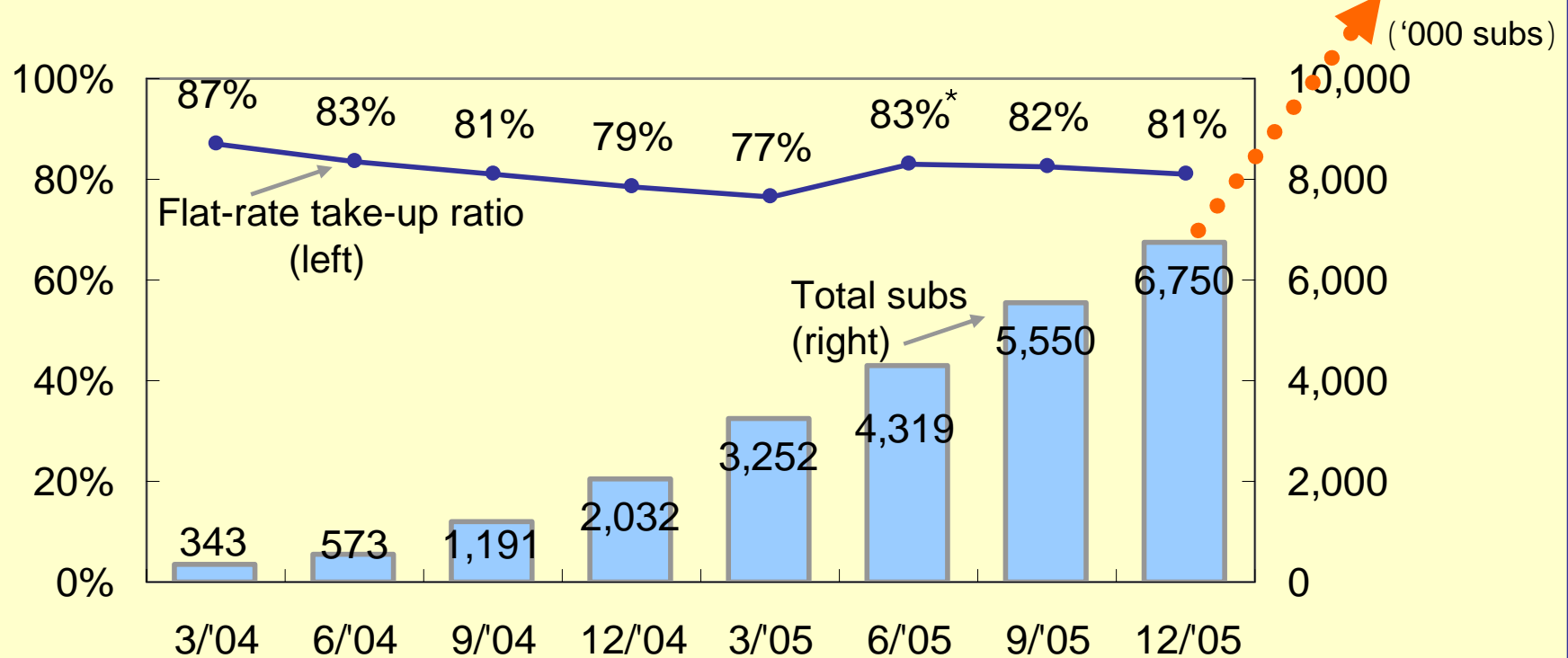
yoy change  
total ¥ 100 ( 1.4%)  
of Voice ¥ 270 ( 4.9%)  
of Data + ¥170 ( + 9.9%)

# 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. 8,180k

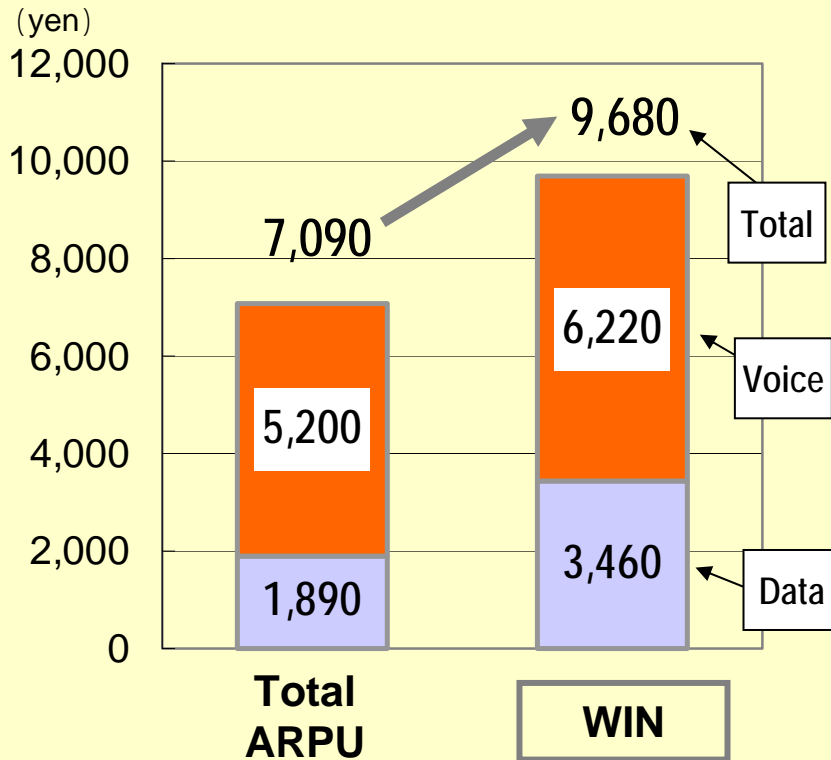


Note: Flat-rate take-up ratio at end-June and thereafter includes Double Teigaku "Light" subs in line with the launch of service in May 2005. Former Packet-Discount WIN subs, who were automatically shifted into Double Teigaku "Light" after May 2005, account for 6% at end-March 2005.

# 2. Update on WIN(2)

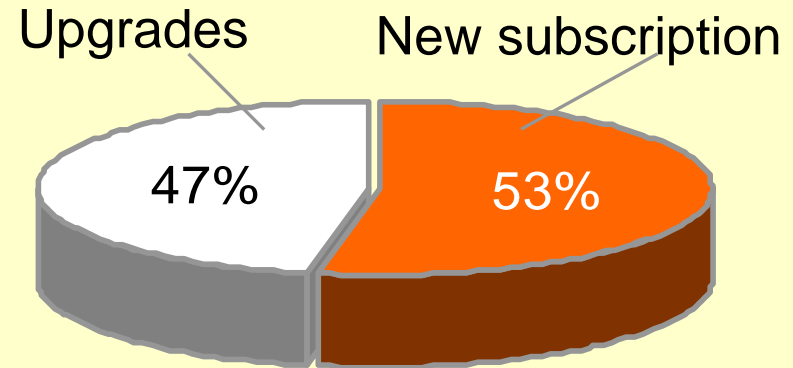
WIN has continued to capture high-end users from other companies with proportion of new subscriptions at around half.

## ARPU



Note: ARPU of 3Q/FY06.3.

## Breakdown of WIN Subs



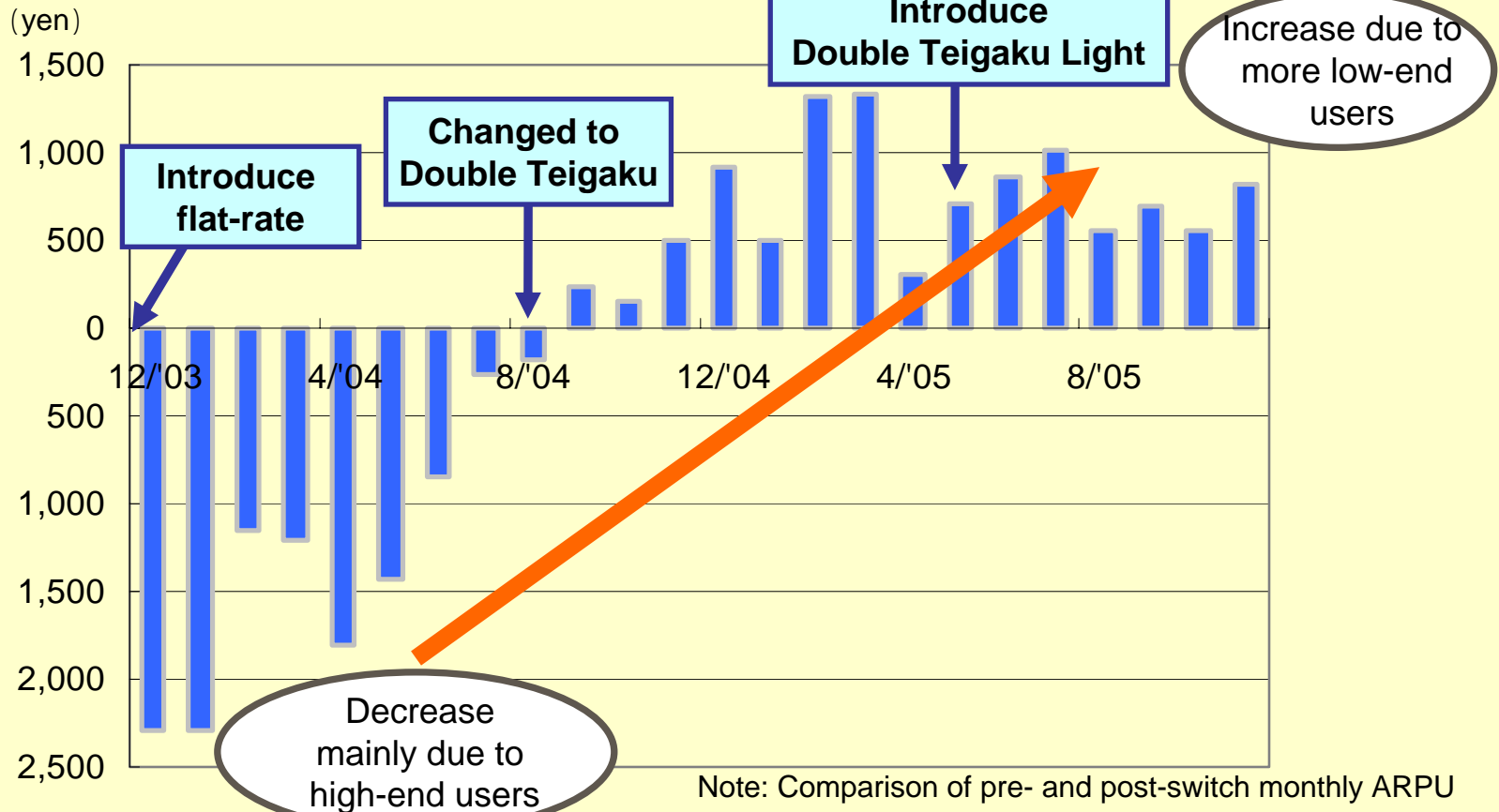
Note: Percentage of the simple total of subs who sign up in 3Q/FY06.3.



# 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.

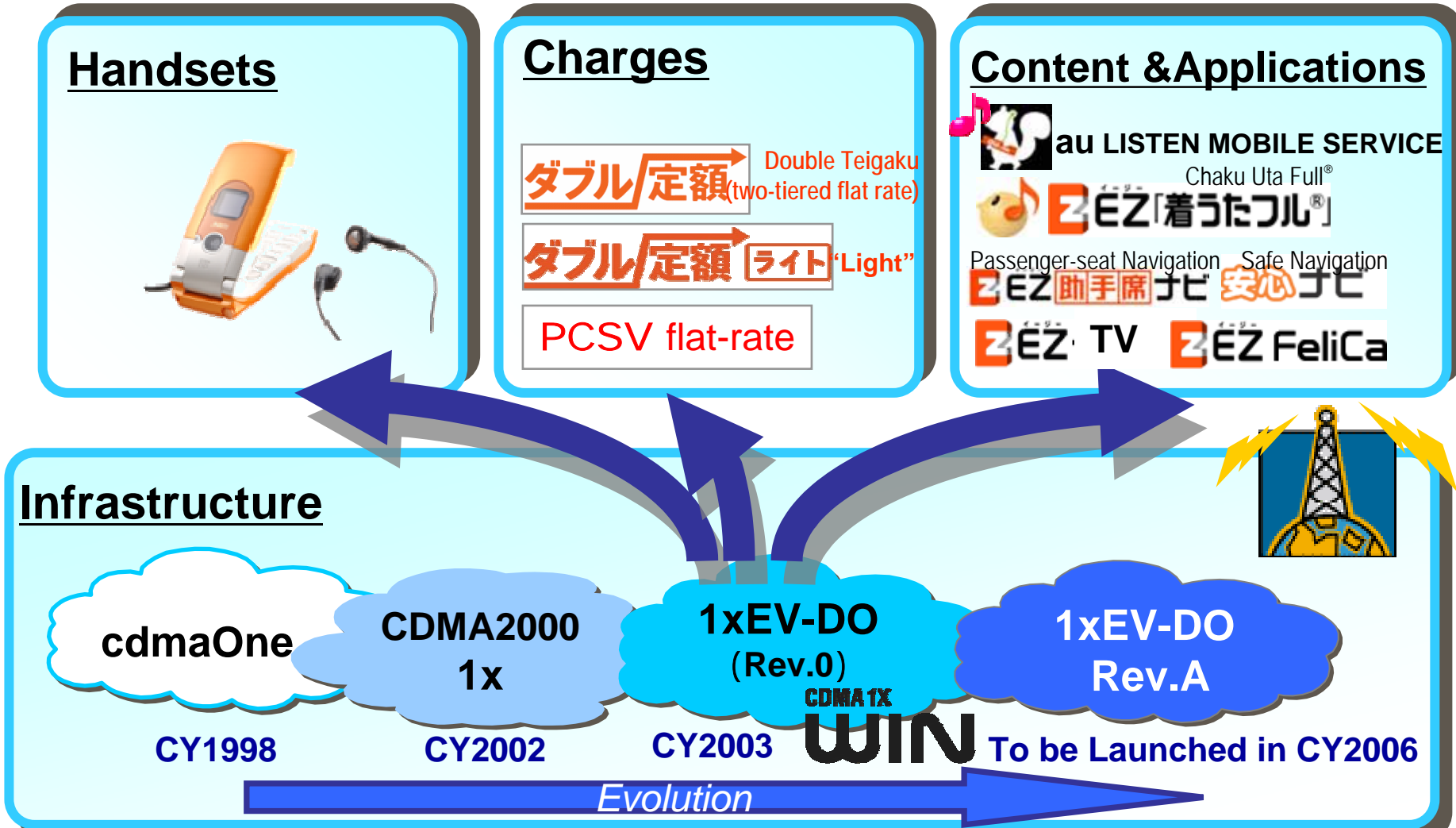
## Changes of ARPU : 1X WIN



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

# 3. Boost All-Round Product Attractiveness

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



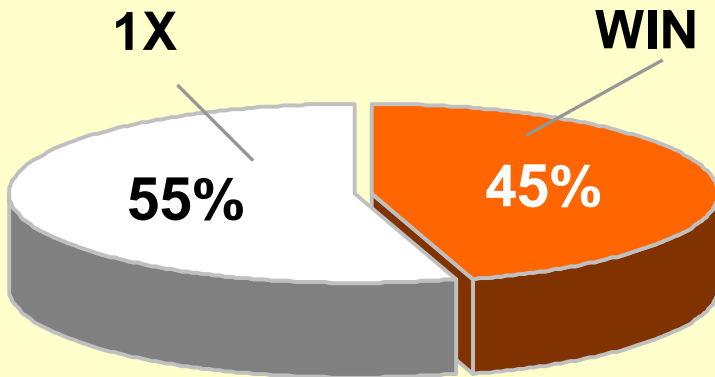
\* PCSV : PC site viewer

## 4. 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 (by cancel TU-KA contract & commence “au” contract) even before introduction of MNP.

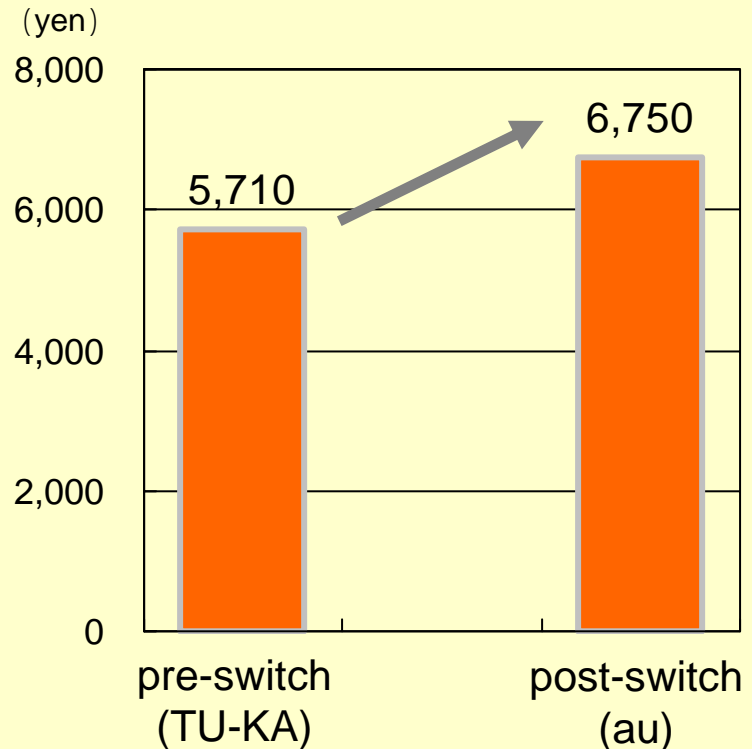
Half of TU-KA customers chose WIN handsets, resulting increased ARPU.

### Breakdown of Subs



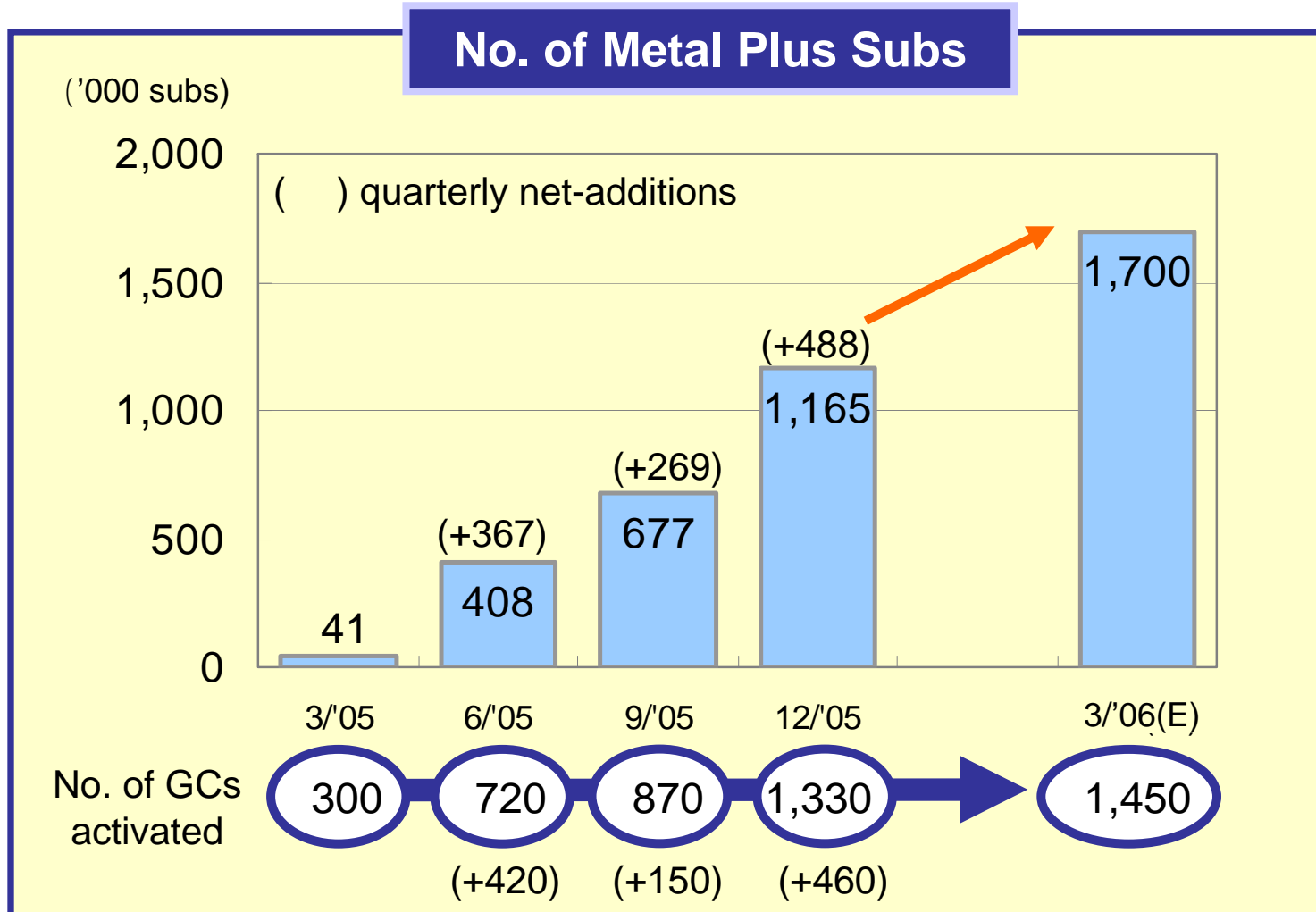
Note: Percentage of the simple total of subs who migrated into “au” in 3Q/FY06.3.

### ARPU



Note: Comparison of pre- and post-switch monthly ARPU for the month when users switched to “au” in Oct. & Nov.

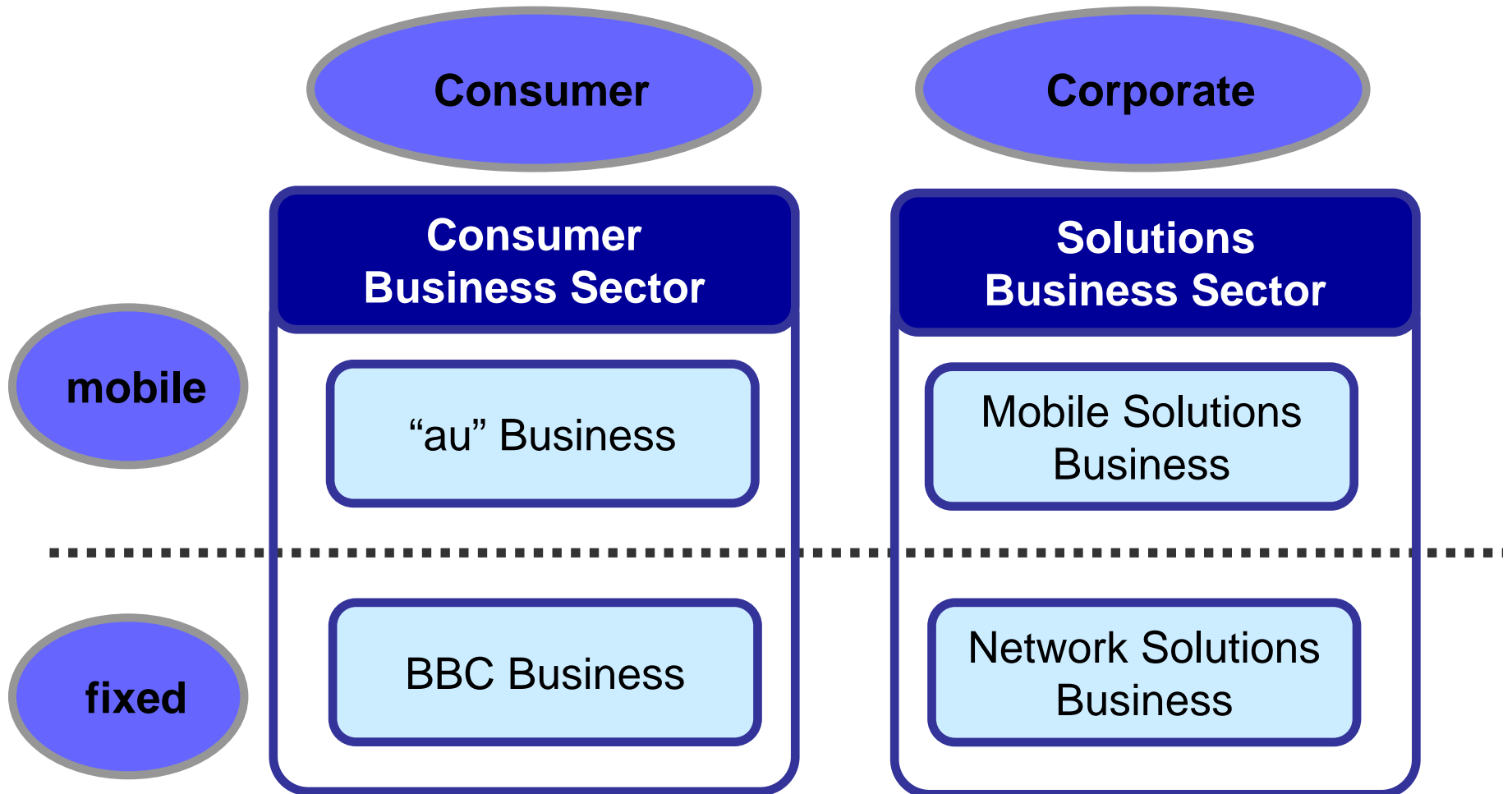
Accelerated number of activated lines of Metal Plus in 3Q in line with expanded service area, reaching 1.17 million at end-December.



# Reorganize Business Structures

December 1, 2005 ~ :

Set up Consumer / Solutions Business Sector to promote FMC.



\*BBC: Broadband & Consumer Business

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Ubiquitous Solution Company

