

Ubiquitous Solution Company

# **KDDI CORPORATION**



Third Quarter Financial Results of the Fiscal Year Ending March 2007

January 25, 2007

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. 2006)

## 1 Consolidated basis

- Operating revenues rose by +10.4% yoy and operating income was up +22.7%, as strong Mobile Business (“au” + Tu-Ka) absorbed loss of Fixed-line Business in the middle of expanding new services.

## 2 Mobile Business (“au” + Tu-Ka)

- Operating revenue increased by +7.1% and operating income rose by +12.1% yoy.
- Share of total subs at 28.7% (“au”: 27.2%, Tu-Ka: 1.5%) at end-Dec. with top share of net adds for 3Q at 73.3% (“au”: 116.8%, Tu-Ka: -43.5%).
- Had a good head start in MNP with net additions through MNP at 465k (“au”: 484k, Tu-Ka: -19k).
- No. of “au” WIN subs continues to increase, totaling 12.52M at end-Dec., of which 78% of users have signed up for packet flat-rate plans.
- Plan to terminate Tu-Ka service at end-March 2008 based upon a smooth user-migration to “au” keeping same phone number; total who switched at 310k in 3Q, making aggregate total of 1,770k (since Oct. 2005) .

## 3 Fixed-line Business

- Operating revenue rose by +23.1% yoy due to expanded sales of METAL PLUS and merger with POWEREDCOM. Operating loss was reduced by ¥18.3B to ¥25.5B.
- No. of METAL PLUS subs increased to 2.61M at end-Dec. with an upturn in voice sales.
- Completed integration of TEPCO’s FTTH business (on Jan. 1, 2007)

# 1.2. Full-Year Outlook for FY 2007.3

| Previous | Latest Forecast (Change) |
|----------|--------------------------|
|----------|--------------------------|

**1** On a consolidated basis, company revise up both operating revenues & income due to strong performance in Mobile Business absorbs the effect of integrating TEPCO's FTTH business.

- ▶ Operating revenues: ¥3,293.0B    ¥3,330.0B (up ¥ 37.0B)
- Operating income : ¥ 318.0B    ¥ 342.0B (up ¥ 24.0B)
  - Mobile Business : (up ¥ 35.0B)
  - Fixed-line Business : (down ¥ 9.0B: effect of integrating FTTH business)

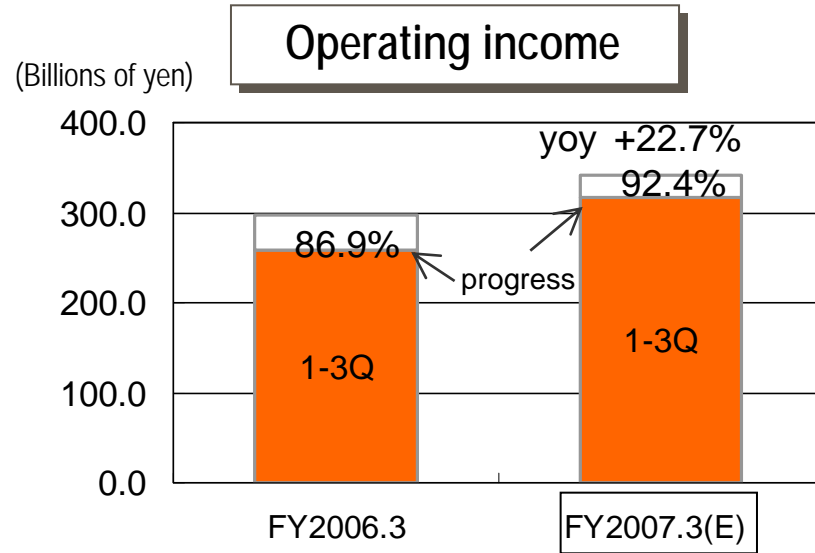
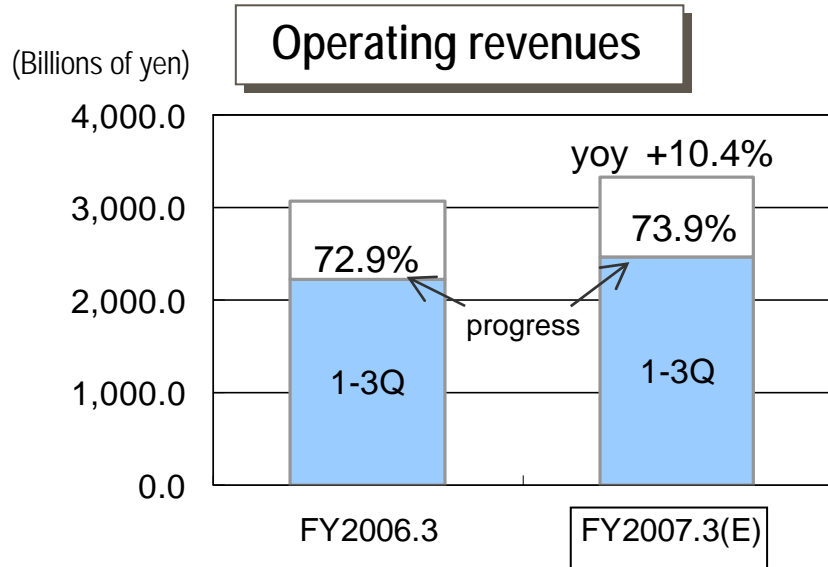
▶ Main reasons

|  |          |                         |
|--|----------|-------------------------|
| ✓“au” ARPU                                 | : ¥6,580 | ¥6,600 (up ¥20)         |
| ✓“au” Churn rate                           | : 1.39%  | 1.07% (down 0.32points) |
| ✓Mobile Business total subs                | : 27.44M | 28.20M (up 0.76M)       |
| ✓Total Tu-Ka migrants keeping same number: | 1.61M    | 2.11M (up 0.50M)        |

**2** Factor in impairment loss of approx. ¥36.0B due to termination of Tu-Ka service at end-March 2008, resulting no change to net income outlook at ¥186.0B.

**3** No change to capital expenditure forecast at ¥450.0B.

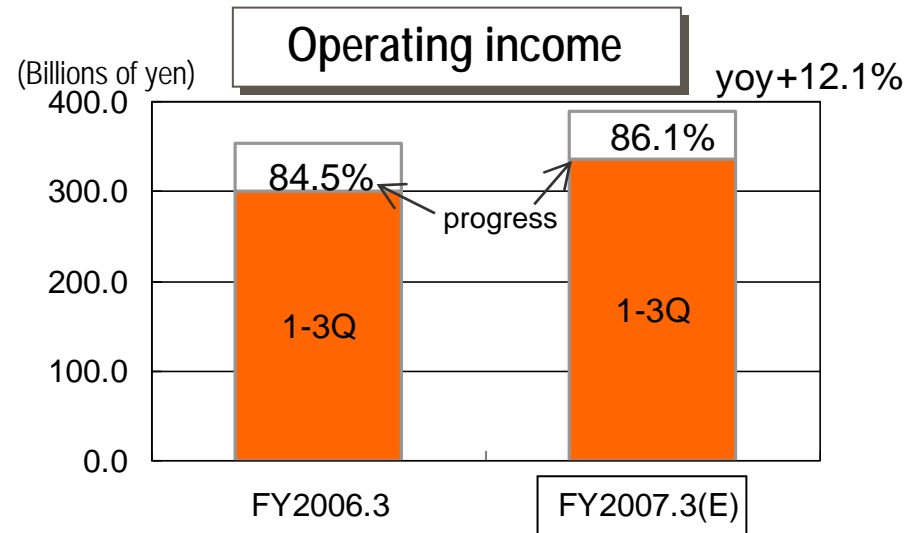
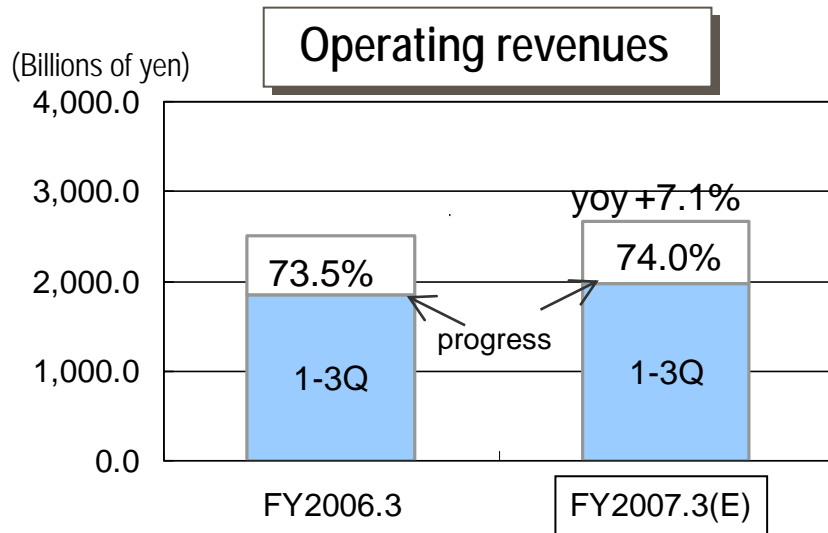
# 2. Consolidated Financial Results



(Billions of yen)

|                    | FY2006.3 |         | FY2007.3(E) |       |          |          | FY2007.3   |
|--------------------|----------|---------|-------------|-------|----------|----------|------------|
|                    | 1-3Q     |         | 1-3Q        | yoy   | progress | Latest F | Previous F |
| Operating revenues | 2,230.2  | 3,060.8 | 2,462.5     | 10.4% | 73.9%    | 3,330.0  | 3,293.0    |
| Operating income   | 257.6    | 296.6   | 316.1       | 22.7% | 92.4%    | 342.0    | 318.0      |
| Operating margin   | 11.6%    | 9.7%    | 12.8%       | -     | -        | 10.3%    | 9.7%       |
| Ordinary income    | 255.9    | 294.0   | 319.6       | 24.9% | 92.6%    | 345.0    | 315.0      |
| Net income         | 158.0    | 190.6   | 191.0       | 20.9% | -        | 186.0    | 186.0      |
| Free Cash Flow     | 168.1    | 139.6   | 227.4       | 35.3% | -        | 268.0    | 235.0      |
| EBITDA             | 510.8    | 654.4   | 564.2       | 10.5% | 82.0%    | 688.0    | 668.0      |
| EBITDA margin      | 22.9%    | 21.4%   | 22.9%       | -     | -        | 20.7%    | 20.3%      |

# 3. Mobile Business/ "au"+Tu-Ka(PDC)



(Billions of yen)

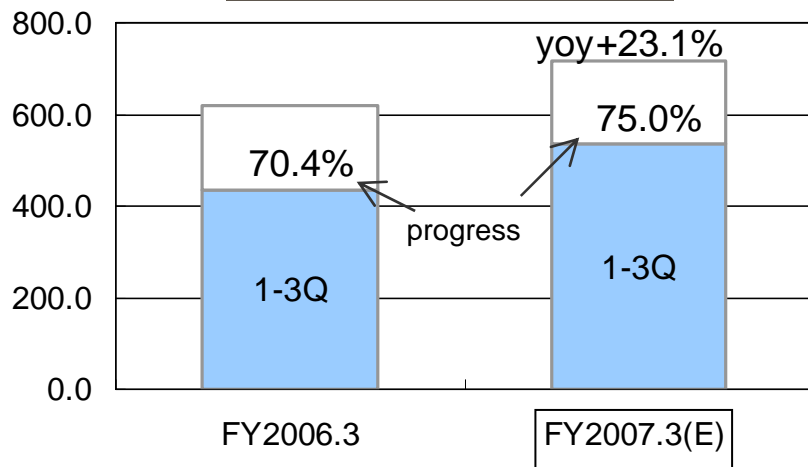
|                         | FY2006.3 |         | FY2007.3(E) |        |          |          | FY2007.3<br>Previous F |
|-------------------------|----------|---------|-------------|--------|----------|----------|------------------------|
|                         | 1-3Q     |         | 1-3Q        | yoy    | progress | Latest F |                        |
| Operating revenues      | 1,845.7  | 2,510.4 | 1,976.0     | 7.1%   | 74.0%    | 2,672.0  | 2,636.0                |
| "au"                    | 1,703.9  | 2,335.2 | 1,916.8     | 12.5%  | 73.5%    | 2,607.0  | 2,567.0                |
| Tu-Ka                   | 141.8    | 175.2   | 59.2        | -58.2% | 91.1%    | 65.0     | 69.0                   |
| Operating income        | 299.6    | 354.4   | 335.9       | 12.1%  | 86.1%    | 390.0    | 355.0                  |
| <i>Operating margin</i> | 16.2%    | 14.1%   | 17.0%       | -      | -        | 14.6%    | 13.5%                  |
| Ordinary income         | 298.1    | 352.8   | 339.3       | 13.8%  | 85.7%    | 396.0    | 357.0                  |
| Net income              | 179.9    | 145.3   | 199.4       | 10.8%  | -        | 212.0    | 211.0                  |
| Free Cash Flow          | 233.6    | 266.2   | 217.9       | -6.7%  | -        | 285.0    | 256.0                  |
| EBITDA                  | 483.6    | 605.2   | 487.6       | 0.8%   | 81.3%    | 600.0    | 582.0                  |
| <i>EBITDA margin</i>    | 26.2%    | 24.1%   | 24.7%       | -      | -        | 22.5%    | 22.1%                  |

|                | FY2006.3 |        | FY2007.3(E) |          | FY2007.3<br>Previous F |
|----------------|----------|--------|-------------|----------|------------------------|
|                | 3Q       |        | 3Q          | Latest F |                        |
| Subs ('000)    | 24,695   | 25,439 | 27,226      | 28,200   | 27,440                 |
| of module-type | 567      | 586    | 658         | 680      | 670                    |
| "au" total     | 21,571   | 22,699 | 25,798      | 27,300   | 26,210                 |
| WIN(EV-DO)     | 6,750    | 8,280  | 12,520      | 14,340   | 14,330                 |
| 1X             | 13,833   | 13,548 | 12,622      | -        | -                      |
| cdmaOne        | 987      | 871    | 656         | -        | -                      |
| Tu-Ka(PDC)     | 3,125    | 2,739  | 1,428       | 900      | 1,230                  |

# 4. Fixed-line Business

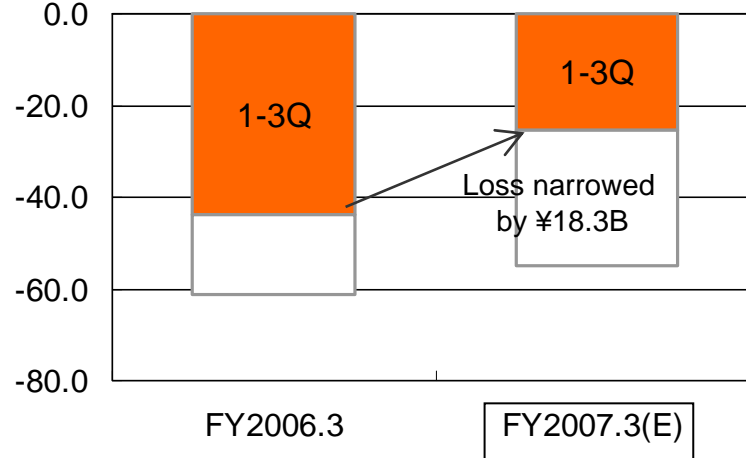
**Operating revenues**

(Billions of yen)



**Operating income**

(Billions of yen)



\* yoy comparison and progress are not available as figures are negative.

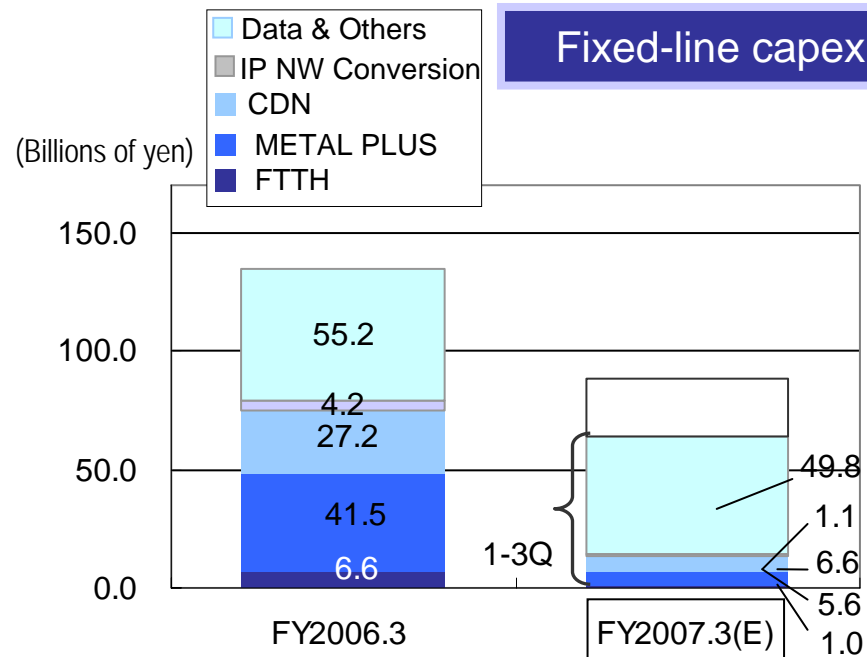
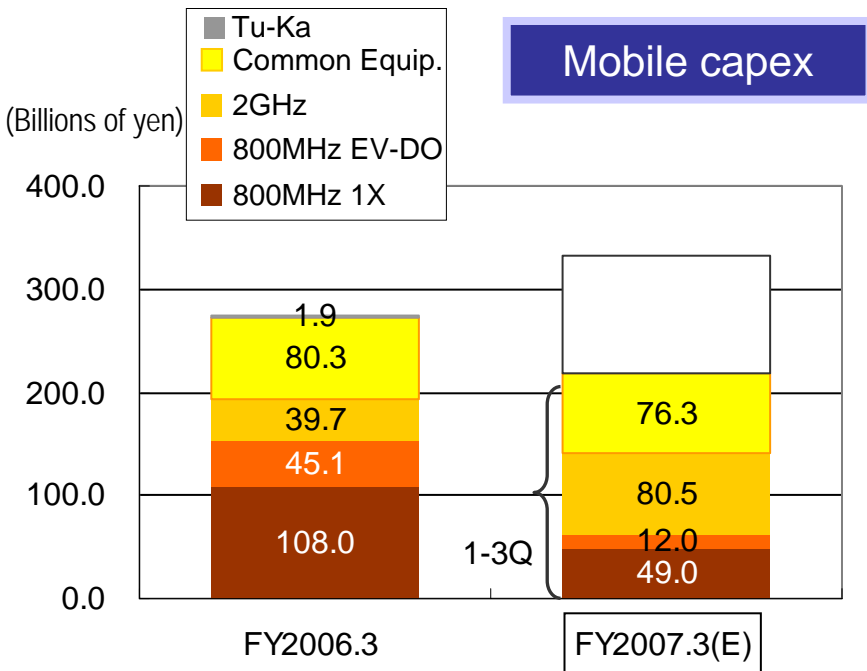
(Billions of yen)

|                    | FY2006.3 |          | FY2007.3(E) |        |          |          | FY2007.3<br>Previous F |
|--------------------|----------|----------|-------------|--------|----------|----------|------------------------|
|                    | 1-3Q     | Latest F | 1-3Q        | yoy    | progress | Latest F |                        |
| Operating revenues | 435.8    | 619.3    | 536.4       | 23.1%  | 75.0%    | 715.0    | 735.0                  |
| Operating income   | -43.8    | -61.3    | -25.5       | -      | -        | -55.0    | -46.0                  |
| Operating margin   | -10.1%   | -9.9%    | -4.8%       | -      | -        | -7.7%    | -6.3%                  |
| Ordinary income    | -43.8    | -62.2    | -25.4       | -      | -        | -55.0    | -48.0                  |
| Net income         | -22.8    | 26.4     | -12.8       | -      | -        | -29.0    | -28.0                  |
| Free Cash Flow     | -69.0    | -102.3   | 17.4        | -      | -        | -5.0     | -9.0                   |
| EBITDA             | 22.8     | 41.5     | 68.0        | 198.3% | 89.5%    | 76.0     | 72.0                   |
| EBITDA margin      | 5.2%     | 6.7%     | 12.7%       | -      | -        | 10.6%    | 9.8%                   |

|                 | FY2006.3 |          | FY2007.3(E) |          | FY2007.3<br>Previous F |
|-----------------|----------|----------|-------------|----------|------------------------|
|                 | 3Q       | Latest F | 3Q          | Latest F |                        |
| DION subs       | 2,848    | 2,847    | 2,751       | 2,670    | 2,680                  |
| of ADSL         | 1,510    | 1,516    | 1,531       | 1,540    | 1,470                  |
| FTTH subs       | 156      | 167      | 216         | * 600    | 290                    |
| METAL PLUS subs | 1,165    | 1,799    | 2,607       | 2,750    | 2,750                  |

Note: Latest forecast of FTTH includes TEPCO Hikari lines which was 340k at end of 3Q.

# 5. Capital Expenditures and others



|                    |              | FY2006.3 |       | FY2007.3(E) |          |          | FY2007.3<br>Previous F |
|--------------------|--------------|----------|-------|-------------|----------|----------|------------------------|
|                    |              | 1-3Q     |       | 1-3Q        | progress | Latest F |                        |
| CAPEX (Cash basis) | Consolidated | 287.4    | 414.7 | 296.6       | 65.9%    | 450.0    | 450.0                  |
|                    | Mobile       | 184.7    | 275.1 | 217.8       | 65.4%    | 333.0    | 333.0                  |
|                    | Fixed-line   | 99.1     | 134.7 | 64.1        | 72.9%    | 88.0     | 88.0                   |
| Depreciation       | Consolidated | 247.0    | 335.7 | 238.0       | -        | 325.0    | 333.0                  |
|                    | Mobile       | 180.3    | 237.5 | 145.2       | -        | 199.0    | 218.0                  |
|                    | Fixed-line   | 64.1     | 94.2  | 90.0        | -        | 121.0    | 111.0                  |

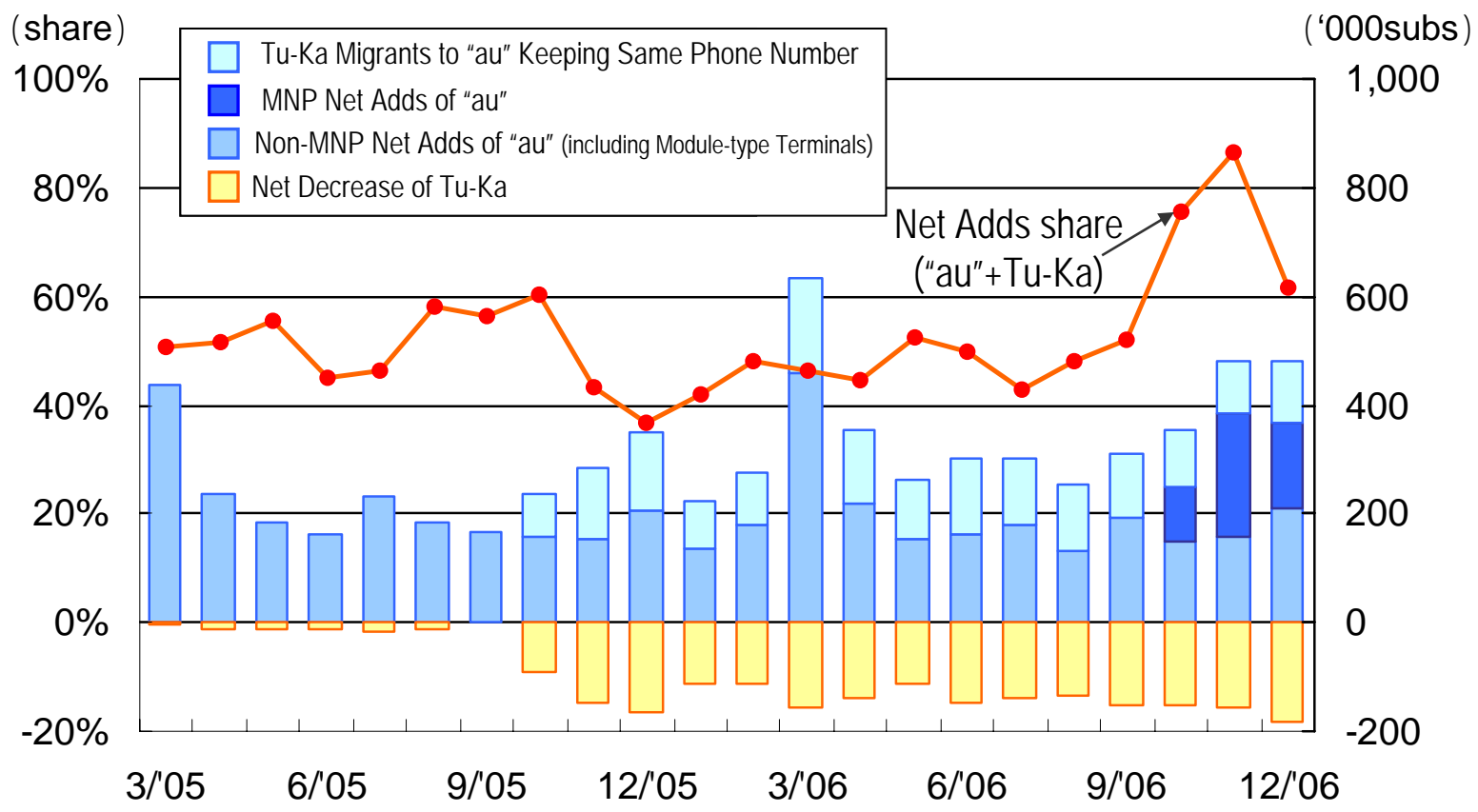
# Segment Discussions

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Mobile Business  
"au" / Tu-Ka (PDC)

Fixed-line  
Business

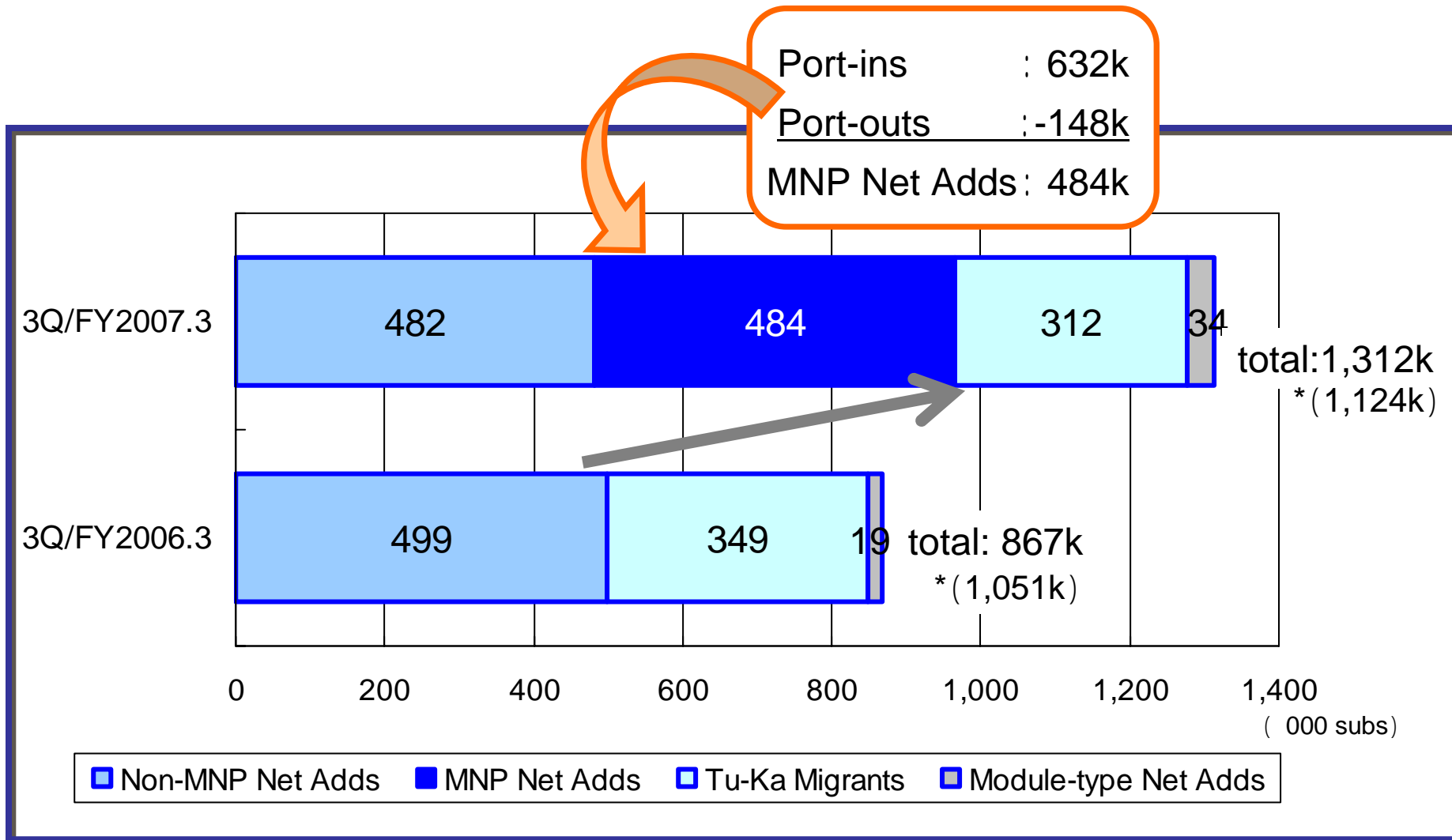
# 1.1. Net Additions of KDDI("au" + Tu-Ka)



| Share of : | Full-year/FY2006.3                       | 3Q/FY2007.3                               |
|------------|--|---|
| Net Adds   | <48.1%><br>( "au": 65.8%, Tu-Ka: -17.7%) | <73.3%><br>( "au": 116.8%, Tu-Ka: -43.5%) |
| Total subs | <27.7%><br>( "au": 24.7%, Tu-Ka: 3.0%)   | <28.7%><br>( "au": 27.2%, Tu-Ka: 1.5%)    |

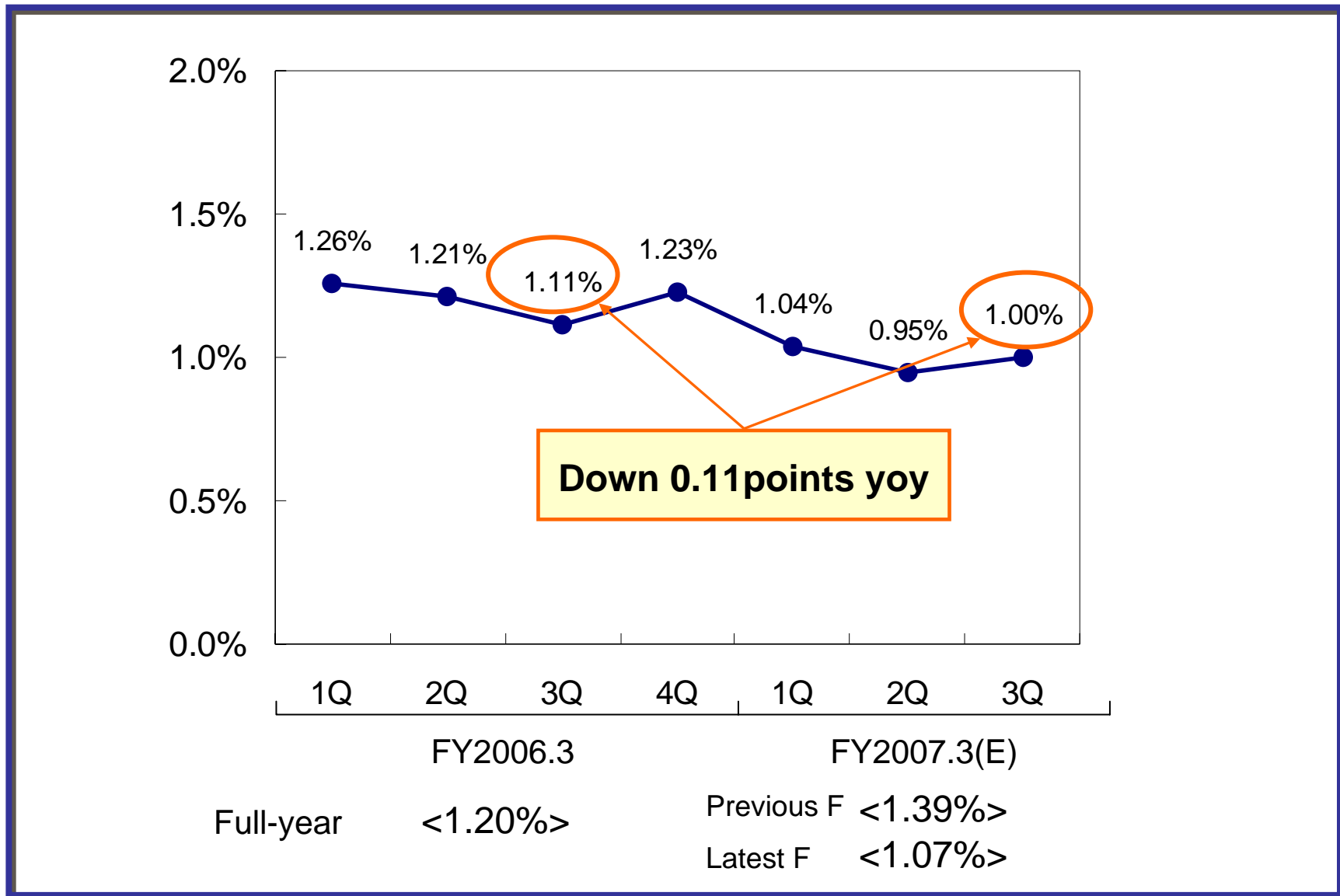
# 1.2. Breakdown "au" Net Additions (cf. 3Q)

- Besides net adds gained through MNP, non-MNP net adds remain high, subsequent to its introduction, contributing to overall growth.



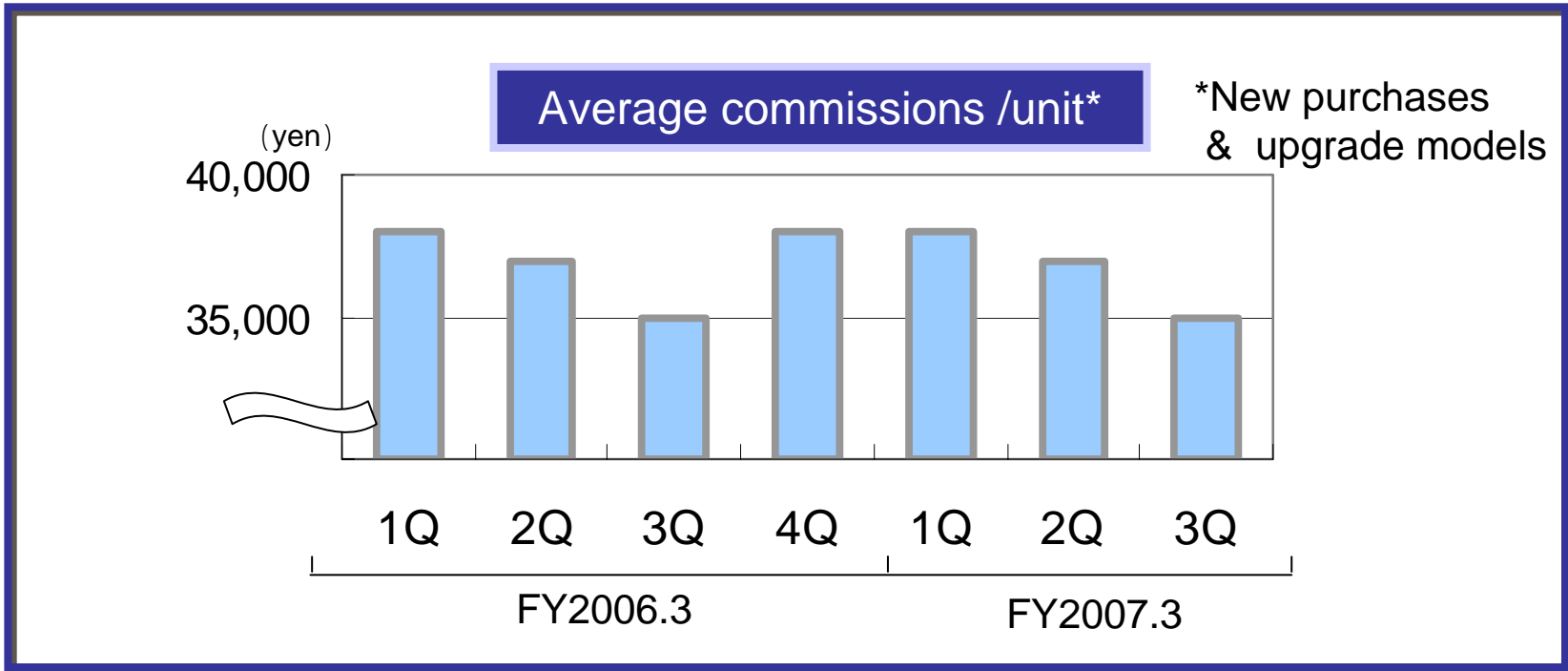
Note: ( ) refers to net adds in the Japanese market.

# 1.3. "au" Churn Rate



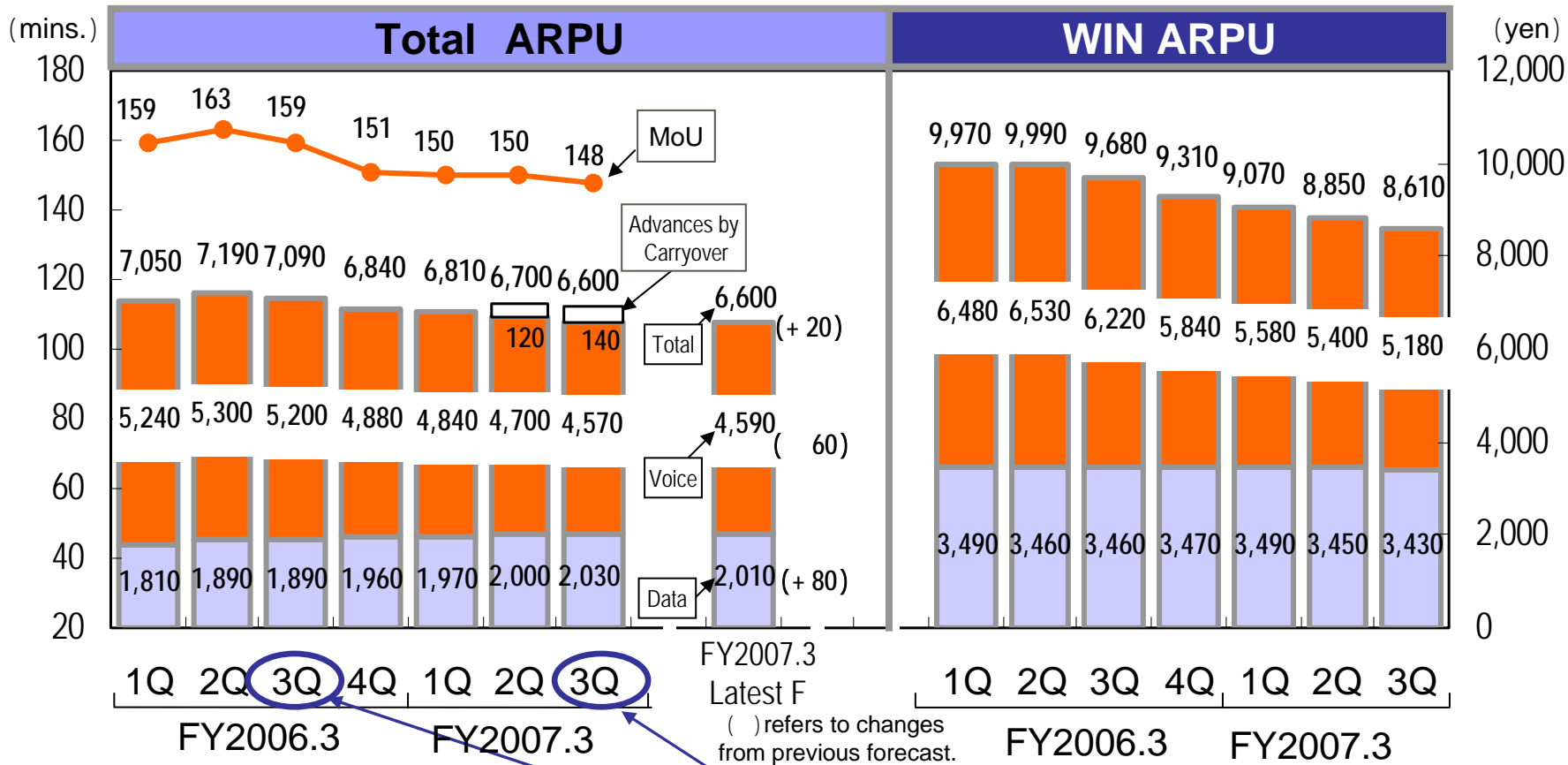
Note: Churn rate is calculated for ordinary handsets which exclude module-type terminals.

# 1.4. "au" Sales Commissions



|  | FY2006.3 |        |        |        |        | FY2007.3(E) |        |        |          | FY2007.3<br>Previous F |
|--|----------|--------|--------|--------|--------|-------------|--------|--------|----------|------------------------|
|  | 1Q       | 2Q     | 3Q     | 4Q     |        | 1Q          | 2Q     | 3Q     | Latest F |                        |
| Sales commissions<br>(Billions of yen) | 102.0    | 119.0  | 119.0  | 152.0  | 492.0  | 124.0       | 129.0  | 145.0  | 573.0    | 551.0                  |
| Average commissions/unit<br>(yen)      | 38,000   | 37,000 | 35,000 | 38,000 | 37,000 | 38,000      | 37,000 | 35,000 | 37,000   | 37,000                 |
| Number of units sold<br>('000 units)   | 2,700    | 3,220  | 3,370  | 3,960  | 13,250 | 3,270       | 3,520  | 4,110  | 15,690   | 14,920                 |

# 1.5. Trend of "au" ARPU



Full-year

|             |           |           |            |
|-------------|-----------|-----------|------------|
| Total ARPUs | <¥ 7,040> | <¥ 6,600> | ( ¥ 440)   |
| of Voice    | <¥ 5,150> | <¥ 4,590> | ( ¥ 560)   |
| of Data     | <¥ 1,890> | <¥ 2,010> | ( + ¥ 120) |

yoy change

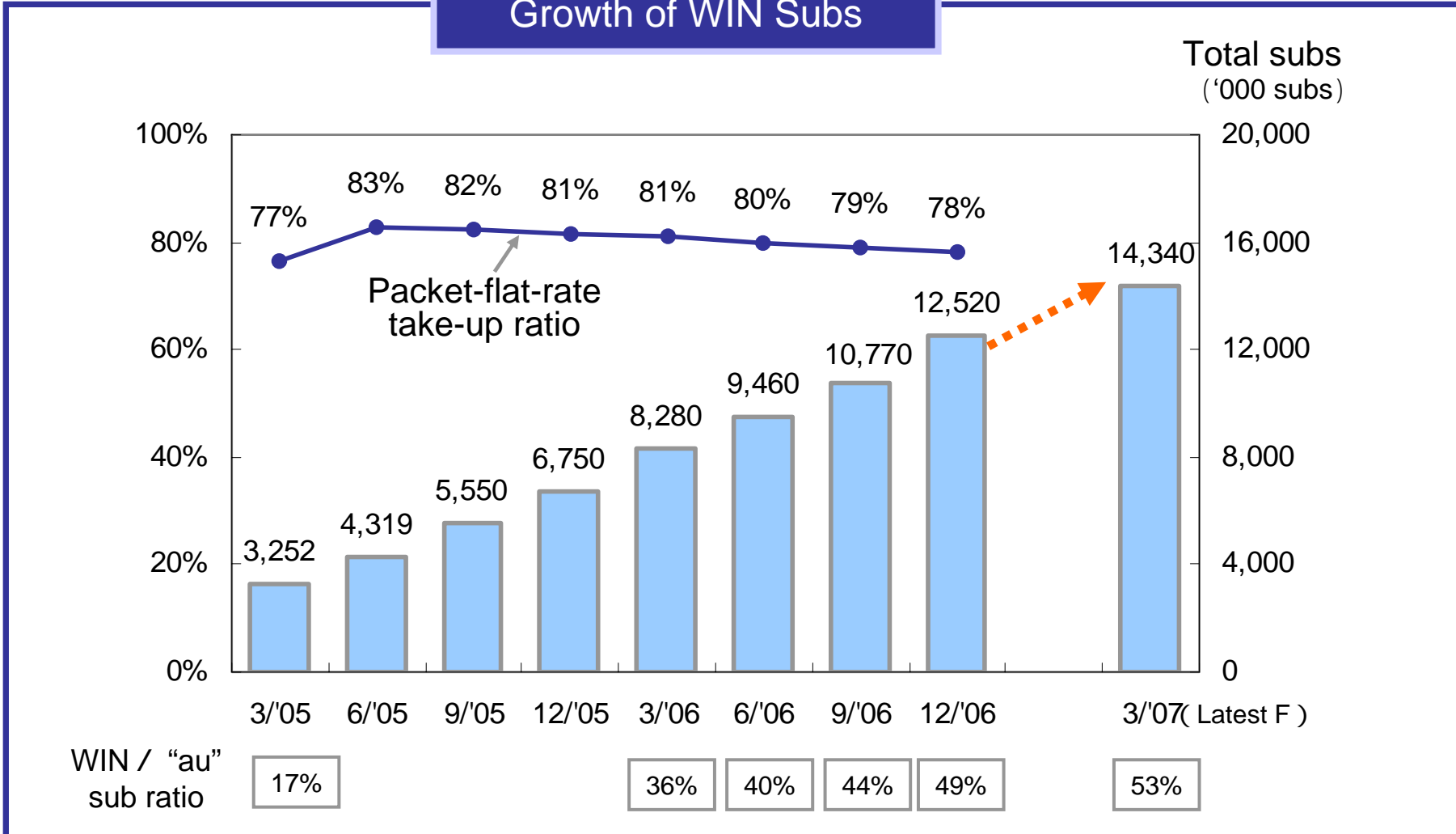
|             |                   |
|-------------|-------------------|
| Total ARPUs | ¥ 490 ( 6.9%)     |
| of Voice    | ¥ 630 ( 12.1%)    |
| of Data     | + ¥ 140 ( + 7.4%) |

# 1.6. Update on WIN



Expanded packet-flat-rate plans to even wider customer base through Double Flat Rates Light, resulting a high take-up ratio of 78% at end-Dec.

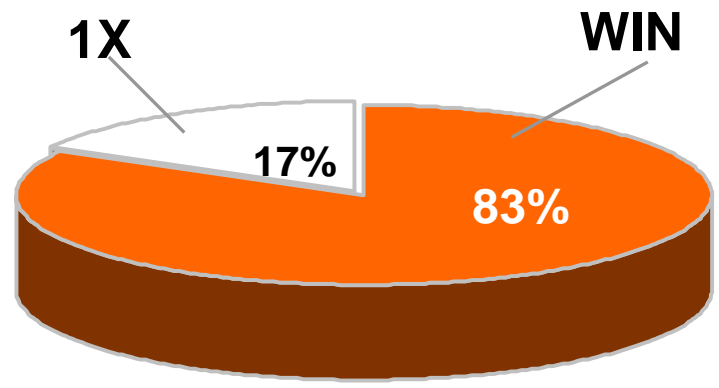
**Growth of WIN Subs**



# 2. Update on Initial Situation of MNP

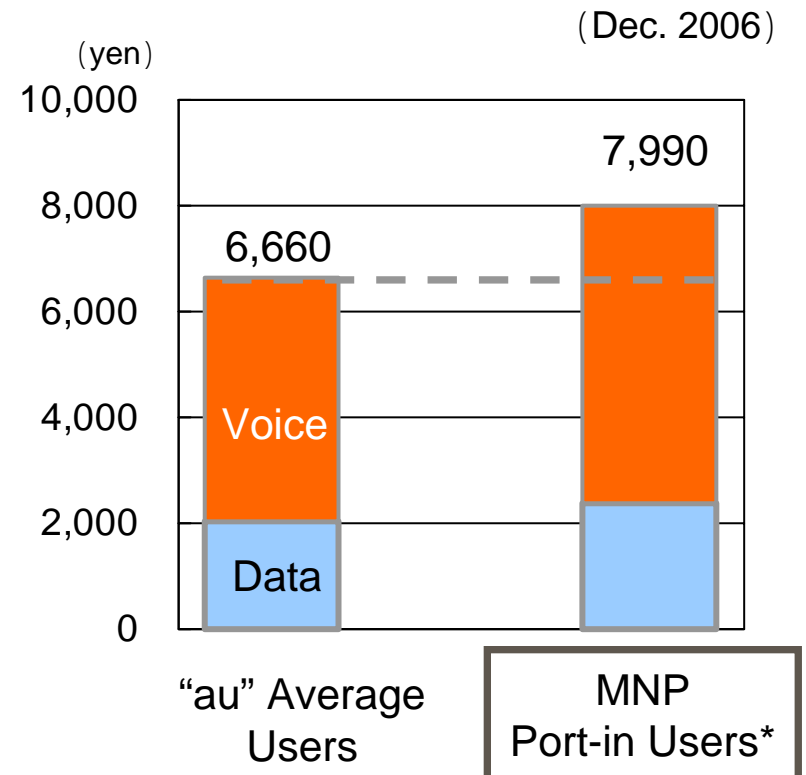
Proportion of MNP port-in users to "au" choosing WIN handsets at 83%; of which, high rate of users have signed up for packet flat-rate plan at 80%. ARPU of MNP port-in users is higher than "au" average by approx. ¥1,300.

**Breakdown of Subs**



Note: Percentage of the simple total of subs who ported into "au" through MNP in 3Q/FY2007.3.

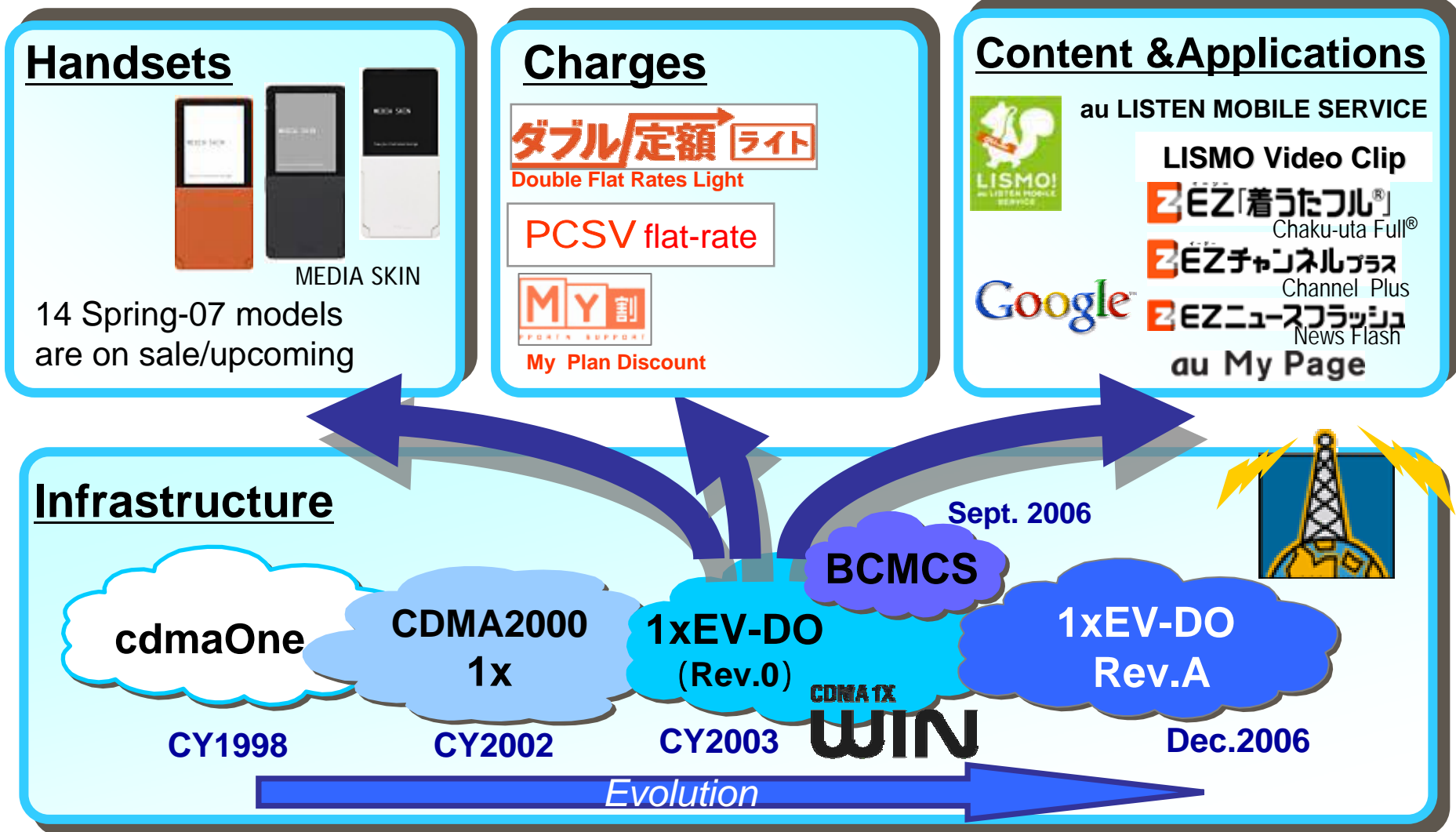
**ARPU**



Note: Figure was calculated for those who ported into "au" during Oct.- Nov. period.

# 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

MoMA, the Museum of Modern Art (NY) has added 4 models to their collection including 3 products of INFOBAR, talby, neon, and the concept model of MEDIA SKIN .



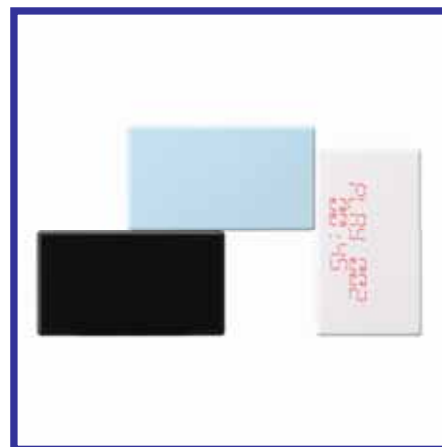
**INFOBAR**  
(2003)

Naoto Fukasawa



**talby**  
(2004)

Marc Newson



**neon**  
(2006)

Naoto Fukasawa



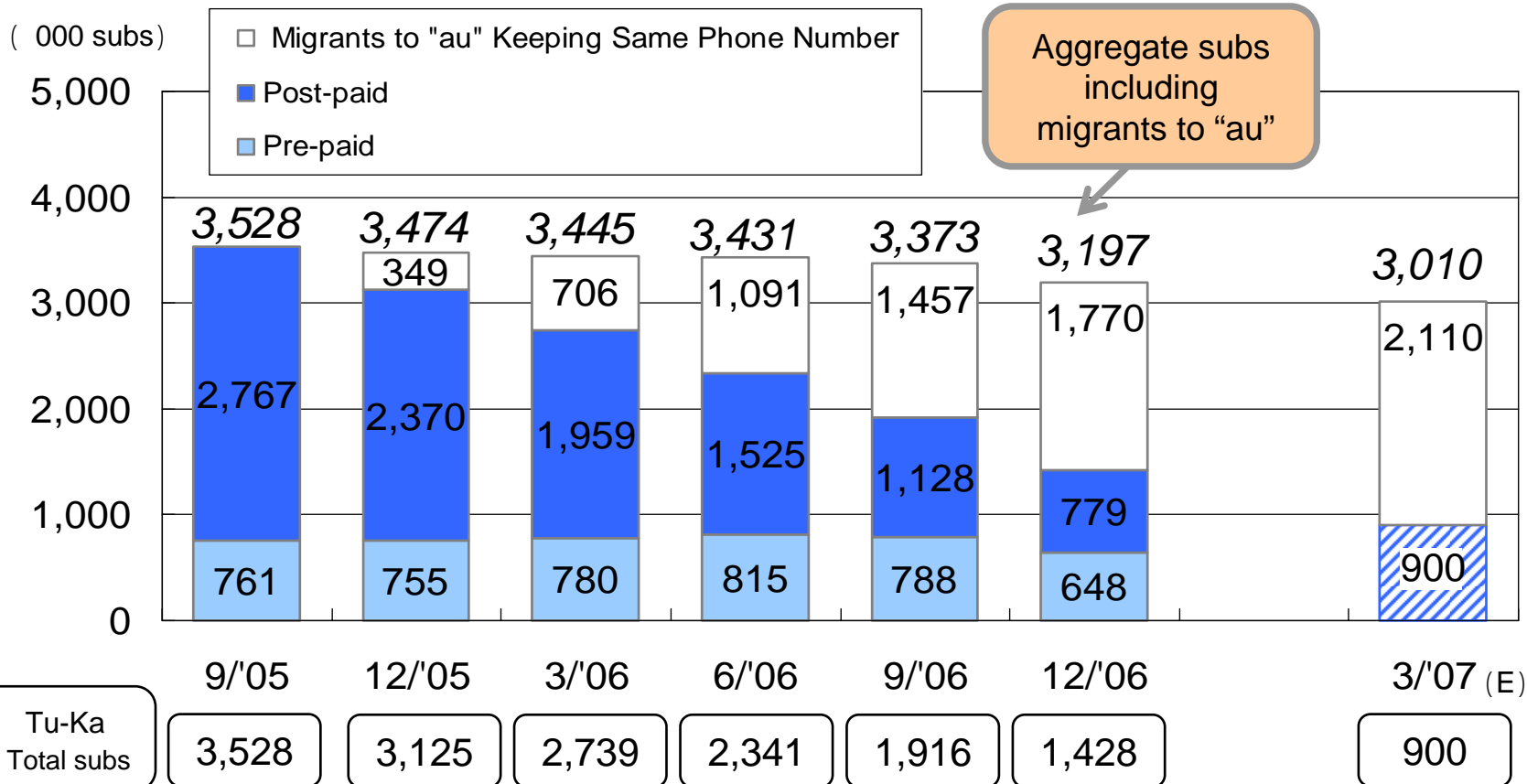
**MEDIA SKIN concept**  
(2005)

Tokuji Yoshioka

# 4. Termination of Tu-Ka Service

Plan to terminate Tu-Ka service at end-March 2008 based upon a smooth user-migration to “au” keeping the same phone number; total who switched at 310k in 3Q, making aggregate total of 1,770k (since Oct. 2005) .

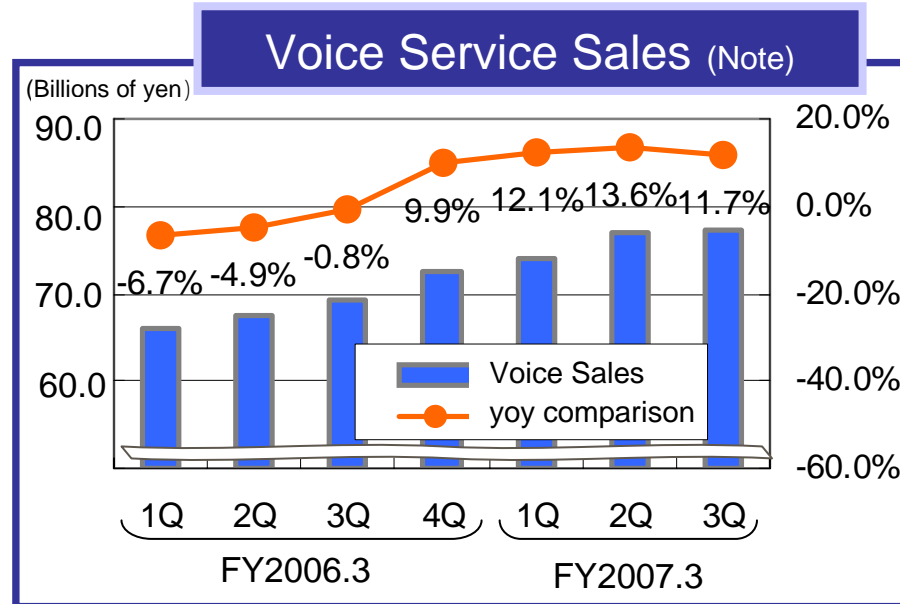
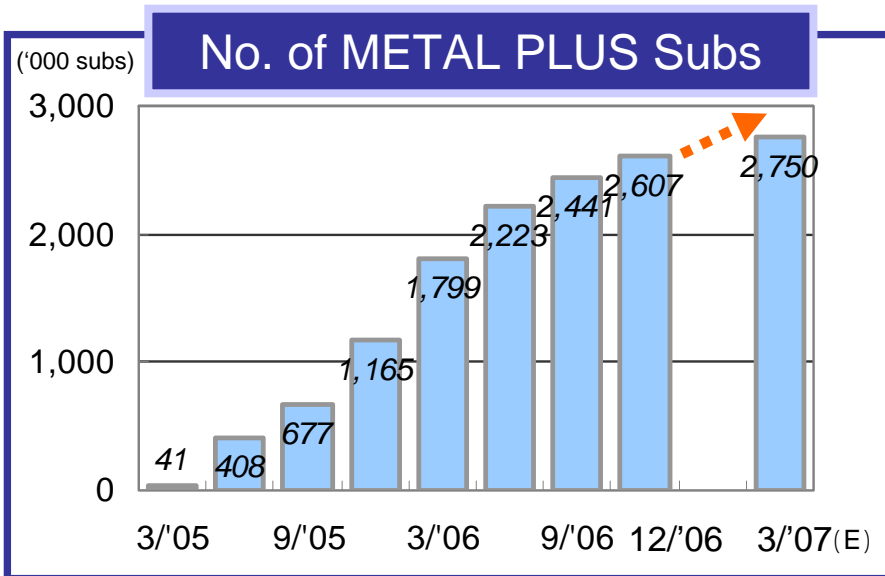
### Tu-Ka Total Subscribers



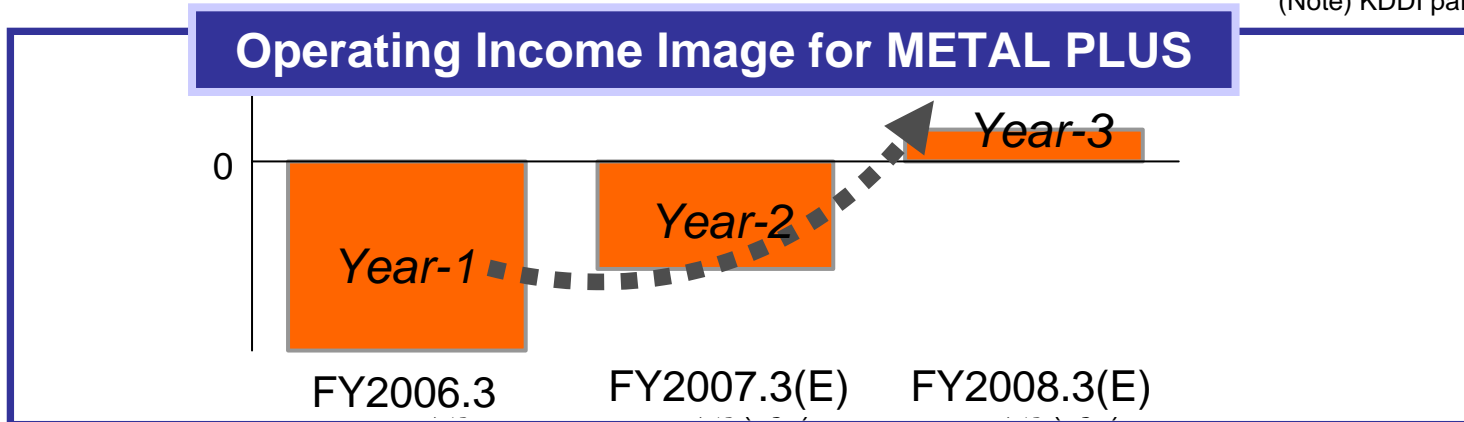
# 1. METAL PLUS

No. of METAL PLUS subs increased to 2.61M at end-Dec., leading to an upturn in voice sales.

In FY2008.3, expect to make a turnaround in METAL PLUS service in line with initial plan.



(Note) KDDI parent company base



# 2. FTTH Initiatives (1)

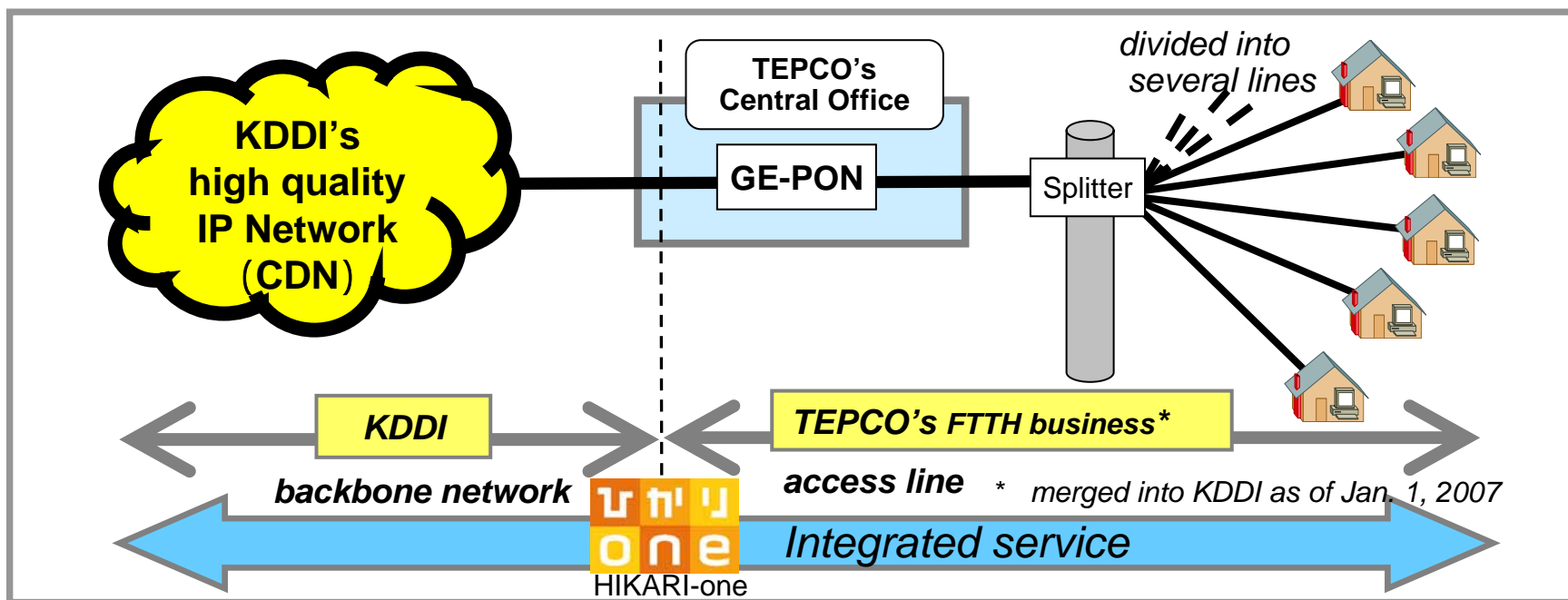
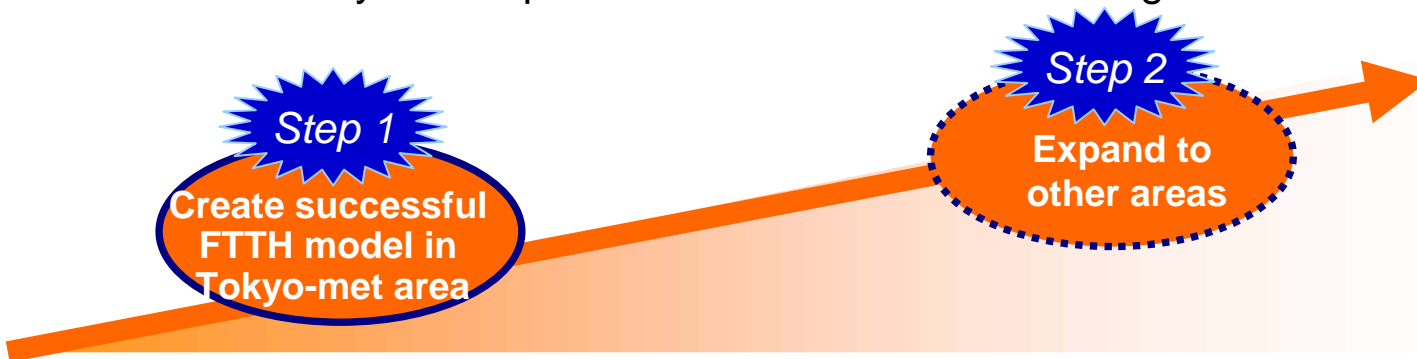


Fixed-line Business

Changed the name to “HIKARI-one” and started integrated FTTH service with TEPCO under new brand in June 2006.

Completed integration of TEPCO’s FTTH business (on Jan. 1, 2007).

Aim for a 30% share in Tokyo-Metropolitan service area over mid-long term.



## 2. FTTH Initiatives (2)



### Synergy of Business Integration

- Enhanced FTTH biz base; 560k lines (KDDI:220k, TEPCO: 340k (end-Dec. '06))
- Can flexibly expand coverage in line with demand in each area by establishing own optical access network, leading to more efficient and agile business development.
- Efforts with PLC (Power Line Communications)

Note: TEPCO figure refers only to TEPCO Hikari lines.

### Current Efforts

- Sales & Marketing:
  - Expand sales channels
  - Expand ISP connections: 7 ISPs (end-Dec. '06)
- Post-integration Organization (Engineering):
  - Set up a consistent construction & maintenance system within Engineering Sector and establish joint venture with TEPCO to ensure smooth operations.

### Effect of Biz. Integration(4Q)

|                                      |         |   |       |
|--------------------------------------|---------|---|-------|
| Operating Revenues:                  | approx. | ¥ | 3.0B  |
| Operating Expenses:                  | "       | ¥ | 12.0B |
| (of Goodwill amortization: " ¥ 2.0B) |         |   |       |
| <hr/>                                |         |   |       |
| Operating Income :                   | "       | ¥ | 9.0B  |

Note: Outlook of aggregate goodwill is ¥ 55.0B, which is planned for amortization over 7 years.

# 3. Business Outlook for Fixed-line Biz.

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.

