



INTEGRATED REPORT 2018

The KDDI Group Mission Statement

The KDDI Group values and cares about the material and emotional well-being of all its employees, and delivers a thrilling customer experience by always going further than expected with the ultimate goal of achieving a truly connected society.



Practicing the KDDI Group Philosophy to achieve sustainable growth and increased corporate value

As a telecommunications operator that provides social infrastructure, KDDI has the important social mission of providing stable communications services on an ongoing basis, 24 hours a day and 365 days a year, regardless of conditions. Furthermore, as a telecommunications operation, our business derives from utilizing radio waves—an important asset shared by all citizens. Accordingly, we recognize that we have the social responsibility to address the issues society faces and seek to resolve them through telecommunications.

Attaining sustainable growth and increased corporate value over the medium to long term is essential for achieving this social mission and social responsibility. Furthermore, we strive to engage in dialogue with all our stakeholders, including customers, shareholders, business partners, employees, and local communities and work in cooperation to proactively address societal issues. In this manner, we want to contribute to the development of a safe, secure, and truly connected society.

In addition to our corporate credo and mission statement, we have formulated the “KDDI Group Philosophy,” which defines perspectives, values, and code of conduct that officers and employees should share. We conduct activities to promote awareness of this philosophy throughout the KDDI Group.

By proactively practicing the KDDI Group Philosophy as a basis of corporate management, KDDI aims to achieve sustainable growth and increased corporate value over the medium to long term.

Editorial Policy: Disclosure of Financial and Non-Financial Information

This report is based on multiple guidelines and frameworks, including the principles outlined by the International Integrated Reporting Council (IIRC), providing basic information, financial data, management strategy descriptions, and environmental, social, and governance (ESG) data considered particularly necessary for investors. Additional sustainability and research & development (R&D) information that is not contained in this report can be found on KDDI's website, including the Sustainability Report, which contains expanded information about non-financial information from both environmental and social aspects.

KDDI has applied International Financial Reporting Standards (IFRS) since the fiscal year ended March 31, 2016. For this report, unless otherwise stated, figures up to the fiscal year ended March 31, 2014, are based on Japanese GAAP and figures for the fiscal year ended March 31, 2015, onward are based on IFRS.

Financial Information



WEB Investor Relations

- Summary of Financial Statements
- Corporate Governance
- Business Risks

<http://www.kddi.com/english/corporate/ir/>

Non-Financial Information



WEB Sustainability

<http://www.kddi.com/english/corporate/csr/>



WEB Research & Development (R&D)

<http://www.kddi.com/english/corporate/r-and-d/>

Contents

- 02 Consolidated Financial Highlights
- 06 Message from the President
- 14 The Source of KDDI's Value
- 16 KDDI's Value Creation Cycle
- 18 Feature: Securing and Developing Human Resources
- 20 Revision of Material Sustainability Issues
- 22 The Link between Business Activity and Sustainability

Sustainability: The Foundation for Sustainable Growth

23

- 24 KDDI's Material Sustainability Issues
- 30 Executive Members
- 32 Corporate Governance
- 37 Compliance / Risk Management and Internal Controls
- 38 Disclosure and IR

Performance Section

39

- 40 The Japanese Market and KDDI
- 44 Market Overview
- 45 Performance Analysis for the Fiscal Year Ended March 31, 2018
- 48 Performance Analysis and Activities by Segment for the Fiscal Year Ended March 31, 2018
- 54 Consolidated Financial Statements
- 118 Corporate Overview / Stock Information

Disclaimer Regarding Forward-Looking Statements

Statements contained in this report concerning KDDI's plans, strategies, beliefs, expectations, or projections about the future, and other statements other than those of historical fact, are forward-looking statements based on management's assumptions in light of information currently available and involve risks and uncertainties. Actual results may differ materially from these statements. Potential risks and uncertainties include, but are not limited to, domestic and overseas economic conditions; fluctuations in currency exchange rates, particularly those affecting the U.S. dollar, euro, and other overseas currencies in which KDDI or KDDI Group companies do business; and the ability of KDDI and KDDI Group companies to continue developing and marketing services that enable them to secure new customers in the communications market—a market characterized by rapid technological advances, the steady introduction of new services, intense price competition, and others.

Consolidated Financial Highlights*1

(Years ended March 31)

Consolidated	2009	2010	2011	2012
Operating Revenues/Operating Revenue P.45	¥3,497,509	¥3,442,147	¥3,434,546	¥3,572,098
Operating Income P.45	443,207	443,862	471,912	477,648
Operating Margin	12.7%	12.9%	13.7%	13.4%
EBITDA*3	904,030	927,253	936,315	908,499
EBITDA Margin	25.8%	26.9%	27.3%	25.4%
Net Income/Profit for the Year Attributable to Owners of the Parent P.45	222,736	212,764	255,122	238,605
Capital Expenditures P.47	575,072	518,034	443,677	421,568
Depreciation and Amortization	434,623	460,940	449,318	417,886
Interest-Bearing Debt P.46	874,951	1,096,778	979,630	1,046,754
Equity Ratio/Ratio of Equity Attributable to Owners of the Parent	53.7%	52.8%	55.7%	51.5%
Return on Equity/Ratio of Return on Equity Attributable to Owners of the Parent (ROE)	12.6%	11.0%	12.4%	11.5%
Return on Assets/Ratio of Return on Total Assets (ROA)	14.1%	12.2%	12.4%	12.3%
Earnings per Share/Net Basic Earnings per Share*4 (yen/U.S. dollars)	83.29	79.61	96.92	96.86
Dividends per Share*4 (yen/U.S. dollars) P.45	18.33	21.67	23.33	26.67
Dividend Payout Ratio	22.0%	27.2%	24.1%	27.5%
Net Cash Provided by (Used in) Operating Activities	712,231	739,992	717,354	725,886
Net Cash Provided by (Used in) Investing Activities	(775,470)	(924,442)	(440,546)	(484,507)
Free Cash Flows*5 P.47	(63,240)	(184,450)	276,808	241,379
Net Cash Provided by (Used in) Financing Activities	191,490	149,239	(279,998)	(225,931)
Number of Consolidated Employees (people)	16,967	18,301	18,418	19,680
Number of Female Managers*6 (people) P.26	47	59	92	113
Number of Consolidated Foreign Employees (people)	—	—	—	—
CO ₂ Emissions*7 (t) P.27	1,061,746	1,181,403	1,108,282	1,218,659
Power Consumption*8 (MWh)	1,910,356	2,126,440	1,995,042	2,190,787

*1 Terminology differences between Japanese GAAP and IFRS (adopted from the fiscal year ended March 31, 2016) will be presented as "Japanese GAAP/IFRS."

*2 Yen amounts are translated into U.S. dollar amounts, for convenience only, at the rate of ¥106.24 = U.S.\$1 on March 30, 2018.

*3 From the fiscal year ended March 31, 2013 and in the fiscal year ended March 31, 2015, the EBITDA calculation formula has been changed.

Until the fiscal year ended March 31, 2012 (JGAAP): EBITDA = Operating income + depreciation + noncurrent assets retirement cost

Until the fiscal year ended March 31, 2015 (JGAAP): EBITDA = Operating income + depreciation + amortization of goodwill + noncurrent assets retirement cost

Since the fiscal year ended March 31, 2015 (IFRS): EBITDA = Operating income + depreciation and amortization + noncurrent assets retirement cost + impairment loss

Japanese GAAP

IFRS

								Millions of U.S. dollars*2
						Millions of yen		
2013	2014	2015	2015	2016	2017	2018	2018	
¥3,662,289	¥4,333,628	¥4,573,142	¥4,270,094	¥4,466,135	¥4,748,259	¥5,041,978		\$47,458
512,669	663,245	741,299	665,719	832,583	912,976	962,793		9,062
14.0%	15.3%	16.2%	15.6%	18.6%	19.2%	19.1%		19.1%
959,571	1,186,069	1,292,597	1,284,553	1,410,971	1,524,207	1,560,061		14,684
26.2%	27.4%	28.3%	30.1%	31.6%	32.1%	30.9%		30.9%
241,470	322,038	427,931	395,805	494,878	546,658	572,528		5,389
467,020	571,799	576,197	667,714	531,434	519,365	560,831		5,279
406,726	470,098	494,570	518,708	532,442	545,177	546,609		5,145
977,563	1,084,966	1,002,214	1,154,116	1,235,287	1,151,650	1,118,616		10,529
55.1%	55.1%	57.3%	54.5%	56.3%	56.7%	57.4%		57.4%
11.2%	13.0%	14.9%	13.5%	15.5%	15.9%	15.6%		15.6%
12.7%	14.7%	14.5%	12.1%	14.5%	15.0%	15.0%		15.0%
105.30	132.87	170.84	158.01	197.73	221.65	235.54		2.22
30.00	43.33	56.67	56.67	70.00	85.00	90.00		0.85
28.5%	32.6%	33.2%	35.9%	35.4%	38.3%	38.2%		38.2%
523,908	772,207	962,249	968,752	884,538	1,161,074	1,061,405		9,991
(472,992)	(546,257)	(674,520)	(635,745)	(667,917)	(637,225)	(633,847)		(5,966)
50,916	225,950	287,729	333,006	216,621	523,849	427,558		4,024
(140,249)	(105,643)	(224,862)	(310,528)	(299,003)	(485,784)	(453,168)		(4,266)
20,238	27,073	28,172	28,456	31,834	35,032	38,826		38,826
124	140	177	177	251	270	302		302
—	2,630	2,624	2,624	4,380	4,423	4,611		4,611
1,049,422	939,502	1,044,357	1,044,357	1,081,553	1,067,495	1,087,935		1,087,935
1,885,703	1,686,480	1,873,293	1,873,293	1,939,115	1,913,747	1,949,731		1,949,731

*4 Values are adjusted following stock splits conducted with effective dates of October 1, 2012, April 1, 2013, and April 1, 2015. Figures for previous fiscal years have been retroactively adjusted.

*5 Free cash flows = Net cash provided by (used in) operating activities + net cash provided by (used in) investing activities

*6 Including KDDI employees on loan outside of the Company in addition to full-time KDDI employees

*7 Calculated based on non-consolidated power and fuel consumption

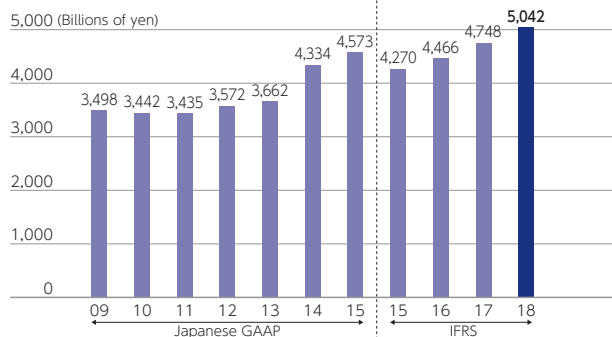
*8 Non-consolidated basis

Operating Revenues/ Operating Revenue

P.45

YOY

+6.2%

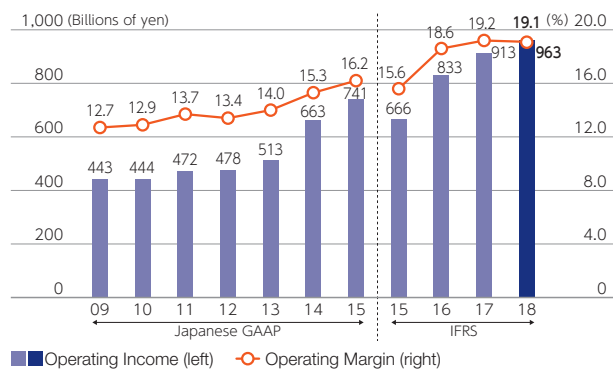


Operating Income

P.45

YOY

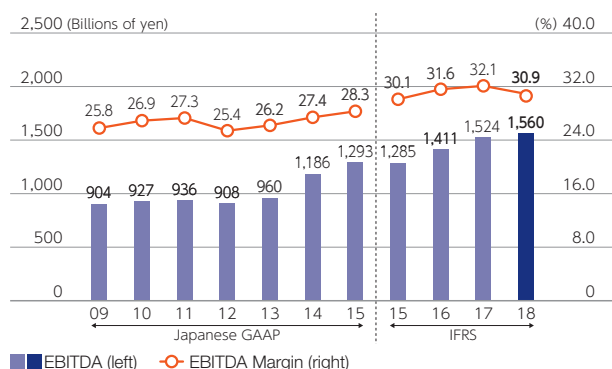
+5.5%



EBITDA

YOY

+2.4%

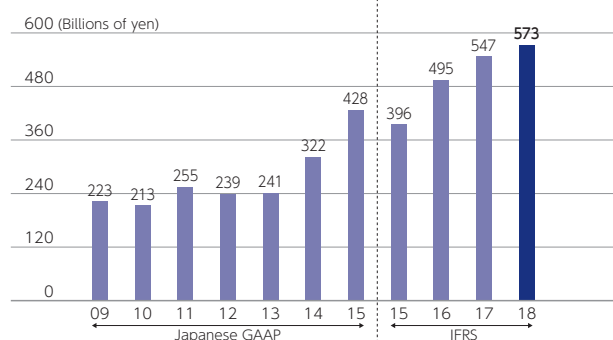


Net Income/Profit for the Year Attributable to Owners of the Parent

P.45

YOY

+4.7%

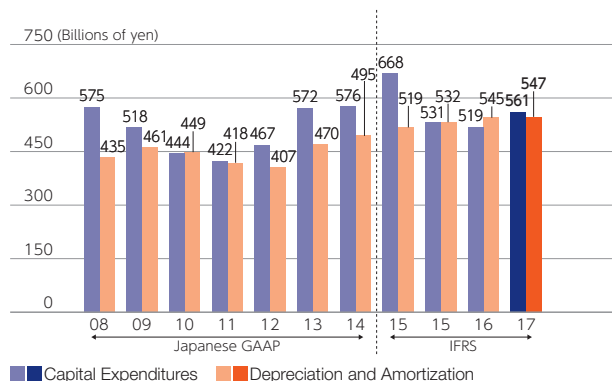


Capital Expenditures

P.47

YOY

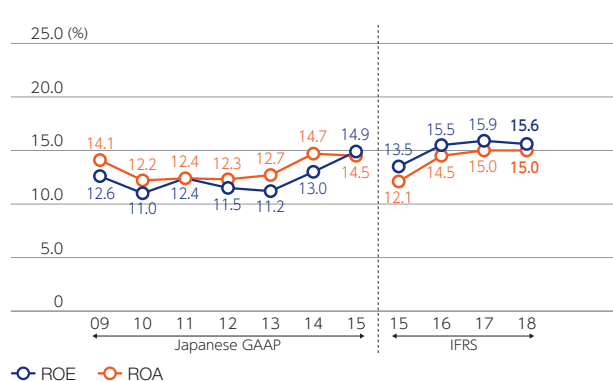
+ ¥41.5 billion



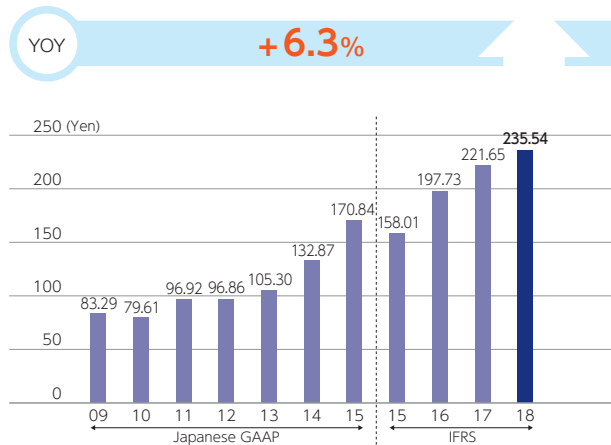
ROE

YOY

-0.3pt

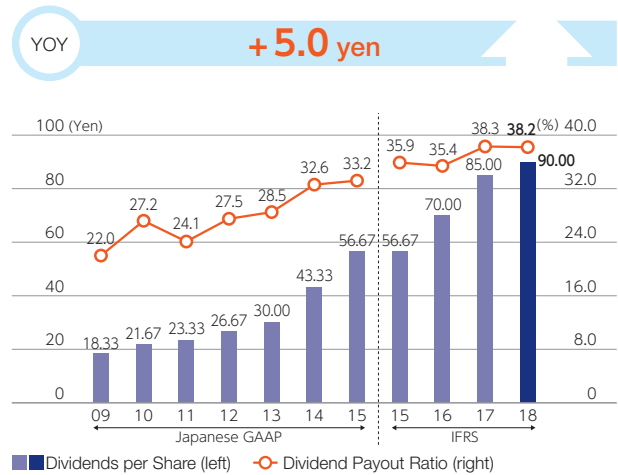


Earnings per Share/ Net Basic Earnings per Share (EPS)



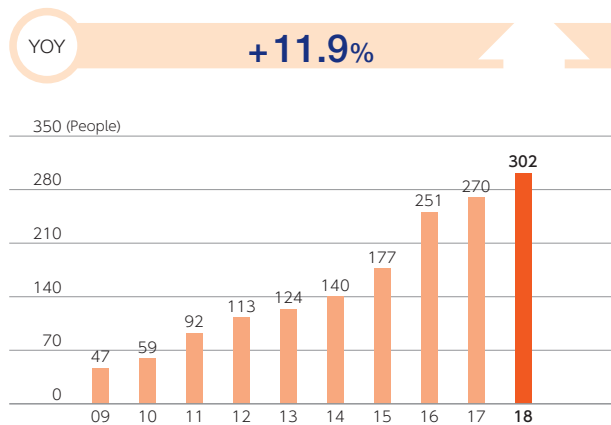
Dividends per Share

P.45

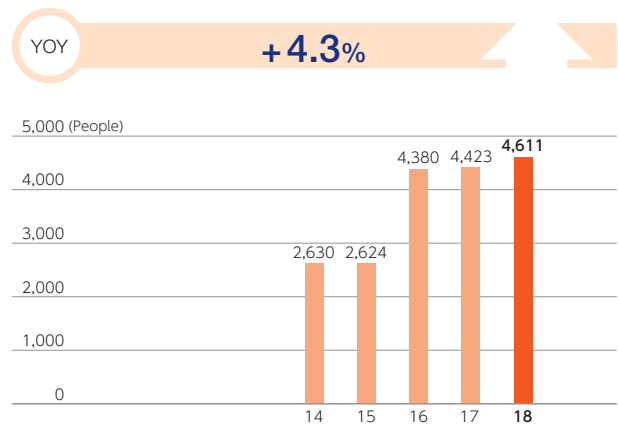


Number of Female Managers

P.26

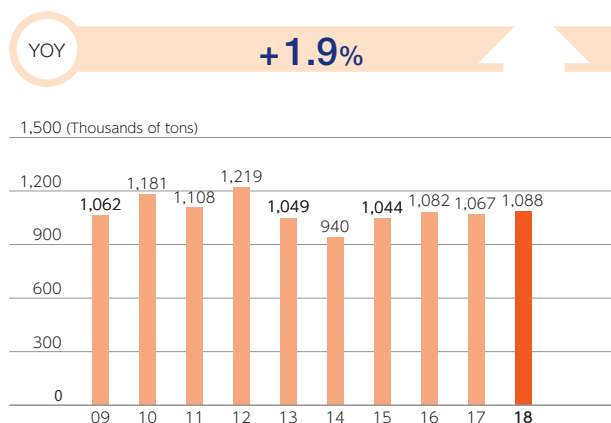


Number of Consolidated Foreign Employees

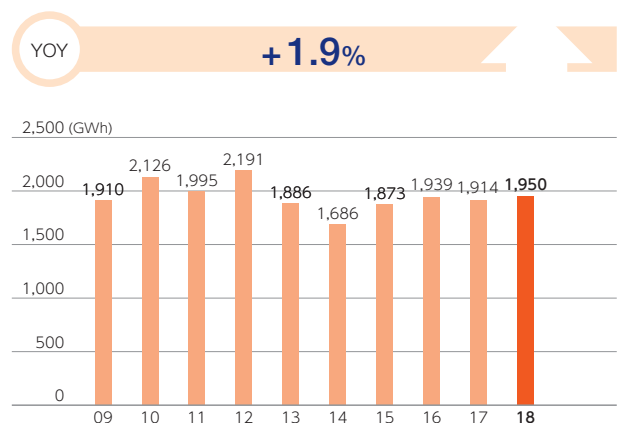


CO₂ Emissions

P.27



Power Consumption





By promoting “the integration of telecommunications and life design,” and by providing new experience value as “the company that customers can feel closest to,” “the company that continues to produce excitement,” KDDI aims to balance both continuous profit growth and the enhancement of shareholder returns.

Makoto Takahashi
President, KDDI CORPORATION

My Vision as KDDI's New President

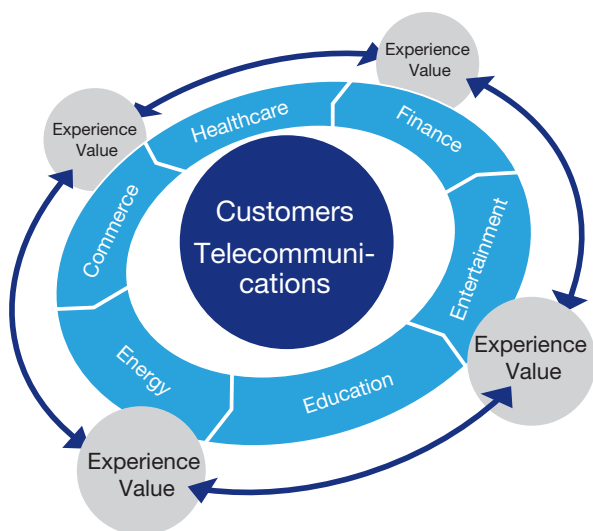
I would like to express our gratitude to our shareholders and investors for their constant support and understanding.

I assumed the position of president on April 1, 2018. As KDDI's new president, allow me to first explain our vision for what we wish the Company to become.

About 20 years have passed since the birth of the mobile Internet, and in that time a wide variety of innovations have occurred. Telecommunications and the Internet have connected people with other people around the world, have linked people with things, and things with other things. At the same time, new technologies have rapidly evolved to add value to those connections, including big data, artificial intelligence (AI) and Fintech, all of which herald significant changes for people's lives and across all industries.

In this age of major change, the key phrase to achieving my vision of what KDDI should become is **the integration of telecommunications and life design**. With telecommunications—the foundation of our business—at the core, we will build a layer of life design services essential to our customers' lives, including in commerce, finance, energy, entertainment and education. Further, we will accelerate efforts to provide new experience value utilizing a variety of technologies, including IoT, for which momentum is gathering, as well as next-generation mobile telecommunications systems (5G).

To achieve this, I would like to pursue two visions of what KDDI will become going forward.



The first vision is to be **a company that customers can feel closest to**. I would like KDDI to be a company whose offerings customers feel always come from their perspective and take their convenience into consideration. With the telecommunications business as its base, for many years KDDI has done business as a communications company, connecting people with people and companies with companies. In that process, our hearts have always been with the customers, and that is something that will never change going forward. Because of the nature of the business, telecommunications companies tend to fall into a “product-out”^{**} mindset, but I believe what is important is a perspective that asks how the products and services we provide are useful to customers. Through our touch points via our au shops, customer support centers and a variety of apps, we work toward the goal of becoming **a company that customers can feel closest to** with a deeper understanding of the customers, and enhance their experience value.

The second is for KDDI to be **a company that continues to produce excitement**. It is only natural that, as a company fighting in a competitive environment, we are expected to deliver results in the form of revenue, profits and subscriber numbers. Strict pursuit of such numbers, however, doesn't mean conflict with a positive approach to our work or finding joy in benefiting the customer. Our goal is to build a reliable telecommunications network centered around the customer, become a presence that customers can feel close to, and gradually make customers' lives more enjoyable through a variety of touchpoints.

^{*} An approach by which a company introduces products and services that are developed less in line with market needs than with an emphasis on the company's own inclinations and technologies.

Changes in Our Competitive Environment

Looking back at the past two years covered by KDDI's current medium-term management targets, the products and services provided by three MNOs*¹ have become increasingly homogeneous, while low-priced SIM services through MVNOs*² have grown in popularity. In addition, regulations and their enforcement have been strengthened, like "the guidelines for adjusting handset subsidies" from the Ministry of Internal Affairs and Communications. These and other significant changes in the environment surrounding the domestic telecommunications market have prompted the three MNOs to expand into other fields of business to generate earnings. Meanwhile, companies from a wide variety of industries are entering the mobile market as MVNOs, and the telecom market is heading into an age of competition beyond industries.

Other new changes in this environment include the expected entry in 2019 of a fourth mobile operator in the domestic telecommunications market, the first since EMOBILE appeared on the scene about 10 years ago, and the entry in 2018 of a fourth operator in the mobile telecommunications market in Myanmar, a market we entered in 2014. KDDI expects that the competitive environment surrounding the business will continue to change significantly not only in Japan, but outside Japan as well.

In the midst of these changes, KDDI's first goal is to achieve the targets of its current medium-term management plan, and then steadily implement efforts toward achieving continuous growth as part of its next medium-term targets.

*¹ Mobile Network Operator. An operator that installs and manages its own network of telecommunication lines to be used by mobile phones and other mobile communication devices, and that provides its own telecommunication services.

*² MVNO: Mobile Virtual Network Operator

Review of Current Medium-term Management Plan Targets

KDDI set medium-term management targets for the three-year period ending March 31, 2019 for transforming into a "Life Design Company" that provides customer experience value. Based on the three business strategies of "sustainably grow in the domestic telecommunications business," "maximize the 'au Economic Zone,'" and "ambitiously develop global business," KDDI aims to both achieve sustainable growth and enhance shareholder returns.

More than a few regard this transformation into a "Life Design Company" as a shift of KDDI from being a telecommunications operator to a life design company, but this is not the case. KDDI's business will continue centering on telecommunications, and it has changed how this is expressed by referring to **the integration of telecommunications and life design**, in an effort to make it easier to understand the strategy of building a concentric ring of life design services around the core of telecommunications.

The fiscal year ended March 31, 2018, the second year of the medium-term targets, resulted in a number of new initiatives. New price plans were introduced in our domestic mobile business, the "au Pitatto Plan" and the "au Flat Plan," and in the life design area, KDDI entered the education business with its acquisition of AEON Holdings.

In terms of performance, while strategic costs were spent targeting retention and strengthened e-commerce, mobile communications and value-added ARPA revenues both increased, and with the contribution of increased profits in the Business and Global Services segment, consolidated operating income rose 5.5% year on year to ¥962.8 billion, representing steady progress toward our medium-term target of a CAGR of 7% for consolidated operating income.

Achieve Sustainable Growth and Enhance Shareholder Returns

Business Strategy

Transform into a Business that Provides Customer Experience Value

1. Sustainably grow the domestic telecom business
2. Maximize the "au Economic Zone"
3. Ambitiously develop global business

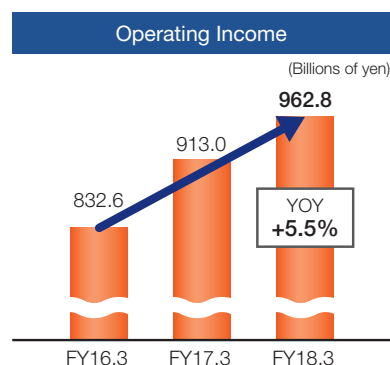
Profit Growth

- Target operating income; CAGR 7%*³
- Gross merchandise value of the "au Economic Zone" above ¥2 trillion
- M&As for growth; Approx. ¥500 billion over three years

Shareholder Returns

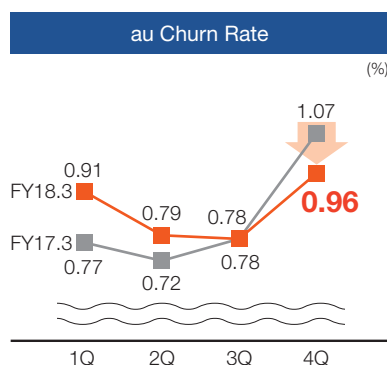
- Lift dividend payout ratio from "above 30%" to "above 35%"
- Implement share repurchases while balancing with growth investment
- Limit treasury stock to 5% of total shares outstanding, and retire any shares in excess

*³ CAGR: Compound Average Growth Rate

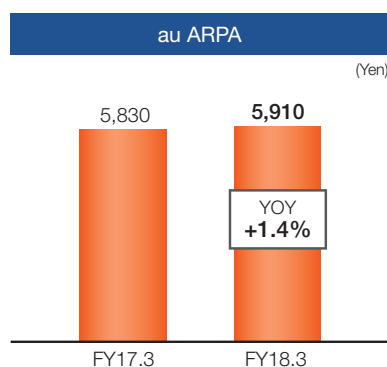


Sustainably Grow the Domestic Telecom Business

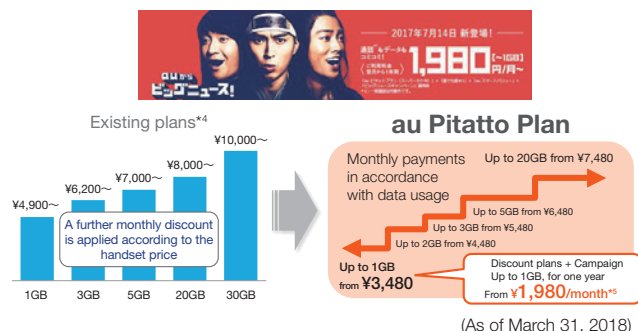
In the domestic telecommunications business, KDDI has believed the most important issue is the rise in au churn rate associated with the expansion of the MVNO market. In response to this issue, in July 2017 KDDI introduced two new price plans: The “au Pitatto Plan,” under which a flat-rate charge is automatically applied depending on changes in the amount of monthly data use; and the “au Flat Plan,” which offers users better value for large-volume data communications. The plans have been very well received by customers, and as of April 8, 2018—nine months since the plans were introduced—subscriptions have already broken the 7 million mark. The “au Pitatto Plan” has been particularly successful, offering not only a reduction in communications fees, but through the application of campaign pricing that provides a ¥1,000 discount on monthly charges for a full year, allows customers to use the service for a low rate from ¥1,980, the same level as the MVNOs. In addition to improvement in the au churn rate following the introduction of this plan, MNP net additions are also on an upward trend. Further, KDDI Group MVNOs including UQ mobile, J:COM MOBILE and BIGLOBE Mobile have also done well in increasing subscriptions, and mobile IDs, the total number of au and the Group MVNOs is steadily growing.



Meanwhile, au ARPA rose 1.4% year on year to ¥5,910. The introduction of new price plans resulted in a short-term decline in revenue. However, au ARPA increased as a whole, because monthly discounts were not applied to the new price plans, in addition to rises in smartphone penetration rates and subscriptions to large-volume plans (20GB/30GB) due to an increase in monthly data usage volumes, as well as a rise in the number of mobile devices per person associated with an increase in the number of tablet and mobile router subscriptions.



New Approach and Competitive Advantage in Mobile Price Plans

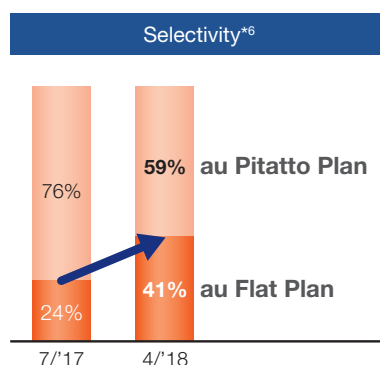


Note: Indicated figures are monthly charge and exclude taxes.

Basic charge (two-year contract) + Data flat fee + LTE NET

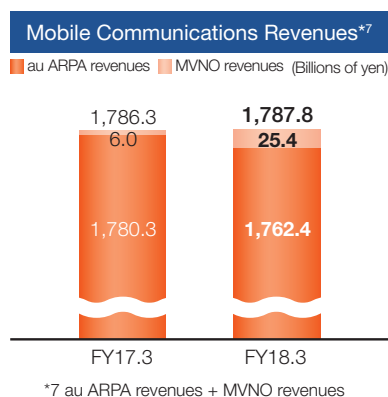
*4 “SuperKakeho” + “Data flat fee (1/3/5/20/30)”

*5 The amount shown is “au Pitatto Plan (SuperKakeho)” (Applied with “two-year contract,” “au Smart Value” and “Big news campaign”)



*6 Based on 4G LTE smartphone sales (Counting period: [7/17] from July 14 to 31, [4/18] from April 1 to 22)

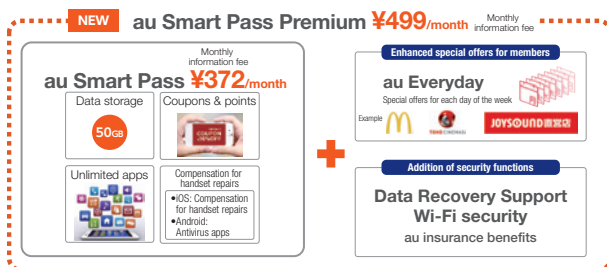
KDDI will continue to promote its “au Smart Value” discounts for bundled mobile and fixed-line communications services and bundling with life design services such as “au Denki” (electric power service). In addition, further efforts to promote reduction in churn through the “au Pitatto Plan” and the “au Flat Plan” will target maintaining and expanding the au customer base. At the same time, mid-to long-term growth in au ARPA and an increase in revenue from Group MVNOs will also aim for the goal of sustainable growth in mobile communications revenues.



Maximize the “au Economic Zone”

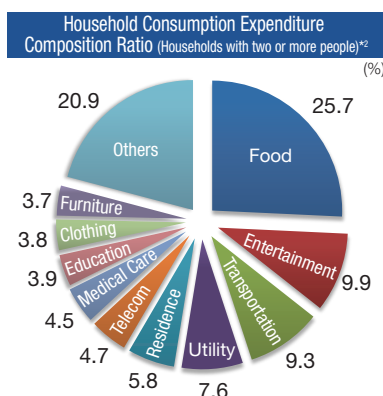
In addition to steady growth in the domestic telecommunications business, maximizing the au Economic Zone will become a driver of growth going forward. Building on the au customer base, with its strong engagement, and the “au Carrier Billing” and “au WALLET” settlement platforms, KDDI will offer a variety of life design services that respond to customer needs in all areas of people’s lives, expanding touchpoints with customers both online and offline.

In addition to the au shops, which provide an offline touchpoints with the customer, KDDI has also expanded membership in the online touchpoints “au Smart Pass”^{*1} to 15.53 million members as of the end of March 2018. Meanwhile, the “au Smart Pass Premium,” an upgraded service launched in January 2017, has expanded to 4.3 million members, and is contributing to growth in value-added ARPA.



KDDI’s January 2018 acquisition of the shares of AEON Holdings Corporation marked its entry into the education business, and with the February 2018 establishment of KDDI Asset Management Company, Limited a joint venture with Daiwa Securities Group Inc., it has worked to further expand its life design services.

By expanding services to all areas of customers’ lives, KDDI can expand not only its customer touchpoints, but also the gross merchandise value in the “au Economic Zone” generated by those services. This contributes to expanding “au Economic Zone Sales” and the additional effect of bundling telecommunications and life design services can also be expected to reduce the au churn rate.



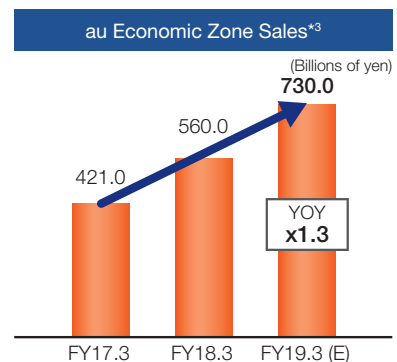
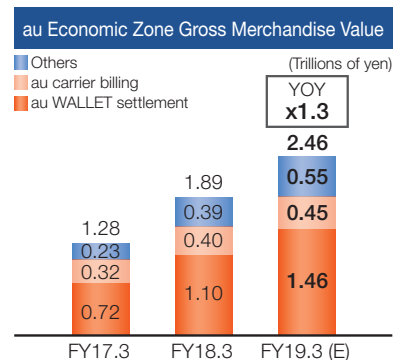
^{*2} Created by KDDI based on “Family Income and Expenditure Survey Report (Household Receipts and Disbursements)—Preliminary Average for 2017” issued by Ministry of Internal Affairs and Communications)



In the fiscal year ended March 31, 2018, the “au Economic Zone gross merchandise value” reached ¥1.89 trillion, backed by the steady expansion of the settlement, commerce and energy businesses, and KDDI expects that figure to reach ¥2.46 trillion for the year ending March 31, 2019, significantly exceeding the medium-term management target of ¥2.0 trillion. Accompanying that growth, KDDI also expects “au Economic Zone Sales” to climb from ¥560 billion in the fiscal year ended March 31, 2018, to ¥730 billion in the fiscal year ending March 31, 2019, as the expansion of the “au Economic Zone” contributes to growth in performance.

KDDI will continue working to enhance its life design services through M&As and through cooperation with its partner companies, with the goal of expanding the “au Economic Zone gross merchandise value” and extending its role as a new axis for growth.

^{*1} “au Smart Pass” + “au Smart Pass Premium”



^{*3} Revenue from external customers of Life Design Services segment + Revenue from energy, education and others of Personal Services segment

Ambitiously Develop Global Business

Looking at the domestic market in Japan from a long-term perspective, issues such as declining birthrates, an aging society and a shrinking population mean that growth through global business will become even more important going forward.







KDDI's global business are growing steadily around two core businesses: 1) the global consumer business, which primarily involves offering telecommunications services to individual customers, mainly in Myanmar and Mongolia; and 2) the global ICT business, which provides corporate customers with data centers, networks and system integration services.

In the global consumer business, Myanmar not only saw mobile subscribers increase to 29.0 million as of the end of March 2018, but with the launch of 4x4 MIMO (Multiple Input, Multiple Output) and carrier aggregation (CA), Myanmar's first maximum downlink speed of 300Mbps was also achieved. Since the full-scale roll-out of LTE service, an increase in demand for data transmission and an expansion of value-added services have also brought growth in data ARPU. In Mongolia, the introduction of CA technology in November 2017 also marked the start of high-speed data transmission service offering maximum downlink speeds of 225Mbps. KDDI will continue working toward expanding demand for data transmission as it seeks further growth in data ARPU.

As part of the global ICT business, KDDI's "TELEHOUSE" data center business operates in 12 countries and regions, 23 cities and 47 sites around the world. In particular, TELEHOUSE LONDON Docklands can proudly point to being the World No. 1^{*4} for connections, and in December 2017 began offering "AWS (Amazon Web Services) Direct Connect," further enhancing connectivity and contributing to building a low-latency, secure cloud environment.

KDDI will continue building on both its global consumer business and global ICT business as it targets even greater growth.

Aim for Further Business Growth as the No. 1 Operator

  Introduced carrier aggregation, launched movie service (February 2018) Aim for ARPU growth	  Completed LTE base station installation in all provincial government capitals nationwide (July 2017) Aim for area expansion and quality improvement	  Number of business operator connections by site World No. 1^{**} Aim for business expansion by making use of connectivity
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^{*4} Source: PeeringDB (<https://www.peeringdb.com/>) (As of March 31, 2018)

Future Growth Strategy and Approach to Next Medium-term Management Targets

To promote **the integration of telecommunications and life design**, the key phrase behind KDDI's growth strategy going forward, we will commit ourselves fully to the following three initiatives.

(1) Commit to taking on the age of IoT and 5G

To continue producing excitement, it is essential that we offer new proposals based on new technology. In preparing to create new business models leveraging IoT, in August 2017 KDDI made SORACOM, Inc., a leading company in the IoT field, a consolidated subsidiary.

KDDI also aims to begin providing 5G service in 2020, and is working with a wide range of partners to accelerate technology testing and move forward with the creation of new services utilizing 5G.

In the solution business, KDDI hopes to address changes in its customers' businesses and contribute to the growth of those businesses across every field of industry. To accomplish that, in the summer of 2018 we opened the "KDDI DIGITAL GATE," a site for business development in the IoT and 5G era. We will work to build new business models, joining with our corporate customers in creating new value.



(2) Commit to knowing our customers by a data-driven approach

To survive cross-industry competition will require a deep understanding of our customers and the ability to continue proposing services that customers can feel comfortable with.

To strengthen its capabilities in the field of big data analytics, which will become the base for all types of business going forward, KDDI has established ARISE analytics Co., Ltd. in a joint venture with Accenture Japan Ltd. ARISE analytics plays a central role in the utilization of KDDI Group data, and in telecommunications, commerce, IoT and other fields. Also they will use AI and other advanced big data analytics to contribute to enhancing customer experience value.

KDDI will work to advance data-driven management, and expand ID x ARPA based on knowing more about our customers.

(3) Commit to Group management

Based on a Group management approach, and with telecommunications as a cornerstone, KDDI will work to expand its business in conjunction with the companies it has acquired through M&A. From a global perspective, we will aim to expand the global consumer business centered in Southeast Asia, and the data center business in Europe, which continues to see steady growth.

As the first step in **the integration of telecommunications and life design**, KDDI announced the “au Flat Plan 25 Netflix Pack” price plan that combines au mobile communications fees with Netflix content fees for a flat rate, a first for Japan in May 2018. As video viewership via smartphones continues to grow, this plan allows customers to enjoy high-volume data communications and Netflix’s rich content as a set at a special price as we aim to provide improved experience value at the same time. KDDI will continue working to expand life design services appropriate to the changing times, not only alone, but in collaboration with partner companies as well.

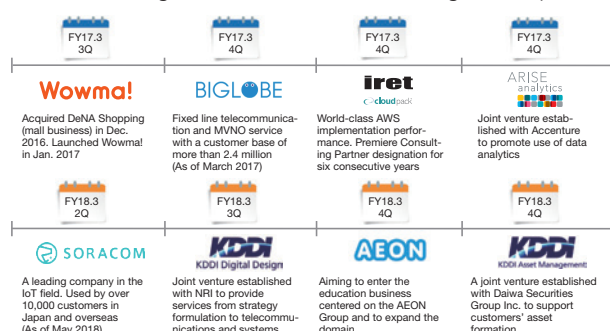
Cash Allocation

In its use of cash, KDDI will continue to place the highest priority on growth investment aimed at achieving sustainable income growth. We are considering capital expenditures intended to maintain and strengthen competitiveness, as well as M&As primarily focused on the life design business, a new axis for growth, and the global consumer business centered in Southeast Asia.

In the fiscal year ending March 31, 2019, KDDI expects to make ¥570 billion in capital expenditures to improve 4G LTE quality and expand area coverage, and to improve communication speeds through CA.

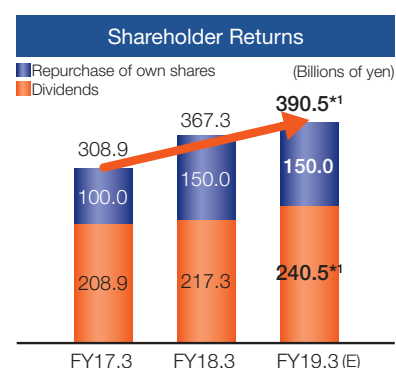
In 5G, KDDI is preparing to begin offering service at the 2020 Tokyo Olympic and Paralympic Games. Although the allocation of the 5G spectrum is expected to take place by the end of the fiscal year ending March 31, 2019, for the time being, we plan to operate a non-standalone system in combination with 4G LTE, gradually expanding from areas where service is required, and enhancing efficiency of investment while balancing 5G service profitability with the scale of capital expenditures.

With regards to the current medium-term management targets for a cumulative three-year total of ¥500 billion in M&As, in two years KDDI has completed a little more than ¥300 billion in growth investments, including the acquisition



of the shares of AEON Holdings Corporation. The remaining approximately ¥200 billion will be incorporated in our performance outlook for the fiscal year ending March 31, 2019. In addition to “maximizing the au Economic Zone” and “ambitiously developing global business,” our two new levers for growth, we will also consider M&As aimed at the integration of telecommunications and life design and at strengthening business in the IoT and 5G fields.

Regarding shareholder returns, KDDI’s approach remains unchanged, with a basic policy of maintaining financial soundness and continuing to pay stable dividends. Under the current medium-term management targets, KDDI has committed itself to a minimum payout ratio of above 35%. The dividend for the fiscal year ended March 31, 2018 was up ¥5 per share year on year, for a payout ratio of 38.2%. The outlook for the fiscal year ending March 31, 2019 calls for an increase of ¥10 per share year on year and a payout ratio of 38.8%, marking the 17th consecutive year of dividend increases. In addition, KDDI has disclosed it will repurchase ¥150 billion of its own shares in the fiscal year ending March 31, 2019 for its second consecutive buy-back, bringing total shareholder returns to ¥390.5 billion. KDDI aims to limit treasury stock to 5% of total shares issued, and will regularly cancel any shares in excess of this amount. On May 16, 2018, KDDI cancelled treasury stock equivalent to 2.13% of the total number of shares issued.



*1 Calculation based on the total number of issued shares as of March 31, 2018 (excluding treasury stock).

Sustainability and the KDDI Group Philosophy

Recent years have seen an acceleration of the international response to global issues, including the Paris Agreement under COP21^{*2}, an international framework for addressing climate change, and the sustainable development goals (SDGs)^{*3} established by the United Nations to resolve global concerns. Companies are increasingly expected to take the initiative in contributing to the sustainable growth of society through their businesses.

KDDI is engaged in sustainable management aimed at the resolution of social issues and the sustainable development of society. Based on our telecommunications services, we hope to contribute to the growth of a society rich in communication.

By following the “KDDI Group Philosophy,” we aim to be a company appreciated and trusted by all of our stakeholders. As a telecommunications carrier managing social infrastructure that must work under all sorts of conditions, 24 hours a day, 365 days a year, we have the vital mission of providing reliable communications services to society. The telecommunications business could not exist without

borrowing radio waves and other valuable assets that belong to the public. We are therefore aware of our social responsibility to help solve problems faced by society with high aspirations. The “KDDI Group Philosophy” defines our corporate posture and how our employees should tackle issues at work. I believe that it is also the starting point for sustainable management.

As we have ambitiously developed global business in recent years, it has become essential that all of our employees take action with a shared set of values to generate synergies and strengthen ties between each business division. In conjunction with the revision of the “KDDI Group Philosophy” in 2013, KDDI has conducted awareness-raising activities for employees inside and outside Japan to help spread the philosophy. We will promote sustainable management by pursuing our mission together as a group of employees that share the “KDDI Group Philosophy.”

*2 COP21: The 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change

*3 SDGs: Sustainable Development Goals

In Conclusion

As we strive to be **a company that customers can feel closest to** and **a company that continues to produce excitement**, we will contribute even further to the development of a communication-rich society through **the integration of telecommunications and life design**.

Thank you for your continuing support and cooperation.



Makoto Takahashi
President, KDDI CORPORATION

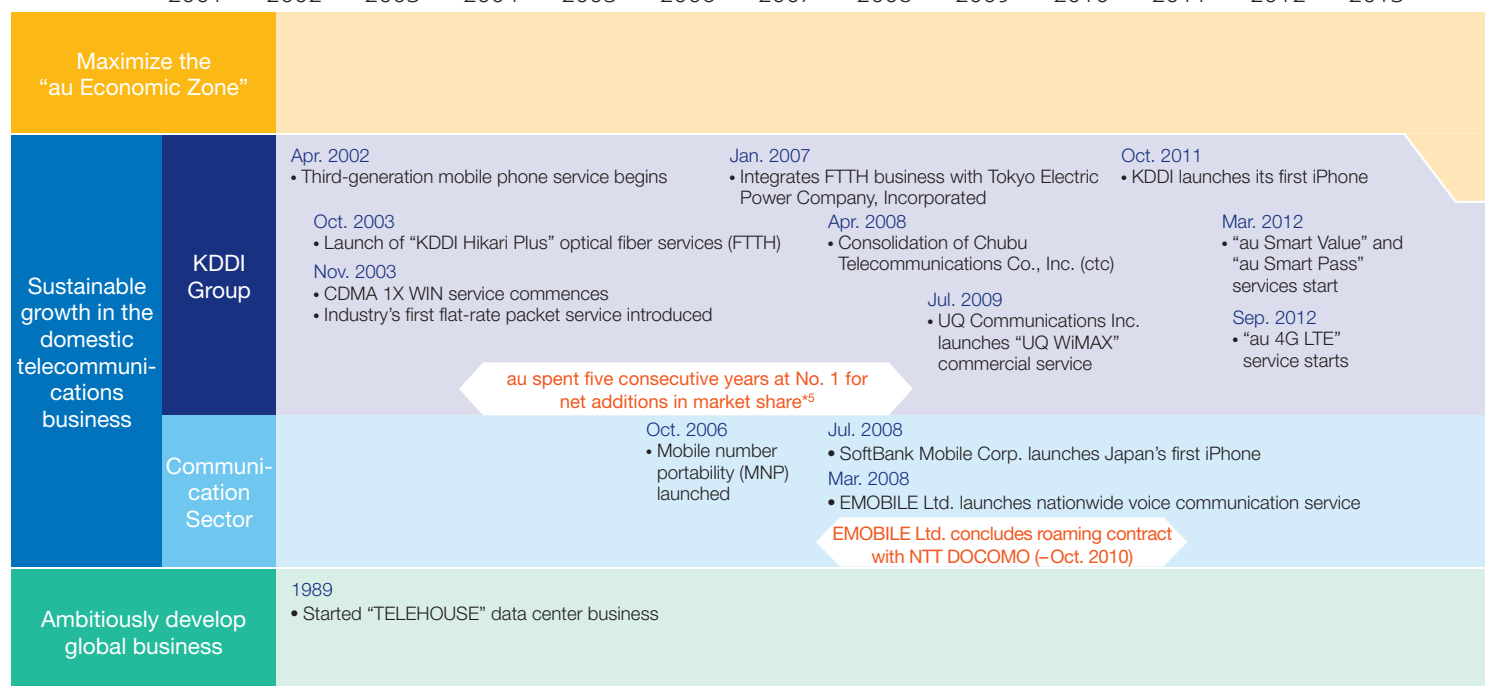
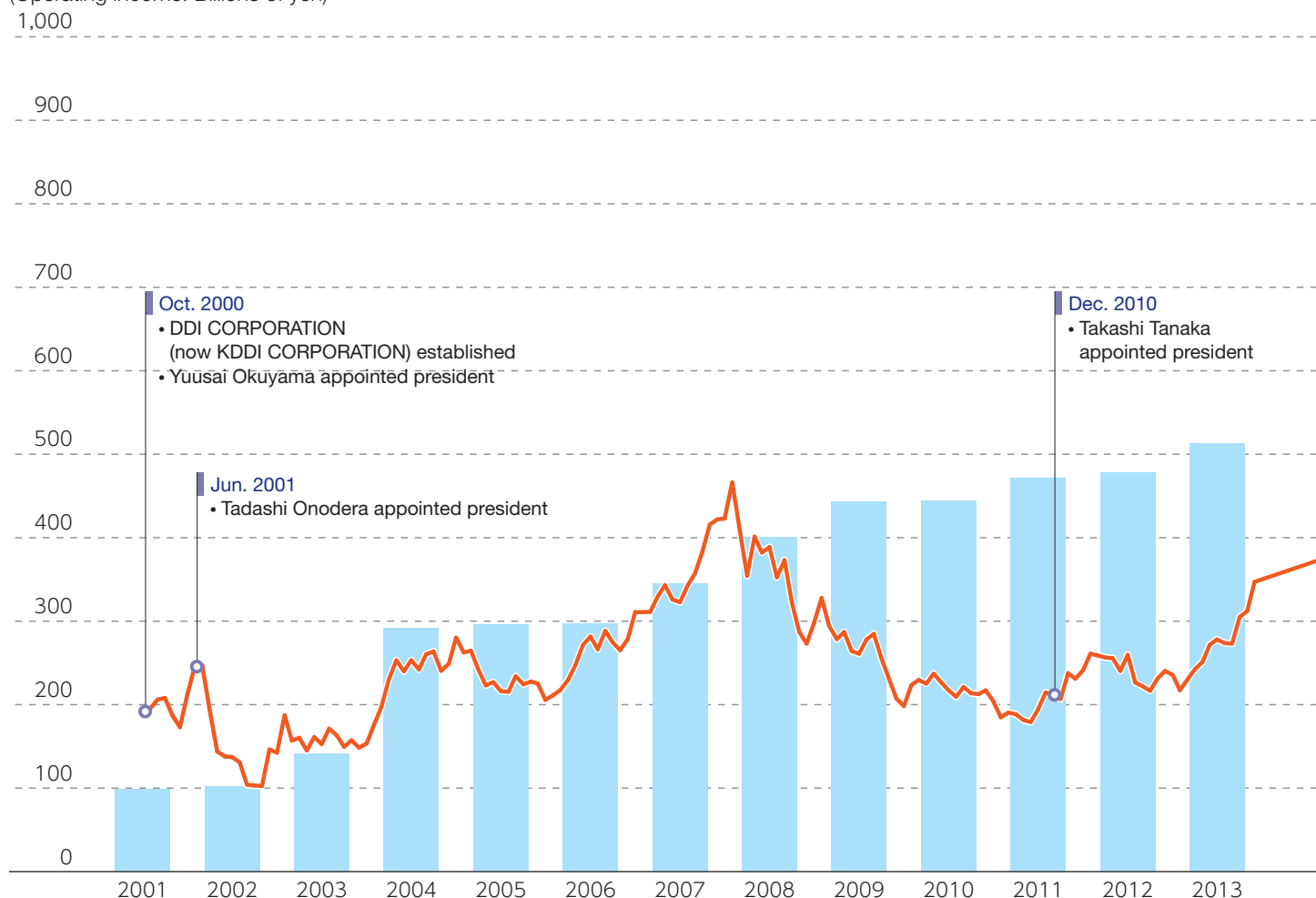


The Source of KDDI's Value

Since its establishment in October 2000, KDDI has leveraged its strengths as a comprehensive telecommunications carrier to continue growing its business. In terms of the three-year medium-term targets that concluded in the fiscal year ended March 31, 2016, operating profit experienced double-digit growth in each fiscal year in addition to the strengthening of shareholder returns and greatly expanding corporate value.

KDDI is currently taking steps to achieve medium-term targets that will conclude in this fiscal year, such as an average annual operating income growth rate (CAGR) of 7% and a dividend payout ratio over 35%.

(Operating income: Billions of yen) *1



*1 Results for fiscal years ended March 31. Figures up to the fiscal year ended March 31, 2014 are based on Japanese GAAP and figures for the fiscal year ended March 31, 2015 onward are based on IFRS (International Financial Reporting Standards).

*2 On a closing price basis for the end of October 2000 to the end of March 2018 (monthly)

*3 CAGR: Compound Average Growth Rate

*4 RGU: Revenue Generating Units. Each household's subscription to CATV, high-speed Internet connection, or telephony services each represent one RGU.

*5 Share among NTT DOCOMO, INC. (NTT DOCOMO), SoftBank Corp. (SoftBank), and KDDI + Okinawa Cellular Telephone Company (au)

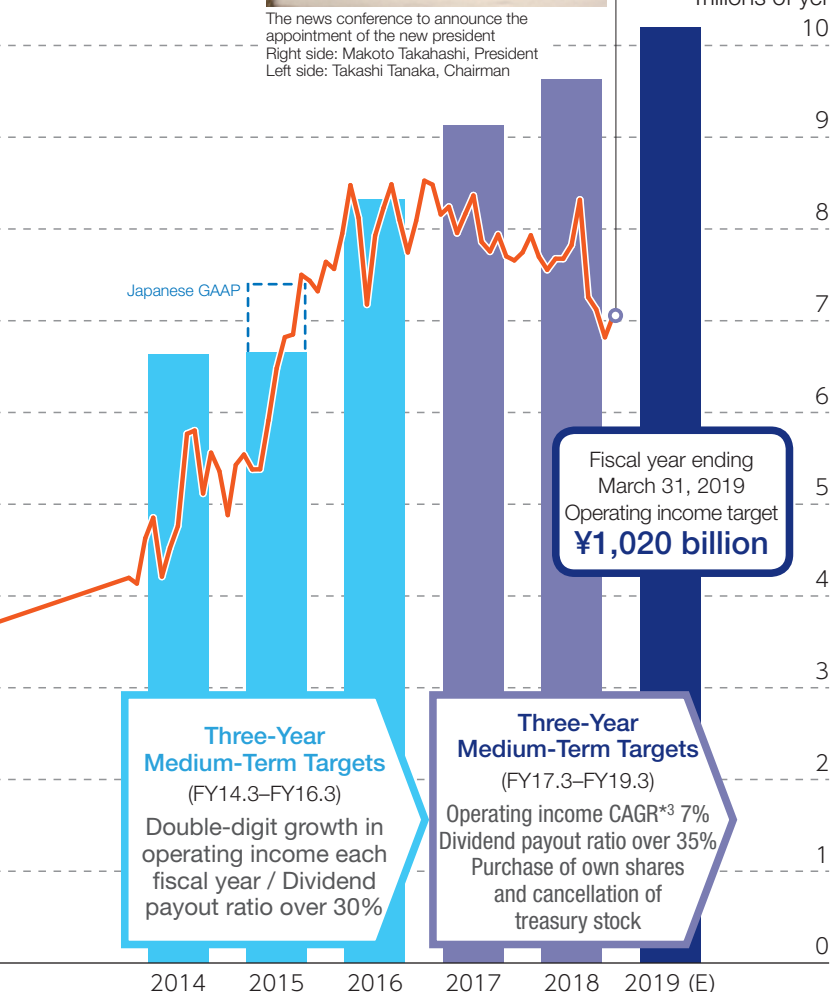
*6 MNO: Mobile Network Operator



The news conference to announce the appointment of the new president
Right side: Makoto Takahashi, President
Left side: Takashi Tanaka, Chairman

Apr. 2018
• Makoto Takahashi appointed president

Market capitalization: Trillions of yen)*2



Three-Year Medium-Term Targets (FY14.3–FY16.3)

Double-digit growth in operating income each fiscal year / Dividend payout ratio over 30%

Three-Year Medium-Term Targets (FY17.3–FY19.3)

Operating income CAGR*3 7%
Dividend payout ratio over 35%
Purchase of own shares and cancellation of treasury stock

May 2014
• “au WALLET” service starts

Aug. 2015
• “au WALLET Market” service starts

Apr. 2013
• Jupiter Telecommunications Co., Ltd. (J:COM) becomes consolidated

May 2014
• Japan’s first carrier aggregation (CA) technology introduced

Sep. 2013
• NTT DOCOMO, INC. launches its first iPhone

Jul. 2014
• Signed a joint business agreement with MPT*7 and Sumitomo Corporation on the launch of the Myanmar telecommunications business

Mar. 2016
• MobiCom Corporation LLC becomes a consolidated subsidiary

Jan. 2017
• “Wowma!” service starts

Jan. 2018
• AEON Holdings Corporation becomes a consolidated subsidiary

Apr. 2016
• “au Denki” service starts

Jan. 2017
• BIGLOBE Inc. becomes a consolidated subsidiary

Jul. 2017
• “au Pitatto Plan” and “au Flat Plan” services start

2020
• Start of 5G services (planned)

Oct. 2019
• Rakuten, Inc. enters mobile communications business as MNO*6 (planned)

Customer Base

Retaining a strong customer base inside and outside Japan
(As of March 31, 2018)

Mobile ID subscriptions (au + Group MVNO)	26.48 million
FTTH subscriptions	4.38 million
CATV RGU*4 households	5.38 million

Global Consumer Business
No. 1 in domestic shares in both Myanmar and Mongolia

Touchpoints

Touchpoints both online and offline
(As of March 31, 2018)



Approx. 2,500 au shops nationwide

15.53 million “au Smart Pass” and “au Smart Pass Premium” members



Wowma!

Innovative-ness

A history of actively promoting industry-first services and original KDDI initiatives since our launch

- October 2003
Sales commence of “INFOBAR,” the first model from the au Design project
- March 2012
Launch of “au Smart Value” and “au Smart Pass”
- July 2017
Start of “au Pitatto Plan” and “au Flat Plan”



Brand Strength

No. 1 in brand strength and customer satisfaction and in both corporate and individual services



J.D. Power “No. 1 in Mobile Phone Service Satisfaction” for two years*8



(UQ mobile)
J.D. Power “No. 1 in Low-cost Smartphone Service Satisfaction”*9



J.D. Power “No. 1 in Business Mobile Phone Service Satisfaction” (Large Corporations / Medium-Sized Enterprises Market Segment)*10 for two years

*7 MPT: Myanmar Posts & Telecommunications

*8 J.D. Power 2016–2017 Japan Mobile Phone Service Satisfaction Study. The 2017 study is based on responses from 31,200 mobile phone users in Japan.

*9 J.D. Power 2018 Low-cost Smartphone / SIM Card Service Satisfaction Study. Based on responses from 4,000 individual users who bought and use smartphones with service from contracted operators.

*10 J.D. Power 2016–2017 Japan Business Mobile Phone Service Satisfaction Study. The 2017 survey is based on 2,974 responses received from 2,327 companies with 100 or more employees (acquired evaluation of a maximum of 2 services per company with regard to business providing mobile phone service).

KDDI's Value Creation Cycle

The four sources of KDDI's value are its "customer base," "touchpoints," "innovativeness," and "brand strength" that have been built over the years since its establishment.

We will further refine and enhance these sources of value and optimally allocate the Company's management resources to maximize KDDI's corporate value. In doing so, we aim to achieve our medium-term targets set for the fiscal year ending March 31, 2019.

KDDI's Surrounding Business Environment

Political (Government / Legislation)

- Enforcement of the guidelines for adjusting handset subsidies and others

Economic

- Gradual economic recovery

Social (Society / Culture)

- Declining birth rate and aging population / Shrinking working-age population
- Rise in improvements to productivity through work style reforms

Technological

- Development of technologies such as IoT and AI
- Development and introduction of new communication technologies (LPWA / 5G)
- Growth in mobile traffic

Customers (Market / Clients)

- Popularization of smartphone use
- Development towards multidevices
- Popularization of low-cost SIM services
- Diversification of SNS

Competition

- Homogenization of services offered by mobile companies
- Expansion of business to fields beyond communications
- Entry of new business operators
- Expansion of the MVNO market

INPUT

Financial capital
Fund procurement

Manufactured capital
Telecommunications
equipment and platforms

Intellectual capital
Brand strength and R&D

Human capital
Personnel

Social and relationship capital
Regions and communities

Optimal distribution
of management
resources across the
four sources of value

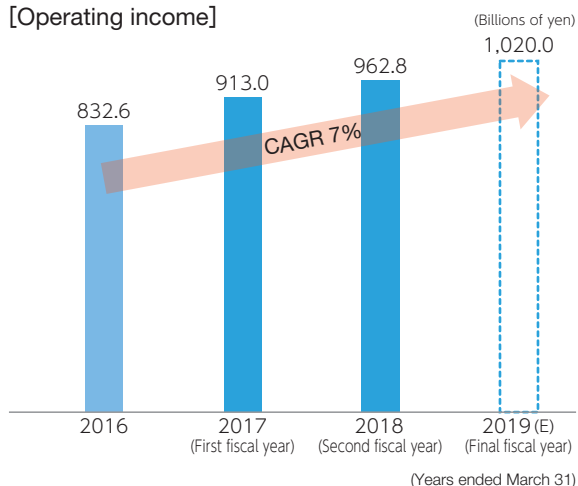
Towards achievement of the medium-

Continuous Growth

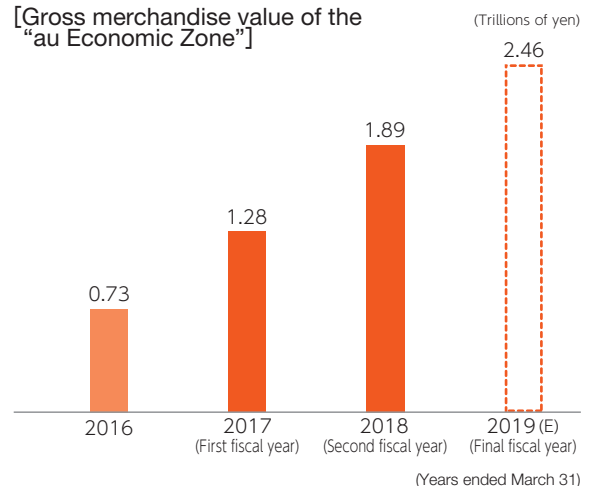
**Aim for an average annual
operating income growth rate of 7%**

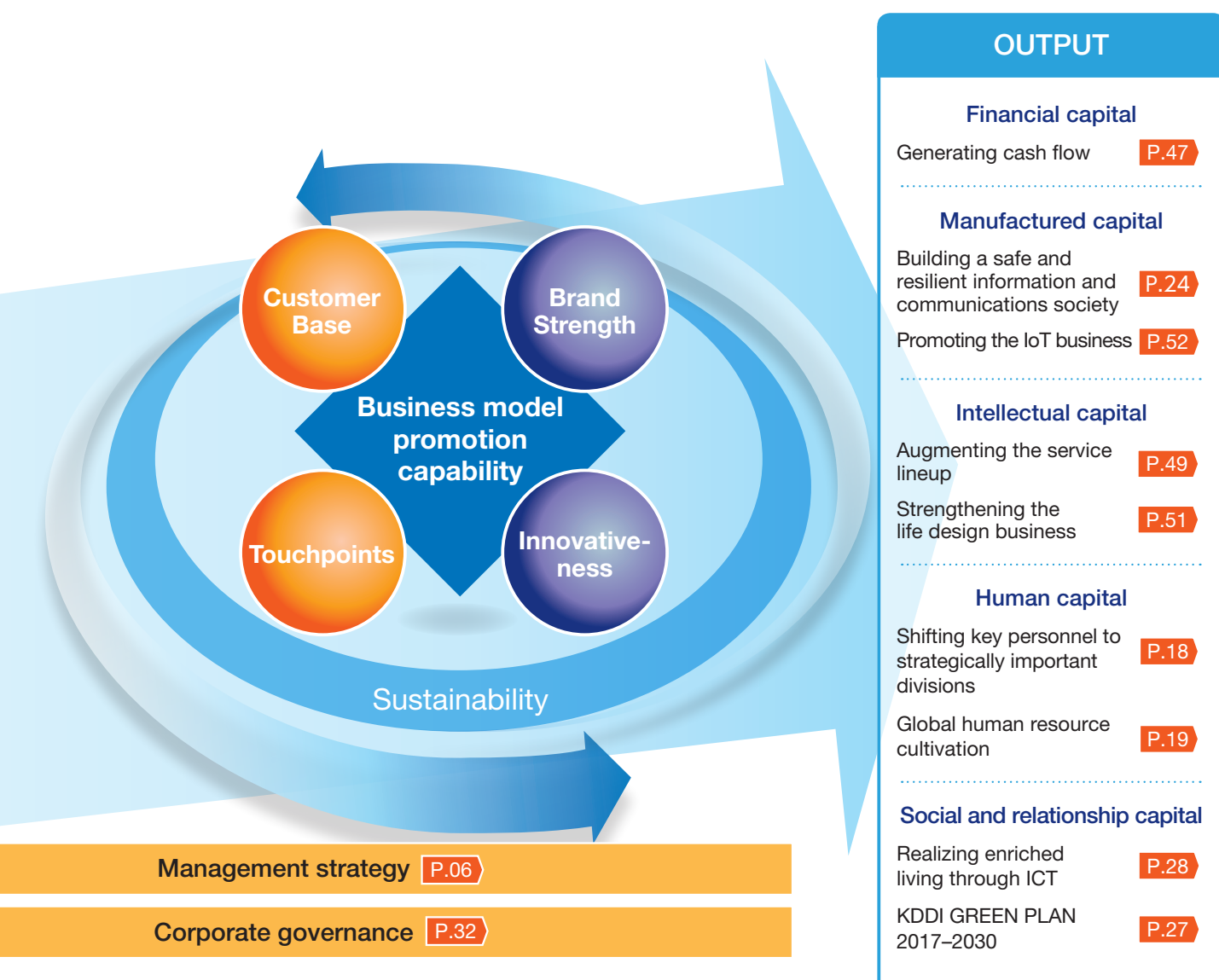
**Gross merchandise value of the
"au Economic Zone" above ¥2 trillion**

[Operating income]

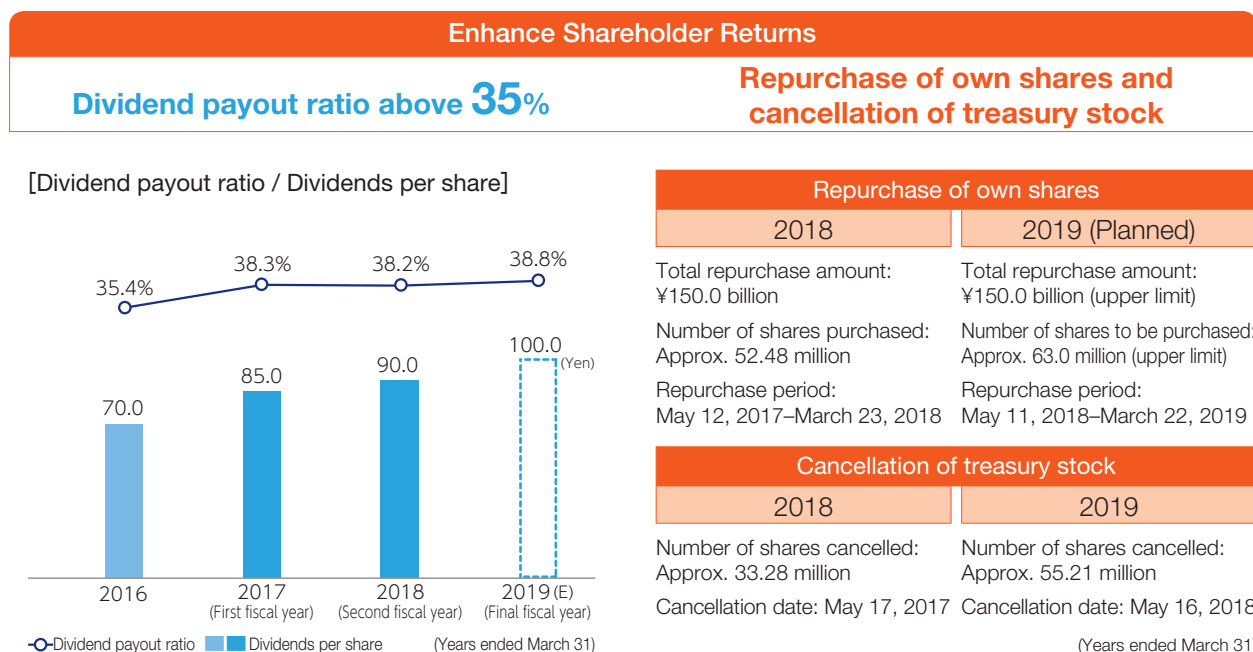


[Gross merchandise value of the
"au Economic Zone"]





term targets (FY2017.3 – FY2019.3) P.06



To create a vitalized company and achieve its goals of the “integration of telecommunications and life design” and the “ambitious development of global business.”

KDDI is promoting the integration of telecommunications and life design, building concentric rings of life design services, such as commerce, finance, energy, entertainment, and education, around a core of the domestic telecommunications business and customer base it has built to date. With the ambitious development of global business, KDDI has established medium-term targets for growth both in and outside Japan, and is focused on achieving those targets.

To bring a sense of urgency to transforming itself and continuing to grow not only in the telecommunications business, its specialty, but in new business fields as well, KDDI is aiming to secure and develop human resources capable of reacting quickly to change and working to build a stronger workforce in order to achieve sustainable growth.



Achieving the Medium-Term Targets

Under the medium-term targets concluding in the fiscal year ending March 31, 2019, KDDI is aiming for continuous profit growth based on the three business strategies of “sustainable growth in the domestic telecommunications business,” “maximize the ‘au Economic Zone,’” and “ambitiously develop global business.”

To achieve these medium-term targets, KDDI is focused primarily on the following four approaches.

Building a Stronger Workforce	1. Introduction of talent management
	2. Shift of key personnel to strategically important divisions
	3. Global human resource cultivation
	4. Utilization of diverse human resources

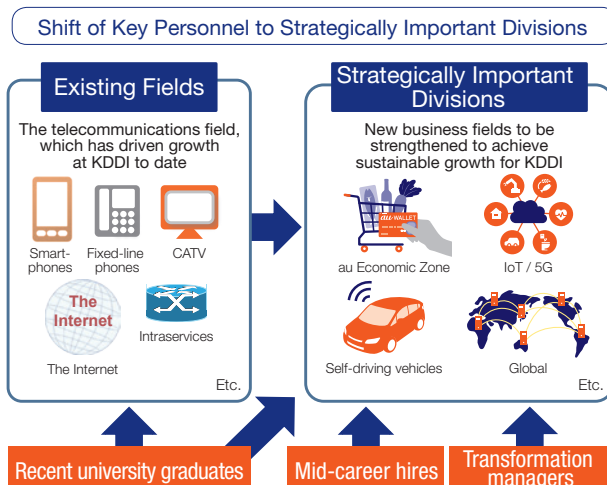
1. Introduction of talent management

In April 2017, KDDI set up the Human Resource Development Division, putting strategic hiring, utilization and development of human resources under its jurisdiction to maximize the value of our human resources and ensure their appropriate allocation.



2. Shift of key personnel to strategically important divisions

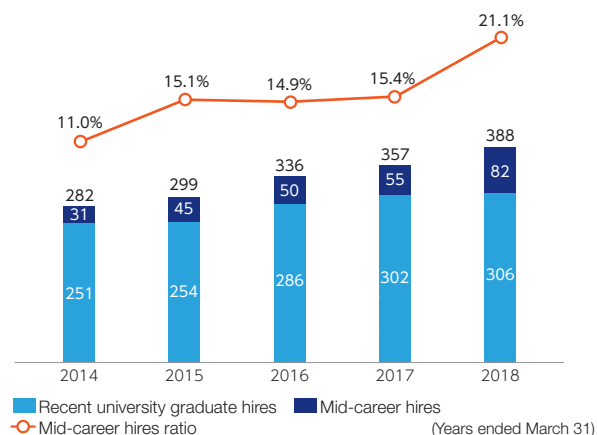
As it prepares to expand into new business areas, KDDI is promoting a shift of personnel into new fields and those that need strengthening.



This is being done both by offering in-house job opportunities and hiring top-level industry personnel to head our transformation efforts. In addition, we are also proactively promoting the hiring of mid-career personnel with expertise in new business fields, putting in place a base for pushing forward with and bringing a sense of urgency to the restructuring of our business.

As a result of steady progress with these efforts, KDDI expanded mid-career hires to 82 people in the fiscal year ended March 31, 2018, while also expanding the ratio of mid-career hires to all hires to 21.1%.

Status of Recent University Graduate and Mid-Career Hires



KDDI will continue working to hire and develop the personnel needed for sustainable growth, including human resources to lead new businesses and transform data-driven operations, as well as highly specialized personnel capable of responding to change in the era of IoT and 5G.

3. Global human resource cultivation

To achieve its goal of ambitiously developing global business, KDDI continues to implement measures designed to support the cultivation of global human resources.

For management positions, these include the Global Intensive Program (GIP) global executive training designed for the acquisition of practical English language ability utilizing business skills with the goal of developing executive candidates and future global leaders.

KDDI has also established educational programs tailored to each employee's career stage, including overseas business study programs for mid-level employees and overseas trainee programs for junior personnel.

Global Human Resource Exchange Program

Management	GIP	Acquisition of practical English language ability utilizing business skills. GIP enables manager-class employees to break away from their duties and focus on learning English.
Mid-level employees	Study Abroad	Overseas business study includes specialist study designed for research in specific fields or assignment to law school, and business study through which participants learn the skills and theories needed for business outside of Japan.
Junior employees	Overseas Trainees	Junior employees are assigned to offices outside of Japan, undergoing two years of on-the-job training through hands-on experience.

4. Utilization of diverse human resources

By working to create a culture in which employees with diverse personalities and backgrounds of different genders, ages and nationalities can respect and understand one another, KDDI has put in place an environment in which each individual can maximize his or her potential.

(Ref.) P.26 Rewarding Workplaces for Diverse Talents

Immersion of the KDDI Group Philosophy

The KDDI Group Philosophy expresses the attitudes, values and behavior that employees should practice in 5 chapters with 38 items. It incorporates the KDDI identity and KDDI vision that we must embrace as a telecommunications operator. The KDDI Group Philosophy also describes the basic attitudes KDDI employees need to maintain and is the foundation for sustainability at KDDI. By putting the KDDI Group Philosophy into practice, we aim for sustainable growth by striving to be a company admired and trusted by all stakeholders.

As we have ambitiously developed global business in recent years, it is becoming essential that all of our employees take action with a shared set of values to generate synergies and strengthen ties between each business division. Since the revision of the KDDI Group Philosophy in 2013, KDDI has conducted awareness-raising activities for employees inside and outside Japan to help spread the philosophy.

In the fiscal year ended March 31, 2018, a total of 572 study meetings were held as part of efforts to promote the dissemination of the KDDI Group Philosophy both in Japan and abroad.

Going forward, we will share the KDDI Group Philosophy with all of our employees, and promote sustainable management by pursuing our mission as a whole.

KDDI Group Philosophy

<http://www.kddi.com/english/corporate/kddi/philosophy/>



A companywide session to study the KDDI Group Philosophy



Revision of Material Sustainability Issues

KDDI Listens to and Creates with all of its Stakeholders

Akira Dobashi

Executive Officer
General Manager, General Administration &
Human Resources Division, Corporate Sector
Executive Officer of Sustainability

In recent years, there has been an acceleration in the pace of international movements in response to social problems, such as the COP21 Paris Agreement and the United Nations Sustainable Development Goals (SDGs) aimed at solving international issues, and companies are increasingly expected to take the initiative in contributing to society's sustainable growth through their businesses.

In addition, KDDI is accelerating its efforts to embody the integration of telecommunications and life design, centered on our core business of telecommunications. As we do so, we believe that ensuring the security of information we retain for our customers, and protecting their privacy, will become increasingly important.

For KDDI to contribute to society's development in the midst of these enormous changes in internal and external conditions, we came to the conclusion that it is essential

that we select a new set of material sustainability issues (materialities) that are more aligned with the times.

Working primarily through our Sustainability Department, KDDI spent two years in discussions with outside experts and relevant departments within the Company to select six new materialities for sustainability.

We see the re-selection process not as a goal but as a starting point, and our executives and employees intend to work together to resolve these material issues. We also hope to continue to be a company responsive to the needs of its stakeholders by paying constant attention to their feedback, while remaining sensitive to ongoing changes in society.

Through its efforts around these new materialities, KDDI aims to balance the enhancement of its corporate value with its contributions to a sustainable society.

■ KDDI's New Material Sustainability Issues

Respect for Human Rights and Fairness in Business

Fulfilled Life Brought through ICTs

An Energy-Efficient, Circular Economy



Safer and More Resilient Connected World

Cyber Security and Privacy Protection

Rewarding Workplaces for Diverse Talents

P.24-29 KDDI's Material Sustainability Issues

The Process for Identifying and Revising Materialities

STEP 1

Understanding and clarifying their impact on stakeholder opinion and decision-making

- ▶ Based on the 17 goals and 169 targets of the SDGs, and the Sustainability Accounting Standards Board (SASB) standards for the Technology & Communications sector, we identified a number of issues, which were then reviewed using publications such as ICT & SDGs from the Earth Institute at Columbia University and considering trends among companies in the technology and communications sector.

STEP 2

Understanding and clarifying KDDI's impact on society, the environment, and the economy

- ▶ The issues identified in Step 1 were verified along two axes: (1) Activities planned for implementation, including existing activities and R&D; and (2), corporate activities, including business strategy and sustainability activities.

STEP 3

Prioritization, validation, and identification of material issues

- ▶ Issues verified in Step 1 and Step 2 were prioritized based on a relative evaluation, and the material issues identified.
- ▶ The final six materialities were drawn up to reflect the opinions of two outside experts regarding this list of material issues, gained through dialogues held with Ms. Kaori Kuroda, executive director of CSO Network Japan who also serves as president of SDGs Japan, and Mr. Hitoshi Mitomo, professor at the Waseda University Graduate School of Asia-Pacific Studies, who conducts research into social innovation through ICT.

Key opinions gained through dialogues with experts

Working Together with Stakeholders

- To contribute to society through the platform business requires collaboration with other players in the industry, including competitors.
- While ICTs play a major role in protecting communities and other functions, it is also important to consider the perspective of the more analog participation of members of the community.

Employee Satisfaction

- As a company that supports social infrastructure, it is important to consider whether employee goals are aligned with those of the Company, and whether they find their work rewarding.

Environment

- Expectations for contributions to improved energy efficiency, the use of ICTs in solving environmental problems, and the formation of a recycling society.

Data Utilization and Privacy

- Efforts are needed in making the use of data more visible, as well as in human rights and from a supply chain perspective.



Participants in the Expert Dialogues
Ms. Kaori Kuroda is in the front row, second from the left, and Mr. Hitoshi Mitomo is next to her, third from the left

▶ **FY2016 Stakeholder Dialogue: Dialogue on Re-identifying Material Issues**
<http://www.kddi.com/english/corporate/csr/dialog/2016-01/>

STEP 4

Approval by the Corporate Management Committee

- ▶ After reviewing validity of the issues at the Sustainability Committee, newly identified material sustainability issues were approved by the Corporate Management Committee. KDDI then reported them to the Board of Directors.

New Proposals for Customer Experience Value through “Integration of Telecommunications and Life Design”

Medium-Term Targets (FY2017.3–FY2019.3)

Operating Income
CAGR 7%

au Economic Zone
Gross Merchandise Value
Above ¥2 trillion

Dividend Payout Ratio
Above 35%

M&A
¥500 billion

Non-financial (Social Value)

Safer and More Resilient Connected World P.24

- Number of serious accidents: 0
- LTE population coverage rate expanded (higher than previous fiscal year)

Cyber Security and Privacy Protection P.25

- Data security incidents: 0
- Data security training for all employees: held at least once a year

Rewarding Workplaces for Diverse Talents P.26

- Promoting measures to hire 200 female line managers
- Disability employment rate: statutory rate achieved

An Energy-Efficient, Circular Economy P.27

- 7% reduction in CO₂ in FY2031.3 compared to FY2014.3 for KDDI (in Japan, non-consolidated)
- Build highly energy-efficient data centers in Japan and abroad

Fulfilled Life Brought through ICTs P.28

- Improvement of response to Smartphone and Mobile Phone Safety Classes
- Implement international cooperation projects by KDDI Group: 2 and more projects

Respect for Human Rights and Fairness in Business P.29

- Human rights violations: 0
- Responsible procurement survey response rate: 90%+

Financial (Economic Value) (Fiscal year ended March 31, 2018)

Mobile
Communications
Revenues
(¥1,787.8 billion)

Value-Added
ARPA Revenues
(¥174.8 billion)

Maintained and
Increased Number
of IDs through
Improvement in
Churn Rate (0.86%)

Operating
Revenue
¥5,042.0 billion
(YOY +6.2%)

Cost Reduction

Efficient Capital
Expenditure
(¥560.8 billion)

M&As for
Growth

Enhanced
Productivity

Operating
Income
¥962.8 billion
(YOY +5.5%)

Sustainability: The Foundation for Sustainable Growth

KDDI's Material Sustainability Issues

KDDI considers initiatives from two perspectives—the effect on stakeholder evaluation and decision-making, and the impact KDDI has on society, the environment, and finance. Among the various issues involving our business activities, we have established six material issues.



Governance

We recognize reinforcing corporate governance as important to achieving sustainable growth and increased corporate value over the medium to long term. Accordingly, we are in accordance with the tenets of the “Corporate Governance Code” defined by the Financial Instruments and Exchange Act. While maintaining transparency and fairness, we endeavor to enhance our structures for ensuring timely and decisive decision-making.

- P.30 Executive Members
- P.32 Corporate Governance
- P.37 Compliance, Risk Management and Internal Controls
- P.38 Disclosure and IR

For more detailed sustainability information not included in this report, please refer to the following website:
<http://www.kddi.com/english/corporate/csr/report/>

Material Issue 1 Safer and More Resilient Connected World

Social Issues and Recognition

In an advanced information society, information and communications services are the most important lifeline. The disruption of this lifeline due to factors such as natural disasters can be a major factor behind a downturn in society and the economy itself. KDDI has an obligation to support local communities in which people can live with peace of mind by continuing to provide reliable communications services 24 hours a day, 365 days a year.

Building a Disaster-Resistant Communications Environment

To create a management structure for dealing with large-scale natural disasters, KDDI has formulated disaster response regulations and business continuity plans (BCP), and built a number of other initiatives including a disaster response framework. We have also entered into disaster management agreements with the Ministry of Defense, the Self-Defense Forces and the Coast Guard, collaborating with relevant organizations to further strengthen our disaster response.

Business Continuity Plan for Large-Scale Disasters

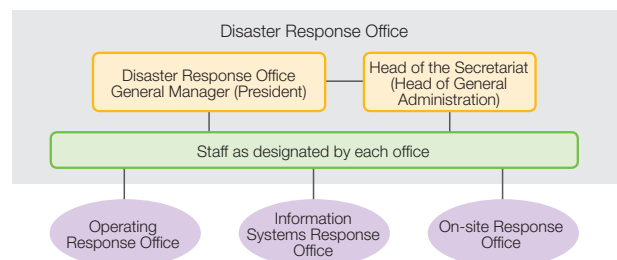
KDDI's Business Continuity Plan (BCP) for Large-scale Disasters establishes a variety of countermeasures based on a policy of ensuring the safety of employees and their families, carrying out the Company's responsibility to continue telecommunications services as a designated public institution, and supporting our stakeholders. Specifically, the plan establishes specific rules for responding to a disaster, from initial mobilization to full restoration of services, as well as providing support for disaster-affected areas.

Risks and Opportunities for KDDI

Risks	Opportunities
<ul style="list-style-type: none"> Decline in KDDI's corporate value in the event telecommunications services fail due to factors such as natural disasters 	<ul style="list-style-type: none"> Contribute to society and the economy overall, and enhance KDDI's corporate value, by continuing to provide information and communications services even in the event of unforeseen circumstances

The effectiveness of the BCP is assessed through biannual disaster response training. The Company works to improve on any issues or problem areas identified through that training, and each year a PDCA cycle is employed in building a more solid foundation for disaster response.

Structure of Disaster Response Office



KPIs

- Number of serious accidents: 0*1
- LTE population coverage rate expanded (higher than previous fiscal year)
- Three-route core transmission lines of main communication stations: 100%*2

*1 Following the guidelines of the accident reporting criteria of Japan's Ministry of Internal Affairs and Communications

*2 For disaster preparedness, core transmission lines of main communication stations are arranged with three different routes that can be switched

Highlights Facilities Countermeasures for Ensuring Communications Services during a Disaster

■ Multi-Route Core Transmission Lines and Route Distribution

To ensure reliable communications, KDDI works to distribute its telecommunications equipment capacity, establishing redundant communications lines (terrestrial optical fiber) and a structure that uses automated switching to provide relief to the communications network during failures. In addition, submarine cables and other means are used to provide multi-route communications lines, ensuring a highly reliable communications network. In the event of trouble, bypass measures are implemented in an effort to relieve communications.

■ Strengthening of Disaster Resilience in Communication Stations and Telecommunications Facilities

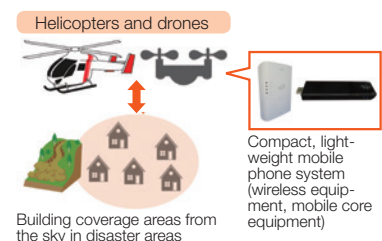
KDDI has augmented deployment of mobile power supply vehicles and emergency power generators to enable rapid power supply to telecommunications equipment in disaster-hit areas. To ensure communications services in disaster affected areas, we have also increased deployment of wireless entrance lines as well as vehicle-mounted and portable base stations, and equipped around 2,200 mobile phone base stations with batteries capable of operating for more than 24 hours.

■ Deploying the au Disaster Recovery Support System

To quickly grasp the extent of damage during a disaster and formulate a precise recovery plan, KDDI has deployed the au Disaster Recovery Support System throughout its 10 technical centers nationwide. The system provides centralized management of regional damage information, conditions at key sites, and information on emergency shelters and evacuation routes. This information is provided in real time to provide a clear understanding of priority recovery areas, enabling us to provide effective recovery response even when damage is widespread.

■ Deployment of Temporary Base Stations

To prepare for situations where it is difficult to provide mobile phone services from land or sea during a disaster, KDDI has developed drone base stations that can provide temporary mobile phone services. We will be conducting proof of concept experiments in preparation for putting these drone stations into practical use.



Material Issue 2 Cyber Security and Privacy Protection

Social Issues and Recognition

Recent years have seen many incidents worldwide in which software virus infections caused by cyberattacks have led to leaks of important confidential information, which has become a major social issue. The KDDI Group considers the personal information it retains for its customers and the business information it retains for its business partners to be extremely important assets that need to be managed with the strictest care.

Risks and Opportunities for KDDI

Risks	Opportunities
<ul style="list-style-type: none"> Loss of customer trust and the worsening of the financial position and earnings performance of the KDDI Group due to customer information leaks, compensation, etc. Even higher costs to put in place communications security and customer privacy protection systems 	<ul style="list-style-type: none"> Potential to develop new markets by providing secure apps that enhance reliability and services to address cyber security on a global level in response to customer needs

Initiatives to Strengthen Information Security

As a telecommunications operator, KDDI complies in protecting the confidentiality of communications. At the same time, to protect customer information, we have established an Information Security Committee charged with preventing internal information leaks, and are also working to formulate and implement company-wide countermeasures to prevent unauthorized intrusions from external networks. The KDDI Group is also engaged in efforts to strengthen its compliance structure by establishing the KDDI Code of Conduct, a Security Policy and Privacy Policy, by distributing the Handbook for Protection of Customer Information, and through the establishment of a Business Ethics Committee. In addition, KDDI takes various security management measures from a technical, organizational, and human perspective, efforts that include controlling authorization for use of customer information systems used to manage personal information; strengthened monitoring of system use; preservation of access logs; and prohibitions against removal of internal data and the copying of information from

work computers to external memory devices. To educate employees on these measures, KDDI conducts ongoing training for all employees on communications confidentiality and the protection of customer information.

KDDI is also working with its outsourcers, in particular the au shops, striving to ensure improved store operations, inspections and education.

To ensure the security of customer information, apps for “au Smart Pass” are screened to verify that they behave in accordance with the KDDI Privacy Policy.

KDDI is also a member of the Japan Smartphone Security Association (JSSEC), an outside body, and is engaged in activities to strengthen security through that organization.

KPIs

- Data security incidents: 0^{*3}
- Data security training for all employees: held at least once a year

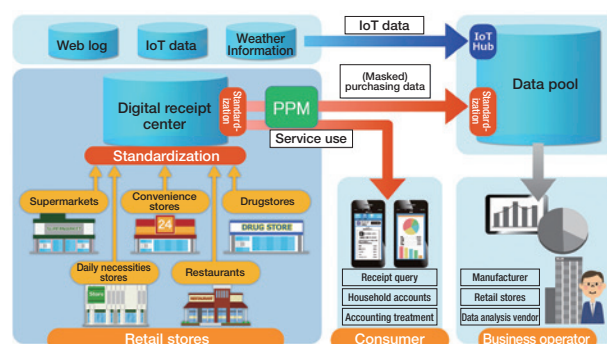
^{*3} Data breaches, complaints, etc., that are illegal or may be subject to regulatory guidance

Highlights Demonstration Test for Digital Receipts into Social Infrastructure

From February 13 to February 28, 2018, KDDI Research participated in experiments conducted by Toshiba Tec Corporation for a standard data format for digital receipts and a digital receipt platform compatible with the API. The tests were conducted as part of the New Industry Model Creation Base Development Project for Promoting IoT, organized by the New Energy and Industrial Technology Development Organization (NEDO) and the Ministry of Economy, Trade and Industry (METI). The experiments were designed to examine the standard specification for digital receipts formulated by METI, and to test the usefulness of a standardized digital receipt platform in the retail store environment across different industries and formats.

From the perspective of personal information protection, KDDI Research provided a Privacy Policy Manager (PPM) it had developed as a mechanism for enabling individual users to protect (mask) their own personal information when providing data.

Digital Receipt Platform



Material Issue 3 Rewarding Workplaces for Diverse Talents

Social Issues and Recognition

Japan ranks last among the group of seven major industrialized countries for labor productivity, and it is said that for Japan to maintain its real GDP growth rate will require it to triple productivity growth. Given this situation, the Japanese government is working to enable diverse work styles under the banner of “realizing the dynamic engagement of all citizens.” At the same time, it is working to avoid entrenched inequality, increasing the number of middle-income earners engaging in efforts toward work style reforms that can achieve a virtuous cycle of growth and distribution. Among the issues involved in achieving those reforms are addressing the inequities and differences in treatment between regular and non-regular employees, long working hours, and Japan's traditional single-track career paths.

Building a Stronger Workforce to Achieve Medium-Term Targets

With the goal of “Transforming into a Life Design Company,” as set forth in our medium-term targets for the fiscal year ended March 31, 2017 to the fiscal year ending March 31, 2019, KDDI has established four frameworks, one of which is to “build a stronger workforce,” including development of female leaders as a KPI and as a management strategy.

Beginning in the fiscal year ended March 31, 2017, KDDI launched a “Work Style Reform Promotion Committee,” comprised of the general managers responsible for each business, as part of company-wide projects.

Four-part Framework for Achieving the Medium-Term Targets

Building a stronger workforce	Introduction of talent management
	Shift of key personnel to strategically important divisions
	Global human resource cultivation
	Utilization of diverse human resources

Risks and Opportunities for KDDI

Risks	Opportunities
<ul style="list-style-type: none"> Securing talented human resources as the working-age population falls due to declining birth rates and an aging society Securing and developing human resources with diverse values as KDDI enters new business fields to achieve integration of telecommunications and life design 	<ul style="list-style-type: none"> Innovation through human resources with diverse values Efforts to manage and improve the health of all employees can lead to continuous improvements in productivity, reduced turnover and enhanced corporate brand value

KDDI also considers health of employees an important management issue, and in April 2018 we announced the KDDI Group Declaration of Health-focused Management in an effort to create a more vital company.

KPIs

- Promoting measures to hire 200 female line managers (by the end of fiscal year ending March 31, 2021)
- Usage rate of annual paid leave: 70% (by fiscal year ending March 31, 2021)
- Percentage of newly hired female graduates: 30% (by fiscal year ending March 31, 2021)
- Disability employment rate: statutory rate achieved
- Employees' smoking rate: below 18% (by fiscal year ending March 31, 2021)
* 27.2% achieved at the end of the fiscal year ended March 2018
- Employees receiving remarks at health exam: below 55% (by fiscal year ending March 31, 2021)
* 58.1% achieved at the fiscal year ended March 2018

Highlights Selected as a “Nadeshiko Brand” for the Sixth Consecutive Year

Based on the KDDI Group Philosophy, KDDI is working to promote diversity as a management issue.

Promoting gender equality and female empowerment leads to the solving of issues in international society and the sustainable development of companies.

KDDI believes that the participation of women in corporate decision-making leads to a stronger company, and we are focused on developing female leaders with a target of promoting 200 females to line manager positions, who have the authority to evaluate personnel, by the end of the fiscal year ending March 31, 2021. Progress toward this goal is reported at a biannual meeting attended by management. We are also working to expand programs to cultivate female managers and these programs will form the foundation for developing female leaders.

KDDI is striving to establish an environment and foster a climate in which diverse human resources can utilize their individual strengths to perform to the best of their abilities.

As a major part of such efforts, we are focusing our efforts on cultivating female leaders, raising awareness and changing the behavior of management, and improving the working environment, so that women can continue to participate and advance in their careers even after going through life events such as giving birth and raising children.

Appointment of Female Leaders (as of April 1, 2018)

Number of Female Managers	301
Number of Female Line Managers	118
Number of Female Officers (Directors)	1
Number of Female Directors (Outside Directors)	1

In recognition of these efforts, in March 2018 KDDI was chosen for the sixth consecutive year since the fiscal year ended March 31, 2013 as a “Nadeshiko Brand,” a program to select companies that proactively promote the advancement of women.



Material Issue 4 An Energy-Efficient, Circular Economy

Social Issues and Recognition

In 2015, the Paris Agreement went into force, calling for a global effort to hold the global temperature rise since the industrial revolution to less than 2°C and to strive to limit the increase to less than 1.5°C.

In corporate activity as well, companies are being expected to establish numerical targets for reducing greenhouse gas emissions and response measures to address global warming.

Risks and Opportunities for KDDI

Risks	Opportunities
<ul style="list-style-type: none"> Regulations and policies of each country and region that influence the business activities of corporations, such as energy-saving standards, carbon taxes and emissions trading 	<ul style="list-style-type: none"> Opportunity for business growth by building environmentally friendly base stations, and providing services in each country and region that reduce society's environmental impact through the use of ICT

KDDI's Approach to Environmental Preservation

Based on the KDDI Group Philosophy and the KDDI Action Guidelines, we have established the KDDI Environmental Charter. The Charter consists of two layers: the Basic Principle, which is its highest concept, and the Code of Conduct for setting the direction of specific initiatives. We have also formulated the KDDI Action Guidelines on Biodiversity Conservation to multilaterally assess our contributions toward the preservation of biodiversity, and to promote activities across a wide range of opportunities. Since the fiscal year ended March 31, 2017, we also formulated the KDDI GREEN PLAN 2017–2030, an environmental conservation plan that calls for climate action, the creation of a recycling-oriented society, and the conservation of biodiversity through the use of ICT services.



KPIs

Overview of KDDI GREEN PLAN 2017–2030

- 7% reduction in CO₂ in FY2031.3 compared to FY2014.3 for KDDI (in Japan, non-consolidated)
- Build highly energy-efficient data centers in Japan and abroad
- Contribute to reductions in society's CO₂ emissions by providing KDDI's ICT services
- Maintain zero emissions from retired telecommunications facilities: Achieve final disposal rate of 1% or less^{*1}
- Maintain material recycling rate of 99.8% for used post-consumer mobile phones
- Actively promote initiatives using ICTs to conserve ecosystems
- Post-consumer mobile phones collected over 5 years (aggregated): 6 million (Target for FY19.3-FY23.3)

^{*1} Zero emissions is defined as having a final disposal rate of 1% or less

Highlights Improved Energy Efficiency at TELEHOUSE

The KDDI Group provides data centers under the TELEHOUSE brand in 12 regions, 23 cities and 47 bases around the world. The centers have built a track record about 30 years, and utilize that expertise in providing services to customers.

TELEHOUSE data centers employ the latest energy-saving equipment, working to reduce power consumption, achieve low PUE^{*2}, and provide significant reductions in CO₂ emissions.

In November 2016, KDDI Group's TELEHOUSE EUROPE commenced operation of North Two, its fourth data center at TELEHOUSE LONDON Docklands, with a total floor area of 73,000 m², one of the largest in England. As an urban, multi-story data center, North Two is the first in the world^{*3} to deploy an indirect external air cooling system to achieve a PUE of 1.16 (design value), the highest-level energy efficiency for a data center operator.

^{*2} PUE: Power Usage Effectiveness. An index representing the energy efficiency of data centers and other IT-related facilities. The closer the figure is to 1.0, the better the power efficiency.

^{*3} As of November 2016, according to KDDI research

As a result, in June 2017 TELEHOUSE EUROPE was awarded the Data Centre Energy Efficiency Project of the Year for its energy efficiency, at the 2017 Data Centre Solution Awards, which recognize companies that have made innovative achievements in data center-related technology and services.



TELEHOUSE LONDON Docklands North Two

Material Issue 5



Fulfilled Life Brought through ICTs

Social Issues and Recognition

Japanese society today faces a variety of problems, including a falling birth rate and advanced aging, and an emptying out of rural regions as population concentrates in major metropolises. The shrinking rural population also leads to the reduced vitality of regional economies and the decline of industry and culture. Expectations are that using ICT can help resolve these issues.

Meanwhile, smartphones and mobile phones are being used from a younger age, and a widening digital divide among seniors has become an issue. The need for information literacy education is increasing as a way of ensuring that children, in particular, can utilize these ICT devices properly without getting caught up in crime or other problems.

Risks and Opportunities for KDDI

Risks

- Social and economic risk of customers being caught up in crime or other problems through products and services provided by KDDI, including smartphones, mobile phones and the internet

Opportunities

- Create new demand and contribute to business by providing devices and services that customers can use safely, securely and comfortably, and through awareness-raising activities
- Reduce the digital divide between regions through the use of ICT, and expand business opportunities for KDDI by revitalizing regional economies

Two Approaches to the Use of ICT

■ As a Leader of Regional Economy

Utilizing its wide-ranging advanced technologies and the expertise of its partner companies, KDDI works with regional governments and businesses, NPOs and local citizens, and many other stakeholders to support a variety of unique initiatives aligned with the distinctive character of each region.

■ As a Lifestyle Design Company Close to its Customers

Using advanced technologies such as big data, ICT and IoT, KDDI aims to revitalize regional economies by conveying to its customers the unique appeal of products and services from areas around the country, creating a more vigorous nationwide flow of people and goods.

Improving Information Literacy

Through our KDDI Smartphone and Mobile Phone Safety Classes, KDDI works to enable children and senior citizens to use smartphones and mobile phones safely and securely.

Beginning in September 2017, we have also begun holding workshop-style classes for high school students, Raise Disaster Risk Reduction Literacy with Your Smartphone. The workshops offer information literacy and disaster preparedness education designed to teach

students how to utilize information and communications services as a lifeline during disasters.



KPIs

- Response to Smartphone and Mobile Phone Safety Classes
 - Young people: Satisfied (Material): 99%, Satisfied (Instructor): 98%, Will reapply: 80%*1
 - Older people: Understood: 85%, Will use: 87%
- Ongoing support activities to help area revitalization (Shimamono Lab: 2 islands per year)
- Implement international cooperation projects*2 by KDDI Group: 2 and more projects

*1 Percentage of those who answered "definitely want to apply"

*2 Facilitating wider access to telecommunications, education that utilizes ICTs, etc. in developing countries

Highlights Approach to Supporting Regional Revitalization: Reviving the Mackerel: A Project to Streamline Aquaculture

Working with the city of Obama, Crowd Fishery Co., Ltd., the Obama Fisheries Cooperative Association and Fukui Prefectural University, KDDI is participating in the Reviving the Mackerel: A Project to Streamline Aquaculture, intended to utilize IoT to make fish farming more efficient. The project commenced operation in February 2018.

In recent years, Obama City has seen its mackerel catch drop significantly. By equipping the floating fish cages with IoT sensors that enable hourly measurements of water temperature, oxygen levels and salinity, Reviving the Mackerel: A Project to Streamline Aquaculture allows fishers to understand local conditions via a mobile line, without taking out their boats, even in rough weather or at night.

A tablet-based feeding log application is also being deployed to manage the location, volume and timing of feeding, in an effort to

turn the expertise of the fishers—based on experience and intuition—into data that can help streamline the fish farming process.

Obama City, Crowd Fishery and KDDI will continue utilizing IoT with the goal of regional revitalization and the growth of the fisheries business.



Material Issue 6 Respect for Human Rights and Fairness in Business

Social Issues and Recognition

As value chains expand on a global scale, companies are taking a greater interest in respecting human rights, and in the impact our business has on the international community.

In particular, sexual harassment issues represent a major violation of human rights internationally, and in telecommunications, a similar violation of human rights can be seen on social media, through posting of photos, slander and personally damaging information.

With regard to fairness in business, companies are expected to respond in particular to issues such as anti-corruption measures, dealing with anti-social forces, and human rights throughout supply chains.

Risks and Opportunities for KDDI

Risks	Opportunities
<ul style="list-style-type: none"> Damage to corporate brand value and impeding the sustainable development of society due to unaddressed human rights violations 	<ul style="list-style-type: none"> The sound growth of KDDI's business through the achievement of a society free of human rights violations and the building of business activity

Human Rights Initiatives Aimed at Fair and Honest Business Practices

KDDI makes efforts to eliminate discrimination based on race, creed, gender, social status, religion, nationality, age, sexual orientation, gender identity or mental or physical disability. We work to correct or eliminate labor practices that violate human rights, such as forced and child labor.

To promote these activities, KDDI has built a governance structure based on a variety of committees, including the KDDI Group Business Ethics Committee and Sustainability Committee. At the same time, we implement measures throughout the year to ensure employees understand and put into practice the KDDI Group Philosophy and the KDDI Code of Business Conduct. With our suppliers, we build partnerships based on mutual trust, and work to conduct business appropriately through fair

and honest business dealings. We also use our CSR procurement surveys and other methods in asking that our suppliers ensure strict compliance with these practices.

KPIs

- Human rights violations: 0^{*3}
- KDDI Group Philosophy Study Session attendance: 100%
- Awareness raising of KDDI Code of Conduct (awareness raising measures carried out within the company): more than 12 times per year
- Responsible procurement survey response rate: 90%+
- Stakeholder dialogues with external experts: One or more sessions per year

^{*3} Human rights violations refer to cases in which human rights violations (such as workplace bullying including any kinds of harassment) resulted in disciplinary actions

Highlights LGBT Initiatives

There are laws in Japan regarding gender change for people with gender identity disorder, and while there is a growing trend toward recognition of same-sex marriage in an increasing number of countries and regions outside Japan, understanding and support for such human rights in companies is still inadequate.

In light of this situation, since the fiscal year ended March 31, 2014, KDDI has promoted activities within the Company to raise awareness about LGBT issues, which has advanced understanding among employees and spread awareness throughout the Company.

KDDI is also working to advance initiatives such as the au "Family Discount" as part of its efforts to enlighten society as a whole.

■ Programs Applicable to Same-sex Partner Families and Spouses

On April 1, 2017, KDDI revised its internal regulations to include same-sex partners as spouses, making them eligible for all company programs.^{*4}

Upon submission and acceptance of the required paperwork, same-sex partners can benefit from the same programs offered to other spouses of employees, including special payments, leave, as well as other allowances of an ongoing nature.

^{*4} Applicable company programs: Housing allowance, unaccompanied duty allowance, special payment for marriage, special leave (mourning, marriage, maternity, childcare and family care), child-raising leave, use of company housing, etc.

■ Application of Same-sex Partnerships to au "Family Discount," etc.

Beginning in July 2015, KDDI expanded eligibility for a number of family-oriented services, including the au "Family Discount," to include families with same-sex partners when formal certification of the same-sex partnership is provided under local government ordinance.

LGBT Initiatives

Initiatives	Description
Establish Provisions in the KDDI Code of Business Conduct (Basic Principles)	Establish provisions to prohibit unjustifiable discrimination and harm to personal dignity on the basis of sexual orientation, gender, age, nationality and other personal characteristics, and publicize them widely both inside and outside the Company.
Conduct educational activities to promote understanding	Seminars and e-learning courses aimed at improving understanding of LGBT issues have been conducted on an ongoing basis since the fiscal year ended March 31, 2014.
Change the definition of spouse, and apply the change to company regulations	When KDDI recognizes an employee as having a same-sex partner, that employee is eligible for all company programs available to other employees with spouses.
Give consideration in the work environment	For transgender employees, it is recommended to use working names, conduct health checks on an individual basis, and provide gender neutral toilets.
Promote understanding of LGBT issues in society	<ul style="list-style-type: none"> Participate in forums and other events related to LGBT issues, and introduce KDDI initiatives as examples Make donations to LGBT support groups
Apply changes to au "Family Discount" and other services	Apply family-oriented services, such as the au "Family Discount," to include same-sex partners when formal certification of the same-sex partnership is provided.

Executive Members

(As of June 20, 2018)

Directors



Takashi Tanaka

Chairman, Representative Director

Number of the Company's shares held: 61,100

Feb. 1957 Born
June 2007 Managing Executive Officer, Director
June 2010 Senior Managing Executive Officer, Representative Director
Dec. 2010 President, Representative Director
Apr. 2018 Chairman, Representative Director (Current position)



Hirofumi Morozumi

Vice Chairman, Representative Director

Number of the Company's shares held: 28,600

May 1956 Born
June 2003 Managing Executive Officer, Director
June 2007 Senior Managing Executive Officer, Director
June 2010 Executive Vice President, Representative Director
Apr. 2018 Vice Chairman, Representative Director (Current position)



Makoto Takahashi

President, Representative Director

Number of the Company's shares held: 25,800

Oct. 1961 Born
June 2007 Managing Executive Officer, Director
June 2010 Senior Managing Executive Officer, Representative Director
June 2016 Executive Vice President, Representative Director
Apr. 2018 President, Representative Director (Current position)
June 2018 Executive Director, Corporate Strategy Planning Division, and Corporate and Marketing Communications (Current position)



Yuzo Ishikawa

Executive Vice President, Representative Director

Number of the Company's shares held: 40,100

Oct. 1956 Born
June 2010 Managing Executive Officer, Director
June 2011 Senior Managing Executive Officer, Director
June 2014 Senior Managing Executive Officer, Representative Director
June 2016 Executive Vice President, Representative Director (Current position)
Apr. 2018 Executive Director, Consumer Business, Media and CATV Business, and Product and Customer Service Sector (Current position)



Yoshiaki Uchida

Executive Vice President, Representative Director

Number of the Company's shares held: 14,300

Sept. 1956 Born
June 2014 Managing Executive Officer, Director
Apr. 2016 Executive Director, Technology Sector (Current position)
June 2016 Senior Managing Executive Officer, Director
June 2018 Executive Vice President, Representative Director (Current position)



Takashi Shoji

Senior Managing Executive Officer, Director

Number of the Company's shares held: 10,400

Sept. 1958 Born
Oct. 2010 Executive Officer
Apr. 2014 Managing Executive Officer
June 2016 Managing Executive Officer, Director
Apr. 2017 Executive Director, Solution Business and Global Business Sector (Current position)
June 2018 Senior Managing Executive Officer, Director (Current position)



Shinichi Muramoto

Senior Managing Executive Officer, Director

Number of the Company's shares held: 8,300

Mar. 1960 Born
Oct. 2010 Executive Officer
Apr. 2016 Managing Executive Officer
June 2016 Managing Executive Officer, Director
Apr. 2018 Executive Director, Corporate Sector (Current position)
June 2018 Senior Managing Executive Officer, Director (Current position)



Keiichi Mori

Managing Executive Officer, Director

Number of the Company's shares held: 7,800

Feb. 1960 Born
Oct. 2014 Executive Officer
Apr. 2017 Managing Executive Officer
Deputy General Manager, Solution Business Sector and General Manager, IoT Business Development Division (Current position)
June 2017 Managing Executive Officer, Director (Current position)



Kei Morita

Managing Executive Officer, Director

Number of the Company's shares held: 11,000

Nov. 1961 Born
Apr. 2015 Executive Officer
Apr. 2017 General Manager, Life Design Business Sector (Current position)
Apr. 2018 Managing Executive Officer
Jun. 2018 Managing Executive Officer, Director (Current position)

Goro Yamaguchi

Director

Number of the Company's shares held: 1,700

Jan. 1956 Born
June 2009 Director and Managing Executive Officer of Kyocera Corporation
Apr. 2013 President and Representative Director, President and Executive Officer of Kyocera Corporation
Apr. 2017 Chairman of the Board and Representative Director of Kyocera Corporation (Current position)
June 2017 Director of KDDI (Current position)

Tatsuro Ueda

Director

Number of the Company's shares held: 0

Oct. 1961 Born
Apr. 2013 Managing Officer of Toyota Motor Corporation
Apr. 2014 Chief Officer, General Administration & Human Resources Group of Toyota Motor Corporation (Current position)
Apr. 2017 Senior Managing Officer of Toyota Motor Corporation (Current position)
Jan. 2018 Chief Officer, Business Planning Division of Toyota Motor Corporation (Current position)
June 2018 Chief Executive Officer, China & Asia Region of Toyota Motor Corporation (Current position)
Director of KDDI (Current position)

Kuniko Tanabe

Director

Number of the Company's shares held: 2,100

Apr. 1945 Born
Mar. 1973 Registered as attorney at law
Feb. 1982 Joined Tanabe & Partners, Partner (Current position)
June 2003 Audit & Supervisory Board Member of Daido Metal Co., Ltd. (Current position)
June 2015 Director of KDDI (Current position)

Yoshiaki Nemoto

Director

Number of the Company's shares held: 900

Dec. 1945 Born
Apr. 1995 Professor, Graduate School of Information Sciences, Tohoku University
Apr. 2000 Head of Information Synergy Center, Tohoku University
Apr. 2004 Councillor of Educational Research Board, Tohoku University
Apr. 2008 Director, Tohoku University
Apr. 2012 Director General of Resilient ICT Research Center, the National Institute of Information and Communications Technology (NICT)
June 2016 Director of KDDI (Current position)

Shigeo Ohyagi

Director

Number of the Company's shares held: 0

May 1947 Born
June 2005 Executive Officer, Member of the Board of Teijin Limited
June 2006 Senior Executive Officer, Member of the Board of Teijin Limited
June 2008 President and CEO, Representative Director of the Board of Teijin Limited
Apr. 2014 Chairman, Member of the Board of Teijin Limited
June 2014 Outside Audit & Supervisory Board Member of JFE Holdings, Inc. (Current position)
June 2018 Senior Advisor of Teijin Limited (Current position)
Director of KDDI (Current position)

Audit & Supervisory Board Members

Koichi Ishizu

Full-time Audit & Supervisory Board Member

Number of the Company's shares held: 12,800

Akira Yamashita

Full-time Audit & Supervisory Board Member

Number of the Company's shares held: 300

Yasuhide Yamamoto

Full-time Audit & Supervisory Board Member

Number of the Company's shares held: 6,300

Kakuji Takano

Audit & Supervisory Board Member

Number of the Company's shares held: 1,300

Nobuaki Katoh

Audit & Supervisory Board Member

Number of the Company's shares held: 0

Outside directors and Audit & Supervisory Board members
Independent directors and Audit & Supervisory Board members

Composition of Directors and Advisory Committees

Name	Newly appointed	Representative rights	Independent	Outside	Execution of business	Nomination Advisory Committee	Remuneration Advisory Committee	Other
Takashi Tanaka		○			○	○	○	Chairman of Board of Directors
Hirofumi Morozumi		○			○			
Makoto Takahashi		○			○	○	○	
Yuzo Ishikawa		○			○			
Yoshiaki Uchida		○			○			
Takashi Shoji					○			
Shinichi Muramoto					○			
Keiichi Mori					○			
Kei Morita	○				○			
Goro Yamaguchi				○		○	○	
Tatsuro Ueda	○			○		○	○	
Kuniko Tanabe			○	○		○	○	
Yoshiaki Nemoto			○	○		○	○	
Shigeo Ohyagi	○		○	○		○	○	

* During the fiscal year ended March 31, 2018, the Nomination Advisory Committee met on two occasions and the Remuneration Advisory Committee met on one occasion.

Corporate Governance



Basic Views on Corporate Governance

As a telecommunications operator that provides social infrastructure, the Company has the important social mission of providing stable communications services on an ongoing basis, 24 hours a day and 365 days a year, regardless of conditions. Furthermore, as a telecommunications operator, our business derives from utilizing radio waves—an important asset shared by all citizens. Accordingly, we recognize that we have the social responsibility to address the issues society faces and seek to resolve them through telecommunications.

Attaining sustainable growth and increased corporate value over the medium to long term is essential to achieving this social mission and social responsibility. Furthermore, we strive to engage in dialogue with all our stakeholders, including customers, shareholders, business partners, employees, and local communities, and work in cooperation to proactively address societal issues. In this manner, we aim to contribute to the development of a safe, secure, and truly connected society.

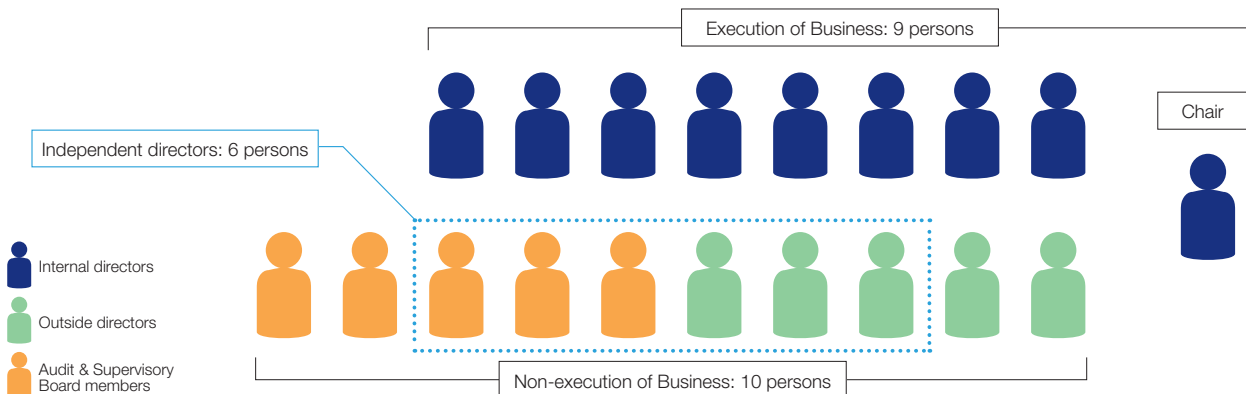
We recognize reinforcing corporate governance as

important to achieving sustainable growth and increased corporate value over the medium to long term. Accordingly, we are in accordance with the tenets of the “Corporate Governance Code” defined by the Financial Instruments and Exchange Act. While maintaining transparency and fairness, we endeavor to enhance our structures for ensuring timely and decisive decision-making.

In addition to our corporate credo and mission statement, we have formulated the “KDDI Group Philosophy,” which defines perspectives, values, and a code of conduct that officers and employees should share. We conduct activities to promote awareness of this philosophy throughout the Company.

By proactively adhering to Japan’s Corporate Governance Code and practicing the KDDI Group Philosophy, which we consider inseparable from the standpoint of corporate management, we will endeavor to enhance corporate governance throughout the KDDI Group, including its subsidiaries, to achieve sustainable growth and increased corporate value over the medium to long term.

Composition of Board of Directors



Changes in the Corporate Governance Framework

Changes in the Corporate Governance Framework

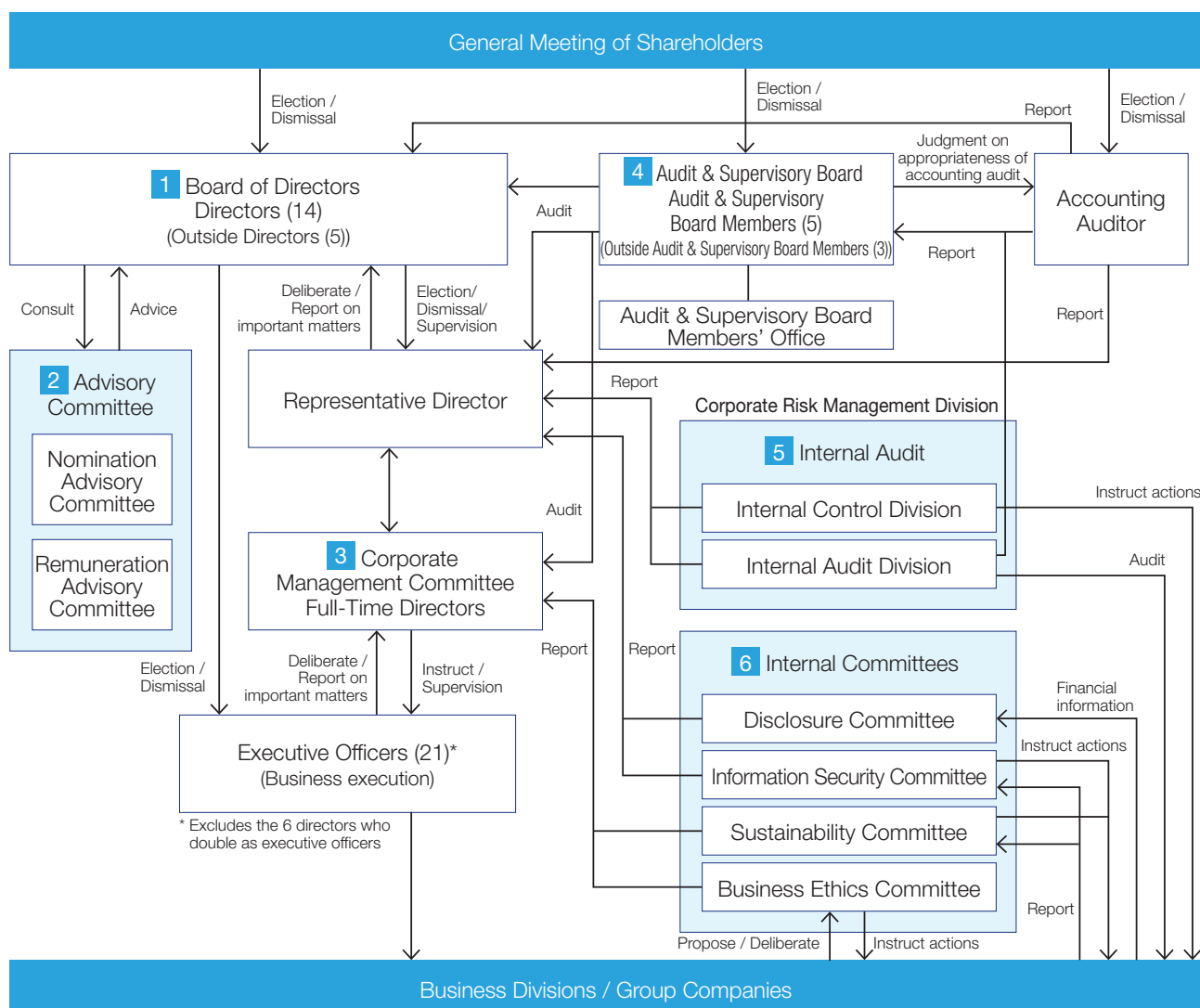
(Year)

		2000–				2005–				2010–				2015–		2018	
President		Yusai Okuyama		From June 2001 Tadashi Onodera						From December 2010 Takashi Tanaka				From April 2018 Makoto Takahashi			
Directors	Number of directors	53* ²	13	12	11						>10	13	12		>13	>14	
	Outside directors			2	3						>4	3			>2	>3	4 5
Assurance of diversity* ¹	Number of female directors														1		
Audit & Supervisory Board members	Number of Audit & Supervisory Board members	5															
Ensure independence	Number of independent directors* ³											2	1	3		>4	5 6
	Advisory Committee																Nomination Advisory Committee established in 2015
Transparency in executive remuneration		Introduction of a stock option system in 2002															
		Remuneration Advisory Committee established in 2011															
		Introduction of a performance-based bonus system for executives in 2011															
		Introduction of stock compensation plan for directors in 2015															
		Revision of stock compensation plan for directors in 2018															
The KDDI Group Philosophy		Enactment in October 2000												Revised, continued promotion activities from 2013			

^{*1} Number of people at the conclusion of each Annual General Meeting of Shareholders

^{*2} Number of people at the conclusion of an Extraordinary Meeting of Shareholders convened in October 2000

^{*3} Independent officers pursuant to Rule 436-2 of the Securities Listing Regulations of Tokyo Stock Exchange, Inc.



1 Board of Directors

At KDDI, Board of Directors resolutions determine:

- Matters prescribed by the Companies Act or other laws and regulations,
- Matters prescribed by the Articles of Incorporation,
- Matters delegated for resolution at the general shareholder meeting, and
- Other important management-related matters.

For other important management-related matters, their importance is determined according to such factors as the scale of money, business, assets, and investment involved.

These decision standards for importance are not permanent. Rather, they are reviewed appropriately in accordance with changes in the legal system and the environment in which the Company operates, with the aim of ensuring management speed and effectiveness.

2 Advisory Committee

KDDI has formed a Nomination Advisory Committee and a Remuneration Advisory Committee to discuss with and provide advice to the Board of Directors to maintain both transparency and fairness in the system of nomination of executive candidates and Audit & Supervisory Board member candidates and the level of remuneration for executives.

The Chairman, Vice Chairman and half or more of the members of these committees are outside directors.

3 Corporate Management Committee

Comprised of internal directors, executive officers and others, the Corporate Management Committee deliberates and decides on important matters related to business execution at the Company and its subsidiaries.

4 Audit & Supervisory Board/ Audit & Supervisory Board Members

Audit & Supervisory Board members conduct their audit work based on audit policies and plans established by the Audit & Supervisory Board and carry out their work by attending meetings of the Board of Directors, the Corporate Management Committee, and other major internal meetings. The Audit & Supervisory Board receives reports on the audit methods of Audit & Supervisory Board members and their results, discusses them, and offers its opinions, as appropriate, at meetings of the Board of Directors.

5 Internal Audit

KDDI conducts periodic internal audits targeting all the operations of the Group, and regularly reviews the appropriateness and effectiveness of internal controls.

The results of these internal audits are reported to the president and the Audit & Supervisory Board members, along with recommendations for improvement and correction of any problems.

6 Internal Committees

KDDI has put in place the KDDI Group Business Ethics Committee (P. 37) to deliberate and make decisions on compliance-related items for the Group. We have also established a Disclosure Committee (P. 38) to gather financial results information to be disclosed at fiscal period-ends, as well as an Information Security Committee to ensure overall information security regarding information assets, and a Sustainability Committee, set up to deliberate on sustainability related matters such as CSR and the environment.

Analysis and Evaluation of the Effectiveness of the Board of Directors

■Objective of Board of Director Evaluations

To ensure a correct understanding of the current status of its Board of Directors and to work toward continuous improvement, KDDI has its Board of Directors conduct regular annual self-evaluations.

■Overview of the Evaluation Process

The Company verifies the effectiveness of its Board of Directors based on an evaluation by the directors and the Audit & Supervisory Board members. The evaluation is conducted in questionnaire form, combining a four-grade rating scale with free space for comments. This supports our efforts to validate the effectiveness of our initiatives and uncover any areas for improvement from both a quantitative and qualitative perspective.

The evaluation targets the most recent one-year period and is conducted regularly on an annual basis. The results are reported to the Board of Directors, which then considers future countermeasures.

Key items for evaluation are as listed below.

- Operation of the Board of Directors (including composition, documentation and explanations, provision of information, etc.)
- Management supervision (including conflicts of interest, risk management, and management of subsidiaries, etc.)
- Medium to long-term discussions (participation in medium-term management planning, monitoring of plan execution, etc.)

■Overview of Evaluation Results

Summary

The Company's Board of Directors was found to be managed appropriately and functioning effectively.

The following points were found to be rated particularly highly.

- Outside directors and Audit & Supervisory Board members with a wide range of experience in each field join discussions with diverse and multi-faceted perspectives.
- Adequate time is secured for outside directors and Audit & Supervisory Board members to speak, and sincere responses are made to their opinions and questions.

Improvements over the Previous Evaluation

Issues indicated in the previous evaluation were found to have been improved, such as sharing the status of achieving the medium-term management plan and periodically providing opportunities for discussing long-term prospects for the management environment and strategies such as policies for handling environmental changes.

Future Issues to be Addressed

The Company has received an opinion stating that it would be desirable to further enhance discussions on the medium- to long-term management strategy from various perspectives in the future.

Therefore, in the fiscal year ending March 31, 2019 we plan to have several debates on how to formulate the next medium-term management plan.

We will continue to work toward ongoing improvement.

Decision Standards for Independence of Outside Executives

In addition to the independence standards provided by financial instruments exchanges, the Company has formulated its own standards. Specifically, these standards state that people hailing from business partners making up 1% or more of the Company's consolidated net sales or orders placed are not independent. Other matters are given individual consideration depending on circumstances.

Appointment of a New President

Appointment of President Makoto Takahashi, promoting the "integration of telecommunication and life design"

President Makoto Takahashi was appointed on April 1, 2018 through meetings of the Nomination Advisory Committee and the Board of Directors held in January 2018.

Mr. Takahashi was a member of KDDI's predecessor, DDI CORPORATION, from the time of its founding and has long been involved with business development in the value-added domain based on telecommunications. Moreover, he has a wealth of experience in new business development and promotion.

The Company's business environment is changing with competition increasing beyond the boundary of telecommunications and non-telecommunications businesses. In this situation, the Board of Directors judged Mr. Takahashi to be the best person to lead KDDI forward.

The fiscal year ending March 31, 2019 is the final year of the current medium-term targets, and an important year for formulating the next medium-term targets. Under President Takahashi's leadership, KDDI will promote new experience value proposals through the integration of telecommunications and life design, and continue to advance with sustainable profit growth and strengthening shareholder returns.



The news conference to announce the appointment of the new president
Right side: Makoto Takahashi, President
Left side: Takashi Tanaka, Chairman

Reasons for Appointment as Outside Officers and Principal Activities (FY2018.3)

Name	Reason for appointment as an outside director of the Company	Principal activities
Goro Yamaguchi	Mr. Yamaguchi has a wealth of corporate management experience and excellent knowledge cultivated as the president and representative director of one of the world's leading electronic component and equipment manufacturers. In the Board of Directors meetings, the Company has received a large number of broad opinions related to business administration and operations from him based on a medium- to long-term perspective and has determined that he can continue to contribute to improving the corporate value of the Company. Accordingly, he has again been appointed as a director.	Attended 9 of the 10 meetings of the Board of Directors*
Tatsuro Ueda	Mr. Ueda has abundant experience and excellent knowledge in the General Administration & Human Resources Group and the Business Planning Division, as an officer of one of the world's leading automobile manufacturers. The Company determined that he can continue to contribute to improving the corporate value of the Company by giving broad opinions on improving productivity, cultivating human resources, and promoting global strategy, etc., from a medium- to long-term perspective. Accordingly, he has been appointed as a director.	—
Kuniko Tanabe	Ms. Tanabe has abundant experience and superior expert insight, cultivated as the partner at a law office. In the Board of Directors meetings, she has offered many expert opinions from an independent position from the management team regarding legal risk management, taking a medium- to long-term perspective. We wish to continue benefitting from her contributions to the enhancement of the Company's corporate value. Accordingly, she has again been appointed a director. Moreover, with this background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly she has been appointed as an independent director.	Attended 12 of the 12 meetings of the Board of Directors
Yoshiaki Nemoto	Mr. Nemoto has a high level of knowledge in information processing, communications and network engineering, which is directly relevant to the business of the Company, as well as a deep understanding of disaster prevention that is valuable for the operation of our business. In the Board of Directors meetings, he has offered many expert opinions from an independent position from the management team regarding operational policy as an information communications operator providing social infrastructure, taking a medium- to long-term perspective. We wish to continue benefitting from his contributions to the enhancement of the Company's corporate value. Accordingly, he has again been appointed a director. Moreover, with this background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly he has been appointed as an independent director.	Attended 12 of the 12 meetings of the Board of Directors
Shigeo Ohyagi	Mr. Ohyagi has a wealth of corporate management experience and excellent knowledge cultivated as the president and CEO of one of the world's leading companies in the fields of synthetic fibers, chemical products, medicines and medical treatment, and distribution and retail. The Company determined that he can contribute to improving the corporate value of the Company by giving broad opinions from a medium- to long-term perspective, especially focusing on the field of life design business that the Company will promote in the future, global strategy and M&A. Accordingly, he has been appointed a director. Moreover, with this background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly he has been appointed as an independent director.	—

Name	Reason for appointment as an outside Audit & Supervisory Board member of the Company	Principal activities
Akira Yamashita	Mr. Yamashita has cultivated abundant experience and knowledge gained from many years of practical experience in the public sphere and involvement in the execution of business at various organizations. From the perspective of leveraging this knowledge and experience to monitor general management and to engage in appropriate audit activities, he has been appointed as an Audit & Supervisory Board member. Furthermore, with his background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly he has been appointed as an independent auditor.	Attended 12 of the 12 meetings of the Board of Directors Attended 12 of the 12 meetings of the Audit & Supervisory Board
Kakuji Takano	Mr. Takano has abundant experience as a Certified Public Accountant, as the representative of an accountancy firm and as an auditor for other companies, in addition to which he has cultivated extensive experience and knowledge in the execution of business at various organizations. From the perspective of leveraging this primarily accounting-related knowledge and experience to monitor general management and to engage in appropriate audit activities, he has been appointed as an Audit & Supervisory Board member. Furthermore, with his background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly he has been appointed as an independent auditor.	Attended 12 of the 12 meetings of the Board of Directors Attended 12 of the 12 meetings of the Audit & Supervisory Board
Nobuaki Katoh	Mr. Katoh has abundant experience as a director of listed companies and has extensive experience and knowledge as an auditor and through execution of business at various organizations. From the perspective of leveraging this knowledge and experience to monitor general management and to engage in appropriate audit activities, he has been appointed as an Audit & Supervisory Board member. Furthermore, with his background, we judge there to be no risk of a conflict of interest with general shareholders and accordingly he has been appointed as an independent auditor.	Attended 11 of the 12 meetings of the Board of Directors Attended 11 of the 12 meetings of the Audit & Supervisory Board

* Attendance and number of meetings following new appointment as director at the 33rd Annual Shareholders Meeting held on June 21, 2017

Support for Outside Directors and Audit & Supervisory Board Members

In addition to notifying outside directors and outside Audit & Supervisory Board members in advance of the schedule and agenda for meetings of the Board of Directors, proposal materials are also distributed prior to the meetings to encourage understanding of the agenda items and invigorate discussion at the meetings.

Questions are also accepted in advance and are used to enhance explanations on the day of the meeting, in an effort to provide for more substantial deliberations.

Besides the Board of Directors meeting, the Company ensure sufficient opportunities and time for meetings between executive directors and outside directors and Audit & Supervisory Board members, or meetings without executive directors, in order to receive appropriate involvement and advice from outside directors/Audit and Supervisory Board members regarding various management issues.

On April 1, 2006, KDDI established the Auditing Office to support Audit & Supervisory Board members, including outside members.

Policy on Strategic Shareholdings

KDDI believes that participating in tie-ups with a variety of companies is essential to providing its customers with increasingly diverse and advanced services.

To this end, our basic policy is to engage in strategic shareholdings after comprehensively judging that such holdings will contribute to KDDI's business and support the sustainable growth and increased corporate value of the entire KDDI Group over the medium to long term.

Accordingly, if determined to be necessary given such factors as the scale and importance of these holdings, the purpose and rationality of such holdings is explained to the Board of Directors.

* This article is based on details before the June 2018 revision of Japan's Corporate Governance Code



Executive Remuneration

To ensure transparency and fairness in systems and standards of executive compensation, the Board of Directors determines such matters based on advice from the Remuneration Advisory Committee, which is comprised primarily of outside directors.

Types and Methods for Determining Remuneration

	Type of Remuneration	Method of Determination	Maximum Amount of Remuneration	General Meeting of Shareholders Approval Date
Directors	Flat-rate remuneration	<ul style="list-style-type: none"> Based on such factors as directors' professional ranking and the management environment. Reference values are considered and set at appropriate levels using information from outside experts 	Maximum monthly remuneration of ¥50 million.	June 18, 2014 30th General Meeting of Shareholders
	Bonus	Bonuses are linked to and determined by the rate of achievement of the Group's consolidated revenue, operating income and profit for each fiscal year, as well as the achievement of certain KPIs, including net increase in mobile IDs, au churn rate and added-value ARPA.	Within 0.1% of consolidated net income (profit attributable to owners of the parent under IFRS) during the applicable fiscal year	June 16, 2011 27th General Meeting of Shareholders
	(Partially revised)* Stock Compensation (trust type)		(Applies to directors, executive officers and administrative officers) Total number of points (maximum) granted per fiscal year to those eligible: 357,000 points (Converted at a rate of 1 point = 1 share)	Introduced: June 17, 2015 31st General Meeting of Shareholders Revised: June 20, 2018 34th General Meeting of Shareholders
Audit & Supervisory Board members	Flat-rate remuneration only	Paid only basic remuneration that is not affected by fluctuations in the Company's operating performance.	Maximum annual remuneration of ¥130 million (for each business year)	June 22, 2016 32nd General Meeting of Shareholders
Formula for calculating bonus and stock compensation		Bonus: Basic amount by position multiplied by the Company operating performance and KPI evaluation Stock compensation: Basic points by position multiplied by the Company operating performance and KPI evaluation		

*Partial revision to stock compensation

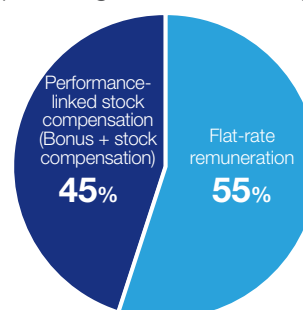
KDDI partially revised and will continue the performance-linked stock compensation plan it introduced in the fiscal year ended March 31, 2016.

Aligning stock compensation with the period of the following year's medium-term management plan is intended as one effort toward achieving the follow year's medium-term targets.

Note that this revision is expected to result in an increase in the ratio of performance-linked stock compensation as a percentage of overall remuneration to 45%.

* When target achievement rate is 100%.

Remuneration Distribution Ratio for Directors (excluding Outside Directors)*



Remuneration for Executive Members (FY2018.3)

Executive classification	Number of recipients (people)	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)		
			Basic remuneration	Bonus	Stock compensation
Directors (excluding outside directors)	10	650	393	146	111
Outside directors	6	75	75	—	—
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	2	52	52	—	—
Outside Audit & Supervisory Board members	3	50	50	—	—

Notes: 1. Above payment to directors includes two directors (of which one was an outside director) who resigned at the conclusion of the 33rd Annual General Meeting of Shareholders held on June 21, 2017. Note that the number of bonus recipients was nine people, excluding the two in question.

2. In addition to the above, a resolution of the 20th General Meeting of Shareholders held on June 24, 2004, was passed that determined directors and Audit & Supervisory Board members receive a retirement allowance in connection with the cancellation of the executive retirement bonus system.

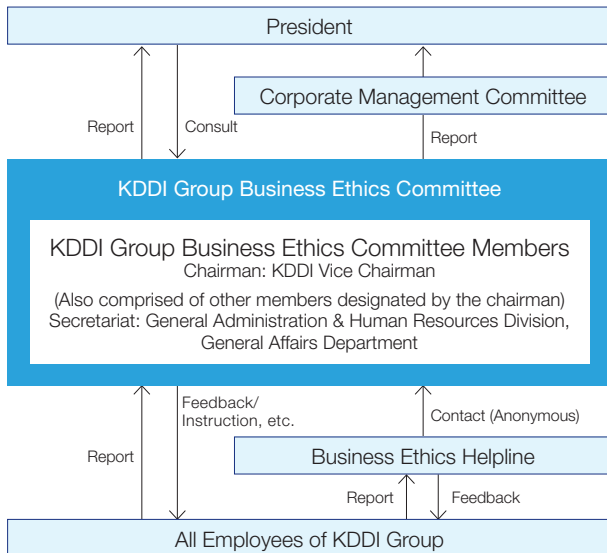
Compliance, Risk Management and Internal Controls



Compliance

KDDI recognizes that promoting awareness of rules is a fundamental management issue for enforcing a corporate code to fulfill its social responsibility in addition to observing laws and regulations. As a global corporation, KDDI is working to enhance its compliance systems throughout the entire Group.

Compliance Framework

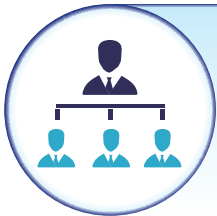


To provide a guideline for employees to act ethically and with an awareness of compliance, KDDI has established the KDDI Code of Business Conduct and published it on its intranet to ensure employees are familiar with and

act in accordance with it, making it available so that anyone can refer to it when dealing with doubts about their own judgement.

The Company has also put in place the KDDI Group Business Ethics Committee to deliberate and make decisions on compliance related items. The KDDI Group Business Ethics Committee is headed by the vice chairman, representative director, and comprises committee members including directors and other people that the chairman appoints as necessary. The committee meets semi-annually to ascertain the situation at each company and support the establishment and reinforcement of compliance structures. The KDDI Group Business Ethics Committee is also in charge of matters related to the helpline, preventing corruption, and compliance infringement such as violation of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade.

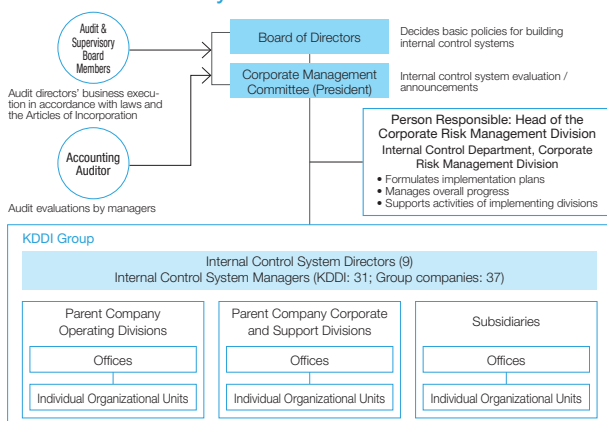
The KDDI Group Business Ethics Committee also formulates policies for educational activities and, in the event a compliance violation occurs, discloses information outside the Company and deliberates on measures to prevent recurrence. The status of the committee's activities is made available to all employees via the intranet.



Risk Management and Internal Controls

As corporations deal with constantly-changing business conditions, they also face increasingly diverse, complex risks. KDDI defines risks as those factors and phenomena that influence the achievement of management objectives. We recognize that strengthening risk management is an important management issue. To ensure the continuation of business and fulfill our responsibilities to society, we promote risk management activities across the Group as a whole.

Internal Control Systems



KDDI has established a system to centralize the management of risks, which it defines as factors that have the potential to block the achievement of management objectives. The Corporate Risk Management Division is the core of this system.

To ensure the sustainable growth of the entire Group, we are promoting risk management initiatives that encompass risk management Groupwide, including KDDI and its subsidiaries.

KDDI and its Group companies have respectively appointed 31 and 37 Internal Control System Managers, as well as nine Internal Control System Directors, to oversee their activities. Under these personnel, we promote maintenance and operation of the internal control system, as well as risk management activities. We also promote operational quality enhancement activities to realize a corporate constitution that prevents risks from materializing.

Risk Management Activity Cycle

KDDI recognizes that in order to prevent a corporate crisis from occurring, it is important to understand the signs of such crises and to put countermeasures in place before the situation worsens. To that end, we have built a PDCA cycle for risk management activities. We have also put in place a structure for managing risks to ensure they are dealt with rapidly and appropriately when they are discovered.

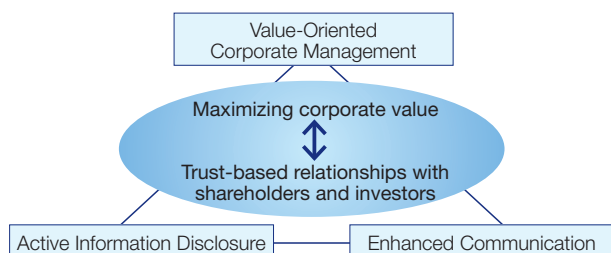


The Company is fully committed to undertaking fair and timely disclosure in an easily understandable manner of any information that could have a material bearing on the investment decisions of investors. Such disclosure is conducted on an ongoing basis, and is focused on the requirements of shareholders and investors. The Company's policy in this regard is in line with the Financial Instruments and Exchange Act and the Securities Listing Regulations of Tokyo Stock Exchange, Inc. governing the timely disclosure of information concerning the issuers of publicly listed securities. KDDI discloses its IR Basic Policy* on its website, explaining such matters as fundamental thinking regarding IR activities and the system for disclosing pertinent information. In particular, KDDI has set up a Disclosure Committee that concentrates on determining what information should be disclosed with the goal of improving business transparency and supplying appropriate information to the public.

* Matters to be decided by the Board of Directors.

IR Basic Policy

KDDI places top management priority on building a trusting relationship with its shareholders and investors, ensuring value-oriented corporate management, active information disclosure, and enhanced communication.



Three IR Activity Guidelines

Through IR based on the activity guidelines outlined below, KDDI strives to build long-term, trust-based relationships with shareholders and investors, as well as maximize its corporate value.

Open IR Activities

We value interactive dialogue with our shareholders and investors as well as ensuring accountability to our shareholders and investors through honest and fair information disclosure.

Proactive IR Activities

By always incorporating new ideas into our IR activities, we strive to make KDDI known to more people and promote further knowledge of the Company.

Organized IR Activities

Under the leadership of management, all of our officers and employees, including those of Group companies, engage in organized IR activities to further increase corporate value.

IR Activities in the Fiscal Year Ended March 31, 2018

Enhancing Communication

Earnings presentation meetings were held quarterly to allow management to directly communicate the Company's results. KDDI also held individual and small group meetings with investors from Japan and overseas, and participated in various conferences and seminars for individual investors sponsored by securities companies for better communication.

KDDI takes the opinions expressed by shareholders and investors seriously, communicating them not only to management but also to employees in general. Such opinions are considered an extremely valuable reference in the formation of business and management strategies.

Results of IR Activities in the Fiscal Year Ended March 31, 2018

	(Times)
Individual meetings with institutional investors	851
Financial results briefings	4
Overseas road shows	14
Seminars for individual investors	13

Key External Recognition

Overseas	<ul style="list-style-type: none"> • FTSE4Good Index Series • MSCI ESG Leaders Indexes • Euronext Vigeo World 120 • Ethibel Sustainability Index Excellence Global 
In Japan	<ul style="list-style-type: none"> • MS-SRI • Nadeshiko Brand • Gold Award in the PRIDE Index • Second overall in the 12th CSR Company Ranking 

Active Information Disclosure

KDDI provides webcasts of its results presentations on its website, and also posts an English-language version of its results presentations. Earnings reports, financial statements and operational data, information related to corporate governance, and other types of disclosure documents are made available. Information is prepared for use on multiple devices, including various web browsers, smartphones, and tablets.

Moreover, in our small meetings, we provided on-demand streaming of certain briefings on the Company website.

As a result of our IR activities, in the fiscal year ended March 31, 2018, KDDI has received excellent evaluations. The Company was selected for a second consecutive year to receive the Daiwa Investor Relations Internet IR 2017 Grand Prize. We were also ranked second in the Fiscal 2017 All Japanese Listed Companies' Website Ranking of Nikko Investor Relations Co., Ltd. and third (Gold Prize) in the "Gomez IR Website Overall Ranking 2017" by Morningstar Japan K.K. In addition, we achieved third place in the "Telecommunications and Internet" category of the "Securities Analysts Selection of Best Companies for Disclosure" (fiscal year 2017) by the Securities Analysts Association of Japan.





Performance Section

- P.40 The Japanese Market and KDDI
- P.44 Market Overview
- P.45 Performance Analysis for the Fiscal Year Ended March 31, 2018
- P.48 Performance Analysis and Activities by Segment for the Fiscal Year Ended March 31, 2018
 - P.48 Personal Services Segment
 - P.50 Life Design Services Segment
(Formerly Value Services Segment)
 - P.52 Business Services Segment
 - P.53 Global Services Segment
- P.54 Consolidated Financial Statements
- P.118 Corporate Overview / Stock Information

Characteristics of the Japanese Market

Mobile

As of March 31, 2018, cumulative mobile communications subscriptions in Japan totaled 170.09 million^{*1}, up 4.1% year on year.

The mobile market continues to grow, driven by the spread of smartphones and further advances in the trend of single users owning multiple devices.

There has also been significant growth in the number of service contracts for MVNO^{*2}, up 16.0% from a year earlier to 18.40 million. The MVNO share of the mobile telecommunications market has reached 10.6% (7.4% if limited to SIM card contracts)^{*3}, a ratio that is expected to expand further going forward. The entry of a fourth telecommunications operator is also expected in fall 2019, and Japan's mobile communications market is approaching a new stage.

Further, in the IoT field for connecting a wide variety of things with the internet, low power wide area (LPWA)

specifications have been established to enable wide-area communications with low power consumption using LTE networks, and the use of IoT is ramping up across a variety of product and service fields.

Note that the scale of the overall market created by the advance of IoT is predicted to expand from ¥930 billion in 2017 to ¥4.04 trillion in 2023^{*4}, and expected to become the driving force in mobile communications market expansion going forward.

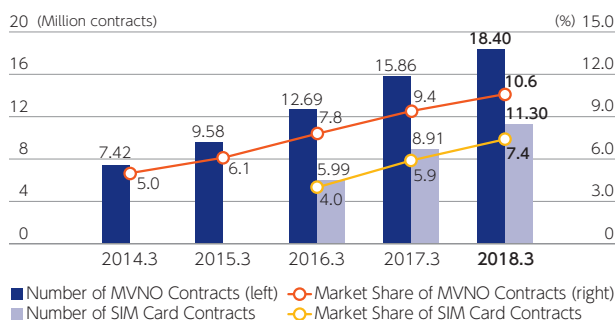
^{*1} Source: Official Announcement of Quarterly Data on the Number of Telecommunications Service Subscriptions and Market Shares (FY2017 Q4 (End of March 2018)), Ministry of Internal Affairs and Communications

^{*2} MVNO: Mobile Virtual Network Operator
Procure networks from mobile network operators (MNOs) to provide mobile services

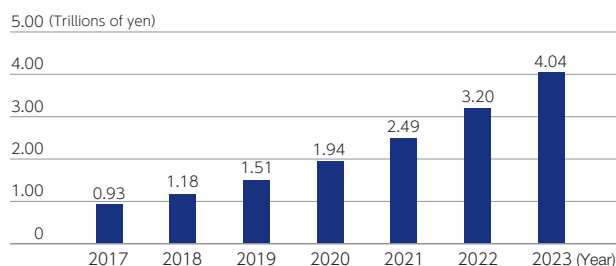
^{*3} Share of MVNO service contracts = Number of MVNO service contracts / number of mobile telecommunications contracts
Share of SIM card contracts = Number of SIM card contracts / (number of mobile telecommunications contracts – number of contracts for telecommunications modules provided by MNOs (20.10 million contracts))

^{*4} Source: Prepared by KDDI based on Outlook for ICT and Media Market Scale and Trends through 2023 from Nomura Research Institute, Ltd.

● Number of MVNO Contracts and Market Share^{*1, *3}



● Scale of the IoT Market^{*4}



Fixed-Line Broadband

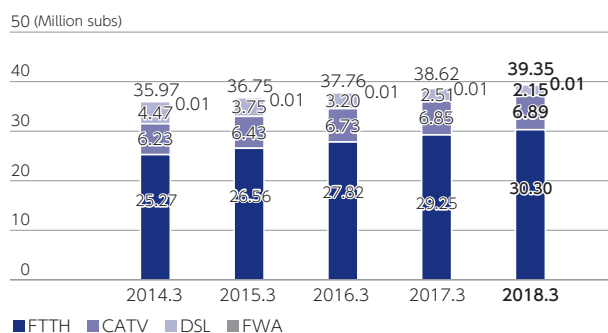
The nationwide FTTH household coverage ratio is more than 90%^{*5} and “homes passed^{*6}” is more than 70%^{*7}, indicating that high-speed broadband environments are essentially in place nationwide.

As of March 31, 2018, fixed-line broadband service subscriptions numbered 39.35 million^{*1}, up 1.9% from the previous fiscal year-end.

Although fixed-line broadband service penetration has reached around 70%, the market continues to expand gradually, driven by sales of discount bundled mobile and fixed-line services and the opening of new markets by new operators using the wholesaling fiber access service of NTT East and NTT West.

^{*5} Source: Information NTT East Japan: Overall Management (2016): Telecommunications Facilities: Access Going Optical. As of March 31, 2017, Nippon Telegraph and Telephone East Corporation (NTT East)'s FTTH household coverage ratio was 95% and Nippon Telegraph and Telephone West Corporation (NTT West)'s was 93% (estimated).

● Number of Fixed-Line Broadband Subscriptions^{*1}



^{*6} In regions where the installation of CATV facilities is permitted, households in areas where installation of transit routes is complete

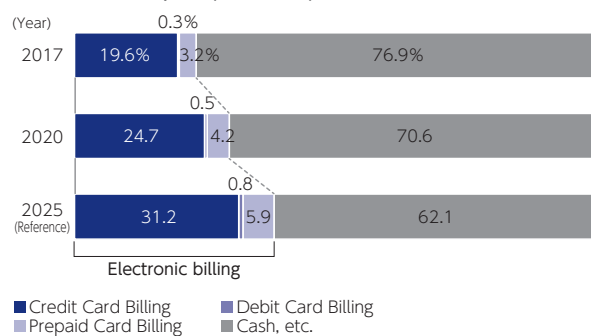
^{*7} Source: *Hoso Journal*, July 2018 edition (as of March 31, 2018); Ministry of Internal Affairs and Communications: Population, Population Trends, and Number of Households based on Residents Register (as of January 1, 2017)

Non-Telecommunications Fields

As the domestic telecommunications business begins to shift toward a stage of stable growth, mobile telecommunications companies are working to secure new sources of revenue, utilizing their domestic telecommunications customer bases to more actively engage in a variety of initiatives aimed at expanding revenue in non-telecommunications fields such as commerce.

In addition to carrier billing, which has become a widespread means of online payment supporting that expansion, telecommunications companies are offering their own credit cards as a method of paying for offline services, creating a system for capturing both online and offline revenue. The move to cashless systems is also accelerating with advances in efforts to offer payments using QR codes.

● Change in the Scale of the Electronic Billing Services Market in Japan (Forecast)

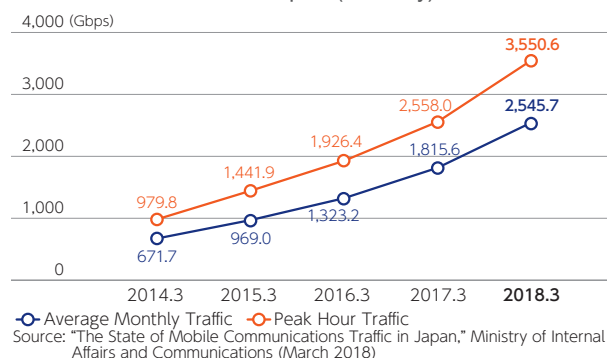


Increase in Mobile Traffic and Frequency Allocated to Each Telecommunications Company

Due to the proliferation of smartphones and tablets, and the increased performance of such devices, along with increasingly diverse mobile content services and evolution of telecommunications technologies, mobile traffic in Japan continues to grow, with both average monthly traffic and peak traffic rising by about 40% in the most recent year.

This has become an important issue for mobile telecommunications companies as they work to efficiently absorb this ongoing increase in mobile traffic and maintain stable network operations.

● Total Mobile Traffic in Japan (Monthly)



● Allocation of Bandwidth among Japan's Mobile Telecommunications Operators (As of August 1, 2018)

	au + UQ WIMAX	NTT DOCOMO	SoftBank Group	Rakuten
3.5GHz (Band 42)	TD-LTE 40MHz	NEW 80MHz*3	NEW 80MHz*3	
2.6GHz (Band 41)	BWA Advanced BWA (Compatible with TD-LTE) 50MHz*1 UQ WIMAX		30MHz Wireless Citi Planning	
2.1GHz (Band 1)	FD-LTE 20MHz*5 ×2	20MHz ×2	20MHz ×2	
1.7GHz (Band 3)	NEW 20MHz*2 ×2	20MHz*4 ×2	15MHz ×2	NEW 20MHz*2 ×2
1.5GHz (Band 11/21)	FD-LTE 10MHz ×2	15MHz ×2	10MHz ×2	
900MHz (Band 8)	FD-LTE		15MHz ×2	
800MHz (Band 18/19/26)	FD-LTE 15MHz*5 ×2	15MHz ×2		
700MHz (Band 28)	FD-LTE 10MHz ×2	10MHz ×2	10MHz ×2	
Total Bandwidth	240MHz	240MHz	250MHz	40MHz

*1 Currently, a 40MHz section is used for WiMAX 2+ (TD-LTE) and a 10MHz section is used for WiMAX.

*2 Newly allocated by the Ministry of Internal Affairs and Communications on April 9, 2018

*3 Of this 80MHz, 40MHz was newly allocated by the Ministry of Internal Affairs and Communications on April 9, 2018

*4 Only in Tokyo, Nagoya, and Osaka

*5 Partly including 3G

KDDI's Domestic Status

Integration of Telecommunications and Life Design

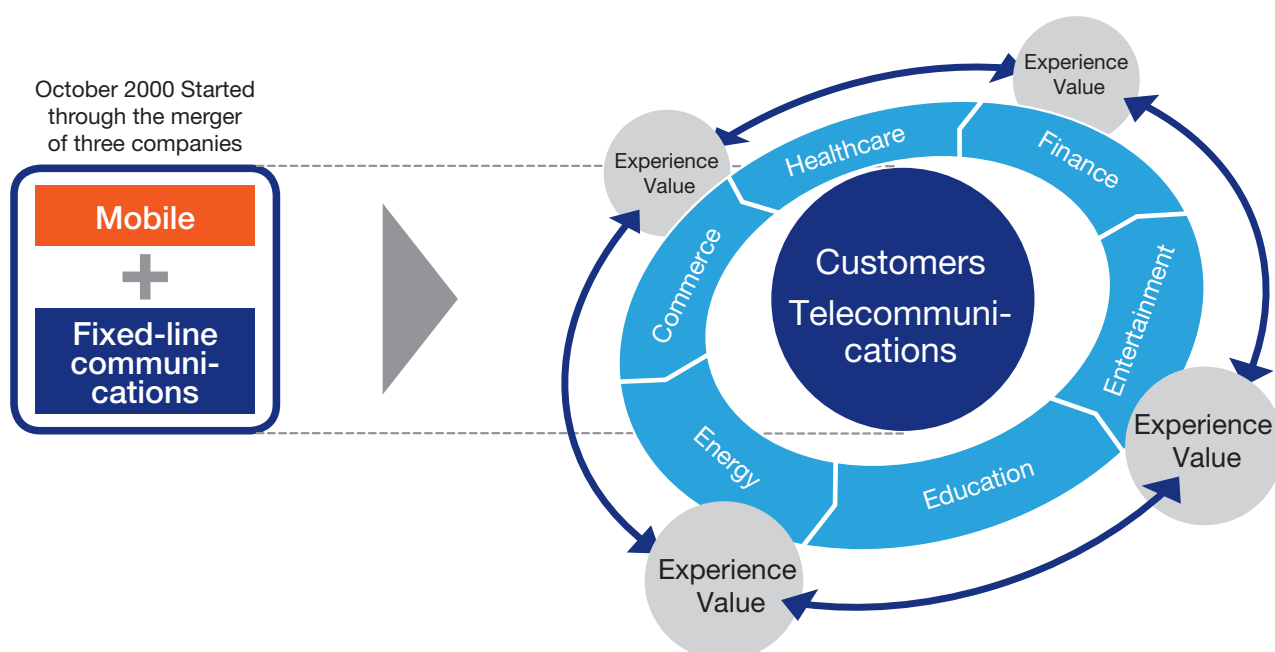
KDDI CORPORATION was established in October 2000 through the merger of DDI, KDD and IDO, and has continued to expand its base as a comprehensive telecommunications company with both mobile and fixed-line operations.

While the business has continued to grow with the expansion of the domestic mobile communications market and widespread popularity of smartphones, growth in the domestic telecommunications business, once a key driver, has slowed, and KDDI is working to establish new sources of growth.

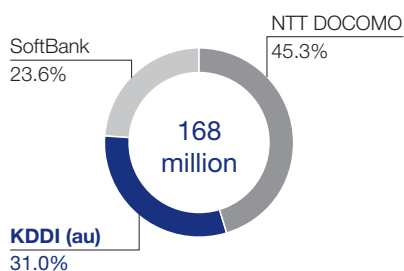
Specifically, we are advancing efforts to propose new experience value to customers through the “integration of telecommunications and life design,” building concentric rings of life design services such as commerce, finance, energy, entertainment, and education around the core of our telecommunications business and customer base.

In our global business, we are working toward sustainable growth both inside and outside Japan, through our consumer business in Myanmar and Mongolia, and through expansion of our data center business under the TELEHOUSE brand.

● KDDI's Goal for the “Integration of Telecommunications and Life Design”

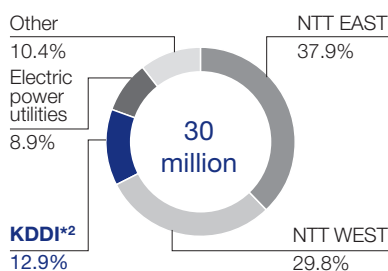


● Share of Mobile Communications Subscriptions*1 (As of March 31, 2018)



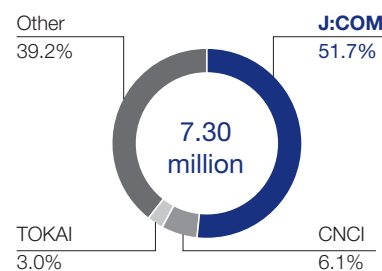
Source: Prepared by KDDI based on Telecommunications Carriers Association's data
 *1 Share among NTT DOCOMO, INC. (NTT DOCOMO), SoftBank Corp. (SoftBank), and KDDI + Okinawa Cellular Telephone Company (au)

● Share of FTTH Subscriptions (As of March 31, 2018)



Source: Prepared by KDDI based on Ministry of Internal Affairs and Communication's data
 *2 KDDI + ctc + Okinawa Cellular Telephone Company + BIGLOBE

● Share of Pay Multi-Channel CATV Subscriptions (As of March 31, 2018)



Source: Prepared by KDDI based on *Hoso Journal* (July 2018 issue)

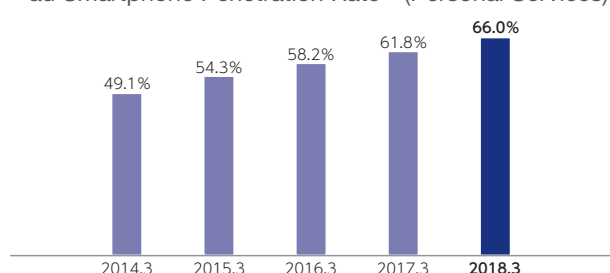
Principal Businesses of the KDDI Group

● Mobile

As of March 31, 2018, au mobile subscriptions numbered 52.28 million, up 7.7% year on year and accounting for a 31.0% (+1.2 percentage point) share of the mobile market coverage by Japan's three major carriers.

Of this figure, in the Personal Services segment, which provides services for individual customers, au smartphone penetration*³ has risen to 66.0%.

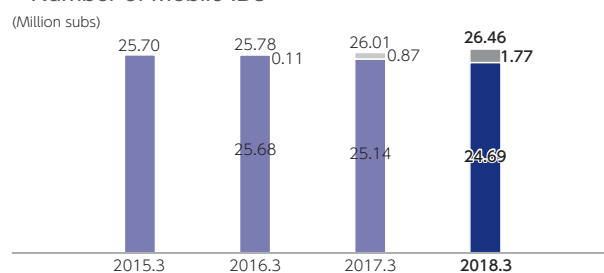
● au Smartphone Penetration Rate*³ (Personal Services)



*³ au smartphones / general handsets (smartphones and feature phones (including prepaid))

In addition, new price plans offered beginning in July 2017 contributed to reducing churn, and as of March 31, 2018, au mobile subscriptions*⁴ numbered 24.69 million. Meanwhile, the number of contracts to the MVNO provided by a consolidated subsidiary has increased by 910,000 over the previous year to 1.77 million contracts, increasing the number of "mobile IDs" (the total of au account and MVNO subscriptions) by 1.8% year on year to 26.46 million.

● Number of Mobile IDs



■ au Subscriptions*⁴ ■ Number of MVNO Contracts

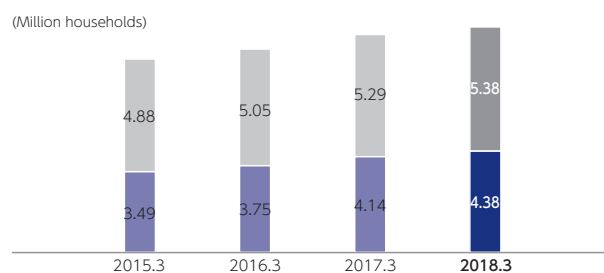
*⁴ au Subscriptions: Personal Services segment accounts under the same name are counted as one au subscription

● Fixed-Line Broadband

As of March 31, 2018, the cumulative number of FTTH subscriptions stood at 4.38 million, up 5.8% year on year and accounting for a market share of 12.9%. In CATV services, the number of RGU households as of March 31, 2018 increased steadily to 5.38 million, up 1.8% year on year.

By cross-selling FTTH and CATV services to the au customer base, we expect the KDDI Group customer base to continue growing stronger and expanding.

● Total of Cumulative FTTH Subscriptions*² and Number of RGU Households*⁵



■ Cumulative FTTH Subscriptions ■ Number of RGU Households

*⁵ RGU: Revenue Generating Units. Each household's subscription to CATV, high-speed Internet connection, or telephony services represents one RGU

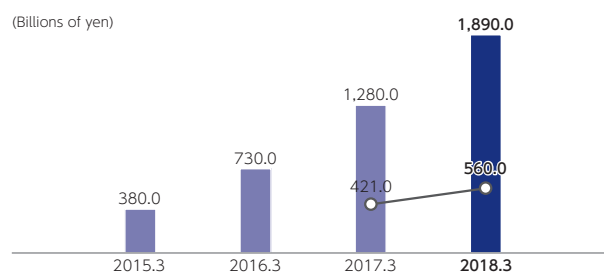
● Non-Telecommunications Field

KDDI is aiming to establish a new source of growth in the non-telecommunications field by maximizing the "au Economic Zone."

The "au Economic Zone" comprises commerce, finance, energy, entertainment and education and other services. The amount of these services used, along with the total payments made through means provided by KDDI ("au Carrier Billing" and "au WALLET") together amount to total transaction volumes in the "au Economic Zone."

Approximately 30% of that total is recorded as "au Economic Zone" sales.

● Gross Merchandise Value and Sales of the "au Economic Zone"



■ Gross Merchandise Value of the au Economic Zone
○ au Economic Zone Sales

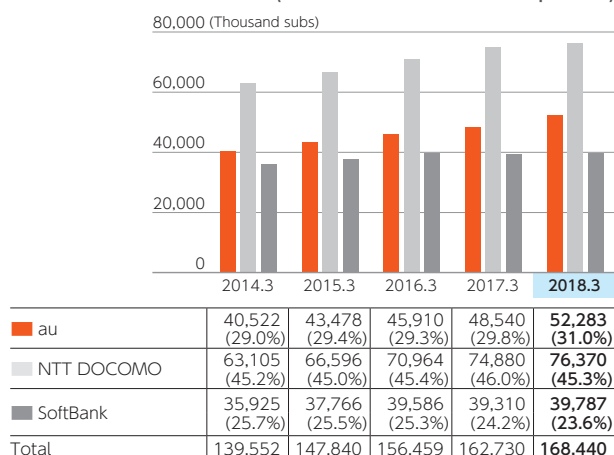
Market Overview

(Years ended March 31)

>>> For information about the quarterly status of KDDI for the fiscal year ended March 31, 2018, please download "Historical Data (2001–) (BS/PL/CF)" from the Company's website. <http://www.kddi.com/english/corporate/ir/finance/highlight/>

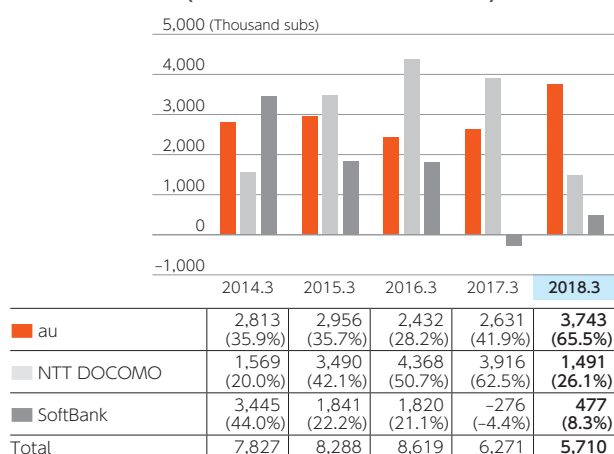
Mobile Communications Market Data

Number of Total Subscribers (Share of Cumulative Subscriptions*1)



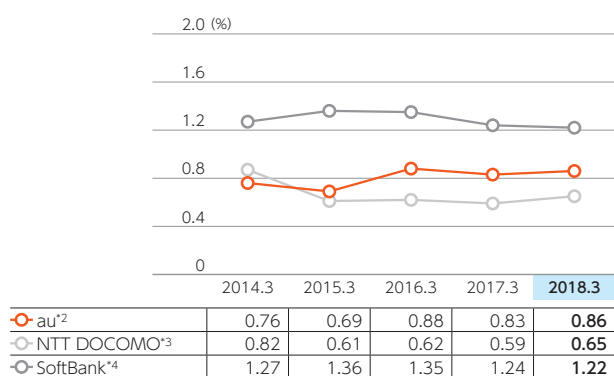
*1 Share among NTT DOCOMO, INC., SoftBank Corp., and KDDI + Okinawa Cellular Telephone Company (au)
Source: Data prepared by KDDI based on materials from the Telecommunications Carriers Association

Net Additions (Share of Net Additions*1)



Source: Data prepared by KDDI based on materials from the Telecommunications Carriers Association

Churn Rate



*2 For conventional mobile terminals (smartphones and feature phones) (Personal Services Segment basis)

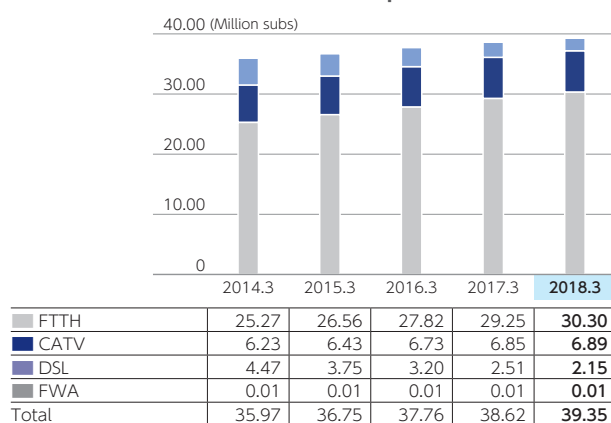
*3 From the fiscal year ended March 31, 2016, the definition of the churn rate has been revised. Accordingly, results for the fiscal years ended March 31, 2014 and March 31, 2015 have been restated to reflect the new definition.

*4 From the fiscal year ended March 31, 2016, the definition of the churn rate has been revised. Accordingly, results for the fiscal year ended March 31, 2015 have been restated to reflect the new definition.

Source: Data prepared by KDDI from individual companies' materials

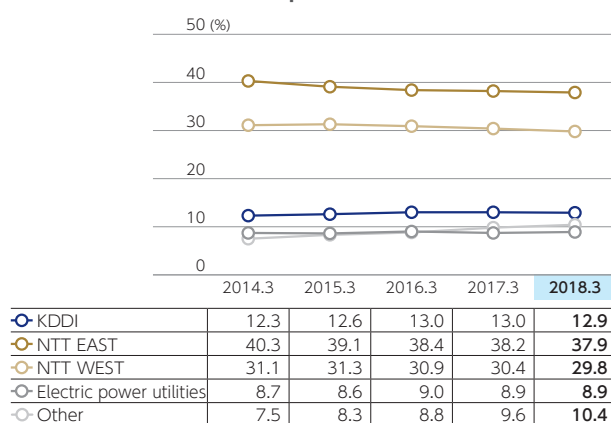
Fixed-Line Communications Market Data

Number of Broadband Subscriptions



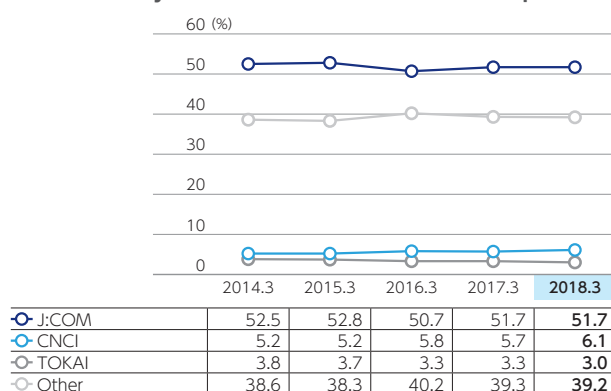
Source: Data prepared by KDDI based on materials from the Telecommunications Carriers Association

Share of FTTH Subscriptions



Source: Data prepared by KDDI based on materials from the Telecommunications Carriers Association

Share of Pay Multi-Channel CATV Subscriptions



Source: Data prepared by KDDI based on *Hoso Journal*

Performance Analysis for the Fiscal Year Ended March 31, 2018

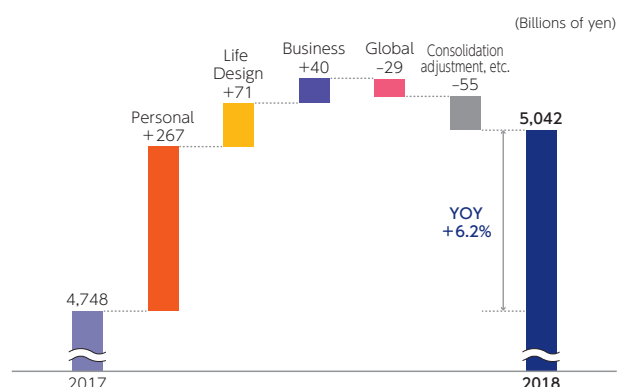
Analysis of the Consolidated Statement of Income

(Years ended March 31)

Operating Revenue

YOY **Up 6.2%** ¥5,042.0 billion

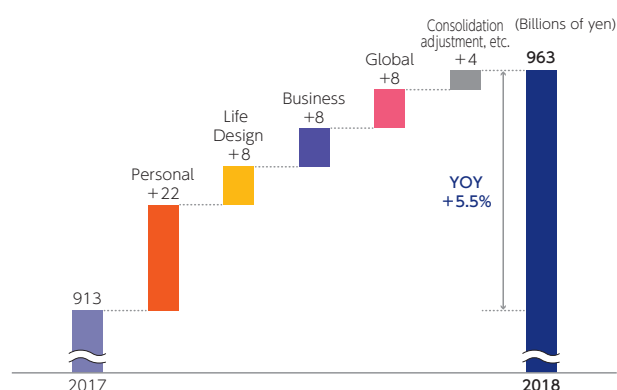
The Personal Services segment recorded an increase in both mobile communications revenues and energy business revenues, and an increase from the consolidation of BIGLOBE as a subsidiary, as well as increases in revenue due to expansion of the Life Design Business, including the commerce and settlement businesses to maximize the "au Economic Zone." Revenue also increased in the Business Services segment. As a result, consolidated operating revenue rose 6.2% year on year to ¥5,042.0 billion.



Operating Income

YOY **Up 5.5%** ¥962.8 billion

Consolidated operating income increased 5.5% year on year to ¥962.8 billion. Despite expenditure on strategy costs for medium to long term growth, the increase reflects an increase in mobile communications revenues and gross profit on device sales in the Personal Services segment, as well as an impact from conducting impairment of certain idle assets related to 3G services in the fiscal year ended March 31, 2017, and steady overall performance in the Other segments.



Profit for the Year Attributable to Owners of the Parent

YOY **Up 4.7%** ¥572.5 billion

Consolidated operating income increased, and finance income and cost (net) increased while profit for the year attributable to non-controlling interests decreased. As a result, profit for the year attributable to owners of the parent increased 4.7% year on year to ¥572.5 billion.

Dividends per Share

YOY **Up ¥5** ¥90

We awarded full-year dividends per share of ¥90, up ¥5 year on year, amounting to a consolidated dividend payout ratio of 38.2%. Our dividend policy is to maintain the consolidated dividend payout ratio at a level above 35% while taking into consideration the investments necessary to achieve growth and ensure stable business operations. We aim to continue raising dividends through synergy between a higher consolidated dividend payout ratio and increasing earnings per share in line with higher operating income.

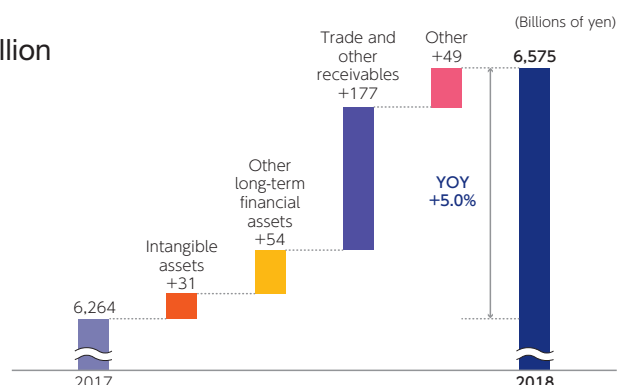
Analysis of the Consolidated Statement of Financial Position

(Years ended March 31)

Total Assets

YOY **Up ¥310.7 billion** ¥6,574.6 billion

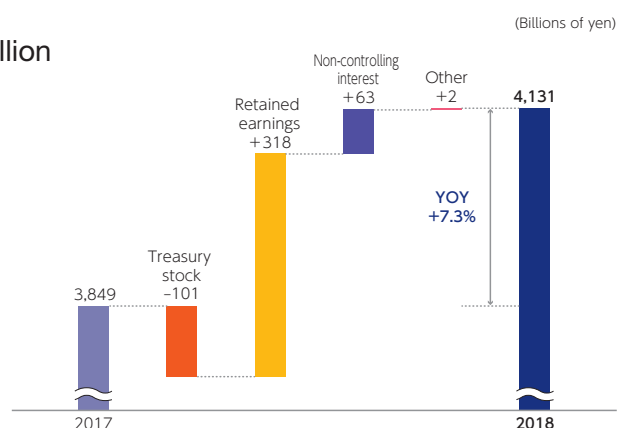
Total assets were ¥6,574.6 billion, an increase of ¥310.7 billion from the previous fiscal year-end. The increase reflects expansion of the “au WALLET Credit card” business and growth in receivables due to diversification of installment sales methods for au mobile phone handsets, as well as an increase in assets associated with the conversion of AEON Holdings Corporation and others into consolidated subsidiaries.



Total Equity

YOY **Up ¥282.1 billion** ¥4,131.3 billion

Total equity was ¥4,131.3 billion, up ¥282.1 billion, mainly due to an increase in retained earnings associated with the increase in profit and an increase in non-controlling interests, which outweighed a decline in equity due to the acquisition of treasury stock.



Interest-Bearing Debt

YOY **Down ¥33.0 billion** ¥1,118.6 billion

Interest-bearing debt decreased ¥33.0 billion year on year to ¥1,118.6 billion, mainly because of the redemption of bonds.

D/E Ratio

YOY **Down 0.03 of a point** 0.30 times

Interest-bearing debt decreased and equity attributable to owners of the parent increased, which led to an increase in retained earnings. As a result, the D/E ratio declined 0.03 of a point from the previous fiscal year end to 0.30 times as equity attributable to owners of the parent increased.

Analysis of Capital Expenditures and Cash Flows

(Years ended March 31)

Capital Expenditures (Payment Basis)

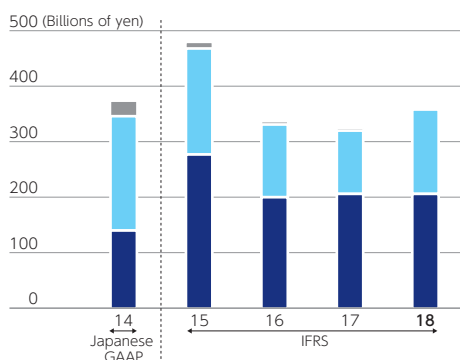
Consolidated capital expenditures increased ¥41.5 billion compared with the fiscal year ended March 31, 2017 to ¥560.8 billion.

Mobile

YOY

Up ¥35.1 billion
¥360.1 billion

In the mobile business, capital expenditures were up ¥35.1 billion to ¥360.1 billion, mainly due to making progress in LTE service quality improvement and area coverage expansion in the 800MHz band, and implementing increased telecommunication speeds by carrier aggregation, as well as making steady progress in construction work on the 700MHz and 3.5GHz bands.



3G	27	11	5	4	1
LTE	206	191	131	114	152
Common equipment*	141	278	201	207	207
Total	374	479	338	325	360

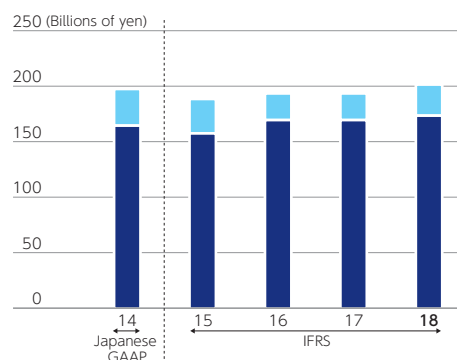
* Includes the capital expenditures of UQ Communications Inc. from the fiscal year ended March 31, 2015 onward in conjunction with the voluntary adoption of International Financial Reporting Standards (IFRS).

Fixed-Line and Others

YOY

Up ¥6.4 billion
¥200.7 billion

In the fixed-line businesses and others, capital expenditures increased ¥6.4 billion year on year to ¥200.7 billion. The increase was mainly due to a continued increase in FTTH-related investment and increases in investments in consolidated subsidiaries in Japan and overseas.



FTTH	33	31	24	24	28
Other	165	158	170	170	173
Total	198	189	193	194	201

Cash Flows

Free Cash Flows

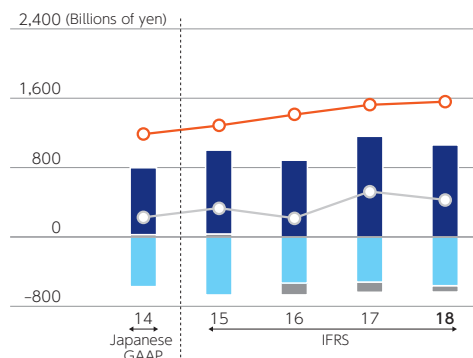
YOY

Down ¥96.3 billion
¥427.6 billion

Net cash provided by operating activities was ¥1,061.4 billion, ¥99.7 billion less than the previous fiscal year. The decrease mainly reflects increases in trade and other receivables and income tax paid, despite an increase in EBITDA.

Meanwhile, net cash used in investing activities was ¥633.8 billion, ¥3.4 billion less than the previous fiscal year. The decrease mainly reflects a decline in proceeds from sales of stocks of subsidiaries, despite an increase in capital expenditure.

As a result, free cash flows—the total of operating and investing cash flows—amounted to ¥427.6 billion, down ¥96.3 billion from the previous fiscal year.



Free Cash Flows	226	333	217	524	428
Net Cash Provided by (Used in) Operating Activities	772	969	885	1,161	1,061
Capital Expenditures	-572	-668	-531	-519	-561
Other, Net Cash Provided by (Used in) Investing Activities	26	32	-136	-118	-73
EBITDA	1,186	1,285	1,411	1,524	1,560

Personal Services Segment

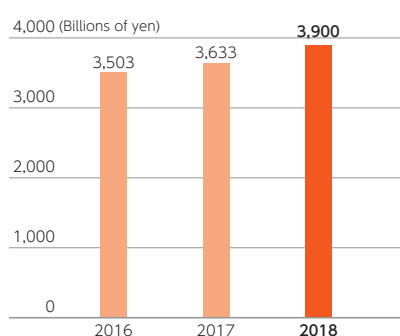
(Years ended March 31)

Overview of Operations in the Fiscal Year Ended March 31, 2018

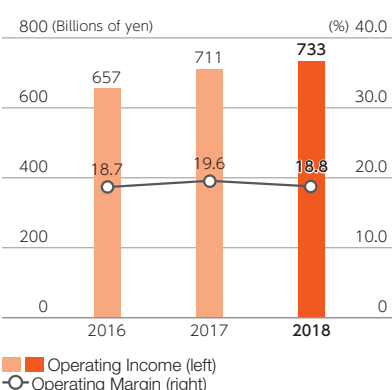
In the fiscal year ended March 31, 2018, operating revenue increased 7.3% year on year to ¥3,899.6 billion. This increase mainly reflected growth in mobile communications revenues and revenues from handset sales, an increase in revenue from the energy business, such as “au Denki,” and the contribution from BIGLOBE which was consolidated in February 2017.

Meanwhile, operating income rose 3.1% year on year to ¥732.9 billion, reflecting an increase in mobile communications revenues and gross margin on revenues from handset sales as well as the impact of impairment of certain idle assets related to 3G services conducted in the fiscal year ended March 31, 2017, despite an increased expenditure on strategic costs for medium- to long-term growth.

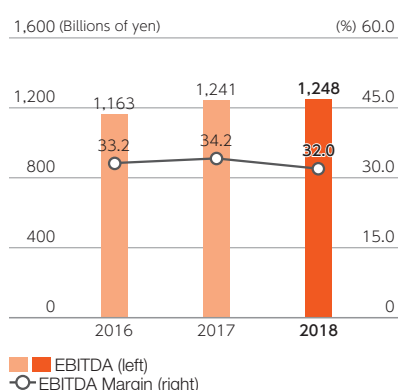
Operating Revenue



Operating Income/Operating Margin



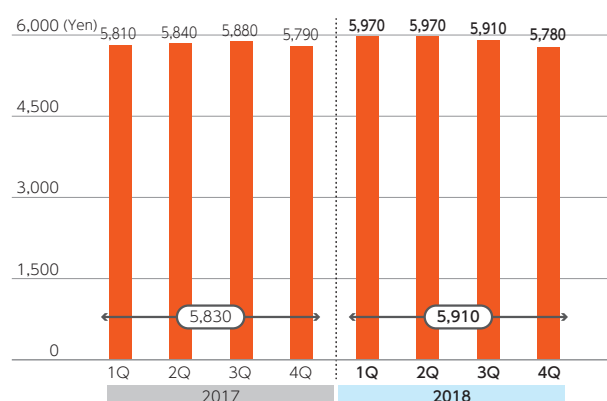
EBITDA/EBITDA Margin



| au ARPA |

au ARPA rose ¥80 year on year to ¥5,910, reflecting an increase in smartphone penetration rates, a rise in voice ARPU, primarily due to an increase in the ratio of flat-rate voice plans, and a rise in data ARPU, mainly due to an increase in large-volume data plan subscribers. In addition, subscribers for tablets, routers, and other devices grew steadily.

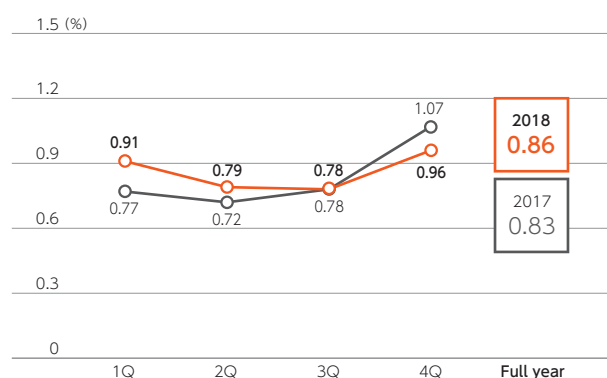
The new price plan launched in July 2017 caused a short-term decline in revenue, which appeared from the third quarter of the fiscal year ended March 31, 2018 onward.



| au Churn Rate |

The au churn rate had remained high due to an outflow from au to low-cost smartphones. With the introduction of the new price plan in July 2017, however, the au churn rate improved steadily and was lower year on year in the fourth quarter.

Another factor reducing the au churn rate was steady growth in the number of customers using multiple services, such as “au STAR,” which were introduced to encourage long-term use of au, “au Smart Value,” and life design products.



Operating Revenue
¥3,899.6 billion

Operating Income
¥732.9 billion

EBITDA
¥1,247.8 billion

Communication Services (au and MVNO mobile services, FTTH, CATV), Energy, Education, and Other Services for Individuals

In mobile services, the segment offers the mainstay “au” brand services and MVNO services provided by consolidated subsidiaries such as UQ Communications Inc. Fixed-line services include “au Hikari” brand FTTH services, CATV service, and others. The segment also provides non-telecommunications services such as the “au WALLET Market” product sales service making use of au shops, as well as energy services such as “au Denki” and education services provided under the “AEON” brand.

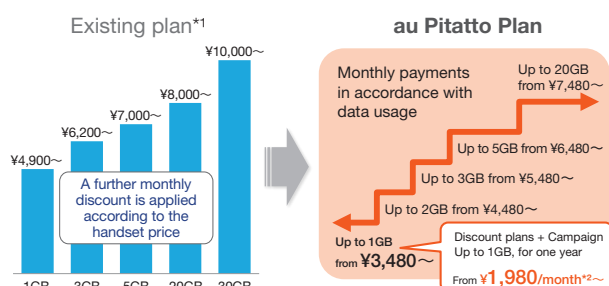
Key Initiatives

Expansion of Pricing Plans

In July 2017, KDDI launched “au Pitatto Plan,” which automatically applies a five-tier flat-rate plan depending on customers’ data usage, and “au Flat Plan,” a large-volume data communication plan (20GB/30GB). A new handset purchase program “Upgrade Program EX” was also launched for subscribers to either plan.

“au Pitatto Plan” is priced to provide a palpable discount to low-data usage customers, who are at high risk of shifting to low-cost smartphones, and is helping to improve the au churn rate. Meanwhile, the “au Flat Plan” is contributing to an increase in au ARPA due to an increase in the selection rate among new price plan subscribers. These results show that both plans are popular with customers.

As a result, the number of new price plan subscribers as of April 8, 2018 exceeded 7 million.



Increasing Customer Satisfaction

KDDI is continuing to enhance the benefits of “au STAR” with the goal of encouraging customers to use au services for the long term. We also provide benefits on days of the month that end in “3” (3rd, 13th, 23rd) under our “Santaro Day” program, which was launched in July 2017. With our “au Smart Support” subscriber support service, our dedicated staff provide optimal support tailored to customers’ situations, from purchasing through to use of handsets. Through these and other initiatives, KDDI has been working to increase customer satisfaction.

Customers who are signed up to multiple services such as “au STAR” tend to have lower churn rates of customers using a single service. We will therefore continue to focus on enhancing our services going forward.



Note: Indicated figures are monthly charge and exclude taxes.
Basic charge (two-year contract) + Data flat fee + LTE NET
*1 “SuperKakeho” + “Data flat fee (1/3/5/20/30)”
*2 The amount shown is “au Pitatto Plan (SuperKakeho)” (Applied with “two-year contract,” “au Smart Value” and “Big news campaign”)

(as of March 31, 2018)

Solving Social Issues through Business

Providing Safe and Secure Products and Services

As part of its effort to enhance customer experience value, KDDI believes it is important to provide products and services that allow every customer to experience the joy of communication to an even greater degree than before. We also focus on improving accessibility and providing services that anyone

can use with peace of mind. To make that possible, we are working to offer products and services based on the principle of universal design, ensuring that everyone, from children and seniors to the disabled, can use them safely and securely.

Children	mamorino4	A touchscreen-operated mobile phone for kids. Equipped with voice-activated functions, a security alarm, location confirmation and other functions.
	miraie f	A smartphone for teenagers, equipped with functions to prevent overuse and exposure to the dangers of the Internet. Equipped with security alarm and a location confirmation and other functions.
Seniors	BASIO3	A product targeting people using a smartphone for the first time. An easy to see and simple to use home screen and keys. Allows for simplified photography.
Seniors / Disabled Persons	Simple Phone KYF36/38	A feature phone focused on ease of use, with a high-quality audio communication function, simple menu screens, and larger keys.

Life Design Services Segment (Formerly Value Services Segment)

(Years ended March 31)

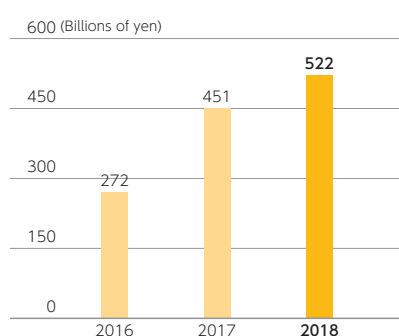
Overview of Operations in the Fiscal Year Ended March 31, 2018

In the fiscal year ended March 31, 2018, operating revenue increased 15.7% year on year to ¥521.7 billion. The increase mainly reflected an increase in value-added ARPA revenues due to increases in “au WALLET Credit card” settlement commissions and revenues from “au Smart Pass/au Smart Pass Premium.” It was also attributable to the impact of increased revenues at subsidiaries and new

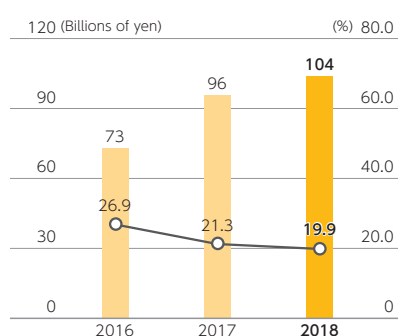
consolidations.

Meanwhile, operating income increased 8.4% year on year to ¥104.0 billion, mainly due to the increase in value-added ARPA revenues and increase in profit from subsidiaries, despite expenditure on strategic costs for expansion of the life design business and costs related to subscription services.

Operating Revenue

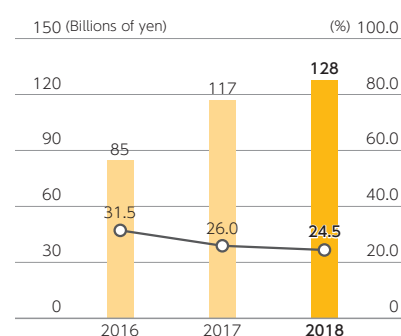


Operating Income/Operating Margin



■ Operating Income (left)
○ Operating Margin (right)

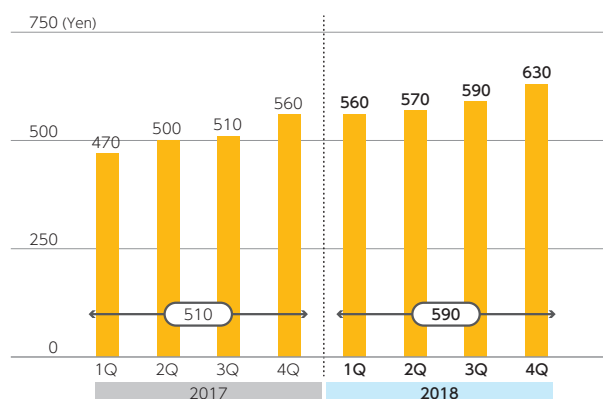
EBITDA/EBITDA Margin



■ EBITDA (left)
○ EBITDA Margin (right)

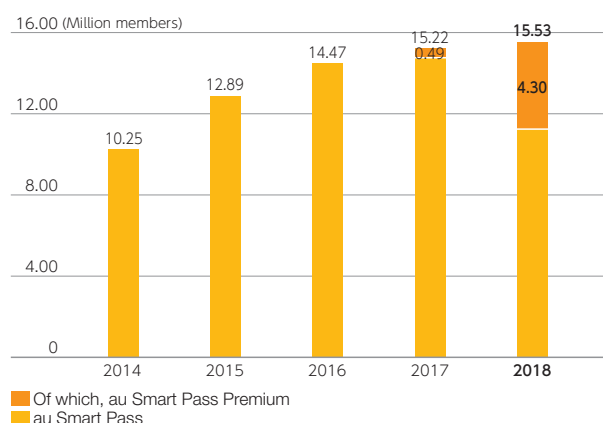
Value-Added ARPA

Value-added ARPA grew ¥80 year on year to ¥590. The increase mainly reflects growth in settlement commissions from “au WALLET Credit card” and “au Carrier Billing,” along with a contribution from increases in the number of members and unit prices and other aspects of “au Smart Pass/au Smart Pass Premium.”



Number of “au Smart Pass” and “au Smart Pass Premium” Members

The number of “au Smart Pass/au Smart Pass Premium” members increased by 310 thousand from the previous fiscal year-end to 15.53 million members. Of these, the number of “au Smart Pass Premium” members using premium-level services within “au Smart Pass” expanded to 4.30 million in approximately one year since the start of the service in January 2017, mainly reflecting strong in-store sign-ups due to promotion activities as well as the effect of enhancing member benefits.



■ Of which, au Smart Pass Premium
■ au Smart Pass

Operating Revenue

¥521.7 billion

Operating Income

¥104.0 billion

EBITDA

¥127.6 billion

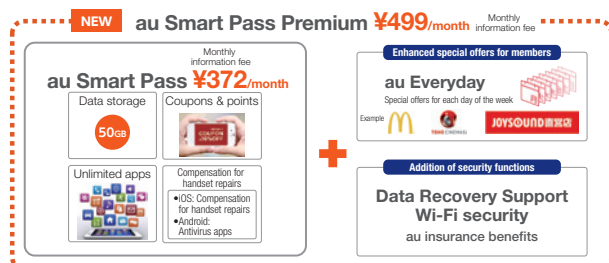
Providing Commerce, Finance, Settlement, Entertainment, and Other Services for Individuals.

This segment provides individuals with value-added non-telecommunications services both online and offline. The segment makes subscription services, such as the digital content of “au Smart Pass/au Smart Pass Premium,” more attractive. It also strengthens the commerce business with “Wowma!” and other services, as well as insurance and other services in the financing business, with the goal of maximizing the “au Economic Zone” and expanding earnings.

Key Initiatives

Enhancing “au Smart Pass Premium”

“au Smart Pass Premium” has enjoyed positive reception from many customers as the premium service within “au Smart Pass,” with membership reaching 4.3 million as of March 31, 2018. The service offers exclusive member benefits with “au Everyday” and “Santaro Day,” [P.49](#) with daily discounts on movies and karaoke, and free gifts such as french fries. Together with initiatives to improve customer experience value such as “Data Recovery Support” when devices become damaged and “Wi-Fi Security” to protect communications when connected to Wi-Fi, we aim to continue driving value-added ARPA expansion.



Note: Indicated amounts exclude tax. Conditions apply when using the services and functions. Some functions incur separate charges. Please refer to the au website for details.

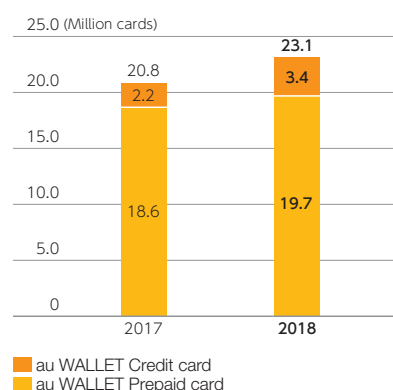
Expansion of the Finance and Settlements Businesses

In the finance business, we launched KDDI Asset Management Company, Limited in February 2018 as a joint venture with Daiwa Securities Group Inc. aiming to enter the asset management and defined contribution pension plan management businesses and start the provided services at an early date.

In the settlement business, the number of “au WALLET cards” issued increased steadily. As of March 31, 2018, the number of valid “au WALLET Credit cards” stood at 3.4 million and the number of valid “au WALLET Prepaid cards” at 19.7 million. “au WALLET” transaction volume for the fiscal year ended March 31, 2018 surpassed ¥1 trillion.

In November 2017, we introduced “au Carrier Billing” as a payment method for “Amazon Prime” and “Prime Student” membership fees, among other initiatives for expanding overall transaction volume.

As a result of these initiatives, in the fiscal year ended March 31, 2018, the gross merchandise value of the “au Economic Zone” increased 1.5 times year on year to ¥1.89 trillion. [P.43](#)



Solving Social Issues through Business

KDDI Open Innovation Fund

The KDDI Open Innovation Fund is a corporate venture fund operated by KDDI and Global Brain Corporation for investment in promising startups both domestically and internationally. We provide full-scale support for the growth of our partner startups through utilization of our business networks and marketing skills, and collaboration with our services including “au Smart Pass.”

We have specialized personnel based in San Francisco, USA, and Seoul, South Korea, where we are looking to invest in startups with the latest technologies or innovative business models. We provide wide-ranging support for business development, marketing and localization when these companies look to expand their business to Japan.

Business Services Segment

Operating Revenue
¥750.0 billion

Operating Income
¥84.5 billion

EBITDA
¥133.0 billion

(Years ended March 31)

Providing Telecommunication Services, ICT Solutions, Data Center Services, and Others for Corporations

This segment provides diverse solutions, including mobile services using devices such as smartphones and tablets as well as cloud services, networks, and applications to a wide range of corporate customers, ranging from small to major corporations. In addition, the segment is moving forward with a variety of initiatives in the IoT sector, in which all manner of things are connected to the Internet.

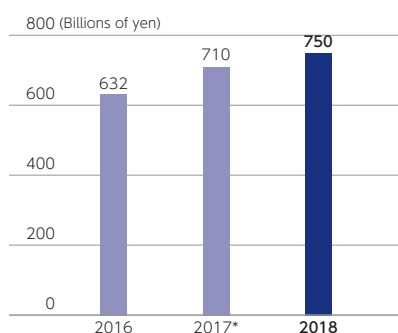
Overview of Operations in the Fiscal Year Ended March 31, 2018

In the fiscal year ended March 31, 2018, operating revenue in this segment increased 5.6% year on year to ¥750.0 billion, as higher revenues from the data center business in Japan, higher sales at consolidated subsidiaries such as KDDI MATOMETE OFFICE CORPORATION, and higher revenues from retail electric power sales absorbed a continued

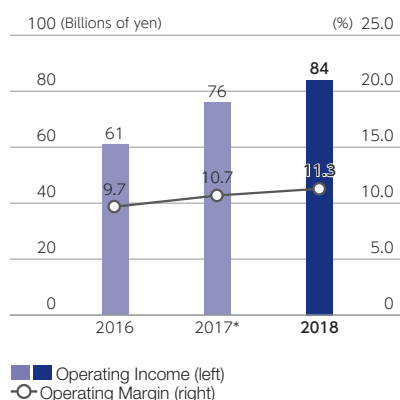
decrease in mobile voice communications revenues.

Meanwhile, operating income increased 11.1% year on year to ¥84.5 billion, reflecting controlled growth in operating costs associated with the increase in revenues and the contribution of profit increase at subsidiaries such as KDDI MATOMETE OFFICE CORPORATION.

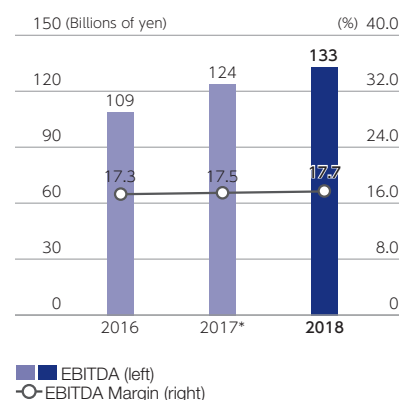
Operating Revenue



Operating Income/Operating Margin



EBITDA/EBITDA Margin



* From the fiscal year ended March 31, 2018, the consolidated subsidiary KDDI Evolva, Inc. was transferred from "Others" to the "Business Services" segment. Accordingly, results for the fiscal year ended March 31, 2017 have been restated to reflect the reorganization.

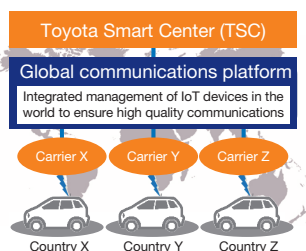
Key Initiatives

Promoting the IoT Business

KDDI is working with Toyota Motor Corporation to promote "connected cars" by developing a global communications platform that will enable high-quality, reliable telecommunications between the cloud and on-board telecommunications devices.

KDDI's global communications platform can automatically connect or switch to selected telecom carriers in each country or region under a global environment. This enables integrated management of telecommunication lines and charge information as well as users' usage histories and usage rights in the management of various items connected via the IoT.

The platform will support smooth global business development by enabling companies to centrally manage vehicles and construction machinery that move between



countries and regions along with various items of industrial equipment that are shipped globally, without needing to worry about the IoT management environment.

KDDI now plans to expand application of this platform beyond automobiles for use in various industry sectors.

Solving Social Issues through Business

KDDI IoT Cloud – Toilet Water-Saving Management

This service connects toilet flush valves to controllers in each stall, using IoT to understand toilet usage and allowing for control over the optimal amount of water in each flush.

In office and public restrooms, toilets with only one setting for flushing are common, leading to excessive water use. "KDDI IoT Cloud—Toilet Water-Saving Management" uses a sensor set in toilet stalls to detect the length of time the user is in the stall and determine the amount of water to be used in each flush, reducing waste from excess flushing.

This service has the potential to save as much as 40–50%* more water than conventional toilets, reducing costs as well as being environmentally friendly.

* Estimates based on valve manufacturer's performance. Percentage may be lower depending on installation environment.

Global Services Segment

Operating Revenue

¥248.7 billion

Operating Income

¥31.9 billion

EBITDA

¥43.8 billion

(Years ended March 31)

Providing Telecommunication Services for Individuals and Corporate Customers Overseas, ICT Solutions, Data Center Services, and Others

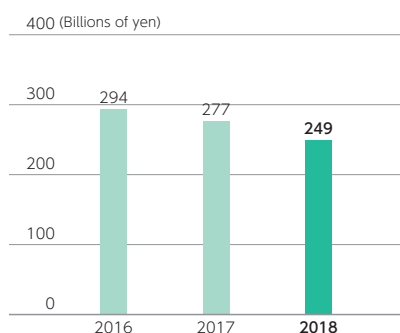
This segment offers the one-stop provision of ICT solutions to corporate customers, centered on our "TELEHOUSE" data centers. In addition, we are working aggressively to expand customer businesses, such as the telecommunications business in Myanmar and Mongolia.

Overview of Operations in the Fiscal Year Ended March 31, 2018

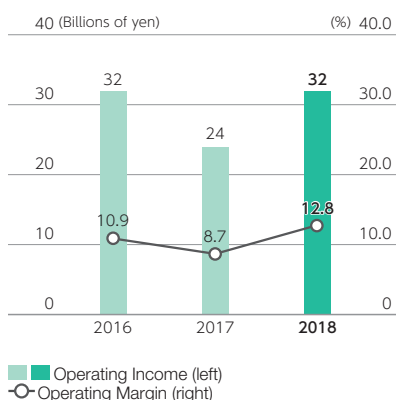
In the fiscal year ended March 31, 2018, operating revenue declined 10.3% year on year to ¥248.7 billion. The main contributing factor was a decline in revenues associated with the liquidation of unprofitable operations, despite increases in revenues from the telecommunications business in Myanmar and the data center business.

Meanwhile, operating income increased 32.1% year on year to ¥31.9 billion, mainly due to increases in revenues from the telecommunications business in Myanmar and the data centers.

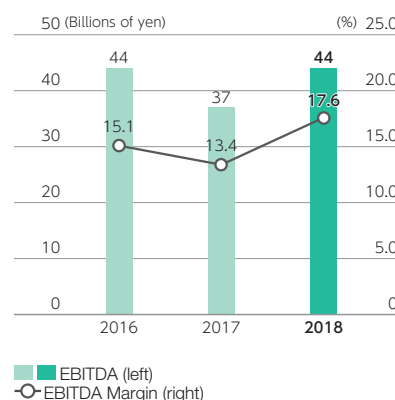
Operating Revenue



Operating Income/Operating Margin



EBITDA/EBITDA Margin



Key Initiatives

Promoting the Telecommunications Business Overseas

In the consumer telecommunications business in Myanmar, we introduced carrier aggregation (CA^{*1}) technology to our 1.8GHz band LTE services in May 2017, achieving downlink communication speeds up to 300Mbps^{*2}. As a result, we were designated as the fastest mobile telecommunications operator in Myanmar for a second consecutive year^{*3}.

In Mongolia, we became the first to introduce CA technology in November 2017, launching high-speed data communication services with downlink communication speeds up to 225Mbps^{*2}, twice as fast as any previous service.

We will continue to make efforts to expand our businesses in both Myanmar and Mongolia as a telecommunications operator boasting the number one domestic share in those countries.

^{*1} Carrier aggregation makes simultaneous use of multiple bandwidths, aggregating them to conduct data communication, thereby increasing the maximum downlink communication speed.

^{*2} This is a best-effort service. The speed listed is the maximum value for the technology standard and does not represent the actual speed in use.

^{*3} We received the "Speedtest[®] Award" based on a survey by Ookla[®], LLC, for the periods of July to December 2016 and January to June 2017.

Solving Social Issues through Business

Long-Term Training Program for MPT Employees

KDDI has started a long-term employee training program for MPT employees, with the goal of raising customer satisfaction in Myanmar and further improving the quality of telecommunications services. In the first term, four MPT^{*4} employees (two technical and two business management staff) were chosen to come to KDDI for one year from July 2017 to June 2018.

In this program, after Japanese language study and basic lectures, the trainees undergo practical training at the hands of KDDI personnel active on the front lines of the business. This allowed the trainees to learn about the high-quality Japanese network technology that KDDI has cultivated through many years of offering telecommunications services 24 hours a day, 365 days a year, and the knowledge and expertise in sales, marketing and service planning gained in a competitive environment.

After completing the program, the trainees returned to Myanmar and will utilize the technology, expertise and business skills they learned in Japan to contribute to their home country's development.

^{*4} Myanma Posts and Telecommunications, our partner in the telecommunications business in Myanmar

Consolidated Financial Statements

Consolidated Statement of Financial Position

KDDI Corporation and its Subsidiaries

As of March 31	Notes	Millions of yen		Millions of U.S. dollars
		2017	2018	2018
Assets				
Non-current assets				
Property, plant and equipment	6, 8	¥2,428,445	¥2,437,196	\$22,940
Goodwill	4, 7, 8	477,873	526,601	4,957
Intangible assets	7, 8	922,478	953,106	8,971
Investments accounted for using the equity method	9	92,371	98,192	924
Other long-term financial assets	12, 32, 33	183,081	236,684	2,228
Deferred tax assets	16	124,467	106,050	998
Other non-current assets	13	69,085	65,477	616
Total non-current assets		4,297,800	4,423,306	41,635
Current assets				
Inventories	10	77,656	89,207	840
Trade and other receivables	11, 32	1,518,070	1,695,403	15,958
Other short-term financial assets	12, 32, 33	16,968	30,173	284
Income tax receivables		10,715	2,101	20
Other current assets	13	116,009	133,531	1,257
Cash and cash equivalents	4, 14	226,607	200,834	1,890
Total current assets		1,966,025	2,151,249	20,249
Total assets		¥6,263,826	¥6,574,555	\$61,884

As of March 31	Notes	Millions of yen		Millions of U.S. dollars
		2017	2018	2018
Liabilities and Equity				
Liabilities				
Non-current liabilities				
Borrowings and bonds payable	15, 32, 33	¥ 909,673	¥ 704,278	\$ 6,629
Other long-term financial liabilities	19, 32, 33	176,794	68,478	645
Retirement benefit liabilities	17	21,800	12,010	113
Deferred tax liabilities	16	75,919	80,298	756
Provisions	20	7,725	10,754	101
Other non-current liabilities	21	141,290	129,679	1,221
Total non-current liabilities		1,333,201	1,005,498	9,464
Current liabilities				
Borrowings and bonds payable	15, 32, 33	57,805	329,559	3,102
Trade and other payables	18,32	537,830	610,726	5,749
Other short-term financial liabilities	19, 32, 33	24,373	24,717	233
Income taxes payables		153,950	143,635	1,352
Provisions	20	26,887	31,231	294
Other current liabilities	21	280,646	297,932	2,804
Total current liabilities		1,081,491	1,437,800	13,534
Total liabilities		2,414,692	2,443,298	22,998
Equity				
Equity attributable to owners of the parent				
Common stock	23	141,852	141,852	1,335
Capital surplus	22, 23	298,046	289,578	2,726
Treasury stock	23	(237,014)	(338,254)	(3,184)
Retained earnings	23	3,354,140	3,672,344	34,566
Accumulated other comprehensive income	23	(2,601)	8,183	77
Total equity attributable to owners of the parent		3,554,423	3,773,703	35,521
Non-controlling interests	39	294,710	357,554	3,366
Total equity		3,849,133	4,131,257	38,886
Total liabilities and equity		¥6,263,826	¥6,574,555	\$61,884

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Income

KDDI Corporation and its Subsidiaries

For year ended March 31	Notes	Millions of yen		Millions of U.S. dollars
		2017	2018	2018
Operating revenue	25	¥4,748,259	¥5,041,978	\$47,458
Cost of sales	26	2,669,678	2,821,803	26,561
Gross profit		2,078,582	2,220,175	20,898
Selling, general and administrative expenses	26	1,173,562	1,271,215	11,966
Other income	27	11,244	12,041	113
Other expense	27	6,042	2,801	26
Share of profit of investments accounted for using the equity method	9	2,755	4,592	43
Operating income		912,976	962,793	9,062
Finance income	28	1,711	4,035	38
Finance cost	28	13,273	11,985	113
Other non-operating profit and loss	29	(5,517)	305	3
Profit for the year before income tax		895,897	955,147	8,990
Income tax	16	253,282	293,951	2,767
Profit for the year		¥ 642,615	¥ 661,196	\$ 6,224
Profit for the year attributable to				
Owners of the parent		¥ 546,658	¥ 572,528	\$ 5,389
Non-controlling interests		95,957	88,668	835
Profit for the year		¥ 642,615	¥ 661,196	\$ 6,224
Earnings per share attributable to owners of the parent	35			
Basic earnings per share (yen)		¥221.65	¥235.54	\$2
Diluted earnings per share (yen)		221.60	235.45	2

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

KDDI Corporation and its Subsidiaries

For year ended March 31	Notes	Millions of yen		Millions of U.S. dollars
		2017	2018	2018
Profit for the year		¥642,615	¥661,196	\$6,224
Other comprehensive income				
Items that will not be transferred subsequently to profit or loss				
Remeasurements of defined benefit pension plans	17, 30	(3,083)	4,132	39
Changes measured in fair value of financial assets through other comprehensive income	30, 32	(3,444)	8,359	79
Share of other comprehensive income of investments accounted for using the equity method	9, 30	(1,635)	(149)	(1)
Total		(8,162)	12,342	116
Items that may be subsequently reclassified to profit or loss				
Changes in fair value of cash flow hedge	30, 32	1,457	933	9
Translation differences on foreign operations	30	(13,581)	1,515	14
Share of other comprehensive income of investments accounted for using the equity method	9, 30	(173)	(25)	(0)
Total		(12,297)	2,423	23
Total other comprehensive income		(20,459)	14,766	139
Total comprehensive income for the year		¥622,156	¥675,961	\$6,363
Total comprehensive income for the year attributable to				
Owners of the parent		¥527,581	¥588,324	\$5,538
Non-controlling interests		94,575	87,638	825
Total		¥622,156	¥675,961	\$6,363

Notes: 1. Items in the statement above are disclosed net of tax.

2. Income taxes related to each component of other comprehensive income are disclosed in "Note 16. Deferred tax and income taxes."

3. The notes 1 to 42 are an integral part of these consolidated financial statements.

Consolidated Financial Statements

Consolidated Statement of Changes in Equity

KDDI Corporation and its Subsidiaries

Millions of yen									
	Notes	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income			
As of April 1, 2016		¥141,852	¥368,245	¥(210,861)	¥2,995,836	¥ 13,570	¥3,308,642	¥238,214	¥3,546,856
Comprehensive income									
Profit for the year		—	—	—	546,658	—	546,658	95,957	642,615
Other comprehensive income		—	—	—	—	(19,077)	(19,077)	(1,382)	(20,459)
Total comprehensive income		—	—	—	546,658	(19,077)	527,581	94,575	622,156
Transactions with owners and other transactions									
Cash dividends	24	—	—	—	(185,446)	—	(185,446)	(40,521)	(225,967)
Transfer of accumulated other comprehensive income to retained earnings		—	—	—	(2,907)	2,907	—	—	—
Purchase and disposal of treasury stock	23	—	(57)	(100,000)	—	—	(100,056)	—	(100,056)
Cancellation of treasury stock	23	—	(73,804)	73,804	—	—	—	—	—
Changes due to business combination		—	—	—	—	—	—	213	213
Changes in interests in subsidiaries		—	2,979	—	—	—	2,979	1,226	4,205
Other		—	683	42	—	(1)	725	1,002	1,727
Total transactions with owners and other transactions		—	(70,199)	(26,153)	(188,354)	2,907	(281,799)	(38,079)	(319,878)
As of April 1, 2017		141,852	298,046	(237,014)	3,354,140	(2,601)	3,554,423	294,710	3,849,133
Comprehensive income									
Profit for the year		—	—	—	572,528	—	572,528	88,668	661,196
Other comprehensive income		—	—	—	—	15,795	15,795	(1,030)	14,766
Total comprehensive income		—	—	—	572,528	15,795	588,324	87,638	675,961
Transactions with owners and other transactions									
Cash dividends	24	—	—	—	(219,701)	—	(219,701)	(47,590)	(267,291)
Transfer of accumulated other comprehensive income to retained earnings		—	—	—	5,012	(5,012)	—	—	—
Purchase and disposal of treasury stock	23	—	(50)	(150,000)	—	—	(150,050)	—	(150,050)
Cancellation of treasury stock	23	—	(9,074)	48,709	(39,635)	—	—	—	—
Changes due to business combination		—	—	—	—	—	—	5,376	5,376
Changes in interests in subsidiaries		—	(635)	—	—	—	(635)	17,924	17,289
Other		—	1,291	51	—	—	1,343	(503)	839
Total transactions with owners and other transactions		—	(8,467)	(101,239)	(254,324)	(5,012)	(369,043)	(24,794)	(393,837)
As of March 31, 2018		¥141,852	¥289,578	¥(338,254)	¥3,672,344	¥ 8,183	¥3,773,703	¥357,554	¥4,131,257

Millions of U.S. dollars									
	Notes	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Common stock	Capital surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income			
As of April 1, 2017		\$1,335	\$2,805	\$(2,231)	\$31,571	\$(24)	\$33,457	\$2,774	\$36,231
Comprehensive income									
Profit for the year		—	—	—	5,389	—	5,389	835	6,224
Other comprehensive income		—	—	—	—	149	149	(10)	139
Total comprehensive income		—	—	—	5,389	149	5,538	825	6,363
Transactions with owners and other transactions									
Cash dividends	24	—	—	—	(2,068)	—	(2,068)	(448)	(2,516)
Transfer of accumulated other comprehensive income to retained earnings		—	—	—	47	(47)	—	—	—
Purchase and disposal of treasury stock	23	—	(0)	(1,412)	—	—	(1,412)	—	(1,412)
Cancellation of treasury stock	23	—	(85)	458	(373)	—	—	—	—
Changes due to business combination		—	—	—	—	—	—	51	51
Changes in interests in subsidiaries		—	(6)	—	—	—	(6)	169	163
Other		—	12	0	—	—	13	(5)	8
Total transactions with owners and other transactions		—	(80)	(953)	(2,394)	(47)	(3,474)	(233)	(3,707)
As of March 31, 2018		\$1,335	\$2,726	\$(3,184)	\$34,566	\$ 77	\$35,521	\$3,366	\$38,886

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

KDDI Corporation and its Subsidiaries

For year ended March 31	Notes	Millions of yen		Millions of U.S. dollars
		2017	2018	2018
Cash flows from operating activities				
Profit for the period before income tax		¥ 895,897	¥ 955,147	\$ 8,990
Depreciation and amortization	6, 7	545,194	546,815	5,147
Impairment loss	8	37,488	13,069	123
Share of (profit) loss of investments accounted for using the equity method	9	(2,755)	(4,592)	(43)
Loss (gain) on sales of non-current assets		137	149	1
Interest and dividends income	28	(1,705)	(3,527)	(33)
Interest expenses	28	10,872	9,701	91
(Increase) decrease in trade and other receivables		(171,903)	(219,125)	(2,063)
Increase (decrease) in trade and other payables		69,576	44,914	423
(Increase) decrease in inventories		2,064	(12,185)	(115)
Increase (decrease) in retirement benefit liabilities		1,545	(9,790)	(92)
Other		26,195	43,064	405
Cash generated from operations		1,412,605	1,363,639	12,835
Interest and dividends received		4,823	6,149	58
Interest paid		(9,330)	(17,048)	(160)
Income tax paid		(256,066)	(302,783)	(2,850)
Income taxes refund		9,041	11,447	108
Net cash provided by (used in) operating activities		1,161,074	1,061,405	9,991
Cash flows from investing activities				
Purchases of property, plant and equipment		(338,749)	(361,102)	(3,399)
Proceeds from sales of property, plant and equipment		358	1,299	12
Purchases of intangible assets		(180,823)	(199,776)	(1,880)
Purchases of other financial assets		(54,165)	(7,002)	(66)
Proceeds from sales/redemption of other financial assets		357	2,565	24
Acquisitions of control over subsidiaries	4	(61,711)	(66,751)	(628)
Purchases of stocks of associates		(23,073)	(4,688)	(44)
Proceeds from sales of stocks of subsidiaries		18,711	1,898	18
Other		1,871	(289)	(3)
Net cash provided by (used in) investing activities		(637,225)	(633,847)	(5,966)
Cash flows from financing activities				
Net increase (decrease) of short-term borrowings	31	(66,643)	27,574	260
Proceeds from issuance of bonds and long-term borrowings	31	7,000	95,000	894
Payments from redemption of bonds and repayments of long-term borrowings	31	(74,963)	(56,101)	(528)
Repayments of lease obligations	31	(29,024)	(27,210)	(256)
Payments from purchase of subsidiaries' equity from non-controlling interests		(1,583)	(1,158)	(11)
Proceeds from stock issuance to non-controlling interests		6,139	22,164	209
Payments from purchase of treasury stock	23	(100,000)	(150,000)	(1,412)
Cash dividends paid		(185,430)	(219,885)	(2,070)
Cash dividends paid to non-controlling interests		(41,314)	(48,553)	(457)
Purchase of debt instruments (Note 1)	31	—	(95,000)	(894)
Other		32	(1)	(0)
Net cash provided by (used in) financing activities		(485,784)	(453,168)	(4,266)
Effect of exchange rate changes on cash and cash equivalents	31	(3,545)	(163)	(2)
Net increase (decrease) in cash and cash equivalents	31	34,520	(25,773)	(243)
Cash and cash equivalents at the beginning of the year	14, 31	192,087	226,607	2,133
Cash and cash equivalents at the end of the year	14, 31	¥ 226,607	¥ 200,834	\$ 1,890

Notes: 1. During the fiscal year ended March 31, 2018, KDDI purchased the beneficiary right to preferred shares issued by a subsidiary of the KDDI Group (These shares are treated as financial liabilities because the issuer has an obligation to deliver cash to holders of preference shares).

2. The notes 1 to 42 are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

KDDI Corporation and its Subsidiaries

1. Reporting Entity

KDDI CORPORATION ("the Company") was established as a limited company in accordance with Japanese Company Act. The location of the Company is Japan and the registered address of its headquarter is 2-3-2, Nishishinjuku, Shinjuku-ku, Tokyo, Japan. The Company's consolidated financial statements as of and for the year ended March 31, 2018 comprise the Company and its consolidated subsidiaries ("the Group") and the Group's interests in

associates and joint ventures. There is no one shareholder exercising control over the Company. The Company is the ultimate parent company of the Group.

The Group's major business and activities are "Personal Services", "Value Services", "Business Services" and "Global Services." For the details, please refer to "(1) Outline of reporting segment" of "Note 5. Segment information."

2. Basis of Preparation

(1) Compliance of consolidated financial statements with International Financial Reporting Standards ("IFRSs")

The Group's consolidated financial statements have been prepared in accordance with IFRSs as prescribed in Article 93 of Ordinance on Consolidated Financial Statements as they satisfy the requirement of a "specific company" set forth in Article 1-2 of Ordinance on Consolidated Financial Statements.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared under the historical cost basis except for the following significant items on the consolidated statement of financial position:

- Derivative assets and derivative liabilities (measured at fair value)
- Financial assets or financial liabilities at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Assets and liabilities related to defined benefit plan (measured at the present value of the defined benefit obligations, net of the fair value of the plan asset)

(3) Presentation currency and unit of currency

The Group's consolidated financial statements are presented in Japanese yen, which is the currency of the primary economic environment of the Company's business activities ("functional currency"), and are rounded to the nearest million yen.

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥106.24=U.S.\$1, the approximate exchange rate on March 31, 2018. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

(4) Use of estimates and judgement

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgement, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on the management's best judgement, through their evaluation of various factors that were considered reasonable as of the period-end, based on historical experience and by collecting available information. By the nature of the estimates or assumptions, however, actual results may differ from those estimates and assumptions.

The estimates and assumptions are reviewed on an ongoing basis. The effect of adjusting accounting estimates is recognized in the fiscal year in which the estimates are adjusted and in the subsequent fiscal years. Estimates that may have a risk of significant adjustment of carrying amounts of assets and/or liabilities in the subsequent fiscal years and the underlying assumptions are as follows:

i. Estimates of useful lives of property, plant and equipment, intangible assets, finance lease assets

Property, plant and equipment is depreciated primarily using the straight-line method, based on the estimated useful life that reflects the period in which the asset's future economic benefits are expected to be consumed. The depreciation charge for the period could increase if an item of property, plant and equipment becomes obsolete or repurposed in the future and the estimated useful life becomes shorter.

Intangible asset with a finite useful life is amortized on a straight-line basis to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Estimated useful life of the customer relationships acquired in a business combination is determined based on the cancellation rate. The intangible assets related to the customer relationships are amortized over the useful life. Should actual useful life in the future be less than the original estimate, due to changes in the business environment etc., there is a risk that amortization expenses for the reporting period may increase.

The content and amount related to estimates of useful lives and residual values of property, plant and equipment, intangible assets, finance lease assets are described in "Note 3. Significant accounting policies (5) Property, plant & equipment, (7) Intangible asset" and (8) Leases", "Note 6. Property, plant and equipment", "Note 7. Goodwill and intangible assets."

ii. Impairment of property, plant and equipment and intangible assets including goodwill

The Group conducts impairment tests to property, plant and equipment and intangible assets including goodwill. Calculations of recoverable amounts used in impairment tests are based on assumptions set using such factors as an asset's useful life, future cash flows, pre-tax discount rates and long-term growth rates. These assumptions are based on the best estimates and judgements made by management. However, these assumptions may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating recoverable amounts is described in “Note 3. Significant accounting policies (9) Impairment of property, plant and equipment, goodwill and intangible assets” and “Note 8. Impairment of property, plant and equipment, goodwill and intangible assets.”

iii. Evaluation of inventories

Inventories are measured at historical cost. However, when the net realizable value (“NRV”) at the reporting date falls below the cost, inventories are subsequently measured based on NRV, with the difference in value between the cost and NRV, booked as cost of sales. Slow-moving inventories and obsolete stock are calculated at NRV that reflects future demand and market trends. The Group may experience losses in cases where NRV drops as a result of deterioration in the market environment against the forecast.

The content and amount related to evaluation of inventories are described in “Note 3. Significant accounting policies (15) Inventories” and “Note 10. Inventories.”

iv. Recoverability of deferred tax assets

In recognizing deferred tax assets, when judging the possibility of the future taxable income, the Group estimates the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. If there are differences between the actual amounts and estimated amounts, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to deferred tax assets are described in “Note 3. Significant accounting policies (25) Income taxes” and “Note 16. Deferred tax and income taxes.”

v. Measurement of defined benefit obligations

The Group has in place various post-retirement benefit plans, including defined benefits plans. The present value of defined benefit obligations on each of these plans and the service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates. The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions including these variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is the possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the publication or the amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are described in “Note 3. Significant accounting policies (16) Employee benefits” and “Note 17. Employee benefits.”

vi. Collectability of trade and other receivables

The Group has estimated the collectability of trade and other receivables based on the credit risk. Fluctuations in credit risk of customer receivables may have a significant effect on the loss allowance on the consolidated financial statements in future periods.

The content and amount related to collectability of trade and other receivables are described in “Note 3. Significant accounting policies (12) Impairment of financial assets” and “Note 32. Financial instruments.”

vii. Fair value measurement of financial assets

The Group has used valuation technique and the unobservable inputs to measure fair value of certain financial instruments as quoted prices has been unavailable for them. Unobservable input may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods if it becomes necessary to review.

The content related to fair value of financial assets are described in “Note 3. Significant accounting policies (11) Financial instruments, (13) Derivatives and hedge accounting” and “Note 33. Fair value of financial instruments.”

viii. Provisions

The Group recognizes provisions, including provisions for point program, in the consolidated statement of financial position. These provisions are recognized based on the best estimates of the expenditures required to settle the obligations, taking into account risks and uncertainty related to the obligations as of the current year end date. Expenditures necessary for settling the obligations are calculated by taking all possible future results into account; however, they may be affected by unexpected events or changes in conditions which may have a material impact on the Group's consolidated financial statements in future periods.

The nature and amount of recognised provisions are described in “Note 3. Significant accounting policies (17) Provisions” and “Note 20. Provisions.”

(5) Application of new standards and interpretations

The Group newly adopted the following standards from the fiscal year ended March 31, 2018.

- IAS 7 (Revised): Statement of cash flows
- IAS 12 (Revised): Income taxes

The impact from adoption of above standards is immaterial or limited to presentation on “Notes to Consolidated Financial Statements.”

The Group has early adopted IFRS 9 “Financial Instruments” (issued in November 2009 and amended in July 2014).

Consolidated Financial Statements

(6) Standards not yet adopted

The following new standards and amendments announced by the approval date of the consolidated financial statements are not mandatory as of March 31, 2018. They have not been early adopted by the Group.

Standard	The title of standard	Mandatory adoption (from the fiscal year beginning)	To be adopted by the Group from	Outline of new standards and amendments
IFRS 15	Revenue from contracts with customers	January 1, 2018	Fiscal year ending March 31, 2019	IFRS 15 describes that revision of current accounting standard for revenue recognition and disclosure. Specifically, IFRS15 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
IFRS 3	Amendments to IFRS 3 (Business combinations)	January 1, 2019	Fiscal year ending March 31, 2020	These amendments require that a company remeasures its previously held interest in a joint operation when it obtains control of the business.
IFRS 9	Amendments to IFRS 9 (Financial instruments) on prepayment features with negative compensation	January 1, 2019	Fiscal year ending March 31, 2020	These amendments confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
IFRS 11	Amendments to IFRS 11 (Joint arrangements)	January 1, 2019	Fiscal year ending March 31, 2020	These amendments require that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	IFRS 16 describes that revision of current accounting standard for lease and disclosure. Specifically, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months as principal.
IFRS 17	Insurance contracts	January 1, 2021	Fiscal year ending March 31, 2022	IFRS 17 will replace IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018	Fiscal year ending March 31, 2019	IFRIC22 provides guidance for exchange rates when an entity pays or receives consideration in advance for foreign currency-dominated contracts.
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019	Fiscal year ending March 31, 2020	IFRIC23 provides guidance how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over tax treatment.
IAS 12	Amendments to IAS 12, (Income taxes)	January 1, 2019	Fiscal year ending March 31, 2020	These amendments require that a company accounts for all income tax consequences of dividend payments in the same way.
IAS 19	Amendments to IAS 19, (Employee benefits) on plan amendment, curtailment or settlement	January 1, 2019	Fiscal year ending March 31, 2020	These amendments require an entity to: • use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and • recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.
IAS 23	Amendments to IAS 23, (Borrowing costs)	January 1, 2019	Fiscal year ending March 31, 2020	These amendments require that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.
IAS 28	Amendments to IAS 28 (Investments in associates), on long term interests in associates and joint ventures	January 1, 2019	Fiscal year ending March 31, 2020	These amendments clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied using IFRS 9.

All the standards and amendments above will be reflected to the consolidated financial statements for the relevant fiscal year described above. The Company is currently evaluating the impact of the application and estimate is currently not available.

(IFRS 15 “Revenue from Contracts with Customers”)

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers.” Application of the standard is mandatory for reporting periods beginning on or after January 1, 2018. The group will adopt IFRS 15 from reporting periods beginning on April 1, 2018. It replaces in particular IAS 18 “Revenue” and affects on the presentation of the Group’s results of operations and financial position. Depending on the group’s business model applied, the new provisions affect the following issues in particular:

- In the case where the Group sells mobile handsets to customers and simultaneously enters into a communications service contracts with the customers, accounting might change as a result of combination of contracts and allocating the transaction prices to performance obligation.

- Under IFRS 15, expenses for sales commissions (customer acquisition costs) must be capitalized and recognized over the estimated customer retention period. On first-time application of the standard, both total assets and shareholders’ equity will increase due to the capitalization of contract assets brought from customer acquisition costs for contracts not yet fully completed.
- Deferral, i.e., later recognition of revenue in cases where “material rights” are granted, such as offering additional discounts for future purchases of further products.

KDDI will utilize the option for simplified initial application, i.e., contracts that are not completed by April 1, 2018 will be accounted for as if they had been recognized in accordance with IFRS 15 from the very beginning. The cumulative effect arising from the transition will be recognized as an adjustment to the opening balance of equity in the year of initial application. Prior-year comparatives will not be adjusted; instead, KDDI will provide an explanation of the reasons for the changes in items in the

statement of financial position and the income statement for the current period as a result of applying IFRS 15 for the first time.

The effects were analyzed as part of a Group-wide project for implementing the new standard. Based on management's current estimate, KDDI expects the transition to the new standard to result in a cumulative increase in retained earnings of ¥310 billion (U.S. \$2,918 million) before deferred taxes as of April 1, 2018. This effect will be mainly attributable to the first-time recognition of the capitalization of contract assets brought from customer acquisition costs for contracts.

As regards the new standard's impact on the consolidated income statement, KDDI expects that the capitalization of contract assets (customer acquisition costs) would be major part of it. On the assumption that business development remains unchanged, it makes mainly the effects of lower selling expenses brought from capitalization of customer acquisition costs.

Compared with the current accounting method, major effects on earnings can thus also arise if business development changes, for example, if volumes or prices change or if there are changes to business models or products offered.

(IFRS 16 "Leases")

In January 2016, the IASB issued IFRS 16 "Leases." Major effects on the Group's result is assumed that whereas previously there was a requirement to disclose payment obligations for operating leases in the notes to the financial statements, under IFRS 16, the resulting rights and obligations must be recognized as rights of use assets and lease liabilities in the statement of financial position, and depreciation charges and interest expense will be reported in the income statement instead of lease expense, and so on.

The effects will be analyzed as part of a Group-wide project for implementing IFRS16.

3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the reporting periods presented, unless otherwise stated.

(1) Basis of consolidation

i. Subsidiaries

(a) Consolidation of subsidiaries

Subsidiaries are all entities over which the Group has control. An entity is consolidated as the Group controls it when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control is obtained and deconsolidated from the date when control is lost.

Intragroup balances and transactions, and unrealized gain or loss arising from intragroup transactions are eliminated in preparation of the consolidated financial statements.

The accounting policies of subsidiaries have been changed to conform to the Group's accounting policies, when necessary.

(b) Changes in ownership interest in a subsidiary that do not result in a change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for by the Group as equity transactions. The difference between fair value of any consideration paid and the proportion acquired of the carrying amount of the subsidiary's net assets is recorded in equity. Gains or losses on disposals to non-controlling interests without losing control are also recorded in equity.

(c) Disposal of a subsidiary

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value on the date when control is lost, with the changes in the carrying amount recognized in profit or loss. The fair value will be the initial carrying amount when the retained interests are subsequently accounted for as associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Unification of reporting period

The consolidated financial statements include the financial statements of subsidiaries whose closing dates are different from that of the Company. For the preparation of the consolidated financial statements, such subsidiaries prepare financial statements based

on the provisional accounts as of the Company's closing date.

However, among consolidated subsidiaries, KDDI SUMMIT GLOBAL SINGAPORE PTE. LTD., is not able to prepare financial statements based on the provisional accounts as of the Company's closing date mainly due to the accounting environment in the location where its subsidiary, KDDI Summit Global Myanmar Co., Ltd. operates. The difference between its reporting period-end, which is the 31 of December and the Company's closing date is less than three months and the necessary adjustments are made for consolidation in relation to significant transactions or events that occurred between the reporting period-end of the subsidiary and closing date of the Company.

ii. Associates

Associates are entities over which the Group does not have control but has significant influence over the financial and operating policies through participation in the decision-making of those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in an associate is initially recorded at cost and its amount is adjusted to recognize the Group's share of the profit or loss and other comprehensive income of the associate from the date on which it has significant influence until the date when it ceases to have the significant influence is lost.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amount previously recognized in other comprehensive income is reclassified to profit or loss, where appropriate. When the Company's share of losses in an associate equals or exceeds its carrying amount of interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group's investment in associates includes goodwill recognized on acquisition. Accordingly, goodwill is not recognized and not tested for impairment separately. Gross amount of investments in associates is tested for impairment as a single asset. Specifically, the Group evaluates whether there is objective evidence which indicates that the investment may be impaired or not on a quarterly basis. When objective evidence that the investments in associates are impaired exists, those investments are tested for impairment.

Unrealized gains or losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The accounting policies of associates have been changed to conform to the Group's accounting policies, when necessary.

iii. Joint arrangements

The Group enters into joint arrangements when the Group has joint control of a business or entity.

Consolidated Financial Statements

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

For the purpose of accounting, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint agreement whereby parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When a joint arrangement is classified as a joint operation, the Group's share of the assets, liabilities, revenue and expenses in relation to the arrangement are recorded directly in the financial statements. On the other hand, when a joint arrangement is classified as a joint venture, net assets related to the arrangement are recorded in the financial statements using the equity method.

(2) Business combination

The Group accounts for business combination by applying the acquisition method. Consideration transferred to acquire subsidiaries is fair values of the assets transferred, the liabilities incurred by former owners of the acquiree and the equity interests issued by the Group. Consideration transferred also includes fair values of any assets or liabilities resulting from a contingent consideration arrangement. Each identifiable asset acquired, liability and contingent liability assumed in a business combination is generally measured at its acquisition-date fair value.

Non-controlling interests are identified separately from those of the Group and are measured as the non-controlling shareholders' proportionate share of the acquiree's identifiable net assets. For each acquisition, the Group recognizes the acquiree's non-controlling interests either at fair value or as the non-controlling interest's proportionate share of the amount recognized for the acquiree's identifiable net assets.

Acquisition-related costs, including finder's fees, legal, due-diligence and other professional fees, are charged to expense when incurred.

Where the aggregate amount of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree exceeds the fair value of the identifiable net assets acquired, such excess is recorded as goodwill. Where the aggregate amount of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is less than the fair value of acquired subsidiary's net assets, such difference is recognized directly in profit or loss as a bargain purchase.

If the initial accounting for a business combination is not complete by the end of the reporting period in which the business combination occurs, the Group recognizes in its financial statements provisional amounts for the items for which the accounting is incomplete. Subsequently, the Group retrospectively adjusts the provisional amounts recognized on the date when control is obtained as measurement period adjustments to reflect new information obtained about facts and circumstances that existed as of the date when control is obtained and, if known, would have affected the amounts recognized for the business combination. However, the measurement period shall not exceed one year from the date when control is obtained.

(3) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The board of directors that makes strategic decisions has been identified by the Group as the chief operating decision-maker.

(4) Foreign currency translation

i. Functional currency and presentation currency

Foreign currency transactions of each group company have been translated into their functional currencies at the exchange rate prevailing at the dates of transactions upon preparation of their financial statements. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

ii. Foreign currency transactions

Foreign currency transactions are translated at the spot exchange rate of the date of transaction or the rate that approximates such exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the fiscal year end date. Non-monetary items at fair value denominated in foreign currencies are translated at an exchange rate of the date when their fair values are measured.

Exchange differences arising from the translation and settlement of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss. However, exchange differences arising from the translation of equity instruments measured through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

iii. Foreign operations

For the purpose of the presentation of the consolidated financial statements, the assets and liabilities of the Group's foreign operations, including goodwill, identified assets and liabilities, and their fair value adjustments resulting from the acquisition of the foreign operations, are translated into presentation currency at the exchange rate prevailing at the fiscal year end date. Income and expenses of foreign operations are translated into Japanese yen, the presentation currency, at the average exchange rate for the period, unless there is significant change in the exchange rate during the period.

Exchange differences arising from translation of foreign operations' financial statements are recognized as other comprehensive income. In cases of disposition of whole interests of foreign operations, and certain interests involving loss of control or significant influence, exchange differences are accounted for as profit or loss on disposal of foreign operations.

(5) Property, plant and equipment

i. Recognition and measurement

Property, plant, and equipment of the Group is measured on a historical cost basis and carried at its cost less accumulated depreciation and impairment losses. The acquisition cost includes costs directly attributable to the acquisition of the asset and the initial estimated costs related to disassembly, retirement and site restoration, as well as borrowing costs eligible for capitalization.

In cases where components of property, plant, and equipment have different useful lives, each component is recorded as a separate property, plant, and equipment item.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognized as expenses during the financial period in which they are incurred.

ii. Depreciation and useful lives

Property, plant and equipment is depreciated mainly using the straight-line method over the estimated useful lives of each component. The depreciable amount is calculated as the cost of an asset less its residual value. Land and construction in progress are not depreciated. In cases where components of property, plant and equipment have different useful lives, each component is recorded as a separate property, plant and equipment item.

The estimated useful lives of major components of property, plant and equipment are as follows:

Communication equipment	
Machinery	9 years
Antenna equipment	10–21 years
Toll and local line equipment	10–21 years
Other equipment	9–27 years
Buildings and structures	10–38 years
Others	5–22 years

The depreciation methods, estimated useful lives and residual values are reviewed at the end of each reporting period, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

iii. Derecognition

Property, plant, and equipment is derecognized on disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

(6) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree on the date of acquisition.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Instead, it is tested for impairment annually and if events or changes in circumstances indicate a potential impairment. For the impairment, please refer to "Note 3. Significant accounting policies (9) Impairment of property, plant and equipment, goodwill and intangible assets."

(7) Intangible assets

i. Recognition and measurement

The Group applies the cost method in measuring intangible assets, excluding goodwill. Those assets are carried at its cost less accumulated amortization and impairment losses.

Intangible assets acquired separately are measured at cost at initial recognition. Intangible assets acquired in a business combination are recognized separately from goodwill and are measured at fair value at the acquisition date when such assets meet the definition of intangible asset and are identifiable, and their fair values can be measured reliably.

Expenditure on research activities to obtain new science technology or technical knowledge and understanding is recognized as an expense when it is incurred.

Expenditure on development is recognized as intangible asset in the case where the expenditure is able to measure reliably, product or production process has commercial and technical feasibility, the expenditure probably generates future economic benefits, the Group has intention to complete the development and use or sell the asset, and has enough resources for their activities. In other cases, the expenditure is recognized as expense when it is incurred.

ii. Depreciation and useful lives

Intangible assets are amortized using the straight-line method over their estimated useful lives. Estimated useful lives of major components of intangible assets are as follows:

Intangible assets with indefinite useful lives are not amortized.

Software	5 years
Customer relationships	4–29 years
Assets related to program supply	22 years
Others	5–20 years

The amortization methods, estimated useful lives are reviewed at the end of each reporting period, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

(8) Lease

i. Assets subject to lease

At the inception of the lease contract, the assessment whether an arrangement is a lease or contains a lease is made based on the substance of the agreement. Assets are subject to lease if the implementation of an agreement depends on use of certain assets or groups of assets, and the right to use the assets is given under such agreement.

ii. Classification of lease

Lease transactions are classified as finance leases whenever all the risks and rewards of ownership of assets are substantially transferred to the Group (lessee). All other leases are classified as operating leases.

iii. Finance lease

In finance lease transactions, leased assets are recognized as an asset in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the aggregated minimum lease payments, each determined at the inception of the lease, less accumulated depreciation and impairment losses. Lease obligations are recognized as "Other short-term financial liabilities" and "Other long-term financial liabilities" in the consolidated statement of financial position. Lease payments are apportioned between the financial cost and the reduction of the lease obligations based on the effective interest method. Finance cost is recognized in the consolidated statement of income.

Assets held under finance leases are depreciated using straight-line method over their estimated useful lives if there is reasonable certainty that the ownership will be transferred by the end of the lease term; otherwise the assets are depreciated over the shorter of the lease term or their estimated useful lives.

iv. Operating lease

In operating lease transactions, lease payments are recognized as an expense using the straight-line method over the lease terms.

(9) Impairment of property, plant and equipment, goodwill and intangible assets

At the end of each reporting period, the Group determines whether there is any indication that carrying amounts of property, plant and equipment and intangible assets may be impaired. If any indication exists, the recoverable amount of the asset or the cash-generating unit to which the asset belongs is estimated. For goodwill and intangible assets with indefinite useful lives, the impairment test is undertaken when there is any indication of impairment, and at a certain timing within the fiscal year regardless of whether there is any indication of impairment. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the higher of fair value less costs of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset.

Consolidated Financial Statements

When the impairment test shows that the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or group of units, and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units. Any impairment loss for goodwill is recognized in profit or loss and is not reversed in subsequent periods.

For assets other than goodwill, the Group determines at the end of each reporting period whether there is any indication that an impairment loss recognized in prior years has decreased or extinguished. An impairment loss is reversed when there is an indication that the impairment loss may be reversed and there has been a change in the estimates used to determine an asset's recoverable amount. When an impairment loss recognized is reversed, carrying amount of the asset or cash-generating unit is increased to its updated estimated recoverable amount. A reversal of an impairment loss is recognized, to the extent the increased carrying amount does not exceed the lower of the recoverable amount or the carrying amount (net of depreciation and amortization) that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as other income.

(10) Non-current assets held for sale or disposal group

An asset or group of assets of which the carrying amount is expected to be recovered primarily through a sales transaction rather than through continuing use is classified into "Assets held for sale." To qualify for classification as "non-current assets held for sale," the sale of a non-current asset must be highly probable and it must be available for immediate sale in its present condition. Also, management must be committed to a plan to sell the asset in which the sale is to be completed within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, and the criteria set out above are met, all assets and liabilities of the subsidiary are classified as held for sale, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Assets held for sale is measured at the lower of its "carrying amount" and "fair value less cost to sell." Property, plant and equipment and intangible assets classified as "assets held for sale" are not depreciated or amortized.

(11) Financial instruments

i. Financial assets

(a) Recognition and measurement of financial assets

The Group recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group initially recognizes trade and other receivables on the date of transaction. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of a financial asset measured at fair value through profit or loss is recognized as profit or loss.

(b) Classification of non-derivative financial assets

Classification and measurement model of non-derivative financial assets are summarized as follows. The Group classifies financial assets at initial recognition as financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, equity instruments measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss.

(i) Financial assets measured at amortized cost

A financial asset that meets both the following condition is classified as a financial asset measured at amortized cost.

- The financial asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Equity instruments measured at fair value through other comprehensive income

The Group makes an irrevocable election to recognize changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss.

An equity instrument measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to retained earnings when equity instrument is derecognized or its fair value substantially decreased.

Dividends are recognized as "finance income" in profit or loss.

(iii) Financial assets measured at fair value through profit or loss

When any of the above-mentioned conditions for classification of financial assets is not met, a financial asset is classified as "at fair value through profit or loss" and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset measured at fair value through profit or loss is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset measured at fair value through profit or loss is recognized in profit or loss, and presented in "finance income" or "finance cost" in the consolidated statement of income for the reporting period in which it arises.

The Group does not designate any debt instrument as at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

(c) Derecognition of financial assets

The Group derecognizes its financial asset if the contractual rights to the cash flows from the investment expire, or the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

ii. Non-derivative financial liabilities

(a) Recognition and measurement of financial liabilities

The Group recognizes financial debt when the Group becomes a party to the contractual provisions of the instruments. The measurement of financial debt is explained in (b) Classification of financial liabilities.

(b) Classification of financial liabilities

(i) *Financial liabilities measured at amortized cost*

A financial liability other than those measured at fair value through profit or loss is classified as a financial liability measured at amortized cost. A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. After initial recognition, the financial liability is measured at amortized cost based on the effective interest rate method.

(ii) *Financial liabilities measured at fair value through profit or loss*

A financial liability measured at fair value through profit or loss is initially measured at fair value. After initial recognition, the financial liability is measured at fair value with subsequent changes recognized as profit or loss.

(c) Derecognition of financial liabilities

The Group derecognizes a financial liability when the financial liability is distinguished, i.e. when the contractual obligation is discharged or cancelled or expired.

(d) Preference shares

Preference shares are classified as equity or financial liabilities based on the substance of the contractual arrangements, not on their legal forms. Preference shares mandatorily redeemable on a particular date are classified as financial liabilities. Preference shares classified as liabilities are measured at amortized cost in the consolidated statement of financial position and the dividends on these preference shares are recognized as interest expense and presented as financial cost in the consolidated statement of income.

iii. Presentation of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(12) Impairment of financial assets

The Group recognizes 12-month expected credit loss as loss allowance when there is no significant increase in the credit risk since initial recognition. When there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as loss allowance. Whether credit risk is significantly increased or not is determined based on the changes in default risk. To determine if there is a change in default risk, following factors are considered. However, the Group always measures loss allowance for trade receivables which do not include any material financial component at an amount equal to lifetime expected credit losses.

- External credit rating of the financial asset
- Downgrade of internal credit rating
- Operating results, such as decrease in sales, decrease in working capital, asset deterioration and increase in leverage
- Reduced financial support from the parent company or associated companies
- Delinquencies (Overdue information)

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received.

(13) Derivatives and hedge accounting

Derivatives are initially recognized at fair value as of the date in which the derivative contracts are entered into. After initial recognition, derivatives are remeasured at fair value at the end of each reporting period.

The Group utilizes derivatives consisting of exchange contracts and interest swaps to reduce foreign currency risk and interest rate risk, etc.

The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates derivatives as cash flow hedge (hedges to the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction).

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, along with their risk management objectives and strategies to conduct various hedge transactions.

At the inception of the hedge and on an ongoing basis, the Group assess whether the derivative used in hedging transaction is highly effective in offsetting changes in cash flows of the hedged item.

Specially, when the Group assess whether the hedge relationship is effective, the Group assess whether all of the following requirements are met:

- (i) *There is an economic relationship between the hedged item and the hedging instrument;*
- (ii) *The effect of credit risk does not dominate the value changes that result from that economic relationship; and*
- (iii) *The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.*

Hedge effectiveness is assessed on an ongoing basis and about whether the hedging criteria described above are met.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion is recognized in profit or loss. Cumulative gain or loss recognized through other comprehensive income is transferred to profit or loss on the same period that the cash flows of hedged items affects profit or loss.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity should adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing).

After rebalancing, in cases where no longer meet the requirements of hedge accounting or hedging instruments are expired, sold, terminated or exercised, hedge accounting will be discontinued.

In the case that the hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income when the hedge was effective will remain in other comprehensive income until the forecast transaction occurs. When forecast transactions are no longer expected to arise, accumulated amount of gains or losses recorded in equity is transferred to profit or loss.

Aggregated fair values of hedging instrument derivatives whose maturities are over 12 months are classified as non-current assets or liabilities, and those whose maturities are less than 12 months are classified as current assets or liabilities.

(14) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents consist of cash, demand deposits and short-term investments with maturities of three months or less that are readily convertible to cash and subject to insignificant risk of change in value and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within in current liabilities.

(15) Inventories

Inventories mainly consist of mobile handsets and materials/work in progress related to construction.

Inventories are measured at the lower of cost and net realizable value. The cost is generally calculated using the moving average method and comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price in the ordinary course of business less any estimated cost to sell.

(16) Employee benefits

i. Defined benefit plans

The Group primarily adopts defined benefit plans.

The asset or liability recognized on the consolidated statement of financial position in relation to the defined benefit pension plans (defined benefit asset or liability) is the present value of the defined benefit obligation less fair value of the plan assets at the end of the reporting period. The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method. The discount rates are on the basis of the market yields of high-quality corporate bonds at the end of the reporting period, that are denominated in the currency in which the benefit will be paid, which is corresponding to the estimated timing and amount of future benefits are to be paid.

Defined benefit cost includes service cost, net interest on the net defined benefit liability (asset), and remeasurements of the net defined benefit liability (asset). Service cost and net interest are recognized in profit or loss. Net interest is determined using the discount rate described above. The remeasurements comprise actuarial gains and losses, past service cost and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses are recognized immediately in other comprehensive income when incurred, and past service cost is recognized as profit or loss.

The Group recognizes remeasurements of all the net defined benefit liability (asset) resulting from its defined benefit plans in other comprehensive income and reclassifies them immediately to retained earnings.

ii. Defined contribution plans

Certain subsidiaries of the Group adopt defined contribution plans. Contribution to the defined contribution plans are recognized as expenses for the period over which employees provide services.

In addition, certain subsidiaries of the Group participate in multi-employer pension plans, and recognize the payments made during the fiscal year as profit or loss and contribution payable as a liability.

iii. Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when the service is rendered. Bonus and paid annual leave accruals are recognized as a liability in the amount estimated to be paid under these plans, when the Group has legal or constructive obligations to pay them and reliable estimates of the obligation can be made.

(17) Provisions

Provisions are recognized when the Group has legal or constructive obligations as a result of past events, it is probable that outflows of economic benefits will be required to settle the obligations, and reliable estimates of the obligation can be made. To determine the amount of a provision, the estimated future cash flows are discounted using a pretax discount rate that reflects the time value of money and the risks specific to the liability where necessary. Unwinding of the discount over time is recognized in finance cost.

(18) Share-based payment

i. Stock options

The Group has equity-settled stock option plans as incentive plans for its directors and employees. Stock options are measured at fair value at the grant date, which is calculated using the Black-Scholes or other models.

The fair value of stock options at the grant date is recognized as an expense over the vesting period, based on the estimated number of stock options that are expected to vest, with corresponding amount recognized as increase in equity.

ii. Executive compensation BIP trust and stock-granting ESOP trust

The Group has introduced the executive compensation BIP (Board Incentive Plan) trust and a stock-granting ESOP (Employee Stock Ownership Plan) trust. These plans are accounted for as equity-settled share based payment and the shares of the Company held by the trust are included in treasury stock. The fair value of the shares of the Company at the grant date is recognized as expenses over the period from the grant date to the vesting date, with a corresponding increase in capital surplus. The fair value of the shares of the Company granted is determined by adjusting the market value, taking into account the expected dividend yield of the shares.

(19) Equity

i. Common stock

Common stocks are classified as equity. Proceeds from the Company's issuance of common stocks are included in common stock and capital surplus and its direct issue costs are deducted from capital surplus.

ii. Treasury stock

When the Group acquires treasury stocks, the consideration paid, net of direct transaction costs and tax, is recognized as a deduction from equity. When the Group sells treasury stocks, differences between the carrying amount and the consideration received upon sale are recognized as capital surplus.

(20) Revenue

The Group's accounting policy for revenue recognition by major categories is as follows:

i. Mobile communications services and sale of mobile handsets

Revenue of the Group generates mainly from its mobile communications services and sale of mobile handsets. The Group enters into mobile communications service agreements directly with customers or indirectly through distributors, and also sells mobile handsets mainly to its distributors.

Revenue from the mobile communications services primarily consists of basic monthly charges and communication fees ("the mobile communication service fees"), and commission fees such as activation fees. The basic monthly charges and communication fees are recognized on a flat rate and a measured rate basis when the services are provided to the customers. Discounts of communication charges are deducted from the mobile communications service fees on a monthly basis.

Revenue from the sale of mobile handsets composes proceeds from the sale of mobile handsets and accessories to customers or distributors.

The business flows of the above transactions consist of "Indirect sales" where the Company sells mobile handsets to distributors and enters into communications service contracts with customers through the distributors, and "Direct sales" where the Company and certain subsidiaries of the Company sells mobile handsets to customers and enters into a communications service contracts directly with the customers.

Revenue in each case is recognized as follows:

(a) Indirect sales

As the distributor has the primary obligation and inventory risk for the mobile handsets the Group sold to the distributors, the Group considers distributors as a principal in a transaction, revenue from the sale of mobile handsets is recognized when mobile handsets are delivered to distributors at the time when risks and rewards of ownership are transferred. Certain commission fees paid to distributors are deducted from revenue from the sale of mobile handsets.

The mobile communications service fees are recognized as revenue when services are provided to the customers. Discounts of communication charges are deducted from the mobile communications service fees on a monthly basis.

(b) Direct sales

In direct sales transaction, revenue from the sale of mobile handsets, mobile communications service fees and commission fees are considered to be a bundled transaction. Total amount of the transaction is allocated to revenue from the sale of mobile handsets and mobile communications service fees based on their proportionate shares of the fair value. However, the maximum amount recognized from the sale of mobile handsets is limited to the amount to be received from customers at the sale of mobile handsets. The amount allocated to mobile communications service fees is recognized as revenue when the service is provided to the customer.

In both direct and indirect sales, activation fees are deferred upon entering into the contract and recognized as revenue over the estimated average contract period. Administration fees for mobile contract are recognized as revenue over the estimated average usage period of handsets with the customers. Direct costs related to activation are deferred to the extent of the activation fees and upgrade fees, and amortized over the respective same period. Points granted to customers through the customer loyalty program are deferred at their fair values of benefits to be exchanged based on the estimated point utilization rate, in which the expiring points due to cancellation in the future, etc., are reflected, and are recognized as revenues when the customers utilize those points.

ii. Fixed-line telecommunications services

Revenue from fixed-line telecommunications services primarily consists of revenues from voice communications, data transmission and FTTH services ("the fixed-line telecommunications service income").

The fixed-line telecommunications service income is recognized on a flat rate and a measured rate basis when the services are provided to the customers.

iii. Contents service

Revenue from contents service mainly comprises revenue from information fee, revenue arising from payment agency services, revenue through advertising businesses, and agency fee on content service etc. Revenue from information includes the revenue from contents service mainly comprises membership fees for the contents provided to the customers on the websites that the Group operates or the Group jointly operates with other entities. Revenue arising from payment agency services includes the revenue from fee for collecting the receivables of contents providers from customers as the agent of contents providers together with the telecommunication fee. These revenues are recognized as the service is delivered based on the nature of each contract.

The Group acts as a principal or an agent in transactions. To report revenue from such transactions, the Group determines whether it should present the gross amount of the consideration received from customers, or the net amount of the consideration received from customers less payments paid to a third party. The Group evaluates whether the Group has the primary obligation for providing the goods and services under the arrangement or contract, the inventory risk, latitude in establishing prices, and the credit risk. However, either presentation on gross basis or net basis does not impact profit for the year.

The Group evaluates whether revenue from information fee should be presented on net basis or gross basis by judging each transaction based on the above criteria. Specifically, when the Group has the primary obligation in driving the plan and development of content service and takes a credit risk for such service, revenue from the contents service is presented on gross basis. When the Group does not have the primary obligation in driving the plan and development of content service and credit risk for the contents service, the service the Group provides is the platform and is presented on net basis as the commission income.

The Group considered it is the agent for payment agency services, advertisement services and certain content service described above because it earns commission income based on pre-determined rate and solely provide a platform for its customers to transact or place advertisement. Therefore, revenue from these services is presented on a net basis.

iv. Solution service

Revenue from solution services primarily consists of revenues from equipment sales, engineering, management and data center services ("the solution service income").

The solution service income is recognized based on the consideration received from the customers when the goods or the services are provided to the customers.

v. CATV business

Revenue from cable television, high-speed internet access and phone services is recorded as revenue for the period over which those services are provided to the customers.

The Group also distributes programs directly to respective satellite broadcasting subscriber through agreements with satellite broadcasting operators. Each satellite broadcasting subscriber pays subscriptions on a monthly basis to the Group under a subscription contract which is automatically extended every month. Revenue from program distribution, including such subscription income, is recorded in the period over which the services are provided to the cable television operators, satellite broadcasting operators and IPTV operators.

vi. Global data center business

The Group operates data center business worldwide under a brand name, "TELEHOUSE." These independent data centers enable the Group to facilitate a reliable environment for the customers' critical equipment and the Group receives service charge for using space, electricity and network etc. as a consideration. In general, the contract covers more than one year and the revenue is recognized for the period over which the services are provided. In addition, a consideration for installing equipment and network to the customers is recognized as revenue as a lump-sum payment when incurred.

(21) Sales commission fees

The Group pays sales commission fees when distributors sell the Group's mobile handsets to customers, or acquire and retain telecommunications service agreements. Commission fees paid to acquire and retain the telecommunications service agreements are recognized as selling, general and administrative expenses when incurred. Commission fees related to the sale of mobile handsets are deducted from the revenues from the sale of mobile handsets.

(22) Finance income and costs

Finance income mainly comprises interest income, dividend income, exchange gains and changes in fair value of financial assets at fair value through profit or loss. Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment (shareholders' right) is established. Interest income is recognized as incurred using the effective interest method.

Consolidated Financial Statements

Finance costs mainly comprise interest expense, exchange losses and changes in fair value of financial assets at fair value through profit or loss. Interest expense is recognized as incurred when incurred using the effective interest method.

(23) Other non-operating income and loss

Other non-operating profit and loss includes gain and loss on investment activities. Specifically, gain and loss on step acquisitions, gain and loss on sales of stocks of subsidiaries and associates and gain and loss on deemed disposal are included.

(24) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset, which takes a considerable period of time before it is ready for its intended use or sale, are capitalized as part of the cost of such asset. All other borrowing costs are recognized as expenses in the period they incurred.

(25) Income taxes

Income taxes are composed of current and deferred taxes and recognized in profit or loss, except for taxes related to items that are recognized directly in equity or in other comprehensive income.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities on the current year's taxable income, plus adjustments to the amount paid in prior years. To determine the current tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year in the countries in which the Group operates and earns taxable income or losses.

Deferred tax assets and liabilities are, using asset and liability method, recognized on temporary differences between the carrying amounts of assets and liabilities on the consolidated financial statements and their tax basis, and tax loss carryforwards and tax credits. However, no deferred tax assets and liabilities are recognized on following temporary differences:

- Taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of assets and liabilities related to transactions other than business combination, that affects neither the accounting profit nor the taxable profit (loss); and
- Taxable temporary differences associated with investments in subsidiaries and associates, where the Group is able to control

the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized on all deductible temporary differences, unused tax loss carryforwards and tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences etc. can be utilized. Deferred tax liabilities are recognized on taxable temporary differences. Carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to realize all or part of the benefit of the deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences will reverse, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(26) Dividends

For the purpose of the consolidated financial statements, dividends to owners of the parent company are recognized as a liability for the period over which the dividends are approved by the owners of the parent company.

(27) Earnings per share

The Group discloses basic and diluted earnings per share (attributable to owners of the parent) related to common stock.

Basic earnings per share is calculated by dividing profit for the year attributable to common stockholders of the parent by the weighted average number of common stocks outstanding during the reporting period, adjusted for the number of treasury stocks acquired.

For the purpose of calculating diluted earnings per share, net profit attributable to owners of the parent and the weighted average number of common stocks outstanding, adjusted for the number of treasury stocks, are further adjusted based on the assumption that all dilutive potential common stocks are fully converted. Potential common stocks of the Group are related to BIP trust and ESOP trust.

4. Business Combinations

AEON Holdings

i. Overview of business combination

On January 22, 2018, the Company acquired all of the outstanding shares in AEON Holdings Corporation of Japan ("AEON HD") from its shareholders.

As a result, AEON HD and its consolidated subsidiaries became the Company's consolidated subsidiaries on the same date.

ii. Main objectives of business combination

Upon the acquisition, the Company enters into the education market which is expected to continue to grow and expand. The Company and AEON HD are aiming to combine the information and communications technologies ("ICT") cultivated by the Company with the "highly experienced instructors, original educational materials, and study abroad services" developed and accumulated by AEON HD over many years to jointly offer learning content that is tailored to each individual customer and provide new forms of value and services to customers.

iii. Name and business description of the acquiree (as of March 31, 2018)

Company name	AEON Holdings Corporation of Japan
Establishment date	April 1973
Head office	2-3-23 Kosei-cho, Kita-ku, Okayama City, Okayama Prefecture
President and name	CEO Kenichiro Takagi
Description of business	Operation of language schools of foreign language conversation (e.g.English) Production and sale of language learning materials Internet and telephone-based language education
Paid-in capital	¥100 million

iv. The proportion of acquired equity interest with voting rights AEON HD 100%

v. Acquisition date January 22, 2018

vi. Consideration transferred and its components

As of acquisition date January 22	Millions of yen		Millions of U.S. dollars	
		2018		2018
Cash payment		¥86,173		\$811
Total consideration transferred	A	¥86,173		\$811

¥350 million of acquisition-related costs for the business combination is recognized as selling, general and administrative expenses.

vii. Fair value of assets and liabilities, non-controlling interests and goodwill on the acquisition date

As of acquisition date January 22	Millions of yen		Millions of U.S. dollars	
		2018		2018
Non-current assets				
Property, plant and equipment (Note 1)		¥ 4,443		\$ 42
Intangible assets (Note 1)		23,259		219
Other non-current assets		4,531		43
Total non-current assets		32,232		303
Current assets				
Trade and other receivables (Note 2)		2,056		19
Cash and cash equivalents		33,593		316
Other current assets		7,279		69
Total non-current assets		42,928		404
Total assets		¥75,160		\$707
Non-current liabilities				
Deferred tax liabilities		¥ 7,998		\$ 75
Other non-current liabilities		2,971		28
Total non-current liabilities		10,969		103
Current liabilities				
Trade and other payables		11,336		107
Other current liabilities		3,696		35
Total current liabilities		15,031		141
Total liabilities		¥26,001		\$245
Net assets	B	¥49,159		\$463
Goodwill (Note 3)	A – B	¥37,014		\$348

Consideration transferred is allocated to the acquired assets and assumed liabilities on the basis of fair value on the acquisition date.

Notes: 1. The analysis of property, plant and equipment and intangible assets

The main components of property, plant and equipment are buildings and building equipment.

The main components of intangible assets are customer related assets, trademark and software.

2. Estimation of fair values of acquired receivables, contractual amounts receivables and amounts not expected to be collected

As for the fair value of ¥2,056 million (U.S.\$19 million) of acquired receivables and other receivables, the total amount of contracts is ¥2,056 million (U.S.\$19 million) and the estimate of the contractual cash flows not expected to be collected at the acquisition date is none.

3. Goodwill

Goodwill reflects excess earning power expected from the collective human resources related to the future business development and its synergy with the existing businesses. There is no item deductible from the taxable income related to the recognized goodwill.

viii. Consideration for expenditures due to the acquisition of control over the subsidiary

As of acquisition date January 22	Millions of yen		Millions of U.S. dollars	
		2018		2018
Cash consideration transferred		¥(86,173)		\$(811)
Cash and cash equivalents held by the acquiree at the acquisition of control		33,593		316
Cash payment for the acquisition of control over the subsidiary		¥(52,580)		\$(495)

ix. Revenue and profit for the year of the acquiree

Revenue and profit for the year of the acquiree after the acquisition date, which are recorded on the consolidated statement of income for the year ended March 31, 2018 are ¥4,857 million (U.S.\$46 million) and ¥185 million (U.S.\$2 million), respectively.

x. Consolidated revenue and consolidated profit for the year assuming that the business combination was completed at the beginning of the fiscal year (Pro forma information)

Revenue and profit for the year in pro forma information (unaudited) related to the consolidated results, assuming that the acquisition of control by business combination was effective on April 1, 2017, are ¥5,065,036 million (U.S.\$47,675 million) and ¥664,724 million (U.S.\$6,257 million), respectively.

5. Segment Information

(1) Outline of reporting segments

The reporting segments of the Group are units of the Group of which separate financial information is available, and which are periodically monitored for the board of directors to determine the allocation of the business resource and evaluate the performance results.

The Group has four reportable segments: Personal Services segment, Value Services segment, Business Services segment and Global Services segment. The Group's reportable segments are the same as its business segments. Also, the name of segment of "Value" is changed to "Life Design" from fiscal year ending March 31, 2019 due to the changes in organization of the company as of April 1, 2018.

"Personal" provides services for individual customers in Japan. These include mobile communications services, device sales such as smartphones and tablets, FTTH services, and CATV services, as well as non-telecommunications services including product sales, energy services and education services.

"Value" includes the commerce business, financing business, settlement services, and contents services such as video, music, and information distribution.

"Business" provides services for corporate customers in Japan. These include mobile and fixed-line communications services and device sales, as well as the solutions business, such as network, application, and cloud services.

"Global" provides services for customers overseas. These

include mobile communications services for individual customers and ICT solution services for corporate customers, such as data centers.

In the fiscal year ended March 31, 2018, the reporting segment for the business operations of the consolidated subsidiary KDDI Evolva Inc. was transferred from "Others" to "Business." This change reflects that KDDI Evolva Inc.'s core business process outsourcing (BPO) business and dispatch business are being expanded targeting corporate customers. The KDDI Group aims to further expand its solutions business for corporate customers and bolster its competitive edge by realizing mutual customer referrals leveraging its customer base.

Accordingly, the segment information for the fiscal year ended March 31, 2018 has been presented based on the segment classification after this change.

(2) Calculation method of revenue, income or loss, assets and other items by reporting segment

Accounting treatment of reported business segments is consistent with "Note 3. Significant accounting policies."

Income of the reporting segments is based on the operating income.

Inter segment transaction price is determined by taking in to consideration the price by arm's length transactions or gross costs after price negotiation.

Assets and liabilities are not allocated to reporting segments.

(3) Information related to the amount of revenue, income or loss and other items by reporting segment

The Group's segment information is as follows:

For the year ended March 31, 2017

	Reporting segment						Other (Note 1)	Total	Adjustment (Note 2)	Amounts on the consolidated financial statements
	Personal	Value	Business	Global	Subtotal					
Revenue										
Revenue from external customers	¥3,530,144	¥367,359	¥584,410	¥248,967	¥4,730,881	¥17,379	¥4,748,259	¥	—	¥4,748,259
Inter-segment revenue or transfers	102,825	83,699	125,759	28,237	340,520	76,687	417,207	(417,207)		—
Total	3,632,969	451,058	710,170	277,204	5,071,401	94,066	5,165,467	(417,207)		4,748,259
Segment income	711,087	95,894	76,053	24,157	907,191	7,497	914,688	(1,712)		912,976
Finance income and finance cost (Net)										(11,562)
Other non-operating profit and loss										(5,517)
Profit for the year before income tax										¥ 895,897
Other items										
Depreciation and amortization	468,334	20,350	45,481	12,590	546,755	1,012	547,767	(2,590)		545,177
Impairment loss	36,054	66	1,136	227	37,484	4	37,488	—		37,488
Share of profit of investment accounted for using the equity method	1,112	(389)	740	80	1,543	1,212	2,755	—		2,755

Notes: 1. "Other" does not constitute reporting segments, and includes construction and maintenance of facilities, call center, and research and development of leading-edge technology.

2. Adjustment of segment income shows the elimination of inter-segment transactions.

For the year ended March 31, 2018

	Millions of yen								Amounts on the consolidated financial statements
	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	
	Personal	Value	Business	Global	Subtotal				
Revenue									
Revenue from external customers	¥3,793,280	¥402,873	¥591,053	¥220,499	¥5,007,705	¥ 34,273	¥5,041,978	¥ —	¥5,041,978
Inter-segment revenue or transfers	106,325	118,863	158,918	28,203	412,308	71,000	483,308	(483,308)	—
Total	3,899,605	521,736	749,971	248,702	5,420,013	105,273	5,525,286	(483,308)	5,041,978
Segment income	732,931	103,986	84,467	31,907	953,292	10,283	963,575	(782)	962,793
Finance income and finance cost (Net)									(7,950)
Other non-operating profit and loss									305
Profit for the year before income tax									¥ 955,147
Other items									
Depreciation and amortization	468,485	21,859	46,189	11,674	548,206	1,374	549,580	(2,971)	546,609
Impairment loss	11,075	988	963	40	13,066	3	13,069	—	13,069
Share of profit of investment accounted for using the equity method	1,227	494	601	90	2,411	2,180	4,592	—	4,592

	Millions of U.S. dollars								Amounts on the consolidated financial statements
	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	
	Personal	Value	Business	Global	Subtotal				
Revenue									
Revenue from external customers	\$35,705	\$3,792	\$5,563	\$2,075	\$47,136	\$323	\$47,458	\$ —	\$47,458
Inter-segment revenue or transfers	1,001	1,119	1,496	265	3,881	668	4,549	(4,549)	—
Total	36,706	4,911	7,059	2,341	51,017	991	52,008	(4,549)	47,458
Segment income	6,899	979	795	300	8,973	97	9,070	(7)	9,062
Finance income and finance cost (Net)									(75)
Other non-operating profit and loss									3
Profit for the year before income tax									\$ 8,990
Other items									
Depreciation and amortization	4,410	206	435	110	5,160	13	5,173	(28)	5,145
Impairment loss	104	9	9	0	123	0	123	—	123
Share of profit of investments accounted for using the equity method	12	5	6	1	23	21	43	—	43

Notes: 1. "Other" does not constitute reporting segments, and includes construction and maintenance of facilities, call center, and research and development of leading-edge technology.

2. Adjustment of segment income shows the elimination of inter-segment transactions.

(4) Information by product and service

Information by product and service is described in "Note 25. Revenue."

(5) Information by region

i. Revenue

Description is omitted as the revenue from external customers in Japan accounts for most of the revenue on the consolidated statement of income.

ii. Non-current assets (excluding financial assets, deferred income tax assets and retirement benefit assets)

Description is omitted as Non-current assets located in Japan accounts for most of such assets on the consolidated statement of financial position.

(6) Information by major customer

Description is omitted as the revenue from a specific external customer is less than 10% of the revenue on the consolidated statement of income.

6. Property, Plant and Equipment

(1) Movements of property, plant and equipment

Movements of acquisition costs, accumulated depreciation and accumulated impairment loss of the property, plant and equipment are as follows:

Acquisition costs

	Millions of yen					
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
As of April 1, 2016	¥4,670,274	¥589,306	¥259,678	¥188,149	¥505,182	¥6,212,588
Acquisition	4,134	9,459	447	368,342	12,428	394,811
Transfer from construction in progress	305,757	14,612	16,324	(388,471)	51,777	—
Acquisition by business combination	2,517	1,636	—	4	7,770	11,927
Disposal	(235,346)	(6,932)	(14)	(3,672)	(34,814)	(280,778)
Exchange differences	(2,735)	(4,169)	(842)	(2,116)	(13,507)	(23,368)
Other	(9,449)	291	548	(3,928)	3,949	(8,589)
As of March 31, 2017	4,735,152	604,203	276,142	158,309	532,785	6,306,590
Acquisition	48,474	3,127	329	358,146	9,665	419,742
Transfer from construction in progress	258,131	16,649	1,751	(328,000)	51,470	—
Acquisition by business combination	—	3,437	1,455	—	253	5,145
Disposal	(88,173)	(18,169)	(75)	(7,869)	(43,723)	(158,009)
Exchange differences	(1,070)	1,952	391	566	2,562	4,400
Other	502	455	(746)	(3,360)	(983)	(4,132)
As of March 31, 2018	¥4,953,016	¥611,653	¥279,246	¥177,792	¥552,028	¥6,573,735

	Millions of U.S. dollars					
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
As of April 1, 2017	\$44,570	\$5,687	\$2,599	\$ 1,490	\$5,015	\$59,362
Acquisition	456	29	3	3,371	91	3,951
Transfer from construction in progress	2,430	157	16	(3,087)	484	—
Acquisition by business combination	—	32	14	—	2	48
Disposal	(830)	(171)	(1)	(74)	(412)	(1,487)
Exchange differences	(10)	18	4	5	24	41
Other	5	4	(7)	(32)	(9)	(39)
As of March 31, 2018	\$46,621	\$5,757	\$2,628	\$ 1,673	\$5,196	\$61,876

Accumulated depreciation and accumulated impairment loss

	Millions of yen					
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	Total
As of April 1, 2016	¥(3,067,130)	¥(352,097)	¥(4,084)	¥ (728)	¥(302,822)	¥(3,726,860)
Depreciation	(311,331)	(19,593)	—	—	(54,268)	(385,192)
Disposal	217,716	5,882	—	945	32,369	256,912
Impairment loss	(32,456)	(218)	—	(909)	(26)	(33,609)
Exchange differences	1,678	264	—	1	8,661	10,605
Other	—	—	—	—	—	—
As of March 31, 2017	(3,191,523)	(365,761)	(4,084)	(691)	(316,086)	(3,878,145)
Depreciation	(295,008)	(20,097)	—	—	(53,910)	(369,015)
Disposal	65,096	15,769	0	—	41,626	122,491
Impairment loss	(10,644)	(646)	—	(399)	(166)	(11,856)
Exchange differences	739	150	—	(0)	(903)	(15)
Other	—	—	—	—	—	—
As of March 31, 2018	¥(3,431,340)	¥(370,586)	¥(4,083)	¥(1,090)	¥(329,439)	¥(4,136,539)

	Millions of U.S. dollars					Total
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	
As of April 1, 2017	\$(30,041)	\$(3,443)	\$(38)	\$ (7)	\$(2,975)	\$(36,504)
Depreciation	(2,777)	(189)	—	—	(507)	(3,473)
Disposal	613	148	0	—	392	1,153
Impairment loss	(100)	(6)	—	(4)	(2)	(112)
Exchange differences	7	1	—	(0)	(8)	(0)
Other	—	—	—	—	—	—
As of March 31, 2018	\$(32,298)	\$(3,488)	\$(38)	\$(10)	\$(3,101)	\$(38,936)

Note: The depreciation of the property, plant and equipment is included in "cost of sales" and "selling, general and administrative expenses" in consolidated statement of financial positions.

The carrying amounts of the property, plant and equipment are as follows:

Carrying amount

	Millions of yen					Total
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	
As of April 1, 2016	¥1,603,144	¥237,209	¥255,594	¥187,421	¥202,360	¥2,485,728
As of March 31, 2017	¥1,543,629	¥238,441	¥272,058	¥157,618	¥216,699	¥2,428,445
As of March 31, 2018	¥1,521,676	¥241,067	¥275,163	¥176,701	¥222,589	¥2,437,196

	Millions of U.S. dollars					Total
	Communication equipment	Buildings and structures	Land	Construction in progress	Other	
As of March 31, 2018	\$14,323	\$2,269	\$2,590	\$1,663	\$2,095	\$22,940

(2) Property, plant and equipment rented under finance lease

The carrying amount of finance lease assets included in property, plant and equipment (less accumulated depreciation and accumulated impairment loss) is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
In-home customer premises equipment	¥72,662	¥69,629	\$655
Other	8,646	7,562	71
Total	¥81,308	¥77,191	\$727

(3) Property, plant and equipment pledged as collateral

For the amount of property, plant and equipment pledged as collateral for liabilities including borrowings, please refer to "Note 15. Borrowings and bonds payable."

(4) Property, plant and equipment with limited ownership

There is no property, plant and equipment with limited ownership.

(5) Property, plant and equipment under construction

Expenditures included in the carrying amount of property, plant and equipment under construction are presented as construction in progress in the table above.

(6) Capitalization of borrowing costs

There are no significant borrowing costs included in the acquisition costs of the property, plant and equipment for the years ended March 31, 2017 and 2018.

7. Goodwill and Intangible Assets

(1) Movements of goodwill and intangible assets

The movements of the acquisition costs, accumulated amortization and accumulated impairment loss of the intangible assets are as follows:

Acquisition costs

	Millions of yen					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of April 1, 2016	¥450,506	¥552,941	¥272,648	¥36,363	¥598,297	¥1,910,755
Individual acquisition	—	112,885	—	—	60,606	173,491
Acquisition by business combination	46,113	4,336	38,895	—	28,752	118,095
Disposal	(14,895)	(10,388)	—	—	(30,600)	(55,882)
Exchange differences	(347)	(859)	—	—	(469)	(1,675)
Other	—	602	—	—	(3,713)	(3,111)
As of March 31, 2017	481,377	659,517	311,543	36,363	652,873	2,141,673
Individual acquisition	—	114,152	—	—	78,289	192,441
Acquisition by business combination	51,809	111	9,002	—	17,146	78,068
Disposal	(228)	(70,408)	—	—	(29,138)	(99,774)
Exchange differences	(338)	(212)	—	—	(252)	(802)
Other	(1,760)	(597)	—	—	(5,790)	(8,147)
As of March 31, 2018	¥530,860	¥702,563	¥320,545	¥36,363	¥713,129	¥2,303,458

	Millions of U.S. dollars					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of April 1, 2017	\$4,531	\$6,208	\$2,932	\$342	\$6,145	\$20,159
Individual acquisition	—	1,074	—	—	737	1,811
Acquisition by business combination	488	1	85	—	161	735
Disposal	(2)	(663)	—	—	(274)	(939)
Exchange differences	(3)	(2)	—	—	(2)	(8)
Other	(17)	(6)	—	—	(54)	(77)
As of March 31, 2018	\$4,997	\$6,613	\$3,017	\$342	\$6,712	\$21,682

Accumulated amortization and impairment

	Millions of yen					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of April 1, 2016	¥ (799)	¥(298,233)	¥(34,821)	¥(4,959)	¥(276,596)	¥(615,408)
Amortization	—	(96,126)	(12,757)	(1,653)	(49,449)	(159,985)
Impairment loss	(3,504)	(135)	—	—	(241)	(3,879)
Disposal and sales	799	7,389	—	—	29,336	37,524
Exchange differences	—	161	—	—	265	426
Other	—	—	—	—	—	—
As of March 31, 2017	(3,504)	(386,945)	(47,577)	(6,611)	(296,685)	(741,322)
Amortization	—	(103,497)	(19,226)	(1,653)	(53,217)	(177,594)
Impairment loss	(956)	(232)	—	—	(24)	(1,213)
Disposal and sales	—	67,902	—	—	27,884	95,786
Exchange differences	200	115	—	—	275	591
Other	—	—	—	—	—	—
As of March 31, 2018	¥(4,259)	¥(422,657)	¥(66,804)	¥(8,264)	¥(321,767)	¥(823,752)

	Millions of U.S. dollars					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of April 1, 2017	\$(33)	\$(3,642)	\$(448)	\$(62)	\$(2,793)	\$(6,978)
Amortization	—	(974)	(181)	(16)	(501)	(1,672)
Impairment loss	(9)	(2)	—	—	(0)	(11)
Disposal and sales	—	639	—	—	262	902
Exchange differences	2	1	—	—	3	6
Other	—	—	—	—	—	—
As of March 31, 2018	\$(40)	\$(3,978)	\$(629)	\$(78)	\$(3,029)	\$(7,754)

Note: The amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" in Consolidated Statement of financial positions.

The carrying amounts of goodwill and intangible assets are as follows:

Carrying amount

	Millions of yen					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of April 1, 2016	¥449,707	¥254,707	¥237,827	¥31,404	¥321,701	¥1,295,347
As of March 31, 2017	¥477,873	¥272,572	¥263,965	¥29,752	¥356,188	¥1,400,351
As of March 31, 2018	¥526,601	¥279,905	¥253,741	¥28,099	¥391,361	¥1,479,707

	Millions of U.S. dollars					
	Intangible assets					Total
	Goodwill	Software	Customer related	Program supply related	Other	
As of March 31, 2018	\$4,957	\$2,635	\$2,388	\$264	\$3,684	\$13,928

(2) Total expenditures related to research and development expensed during the period

Research and development costs expensed as selling, general and administrative expenses for the years ended March 31, 2017 and 2018 are ¥15,381 million and ¥20,132 million (U.S.\$189 million).

(3) Intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives described above as of March 31, 2017 and 2018 are ¥46,233 million and ¥63,379 million (U.S.\$597 million).

The details of intangible assets are trademark rights that were acquired through business combinations. As these trademark rights exist as long as businesses are continued, useful lives of these intangible assets are assumed to be indefinite.

8. Impairment of Property, Plant and Equipment, Goodwill and Intangible Assets

(1) Recognition of impairment loss

The Group recognized impairment loss of ¥37,488 million and ¥13,069 million (U.S.\$123 million) for the years ended March 31, 2017 and 2018 respectively. The Group mainly recognized impairment loss for the following assets and asset groups:

For the year ended March 31, 2017

Location	Use	Class	Millions of yen
			Impairment loss
Communication facilities, and idle assets (Tokyo other)	Mainly, telecommunications business	Machinery, Local line facilities and other	¥37,114

For assets with declining utilization rates including some communication facilities and idle assets, the book value has been reduced to recoverable amount. This resulted in recognition of an impairment loss of ¥37,114 million. The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded in mainly personal segment. The impairment loss consists of ¥34,168 million for machinery, ¥779 million for local line facilities, and ¥2,168 million for others.

The recoverable amount of these assets was estimated based on the fair value less costs of disposal. Because these assets were difficult to sell to other uses, the fair value hierarchy of these assets was classified as level 3 and the fair value was minimal.

Consolidated Financial Statements

For the year ended March 31, 2018

Location	Use	Class	Millions of yen	Millions of U.S. dollars
			Impairment loss	
Communication facilities (Tokyo other)	Mainly, telecommunications business	Machinery, Local line facilities and other	¥10,008	\$94

Due to the declining of revenue, the future recovery of investments in certain services was determined to be unlikely and the book value was reduced to the recoverable amount. This resulted in recognition of an impairment loss of ¥10,008 million (U.S.\$94 million). The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded mainly in personal segment. The impairment loss consists of ¥9,641 million (U.S.\$91 million) for machinery and ¥367 million (U.S.\$3 million) for others.

The recoverable amount of these assets was estimated at their value in use, with future cash flows discounted at a rate of 6.20% and at the estimated period of 2 years.

(2) Impairment test of cash generating units including goodwill and intangible assets with indefinite useful lives

The Group tests for impairment of goodwill and intangible assets with indefinite useful lives at least annually, and whenever there is an indication of impairment.

The total carrying amounts of the goodwill and intangible assets with indefinite useful lives allocated to cash generating units or cash generating unit groups are as follows:

Goodwill

Cash generating unit or cash generating unit group	Millions of yen		Millions of U.S. dollars
	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
Jupiter telecommunication Co., Ltd. CATV business	¥280,771	¥280,771	\$2,643
Jupiter Shop Channel Co., Ltd.	92,577	92,577	871
AEON HD	—	37,014	348
BIGLOBE Inc.	18,841	19,705	185
Web money Co., Ltd.	13,004	13,004	122
Other	72,680	83,529	786
Total	¥477,873	¥526,601	\$4,957

Intangible assets with indefinite useful lives

Cash generating unit or cash generating unit group	Millions of yen		Millions of U.S. dollars
	As of March 31, 2017	As of March 31, 2018	As of March 31, 2018
BIGLOBE Inc.	¥26,374	¥26,374	\$248
Jupiter Shop Channel Co., Ltd.	19,859	19,859	187
AEON HD	—	17,146	161
Total	¥46,233	¥63,379	\$597

The recoverable amount of goodwill and intangible assets with indefinite useful lives allocated to cash generating units or group of cash generating units is calculated using value in use.

In assessing value in use, the estimated future cash flows arisen from cash generating units or group of cash generating units are discounted to their present value. When the Group calculates the future cash flows and discount future cash flows, growth rates on different types of forecasted revenue and forecasted change to corresponding major cost such as cost of sales and pre-tax discount rates are used as significant factors.

Forecast of cash flows used as a basis to estimate future cash flows is based on the recent business plan approved by the management, and the forecast is 5 years. After 5 years, certain growth rate of profit before tax after consideration of a long-term average growth rate for the market is used.

The growth rates of estimated profit before tax in projection period which are used to calculate value in use of cash generating units are as follows:

Cash generating unit or cash generating unit group	As of March 31, 2017	As of March 31, 2018
Jupiter telecommunication Co., Ltd. CATV business	0.7%	0.7%
Jupiter Shop Channel Co., Ltd.	0.0%	0.0%
AEON HD	—	0.0%
BIGLOBE Inc.	0.0%	0.0%
Web money Co., Ltd.	0.5%	0.5%
Other	0.0%–3.0%	0.0–14.9%

The growth rates used in estimated cash flows of each cash generating unit or group of cash generating units reflect the status of the country and the industry to which the CGU belongs, and does not exceed the long-term average growth rate for the market.

The pre-tax discount rates which are used to calculate value in use of cash generating units or cash generating units group to which goodwill and intangible assets with indefinite useful lives is allocated are as follows:

Cash generating unit or cash generating unit group	As of March 31, 2017	As of March 31, 2018
Jupiter telecommunication Co., Ltd. CATV business	3.1%	4.8%
Jupiter Shop Channel Co., Ltd.	4.2%	5.3%
AEON HD	—	5.5%
BIGLOBE Inc.	6.0%	3.6%
Web money Co., Ltd.	7.7%	8.2%
Other	2.0%–15.7%	1.9%–23.2%

Although goodwill and intangible assets with indefinite useful lives have a risk of impairment when major assumptions used for impairment test change, the Group has determined that a significant impairment loss is not probable in the cash generating units or cash generating unit group regardless of the reasonable change of the growth rate and/or discount rate used for impairment test.

9. Investments Accounted for Using the Equity Method

(1) The carrying amounts of Investments accounted for using the equity method

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Interests in associates	¥58,769	¥64,165	\$604
Interests in joint ventures	33,602	34,027	320
Total	¥92,371	¥98,192	\$924

(2) Summarized financial information of associates and joint ventures

i. Associates

Profit for the year, other comprehensive income and comprehensive income of associates accounted for using the equity method are as follows. As of and for the years ended March 31, 2017 and 2018, there is not individually significant associate accounted for using the equity method.

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Profit for the year	¥1,736	¥3,926	\$37
Other comprehensive income, net of tax	(344)	68	1
Total comprehensive income for the year	¥1,392	¥3,993	\$38

ii. Joint ventures

Profit for the year, other comprehensive income and comprehensive income of joint ventures accounted for using the equity method is as follows. As of and for the years ended March 31, 2017 and 2018, there is not individually significant joint venture accounted for using the equity method.

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Profit for the year	¥ 1,019	¥ 666	\$ 6
Other comprehensive income, net of tax	(1,465)	(241)	(2)
Total comprehensive income for the year	¥ (446)	¥ 425	\$ 4

10. Inventories

(1) The analysis of inventories

The analysis of inventories is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Finished goods and manufactured goods	¥75,985	¥87,564	\$824
Work in progress	1,039	1,133	11
Other	632	511	5
Total	¥77,656	¥89,207	\$840

There is no inventory to be sold after more than 12 months from March 31, 2017 and 2018, respectively.

Consolidated Financial Statements

(2) Write down of the inventories expensed during the period

Write down of the inventories expensed during the period is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Write down of the inventories expensed (Note)	¥10,199	¥8,681	\$82

Note: Write down is recognized as costs of sales.

(3) Inventories pledged as collateral

There are no inventories pledged as collateral.

11. Trade and Other Receivables

The analysis of trade and other receivables is as follows:

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Current			
Trade receivables			
Accounts receivable—trade and notes receivable	¥1,452,805	¥1,648,337	\$15,515
Account receivable—other (Note)	85,512	67,339	634
Loss allowance	(20,247)	(20,273)	(191)
Total	¥1,518,070	¥1,695,403	\$15,958

Note: Accounts receivable-other is mainly consisted of the receivable related to payment agency service.

The amounts of trade and other receivables expected to be recovered after more than twelve months from March 31, 2017 and 2018, respectively are ¥190,079 million and ¥349,233 million (U.S.\$3,287 million).

The amount of the trade and other receivables on the consolidated statement of financial position is presented less loss allowance.

12. Other Financial Assets

The analysis of other financial assets is as follows:

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Non-current assets (Other long-term financial assets)			
Financial assets at fair value through profit or loss			
Derivative financial assets	¥ 278	¥ 301	\$ 3
Financial assets at fair value through other comprehensive income			
Equity instruments			
Equities	92,797	110,071	1,036
Financial assets at amortized cost			
Debt instruments			
Security deposits	38,642	41,926	395
Long-term accounts receivables	45,291	43,715	411
Lease receivables	46,672	80,443	757
Other	3,299	3,439	32
Loss allowance	(43,899)	(43,210)	(407)
Sub total	183,081	236,684	2,228
Current assets (Other short-term financial assets)			
Financial assets at fair value through profit or loss			
Derivative financial assets	176	179	2
Financial assets at amortized cost			
Debt instruments			
Lease receivables	11,590	21,569	203
Short-term investment	5,109	4,654	44
Other	93	3,772	36
Sub total	16,968	30,173	284
Total	¥200,049	¥266,857	\$2,512

13. Other Assets

The analysis of other non-current assets and other current assets is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Non-current assets			
Long-term prepaid expenses	¥ 67,120	¥ 62,460	\$ 588
Other	1,965	3,018	28
Sub total	69,085	65,477	616
Current assets			
Prepaid expenses	71,456	83,924	790
Advance payment	8,906	10,753	101
Other	35,647	38,853	366
Sub total	116,009	133,531	1,257
Total	¥185,094	¥199,008	\$1,873

14. Cash and Cash Equivalents

The analysis of cash and cash equivalents is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Cash in hand and deposits held at call with banks	¥214,708	¥195,019	\$1,836
Term deposits with original maturities of three months or less	11,899	5,815	55
Total	¥226,607	¥200,834	\$1,890
Cash and cash equivalents in consolidated statement of cash flow	¥226,607	¥200,834	\$1,890

15. Borrowings and Bonds Payable

(1) The analysis of borrowings and bonds payable

The analysis of borrowings and bonds payable is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars	Average interest rate	
	2017	2018	2018	(%) (Note)	Due (Year)
Non-current					
Bonds payable (excluding current portion)	¥169,728	¥ 159,784	\$1,504	1.203%	2019–2024
Long-term borrowings (excluding current portion)	739,945	544,494	5,125	0.595%	2019–2026
Sub total	909,673	704,278	6,629	—	—
Current					
Current portion of bonds payable	20,019	10,017	94	2.043%	—
Current portion of long-term borrowings	35,903	290,542	2,735	0.914%	—
Short-term borrowings	1,883	29,000	273	0.040%	—
Sub total	57,805	329,559	3,102	—	—
Total	¥967,479	¥1,033,837	\$9,731	—	—

Note: Average interest rate represents weighted average interest rate to the ending balance of the borrowings and other debts.

Consolidated Financial Statements

(2) Terms of issuing bonds payable

The summary of terms of issuing bonds payable is as follows:

Entity	Description	Issuance date	Millions of yen		Millions of U.S. dollars	Interest rate (%)	Collateral	Due
			As of March 31, 2017	As of March 31, 2018	As of March 31, 2018			
KDDI Corp.	5th series of general secured notes	April 28, 1997	20,000 (20,000)	— (—)	— (—)	3.200% per year	General secured	April 28, 2017
KDDI Corp.	9th series of unsecured notes	February 26, 2009	9,993	9,997 (9,997)	94 (94)	2.046% per year	Unsecured	December 20, 2018
KDDI Corp.	15th series of unsecured notes	May 29, 2009	19,982	19,991	188	1.969% per year	Unsecured	May 29, 2019
KDDI Corp.	18th series of unsecured notes	March 4, 2010	39,956	39,973	376	1.573% per year	Unsecured	December 20, 2019
KDDI Corp.	19th series of unsecured notes	September 6, 2010	39,948	39,964	376	1.151% per year	Unsecured	June 19, 2020
KDDI Corp.	20th series of unsecured notes	December 13, 2013	29,914	29,927	282	0.803% per year	Unsecured	December 20, 2023
KDDI Corp.	21st series of unsecured notes	September 10, 2014	29,904	29,917	282	0.669% per year	Unsecured	September 20, 2024
iret, Inc.	1st series of unsecured notes	June 27, 2016	50 (19)	31 (19)	0 (0)	0.330% per year	Unsecured	June 27, 2019

Note: The amounts in () presents the current portion of the bonds payable.

(3) Assets pledged as collateral and secured liabilities

Assets pledged as collateral and secured liabilities are as follows:

(The Company)

As prescribed in Article 4 of Act on Arrangement of Relevant Acts Incidental for Rationalizing Regulations Related to Telecommunication Industry, Supplementary Provisions, all properties are pledged as general collateral for bonds payable.

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Bonds payable	¥20,000	¥—	\$—

(Consolidated subsidiaries)

Assets set aside as issuance deposits as prescribed in Article 14, Paragraph 1 of Payment Services Act are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Government bonds	¥3,002	¥3,001	\$28

Assets pledged as collateral are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Property, plant and equipment	¥ 86	¥ 75	\$1
Stocks of subsidiaries and associates (Note)	768	768	7
Other short-term financial assets	199	77	1
Total	¥1,053	¥919	\$9
(of which, assets denominated in foreign currency)	(U.S.\$1 million and other)	(U.S.\$0 million and other)	

Obligations underlying to these assets pledged as collateral are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Long-term borrowings (Note)	¥ 184	¥ 98	\$ 1
Current portion of long-term borrowings	112	86	1
Trade and other payables	1	1	0
Short-term borrowings	1,241	—	—
Total	¥1,537	¥185	\$ 2
(of which, liabilities denominated in foreign currency)	(U.S.\$11 millions)	—	

Note: Stocks of Kagoshima Mega Solar Power Corporation, an affiliate accounted for using the equity method, are pledged as collateral for its borrowings from financial institutions.

The amounts of borrowings as of March 31, 2017 and 2018 are ¥18,198 million and ¥16,820 million (U.S.\$158 million), respectively. These amounts are not included in long-term borrowings in the above table.

Certain subsidiaries of the Group have financed from financial institutions due to acquisitions and others. Except for certain loan agreements on insignificant amount of borrowings, these borrowings are subject to financial covenants such as maintenance of shareholder's equity, net asset and surplus of profit as prescribed in the terms of each agreement. The amounts of borrowings as of March 31, 2017 and 2018 are ¥497,509 million and ¥397,350 million (U.S.\$3,740 million), respectively.

Except for the borrowings above, there is no financial covenant on borrowings and bonds payable which has a significant effect on the Group's financial activities. For the fair value and amounts by due dates of borrowings and bonds payable, please refer to "Note 32. Financial instruments" and "Note 33. Fair value of financial instruments."

16. Deferred Tax and Income Taxes

(1) Movement by major cause of deferred tax assets and deferred tax liabilities

The balance of and the movement in recognized deferred tax assets and deferred tax liabilities are as follows:

For the year ended March 31, 2017

	Millions of yen						As of March 31, 2017
	As of April 1, 2016	Recognized as profit or loss	Recognized directly in equity	Recognized as other comprehensive income	Acquisition by business combinations	Other (Note)	
Deferred tax assets							
Accrued bonuses	¥ 8,965	¥ 853	¥—	¥ —	¥ 161	¥ (19)	¥ 9,959
Accrued business tax	7,242	573	—	—	136	(1)	7,950
Write down of inventories	5,609	(424)	—	—	5	(0)	5,189
Loss allowance	10,328	(588)	—	—	245	(4)	9,980
Unrealized gain on inventories	141	361	—	—	—	—	502
Deferred points	23,797	(1,589)	—	—	—	—	22,208
Difference of useful life between accounting and tax laws	9,155	(98)	—	—	1,176	—	10,233
Disposal loss on fixed assets	5,246	43	—	—	—	—	5,289
Impairment loss	32,543	4,312	—	—	43	(111)	36,788
Retirement benefit liabilities	6,928	(1,314)	—	1,412	87	655	7,767
Accrued expenses	10,518	(6,334)	—	—	96	—	4,281
Advanced received	36,996	(4,324)	—	—	429	—	33,101
Other	38,034	12,111	—	(871)	849	360	50,484
Total	¥195,502	¥ 3,581	¥—	¥ 542	¥ 3,228	¥ 879	¥203,732
Deferred tax liabilities							
Retained profits of foreign related companies	¥ 1,263	¥ (909)	¥—	¥ —	¥ —	¥ —	¥ 353
Special reserves	820	(239)	—	—	—	—	581
Appraisal gain on equity instruments	6,787	1,605	—	(2,578)	76	—	5,890
Difference of depreciation/amortisation method and useful life between accounting and tax laws	41,948	(7,321)	—	—	—	—	34,627
Identifiable intangible assets	86,563	(3,924)	—	—	22,229	—	104,868
Other	17,173	(8,813)	—	96	699	(292)	8,863
Total	¥154,554	¥(19,601)	¥—	¥(2,482)	¥23,004	¥(292)	¥155,183

Note: "Other" includes exchange differences on foreign operations.

Consolidated Financial Statements

For the year ended March 31, 2018

	Millions of yen						As of March 31, 2018
	As of April 1, 2017	Recognized as profit or loss	Recognized directly in equity	Recognized as other comprehensive income	Acquisition by business combinations	Other (Note)	
Deferred tax assets							
Accrued bonuses	¥ 9,959	¥ 63	¥ —	¥ —	¥ 101	¥ (16)	¥10,107
Accrued business tax	7,950	(304)	—	—	270	(39)	7,877
Write down of inventories	5,189	(256)	—	—	99	—	5,032
Loss allowance	9,980	(601)	—	—	14	(3)	9,390
Unrealized gain on inventories	502	(141)	—	—	0	(141)	220
Deferred points	22,208	(5,500)	—	—	—	—	16,708
Difference of useful life between accounting and tax laws	10,233	10,914	—	—	565	3	21,715
Disposal loss on fixed assets	5,289	(564)	—	—	—	(1)	4,724
Impairment loss	36,788	(10,992)	—	—	—	(0)	25,796
Retirement benefit liabilities	7,767	(2,577)	—	(1,930)	75	436	3,771
Accrued expenses	4,281	(369)	—	—	22	0	3,934
Advanced received	33,101	(4,143)	—	—	12	141	29,112
Other	50,484	(3,151)	—	(427)	146	(1,123)	45,929
Total	¥203,732	¥(17,621)	¥ —	¥(2,357)	¥1,304	¥ (742)	¥184,315
Deferred tax liabilities							
Retained profits of foreign related companies	¥ 353	¥ 539	¥ —	¥ —	¥ —	¥ —	¥ 893
Special reserves	581	(160)	—	—	—	—	421
Appraisal gain on equity instruments	5,890	129	453	3,495	—	(0)	9,967
Difference of depreciation/ amortisation method and useful life between accounting and tax laws	34,627	(12,518)	—	—	—	—	22,110
Identifiable intangible assets	104,868	(5,181)	—	—	7,720	—	107,407
Other	8,863	8,286	—	8	526	83	17,767
Total	¥155,183	¥ (8,905)	¥453	¥ 3,503	¥8,246	¥ 83	¥158,563

	Millions of U.S. dollars						As of March 31, 2018
	As of April 1, 2017	Recognized as profit or loss	Recognized directly in equity	Recognized as other comprehensive income	Acquisition by business combinations	Other (Note)	
Deferred tax assets							
Accrued bonuses	\$ 94	\$ 1	\$—	\$ —	\$ 1	\$ (0)	\$ 95
Accrued business tax	75	(3)	—	—	3	(0)	74
Write down of inventories	49	(2)	—	—	1	—	47
Loss allowance	94	(6)	—	—	0	(0)	88
Unrealized gain on inventories	5	(1)	—	—	0	(1)	2
Deferred points	209	(52)	—	—	—	—	157
Difference of useful life between accounting and tax laws	96	103	—	—	5	0	204
Disposal loss on fixed assets	50	(5)	—	—	—	(0)	44
Impairment loss	346	(103)	—	—	—	(0)	243
Retirement benefit liabilities	73	(24)	—	(18)	1	4	35
Accrued expenses	40	(3)	—	—	0	0	37
Advanced received	312	(39)	—	—	0	1	274
Other	475	(30)	—	(4)	1	(11)	432
Total	\$1,918	\$(166)	\$—	\$(22)	\$12	\$ (7)	\$1,735
Deferred tax liabilities							
Retained profits of foreign related companies	\$ 3	\$ 5	\$—	\$—	\$—	\$ —	\$ 8
Special reserves	5	(2)	—	—	—	—	4
Appraisal gain on equity instruments	55	1	4	33	—	(0)	94
Difference of depreciation/ amortisation method and useful life between accounting and tax laws	326	(118)	—	—	—	—	208
Identifiable intangible assets	987	(49)	—	—	73	—	1,011
Other	83	78	—	0	5	1	167
Total	\$1,461	\$ (84)	\$ 4	\$ 33	\$78	\$ 1	\$1,492

Note: "Other" includes exchange differences on foreign operations.

(2) The analysis of deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities on the consolidated statement of financial position are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Deferred tax assets	¥124,467	¥106,050	\$998
Deferred tax liabilities	75,919	80,298	756
Deferred tax assets, net	¥ 48,549	¥ 25,752	\$242

The Group evaluates the recoverability of deferred tax assets at recognition by considering the possibility to utilize a part or all of deductible temporary differences or tax loss carryforwards for future taxable income.

The Group considers the planned reversal of deferred tax liabilities as well as expected future taxable income and tax planning for evaluating the recoverability of deferred tax assets, and recognizes deferred tax assets to the extent that future taxable income is expected.

Deferred tax assets for tax losses in certain subsidiaries are ¥11,816 million and ¥8,402 million (U.S.\$79 million), respectively, as of March 31, 2017 and 2018.

All deferred tax assets related to these losses were determined recoverable as taxable income exceeding the tax losses is expected.

(3) Deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, unaccompanied by the recognition of deferred tax assets

As a result of evaluating the recoverability of the deferred tax assets above, the Group has not recognized deferred tax assets on certain deductible temporary differences and tax loss carryforwards. The amounts of deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, unaccompanied by the recognition of deferred tax assets are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Deductible temporary differences	¥ 1,071	¥14,228	\$134
Tax loss carryforwards	40,671	42,209	397
Total	¥41,742	¥56,437	\$531

Expiration of tax loss carryforwards for which deferred tax assets have not been recognized is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
1st year	¥ 591	¥ 277	\$ 3
2nd year	90	—	—
3rd year	56	—	—
4th year	48	10,156	96
5th year and thereafter	39,887	31,776	299
Total	¥40,671	¥42,209	\$397

(4) Income taxes

The analysis of income taxes is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Current tax expenses			
Current tax expenses on the profit for the year	¥284,604	¥296,512	\$2,791
Adjustments in respect of prior years ((): refund)	345	(225)	(2)
Previously unrecognized tax loss carryforwards of prior years that is used to reduce current tax expenses	(8,485)	(11,051)	(104)
Sub total	276,464	285,235	2,685
Deferred tax expenses			
Origination and reversal of temporary differences	(16,878)	9,502	89
Impact of change of tax rates	—	(344)	(3)
Previously unrecognized tax loss carryforwards of prior years that is used to reduce deferred tax expenses	(10,722)	(167)	(2)
Review of the collectability of deferred tax assets	4,419	(275)	(3)
Sub total	(23,182)	8,716	82
Total	¥253,282	¥293,951	\$2,767

(5) Income taxes recognized in other comprehensive income

Income taxes recognized in other comprehensive income are described in "Note 30. Other comprehensive income."

Consolidated Financial Statements

(6) Reconciliation of effective tax rates

Reconciliation of statutory effective tax rates and actual tax rates for the years ended March 31, 2017 and 2018 is as follows. The actual tax rate shows the ratio of income taxes incurred by all Group companies to the profit before income tax for the year.

For the year ended March 31	2017	2018
Statutory income tax rate	31.6%	31.6%
Non-taxable dividends received	(0.1%)	(0.3%)
Impact of tax differences of foreign subsidiaries	0.0%	0.0%
Tax credit	(1.3%)	(0.2%)
Utilisation of previously unrecognised tax loss	(1.9%)	(0.6%)
Other	0.0%	0.3%
Average actual tax rate to incur	28.3%	30.8%

17. Employee Benefits

The Group operates defined benefit pension plans and lump-sum retirement plans (unfunded) as its defined benefit plans, as well as defined contribution pension plans.

The Group and its certain consolidated subsidiaries adopt point system in their retirement benefit plans, where the amount of benefits is calculated based on the accumulated points granted in proportion to the employees' entitlement and wage ranks.

Management, operation and benefit of the assets are mainly controlled by legally independent KDDI Corporate Pension Fund (the "Fund").

In accordance with Defined Benefit Corporate Pension Act and other laws, the Group is obliged to pay contributions to the Fund which pays pension benefits. Trustee of the Fund is obliged to comply with laws, appointments by Minister of Ministry of Health, Labour and Welfare or Head of Regional Bureau of Health and Welfare, by law of the Fund and resolutions of the board of representatives, as well as to accomplish its duties related to the management and operation of the funded money. It is prohibited for the trustee to harm the appropriate management and operation of the funded money for the interest of itself or a third party other than the Fund.

(1) Defined benefit pension plans

i. The amounts on the consolidated statement of financial position

The amounts related to the defined benefit pension plans on the consolidated statement of financial position are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Present value of the defined benefit obligations (funded)	¥ 382,579	¥ 389,514	\$ 3,666
Present value of the defined benefit obligations (unfunded)	14,108	13,489	127
Fair value of plan assets	(374,887)	(390,993)	(3,680)
Status of the funding	¥ 21,800	¥ 12,010	\$ 113
Retirement benefit liabilities	¥ 21,800	¥ 12,010	\$ 113
Net retirement benefit liabilities	¥ 21,800	¥ 12,010	\$ 113

ii. Movement in the defined benefit obligations and plan assets

The movement in the defined benefit obligations is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
The movement in the present value of the defined benefit obligations			
Opening balance	¥381,549	¥396,687	\$3,734
Current service cost	14,339	15,085	142
Interest expense	2,163	2,105	20
Sub total	398,051	413,876	3,896
Remeasurements			
Amount from change in financial assumptions	11,086	(931)	(9)
Amount from change in demographic assumptions	—	71	1
Benefit payments	(12,758)	(12,710)	(120)
Exchange differences	(2)	(6)	(0)
New consolidation	307	2,539	24
Other	4	165	2
Ending balance	¥396,687	¥403,003	\$3,793

The movement in the plan assets is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Changes in fair value of the plan assets			
Opening balance	¥(361,295)	¥(374,887)	\$(3,529)
Interest income	(2,596)	(2,331)	(22)
Remeasurements			
Return on plan assets	(6,591)	(5,493)	(52)
Benefit payments	11,506	11,724	110
Contribution to the plans			
Contribution from employers	(15,912)	(16,206)	(153)
New consolidation	—	(3,753)	(35)
Other	—	(47)	(0)
Ending balance	¥(374,887)	¥(390,993)	\$(3,680)

The weighted average duration of the defined benefit obligations for the years ended March 31, 2017 and 2018 is 17.8 years and 17.1 years, respectively.

iii. Components of plan assets

KDDI Corporate Pension Fund manages its funded money to secure long term return required to cover the benefit of pensions and lump-sum payments over the future. Based on this, our investment policy is to basically analyse the risk/return characteristics by asset and evaluate the correlation among assets in order to invest in a diversified portfolio.

Specifically, it sets policy asset allocation with the efficient combination of various assets including equities and government

and corporate bonds, designs corresponding manager structure, selects managing trustee and invests.

In accordance with the provision of Defined Benefit Corporate Pension Act, bylaw of the Fund requires to recalculate the amount of contributions at least every 5 years with a financial year end as a basis date to maintain balanced finances in the future. It is reviewed, as necessary, if there is a significant change in the circumstances surrounding the Fund.

The fair value of the plan assets as of March 31, 2017 and 2018 consists of the components below:

	Millions of yen						Millions of U.S. dollars		
	As of March 31, 2017			As of March 31, 2018			As of March 31, 2018		
	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total
Equities	¥ 65,013	¥ —	¥ 65,013	¥ 56,542	¥ —	¥ 56,542	\$ 532	\$ —	\$ 532
Debt securities	179,446	—	179,446	189,322	—	189,322	1,782	—	1,782
Other (Note)	45,498	84,930	130,428	60,906	84,223	145,129	573	793	1,366
Total	¥289,957	¥84,930	¥374,887	¥306,770	¥84,223	¥390,993	\$2,888	\$793	\$3,680

Note: Other includes hedge funds, private equities and cash.

iv. The analysis of expenses related to defined benefit plans

The amount of expenses recognized related to defined benefit plans is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Current service cost	¥14,339	¥15,085	\$142
Interest expense	2,163	2,105	20
Interest income	(2,596)	(2,331)	(22)
Total	¥13,906	¥14,859	\$140

The expenses above are included in the "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

v. Actuarial assumptions

Major actuarial assumption at the end of each period is as follows:

As of March 31	2017	2018
Discount rate	0.7%	0.6%

Other than the component above, actuarial assumptions also include expected salary growth rate, mortality and expected retirement rate.

Consolidated Financial Statements

vi. Sensitivity analysis of actuarial assumptions

The movement in the defined benefit obligations due to changes in discount rates by the ratio below at the end of each period is as follows. This analysis assumes that actuarial assumptions other than those subject to the analysis are constant, but in reality, the movement of other actuarial assumptions may change.

Discount rates

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
0.5% increase	¥(28,640)	¥(28,008)	\$(264)
0.5% decrease	32,456	31,635	298

Note: Amounts shown in parentheses represent decrease of defined benefit obligations.

vii. Contributions to the plan assets in the next financial year

The policy of the Group is to contribute the necessary amount to the plan in order to meet the minimum funding requirement, based on related regulations. The Group estimates the contributions to the plan assets for the year ending March 31, 2019 to be 16,101 million yen (U.S.\$152 million).

(2) Defined contribution pension plans

The amount of expenses recognized related to defined contribution pension plans is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Expenses related to defined contribution pension plans	¥1,661	¥2,691	\$25

The expenses above are included in the "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

Certain Group subsidiaries participate in a multiemployer plan, Sumisho Rengo Corporation Pension Fund.

Sumisho Rengo Corporation Pension Fund is a fund-type corporate pension established in accordance with Defined Benefit Corporate Pension Act, and co-operated by multiple Sumitomo Shoji Group companies. The certain Group subsidiaries cannot calculate the reasonable amount of pension assets corresponding to the amount of their contributions, and therefore the amount of contributions is recognized as retirement benefit expenses as defined contribution pension plans. The expenses on the

consolidated statement of income for the years ended March 31, 2017 and 2018 are ¥1,647 million and ¥1,681 million (U.S.\$16 million), respectively.

The Group can reduce its costs and practical burden related to administration and finance operation by participating in this fund and reduce a risk to discontinue a pension plan, while the fund is co-operated by multiple companies and the Group cannot necessarily reflect its intent.

The financial position of the fund based on the latest annual report (closed by pension accounting) is as follows. The fund does not accept or succeed other funds, and does not incur benefit obligations by other employers.

(i) Status of funding in the overall plan

As of March 31	Millions of yen	
	2016	2017
Pension assets	¥(34,286)	¥(37,224)
Benefit obligations for the purpose of calculating pension financials	31,077	33,896
Difference	(3,209)	(3,328)
Ratio of the funded pension assets	110.3%	109.8%
Difference consists of		
Surplus	(3,209)	(3,328)

(ii) Ratio of contributions by the Group to the fund

As of March 31	Millions of yen	
	2016	2017
Contributions by the Group	¥(1,463)	¥(1,443)
All contributions to the fund	(2,424)	(2,380)
Ratio to the all contributions to the fund	60.4%	60.6%

In accordance with the provision of Defined Benefit Corporate Pension Act, bylaw of the Fund requires to recalculate the amount of contributions every 5 years with a financial year end as a basis date to maintain balanced finances in the future. It is reviewed, as necessary, if there is a significant change in the circumstances surrounding the Fund.

(iii) Contributions to the multiemployer plans in the next financial year

The Group estimates the contributions to the multiemployer plans for the year ending March 31, 2019 to be ¥1,681 million (U.S.\$16 million).

18. Trade and Other Payables

The analysis of the trade and other payables is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Current liabilities			
Accounts payable (Note)	¥388,427	¥435,613	\$4,100
Accounts payable—trade	119,259	142,758	1,344
Accrued expenses	29,864	32,019	301
Other obligations	281	336	3
Total	¥537,830	¥610,726	\$5,749

Note: Accounts payable is mainly consisted of the payable for capital investments and sale commission.

The amounts of trade and other payables expected to be settled after more than twelve months from the March 31, 2017 and 2018, respectively are ¥7,270 million and ¥6,867 million (U.S.\$65 million).

19. Other Financial Liabilities

The analysis of other financial liabilities is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Non-current liabilities (Other long-term financial liabilities)			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities	¥ 7,189	¥ 5,885	\$ 55
Financial liabilities at amortized cost			
Preference share (Note)	95,000	—	—
Lease obligations	64,807	60,096	566
Long-term account payables (Note)	9,797	2,496	23
Sub total	176,794	68,478	645
Current liabilities (Other short-term financial liabilities)			
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities	9	34	0
Financial liabilities at amortized cost			
Lease obligations	24,364	24,683	232
Sub total	24,373	24,717	233
Total	¥201,166	¥93,195	\$877

Note: A certain subsidiary of the Group issued the cumulative preference shares. The preference shares are not converted into common stock and the Group has the obligation to redeem the principal and pay the cumulative dividend in cash to the shareholders upon the request of the shareholders or on a particular date. Considering these contractual conditions, the preference shares are classified as liabilities because the Group has the contractual obligation to deliver cash under IFRS on redemption date. Related interest is included in long-term account payables.

20. Provisions

(1) Movements of provisions

Changes in provisions are as follows:

	Millions of yen		
	Provision for customer points	Other provisions	Total
As of April 1, 2016	¥ 17,552	¥10,473	¥ 28,025
Increase during the year	29,613	4,958	34,572
Decrease during the year (intended use)	(23,801)	(3,838)	(27,639)
Decrease during the year (reversal)	(1)	(345)	(346)
As of March 31, 2017	23,363	11,248	34,612
Increase during the year	36,921	4,096	41,017
Decrease during the year (intended use)	(31,249)	(2,377)	(33,626)
Decrease during the year (reversal)	(9)	(8)	(17)
As of March 31, 2018	¥ 29,027	¥12,959	¥ 41,986
Non-current liabilities	¥ —	¥10,754	¥ 10,754
Current liabilities	29,027	2,205	31,231

	Millions of U.S. dollars		
	Provision for customer points	Other provisions	Total
As of March 31, 2017	\$ 220	\$106	\$ 326
Increase during the year	348	39	386
Decrease during the year (intended use)	(294)	(22)	(317)
Decrease during the year (reversal)	(0)	(0)	(0)
As of March 31, 2018	\$ 273	\$122	\$ 395
Non-current liabilities	\$ —	\$101	\$ 101
Current liabilities	273	21	294

(2) Components of provisions

The main components of provisions of the Group are as follows.

i. Provision for customer points

The Group has operated points programs, including the au WALLET point program, and grants points to customers of the Group, for the purpose of sales promotions. In anticipation of the future use of such points by customers, the Group has recorded these points which are mainly granted by using au WALLET pre-paid card, apps and product sales services provided by other companies to debt as a provision for customer points. The Group

has measured the amounts of provision for customer point at an estimated amount to be used in the future based on historical experience.

There is an inherent uncertainty regarding the extent of usage of such points by customers, and once the points expire, the customers forfeits the right to use them.

ii. Other Provisions

Other provisions include asset retirement obligations and provision for warranties for completed construction.

21. Other Liabilities

The analysis of other liabilities is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Non-current liabilities			
Long-term advances received	¥134,574	¥122,022	\$1,149
Other	6,716	7,658	72
Sub total	141,290	129,679	1,221
Current liabilities			
Advances received	129,870	113,395	1,067
Deposits payable	68,183	102,976	969
Accrued bonuses	29,735	30,487	287
Consumption tax payable	25,223	21,241	200
Other	27,635	29,834	281
Sub total	280,646	297,932	2,804
Total	¥421,936	¥427,612	\$4,025

22. Share-based Payment (Stock Grant Plans)

The Company has several stock compensation plans (hereafter, the "Plan") for directors, executive officers, and administrative officers (excluding directors residing overseas, outside directors and part-time directors) that have entered into engagement agreements with the Company (hereafter, "Directors and Other Executives").

As for the directors, the Company has adopted the Board Incentive Plan (BIP). As for the Companies' senior management, the Company has adopted the Employee Stock Ownership Plan (ESOP).

BIP (Board Incentive Plan) is being initiated in order to link compensation for Directors and Other Executives with shareholder value and to increase their awareness of contributing to increases in operating performance and corporate value over the medium to

long term. This ESOP Trust is being introduced as an incentive plan to enhance corporate value over the medium to long term by increasing awareness among the Company's managers of operating performance and stock price.

Under BIP and ESOP, the right (the number) for stock granted is vested based on achievement based of KPI (Key Performance Indicators) annually.

The expenses for the stock grant plans recognized in the consolidated statement of operations for the year ended March 31, 2017 and 2018, respectively were ¥677 million and ¥1,225 million (U.S.\$12 million).

For the year ended March 31, 2017

	The number of granted (stock)	Granted date	Fair value of granted date (Note1)	Vesting conditions
			(Yen)	
BIP trust	113,717	March 8, 2016	2,745.88	(Note 2)
ESOP trust	132,697	March 8, 2016	2,745.88	(Note 2)

Notes: 1. With respect to stock grants, fair values are measured based on observable market prices. Moreover, the expected dividends are incorporated into the measurement of fair values.

2. Vesting conditions are basically subject to continued service from grant date to vesting date.

For the year ended March 31, 2018

	The number of granted (stock)	Granted date	Fair value of granted date (Note1)		Vesting conditions
			(Yen)	(U.S. dollar)	
BIP trust	131,955	March 8, 2017	¥2,842.03	\$27	(Note 2)
ESOP trust	299,002	March 8, 2017	2,842.03	27	(Note 2)

Notes: 1. With respect to stock grants, fair values are measured based on observable market prices. Moreover, the expected dividends are incorporated into the measurement of fair values.

2. Vesting conditions are basically subject to continued service from grant date to vesting date.

23. Common Stock and Other Equity Items

(1) Common stock and capital surplus

The number of authorized stock, outstanding stock, common stock and the balance of capital surplus in each consolidated fiscal year are as follows:

	Shares		Millions of yen	
	Authorized stock	Outstanding stock	Common stock	Capital surplus
Balance as of March 31, 2016	4,200,000,000	2,690,890,800	¥141,852	¥368,245
Increase and decrease during the period (Note 3)	—	(70,396,543)	—	(70,199)
Balance as of March 31, 2017	4,200,000,000	2,620,494,257	141,852	298,046
Increase and decrease during the period (Note 3)	—	(33,280,732)	—	(8,467)
Balance as of March 31, 2018	4,200,000,000	2,587,213,525	¥141,852	¥289,578

	Shares		Millions of U.S. dollars	
	Authorized stock	Outstanding stock	Common stock	Capital surplus
Balance as of March 31, 2017	4,200,000,000	2,620,494,257	\$1,335	\$2,805
Increase and decrease during the period (Note 3)	—	(33,280,732)	—	(80)
Balance as of March 31, 2018	4,200,000,000	2,587,213,525	\$1,335	\$2,726

Notes: 1. Common stocks are no par value.

2. Outstanding stocks are fully paid.

3. Decrease in the number of outstanding stock and capital surplus was mainly due to the cancellation of treasury stocks.

Capital surplus consists of the following items.

(i) Capital reserve

The Companies Act of Japan ("the Companies Act") requires that at least 50% of the proceeds upon issuance of stocks are credited to common stock and the remainder of the proceeds is credited to capital reserve.

(ii) Other capital surplus

Other capital surplus mainly includes disposal of treasury stock and surplus arising from capital transaction such as merger. Also, since changes in interests in subsidiaries are treated as capital transaction, the goodwill or negative goodwill generated through the transaction is recognized as capital surplus.

(2) Treasury stock

Changes in the number of treasury stock during each consolidated fiscal year are as follows:

	Number of treasury stock (Shares)	Amount (Millions of yen)
Balance as of April 1, 2016	201,421,255	¥(210,861)
Increase and decrease during the period		
Purchase of treasury stock (Note 1)	31,650,800	(100,000)
Cancellation of treasury stock	(70,396,543)	73,804
Disposal of treasury stock (Note 2)	(34,104)	42
Balance as of March 31, 2017 (Note 3)	162,641,408	(237,014)
Increase and decrease during the period		
Purchase of treasury stock (Note 1)	52,479,820	(150,000)
Cancellation of treasury stock	(33,280,732)	48,709
Disposal of treasury stock (Note 2)	(31,194)	51
Balance as of March 31, 2018 (Note 3)	181,809,302	¥(338,254)

Consolidated Financial Statements

	Number of treasury stock (Shares)	Amount (Millions of U.S. dollars)
Balance as of March 31, 2017 (Note 3)	162,641,408	\$(2,231)
Increase and decrease during the period		
Purchase of treasury stock (Note 1)	52,479,820	(1,412)
Cancellation of treasury stock	(33,280,732)	458
Disposal of treasury stock (Note 2)	(31,194)	0
Balance as of March 31, 2018 (Note 3)	181,809,302	\$(3,184)

Notes: 1. Of the increase in the number of treasury stock as of March 31, 2017 and 2018, 31,650,800 shares and 52,479,700 shares were mainly due to the purchase from the market.
2. Decrease in the number of treasury stock was due to grant to beneficiaries of executive compensation BIP trust and stock grants ESOP trust.
3. In the balance of treasury stock as of March 31, 2017 and 2018, Company's stocks owned by executive compensation BIP trust and stock grants ESOP trust are included.

(3) Retained earnings

The Companies Act provides that 10% of the dividend of retained earnings shall be appropriated as legal capital surplus or as legal retained earnings until their aggregate amount equals 25% of common stock. The legal retained earnings may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the general meeting of shareholders.

(4) Changes in accumulated other comprehensive income

Changes in each component of accumulated other comprehensive income are as follows:

i. Changes in each component of accumulated other comprehensive income

For the year ended March 31, 2017

	Millions of yen				
	Translation differences on foreign operations	Changes measured in fair value of financial assets at fair value through other comprehensive income	Changes in fair value of cash flow hedge	Remeasurements of benefit pension plan	Total
Balance as of April 1, 2016	¥ (454)	¥17,939	¥(3,915)	¥ —	¥ 13,570
Amount incurred during the year	(11,605)	(5,367)	(325)	(3,020)	(20,316)
Reclassified to consolidated statement of income	(5)	—	1,243	—	1,238
Transferred to retained earnings	—	(112)	—	3,020	2,907
Balance as of March 31, 2017	¥(12,064)	¥12,460	¥(2,996)	¥ —	¥ (2,601)

Note: Amounts presented above are net of tax. Income taxes related to each component of other comprehensive income are set out in "Note 30. Other comprehensive income."

For the year ended March 31, 2018

	Millions of yen				
	Translation differences on foreign operations	Changes measured in fair value of financial assets at fair value through other comprehensive income	Changes in fair value of cash flow hedge	Remeasurements of benefit pension plan	Total
Balance as of April 1, 2017	¥(12,064)	¥12,460	¥(2,996)	¥ —	¥ (2,601)
Amount incurred during the year	2,404	8,054	(691)	4,177	13,945
Reclassified to consolidated statement of income	518	—	1,332	—	1,851
Transferred to retained earnings	—	(835)	—	(4,177)	(5,012)
Balance as of March 31, 2018	¥ (9,141)	¥19,679	¥(2,355)	¥ —	¥ 8,183

	Millions of U.S. dollars				
	Translation differences on foreign operations	Changes measured in fair value of financial assets at fair value through other comprehensive income	Changes in fair value of cash flow hedge	Remeasurements of benefit pension plan	Total
Balance as of April 1, 2017	\$(114)	\$117	\$(28)	\$ —	\$(24)
Amount incurred during the year	23	76	(7)	39	131
Reclassified to consolidated statement of income	5	—	13	—	17
Transferred to retained earnings	—	(8)	—	(39)	(47)
Balance as of March 31, 2018	\$ (86)	\$185	\$(22)	\$ —	\$ 77

Note: Amounts presented above are net of tax. Income taxes related to each component of other comprehensive income are set out in "Note 30. Other comprehensive income."

ii. The analysis of accumulated other comprehensive income

Accumulated other comprehensive income includes following items.

(a) Translation differences on foreign operations

This represents the exchange differences incurred upon consolidation of the foreign operations' financial statements denominated in foreign currencies.

(b) Changes in fair value of financial assets at fair value through other comprehensive income

This represents the valuation differences on fair value of financial assets at fair value through other comprehensive income.

(c) Changes in fair value of cash flow hedge

This represents the effective portion of changes in fair value of derivative transactions designated as cash flow hedge which is used by the Group to avoid the risk of future cash flows fluctuation.

(d) Remeasurements of defined benefit pension plan

Remeasurements of defined benefit pension plan are mainly the effects of differences between the actuarial assumptions at the beginning of the year and their actual results, and the effects of changes in actuarial assumptions.

24. Dividends

Dividends to common shareholders are as follows:

(1) Dividends paid

For the year ended March 31, 2017

Resolution	Type	Aggregate amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2016 General meeting of shareholders (Note 1, 2)	Common stock	¥87,131	¥35	March 31, 2016	June 23, 2016
November 1, 2016 Board of directors (Note 1, 2)	Common stock	98,314	40	September 30, 2016	December 2, 2016

For the year ended March 31, 2018

Resolution	Type	Aggregate amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 General meeting of shareholders (Note 1, 2)	Common stock	¥110,603	¥45	March 31, 2017	June 22, 2017
November 1, 2017 Board of directors (Note 1, 2)	Common stock	109,096	45	September 30, 2017	December 4, 2017

Resolution	Type	Aggregate amount of dividends (Millions of U.S. dollars)	Dividends per share (U.S. dollar)	Record date	Effective date
June 21, 2017 General meeting of shareholders (Note 1, 2)	Common stock	\$1,041	\$0	March 31, 2017	June 22, 2017
November 1, 2017 Board of directors (Note 1, 2)	Common stock	1,027	0	September 30, 2017	December 4, 2017

Notes: 1. Dividends of the Company's shares owned by executive compensation BIP trust and stock grants ESOP trust are not included in aggregate amount of the dividends above.

2. Other than that above, there are dividends paid by the Company to beneficiaries of executive compensation BIP trust and stock grants ESOP trust in the year ended March 31, 2018.

Consolidated Financial Statements

(2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

For the year ended March 31, 2017

Resolution	Type	Aggregate amount of dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 21, 2017 General meeting of shareholders (Note 1, 2)	Common stock	¥110,603	Retained earnings	¥45	March 31, 2017	June 22, 2017

For the year ended March 31, 2018

Resolution	Type	Aggregate amount of dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 20, 2018 General meeting of shareholders (Note 1, 2)	Common stock	¥108,243	Retained earnings	¥45	March 31, 2018	June 21, 2018

Resolution	Type	Aggregate amount of dividends (Millions of U.S. dollars)	Source of dividends	Dividends per share (U.S. dollars)	Record date	Effective date
June 20, 2018 General meeting of shareholders (Note 1, 2)	Common stock	\$1,019	Retained earnings	\$0	March 31, 2018	June 21, 2018

Notes 1. Dividends of the Company's shares owned by executive compensation BIP trust and stock grants ESOP trust are not included in aggregate amount of the dividends above.

2. Other than that above, there are dividends paid by the Company to beneficiaries of executive compensation BIP trust and stock grants ESOP trust in the year ended March 31, 2018.

25. Revenue

The analysis of revenue is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Domestic telecommunication services (Note 1)	¥3,199,845	¥3,314,545	\$31,199
Sale of mobile handsets	878,340	1,032,662	9,720
Contents services (Note 2)	367,359	402,873	3,792
Global telecommunication services (Note 3)	248,967	220,499	2,075
Other	53,748	71,400	672
Total	¥4,748,259	¥5,041,978	\$47,458

Notes: 1. Domestic telecommunication services mainly contains revenue from mobile and fixed-line telecommunication services.

2. Contents service mainly contains revenue from contents, settlement and product sales.

3. Global telecommunication service mainly contains revenue from mobile and data center services.

26. Expenses by Nature

Expenses by nature that constitute cost of sales and selling, general and administrative expenses are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Handset sales cost, repair cost	¥ 803,948	¥ 848,591	\$ 7,987
Depreciation and amortization	545,177	546,609	5,145
Communication equipment usage fee and rentals	471,023	462,970	4,358
Staff cost	390,686	402,269	3,786
Sales commission	369,487	391,055	3,681
Operations outsourcing	286,289	326,005	3,069
Rent	66,970	73,808	695
Utilities	56,759	60,915	573
Other (Note)	852,900	980,796	9,232
Total	¥3,843,239	¥4,093,018	\$38,526

Note: Other is mainly consisted of advertising expense and maintenance costs for communication equipment, etc.

27. Other Income and Other Expense

(1) The analysis of other income

The analysis of other income is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Compensation income, etc.	¥ 1,779	¥ 1,001	\$ 9
Subsidy income, etc.	823	547	5
Income from recovery of bad debts	649	683	6
Other	7,993	9,811	92
Total	¥11,244	¥12,041	\$113

(2) The analysis of other expense

The analysis of other expense is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Settlement	¥3,262	¥ —	\$—
Reduction entry of land contribution for construction	540	32	0
Loss on sale of fixed assets	238	684	6
Other	2,002	2,085	20
Total	¥6,042	¥2,801	\$26

28. Finance Income and Finance Cost

(1) The analysis of finance income

The analysis of finance income is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Interest income			
Financial assets at amortized cost	¥ 853	¥1,008	\$ 9
Dividend income			
Financial assets at fair value through other comprehensive income	766	2,479	23
Other	92	548	5
Total	¥1,711	¥4,035	\$38

(2) The analysis of finance cost

The analysis of finance cost is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Interest expense			
Financial liabilities at amortized cost	¥ 9,281	¥ 8,081	\$ 76
Financial liabilities at fair value through profit or loss			
Derivatives	1,591	1,620	15
Loss on foreign currency exchange	2,128	1,846	17
Other	273	437	4
Total	¥13,273	¥11,985	\$113

29. Other Non-operating Profit

The analysis of other non-operating profit is as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Gain on deemed disposal of subsidiaries	¥ 18	¥ —	\$—
Gain/Loss on sales of stocks of subsidiaries and associates	(5,535)	305	3
Total	¥(5,517)	¥305	\$ 3

30. Other Comprehensive Income

Amounts arising during the year, amounts transferred to profit and tax effect included in other comprehensive income of the Group are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of the net defined benefit liability (asset)			
Gain (loss) arising during the year	¥ (4,495)	¥ 6,062	\$ 57
Tax effect	1,412	(1,930)	(18)
After tax effect	(3,083)	4,132	39
Net change in financial assets at fair value through other comprehensive income			
Gain (loss) arising during the year	(6,022)	11,854	112
Tax effect	2,578	(3,495)	(33)
After tax effect	(3,444)	8,359	79
Share of investments accounted for using the equity method			
Gain (loss) arising during the year	(1,635)	(149)	(1)
After tax effect	(1,635)	(149)	(1)
Total	(8,162)	12,342	116
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of cash flow hedge			
Gain (loss) arising during the year	1,180	36	0
Transferred to profit for the year	1,243	1,332	13
Before tax effect	2,424	1,368	13
Tax effect	(966)	(435)	(4)
After tax effect	1,457	933	9
Exchange differences on translating foreign operations			
Gain (loss) arising during the year	(13,575)	996	9
Transferred to profit for the year	(5)	518	5
Before tax effect	(13,581)	1,515	14
After tax effect	(13,581)	1,515	14
Share of investments accounted for using the equity method			
Gain (loss) arising during the year	(100)	(25)	(0)
Transferred to profit for the year	(74)	—	—
After tax effect	(173)	(25)	(0)
Total	(12,297)	2,423	23
Total other comprehensive income	¥(20,459)	¥14,766	\$139

31. Cash Flow

An analysis of net debt and the movements in net debt for the periods presented are as follows:

Millions of yen							
	Cash/current bank account	Finance leases	Borrowings due within 1 year	Borrowings due after 1 year	Bonds	Preferred shares	Hedge assets held for borrow. Due after 1 year
Net debt as of April 1, 2017	¥226,607	¥ 89,171	¥ 1,883	¥775,848	¥189,747	¥ 95,000	¥(7,183)
Cash flows	(25,610)	(27,210)	27,574	58,918	(20,019)	(95,000)	—
Acquisitions	—	20,934	—	—	—	—	—
Foreign exchange adjustments	(163)	14	49	10	—	—	—
Fair value movements	—	—	—	—	—	—	1,301
Other non-cash movements	—	1,869	(506)	259	73	—	—
Net debt as of March 31, 2018	¥200,834	¥ 84,779	¥29,000	¥835,036	¥169,801	¥ —	¥(5,882)

Millions of U.S. dollars							
	Cash/current bank account	Finance leases	Borrowings due within 1 year	Borrowings due after 1 year	Bonds	Preferred shares	Hedge assets held for borrow. Due after 1 year
Net debt as of April 1, 2017	\$2,133	\$ 839	\$ 18	\$7,303	\$1,786	\$ 894	\$(68)
Cash flows	(241)	(256)	260	555	(188)	(894)	—
Acquisitions	—	197	—	—	—	—	—
Foreign exchange adjustments	(2)	0	0	0	—	—	—
Fair value movements	—	—	—	—	—	—	12
Other non-cash movements	—	18	(5)	2	1	—	—
Net debt as of March 31, 2018	\$1,890	\$ 798	\$273	\$7,860	\$1,598	\$ —	\$(55)

32. Financial Instruments

(1) Risk management

The Group's operating activities are subject to influence from the business and financial market environment. Financial instruments held or assumed in the course of business are exposed to risks inherent in those instruments. Such risks include (i) Credit risk, (ii) Liquidity risk and (iii) Market risk. The Group has a risk management program in place to minimize effects on the Group's financial position and results of operations through establishing an internal management system and using financial instruments. Specifically, the Group manages these risks by using methods as described below.

i. Credit risk management

(a) Credit risks of financial assets owned by the Company
Credit risk is the risk that a party to the Group's financial instrument will cause a financial loss for the Group by failing to discharge its contractual obligation. Specifically, the Group is exposed to the following credit risks. Trade, lease and other receivables of the Group are exposed to the credit risk of our customers. The debt securities held for surplus investment are exposed to the issuer's credit risk related to the deterioration of its financial condition. In addition, derivatives used by the Group to hedge exchange risk and interest rate risk and bank balances are exposed to the credit risk of the financial institutions that are counterparties to these transactions.

(b) Responses to the risk owned by the Company

With regard to credit risks to the customer, the Group has a system in place for assessing credit status as well as performing term administration and balance management for each counterparty based on the credit management guidelines of each Group company.

With regard to lease and other receivables, the Group determines there has been a significant increase in credit risk of the financial assets since initial recognition in case the cash collection of the financial assets was delayed (as well as the case of request for grace period) after the trade date. However, even when late payment or request for grace period occurs, the Group does not

determine that there has been a significant increase in credit risk if such late payment or request for grace period would be attributable to temporary cash shortage, the risk of default would be low, and the objective data such as external credit ratings reveals their ability to fulfil the obligation of contractual cash flow in the near future.

With regard to debt securities, the Group determines there has been a significant increase in its credit risk since initial recognition when the Group evaluates the risk of default is high based upon rating information provided by major rating agencies.

Expected credit loss is recognised and measured thorough transactions and financial information available in the course of such credit risk management, while taking macroeconomic condition such as the number of bankruptcies and actual or expected significant changes in the operating results of the debtor into consideration. Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default occurs when a debtor to a financial asset fails to make contractual payments within 90 days of when they fall due.

The Group directly writes off the gross carrying amount of the credit-impaired financial assets when all or part of the financial assets are evaluated to be uncollectible and determined that it is appropriate to be written off as a result of credit check.

The Group's receivables have no significantly concentrated credit risk exposure to any single counterparty or any group of counterparties.

The Group considers that there is substantially low credit risk resulting from counterparty default because counterparties of the Group's derivatives and bank transactions are limited to high credit quality financial institutions. For surplus investments and derivative transactions, the finance and accounting department, following internal rules of each Group company and accompanying regulations that prescribe details, arranges to have each transaction approved by an authorized person as designated in the authorization regulation on a transaction-to-transaction basis so that the Group can minimize credit risk. Counterparties to those transactions are limited to financial institutions with high credit rating.

Consolidated Financial Statements

Measurement of expected credit losses on trade receivables

As trade receivables do not contain a significant financing component, the Group measures loss allowance at an amount equal to the lifetime expected credit losses until the trade receivables are recovered. With regard to performing trade receivables, loss allowance is recognized by estimating the expected credit losses based on historical credit loss experience and forward-looking information for the age of each trade receivables.

Measurement of expected credit losses on lease and other receivables

When credit risk related to lease and other receivables has not increased significantly since the initial recognition at the end of the reporting period, the Group calculates the amount of loss allowance of the financial instruments by estimating the 12-month expected credit losses collectively based upon both historical credit loss experience and forward-looking information.

On the other hand, when a significant increase in credit risk since initial recognition as of the end of fiscal year is presumed, the Group estimates the lifetime credit losses on the financial instruments individually and measures the amount of loss allowance based on historical credit loss experience and forward-looking information.

Measurement of the expected credit losses on other investments (debt securities)

When credit risk related to debt securities has not increased significantly since initial recognition at the end of the reporting period, the Group calculates the amount of loss allowance of the financial instruments by estimating the 12-month expected credit losses.

On the other hand, when a significant increase in credit risk since initial recognition as of the end of fiscal year is presumed, the Group estimates the lifetime credit losses on the financial instruments and measures the amount of loss allowance based on historical credit loss experience and forward-looking information.

(c) Quantitative and qualitative information on the amounts arising from expected credit losses

Loss allowance for trade receivables

	Millions of yen
	Lifetime expected credit loss
	Collective
Balance as of April 1, 2016	¥ 64,005
Increase during the year	29,147
Decrease during the year (reversal)	(8,958)
Decrease during the year (intended use)	(18,630)
Other (unwinding of discounts and exchange differences)	(1,627)
Balance as of March 31, 2017	63,937
Increase during the year	27,526
Decrease during the year (reversal)	(10,394)
Decrease during the year (intended use)	(17,421)
Other (unwinding of discounts and exchange differences)	(327)
Balance as of March 31, 2018	¥ 63,321

	Millions of U.S. dollars
	Lifetime expected credit loss
	Collective
Balance as of March 31, 2017	\$ 602
Increase during the year	259
Decrease during the year (reversal)	(98)
Decrease during the year (intended use)	(164)
Other (unwinding of discounts and exchange differences)	(3)
Balance as of March 31, 2018	\$ 596

Loss allowance and reversal of loss allowance are recorded in "selling, general and administrative expenses" in the consolidated statement of income. Fair value of trade and other receivables is described in "Note 33. Fair value of financial instruments."

There is no contractual, uncollected balance for financial assets written off during the fiscal year ended March 31, 2017 and 2018 respectively, for which collecting efforts are still being made.

There are no significant loss allowances for lease receivables, other receivables and other investments (debt securities).

(d) Maximum exposure to credit risks

The Group's maximum exposure to credit risks is as follows:

The Group's maximum credit risk exposure (gross) represents the amount of the maximum exposure with respect to credit risks without taking into account any collateral held or other credit enhancement. On the other hand, the Group's maximum credit risk exposure (net) represents the amount of the maximum exposure with respect to credit risks reflecting the mitigation effect of the collateral held or other credit enhancement.

Maximum exposure for trade receivables

For the year ended March 31, 2017

	Millions of yen			
	Current	More than 30 days past due	More than 90 days past due	Total
Gross carrying amount	¥1,503,542	¥10,111	¥69,954	¥1,583,608
Expected loss rate	1.0%	11.9%	68.9%	—
Loss allowance	14,504	1,207	48,226	63,937

For the year ended March 31, 2018

	Millions of yen			
	Current	More than 30 days past due	More than 90 days past due	Total
Gross carrying amount	¥1,680,800	¥10,227	¥68,363	¥1,759,391
Expected loss rate	0.6%	20.7%	74.9%	—
Loss allowance	10,003	2,116	51,203	63,321

	Millions of U.S. dollars			
	Current	More than 30 days past due	More than 90 days past due	Total
Gross carrying amount	\$15,821	\$96	\$643	\$16,561
Expected loss rate	0.6%	20.7%	74.9%	—
Loss allowance	94	20	482	596

Note: There is no collateral and other credit enhancement owned by the Group.

ii. Liquidity risk management

The Group is exposed to liquidity risk that the Group may be unable to meet the obligations such as notes and trade payables.

The Group finances necessary funds through bank borrowings and bond issuances, in the context of its capital expenditure project mainly to conduct telecommunications businesses. Any excess funds incurred are invested in short-term deposits, etc.

Most of the trade and other payables are payable within one year. The Group's current liabilities including such trade payables are exposed to liquidity risk at the time of settlement, however, the Group avoids the risk using methods such as monthly financial planning review conducted by each Group company. In addition, to manage liquidity risk, the Group aims for continuously stable cash management through monitoring account activity by

preparing monthly cash flow projection, and maintains liquidity at certain level. At March 31, 2018, the Group has short-term deposits, etc. which is considered to be readily convertible into cash to address liquidity risk. Please refer to "Note 14. Cash and cash equivalents" for details.

Long-term financing is conducted following approval by the Board of Directors of the annual financial plan prepared by the finance and accounting department. The Group minimizes its liquidity risk by entering into a number of long- and short-term unextended commitment line contracts with domestic dominant financial institutions and leading financial institutions in foreign countries in addition to uncommitted credit facilities.

Consolidated Financial Statements

(a) Maturity analysis

Following tables represent analysis of the Group's non-derivative financial liabilities and derivative financial liabilities to be settled on a net basis by category based on respective remaining periods to contractual maturity at the end of each fiscal year. Amounts shown in the tables below are contractual undiscounted cash flows.

As of March 31, 2017

	Millions of yen							
	Carrying amount	Contractual cash flow	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Non-derivative financial liabilities								
Trade and other payables	¥ 537,830	¥ 537,830	¥530,560	¥ 2,058	¥ 519	¥ 497	¥ 447	¥ 3,749
Short-term borrowings	1,883	1,883	1,883	—	—	—	—	—
Long-term borrowings	775,848	780,584	38,214	196,325	56,212	110,273	47,687	331,873
Bonds payable	189,747	198,454	22,469	12,149	61,740	40,671	442	60,984
Preference share	95,000	104,775	—	104,775	—	—	—	—
Lease payment	89,171	92,917	25,867	22,017	19,317	14,723	7,614	3,378
Sub total	1,689,480	1,716,443	618,994	337,325	137,788	166,163	56,190	399,984
Derivative financial liabilities (Note)								
Exchange contracts	15	15	9	5	1	—	—	—
Interest rate swaps	7,183	7,183	—	568	—	1,355	—	5,260
Sub total	7,198	7,198	9	573	1	1,355	—	5,260
Total	¥1,696,678	¥1,723,641	¥619,002	¥337,898	¥137,789	¥167,518	¥56,190	¥405,244

Note: Credits and debts resulted from derivative transactions are presented on a net basis.

As of March 31, 2018

	Millions of yen							
	Carrying amount	Contractual cash flow	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Non-derivative financial liabilities								
Trade and other payables	¥ 610,726	¥ 610,726	¥603,858	¥ 1,261	¥ 720	¥ 444	¥ 730	¥ 3,712
Short-term borrowings	29,000	29,000	29,000	—	—	—	—	—
Long-term borrowings	835,036	844,809	294,226	61,094	111,640	48,893	36,030	292,926
Bonds payable	169,801	175,985	12,149	61,740	40,671	442	442	60,542
Preference share	—	—	—	—	—	—	—	—
Lease payment	84,779	87,206	25,654	22,988	18,435	11,207	5,861	3,061
Sub total	1,729,341	1,747,725	964,888	147,083	171,466	60,985	43,063	360,240
Derivative financial liabilities (Note)								
Exchange contracts	38	38	34	3	0	—	—	—
Interest rate swaps	5,882	5,882	—	224	—	928	—	4,729
Sub total	5,920	5,920	34	228	0	928	—	4,729
Total	¥1,735,261	¥1,753,645	¥964,922	¥147,311	¥171,466	¥61,914	¥43,063	¥364,969

	Millions of U.S. dollars							
	Carrying amount	Contractual cash flow	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Non-derivative financial liabilities								
Trade and other payables	\$ 5,749	\$ 5,749	\$5,684	\$ 12	\$ 7	\$ 4	\$ 7	\$ 35
Short-term borrowings	273	273	273	—	—	—	—	—
Long-term borrowings	7,860	7,952	2,769	575	1,051	460	339	2,757
Bonds payable	1,598	1,656	114	581	383	4	4	570
Preference share	—	—	—	—	—	—	—	—
Lease payment	798	821	241	216	174	105	55	29
Sub total	16,278	16,451	9,082	1,384	1,614	574	405	3,391
Derivative financial liabilities (Note)								
Exchange contracts	0	0	0	0	0	—	—	—
Interest rate swaps	55	55	—	2	—	9	—	45
Sub total	56	56	0	2	0	9	—	45
Total	\$16,333	\$16,506	\$9,082	\$1,387	\$1,614	\$583	\$405	\$3,435

Note: Credits and debts resulted from derivative transactions are presented on a net basis.

iii. Market risk management

Market risk management consists of (a) Exchange risk management, (b) Interest rate risk management and (c) Price risk management of equity instruments.

(a) Exchange risk

The Group is exposed to exchange rate fluctuation risk ("exchange risk") resulted from translating foreign currency denominated trade receivables arising from transactions that the Group conducted using non-functional currencies into their functional currencies at the exchange rate prevailing at the end of reporting period.

The Group also operates in foreign countries. Currently, the Group is developing international businesses through capital contribution and establishment of joint ventures in Asia (Singapore and China etc.), North America and Europe etc. As a result of these international operating activities, the Group is exposed to various

exchange risks primarily related to U.S. dollar and Hong Kong dollar.

Certain subsidiary hedges exchange fluctuation risk by adopting forward exchange contracts as derivative transactions. The purpose is to fix the exchange fluctuation for broadcasting right related to foreign program. For derivative transactions, the Company develops implementation plans on a transaction-to-transaction basis following internal rules approved by the Board of Directors, and obtains approval as stipulated in the authorization regulation, before conducting the transactions. The Group's policy is to use derivative transactions only to avoid risk and conduct no speculative transactions in order to gain trading profits.

(i) Sensitivity analysis of exchange rate

Sensitivity analysis of the impact of the 10% appreciation of Japanese yen against U.S. dollar and Hong Kong dollar at the end of each fiscal year against profit before tax of the Group is as follows.

This analysis is on presumption that all other variables (balance, interest etc.) are held constant, and the sensitivity analysis below does not contain impacts of translation of financial instruments denominated in functional currencies, and impacts of translation of revenues and expenses, assets and liabilities of foreign operations into presentation currency.

For the year ended March 31	Millions of yen		Millions of U.S. dollars	
	2017	2018	2018	
Profit before tax				
U.S. dollar	¥(3,592)	¥(2,343)		\$(22)
Hong Kong dollar	(802)	(725)		(7)
Total	¥(4,394)	¥(3,068)		\$(29)

At the end of each fiscal year, impact against the Group's profit or loss, in cases where Japanese yen depreciated 10% against U.S. dollar and Hong Kong dollar, would be equal and opposite figures presented above on presumption that all other variables are held constant.

(ii) Derivatives (forward foreign exchange contracts)

Details of major exchange contracts existed at March 31, 2017 and 2018 are as follows:

Derivatives designated as hedges

Certain subsidiaries of the Group is to apply hedge accounting to foreign exchange risk.

	Millions of yen								Millions of U.S. dollars			
	2017				2018				2018			
	Contractual amount		Fair value		Contractual amount		Fair value		Contractual amount		Fair value	
As of March 31	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities
Forward foreign exchange contracts	¥5,716	¥4,119	¥432	¥15	¥7,023	¥2,144	¥479	¥19	\$66	\$20	\$5	\$0

	Millions of yen		Millions of U.S. dollars	
	2017	2018	2018	
Carrying amount	¥ 417	¥ 460		\$ 4
Contractual amount	5,716	7,023		66
Maturity date	April 2017– November 2022	April 2018– November 2022		April 2018– November 2022
Hedge ratio (Note 1)	1	1		0
Change in intrinsic value of outstanding hedging instrument	204	43		0
Change in value of hedge item used to determine hedge effectiveness	(204)	(43)		(0)

Notes: 1. Since the Group is engaged in the foreign exchange contracts in the same currency as the purchase transaction of contents to occur in the future with a high possibility, hedge ratio of foreign exchange contracts is one-to-one.
2. The Group does not have non-effective portion of the hedge.

Derivatives not designated as hedges

	Millions of yen								Millions of U.S. dollars			
	2017				2018				2018			
	Contractual amount		Fair value		Contractual amount		Fair value		Contractual amount		Fair value	
As of March 31	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities
Forward foreign exchange contracts	¥2,633	¥—	¥22	¥—	¥4,032	¥—	¥—	¥19	\$38	\$—	\$—	\$0

Consolidated Financial Statements

(b) Interest rate risk

Interest rate risk is defined as the risk that market interest rate fluctuation results in changes in fair value of financial instruments or future cash flows arising from financial instruments. Interest rate risk exposure of the Group mainly relates to payables such as borrowings or bonds, and receivables such as interest-bearing deposits. As amount of interest is influenced by market interest

rate fluctuation, the Group is exposed to interest rate risk resulting from changes in future cash flows of interest.

The Group finances funds through bond issuance at fixed interest rate in order to avoid future interest payment increase, primarily resulting from rising interest rate.

Certain subsidiaries stabilize their cash flows by using interest rate swap transactions to minimize interest rate risk on borrowings.

(i) Sensitivity analysis of interest rate

Sensitivity analysis of the impact of the 1% increase of interest rate at the end of each fiscal year against profit before tax of the Group is as follows. This analysis is on presumption that all other variables (balance, exchange rate etc.) are held constant.

For the year ended March 31	Millions of yen		Millions of U.S. dollars	
	2017	2018	2018	
Profit before tax	¥(15)	¥(11)	\$ (0)	

Amounts shown in parentheses represent negative impact against profit of the Group.

(ii) Derivatives (interest swap contracts)

In interest swap contracts, the Group enters into agreements to exchange the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. Using these contracts, the Group minimizes its risk of cash flows fluctuation arising from floating rate borrowings.

Derivatives designated as hedges

	Millions of yen								Millions of U.S. dollars			
	2017				2018				2018			
	Contractual amount		Fair value		Contractual amount		Fair value		Contractual amount		Fair value	
As of March 31	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities	Total	Over one year	Assets	Liabilities
Interest rate swap	¥330,000	¥330,000	¥—	¥7,183	¥330,000	¥330,000	¥—	¥5,882	\$3,106	\$3,106	\$—	\$55

As of March 31	Millions of yen		Millions of U.S. dollars	
	2017	2018	2018	
Carrying amount	¥ (7,183)	¥ (5,882)	\$ (55)	
Contractual amount	330,000	330,000	3,106	
Maturity date	December 2018– December 2025	December 2018– December 2025	December 2018– December 2025	
Hedge ratio (Note 1)	1	1	1	
Change in intrinsic value of outstanding hedging instrument	1,897	1,301	12	
Change in value of hedge item used to determine hedge effectiveness	—	—	—	

Notes: 1. Since the Group runs the borrowing (hedged item) and interest rate swap transaction (hedging instrument) in the same amount, hedge ratio of interest rate swap transaction is one-to-one.

2. The Group does not have any non-effective portion of the hedge.

(c) Price risk management of equity instruments

Price risk of equity instruments is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to such price risk as it holds equity instruments.

To manage price risk arising from those equity instruments, the corporate finance and accounting department documents policies

of investment in the equity instruments and the entire Group complies with those policies. For material investments, it is obliged to report to and obtain approval from the Board of Directors in a timely manner. To manage those equity instruments, the Group continuously reviews its holdings through monitoring market value and financial condition of the issuer (counterparty) taking into account the market condition and the relationship with the counterparty.

(i) Sensitivity analysis of price of equity instruments

Sensitivity analysis of the impact of the 10% decrease of price of equity instruments at the end of each fiscal year against other comprehensive income of the Group (before tax effect) is as follows:

This analysis is on presumption that all other variables (balance, exchange rate etc.) are held constant.

For the year ended March 31	Millions of yen		Millions of U.S. dollars	
	2017	2018	2018	
Accumulated other comprehensive income (before tax effect)	¥(6,934)	¥(8,072)	\$ (76)	

Amounts shown in parentheses represent negative impact against other comprehensive income of the Group.

(2) Capital management

The Group seeks to realize sustainable medium- and long-term growth and maximize its corporate value. To achieve those objectives, the Group's basic policy for equity risk management is to maintain adequate equity structure while monitoring capital cost,

along with maintaining current fund-raising capability and ensuring financial soundness. Major performance benchmarks used by the Group to manage its equity are Ratio of equity attributable to owners of the parent and debt / equity ratio ("D/E ratio").

Ratio of equity attributable to owners of the parent and D/E ratio at the end of each fiscal year are as follows:

As of March 31	Unit	2017	2018
Ratio of equity attributable to owners of the parent (Note 1)	%	56.7	57.4
D/E ratio (debt/equity ratio) (Note 2)	ratio	0.32	0.30

Notes: 1. Ratio of equity attributable to owners of the parent: Equity attributable to owners of the parent/Total assets ×100

2. D/E ratio (debt/equity ratio): Interest bearing debt/Equity attributable to owners of the parent

As of March 31, 2018, there is no material capital controls applicable to the Group (excluding general rules such as the Companies Act etc.).

(3) Classification of financial assets and financial liabilities

Classification of financial assets and financial liabilities of the Group is as follows:

As of March 31, 2017

	Millions of yen			
	Carrying amount			Total
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	
Financial assets				
Non-current assets				
Other long-term financial assets	¥ 90,006	¥92,797	¥278	¥ 183,081
Current assets				
Trade and other receivables	1,518,070	—	—	1,518,070
Other short-term financial assets	16,793	—	176	16,968
Cash and cash equivalents	226,607	—	—	226,607
Total	¥1,851,476	¥92,797	¥454	¥1,944,726

	Millions of yen			
	Carrying amount			Total
	Financial liabilities at amortized cost	Financial liabilities at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	
Financial liabilities				
Non-current liabilities				
Borrowings and bonds payable	¥ 909,673	¥—	¥ —	¥ 909,673
Other long-term financial liabilities	169,604	—	7,189	176,794
Current liabilities				
Borrowings and bonds payable	57,805	—	—	57,805
Trade and other payables	537,830	—	—	537,830
Other short-term financial liabilities	24,364	—	9	24,373
Total	¥1,699,278	¥—	¥7,198	¥1,706,475

Consolidated Financial Statements

As of March 31, 2018

	Millions of yen			
	Carrying amount			
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Financial assets				
Non-current assets				
Other long-term financial assets	¥ 126,313	¥110,071	¥301	¥ 236,684
Current assets				
Trade and other receivables	1,695,403	—	—	1,695,403
Other short-term financial assets	29,994	—	179	30,173
Cash and cash equivalents	200,834	—	—	200,834
Total	¥2,052,544	¥110,071	¥479	¥2,163,094

	Millions of yen			
	Carrying amount			
	Financial liabilities at amortized cost	Financial liabilities at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Total
Financial liabilities				
Non-current liabilities				
Borrowings and bonds payable	¥ 704,278	¥—	¥ —	¥ 704,278
Other long-term financial liabilities	62,593	—	5,885	68,478
Current liabilities				
Borrowings and bonds payable	329,559	—	—	329,559
Trade and other payables	610,726	—	—	610,726
Other short-term financial liabilities	24,683	—	34	24,717
Total	¥1,731,838	¥—	¥5,920	¥1,737,757

	Millions of U.S. dollars			
	Carrying amount			
	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Financial assets				
Non-current assets				
Other long-term financial assets	\$ 1,189	\$1,036	\$ 3	\$ 2,228
Current assets				
Trade and other receivables	15,958	—	—	15,958
Other short-term financial assets	282	—	2	284
Cash and cash equivalents	1,890	—	—	1,890
Total	\$19,320	\$1,036	\$ 5	\$20,360

	Millions of U.S. dollars			
	Carrying amount			
	Financial liabilities at amortized cost	Financial liabilities at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss	Total
Financial liabilities				
Non-current liabilities				
Borrowings and bonds payable	\$6,629	\$—	\$—	\$6,629
Other long-term financial liabilities	589	—	55	645
Current liabilities				
Borrowings and bonds payable	3,102	—	—	3,102
Trade and other payables	5,749	—	—	5,749
Other short-term financial liabilities	232	—	0	233
Total	\$16,301	\$—	\$56	\$16,357

(4) Financial assets at fair value through other comprehensive income

The Group owns the equity instruments above as investment to maintain and strengthen the business relationship with investees, and therefore classifies them as financial assets at fair value through other comprehensive income.

i. The analysis and fair value by description of financial assets at fair value through other comprehensive income

The analysis and dividends received related to financial assets at fair value through other comprehensive income are as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Fair value			
Listed equities	¥69,336	¥ 80,720	\$ 760
Unlisted equities	23,460	29,350	276
Total	¥92,797	¥110,071	\$1,036

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Dividends received			
Listed equities	¥169	¥1,970	\$19
Unlisted equities	597	488	5
Total	¥766	¥2,458	\$23

Major description of investments in financial assets at fair value through other comprehensive income is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Listed equities			
TOYOTA MOTOR CORPORATION	¥48,303	¥ 54,562	\$ 514
PIA Corporation	2,896	7,630	72
GREE, Inc.	5,608	4,840	46
East Japan Railway Company	2,896	2,946	28
Japan Airport Terminal Co. Ltd.	2,354	2,476	23
COLOPL, Inc.	2,632	2,361	22
SPACE SHOWER NETWORKS INC.	1,025	1,265	12
Internet Initiative Japan Inc.	844	906	9
Other	2,781	3,735	35
Sub total	69,336	80,720	760
Unlisted equities			
A-Fund, L.P.	4,859	4,785	45
COMMUNITY NETWORK CENTER INCORPORATED	5,330	4,295	40
Inagora Co., Limited	—	2,850	27
Other	13,271	17,420	164
Sub total	23,460	29,350	276
Total	¥92,797	¥110,071	\$1,036

ii. Financial assets at fair value through other comprehensive income disposed during the period

The Group sells its financial assets at fair value through other comprehensive income as a result of periodic review of portfolio and for the management of risk assets. Fair value at the disposal date, accumulated gains/losses arising from sale and dividends received are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Fair value at the disposal date	¥35	¥2,754	\$26
Accumulated gains/losses arising from sale	65	1,578	15
Dividends received	—	21	0

iii. Reclassification to retained earnings

The Group reclassifies accumulated gains or losses arising from changes in the fair value of financial assets at fair value through other comprehensive income into retained earnings, when it disposes the investments, etc. Accumulated gains or losses, net of tax, reclassified from other comprehensive income into retained earnings are ¥112 million and ¥835 million (U.S.\$8 million), respectively, for the years ended March 31, 2017 and 2018.

33. Fair Value of Financial Instruments

The financial instruments that are measured at fair value are classified into 3 levels of fair value hierarchy according to the observability and significance of the inputs used for measurement. The levels of the fair value hierarchy are defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The Group determines the hierarchy of the levels on the basis of the lowest level input that is significant to the fair value measurement.

(1) The fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

i. The hierarchy of the fair value

The following table presents the classification by fair value hierarchy of the financial assets and financial liabilities recognized at fair value on the consolidated statement of financial position.

As of March 31, 2017

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets				
Other financial assets				
Financial assets at fair value through other comprehensive income				
Equities	¥69,336	¥ —	¥23,460	¥92,797
Financial assets at fair value through profit or loss				
Derivatives				
Exchange contracts	—	454	—	454
Financial liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives				
Exchange contracts	—	15	—	15
Interest rate swaps	—	7,183	—	7,183

As of March 31, 2018

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets				
Other financial assets				
Financial assets at fair value through other comprehensive income				
Equities	¥80,720	¥ —	¥29,350	¥110,071
Financial assets at fair value through profit or loss				
Derivatives				
Exchange contracts	—	479	—	479
Financial liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives				
Exchange contracts	—	38	—	38
Interest rate swaps	—	5,882	—	5,882

	Millions of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets				
Other financial assets				
Financial assets at fair value through other comprehensive income				
Equities	\$760	\$—	\$276	\$1,036
Financial assets at fair value through profit or loss				
Derivatives				
Exchange contracts	—	5	—	5
Financial liabilities				
Other financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives				
Exchange contracts	—	0	—	0
Interest rate swaps	—	55	—	55

Any significant transfers of the financial instruments between levels are evaluated at each period end. There was no significant transfer of the financial instruments between levels for the years ended March 31, 2017 and 2018.

ii. Measurement method of the fair value of financial assets and financial liabilities

(a) Equities

Listed equities are based on the prices on exchange and within level 1 of fair value hierarchy.

Unlisted equities are calculated by the valuation technique based on the discounted future cash flows, valuation technique based on the market prices of the comparative companies, valuation technique based on the net asset value and other valuation techniques, and are within the level 3 of fair value hierarchy. Unobservable input such as discount rates and valuation multiples are used for fair value measurements of unlisted equities, adjusted for certain illiquidity discounts and non-controlling interest discounts, if necessary.

(b) Derivatives

(i) Exchange contracts

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of each fiscal year, with the resulting value discounted back to present value. The financial assets and financial liabilities related to exchange contracts are classified as level 2 of fair value hierarchy.

(ii) Interest rate swaps

Interest rate swaps are calculated by the present value of the future cash flows discounted using the interest rate adjusted for the remaining period until maturity and credit risk. The financial assets and financial liabilities related to interest rate swaps are classified as the level 2 of fair value hierarchy.

Consolidated Financial Statements

iii. Reconciliation of level 3

The following table presents the movement of financial instruments within level 3 for the year ended March, 31, 2017.

	Millions of yen
	Financial assets at fair value through other comprehensive income
	Equities
As of April 1, 2016	¥24,260
Acquisition	1,817
Loss recognized on other comprehensive income	(821)
Sale	(39)
Other	(1,757)
As of March 31, 2017	¥23,460

The following table presents the movement of financial instruments within level 3 for the year ended March, 31, 2018.

	Millions of yen
	Financial assets at fair value through other comprehensive income
	Equities
As of April 1, 2017	¥23,460
Acquisition	4,941
Gain recognized on other comprehensive income	2,235
Sale	(1,285)
Other	(2)
As of March 31, 2018	¥29,350

	Millions of U.S. dollars
	Financial assets at fair value through other comprehensive income
	Equities
As of March 31, 2017	\$221
Acquisition	47
Gain recognized on other comprehensive income	21
Sale	(12)
Other	(0)
As of March 31, 2018	\$276

iv. Evaluation process of level 3

Fair value measurements of unlisted equities are performed by a management department independent from sales departments in accordance with the prescribed rules. Fair value measurements including fair value models are examined for the adequacy by periodically evaluating the business descriptions and the availability of business plans of the companies issuing the equities, as well as comparative listed companies.

v. Quantitative information related to assets classified as level 3

Information related to evaluation technique and significant unobservable inputs of assets measured at fair value on a recurring basis classified as level 3 is as follows:

As of March 31, 2017

	Fair value			
	Millions of yen	Valuation technique	Unobservable inputs	Range
Equities	¥23,460	Income approach	Discount rate	4.6%

As of March 31, 2018

	Fair value				
	Millions of yen	Millions of U.S. dollars	Valuation technique	Unobservable inputs	Range
Equities	¥29,350	\$276	Income approach	Discount rate	5.6%–11.2%

vi. Sensitivity analysis related to the changes in significant unobservable inputs

For financial instruments classified as level 3, no significant changes in fair value are expected to occur as a result of changing unobservable inputs to other alternative assumptions that are considered reasonable.

(2) The fair value of financial assets and financial liabilities that are not measured at fair value but disclosed on the fair value

i. The hierarchy of the fair value

The following are the fair value of financial assets and financial liabilities that are not measured at fair value but disclosed on the fair value. The financial assets and financial liabilities that are measured at amortized cost are included.

As of March 31, 2017

	Millions of yen				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Other financial assets					
Government bonds	¥ 3,002	¥ 3,117	¥ —	¥ —	¥ 3,117
Lease receivables	58,263	—	—	56,853	56,853
Financial liabilities					
Borrowing and bonds payable					
Borrowings	775,848	—	779,639	—	779,639
Bonds payables	189,747	195,975	50	—	196,025
Other financial liabilities					
Lease payments	89,171	—	91,119	—	91,119
Preference share	95,000	—	102,134	—	102,134

Notes: 1. Borrowings, bonds payable and lease payments in the table above contain their current portion.

2. Short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are similar to the carrying amounts.

As of March 31, 2018

	Millions of yen				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Other financial assets					
Government bonds	¥ 3,001	¥ 3,069	¥ —	¥ —	¥ 3,069
Lease receivables	102,012	—	—	100,209	100,209
Financial liabilities					
Borrowing and bonds payable					
Borrowings	835,036	—	839,655	—	839,655
Bonds payables	169,801	174,263	31	—	174,294
Other financial liabilities					
Lease payments	84,779	—	86,619	—	86,619
Preference share	—	—	—	—	—

	Millions of U.S. dollars				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Other financial assets					
Government bonds	\$ 28	\$ 29	\$ —	\$ —	\$ 29
Lease receivables	960	—	—	943	943
Financial liabilities					
Borrowing and bonds payable					
Borrowings	7,860	—	7,903	—	7,903
Bonds payables	1,598	1,640	0	—	1,641
Other financial liabilities					
Lease payments	798	—	815	—	815
Preference share	—	—	—	—	—

Notes: 1. Borrowings, bonds payable and lease payments in the table above contain their current portion.

2. Short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are similar to the carrying amounts.

Consolidated Financial Statements

ii. Measurement method of the fair value of financial assets and financial liabilities

(a) Government bonds

The fair value of government bonds is estimated based on quoted price. Government bonds are classified as level 1 of fair value hierarchy.

(b) Lease receivables

Fair value of lease receivables is measured at the present value of total expected lease receivables, discounted by the rate of interest to be used when the lessor newly contracts a similar lease transaction. Inputs of lease receivables are not based on observable market data. Therefore, the levels of the fair value hierarchy are classified as level 3. The discount rate is 6.9% as of March 31, 2017 and 6.7% as of March 31, 2018.

(c) Borrowings

For borrowings with variable interest rates, the carrying amount is used as fair value, as the rates reflect the market interest rate within a short term and there is no significant change expected in the Group entities' credit conditions after financing. For borrowings with fixed interest rates, fair value is estimated by discounting the total of principal and interest using the current interest rate adjusted for the remaining maturity period of the borrowings and credit risk. Borrowings are classified as level 2 of fair value hierarchy.

(d) Bonds payables

For bonds payable with quoted price, the fair value is estimated based on quoted price. For bonds payable without quoted price, the fair value is calculated by the present value of future cash flows discounted using the interest rate adjusted for the remaining maturity period and credit risk. Bonds payables with quoted price are classified as level 1 of fair value hierarchy and bonds payables without quoted price are classified as level 2 of fair value hierarchy.

(e) Lease payments

The fair value of lease obligations is estimated by the future cash flows discounted using the interest rate of a borrowing with the identical remaining maturity period and conditions. Lease payments are classified as level 2 of fair value hierarchy.

(f) Preference share

Under IFRS, a certain type of preference share is treated as financial liabilities because the Group has an obligation to deliver cash to holders of preference share. The fair value of the preference share is calculated by the present value of future cash flows discounted using the interest rate adjusted for the remaining maturity period and credit risk. Preferred stock is classified as level 2 of fair value hierarchy.

34. Commitments

(1) Purchase commitments

As of March 31, 2017 and 2018, the Group's commitments to purchase property, plant and equipment, intangible assets and other are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Property, plant and equipment	¥162,294	¥216,275	\$2,036
Intangible assets	37,432	53,089	500
Total	¥199,726	¥269,364	\$2,535

Note: These amounts above don't reflect contents of all contracts that the Group is expected to enter into in the future.

(2) Lease commitments

The Group enters into lease contracts for property, plant and equipment in the ordinary course of business. Gross minimum lease payments under non-cancellable lease contracts are set out in "Note 37. Lease."

35. Earnings per Share

(1) Basic earnings per share

Basic earnings per share and its calculation basis are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Profit for the year attributable to owners of the parent	¥ 546,658	¥ 572,528	\$ 5,389
Number of weighted average common stocks outstanding (Thousands of shares)	2,466,294	2,430,662	22,879
Basic earnings per share (Yen and U.S. dollar)	¥ 221.65	¥ 235.54	\$ 2.22

(2) Diluted earnings per share

Diluted earnings per share and its calculation basis are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Profit for the year attributable to owners of the parent	¥546,658	¥572,528	\$5,389
Adjustment of profit	—	—	—
Profit used in calculation of diluted earnings per share	546,658	572,528	5,389

For the year ended March 31	Thousands of shares	
	2017	2018
Number of weighted average common stocks outstanding	2,466,294	2,430,662
Effect of dilutive potential common stocks		
BIP trust and ESOP trust	591	971
Number of weighted average common stocks during the year	2,466,885	2,431,632

For the year ended March 31	Yen		U.S. dollar
	2017	2018	2018
Diluted earnings per share	¥221.60	¥235.45	\$2.22

Note: In the calculation of basic earnings per share and diluted earnings per share, the Company's stocks owned by the executive compensation BIP trust and a stock-granting ESOP trust are included in treasury stock. Therefore, the number of those stocks is deducted in calculating the number of common stocks outstanding at the end of the year and weighted average common stocks outstanding during the year.

36. Contingent Liabilities

Guarantees

As of March 31	Millions of yen	
	2017	2018
Contingent liabilities for cable system supply contract	¥5,610	¥—
(of which, denominated in foreign currencies)	(U.S.\$50 million)	

37. Lease

(1) Lease as a lessee

i. Finance lease

Finance lease of the Group mainly relates to in-home customer premises equipment for CATV and communication.

(a) Future gross minimum lease payments

Future gross minimum lease payments of the leased assets recognized based on finance lease contracts, their present value and future finance costs by due date are as follows:

As of March 31	Future gross minimum lease payments			Present value of future gross minimum lease payments		
	Millions of yen		Millions of U.S. dollars	Millions of yen		Millions of U.S. dollars
	2017	2018	2018	2017	2018	2018
Within one year	¥25,935	¥25,654	\$241	¥24,364	¥24,683	\$232
Over one year to five years	62,874	58,491	551	60,598	57,090	537
Over five years	4,276	3,061	29	4,209	3,007	28
Total	¥93,086	¥87,206	\$821	¥89,171	¥84,779	\$798
Less: Future finance cost (Note)	¥ 3,914	¥ 2,427	\$ 23			
Present value of lease obligation	89,171	84,779	798			

Note: Difference between future gross minimum lease payments and their present value represents interest portion of the finance lease.

(b) Details of the lease contracts

Some of the Group's lease contracts contain terms of renewal or purchase options. However, the Group does not have any lease contracts that contain sublease contracts or contingent rents and escalation clauses, provision in a contract for increasing the contracted price, and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Fair values of the Group's lease obligations are set out in "Note 33. Fair value of financial instruments."

Consolidated Financial Statements

ii. Operating lease

Operating lease of the Group mainly relates to lease of land and buildings for base station.

(a) Gross minimum lease payments and contingent rent

For the years ended March 31, 2017 and 2018, gross minimum lease payments and contingent rents of cancellable or non-cancellable operating leases recognized as expenses are as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Gross minimum lease payments	¥128,685	¥135,443	\$1,275
Contingent rents	128	247	2
Total	¥128,813	¥135,690	\$1,277

Lease payments are included in "Costs of sales" or "Selling, general and administrative expenses" in the consolidated statement of income.

(b) Unexpired lease payments under non-cancellable operating lease

At the end of each fiscal year, analysis of future gross minimum lease payments under non-cancellable operating leases of the Group by due date is as follows:

As of March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Within one year	¥14,196	¥14,374	\$135
Over one year to five years	21,815	34,555	325
Over five years	7,722	6,926	65
Total	¥43,733	¥55,855	\$526

(c) Details of the lease contracts

Some of the lease contracts contain terms of renewal. However, the Group does not have any lease contracts that contain purchase option, sublease contracts, escalation clauses (provision in a contract for increasing the contracted price) and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

(2) Lease as a lessor

i. Finance lease

One of the company's consolidated subsidiaries, KDDI Summit Global Myanmar Co., Ltd. (KSGM) operates telecommunication business in Myanmar jointly with Myanmar Posts & Telecommunications (MPT), a government organization in Myanmar. KSGM leases telecommunication equipment to MPT classified as finance lease in the joint operation.

Future gross minimum lease payments receivable

Future gross lease payments receivable under the finance leases held by the Group and their present value and future finance income are as follows:

As of March 31	Future gross minimum lease payments			Present value of future gross minimum lease payments		
	Millions of yen		Millions of U.S. dollars	Millions of yen		Millions of U.S. dollars
	2017	2018	2018	2017	2018	2018
Within one year	¥15,069	¥ 27,659	\$ 260	¥11,590	¥ 21,569	\$203
Over one year to five years	50,407	86,993	819	43,408	75,332	709
Over five years	3,459	5,416	51	3,264	5,111	48
Total	¥68,935	¥120,068	\$1,130	¥58,263	¥102,012	\$960
Less: Future finance income	¥10,672	¥ 18,056	\$ 170			
Net investment in the lease	58,263	102,012	960			
Less: Present value of unguaranteed residual value	—	—	—			
Present value of lease obligation	58,263	102,012	960			

38. Non-cash Transactions

For the years ended March 31, 2017 and 2018, non-cash transactions, i.e. financial transactions that do not require the use of cash and cash equivalents, comprise acquisition of property, plant and equipment resulted from new finance leases of ¥39,542 million and ¥20,934 million (U.S.\$197 million), respectively.

39. Major Subsidiaries

(1) Organizational structure

Major subsidiaries of the Group are as follows. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Company name	Segment	Location	Key business	The proportion of voting rights (%)	
				As of March 31, 2017	As of March 31, 2018
Okinawa Cellular Telephone Company	Personal Services	Naha-shi, Okinawa	Telecommunications services (au mobile phone services)	51.5	51.5
Jupiter Telecommunications Co., Ltd. (Note 1)	Personal Services	Chiyoda-ku, Tokyo	Management of CATV operators and broadcasting service providers	50.0	50.0
J:COM West Co., Ltd.	Personal Services	Chuo-ku, Osaka	Management of CATV (broadcasting and telecommunication business)	92.7 (92.7)	92.7 (92.7)
J:COM East Co., Ltd.	Personal Services	Chiyoda-ku, Tokyo	Management of CATV (broadcasting and telecommunication business)	100.0 (100.0)	100.0 (100.0)
UQ Communications Inc. (Note 2)	Personal Services	Minato-ku, Tokyo	Wireless broadband services	32.3	32.3
BIGLOBE Inc.	Personal Services	Shinagawa-ku, Tokyo	Internet services	100.0	100.0
AEON Holdings Corporation of Japan	Personal Services	Okayama-shi, Okayama	Operation of language schools starting with English conversation	—	100.0
Chubu Telecommunications Co., Inc.	Personal Services Business Services	Naka-ku, Nagoya-shi, Aichi	Telecommunications services under Telecommunications Business Act	80.5	80.5
Wire and Wireless Co., Ltd.	Personal Services	Chuo-ku, Tokyo	Wireless broadband services	95.2	95.2
KDDI financial Service Corporation	Value Services	Minato-ku, Tokyo	Credit card services and payment agency services	90.0	90.0
Syn.Holdings, Inc	Value Services	Minato-ku, Tokyo	Holding company of internet service companies	78.0	78.7
WebMoney Corporation	Value Services	Minato-ku, Tokyo	Issuance and sales of server based e-money	100.0	100.0
Jupiter Shop Channel Co., Ltd.	Value Services	Chuo-ku, Tokyo	Mail order services	55.0 (50.0)	55.0 (50.0)
Jupiter Entertainment Co., Ltd.	Value Services	Chiyoda-ku, Tokyo	Management of TV channels	100.0 (100.0)	100.0 (100.0)
KDDI MATOMETE OFFICE CORPORATION	Business Services	Shibuya-ku, Tokyo	IT support services for small and medium-sized companies	95.0	95.0
KDDI Evolve, Inc.	Business Services	Shinjuku-ku, Tokyo	Call center, temporary personnel services	100.0	100.0
Japan Internet Exchange Co., Ltd.	Business Services	Chiyoda-ku, Tokyo	Exchange port providing services for internet service providers	63.8 (6.9)	63.8 (6.9)
KDDI Engineering Corporation	Other	Shibuya-ku, Tokyo	Construction, maintenance and operation support for communication equipment	100.0	100.0
KDDI Research, Inc.	Other	Fujimino-shi, Saitama	Technology research and product development related to telecommunication services	91.7	91.7
Kokusai Cable Ship Co., Ltd.	Other	Kawasaki-shi, Kanagawa	Construction and maintenance of submarine cable	100.0	100.0
Japan Telecommunication Engineering Service Co., Ltd.	Other	Shinjuku-ku, Tokyo	Design, construction, operation support and maintenance for communication equipment	74.3	74.3
KDDI America, Inc.	Global Services	New York, NY U.S.A.	Diversified telecommunications services in US	100.0	100.0
KDDI Europe Limited	Global Services	London, U.K.	Diversified telecommunications services in Europe	100.0 (4.2)	100.0 (4.2)
KDDI China Corporation	Global Services	Beijing, China	Sales, maintenance and operation of communication equipment in China	85.1	85.1
KDDI Singapore Pte Ltd	Global Services	Singapore	Diversified telecommunications services in Singapore	100.0	100.0
TELEHOUSE Holdings Limited	Global Services	London, U.K.	Holding Company	100.0	100.0
TELEHOUSE International Corporation of Europe Ltd.	Global Services	London, U.K.	Data center services in Europe	92.8 (92.8)	92.8 (92.8)
KDDI Summit Global Singapore Pte. Ltd.	Global Services	Singapore	Holding Company	50.1	50.1
KDDI Summit Global Myanmar Co., Ltd.	Global Services	Yangon, Myanmar	Telecommunication business in collaboration with Myanma Posts & Telecommunications (MPT)	100.0 (100.0)	100.0 (100.0)
Mobicom Corporation LLC	Global Services	Ulaanbaatar, Mongolia	Diversified telecommunications services in Mongolia	63.9 (63.9)	63.9 (63.9)

Numbers in parentheses represent indirect voting rights.

Notes: 1. The Group does not own majority of voting rights of Jupiter Telecommunications Co., Ltd. ("Jupiter Telecom"). However, the Group owns 50% of the voting rights of Jupiter Telecom and has the power to govern its financial and operating policies. Accordingly, Jupiter Telecom is controlled by the Group and included in the consolidated financial statements.

2. The Group does not own majority of voting rights of UQ Communications Inc. ("UQ"). However, UQ is consolidated by the Group because UQ is considered to be controlled by the Group on the grounds that the Group is the largest shareholder of UQ, the Group's directors became majority of the board members and they have the executive power in the UQ's Board of Directors, and the operations of UQ are significantly dependent on the Company.

Consolidated Financial Statements

(2) Financial statements of subsidiaries with material non-controlling interest for the Group

i. Jupiter Telecommunication Co., Ltd. ("Jupiter telecom")

As of March 31

	2017	2018
The proportion of ownership interests held by non-controlling interests	50.0%	50.0%

The proportion of ownership interests by non-controlling interests held equals the voting rights by non-controlling interests.

Amounts before adjustments to internal transactions of the Group are as follows:

(a) Consolidated statements of financial position

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Current assets	¥173,094	¥163,632	\$1,540
Non-current assets	965,376	970,524	9,135
Current liabilities	131,885	235,366	2,215
Non-current liabilities	702,134	589,657	5,550
Total equity	¥304,451	¥309,133	\$2,910

Amounts equivalent to the interests in total equity of Jupiter Telecom attributable to the Group, and the non-controlling interests are as follows:

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Interests attributable to owners of the parent	¥109,752	¥116,309	\$1,095
Non-controlling interests	194,699	192,824	1,815
Total	¥304,451	¥309,133	\$2,910

(b) Consolidated statements of income and comprehensive income

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Revenue	¥739,275	¥783,219	\$7,372
Profit for the year before income tax	124,472	124,812	1,175
Income taxes	39,468	39,798	375
Profit, net of tax	85,004	85,014	800
Other comprehensive income	1,700	1,094	10
Total comprehensive income	¥ 86,704	¥ 86,108	\$ 811

Amounts equivalent to the profit for the year and comprehensive income attributable to the Group, and the non-controlling interests are as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Profit for the year attributable to owners of the parent	¥42,141	¥42,214	\$397
Profit for the year attributable to non-controlling interests	42,863	42,800	403
Sub total	85,004	85,014	800
Other comprehensive income attributable to owners of the parent	800	539	5
Other comprehensive income attributable to non-controlling interests	900	555	5
Sub total	1,700	1,094	10
Total comprehensive income attributable to owners of the parent	42,941	42,753	402
Total comprehensive income attributable to non-controlling interests	43,763	43,355	408
Total	¥86,704	¥86,108	\$811

For the years ended March 31, 2017 and 2018, dividends paid by Jupiter Telecom to non-controlling interests were ¥39,153 million and ¥46,200 million (U.S.\$435 million), respectively.

(c) Consolidated Statement of cash flows

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Cash flows from operating activities (net)	¥175,324	¥18,817	\$177
Cash flows from investing activities (net)	(73,762)	(9,077)	(85)
Cash flows from financing activities (net)	(86,432)	(820)	(8)
Increase (decrease) of cash and cash equivalents	15,131	8,920	84

ii. UQ Communications

As of March 31	2017	2018
The proportion of ownership interests held by non-controlling interests	67.7%	67.7%

The proportion of ownership interests by non-controlling interests held equals the voting rights by non-controlling interests.

Amounts before adjustments to internal transactions of the Group are as follows:

(a) Statements of financial position

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Current assets	¥ 36,821	¥ 62,885	\$ 592
Non-current assets	264,894	276,875	2,606
Current liabilities	170,370	79,445	748
Non-current liabilities	129,596	216,460	2,037
Total equity (Note)	¥ 1,750	¥ 43,855	\$ 413

Amounts equivalent to the interests in total equity of UQ Communications attributable to the Group, and the non-controlling interests are as follows:

	Millions of yen		Millions of U.S. dollars
As of March 31	2017	2018	2018
Interests attributable to owners of the parent	¥ 20,741	¥33,952	\$320
Non-controlling interests	(18,991)	9,903	93
Total	¥ 1,750	¥43,855	\$413

(b) Statement of income and comprehensive income

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Revenue	¥241,010	¥317,871	\$2,992
Profit for the year before income tax	46,877	54,199	510
Income taxes	(5,678)	11,794	111
Profit, net of tax	52,555	42,405	399
Other comprehensive income	—	—	—
Total comprehensive income	¥ 52,555	¥ 42,405	\$ 399

Amounts equivalent to the interests of net profit and comprehensive income attributable to the Group, and the non-controlling interests are as follows:

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Profit for the year attributable to owners of the parent	¥15,195	¥13,511	\$127
Profit for the year attributable to non-controlling interests	37,361	28,894	272
Sub total	52,555	42,405	399
Other comprehensive income attributable to owners of the parent	—	—	—
Other comprehensive income attributable to non-controlling interests	—	—	—
Sub total	—	—	—
Total comprehensive income attributable to owners of the parent	15,195	13,511	127
Total comprehensive income attributable to non-controlling interests	37,361	28,894	272
Total	¥52,555	¥42,405	\$399

(c) Statement of cash flows

	Millions of yen		Millions of U.S. dollars
For the year ended March 31	2017	2018	2018
Cash flows from operating activities (net)	¥ 79,025	¥ 781	\$ 7
Cash flows from investing activities (net)	(59,869)	(10,833)	(102)
Cash flows from financing activities (net)	(19,255)	10,004	94
Increase (decrease) of cash and cash equivalents	(99)	(48)	(0)

40. Related Party Transactions

(1) Related party transactions

For the year ended March 31, 2017

There are no significant related party transactions and balances to be disclosed, and the most common terms used by other entities include something like such transactions are negotiated in the ordinary course of business.

For the year ended March 31, 2018

There are no significant related party transactions and balances to be disclosed, and the most common terms used by other entities include something like such transactions are negotiated in the ordinary course of business.

(2) Remuneration of key management

Remuneration of key management is as follows:

For the year ended March 31	Millions of yen		Millions of U.S. dollars
	2017	2018	2018
Short-term employee benefits	¥697	¥716	\$7
Share-based payment	110	111	1
Total	¥808	¥827	\$8

Remuneration of key management represents remuneration to directors and audit & supervisory board members of the Company, including outside directors and audit & supervisory board members.

41. Subsequent Events

Cancellation of treasury stocks

At the Board of Directors meeting held on May 10, 2018, the Company approved the item related to the cancellation of treasury stocks based on Article 178 of the Company act and executed the cancellation. Details are as follows:

- (1) Type of shares to be canceled: Common stocks
- (2) Number of shares to be canceled: 55,209,080 shares (2.13% of the total number of issued shares prior to cancellation)
- (3) Date of cancellation: May 16, 2018

Note: After the cancellation, the number of treasury stocks will be 5% of the total number of issued shares.

Total number of issued shares after the cancellation: 2,532,004,445 shares

Total number of treasury stocks after the cancellation: 126,600,222 shares

Acquisition of treasury stocks

At the Board of Directors meeting held on May 10, 2018, the Company approved the item related to the acquisition of its treasury stocks based on Article 156 of the Company Act, which is applicable in accordance with Article 165, Paragraph 3 of the same law.

- (1) Reason for acquisition of treasury stock
The Company decided to acquire its own shares with the aim of improving capital efficiency to response to changes in the business environment and shareholders' benefit.
- (2) Details of the acquisition of treasury stocks
 - (a) Type of shares to be acquired: Common stocks
 - (b) Number of shares to be acquired: 63,000,000 (maximum)
 - (c) Acquisition period: May 11, 2018 to March 22, 2019
 - (d) Total value of shares to be acquired: ¥150 billion (maximum)
- (3) Method of acquisition: Market purchases in the Tokyo Stock Exchange

42. Approval of the Consolidated Financial Statements

The consolidated financial statements for the year ended March 31, 2018 have been approved by the Board of Directors on June 21, 2018.

Independent Auditor's Report

To the Board of Directors of KDDI CORPORATION

We have audited the accompanying consolidated financial statements of KDDI CORPORATION and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDDI CORPORATION and its subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 (3) to the consolidated financial statements.

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 21, 2018

Corporate Overview

(As of March 31, 2018)

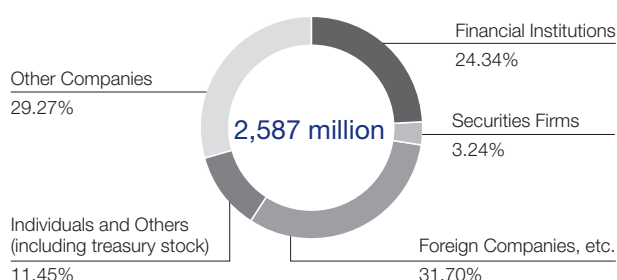
Company Name:	KDDI CORPORATION
Date of Establishment:	June 1, 1984 (The KDDI CORPORATION was established in October 2000 through the merger of DDI CORPORATION, KDD Corporation, and IDO CORPORATION.)
Business Objective:	Telecommunications business
Head Office:	Garden Air Tower, 10-10, Iidabashi 3-chome, Chiyoda-ku, Tokyo 102-8460, Japan
Registered Place of Business:	3-2, Nishi-Shinjuku 2-chome, Shinjuku-ku, Tokyo 163-8003, Japan
President:	Makoto Takahashi (assumed on April 1, 2018)
Capital:	¥141,852 million
Number of Employees:	38,826 (consolidated)

Stock Information

(As of March 31, 2018)

SE Code:	9433
Number of Shares Authorized:	4,200,000,000 shares
Number of Shares Issued and Outstanding:	2,587,213,525 shares
(Note) Following a cancellation of treasury stock on May 17, 2017, the total number of issued shares decreased by 33,280,732 shares.	
Number of Shareholders:	205,394 shareholders

Breakdown of Shareholding by Investor Type



Major Shareholders

Name of Corporate Entity	Number of Shares Held	Ratio of Controlling Share (%)	Ratio of Voting (%)
KYOCERA Corporation	335,096,000	12.95	13.92
Toyota Motor Corporation	298,492,800	11.53	12.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	190,983,400	7.38	7.93
Japan Trustee Services Bank, Ltd. (Trust Account)	133,349,200	5.15	5.54
JP MORGAN CHASE BANK 380072	50,743,304	1.96	2.10
STATE STREET BANK WEST CLIENT – TREATY 505234	35,054,663	1.35	1.45
Japan Trustee Services Bank, Ltd. (Trust Account 5)	33,766,100	1.30	1.40
STATE STREET BANK AND TRUST COMPANY 505223	31,655,525	1.22	1.31
Japan Trustee Services Bank, Ltd. (Trust Account 7)	31,070,700	1.20	1.29
JPMorgan Securities Japan Co., Ltd.	29,703,813	1.14	1.23

(Note 1) The above ratio of controlling shares is calculated including treasury stocks (180,136,600 shares) (Note 2). KDDI excludes treasury stocks from the list of major shareholders above.

(Note 2) For accounting purposes the Company's shares held in an executive remuneration Board Incentive Plan Trust account and Employee Stock Ownership Plan Trust account (1,672,702 shares as of March 31, 2018) are added to the number of treasury shares. These shares do not have voting rights.

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