

# Performance Analysis for the Fiscal Year Ended March 31, 2018

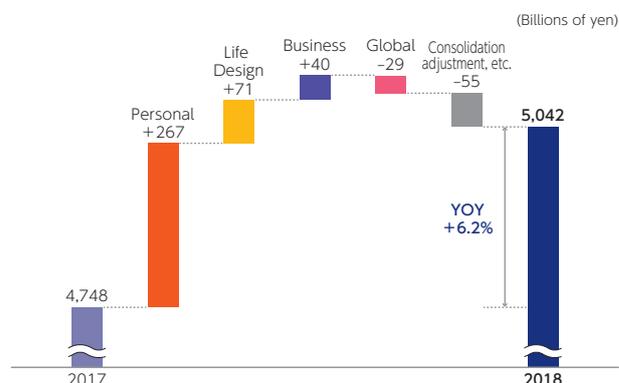
## Analysis of the Consolidated Statement of Income

(Years ended March 31)

### Operating Revenue

YOY **Up 6.2%** ¥5,042.0 billion

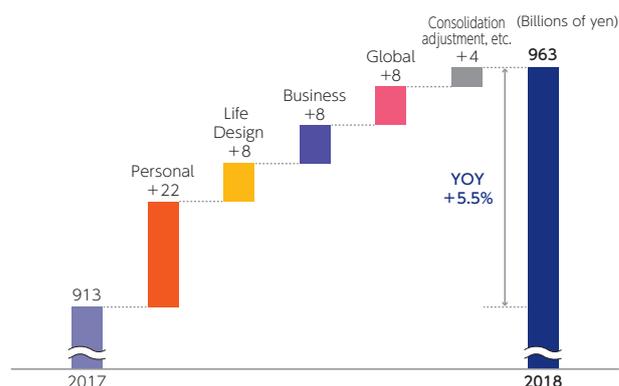
The Personal Services segment recorded an increase in both mobile communications revenues and energy business revenues, and an increase from the consolidation of BIGLOBE as a subsidiary, as well as increases in revenue due to expansion of the Life Design Business, including the commerce and settlement 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.

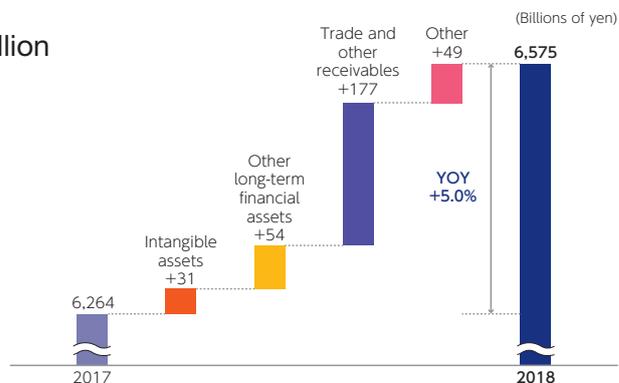
## Analysis of the Consolidated Statement of Financial Position

(Years ended March 31)

### Total Assets

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

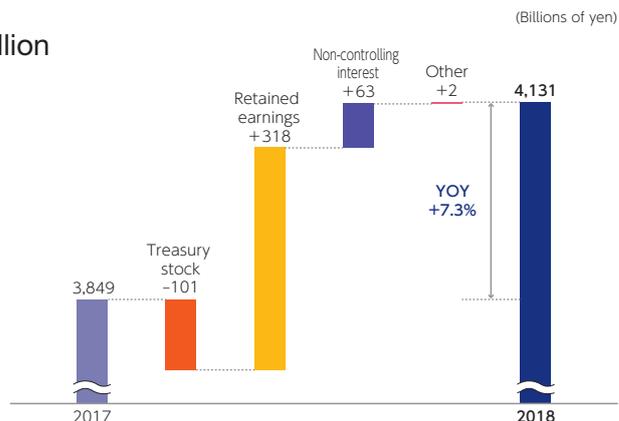
Total assets were ¥6,574.6 billion, an increase of ¥310.7 billion from the previous fiscal year-end. The increase reflects expansion of the “au WALLET Credit card” business and growth in receivables due to diversification of installment sales methods for au mobile phone handsets, as well as an increase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

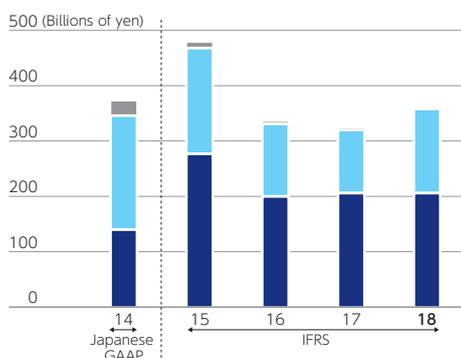
(Years ended March 31)

### 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.

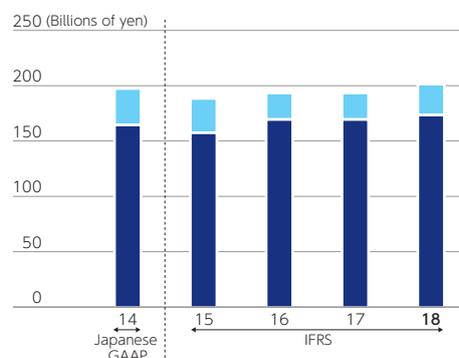


	14	15	16	17	18
3G	27	11	5	4	1
LTE	206	191	131	114	152
Common equipment*	141	278	201	207	207
Total	374	479	338	325	360

\* 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.



	14	15	16	17	18
FTTH	33	31	24	24	28
Other	165	158	170	170	173
Total	198	189	193	194	201

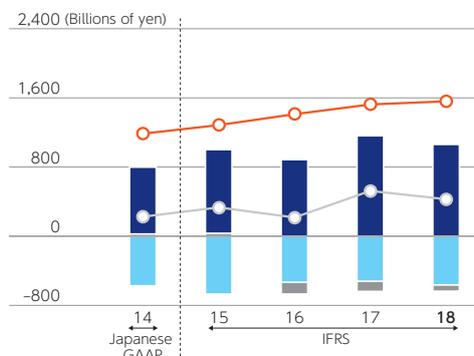
### Cash Flows

**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.



	14	15	16	17	18
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

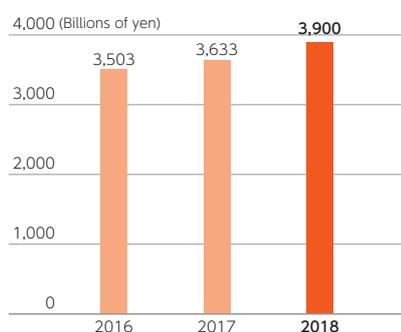
(Years ended March 31)

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

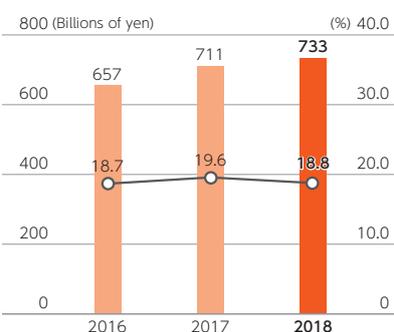
In the fiscal year ended March 31, 2018, operating revenue increased 7.3% year on year to ¥3,899.6 billion. This increase mainly reflected growth in mobile communications revenues and revenues from handset sales, an increase in revenue from the energy business, such as “au Denki,” and the contribution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

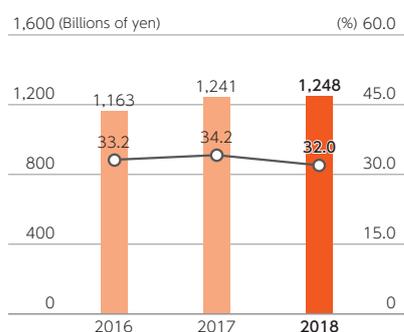
#### Operating Revenue



#### 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.

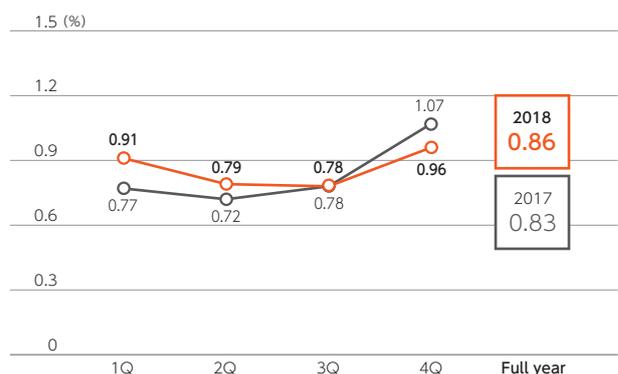
The new price plan launched in July 2017 caused a short-term decline in revenue, which appeared from the third quarter of the fiscal year ended March 31, 2018 onward.



### | 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.

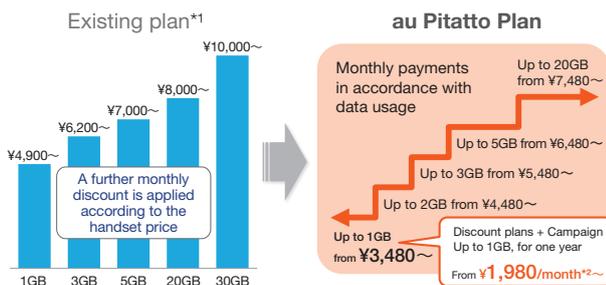
## Key Initiatives

### 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)

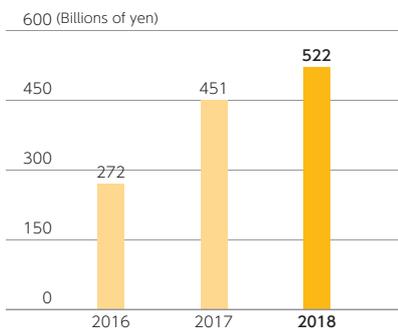
### Overview of Operations in the Fiscal Year Ended March 31, 2018

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

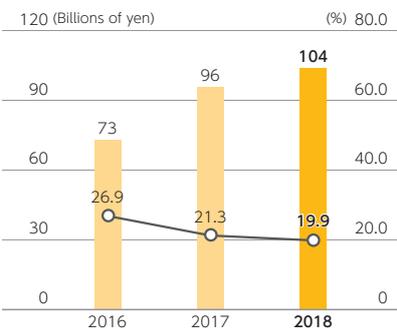
consolidations.

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

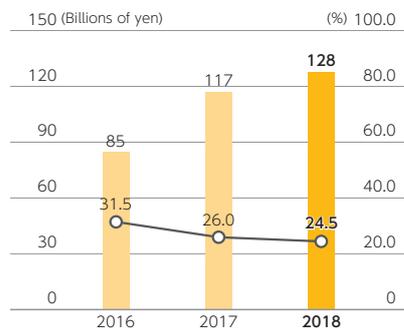


#### Operating Income/Operating Margin



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

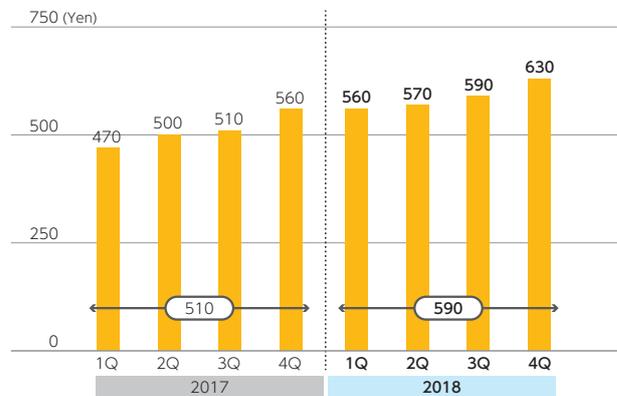
#### EBITDA/EBITDA Margin



■ EBITDA (left)  
○ EBITDA Margin (right)

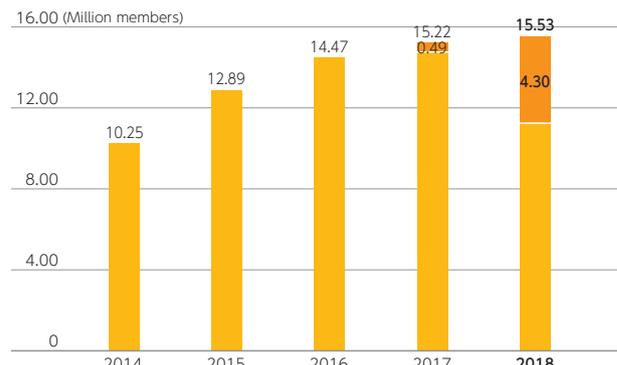
### Value-Added ARPA

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.

**NEW au Smart Pass Premium ¥499/month** Monthly information fee

**au Smart Pass ¥372/month** Monthly information fee

- Data storage (50GB)
- Coupons & points
- Unlimited apps
- Compensation for handset repairs
  - iOS: Compensation for handset repairs
  - Android: Antivirus apps

**Enhanced special offers for members**

**au Everyday**  
Special offers for each day of the week.  
Example: McDonald's, JOYSOUND

**Addition of security functions**

- Data Recovery Support**
- Wi-Fi security**
- au insurance benefits

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.

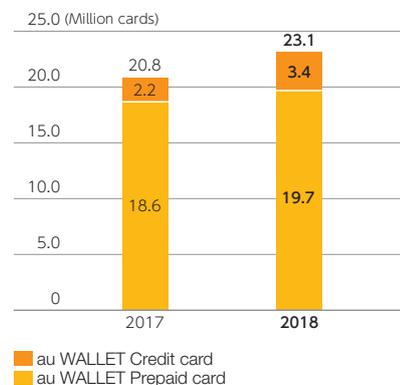
### Expansion of the Finance and Settlements Businesses

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 <b>¥750.0 billion</b>	Operating Income <b>¥84.5 billion</b>	EBITDA <b>¥133.0 billion</b>
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(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.



\* 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.

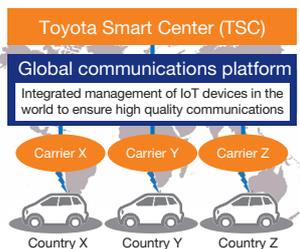
### Key Initiatives

#### 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.



## Key Initiatives

### Promoting the Telecommunications Business Overseas

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

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<sup>\*2</sup>, 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.

<sup>\*1</sup> Carrier aggregation makes simultaneous use of multiple bandwidths, aggregating them to conduct data communication, thereby increasing the maximum downlink communication speed.

<sup>\*2</sup> 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.

<sup>\*3</sup> We received the “Speedtest<sup>®</sup> Award” based on a survey by Ookla<sup>®</sup>, 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<sup>\*4</sup> 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.

<sup>\*4</sup> Myanma Posts and Telecommunications, our partner in the telecommunications business in Myanmar