This translation is to be used solely as a reference and the consolidated financial statements in this release are unaudited.

Financial Statements Summary for the Year ended March 31, 2018 [IFRS]

May 10, 2018

Company name: **KDDI CORPORATION** URL http://www.kddi.com
Stock listing: Tokyo Stock Exchange - First Section
Code number: 9433
Representative: Makoto Takahashi, President
Date of general shareholders' meeting (as planned): Jun 20, 2018
Dividend payable date (as planned): Jun 21, 2018
Annual securities report filing date (as planned): Jun 21, 2018
Supplemental materials of annual results: Yes
Convening briefing of annual results: Yes (for institutional investors and analysts)

(Amount Unit : Millions of yen, unless otherwise stated)
(Amounts are rounded off to nearest million yen)

1. Consolidated Financial Results for the Year ended March 31, 2018 (April 1, 2017 - March 31, 2018)

(1) Consolidated Operating Results

(Percentage represents comparison change to the corresponding previous fiscal year)

	Operating Revenues		Operating Income		Profit for the period before income tax		Profit for the period		Profit for the Period attributable to owners of the parent		Total comprehensive income for the period	
		%		%		%		%		%		%
Year ended March 31, 2018	5,041,978	6.2	962,793	5.5	955,147	6.6	661,196	2.9	572,528	4.7	675,961	8.6
Year ended March 31, 2017	4,748,259	6.3	912,976	9.7	895,897	9.5	642,615	13.4	546,658	10.5	622,156	18.1

	Basic earnings per share	Diluted earnings per share	Ratio of net income to equity, attributable to owners of the parent	Ratio of income before income tax to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2018	235.54	235.45	15.6	14.9	19.1
Year ended March 31, 2017	221.65	221.60	15.9	14.8	19.2

Reference: Equity in net income (losses) of affiliates
Year ended March 31, 2018 : 4,592million yen Year ended March 31, 2017 : 2,755 million yen

(2) Consolidated Financial Positions

	Total Assets	Total Equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity per share attributable to owners of the parent
				%	Yen
As of March 31, 2018	6,574,555	4,131,257	3,773,703	57.4	1,568.84
As of March 31, 2017	6,263,826	3,849,133	3,554,423	56.7	1,446.15

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents
Year ended March 31, 2018	1,061,405	(633,847)	(453,168)	200,834
Year ended March 31, 2017	1,161,074	(637,225)	(485,784)	226,607

2. Dividends

	Dividends per Share					Total Dividends for the Year	Payout Ratio	Ratio of dividend to equity attributable to owners of the parent
	1st Quarter End	2nd Quarter End	3rd Quarter End	Fiscal Year End	Total			
	Yen	Yen	Yen	Yen	Yen		%	%
Year ended March 31, 2017	-	40.00	-	45.00	85.00	208,917	38.3	6.1
Year ended March 31, 2018	-	45.00	-	45.00	90.00	217,339	38.2	6.0
Year ending March 31, 2019 (forecast)	-	50.00	-	50.00	100.00		38.8	

3. Consolidated Financial Results Forecast for the Year ending March 31, 2019 (April 1, 2018 - March 31, 2019)

(Percentage represents comparison to previous fiscal year)

	Operating Revenues		Operating Income		Profit for the Period attributable to owners of the parent		Basic earnings per share
		%		%		%	Yen
Entire Fiscal Year	5,150,000	2.1	1,020,000	5.9	620,000	8.3	257.75

Notes

(1) Changes in significant consolidated subsidiaries (which resulted in changes in scope of consolidation): None

(2) Changes in accounting policies, accounting estimates

1) Changes in accounting policies required under IFRSs: None

2) Other changes in accounting policies: None

3) Changes in accounting estimates: None

(3) Numbers of Outstanding Shares (Common Stock)

1) Number of shares outstanding (inclusive of treasury stock)	As of March 31, 2018	2,587,213,525
	As of March 31, 2017	2,620,494,257
2) Number of treasury stock	As of March 31, 2018	181,809,302
	As of March 31, 2017	162,641,408
3) Number of weighted average common stock outstanding (cumulative for all quarters)	For the year ended March 31, 2018	2,430,661,810
	For the year ended March 31, 2017	2,466,293,571

Note: The 1,672,702 shares of the Company's stock owned by the executive compensation BIP Trust account and the stock-granting ESOP Trust account are included in the total number of treasury stock as of March 31, 2018.

This earnings report is unaudited

Explanation for appropriate use of forecasts and other notes

1. The forward-looking statements such as operational forecasts contained in this statements summary are based on the information currently available to KDDI and certain assumptions which are regarded as legitimate. Actual results may differ significantly from these forecasts due to various factors. Please refer to P.9 "1. Consolidated Business Results (4) Outlook for the Year ending March 31, 2018" under [the Attachment] for the assumptions used and other notes.

2. On May 10, 2018, KDDI will hold a financial result briefing for the institutional investors and analysts. Presentation materials will be webcasted on the same time as the release of this earnings report, and the live presentation and Q&A summary will be also posted on our website immediately after the commencement of the financial result briefing. In addition to the above, KDDI holds the briefing and the presentations on our business for the individual investors timely. For the schedule and details, please check our website.

[the Attachment]

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1. Overview of Consolidated Business Results

(1) Overview of Consolidated Operating Results

1) Results Overview

Industry Trends and KDDI's Position

In the Japanese telecommunications market, the services mobile phone operators offer are growing more similar, and MVNO operators are increasingly promoting inexpensive SIM services. To secure new sources of earnings, telecommunications carriers are expanding their operations in domains other than telecommunications services, and their business strategies are entering an era of major change in which they are looking ahead to competition with non-telecommunications carriers. In addition, the development of technologies such as the Internet of Things (IoT) and artificial intelligence (AI) is ushering in a new era for the business environment in the telecommunications market.

In response to these changes in the business environment, KDDI is working to become the preferred choice of customers by accelerating its transformation into a business providing customer experience value which goes further than expected based on "Customer Perspective" and "Innovation."

In Japan, KDDI aims to work in the telecommunications domain to realize sustainable growth in the domestic telecommunications business by maximizing "number of au users (IDs) × ARPA" by fully advancing our initiatives to promote smartphones and tablets and boost our response to the IoT, and intensifying efforts to create new customer experience value in coordination with various devices, and other means. At the same time, in addition to au, we will promote the MVNO business with UQ Communications Inc., Jupiter Telecommunications Co., Ltd., and BIGLOBE Inc. and work to expand the Group's number of "mobile IDs" going forward.

During the fiscal year under review, in July 2017 we started providing the "au Pitatto Plan" and "au Flat Plan" payment plans, which are tailored to customers' data communication usage patterns to provide greater satisfaction to customers. These have been well received by many customers, with subscriber numbers surpassing 6.8 million at the fiscal year-end. In addition, in August 2017, we made SORACOM, INC. (SORACOM) a consolidated subsidiary. SORACOM is a leading company in the IoT field. We will leverage SORACOM's accumulated knowledge and customer base in the field of IoT/M2M to create new a IoT business. With regard to the 5G next-generation mobile telecommunications system, we will work with a wide range of partners to accelerate technology testing and drive the creation of new services leveraging 5G, aiming for commercialization in 2020.

In the non-telecommunications domain, KDDI is aiming to achieve "integration of telecommunications and life design." In addition to the traditional telecommunication services, we will enhance our "Life design" services including commerce, financing, energy, entertainment, and education to actively propose new value to customers. In January 2018, KDDI made leading foreign language education company AEON Holdings Corporation of Japan (AEON HD) a consolidated subsidiary, thereby entering the education business. We plan to increase transaction volume by growing our commerce business, such as "Wowma!", and our settlement business, such as "au WALLET Card." We also plan to expand the "au Economic Zone" to the maximum by continuing to propose diverse life design services to customers by means of the expansion of the energy business, such as "au Denki" and the establishment of the financing business.

Overseas, in our telecommunications business in emerging countries, KDDI's consolidated subsidiary, KDDI Summit Global Myanmar Co., Ltd. is jointly working with Myanma Posts & Telecommunications (MPT), the country's nationally operated telecommunications partner, in the Myanmar telecommunications business. We will make a focused effort to build this operation into a pillar of our global business. In addition, we will seek further growth in MobiCom Corporation LLC, which has the largest share of mobile phone subscribers in Mongolia, with its introduction of 4G LTE services. Furthermore, in addition to its emerging markets business, in data center and other ICT businesses for corporate customers, mainly in Europe, KDDI will continue to reinforce its infrastructure to expand its global business.

Financial Results

For the year ended March 31, 2018

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)	Increase (Decrease)%
Operating revenue	4,748,259	5,041,978	293,718	6.2
Cost of sales	2,669,678	2,821,803	152,125	5.7
Gross profit	2,078,582	2,220,175	141,593	6.8
Selling, general and administrative expenses	1,173,562	1,271,215	97,653	8.3
Other income and expense (Net)	5,202	9,241	4,039	77.7
Share of profit(loss) of investments accounted for using the equity method	2,755	4,592	1,837	66.7
Operating income	912,976	962,793	49,816	5.5
Finance income and cost (Net)	(11,562)	(7,950)	3,612	—
Other non-operating profit and loss (Net)	(5,517)	305	5,822	—
Profit for the period before income tax	895,897	955,147	59,250	6.6
Income tax	253,282	293,951	40,669	16.1
Profit for the period	642,615	661,196	18,581	2.9
Attributable to owners of the parent	546,658	572,528	25,870	4.7
Attributable to non-controlling interests	95,957	88,668	(7,289)	(7.6)

During the fiscal year ended March 31, 2018, operating revenue rose by 6.2% to ¥5,041,978 million, reflecting an increase in mobile communications revenues, as well as increases in revenue due to expansion of the Life Design Business including the energy, commerce and settlement businesses to maximize the “au Economic Zone,” as well as increased revenue in the Myanmar business.
Operating income increased by 5.5% to ¥962,793 million mainly due to an increase in sales despite increased costs in the commerce and settlements business and increased marketing expenses.
Profit for the period attributable to owners of the parent rose by 4.7% to ¥572,528 million due to the increase in operating income.

2) Results by Business Segment

Personal Services

The Personal Services segment mainly provides mobile and fixed-line communications services for individual customers in Japan, chiefly under the "au" brand, and sells multi-devices such as various smartphones and tablets. In addition, in fixed-line communications, our services include convenient "au HIKARI" brand FTTH services such as in-home Internet, telephone, and TV services. We also provide CATV and other services. Moreover, the KDDI Group organically links Wi-Fi into its multi-network to efficiently create a high quality social infrastructure and provide a seamless communication environment.

In the telecommunications domain, during the fiscal year under review we worked to expand Group's "number of mobile IDs" by expanding sales of the "au Smart Value" set discount and promoting the MVNO business with UQ Communications Inc., Jupiter Telecommunications Co., Ltd., and BIGLOBE Inc. The new payment plans, "au Pitatto Plan" and "au Flat Plan," achieved steady growth in subscribers, passing 6.8 million subscribers at fiscal year end. On March 1, 2018, we started providing next-generation ultra high-speed Internet services "au Hikari Home 10 Giga" and "au Hikari Home 5 Giga," designed to meet the requirements of high-speed, large volume Internet applications such as video streaming services, high image quality 4K and 8K video, and virtual reality (VR). We have been taking other measures to increase customer experience value even further. For example, on March 28, 2018, we started provision of high-speed communication services with peak transmission speeds of up to 112.5 Mbps[*1] on our 4G LTE network in certain areas of Tokyo, Kanagawa, Saitama, Chiba, Aichi, Osaka, Kyoto, and Hyogo Prefectures[*2].

In the non-telecommunications domain, where we aim to achieve "integration of telecommunications and life design," we are taking steps to maximize the expansion of the "au Economic Zone." These include promoting the "au WALLET Market," which maximizes the potential of au shops to serve as customer contact points, and the energy business. We will also provide ICT-based services at our consolidated subsidiary AEON HD in the education market.

Operating performance in the Personal Services segment for the fiscal year ended March 31, 2018 is described below.

*1. Maximum transmission speeds differ depending on the area of use and the user device. The telecommunication speed is the maximum value for the technology standard and does not represent the actual speed in use. It may be reduced by the customer's usage environment, the condition of lines, and other factors.

*2 Currently provided certain areas within Tokyo, Kanagawa, Saitama, Chiba, Aichi, Osaka, Kyoto, and Hyogo prefectures. The coverage areas will be expanded in stages going forward. Coverage areas may differ depending on the device model and frequency bandwidth

Results

For the year ended March 31, 2018

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)	Increase (Decrease)%
Operating Revenue	3,632,969	3,899,605	266,635	7.3
Operating Income	711,087	732,931	21,844	3.1

During the fiscal year ended March 31, 2018, operating revenue rose by 7.3% to ¥3,899,605 million, mainly due to increases in mobile communications revenues and revenues from the energy business.

Operating income rose by 3.1% year on year to ¥732,931 million due to an increase in sales despiten increases in expenses from the energy business and marketing expenses for customer acquisitions.

Value Services

In the Value Services segment, KDDI is providing commerce, financing, settlement, entertainment, and other value-added services and taking various steps to maximize the expansion of the “au Economic Zone” and expand business in new business domains with the aim of achieving “integration of telecommunications and life design.”
During the current fiscal year, KDDI will continue working to increase value-added ARPA and transaction volumes by strengthening “au Smart Pass Premium,” as well as its commerce and settlement businesses. The “au Smart Pass Premium” service is seeing a steady increase in membership, which surpassed 4 million in March 2018, due to the provision of exclusive member benefits in the “Student Discount Campaign,” “Santaro Day” program and other initiatives. In the commerce business, we concluded a capital and business alliance with video media business operator Every, Inc. in March 2018, with a view to entering the live commerce domain, which is expected to see market expansion going forward. In the financing business, we launched KDDI Asset Management Company, Limited as a joint venture with Daiwa Securities Group Inc. to support customers’ asset formation. In the settlements business, the number of “au WALLET Cards” issued increased steadily, with the transaction volume of au WALLET settlements exceeding ¥1 trillion as of March 2018.
Furthermore, we are accelerating our initiatives to create new businesses through links with various venture companies. In March 2018 we concluded a capital and business alliance with social, healthcare and nursing care linking platform provider Embrace Co., Ltd., aiming to support further use of IT on the frontlines of healthcare and nursing care.
Operating performance in the Value Services segment for the fiscal year ended March 31, 2018 is described below.

Results

For the year ended March 31, 2018

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)	Increase (Decrease)%
Operating Revenue	451,058	521,736	70,678	15.7
Operating Income	95,894	103,986	8,092	8.4

During the fiscal year ended March 31, 2018, operating revenue rose by 15.7% to ¥521,736 million, mainly reflecting an increase revenues of “au Smart Pass” and “au Smart Pass Premium”, increase revenues in the commerce business and the settlement business resulting from “au WALLET prepaid credit card.”

Due to the operating revenue increase, operating income grew by 8.4% year on year to ¥103,986 million, even though expenses increased in the commerce and the settlement business.

* The name of segment of “Value” is changed to “Life Design” from fiscal year ending March 31, 2019.

Business Services

In the Business Services segment, we provide smartphones, tablets and other mobile devices as well as diverse solutions such as networks, applications and cloud services, to customers ranging from small and medium-sized to large companies. For small and medium-sized corporate customers, our consolidated subsidiary, the KDDI MATOMETE OFFICE GROUP is building a regional support network offering close contact throughout Japan.
In January 2018, in response to the arrival of the IoT era, where things are connected with the Internet, KDDI started providing the cellular LPWA telecommunication service, "KDDI IoT Telecommunication Service LPWA* (LTE-M)," which realizes low-cost IoT communication with low power consumption over a wide area, to corporate customers to enable use of the IoT in diverse fields such as smart meters for gas and water supply, logistics and wearable devices.
We promoted collaborative business with various partners and in January started operations at KDDI Digital Design Inc., which was established as a joint venture with Nomura Research Institute, Ltd. to swiftly realize customers' digital transformation strategies from formulation to execution. On February 19, we established KDDI Digital Security Inc. as a joint venture with a leading company in the cyber security field, LAC Co., Ltd., to provide one-stop support ranging from networks to security.
Looking ahead, we will contribute even more to the development and expansion of our corporate customers' businesses, and we will work on business innovation with the goal of being our customers preferred choice as a true business partner.
Operating performance in the Business Services segment for the fiscal year ended March 31, 2018, is described below.

* Abbreviation for "Low Power Wide Area." A general term for low-power wireless communication technologies covering a wide area.

Results

For the year ended March 31, 2018

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)	Increase (Decrease)%
Operating Revenue	710,170	749,971	39,801	5.6
Operating Income	76,053	84,467	8,414	11.1

During the fiscal year ended March 31, 2018, operating revenue increased by 5.6% to ¥749,971 million, mainly due to higher revenues from increases in solution sales and handset sales, despite lower telecommunications service revenue.

Operating income rose by 11.1% year on year to ¥84,467 million, mainly due to an increase in operating revenues, despite increases in telecommunications facility fees and handset procurement costs.

Global Services

The Global Services segment is working aggressively to expand the consumer businesses in Myanmar and other overseas countries, and to provide one-stop ICT solutions to corporate customers, centered on our high connectivity "TELEHOUSE" data centers. Furthermore, we provide voice and data business to more than 600 telecommunications carriers around the world.

During the fiscal year under review, we made aggressive capital investments in the consumer business aimed at expanding our coverage area and increasing speeds in a bid to improve our services. In the Myanmar mobile telecommunication business, we introduced carrier aggregation*1 technology to our 1.8 GHz band LTE services to achieve network speeds of up to 300 Mbps*2.

In the data center business, we announced in February that we would start providing AWS Direct Connect at the TELEHOUSE London Docklands data center of TELEHOUSE EUROPE, enabling direct wired connection within the site. As a result, customers can now build secure cloud environments with high proximity and adjacency together with low latency.

Operating performance in the Global Services segment for the fiscal year ended March 31, 2018 is described below.

*1. Carrier aggregation makes simultaneous use of multiple bandwidths, aggregating them to conduct data communication, thereby increasing the maximum downlink communication speed. Using multiple frequency ranges in different propagation environments has the benefits of augmenting communications quality and dispersing the load efficiently across multiple frequencies.

*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. Telecommunication speed may be reduced even within the coverage area by the customer's usage environment, the condition of lines, and other factors.

Results

For the year ended March 31, 2018

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)	Increase (Decrease)%
Operating Revenue	277,204	248,702	(28,503)	(10.3)
Operating Income	24,157	31,907	7,750	32.1

During the fiscal year ended March 31, 2018, operating revenue decreased by 10.3% year on year to ¥248,702 million. This reflected the impact of decreased revenue resulting from restructuring of unprofitable businesses which has made continuously from previous year, meanwhile revenue in the Myanmar and "TELEHOUSE" data center businesses increased.

Operating income increased by 32.1% year on year to ¥31,907 million, reflecting the solid increase in operating revenue in the Myanmar and "TELEHOUSE" data center businesses.

* Company and product names mentioned in (1) Overview of Consolidated Operating Results are registered trademarks or trademarks of their respective companies.

(2) Overview of Consolidated Financial Position

(Amount unit: Millions of yen)

	As of March 31, 2017	As of March 31, 2018	Increase (Decrease)
Total assets	6,263,826	6,574,555	310,729
Equity attributable to owners of the parent	3,554,423	3,773,703	219,280
Ratio of equity attributable to owners of the parent to total assets	% 56.7	% 57.4	% 0.7
Equity attributable to owners of the parent per share	Yen 1,446.15	Yen 1,568.84	Yen 122.69
Interest-bearing debt	1,151,650	1,118,616	(33,034)

(Assets)

Total assets increased by ¥310,729 million to ¥6,574,555 million as of March 31, 2018. Although cash and cash equivalents and deferred tax assets decreased, trade and other receivables and other long-term financial assets increased.

(Liabilities)

Total liabilities increased by ¥28,605 million to ¥2,443,298 million as of March 31, 2018. Although other long-term financial liabilities decreased, trade and other payables and borrowings and bonds payable increased.

(Equity)

Total equity increased to ¥4,131,257 million, mainly due to increased retained earnings.

As a result, ratio of equity attributable to owners of the parent to total assets increased from 56.7% to 57.4% as of March 31, 2018.

(3) Overview of Consolidated Cash Flows

(Amount unit: Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018	Increase (Decrease)
Net cash provided by (used in) operating activities	1,161,074	1,061,405	(99,669)
Net cash provided by (used in) investing activities	(637,225)	(633,847)	3,378
Free cash flows (Note)	523,849	427,558	(96,291)
Net cash provided by (used in) financing activities	(485,784)	(453,168)	32,616
Effect of exchange rate changes on cash and cash equivalents	(3,545)	(163)	3,381
Net increase (decrease) in cash and cash equivalents	34,520	(25,773)	(60,294)
Cash and cash equivalents at the beginning of the period	192,087	226,607	34,520
Cash and cash equivalents at the end of period	226,607	200,834	(25,773)

Note Free cash flows are calculated as the sum of "net cash provided by (used in) operating activities" and "net cash provided by (used in) investing activities."

Operating activities provided net cash of ¥ 1,061,405 million. This includes ¥ 955,147 million of profit for the year before income tax, ¥ 546,815 million of depreciation and amortization, ¥ 302,783 million of income tax paid and ¥ 219,125 million of increase in trade and other receivables.

Investing activities used net cash of ¥ 633,847 million. This includes ¥ 361,102 million of purchases of property, plant and equipment and ¥ 199,776 million of purchases of intangible assets.

Financial activities used net cash of ¥ 453,168 million. This includes ¥ 219,885 million of cash dividends paid,

¥ 150,000 million of payments from purchase of treasury stock, ¥95,000 million of proceeds from issuance of bonds and long-term borrowings and ¥95,000 million of purchase of debt instruments.

As a result, the total amount of cash and cash equivalents as of March 31, 2018, decreased by ¥ 25,773 million from March 31, 2017 to ¥ 200,834 million.

(Reference) Cash Flows related indicators

	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018
Ratio of equity attributable to owners of the parent to total assets (%)	54.5	56.3	56.7	57.4
Ratio of equity attributable to owners of the parent to total assets on a market capitalization basis (%)	121.1	127.3	114.7	99.4
Debt repayment period (year)	1.2	1.4	1.0	1.1
Interest coverage ratio (times)	86.3	56.7	124.5	62.3

Notes

- Ratio of equity attributable to owners of the parent to total assets: Equity attributable to owners of the parent / Total assets
- Ratio of equity attributable to owners of the parent to total assets on a market capitalization basis: Market capitalization / Total assets
- Debt repayment period: Interest bearing debt / Cash flows
- Interest coverage ratio: Cash flows / Interest payments

- Market capitalization is calculated by multiplying the closing stock price at fiscal year-end by the number of shares outstanding (not including treasury stock).
- Cash flows from operating activities in consolidated statement of cash flows are used for operating cash flows.
- Figures for interest-bearing debt cover the amounts of loans and bonds that are recognized in consolidated statement of financial position and liabilities upon which interest is paid.
  Further, regarding interest payments, the amount of interest expenses paid in consolidated statement of cash flows is used.
- The date for transition to IFRS is April 1, 2014, and IFRS has been adopted from the year ended March 31, 2016. Therefore, data from the year ended March 31, 2014 and earlier has not been presented.
- During the first quarter of the fiscal year ending March 31, 2017, the KDDI Group finalized the provisional accounting treatment for business combinations. As a result, figures as of March 31, 2016 reflect the revision of the initially allocated amounts of acquisition price.

(4) Outlook for the Year ending March 31, 2019

The KDDI Group is forecasting an increase in operating revenue to ¥5,150,000 million, mainly driven by an increase in value ARPA revenue in line with the expansion of the au Economic Zone, and the impact of the conversion of AEON HD into a consolidated subsidiary.

Operating income is forecast to increase to ¥1,020,000 million, mainly reflecting the increase in operating revenue in addition to curbs on cost of handset sales in the Personal segment and an increase in segment profits in the Business segment. Profit for the year attributable to owners of the parent is forecast to increase to ¥620,000 million.

(5) Profit Distribution

Regarding the return of profits to shareholders as one of the priorities of its business management, KDDI has a basic policy of continuing to pay stable dividends while maintaining financial soundness. The KDDI's policy is to maintain a consolidated payout ratio of more than 35% range, while taking into account investment for sustainable growth.

Regarding dividend payments for the year ended March 31, 2018, KDDI has already paid an interim cash dividend of ¥45.00 per share. In order to express gratitude to its shareholders for their constant support, and in

light of an overall consideration of business development aimed at improving future business results, KDDI plans to pay an increased year-end cash dividend of ¥45.00 per share.

Further, for the year ending March 31, 2019, KDDI plans to pay out ¥50.00 per share for both the interim and year-end cash dividend, making the full-year amount ¥100.00 per share.

(6) Business Risks

As the KDDI Group pursue its business, there are various risks involved. The KDDI Group take every effort to reduce these risks by preventing and hedging them.

However, there are various uncertainties which could have negative impacts on the KDDI Group's brand image, liability, financial position and/or earnings performance such as;

- subscription growth trends out of line with the KDDI Group expectations due to competition, rival technologies and rapid changes in markets and the operating environment
- breach of obligations regarding communications security and protection of customer privacy (customer's personal information)
- natural disasters accidents and power restrictions caused by earthquake, tsunami, typhoon, etc.
- revision or repeal of laws and ordinances governing telecommunications and so forth, together with related government policies
- general legal and regulatory, litigation and patents, personnel retention and training, retirement benefits, asset-impairment accounting, telecommunications sector consolidation and business restructuring in the KDDI Group

2. The Status of the Group

The KDDI Group comprises KDDI, 178 consolidated subsidiaries (Japan: 105 companies, Overseas: 73 companies), and 36 equity-method affiliates (Japan: 29 companies, Overseas: 7 companies). The KDDI Group's main business lines are "Personal," "Value," "Business," and "Global."

The status of KDDI, consolidated subsidiaries and equity-method affiliates within the Companies business and their relationships with segments are as shown below.

<Personal>

Principal services	For individuals and households communications services (au mobile phone, FTTH, CATV), energy, education and others.	
Major subsidiaries and affiliates	〔The parent〕 〔Consolidated subsidiaries〕	KDDI CORPORATION OKINAWA CELLULAR TELEPHONE COMPANY [JASDAQ], Jupiter Telecommunications Co., Ltd, UQ Communications Inc. BIGLOBE Inc., AEON Holdings Corporation of Japan, Chubu Telecommunications Co., INC., Wire and Wireless Co.,Ltd.

<Value>※

Principal services	For individuals financial ,settlement, entertainment services, and others	
Major subsidiaries and affiliates	〔The parent〕 〔Consolidated subsidiaries〕 〔Equity-method affiliates〕	KDDI CORPORATION KDDI FINANCIAL SERVICE CORPORATION, Syn.Holdings, Inc., WebMoney Corporation, Jupiter Shop Channel Co.,Ltd., Jupiter Entertainment Co., Ltd. Jibun Bank Corporation, KKBOX Inc.

※The name of segment of "Value" is changed to "Life Design" from fiscal year ending March 31, 2019.

<Business>

Principal services	For companies communications services (ICT solution, data center and others)	
Major subsidiaries and affiliates	〔The parent〕 〔Consolidated subsidiaries〕 〔Equity-method affiliates〕	KDDI CORPORATION Chubu Telecommunications Co., INC., KDDI MATOMETE OFFICE CORPORATION, KDDI Evolva Inc., Japan Internet Exchange Co., Ltd. LAC Co., Ltd. (listed on the JASDAQ market of the Tokyo Stock Exchange)

<Global>

Principal services	For companies and individuals overseas communications services (ICT solution, data center and others)	
Major subsidiaries and affiliates	〔The parent〕 〔Consolidated subsidiaries〕	KDDI CORPORATION KDDI America, Inc., KDDI Europe Limited., KDDI China Corporation, KDDI Singapore Pte Ltd, TELEHOUSE International Corporation of Europe Ltd., KDDI Summit Global Myanmar Co., Ltd., MobiCom Corporation LLC

<Others>

Principal services	Network facilities operation and maintenance, ICT research, development and others	
Major subsidiaries and affiliates	〔The parent〕 〔Consolidated subsidiaries〕 〔Equity-method affiliates〕	KDDI CORPORATION KDDI Engineering Corporation KDDI Research, Inc., KOKUSAI CABLE SHIP Co.,Ltd. Japan Telecommunication Engineering Service Co., Ltd. Kyocera Communication Systems Co., Ltd.

Business schematic diagram of corporate groups are shown as below

KDDI Group

Personal

KDDI CORPORATION
〔Consolidated subsidiaries〕
Okinawa Cellular Telephone Company [JASDAQ] Jupiter Telecommunications Co., Ltd. UQ Communications Inc. BIGLOBE Inc. AEON Holdings Corporation of Japan. Chubu Telecommunications Co., INC., Wire and Wireless Co., Ltd. etc.

For individuals and households communications services and other
・au mobile phone
・FTTH ・CATV
Energy and education.

Value※

KDDI CORPORATION
〔Consolidated subsidiaries〕
KDDI FINANCIAL SERVICE CORPORATION, Syn. Holdings, Inc. WebMoney Corporation, Jupiter Shop Channel Co., Ltd. Jupiter Entertainment Co.,Ltd.
〔Equity-method affiliates〕
Jibun Bank Corporation, KKBOX Inc. etc.

For individuals financial, commerce, settlement and entertainment service.

※The name of segment of "Value" is changed to "Life Design" from fiscal year ending March 31, 2019.

Business

KDDI CORPORATION
〔Consolidated subsidiaries〕
Chubu Telecommunications Co., INC.
KDDI MATOMETE OFFICE CORPORATION
KDDI Evolva Inc., Japan Internet Exchange Co., Ltd.
〔Equity-method affiliates〕
LAC Co., Ltd. [JASDAQ] etc.

For companies communications services
・ICT solution
・data center

Global

KDDI CORPORTION
〔Consolidated subsidiaries〕
KDDI America, Inc., KDDI Europe Limited.
KDDI China Corporation, KDDI Singapore Pte Ltd,
Telehouse International Corporation of Europe Ltd.
KDDI Summit Global Myanmar Co.,Ltd.
MobiCom Corporation LLC etc.

For companies and individuals overseas communications services

Others

〔Consolidated subsidiaries〕
KDDI Engineering Corporation
KDDI Research, Inc.,
KOKUSAI CABLE SHIP Co., Ltd.
Japan Telecommunication Engineering Service Co., Ltd.
〔Equity-method affiliates〕
Kyocera Communication Systems Co., Ltd. etc.

Network facilities operation and maintenance, ICT research and development

Customers

3. Basic Perspective on Selection of Accounting Standards

The KDDI Group has adopted IFRS from the year ending March 31, 2016 to facilitate international comparisons of its financial information and enhance disclosure, thereby making the information it supplies more useful to domestic and overseas investors, as well as its various other stakeholders.

4. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

(Unit: Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Non-current assets :		
Property, plant and equipment	2,428,445	2,437,196
Goodwill	477,873	526,601
Intangible assets	922,478	953,106
Investments accounted for using the equity method	92,371	98,192
Other long-term financial assets	183,081	236,684
Deferred tax assets	124,467	106,050
Other non-current assets	69,085	65,477
Total non-current assets	4,297,800	4,423,306
Current assets :		
Inventories	77,656	89,207
Trade and other receivables	1,518,070	1,695,403
Other short-term financial assets	16,968	30,173
Income tax receivables	10,715	2,101
Other current assets	116,009	133,531
Cash and cash equivalents	226,607	200,834
Total current assets	1,966,025	2,151,249
Total assets	6,263,826	6,574,555

(Unit: Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities and Equity		
Liabilities		
Non-current liabilities :		
Borrowings and bonds payable	909,673	704,278
Other long-term financial liabilities	176,794	68,478
Retirement benefit liabilities	21,800	12,010
Deferred tax liabilities	75,919	80,298
Provisions	7,725	10,754
Other non-current liabilities	141,290	129,679
Total non-current liabilities	1,333,201	1,005,498
Current liabilities :		
Borrowings and bonds payable	57,805	329,559
Trade and other payables	537,830	610,726
Other short-term financial liabilities	24,373	24,717
Income taxes payables	153,950	143,635
Provisions	26,887	31,231
Other current liabilities	280,646	297,932
Total current liabilities	1,081,491	1,437,800
Total liabilities	2,414,692	2,443,298
Equity		
Equity attributable to owners of the parent		
Common stock	141,852	141,852
Capital surplus	298,046	289,578
Treasury stock	(237,014)	(338,254)
Retained earnings	3,354,140	3,672,344
Accumulated other comprehensive income	(2,601)	8,183
Total equity attributable to owners of the parent	3,554,423	3,773,703
Non-controlling interests	294,710	357,554
Total equity	3,849,133	4,131,257
Total liabilities and equity	6,263,826	6,574,555

(2) Consolidated Statement of Income

(Unit: Millions of yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Operating revenue	4,748,259	5,041,978
Cost of sales	2,669,678	2,821,803
Gross profit	2,078,582	2,220,175
Selling, general and administrative expenses	1,173,562	1,271,215
Other income	11,244	12,041
Other expense	6,042	2,801
Share of profit of investments accounted for using the equity method	2,755	4,592
Operating income	912,976	962,793
Finance income	1,711	4,035
Finance cost	13,273	11,985
Other non-operating profit and loss	(5,517)	305
Profit for the year before income tax	895,897	955,147
Income tax	253,282	293,951
Profit for the year	642,615	661,196
Profit for the year attributable to:		
Owners of the parent	546,658	572,528
Non-controlling interests	95,957	88,668
Profit for the year	642,615	661,196
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	221.65	235.54
Diluted earnings per share(yen)	221.60	235.45

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Profit for the year	642,615	661,196
Other comprehensive income		
Items that will not be transferred subsequently to profit or loss		
Remeasurements of defined benefit pension plans	(3,083)	4,132
Changes measured in fair value of financial assets through other comprehensive income	(3,444)	8,359
Share of other comprehensive income of investments accounted for using the equity method	(1,635)	(148)
Total	(8,162)	12,342
Items that may be subsequently reclassified to profit or loss		
Changes in fair value of cash flow hedge	1,457	933
Translation differences on foreign operations	(13,581)	1,515
Share of other comprehensive income of investments accounted for using the equity method	(173)	(25)
Total	(12,297)	2,423
Total other comprehensive income	(20,459)	14,766
Total comprehensive income for the year	622,156	675,961
Total comprehensive income for the year attributable to:		
Owners of the parent	527,581	588,324
Non-controlling interests	94,575	87,638
Total	622,156	675,961

Items in the statement above are presented net of tax.

(4) Consolidated Statement of Changes in Equity

For the year ended March 31, 2017

(Unit: Millions of yen)

	Equity attributable to owners of the parent							
	Common stock	Capital surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
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	–	–	–	(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	–	(57)	(100,000)	–	–	(100,056)	–	(100,056)
Retirement of treasury stock	–	(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 March 31, 2017	141,852	298,046	(237,014)	3,354,140	(2,601)	3,554,423	294,710	3,849,133

For the year ended March 31, 2018

(Unit: Millions of yen)

	Equity attributable to owners of the parent							
	Common stock	Capital surplus	Treasury stock	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
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	–	–	–	(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	–	(50)	(150,000)	–	–	(150,050)	–	(150,050)
Retirement of treasury stock	–	(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

(5) Consolidated Statement of Cash Flows

(Unit: Millions of yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from operating activities		
Profit for the year before income tax	895,897	955,147
Depreciation and amortization	545,194	546,815
Impairment loss	37,488	13,069
Share of (profit) loss of investments accounted for using the equity method	(2,755)	(4,592)
Loss (gain) on sales of non-current assets	137	149
Interest and dividends income	(1,705)	(3,527)
Interest expenses	10,872	9,701
(Increase) decrease in trade and other receivables	(171,903)	(219,125)
Increase (decrease) in trade and other payables	69,576	44,914
(Increase) decrease in inventories	2,064	(12,185)
Increase (decrease) in retirement benefit liabilities	1,545	(9,790)
Other	26,195	43,064
Cash generated from operations	1,412,605	1,363,639
Interest and dividends received	4,823	6,149
Interest paid	(9,330)	(17,048)
Income tax paid	(256,066)	(302,783)
Income tax refund	9,041	11,447
Net cash provided by (used in) operating activities	1,161,074	1,061,405

(Unit: Millions of yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Cash flows from investing activities		
Purchases of property, plant and equipment	(338,749)	(361,102)
Proceeds from sales of property, plant and equipment	358	1,299
Purchases of intangible assets	(180,823)	(199,776)
Purchases of other financial assets	(54,165)	(7,002)
Proceeds from sales/redemption of other financial assets	357	2,565
Acquisitions of control over subsidiaries	(61,711)	(66,751)
Purchases of stocks of associates	(23,073)	(4,688)
Proceeds from sales of stocks of subsidiaries and associates	18,711	1,898
Other	1,871	(289)
Net cash provided by (used in) investing activities	(637,225)	(633,847)
Cash flows from financing activities		
Net increase (decrease) of short-term borrowings	(66,643)	27,574
Proceeds from issuance of bonds and long-term borrowings	7,000	95,000
Payments from redemption of bonds and repayments of long-term borrowings	(74,963)	(56,101)
Repayments of lease obligations	(29,024)	(27,210)
Payments from purchase of subsidiaries' equity from non-controlling interests	(1,583)	(1,158)
Proceeds from stock issuance to non-controlling interests	6,139	22,164
Payments from purchase of treasury stock	(100,000)	(150,000)
Cash dividends paid	(185,430)	(219,885)
Cash dividends paid to non-controlling interests	(41,314)	(48,553)
Purchase of debt instruments (Note)	–	(95,000)
Other	32	(1)
Net cash provided by (used in) financing activities	(485,784)	(453,168)
Effect of exchange rate changes on cash and cash equivalents	(3,545)	(163)
Net increase (decrease) in cash and cash equivalents	34,520	(25,773)
Cash and cash equivalents at the beginning of the year	192,087	226,607
Cash and cash equivalents at the end of the year	226,607	200,834

(Note) 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).

(6) Going Concern Assumption

None

(7) Notes to Consolidated Financial Statements

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, Sinjuku-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. 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 segments” of “4. Segment information.”

2. Basis of preparation

(1) Compliance of consolidated financial statements with 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.

(4) Use of estimates and judgement

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgments, 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 judgments, 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 and residual values 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 in principle 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 sales volumes fail to meet initial projected volumes due to changes in the business environment etc., or should actual useful life in the future be less than the original estimate, there is a risk that amortization expenses for the reporting period may increase.

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

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 judgments 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 “3. Significant accounting policies (9) Impairment of property, plant and equipment, goodwill and intangible assets” and “5. 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 those outside the normal operating cycle are calculated at NRV that reflects future demand and market trends. The Group may experience substantial 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 “3. Significant accounting policies (15) 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 “3. Significant accounting policies (25) 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 are described in “3. Significant accounting policies (16) 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 amounts of recognizing the allowance for receivables on the consolidated financial statements in future periods.

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

ⅶ. Valuation technique of financial assets at fair value without quoted prices in active markets.

The Group has used valuation techniques to utilize the inputs unobservable in the market when assessing the fair value of certain financial instruments. 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 and amount related to fair value of financial assets are described in “3. Significant accounting policies (11) Financial instruments and (13) Derivatives and hedge accounting”.

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 recognized provisions are stated in “3. Significant accounting policies (17) 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).

(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.
IFRS16	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.
IFRS17	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.
IFRIC22	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
IFRIC23	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.

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 IFRS15 "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 of multiple-element arrangements (e.g., mobile contract plus handset) with direct handset sales to customer, the revenue from a contract will be allocated to each distinct good or service provided on a relative standalone selling price basis. This leads to the recognition of what is known as a contract liability, that is, a payable arising from the customer contract that has not yet legally come into existence, in the statement of financial position.
- In the future, a part of expenses for sales commissions (customer acquisition costs) will be capitalized and allocated over the estimated customer retention period. This leads to an increase in total assets in the statement of financial position.

Also, IFRS 15 may have an impact on other transactions though, no material impact will be assumed from our current evaluations for implementation of IFRS15.

IFRS 16 : Leases
In January 2016, the IASB issued IFRS 16 "Leases". IFRS 16 requires to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for almost all lease contracts, which is a significant change compared to IAS 17, under which lessees were required to make a distinction between a finance lease and an operating lease. The Company is currently evaluating the impact of the application and estimate is currently not available

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.

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 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 acquire 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 profit 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 " (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.

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) Debt instruments measured at fair value through other comprehensive income

A debt instrument that meets both the following condition is classified as a financial asset measured at fair value through other comprehensive income.

- The financial asset is held within the Group's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- 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 debt 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 transferred to retained earnings through profit or loss when debt instrument is derecognized.

(iii) 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.

A 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.

(iv) 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 their substances 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 provision for doubtful receivables (non-trade receivables) 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 such remaining life of the financial assets are recognized as provision for doubtful receivables. 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 provision 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 on the date on 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;

(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 profit 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 profit 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 profits 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 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 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 costs are 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 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, as 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 a transaction. 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 contents 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 contents service and does not take a 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 considers 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.

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 profit 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. 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 1 April 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 "3.Significant accounting policies". Income of the reporting segments is based on the operating income.

Inter segment transaction price is determined by taking into 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

(Unit: Millions of yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Amounts on the consolidated financial statements
	Personal	Value	Business	Global	Sub-total				
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(loss)	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

(Note 1) Business segment "Other" does not constitute reporting segments, and includes construction and maintenance of facilities, and research and development of leading-edge technology.

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

For the year ended March 31, 2018

(Unit: Millions of yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Amounts on the consolidated financial statements
	Personal	Value	Business	Global	Sub-total				
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

(Note 1) Business segment “Other” does not constitute reporting segments, and includes construction and maintenance of facilities, and research and development of leading-edge technology.

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

5. Impairment of property, plant and equipment, goodwill and intangible assets

The Group recognized impairment loss of 37,488 million yen and 13,069 million yen 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

(Unit :millions of yen)

Location	Use	Class	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.

For the year ended March 31, 2018

(Unit :millions of yen)

Location	Use	Class	Impairment loss
Communication facilities (Tokyo other)	Mainly, telecommunications business	Machinery, Local line facilities and other	10,008

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. 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 for machinery and ¥367 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.

6. Per share information

(1) Basic earnings per share

Basic earnings per share and its calculation basis are as follows:

	For the year ended March 31, 2017	For the year ended March 31, 2018
Profit for the year attributable to owners of the parent (Millions of yen)	546,658	572,528
Number of weighted average common stocks outstanding (Thousands of shares)	2,466,294	2,430,662
Basic earnings per share (Yen)	221.65	235.54

(2) Diluted earnings per share

Diluted earnings per share and its calculation basis are as follows:

(Unit: Millions of yen)

	For the year ended March 31, 2017	For the year ended March 31, 2018
Profit for the year attributable to owners of the parent	546,658	572,528
Adjustment of profit	–	–
Profit used in calculation of diluted earnings per share	546,658	572,528

(Unit: Thousands of shares)

	For the year ended March 31, 2017	For the year ended March 31, 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 diluted weighted average common stocks during the year	2,466,885	2,431,632

	For the year ended March 31, 2017	For the year ended March 31, 2018
Diluted earnings per share (Yen)	221.60	235.45

(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.

7. Business Combination

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 acquire (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 yen

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

		(Unit :millions of yen)
		As of acquisition date (January 22, 2018)
Cash payment		86,173
Total consideration transferred	A	86,173

¥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

		(Unit :millions of yen)
		As of acquisition date (January 22, 2018)
Non-current assets		
Property, plant and equipment (Note 1)		4,443
Intangible assets (Note 1)		23,259
Other non-current assets		4,531
Total non-current assets		32,232
Current assets		
Trade and other receivables (Note 2)		2,056
Cash and cash equivalents		33,593
Other current assets		7,279
Total non-current assets		42,928
Total assets		75,160
Non-current liabilities		
Deferred tax liabilities		7,998
Other non-current liabilities		2,971
Total non-current liabilities		10,969
Current liabilities		
Trade and other payables		11,336
Other current liabilities		3,696
Total current liabilities		15,031
Total liabilities		26,001
Net assets	B	49,159
Goodwill (Note 3)	A - B	37,014

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

(Note 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.

(Note 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 of acquired receivables and other receivables, the total amount of contracts is ¥ 2,056 million and the estimate of the contractual cash flows not expected to be collected at the acquisition date is none.

(Note 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

(Unit :millions of yen)

	As of acquisition date (January 22, 2018)
Cash consideration transferred	(86,173)
Cash and cash equivalents held by the acquiree at the acquisition of control	33,593
Cash payment for the acquisition of control over the subsidiary	(52,580)

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 and ¥ 185 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 and ¥ 664,724 million, respectively.

8. Significant subsequent events

None