Please note that the following is an English translation of the original Japanese version, prepared only for the convenience of shareholders residing outside Japan. In the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.

To Shareholders

Internet Disclosure of the Notice of the 34th Annual Shareholders Meeting

An Overview of the Systems for Ensuring the Appropriate Business Operations of the Business Report and the Operating Status
Notes to Consolidated Financial Statements
Notes to Non-Consolidated Financial Statements
(from April 1, 2017 to March 31, 2018)

KDDI Corporation

"An Overview of the Systems for Ensuring the Appropriate Business Operations of the Business Report and the Operating Status," the "Notes to Consolidated Financial Statements" and the "Notes to Non-Consolidated Financial Statements" are provided to shareholders on the Company's Web site (http://www.kddi.com/english/corporate/ir/stock-rating/meeting/20180620/), pursuant to the provisions of laws and regulations as well as Article 17 of the Company's Articles of Incorporation. "An Overview of the Systems for Ensuring the Appropriate Business Operations of the Business Report and the Operating Status," is part of the Business Report that was audited by Audit & Supervisory Board Members in preparing the Report of Audit. The "Notes to Consolidated Financial Statements" and the "Notes to Non-Consolidated Financial Statements" are part of the Consolidated Financial Statements and the Non-Consolidated Financial Statements that were audited by Audit & Supervisory Board Members and Accounting Auditors in preparing the Reports of Audit.

5. An Overview of the Systems for Ensuring the Appropriate Business Operations of the Business Report and the Operating Status

Systems for Ensuring the Appropriate Business Operations

Based on the provisions of Article 362, Paragraph 5 of the Companies Act, the Board of Directors of KDDI has resolved and publicly announced a Basic Policy for Constructing an Internal Control System. Through this, the Company aims to ensure fairness, transparency, and efficiency in the execution of its corporate duties, as well as the improvement of corporate quality.

1. Corporate Governance

(1) The Board of Directors

The Board of Directors is composed of both internal and outside Directors, who determine important legal matters and business plans, etc. as stipulated by laws and regulations based on the Board of Directors Rules and agenda standards. In addition, the Board of Directors oversees the competent execution of business duties by the Directors themselves.

Information pertaining to the execution of business duties by the Directors must be stored and managed appropriately in accordance with internal rules.

(2) System for executing business operations

1) The Executive Officers' System aims to clarify both the delegation of authority and responsibility system, as well as ensure that operations are executed effectively and efficiently.

2) The Corporate Management Committee, which is composed of Directors and Executive Officers, shall discuss and determine important matters pertaining to the execution of operations, as well as discussing and determining the Board of Directors agenda items, based on the Corporate Management Committee rules.

(3) System for ensuring the effective execution of business duties by Audit & Supervisory Board Members

1) Audit & Supervisory Board Members shall attend the meetings of the Board of Directors and key internal meetings of the Company. In addition, measures shall be taken to enable Audit & Supervisory Board Members to view meeting minutes, circulated documents, contracts, etc.
2) Directors and employees, the Directors of subsidiaries, and the Internal Control Division shall perform timely and appropriate reporting to Audit & Supervisory Board Members to provide the information required by said Members for the execution of their business duties, and, when discovering facts that may cause considerable losses to the Company and its subsidiaries, shall promptly report these to Audit & Supervisory Board Members. In addition, Directors and employees, the Directors of subsidiaries, and the Internal Control Division shall carry out exchanges of ideas with, and collaborate with, Audit & Supervisory Board Members.
3) The Company shall establish an Auditing Office, staffed by full-time employees, to assist the duties of the Audit & Supervisory Board Members. The authority to direct these employees shall reside with the Audit & Supervisory Board Members. The Company shall obtain the prior consent of the Audit & Supervisory Board, or Full-time Audit & Supervisory Board Members specified by the Audit & Supervisory Board, with regard to personnel matters of the Auditing Office.
4) Measures shall be taken to ensure that persons making reports to Audit & Supervisory Board Members are not given disadvantageous treatment due to making such reports.
5) The Company shall comply with the payment of expenses necessary to enable the execution of duties by Audit & Supervisory Board Members, including prepayments.

2. Compliance

(1) All Directors and employees should continuously maintain high ethical standards in accordance with the basic principles set forth in the "KDDI Action Guideline," which should be complied with, and aim to execute their business duties properly.
(2) Firm measures should be taken against antisocial forces, and efforts should be made to sever all such relationships.
(3) Each KDDI Group company shall make efforts to promptly identify and resolve any serious violation of laws and regulations or other compliance-related matters or incidents, at KDDI Group company meetings pertaining to business ethics.
(4) The Company shall aim to appropriately operate a compliance-related internal reporting system

established both internally and externally to the company.

(5) The Company shall strive to improve the understanding and awareness of compliance through both internal and external training and internal enhancement activities.

3. Risk Management for Achieving Business Objectives Fairly and Efficiently

(1) The Company shall stringently conduct business risk analyses and business activity prioritization and appropriately formulate business strategies and business plans at meetings pertaining to business strategy participated in by Directors, with the objective of continuous growth for the KDDI Group. To achieve this, business risk should be monitored monthly at meetings pertaining to performance management, and this performance should be managed thoroughly.

(2) In each Division a person shall be appointed as the person responsible for internal control, and this person shall autonomously promote the following initiatives so that business objectives may be achieved fairly and efficiently.

1) All Divisions, their Directors and employees shall work in cooperation with the Risk Management Division, which regularly identifies and uniformly manages risk information. The KDDI Group's risks shall be managed appropriately and in accordance with internal regulations, and efforts shall be made to achieve business objectives fairly and efficiently.

2) The Company shall examine and formulate measures for minimizing the risk to business as much as possible, in order to respond to events which could have serious and long-term effects on corporate business.

3) In accordance with the internal control reporting system based on the Financial Instruments and Exchange Act, the Company shall implement documentation, assessment and improvement of the state of company-wide internal control and of important business processes on a consolidated basis, with the aim of further improving the reliability of financial reporting.

4) The Company shall aim to maintain and enhance the systems necessary to improve the quality of the business operations of the KDDI Group, including enhancement of the effectiveness and efficiency of business operations and appropriate acquisition, safekeeping and disposal of assets.

(3) As a telecommunications carrier, the Company shall implement the following initiatives:

1) Protecting the privacy of communications
Protecting the privacy of communications is at the very root of the KDDI Group's corporate management, and the Group will abide by this.

2) Information security
The Company aims to manage the company's total information assets, including preventing leaks of customer information and cyber-terrorism of networks for telecommunications services, by formulating measures at meetings pertaining to information security to ensure this security in cooperation with the Directors and employees.

3) Recovering networks and services in times of disaster
In order to minimize as much as possible the risk of a termination or interruption to telecommunications services in the event that a major accident, obstruction or large-scale disaster occurs, the Company shall formulate a Business Continuity Plan (BCP) and implement measures to improve network reliability and prevent the halting of services.
In order to facilitate a prompt recovery in times of emergency or disaster, a Disaster Response Headquarters shall be established as expeditiously as possible.

4. Initiatives relating to working together with stakeholders

(1) The whole company shall make efforts to gain support and trust for all KDDI Group activities, improve customer satisfaction, and strengthen and expand the company's customer base.

1) Through the prompt and appropriate response to customer needs and complaints, the Company shall undertake CX (Customer Experience) activities that aim to improve customers' experience value.

2) In addition to providing customers with safe, secure, high-quality products and services in compliance with the pertinent laws and regulations, information about products and services should be provided in an easy-to-understand format and indicated appropriately, so that customers can select and use the most appropriate product and/or service.

(2) In order to gain the understanding and trust of all stakeholders, transparency of KDDI Group management shall be ensured, and efforts shall be made to further enhance the PR and IR activities of the KDDI Group.

(3) The KDDI Group's business risk shall be fairly identified and disclosed in a timely and appropriate manner at meetings pertaining to information disclosure. In addition, sustainability reports shall be

created and disclosed, centering on those departments promoting sustainability, for matters pertaining to the KDDI Group's social responsibilities, including its environmental efforts and contributions to society.

5. Systems for Ensuring Appropriate Business Operations of the Corporate Group

(1) To ensure the appropriateness of work by subsidiaries, the Company has set forth rules concerning the management of subsidiaries, and has developed a system as follows.

1) The Company shall establish a department to supervise the management of each subsidiary, and will also establish a department with jurisdiction across all subsidiaries, to establish a management and support system for subsidiaries.

2) The Company shall set forth roles for the management of subsidiaries, involving Directors, Audit & Supervisory Board Members, and other employees dispatched to the subsidiaries, and shall ensure efficacy in the governance of subsidiaries.

3) With regard to important decision-making matters within subsidiaries, the Company shall set forth procedures and items for approval in Board of Directors meetings, Corporate Management Committee meetings, etc., and shall establish a management structure for subsidiaries.

4) The Company shall set forth items and procedures for reporting to subsidiaries, and shall establish a collaborative system with subsidiaries.

(2) In each subsidiary, the Company shall appoint a person responsible for internal control as the KDDI Group, shall secure the appropriateness of the work of subsidiaries and appropriately manage risks and engage in measures for risk reduction, and shall strive for the appropriateness and the effective achievement of management targets.

(3) Through a structure for corporate ethics meetings in each subsidiary, the Company shall strive for the early detection and handling of major legal infractions in subsidiaries and of problems and incidents related to compliance, and shall introduce and appropriately operate an internal reporting system for each subsidiary. In addition, the Directors and all employees of subsidiaries shall continuously maintain high ethical standards under the KDDI Code of Business Conduct, and shall ensure systems for the proper execution of duties.

6. Internal Audits

Internal audits are conducted for all aspects of business of the KDDI Group, and the adequacy and effectiveness of the internal control system is verified regularly. The results of internal audits are reported to the President, Representative Director with added suggestions for points that can be improved or revised, and a report is also made to the Audit & Supervisory Board Members.

An Overview of the Operating Status of Systems for Ensuring the Appropriate Business Operations

In accordance with the provisions of Article 362, Paragraph 5 of the Companies Act, the Company passed a resolution approving the Basic Policy for Constructing an Internal Control System at a meeting of the Board of Directors and issued a public announcement. Based on this, the Company strives to ensure fair, transparent and efficient execution of its corporate duties and to increase corporate quality.

1. Corporate Governance

(1) The Board of Directors

The Company holds meetings of the Board of Directors based on the Board of Directors Rules and agenda standards of the Board of Directors.

In fiscal 2017 the Board of Directors met 12 times to discuss important matters and business plans, etc. as set down by laws and regulations, in addition to which it worked to supervise and ensure the appropriate execution of duties by Directors.

Information pertaining to the execution of business duties by the Directors is stored and managed appropriately in accordance with Board of Directors Rules.

(2) System for executing business operations

1) Regarding the execution of business operations, the Company has adopted an executive officer system with the aim of clarifying both the delegation of authority and responsibility system, based on Administrative Officer / Executive Officer Rules.
2) The Corporate Management Committee shall discuss and determine important matters pertaining to the execution of business operations, based on the Corporate
   In fiscal 2017, the Corporate Management Committee met 11 times to discuss and determine important matters for management.

(3) System for ensuring the effective execution of business duties by Audit & Supervisory Board Members

1) The Company enacts measures to enable Audit & Supervisory Board Members to attend Board of Directors meetings as well as key internal meetings, including those of the Corporate Management Committee, the Disclosure Committee, the KDDI Group Business Ethics Committee, and the Information Security Committee.
2) In fiscal 2017, regular meetings with the representative directors and one-on-one meetings with Directors were held 12 times, meetings with Directors of domestic and overseas Group companies were held 34 times, and meetings with the Internal Audit Division were held 17 times, enabling executives to provide information to and exchange ideas with Audit & Supervisory Board Members. Also, the important matters that were reported to management were accompanied with reports to Audit & Supervisory Board Members each time.
3) The Company has established an Auditing Office to assist the duties of the Audit & Supervisory Board Members, and obtains the consent of Audit & Supervisory Board Members with regard to personnel matters concerning the staff of the Auditing Office.
4) In the rules for processing internal reports, it is clearly stated that persons making a report to Audit & Supervisory Board Members would not be penalized for doing so.
5) Expenses incurred by Audit & Supervisory Board Members in the execution of their duties for which expense claims are received are paid as appropriate.

2. Compliance

(1) KDDI Action Guideline formulation and awareness

The Company has formulated a KDDI Code of Business Conduct stating basic principles with which all Directors and employees should comply in the execution of duties, and works to communicate this widely through means including distribution of an e-mail newsletter, which makes reference to the basic principles of the Code, to all employees.

(2) Dealing with antisocial forces

With regard to initiatives to break off relations with antisocial forces, the Company has established a self-directed division that takes the lead in initiatives and works with other divisions.

The Company held investigative meetings on antisocial forces twice in 2017 and checked the status of operations.

(3) KDDI's business ethics activities

In order that each KDDI Group company may promptly identify and resolve any serious violation of laws and regulations or other compliance-related matters or incidents, KDDI Group companies hold regular Business Ethics Committee meetings and report on the results of business ethics activities for the entity holding the meeting, as well as approving policy for activities during the next fiscal year.

(4) Internal Reporting System

For the appropriate operation of the internal reporting system, group companies conduct activities to raise awareness, such as e-learning as well as distribution of e-mail magazines and placing posters within offices. The Company responds appropriately to internal reports, taking full care to avoid disadvantageous treatment of persons making reports through the internal reporting system.

(5) Internal and external training and internal enhancement activities related to compliance

In order to raise the awareness of compliance amongst employees, various training programs are implemented for managers, administrators and general employees.

3. Risk Management for Achieving Business Objectives Fairly and Efficiently

(1) Monitoring for business risk and thoroughly managing results

In the Corporate Management Committee, after concretely clarifying the business risk and prioritizing business for each case, important matters pertaining to the execution of operations are deliberated and decided.

In fiscal 2017, we held a total of 10 monthly profitability review meetings and have been striving to thoroughly manage performance.

(2) Constructing and operating a "persons responsible for internal control" structure

The Company has nominated a person responsible for internal control in each division and each Group company, who autonomously promote risk management to allow the reasonable and efficient achievement of management targets.

1) Drawing up and implementing risk management activity policies

When deliberating and deciding important matters related to execution of business at the Corporate Management Committee, the risk management activity policies and operational status are reported twice a year.

2) Risk inspection

Under the supervision of the Corporate Risk Management Division, each division and Group companies implement risk inspections three times a year, at the beginning of the year, at the end of the first half and the end of the second half in order to check important risk issues and the status of responses to the same.

3) Securing the reliability of financial reporting

Internal control assessments aimed at ensuring the reliability of financial reporting are conducted in accordance with an internal control report system based on the Financial Instruments and Exchange Act on a consolidated basis with the aim of improved resolution of improprieties.

4) Activities to improve quality of business operations

The Company implements activities in each company to improve the quality of business operations of the KDDI Group, such as effectiveness and efficiency of business operations, while each division establishes targets and the entire company works together to improve business processes.

(3) Initiatives as a Telecommunications Carrier:

1) Protecting the privacy of communications

With regard to "privacy of communications" the Company approaches the issue of protecting this privacy from a variety of angles, such as structures, business processes and systems. In case of occurrence of problems, the Company appropriately deals with such problems in accordance with laws and regulations, and the Company is working on considering and implementing measures to prevent a recurrence.

2) Information security

With regard to measures for the prevention of leaks of customer data and the protection of telecommunication service networks against cyber-terrorism, as well as responding to laws and ordinances related to information security in Japan and overseas, the Information Security

Committee meets seven times a year to plan and promote information security measures for the KDDI Group as a whole.

3) Recovering networks and services in times of disaster
In order to minimize as much as possible the risk of a termination or interruption to telecommunications services in the event that a major accident, obstruction or large-scale disaster occurs, the Company has formulated a Business Continuity Plan (BCP).
In fiscal 2017, as well as revising the BCP for the whole company in April, the Company also carried out occurrence of a disaster.
In response to typhoons, heavy rains, heavy snows, and other natural disasters that occurred in fiscal 2017, the Company established Disaster Response Headquarters teams and worked to swiftly restore networks and services.

4. Initiatives relating to working together with stakeholders

(1) Initiatives to gain support and trust for all KDDI Group activities, improve customer satisfaction, and strengthen and expand the company's customer base

1) CX activities
From fiscal 2017, the Company has engaged in CX (Customer Experience) activities aimed at improving the value of customers' experiences by responding promptly and appropriately to customers' needs and complaints. The Company has established meeting systems for engaging in activities for improving customer experience value within the work of each division, and implements ongoing activities.
In departments that engage in the strengthening of branding, the Company conducts CX (Customer Experience) awareness enhancement initiatives and studies to check the status of the initiatives.

2) Provision of appropriate information to customers
In order to provide customers with the appropriate information for them to be able to appropriately choose and use products and services, in addition to having a Creative Administration Office within the Company to manage marketing and novelty goods for consumers, in cases where there is a risk that the Act against Unjustifiable Premiums and Misleading Representations has been infringed, the Company prepares and operates the internal structure and the flow of reports.
To raise internal awareness of the above Act, the Company conducts awareness enhancement initiatives through e-learning and other means. In addition, by understanding consumer-related or other laws and ordinances, as well as administrative trends, and by sharing information with relevant internal departments to respond to potential incidents, the Company strives for the appropriate provision of information in accordance with laws and ordinances.

(2) Enhancing the KDDI Group's PR and IR
The Company's "basic IR Policy," which provides the direction to the Company's IR activities, has been set out by the Board of Directors and is available on the corporate website.
We will strive to further improve the KDDI Group's PR and IR activities by providing investment meetings for individual investors, analysts and institutional investors in Japan and overseas and by providing various IR materials on the corporate website.

(3) Disclosure of information related to the business risks and CSR initiatives of the KDDI Group
The Company holds meetings of its Disclosure Committee four times a year, and deliberates on matters concerning information disclosure.
Moreover, the Company collected non-financial information related to the environment, society, and governance, and published this together with financial information in a comprehensive report (ESG detailed version) released in August 2017.

5. Systems for Ensuring Appropriate Business Operations of the Corporate Group

(1) Preparation of a system to secure the appropriateness of work by subsidiaries
To ensure the appropriateness of work by subsidiaries, the Company has set forth rules concerning the management of subsidiaries, and has developed a system as follows.
The Company has also developed the system within the five companies that joined the Group in fiscal 2017.

1) The Company shall establish a department in the Company to supervise the management of each subsidiary, and will also establish a department with jurisdiction across all subsidiaries, to establish a management and support system for subsidiaries.
2) To ensure efficacy in the governance of subsidiaries, the Company dispatches Directors, Audit & Supervisory Board Members, and other employees to subsidiaries.

The Company has also established roles for each of these in the management of subsidiaries, and provides support from the Company as necessary, along with education and communication of information.

3) With regard to important decision-making matters within subsidiaries, the Company has set forth items and procedures within its internal rules, and has established a management structure for subsidiaries.

4) With regard to important reporting matters concerning subsidiaries, the Company has similarly set forth procedures and items within its internal rules, and communicates information on reporting standards and liaison desks for risk information.

(2) System to appropriately manage risks in subsidiaries and undertake the appropriate and effective achievement of management targets

The Company has developed a system of persons responsible for internal control, targeting all domestic companies and key supervising locations overseas, including the five companies that joined the Group in fiscal 2017.

Persons responsible for internal control within each company identify issues and manage response status by carrying out inspections of key risks in each company, and share information with the Company. In turn, the Company performs confirmation of the issues in the companies and provides support for the investigation and implementation of countermeasures.

The Company and all Group companies hold Risk Management Liaison Meetings twice a year to share information and policies on risks.

(3) KDDI Group Business Ethics Activities

The Company holds Business Ethics Committee meetings in each subsidiary twice a year as a rule, to share information on subsidiaries' problems involving compliance, the status of incident occurrence, its countermeasures and other matters. In cooperation with subsidiaries, the Company also strives to improve subsidiaries' business ethics and ensure proper systems for the execution of duties.

The Company also conducts ongoing activities to broadly communicate information about the internal reporting system in subsidiaries. In April of 2017, the Company set up a web-based hotline for overseas subsidiaries, and is working to publicize the hotline within the Group.

6. Internal Audits

The Corporate Management Committee decides the internal audit plan for the whole operations of the KDDI Group and internal audits are implemented based on this plan. The results of internal audits are reported to the President, Representative Director and the Audit & Supervisory Board Members, and then the summary is reported to the Board of Directors.

Notes to Consolidated Financial Statements

(Important Items That Form the Basis of Preparing Consolidated Financial Statements, etc.)

1. Standard for preparation of consolidated financial statements
   The consolidated financial statements are prepared in accordance with the designated international accounting standards (hereinafter "IFRS") pursuant to the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. These consolidated financial statements omit part of the disclosure items required under IFRS, in compliance with the latter sentence of the aforementioned paragraph.

2. Scope of consolidation
   - Number of consolidated subsidiaries: 178
   - Principal consolidated subsidiaries:
     Okinawa Cellular Telephone Company, Jupiter Telecommunications Co., Ltd., UQ Communications Inc. (Note), BIGLOBE Inc., AEON Holdings Corporation of Japan, Chubu Telecommunications Co., Inc., KDDI FINANCIAL SERVICE CORPORATION, Syn. Holding, Inc., Jupiter Shop Channel Co., Ltd., KDDI MATOMETE OFFICE CORPORATION, KDDI Engineering Corporation, KDDI Evolva Inc., KDDI Research, Inc., KDDI America, Inc., KDDI Europe Limited, TELEHOUSE International Corporation of America, TELEHOUSE International Corporation of Europe Ltd, KDDI CHINA CORPORATION, KDDI Summit Global Myanmar Co., Ltd., KDDI Singapore Pte Ltd, MobiCom Corporation LLC

   Names of principal companies newly made consolidated subsidiaries and reasons for new consolidation
   - AEON Holdings Corporation of Japan, seven subsidiaries of that company: Due to new stock acquisition

   Note: UQ Communications Inc. had been accounted for by the equity method under Japanese GAAP. Under IFRS, however, the Company is deemed to have substantial control over that company. As a result, that company is included as a consolidated subsidiary under IFRS.

3. Application of equity method
   - Number of affiliates accounted for by the equity method: 36
   - Principal affiliates:
     Kyocera Communication Systems Co., Ltd., Jibun Bank Corporation, KKBOX Inc., LAC Co., Ltd.

4. Fiscal years of consolidated subsidiaries
   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, and therefore the term of the report is not unified. The difference between its reporting period-end, which is December 31 and the Company's closing date is less than three months. 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 when preparing the financial statements of a subsidiary for use in preparing the consolidated financial statements with a reporting period closing date that is different from the Company's closing date.

5. Accounting policies
   (1) Valuation standards and methods for financial assets and financial liabilities
   1) 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, in the case of financial asset not at fair value through profit or loss, calculating transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of a financial asset 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 at amortized cost, financial assets with liability characteristics at fair value through other comprehensive income, financial assets with capital characteristics at fair value through other comprehensive

income or financial assets at fair value through profit or loss.

(i) Financial assets at amortized cost
A financial asset that meets both the following condition is classified as a financial asset 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 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 at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets with liability characteristics at fair value through other comprehensive income
Financial assets with liability characteristics that meet both the following condition are classified as a financial asset 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.
  Financial assets with liability characteristics at fair value through other comprehensive income are 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 debt instrument is derecognized.

(iii) Financial assets with capital characteristics at fair value through other comprehensive income
The Group makes an irrevocable election to recognize changes in fair value of financial assets with capital characteristics 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.
Financial assets with capital characteristics at fair value through other comprehensive income are 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 from equity to profit or loss as a reclassification adjustment when financial assets with capital characteristics are derecognized or its fair value substantially decreased.
Also, dividends from financial assets with capital characteristics at fair value through other comprehensive income are recognized as "finance income" in profit or loss.

(iv) Financial assets 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 financial assets at fair value through profit or loss.
A financial asset 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 financial asset 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 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 financial assets 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 assigning such investments, 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.

2) Non-derivative financial liabilities
   (a) Recognition and measurement of financial liabilities
   The Group recognizes financial liabilities when the Group becomes a party to the contractual provisions of the instruments. The measurement of financial liabilities is referred as follows (b) Classification of financial liabilities
   (b) Classification of financial liabilities
      (i) Financial liabilities at amortized cost
      A financial liability other than those at fair value through profit or loss is classified as a financial liability at amortized cost. A financial liability at amortized cost is initially measured by subtracting transaction cost directly attributable to the issuance of the financial liability from fair value. After initial recognition, the financial liability is measured at amortized cost based on the effective interest rate method.
      (ii) Financial liabilities at fair value through profit or loss
      A financial liability 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 extinguished, 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 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.

3) 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 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.

4) Impairment of financial assets
When there is no significant increase in the credit risk since initial recognition, the Group expected credit losses for 12 months are recognized as allowance for receivables. When there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as allowance for 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, expected credit losses of trade receivables not containing any material financial component are recognized over their remaining lives since inception.
- External credit rating of the financial asset
- Downgrade of internal credit rating
- Deterioration of borrower’s operating results, such as decrease in sales
- Reduced financial support from the parent company or associated companies
- Delinquencies (Date exceeding 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.

5) Derivatives and hedge accounting
Derivatives are initially recognized at fair value as of the date in which the derivative contracts are entered into. After initial recognition, derivatives are remeasured at fair value at the end of each fiscal year.
The Group utilizes derivatives consisting of exchange contracts and interest swaps to reduce foreign currency risk and interest rate risk etc.
The method of recognising 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.
Specifically, the Group assesses that the hedge is effective in case where 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. It is the requirements for qualification under hedge accounting.
The hedge of effectiveness is assessed by whether the hedge is expected to be effective for future designated hedging periods.
In changes in the fair value after initial recognition, the effective portion of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion is recognized in gain or loss. Cumulative gain or loss recognized through other comprehensive income is transferred to gain or loss on the same period that the cash flows of hedged items affect gain 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 (hereinafter "rebalancing").
After rebalancing, in cases where no longer meet the requirements of hedge accounting or hedging instruments are expired, sold, terminated or exercised, hedge accounting will be discontinued. In the case that the hedge accounting is discontinued, the cumulative gain or loss on the cash flow hedges that has been recognized in other comprehensive income will remain in other comprehensive income until the forecast transaction occurs. When forecast transactions are no longer expected to arise, the cumulative gains or losses on the cash flow hedges are transferred to gain 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.

(2) Valuation standards and methods for inventories
Inventories mainly consist of merchandise such as mobile handsets / 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.

(3) Valuation standards and methods for property, plant and equipment and intangible assets, and methods of depreciation and amortization thereof
1) Property, plant and equipment
(a) Recognition and measurement
Property, plant, and equipment of the Group is recorded on a historical cost basis and is stated at acquisition 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 assets.
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 acquisition 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.
(b) 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 acquisition

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 to 21 years
Toll and local line equipment	10 to 21 years
Other equipment	9 to 27 years
Buildings and structures	10 to 38 years
Others	5 to 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.

(c) 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.

2) Intangible assets

(a) Recognition and measurement

The intangible assets of the Group is recorded on a historical cost basis, excluding goodwill and is stated at acquisition cost less accumulated depreciation and impairment losses.

Intangible assets acquired separately are measured at acquisition 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 in case where 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 only in the case where the expenditure is able to be measured reliably, product or production process has technical and commercial 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.

(b) Amortization 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 to 29 years
Assets related to program supply	22 years
Others	5 to 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.

3) Goodwill

Goodwill is the excess of the acquisition cost 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 cash-generating units, or groups of units, that are 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 acquisition 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.

4) Lease assets

(a) 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.

(b) Classification of leases

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.

(c) Finance leases

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.

(d) Operating leases

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

5) 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 or group of units 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 or group of units 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 to sell 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 or group of units 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 each asset pro rata on the basis of the carrying amount of the other assets 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 property, plant and equipment, and intangible assets recognizing an impairment loss 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 asset or cash-generating unit at the time of a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as other income.

(4) Calculation of significant provisions

Provisions are recognized when the Group has legal or constructive obligations as a result of past events, it is highly probable that outflows of economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of the obligations. 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. Rebate of the discount over time is recognized in finance cost.

The provisions recognized by the Group are mainly provisions for point service programs. Provisions for point service programs provide for the future cost generated from the utilization of points under the point services such as “au WALLET Point Program” that the Group offers. Specifically, points, etc. that are awarded at times of use of “au WALLET prepaid card” or at times of use of apps or merchandise services provided by other companies are recorded under provision for point service program in liabilities. The measurement of the provision for point service program is based on the amount that can be expected to be used in the future in light of the results of point utilization in past fiscal years.

(5) Accounting for retirement benefits

1) 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 (retirement benefit asset or liability) is the present value of the defined benefit obligation less fair value of the plan assets at the end of the reporting period. The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method. The discount rates are on the basis of the market yields of high-quality corporate bonds at the end of the reporting period, that are denominated in the currency in which the benefit will be paid, which is corresponding to the discount period established based on the period to the date when the 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 net profit or loss. Net interest is determined using the discount rate described above. The remeasurements comprise actuarial gains and losses, past service cost and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses are recognized immediately in other comprehensive income when incurred, and past service costs are recognized as profit or loss.

The Group instantly 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.

2) Defined contribution plans

Certain subsidiaries of the Group adopt defined contribution plans. Contribution to the defined contribution plans is recognized as profit or loss 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.

(6) Revenue recognition

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

1) Mobile communications services and sale of mobile handsets

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

Revenue from the mobile communications services primarily consists of basic monthly charges and communication fees (hereinafter "the mobile communications service fees"), and commission fees such as office work fees for contract. 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 (hereinafter "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 Group sells mobile handsets to distributors and enters into communications service contracts with customers through the distributors, and "Direct sales" where the Group 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

In indirect sales transaction, 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. Accordingly, 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 deemed to be transferred. Certain commission fees paid to distributors are deducted from revenue from the sale of mobile handsets to distributors.

The mobile communications service fees are recognized 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, office work fees for contract are deferred upon entering into the contract and recognized as revenue over the estimated average contract period. Model change fees are recognized as revenue over the estimated average usage period of handsets with the customers. Direct costs related to office work are deferred to the extent of the office work fees for contract or model change fees, and amortized over the respective same period. Points granted to customers through the customer loyalty program in accordance with the demanded amount of mobile communications service fees 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.

2) Fixed-line telecommunications services

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

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

3) Contents service

Revenue from contents service mainly comprises revenue from information fee, revenue through collection agency commissions, revenue through advertising businesses, and revenue through agency commissions etc. Revenue from information is membership fees for the contents provided to the customers on the websites that the Group operates or the Group jointly operates with other entities. Also, revenue through collection agency commissions is 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 over the service period based on the nature of each contract.

The Group may act as a broker 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 commission and other fees 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, right to determine prices, and the credit risk. However, either presentation on gross basis or net basis does not impact gross sales or profit for the year.

The Group judges whether revenue from information fee should be presented on net basis or gross basis by considering 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 as a mainly responsible entity. 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 while providing the service on the Group's platform, the commission income is solely presented on a net basis.

Because the Group receives commission based on rates determined in agreements, etc., and solely provides a platform for contents services, transactions are mainly with other companies. As such, the Group acts as a broker or an agent and, accordingly, the revenue through services such as the collection agency commissions, advertising businesses, and agency commissions is presented on a net basis.

4) Solution service

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

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

5) 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 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 etc.

6) 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.

(7) Translation of major assets and liabilities denominated in foreign currencies into Japanese yen

1) 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.

2) 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 financial assets measured through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

3) 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 profit or loss as certain disposal profit or loss of foreign operations.

(8) Accounting method for consumption taxes and local consumption taxes
Consumption taxes and local consumption taxes are accounted for using the tax excluded method of reporting. Non-deductible consumption taxes relating to assets are accounted for as an expense in the fiscal year under review.

(Consolidated Statement of Financial Position)

1. Allowance for receivables accounts directly deducted from assets

Other long-term financial assets	¥43,210 million
Trade and other receivables	¥20,273 million
Total	¥63,483 million

2. Accumulated depreciation of property, plant and equipment
¥3,821,228 million

3. Assets pledged as collateral and secured liabilities
(Consolidated subsidiaries)
In accordance with Article 14, paragraph 1 of the Payment Services Act, assets held in trust as security deposits are as follows.

Japanese government bonds	¥3,001 million

Other assets pledged as collateral:	
Property, plant and equipment	¥75 million
Other short-term financial assets	¥77 million
Stocks of subsidiaries and affiliates (Note)	¥768 million
Total	¥919 million

(assets denominated in foreign currencies included: US$0 million and other)

Corresponding liabilities:	
Long-term borrowings (Note)	¥98 million
Current portion of Long-term borrowings	¥86 million
Trade and other payables	¥1 million
Total	¥185 million

Note: Shares in equity-method affiliate Kagoshima Mega Solar Power Corporation was provided as collateral on bank borrowings. The balance of these borrowings as of March 31, 2018 was ¥16,820 million. These borrowings are not included in the above long-term borrowings or short-term borrowings.

Borrowings from various financial institutions are carried out accompanying acquisitions, etc. in some subsidiaries of the Group. Such borrowings are required compliance with the financial covenants of maintenance of shareholder investment, maintenance of net assets and maintenance of surplus stipulated in each contract excluding certain contracts of small amount of borrowings. The balance payable on borrowings with financial covenants as of March 31, 2018 was ¥397,350 million.
Apart from these, financial covenants that have significant effects on the financial activities of the Group are not attached to the borrowings and bonds payable.

(Consolidated Statement of Changes in Equity)

1. Class and number of shares outstanding as of March 31, 2018
   Common stock 2,587,213,525 shares

2. Dividends
   (1) Cash dividends paid, etc.

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
June 21, 2017 Annual shareholders meeting (Note) 1,2	Common stock	¥110,603 million	¥45	March 31, 2017	June 22, 2017
November 1, 2017 Meeting of the Board of Directors (Note) 1,2	Common stock	¥109,096 million	¥45	September 30, 2017	December 4, 2017

Note 1: The aggregate amount of dividends does not include the dividend for the Company’s shares owned by the executive compensation BIP trust and a stock-granting ESOP trust.
Note 2: Other than the dividends in the above table, there are also payments of dividends occurring in the fiscal year under review to the beneficiaries of the executive compensation BIP trust and a stock-granting ESOP trust.

(2) Dividends payments whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

Resolution	Class of shares	Total dividends	Source of dividends	Dividends per share	Record date	Effective date
June 20, 2018 Annual shareholders meeting (Note) 1,2	Common stock	¥108,243 million	Retained earnings	¥45	March 31, 2018	June 21, 2018

Note 1: This dividend is not recognized until it is approved at the annual shareholders meeting. It also does not have an effect on income taxes.

Note 2: The aggregate amount of dividends does not include the dividend for the Company's shares owned by the executive compensation BIP trust and a stock-granting ESOP trust.

(Financial Instruments)

1. Status of financial instruments

The operating activities of the Group are subject to the effects of the business environment and the financial market environment. Financial instruments that are held or underwritten in the process of operating activities are exposed to unique risks. The risks include (1) credit risk, (2) liquidity risk, and (3) market risk. The Group constructs management systems inside the Group and conducts risk management to minimize the effects on the Group's financial position and operating results by using financial instruments. Specifically, the Group manages these risks using the following methods:

(1) Credit risk

Credit risks are the risk of financial losses arising in the Group when a counterparty of a financial asset held by the Group defaults on contractual obligations. Specifically, the Group is exposed to the following credit risks. Firstly, trade, lease and other receivables are exposed to the credit risk of customers and trading partners. Secondly, the debt etc. that the Group holds mainly for surplus investment and the securities etc. that the Group holds for strategic purposes are exposed to the issuer's credit risk. Thirdly, derivative transactions that the Group conducts in order to hedge foreign exchange fluctuation risks and interest rate fluctuation risks are exposed to the credit risk of the financial institutions that are counterparties to these transactions.

Concerning trade receivables, the Group has established a system that manages the due dates and balances of each customer and trading partner and conducts analysis of their credit status, based on the criteria of each of the Group's companies for managing credit exposure. Specifically, trade receivables that remain outstanding for a prescribed period from the time they were realized are considered to be in default and accordingly recognized as impairment losses.

Concerning lease and other receivables, as a basic rule, the Group determines that there is a remarkably increased credit risk on financial instruments after the Group initially recognized, if the asset monetization (conversion into cash) of the financial asset is delayed beyond the contract date (including demand for late payment); provided, however, that the Group does not determine there is a remarkably increased credit risk in cases when, irrespective of whether there has been a payment delay or demand for late payment, the cause for such delay is due to an extraordinary demand for funds, the risk of nonfulfillment of obligations is low, and it is possible to judge based on objective data that the debtor has adequate capability of fulfilling the contractual cash flow obligations in the near future.

Concerning securities that are debt instruments, the Group determines that there is a remarkably increased credit risk on financial instruments after the Group initially recognized, when it determines that there is a high risk of non-fulfilment of obligations based on credit ratings information from a large ratings firm.

Concerning credit risk, the Group determines that there is small credit risk resulting from default of contracts by counterparties because the counterparties with which the Group conducts derivative transactions are financial institutions with high credit ratings. Moreover, with regard to cash-surplus investment and derivative transactions, to prevent the credit risk of counterparties from arising, the finance/accounting divisions conduct such transactions only with financial institutions with high credit ratings based on the internal rules and their supplemental provisions of each company of the Group, subject to obtaining approval for each transaction by authorized persons stipulated in the relevant authorization rules.

(2) Liquidity risk

The Group is exposed to the liquidity risk that it will have difficulty with fulfillment of the obligations of notes and accounts payable-trade.

The Group, primarily in accordance with its capital investment plan for carrying out telecommunications business, procures necessary funds through bank loans and issuance of corporate bonds. When surplus funds are generated, the Group operates on short-term savings, etc.

With respect to trade and other payables, almost all of them have payment due dates within one year. Those trade payables and other current liabilities are exposed to liquidity risk at the time of settlement. However, the Group avoids that risk by having each company review monthly cash flow plans. In addition, as a way of controlling the Group's liquidity risks, the Group manages account activity schedules through such methods as monthly fund-raising plans and works on managing a constantly stable financial position such as by ensuring a prescribed level of on-hand liquidity.
The finance/accounting divisions create annual funding plans, and after these have been approved at a Board of Directors meeting, long-term financing is carried out. In addition, the Group has concluded several unexecuted long-term and short-term commitment line agreements with major Japanese and global financial institutions, and it plans to utilize these in conjunction with borrowing limits not commitment based to reduce liquidity risks.

(3) Market risk
The following risks exist regarding market risk: (a) foreign exchange risk, (b) interest risk, and (c) price risk on equity instruments.

(a) Foreign exchange risk
The Group is exposed to the fluctuation risk of foreign exchange markets (hereinafter "foreign exchange risk") when exchanging foreign-currency denominated trade receivables, etc. that arise from transactions conducted in currencies other than the functional currency into the functional currency using the exchange rate of the date of the end of the reporting period.
The Group also carries out operating activities overseas, and currently, it is carrying out international business development through such activities as making investments and establishing joint ventures in Asian countries such as Singapore and China, the United States, and Europe. As a result of carrying out these international business activities, the Group is exposed to various foreign exchange risks, mainly arising in relation to the U.S. dollar.
The Group conducts hedges by utilizing a forward exchange contracts for fluctuation risks on foreign exchange that are identified monthly for each currency. For derivative transactions, in the Company, execution plans are formulated on an individual transaction basis in accordance with internal company rules that have been approved at a Board of Directors meeting and then the derivative transactions are executed after approval is obtained for the derivative transaction by authorized persons stipulated in the relevant authorization rules. The Group makes sure there is a check function working as a system for execution and control by ensuring that within an organization, the place that executes the transaction is separate from the place that controls the transaction. In the consolidated subsidiaries, the execution of transactions will be subject to either decision at the Board of Directors meeting or decision by the president depending on the amount (maximum risk amount). The Group uses derivative transactions only for the purpose of avoiding risk and makes it a policy never to perform speculative transactions such as seeking to obtain a net gain on trading.

(b) Interest risk
Interest risk is defined as the risk of the fluctuation of either the fair value of financial instrument or future cash flows arising from the financial instrument due to the fluctuation of market interest rates. The Group's exposure to interest risk is mainly related to payables such as borrowings and bonds payable, or receivables such as interest bearing deposits. As the amounts of interest are subject to the effects of fluctuation in market interest rates, the Group is exposed to interest risk from the fluctuation of future cash flows.
The Group conducts financing by mainly issuing bonds at fixed interest rates to constrain the increase in the amount of future interest payable due to a rise in interest rates.
In addition some consolidated subsidiaries work to stabilize cash flows by using interest rate swap transactions to constrain the fluctuation risk of interest on borrowings payable.

(c) Price risk on equity instruments
Price risk on equity instruments is the risk of fluctuation of the fair price or future cash flows of financial instruments by fluctuation of market price (excluding fluctuation caused by interest risk or foreign exchange risk). The Group holds equity instruments and is therefore exposed to the risk of their price fluctuation.
The finance/accounting divisions of Head Office maintain manuals describing the policy on investments in equity instruments in order to control the price risk arising from these equity instruments and these manuals are complied with throughout the entire Group. It is mandatory that reports and approvals are conducted at Board of Directors meetings for important matters relating to investments in a timely manner. The Group continuously reviews the status of holdings by regularly ascertaining the market price and financial position of the issuer (trading-partner company) and considering the market conditions and the relationship with the trading-partner company.

2. Fair value of financial instruments

(1) Book values and fair values of financial instruments

Book values and fair values of financial instruments are as shown below.

1) Financial instruments at fair value

(Unit: Millions of yen)

	Book value	Fair value	Difference
Financial assets:			
Other financial assets			
Financial assets at fair value through other comprehensive income			
Stocks	110,071	110,071	–
Financial assets at fair value through profit or loss			
Derivatives			
Exchange contracts	479	479	–
Total	110,550	110,550	–
Financial liabilities:			
Other financial liabilities			
Financial liabilities at fair value through profit or loss			
Derivatives			
Exchange contracts	38	38	–
Interest swaps	5,882	5,882	–
Total	5,920	5,920	–

2) Financial instruments at amortized cost

(Unit: Millions of yen)

	Book value	Fair value	Difference
Financial assets:			
Other financial assets			
Japanese government bonds	3,001	3,069	68
Outstanding lease receivable	102,012	100,209	(1,803)
Total	105,013	103,278	(1,735)
Financial liabilities:			
Borrowings and bonds payable			
Borrowings payable	835,036	839,655	4,619
Bonds payable	169,801	174,294	4,494
Other long-term financial liabilities			
Lease obligations	84,779	86,619	1,840
Total	1,089,616	1,100,568	10,952

Note 1: Borrowings payable, bonds payable and lease obligations include the current portion.

Note 2: Short-term financial assets and financial liabilities are not included in the above table because they have book values that approximate the respective fair values.

(2) Methods of measuring fair value

1) Financial instruments at fair value

(i) Stocks

Fair value of listed stocks is based on the price on the securities exchange.

Fair value of unlisted stocks is calculated using valuation techniques based on a discounted value of future cash flows, valuation techniques based on the market price of a similar company, valuation techniques based on the value of net assets, or other valuation techniques. With the measurement of fair value of unlisted stocks, inputs that are unobservable, such as discount rates or valuation multiples, may be used, and when necessary, prescribed non-liquid discounts or non-controlling interests discounts may be taken into consideration.

(ii) Derivatives

(a) Exchange contracts

The fair value of foreign exchange forward contracts is calculated by discounting the value calculated using forward exchange rates current on the balance sheet date to the present value.

(b) Interest swaps
Concerning the fair value of interest swaps, the value of future cash flows is calculated using the present value that has been discounted by an interest rate that takes into consideration the period until the maturity date and the credit risk.

2) Financial instruments at amortized cost

(i) Japanese government bonds
The fair value of Japanese government bonds is calculated based on the market price.

(ii) Outstanding lease receivables
Concerning the fair value of lease receivables, the aggregate total value of lease payments that would be received in the worst-case scenario is calculated based on the present value that has been discounted using the interest rate in the case when the lease transaction is newly conducted under the same conditions.

(iii) Borrowings payable
For borrowings with floating interest rates, the book value is deemed to be the fair value since the interest rate reflects the market interest rate over the short term and because there is deemed to be no significant fluctuation in the credit state of the group company after borrowing.
For borrowings with fixed interest rates, the fair value is calculated using the method of discounting the sum of principal and interest by a rate that takes into consideration the remaining period and credit risk of those borrowings.

(iv) Bonds payable
The fair value of bonds is based on the market price for those having market prices, and bonds having no market prices are calculated using the method of discounting the sum of principal and interest by a rate that takes into consideration the remaining period and credit risk of those bonds.

(v) Lease obligations
The fair value of lease obligations is calculated using a method of discounting the estimated value of future cash flows using the interest rate in the case where the lease is executed under the same conditions for the same period as the remaining period.

(vi) Preference shares
Among the preference shares issued by the Group, those with future obligations to deliver cash to the holders of preference shares are accounted for under IFRS as financial liabilities. For the fair value of those preference shares, the value of future cash flows is calculated using the present value discounted by a rate that takes into consideration the period until maturity and the credit risk.

(Per Share Information)

1. Equity attributable to owners of the parent per share	¥1,568.84
2. Basic earnings per share	¥235.54

Note: In the calculation of per share information, the Company's stocks owned by the executive compensation BIP trust and a stock-granting ESOP trust are included in treasury stock. Therefore, the numbers of those stocks are deducted in calculating the number of common stocks outstanding at the end of the year and average number of common stocks outstanding during the year.

(Other Notes)

(Impairment loss)

The Group recognized impairment loss of ¥13,069 million for the year ended March 31, 2018. The Group mainly recognized impairment loss for the following assets and asset groups:

(Unit: Millions of yen)

Location	Usage for	Type	Impairment loss amount
Communication facilities, etc. (Tokyo, etc.)	Mainly Telecommunications business	Machinery, local line facilities, etc.	10,008

In the year ended March 31, 2018, some assets, including some communications facilities were deemed to be yielding not enough return to recover investment in the future and the book value of these assets has been reduced to their recoverable amount. The said reduction is recognized as an impairment loss of ¥10,008 million. This impairment loss is recorded as cost of sales in the consolidated statement of income and recorded mainly in the personal segment. This consists of ¥9,641 million for machinery and ¥367 million for others.

The recoverable amount of these assets was measured using the value in use and calculated with the future cash flow discounted at 6.20%. The estimated future cash flow period pertaining to the calculation of the value in use was 2 years.

(Business combinations)

AEON Holdings Corporation of Japan

(i) Overview of business combination
On January 22, 2018, the Company acquired all of the 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) Reason for execution 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 acquired company (as of March 31, 2018)

Name	AEON Holdings Corporation of Japan
Establishment date	April, 1973
Location	3-23, Kosei-cho 2-chome, Kita-ku, Okayama City, Okayama Prefecture
Representative	CEO Kenichiro Takagi
Description of business	Operation of language schools of foreign language conversation (e.g. English), production and sale of language learning materials, and internet and telephone-based language education
Capital	¥100 million

(iv) The percentage of acquired equity interests with voting rights
AEON HD 100%

(v) Controlling interest acquisition date
January 22, 2018

(vi) Acquisition price and its breakdown

(Unit: Millions of yen)

		Controlling interest acquisition date (January 22, 2018)
Payment in cash		86,173
Total consideration for acquisition	A	86,173

The acquisition-related costs relating to this business combination amounted to ¥350 million, which was recorded in selling, general and administrative expenses.

(vii) Fair values of assets/liabilities, non-controlling interests and goodwill on controlling interest acquisition date

		(Unit: Millions of yen) Controlling interest acquisition date (January 22, 2018)
Non-current assets		
Property, plant and equipment	(Note) 1	4,443
Intangible assets	(Note) 1	23,259
Other		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		7,279
Total current assets		42,928
Total assets		75,160
Non-current liabilities		
Deferred tax liabilities		7,998
Other		2,971
Total Non-current liabilities		10,969
Current liabilities		
Trade and other payables		11,336
Other		3,696
Total current liabilities		15,031
Total liabilities		26,001
Net assets	B	49,159
Goodwill	(Note) 3 A−B	37,014

The consideration for the acquisition was based on the fair value on the controlling interest acquisition date and it was apportioned to the acquired assets and the undertaken liabilities.

(Note) 1. Components of property, plant and equipment and intangible assets:
Property, plant and equipment was mainly buildings and building equipment while intangible assets was mainly customer related assets, trademark and software.

(Note) 2. Fair value of acquired receivables, contractual amounts receivable and estimated uncollectable accounts
Of the ¥2,056 million fair value of acquired trade receivables and other receivables (mainly accounts receivable - trade), total contractual amounts was ¥2,056 million and there was no estimated uncollectable accounts.

(Note) 3. Goodwill
Goodwill reflects the excess earning power and synergy with existing business that can be expected through future business development. No amount of goodwill recognized can be included in tax deductible expenses.

(viii) Purchase for controlling interest acquisition of subsidiary

(Unit: Millions of yen)

	Controlling interest acquisition date (January 22, 2018)
Consideration for acquisition by cash	(86,173)
Cash and cash equivalents held by acquired company at the time of controlling interest acquisition	33,593
Total cash payment for controlling interest acquisition of subsidiary	(52,580)

(ix) Operating revenue and profit for the year of acquired company

The operating revenue and profit for the year of the acquired company after the controlling interest acquisition date that has been recognized in the consolidated statement of income for the fiscal year ended March 31, 2018 was ¥4,857 million, and ¥185 million, respectively.

(x) Effect on consolidated results if business combination hypothetically occurred at beginning of the fiscal year (pro forma information)

If the business combination had hypothetically been conducted on the starting date of the current consolidated fiscal year, operating revenue and profit for the year in the consolidated statement of income for the fiscal year ended March 31 2018 would have been ¥5,065,036 million and ¥664,724 million, respectively.

This pro forma information is provided as reference and it is not included in the audit attestation.

Note: Amounts are rounded to the nearest million yen.

Notes to Non-Consolidated Financial Statements

(Significant Accounting Policies)

1. Valuation standards and methods for major assets

   (1) Securities

   Stocks of subsidiaries and affiliates

   Valued at cost determined by the moving-average method

   Available-for-sale securities

   Available-for-sale securities for which market quotations are available are stated at fair value prevailing at the balance sheet date. Unrealized gains and losses are directly included in net assets. The cost of securities sold is determined by the moving-average method.

   Available-for-sale securities for which market quotations are not available are valued at cost determined by the moving-average method.

   (2) Inventories

   Supplies

   Stated at cost determined by the moving-average method (the method of write-downs based on the decrease in profitability is applied in order to calculate the inventory value on the balance sheet).

2. Depreciation and amortization of noncurrent assets

   Property, plant and equipment other than lease assets

Machinery:	mainly declining-balance method
Property, plant and equipment other than machinery:	straight-line method

   Useful lives of major assets are as follows:

Machinery:	9 years
Antenna facilities, buildings, local line facilities, engineering facilities and structures:	10 to 38 years

   Intangible assets: straight-line method

   Software for internal use is amortized under the straight-line method over the expected useful lives (5 years).

   Lease assets

   Lease assets under financial lease transactions that do not transfer ownership rights of the assets to the lessees are depreciated and amortized under the straight-line method based on the lease term as the useful life and residual value of zero.

   Long-term prepaid expenses: straight-line method

3. Principle for calculation of allowances

   Allowance for doubtful accounts

   To prepare for uncollectible credits, general allowance is recorded based on the actual bad debt ratio, and allowance for specific doubtful accounts is recorded based on the amount deemed to be uncollectible considering the individual collectability.

   Provision for retirement benefits

   To prepare for the payments of retirement benefits to employees, the Company records the amount to be accrued as of March 31, 2018 based on projected benefit obligations and estimated value of plan assets as of March 31, 2018.

   When calculating retirement benefit obligations, the benefit formula basis is used for attributing expected retirement benefits to periods through March 31, 2018.

   Prior service cost is amortized on a straight-line basis over the average remaining service period of employees (14 years) in the year in which it arises and unrecognized actuarial differences are amortized on a straight-line basis over the average remaining service period of employees (14 years) from the year following that in which they arise.

   Provision for point service program

   In order to prepare for the future cost generated from the utilization of points that customers have earned under the point services such as “au Wallet Point Program,” the Company records based on its past experience the amount considered to be appropriate to cover future utilization of the points during or after the next fiscal year.

Provision for warranties for completed construction

To prepare for the cost of a guarantee against defects pertaining to construction work for a submarine cable system for which delivery has been completed, a provision is recorded based on an estimate of a warranty without charge during the term of the guarantee.

Provision for bonuses

To allow for the payment of bonuses to employees, the Company records the estimated amounts of bonuses to be paid.

Provision for directors' bonuses

To allow for the payment of bonuses to board members, the Company records the estimated amounts of bonuses to be paid.

4. Other important matters for the basis of preparing non-consolidated financial statements

(1) Accounting method for deferred assets

Bond issuance expenses: recorded as expenses when incurred

(2) Accounting method for consumption taxes

Consumption tax and local consumption tax are accounted for using the net method of reporting. Non-deductible consumption taxes relating to assets are accounted for as an expense in the fiscal year under review.

(Non-Consolidated Balance Sheets)

1. Assets pledged as collateral

Assets pledged as collateral are as follows:

Stocks of subsidiaries and affiliates	¥768 million

Note: Shares in equity-method affiliate Kagoshima Mega Solar Power Corporation was provided as collateral on the balance of bank borrowings of ¥16,820 million by that company as of March 31, 2018.

2. Contingent liabilities, etc.

Guarantor for office lease contract	¥5,029 million

3. Monetary claims and monetary liabilities to subsidiaries and affiliates

Long-term monetary claims	¥175,697 million
Short-term monetary claims	¥221,184 million
Long-term monetary liabilities	¥267 million
Short-term monetary liabilities	¥309,217 million

4. Reduction entry amount of noncurrent assets

Reduction entry amount attributable to aid for construction cost (cumulative total)	¥15,434 million

5. Total committed lines of credit and loans receivables outstanding

The Company provides financial assistance to and deposits surplus funds among its subsidiaries and affiliates in order to carry out efficient financing and management of funds within the Group. The total committed lines of credit and loans receivables outstanding in these activities are as follows.

Total committed lines of credit	¥245,787 million
Loans receivables outstanding	¥126,815 million
Remaining portion of credit line	¥118,972 million

The above activities are implemented taking into consideration the financial positions and fund raising status of the subsidiaries and affiliates.

(Non-Consolidated Statements of Income)

1. Transactions with subsidiaries and affiliates

Operating income from subsidiaries and affiliates	¥298,155 million
Operating expenses to subsidiaries and affiliates	¥504,480 million
Non-operating transactions with subsidiaries and affiliates	¥51,879 million

2. Impairment loss ¥2,917 million

In the year ended March 31, 2018, the Company mainly recognized impairment loss for the following assets and asset group.

The Company calculates impairment losses by grouping assets based on minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

(Unit: Millions of yen)

Location	Usage for	Type	Impairment loss amount
Communication facilities, idle assets, etc. (Tokyo, etc.)	Mainly Telecommunications business	Local line facilities, etc.	2,917

In the year ended March 31, 2018, for assets with declining utilization rates, including some communications facilities, and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as an impairment loss of ¥2,917 million, an extraordinary loss. This consists of ¥2,043 million for local line facilities, and ¥873 million for others.

Further, the recoverable amount of these assets is estimated based on the net selling price. The calculation of market value is based on reasonable estimate, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

(Non-Consolidated Statements of Changes in Net Assets)

1. Shares outstanding and treasury stock

(Unit: Shares)

	As of April 1, 2017	Increase during the fiscal year ended March 31, 2018	Decrease during the fiscal year ended March 31, 2018	As of March 31, 2018
Shares outstanding				
Common stock	2,620,494,257	–	33,280,732	2,587,213,525
Total	2,620,494,257	–	33,280,732	2,587,213,525
Treasury stock				
Common stock	162,641,408	52,479,820	33,311,926	181,809,302
Total	162,641,408	52,479,820	33,311,926	181,809,302

(The reason of the above changes)

1. The decrease of 33,280,732 shares in the number of common stocks outstanding is due to the retirement of treasury stock (retirement date: May 17, 2017).
2. The increase of 52,479,820 shares in the number of common stocks in treasury stock is due to a share buyback of 33,526,600 shares based on a resolution at the Board of Directors meeting dated May 11, 2017, a share buyback of 18,953,100 shares based on a resolution at the Board of Directors meeting dated January 31, 2018, and purchases of shares less than one unit of 120 shares.
3. The decrease of 33,311,926 shares in the number of common stocks in treasury stock is due to the retirement of 33,280,732 shares of treasury stock (retirement date: May 17, 2017) and the issuance, etc. of 31,194 shares to the executive compensation BIP trust and a stock-granting ESOP trust.
4. Included in the number of common stocks in treasury stock displayed above are 1,672,702 shares held by the executive compensation BIP trust and a stock-granting ESOP trust.

2. Dividends

(1) Cash dividends paid

Resolution	Class of shares	Total dividends	Dividends per share	Record date	Effective date
June 21, 2017 Annual shareholders meeting	Common stock	¥110,680 million	¥45	March 31, 2017	June 22, 2017
November 1, 2017 Meeting of the Board of Directors	Common stock	¥109,171 million	¥45	September 30, 2017	December 4, 2017
Total		¥219,851 million			

Notes 1: The total amount of dividends decided by the Annual shareholders meeting on June 21, 2017 includes a dividend of ¥77 million for the Company’s shares owned by the executive compensation BIP trust and a stock-granting ESOP trust.

2: The total amount of dividends decided by the Board of Directors meeting on November 1, 2017 includes a dividend of ¥75 million for the Company’s shares owned by the executive compensation BIP trust and a stock-granting ESOP trust.

(2) Dividends payments whose record date is in the fiscal year under review but whose effective date is in the following fiscal year

As a proposal of the annual shareholders meeting to be held on June 20, 2018, the Company has proposed the following matters regarding dividends of common stock.

1) Total dividends	¥108,318 million
2) Dividends per share	¥45
3) Record date	March 31, 2018
4) Effective date	June 21, 2018

Notes 1: The dividends shall be paid from retained earnings.

2: The total amount of dividends includes a dividend of ¥75 million for the Company’s shares owned by the executive compensation BIP trust and a stock-granting ESOP trust.

(Tax Effect Accounting)

Significant components of deferred tax assets and liabilities

(Unit: Millions of yen)

Deferred tax assets:	Provision for bonuses	5,939
	Excess amount of allowance for doubtful accounts, etc.	8,232
	Provision for point service program	15,045
	Denial of accrued expenses	2,718
	Excess amount of depreciation and amortization	28,579
	Denial of loss on retirement of noncurrent assets	3,318
	Denial of loss on valuation of inventories	2,715
	Accrued enterprise taxes	5,143
	Denial of impairment loss	24,900
	Denial of advances received	4,476
	Loss on valuation of investment securities	169
	Loss on valuation of stocks of subsidiaries and affiliates	11,769
	Other	1,651
Total deferred tax assets		114,652
Deferred tax liabilities:	Provision for retirement benefits	(3,491)
	Reserve for special depreciation	(410)
	Valuation difference on available-for-sale securities	(7,682)
	Gain on exchange from business combination	(1,455)
	Other	(298)
Total deferred tax liabilities		(13,336)
Net deferred tax assets		101,315

(Financial Instruments)

1. Status of financial instruments

(1) Policy relating to financial instruments

In light of plans for capital investments primarily for conducting telecommunications business, the Company raises the funds it requires through bank loans and bonds issuance. The Company manages temporary fund surpluses through financial assets that have high levels of safety. Further, the Company raises short-term working capital through bank loans. Regarding derivatives policy, the Company adheres to the fundamental principle of limiting transactions to those actually required and never conducting speculative transactions for trading profit.

(2) Details of financial instruments, associated risk, and risk management system

Trade receivables such as accounts receivable-trade and accounts receivable-other are exposed to credit risk in relation to customers and trading partners. For such risk, the Company has established a system that manages the due dates and balances of each customer and trading partner as well as conducts analysis of their credit status, based on the Company’s criteria for managing credit exposure.

The Company is exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the shares of companies with which the Company has operational relationships, and periodic analysis of market values is reported to the Board of Directors.

Almost all trade payables such as accounts payable-trade, accounts payable-other, accrued expenses and income taxes payable have payment due dates within one year. Current liabilities such as those trade payables are exposed to liquidity risk at the time of settlement. However, the Company reduces that risk by reviewing fund-raising plans every month.

Among loans payable, short-term loans payable are primarily for fund raising related to sales transactions, and long-term loans payable are primarily for fund raising related to capital investments and other investments and financing. Moreover, except for fund raising related to sales transactions, the Group procures funds as long-term loans payable (with fixed interest rates) and manages this debt by preparing and updating financing plans on a timely basis.

(3) Supplementary explanation of items relating to the market value of financial instruments

The market values of financial instruments include prices based on market prices, or reasonably estimated prices if there are no market prices. Since the calculation of market values involves fluctuating factors, these values are subject to change when different assumptions are used.

2. Market value of financial instruments

Amounts recognized in the non-consolidated balance sheet, market values, and the differences between them as of March 31, 2018 are as shown below.

Items for which it is extremely difficult to determine market values are not included in the following table (see Note 2).

(Unit: Millions of yen)

		Book value	Market value	Difference
1)	Cash and deposits	66,622	66,622	–
2)	Accounts receivable-trade	1,369,036		
	Allowance for doubtful accounts *1	(14,843)		
		1,354,193	1,354,193	–
3)	Accounts receivable-other	62,530	62,530	–
4)	Investment securities			
	Available-for-sale securities	79,524	79,524	–
5)	Short-term loans receivable from subsidiaries and affiliates *2	126,815	126,815	–
6)	Stocks of subsidiaries and affiliates	14,778	80,049	65,271
7)	Long-term loans receivable from subsidiaries and affiliates *3	194,174	194,458	284
Total assets		1,898,637	1,964,191	65,555
8)	Accounts payable-trade	102,609	102,609	–
9)	Short-term loans payable	246,040	246,040	–
10)	Accounts payable-other	327,592	327,592	–
11)	Income taxes payable	99,956	99,956	–
12)	Deposits received	43,488	43,488	–
13)	Bonds payable *4	170,000	174,263	4,263
14)	Long-term loans payable *4	337,000	339,289	2,289
Total liabilities		1,326,685	1,333,236	6,552

*1. Allowance for doubtful accounts relating to 2) Accounts receivable-trade is deducted.

*2. This excludes the current portion of long-term loans receivable from subsidiaries and affiliates under current assets.

*3. This includes the current portion of long-term loans receivable from subsidiaries and affiliates under current assets.

*4. This includes the current portion of bonds payable and long-term loans payable under noncurrent liabilities.

Note 1: Method for calculation of the market value of financial instruments, and notes to securities

1) Cash and deposits, 2) Accounts receivable-trade, 3) Accounts receivable-other, and 5) Short-term loans receivable from subsidiaries and affiliates

Because the settlement periods of the above items are short and their market values are almost the same as their book values, the book values are used. Further, because the credit risk is extremely difficult to determine on an individual basis for accounts receivable-trade, allowance for doubtful accounts is regarded as credit risk and the market value is calculated accordingly.

4) Investment securities and 6) Stocks of subsidiaries and affiliates

With respect to the market values, the market prices at the stock exchanges are used.

7) Long-term loans receivable from subsidiaries and affiliates

The market value of long-term loans receivable from subsidiaries and affiliates is calculated by applying a discount rate based on the assumed interest rate if a new loan contract was entered into for the same amount as the total of principal and interest.

8) Accounts payable-trade, 9) Short-term loans payable, 10) Accounts payable-other, 11) Income taxes payable, and 12) Deposits received

Because the settlement periods of the above items are short and their market values are almost the same as their book values, the book values are used.

13) Bonds payable, and 14) Long-term loans payable

The market values of bonds payable are calculated based on a market price. The market value of long-term loans payable is calculated by applying a discount rate based on the assumed interest rate if a new loan contract was entered into for the same amount as the total of principal and interest. However, long-term loans payable with variable interest rates are based on the condition that interest rates are revised periodically and their market values are almost the same as their book values; therefore, the book values are used.

Note 2: Financial instruments of which it is extremely difficult to determine market value

(Unit: Millions of yen)

	Book value
Investment securities Unlisted equity securities	116,842
Stocks of subsidiaries and affiliates Unlisted equity securities*	850,114
Investments in capital of subsidiaries and affiliates	5,742

Because their market values are not available and extremely difficult to determine, they are not included in the above table.

(Equity in net income (losses) of affiliates and others)

Amount of investments in affiliates ¥50,484 million
Amount of investments in affiliates based on equity method ¥98,192 million
Amount of equity in net income of affiliates based on equity method ¥4,592 million

Note: Amount of investments in affiliates based on equity method and amount of equity in net income of affiliates based on equity method have been prepared in accordance with IFRS pursuant to the provisions of Article 120 of the Ordinance on Accounting of Companies.

(Transactions with Related Parties)

Subsidiaries and affiliates, etc.

(Unit: Millions of yen)

Type	Company Name or Name	Location	Capital/ Investments in Capital	Business or Occupation	Percentage of Possession of Voting Rights
Subsidiary	KDDI FINANCIAL SERVICE CORPORATION	Minato-ku, Tokyo	5,245	Credit card business, settlement agency business	Possession Direct 90.0 %

Relationship with Related Party	Contents of Transaction	Amounts of Transaction	Title of Account	Balance as of March 31, 2018
Financial support Sharing of concurrent positions by board members	Lending of funds (Note)	33,147	Long-term loans receivable from subsidiaries and associates	38,800
			Short-term loans receivable from subsidiaries and associates	81,963
	Receipt of interests	179	Accounts receivable-other	1

(Unit: Millions of yen)

Type	Company Name or Name	Location	Capital/ Investments in Capital	Business or Occupation	Percentage of Possession of Voting Rights
Affiliate	UQ Communications Inc.	Minato-ku, Tokyo	71,425	Wireless broadband services	Possession Direct 32.3 %

Relationship with Related Party	Contents of Transaction	Amounts of Transaction	Title of Account	Balance as of March 31, 2018
Financial support Sharing of concurrent positions by board members	Lending of funds (Note)	(22,180)	Long-term loans receivable from subsidiaries and associates	90,000
			Short-term loans receivable from subsidiaries and associates	19,915
	Receipt of interests	480	Accounts receivable-other	63

Terms and conditions of transactions, and policies on such terms and conditions

Note: Borrowing periods are set to match the characteristics of the demand for funds, and interest rates are set in a rational manner taking into account market interest rates on borrowings for the corresponding period. As these transactions are performed in the interest of efficient funding within the group, no collateral is provided or received. The amount shown for the amount of lending of funds is the amount of change since April 1, 2017.

(Per Share Information)

1. Net assets per share ¥1,488.49
2. Net income per share ¥216.15

Note: In the calculation of per share information, 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 average number of common stocks outstanding during the year.
For the fiscal year under review, the number of common stocks outstanding at the end of the year and average number of common stocks outstanding during the year owned by the trusts is 1,672,702 shares and 1,678,224 shares.

(Company to Which Consolidated Dividend Regulations Apply)

The Company is subject to "Company to Which Consolidated Dividend Regulations Apply."

Note: Amounts are rounded to the nearest million yen.