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 35th 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, 2018 to March 31, 2019)

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 (https://www.kddi.com/english/corporate/ir/stock-rating/meeting/20190619/), 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. The Company works to develop an effective internal control system with the aim of ensuring fairness, transparency, and efficiency in the execution of its corporate duties, as well as improving 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 of important meetings, 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 2018 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 2018, the Corporate Management Committee met 13 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 has developed a system that allows Audit & Supervisory Board Members to attend the meetings of the Board of Directors and key internal meetings. In addition, the Company has taken measures to enable them to view minutes of important meetings, circulated documents, etc.
2) Important matters to be reported to management shall be reported to Audit & Supervisory Board Members in a timely and appropriate manner, and, when discovering facts that may cause considerable losses to the Company and its subsidiaries, these shall be promptly reported to Audit & Supervisory Board Members. Moreover, collaboration with Audit & Supervisory Board Members is ensured through the exchange of opinions between them and the Internal Control Division, the Directors of subsidiaries in Japan and abroad, etc., in addition to regular meetings between them and the representative directors, etc.
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 employees 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 borne 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 and checks the operating status at coordination meetings held by the division.

(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 misconduct, etc., KDDI Group companies hold regular Business Ethics Committee meetings.

(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 e-mail magazines.
The Company has developed a reporting route to Audit & Supervisory Board Members as an independent internal reporting route and specified duties regarding protection of whistle-blowers in the rules for processing internal reports, and also implements internal awareness survey as well as third-party assessment by outside lawyers. Thus, the Company endeavors to increase effectiveness of the 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 of the Company and its subsidiaries.

**3. Risk Management for Achieving Business Objectives Fairly and Efficiently**

(1) Monitoring for business risk and thoroughly managing results
In meetings, such as of the Corporate Management Committee, after clarifying the business risk, important matters pertaining to the execution of operations are deliberated and decided.
In fiscal 2018, we held a total of eight monthly profitability review meetings and have been managing business operation and monitoring business risk.

(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 subsidiary, who autonomously promote risk management to allow the reasonable and efficient achievement of management targets.

1) Drawing up and implementing risk management activity policies
The risk management activity policies and operational status are regularly (twice a year) reported to the Corporate Management Committee.

2) Risk inspection
Under the supervision of the Corporate Risk Management Division, each division and subsidiaries 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 monitor important risk issues and the status of responses to the same.

3) Securing the reliability of financial reporting
In order to ensure the reliability of financial reporting, internal control assessments are conducted on a consolidated basis in accordance with the internal control reporting system based on the Financial Instruments and Exchange Act with the aim of improved resolution of improprieties.

4) Activities to improve quality of business operations
In order to improve productivity of the KDDI Group, such as effectiveness and efficiency of business operations, 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," which is the cornerstone of telecommunications business, the Company approaches the issue of protecting 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 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-attacks, as well as responding to laws and ordinances related to information security in Japan and overseas, the Information Security Committee meets regularly (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 2018, as well as revising the BCP for the whole company, the Company also carried out various drills assuming emergency situations periodically to prepare for the occurrence of a disaster and others.

**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

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.

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.

(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 regular 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 September 2018.

Other than those above, the Company works to improve recognition of the Company's ESG activities by holding events for investors and other means.

**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.

1) The Company has established a department to supervise the management of each subsidiary and a department with jurisdiction across all subsidiaries, to establish a management and support system for subsidiaries. The both departments work together to manage subsidiaries, and conduct activities to support development of the operating base mainly for new subsidiaries and others.
2) To ensure efficacy in the governance of subsidiaries, the Company dispatches Directors, Audit & Supervisory Board Members, and other employees to subsidiaries and has also established roles for each of these in the management of subsidiaries, and provides education and training.
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 domestic companies and key supervising locations overseas, and added new seven subsidiaries to the system in fiscal 2018.

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.

In addition, the Company holds Risk Management Liaison Meetings, which all Group companies attend, regularly (twice a year) to share risk information, policies and initiatives.

(3) KDDI Group Business Ethics Activities

The Company holds regular 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 each subsidiary's business ethics.
The Company also conducts ongoing activities to broadly communicate information about the internal reporting system in domestic and overseas subsidiaries.

**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.
In fiscal 2018, a total of 20 internal audits were implemented, focusing around audits of new subsidiaries and overseas subsidiaries.
The results of internal audits are reported to the President, Representative Director and shared with Directors and Audit & Supervisory Board Members.

# 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: 175
   - 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, Supership Holdings 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
   - ENERES Co., Ltd., six subsidiaries of that company: Due to additional stock acquisition

   Names of principal companies excluded from consolidated subsidiaries and reasons for exclusion
   - DMX Technologies Group Limited, 16 subsidiaries of that company: Due to loss of control

   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: 39
   - Principal affiliates:
     Kyocera Communication Systems Co., Ltd., Jibun Bank Corporation, KKBOX Inc., LAC Co., Ltd., Kakaku.com, Inc.

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., did not 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 was not unified. However, due to improvement for financial reporting in the fiscal year ended March 31, 2019, the reporting periods are unified.

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 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 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 directly transferred to retained earnings 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.

(iii) 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

Financial liabilities 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.

(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.

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

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

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

At the inception of the hedge and on an ongoing basis, the Group assess whether the derivative used in hedging transaction is highly effective in offsetting changes in cash flows of the hedged item. 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 are 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 asset retirement obligations and 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” and “au WALLET Credit 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 telecommunications services

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

Revenue from the mobile telecommunications services primarily consists of basic monthly charges and communication fees (“the mobile telecommunications service fees”), and commission fees such as activation fees. The mobile telecommunications service fees and commission fees such as activation fees are recognized on a flat rate basis and on a measured rate basis when the services are provided to the customers, whereupon the performance obligation is fulfilled. Discounts of communication charges are deducted from the mobile telecommunications service fees on a monthly basis.

Furthermore, the consideration for transactions related to revenue from mobile telecommunications services is received between the billing date and approximately one month thereafter.

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

The business flows of the above transactions consist of “Indirect sales,” wherein the Company sells mobile handsets to distributors and enters into communications service contracts with customers through those distributors, and “Direct sales,” wherein the Company and certain subsidiaries of the Company sell mobile handsets to customers and enter into communications service contracts directly with the customers. Revenue in each case is recognized as described below.

Revenue from the sale of mobile handsets is received within approximately one month following the sale to the distributor or other vendor.

(i) Indirect sales

As the distributor has the primary obligation and inventory risk for the mobile handsets, the Group sells to the distributors, the Group considers distributors as the principals in each transaction. Revenue from the sale of mobile handsets is recognized when mobile handsets are delivered to distributors, which is when control over the mobile handsets is transferred to the distributor and the performance obligation is fulfilled. Certain commission fees paid to distributors are deducted from revenue from the sale of mobile handsets.

(ii) Direct sales

In direct sales transactions, revenue from the sale of mobile handsets and revenue from service fees, including mobile telecommunications service fees, are considered to be bundled. Therefore, contracts that are concluded for a bundled transaction are treated as a single contract for accounting purposes. The total amount of the transaction allocated to revenue from the sale of mobile handsets and mobile telecommunications service fees is based on the proportion of each component's independent sales value. The amount allocated to mobile handset sales is recognized as revenue at the time of sale, which is when the performance obligation is determined to have been fulfilled. The amount allocated to mobile telecommunications service fees is recognized as revenue when the service is provided to the customer, which is when the performance obligation is determined to have been fulfilled.

In both direct and indirect sales, activation fees and handset model exchange fees are deferred as contract liabilities upon entering into the contract. They are not recognized as a separate performance obligation, but combined with mobile telecommunications services. They are recognized as revenue over the period when material renewal options exist.

The consideration of these transactions is received in advance, when the contract is signed.

Points granted to customers through the customer loyalty program are allocated to transaction prices based on the independent sales values of benefits to be exchanged based on the estimated point utilization rate, which reflects points that will expire due to future cancellation or other factors. The points are recognized as revenue when the customers utilize those points and take control of the goods or services, which is when the performance obligation is considered fulfilled.

2) Fixed-line telecommunications services (including the CATV business)

Revenue from fixed-line telecommunications services primarily consists of revenues from voice communications, data transmission, FTTH services, CATV services and related installation fees.

The above revenue, excluding installation fee revenue, is recorded when the service is provided, fulfilling the performance obligation. Installation fee revenue is recognized over the estimated average contract period based on the percentage remaining.

The consideration for these transactions is received between the billing date and approximately the following month.

3) Value-added services

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

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

The Group considers itself to be an agent for payment agency services, advertisement services and certain content services described above because it earns only commission income based on pre-determined rates, does not have the authority to set prices and solely provides a platform for its customers to perform content-related services. The Group thus does not control the service before control is transferred to the customer. Therefore, revenue from these services is presented on a net basis.

The consideration for these transactions is received within approximately one to three months after the performance obligation has been fulfilled.

4) Global services

Global services mainly comprise solution services, data center services and mobile telephone services. Revenue from data center services comprise the service charges the Group receives for using space, electricity, networks or other amenities at its self-operated data centers in locations around the world. In general, contracts cover more than one year, and revenue is recognized for the period over which the services are provided.

The consideration for these transactions is basically billed before the performance obligation is fulfilled and is received approximately one month after billing.
Revenue from mobile telephone services comprises revenue from mobile handsets and mobile telecommunication services. Revenue from the sale of mobile handsets is recognized at the time of sale of the handsets, when the performance obligation is determined to have been fulfilled. Revenue from mobile telecommunication services is recognized at the time the services are provided to the customer, when the performance obligation is determined to have been fulfilled.

5) Solution service
Revenue from solution services primarily consists of revenues from equipment sales, engineering and management services ("the solution service income"). The solution service income is recognized based on the consideration received from the customers when the goods or the services are provided to the customers and the performance obligation is fulfilled.
Payment for any performance obligation is received between the billing date and approximately one month later.

(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.

## (Changes in Accounting Policies)

Application of IFRS 15

The Group has applied the following standard from the fiscal year ended March 31, 2019.

| IFRS | | Newly established contents |
|---|---|---|
| IFRS 15 | Revenue from contracts with customers (Newly established in May 2014) | New standard for accounting procedure and presentation regarding revenue recognition. |

The Group has applied IFRS 15 in accordance with the transition elections available, and therefore retrospectively recognized the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings as of April 1, 2018.
In accordance with IFRS 15, excluding such as interest and dividend recognized in accordance with IFRS 9, insurance revenues recognized in accordance with IFRS 4 and lease revenues recognized in accordance with IAS 17, revenues are

recognized upon transfer of promised goods or services to customers in amounts that reflect the consideration to which the Group expect to be entitled in exchange for those goods or services based on the following five step approach:

Step 1: Identify the contracts with customers

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

We recognize the incremental costs for obtaining contracts with customers and the costs incurred in fulfilling a contract with a customer as an asset if those costs are expected to be recoverable. The incremental costs for obtaining contracts are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

Depending on the business model applied, the new standards affect the following issues in particular.

- In the case where the Group sells mobile handsets to customers and simultaneously enters into communications service contracts with the customers, accounting might change as a result of combination of contracts and allocating the transaction prices to performance obligations.
- Under IFRS 15, expenses for sales commissions are capitalized and recognized over the estimated customer retention period. On first-time application of the standard, both total assets and equity increase due to the capitalization of contract assets.
- Deferral, i.e., later recognition of revenue in cases where “material rights” are granted, such as offering additional discounts for future purchases of further products.

A reconciliation of the adjustments from the application of IFRS15 relative to IAS18 on relevant financial statement line items in the Consolidated Statement of Income and Consolidated Statement of Financial Position is as follows.

(Unit: Millions of yen)

| | IAS 18 carrying amount 31 Mar 2018 | Reclassification | Remeasurements | IFRS 15 carrying amount 1 Apr 2018 | Retained earnings effect 1 Apr 2018 |
|---|---|---|---|---|---|
| Goodwill | 526,601 | — | (5,633) | 520,967 | (5,633) |
| Deferred tax assets | 106,050 | — | (73,425) | 32,625 | (73,425) |
| Contract costs | — | 84,868 | 275,984 | 360,851 | 275,984 |
| Other non-current assets | 65,477 | (56,358) | — | 9,119 | — |
| Other current assets | 133,531 | (28,510) | — | 105,021 | — |
| Deferred tax liabilities | 80,298 | — | 26,768 | 107,066 | (26,768) |
| Contract liabilities | — | 243,655 | (46,612) | 197,043 | 46,612 |
| Other non-current liabilities | 129,679 | (123,275) | — | 6,404 | — |
| Other current liabilities | 297,932 | (120,379) | — | 177,553 | — |
| Non-controlling interests | 357,554 | — | 29,302 | 386,856 | (29,302) |

The comparison of the application of IFRS 15 relative to IAS 18 on the impacted financial statement line items in Consolidated Statement of Income and Consolidated Statement of Financial Position are as follows.

(Unit: Millions of yen)

| | IAS 18 carrying amount | IFRS 15 carrying amount |
|---|---|---|
| **Consolidated Statement of Income** | | |
| Operating revenue | 5,100,453 | 5,080,353 |
| Cost of sales | 2,884,870 | 2,867,413 |
| Gross profit | 2,215,583 | 2,212,940 |
| Selling, general and administrative expenses | 1,269,326 | 1,210,470 |
| Operating income | 957,515 | 1,013,729 |
| Profit for the year | 663,718 | 701,126 |
| Owners of the parent | 583,482 | 617,669 |
| Non-controlling interests | 80,236 | 83,457 |
| Basic earnings per share (yen) | 244.76 | 259.10 |
| Diluted earnings per share (yen) | 244.68 | 259.01 |
| **Consolidated Statement of Financial Position** | | |
| Goodwill | 545,328 | 539,694 |
| Deferred tax assets | 105,834 | 15,227 |
| Contract costs | ― | 412,838 |
| Other non-current assets | 62,367 | 10,117 |
| Other current assets | 152,292 | 125,162 |
| Deferred tax liabilities | 72,289 | 100,680 |
| Contract liabilities | ― | 193,511 |
| Other non-current liabilities | 125,756 | 6,746 |
| Other current liabilities | 345,583 | 225,810 |
| Retained earnings | 3,922,478 | 4,144,133 |
| Non-controlling interests | 396,998 | 429,440 |

## (Consolidated Statement of Financial Position)

1. Allowance for receivables accounts directly deducted from assets

| | |
|---|---|
| Other long-term financial assets | ¥10,104 million |
| Trade and other receivables | ¥20,751 million |
| Total | ¥30,855 million |

2. Accumulated depreciation of property, plant and equipment

¥4,100,238 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 |

In accordance with Article 15 of the Payment Services Act, assets held in trust as security deposits are as follows.

| | |
|---|---|
| Guarantee deposits | ¥35,000 million |

Other assets pledged as collateral:

| | |
|---|---|
| Property, plant and equipment | ¥1,138 million |
| Other short-term financial assets | ¥35 million |
| Stocks of subsidiaries and affiliates (Note) | ¥768 million |
| Total | ¥1,940 million |

Corresponding liabilities:

| | |
|---|---|
| Long-term borrowings (Note) | ¥118 million |
| Current portion of Long-term borrowings | ¥122 million |
| Accounts payable-other | ¥330 million |
| Total | ¥569 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, 2019 was ¥15,424 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 in 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, 2019 was ¥457,248 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, 2019

Common stock 2,532,004,445 shares

2. Dividends

(1) Cash dividends paid, etc.

| Resolution | Class of shares | Total dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| June 20, 2018 Annual shareholders meeting (Note) 1,2 | Common stock | ¥108,243 million | ¥45 | March 31, 2018 | June 21, 2018 |
| November 1, 2018 Meeting of the Board of Directors (Note) 1,2 | Common stock | ¥119,624 million | ¥50 | September 30, 2018 | December 3, 2018 |

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 19, 2019 Annual shareholders meeting (Note) 1,2 | Common stock | ¥129,308 million | Retained earnings | ¥55 | March 31, 2019 | June 20, 2019 |

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 | 117,894 | 117,894 | – |
| Financial assets at fair value through profit or loss | | | |
| Derivatives | | | |
| Exchange contracts | 299 | 299 | – |
| Total | 118,194 | 118,194 | – |
| Financial liabilities: | | | |
| Other financial liabilities | | | |
| Financial liabilities at fair value through profit or loss | | | |
| Derivatives | | | |
| Exchange contracts | 39 | 39 | – |
| Interest swaps | 5,810 | 5,810 | – |
| Total | 5,849 | 5,849 | – |

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 | 3,027 | 26 |
| Outstanding lease receivable | 119,582 | 118,876 | (706) |
| Total | 122,582 | 121,903 | (680) |
| Financial liabilities: | | | |
| Borrowings and bonds payable | | | |
| Borrowings payable | 880,061 | 888,704 | 8,644 |
| Bonds payable | 279,492 | 283,614 | 4,122 |
| Other long-term financial liabilities | | | |
| Lease obligations | 84,158 | 85,909 | 1,751 |
| Total | 1,243,711 | 1,258,227 | 14,517 |

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.

## (Per Share Information)

| | |
|---|---|
| 1. Equity attributable to owners of the parent per share | ¥1,779.41 |
| 2. Basic earnings per share | ¥259.10 |

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.

## (Significant subsequent events)

KDDI incorporated an intermediate financial holding company, au Financial Holdings Corporation, in order to strengthen its settlement and financial business and introduced the "Smart Money Concept" which ensures customer satisfaction by providing comprehensive smartphone-centric settlements and financial transactions.

In addition, KDDI transferred five companies (Jibun Bank Corporation, which became a consolidated subsidiary on April 1, 2019, and the consolidated subsidiaries of KDDI Financial Service Inc., WebMoney Corporation, KDDI Asset Management Co., Ltd., and au Reinsurance Corporation) to au Financial Holdings Corporation. By reorganizing these companies, we aim to maximize synergies and enhance product competitiveness by accelerating their decision making processes and enhancing governance.

(i) Making Jibun Bank Corporation a consolidated subsidiary
KDDI acquired the 608,614 shares issued via third party allocation by Jibun Bank Corporation ("Jibun Bank") on April 1, 2019. As a result, KDDI owns 1,408,614 shares (63.78%) in Jibun Bank, making Jibun Bank a consolidated subsidiary.
KDDI now provides Jibun Bank with access to the big data, digital marketing resources and customer base that it has cultivated to date. We also continually create points of contact with customers and help strengthen the service offerings for customers' different life stages with the aim of maximizing the corporate value of Jibun Bank.
The consideration for the acquisition is ¥25.0 billion. Due to the limited time between the acquisition date and the approval date of the consolidated financial statements for the fiscal year ended March 31, 2019, the accounting process regarding said acquisition of shares has not been completed and we have not disclosed detailed data regarding the accounting treatment of the business combination.

(ii) Beginning the tender offer for shares of kabu.com Securities Co., Ltd. by the wholly owned KDDI subsidiary LDF LLC
On February 12, 2019, KDDI announced that its wholly owned subsidiary LDF LLC ("LDF") would make a public tender for shares of kabu.com Securities Co., Ltd. ("kabu.com Securities").
Because the preparations to begin this tender offer have been concluded, KDDI and LDF have decided to begin the tender offer for the common stocks of and subscription rights to kabu.com Securities on April 25, 2019.
After the completion of the tender offer and related procedures, the final shareholding ratios of kabu.com Securities are expected to be as below.

| | | |
|---|---|---|
| Shareholding ratios before change (As of April 25, 2019) | Mitsubishi UFJ Securities Holdings Co., Ltd.<br>LDF LLC | 52.96%<br>0.00% |
| Shareholding ratios after change | Mitsubishi UFJ Securities Holdings Co., Ltd.<br>LDF LLC | 51.00%<br>49.00% |

## (Other Notes)

(Business combinations)

ENERES Co., Ltd.

(i) Overview of business combination

On December 27, 2018, the Company acquired additional shares in ENERES Co., Ltd. (“ENERES”) through a public tender. As a result, ENERES and its consolidated subsidiaries became the Company’s consolidated subsidiaries on the same date.

(ii) Reason for execution of business combination

Through this business combination, KDDI aims to realize a three-way alliance centering on ENERES and including KDDI and Electric Power Development Co., Ltd., which possess a wealth of knowledge about the electric power business. We will swiftly respond to changes in the business environment leveraging each company's strengths. By spurring innovation to create business opportunities, we aim to enhance the corporate value of ENERES and expand the Group's electric power business.

(iii) Name and business description of acquired company (as of March 31, 2019)

| | |
|---|---|
| Name | ENERES Co., Ltd |
| Establishment date | April, 2008 |
| Location | 2-5-1 Kanda Surugadai, Chiyoda-ku, Tokyo Prefecture |
| Representative | Representative Director and President, Masahiro Kobayashi |
| Description of business | Corporate customer services (energy agent services)<br>New energy supplier services (wholesale power trade and supply-and-demand management services for retail power suppliers) |
| Capital | 2,893 million yen |

(iv) The percentage of acquired equity interests with voting rights

| | |
|---|---|
| Share of voting rights held just before the acquisition: | 29.73% |
| Share of additional voting rights acquired on the combination date: | 20.40% |
| Share of voting rights after the acquisition: | 50.13% |

(v) Controlling interest acquisition date

December 27, 2018

(vi) Acquisition price and its breakdown

(Unit: Millions of yen)

| | | Controlling interest acquisition date (December 27, 2018) |
|---|---|---|
| Fair value of equity held prior to acquisition | | 10,151 |
| Payment in cash | | 6,966 |
| Total consideration for acquisition | A | 17,117 |

The acquisition-related costs relating to this business combination amounted to ¥254 million, which was recorded in selling, general and administrative expenses.

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

(Unit: Millions of yen)

| | | | Controlling interest acquisition date (December 27, 2018) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | (Note) 1 | | 5,330 |
| Intangible assets | (Note) 1 | | 3,948 |
| Other long-term financial assets | | | 1,377 |
| Other non-current assets | | | 468 |
| Total non-current assets | | | 11,123 |
| Current assets | | | |
| Trade and other receivables | (Note) 2 | | 18,967 |
| Cash and cash equivalents | | | 3,073 |
| Other current assets | | | 1,877 |
| Total current assets | | | 23,918 |
| Total assets | | | 35,041 |
| Non-current liabilities | | | |
| Borrowings and bonds payable | | | 1,224 |
| Other long-term financial liabilities | | | 644 |
| Other non-current liabilities | | | 1,460 |
| Total Non-current liabilities | | | 3,328 |
| Current liabilities | | | |
| Borrowings and bonds payable | | | 6,508 |
| Trade and other payables | | | 16,581 |
| Other current liabilities | | | 2,512 |
| Total current liabilities | | | 25,601 |
| Total liabilities | | | 28,929 |
| Net assets | | B | 6,111 |
| Non-controlling interests | (Note) 3 | C | 3,194 |
| Goodwill | (Note) 4 | A−(B−C) | 14,199 |

Consideration for the acquisition is based on the fair value on the controlling interest acquisition date, and is allocated to the acquired assets and assumed obligations.

(Note) 1. The analysis of property, plant and equipment and intangible assets
The main components of property, plant and equipment are equipment and property.
The main components of intangible assets are customer related assets, trademarks and software.

(Note) 2. Estimation of fair values of acquired receivables, contractual amounts receivables and amounts not expected to be collected
As for the fair value of ¥18,967 million of acquired receivables and other receivables, the total amount of contracts is ¥18,967 million and the estimate of the contractual cash flows not expected to be collected at the acquisition date is none.

(Note) 3. Non-controlling interests
Non-controlling interests are measured by multiplying the net assets of the acquiree that can be indentified on the acquisition date by the ratio of non-controlling interests after the business combination.

(Note) 4. Goodwill
Goodwill reflects excess earning power expected from the collective human resources related to the future business development and its synergy with the existing businesses. There is no item deductible from the taxable income related to the recognized goodwill.

(viii) Purchase for controlling interest acquisition of subsidiary

(Unit: Millions of yen)

| | Controlling interest acquisition date (December 27, 2018) |
|---|---|
| Consideration for acquisition by cash | (6,966) |
| Cash and cash equivalents held by acquired company at the time of controlling interest acquisition | 3,073 |
| Total cash payment for controlling interest acquisition of subsidiary | (3,893) |

(ix) Gain on step acquisitions

The equity in ENERES that the Company held prior to the acquisition date was remeasured at the fair value on the acquisition date. As a result, we recognized a gain on step acquisitions of ¥2,999 million due to the business combination. This income is recorded as other non-operating profit and loss in the consolidated statement of income.

(x) Revenue and loss for the year of the acquiree

Revenue and loss for the year of the acquiree after the acquisition date, which are recorded on the consolidated statement of income for the year ended March 31, 2019 are ¥22,972 million and ¥206 million, respectively.

(xi) 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 2019 would have been ¥5,131,610 million and ¥701,387 million, respectively.

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

# 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, 2019 based on projected benefit obligations and estimated value of plan assets as of March 31, 2019.
   When calculating retirement benefit obligations, the benefit formula basis is used for attributing expected retirement benefits to periods through March 31, 2019.
   Prior service cost is amortized on a straight-line basis over the average remaining service period of employees (within 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 (within 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 officers' stock compensation

To allow for payment of the Company's stock, etc., to Directors, Executive Officers, and Administrative Officers, the Company records the estimated amount of stock payment obligations at the end of the fiscal year under review.

Provision for employees' stock compensation

To allow for payment of the Company's stock, etc., to employees in management positions, the Company records the estimated amount of stock payment obligations at the end of the fiscal year under review.

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.

Provision for loss on disaster

The Company records the estimated amounts to be required for restoration of assets damaged by the Hokkaido eastern Iburi earthquake, Typhoon No. 21, etc. that occurred in fiscal 2018

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.

## (Changes in presentation)

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018, hereinafter the "Partial Amendments to Tax Effect Accounting Standard") effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented in the category of investments and other assets and deferred tax liabilities are presented in the category of noncurrent liabilities.

## (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 ¥15,424 million by that company as of March 31, 2019.

2. Contingent liabilities, etc.

   | | |
   |---|---|
   | Guarantor for office lease contract | ¥4,639 million |

3. Monetary claims and monetary liabilities to subsidiaries and affiliates

   | | |
   |---|---|
   | Long-term monetary claims | ¥164,032 million |
   | Short-term monetary claims | ¥292,982 million |
   | Long-term monetary liabilities | ¥374 million |
   | Short-term monetary liabilities | ¥279,115 million |

4. Reduction entry amount of noncurrent assets

   | | |
   |---|---|
   | Reduction entry amount attributable to aid for construction cost (cumulative total) | ¥15,295 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 | ¥260,877 million |
| Loans receivables outstanding | ¥164,119 million |
| Remaining portion of credit line | ¥96,759 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 | ¥335,381 million |
| Operating expenses to subsidiaries and affiliates | ¥510,306 million |
| Non-operating transactions with subsidiaries and affiliates | ¥71,155 million |

2. Impairment loss ¥1,815 million

In the year ended March 31, 2019, 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. | 1,815 |

In the year ended March 31, 2019, 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 ¥1,815 million, an extraordinary loss. This consists of ¥1,308 million for local line facilities, and ¥507 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.

3. Loss on valuation of stocks of subsidiaries and affiliates

| | |
|---|---|
| Loss on valuation of stocks of subsidiaries and affiliates | ¥12,673 million |

Loss on valuation of stocks of subsidiaries and affiliates relates to the stock of KDDI America, Inc.

## (Non-Consolidated Statements of Changes in Net Assets)

1. Shares outstanding and treasury stock

(Unit: Shares)

| | As of April 1, 2018 | Increase during the fiscal year ended March 31, 2019 | Decrease during the fiscal year ended March 31, 2019 | As of March 31, 2019 |
|---|---|---|---|---|
| Shares outstanding | | | | |
| Common stock | 2,587,213,525 | – | 55,209,080 | 2,532,004,445 |
| Total | 2,587,213,525 | – | 55,209,080 | 2,532,004,445 |
| Treasury stock | | | | |
| Common stock | 181,809,302 | 55,039,325 | 55,894,854 | 180,953,773 |
| Total | 181,809,302 | 55,039,325 | 55,894,854 | 180,953,773 |

(The reason of the above changes)

1. The decrease of 55,209,080 shares in the number of common stocks outstanding is due to the retirement of treasury stock (retirement date: May 16, 2018).
2. The increase of 55,039,325 shares in the number of common stocks in treasury stock is due to a share buyback of 55,039,300 shares based on a resolution at the Board of Directors meeting dated May 10, 2018, and purchases of shares less than one unit of 25 shares.
3. The decrease of 55,894,854 shares in the number of common stocks in treasury stock is due to the retirement of 55,209,080 shares of treasury stock (retirement date: May 16, 2018) and the issuance, etc. of 685,774 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 4,322,928 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 20, 2018 Annual shareholders meeting | Common stock | ¥108,318 million | ¥45 | March 31, 2018 | June 21, 2018 |
| November 1, 2018 Meeting of the Board of Directors | Common stock | ¥119,841 million | ¥50 | September 30, 2018 | December 3, 2018 |
| Total | | ¥228,159 million | | | |

Notes 1: The total amount of dividends decided by the Annual shareholders meeting on June 20, 2018 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: The total amount of dividends decided by the Board of Directors meeting on November 1, 2018 includes a dividend of ¥216 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 19, 2019, the Company has proposed the following matters regarding dividends of common stock.

1) Total dividends ¥129,546 million
2) Dividends per share ¥55
3) Record date March 31, 2019
4) Effective date June 20, 2019

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

2: The total amount of dividends includes a dividend of ¥238 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 | 5,814 |
| | Excess amount of allowance for doubtful accounts, etc. | 7,117 |
| | Provision for point service program | 17,223 |
| | Denial of accrued expenses | 3,132 |
| | Excess amount of depreciation and amortization | 35,980 |
| | Denial of loss on retirement of noncurrent assets | 2,040 |
| | Denial of loss on valuation of inventories | 3,000 |
| | Accrued enterprise taxes | 5,770 |
| | Denial of impairment loss | 19,463 |
| | Denial of advances received | 3,693 |
| | Loss on valuation of investment securities | 169 |
| | Loss on valuation of stocks of subsidiaries and affiliates | 16,210 |
| | Other | 1,423 |
| Total deferred tax assets | | 121,034 |
| Deferred tax liabilities: | Provision for retirement benefits | (6,416) |
| | Reserve for special depreciation | (267) |
| | Valuation difference on available-for-sale securities | (6,560) |
| | Gain on exchange from business combination | (1,455) |
| | Other | (298) |
| Total deferred tax liabilities | | (14,995) |
| Net deferred tax assets | | 106,039 |

## (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, 2019 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 | 71,241 | 71,241 | – |
| 2) Accounts receivable-trade | 1,533,404 | | |
| Allowance for doubtful accounts *1 | (13,123) | | |
| | 1,520,281 | 1,520,281 | – |
| 3) Accounts receivable-other | 73,562 | 73,562 | – |
| 4) Investment securities | | | |
| Available-for-sale securities | 75,259 | 75,259 | – |
| 5) Short-term loans receivable from subsidiaries and affiliates *2 | 165,728 | 165,728 | – |
| 6) Stocks of subsidiaries and affiliates | 89,399 | 145,649 | 56,250 |
| 7) Long-term loans receivable from subsidiaries and affiliates *3 | 198,298 | 198,383 | 84 |
| Total assets | 2,193,769 | 2,250,103 | 56,335 |
| 8) Accounts payable-trade | 99,874 | 99,874 | – |
| 9) Short-term loans payable | 221,165 | 221,165 | – |
| 10) Accounts payable-other | 367,109 | 367,109 | – |
| 11) Income taxes payable | 110,313 | 110,313 | – |
| 12) Deposits received | 67,833 | 67,833 | – |
| 13) Bonds payable *4 | 280,000 | 283,602 | 3,602 |
| 14) Long-term loans payable *4 | 423,000 | 424,707 | 1,707 |
| Total liabilities | 1,569,294 | 1,574,603 | 5,309 |

*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 noncurrent assets.
*3. This includes the current portion of long-term loans receivable from subsidiaries and affiliates under noncurrent 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<br>Unlisted equity securities | 34,802 |
| Stocks of subsidiaries and affiliates<br>Unlisted equity securities* | 960,479 |
| 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 ¥125,899 million
Amount of investments in affiliates based on equity method ¥174,000 million
Amount of equity in net income of affiliates based on equity method ¥4,780 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, 2019 |
|---|---|---|---|---|
| Financial support | Lending of funds (Note) | 27,039 | Long-term loans receivable from subsidiaries and associates | 48,400 |
| Sharing of concurrent positions by board members | | | Short-term loans receivable from subsidiaries and associates | 99,402 |
| | Receipt of interests | 266 | Accounts receivable-other | 2 |

(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, 2019 |
|---|---|---|---|---|
| Financial support | Lending of funds (Note) | (9,375) | Long-term loans receivable from subsidiaries and associates | 75,000 |
| Sharing of concurrent positions by board members | | | Short-term loans receivable from subsidiaries and associates | 25,540 |
| | Receipt of interests | 394 | Accounts receivable-other | 64 |

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, 2018.

## (Per Share Information)

1. Net assets per share ¥1,576.69
2. Net income per share ¥211.90

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 4,322,928 shares and 3,031,468 shares.

## (Significant subsequent events)

KDDI incorporated an intermediate financial holding company, au Financial Holdings Corporation, in order to strengthen its settlement and financial business and introduced the "Smart Money Concept" which ensures customer satisfaction by providing comprehensive smartphone-centric settlements and financial transactions.

In addition, KDDI transferred five companies (Jibun Bank Corporation, which became a consolidated subsidiary on April 1, 2019, and the consolidated subsidiaries of KDDI Financial Service Inc., WebMoney Corporation, KDDI Asset Management Co., Ltd., and au Reinsurance Corporation) to au Financial Holdings Corporation. By reorganizing these companies, we aim to maximize synergies and enhance product competitiveness by accelerating their decision making processes and enhancing governance.

(i) Making Jibun Bank Corporation a consolidated subsidiary
KDDI acquired the 608,614 shares issued via third party allocation by Jibun Bank Corporation ("Jibun Bank") on April 1, 2019. As a result, KDDI owns 1,408,614 shares (63.78%) in Jibun Bank, making Jibun Bank a consolidated subsidiary.
KDDI now provides Jibun Bank with access to the big data, digital marketing resources and customer base that it has cultivated to date. We also continually create points of contact with customers and help strengthen the service offerings for customers' different life stages with the aim of maximizing the corporate value of Jibun Bank.
The consideration for the acquisition is ¥25.0 billion. Due to the limited time between the acquisition date and the approval date of the consolidated financial statements for the fiscal year ended March 31, 2019, the accounting process regarding said acquisition of shares has not been completed and we have not disclosed detailed data regarding the accounting treatment of the business combination.

(ii) Beginning the tender offer for shares of kabu.com Securities Co., Ltd. by the wholly owned KDDI subsidiary LDF LLC

On February 12, 2019, KDDI announced that its wholly owned subsidiary LDF LLC (“LDF”) would make a public tender for shares of kabu.com Securities Co., Ltd. (“kabu.com Securities”).
Because the preparations to begin this tender offer have been concluded, KDDI and LDF have decided to begin the tender offer for the common stocks of and subscription rights to kabu.com Securities on April 25, 2019.
After the completion of the tender offer and related procedures, the final shareholding ratios of kabu.com Securities are expected to be as below.

| | | |
|---|---|---|
| Shareholding ratios before change (As of April 25, 2019) | Mitsubishi UFJ Securities Holdings Co., Ltd.<br>LDF LLC | 52.96%<br>0.00% |
| Shareholding ratios after change | Mitsubishi UFJ Securities Holdings Co., Ltd.<br>LDF LLC | 51.00%<br>49.00% |

**(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.