Financial Section

Consolidated Balance Sheets

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
ASSETS			
Current Assets			
Cash and deposits (Notes 4, 5)	¥ 136,922	¥ 100,037	$ 1,217
Accounts receivable (Note 5)	641,699	827,177	10,064
Short-term investment securities (Notes 5, 6)	25,201	80,188	976
Inventories	58,352	65,232	794
Deferred tax assets (Note 13)	64,080	57,781	703
Prepaid expenses and other current assets	19,612	21,427	261
Allowance for doubtful accounts (Note 5)	(13,768)	(14,960)	(182)
Total Current Assets	932,099	1,136,882	13,832
Property, Plant and Equipment			
Machinery, antenna facilities, terminal facilities, local line facilities, long-distance line facilities, engineering facilities, submarine line facilities	3,852,665	4,011,406	48,807
Buildings and structures	629,786	639,738	7,784
Machinery and tools	164,894	182,802	2,224
Land	243,295	251,994	3,066
Construction in progress	79,397	134,190	1,633
Other property, plant and equipment	24,527	29,000	353
	4,994,564	5,249,130	63,866
Accumulated depreciation	(3,121,743)	(3,365,404)	(40,947)
Net Property, Plant and Equipment	1,872,821	1,883,726	22,919
Investments and Other Assets			
Investment securities (Notes 5, 6)	73,899	86,615	1,054
Investments in affiliates (Note 5)	357,070	352,001	4,283
Intangible assets	226,315	218,125	2,654
Goodwill	64,613	91,901	1,118
Deferred tax assets (Note 13)	128,686	104,829	1,275
Other assets	131,518	139,050	1,692
Allowance for doubtful accounts	(8,103)	(9,121)	(111)
Total Investments and Other Assets	973,998	983,401	11,965
Total Assets	¥3,778,918	¥4,004,009	$48,716

The accompanying notes are an integral part of these consolidated financial statements.

	Millions of yen 2011	2012	Millions of U.S. dollars (Note 1) 2012
LIABILITIES AND NET ASSETS			
Current Liabilities			
Short-term loans payable and current portion of noncurrent liabilities (Notes 5, 7)	¥ 140,104	¥ 185,599	$ 2,258
Accounts payable (Note 5)	258,002	363,781	4,426
Income taxes payable (Note 5)	57,765	149,774	1,822
Accrued expenses (Note 5)	14,253	20,371	248
Provision for bonuses	19,520	20,077	244
Provision for loss on the Great East Japan Earthquake	16,283	1,993	24
Other current liabilities	101,352	99,057	1,205
Total Current Liabilities	607,278	840,651	10,228
Noncurrent Liabilities			
Long-term loans payable (Notes 5, 7)	414,188	301,286	3,666
Bonds payable (Notes 5, 7)	414,979	349,991	4,258
Convertible bond-type bonds with subscription rights to shares (Notes 5, 7)	—	200,917	2,445
Provision for point service program	85,198	91,453	1,113
Provision for retirement benefits and other noncurrent liabilities (Notes 5, 14)	85,437	91,086	1,108
Total Noncurrent Liabilities	999,801	1,034,733	12,590
Total Liabilities	1,607,079	1,875,384	22,818
Contingent Liabilities (Note 8)			
Net Assets			
Shareholders' Equity			
Capital stock:			
Authorized—7,000,000 and 7,000,000 shares at March 31, 2011 and 2012, respectively			
Issued—4,484,818.00 and 4,484,818.00 shares at March 31, 2011 and 2012, respectively	141,852	141,852	1,726
Capital surplus	367,092	367,104	4,467
Retained earnings	1,704,171	1,879,088	22,863
Treasury stock:			
Number of treasury stock—238,976 and 663,006 shares at March 31, 2011 and 2012, respectively	(125,245)	(346,164)	(4,212)
Total Shareholders' Equity	2,087,870	2,041,880	24,843
Accumulated Other Comprehensive Income			
Valuation difference on available for-sale securities	28,612	36,443	443
Deferred gain or loss on hedges	32	(677)	(8)
Foreign currency translation adjustments	(13,183)	(16,899)	(206)
Total Accumulated Other Comprehensive Income	15,462	18,867	230
Subscription Rights to Shares	1,505	1,129	14
Minority Interests	67,003	66,749	812
Total Net Assets	2,171,839	2,128,625	25,899
Total Liabilities and Net Assets	¥3,778,918	¥4,004,009	$48,716

Consolidated Statements of Income

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
Operating Revenues:			
Revenues from telecommunications business	¥2,489,403	¥2,394,136	$29,129
Sales of mobile terminals and other	945,143	1,177,962	14,332
Total Operating Revenues	3,434,546	3,572,098	43,461
Operating Expenses:			
Business expenses (Note 16)	653,018	667,748	8,124
Depreciation	423,448	389,008	4,733
Communication facility fee	362,480	347,228	4,225
Cost of sales of mobile terminals and other	1,077,742	1,249,659	15,205
Other (Notes 12, 16)	445,947	440,807	5,363
Total Operating Expenses	2,962,634	3,094,450	37,650
Operating Income	471,912	477,648	5,812
Other Expenses (Income):			
Interest expenses	14,161	12,891	157
Interest income	(640)	(966)	(12)
Dividends income	(1,528)	(1,719)	(21)
Equity in loss of affiliates	19,948	18,298	223
Gain on investments in silent partnership	(978)	(654)	(8)
Dividends due to liquidation of silent partnership contract	—	(6,977)	(85)
Loss on valuation of investment securities	368	504	6
Gain on sales of investment securities	(5,618)	(138)	(2)
Gain on sales of noncurrent assets (Note 10)	(1,315)	(170)	(2)
Loss on sales of noncurrent assets (Note 10)	—	677	8
Loss on sales of stocks of subsidiaries and affiliates	176	—	—
Gain on negative goodwill	(535)	(235)	(3)
Gain on reversal of subscription rights to shares	(450)	(493)	(6)
Gain on transfer from business divestitures	—	(3,615)	(44)
Impairment loss (Note 9)	52,141	9,947	121
Loss on retirement of noncurrent assets (Note 10)	31,816	—	—
Loss on the Great East Japan Earthquake (Note 11)	17,590	4,074	50
Reversal of provision for loss on the Great East Japan Earthquake (Note 11)	—	(6,815)	(83)
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,242	—	—
Other, net	271	(1,380)	(17)
Total Other Expenses	126,652	23,228	283
Income before Income Taxes and Minority Interests	345,260	454,420	5,529
Income Taxes (Note 13):			
Current	102,618	177,279	2,157
Deferred	(21,381)	30,282	368
Total Income Taxes	81,237	207,561	2,525
Income before Minority Interests	264,023	246,859	3,004
Minority Interests in Income	8,900	8,254	100
Net Income	¥ 255,122	¥ 238,605	$ 2,903

	Yen		U.S. dollars (Note 1)
	2011	2012	2012
Per Share Data (Note 22):			
Net income	¥58,150	¥58,116	$707
Diluted net income	—	56,669	689
Cash dividends	14,000	16,000	195

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income (Note 15)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
Income before Minority Interests	¥264,023	¥246,859	$3,004
Other Comprehensive Income			
Valuation difference on available-for-sale securities	(5,678)	7,191	87
Foreign currency translation adjustments	(7,497)	(3,641)	(44)
Share of other comprehensive income of associates accounted for using equity method	(17)	(898)	(11)
Total Other Comprehensive Income	(13,193)	2,651	32
Comprehensive Income	250,830	249,510	3,036
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	243,508	242,010	2,945
Comprehensive income attributable to minority interests	¥ 7,322	¥ 7,501	$ 91

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Net Assets (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
Shareholders' Equity			
Capital Stock			
Balance at the beginning of the period	¥ 141,852	¥ 141,852	$ 1,726
Balance at the end of the period	141,852	141,852	1,726
Capital Surplus			
Balance at the beginning of the period	367,092	367,092	4,466
Changes of items during the period			
Disposal of treasury stock	—	12	0
Total changes of items during the period	—	12	0
Balance at the end of the period	367,092	367,104	4,467
Retained Earnings			
Balance at the beginning of the period	1,506,952	1,704,171	20,735
Changes of items during the period			
Dividends from surplus	(57,903)	(63,688)	(775)
Net income	255,122	238,605	2,903
Total changes of items during the period	197,219	174,917	2,128
Balance at the end of the period	1,704,171	1,879,088	22,863
Treasury Stock			
Balance at the beginning of the period	(25,245)	(125,245)	(1,524)
Changes of items during the period			
Purchase of treasury stock	(100,000)	(220,970)	(2,689)
Disposal of treasury stock	—	50	1
Total changes of items during the period	(100,000)	(220,919)	(2,688)
Balance at the end of the period	(125,245)	(346,164)	(4,212)
Total Shareholders' Equity			
Balance at the beginning of the period	1,990,651	2,087,870	25,403
Changes of items during the period			
Dividends from surplus	(57,903)	(63,688)	(775)
Net income	255,122	238,605	2,903
Purchase of treasury stock	(100,000)	(220,970)	(2,689)
Disposal of treasury stock	—	63	1
Total changes of items during the period	97,219	(45,990)	(560)
Balance at the end of the period	¥2,087,870	¥2,041,880	$24,843

Consolidated Statements of Changes in Net Assets — (continued) (Note 17)

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
Accumulated Other Comprehensive Income			
Valuation Difference on Available-for-sale Securities			
Balance at the beginning of the period	¥ 34,327	¥ 28,612	$ 348
Changes of items during the period			
Net changes of items other than shareholders' equity	(5,714)	7,830	95
Total changes of items during the period	(5,714)	7,830	95
Balance at the end of the period	28,612	36,443	443
Deferred Gain or Loss on Hedges			
Balance at the beginning of the period	—	32	0
Changes of items during the period			
Net changes of items other than shareholders' equity	32	(709)	(9)
Total changes of items during the period	32	(709)	(9)
Balance at the end of the period	32	(677)	(8)
Foreign Currency Translation Adjustments			
Balance at the beginning of the period	(7,251)	(13,183)	(160)
Changes of items during the period			
Net changes of items other than shareholders' equity	(5,932)	(3,716)	(45)
Total changes of items during the period	(5,932)	(3,716)	(45)
Balance at the end of the period	(13,183)	(16,899)	(206)
Total Accumulated Other Comprehensive Income			
Balance at the beginning of the period	27,076	15,462	188
Changes of items during the period			
Net changes of items other than shareholders' equity	(11,614)	3,405	41
Total changes of items during the period	(11,614)	3,405	41
Balance at the end of the period	15,462	18,867	230
Subscription Rights to Shares			
Balance at the beginning of the period	1,606	1,505	18
Changes of items during the period			
Net changes of items other than shareholders' equity	(102)	(376)	(5)
Total changes of items during the period	(102)	(376)	(5)
Balance at the end of the period	1,505	1,129	14
Minority Interests			
Balance at the beginning of the period	59,118	67,003	815
Changes of items during the period			
Net changes of items other than shareholders' equity	7,885	(253)	(3)
Total changes of items during the period	7,885	(253)	(3)
Balance at the end of the period	67,003	66,749	812
Total Net Assets			
Balance at the beginning of the period	2,078,451	2,171,839	26,425
Changes of items during the period			
Dividends from surplus	(57,903)	(63,688)	(775)
Net income	255,122	238,605	2,903
Purchase of treasury stock	(100,000)	(220,970)	(2,689)
Disposal of treasury stock	—	63	1
Net changes of items other than shareholders' equity	(3,831)	2,776	34
Total changes of items during the period	93,388	(43,214)	(526)
Balance at the end of the period	¥2,171,839	¥2,128,625	$25,899

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

KDDI Corporation and its Subsidiaries
Years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars (Note 1)
	2011	2012	2012
Net Cash Provided by (Used in) Operating Activities			
Income before income taxes and minority interests	¥ 345,260	¥ 454,420	$ 5,529
Depreciation and amortization	449,318	417,886	5,084
Impairment loss	52,141	9,947	121
Amortization of goodwill	11,374	14,276	174
Gain on negative goodwill	(535)	(235)	(3)
Loss (gain) on sales of noncurrent assets	(1,281)	507	6
Loss on retirement of noncurrent assets	15,467	12,965	158
Increase (decrease) in provision for loss on the Great East Japan Earthquake	16,283	(14,290)	(174)
Gain on transfer from business diverstitures	—	(3,615)	(44)
Dividends due to liquidation of silent partnership contract	—	(6,977)	(85)
Increase (decrease) in allowance for doubtful accounts	(247)	1,494	18
Increase (decrease) in provision for retirement benefits	40	(37)	0
Interest and dividends income	(2,168)	(2,685)	(33)
Interest expenses	14,161	12,891	157
Equity in losses (earnings) of affiliates	19,948	18,298	223
Loss (gain) on sales of stocks of subsidiaries and affiliates	176	—	—
Loss (gain) on valuation of investment securities	368	512	6
Increase (decrease) in provision for point service program	6,504	6,256	76
Changes in assets and liabilities:			
Decrease (increase) in prepaid pension costs	1,587	1,738	21
Decrease (increase) in notes and accounts receivable-trade	(31,578)	(207,034)	(2,519)
Decrease (increase) in inventories	(9,345)	(6,945)	(85)
Increase (decrease) in notes and accounts payable-trade	(755)	23,442	285
Increase (decrease) in accounts payable-other	(12,132)	62,003	754
Increase (decrease) in accrued expenses	(799)	5,015	61
Increase (decrease) in advances received	(239)	(10,356)	(126)
Other, net	(5,850)	(4,226)	(51)
Subtotal	867,701	785,248	9,554
Interest and dividends income received	7,579	8,761	107
Interest expenses paid	(14,050)	(12,883)	(157)
Income taxes paid	(143,877)	(88,626)	(1,078)
Income taxes refund	—	33,386	406
Net Cash Provided by (Used in) Operating Activities	717,354	725,886	8,832
Net Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment	(346,113)	(318,871)	(3,880)
Purchase of trust beneficiary right (Note 23)	—	(14,994)	(182)
Proceeds from sales of property, plant and equipment	1,536	531	6
Purchase of intangible assets	(76,045)	(75,915)	(924)
Purchase of investment securities	(1,417)	(1,962)	(24)
Proceeds from sales of investment securities	15,790	3,424	42
Payments for business divestitures	—	(1,000)	(12)
Purchase of stocks of subsidiaries and affiliates	(3,891)	(25,742)	(313)
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 23)	(5,398)	(31,789)	(387)
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	—	832	10
Payments for sales of investments in subsidiaries and affiliates resulting in change in scope of consolidation	(904)	—	—
Proceeds from repayment of investment and dividends due to liquidation of silent partnership contract	—	7,704	94
Purchase of long-term prepaid expenses	(22,398)	(26,801)	(326)
Other, net	(1,706)	75	1
Net Cash Provided by (Used in) Investing Activities	(440,546)	(484,507)	(5,895)
Net Cash Provided by (Used in) Financing Activities			
Net increase (decrease) in short-term loans payable	(99,715)	(1,020)	(12)
Proceeds from long-term loans payable	50,000	—	—
Repayment of long-term loans payable	(24,754)	(133,750)	(1,627)
Proceeds from issuance of bonds	40,000	—	—
Redemption of bonds	(83,000)	—	—
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	—	201,000	2,446
Purchase of treasury stock	(100,000)	(220,970)	(2,689)
Cash dividends paid	(57,903)	(63,689)	(775)
Cash dividends paid to minority shareholders	(1,084)	(1,193)	(15)
Proceeds from stock issuance to minority shareholders	1,868	11	0
Other, net	(5,411)	(6,320)	(77)
Net Cash Provided by (Used in) Financing Activities	(279,998)	(225,931)	(2,749)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(2,417)	(1,126)	(14)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,607)	14,322	174
Cash and Cash Equivalents at Beginning of the Year	165,477	159,870	1,945
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 159,870	¥ 174,192	$ 2,119

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

KDDI Corporation and its Subsidiaries
Year Ended March 31, 2012

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared based on the consolidated financial statements disclosed in Japan for domestic reporting purposes.

KDDI Corporation (the "Company") prepares these consolidated financial statements in accordance with the Financial Instruments and Exchange Law, Corporate Law and Japanese Telecommunications Business Law and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to accounting and disclosure requirements of International Financial Reporting Standards.

The consolidated financial statements disclosed in Japan have been reclassified and adjusted in order to make it easier for overseas readers to comprehend. In addition, certain reclassifications and adjustments have been made in the consolidated financial statements as of and for the year ended March 31, 2011 to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2012.

The consolidated financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥82.19=U.S.$1, the approximate exchange rate on March 31, 2012. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be readily converted into U.S. dollars at this rate or any other rate.

The Company's consolidated financial statements for the year ended March 31, 2012 include the Company and its 118 subsidiaries. These are; Okinawa Cellular Telephone Company, KDDI Technical & Engineering Service Corporation, KDDI Evolva Inc., Japan Cablenet Limited, Chubu Telecommunications Co., Inc. and KDDI America, Inc. and other subsidiaries.

During the year ended March 31, 2012, changes in the scope were incurred as follows:

Added (Consolidated):

- 16 companies due to stock acquisition
  HKCOLO.NET Ltd, WebMoney Corporation, Evolva Business Support Inc., Nobot Inc., CDNetworks Co., Ltd. and its 9 subsidiaries, Telehouse Deutschland GmbH and Kleyer Real Estate GmbH.

- 1 company due to additional purchase of shares
  Japan Internet Exchange Co., Ltd.

- 3 companies due to new establishment
  KKBOX International Limited, TELEHOUSE BEIJING BDA CO.,LTD, KDDI Open Innovation Fund L.P.,

Removed (Consolidated):

- 5 companies due to liquidation
  KDDI International Holding LLC, KDDI International Holdings2 LLC, KDDI International Holdings3 LLC, KDDI Global Media LP and MediaFLO Broadcast Planning Inc.

- 2 companies due to merger with other subsidiaries
  Kawagoe Cable Vision Co., Ltd.: merged into JCN KANTO Ltd, KMN Corporation: merged into CABLE TELEVISION TOKYO, LTD.

Also, the number of the Company's equity-method affiliates at March 31, 2012 was 21, such as Jupiter Telecommunications Co., Ltd., Kyocera Communication Systems Co., Ltd., UQ Communications Inc., Jibun Bank Corporation, Mobaoku Co., Ltd. and MOBICOM Corporation. During the year ended March 31, 2012, changes in the scope were incurred as follows:

Added (Equity Method):

- 2 companies due to stock acquisition
  Branddialog, Inc. and Alliance Internet Co., Ltd.

Removed (Equity Method):

- 1 company due to additional purchase, resulted in subsidiary
  Japan Internet Exchange Co., Ltd.

2. Significant Accounting Policies

a. Basis of Consolidation and Accounting for Investments in Affiliated Companies

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (the "Companies").

All significant intercompany transactions and accounts are eliminated.

The consolidated financial statements include the financial statements of subsidiaries whose fiscal year end date is different from that of the Company. The difference between the fiscal year end date of the subsidiaries and that of the Company does not exceed three months. In cases where the financial statements have different fiscal year end date from that of the Company, necessary adjustments are made for the effects of significant transactions or events that occurred between the fiscal year end date of the subsidiaries and that of the Company.

Investments in certain affiliates are accounted for by the equity method, whereby a consolidated group includes in net income its share of the profit or loss of these companies, and records its investments at cost adjusted for such share of profit or loss.

Exceptionally, investments in certain affiliates (CJSC Vostoktelecom, etc.) are accounted for by the cost method as the effect of application of the equity method is immaterial.

b. Revenue Recognition

For telecommunications services, revenues are recognized mainly on the basis of minutes of traffic processed and contracted fees earned. Revenues from sales of products and systems are recognized on fulfillment of contractual obligations, which is generally on shipment basis. Revenues from rentals and other services are recognized proportionately over the contract period or as services are rendered.

c. Cash and Cash Equivalents

Cash and cash equivalents in the accompanying consolidated statements of cash flows consist of cash on hand, bank deposits with financial institutions and highly liquid short-term investments with maturity of three months or less at the time of purchase, which are subject to an insignificant risk of change in value.

d. Inventories

Inventories are stated at cost. Cost is determined by the moving average method. Inventories consist primarily of mobile terminals. The method of write downs based on the decrease in profitability is applied in order to calculate the inventory value on the balance sheet.

e. Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gain and loss are included in net profit or loss for the period.

Then, all assets and liabilities of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Revenues and expenses for the year are translated into Japanese yen at the average exchange rate during the year and translation adjustments are included in "Foreign currency translation adjustments" and "Minority interests" of "Net assets."

f. Property, Plant and Equipment and Depreciation Other Than Leased Assets

Property, plant and equipment are stated at cost. Assets are depreciated over their estimated useful lives by applying the declining balance method to machineries owned by the Companies, and by the straight-line method to property, plant and equipment other than machinery owned by the Companies.

The main useful lives are as follows:

Machinery: 9 years

Local line facilities, Long-distance line facilities, Engineering facilities, Submarine line facilities and Buildings: 5 to 38 years

g. Intangible Assets (except for leased assets)

Amortization of intangible assets (except for leased assets) is calculated by the straight-line method over the estimated useful lives of the respective assets.

Goodwill is amortized under the straight-line method over a period of 5 to 20 years. However, the minimal amount of goodwill is recognized as expenses for the year ended March 31, 2012.

Research and development expenses are charged to income as incurred. Software for internal use included in intangible assets is amortized using the straight-line method over the estimated useful lives (5 years).

h. Financial Instruments

(1) Securities

Available-for-sale securities for which market quotations are available are stated at fair value prevailing at the balance sheet date with unrealized gain and loss, net of applicable deferred tax assets/liabilities, directly reported as a separate component of "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 mainly determined by the moving average method.

(2) Derivatives

Derivatives are used to hedge against interest rate fluctuation risks based on the Companies' policy.

Major hedging instruments are interest rate swaps and hedged items are loans.

The interest rate swap used to hedge interest rate fluctuation is measured at the fair value and unrealized gain or loss is presented in the accompanying consolidated statements of comprehensive income.

The interest rate swaps meeting the requirement of exceptional treatment under Japanese GAAP are not measured at the fair value and the differences between payment amount and receipt amount are included in the interest expense or income.

i. Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants' taxes and enterprise taxes. The Companies have adopted the deferred tax accounting method. Under this method, deferred tax assets and liabilities are determined based on the timing differences between the financial reporting and the tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to reverse.

j. Lease
Leased assets related to financial leases that do not transfer ownership rights are amortized under the straight-line method based on the lease terms as the useful lives and residual value of zero. The Companies continue to apply the method for ordinary operating lease transactions to financial leases that do not transfer ownership rights entered before March 31, 2008.

k. Deferred assets
Bond issuance expenses: Entire amount of expenses is fully charged at time of expenditure.

l. Net Income per Share
Net income per share is computed based on the average number of shares outstanding during each year.

m. Allowance for Doubtful Accounts
To prepare for uncollectible credits, the Companies record general allowance based on the actual bad debt ratio, and individual allowance is accrued against specific account that is deemed to be uncollectible.

n. Provision
1) Provision for Retirement Benefits
The amount for employee retirement benefits has been based on the estimated value of benefit obligations, plan assets and retirement benefit trust assets at March 31, 2012.

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

2) Provision for Point Service Program
In order to prepare for the future cost generating from the utilization of points that customers have earned under point services such as "au Point Program," based on its past experience, the Companies reserve an amount considered appropriate to cover possible utilization of the points the following consolidated fiscal year or after.

3) Provision for Bonuses
To prepare for the payment of bonuses to employees, the Companies record the estimated amounts of bonuses to be paid.

4) Provision for Loss on the Great East Japan Earthquake
Amount for recovery of assets damaged by the Great East Japan Earthquake that occurred on March 11, 2011 has been estimated.

3. Changes to Basis of Presenting Consolidated Financial Statements

(Application of "Accounting Standard for Earnings Per Share" and Others)
From the year ended March 31, 2012, the Company has applied the "Accounting Standard for Earning Per Share"(Accounting Standards Board of Japan [ASBJ] Statement No.2 of June 30, 2010), the "Guidance on Accounting Standard for Earning Per Share" (ASBJ Guidance No.4 of June 30, 2010), and the "Practical Solution on Accounting for Earnings Per Share" (ASBJ PITF No.9 of June 30, 2010).

To calculate diluted net income per share, the Company has changed the method to include potential services offered by the employees in the fair valuation of stock options of payment when exercising the right regarding stock options whose rights are secured after certain period of employment.

Information about the effect of this change is included in Note 22. "Per Share Information."

(Changes in Presentation)
(Consolidated Balance Sheets)
"Income taxes receivable" separately disclosed as of March 31, 2011 has been included in "Accounts receivable-other" as of March 31, 2012 as it has become less material.

As a result, ¥32,704 million that was recorded as income taxes receivable on the consolidated balance sheets in the previous fiscal year has been included in accounts receivable-other.

(Changes in Accounting Estimates)
Since August 2006, the Company and Okinawa Cellular Telephone Company have offered a service that enables users to carry-over unused talk time in the future. The service allows a certain free talk time that is included into the basic monthly rate to be carried-over indefinitely.

The Company and Okinawa Cellular Telephone Company have estimated the unused free talk time per month that is expected to be used in the future, and deferred the portion as revenue, and recognized as advances received. However, from this fiscal year, sufficient historical results for the estimation of the unused free talk time that is expected to lapse into the future has been available, and more detailed estimates of that amount have become possible. Accordingly, such unused free talk time was deducted from the deferred revenue.

As the result, revenues from telecommunications business, operating income, ordinary income and income before income taxes and minority interests were increased by ¥10,362 million (U.S.$126 million).

(Additional Information)
(Application of the "Accounting Standard for Accounting Changes and Error Corrections" and Others)
For the accounting changes and error corrections made on or after April 1, 2011, the Company has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009).

4. Cash and Cash Equivalents

For the purpose of presenting the consolidated statements of cash flows, cash and cash equivalents comprise the followings:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Cash and deposits	¥136,922	¥100,037	$1,217
Short-term investment securities	25,201	80,188	976
Total	162,123	180,225	2,193
Time deposits due beyond three months	(2,254)	(6,034)	(73)
Cash and cash equivalents	¥159,870	¥174,192	$2,119

5. Financial Instruments

1. Status of Financial Instruments

(1) Policy for measures relating to financial instruments

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

(2) Details of financial instruments and associated risk and risk management policy

Trade receivables—trade notes and accounts receivable and other accounts receivable—are exposed to credit risk in relation to customers and trading partners. For such risk, pursuant to criteria for managing credit exposure, the Companies have systems to manage due dates and balances of each customer and trading partner as well as the analysis of credit status.

The Companies are exposed to market price fluctuation risk in relation to investment securities. However, those are primarily the investments in entities with which the Companies closely have operational relationships, and periodic analysis of market values is reported to the Board of Directors.

Almost all trade payables—trade notes and accounts payable, other accounts payable and accrued expenses—have payment due dates within one year.

Those trade payables are exposed to liquidity risk at time of settlement. However, the Companies reduce that risk by reviewing each fund-raising plan 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 investment and investment and financing. Loans payable with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce fluctuation risk for interest payable and fix interest expenses when it enters into long-term loans at variable interest rates—based on the premise that requirements for special treatment of interest rate swaps are met in relation to evaluation of the effectiveness of hedges—in principle, the Companies use interest rate swap transactions as a hedging method on an individual contract basis.

In relation to market risk, because partners of the Companies' derivative deals are financial institutions with high credibility that credit risk from breach of contract is quite slim.

In order to conduct derivative transactions, based on internal regulations of each subsidiary and regulations stipulating associated details, finance or accounting divisions must receive approval from those with final-approval authority as stipulated by authority-related regulations through consultation via an internal memo for each derivative transaction and only conduct transactions with financial institutions with high credit ratings.

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

The market values of financial instruments include prices based on market prices, or, if there are no market prices, they include reasonably estimated prices. Because estimations of the said prices incorporate fluctuating factors, applying different assumptions can in some cases change the said prices.

2. Market Value of Financial Instruments

Amounts recognized in the consolidated balance sheets, market values and the differences between March 31, 2011 and 2012 were as shown below. Moreover, items of which market values were not readily determinable were not included in the following table (see (Note 2)).

At March 31, 2011

	Book value	Market value	Difference
			Millions of yen
(1) Cash and deposits	¥ 136,922	¥ 136,922	¥ —
(2) Accounts receivable	641,699		
Allowance for doubtful accounts*1	(13,767)		
	¥ 627,932	¥ 627,932	—
(3) Short-term investment securities	25,201	25,201	—
(4) Investment securities	69,723	69,723	—
(5) Stocks of subsidiaries and affiliates	332,560	186,823	(145,737)
Total asset accounts	¥1,192,338	¥1,046,601	¥(145,737)
(6) Accounts payable	258,002	258,002	—
(7) Short-term loans payable	1,304	1,304	—
(8) Accrued expenses	14,253	14,253	—
(9) Income taxes payable	57,765	57,765	—
(10) Bonds payable*2	414,979	424,976	9,997
(11) Long-term loans payable*2	547,437	551,397	3,960
Total liability accounts	¥1,293,739	¥1,307,696	¥ 13,957

*1. Allowance for doubtful accounts recognized in notes and accounts receivable-trade is offset.
*2. Bonds payable and long-term loans payable included in current portion of noncurrent liabilities were included.

At March 31, 2012

	Millions of yen			Millions of U.S. dollars		
	Book value	Market value	Difference	Book value	Market value	Difference
(1) Cash and deposits	¥ 100,037	¥ 100,037	¥ —	$ 1,217	$ 1,217	$ —
(2) Accounts receivable	827,177			10,064		
Allowance for doubtful accounts*1	(14,960)			(182)		
	¥ 812,217	¥ 812,217	¥ —	$ 9,882	$ 9,882	$ —
(3) Short-term investment securities	80,188	80,188	—	976	976	—
(4) Investment securities						
Bonds intended to be held to maturity	3,006	3,138	132	37	38	2
Other securities	72,374	72,374	—	881	881	—
(5) Stocks of subsidiaries and affiliates	326,297	189,568	(136,730)	3,970	2,306	(1,664)
Total asset accounts	¥1,394,119	¥1,257,521	¥(136,598)	$16,962	$15,300	$(1,662)
(6) Accounts payable	90,662	90,662	—	1,103	1,103	—
(7) Short-term loans payable	1,486	1,486	—	18	18	—
(8) Accounts payable-other	273,119	273,119	—	3,323	3,323	—
(9) Accrued expenses	20,371	20,371	—	248	248	—
(10) Income taxes payable	149,774	149,774	—	1,822	1,822	—
(11) Bonds payable*2	414,989	427,728	12,739	5,049	5,204	155
(12) Convertible bond-type bonds with subscription rights to shares	200,917	214,500	13,583	2,445	2,610	165
(13) Long-term loans payable*2	414,164	419,340	5,176	5,039	5,102	63
Total liability accounts	¥1,565,480	¥1,596,979	¥ 31,499	$19,047	$19,430	$ 383

*1. Allowance for doubtful accounts recognized in notes and accounts receivable-trade is offset.

*2. Bonds payable and long-term loans payable included in current portion of noncurrent liabilities are included.

Note 1: Calculation of the market value of financial instruments and items relating to short-term investment securities and derivative transactions

1) Cash and deposits, 2) Accounts receivable, 3) Short-term investment securities

Because the settlement periods of the above items were short and their market values were almost the same as their book values, the relevant book values were used. Further, because the credit risk was not readily determinable on an individual basis for notes and accounts receivable-trade, allowance for doubtful accounts was regarded as credit risk and the book value was calculated accordingly.

4) Investment securities, 5) Stock of subsidiaries and affiliates

In relation to the market value of investment securities, for shares the market prices of exchanges were used. Further, for information on investment securities categorized according to holding purpose, refer to the Note 6. "Marketable Securities and Other Investments."

6) Accounts payable, 7) Short-term loans payable, 8) Accounts payable-other, 9) Accrued expenses, 10) Income taxes payable

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

11) Bonds payable, 12) Convertible bond-type bonds with subscription rights to shares are calculated based on trading reference data.

The market value of bonds payable and convertible bond-type bonds with subscription rights to shares were calculated based on trading reference data.

The market value of long-term loans payable was calculated by applying a discount rate to the total of principal and interest. That discount rate was based on the assumed interest rate if a similar new loan was entered into.

Because long-term loans payable with variable interest rates were based on the condition that interest rates were revised periodically, their market values were almost the same as their book values, the relevant book values were used.

Note 2: Financial instruments of which market values were not readily determinable.

	Millions of yen		Millions of U.S. dollars
	Book value		Book value
	2011	2012	2012
Investment securities			
Unlisted equity securities	¥4,176	¥ 11,235	$137
Stocks of subsidiaries and affiliates			
Unlisted equity securities	24,327	25,517	310
Investments in capital of subsidiaries and affiliates	182	185	2

Because it was recognized that financial instruments did not have readily determinable market values and that the market values of which market value were not readily determinable, they were not included in the chart above.

Note 3: Planned redemption amounts after the balance sheet date for monetary assets and short-term investment securities with monetary assets and maturity dates.

	Millions of yen		Millions of yen		Millions of U.S. dollars	
	Within 1 year	Over 1 year	Within 1 year	Over 1 year	Within 1 year	Over 1 year
	2011		2012		2012	
Cash and deposits	¥136,922	¥ —	¥100,037	¥ —	$ 1,217	$ —
Accounts receivable	600,536	41,162	719,625	107,551	8,755	1,309
Securities	—	—	80,000	—	973	—
Short-term investment securities	25,201	—	—	3,006	—	37
Total	¥762,659	¥41,162	¥899,663	¥110,557	$10,946	$1,345

Note 4: For information on planned repayment amounts after the balance sheet date for bonds payable and long-term loans payable, refer to Note 7." Short-term Loans and Long-term Debts."

6. Marketable Securities and Other Investments

At March 31, 2011

Market value and net unrealized gain or loss of quoted securities were as follows:

Bond Intended to be Held to Maturity

Not applicable.

Available-for-sale securities

Millions of yen

		Book value	Acquisition cost	Book value gain (loss)
Securities for which book value of consolidated balance sheets exceeded acquisition cost	Stock	¥52,495	¥ 3,376	¥49,119
	Bonds	—	—	—
	Other	250	228	22
	Subtotal	¥52,745	¥ 3,605	¥49,141
Securities for which book value of consolidated balance sheets did not exceed acquisition cost	Stock	¥17,018	¥17,858	¥ (840)
	Negotiable deposit	25,000	25,000	—
	Other	161	174	(14)
	Subtotal	¥42,179	¥43,032	¥ (853)
Total		¥94,924	¥46,637	¥48,287

Regarding unlisted equity securities, which book value was ¥4,176 million for the year ended March 31, 2011, because it was recognized that these did not have market values and the market values of which market value were not readily determinable, they were not included in the chart above.

Available-for-sale Securities Sold

Millions of yen

	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥15,717	¥5,690	—

Impairment of Investment Securities

For the year ended March 31, 2011, the Company recognized an impairment loss of ¥368 million on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment loss was recognized in light of the possibility of recovery.

At March 31, 2012

Market value and net unrealized gain or loss of quoted securities were as follows:

Bonds Intended to be Held to Maturity

		Millions of yen			Millions of U.S. dollars		
		Book value	Actual value	Difference	Book value	Actual value	Difference
Bonds for which market value exceeds book value on consolidated balance sheets	National bonds and local bonds, etc.	¥3,006	¥3,138	¥(132)	$37	$38	$ (2)
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥3,006	¥3,138	¥(132)	$37	$38	$ (2)
Bonds for which market value does not exceed book value on consolidated balance sheets	National bonds and local bonds, etc.	—	—	—	—	—	—
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥ —	¥ —	¥ —	$—	$—	$—
Total		¥3,006	¥3,138	¥(132)	$37	$38	$ (2)

Available-for-sale Securities

		Millions of yen			Millions of U.S. dollars		
		Book value	Acquisition cost	Book value gain (loss)	Book value	Acquisition cost	Book value gain (loss)
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥ 71,627	¥ 3,510	¥68,117	$ 871	$ 43	$829
	Bonds	—	—	—	—	—	—
	Others	40	35	5	0	0	0
	Subtotal	¥ 71,667	¥ 3,545	¥68,122	$ 872	$ 43	$829
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥853	2,770	(1,918)	10	34	(23)
	Negotiable deposit	—	—	—	—	—	—
	Others	80,042	80,047	(4)	974	974	(0)
	Subtotal	¥ 80,895	¥82,817	¥ (1,922)	$ 984	$1,008	$ (23)
Total		¥152,562	¥86,362	¥66,200	$1,856	$1,051	$805

Regarding unlisted equity securities, which book value was ¥11,235 million (U.S.$137 million) for the year ended March 31, 2012, because it was recognized that these did not have market values and the market values of which market value were not readily determinable, they were not included in the chart above.

Available-for-sale Securities Sold

	Millions of yen			Millions of U.S. dollars		
	Amount of sale	Total gain on sale	Total loss on sale	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥3,986	¥138	¥89	$49	$2	$1

Impairment of Investment Securities

For the year ended March 31, 2012, the Company recognized an impairment loss of ¥509 million (U.S.$6 million) on investment securities (other securities).

Further, regarding impairment treatment, for securities for which market value at the end of the period had dropped markedly in comparison to acquisition cost, impairment loss was recognized in light of the possibility of recovery.

7. Short-term Loans and Long-term Debts

Short-term loans at March 31, 2011 and 2012 were ¥1,304 million and ¥1,486 million (U.S.$18 million), respectively, and the annual average interest rates applicable for the years ended March 31, 2011 and 2012 were 3.52% and 4.51%, respectively.

Long-term debts at March 31, 2011 and 2012 consist of the following:

		Millions of yen		Millions of U.S. dollars
		2011	2012	2012
Unsecured straight bonds				
Year ended March 31, 2011	(Interest rate per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2013–2021)	¥394,979	¥ —	$ —
Year ended March 31, 2012	(Interest rate per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2013–2021)	—	394,988	4,806
General secured bonds				
Year ended March 31, 2011	(Interest rate per annum: 3.20%)			
	(Due: year ending March 31, 2018)	20,000	—	—
Year ended March 31, 2012	(Interest rate per annum: 3.20%)			
	(Due: year ending March 31, 2018)	—	20,000	243
Convertible bond-type bonds with subscription rights to shares (unsecured)				
Year ended March 31, 2012	(No interest shall be paid on the bonds)			
	(Due: year ending March 31, 2016)	—	200,917	2,445
Total bonds		¥414,979	¥ 615,905	$ 7,494
The Company has offered overall assets as general collateral for the corporate bonds.				
Loans from banks				
Year ended March 31, 2011	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	547,437	—	—
Year ended March 31, 2012	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	—	414,164	5,039
Other interest-bearing debt		15,910	15,199	185
Subtotal		¥978,326	¥1,045,268	$12,718
Less, amount due within one year		138,800	184,112	2,240
Total long-term debts		¥839,526	¥ 861,155	$10,478

Summary of annual maturities of long-term debts subsequent to March 31, 2012 are as follows:

	Millions of yen	Millions of U.S. dollars
Year ending March 31	2012	2012
2013	¥ 184,112	$ 2,240
2014	175,299	2,133
2015	166,457	2,025
2016	313,527	3,815
2017 and thereafter	205,873	2,505
Total	¥1,045,268	$12,718

Pledged Assets

The following table summarizes the book value of assets pledged as collateral for short-term loans and long-term debt, including current maturities of long-term debt of the consolidated subsidiaries at March 31, 2011 and 2012. In addition, the Company had offered overall assets as general collateral for the corporate bonds.

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Machinery, etc.	¥1,036	¥ 732	$ 9
Buildings and structures	190	165	2
Other property, plant and equipment	112	76	1
Investment securities	572	695	8
Other investments and other assets	93	171	2
Cash and deposits	—	878	11
Notes and accounts receivable–trade	201	188	2
Inventories	—	—	—
Other current assets	—	—	—
Total	¥2,203	¥2,904	$35

(Assets denominated in foreign currencies included U.S.$11 million at March 31, 2011 and U.S.$12 million and others at March 31, 2012.)

Since this fiscal year, certain subsidiaries deposited their assets as guarantee under the requirement of fund settlement in Japanese law. Deposited assets and its book values as of respective fiscal year end were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Investment securities	¥—	¥3,005	$37
Cash and deposits	—	2,000	24

Summary of annual maturities of long-term debts subsequent to March 31, 2011 and 2012 were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Long-term loans payable	¥1,599	¥1,224	$15
Short-term loans payable and current portion of noncurrent liabilities	1,755	1,858	23
Accounts payable	7	32	0
Total	¥3,360	¥3,115	$38

(Liabilities denominated in foreign currencies included U.S.$18 million at March 31, 2011 and U.S.$20 million at March 31, 2012.)

8. Contingent Liabilities

At March 31, 2011 and 2012, the Companies' contingent liabilities were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
As a guarantor for			
Contingent liabilities existing in cable system supply contract	¥ 4,158	¥ 4,110	$ 50
Contingent liabilities resulting from the liquidation of Minex Corporation	480	377	5
Loan of UQ Communications Inc., etc.	118,873	156,935	1,909
Contingent liabilities for notes receivable-trade discounted	—	297	4
Total	¥123,510	¥161,719	$1,968

9. Impairment Loss

The Companies calculated impairment loss by assets group according to minimum units that had identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

The use of the facility for current 800MHz band would be discontinued from July 2012 due to a reorganization of frequencies, while transfer of mobile terminals to a new frequency band was being promoted. Recognizing the downward trend in subscribers using mobile terminals compatible with such equipments, the book value of those assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥13,080 million, of which, ¥12,374 million from machineries and ¥706 million from others.

The recoverable value of these assets or asset groups was estimated based on the usage value, and calculated based on a future cash flow discount rate of 5.54%.

In the year ended March 31, 2011, for domestic transmission line facilities with declining utilization rates and idle assets, the book value had been reduced to recoverable value. The said reduction was recognized as impairment loss of ¥17,472 million in extraordinary loss. This comprised of ¥10,687 million for local line facilities, ¥4,486 million for engineering facilities and ¥2,299 million for others.

Further, the recoverable amount for the said assets was estimated based on the net selling price. The calculation of market value was based on appraised value and other factors. Recoverable value of asset or asset groups that were difficult to sell or convert to other usage was ¥0.

Due to the worsening market environment and the downward trend in the number of subscribers related to certain legacy services in the Fixed-line Business during the year ended March 31, 2011, the Company set up a cash management system to monitor cash flows generated by such equipment and whereby the Company was able to understand its profitability. Based on that, the Company has changed grouping from each asset group into an independent asset group.

Recognizing the worsening market environment and the downward trend in the number of subscribers, the book value of those assets was written down to the amount deemed recoverable, resulting in an extraordinary loss on asset impairment of ¥21,209 million, which consisted of ¥10,469 million for machineries, ¥7,753 million for local line facilities and ¥2,987 million for others.

The recoverable value of this asset group was estimated based on the usage value, and calculated based on a future cash flow discount rate of 5.54%.

In addition, impairment loss of ¥381 million on business assets in certain subsidiaries was recognized in extraordinary loss.

This consisted of ¥95 million for long-distance line facilities, ¥84 million for buildings, ¥79 million for machinery, ¥78 million for local line facilities, and ¥44 million for others.

The Companies calculate impairment losses by assets group based on minimum units that have identifiable cash flows essentially independent from the cash flows of other assets or groups of assets.

In the year ended March 31, 2012, for domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. That was recognized as impairment loss of ¥8,515 million (U.S.$104 million) in extraordinary loss, which consists of ¥4,455 million (U.S.$54 million) for local line facilities, ¥1,941 million (U.S.$24 million) for long-distance line facilities and ¥2,120 million (U.S.$26 million) for others.

Further, the recoverable amount for the said assets is estimated based on the net selling price. The calculation of market value is based on appraised value and other factors. Recoverable value of assets or asset groups that are difficult to sell or convert to other usage was ¥0.

In addition, impairment loss of ¥1,431 million (U.S.$17 million) on business assets in certain subsidiaries was recognized in extraordinary loss.

For the years ended March 31, 2011 and 2012, the Companies recorded impairment loss mainly on the following assets and asset groups.

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
The Company and the other: Equipment for the existing 800MHz band	¥13,080	¥ —	$ —
The Company: Domestic transmission line facilities and idle assets, etc.	17,472	8,515	104
The Company: Facility used for legacy service	21,209	—	—
Consolidated subsidiaries: Business assets, etc.	381	—	—

10. Gain and Loss on Sales and Retirement of Noncurrent Assets

Gain and loss on sales and retirement of noncurrent assets for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Gain on Sales of Noncurrent Assets			
Gain on sales of real estate accompanying disposal of land, etc.	¥ 1,105	¥ 62	$ 1
Gain on sale of other facilities, etc.	209	107	1
Total	¥ 1,315	¥170	$ 2
Loss on Sales of Noncurrent Assets			
Loss on disposal of real estate accompanying disposal of land, etc.	¥ —	¥597	$ 7
Loss on disposal of other facilities, etc.	—	80	1
Total	¥ —	¥677	$ 8
Loss on Retirement of Noncurrent Assets			
Facility used for current 800MHz band	¥28,384	¥ —	$—
Facility used for legacy service	3,256	—	—
Others	176	—	—
Total	¥31,816	¥ —	$—

11. Loss on the Great East Japan Earthquake

Year ended March 31, 2011

The Companies recognized a ¥17,590 million loss on recovery of assets damaged by the Tohoku Region Pacific Coast Earthquake that had occurred on March 11, 2011. It consisted of loss and recovery cost of au base stations, domestic cable and others, support cost to agencies, and other recovery costs and included a ¥16,283 million provision.

Year ended March 31, 2012

The loss of ¥4,074 million (U.S. $50 million) comprised of replacement costs of handsets for subscribers and other recovery costs.

As a result of the investigation at damaged areas and reassessment of the scope of recovery works, a ¥6,815 million (U.S.$83 million) gain was recognized on the reversal of the provision during the year ended March 31, 2012.

12. Research and Development Expenses

Research and development expenses were ¥33,263 million and ¥32,855 million (U.S.$400 million) for the years ended March 11, 2011 and 2012 respectively.

13. Income Taxes

At March 31, 2011 and 2012, significant components of deferred tax assets and liabilities are summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Deferred tax assets			
Depreciation and amortization	¥ 73,268	¥ 41,103	$ 500
Allowance for doubtful accounts	10,533	9,526	116
Retirement of noncurrent assets	1,877	2,253	27
Inventory write down	2,527	1,267	15
Impairment loss	40,353	44,622	543
Provision for retirement benefits	4,121	4,356	53
Provision for bonuses	8,567	8,313	101
Accrued expenses	2,955	3,007	37
Net operating loss carried forward	13,186	2,945	36
Unrealized profits	2,347	2,352	29
Provision for point service program	34,579	34,700	422
Accrued enterprise taxes payable	665	10,807	131
Advances received	24,143	20,230	246
Provision for the Great East Japan Earthquake	5,936	758	9
Other	10,693	10,471	127
Gross deferred tax assets	¥235,751	¥196,715	$2,393
Valuation allowance	(17,831)	(8,055)	(98)
Total deferred tax assets	¥217,920	¥188,660	$2,295
Deferred tax liabilities			
Special depreciation reserve	¥ (1,094)	¥ (1,696)	$ (21)
Valuation difference on available-for-sale securities	(19,595)	(19,659)	(239)
Retained earnings for overseas affiliates	(1,270)	(1,446)	(18)
Accrued enterprise taxes receivable	(1,958)	—	—
Gain on transfer from business divestitures	—	(1,692)	(21)
Other	(2,360)	(4,019)	(49)
Total deferred tax liabilities	¥ (26,277)	¥ (28,513)	$ (347)
Net deferred tax assets	¥191,643	¥160,146	$1,948

The following table summarizes significant differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2011 and 2012.

	2011	2012
Statutory tax rate	40.6%	40.6%
Adjustments:		
Permanently non-deductible items including dividend paid	0.2	0.1
Inhabitant tax on per capita levy	0.1	0.1
Tax credit for research and development expenses	(0.3)	(0.2)
Goodwill amortization	1.3	1.2
Effect of equity-method investment income	2.3	1.6
Permanently non-deductible items including dividend income	(0.1)	(0.2)
Reserve for loss carry forward	(1.0)	(0.1)
Valuation allowance	(1.9)	(1.3)
Effects of tax rate differences for subsidiaries	(1.9)	(0.2)
Reversal of reserve for tax	0.4	0.3
Liquidation of subsidiaries	(15.7)	—
Effect of change in tax rate	—	3.3
Other	(0.5)	0.5
Effective tax rate	23.5%	45.7%

Impact from the Change in Corporation Tax Rate, etc.

Due to the promulgation on December 2, 2011 of The Law to Revise the Income Tax, etc., in order to construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011), and The Act on Special Measures for Securing the Financial Resources to implement the restoration from the Tohoku Earthquake (Law No.117 of 2011), for fiscal years beginning on or after April 1, 2012, the corporation tax rate has been reduced and a special reconstruction corporation tax has been instituted.

As a result, the effective statutory tax rate used to measure deferred tax assets and liabilities has been changed from the previous 40.6% to 38.0% for temporary differences expected to be eliminated during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014, and to 35.6% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2015.

As a result of the change in tax rate, the amount of deferred tax assets (net of the amount of deferred tax liabilities) had decreased by ¥12,007 million (U.S.$146 million), valuation difference on available for-sale securities increased by ¥2,762 million (U.S.$34 million) and income taxes-deferred increased by ¥14,770 million (U.S.$180 million).

14. Retirement Benefits

The Companies have retirement benefit plans that consist of defined benefit pension plan, a retirement lump-sum plan and a retirement benefit trust scheme. Further, certain subsidiaries have defined contribution pension plans or association-establishment-type employees' pension funds.

The provision for retirement benefits at March 31, 2011 and 2012 were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Projected benefit obligations	¥(302,547)	¥(308,509)	$(3,754)
Plan assets	245,415	253,746	3,087
Retirement benefit trust	8,159	8,177	99
Funded status	¥ (48,973)	¥ (46,586)	$ (567)
Unrecognized actuarial differences	47,544	39,973	486
Unrecognized prior service cost	(162)	3,198	39
Net amount recognized in the consolidated balance sheets	(1,590)	(3,414)	(42)
Prepaid pension cost	(17,066)	(15,330)	(187)
Provision for retirement benefits	¥ (18,656)	¥ (18,744)	$ (228)

Net pension expenses related to the retirement benefits for the years ended March 31, 2011 and 2012 were as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Service cost	¥10,710	¥10,953	$133
Interest cost	5,889	6,032	73
Expected return on plan assets	(4,792)	(4,908)	(60)
Amortization of prior service cost	(1,578)	(2,915)	(35)
Amortization of actuarial differences	8,182	10,277	125
Net pension cost	¥18,411	¥19,439	$237

Assumptions used in calculation of the above information were as follows:

	March 31 2011	March 31 2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits over average remaining service period	Straight-line	
Average remaining service period	14 years	
Amortization of actuarial differences	14 years from the year following that in which they arise	

Multi-employer Pension Plans

At March 31, 2011

Items relating to overall status of pension plan reserves as of March 31, 2010 (as of the most recently available year-end date of the ITOCHU Union Pension Fund):

	Millions of yen
Plan assets	¥ 56,750
Benefit obligation based on pension plan finance calculation	70,596
Balance*1	¥(13,846)

Percentage of total pension plan accounted for by contributions from the Companies in the year ended March 31, 2010 0.17%*2

*1. The principle factors relating to the balance are, based on pension plan finance calculation, prior service cost of ¥7,857 million and deficiency carried forward of ¥5,989 million. For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 18 years and one month (at March 31, 2010).

*2. The percentage does not match the actual amount contributed by the Companies.

At March 31, 2012

Certain subsidiaries belong to the Kanto IT Software Pension Fund, which is a multi-employer pension plan. Contributions to the said pension plan were recognized as net pension cost.

Items relating to overall status of pension plan reserves as of March 31, 2011 (as of the most recently available year-end date of the Kanto IT Software Pension Fund):

	Millions of yen	Millions of U.S. dollars
Plan assets	¥171,945	$2,092
Benefit obligation based on pension plan finance calculation	172,108	2,094
Balance*1	¥ (164)	$ (2)

Percentage of total pension plan accounted for by contributions from those subsidiaries in the year ended March 31, 2011 0.08%*2

*1. The principle factors relating to the balance were based on pension plan finance calculation, general reserve of ¥14,983 million (U.S.$182 million), actuarial asset value adjustment of ¥3,494 million (U.S.$43 million) and credit balance of ¥11,653 million (U.S.$142 million). For the said pension plan, prior service cost was amortized through amortization of principal and interest using the straight-line method over a period of 20 years and one month (at March 31, 2011).

*2. The percentage does not match the actual amount contributed by the Companies.

15. Consolidated Statements of Comprehensive Income

Effective from the year ended March 31, 2011, comprehensive income was newly disclosed. (Note 3. "Changes to Basis of Presenting Consolidated Financial Statements")

The comprehensive income for the year ended March 31, 2012 was as follows.

	Millions of yen	Millions of U.S. dollars
Valuation difference on available-for-sale securities		
Amount recognized in the period under review	¥ 6,846	$ 83
Amount of recycling	449	5
Before income tax effect adjustment	7,295	89
Amount of income tax effect	(105)	(1)
Valuation difference on available-for-sale securities, net of tax effect	¥ 7,191	$ 87
Foreign currency translation adjustments		
Amount recognized in the period under review	(3,641)	(44)
Amount of recycling	—	—
Before income tax effect adjustment	(3,641)	(44)
Amount of income tax effect	—	—
Foreign currency translations adjustment, net of tax effect	¥(3,641)	$(44)
Share of other comprehensive income of associates accounted for using equity method		
Amount recognized in the period under review	(1,118)	(14)
Amount of recycling	220	3
Share of other comprehensive income of associates accounted for using equity method, net of tax effect	(898)	(11)
Total other comprehensive income	¥ 2,651	$ 32

16. Stock Options

Since September 2002, a stock option system had been in place in the Company. The Company granted stock options to Members of the Board of Directors, Vice Presidents, Executive Directors, Advisers, Corporate Auditors and employees and directors of wholly owned subsidiaries.

Also, DMX Technologies Group Limited ("DMX") and Wire and Wireless Co., Ltd. ("Wi2"), consolidated subsidiaries of the Company, adopted its own stock option systems.

DMX granted stock options to Members of the Board of Directors and employees of DMX and its group companies. Wi2 granted stock option to Members of the Board of Directors, employees, and shareholders of Wi2.

Impacts to operating expenses for the years ended March 31, 2011 and 2012 were ¥403 million and ¥131 million (U.S.$2 million), respectively. Also due to the nullification of rights, gains on reversal of subscription rights for the years ended March 31, 2011 and 2012 were ¥450 million and ¥493 million (U.S.$ 6 million), respectively.

Method of Estimating Reasonable Price for Share Options

Consolidated subsidiary Wire and Wireless Co., Ltd., is an unlisted company, and consequently the reasonable price of the December 2011 No. 1 share options of Wire and Wireless was calculated by estimating the intrinsic value. The discounted cash flow method was employed for estimation of the intrinsic value.

The total intrinsic value at March 31, 2012 was ¥0.

Scale of Stock Options and Changes in the Scale

The following lists the number of shares calculated for the number of stock options that existed in the year ended March 31, 2012.

(1) Number of stock options

The Company

	August 2007 6th Stock Option	August 2008 7th Stock Option	August 2009 8th Stock Option
			Shares
Before vested			
Beginning of the year	—	—	5,146
Granted	—	—	—
Forfeited	—	—	19
Vested	—	—	5,127
Unvested	—	—	—
After vested			
Beginning of the year	4,558	4,805	—
Vested	—	—	5,127
Exercised	—	2	94
Expired	4,558	145	173
Exercisable	—	4,658	4,860

DMX

	October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
			Shares
Before vested			
Beginning of the year	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
After vested			
Beginning of the year	3,305,544	3,906,858	16,930,000
Vested	—	—	—
Exercised	—	10,000	1,710,000
Expired	—	—	—
Exercisable	3,305,544	3,896,858	15,220,000

Wi2

	December 2009 Stock Option
	Shares
Before vested	
Beginning of the year	1,402
Granted	—
Forfeited	45
Vested	—
Unvested	1,357
After vested	
Beginning of the year	—
Vested	—
Exercised	—
Expired	—
Exercisable	—

(2) Unit value and exercise period of respective stock options

The Company

		August 2007 6th Stock Option		August 2008 7th Stock Option		August 2009 8th Stock Option	
		Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price		¥879,000	$10,694.73	¥649,000	$7,896.34	¥539,000	$6,557.98
Average share price at exercise		—	—	481,500	5,858.38	529,500	6,442.39
Fair value unit price (Date of grant)		100,549	1,223.37	106,718	1,298.43	111,281	1,353.95
Exercise period	From	October 1, 2009		October 1, 2010		October 1, 2011	
	To	September 30, 2011		September 30, 2012		September 30, 2013	

DMX

		August 2007 6th Stock Option		August 2008 7th Stock Option		August 2009 8th Stock Option	
		Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars
Exercise price		SGD 0.6778	$0.54	SGD 0.2260	$0.18	SGD 0.0930	$0.07
Average share price at exercise		—	—	0.3150	0.25	0.3150	0.25
Fair value unit price (Date of grant)		0.7900	0.63	0.2500	0.20	0.0900	0.07
Exercise period	From	October 2, 2004		April 24, 2009		November 27, 2009	
	To	May 26, 2013		April 26, 2018		November 28, 2018	

* Exchange rate of Singapore dollars into U.S. dollars were made as follows: SGD1 =¥65.37 U.S.$1 = ¥82.19

Wi2

		Yen	U.S. dollars
		December 2009 Stock Option	December 2009 Stock Option
Exercise price		¥24,000	$292.01
Average share price at exercise		—	—
Fair value unit price (Date of grant)		—	—
Exercise period	From	December 1, 2011	
	To	October 29, 2019	

17. Consolidated Statements of Changes in Net Assets

For the year ended March 31, 2011

(1) Total number and type of shares and treasury stock outstanding

	As of April 1, 2010	Increase during the year ended March 31, 2011	Decrease during the year ended March 31, 2011	As of March 31, 2011
Shares outstanding				
Common stock	4,484,818	—	—	4,484,818
Total	4,484,818	—	—	4,484,818
Treasury stock				
Common stock Note	30,705	208,271	—	238,976
Total	30,705	208,271	—	238,976

Note: The increase of 208,271 shares during the year resulted from purchase of its own stock by the resolution of the Board of Directors' meeting on October 22, 2010.

(2) Subscription warrants and own share option

	Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants				Balance as of March 31, 2011
			As of April 1, 2010	Increase during the year ended March 31, 2011	Decrease during the year ended March 31, 2011	As of March 31, 2011	Millions of yen
The Company (parent company)	Subscription warrants as stock options			—			¥1,410
Consolidated subsidiaries	Subscription warrants as stock options			—			94
Total				—			¥1,505

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 17, 2010 Annual meeting of shareholders	Common stock	¥28,951	¥6,500	March 31, 2010	June 18, 2010
October 22, 2010 Meeting of the Board of Directors	Common stock	¥28,951	¥6,500	September 30, 2010	November 19, 2010

2. Dividend payment was effective on the year ended March 31, 2012, even though the payment had been recognized during the year ended March 31, 2011.

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 16, 2011 Annual meeting of shareholders	Common stock	¥31,843	Retained earnings	¥7,500	March 31, 2011	June 17, 2011

For the year ended March 31, 2012

(1) Total number and type of shares and treasury stock outstanding and total number and type of treasury stock

	As of April 1, 2011	Increase during the year ended March 31, 2012	Decrease during the year ended March 31, 2012	As of March 31, 2012
Shares outstanding				
Common stock	4,484,818	—	—	4,484,818
Total	4,484,818	—	—	4,484,818
Treasury stock				
Common stock	238,976	424,126	96	663,006
Total	238,976	424,126	96	663,006

Note 1: The increase of 424,126 shares during the year resulted from purchase of its treasury stock by the resolution the Board of Directors' meeting on November 28, 2011.

Note 2: The decrease of 96 shares during the year resulted from the exercise of stock options.

Note 3: The subscription warrants were not bifurcated with the convertible bond-type bonds.

(2) Subscription warrants and own share option

	Breakdown of subscription warrants	Types of shares subject to subscription warrants	Number of shares subject to subscription warrants				Balance as of March 31, 2012	
			As of April 1, 2011	Increase during the year ended March 31, 2012	Decrease during the year ended March 31, 2012	As of March 31, 2012	Millions of yen	Millions of U.S. dollars
The Company (parent company)	Subscription warrants as stock options	—	—				¥1,038	$13
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) Note	Common stock	—	348,979 shares Upper limit	—	348,979 shares Upper limit	—	—
Consolidated subsidiaries	Subscription warrants as stock options	—	—				91	1
Total		—	—	—	—	—	¥1,129	$14

Note: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)

1. The number of shares was estimated based on the "If Converted" Method.
2. The increase was due to issuance.

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 16, 2011 Annual meeting of shareholders	Common stock	¥31,844	¥7,500	March 31, 2011	June 17, 2011
October 24, 2011 Meeting of the Board of Directors	Common stock	¥31,844	¥7,500	September 30, 2011	November 21, 2011

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividends per share	Record date	Effective date
June 16, 2011 Annual meeting of shareholders	Common stock	$387	$91.25	March 31, 2011	June 17, 2011
October 24, 2011 Meeting of the Board of Directors	Common stock	$387	$91.25	September 30, 2011	November 21, 2011

2. Dividend payment was effective on the year ending March 31, 2013, even though the payment had been recognized during the year ended March 31, 2012.

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	¥32,485	Retained earnings	¥8,500	March 31, 2012	June 21, 2012

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividend resource	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	$395	Retained earnings	$103.42	March 31, 2012	June 21, 2012

18. Business Combination

1. Overview of the Business Combination

(1) Name of acquired company	WebMoney Corporation
(2) Business activities of acquired company	Issuance and sale of server-managed electronic money
(3) Main reason for the business combination	Targeting the realization of multiple uses under the 3M strategy (Multi-use, Multi-network, multi-device), the Company acquired shares of WebMoney and made it a consolidated subsidiary in order to enhance the settlement platform.
(4) Date of business combination	July 19, 2011 (Date of commencement of TOB settlement)
(5) Legal form of business combination	Acquisition of shares
(6) Name of company after business combination	WebMoney Corporation
(7) % of voting rights acquired	97.2%
(8) Main factors in determination of acquirer	Because the type of consideration was cash, the Company, which provided the cash, was determined to be the acquirer.

2. Period for which the Acquired Company's Results are Included in the Consolidated Statements of Income under Review

July 1, 2011, was deemed to be the acquisition date, and accordingly results for the period from July 1, 2011, to March 31, 2012, were included.

3. Acquisition cost:

The following table summarizes the costs incurred in conjunction with the business combination.

	Millions of yen	Millions of U.S. dollars
Consideration for acquisition	¥19,104	$232
Costs directly incurred for acquisition	249	3
Acquisition cost	¥19,353	$235

4. Amount of Goodwill Recognized, Basis for Recognition of Goodwill, Method and Period for Amortization of Goodwill

(1) Goodwill	¥16,345 million (U.S.$199 million)
(2) Basis for recognition of goodwill	An asset representing the future economic arising from other assets acquired in a business combination that are not individually identified and separately recognized.
(3) Method and period for amortization of goodwill	Straight-line amortization over a period of 13 years.

5. Amounts and Breakdown for Assets Acquired and Liabilities Assumed in the Business Combination

	Millions of yen	Millions of U.S. dollars
	2012	2012
Noncurrent assets	¥ 3,401	$ 41
Current assets	17,902	218
Total assets	¥21,303	$259
Current liabilities	¥18,208	$222
Total liabilities	¥18,208	$222

6. Supplemental Pro Forma Financial Information

Supplemental pro forma financial information regarding combined results of the Company and WebMoney Corporation as though the business combination had occurred as of the beginning of the year ended March 31, 2012 was waived as the impact seemed not to be material.

19. Related Party Transaction

Year ended March 31, 2011

Transactions with a related party

Affiliates of the Company

Millions of yen

Type	Company Name	Head Office	Capital Stock	Business Objective	Percentage for Possession of Voting Rights	Relationship with Related Party	Contents of Transaction	Amount for Transaction	Title of Account	Amount as of March 31, 2011
Equity-method affiliate	UQ Communi-cations Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	118,700	—	—
						Concurrent director	Receiving fee for the guarantee	262	Account receivable	89

Terms and conditions and policies for terms and conditions

* Guarantee for bank borrowings and the amount represents maximum exposure of the Company.

Year ended March 31, 2012

Transactions with a related party

Affiliates of the Company

Millions of yen / (Millions of U.S. dollars)

Type	Company Name	Head Office	Capital Stock	Business Objective	Percentage for Possession of Voting Rights	Relationship with Related Party	Contents of Transaction	Amount for Transaction	Title of Account	Amount as of March 31, 2012
Equity-method affiliate	UQ Communi-cations Inc.	Minato-ku, Tokyo	23,925	Wireless broadband service	Direct ownership interest of 32.3%	Guarantee of loans	Guarantee*	156,700 (U.S.$1,907)	—	—
						Concurrent director	Receiving fee for the guarantee	495 (U.S.$6)	Account receivable	132 (U.S.$2)

Terms and conditions and policies for terms and conditions

* Guarantee for bank borrowings and the amount represents maximum exposure of the Company.

20. Segment Information

Segment information for the year ended March 31, 2011 and 2012 were as follows:

a. Segment Information

(1) Outline of Reportable Business Segments

The reportable business segments are the business units for which chief operating decision maker is able to obtain respective financial information separately in order for the Board of Directors, etc., to evaluate regularly in determining how to allocate resources and assess their business performance.

As the Companies are comprehensive telecommunications companies combining mobile and fixed-line communications in a single company, its reportable business segments comprise the "Mobile Business" and the "Fixed-line Business."

The Mobile Business provides mobile services (voice and data service), sales of mobile terminals and content and other services. The Fixed-line Business provides various fixed-line communications services, including broadband services centering on FTTH and CATV access lines, long distance and international telecommunications services. In addition, the Companies offer data center services and various ICT solutions services outside of Japan.

(2) Method of Calculating Sales and Income, Identifiable Assets, and Other Items by Reportable Business Segment

Accounting method for reportable business segment is the same as presentations on "Basis of Presenting Consolidated Financial Statements."

Income by reportable business segments are calculated based on operating income.

Intersegment sales are calculated based on third-party trading prices.

(3) Information on Sales and Income, Identifiable Assets and Other Items by Reportable Business Segment

Year ended March 31, 2011

Millions of yen

	Reportable Segments						
	Mobile Business	Fixed-line Business	Subtotal	Other (Note 1)	Total	Elimination and corporate (Note 2)	Consolidated
Sales							
Outside sales	¥2,582,366	¥ 803,590	¥3,385,956	¥48,590	¥3,434,546	¥ —	¥3,434,546
Intersegment sales	8,358	93,662	102,020	65,737	167,757	(167,757)	—
Total	2,590,725	897,251	3,487,976	114,327	3,602,303	(167,757)	3,434,546
Income by business segment	438,886	23,989	462,875	8,530	471,405	507	471,912
Identifiable assets by business segment	2,024,393	1,278,619	3,303,012	65,813	3,368,825	410,093	3,778,918
Other items							
Depreciation (Notes 3, 4)	¥ 324,487	¥ 124,101	¥ 448,587	¥ 1,360	¥ 449,947	¥ (629)	¥ 449,318
Amortization of goodwill	115	11,256	11,371	3	11,374	—	11,374
Investment to equity-method affiliates	2,192	336,520	338,712	18,168	356,881	—	356,881
Increase of property, plant and equipment and intangible assets (Note 4)	324,249	99,550	423,799	1,216	425,015	6,533	431,548

Note 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.

Note 2. (1) Adjustment of segment income refers to elimination of intersegment transactions.

(2) Adjustments of segment assets worth ¥410,093 million included company-wide assets of ¥568,261 million and elimination of claims and obligations among reported companies and elimination of intersegment transaction of ¥152,664 million. The majority of these assets were the Company's surplus funds, long-term investments and assets related to administrative divisions.

(3) Increase of property, plant and equipment and intangible assets was mainly from increase in assets related to management and common systems.

Note 3. For depreciation related to company-wide assets, amounts allocated to each reportable segment were ¥9,474 million for the Mobile Business and ¥6,788 million for the Fixed-line Business.

Note 4. This has included long-term prepaid expenses.

Year ended March 31, 2012

	Reportable Segments						Millions of yen
	Mobile Business	Fixed-line Business	Subtotal	Other (Note 1)	Total	Elimination and corporate (Note 2)	Consolidated
Sales							
Outside sales	¥2,716,864	¥ 818,696	¥3,535,560	¥36,538	¥3,572,098	¥ —	¥3,572,098
Intersegment sales	10,148	96,840	106,988	70,336	177,324	(177,324)	—
Total	2,727,012	915,536	3,642,548	106,874	3,749,422	(177,324)	3,572,098
Income by business segment	419,191	53,432	472,622	4,299	476,921	727	477,648
Identifiable assets by business segment	2,253,981	1,326,507	3,580,488	71,676	3,652,164	351,845	4,004,009
Other items							
Depreciation (Notes 3, 4)	¥ 302,880	¥ 113,716	¥ 416,596	¥ 1,669	¥ 418,266	¥ (379)	¥ 417,886
Amortization of goodwill	2,629	11,423	14,052	224	14,276	—	14,276
Investment to equity-method affiliates	2,527	329,324	331,851	19,970	351,821	—	351,821
Increase of property, plant and equipment and intangible assets (Note 4)	252,854	124,161	377,015	2,422	379,437	8,243	387,680

	Reportable Segments						Millions of U.S. dollars
	Mobile Business	Fixed-line Business	Subtotal	Other (Note 1)	Total	Elimination and corporate (Note 2)	Consolidated
Sales							
Outside sales	$33,056	$ 9,961	$43,017	$ 445	$43,461	$ —	$43,461
Intersegment sales	123	1,178	1,302	856	2,157	(2,157)	—
Total	33,179	11,139	44,319	1,300	45,619	(2,157)	43,461
Income by business segment	5,100	650	5,750	52	5,803	9	5,812
Identifiable assets by business segment	27,424	16,140	43,564	872	44,436	4,281	48,716
Other items							
Depreciation (Notes 3, 4)	$ 3,685	$ 1,384	$ 5,069	$ 20	$ 5,089	$ (5)	$ 5,084
Amortization of goodwill	32	139	171	3	174	—	174
Investment to equity-method affiliates	31	4,007	4,038	243	4,281	—	4,281
Increase of property, plant and equipment and intangible assets (Note 4)	3,076	1,511	4,587	29	4,617	100	4,717

Note 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development and other operations.
Note 2. (1) Adjustment of segment income refers to elimination of intersegment transactions.
(2) Adjustments of segment assets worth ¥351,845 million (U.S.$4,281 million) include company-wide assets of ¥ 515,166 million (U.S.$6,268 million) and elimination of claims and obligations among reported companies and elimination of intersegment transaction of ¥ 163,321 million (U.S.$1,987 million). The majority of these assets were the Company's surplus funds, long-term investments and assets related to administrative divisions.
(3) Increase of property, plant and equipment and intangible assets was mainly from increase in assets related to management and common systems.
Note 3. For depreciation related to company-wide assets, amounts allocated to each reportable segment were ¥7,730 million (U.S.$94 million) for the Mobile Business and ¥6,107 million (U.S.$74 million) for the Fixed-line Business.
Note 4. This has included long-term prepaid expenses.

b. Relative Information

(1) Products and Services Information

Products and services information was not shown since the same information was disclosed in the segment information.

(2) Geographic Segment Information

1. Sales

Sales information by geographic segment was not shown since sales in Japan accounted for over 90% of operating revenue on the consolidated statements of income.

2. Property, plant and equipment

Property, plant and equipment information by geographic segment was not shown since property, plant and equipment in Japan accounted for over 90% of property, plant and equipment on the consolidated balance sheets.

(3) Information by Major Clients

Information by major clients was not presented since no individual clients accounted for greater than 10% of operating revenue on the consolidated statements of income.

c. Information on Impairment Loss on Property, Plant, and Equipment by Business Segment

Year ended March 31, 2011

Millions of yen

	Mobile Business	Fixed-line Business	Other	Corporate	Consolidated
Impairment Loss	¥13,061	¥38,924	¥126	¥31	¥52,141

Year ended March 31, 2012

Millions of yen

	Mobile Business	Fixed-line Business	Other	Corporate	Consolidated
Impairment Loss	¥5	¥9,942	¥—	¥—	¥9,947

Millions of U.S. dollars

	Mobile Business	Fixed-line Business	Other	Corporate	Consolidated
Impairment Loss	$0	$121	$—	$—	$121

d. Information on Amortization of Goodwill and Unamortized Balance by Business Segment

Year ended March 31, 2011

Millions of yen

	Mobile Business	Fixed-line Business	Other	Consolidated
Amortization of goodwill	¥ 115	¥11,256	¥ 3	¥11,374
Year end balance	4,249	60,363	—	64,613

Year ended March 31, 2012

Millions of yen

	Mobile Business	Fixed-line Business	Other	Consolidated
Amortization of goodwill	¥ 2,629	¥11,423	¥224	¥14,276
Year end balance	19,486	72,416	—	91,901

Millions of U.S. dollars

	Mobile Business	Fixed-line Business	Other	Consolidated
Amortization of goodwill	$ 32	$139	$ 3	$ 174
Year end balance	237	881	—	1,118

e. Information on Negative Goodwill by Business Segment

Year ended March 31, 2011 and 2012

No significant items to be reported.

21. Special Purpose Companies

1. Overview of Special Purpose Companies and Transactions

The Company securitized its properties in order to improve its financial position by reducing interest-bearing debt. This securitization was conducted using special purpose companies ("SPCs"), typically limited liability company.

For securitization, the Company transferred its real estate properties to an SPC, whereby acquired funds from debt using these assets as collateral. The Company then received these funds as proceed from sale.

After securitization, the same properties were leased back to the Company. Since all investments in the SPCs by silent partnership were expected to be collected as of March 31, 2011, the Company had determined that there was no possibility of incurring future losses.

At March 31, 2011, there was the one SPC with a transaction balance. Book value of the assets and liabilities transferred to the SPC, as of the most recent year end of the SPC, was ¥9,489 million and ¥8,113 million in 2011.

Neither the Company nor any of its subsidiaries had not possessed voting rights in the SPC, and no directors or employees had been dispatched to the SPC.

As of November 30, 2011, the Company acquired beneficial interest in trust on land, buildings, etc., from Aobadai Estate Y.K., which is a special purpose company. Accompanying this acquisition, the anonymous association contract as the operator of the related SPC was terminated, and the Company, which was an investor in this association, received dividends accompanying the termination of the anonymous association contract. The investment in the anonymous association was settled in December 2011.

2. Transaction with SPCs during the Years Ended March 31, 2011 and 2012

Major transactions and balances for the years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Transferred properties*1	¥14,547	¥ —	$ —
Acquired properties*2	—	14,994	182
Long-term accounts receivable	1,282	—	—
Investments in silent partnership*3	727	—	—

*1 Transaction amounts related to the transferred properties were represented as the transfer price at the time of the transfer.
*2 Transaction amounts related to acquired properties were represented as the acquisition price.
*3 Transaction amounts related to the investments in silent partnership were represented as the amounts invested at March 31, 2011.

Income and loss resulted from the transactions with SPCs for the years ended March 31, 2011 and 2012

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Dividends	¥ 978	¥ 654	$ 8
Dividends due to liquidation of silent partnership contract	—	6,977	85
Lease payments	1,669	1,113	14

22. Per Share Information

	Yen		U.S. dollars
	2011	2012	2012
Net assets per share	¥495,386	¥539,207	$6,560.49
Net income attributable to KDDI CORPORATION stockholders per share			
Basic	58,150	58,116	707.09
Diluted	Not given as the Company had no potential stocks with dilution effect	56,669	689.49

* The following shows the basis of calculating net income per share, and diluted net income per share for the years ended March 31, 2011 and 2012.

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Net income for the fiscal year	¥255,122	¥238,605	$2,903
Monetary value not related to common stockholders	—	—	—
Net income related to common stock	255,122	238,605	2,903
Effect of dilutive securities:			
Amortization of bond premium (after deduction of an amount equivalent to tax)*	—	(49)	(1)
Net income attributable to KDDI CORPORATION stockholders on which diluted net income per share is calculated	¥255,122	¥238,555	$2,902

	Number of shares	
	2011	2012
Number of weighted average common shares outstanding during the fiscal year	4,387,331	4,105,665
Increase in number of shares of common stock	—	103,967
(subscription warrants)	—	(37)
(Convertible bond-type bonds with subscription rights to shares)	—	(103,930)
Number of shares on which diluted net income per share is calculated	4,387,331	4,209,632
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	Three types of subscription warrant (14,509 subscription warrants). An overview of the subscription warrants is given in Note 16. "Stock Options."	One type of subscription warrant (4,658 subscription warrants)

*Due to amortization as issuance price of the bond was higher than face amount.

(Changes in Accounting Policies)

From the year ended March 31, 2012, the Company has applied the "Accounting Standard for Earnings Per Share" (Accounting Standards Board of Japan [ASBJ] Statement No.2 of June 30, 2010), the "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4 of June 30, 2010) and the "Practical Solution on Accounting for Earnings Per Share" (ASBJ PITF No.9 of June 30, 2010).

To calculate diluted net income per share, we have changed the method to include potential services offered by the employees in the fair valuation of stock options of payment when exercising the right regarding stock options whose rights are secured after certain period of employment.

If this accounting standard, etc., had not been applied, there would be no impact on the calculation of net assets per share, net income per share and diluted net income per share in the previous consolidated fiscal year.

23. Other

1. Reduction Due to Subsidiaries, etc.

Reduction due to subsidiaries, etc. for the acquisition of property, plant and equipment as of March 31, 2011 and 2012 were ¥1,218 million and ¥159 million (U.S.$2 million). Cumulative reduction amounts were ¥18,117 million and ¥18,075 million (U.S.$220 million).

2. Notes Relating to Affiliates

The following table summarizes the amounts related to affiliates as of March 31, 2011 and 2012.

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Investments in affiliates	¥356,888	¥351,815	$4,281
(of which investment in jointly controlled entities)	660	687	8
Other investments in affiliates	182	186	2

3. Supplemental Information of Cash Flow Statement

1) Non-monetary Transaction

The following table summarizes the amounts of assets and obligations as of March 31, 2011 and 2012 related to finance lease transactions entered by the Companies.

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Finance lease assets	¥5,672	¥5,170	$63
Finance lease obligations	5,959	5,643	69

Notes related to lease transactions were omitted due to its immateriality.

2) Assets and Liabilities of Newly Consolidated Subsidiaries

Year ended March 31, 2011

No significant items to be reported.

Year ended March 31, 2012

WebMoney Corporation was newly consolidated due to the acquisition of the shares. The following table summarizes the breakdown of assets acquired and liabilities assumed existed at the time of consolidation.

	Millions of yen	Millions of U.S. dollars
Current assets	¥ 17,902	$218
Noncurrent assets	3,401	41
Goodwill	16,345	199
Current liabilities	(18,208)	(222)
Minority interests	(86)	(1)
Amount paid for the acquisition of shares of WebMoney Corporation	19,353	235
Cash and cash equivalents of WebMoney Corporation	(8,440)	(103)
Net amount paid for the acquisition of WebMoney Corporation	10,912	133

3) Assets with Transferred Ownership from Acquisition of Trust Beneficiary Right

Year ended March 31, 2011

There was no relative transaction during the year.

Years ended March 31, 2012

In regard to the acquired beneficial interest in trust, accompanying the termination of the real estate investment trust contract, the ownership of the assets that had been held in trust were transferred to the Company.

These acquired assets were recorded in the consolidated balance sheets as of March 31, 2012 as Machinery: ¥1,065 million (U.S.$13 million); Buildings: ¥6,125 million (U.S.$75 million); Structures: ¥97 million (U.S.$1 million); Land: ¥7,697 million (U.S.$94 million); and other property, plant and equipment: ¥9 million (U.S.$0.1 million).

24. Subsequent Event

1. Appropriation of Retained Earnings and Directors' and Corporate Auditors' Bonuses

The appropriation of retained earnings and directors' and corporate auditors' bonuses of the Company for the year ended March 31, 2012, proposed by the Board of Directors and approved at the shareholders' meeting held on June 20, 2012, were as follows

	Millions of yen	Millions of U.S. dollars
Year-end cash dividend (¥8,500=U.S.$103.42)	¥32,485	$395
Directors' and corporate auditors' bonuses	131	2

2. Share Split and Adoption of Share-Trading-Unit System

The Company resolved at the meeting of the Board of Directors held on April 25, 2012 concerning share split and adoption of share-trading-unit system. The details are as follows.

(1) Purpose of Share Split

Adoption of Share-Trading-Unit System, and Partial Changes to Articles of Incorporation Taking into consideration the intent of the "Action Plan for Consolidating Trading Units" that was announced by all domestic stock exchanges of Japan in November 2007, the Company will conduct a 1:100 share split and adopt a share-trading-unit system to contribute towards improving the convenience and liquidity of the securities market that the Company's stock is listed. The number of investment units will not actually change following the implementation of the share split and the adoption of the share-trading-unit system.

(2) Share Split

1. Method of share split
   The share split shall have a record date of Sunday, September 30, 2012 (because this date falls on a holiday, for all practical purposes the date in substance is Friday, September 28, 2012) and shall involve the splitting of common shares held by shareholders whose names appear or are recorded in the latest Registry of Shareholders on the record date at a ratio of 1:100.
2. Number of increase in shares by share split
   Number of increase in shares by share split shall be 99 times the final total number of issued shares on Sunday, September 30, 2012. The numbers of shares presented below are based on the total number of issued shares on Wednesday, April 25, 2012.
   1) Total number of issued shares before share split 4,484,818 shares
   2) Number of increase in shares by share split 443,996,982 shares
   3) Total number of issued shares after share split 448,481,800 shares
   4) Total number of authorized shares after share split 700,000,000 shares
3. Schedule of share split
   1) Public notice date of the record date Friday, September 14, 2012
   2) Record date Sunday, September 30, 2012
      * For all practical purposes the record date in substance is Friday, September 28, 2012.
   3) Effective date Monday, October 1, 2012

(3) Adoption of Share-Trading-Unit System

1. Number of shares in newly established share-trading unit
   The adoption of the share-trading-unit system shall take effect on the effective date stated in "(2) Share Split" above and the number of shares to constitute a share-trading unit shall be 100 shares.
2. Schedule for establishment of the new system
   Effective date Monday, October 1, 2012
   Note: Effective September 26, 2012, the share-trading unit for the Company's shares shall be changed to 100 shares on the securities exchange.

(4) Others

Per share information based on the assumption that this stock split had been implemented at the beginning of the previous period is presented as follows for the previous consolidated fiscal year and the consolidated fiscal year under review.

Total net assets per share
  As of March 31, 2011 ¥4,953.86
  As of March 31, 2012 ¥5,392.07
Net income per share
  As of March 31, 2011 ¥581.50
  As of March 31, 2012 ¥581.16
Diluted net income per share
  As of March 31, 2011 —
  As of March 31, 2012 ¥566.69

Report of Independent Auditors

KDDI Corporation and its Subsidiaries

Independent Auditor's Report

To the Board of Directors of KDDI CORPORATION

We have audited the accompanying consolidated financial statements of KDDI CORPORATION and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of KDDI CORPORATION and its subsidiaries as at March 31, 2012, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Kyoto Audit Corporation

Kyoto Audit Corporation
Kyoto, Japan

June 21, 2012