Financial Section

Consolidated Balance Sheets

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
ASSETS			
Current Assets			
Cash and deposits (Notes 4, 5, 7)	¥ 100,037	¥ 96,952	$ 1,031
Accounts receivable (Notes 4, 5)	827,177	1,032,722	10,981
Short-term investment securities (Notes 5, 6)	80,188	231	2
Inventories	65,232	56,943	605
Deferred tax assets (Note 13)	57,781	58,768	625
Prepaid expenses and other current assets	21,427	25,524	271
Allowance for doubtful accounts (Note 5)	(14,960)	(20,271)	(216)
Total Current Assets	1,136,882	1,250,869	13,300
Property, Plant and Equipment			
Machinery, antenna facilities, terminal facilities, local line facilities, long-distance line facilities, engineering facilities, submarine line facilities (Note 7)	4,011,406	3,997,719	42,506
Buildings and structures (Note 7)	639,738	613,562	6,524
Machinery and tools (Note 7)	182,802	193,866	2,061
Land	251,994	249,931	2,657
Construction in progress	134,190	124,561	1,324
Other property, plant and equipment (Note 7)	29,000	30,200	321
	5,249,130	5,209,841	55,394
Accumulated depreciation	(3,365,404)	(3,379,882)	(35,937)
Net Property, Plant and Equipment	1,883,726	1,829,959	19,457
Investments and Other Assets			
Investment securities (Notes 5, 6, 7)	86,615	81,787	870
Investments in affiliates (Notes 5, 7)	352,001	348,388	3,704
Intangible assets	218,125	217,698	2,315
Goodwill	91,901	86,376	918
Deferred tax assets (Note 13)	104,829	114,577	1,218
Other assets	139,050	166,360	1,769
Allowance for doubtful accounts	(9,121)	(11,015)	(117)
Total Investments and Other Assets	983,401	1,004,171	10,677
Total Assets	¥4,004,009	¥4,084,999	$ 43,434

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

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
LIABILITIES AND NET ASSETS			
Current Liabilities			
Short-term loans payable and current portion of noncurrent liabilities (Notes 5, 7)	¥ 185,599	¥ 264,693	$ 2,814
Accounts payable (Notes 5, 7)	363,781	369,838	3,932
Income taxes payable (Note 5)	149,774	104,774	1,114
Accrued expenses (Note 5)	20,371	23,000	245
Provision for bonuses	20,077	20,765	221
Provision for loss on the Great East Japan Earthquake	1,993	49	1
Other current liabilities	99,057	94,077	1,000
Total Current Liabilities	840,651	877,196	9,327
Noncurrent Liabilities			
Long-term loans payable (Notes 5, 7)	301,286	244,728	2,602
Bonds payable (Notes 5, 7)	349,991	259,997	2,764
Convertible bond-type bonds with subscription rights to shares (Notes 5, 7)	200,917	200,667	2,134
Provision for point service program	91,453	91,583	974
Provision for retirement benefits and other noncurrent liabilities (Notes 5, 14)	91,086	87,465	930
Total Noncurrent Liabilities	1,034,733	884,440	9,404
Total Liabilities	1,875,384	1,761,636	18,731
Contingent Liabilities (Note 8)			
Net Assets			
Shareholders' Equity			
Capital stock:			
Authorized—7,000,000 and 700,000,000 shares at March 31, 2012 and 2013, respectively			
Issued—4,484,818 and 448,481,800 shares at March 31, 2012 and 2013, respectively	141,852	141,852	1,508
Capital surplus	367,104	367,145	3,904
Retained earnings	1,879,088	2,055,587	21,856
Treasury stock:			
Number of treasury stock—663,006 and 66,269,400 shares at March 31, 2012 and 2013, respectively	(346,164)	(346,002)	(3,679)
Total Shareholders' Equity	2,041,880	2,218,581	23,589
Accumulated Other Comprehensive Income			
Valuation difference on available for-sale securities	36,443	38,882	413
Deferred gain or loss on hedges	(677)	(1,598)	(17)
Foreign currency translation adjustments	(16,899)	(6,071)	(65)
Total Accumulated Other Comprehensive Income	18,867	31,213	332
Subscription Rights to Shares	1,129	574	6
Minority Interests	66,749	72,995	776
Total Net Assets	2,128,625	2,323,363	24,703
Total Liabilities and Net Assets	¥4,004,009	¥4,084,999	$43,434

Consolidated Statements of Income

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Operating Revenues:			
Revenues from telecommunications business	¥2,394,136	¥2,432,726	$25,866
Sales of mobile terminals and other	1,177,962	1,229,562	13,073
Total Operating Revenues	3,572,098	3,662,289	38,940
Operating Expenses:			
Business expenses (Note 16)	667,748	671,840	7,143
Depreciation	389,008	371,966	3,955
Communication facility fee	347,228	374,825	3,985
Cost of sales of mobile terminals and other	1,249,659	1,309,048	13,919
Other (Notes 12,16)	440,807	421,942	4,486
Total Operating Expenses	3,094,450	3,149,619	33,489
Operating Income	477,648	512,669	5,451
Other Expenses (Income):			
Interest expenses	12,891	11,118	118
Interest income	(966)	(775)	(8)
Dividends income	(1,719)	(1,987)	(21)
Equity in loss of affiliates	18,298	—	—
Equity in income of affiliates	—	(3,899)	(41)
Gain on investments in silent partnership	(654)	—	—
Dividends due to liquidation of silent partnership contract	(6,977)	—	—
Loss on valuation of investment securities	504	520	6
Gain on sales of investment securities	(138)	(1,050)	(11)
Gain on sales of noncurrent assets (Note 10)	(170)	(588)	(6)
Loss on sales of noncurrent assets (Note 10)	677	1,078	11
Gain on negative goodwill	(235)	—	—
Gain on reversal of subscription rights to shares	(493)	(512)	(5)
Gain on transfer from business divestitures	(3,615)	—	—
Impairment loss (Note 9)	9,947	80,549	856
Loss on retirement of noncurrent assets (Note 10)	—	22,713	241
Loss on the Great East Japan Earthquake (Note 11)	4,074	—	—
Reversal of provision for loss on the Great East Japan Earthquake (Note 11)	(6,815)	—	—
Compensation expenses	736	2,003	21
Other, net	(2,116)	(8,211)	(87)
Total Other Expenses	23,228	100,957	1,073
Income before Income Taxes and Minority Interests	454,420	411,712	4,378
Income Taxes (Note 13):			
Current	177,279	173,408	1,844
Deferred	30,282	(11,161)	(119)
Total Income Taxes	207,561	162,248	1,725
Income before Minority Interests	246,859	249,464	2,652
Minority Interests in Income	8,254	7,994	85
Net Income	¥ 238,605	¥ 241,470	$ 2,567

	Yen		U.S. dollars (Note 1)
	2012	2013	2013
Per Share Data (Note 20):			
Net income	¥ 290.58	¥ 315.90	$ 3.36
Diluted net income	283.34	289.26	3.08
Cash dividends	16,000.00	8,595.00	91.39

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, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Income before Minority Interests	¥246,859	¥249,464	$2,652
Other Comprehensive Income			
Valuation difference on available-for-sale securities	7,191	711	8
Foreign currency translation adjustments	(3,641)	12,063	128
Share of other comprehensive income of associates accounted for using equity method	(898)	1,342	14
Total Other Comprehensive Income	2,651	14,115	150
Comprehensive Income	249,510	263,579	2,803
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	242,010	253,816	2,699
Comprehensive income attributable to minority interests	¥ 7,501	¥ 9,763	$ 104

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, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Shareholders' Equity			
Capital Stock			
Balance at the beginning of the period	¥ 141,852	¥ 141,852	$ 1,508
Balance at the end of the period	141,852	141,852	1,508
Capital Surplus			
Balance at the beginning of the period	367,092	367,104	3,903
Changes of items during the period			
Disposal of treasury stock	12	40	0
Total changes of items during the period	12	40	0
Balance at the end of the period	367,104	367,145	3,904
Retained Earnings			
Balance at the beginning of the period	1,704,171	1,879,088	19,980
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Total changes of items during the period	174,917	176,499	1,877
Balance at the end of the period	1,879,088	2,055,587	21,856
Treasury Stock			
Balance at the beginning of the period	(125,245)	(346,164)	(3,681)
Changes of items during the period			
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	50	164	2
Total changes of items during the period	(220,919)	162	2
Balance at the end of the period	(346,164)	(346,002)	(3,679)
Total Shareholders' Equity			
Balance at the beginning of the period	2,087,870	2,041,880	21,711
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	63	205	2
Total changes of items during the period	(45,990)	176,702	1,879
Balance at the end of the period	¥2,041,880	¥2,218,581	$23,589

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

KDDI Corporation and its Subsidiaries
Years ended March 31, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Accumulated Other Comprehensive Income			
Valuation Difference on Available-for-sale Securities			
Balance at the beginning of the period	¥ 28,612	¥ 36,443	$ 387
Changes of items during the period			
Net changes of items other than shareholders' equity	7,830	2,439	26
Total changes of items during the period	7,830	2,439	26
Balance at the end of the period	36,443	38,882	413
Deferred Gain or Loss on Hedges			
Balance at the beginning of the period	32	(677)	(7)
Changes of items during the period			
Net changes of items other than shareholders' equity	(709)	(921)	(10)
Total changes of items during the period	(709)	(921)	(10)
Balance at the end of the period	(677)	(1,598)	(17)
Foreign Currency Translation Adjustments			
Balance at the beginning of the period	(13,183)	(16,899)	(180)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,716)	10,828	115
Total changes of items during the period	(3,716)	10,828	115
Balance at the end of the period	(16,899)	(6,071)	(65)
Total Accumulated Other Comprehensive Income			
Balance at the beginning of the period	15,462	18,867	201
Changes of items during the period			
Net changes of items other than shareholders' equity	3,405	12,346	131
Total changes of items during the period	3,405	12,346	131
Balance at the end of the period	18,867	31,213	332
Subscription Rights to Shares			
Balance at the beginning of the period	1,505	1,129	12
Changes of items during the period			
Net changes of items other than shareholders' equity	(376)	(555)	(6)
Total changes of items during the period	(376)	(555)	(6)
Balance at the end of the period	1,129	574	6
Minority Interests			
Balance at the beginning of the period	67,003	66,749	710
Changes of items during the period			
Net changes of items other than shareholders' equity	(253)	6,245	66
Total changes of items during the period	(253)	6,245	66
Balance at the end of the period	66,749	72,995	776
Total Net Assets			
Balance at the beginning of the period	2,171,839	2,128,625	22,633
Changes of items during the period			
Dividends from surplus	(63,688)	(64,971)	(691)
Net income	238,605	241,470	2,567
Purchase of treasury stock	(220,970)	(2)	(0)
Disposal of treasury stock	63	205	2
Net changes of items other than shareholders' equity	2,776	18,037	192
Total changes of items during the period	(43,214)	194,739	2,071
Balance at the end of the period	¥2,128,625	¥2,323,363	$24,703

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, 2012 and 2013

	Millions of yen		Millions of U.S. dollars (Note 1)
	2012	2013	2013
Net Cash Provided by (Used in) Operating Activities			
Income before income taxes and minority interests	¥ 454,420	¥ 411,712	$ 4,378
Depreciation and amortization	417,886	406,726	4,325
Impairment loss	9,947	80,549	856
Amortization of goodwill	14,276	16,444	175
Gain on negative goodwill	(235)	—	—
Loss (gain) on sales of noncurrent assets	507	535	6
Loss on retirement of noncurrent assets	12,965	23,732	252
Increase (decrease) in provision for loss on the Great East Japan Earthquake	(14,290)	(1,943)	(21)
Gain on transfer from business divestitures	(3,615)	—	—
Dividends due to liquidation of silent partnership contract	(6,977)	—	—
Increase (decrease) in allowance for doubtful accounts	1,494	7,001	74
Increase (decrease) in provision for retirement benefits	(37)	(5,238)	(56)
Interest and dividends income	(2,685)	(2,763)	(29)
Interest expenses	12,891	11,118	118
Equity in losses (earnings) of affiliates	18,298	(3,899)	(41)
Loss (gain) on valuation of investment securities	512	521	6
Increase (decrease) in provision for point service program	6,256	130	1
Changes in assets and liabilities			
Decrease (increase) in prepaid pension costs	1,738	1,844	20
Decrease (increase) in notes and accounts receivable-trade	(207,034)	(199,531)	(2,122)
Decrease (increase) in inventories	(6,945)	8,613	92
Increase (decrease) in notes and accounts payable-trade	23,442	(10,289)	(109)
Increase (decrease) in accounts payable-other	62,003	4,872	52
Increase (decrease) in accrued expenses	5,015	1,192	13
Increase (decrease) in advances received	(10,356)	(2,297)	(24)
Other, net	(4,226)	(5,841)	(62)
Subtotal	785,248	743,185	7,902
Interest and dividends income received	8,761	10,306	110
Interest expenses paid	(12,883)	(11,225)	(119)
Income taxes paid	(88,626)	(218,358)	(2,322)
Income taxes refund	33,386	—	—
Net Cash Provided by (Used in) Operating Activities	725,886	523,908	5,571
Net Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment	(318,871)	(322,817)	(3,432)
Purchase of trust beneficiary right (Note 21)	(14,994)	—	—
Proceeds from sales of property, plant and equipment	531	1,949	21
Purchase of intangible assets	(75,915)	(92,955)	(988)
Purchase of investment securities	(1,962)	(2,158)	(23)
Proceeds from sales of investment securities	3,424	6,959	74
Payments for business divestitures	(1,000)	—	—
Purchase of stocks of subsidiaries and affiliates	(25,742)	(9,679)	(103)
Purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation (Note 21)	(31,789)	(2,403)	(26)
Proceeds from purchase of investments in subsidiaries and affiliates resulting in change in scope of consolidation	832	—	—
Proceeds from repayment of investment and dividends due to liquidation of silent partnership contract	7,704	—	—
Purchase of long-term prepaid expenses	(26,801)	(51,322)	(546)
Other, net	75	(566)	(6)
Net Cash Provided by (Used in) Investing Activities	(484,507)	(472,992)	(5,029)
Net Cash Provided by (Used in) Financing Activities			
Net increase (decrease) in short-term loans payable	(1,020)	86,582	921
Proceeds from long-term loans payable	—	24,000	255
Repayment of long-term loans payable	(133,750)	(112,960)	(1,201)
Redemption of bonds	—	(65,000)	(691)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	201,000	—	—
Purchase of treasury stock	(220,970)	(2)	(0)
Cash dividends paid	(63,689)	(64,974)	(691)
Cash dividends paid to minority shareholders	(1,193)	(1,372)	(15)
Proceeds from stock issuance to minority shareholders	11	257	3
Other, net	(6,320)	(6,782)	(72)
Net Cash Provided by (Used in) Financing Activities	(225,931)	(140,250)	(1,491)
Effect of Exchange Rate Change on Cash and Cash Equivalents	(1,126)	2,431	26
Net Increase (Decrease) in Cash and Cash Equivalents	14,322	(86,903)	(924)
Cash and Cash Equivalents at Beginning of the Year	159,870	174,192	1,852
Cash and Cash Equivalents at End of the Year (Note 4)	¥ 174,192	¥ 87,289	$ 928

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, 2013

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, 2012 to conform to the classifications and presentations used in the consolidated financial statements for the year ended March 31, 2013.

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 ¥94.05=U.S.$1, the approximate exchange rate on March 31, 2013. 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, 2013 include the Company and its 128 subsidiaries, comprising of; OKINAWA CELLULAR TELEPHONE COMPANY, KDDI Engineering Corporation, KDDI Evolva Inc., JAPAN CABLENET LIMITED, Chubu Telecommunications Co., INC., KDDI America, Inc. and other subsidiaries.

During the years ended March 31, 2013, significant changes in the scope had occurred as follows:

Added (Consolidated):

- 10 companies due to new establishment
  KKBOX Beijing Co., Ltd, CDN Europe Co., Ltd., KKBOX Technologies Limited.,
  KKBOX Japan LLC, TELEHOUSE Shanghai Corporation,
  KDDI MATOMETE OFFICE KANSAI CORPORATION,
  KDDI MATOMETE OFFICE CHUBU CORPORATION,
  KDDI MATOMETE OFFICE HIGASHINIHON CORPORATION,
  KDDI MATOMETE OFFICE NISHINIHON CORPORATION,
  KDDI Myanmar Co., Ltd.
- 2 companies due to stock acquisition
  Kumagaya Cable Television, Beijing KKBar Co., Ltd.
- 1 company due to additional purchase of shares, resulting in subsidiary
  Kita Cable Network, Inc.

Removed (Consolidated):

- 5 companies due to liquidation
  Packet Systems Pte. Ltd., Mrasu Inc., CDNetworks Europe SARL, Nettasking Technology (BVI) Limited, Panther Express Corp.
- 1 company due to sale of shares
  LTI Cosmetics, Inc.

Also, the number of the Company's equity-method affiliates at March 31, 2013 was 21 such as Jupiter Telecommunications Co., Ltd.*, Kyocera Communication Systems Co., Ltd., UQ Communications Inc., Jibun Bank Corporation, Mobaoku Co., Ltd., MOBICOM Corporation.

* Jupiter Telecommunications Co., Ltd. transferred consolidated subsidiaries on April 17, 2013.

During the year ended March 31, 2013, changes in the scope were incurred as follows:

Added (Equity Method):

- 2 companies due to new establishment
  Kagoshima Mega Solar Power Corporation, NJ Corporation

Removed (Equity Method):

- 1 company due to additional purchase of shares, result in subsidiary
  Kita Cable Network, Inc.
- 1 company due to decline of substantial influence
  EBS, Inc.

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 consolidated 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 dated 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 Vostok-telecom, etc.) are accounted for by 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, demand deposits 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 in 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 (except for leased assets)

Property, plant and equipment are stated at cost. Assets are depreciated over their estimated useful lives by applying mainly the declining balance method to machineries owned by the Company, 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

Antenna facilities, Local line facilities, Long-distance line facilities, Engineering facilities, Buildings and Structures: 5 to 21 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, 2013.

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. 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, 2013.

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

(Changes in Accounting Policies)
(Changes in Accounting Policies for Items that are Difficult to Categorize as Changes in Accounting Estimates)
(Change in Depreciation)

In accordance with revisions to the Corporation Tax Act, the Company and its domestic consolidated subsidiaries have revised their depreciation method applicable to property, plant and equipment acquired on or after April 1, 2012, in accordance with the post-revision Corporation Tax Act, for the year ended March 31, 2013.

The impact of these changes was insignificant.

(Changes in Presentation)
(Consolidated Statements of Income)

"Compensation expenses", which had been recorded as "Miscellaneous expenses" in non-operating expenses in the fiscal year ended March 31, 2012, has been classified as a separate line item in the current fiscal year because of its increased significance in quantitative materiality.

The consolidated financial statements have been reclassified to reflect these changes in presentation.

As a result, "Miscellaneous expenses" of ¥736 million recorded in non-operating expenses on the consolidated statements of income in the fiscal year ended March 31, 2012 has been reclassified as "Compensation expenses."

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
	2012	2013	2013
Cash and deposits	¥100,037	¥96,952	$1,031
Short-term investment securities	80,188	231	2
Total	180,225	97,183	1,033
Time deposits due beyond three months	(6,034)	(9,895)	(105)
Cash and cash equivalents	¥174,192	¥87,289	$ 928

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.

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 available, 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 them on March 31, 2012 and 2013 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, 2012

	Book value	Market value	Difference
	Millions of yen		
(1) Cash and deposits	¥ 100,037	¥ 100,037	¥ —
(2) Accounts receivable	827,177		
Less: Allowance for doubtful accounts*1	(14,960)		
	¥ 812,217	¥ 812,217	¥ —
(3) Short-term investment securities	80,188	80,188	—
(4) Investment securities			
Bonds intended to be held to maturity	3,006	3,138	132
Other securities	72,374	72,374	—
(5) Stocks of subsidiaries and affiliates	326,297	189,568	(136,730)
Total asset accounts	¥1,394,119	¥1,257,521	¥(136,598)
(6) Accounts payable	90,662	90,662	—
(7) Short-term loans payable	1,486	1,486	—
(8) Accounts payable-other	273,119	273,119	—
(9) Accrued expenses	20,371	20,371	—
(10) Income taxes payable	149,774	149,774	—
(11) Bonds payable*2	414,989	427,728	12,739
(12) Convertible bond-type bonds with subscription rights to shares	200,917	214,500	13,583
(13) Long-term loans payable*2	414,164	419,340	5,176
Total liability accounts	¥1,565,480	¥1,596,979	¥ 31,499

*1. Allowance for doubtful accounts were deducted from account receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

At March 31, 2013

	Millions of yen			Millions of U.S. dollars		
	Book value	Market value	Difference	Book value	Market value	Difference
(1) Cash and deposits	¥ 96,952	¥ 96,952	¥ —	$ 1,031	$ 1,031	$ —
(2) Accounts receivable	1,032,722			10,981		
Less: Allowance for doubtful accounts*1	(20,271)			(216)		
	¥1,012,450	¥1,012,450	¥ —	$10,765	$10,765	$ —
(3) Short-term investment securities	231	231	—	2	2	—
(4) Investment securities						
Bonds intended to be held to maturity	3,005	3,216	211	32	34	2
Other securities	66,442	66,442	—	706	706	—
(5) Stocks of subsidiaries and affiliates	319,808	282,408	(37,400)	3,400	3,003	(398)
Total asset accounts	¥1,498,888	¥1,461,699	¥(37,189)	$15,937	$15,542	$(395)
(6) Accounts payable	82,753	82,753	—	880	880	—
(7) Short-term loans payable	88,257	88,257	—	938	938	—
(8) Accounts payable-other	287,085	287,085	—	3,052	3,052	—
(9) Accrued expenses	23,000	23,000	—	245	245	—
(10) Income taxes payable	104,774	104,774	—	1,114	1,114	—
(11) Bonds payable*2	349,996	363,244	13,247	3,721	3,862	141
(12) Convertible bond-type bonds with subscription rights to shares	200,667	271,960	71,293	2,134	2,892	758
(13) Long-term loans payable*2	325,453	330,412	4,958	3,460	3,513	53
Total liability accounts	¥1,461,985	¥1,551,484	¥ 89,499	$15,545	$16,496	$ 952

*1. Allowance for doubtful accounts were deducted from account receivable.
*2. These items include current portion of bonds payable and long-term loans payable, respectively.

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

As 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, as the credit risk were not readily determinable on an individual basis for accounts receivable, 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

As 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, 13) Long-term loans payable

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.

As 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
	2012	2013	2013
Investment securities			
Unlisted equity securities	¥11,235	¥12,340	$131
Stocks of subsidiaries and affiliates			
Unlisted equity securities	25,517	28,361	302
Investments in capital of subsidiaries and affiliates	185	219	2

As the above financial instruments did not have readily determinable market values and it was practicably difficult to estimate their market values, they were not included in above table.

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

	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
	2012		2013		2013	
Cash and deposits	¥100,037	¥ —	¥ 96,952	¥ —	$ 1,031	$ —
Accounts receivable	719,625	107,551	896,525	136,197	9,532	1,448
Securities	80,000	—	—	—	—	—
Short-term investment securities	—	3,006	—	3,005	—	32
Total	¥899,663	¥110,557	¥993,477	¥139,202	$10,563	$1,480

Note 4: For information on planned repayment amounts after the balance sheet date for bonds payable and long-term loans payable with monetary assets and maturity dates

At March 31, 2012

Millions of yen

	Within 1 year	Over 1 year Within 2 year	Over 2 year Within 3 year	Over 3 year Within 4 year	Over 4 year Within 5 year	Over 5 year
Short-term loans payable	¥ 1,486	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	65,000	90,000	85,000	20,000	25,000	130,000
Convertible bond-type bonds with subscription rights to shares	—	—	—	200,000	—	—
Long-term loans payable	112,878	80,656	78,708	91,343	25,108	25,471
Total	¥179,364	¥170,656	¥163,708	¥311,343	¥50,108	¥155,471

At March 31, 2013

Millions of yen

	Within 1 year	Over 1 year Within 2 year	Over 2 year Within 3 year	Over 3 year Within 4 year	Over 4 year Within 5 year	Over 5 year
Short-term loans payable	¥ 88,257	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	90,000	85,000	20,000	25,000	20,000	110,000
Convertible bond-type bonds with subscription rights to shares	—	—	200,000	—	—	—
Long-term loans payable	80,725	78,746	91,374	25,129	34,271	15,208
Total	¥258,982	¥163,746	¥311,374	¥50,129	¥54,271	¥125,208

Millions of U.S. dollars

	Within 1 year	Over 1 year Within 2 year	Over 2 year Within 3 year	Over 3 year Within 4 year	Over 4 year Within 5 year	Over 5 year
Short-term loans payable	$ 938	$ —	$ —	$ —	$ —	$ —
Bonds payable	957	904	213	266	213	1,170
Convertible bond-type bonds with subscription rights to shares	—	—	2,127	—	—	—
Long-term loans payable	858	837	972	267	364	162
Total	$2,754	$1,741	$3,311	$533	$577	$1,331

6. Marketable Securities and Other Investments

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

		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
	Bonds	—	—	—
	Others	—	—	—
	Subtotal	¥3,006	¥3,138	¥132
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

Other securities

Millions of yen

		Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥ 71,627	¥ 3,510	¥68,117
	Bonds	—	—	—
	Others	40	35	5
	Subtotal	¥ 71,667	¥ 3,545	¥68,122
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 853	¥ 2,770	¥ (1,918)
	Bonds	—	—	—
	Others	80,042	80,047	(4)
	Subtotal	¥ 80,895	¥82,817	¥ (1,922)
Total		¥152,562	¥86,362	¥66,200

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

Other securities sold

Millions of yen

	Amount of sale	Total gain on sale	Total loss on sale
Stock	¥3,986	¥138	¥89

Impairment of investment securities

For the year ended March 31, 2012, the Companies recognized an impairment loss of ¥509 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, 2013

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.	¥3,005	¥3,216	¥211	$32	$34	$ 2
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥3,005	¥3,216	¥211	$32	$34	$ 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		¥3,005	¥3,216	¥211	$32	$34	$ 2

Other securities

		Millions of yen			Millions of U.S. dollars		
		Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Securities for which book value of consolidated balance sheets exceeds acquisition cost	Stock	¥65,900	¥10,353	¥55,547	$701	$110	$591
	Bonds	—	—	—	—	—	—
	Others	87	78	9	1	1	0
	Subtotal	¥65,986	¥10,431	¥55,556	$702	$111	$591
Securities for which book value of consolidated balance sheets does not exceed acquisition cost	Stock	¥ 686	¥ 2,530	¥(1,843)	$ 7	$ 27	$ (20)
	Bonds	—	—	—	—	—	—
	Others	—	—	—	—	—	—
	Subtotal	¥ 686	¥ 2,530	¥(1,843)	$ 7	$ 27	$ (20)
Total		¥66,673	¥12,960	¥53,712	$709	$138	$571

Regarding unlisted equity securities, which book value was ¥12,340 million (U.S.$131 million) for the year ended March 31, 2013, as it was recognized that these did not have market values and the market values were not readily determinable, they were not included in the chart above.

Other 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	¥8,457	¥1,050	—	$90	$11	—

Impairment of investment securities

For the year ended March 31, 2013, the Companies recognized an impairment of ¥410 million (U.S.$4 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 Debt

Short-term loans at March 31, 2012 and 2013 were ¥1,486 million and ¥88,257 million (U.S.$938 million), respectively and the annual average interest rates applicable to them for the years ended March 31, 2012 and 2013 were 4.51% and 0.27%, respectively.

Long-term debt at March 31, 2012 and 2013 consist of the following:

		Millions of yen		Millions of U.S. dollars
		2012	2013	2013
Unsecured straight bonds				
Year ended March 31, 2012	(Interest rate per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2013–2021)	¥ 394,989	¥ —	$ —
Year ended March 31, 2013	(Interest rate per annum: 0.713%–2.046%)			
	(Due: years ending March 31, 2013–2021)	—	329,996	3,509
General secured bonds (Note)				
Year ended March 31, 2012	(Interest rate per annum: 3.20%)			
	(Due: year ending March 31, 2018)	20,000	—	—
Year ended March 31, 2013	(Interest rate per annum: 3.20%)			
	(Due: year ending March 31, 2018)	—	20,000	213
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	—	—
Year ended March 31, 2013	(No interest shall be paid on the bonds)			
	(Due: year ending March 31, 2016)	—	200,667	2,134
Total bonds		¥ 615,905	¥550,663	$5,855
Loans from banks				
Year ended March 31, 2012	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	414,164	—	—
Year ended March 31, 2013	(Average rate per annum: 1.26%)			
	(Due: years ending March 31, 2012–2021)	—	325,453	3,460
Other interest-bearing debt		15,199	13,190	140
Subtotal		¥1,045,268	¥889,306	$9,456
Less, amount due within one year		184,112	176,436	1,876
Total long-term debts		¥ 861,155	¥712,870	$7,580

Note: The Company has secured overall assets as general collateral for the corporate bonds.

Summary of annual maturities of long-term debt subsequent to March 31, 2013 were as follows:

	Millions of yen	Millions of U.S. dollars
Year ended March 31	2013	2013
2014	¥176,436	$1,876
2015	167,488	1,781
2016	314,332	3,342
2017	51,259	545
2018 and thereafter	179,791	1,912
Total	¥889,306	$9,456

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 subsidiaries at March 31, 2012 and 2013. In addition, the Company had secured overall assets as general collateral for the corporate bonds.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Machinery, etc.	¥ 732	¥ 515	$ 5
Buildings and structures	165	145	2
Other property, plant and equipment	76	46	0
Investment securities	695	672	7
Stocks of subsidiaries and affiliates	—	768	8
Other investments and other assets	171	28	0
Cash and deposits	878	162	2
Short-term investment securities	188	231	2
Total	¥2,904	¥2,567	$27

(Assets denominated in foreign currencies included U.S.$12 million at March 31, 2012 and U.S.$11 million and others at March 31, 2013.)

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
	2012	2013	2013
Investment securities	¥3,005	¥3,005	$32
Cash and deposits	2,000	2,300	24

Summary of annual maturities of long-term debt subsequent to March 31, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Long-term loans payable	¥1,224	¥ 894	$10
Short-term loans payable and current portion of noncurrent liabilities	1,858	1,590	17
Accounts payable	32	165	2
Total	¥3,115	¥2,648	$28

(Liabilities denominated in foreign currencies included U.S.$20 million at March 31, 2012 and U.S.$15 million at March 31, 2013.)

Note: The share of Kagoshima Mega Solar Power Corporation that has been accounted for under equity method was pledged for its bank loan, however the loan has not been executed as of March 31, 2013.

8. Contingent Liabilities

At March 31, 2012 and 2013, the Companies' contingent liabilities were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
As a guarantor for			
Contingent liabilities existing in cable system supply contract	¥ 4,110	¥ 4,703	$ 50
Contingent liabilities resulting from the liquidation of Minex Corporation	377	—	—
Loan of UQ Communications Inc., etc.	156,935	157,962	1,680
Contingent liabilities for notes receivable-trade discounted	297	—	—
Total	¥161,719	¥162,665	$1,730

9. Impairment Loss

For the year ended March 31, 2012

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.

In the year ended March 31, 2012, for domestic transmission system 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 ¥8,515 million. This consists of ¥4,455 million for local line facilities, ¥1,941 million for long-distance line facilities and ¥2,120 million for others.

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

In addition, impairment loss of ¥1,431 million on business assets in certain subsidiaries was recognized as impairment loss.

For the year ended March 31, 2013

The Companies calculate impairment losses by asset 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, 2013, the Companies discontinued the use of former 800MHz frequency facilities in July 2012 in line with the reorganization of frequencies and drew up a plan for conversion to other frequencies on the shared portion of these facilities. Facilities not part of this conversion were determined to be idle assets that were expected to have no future value. The book value of these assets was reduced to their recoverable value, and the decrease was recorded as an impairment loss of ¥68,891 million. This consists of ¥29,456 million for buildings, ¥17,964 million for antenna facilities, ¥17,954 million for machinery and ¥3,516 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 reasonable estimate, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

In the year ended March 31, 2013, for domestic transmission system with declining utilization rates and idle assets, the book value has been reduced to recoverable value. The said reduction is recognized as impairment loss of ¥10,039 million. This consists of ¥6,213 million for local line facilities, ¥1,106 million for right of using submarine line facilities, ¥900 million for long-distance line facilities and ¥1,820 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, with the value of assets that are difficult to sell or convert to other uses set at ¥0.

In addition, impairment loss of ¥1,620 million on business assets in certain subsidiaries was recognized. This consists of ¥1,049 million for machinery, ¥231 million for local line facilities, and ¥339 million from others.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
The Company and the other: Facilities for the former 800MHz band	¥ —	¥68,891	$732
The Company: Domestic transmission line facilities and idle assets, etc.	8,515	10,039	107
Consolidated subsidiaries: Business assets, etc.	1,431	1,620	17
Total	¥9,947	¥80,549	$856

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, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Gain on Sales of Noncurrent Assets			
Gain on sales of real estate accompanying disposal of land, etc.	¥ 62	¥ 325	$ 3
Gain on sale of other facilities, etc.	107	264	3
Total	¥170	¥ 588	$ 6
Loss on Sales of Noncurrent Assets			
Loss on disposal of real estate accompanying disposal of land, etc.	¥597	¥ 1,050	$ 11
Loss on disposal of other facilities, etc.	80	28	0
Total	¥677	¥ 1,078	$ 11
Loss on Retirement of Noncurrent Assets			
Disposal cost of former 800MHz frequency facilities	¥ —	¥19,857	$211
Retirement cost of former 800Mhz frequency facilities	—	1,870	20
Others	—	985	10
Total	¥ —	¥22,713	$241

11. Loss on the Great East Japan Earthquake

Year ended March 31, 2012

The loss of ¥4,074 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 gain was recognized on the reversal of the provision during the year ended March 31, 2012.

Year ended March 31, 2013

None

12. Research and Development Expenses

Research and development expenses were ¥32,855 million and ¥28,881 million (U.S.$307 million) for the years ended March 31, 2012 and 2013 respectively.

13. Income Taxes

At March 31, 2012 and 2013, significant components of deferred tax assets and liabilities were summarized as follows:

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Deferred tax assets			
Depreciation and amortization	¥ 41,103	¥ 40,235	$ 428
Allowance for doubtful accounts	9,526	15,437	164
Disposal of fixed assets	2,253	1,823	19
Inventory write down	1,267	2,459	26
Impairment loss	44,622	60,011	638
Provision for retirement benefits	4,356	3,297	35
Provision for bonuses	8,313	8,588	91
Accrued expenses	3,007	4,024	43
Net operating loss carried forward	2,945	1,305	14
Unrealized profits	2,352	3,590	38
Provision for point service program	34,700	34,693	369
Accrued enterprise taxes payable	10,807	7,640	81
Advances received	20,230	19,490	207
Provision for the Great East Japan Earthquake	758	20	0
Other	10,471	6,941	74
Gross deferred tax assets	¥196,715	¥209,551	$2,228
Valuation allowance	(8,055)	(8,980)	(95)
Total deferred tax assets	¥188,660	¥200,571	$2,133
Deferred tax liabilities			
Special depreciation reserve	¥ (1,696)	¥ (1,737)	$ (18)
Valuation difference on other securities	(19,659)	(20,191)	(215)
Retained earnings for overseas affiliates	(1,446)	(2,217)	(24)
Gain on transfer from business divestitures	(1,692)	(1,692)	(18)
Other	(4,019)	(4,321)	(46)
Total deferred tax liabilities	¥ (28,513)	¥ (30,159)	$ (321)
Net deferred tax assets	¥160,146	¥170,413	$1,812

The following table summarizes significant components of the differences between the statutory tax rate and the effective tax rate for the years ended March 31, 2012 and 2013.

	2012	2013
Statutory tax rate	40.6%	Note omitted because the difference between the statutory tax rate and the Company's effective tax rate is less than 5% of the statutory tax rate.
Adjustments:		
Permanently non-deductible items including entertainment expenses	0.1	
Inhabitant tax on per capital levy	0.1	
Tax credit for research and development expenses	(0.2)	
Goodwill amortization	1.2	
Effect of equity-method investment income	1.6	
Permanently non-deductible items including dividend income	(0.2)	
Reserve for loss carry forward	(0.1)	
Valuation allowance	(1.3)	
Effects of tax rate differences for subsidiaries	(0.2)	
Reversal of reserve for tax	0.3	
Effect of change in tax rate	3.3	
Other	0.5	
Effective tax rate	45.7%	

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, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	**2013**	**2013**
Projected benefit obligations	¥(308,509)	¥(309,628)	$(3,292)
Plan assets	253,746	291,107	3,095
Retirement benefit trust	8,177	8,268	88
Funded status	¥ (46,586)	¥ (10,253)	$ (109)
Unrecognized actuarial differences	39,973	4,039	43
Unrecognized prior service cost	3,198	6,114	65
Net amount recognized in the consolidated balance sheets	(3,414)	(101)	(1)
Prepaid pension cost	15,330	13,409	143
Provision for retirement benefits	¥ (18,744)	¥ (13,509)	$ (144)

Net pension expenses related to the retirement benefits for the years ended March 31, 2012 and 2013 were as follows:

	Millions of yen		Millions of U.S. dollars
	2012	**2013**	**2013**
Service cost	¥10,953	¥10,989	$117
Interest cost	6,032	6,137	65
Expected return on plan assets	(4,908)	(5,075)	(54)
Amortization of prior service cost	(2,915)	(2,915)	(31)
Amortization of actuarial differences	10,277	5,279	56
Net pension cost	¥19,439	¥14,414	$153

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

	March 31 2012	March 31 2013
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

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

At March 31, 2012

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
Plan assets	¥171,945
Benefit obligation based on pension plan finance calculation	172,108
Balance*1	¥ (164)

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 composed of general reserve of ¥14,983 million, actuarial asset value adjustment of 3,494 million and shortage of ¥11,653 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 (at March 31, 2011).

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

At March 31, 2013

Items relating to overall status of pension plan reserves as of March 31, 2012 (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	¥186,190	$1,980
Benefit obligation based on pension plan finance calculation	186,649	1,985
Balance*1	¥ (459)	$ (5)

Percentage of total pension plan accounted for by contributions from those subsidiaries in the year ended March 31, 2012 0.09%*2

*1. The principle factors relating to the balance were composed of general reserve of ¥3,330 million (U.S.$35 million), actuarial asset value adjustment of –9,623 million (U.S.–$102 million) and shortage of ¥13,412 million (U.S.$143 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 (at March 31, 2012).

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

15. Consolidated Statements of Comprehensive Income

The comprehensive income for the years ended March 31, 2012 and 2013 were as follows.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Valuation difference on available-for-sale securities			
Amount recognized in the period under review	¥ 6,846	¥ 128	$ 1
Amount of recycling	449	1,005	11
Before income tax effect adjustment	7,295	1,133	12
Amount of income tax effect	(105)	(422)	(4)
Valuation difference on available-for-sale securities, net of tax effect	¥ 7,191	¥ 711	$ 8
Foreign currency translation adjustments			
Amount recognized in the period under review	(3,641)	12,158	129
Amount of recycling	—	—	—
Before income tax effect adjustment	(3,641)	12,158	129
Amount of income tax effect	—	(95)	(1)
Foreign currency translations adjustment, net of tax effect	¥(3,641)	¥12,063	$128
Share of other comprehensive income of associates accounted for using equity method			
Amount recognized in the period under review	(1,118)	1,221	13
Amount of recycling	220	121	1
Share of other comprehensive income of associates accounted for using equity method, net of tax effect	(898)	1,342	14
Total other comprehensive income	¥ 2,651	¥14,115	$150

16. Stock Options

Since September 2002, a stock option system has 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, 2012 and 2013 were ¥131 million and nil, respectively. Also due to the nullification of rights, gains on reversal of subscription rights for the years ended March 31, 2012 and 2013 were ¥493 million and ¥512 million (U.S.$ 5 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 2009 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, 2013 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, 2013.

(1) Number of stock options

The Company

	August 2008 7th Stock Option	August 2009 8th Stock Option
	Shares	
Before vested		
Beginning of period	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Unvested	—	—
After vested		
Beginning of period	465,800	486,000
Vested	—	—
Exercised	—	31,500
Expired	465,800	13,600
Exercisable	—	440,900

Note: Number of the stock options has been retroactively adjusted based on the 100 for 1 stock split effectively on October 1, 2012.

DMX

	October 2003 Stock Option	April 2008 Stock Option	November 2008 Stock Option
	Shares		
Before vested			
Beginning of period	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
After vested			
Beginning of period	3,305,544	3,896,858	15,220,000
Vested	—	—	—
Exercised	—	10,000	3,309,000
Expired	—	—	—
Exercisable	3,305,544	3,886,858	11,911,000

Wi2

	December 2009 Stock Option
	Shares
Before vested	
Beginning of period	1,357
Granted	—
Forfeited	15
Vested	—
Unvested	1,342
After vested	
Beginning of period	—
Vested	—
Exercised	—
Expired	—
Exercisable	—

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

The Company

		August 2008 7th Stock Option		August 2009 8th Stock Option	
		Yen	U.S. dollars	Yen	U.S. dollars
Exercise price		¥6,490	$69.01	¥5,390	$57.31
Average share price at exercise		—	—	6,150	65.39
Fair value unit price (Date of grant)		1,067.18	11.35	1,112.81	11.83
Exercise period	From	October 1, 2010		October 1, 2011	
	To	September 30, 2012		September 30, 2013	

Note: Number of the stock options has been retroactively adjusted based on the 100 for 1 stock split effectively on October 1, 2012.

DMX

		October 2003 Stock Option		April 2008 Stock Option		November 2008 Stock Option	
		Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars	Singapore dollars	U.S. dollars
Exercise price		SGD 0.6778	$0.55	SGD 0.2260	$0.18	SGD 0.0930	$0.07
Average share price at exercise		—	—	0.2550	0.21	0.2550	0.21
Fair value unit price (Date of grant)		0.7900	0.64	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	

Note: Exchange rate of Singapore dollars into U.S. dollars were made as follows: SGD1 =¥75.79 U.S.$1 = ¥94.05

Wi2

		December 2009 Stock Option	December 2009 Stock Option
		Yen	U.S. dollars
Exercise price		¥24,000	$255.18
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, 2012

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

	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 in the Company's holdings of its own shares of common stock resulted from the acquisition of its treasury stock in accordance with a resolution at a meeting of the Board of Directors held on November 28, 2011.

Note 2: The decrease of 96 shares in the Company's common stock 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: 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	Balance as of March 31, 2012
							Millions of yen
The Company (parent company)	Subscription warrants as stock options	—		—			¥1,038
	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
Total		—	—	—	—	—	¥1,129

Note: Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011)
1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.
2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.
3: The increase in the number of shares 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

2. Dividend payment recognized during the fiscal year ended March 31, 2012 but effective on the next fiscal year ended March 31, 2013

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

For the year ended March 31, 2013

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

	As of April 1, 2012	Increase during the year ended March 31, 2013	Decrease during the year ended March 31, 2013	As of March 31, 2013
Shares outstanding				
Common stock	4,484,818	443,996,982	—	448,481,800
Total	4,484,818	443,996,982	—	448,481,800
Treasury stock				
Common stock	663,006	65,637,894	31,500	66,269,400
Total	663,006	65,637,894	31,500	66,269,400

Note 1: The Company conducted a 1:100 stock split on common stock, with an effective on October 1, 2012.
2: The increase of 443,996,982 shares during the fiscal year resulted was due to split on common stock.
3: The increase of 65,637,894 shares in the Company's common stock is due to split on common stock 65,637,594 shares, due to purchase of share less than one unit 300 shares.
4: The decrease of 31,500 shares in the Company's common stock resulted from the exercise of stock options.
5: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: As of April 1, 2012	Increase during the year ended March 31, 2013	Decrease during the year ended March 31, 2013	As of March 31, 2013	Balance as of March 31, 2013: Millions of yen	Millions of U.S. dollars
The Company (parent company)	Subscription warrants as stock options	—		—			¥491	$5
	Zero Coupon Convertible Bonds due 2015 (Issued on December 14, 2011) Note	Common stock	348,979 shares Upper limit	34,548,944 shares Upper limit	—	34,897,923 shares Upper limit	—	—
Consolidated subsidiaries	Subscription warrants as stock options	—		—			83	1
Total		—	—	—	—	—	¥574	$6

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

1: Convertible bond-type bonds with subscription rights to shares were not accounted for separately.

2: The number of shares reserved for subscription warrants was based on the number of shares that would be needed in the event that stock options were exercised.

3: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.

4: The increase in the number of shares was due to split on common stock.

(3) Dividends

1. Cash dividends payments

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	¥32,485	¥8,500	March 31, 2012	June 21, 2012
October 24, 2012 Meeting of the Board of Directors	Common stock	¥32,485	¥8,500	September 30, 2012	November 20, 2012

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividends per share	Record date	Effective date
June 20, 2012 Annual meeting of shareholders	Common stock	$345	$90.38	March 31, 2012	June 21, 2012
October 24, 2012 Meeting of the Board of Directors	Common stock	$345	$90.38	September 30, 2012	November 20, 2012

2. Dividend payment recognized during the fiscal year ended March 31, 2013 but effective on the next fiscal year ended March 31, 2014.

Resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	¥36,310	Retained earnings	¥95	March 31, 2013	June 20, 2013

Resolution	Type of shares	Total dividends (Millions of U.S. dollars)	Dividend resource	Dividends per share	Record date	Effective date
June 19, 2013 Annual meeting of shareholders	Common stock	$386	Retained earnings	$1.01	March 31, 2013	June 20, 2013

Note: The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012. Dividends per share has been calculated including the effect on this stock split.

18. Related Party Transaction

Year ended March 31, 2012

Transactions with related parties

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, 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	—	¥—
						Concurrent director	Receiving fee for the guarantee	¥495	Account receivable	¥132

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, 2013

Transactions with related parties

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, 2013
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*	¥157,800 (U.S.$1,678)	—	¥— (U.S.$—)
						Concurrent director	Receiving fee for the guarantee	¥329 (U.S.$3)	Account receivable	¥79 (U.S.$1)

Terms and conditions and policies for terms and conditions

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

19. Segment Information

Segment information for the years ended March 31, 2012 and 2013 were as follows:

a. Segment Information

1. Outline and Change of Reportable Business Segments

(1) Outline of reportable business segments

The reportable business segments are the business units for which the 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.

The Company has formulated the "3M Strategy", a growth strategy for domestic business, and the "Global Strategy," aimed at expanding overseas business, on the basis of its three commitments: "More Connected," "More Diverse Values," and "More Global." To aid in promoting these strategies, the Company categorizes its business into four reportable categories: "Personal Services," "Value Services," "Business Services," and "Global Services."

Note: 3M stands for Multi-network, Multi-device, and Multi-use. The 3M Strategy is the Company's business strategy for enabling the use of its wide-ranging content and services such as music, videos, ebooks and games. The strategy calls for these to be made available over the Companies' organically linked mobile phone, FTTH, CATV, WiMAX, Wi-Fi, and other networks (Multi-network); to be available on a host of devices such as smartphones, tablet computers, ebook readers and PCs (Multi-device); and for them to be available for use in the manner the customer requires (Multi-use), conveniently at any place and at any time.

In "Personal Services," the Companies provide households and individual customers with mobile handset sales and other services in addition to a variety of communications services. In "Value Services," we provide households and individual customers with various types of content, settlement services, and other services. In "Business Services," we provide various types of communication services, mobile handset sales, data center services, various types of ICT solution/cloud services, and other services for corporate customers. In "Global Services," we provide various types of communications services, data center services, various types of ICT solution/cloud services, and other services for companies and individuals overseas.

(2) Change in reportable business segments

For the year ended March 31, 2013, the Companies commenced a full-scale launch of such services as "au Smart Value" and "au Smart Pass," based on its growth strategy, the "3M Strategy." In accordance with this launch, the Companies have reclassified its reportable segments into four-"Personal Services," "Value Services," "Business Services," and "Global Services"-in order to manage its operating results by segments that reflect service and customer characteristics. Segment information for the year ended March 31, 2012 has been revised based on above change.

2. Method of Calculating Sales and Income (loss), 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 trading prices are calculated based on third-party trading prices or determined by negotiating prices that take overall costs into consideration. Assets are not allocated to reportable segments.

(3) Information on sales and income (loss), identifiable assets, and other items by business segment reported

Year ended March 31, 2012

Millions of yen

	Reportable Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	¥2,721,295	¥110,013	¥562,650	¥141,546	¥3,535,503	¥ 36,595	¥3,572,098	¥ —	¥3,572,098
Intersegment sales	78,283	26,412	73,389	30,068	208,152	121,013	329,165	(329,165)	—
Total	¥2,799,577	¥136,425	¥636,039	¥171,614	¥3,743,655	¥157,608	¥3,901,263	¥(329,165)	¥3,572,098
Income by business segment	¥ 347,202	¥ 44,440	¥ 74,996	¥ 4,268	¥ 470,905	¥ 7,249	¥ 478,154	¥ (506)	¥ 477,648
Other items									
Depreciation[3]	355,504	5,718	46,820	9,375	417,416	1,684	419,099	(1,213)	417,886
Amortization of goodwill	10,185	2,626	416	825	14,052	224	14,276	—	14,276

Notes: 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of long-term prepaid expenses.

Year ended March 31, 2013

Millions of yen

	Reportable Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	¥2,763,486	¥109,948	¥572,269	¥174,823	¥3,620,526	¥ 41,763	¥3,662,289	¥ —	¥3,662,289
Intersegment sales	74,479	31,951	66,068	32,479	204,977	102,459	307,436	(307,436)	—
Total	¥2,837,965	¥141,899	¥638,337	¥207,302	¥3,825,503	¥144,222	¥3,969,725	¥(307,436)	¥3,662,289
Income by business segment	¥ 378,604	¥ 41,888	¥ 79,830	¥ 7,830	¥ 508,152	¥ 4,894	¥ 513,045	¥ (376)	¥ 512,669
Other items									
Depreciation[3]	342,407	6,922	46,261	10,842	406,432	1,682	408,115	(1,388)	406,726
Amortization of goodwill	11,235	1,733	981	2,495	16,444	—	16,444	—	16,444

Millions of U.S. dollars

	Reportable Segments								
	Personal Services	Value Services	Business Services	Global Services	Subtotal	Other (Note 1)	Total	Elimination and Corporate (Note 2)	Consolidated
Sales									
Outside sales	$29,383	$1,169	$6,085	$1,859	$38,496	$ 444	$38,940	$ —	$38,940
Intersegment sales	792	340	702	345	2,179	1,089	3,269	(3,269)	—
Total	$30,175	$1,509	$6,787	$2,204	$40,675	$1,533	$42,209	$(3,269)	$38,940
Income by business segment	$ 4,026	$ 445	$ 849	$ 83	$ 5,403	$ 52	$ 5,455	$ (4)	$ 5,451
Other items									
Depreciation[3]	3,641	74	492	115	4,321	18	4,339	(15)	4,325
Amortization of goodwill	119	18	10	27	175	—	175	—	175

Notes: 1. The "Other" category incorporates operations not included in reportable business segments, including call center business, research and technological development, and other operations.
2. Adjustment of segment income refers to elimination of intersegment transactions.
3. Inclusive of 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, 2012

The Company does not allocate impairment losses to reportable segments. During the period under review, the Company recorded an impairment loss of ¥9,947 million.

Year ended March 31, 2013

The Company does not allocate impairment losses to reportable segments. During the period under review, the Company recorded an impairment loss of ¥80,549 million (U.S.$856 million).

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

Year ended March 31, 2012

	Millions of yen					
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	¥10,185	¥2,626	¥416	¥ 825	¥224	¥14,276
Year end balance	53,667	19,486	416	18,333	—	91,901

Year ended March 31, 2013

	Millions of yen					
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	¥11,235	¥1,733	¥981	¥ 2,495	¥—	¥16,444
Year end balance	47,173	18,157	—	21,047	—	86,376

	Millions of U.S. dollars					
	Personal Services	Value Services	Business Services	Global Services	Other	Total
Amortization of goodwill	$119	$ 18	$10	$ 27	$—	$175
Year end balance	502	193	—	224	—	918

e. Information on Negative Goodwill by Business Segment

Year ended March 31, 2012 and 2013

No significant items to be reported.

20. Per Share Information

	Yen		U.S. dollars
	2012	2013	2013
Net assets per share	¥2,696.03	¥2,943.12	$31.29
Net income per share			
Basic	290.58	315.90	3.36
Diluted	283.34	289.26	3.08

* The following shows the basis of calculating net income per share, and diluted net income per share for the years ended March 31, 2012 and 2013.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Net income for the fiscal year	¥238,605	¥241,470	$2,567
Monetary value not related to common stockholders	—	—	—
Net income related to common stock	238,605	241,470	2,567
Effect of dilutive securities:			
Amortization of bond premium (after deduction of an amount equivalent to tax)*	(49)	(155)	(2)
Net income on which diluted net income per share is calculated	¥238,555	¥241,315	$2,566

	Number of shares	
	2012	2013
Number of weighted average common shares outstanding during the fiscal year	821,133,107	764,378,162
Increase in number of shares of common stock	20,793,324	69,870,302
(subscription warrants)	(7,130)	(74,455)
(Convertible bond-type bonds with subscription rights to shares)	(20,786,194)	(69,795,847)
Number of shares on which diluted net income per share is calculated	841,926,431	834,248,464
Overview of potential stock not included in calculation of diluted net income per share because the stock has no dilution effect	One types of subscription Warrant-August 2008, 7th Stock Option (4,658 subscription warrants)	—

Notes 1. The Company conducted a 1:100 stock split on common stock, with an effective date of October 1, 2012.
The Company also conducted a 1:2 stock split on common stock, with an effective date of April 1, 2013. Total net assets per share, net income per share and diluted net income per share have been calculated as if the stock split was conducted at the beginning of the previous consolidated fiscal year.
2. This is the amount of premium amortization for the fiscal year (after deducting an amount equivalent to tax) resulting from the issuance of the bonds at an amount higher than the face amount.

21. Other

1. Reduction Entry Due to Subsidies, etc.

Reduction entry due to Subsidies, etc. for the acquisition of property, plant and equipment as of March 31, 2012 and 2013 were ¥159 million and ¥3 million (U.S.$0 million). Cumulative reduction amounts were ¥18,075 million and ¥17,909 million (U.S.$190 million).

2. Notes Relating to Affiliates

The following table summarizes the amounts related to affiliates as of March 31, 2012 and 2013.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Investments in affiliates	¥351,815	¥348,169	$3,702
(of which investment in jointly controlled entities)	687	718	8
Other investments in affiliates	186	219	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, 2012 and 2013 related to finance lease transactions entered by the Companies.

	Millions of yen		Millions of U.S. dollars
	2012	2013	2013
Finance lease assets	¥5,170	¥4,006	$43
Finance lease obligations	5,643	4,284	46

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

(2) Assets and liabilities of newly consolidated subsidiaries

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
Current assets	¥ 17,902
Noncurrent assets	3,401
Goodwill	16,345
Current liabilities	(18,208)
Minority interests	(86)
Amount paid for the acquisition of shares of WebMoney Corporation	19,353
Cash and cash equivalents of WebMoney Corporation	(8,440)
Net amount paid for the acquisition of WebMoney Corporation	¥ 10,912

Year ended March 31, 2013

No significant items to be reported.

(3) Assets with transferred ownership from acquisition of trust beneficiary right

Year 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; Buildings: ¥6,125 million; Structures: ¥97 million; Land: ¥7,697 million; and other property, plant and equipment: ¥9 million.

Year ended March 31, 2013

None

22. Subsequent Event

(Notice Concerning Share Split)

At the meeting of the Board of Directors held on January 28, 2013, the Company resolved to conduct a stock split, with an effective date of April 1, 2013. The details were as follows.

1. Purpose of Share Split

The stock split will be conducted with the aim of increasing the liquidity of the Company's stock and expanding its investor base by reducing the price of share-trading units.

2. Outline of Stock Split

(1) Method of stock split

The stock split shall have a record date of Sunday, March 31, 2013 (because this date falls on a holiday, for all practical purposes the date in substance is Friday, March 29, 2013) and shall involve the splitting of common stocks held by shareholders whose names appear or are recorded in the latest Registry of Shareholders on the record date at a ratio of 1:2.

(2) Number of increase in shares by stock split

1) Total number of issued shares before stock split 448,481,800 shares
2) Number of increase in shares by stock split 448,481,800 shares
3) Total number of issued shares after stock split 896,963,600 shares
4) Total number of authorized shares after stock split 1,400,000,000 shares

(3) Schedule of stock split

1) Public notice date of the record date Thursday, March 14, 2013
2) Record date Sunday, March 31, 2013
* For all practical purposes the record date in substance is Friday, March 29, 2013.
3) Effective date Monday, April 1, 2013

3. Others

(1) Changes in capital

The stock split will not result in changes in capital.

(2) Share information

Information on the impact of this stock split is included in the "Per share information" section.

(Acquisition of Jupiter Telecommunications Co., Ltd. Shares)

On April 17, 2013, the Company acquired through public tender an additional 644,115 shares in Jupiter Telecommunications Co., Ltd. (hereafter, "J:COM"). As a result, the Company's ownership of J:COM amounted to 2,777,912 shares (Note), and voting rights came to 40.47%. In accordance with effective control standards, J:COM was converted to a consolidated subsidiary as of that date.

Note: The Company also owns an additional 152,904 shares in J:COM, which is entrusted for a securities custodial trust. As the trust agreement precludes the Company from exercising voting rights on these shares, they are not included in the share numbers stated above.

1. Overview of Business Combination

(1) Name and Business activities of acquired company

Millions of yen

Name	Jupiter Telecommunications Co., Ltd.
Business activities	Cable TV broadcast and telecommunications business through supervision and operation of cable TV stations; Supervision of programming business for Cable TV stations and digital satellite broadcasters etc.
Operating Revenues (Note)	376,835
Net income attributable to J:COM shareholders	41,623
Total J:COM shareholders' equity	454,547
Total assets	812,030

Note: As of December 31, 2012 (J:COM annual report (the 19th period))
J:COM prepares consolidated financial statements based on accounting principles generally accepted in the United States of America.

(2) Principal reasons for conducting a business combination

The Company acquired additional shares in J:COM and converted this company to a consolidated subsidiary considering for a potential business combination with consolidated subsidiary JAPAN CABLENET LIMITED, thereby expanding the customer base of the cable TV business, and integrating J:COM's media business with the Company's telecommunications business. These approaches are in line with efforts to increase synergies under the Company's growth strategy, the "3M Strategy."

(3) Date of business combination

April 17, 2013 (Date of commencement of TOB settlement)

(4) Legal form of business combination

Acquisition of shares

(5) Name of company after business combination

Jupiter Telecommunications Co., Ltd.

(6) Acquisition of voting rights

Voting rights held immediately before the business combination 31.08%
Additional voting rights acquired on the day of the business combination 9.38%
Voting rights after the acquisition 40.47%

NJ Corporation (The Company's equity-method affiliate), in which The Company and Sumitomo Corporation hold the same number of voting rights, acquired 553,679 shares (voting rights of 8.09%) through this tender offer. Accordingly, the Company holds 4.05% of the voting rights indirectly through NJ Corporation.

(7) Main factors in determination of acquirer

The Company, which provided the cash, was determined to be acquirer because the type of consideration was cash.

2. Acquired Company Acquisition Cost: Amount and Breakdown

(1) Consideration for acquisition

¥341,683M (Reference) NJ Corporation ¥68,338M

(2) Costs directly incurred for acquisition

Unconfirmed

(3) Income on step acquisition

Unconfirmed

(4) Amount of goodwill recognized and basis for recognition of goodwill

Unconfirmed

(5) Amounts and breakdown for assets acquire and liabilities assume in the business combination

Unconfirmed

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, 2013, 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, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of matter

As described in Note 22 to the consolidated financial statements, on April 17, 2013, KDDI CORPORATION acquired an additional shares in Jupiter Telecommunications Co., Ltd. through public tender and made it as a subsidiary as at that date. This event did not have an impact on our opinion.

Convenience translations

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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.

PricewaterhouseCoopers Kyoto

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 20, 2013