# Consolidated Financial Statements

## Consolidated Statement of Financial Position

KDDI Corporation and its Subsidiaries

| As of March 31 | Notes | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|---|
| | | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| **Assets** | | | | | |
| Non-current assets: | | | | | |
| Property, plant and equipment | 6, 8 | ¥2,465,583 | ¥2,541,099 | ¥2,485,948 | $22,062 |
| Goodwill | 4, 7, 8 | 329,783 | 343,136 | 493,733 | 4,382 |
| Intangible assets | 7, 8 | 665,068 | 699,332 | 728,020 | 6,461 |
| Investments accounted for using the equity method | 9 | 41,798 | 61,621 | 71,011 | 630 |
| Other long-term financial assets | 12, 31, 32 | 134,893 | 97,824 | 112,809 | 1,001 |
| Retirement benefit assets | 17 | 7,476 | 26,035 | — | — |
| Deferred tax assets | 16 | 95,353 | 110,988 | 103,388 | 918 |
| Other non-current assets | 13 | 57,387 | 71,457 | 72,938 | 647 |
| Total non-current assets | | 3,797,340 | 3,951,491 | 4,067,847 | 36,101 |
| Current assets: | | | | | |
| Inventories | 10 | 83,776 | 75,837 | 79,626 | 707 |
| Trade and other receivables | 11, 31 | 1,127,209 | 1,231,095 | 1,357,820 | 12,050 |
| Other short-term financial assets | 12, 31, 32 | 11,069 | 9,023 | 14,966 | 133 |
| Income tax receivables | | 9,626 | 242 | 8,142 | 72 |
| Other current assets | 13 | 70,725 | 82,719 | 86,648 | 769 |
| Cash and cash equivalents | 4, 14 | 249,732 | 276,317 | 192,200 | 1,706 |
| Total current assets | | 1,552,137 | 1,675,235 | 1,739,403 | 15,437 |
| Total assets | | ¥5,349,478 | ¥5,626,725 | ¥5,807,249 | $51,538 |

| As of March 31 | Notes | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | Millions of U.S. dollars<br>2016 |
|---|---|---|---|---|---|
| Liabilities and Equity | | | | | |
| Liabilities | | | | | |
| Non-current liabilities: | | | | | |
| Borrowings and bonds payable | 15, 31, 32 | ¥ 779,454 | ¥ 846,701 | ¥ 956,800 | $ 8,491 |
| Other long-term financial liabilities | 19, 31, 32 | 131,138 | 148,367 | 174,791 | 1,551 |
| Retirement benefit liabilities | 17 | 17,261 | 14,826 | 20,255 | 180 |
| Deferred tax liabilities | 16 | 48,142 | 35,921 | 26,464 | 235 |
| Provisions | 20 | 7,925 | 7,129 | 7,635 | 68 |
| Other non-current liabilities | 21 | 150,282 | 160,578 | 153,299 | 1,360 |
| Total non-current liabilities | | 1,134,204 | 1,213,523 | 1,339,244 | 11,885 |
| Current liabilities: | | | | | |
| Borrowings and bonds payable | 15, 31, 32 | 370,349 | 149,760 | 96,836 | 859 |
| Trade and other payables | 18, 31 | 494,605 | 535,489 | 426,172 | 3,782 |
| Other short-term financial liabilities | 19, 31, 32 | 18,706 | 20,698 | 25,037 | 222 |
| Income taxes payables | | 126,169 | 165,402 | 120,818 | 1,072 |
| Provisions | 20 | 1,290 | 11,311 | 20,390 | 181 |
| Other current liabilities | 21 | 291,565 | 307,530 | 269,294 | 2,390 |
| Total current liabilities | | 1,302,684 | 1,190,190 | 958,548 | 8,507 |
| Total liabilities | | 2,436,888 | 2,403,713 | 2,297,792 | 20,392 |
| Equity | | | | | |
| Equity attributable to owners of the parent | | | | | |
| Common stock | 23 | 141,852 | 141,852 | 141,852 | 1,259 |
| Capital surplus | 22, 23 | 385,945 | 369,722 | 368,245 | 3,268 |
| Treasury stock | 23 | (161,822) | (161,822) | (210,861) | (1,871) |
| Retained earnings | 23 | 2,374,381 | 2,686,824 | 2,995,422 | 26,583 |
| Accumulated other comprehensive income | 23 | 43,589 | 27,462 | 13,570 | 120 |
| Total equity attributable to owners of the parent | | 2,783,946 | 3,064,038 | 3,308,228 | 29,359 |
| Non-controlling interests | | 128,644 | 158,974 | 201,230 | 1,786 |
| Total equity | | 2,912,589 | 3,223,012 | 3,509,458 | 31,145 |
| Total liabilities and equity | | ¥5,349,478 | ¥5,626,725 | ¥5,807,249 | $51,538 |

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

## Consolidated Statement of Income

KDDI Corporation and its Subsidiaries

| | | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|---|
| For year ended March 31 | Notes | 2015 | 2016 | 2016 |
| Operating revenue | 25 | ¥4,270,094 | ¥4,466,135 | $39,636 |
| Cost of sales | 26 | 2,511,226 | 2,540,338 | 22,545 |
| Gross profit | | 1,758,868 | 1,925,797 | 17,091 |
| Selling, general and administrative expenses | 26 | 1,106,444 | 1,106,798 | 9,822 |
| Other income | 27 | 13,069 | 12,866 | 114 |
| Other expense | 27 | 4,697 | 3,677 | 33 |
| Share of profit of investments accounted for using the equity method | 9 | 4,923 | 5,170 | 46 |
| Operating income | | 665,719 | 833,358 | 7,396 |
| Finance income | 28 | 8,216 | 1,848 | 16 |
| Finance cost | 28 | 15,602 | 19,638 | 174 |
| Other non-operating profit | 29 | 4,533 | 3,616 | 32 |
| Profit for the year before income tax | | 662,867 | 819,185 | 7,270 |
| Income tax | 16 | 243,343 | 253,649 | 2,251 |
| Profit for the year | | ¥ 419,524 | ¥ 565,536 | $ 5,019 |
| | | | | |
| Profit for the year attributable to: | | | | |
| Owners of the parent | | ¥ 395,805 | ¥ 494,465 | $ 4,388 |
| Non-controlling interests | | 23,719 | 71,071 | 631 |
| Profit for the year | | ¥ 419,524 | ¥ 565,536 | $ 5,019 |
| | | | | |
| Earnings per share attributable to owners of the parent | 34 | | | |
| Basic earnings per share (yen) | | ¥158.01 | ¥197.56 | $2 |
| Diluted earnings per share (yen) | | 158.01 | 197.54 | 2 |

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

KDDI Corporation and its Subsidiaries

| For year ended March 31 | Notes | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|---|
| Profit for the year | | ¥419,524 | ¥565,536 | $5,019 |
| Other comprehensive income | | | | |
| Items that will not be transferred subsequently to profit or loss | | | | |
| Remeasurements of defined benefit pension plans | 17, 30 | 8,613 | (24,393) | (216) |
| Changes measured in fair value of financial assets through other comprehensive income | 30, 31 | 6,881 | (3,256) | (29) |
| Share of other comprehensive income of investments accounted for using the equity method | 9, 30 | 1, 221 | 3,239 | 29 |
| Total | | 16,714 | (24,410) | (217) |
| Items that may be subsequently reclassified to profit or loss | | | | |
| Changes in fair value of cash flow hedge | 30, 31 | (1,881) | (4,909) | (44) |
| Translation differences on foreign operations | 30 | 9,622 | (11,009) | (98) |
| Share of other comprehensive income of investments accounted for using the equity method | 9, 30 | 1,824 | 434 | 4 |
| Total | | 9,566 | (15,485) | (137) |
| Total other comprehensive income | | 26,280 | (39,894) | (354) |
| Total comprehensive income for the year | | ¥445,804 | ¥525,641 | $4,665 |
| Total comprehensive income for the year attributable to: | | | | |
| Owners of the parent | | ¥421,562 | ¥457,575 | $4,061 |
| Non-controlling interests | | 24,241 | 68,066 | 604 |
| Total | | ¥445,804 | ¥525,641 | $4,665 |

Notes: 1. Items in the statement above are disclosed net of tax.
2. Income taxes related to each component of other comprehensive income are disclosed in “Note 16. Deferred tax and income taxes.”
3. The notes 1 to 42 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

KDDI Corporation and its Subsidiaries

| | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Equity attributable to owners of the parent | | | | | | | |
| For year ended March 31 | Notes | Common stock | Capital surplus | Treasury stock | Retained earnings | Accumulated other comprehensive income | Total | Non-controlling interests | Total equity |
| As of April 1, 2014 | | ¥141,852 | ¥385,945 | ¥(161,822) | ¥2,374,381 | ¥ 43,589 | ¥2,783,946 | ¥128,644 | ¥2,912,589 |
| Comprehensive income | | | | | | | | | |
| Profit for the year | | — | — | — | 395,805 | — | 395,805 | 23,719 | 419,524 |
| Other comprehensive income | | — | — | — | — | 25,757 | 25,757 | 523 | 26,280 |
| Total comprehensive income | | — | — | — | 395,805 | 25,757 | 421,562 | 24,241 | 445,804 |
| Transactions with owners and other transactions | | | | | | | | | |
| Cash dividends | 24 | — | — | — | (125,247) | — | (125,247) | (6,841) | (132,087) |
| Transfer of accumulated other comprehensive income to retained earnings | | — | — | — | 41,885 | (41,885) | — | — | — |
| Purchase and disposal of treasury stock | 23 | — | — | (0) | — | — | (0) | — | (0) |
| Changes in interests in subsidiaries | | — | (16,194) | — | — | — | (16,194) | 13,534 | (2,660) |
| Other | | — | (29) | — | — | — | (29) | (604) | (633) |
| Total transactions with owners and other transactions | | — | (16,223) | (0) | (83,362) | (41,885) | (141,470) | 6,089 | (135,381) |
| As of April 1, 2015 | | 141,852 | 369,722 | (161,822) | 2,686,824 | 27,462 | 3,064,038 | 158,974 | 3,223,012 |
| Comprehensive income | | | | | | | | | |
| Profit for the year | | — | — | — | 494,465 | — | 494,465 | 71,071 | 565,536 |
| Other comprehensive income | | — | — | — | — | (36,890) | (36,890) | (3,004) | (39,894) |
| Total comprehensive income | | — | — | — | 494,465 | (36,890) | 457,575 | 68,066 | 525,641 |
| Transactions with owners and other transactions | | | | | | | | | |
| Cash dividends | 24 | — | — | — | (162,860) | — | (162,860) | (29,860) | (192, 720) |
| Transfer of accumulated other comprehensive income to retained earnings | | — | — | — | (22,998) | 22,998 | — | — | — |
| Purchase and disposal of treasury stock | 23 | — | (1,010) | (49,039) | — | — | (50,050) | — | (50,050) |
| Changes due to business combination | | — | — | — | — | — | — | 16,803 | 16,803 |
| Changes in interests in subsidiaries | | — | (1,846) | — | — | — | (1,846) | (12,754) | (14,599) |
| Other | | — | 1,379 | — | (8) | — | 1,371 | — | 1,371 |
| Total transactions with owners and other transactions | | — | (1,477) | (49,039) | (185,867) | 22,998 | (213,385) | (25,811) | (239,195) |
| As of March 31, 2016 | | ¥141,852 | ¥368,245 | ¥(210,861) | ¥2,995,422 | ¥ 13,570 | ¥3,308,228 | ¥201,230 | ¥3,509,458 |

| | | Millions of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Equity attributable to owners of the parent | | | | | | | |
| For year ended March 31 | Notes | Common stock | Capital surplus | Treasury stock | Retained earnings | Accumulated other comprehensive income | Total | Non-controlling interests | Total equity |
| As of April 1, 2015 | | $1,259 | $3,281 | $(1,436) | $23,845 | $ 244 | $27,192 | $1,411 | $28,603 |
| Comprehensive income | | | | | | | | | |
| Profit for the year | | — | — | — | 4,388 | — | 4,388 | 631 | 5,019 |
| Other comprehensive income | | — | — | — | — | (327) | (327) | (27) | (354) |
| Total comprehensive income | | — | — | — | 4,388 | (327) | 4,061 | 604 | 4,665 |
| Transactions with owners and other transactions | | | | | | | | | |
| Cash dividends | 24 | — | — | — | (1,445) | — | (1,445) | (265) | (1,710) |
| Transfer of accumulated other comprehensive income to retained earnings | | — | — | — | (204) | 204 | — | — | — |
| Purchase and disposal of treasury stock | 23 | — | (9) | (435) | — | — | (444) | — | (444) |
| Changes due to business combination | | — | — | — | — | — | — | 149 | 149 |
| Changes in interests in subsidiaries | | — | (16) | — | — | — | (16) | (113) | (130) |
| Other | | — | 12 | — | (0) | — | 12 | — | 12 |
| Total transactions with owners and other transactions | | — | (13) | (435) | (1,650) | 204 | (1,894) | (229) | (2,123) |
| As of March 31, 2016 | | $1,259 | $3,268 | $(1,871) | $26,583 | $ 120 | $29,359 | $1,786 | $31,145 |

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

KDDI Corporation and its Subsidiaries

| For year ended March 31 | Notes | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit for the period before income tax | | ¥ 662,867 | ¥ 819,185 | $ 7,270 |
| Depreciation and amortization | 6, 7 | 518,831 | 532,062 | 4,722 |
| Impairment loss | 8 | 54,748 | 5,873 | 52 |
| Share of (profit) loss of investments accounted for using the equity method | 9 | (4,923) | (5,170) | (46) |
| Loss (gain) on sales of non-current assets | | 334 | 461 | 4 |
| Interest and dividends income | 28 | (2,180) | (1,831) | (16) |
| Interest expenses | 28 | 15,170 | 13,325 | 118 |
| (Increase) decrease in trade and other receivables | | (107,980) | (144,329) | (1,281) |
| Increase (decrease) in trade and other payables | | 62,047 | (47,932) | (425) |
| (Increase) decrease in inventories | | 8,914 | 1,140 | 10 |
| (Increase) decrease in retirement benefit assets | | (18,559) | 26,035 | 231 |
| Increase (decrease) in retirement benefit liabilities | | (2,435) | 5,429 | 48 |
| Other | | 27,688 | (15,320) | (136) |
| Cash generated from operations | | 1,214,522 | 1,188,926 | 10,551 |
| Interest and dividends received | | 5,626 | 2,986 | 26 |
| Interest paid | | (11,221) | (15,587) | (138) |
| Income tax paid | | (249,510) | (291,998) | (2,591) |
| Income taxes refund | | 9,335 | 212 | 2 |
| Net cash provided by (used in) operating activities | | 968,752 | 884,538 | 7,850 |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | (482,497) | (343,290) | (3,047) |
| Proceeds from sales of property, plant and equipment | | 1,475 | 1,289 | 11 |
| Purchase of intangible assets | | (189,085) | (192,510) | (1,708) |
| Purchase of other financial assets | | (3,798) | (1,691) | (15) |
| Proceeds from sales/redemption of other financial assets | | 53,515 | 548 | 5 |
| Acquisition of control over subsidiaries | 4 | (7,108) | (127,045) | (1,127) |
| Purchase of stocks of associates | | (3,125) | (5,377) | (48) |
| Decrease from loss of control over subsidiaries | | (2,808) | — | — |
| Other | | (2,315) | 159 | 1 |
| Net cash provided by (used in) investing activities | | (635,745) | (667,917) | (5,928) |
| **Cash flows from financing activities** | | | | |
| Net increase (decrease) of short-term borrowings | | (92,480) | 17,316 | 154 |
| Proceeds from issuance of bonds and long-term borrowings | | 214,000 | 184,000 | 1,633 |
| Payments from redemption of bonds and repayments of long-term borrowings | | (275,320) | (213,464) | (1,894) |
| Repayments of lease obligations | | (24,607) | (26,382) | (234) |
| Payments from purchase of subsidiaries' equity from non-controlling interests | | (26,613) | (17,693) | (157) |
| Proceeds from stock issuance to non-controlling interests | | 26,547 | 212 | 2 |
| Payments from purchase of treasury stock | 23 | (0) | (50,019) | (444) |
| Cash dividends paid | | (125,226) | (162,834) | (1,445) |
| Cash dividends paid to non-controlling interests | | (6,828) | (30,140) | (267) |
| Other | | (0) | 1 | 0 |
| Net cash provided by (used in) financing activities | | (310,528) | (299,003) | (2,654) |
| Effect of exchange rate changes on cash and cash equivalents | | 4,107 | (1,848) | (16) |
| Net increase (decrease) in cash and cash equivalents | | 26,585 | (84,230) | (748) |
| Cash and cash equivalents at the beginning of the year | 14 | 249,732 | 276,317 | 2,452 |
| Cash and cash equivalents at the end of the year | 14 | ¥ 276,317 | ¥ 192,087 | $ 1,705 |

Note: The notes 1 to 42 are an integral part of these consolidated financial statements.

## 1. Reporting Entity

KDDI CORPORATION ("the Company") was established as a limited company in accordance with Japanese Company Act. The location of the Company is Japan and the registered address of its headquarter is 2-3-2, Nishishinjuku, Shinjuku-ku, Tokyo, Japan. The Company's consolidated financial statements as of and for the year ended March 31, 2016 comprise the Company and its consolidated subsidiaries ("the Group") and the Group's interests in associates and joint ventures. The Company is the ultimate parent company of the Group.

The Group's major business and activities are "Personal Services," "Value Services," "Business Services" and "Global Services." For the details, please refer to "(1) Outline of reporting segment" of "Note 5. Segment information."

## 2. Basis of Preparation

### (1) Compliance of consolidated financial statements with International Financial Reporting Standards ("IFRSs") and first-time adoption

The Group's consolidated financial statements have been prepared in accordance with IFRSs as prescribed in Article 93 of Ordinance on Consolidated Financial Statements as they satisfy the requirement of a "specific company" set forth in Article 1-2 of Ordinance on Consolidated Financial Statements.

The Group has applied IFRSs from the fiscal year ended March 31, 2016, and the consolidated financial statements for the year ended March 31, 2016 are the first consolidated financial statements under IFRSs. Date of transition to IFRSs is April 1, 2014, and the Group applied IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1") for transition to IFRSs. The method of first-time adoption of IFRSs the Group has applied and the effect of the transition to IFRSs on the Group's financial position, result of operations, and cash flows is provided in "Note 41. First-time adoption of IFRSs."

The Group's accounting policies comply with IFRSs effective at April 1, 2015, excluding IFRSs which have not been early adopted and exemptions permitted by IFRS 1 and elected by the Group.

### (2) Basis of measurement

The Group's consolidated financial statements have been prepared under the historical cost basis except for the following significant items on the consolidated statement of financial position:

- Derivative assets and derivative liabilities (measured at fair value)
- Financial assets or financial liabilities at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Assets and liabilities related to defined benefit plan (measured at the present value of the defined benefit obligations, net of the fair value of the plan asset)

### (3) Presentation currency and unit of currency

The Group's consolidated financial statements are presented in Japanese yen, which is the currency of the primary economic environment of the Company's business activities ("functional currency"), and are rounded to the nearest million yen.

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 ¥112.68=U.S.$1, the approximate exchange rate on March 31, 2016. 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.

### (4) Use of estimates and judgement

The preparation of consolidated financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and assumptions are based on the management's best judgments, through their evaluation of various factors that were considered reasonable as of the period-end, based on historical experience and by collecting available information. By the nature of the estimates or assumptions, however, actual results may differ from those estimates and assumptions.

The estimates and assumptions are reviewed on an ongoing basis. The effect of adjusting accounting estimates is recognized in the fiscal year in which the estimates are adjusted and in the subsequent fiscal years. Estimates that may have a risk of significant adjustment of carrying amounts of assets and/or liabilities in the subsequent fiscal years and the underlying assumptions are as follows:

#### i. Estimates of useful lives of property, plant and equipment, intangible assets, finance lease assets

Property, plant and equipment is depreciated primarily using the straight-line method, based on the estimated useful life that reflects the period in which the asset's future economic benefits are expected to be consumed. The depreciation charge for the period could increase if an item of property, plant and equipment becomes obsolete or repurposed in the future and the estimated useful life becomes shorter.

Intangible asset with a finite useful life is amortized on a straight-line basis to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the Group. Estimated useful life of the customer relationships acquired in a business combination is determined based on the cancellation rate. The intangible assets related to the customer relationships are amortized over the useful life. Should actual useful life in the future be less than the original estimate, due to changes in the business environment etc., there is a risk that amortization expenses for the reporting period may increase.

The content and amount related to estimates of useful lives and residual values of property, plant and equipment, intangible assets, finance lease assets are described in "Note 3. Significant accounting policies (5) Property, plant &equipment, (7) Intangible asset" and (8) Leases, "Note 6. Property, plant and equipment," "Note 7. Goodwill and intangible assets."

#### ii. Impairment of property, plant and equipment and intangible assets including goodwill

The Group conducts impairment tests to property, plant and equipment and intangible assets including goodwill. Calculations of recoverable amounts used in impairment tests are based on assumptions set using such factors as an asset's useful life, future cash flows, pre-tax discount rates and long-term growth rates. These assumptions are based on the best estimates and judgments made by management. However, these assumptions may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods.

The method for calculating recoverable amounts is described in "Note 3. Significant accounting policies (9) Impairment of property, plant and equipment, goodwill and intangible assets" and "Note 8. Impairment of property, plant and equipment, goodwill and intangible assets."

#### iii. Evaluation of inventories

Inventories are measured at historical cost. However, when the net realizable value ("NRV") at the reporting date falls below the cost, inventories are subsequently measured based on NRV, with the difference in value between the cost and NRV, booked as cost of sales. Slow-moving inventories and those outside the normal operating cycle are calculated at NRV that reflects future demand and market trends. The Group may experience losses in cases where NRV drops as a result of deterioration in the market environment against the forecast.

The content and amount related to evaluation of inventories are described in "Note 3. Significant accounting policies (15) Inventories" and "Note 10. Inventories."

#### iv. Recoverability of deferred tax assets

In recognizing deferred tax assets, when judging the possibility of the future taxable income, the Group estimates the timing and amount of future taxable income based on the business plan.

The timing when taxable income arises and the amount of such income may be affected by changes in uncertain future economic conditions. If there are differences between the actual amounts and estimated amounts, this may have a material impact on the consolidated financial statements in future periods.

The content and amount related to deferred tax assets are described in "Note 3. Significant accounting policies (25) Income taxes" and "Note 16. Deferred tax and income taxes."

#### v. Measurement of defined benefit obligations

The Group has in place various post-retirement benefit plans, including defined benefits plans. The present value of defined benefit obligations on each of these plans and the service costs are calculated based on actuarial assumptions. These actuarial assumptions require estimates and judgments on variables, such as discount rates. The Group obtains advice from external pension actuaries with respect to the appropriateness of these actuarial assumptions including these variables.

The actuarial assumptions are determined based on the best estimates and judgments made by management. However, there is the possibility that these assumptions may be affected by changes in uncertain future economic conditions, or by the publication or the amendment of related laws, which may have a material impact on the consolidated financial statements in future periods.

These actuarial assumptions and related sensitivity analysis are described in "Note 3. Significant accounting policies (16) Employee benefits" and "Note 17. Employee benefits."

#### vi. Collectability of trade and other receivables

The Group has estimated the collectability of trade and other receivables based on the credit risk. Fluctuations in credit risk of customer receivables may have a significant effect on the amounts of recognizing the allowance for receivables on the consolidated financial statements in future periods.

The content and amount related to collectability of trade and other receivables are described in "Note 3. Significant accounting policies (12) Impairment of financial assets" and "Note 31. Financial instruments."

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

The Group has used valuation techniques to estimate the unobservable inputs in the market when assessing the fair value of certain financial instruments. Unobservable input may be affected by changes in uncertain future economic conditions, which may have a material impact on the consolidated financial statements in future periods if it becomes necessary to review.

The content and amount related to fair value of financial assets are described in "Note 3. Significant accounting policies (11) Financial instruments and (13) Derivatives and hedge accounting" and "Note 32. Fair value of financial instruments."

#### viii. Provisions

The Group recognizes provisions, including provisions for point program, in the consolidated statement of financial position. These provisions are recognized based on the best estimates of the expenditures required to settle the obligations, taking into account risks and uncertainty related to the obligations as of the current year end date. Expenditures necessary for settling the obligations are calculated by taking all possible future results into account; however, they may be affected by unexpected events or changes in conditions which may have a material impact on the Group's consolidated financial statements in future periods.

The nature and amount of recognised provisions are described in "Note 3. Significant accounting policies (17) Provisions" and "Note 20. Provisions."

### (5) Application of new standards and interpretations

There is no standard and interpretation newly applied from the fiscal year ending March 31, 2016. The Group has early adopted IFRS 9 "Financial instruments" (issued in November 2009 and amended in July 2014) from the date of transition to IFRSs.

**(6) Standards not yet adopted**

The following new standards and amendments announced by the approval date of the consolidated financial statements are not mandatory for the fiscal year ended March 31, 2016. They have not been early adopted by the Group.

| Standard | The title of Standard | Mandatory adoption (from the fiscal year beginning) | To be adopted by the Group from | Outline of new standards and amendments |
|---|---|---|---|---|
| IFRS 15 | Revenue from contracts with customers | January 1, 2018 | fiscal year ending March 31, 2019 | IFRS 15 describes that revision of current accounting standard for revenue recognition and disclosure. Specifically, IFRS15 requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. |
| IFRS16 | Lease | January 1, 2019 | fiscal year ending March 31, 2020 | IFRS 16 describes that revision of current accounting standard for lease and disclosure. Specifically, IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments for all leases with a term of more than 12 months as principal. |
| IAS1 (Revised) | Presentation of Financial Statements | January 1, 2016 | fiscal year ending March 31, 2017 | The amendments to IAS 1 are designed to further encourage companies to apply professional judgments in determining what information to disclose in their financial statements. |
| IAS7 (Revised) | Statement of cash flows | January 1, 2017 | fiscal year ending March 31, 2018 | The amendments to IAS 7 are designed to introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. |
| IAS12 (Revised) | Income taxes | January 1, 2017 | fiscal year ending March 31, 2018 | The amendments to IAS 12 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. |
| IAS16 IAS38 (Revised) | Property, Plant and Equipment Intangible Assets | January 1, 2016 | fiscal year ending March 31, 2017 | The amendments to IAS 16 and IAS 38 are designed to clarify permissible depreciation and amortization methods. |
| IFRS11 (Revised) | Joint arrangements | January 1, 2016 | fiscal year ending March 31, 2017 | The amendments to IFRS 11 are designed to clarify accounting for the acquisition of interest in joint operations. |
| IAS19 (Revised) | Employee benefit | January 1, 2016 | fiscal year ending March 31, 2017 | The amendment to IAS19 clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. |

All the standards and amendments above will be reflected to the consolidated financial statements for the relevant fiscal year described above. The Company is currently evaluating the impact of the application and estimate is currently not available.

## 3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements, including the statement of financial position as of the date of transition to IFRSs, are set out below. These policies have been consistently applied to all the reporting periods presented, unless otherwise stated.

**(1) Basis of consolidation**

**i. Subsidiaries**

(a) Consolidation of subsidiaries

Subsidiaries are all entities over which the Group has control. An entity is consolidated as the Group controls it when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control is obtained and deconsolidated from the date when control is lost.

Intragroup balances and transactions, and unrealized gain or loss arising from intragroup transactions are eliminated in preparation of the consolidated financial statements.

The accounting policies of subsidiaries have been changed to conform to the Group's accounting policies, when necessary.

(b) Changes in ownership interest in a subsidiary that do not result in a change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for by the Group as equity transactions. The difference between fair value of any consideration paid and the proportion acquired of the carrying amount of the subsidiary's net assets is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of a subsidiary

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value on the date when control is lost, with the changes in the carrying amount recognized in profit or loss. The fair value will be the initial carrying amount when the retained interests are subsequently accounted for as associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(d) Unification of reporting period

The consolidated financial statements include the financial statements of subsidiaries whose closing dates are different from that of the Company. For the preparation of the consolidated financial statements, such subsidiaries prepare financial statements based on the provisional accounts as of the Company's closing date. However, among consolidated subsidiaries, KDDI SUMMIT GLOBAL SINGAPORE PTE. LTD., is not able to prepare financial statements based on the provisional accounts as of the Company's closing date mainly due to the accounting environment in the location where its subsidiary, KDDI Summit Global Myanmar Co., Ltd. operates. The difference between its reporting period-end, which is the 31 of December and the Company's closing date is less than three months and the necessary adjustments are made for consolidation in relation to significant transactions or events that occurred between the reporting period-end of the subsidiary and closing date of the Company.

#### ii. Associates

Associates are entities over which the Group does not have control but has significant influence over the financial and operating policies through participation in the decision-making of those policies. Investments in associates are accounted for using the equity method of accounting. Under the equity method, investment in an associate is initially recorded at cost and its amount is adjusted to recognize the Group's share of the profit or loss and other comprehensive income of the associate from the date on which it has significant influence until the date when it ceases to have the significant influence is lost.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amount previously recognized in other comprehensive income is reclassified to profit or loss, where appropriate. When the Company's share of losses in an associate equals or exceeds its carrying amount of interest in the associate, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group's investment in associates includes goodwill recognized on acquisition. Accordingly, goodwill is not recognized and not tested for impairment separately. Gross amount of investments in associates is tested for impairment as a single asset. Specifically, the Group evaluates whether there is objective evidence which indicates that the investment may be impaired or not on a quarterly basis. When objective evidence that the investments in associates are impaired exists, those investments are tested for impairment.

Unrealized gains or losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The accounting policies of associates have been changed to conform to the Group's accounting policies, when necessary.

#### iii. Joint arrangements

The Group enters into joint arrangements when the Group has joint control of a business or entity.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when the decisions about the relevant activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

For the purpose of accounting, joint arrangements are classified as either joint operations or joint ventures.

A joint operation is a joint agreement whereby parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When a joint arrangement is classified as a joint operation, the Group's share of the assets, liabilities, revenue and expenses in relation to the arrangement are recorded directly in the financial statements. On the other hand, when a joint arrangement is classified as a joint venture, net assets related to the arrangement are recorded in the financial statements using the equity method.

### (2) Business combination

The Group accounts for business combination by applying the acquisition method. Consideration transferred to acquire subsidiaries is fair values of the assets transferred, the liabilities incurred by former owners of the acquiree and the equity interests issued by the Group. Consideration transferred also includes fair values of any assets or liabilities resulting from a contingent consideration arrangement. Each identifiable asset acquired, liability and contingent liability assumed in a business combination is generally measured at its acquisition-date fair value.

Non-controlling interests are identified separately from those of the Group and are measured as the non-controlling shareholders' proportionate share of the acquiree's identifiable net assets. For each acquisition, the Group recognizes acquiree's non-controlling interests either at fair value or as the non-controlling interest's proportionate share of the amount recognized for acquiree's identifiable net assets.

Acquisition-related costs, including finder's fees, legal, due-diligence and other professional fees, are charged to expense when incurred.

Where the aggregate amount of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree exceeds the fair value of the identifiable net assets acquired, such excess is recorded as goodwill. Where the aggregate amount of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquire is less than the fair value of acquired subsidiary's net asset, such difference is recognized directly in profit or loss as a bargain purchase.

If the initial accounting for a business combination is not complete by the end of the reporting period in which the business combination occurs, the Group recognizes in its financial statements provisional amounts for the items for which the accounting is incomplete. Subsequently, the Group retrospectively adjusts the provisional amounts recognized on the date when control is obtained as measurement period adjustments to reflect new information obtained about facts and circumstances that existed as of the date when control is obtained and, if known, would have affected the amounts recognized for the business combination. However, the measurement period shall not exceed one year from the date when control is obtained.

The Group applies exemption of IFRS 1 and does not retrospectively apply IFRS 3 "Business Combination" for the business combinations that occurred before April 1, 2014 (the date of transition to IFRSs). Goodwill resulted from the business combinations that occurred before the date of transition to IFRSs is recorded at its carrying amount that is taken over from the amount previously recognized under former accounting standards (Japanese GAAP) on the date of transition to IFRSs and tested for impairment.

### (3) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments. The board of directors that makes strategic decisions has been identified by the Group as the chief operating decision-maker.

### (4) Foreign currency translation

#### i. Functional currency and presentation currency

Foreign currency transactions of each group company have been translated into their functional currencies at the exchange rate prevailing at the dates of transactions upon preparation of their financial statements. The consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Company.

**ii. Foreign currency transactions**

Foreign currency transactions are translated at the spot exchange rate of the date of transaction or the rate that approximates such exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the fiscal year end date. Non-monetary items at fair value denominated in foreign currencies are translated at an exchange rate of the date when their fair values are measured.

Exchange differences arising from the translation and settlement of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss. However, exchange differences arising from the translation of financial assets measured through other comprehensive income and cash flow hedges are recognized as other comprehensive income.

**iii. Foreign operations**

For the purpose of the presentation of the consolidated financial statements, the assets and liabilities of the Group's foreign operations, including goodwill, identified assets and liabilities, and their fair value adjustments resulting from the acquisition of the foreign operations, are translated into presentation currency at the exchange rate prevailing at the fiscal year end date. Income and expenses of foreign operations are translated into Japanese yen, the presentation currency, at the average exchange rate for the period, unless there is significant change in the exchange rate during the period.

Exchange differences arising from translation of foreign operations' financial statements are recognized as other comprehensive income. In cases of disposition of whole interests of foreign operations, and certain interests involving loss of control or significant influence, exchange differences are accounted for as profit or loss on disposal of foreign operations.

The Group applies exemption of IFRS 1 and all cumulative exchange differences as of the date of transition to IFRSs are reclassified to retained earnings

### (5) Property, plant and equipment

**i. Recognition and measurement**

Property, plant, and equipment of the Group is measured on a historical cost basis and is stated at cost less accumulated depreciation and impairment losses. The acquisition cost includes costs directly attributable to the acquisition of the asset and the initial estimated costs related to disassembly, retirement and site restoration, as well as borrowing costs eligible for capitalization.

In cases where components of property, plant, and equipment have different useful lives, each component is recorded as a separate property, plant, and equipment item.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognized as expenses during the financial period in which they are incurred.

**ii. Depreciation and useful lives**

Property, plant and equipment is depreciated mainly using the straight-line method over the estimated useful lives of each component. The depreciable amount is calculated as the cost of an asset less its residual value. Land and construction in progress are not depreciated. In cases where components of property, plant and equipment have different useful lives, each component is recorded as a separate property, plant and equipment item.

The estimated useful lives of major components of property, plant and equipment are as follows:

| | |
|---|---|
| Communication equipment | |
| Machinery | 9 years |
| Antenna equipment | 10–21 years |
| Toll and local line equipment | 10–21 years |
| Other equipment | 9–27 years |
| Buildings and structures | 10–38 years |
| Others | 5–22 years |

The depreciation methods, estimated useful lives and residual values are reviewed at the end of each reporting period, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

### (6) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the acquiree on the date of acquisition.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Instead, it is tested for impairment annually and if events or changes in circumstances indicate a potential impairment. For the impairment, please refer to "Note 3. Significant accounting policies (9) Impairment of property, plant and equipment, goodwill and intangible assets."

### (7) Intangible assets

The Group applies the cost method in measuring intangible assets, excluding goodwill. Those assets are measured at cost less accumulated amortization and impairment losses.

Intangible assets acquired separately are measured at cost at initial recognition. Intangible assets acquired in a business combination are recognized separately from goodwill and are measured at fair value at the acquisition date when such assets meet the definition of intangible asset and are identifiable, and their fair values can be measured reliably.

Internally generated expenditures on research activities are recognized as an expense when incurred. Expenditures on development activities eligible for capitalization are capitalized, and those not eligible for capitalization are recognized as an expense when incurred.

Intangible assets are amortized using the straight-line method over their estimated useful lives. Estimated useful lives of major components of intangible assets are as follows:

| | |
|---|---|
| Software | 5 years |
| Customer relationships | 8–29 years |
| Assets related to program supply | 22 years |
| Others | 5–20 years |

The amortization methods, estimated useful lives are reviewed at the end of each reporting period, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

### (8) Lease

**i. Assets subject to lease**

At the inception of the lease contract, the assessment whether an arrangement is a lease or contains a lease is made based on the substance of the agreement. Assets are subject to lease if the implementation of an agreement depends on use of certain assets or groups of assets, and the right to use the assets is given under such agreement.

**ii. Classification of lease**

Lease transactions are classified as finance leases whenever all the risks and rewards of ownership of assets are substantially transferred to the Group (lessee). All other leases are classified as operating leases.

**iii. Finance lease**

In finance lease transactions, leased assets are recognized as an asset in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the aggregated minimum lease payments, each determined at the inception of the lease, less accumulated depreciation and impairment losses. Lease obligations are recognized as “Other short-term financial liabilities” and “Other long-term financial liabilities” in the consolidated statement of financial position. Lease payments are apportioned between the financial cost and the reduction of the lease obligations based on the effective interest method. Finance cost is recognized in the consolidated statement of income. Assets held under finance leases are depreciated using straight-line method over their estimated useful lives if there is reasonable certainty that the ownership will be transferred by the end of the lease term; otherwise the assets are depreciated over the shorter of the lease term or their estimated useful lives.

**iv. Operating lease**

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

**(9) Impairment of property, plant and equipment, goodwill and intangible assets**

At the end of each reporting period, the Group determines whether there is any indication that carrying amounts of property, plant and equipment and intangible assets may be impaired. If any indication exists, the recoverable amount of the asset or the cash-generating unit to which the asset belongs is estimated. Goodwill impairment is undertaken when there is any indication of impairment, and at a certain timing within the fiscal year regardless of whether there is any indication of impairment. A cash-generating unit is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the higher of fair value less costs of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset.

When the impairment test shows that the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit or group of units, and then to the other assets of the unit or group of units pro rata on the basis of the carrying amount of each asset in the unit or group of units. Any impairment loss for goodwill is recognized in profit or loss and is not reversed in subsequent periods.

For assets other than goodwill, the Group determines at the end of each reporting period whether there is any indication that an impairment loss recognized in prior years has decreased or extinguished. An impairment loss is reversed when there is an indication that the impairment loss may be reversed and there has been a change in the estimates used to determine an asset’s recoverable amount. When an impairment loss recognized is reversed, carrying amount of the asset or cash-generating unit is increased to its updated estimated recoverable amount. A reversal of an impairment loss is recognized, to the extent the increased carrying amount does not exceed the lower of the recoverable amount or the carrying amount (net of depreciation and amortization) that would have been determined had no impairment loss been recognized. A reversal of an impairment loss is recognized as other income.

**(10) Non-current assets held for sale or disposal group**

An asset or group of assets of which the carrying amount is expected to be recovered primarily through a sales transaction rather than through continuing use is classified into “Assets held for sale.” To qualify for classification as “non-current assets held for sale,” the sale of a non-current asset must be highly probable and it must be available for immediate sale in its present condition. Also, management must be committed to a plan to sell the asset in which the sale is to be completed within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, and the criteria set out above are met, all assets and liabilities of the subsidiary are classified as held for sale, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Assets held for sale is measured at the lower of its “carrying amount” and “fair value less cost to sell.” Property, plant and equipment and intangible assets classified as “assets held for sale” are not depreciated or amortized.

**(11) Financial instruments**

**i. Financial assets**

(a) Recognition and measurement of financial assets

The Group recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group initially recognizes trade and other receivables on the date of transaction. At initial recognition, the Group measures a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction cost of a financial asset at fair value through profit or loss is recognized as profit or loss.

(b) Classification of non-derivative financial assets

Classification and measurement model of non-derivative financial assets are summarized as follows. The Group classifies financial assets as subsequently measured at amortized cost or measured at fair value. This classification depends on whether a financial asset is a debt instrument or an equity instrument.

Debt instruments

*(i) Financial assets at amortized cost*

A financial asset classified as a debt instrument is subsequently measured at amortized cost if both of the following conditions are met:

- The financial asset is held within the Group’s business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset at amortized cost is initially recognized at fair value plus transaction cost directly attributable to the asset. After initial recognition, carrying amount of the financial asset at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

*(ii) Financial assets at fair value through profit or loss*

When any of the above-mentioned conditions for financial assets at amortized cost is not met, the debt instrument is classified as “at fair value through profit or loss” and measured at fair value with changes in fair value recognized in profit or loss.

A financial asset at fair value through profit or loss is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset at fair value through profit or loss is recognized in profit or loss, and presented in “finance income” or “finance cost” in the consolidated statement of income for the reporting period in which it arises.

The Group does not designate any debt instrument as at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

Equity instruments

*(i) Financial assets at fair value through profit or loss*

Changes in fair value of the Group’s investments in equity instruments are recognized in profit or loss, except for where the Group makes an irrevocable election at initial recognition to present changes in the fair value in other comprehensive income.

A financial asset at fair value through profit or loss is recognized initially at fair value and its transaction cost is recognized in profit or loss when incurred. A gain or loss on a financial asset at fair value through profit or loss is recognized in profit or loss, and presented in “finance income” or “finance cost” in the consolidated statement of income for the reporting period in which they arise.

*(ii) Financial assets at fair value through other comprehensive income*

The Group makes an irrevocable election to recognize changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss. Dividends from financial assets at fair value through other comprehensive income are recognized as “finance income” in profit or loss.

A financial asset at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to retained earnings when equity instruments are derecognized.

(c) Derecognition of financial assets

The Group derecognizes its financial asset if the contractual rights to the cash flows from the investment expire, or the Group transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

(d) Reclassification

Only when the Group changes its business model for managing financial assets, the Group reclassifies all affected investments in debt instruments.

**ii. Non-derivative financial liabilities**

(a) Recognition and measurement of financial liabilities

The Group recognizes financial debt when the Group becomes a party to the contractual provisions of the instruments.

(b) Classification of financial liabilities

*(i) Financial liabilities at amortized cost*

A financial liability other than those at fair value through profit or loss is classified as a financial liability at amortized cost. A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. After initial recognition, the financial liability is measured at amortized cost based on the effective interest rate method.

*(ii) Financial liabilities at fair value through profit or loss*

A financial liability at fair value through profit or loss is initially measured at fair value. After initial recognition, the financial liability is measured at fair value with subsequent changes recognized as profit or loss.

(c) Derecognition of financial liabilities

The Group derecognizes a financial liability when the financial liability is distinguished, i.e. when the contractual obligation is discharged or cancelled or expired.

(d) Preference shares

Preference shares are classified as equity or financial liabilities based on their substances of contractual arrangements, not on their legal forms. Preference shares mandatorily redeemable on a particular date are classified as financial liabilities. Preference shares classified as liabilities are measured at amortized cost in the consolidated statement of financial position and the dividends on these preference shares are recognized as interest expense and presented as financial cost in the consolidated statement of income.

**iii. Presentation of financial assets and liabilities**

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**(12) Impairment of financial assets**

The Group recognizes impairment loss of financial assets based on its evaluation at the end of each reporting period whether there is a significant increase in credit risk of financial assets or groups of financial assets since initial recognition. Specifically, when there is no significant increase in the credit risk since initial recognition, expected credit losses for 12 months are recognized as provision for doubtful receivables. On the other hand, when there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as provision for doubtful receivables. Whether credit risk is significantly increased or not is determined based on the changes in default risk. To determine if there is a change in default risk, following factors are considered. However, trade receivables’ expected credit losses are recognized over their remaining lives since inception simply based on historical credit loss experience.

- External credit rating of the financial asset
- Downgrade of internal credit rating
- Operating results, such as decrease in sales, decrease in working capital, asset deterioration and increase in leverage
- Reduced financial support from the parent company or associated companies
- Delinquencies (Overdue information)

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received.

**(13) Derivatives and hedge accounting**

Derivatives are initially recognized at fair value as of the date in which the derivative contracts are entered into. After initial recognition, derivatives are remeasured at fair value at the end of each reporting period.

The Group utilizes derivatives consisting of exchange contracts and interest swaps to reduce foreign currency risk and interest rate risk etc.

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

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

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

At the inception of the hedge and on an ongoing basis, the Group assess whether the derivative used in hedging transaction is highly effective in offsetting changes in cash flows of the hedged item.

Specially, when the Group assess whether the hedge relationship is effective, the Group assess whether all of the following requirements are met:

*(i) There is an economic relationship between the hedged item and the hedging instrument*

*(ii) The effect of credit risk does not dominate the value changes that result from that economic relationship;*

*(iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.*

The hedge of effectiveness is assessed about whether the hedge is expected to be effective for future hedging periods.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The ineffective portion is recognized in gain or loss. Cumulative gain or loss recognized through other comprehensive income is transferred to gain or loss on the same period that the cash flows of hedged items affects gain or loss.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, an entity should adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (rebalancing).

After rebalancing, in cases where no longer meet the requirements of hedge accounting or hedging instruments are expired, sold, terminated or exercised, hedge accounting will be discontinued.

In the case that the hedge accounting is discontinued, the cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income when the hedge was effective will remain in other comprehensive income until the forecast transaction occurs. When forecast transactions are no longer expected to arise, accumulated amount of gains or losses recorded in equity is transferred to profit or loss.

Aggregated fair values of hedging instrument derivatives whose maturities are over 12 months are classified as non-current assets or liabilities, and those whose maturities are less than 12 months are classified as current assets or liabilities.

### (14) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents consist of cash, demand deposits and short-term investments with maturities of three months or less that are readily convertible to cash and subject to insignificant risk of change in value and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within in current liabilities.

### (15) Inventories

Inventories mainly consist of mobile handsets and materials/work in progress related to construction.

Inventories are measured at the lower of cost and net realizable value. The cost is generally calculated using the moving average method and comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value represents the estimated selling price in the ordinary course of business less any estimated cost to sell.

### (16) Employee benefits

#### i. Defined benefit plans

The Group primarily adopts defined benefit plans.

The asset or liability recognized on the consolidated statement of financial position in relation to the defined benefit pension plans (defined benefit asset or liability) is the present value of the defined benefit obligation less fair value of the plan assets at the end of the reporting period. The defined benefit obligation is determined annually by independent actuaries using the projected unit credit method. The discount rates are on the basis of the market yields of high-quality corporate bonds at the end of the reporting period, that are denominated in the currency in which the benefit will be paid, which is corresponding to the discount period established based on the period to the date when the future benefits are to be paid.

Defined benefit cost includes service cost, net interest on the net defined benefit liability (asset), and remeasurements of the net defined benefit liability (asset). Service cost and net interest are recognized in profit or loss. Net interest is determined using the discount rate described above. The remeasurements comprise actuarial gains and losses and the return on plan assets (excluding amounts included in net interest). Actuarial gains and losses are recognized immediately in other comprehensive income when incurred, and past service costs are recognized as profit or loss.

The Group instantly recognizes remeasurements of all the net defined benefit liability (asset) resulting from its defined benefit plans in other comprehensive income and reclassifies them immediately to retained earnings.

#### ii. Defined contribution plans

Certain subsidiaries of the Group adopt defined contribution plans. Contribution to the defined contribution plans are recognized as expenses for the period over which employees provide services.

In addition, certain subsidiaries of the Group participate in multi-employer pension plans, and recognize the payments made during the fiscal year as profit or loss and contribution payable as a liability.

#### iii. Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when the service is rendered. Bonus and paid annual leave accruals are recognized as a liability in the amount estimated to be paid under these plans, when the Group has legal or constructive obligations to pay them and reliable estimates of the obligation can be made.

### (17) Provisions

Provisions are recognized when the Group has legal or constructive obligations as a result of past events, it is probable that outflows of economic benefits will be required to settle the obligations, and reliable estimates of the obligation can be made. To determine the amount of a provision, the estimated future cash flows are discounted using a pretax discount rate that reflects the time value of money and the risks specific to the liability where necessary. Unwinding of the discount over time is recognized in finance cost.

### (18) Share-based payment

#### i. Stock options

The Group has equity-settled stock option plans as incentive plans for its directors and employees. Stock options are measured at fair value at the grant date, which is calculated using the Black-Scholes or other models.

The fair value of stock options at the grant date is recognized as an expense over the vesting period, based on the estimated number of stock options that are expected to vest, with corresponding amount recognized as increase in equity.

**ii. Executive compensation BIP trust and stock-granting ESOP trust**

The Group has introduced the executive compensation BIP (Board Incentive Plan) trust and a stock-granting ESOP (Employee Stock Ownership Plan) trust. These plans are accounted for as equity-settled share based payment and the shares of the Company held by the trust are included in treasury stock. The fair value of the shares of the Company at the grant date is recognized as expenses over the period from the grant date to the vesting date, with a corresponding increase in capital surplus. The fair value of the shares of the Company granted is determined by adjusting the market value, taking into account the expected dividend yield of the shares.

**(19) Equity**

**i. Common stock**

Common stocks are classified as equity. Proceeds from the Company's issuance of common stocks are included in common stock and capital surplus and its direct issue costs are deducted from capital surplus.

**ii. Treasury stock**

When the Group acquires treasury stocks, the consideration paid, net of direct transaction costs and tax, is recognized as a deduction from equity. When the Group sells treasury stocks, differences between the carrying amount and the consideration received upon sale are recognized as capital surplus.

**(20) Revenue**

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

**i. Mobile communications services and sale of mobile handsets**

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

Revenue from the mobile communications services primarily consists of basic monthly charges and communication fees ("the mobile communication service fees"), and commission fees such as activation fees. The basic monthly charges and communication fees are recognized on a flat rate and a measured rate basis when the services are provided to the customers. Discounts of communication charges are deducted from the mobile communications service fees on a monthly basis.

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

The business flows of the above transactions consist of "Indirect sales" where the Company sells mobile handsets to distributors and enters into communications service contracts with customers through the distributors, and "Direct sales" where the Company and certain subsidiaries of the Company sells mobile handsets to customers and enters into a communications service contracts directly with the customers. Revenue in each case is recognized as follows:

(a) Indirect sales

As the distributor has the primary obligation and inventory risk for the mobile handsets the Group sold to the distributors, the Group considers distributors as a principal in a transaction, revenue from the sale of mobile handsets is recognized when mobile handsets are delivered to distributors at the time when risks and rewards of ownership are deemed to be transferred. Certain commission fees paid to distributors are deducted from revenue from the sale of mobile handsets.

The mobile communications service fees are recognized as revenue when services are provided to the customers. Discounts of communication charges are deducted from the mobile communications service fees on a monthly basis.

(b) Direct sales

In direct sales transaction, as revenue from the sale of mobile handsets, mobile communications service fees and commission fees are considered to be a bundled transaction, total amount of the transaction is allocated to revenue from the sale of mobile handsets and mobile communications service fees based on their proportionate shares of the fair value. However, the maximum amount recognized from the sale of mobile handsets is limited to the amount to be received from customers at the sale of mobile handsets. The amount allocated to mobile communications service fees is recognized as revenue when the service is provided to the customer.

In both direct and indirect sales, activation fees are deferred upon entering into the contract and recognized as revenue over the estimated average contract period. Administration fees for mobile contract are recognized as revenue over the estimated average usage period of handsets with the customers. Direct costs related to activation are deferred to the extent of the activation fees and upgrade fees, and amortized over the respective same period. Points granted to customers through the customer loyalty program are deferred at their fair values of benefits to be exchanged based on the estimated point utilization rate, in which the expiring points due to cancellation in the future, etc., are reflected, and are recognized as revenues when the customers utilize those points.

**ii. Fixed-line telecommunications services**

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

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

**iii. Contents service**

Revenue from contents service mainly comprises revenue from information fee, revenue arising from payment agency services, revenue through advertising businesses, and agency fee on content service etc. Revenue from information includes the revenue from contents service mainly comprises membership fees for the contents provided to the customers on the websites that the Group operates or the Group jointly operates with other entities. Revenue arising from payment agency services includes the revenue from fee for collecting the receivables of contents providers from customers as the agent of contents providers together with the telecommunication fee. These revenues are recognized over the service period based on the nature of each contract.

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

The Group evaluates whether revenue from information fee should be presented on net basis or gross basis by judging each transaction based on the above criteria. Specifically, as the Group has the primary obligation and takes a credit risk for the contents service, revenue from the contents service the Group plans and develops by participating principally is presented on gross basis. On the other hand, as the Group does not have the primary obligation and take a credit risk for the contents service, revenue from the contents service the Group provides on the platform of the Group and does not participate principally is presented on net basis as the commission income.

The Group considered it is the agent for payment agency services, advertisement services and certain content service described above because it earns commission income based on pre-determined rate and solely provide a platform for its customers to transact or place advertisement. Therefore, revenue from these services is presented on a net basis.

#### iv. Solution service

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

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

#### v. CATV business

Revenue from cable television, high-speed internet access and phone services is recorded as revenue for the period over which those services are provided to the customers.

The Group also distributes programs directly to respective satellite broadcasting subscriber through agreements with satellite broadcasting operators. Each satellite broadcasting subscriber pays subscriptions on a monthly basis to the Group under a subscription contract which is automatically extended every month. Revenue from program distribution, including such subscription income, is recorded in the period over which the services are provided to the cable television operators, satellite broadcasting operators and IPTV operators.

#### vi. Global data center business

The Group operates data center business worldwide under a brand name, "TELEHOUSE." These independent data centers enable the Group to facilitate a reliable environment for the customers' critical equipment and the Group receives service charge for using space, electricity and network etc. as a consideration. In general, the contract covers more than one year and the revenue is recognized for the period over which the services are provided. In addition, a consideration for installing equipment and network to the customers is recognized as revenue as a lump-sum payment when incurred.

### (21) Sales commission fees

The Group pays sales commission fees when distributors sell the Group's mobile handsets to customers, or acquire and retain telecommunications service agreements. Commission fees paid to acquire and retain the telecommunications service agreements are recognized as selling, general and administrative expenses when incurred. Commission fees related to the sale of mobile handsets are deducted from the revenues from the sale of mobile handsets.

### (22) Finance income and costs

Finance income mainly comprises interest income, dividend income, exchange gains and changes in fair value of financial assets at fair value through profit or loss. Interest income is recognized using the effective interest method. Dividend income is recognized when the right to receive payment (shareholders' right) is established. Interest income is recognized as incurred using the effective interest method.

Finance costs mainly comprise interest expense, exchange losses and changes in fair value of financial assets at fair value through profit or loss. Interest expense is recognized as incurred when incurred using the effective interest method.

### (23) Other non-operating income and loss

Other non-operating profit and loss includes gain and loss on investment activities. Specifically, gain and loss on step acquisitions, gain and loss on sales of stocks of subsidiaries and associates and gain and loss on deemed disposal are included.

### (24) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset, which takes a considerable period of time before it is ready for its intended use or sale, are capitalized as part of the cost of such asset. All other borrowing costs are recognized as expenses in the period they incurred.

### (25) Income taxes

Income taxes are composed of current and deferred taxes and recognized in profit or loss, except for taxes related to items that are recognized directly in equity or in other comprehensive income.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities on the current year's taxable income, plus adjustments to the amount paid in prior years. To determine the current tax amount, the Group uses the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year in the countries in which the Group operates and earns taxable income or losses.

Deferred tax assets and liabilities are, using asset and liability method, recognized on temporary differences between the carrying amounts of assets and liabilities on the consolidated financial statements and their tax basis, and tax loss carryforwards and tax credits. However, no deferred tax assets and liabilities are recognized on following temporary differences:

- Taxable temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of assets and liabilities related to transactions other than business combination, that affects neither the accounting profit nor the taxable profit (loss); and
- Taxable temporary differences associated with investments in subsidiaries and associates, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized on all deductible temporary differences, unused tax loss carryforwards and tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences etc. can be utilized. Deferred tax liabilities are recognized on taxable temporary differences. Carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to realize all or part of the benefit of the deferred tax assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences will reverse, based on tax laws that have been enacted or substantively enacted by the end of reporting period.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

**(26) Dividends**

For the purpose of the consolidated financial statements, dividends to owners of the parent company are recognized as a liability for the period over which the dividends are approved by the owners of the parent company.

**(27) Earnings per share**

The Group discloses basic and diluted earnings per share (attributable to owners of the parent) related to common stock.

Basic earnings per share is calculated by dividing profit for the year attributable to common stockholders of the parent by the weighted average number of common stocks outstanding during the reporting period, adjusted for the number of treasury stocks acquired.

For the purpose of calculating diluted earnings per share, net profit attributable to owners of the parent and the weighted average number of common stocks outstanding, adjusted for the number of treasury stocks, are further adjusted based on the assumption that all dilutive potential common stocks are fully converted. Potential common stocks of the Group are related to BIP trust and ESOP trust.

## 4. Business Combinations

**Jupiter Shop Channel Co., Ltd.**

**i. Overview of business combination**

On March 14, 2016, Jupiter Telecommunications Co., Ltd. (hereinafter J:COM), a subsidiary of the Group acquired all of the shares of special purpose entities (BCJ-9 and BCJ-10) that hold the shares of Jupiter Shop Channel Co., Ltd. (hereinafter Shop Channel) from an investment fund to which Bain Capital Partners, LP (head office: Massachusetts, USA) provides investment advice. As a result, it was determined that J:COM obtained the control over Shop Channel after this acquisition whereby it became a consolidated subsidiary of J:COM, on the grounds that J:COM's ownership of voting shares in Shop Channel became 50%, and J:COM has an influence on the financial and business policy of Shop Channel.

On the same date, the Company acquired 5% of shares in Shop Channel held by Sumitomo Corporation (hereinafter Sumitomo).

As result, the Group's ownership of the shares in Shop Channel became 55%.

**ii. Main objectives of business combination**

This business combination is expected to elicit synergies between the Companies, J:COM, Sumitomo and Shop Channel while making use of each business resources. Going forward, we plan to work with Shop Channel to help it reach a new customer base through the development of new television shopping programs, as well as via television and the Internet.

**iii. Name and business description of the acquiree**

| | |
|---|---|
| Company Name | Jupiter Shop Channel Co., Ltd. (hereinafter:), |
| Establishment Date | November 22, 1996 |
| Head Office | Kokkan-building, 1-14-1, Shinkawa, Chuo-ku, Tokyo |
| President and name | CEO Atsushi Shinohara |
| Description of Business | Direct marketing business Centered on the operation of Shop Channel, delivering teleshopping through media channels including CATV broadcast, satellite broadcast, internet, and mail-order catalogues. |
| Paid-in Capital | 4.4 billion yen as of March 31, 2016 |

BCJ-9 and BCJ-10 are immediate holding companies which were founded to hold the shares of Shop Channel.

**iv. The proportion of acquired equity interest with voting rights**

BCJ-9 and BCJ-10 100%
Shop Channel 55%

**v. Acquisition date**

March 14, 2016

**vi. Consideration transferred and its components**

| | | Millions of yen | Millions of U.S. dollars |
|---|---|---|---|
| As of acquisition date March 14 | Note | 2016 | 2016 |
| Cash payment | | ¥85,488 | $759 |
| Total consideration transferred | A | ¥85,488 | $759 |

¥764 million (U.S.$7 million) of acquisition-related costs for the business combination is recognized as selling, general and administrative expenses.

### vii. Fair value of assets and liabilities, non-controlling interests and goodwill on the acquisition date

| As of acquisition date March 14 | Notes | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment (Note 1) | | ¥ 4,300 | $ 38 |
| Intangible assets (Note 1) | | 10,582 | 94 |
| Other non-current assets | | 3,456 | 31 |
| Total non-current assets | | 18,338 | 163 |
| Current assets | | | |
| Trade and other receivables (Note 2) | | 5,345 | 47 |
| Cash and cash equivalents | | 16,199 | 144 |
| Other current assets | | 6,437 | 57 |
| Total non-current assets | | 27,981 | 248 |
| Total assets | | ¥ 46,319 | $ 411 |
| Non-current liabilities | | | |
| Borrowings and bonds payable | | ¥ 66,363 | $ 589 |
| Other non-current liabilities | | 2,154 | 19 |
| Total non-current liabilities | | 68,517 | 608 |
| Current liabilities | | | |
| Borrowings and bonds payable | | 1,148 | 10 |
| Trade and other payables | | 9,918 | 88 |
| Other current liabilities | | 6,729 | 60 |
| Total current liabilities | | 17,795 | 158 |
| Total liabilities | | ¥ 86,312 | $ 766 |
| Net assets | B | ¥ (39,993) | $ (355) |
| Non-controlling interests (Note 3) | C | ¥ 11,121 | $ 99 |
| Provisional goodwill (Note 4) | A – (B – C) | 136,603 | 1,212 |

Consideration transferred is allocated to the acquired assets and assumed liabilities on the basis of fair value on the acquisition date. Since the allocation has not been completed, the above amounts, which are provisional fair values based on the best estimate at present, are subject to change when additional information related to facts and circumstances that existed as of the acquisition date, may be obtained and evaluated.

Notes: 1. The analysis of Property, plant and equipment and intangible assets
The main components of property, plant and equipment are buildings and broadcast facilities, and that of intangible assets is software.
2. Estimation of fair values of acquired receivables, contractual amounts receivables and amounts not expected to be collected
As for the fair value of ¥5,345 million (U.S.$47 million) of acquired receivables and other receivables (account receivable ¥3,828 million (U.S.$34 million), other receivable etc. ¥1,518 million (U.S.$13 million)), the total amount of contracts is ¥5,345 million (U.S.$47 million) and the estimate of the contractual cash flows not expected to be collected at the acquisition date is none.
3. Non-controlling interests
Non-controlling interests are measured based on the proportionate non-controlling interests after business combination in the identifiable net assets of the acquiree on the acquisition date.
4. Goodwill
Goodwill reflects excess earning power expected from the collective human resources related to the future business development and its synergy with the existing businesses. There is no item deductible from the taxable income related to the recognized goodwill.

### viii. Consideration for expenditures due to the acquisition of control over the subsidiary

| As of acquisition date March 14 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|
| Cash consideration transferred | ¥(85,488) | $(759) |
| Cash and cash equivalents held by the acquiree at the acquisition of control | 16,199 | 144 |
| Cash payment for the acquisition of control over the subsidiary | (69,289) | (615) |

### ix. Revenue and profit for the year of the acquiree

Revenue and profit for the year of the acquiree after the acquisition date, which are recorded on the consolidated statement of income for the year ended March 31, 2016 is ¥12,545 million (U.S.$111 million) and ¥1,044 million (U.S.$9 million), respectively.

### x. Consolidated revenue and consolidated profit for the year assuming that the business combination was completed at the beginning of the fiscal year (Pro forma information)

Revenue and profit for the year in pro forma information (unaudited) related to the consolidated results, assuming that the acquisition of control by business combination was effective on April 1, 2015, are ¥4,590,080 million (U.S.$40,736 million) and ¥581,096 million (U.S.$5,157 million), respectively.

## 5. Segment Information

**(1) Outline of reporting segments**

The reporting segments of the Group are units of the Group of which separate financial information is available, and which are periodically monitored for the board of directors to determine the allocation of the business resource and evaluate the performance results.

The Group has established "3M Strategy" as a growth strategy for domestic business and "Global Strategy" for expanding business overseas, based on the three business visions: "More connected!," "More Diverse Values!," and "More Global!." The Group has four reporting segments: "Personal," "Value," "Business" and "Global" for driving the strategies above. The classification of reporting segments is the same as operating segment.

Note: 3M is named after the initial letters of "Multi-network," "Multi-device" and "Multi-use." Through 3M strategy, we aim to provide a communications environment that gives customers seamless access anytime anywhere at the customers' choice (multi-use) to various contents and services including music, images, digital books and games using various devices such as smartphones, tablets, digital book terminals and PC (multi devices), via the network organically connecting cellphones, FTTH, CATV, WiMAX and Wi-Fi owned by the Group (multi-network).

"Personal" provides mobile and fixed-line communications services for individual customers. In addition to providing mobile communications services, chiefly under the "au" brand, and selling mobile handsets, in fixed-line communications, our services include in-home Internet, telephone, and video channel (TV services). In addition to these convenient FTTH services, which are branded "au HIKARI," we provide CATV and other services.

"Value" provides individual customers with content, settlement and other value-added services. The segment also works to reinforce multi-device and multi-network initiatives.

"Business" provides diverse solutions, including cloud services that seamlessly utilize networks and applications across smartphones, tablets and other mobile devices, to a wide range of corporate customers, from small and medium-sized to large companies. For small and medium-sized corporate customers, our consolidated subsidiary, the KDDI MATOMETE OFFICE GROUP, also provides a regional support network offering close contact throughout Japan.

"Global" provides the one-stop provision of ICT solutions to corporate customers, centered on our "TELEHOUSE" data centers. In addition, the KDDI Group is working aggressively to expand customer business, such as telecommunications business in Myanmar and other emerging markets. Furthermore, it provides voice and data business to more than 600 telecommunications carriers around the world.

**(2) Calculation method of revenue, income or loss, assets and other items by reporting segment**

Accounting treatment of reported business segments is consistent with "Note 3. Significant accounting policies."

Income of the reporting segments is based on the operating income.

Inter segment transaction price is determined based on the price by arm's length transactions or gross costs after price negotiation.

Assets and liabilities are not allocated to reporting segments.

**(3) Information related to the amount of revenue, income or loss and other items by reporting segment**

The Group's segment information is as follows:

For the year ended March 31, 2015

Millions of yen

| | Reporting segment | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Personal | Value | Business | Global | Subtotal | Other (Note 1) | Total | Adjustment (Note 2) | Amounts on the consolidated financial statements |
| Revenue | | | | | | | | | |
| Revenue from external customers | ¥3,240,571 | ¥175,056 | ¥559,553 | ¥246,006 | ¥4,221,186 | ¥ 48,908 | ¥4,270,094 | ¥ — | ¥4,270,094 |
| Inter-segment revenue or transfers | 90,012 | 62,633 | 99,687 | 32,978 | 285,310 | 138,601 | 423,911 | (423,911) | — |
| Total | 3,330,583 | 237,689 | 659,240 | 278,984 | 4,506,496 | 187,509 | 4,694,005 | (423,911) | 4,270,094 |
| Segment income (or loss) | 546,739 | 52,681 | 75,855 | (15,254) | 660,021 | 10,920 | 670,941 | (5,222) | 665,719 |
| Finance income and finance cost (Net) | | | | | | | | | (7,385) |
| Other non-operating profit and loss | | | | | | | | | 4,533 |
| Profit for the year before income tax | | | | | | | | | ¥ 662,867 |
| Other items | | | | | | | | | |
| Depreciation and amortization | 453,298 | 8,815 | 44,138 | 12,627 | 518,877 | 1,650 | 520,527 | (1,819) | 518,708 |
| Impairment loss | 47,064 | 3 | 7,401 | 92 | 54,561 | 187 | 54,748 | — | 54,748 |
| Share of profit of investments accounted for using the equity method | 1,130 | 823 | 576 | 875 | 3,403 | 1,520 | 4,923 | — | 4,923 |

Notes: 1. Business segment "Other" does not constitute reporting segments, and includes construction and maintenance of facilities, call center, and research and development of leading-edge technology.
2. Adjustment of segment income shows the elimination of inter-segment transactions.

For the year ended March 31, 2016

Millions of yen

| | Reporting segment: Personal | Value | Business | Global | Subtotal | Other (Note 1) | Total | Adjustment (Note 2) | Amounts on the consolidated financial statements |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | |
| Revenue from external customers | ¥3,404,547 | ¥197,930 | ¥545,692 | ¥262,440 | ¥4,410,610 | ¥ 55,525 | ¥4,466,135 | ¥ — | ¥4,466,135 |
| Inter-segment revenue or transfers | 98,707 | 73,833 | 86,340 | 31,969 | 290,849 | 117,950 | 408,798 | (408,798) | — |
| Total | 3,503,255 | 271,763 | 632,032 | 294,409 | 4,701,459 | 173,474 | 4,874,933 | (408,798) | 4,466,135 |
| Segment income (or loss) | 656,584 | 73,803 | 61,436 | 32,145 | 823,968 | 10,294 | 834,262 | (904) | 833,358 |
| Finance income and finance cost (Net) | | | | | | | | | (17,789) |
| Other non-operating profit and loss | | | | | | | | | 3,616 |
| Profit for the year before income tax | | | | | | | | | ¥ 819,185 |
| Other items | | | | | | | | | |
| Depreciation and amortization | 468,913 | 10,174 | 42,254 | 10,885 | 532,226 | 1,675 | 533,901 | (2,234) | 531,667 |
| Impairment loss | 1,123 | 22 | 3,472 | 1,251 | 5,867 | 6 | 5,873 | — | 5,873 |
| Share of profit of investments accounted for using the equity method | 1,146 | 1,238 | 631 | 862 | 3,877 | 1,293 | 5,170 | — | 5,170 |

Millions of U.S. dollars

| | Reporting segment: Personal | Value | Business | Global | Subtotal | Other (Note 1) | Total | Adjustment (Note 2) | Amounts on the consolidated financial statements |
|---|---|---|---|---|---|---|---|---|---|
| Revenue | | | | | | | | | |
| Revenue from external customers | $30,214 | $1,757 | $4,843 | $2,329 | $39,143 | $ 493 | $39,636 | $ — | $39,636 |
| Inter-segment revenue or transfers | 876 | 655 | 766 | 284 | 2,581 | 1,047 | 3,628 | (3,628) | — |
| Total | 31,090 | 2,412 | 5,609 | 2,613 | 41,724 | 1,540 | 43,264 | (3,628) | 39,636 |
| Segment income (or loss) | 5,827 | 655 | 545 | 285 | 7,312 | 91 | 7,404 | (8) | 7,396 |
| Finance income and finance cost (Net) | | | | | | | | | (158) |
| Other non-operating profit and loss | | | | | | | | | 32 |
| Profit for the year before income tax | | | | | | | | | $ 7,270 |
| Other items | | | | | | | | | |
| Depreciation and amortization | 4,161 | 90 | 375 | 97 | 4,723 | 15 | 4,738 | (20) | 4,718 |
| Impairment loss | 10 | 0 | 31 | 11 | 52 | 0 | 52 | — | 52 |
| Share of profit of investments accounted for using the equity method | 10 | 11 | 6 | 8 | 34 | 11 | 46 | — | 46 |

Notes: 1. Business segment "Other" does not constitute reporting segments, and includes construction and maintenance of facilities, call center, and research and development of leading-edge technology.
2. Adjustment of segment income shows the elimination of inter-segment transactions.

**(4) Information by product and service**

The Group manages the segment information based on the segment disclosed in "(1) Outline of reporting segments." Therefore, Information by product and service in the reporting segment is not collected and the disclosure is omitted.

**(5) Information by region**

**i. Revenue**

Description is omitted as the revenue from external customers in Japan accounts for most of the revenue on the consolidated statement of income.

**ii. Non-current assets (excluding financial assets, deferred income tax assets and retirement benefit assets)**

Description is omitted as Non-current assets located in Japan accounts for most of such assets on the consolidated statement of financial position.

**(6) Information by major customer**

Description is omitted as the revenue from a specific external customer is less than 10% of the revenue on the consolidated statement of income.

## 6. Property, Plant and Equipment

**(1) Movements of property, plant and equipment**

Movements of acquisition costs, accumulated depreciation and accumulated impairment loss of the property, plant and equipment are as follows:

Acquisition costs

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of April 1, 2014 | ¥4,362,854 | ¥559,842 | ¥259,972 | ¥ 184,821 | ¥439,960 | ¥5,807,447 |
| Acquisition | 8,516 | 7,223 | 71 | 519,124 | 6,607 | 541,540 |
| Transfer from construction in progress | 429,285 | 11,709 | 11 | (492,282) | 51,278 | — |
| Acquisition by business combination | — | 18 | — | — | 5 | 23 |
| Disposal | (245,527) | (8,290) | (142) | (4,498) | (35,485) | (293,944) |
| Exchange differences | 882 | 2,677 | 191 | 481 | 3,973 | 8,205 |
| Other | — | — | (207) | — | — | (207) |
| As of March 31, 2015 | 4,556,009 | 573,178 | 259,896 | 207,645 | 466,337 | 6,063,064 |
| Acquisition | 658 | 11,413 | — | 332,806 | 7,663 | 352,540 |
| Transfer from construction in progress | 261,777 | 15,498 | 219 | (350,325) | 72,831 | — |
| Acquisition by business combination | 5,926 | 2,600 | 471 | 1,422 | 3,690 | 14,109 |
| Disposal | (151,898) | (9,547) | (330) | (1,488) | (38,742) | (202,005) |
| Exchange differences | (1,902) | (3,739) | (605) | (1,911) | (6,598) | (14,754) |
| Other | (297) | (96) | 247 | — | — | (146) |
| As of March 31, 2016 | ¥4,670,274 | ¥589,306 | ¥259,898 | ¥ 188,149 | ¥505,182 | ¥6,212,808 |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of April 1, 2015 | $40,433 | $5,087 | $2,306 | $ 1,843 | $4,139 | $53,808 |
| Acquisition | 6 | 101 | — | 2,954 | 68 | 3,129 |
| Transfer from construction in progress | 2,323 | 138 | 2 | (3,109) | 646 | — |
| Acquisition by business combination | 53 | 23 | 4 | 13 | 33 | 125 |
| Disposal | (1,348) | (85) | (3) | (13) | (344) | (1,793) |
| Exchange differences | (17) | (33) | (5) | (17) | (59) | (131) |
| Other | (3) | (1) | 2 | — | — | (1) |
| As of March 31, 2016 | $41,447 | $5,230 | $2,307 | $ 1,670 | $4,483 | $55,137 |

Accumulated depreciation and accumulated impairment loss

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of April 1, 2014 | ¥(2,729,962) | ¥(327,610) | ¥(3,536) | ¥ (475) | ¥(280,281) | ¥(3,341,864) |
| Depreciation | (313,844) | (18,984) | — | — | (44,953) | (377,781) |
| Disposal | 213,470 | 6,730 | 45 | 1,374 | 32,938 | 254,557 |
| Impairment loss | (51,582) | (70) | (32) | (1,437) | (44) | (53,165) |
| Exchange differences | (694) | (830) | — | — | (1,886) | (3,411) |
| Other | — | — | 32 | — | (334) | (302) |
| As of March 31, 2015 | (2,882,612) | (340,765) | (3,491) | (538) | (294,560) | (3,521,966) |
| Depreciation | (313,742) | (19,554) | — | — | (50,392) | (383,687) |
| Disposal | 130,475 | 8,136 | — | — | 38,334 | 176,945 |
| Impairment loss | (2,569) | (364) | (593) | (339) | (135) | (4,001) |
| Exchange differences | 1,318 | 640 | — | 1 | 3,931 | 5,890 |
| Other | — | (191) | — | 149 | — | (42) |
| As of March 31, 2016 | ¥(3,067,130) | ¥(352,097) | ¥(4,084) | ¥ (728) | ¥(302,822) | ¥(3,726,860) |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of April 1, 2015 | $(25,582) | $(3,024) | $(31) | $ (5) | $(2,614) | $(31,256) |
| Depreciation | (2,784) | (174) | — | — | (447) | (3,405) |
| Disposal | 1,158 | 72 | — | — | 340 | 1,570 |
| Impairment loss | (23) | (3) | (5) | (3) | (1) | (36) |
| Exchange differences | 12 | 6 | — | 0 | 35 | 52 |
| Other | — | (2) | — | 1 | — | (0) |
| As of March 31, 2016 | $(27,220) | $(3,125) | $(36) | $ (6) | $(2,687) | $(33,075) |

Note: The depreciation of the property, plant and equipment is included in "cost of sales" and "selling, general and administrative expenses" in consolidated statement of financial positions.

The carrying amounts of the property, plant and equipment are as follows:

Carrying amount

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of April 1, 2014 | ¥1,632,892 | ¥232,232 | ¥256,435 | ¥184,346 | ¥159,678 | ¥2,465,583 |
| As of March 31, 2015 | ¥1,673,397 | ¥232,412 | ¥256,405 | ¥207,107 | ¥171,777 | ¥2,541,099 |
| As of March 31, 2016 | ¥1,603,144 | ¥237,209 | ¥255,814 | ¥187,421 | ¥202,360 | ¥2,485,948 |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | Communication equipment | Buildings and structures | Land | Construction in progress | Other | Total |
| As of March 31, 2016 | $14,227 | $2,105 | $2,270 | $1,663 | $1,796 | $22,062 |

**(2) Property, plant and equipment rented under finance lease**

The carrying amount of finance lease assets included in property, plant and equipment (less accumulated depreciation and accumulated impairment loss) is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| In-home customer premises equipment | ¥37,305 | ¥47,746 | ¥71,358 | $633 |
| Other | 7,978 | 8,033 | 8,666 | 77 |
| Total | ¥45,283 | ¥55,779 | ¥80,023 | $710 |

**(3) Property, plant and equipment pledged as collateral**

For the amount of property, plant and equipment pledged as collateral for liabilities including borrowings, please refer to "Note 15. Borrowings and bonds payable."

**(4) Property, plant and equipment with limited ownership**

There is no property, plant and equipment with limited ownership.

**(5) Property, plant and equipment under construction**

Expenditures included in the carrying amount of property, plant and equipment under construction are presented as construction in progress in the table above.

**(6) Capitalization of borrowing costs**

There is no significant borrowing costs included in the acquisition costs of the property, plant and equipment as of date of transition to IFRSs, and for the years ended March 31, 2015 and 2016.

## 7. Goodwill and Intangible Assets

**(1) Movements of goodwill and intangible assets**

The movements of the acquisition costs, accumulated amortization and accumulated impairment loss of the intangible assets are as follows:

Acquisition costs

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of April 1, 2014 | ¥329,783 | ¥496,282 | ¥167,535 | ¥36,363 | ¥521,622 | ¥1,551,585 |
| Individual acquisition | — | 127,389 | — | — | 54,528 | 181,917 |
| Acquisition by business combination | 14,528 | 1 | 6,577 | — | — | 21,106 |
| Disposal | — | (83,973) | — | — | (46,191) | (130,164) |
| Exchange differences | 2,554 | 449 | — | — | 1,882 | 4,885 |
| Other | (3,728) | (381) | — | — | — | (4,110) |
| As of March 31, 2015 | 343,136 | 539,767 | 174,112 | 36,363 | 531,841 | 1,625,219 |
| Individual acquisition | — | 112,277 | — | — | 61,569 | 173,846 |
| Acquisition by business combination | 153,421 | 4,641 | — | — | 12,071 | 170,132 |
| Disposal | — | (102,637) | — | — | (24,857) | (127,494) |
| Exchange differences | (2,024) | (530) | — | — | (1,224) | (3,778) |
| Other | — | (578) | — | — | (962) | (1,540) |
| As of March 31, 2016 | ¥494,533 | ¥552,941 | ¥174,112 | ¥36,363 | ¥578,438 | ¥1,836,386 |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of April 1, 2015 | $3,045 | $4,790 | $1,545 | $323 | $4,720 | $14,423 |
| Individual acquisition | — | 996 | — | — | 546 | 1,543 |
| Acquisition by business combination | 1,362 | 41 | — | — | 107 | 1,510 |
| Disposal | — | (911) | — | — | (221) | (1,131) |
| Exchange differences | (18) | (5) | — | — | (11) | (34) |
| Other | — | (5) | — | — | (9) | (14) |
| As of March 31, 2016 | $4,389 | $4,907 | $1,545 | $323 | $5,133 | $16,297 |

Accumulated amortization and impairment

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of April 1, 2014 | ¥ — | ¥(299,854) | ¥ (9,957) | ¥(1,653) | ¥(245,270) | ¥(556,734) |
| Amortization | — | (83,005) | (11,926) | (1,653) | (44,343) | (140,927) |
| Impairment loss | — | (1,505) | — | — | (77) | (1,583) |
| Disposal and sales | — | 79,568 | — | — | 37,228 | 116,796 |
| Exchange differences | — | (192) | — | — | (644) | (837) |
| Other | — | — | — | — | 533 | 533 |
| As of March 31, 2015 | — | (304,988) | (21,883) | (3,306) | (252,574) | (582,751) |
| Amortization | — | (88,112) | (12,162) | (1,653) | (46,051) | (147,978) |
| Impairment loss | (799) | (314) | — | — | (760) | (1,873) |
| Disposal and sales | — | 95,107 | — | — | 22,346 | 117,453 |
| Exchange differences | — | 73 | — | — | 442 | 515 |
| Other | — | — | — | — | 0 | 0 |
| As of March 31, 2016 | ¥(799) | ¥(298,233) | ¥(34,045) | ¥(4,959) | ¥(276,596) | ¥(614,633) |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of April 1, 2015 | $— | $(2,707) | $(194) | $(29) | $(2,242) | $(5,172) |
| Amortization | — | (782) | (108) | (15) | (409) | (1,313) |
| Impairment loss | (7) | (3) | — | — | (7) | (17) |
| Disposal and sales | — | 844 | — | — | 198 | 1,042 |
| Exchange differences | — | 1 | — | — | 4 | 5 |
| Other | — | — | — | — | 0 | 0 |
| As of March 31, 2016 | $(7) | $(2,647) | $(302) | $(44) | $(2,455) | $(5,455) |

Note: The amortization of intangible assets is included in "cost of sales" and "selling, general and administrative expenses" in Consolidated Statement of financial positions.

The carrying amounts of goodwill and intangible assets are as follows:

Carrying amount

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of April 1, 2014 | ¥329,783 | ¥196,428 | ¥157,578 | ¥34,710 | ¥276,352 | ¥ 994,851 |
| As of March 31, 2015 | ¥343,136 | ¥234,779 | ¥152,229 | ¥33,057 | ¥279,267 | ¥1,042,468 |
| As of March 31, 2016 | ¥493,733 | ¥254,707 | ¥140,066 | ¥31,404 | ¥301,842 | ¥1,221,754 |

| | Millions of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | | Intangible assets | | | | |
| | Goodwill | Software | Customer related | Program supply related | Other | Total |
| As of March 31, 2016 | $4,382 | $2,260 | $1,243 | $279 | $2,679 | $10,843 |

**(2) Total expenditures related to research and development expensed during the period**

Research and development costs expensed as selling, general and administrative expenses for the years ended March 31, 2015 and 2016 are ¥20,628 million and ¥18,001 million (U.S.$160 million).

## 8. Impairment of Property, Plant and Equipment, Goodwill and Intangible Assets

**(1) Recognition of impairment loss**

The Group recognized impairment loss of ¥54,748 million and ¥5,873 million (U.S.$52 million) for the years ended March 31, 2015 and 2016 respectively. The Group mainly recognized impairment loss for the following assets and asset groups:

For the year ended March 31, 2015

| Location | Use | Class | Millions of yen<br>Impairment loss |
|---|---|---|---|
| 2GHz frequency idle facilities of the Company and others (Tokyo other) | Telecommunications business | Machinery and antenna facilities | ¥7,991 |

The Companies drew up a plan to shift the 2GHz band to LTE broadband in order to reinforce its competitiveness in mobile communications services, rendering certain facilities nonperforming. Facilities not part of this conversion were determined to be idle assets that were expected to have no future value. Accordingly, the book value has been reduced to recoverable amount. The impairment loss of 7,991 million yen was recorded for these assets. The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded in personal segment. The impairment loss consists of ¥6,766 million for machinery and ¥1,224 million for antenna facilities.

The recoverable amount of these assets was estimated based on the fair value less costs of disposal. Because these assets have old standard in their equipment and were difficult to convert to other uses, the fair value hierarchy of these assets was classified as level 3 and the fair value was minimal.

| Location | Use | Class | Millions of yen<br>Impairment loss |
|---|---|---|---|
| Communication facilities, and idle assets (Tokyo other) | Mainly, telecommunications business | Machinery, local line facilities, and other | ¥41,729 |

For assets with declining utilization rates, including some communication facilities, and idle assets, the book value has been reduced to recoverable value. This resulted in recognition of an impairment loss of ¥41,729 million. The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded in mainly personal segment. The impairment loss consists of ¥35,934 million for machinery, ¥2,247 million for local line facilities, and ¥3,549 million for others.

The recoverable amount of these assets was estimated based on the fair value less costs of disposal. Because these assets were difficult to sell to other uses, the fair value hierarchy of these assets was classified as level 3 and the fair value was minimal.

| Location | Use | Class | Millions of yen |
|---|---|---|---|
| | | | Impairment loss |
| Certain services in the Fixed-line Business (Tokyo other) | Telecommunications business | Machinery and other | ¥3,864 |

Due to changes in the market environment and other factors, the future recovery of investments in certain services in the Fixed-line Business was determined to be unlikely. Accordingly, it became possible to prepare a system for managing the incoming and outgoing cash flows generated by these assets and determine earnings and expenses. Accordingly, the grouping of these assets was changed to an independent asset group. Their book value was reduced to the recoverable amount, resulting in an impairment loss of ¥3,864 million. The impairment loss was recorded as cost of sales in the consolidated statement of income, and recorded in mainly business segment. This amount consists of ¥3,235 million for machinery and ¥629 million for others. The recoverable amount of these assets was estimated at their value in use, with future cash flows discounted at a rate of 6.38% and at the estimated period of 5 years and the value in use was minimal.

For the year ended March 31, 2016

| Location | Use | Class | Millions of yen | Millions of U.S. dollars |
|---|---|---|---|---|
| | | | Impairment loss | |
| Communication facilities, and idle assets (Tokyo other) | Mainly, telecommunications business | Local line facilities, buildings and other | ¥2,889 | $26 |

For assets with declining utilization rates including some transit routes and idle assets, the book value has been reduced to recoverable amount. This resulted in recognition of an impairment loss of ¥2,889 million (U.S.$26 million). The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded in mainly personal segment and business segment. The impairment loss consists of ¥1,264 million (U.S.$11 million) for local line facilities, ¥355 million (U.S.$3 million) for buildings, and ¥1,270 million (U.S.$11 million) for others.

The recoverable amount of these assets was estimated based on the fair value less costs of disposal. Because these assets were difficult to sell to other uses, the fair value hierarchy of these assets was classified as level 3 and the fair value was minimal.

| Location | Use | Class | Millions of yen | Millions of U.S. dollars |
|---|---|---|---|---|
| | | | Impairment loss | |
| Certain services in the Fixed-line Business (Tokyo other) | Telecommunications business | Machinery and other | ¥1,703 | $15 |

Due to the declining of revenue, the future recovery of investments in certain services in the Fixed-line Business was determined to be unlikely and the book value was reduced to the recoverable amount. This resulted in recognition of an impairment loss of ¥1,703 million (U.S.$15 million). The impairment loss was recorded as cost of sales in the consolidated statement of income and recorded in business segment. The impairment loss consists of ¥911 million (U.S.$8 million) for machinery and ¥793 million (U.S.$7 million) for others.

The recoverable amount of these assets was estimated at their value in use, with future cash flows discounted at a rate of 6.05% and at the estimated period of 4 years and the value in use was minimal.

**(2) Impairment test of cash generating units including goodwill**

The Group tests for impairment of goodwill at least annually, and whenever there is an indication of impairment.

The total carrying amounts of the goodwill allocated to cash generating units or cash generating unit groups are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| Cash generating unit or cash generating unit group | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 | As of March 31, 2016 |
| Jupiter telecommunication Co., Ltd. | ¥275,668 | ¥276,890 | ¥276,890 | $2,457 |
| Jupiter Shop Channel Co., Ltd. | — | — | 136,603 | 1,212 |
| CDNetworks Co., Ltd. | 14,567 | 16,374 | 14,096 | 125 |
| Web money Co., Ltd. | 13,004 | 13,004 | 13,004 | 115 |
| Other | 26,544 | 36,867 | 53,140 | 472 |
| Total | ¥329,783 | ¥343,136 | ¥493,733 | $4,382 |

The recoverable amount of goodwill allocated to cash generating units or group of cash generating units is calculated using value in use.

In assessing value in use, the estimated future cash flows arisen from cash generating units or group of cash generating units are discounted to their present value. When the Group calculates the future cash flows and discount future cash flows, growth rates on different types of forecasted revenue and forecasted change to corresponding major cost such as cost of sales and pre-tax discount rates are used as significant factors.

Forecast of cash flows used as a basis to estimate future cash flows is based on the recent business plan approved by the management, and the forecast is 5 years. After 5 years, certain growth rate of profit before tax after consideration of a long-term average growth rate for the market is used.

The growth rates of estimated profit before tax in projection period which are used to calculate value in use of cash generating units are as follows. Jupiter telecommunication Co., Ltd CATV business adopts 0.7%, CDNetworks Co., Ltd. adopts 2.9%, and Web money Co., Ltd. adopts 0.7% as of the date of March 31, 2016. The growth rates used in estimated cash flows of each cash generating unit or group of cash generating units reflect the status of the country and the industry to which the CGU belongs, and does not exceed the long-term average growth rate for the market. The growth rate is not adopted as of the date of transition to IFRSs, and March 31, 2015.

The growth rate of profit before tax used to measure value in use is not adopted in calculation of value in use of Jupiter Shop Channel Co., Ltd. as of March 31, 2016.

The pre-tax discount rates which are used to calculate value in use of cash generating units or cash generating units group to which goodwill is allocated are as follows.

| Cash generating unit or cash generating unit group | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 |
|---|---|---|---|
| Jupiter telecommunication Co., Ltd. | 2.4% | 2.8% | 2.9% |
| Jupiter Shop Channel Co., Ltd. | — | — | 6.0% |
| CDNetworks Co., Ltd. | 8.1% | 6.9% | 7.6% |
| Web money Co., Ltd. | 6.3% | 5.5% | 5.3% |
| Other | 1.0%~20.0% | 1.2%~19.5% | 1.6%~17.0% |

Although goodwill has a risk of impairment when major assumptions used for impairment test change, the Group has determined that a significant impairment loss is not probable in the cash generating units or cash generating unit group regardless of the reasonable change of the growth rate and/or discount rate used for impairment test.

## 9. Investments Accounted for Using the Equity Method

### (1) The carrying amounts of Investments accounted for using the equity method

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Interests in associates | ¥32,532 | ¥47,084 | ¥51,962 | $461 |
| Interests in joint ventures | 9,266 | 14,537 | 19,049 | 169 |
| Total | ¥41,798 | ¥61,621 | ¥71,011 | $630 |

### (2) Summarized financial information of associates and joint ventures

#### i. Associates

Profit for the year, other comprehensive income and comprehensive income of associates accounted for using the equity method are as follows. As of and for the years ended March 31, 2015 and 2016, there is not individually significant associate accounted for using the equity method.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit for the year | ¥4,981 | ¥4,458 | $40 |
| Other comprehensive income, net of tax | 1,464 | (126) | (1) |
| Total comprehensive income for the year | ¥6,445 | ¥4,332 | $38 |

#### ii. Joint ventures

Profit for the year, other comprehensive income and comprehensive income of joint ventures accounted for using the equity method is as follows. As of and for the years ended March 31, 2015 and 2016, there is not individually significant joint venture accounted for using the equity method.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit for the year | ¥ (58) | ¥ 712 | $ 6 |
| Other comprehensive income, net of tax | 1,582 | 3,799 | 34 |
| Total comprehensive income for the year | ¥1,524 | ¥4,511 | $40 |

## 10. Inventories

### (1) The analysis of inventories

The analysis of inventories is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Finished goods and manufactured goods | ¥82,260 | ¥72,103 | ¥77,785 | $690 |
| Work in progress | 700 | 1,387 | 756 | 7 |
| Other | 816 | 2,346 | 1,084 | 10 |
| Total | ¥83,776 | ¥75,837 | ¥79,626 | $707 |

There is no inventory to be sold after more than 12 months from the date of transition to IFRSs, and March 31, 2015 and 2016, respectively.

**(2) Write down of the inventories expensed during the period**

Write down of the inventories expensed during the period is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Write down of the inventories expensed (Note) | ¥8,360 | ¥9,562 | $85 |

Note: Write down is recognized as costs of sales.

**(3) Inventories pledged as collateral**

Inventories pledged as collateral are described in "Note 15. Borrowings and bonds payable."

## 11. Trade and Other Receivables

The analysis of trade and other receivables is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Current: | | | | |
| Trade receivables | | | | |
| Accounts receivable—trade and notes receivable | ¥1,089,335 | ¥1,173,201 | ¥1,313,655 | $11,658 |
| Account receivable—other | 59,515 | 80,384 | 63,213 | 561 |
| Allowance for doubtful accounts | (21,641) | (22,490) | (19,048) | (169) |
| Total | ¥1,127,209 | ¥1,231,095 | ¥1,357,820 | $12,050 |

Note: Accounts receivable—other is mainly consisted of the receivable related to payment agency service.

The amounts of trade and other receivables expected to be recovered after more than twelve months from the date of transition to IFRSs, and March 31, 2015 and 2016, respectively are ¥140,937 million, ¥210,533 million, and ¥193,412 million (U.S.$1,716 million).

The amount of the trade and other receivables on the consolidated statement of financial position is presented less allowance for doubtful accounts.

## 12. Other Financial Assets

The analysis of other financial assets is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Non-current assets (Other long-term financial assets): | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Derivative financial assets | ¥ 463 | ¥ 641 | ¥ 181 | $ 2 |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity instruments | | | | |
| Equities | 91,999 | 51,544 | 43,503 | 386 |
| Financial assets at amortized cost | | | | |
| Debt instruments | | | | |
| Security deposits | 38,751 | 38,035 | 38,941 | 346 |
| Long term accounts receivables | 10,086 | 45,140 | 46,761 | 415 |
| Lease receivables | — | 4,683 | 24,997 | 222 |
| Other | 3,171 | 2,509 | 3,786 | 34 |
| Allowance for doubtful account | (9,576) | (44,729) | (45,360) | (403) |
| Sub total | 134,893 | 97,824 | 112,809 | 1,001 |
| Current assets (Other short-term financial assets): | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Derivative financial assets | 405 | 202 | 54 | 0 |
| Financial assets at amortized cost | | | | |
| Debt instruments | | | | |
| Short-term investment | 10,483 | 8,625 | 9,138 | 81 |
| Other | 181 | 197 | 5,774 | 51 |
| Sub total | 11,069 | 9,023 | 14,966 | 133 |
| Total | ¥145,962 | ¥106,847 | ¥127,775 | $1,134 |

## 13. Other Assets

The analysis of other non-current assets and other current assets is as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Long-term prepaid expenses | ¥ 53,281 | ¥ 69,181 | ¥ 70,709 | $ 628 |
| Other | 4,106 | 2,276 | 2,228 | 20 |
| Sub total | 57,387 | 71,457 | 72,938 | 647 |
| Current assets | | | | |
| Prepaid expenses | 59,256 | 63,033 | 71,221 | 632 |
| Consumption tax receivable | 1,431 | 5,481 | 81 | 1 |
| Other | 10,037 | 14,205 | 15,346 | 136 |
| Sub total | 70,725 | 82,719 | 86,648 | 769 |
| Total | ¥128,112 | ¥154,177 | ¥159,586 | $1,416 |

## 14. Cash and Cash Equivalents

The analysis of cash and cash equivalents is as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Cash in hand and deposits held at call with banks | ¥151,528 | ¥187,333 | ¥188,838 | $1,676 |
| Term deposits with original maturities of three months or less | 62,506 | 68,984 | 3,362 | 30 |
| Certificates of deposit with original maturities of three months or less | 1,000 | 20,000 | — | — |
| Mutual fund with original maturities of three months or less | 6,600 | — | — | — |
| Commercial paper with original maturities of three months or less | 28,098 | — | — | — |
| Total | ¥249,732 | ¥276,317 | ¥192,200 | $1,706 |

The balance of cash and cash equivalents in the consolidated statement of cash flow is as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Cash and cash equivalents in consolidated statement of financial position | ¥249,732 | ¥276,317 | ¥192,200 | $1,706 |
| Short-term borrowings (Overdrafts) | — | — | (113) | (1) |
| Cash and cash equivalents in consolidated statement of cash flow | ¥249,732 | ¥276,317 | ¥192,087 | $1,705 |

## 15. Borrowings and Bonds Payable

**(1) The analysis of borrowings and bonds payable**

The analysis of borrowings and bonds payable is as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 | Average interest rate (%) (Note) | Due (Year) |
|---|---|---|---|---|---|---|
| Non-current | | | | | | |
| Bonds payable (excluding current portion) | ¥ 204,556 | ¥214,512 | ¥ 189,622 | $1,683 | 1.458% | 2017~2024 |
| Long-term borrowings (excluding current portion) | 574,898 | 632,189 | 767,177 | 6,808 | 0.566% | 2017~2026 |
| Sub total | 779,454 | 846,701 | 956,800 | 8,491 | — | — |
| Current | | | | | | |
| Current portion of bonds payable | 94,974 | 20,011 | 24,991 | 222 | 1.045% | — |
| Current portion of long-term borrowings | 180,120 | 126,610 | 49,739 | 441 | 1.455% | — |
| Short-term borrowings | 95,256 | 3,140 | 22,105 | 196 | 0.633% | — |
| Sub total | 370,349 | 149,760 | 96,836 | 859 | — | — |
| Total | ¥1,149,804 | ¥996,462 | ¥1,053,635 | $9,351 | — | — |

Note: Average interest rate represents weighted average interest rate to the ending balance of the borrowings and other debts.

**(2) Terms of issuing bonds payable**

The summary of terms of issuing bonds payable is as follows:

| Entity | Description | Issuance date | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: As of March 31, 2015 | Millions of yen: As of March 31, 2016 | Millions of U.S. dollars: As of March 31, 2016 | Interest rate (%) | Collateral | Due |
|---|---|---|---|---|---|---|---|---|---|
| KDDI Corp. | 5th series of unsecured notes | December 13, 2007 | ¥ 19,993 (19,993) | ¥ — | ¥ — | $ — | 1.500% per year | Unsecured | December 19, 2014 |
| KDDI Corp. | 5th series of general secured notes | April 28, 1997 | 19,987 | 19,991 | 19,996 | 177 | 3.200% per year | General secured | April 28, 2017 |
| KDDI Corp. | 7th series of unsecured notes | May 29, 2008 | 19,987 | 20,011 (20,011) | — | — | 1.730% per year | Unsecured | June 19, 2015 |
| KDDI Corp. | 9th series of unsecured notes | February 26, 2009 | 9,980 | 9,984 | 9,989 | 89 | 2.046% per year | Unsecured | December 20, 2018 |
| KDDI Corp. | 14th series of unsecured notes | May 29, 2009 | 29,998 (29,998) | — | — | — | 1.278% per year | Unsecured | May 29, 2014 |
| KDDI Corp. | 15th series of unsecured notes | May 29, 2009 | 19,957 | 19,964 | 19,974 | 177 | 1.969% per year | Unsecured | May 29, 2019 |
| KDDI Corp. | 16th series of unsecured notes | March 4, 2010 | 34,983 (34,983) | — | — | — | 0.713% per year | Unsecured | December 19, 2014 |
| KDDI Corp. | 17th series of unsecured notes | March 4, 2010 | 24,964 | 24,977 | 24,991 (24,991) | 222 (222) | 1.045% per year | Unsecured | December 20, 2016 |
| KDDI Corp. | 18th series of unsecured notes | March 4, 2010 | 39,907 | 39,922 | 39,940 | 354 | 1.573% per year | Unsecured | December 20, 2019 |
| KDDI Corp. | 19th series of unsecured notes | September 6, 2010 | 39,899 | 39,913 | 39,932 | 354 | 1.151% per year | Unsecured | June 19, 2020 |
| KDDI Corp. | 20th series of unsecured notes | December 13, 2013 | 29,875 | 29,885 | 29,901 | 265 | 0.803% per year | Unsecured | December 20, 2023 |
| KDDI Corp. | 21th series of unsecured notes | September 10, 2014 | — | 29,876 | 29,891 | 265 | 0.669% per year | Unsecured | September 20, 2024 |
| Jupiter Telecommunications Co., Ltd. | 1st series of unsecured notes | July 2, 2009 | 10,000 (10,000) | — | — | — | 1.510% per year | Unsecured | June 30, 2014 |

Note: The amounts in ( ) presents the current portion of the bonds payable.

**(3) Assets pledged as collateral and secured liabilities**

Assets pledged as collateral and secured liabilities are as follows:

(The Company)

As prescribed in Article 4 of Act on Arrangement of Relevant Acts Incidental for Rationalizing Regulations Related to Telecommunication Industry, Supplementary Provisions, all properties are pledged as general collateral for bonds payable.

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Bonds payable | ¥19,987 | ¥19,991 | ¥19,996 | $177 |

(Consolidated subsidiaries)

Assets set aside as issuance deposits as prescribed in Article 14, Paragraph 1 of Payment Services Act are as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Government bonds | ¥3,004 | ¥3,003 | ¥3,003 | $27 |
| Term deposits (maturities of three months or more) | 2,500 | — | — | — |
| Total | ¥5,504 | ¥3,003 | ¥3,003 | $27 |

Assets pledged as collateral are as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Property, plant and equipment | ¥1,511 | ¥ 378 | ¥ 101 | $ 1 |
| Stocks of subsidiaries and associates (Note) | 768 | 768 | 768 | 7 |
| Short term investments | 1,440 | 1,324 | 583 | 5 |
| Total | ¥3,719 | ¥2,469 | ¥1,452 | $13 |
| (of which, assets denominated in foreign currency) | (U.S.$12 millions and other) | (U.S.$9 millions and other) | (U.S.$3 millions and other) | (3) |

Obligations underlying to these assets pledged as collateral are as follows:

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | Millions of yen: 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Long-term borrowings(Note) | ¥ 646 | ¥ 458 | ¥ 296 | $ 3 |
| Current portion of long-term borrowings | 244 | 188 | 162 | 1 |
| Short-term borrowings | 2,284 | 2,912 | 2,105 | 19 |
| Total | ¥3,174 | ¥3,558 | ¥2,563 | $ 23 |
| (of which, assets denominated in foreign currency) | (U.S.$22 millions) | (U.S.$24 millions) | (U.S.$17 millions) | (17) |

Note: Stocks of Kagoshima Mega Solar Power Corporation, an affiliate accounted for using the equity method, are pledged as collateral for its borrowings from financial institutions.
The amounts of borrowings as of the date of transition to IFRSs, March 31, 2015 and 2016 are ¥23,358 million, ¥20,870 million and ¥19,490 million (U.S.$173 million), respectively. These amounts are not included in long-term borrowings in the above table.

Certain subsidiaries of the Group have financed from financial institutions due to acquisitions and others. Except for certain loan agreements on insignificant amount of borrowings, these borrowings are subject to financial covenants such as maintenance of shareholder's equity, net asset and surplus of profit as prescribed in the terms of each agreement. The amounts of borrowings as of the date of transition to IFRSs and March 31, 2015 and 2016 are ¥393,485 million, ¥351,991 million and ¥489,287 million (U.S.$4,342 million), respectively.

Except for the borrowings above, there is no financial covenant on borrowings and bonds payable which has a significant effect on the Group's financial activities. For the fair value and amounts by due dates of borrowings and bonds payable, please refer to "Note 31. Financial instruments" and "Note 32. Fair value of financial instruments."

## 16. Deferred Tax and Income Taxes

### (1) Movement by major cause of deferred tax assets and deferred tax liabilities

The balance of and the movement in recognized deferred tax assets and deferred tax liabilities are as follows:

For the year ended March 31, 2015

Millions of yen

| | As of date of transition to IFRSs (April 1, 2014) | Recognized as profit or loss | Recognized directly in equity | Recognized as other comprehensive income | Acquisition by business combinations | Other (Note) | As of March 31, 2015 |
|---|---|---|---|---|---|---|---|
| Deferred tax assets | | | | | | | |
| Accrued bonuses | ¥ 10,720 | ¥ (881) | ¥ — | ¥ — | ¥— | ¥ 1 | ¥ 9,840 |
| Accrued business tax | 8,604 | 3,765 | — | — | — | — | 12,368 |
| Write down of inventories | 3,140 | 1,101 | — | — | — | 0 | 4,241 |
| Allowance for doubtful accounts | 12,345 | (521) | — | — | — | 10 | 11,834 |
| Unrealized gain on inventories | 70 | 78 | — | — | — | — | 148 |
| Deferred points | 34,511 | (6,935) | — | — | — | — | 27,576 |
| Difference of useful life between accounting and tax laws | 6,098 | 2,062 | — | — | — | 6 | 8,166 |
| Non-deductible disposal loss on fixed assets | 6,398 | (1,901) | — | — | — | — | 4,496 |
| Non-deductible impairment loss | 39,757 | 6,815 | — | — | — | 7 | 46,579 |
| Retirement benefit liabilities | 5,227 | (4,136) | — | (4,225) | — | 397 | (2,738) |
| Accrued expenses | 10,556 | 1,508 | — | — | — | — | 12,064 |
| Advanced received | 53,074 | (9,775) | — | — | — | — | 43,299 |
| Other | 38,287 | 5,128 | 1 | 884 | (1) | 33 | 44,333 |
| Total | ¥228,785 | ¥ (3,693) | ¥ 1 | ¥ (3,341) | ¥(1) | ¥454 | ¥222,206 |
| Deferred tax liabilities | | | | | | | |
| Retained profits of foreign related companies | ¥ 2,969 | ¥ 519 | ¥ — | ¥ — | ¥— | ¥ — | ¥ 3,488 |
| Special reserves | 1,494 | (369) | — | — | — | — | 1,125 |
| Appraisal gain on equity instruments | 26,391 | — | — | (16,232) | — | — | 10,159 |
| Difference of depreciation/amortisation method and useful life between accounting and tax laws | 67,650 | (11,986) | — | — | — | — | 55,664 |
| Identifiable intangible assets | 68,531 | (10,708) | — | — | — | — | 57,824 |
| Other | 14,539 | 3,875 | 269 | (18) | — | 214 | 18,879 |
| Total | ¥181,575 | ¥(18,669) | ¥269 | ¥(16,250) | ¥— | ¥214 | ¥147,139 |

For the year ended March 31, 2016

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of March 31, 2015 | Recognized as profit or loss | Recognized directly in equity | Recognized as other comprehensive income | Acquisition by business combinations | Other (Note) | As of March 31, 2016 |
| Deferred tax assets | | | | | | | |
| Accrued bonuses | ¥ 9,840 | ¥ (1,128) | ¥— | ¥ — | ¥ 254 | ¥ (1) | ¥ 8,965 |
| Accrued business tax | 12,368 | (5,401) | 1 | — | 274 | — | 7,242 |
| Write down of inventories | 4,241 | 831 | — | — | 537 | (0) | 5,609 |
| Allowance for doubtful accounts | 11,834 | (1,742) | 2 | — | 241 | (8) | 10,328 |
| Unrealized gain on inventories | 148 | (8) | — | — | — | — | 141 |
| Deferred points | 27,576 | (3,778) | — | — | — | — | 23,797 |
| Difference of useful life between accounting and tax laws | 8,166 | 638 | — | — | 343 | 8 | 9,155 |
| Non-deductible disposal loss on fixed assets | 4,496 | 750 | 0 | — | — | (0) | 5,246 |
| Non-deductible impairment loss | 46,579 | (14,031) | — | — | — | (5) | 32,543 |
| Retirement benefit liabilities | (2,738) | (1,001) | — | 11,161 | 488 | (983) | 6,928 |
| Accrued expenses | 12,064 | (1,546) | — | — | — | — | 10,518 |
| Advanced received | 43,299 | (6,303) | — | — | — | — | 36,996 |
| Other | 44,333 | (9,649) | (3) | 1,945 | 1,668 | (259) | 38,034 |
| Total | ¥222,206 | ¥(42,368) | ¥ 0 | ¥13,107 | ¥3,805 | ¥(1,249) | ¥195,502 |
| Deferred tax liabilities | | | | | | | |
| Retained profits of foreign related companies | ¥ 3,488 | ¥ (2,225) | ¥— | ¥ — | ¥ — | ¥ — | ¥ 1,263 |
| Special reserves | 1,125 | (305) | — | — | — | — | 820 |
| Appraisal gain on equity instruments | 10,159 | 39 | — | (3,412) | — | — | 6,787 |
| Difference of depreciation/ amortisation method and useful life between accounting and tax laws | 55,664 | (13,716) | — | — | — | — | 41,948 |
| Identifiable intangible assets | 57,824 | (7,236) | — | — | — | — | 50,587 |
| Other | 18,879 | (1,224) | — | (156) | 5 | (330) | 17,173 |
| Total | ¥147,139 | ¥(24,667) | ¥— | ¥ (3,568) | ¥ 5 | ¥ (330) | ¥118,578 |

| | Millions of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | As of March 31, 2015 | Recognized as profit or loss | Recognized directly in equity | Recognized as other comprehensive income | Acquisition by business combinations | Other (Note) | As of March 31, 2016 |
| Deferred tax assets | | | | | | | |
| Accrued bonuses | $ 87 | $ (10) | $— | $ — | $ 2 | $ (0) | $ 80 |
| Accrued business tax | 110 | (48) | 0 | — | 2 | — | 64 |
| Write down of inventories | 38 | 7 | — | — | 5 | (0) | 50 |
| Allowance for doubtful accounts | 105 | (15) | 0 | — | 2 | (0) | 92 |
| Unrealized gain on inventories | 1 | 0 | — | — | — | — | 1 |
| Deferred points | 245 | (34) | — | — | — | — | 211 |
| Difference of useful life between accounting and tax laws | 72 | 6 | — | — | 3 | 0 | 81 |
| Non-deductible disposal loss on fixed assets | 40 | 7 | 0 | — | — | (0) | 47 |
| Non-deductible impairment loss | 413 | (125) | — | — | — | (0) | 289 |
| Retirement benefit liabilities | (24) | (9) | — | 99 | 4 | (9) | 61 |
| Accrued expenses | 107 | (14) | — | — | — | — | 93 |
| Advanced received | 384 | (56) | — | — | — | — | 328 |
| Other | 393 | (86) | (0) | 17 | 15 | (2) | 338 |
| Total | $1,972 | $(376) | $ 0 | $116 | $34 | $(11) | $1,735 |
| Deferred tax liabilities | | | | | | | |
| Retained profits of foreign related companies | $ 31 | $ (20) | $— | $ — | $— | $ — | $ 11 |
| Special reserves | 10 | (3) | — | — | — | — | 7 |
| Appraisal gain on equity instruments | 90 | 0 | — | (30) | — | — | 60 |
| Difference of depreciation/ amortisation method and useful life between accounting and tax laws | 494 | (122) | — | — | — | — | 372 |
| Identifiable intangible assets | 513 | (64) | — | — | — | — | 449 |
| Other | 168 | (11) | — | (1) | 0 | (3) | 152 |
| Total | $1,306 | $(219) | $— | $ (32) | $ 0 | $ (3) | $1,052 |

Note: "Other" includes exchange differences on foreign operations.

### (2) The analysis of deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities on the consolidated statement of financial position are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Deferred tax assets | ¥95,353 | ¥110,988 | ¥103,388 | $918 |
| Deferred tax liabilities | 48,142 | 35,921 | 26,464 | 235 |
| Deferred tax assets, net | ¥47,210 | ¥ 75,067 | ¥ 76,924 | $683 |

The Group evaluates the recoverability of deferred tax assets at recognition by considering the possibility to utilize a part or all of deductible temporary differences or tax loss carryforwards for future taxable income.

The Group considers the planned reversal of deferred tax liabilities as well as expected future taxable income and tax planning for evaluating the recoverability of deferred tax assets, and recognizes deferred tax assets to the extent that future taxable income is expected.

Deferred tax assets for tax losses in certain subsidiaries are ¥1,413 million, ¥1,063 million and ¥2,308 million (U.S.$20 million), respectively, as of the date of transition to IFRSs (April 1, 2014) and as of March 31, 2015 and 2016.

All of these tax losses arose from business combinations in previous years, and the cause of these losses is temporary. All deferred tax assets related to these losses were determined recoverable as taxable income exceeding the tax losses is expected.

### (3) Deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, unaccompanied by the recognition of deferred tax assets

As a result of evaluating the recoverability of the deferred tax assets above, the Group has not recognized deferred tax assets on certain deductible temporary differences and tax loss carryforwards. The amounts of deductible temporary differences, net operating loss carryforwards and tax credit carryforwards, unaccompanied by the recognition of deferred tax assets are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Deductible temporary differences | ¥ 18,955 | ¥ 19,391 | ¥ 12,172 | $ 108 |
| Tax loss carryforwards | 132,557 | 137,741 | 124,371 | 1,104 |
| Total | ¥151,512 | ¥157,132 | ¥136,544 | $1,212 |

Expiration of tax loss carryforwards for which deferred tax assets have not been recognized is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| 1st year | ¥ 105 | ¥ — | ¥ 1,248 | $ 11 |
| 2nd year | — | 1,728 | 32 | 0 |
| 3rd year | 1,641 | 1,894 | 866 | 8 |
| 4th year | 1,952 | 27,076 | 51,649 | 458 |
| 5th year and thereafter | 128,858 | 107,044 | 70,575 | 626 |
| Total | ¥132,557 | ¥137,741 | ¥124,371 | $1,104 |

### (4) Income taxes

The analysis of income taxes is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Current tax expenses | | | |
| Current tax expenses on the profit for the year | ¥251,221 | ¥236,063 | $2,095 |
| Adjustments in respect of prior years ( ( ): refund) | 7,098 | (115) | (1) |
| Sub total | 258,319 | 235,948 | 2,094 |
| Deferred tax expenses | | | |
| Origination and reversal of temporary differences | (21,408) | 15,812 | 140 |
| Impact of change of tax rates (Note1,2) | 6,432 | 1,889 | 17 |
| Sub total | (14,976) | 17,701 | 157 |
| Total | ¥243,343 | ¥253,649 | $2,251 |

Notes: 1. As “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and “Act for Partial Amendment of the Council Tax Act” (Act No. 2 of 2015) were enacted by the Diet on March 31, 2015, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 35.9% to 33.5% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2015 and on April 1, 2016, and to 32.9% for temporary differences expected to be eliminated in the fiscal year beginning on and after April 1, 2017. As a result, deferred tax assets after offsetting deferred tax liabilities decreased by ¥7,160 million and deferred tax expenses increased by ¥6,432 million.

2. As “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and “Act for Partial Amendment of the Council Tax Act, etc.” (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, the effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.9% to 31.6% for temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2016 and on April 1, 2017, and to 31.4% for temporary differences expected to be eliminated in the fiscal year beginning on and after April 1, 2018. As a result, deferred tax assets after offsetting deferred tax liabilities decreased by ¥2,168 million (U.S.$19 million) and deferred tax expenses increased by ¥1,889 million (U.S.$17 million).

**(5) Income taxes recognized in other comprehensive income**

Income taxes recognized in other comprehensive income are described in "Note 30. Other comprehensive income."

**(6) Reconciliation of effective tax rates**

Reconciliation of statutory effective tax rates and actual tax rates for the years ended March 31, 2015 and 2016 is as follows. The actual tax rate shows the ratio of income taxes incurred by all Group companies to the profit before income tax for the year.

| For the year ended March 31 | 2015 | 2016 |
|---|---|---|
| Statutory income tax rate | 35.9% | 33.5% |
| Non-taxable dividends received | (0.0%) | (1.3%) |
| Impact of tax differences of foreign subsidiaries | (0.2%) | 0.0% |
| Tax credit | (2.0%) | (0.3%) |
| Impact of tax rate change | 1.0% | 0.2% |
| Loss on business on overseas subsidiaries | 1.8% | — |
| Utilisation of previously unrecognised tax loss | (0.2%) | (1.1%) |
| Other | 0.4% | 0.0% |
| Average actual tax rate to incur | 36.7% | 31.0% |

## 17. Employee Benefits

The Group operates defined benefit pension plans and lump-sum retirement plans (unfunded) as its defined benefit plans, as well as defined contribution pension plans.

The Group and its certain consolidated subsidiaries adopt point system in their retirement benefit plans, where the amount of benefits is calculated based on the accumulated points granted in proportion to the employees' entitlement and wage ranks.

Management, operation and benefit of the assets are mainly controlled by legally independent KDDI Corporate Pension Fund (the "Fund").

In accordance with Defined Benefit Corporate Pension Act and other laws, the Group is obliged to pay contributions to the Fund which pays pension benefits. Trustee of the Fund is obliged to comply with laws, appointments by Minister of Ministry of Health, Labour and Welfare or Head of Regional Bureau of Health and Welfare, by law of the Fund and resolutions of the board of representatives, as well as to accomplish its duties related to the management and operation of the funded money. It is prohibited for the trustee to harm the appropriate management and operation of the funded money for the interest of itself or a third party other than the Fund.

**(1) Defined benefit pension plans**

**i. The amounts on the consolidated statement of financial position**

The amounts related to the defined benefit pension plans on the consolidated statement of financial position are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Present value of the defined benefit obligations (funded) | ¥ 313,031 | ¥ 335,123 | ¥ 366,349 | $ 3,251 |
| Present value of the defined benefit obligations (unfunded) | 17,261 | 14,826 | 15,200 | 135 |
| Fair value of plan assets | (320,507) | (361,157) | (361,295) | (3,206) |
| Status of the funding | ¥ 9,786 | ¥ (11,209) | ¥ 20,255 | $ 180 |
| Retirement benefit assets | ¥ (7,476) | ¥ (26,035) | ¥ — | $ — |
| Retirement benefit liabilities | 17,261 | 14,826 | 20,255 | 180 |
| Net retirement benefit asset/liabilities | ¥ 9,786 | ¥ (11,209) | ¥ 20,255 | $ 180 |

**ii. Movement in the defined benefit obligations and plan assets**

The movement in the defined benefit obligations is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| The movement in the present value of the defined benefit obligations | | | |
| Opening balance | ¥330,293 | ¥349,949 | $3,106 |
| Current service cost | 12,039 | 12,965 | 115 |
| Interest expense | 3,650 | 3,079 | 27 |
| Sub total | 345,981 | 365,994 | 3,248 |
| Remeasurements: | | | |
| Amount from change in financial assumptions | 17,748 | 23,257 | 206 |
| Amount from change in demographic assumptions | — | 3,206 | 28 |
| Benefit payments | (12,359) | (12,487) | (111) |
| Exchange differences | 21 | (26) | (0) |
| New consolidation | — | 1,605 | 14 |
| Other | (1,443) | 1 | 0 |
| Ending balance | ¥349,949 | ¥381,549 | $3,386 |

The movement in the plan assets is as follows:

| For the year ended March 31 | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Changes in fair value of the plan assets: | | | |
| Opening balance | ¥(320,507) | ¥(361,157) | $(3,205) |
| Interest income | (5,231) | (4,574) | (41) |
| Remeasurements: | | | |
| Return on plan assets | (30,585) | 9,090 | 81 |
| Benefit payments | 10,545 | 10,784 | 96 |
| Contribution to the plans | | | |
| Contribution from employers | (15,379) | (15,436) | (137) |
| Ending balance | ¥(361,157) | ¥(361,295) | $(3,206) |

The weighted average duration of the defined benefit obligations for the years ended March 31, 2015 and 2016 is 18.4 years and 17.9 years, respectively.

**iii. Components of plan assets**

KDDI Corporate Pension Fund manages its funded money to secure long term return required to cover the benefit of pensions and lump-sum payments over the future. Based on this, our investment policy is to basically analyse the risk/return characteristics by asset and evaluate the correlation among assets in order to invest in a diversified portfolio.

Specifically, it sets policy asset allocation with the efficient combination of various assets including equities and government and corporate bonds, designs corresponding manager structure, selects managing trustee and invests.

In accordance with the provision of Defined Benefit Corporate Pension Act, bylaw of the Fund requires to recalculate the amount of contributions at least every 5 years with a financial year end as a basis date to maintain balanced finances in the future. It is reviewed, as necessary, if there is a significant change in the circumstances surrounding the Fund.

The fair value of the plan assets as of March 31, 2015 and 2016 consists of the components below:

| | Millions of yen | | | | | | | | | Millions of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As of date of transition to IFRSs (April 1, 2014) | | | As of March 31, 2015 | | | As of March 31, 2016 | | | As of March 31, 2016 | | |
| | With quoted prices in active markets | Without quoted prices in active markets | Total | With quoted prices in active markets | Without quoted prices in active markets | Total | With quoted prices in active markets | Without quoted prices in active markets | Total | With quoted prices in active markets | Without quoted prices in active markets | Total |
| Equities | ¥ 48,940 | ¥ — | ¥ 48,940 | ¥ 55,257 | ¥ — | ¥ 55,257 | ¥ 54,456 | ¥ — | ¥ 54,456 | $ 483 | $ — | $ 483 |
| Debt securities | 199,012 | — | 199,012 | 226,751 | — | 226,751 | 202,648 | — | 202,648 | 1,798 | — | 1,798 |
| Other (Note) | 13,557 | 58,998 | 72,555 | 16,474 | 62,675 | 79,149 | 42,340 | 61,851 | 104,190 | 376 | 549 | 925 |
| Total | ¥261,509 | ¥58,998 | ¥320,507 | ¥298,482 | ¥62,675 | ¥361,157 | ¥299,444 | ¥61,851 | ¥361,295 | $2,657 | $549 | $3,206 |

Note: Other includes hedge funds, private equities and cash.

**iv. The analysis of expenses related to defined benefit plans**

The amount of expenses recognized related to defined benefit plans is as follows:

| For the year ended March 31 | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Current service cost | ¥12,039 | ¥12,965 | $115 |
| Interest expense | 3,650 | 3,079 | 27 |
| Interest income | (5,231) | (4,574) | (41) |
| Total | ¥10,457 | ¥11,470 | $102 |

The expenses above are included in the “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

**v. Actuarial assumptions**

Major actuarial assumption at the end of each period is as follows:

| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 |
|---|---|---|---|
| Discount rate | 1.6% | 1.3% | 0.7% |

Other than the component above, actuarial assumptions also include expected salary growth rate, mortality and expected retirement rate.

**vi. Sensitivity analysis of actuarial assumptions**

The movement in the defined benefit obligations due to changes in discount rates by the ratio below at the end of each period is as follows. This analysis assumes that actuarial assumptions other than those subject to the analysis are constant, but in reality, the movement of other actuarial assumptions may change.

Discount rates

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| 0.5% increase | ¥(22,963) | ¥(24,688) | ¥(27,054) | $(240) |
| 0.5% decrease | 25,921 | 27,871 | 30,559 | 271 |

Note: Amounts shown in parentheses represent decrease of defined benefit obligations.

**vii. Contributions to the plan assets in the next financial year**

The policy of the Group is to contribute the necessary amount to the plan in order to meet the minimum funding requirement, based on related regulations. The Group estimates the contributions to the plan assets for the year ending March 31, 2017 to be 16,247 million yen.

**(2) Defined contribution pension plans**

The amount of expenses recognized related to defined contribution pension plans is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Expenses related to defined contribution pension plans | ¥1,548 | ¥1,785 | $16 |

The expenses above are included in the "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

Certain Group subsidiaries participate in a multiemployer plan, Sumisho Rengo Corporation Pension Fund.

Sumisho Rengo Corporation Pension Fund is a fund-type corporate pension established in accordance with Defined Benefit Corporate Pension Act, and co-operated by multiple Sumitomo Shoji Group companies. The certain Group subsidiaries cannot calculate the reasonable amount of pension assets corresponding to the amount of their contributions, and therefore the amount of contributions is recognized as retirement benefit expenses as defined contribution pension plans. The expenses on the consolidated statement of income for the years ended March 31, 2015 and 2016 are ¥1,596 million and ¥1,573 million (U.S.$14 million), respectively.

The Group can reduce its costs and practical burden related to administration and finance operation by participating in this fund and reduce a risk to discontinue a pension plan, while the fund is co-operated by multiple companies and the Group cannot necessarily reflect its intent.

The financial position of the fund based on the latest annual report (closed by pension accounting) is as follows. The fund does not accept or succeed other funds, and does not incur benefit obligations by other employers.

*(i) Status of funding in the overall plan*

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| As of March 31 | 2015 | 2016 | 2016 |
| Pension assets | ¥(27,214) | ¥(32,477) | $(288) |
| Benefit obligations for the purpose of calculating pension financials | 25,928 | 28,252 | 251 |
| Difference | (1,286) | (4,225) | (37) |
| Ratio of the funded pension assets | 105% | 115% | 115% |
| Difference consists of: | | | |
| Surplus | (1,286) | (4,225) | (37) |

*(ii) Ratio of contributions by the Group to the fund*

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| As of March 31 | 2015 | 2016 | 2016 |
| Contributions by the Group | ¥(1,592) | ¥(1,434) | $(13) |
| All contributions to the fund | (3,222) | (2,392) | (21) |
| Ratio to the all contributions to the fund | 49.41% | 59.92% | 59.92% |

In accordance with the provision of Defined Benefit Corporate Pension Act, bylaw of the Fund requires to recalculate the amount of contributions every 5 years with a financial year end as a basis date to maintain balanced finances in the future. It is reviewed, as necessary, if there is a significant change in the circumstances surrounding the Fund.

*(iii) Contributions to the multiemployer plans in the next financial year*

The Group estimates the contributions to the multiemployer plans for the year ending March 31, 2017 to be 1,678 million (U.S.$15 million) yen.

## 18. Trade and Other Payables

The analysis of the trade and other payables is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Current liabilities | | | | |
| Accounts payable (Note) | ¥383,679 | ¥409,765 | ¥316,618 | $2,810 |
| Accounts payable—trade | 87,144 | 99,883 | 84,982 | 754 |
| Accrued expenses | 22,752 | 24,806 | 24,369 | 216 |
| Other obligations | 1,030 | 1,034 | 203 | 2 |
| Total | ¥494,605 | ¥535,489 | ¥426,172 | $3,782 |

Note: Accounts payable is mainly consisted of the payable for capital investments and acquisition of shares.

The amounts of trade and other payables expected to be settled after more than twelve months from the date of transition to IFRSs, and March 31, 2015 and 2016, respectively are ¥6,686 million, ¥6,535 million and ¥7,235 million (U.S.$64 million).

## 19. Other Financial Liabilities

The analysis of other financial liabilities is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Non-current liabilities (Other long-term financial liabilities): | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative financial liabilities | ¥ — | ¥ 2,659 | ¥ 9,093 | $ 81 |
| Financial liabilities at amortized cost | | | | |
| Preference share (Note) | 95,000 | 95,000 | 95,000 | 843 |
| Lease obligations | 33,320 | 41,956 | 61,776 | 548 |
| Long term Account Payables | 2,819 | 8,752 | 8,922 | 79 |
| Total | ¥131,138 | ¥148,367 | ¥174,791 | $1,551 |
| Current liabilities (Other short-term financial liabilities): | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivative financial liabilities | ¥ 27 | ¥ 0 | ¥ 162 | $ 1 |
| Financial liabilities at amortized cost | | | | |
| Lease obligations | 18,679 | 20,698 | 24,875 | 221 |
| Total | ¥ 18,706 | ¥ 20,698 | ¥ 25,037 | $ 222 |

Note: A certain subsidiary of the Group issued the cumulative preference shares. The preference shares are not converted into common stock and the Group has the obligation to redeem the principal and pay the cumulative dividend in cash to the shareholders upon the request of the shareholders or on a particular date. Considering these contractual conditions, the preference shares are classified as liabilities because the Group has the contractual obligation to delivery cash under IFRS on redemption date. Related interest is included in Long term Account Payables.

## 20. Provisions

**(1) Movements of provisions**

Changes in provisions are as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Provision for Customer Points | Other provisions | Total |
| As of April 1, 2014 (date of transition to IFRSs) | ¥ 989 | ¥ 8,226 | ¥ 9,215 |
| Increase during the year | 11,459 | 6,143 | 17,602 |
| Decrease during the year (intended use) | (2,274) | (751) | (3,025) |
| Decrease during the year (reversal) | — | (5,352) | (5,352) |
| As of March 31, 2015 | 10,174 | 8,267 | 18,441 |
| Increase during the year | 15,784 | 8,838 | 24,622 |
| Decrease during the year (intended use) | (8,144) | (1,511) | (9,655) |
| Decrease during the year (reversal) | (262) | (5,121) | (5,383) |
| As of March 31,2016 | ¥17,552 | ¥10,473 | ¥28,025 |
| Non-current liabilities | ¥ — | ¥ 7,635 | ¥ 7,635 |
| Current liabilities | 17,552 | 2,838 | 20,390 |

Changes in provisions are as follows:

| | Millions of U.S. dollars | | |
|---|---|---|---|
| | Provision for Customer Points | Other provisions | Total |
| As of March 31, 2015 | $ 90 | $ 73 | $164 |
| Increase during the year | 140 | 78 | 219 |
| Decrease during the year (intended use) | (72) | (13) | (86) |
| Decrease during the year (reversal) | (2) | (45) | (48) |
| As of March 31, 2016 | $156 | $ 93 | $249 |
| Non-current liabilities | $ — | $ 68 | $ 68 |
| Current liabilities | 156 | 25 | 181 |

**(2) Components of provisions**

The main components of provisions of the Group are as follows.

**i. Provision for customer points**

The Group has operated points programs, including the au WALLET point program, and grants points to customers of the Group, for the purpose of sales promotions. In anticipation of the future use of such points by customers, the Group has recorded these points which are mainly granted by using au WALLET pre-paid card, apps and product sales services provided by other companies to debt as a provision for customer points. The Group has measured the amounts of provision for customer point at an estimated amount to be used in the future based on historical experience

There is an inherent uncertainty regarding the extent of usage of such points by customers, and once the points expire, customers forfeit the right to use them.

**ii. Other Provisions**

Other provisions include asset retirement obligations and provision for warranties for completed construction.

## 21. Other Liabilities

The analysis of other liabilities is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Non-current liabilities: | | | | |
| Long-term advances received | ¥144,595 | ¥153,338 | ¥146,376 | $1,299 |
| Long-term deposits payable | 2,128 | 2,266 | 1,855 | 16 |
| Other | 3,559 | 4,974 | 5,068 | 45 |
| Total | ¥150,282 | ¥160,578 | ¥153,299 | $1,360 |
| Current liabilities: | | | | |
| Advances received | ¥192,488 | ¥167,251 | ¥143,142 | $1,270 |
| deposits payable | 31,523 | 31,390 | 41,872 | 372 |
| Consumption tax payable | 6,639 | 49,275 | 31,322 | 278 |
| Accrued bonuses | 29,145 | 27,263 | 25,980 | 231 |
| Other | 31,769 | 32,350 | 26,979 | 239 |
| Total | ¥291,565 | ¥307,530 | ¥269,294 | $2,390 |

## 22. Share-based Payment (Stock Grant Plans)

The Company introduced a new stock compensation plan (hereafter, the “Plan”) for directors, executive officers, and administrative officers (excluding directors residing overseas, outside directors and part-time directors) that have entered into engagement agreements with the Company (hereafter, “Directors and Other Executives”).

As for the directors, the Company has adopted the Board Incentive Plan (BIP). As for the Companies’ senior management, the Company has adopted the Employee Stock Ownership Plan (ESOP).

BIP (Board Incentive Plan) is being initiated in order to link compensation for Directors and Other Executives with shareholder value and to increase their awareness of contributing to increases in operating performance and corporate value over the medium to long term. This ESOP Trust is being introduced as an incentive plan to enhance corporate value over the medium to long term by increasing awareness among the Company’s managers of operating performance and stock price.

Under BIP and ESOP, the right for stock granted is vested based on achievement based of KPI (Key Performance Indicators) annually.

The expenses for the stock grant plans recognized in the consolidated statement of operations for the year ended March 31, 2016 were ¥1,371 million (U.S.$12 million). There were no expenses for the plans recognized for the year ended March 31, 2015.

For the year ended March 31, 2016

| | The number of granted (stock) | Granted date | Fair value of granted date (Note 1) (Yen) | Fair value of granted date (Note 1) (U.S. dollar) | Vesting conditions |
|---|---|---|---|---|---|
| BIP trust | 117,394 | August 7, 2015 | ¥3,131.83 | $27.79 | (Note 2) |
| ESOP trust | 284,150 | August 7, 2015 | 3,131.83 | 27.79 | (Note 2) |

Notes: 1. With respect to stock grants, fair values are measured based on observable market prices. Moreover, the expected dividends are incorporated into the measurement of fair values.
2. Vesting conditions are basically subject to continued service from grant date to vesting date.

## 23. Common Stock and Other Equity Items

### (1) Common stock and capital surplus

The number of authorized stock, outstanding stock, common stock and the balance of capital surplus in each consolidated fiscal year are as follows:

| | Shares | | Millions of yen | |
|---|---|---|---|---|
| | Authorized stock | Outstanding stock | Common stock | Capital surplus |
| Balance as of April 1, 2014 | 1,400,000,000 | 896,963,600 | ¥141,852 | ¥385,945 |
| Increase and decrease during the period | — | — | — | (16,223) |
| Balance as of March 31, 2015 | 1,400,000,000 | 896,963,600 | 141,852 | 369,722 |
| Increase and decrease during the period | | | | |
| Increase due to stock split (Note 3) | 2,800,000,000 | 1,793,927,200 | — | — |
| Other increase and decrease during the period | — | — | — | (1,477) |
| Balance as of March 31, 2016 | 4,200,000,000 | 2,690,890,800 | ¥141,852 | ¥368,245 |

| | Shares | | Millions of U.S. dollars | |
|---|---|---|---|---|
| | Authorized stock | Outstanding stock | Common stock | Capital surplus |
| Balance as of March 31, 2015 | 1,400,000,000 | 896,963,600 | $1,259 | $3,281 |
| Increase and decrease during the period | | | | |
| Increase due to stock split (Note 3) | 2,800,000,000 | 1,793,927,200 | — | — |
| Other increase and decrease during the period | — | — | — | (13) |
| Balance as of March 31, 2016 | 4,200,000,000 | 2,690,890,800 | $1,259 | $3,268 |

Notes: 1. Common stocks are no par value.
2. Outstanding stocks are fully paid.
3. The Company conducted a 1:3 stock split on common stock, with an effective on April 1, 2015 January 30, 2015 Meeting of the Board of Directors.

The Companies Act of Japan (“the Companies Act”) requires that at least 50% of the proceeds upon issuance of stocks are credited to common stock and the remainder of the proceeds is credited to capital surplus. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amount from additional paid-in capital to common stock.

### (2) Treasury stock

Changes in the number of treasury stock during each consolidated fiscal year are as follows:

| | Number of treasury stock (Shares) | Amount (Millions of yen) |
|---|---|---|
| Balance as of April 1, 2014 | 61,984,948 | ¥(161,822) |
| Increase and decrease during the period | | |
| Purchase of treasury stock | 46 | (0) |
| Balance as of March 31, 2015 | 61,984,994 | (161,822) |
| Increase and decrease during the period | | |
| Increase due to stock split (Note 1) | 123,969,988 | — |
| Purchase of treasury stock (Note 2) | 16,591,273 | (50,019) |
| Disposal of treasury stock (Note 3) | (1,125,000) | 979 |
| Balance as of March 31, 2016 (Note 4) | 201,421,255 | ¥(210,861) |

Changes in the number of treasury stock during each consolidated fiscal year are as follows:

| | Number of treasury stock (Shares) | Amount (Millions of U.S. dollars) |
|---|---|---|
| Balance as of March 31, 2015 | 61,984,994 | $(1,436) |
| Increase and decrease during the period | | |
| Increase due to stock split (Note 1) | 123,969,988 | — |
| Purchase of treasury stock (Note 2) | 16,591,273 | (444) |
| Disposal of treasury stock (Note 3) | (1,125,000) | 9 |
| Balance as of March 31, 2016 (Note 4) | 201,421,255 | $(1,871) |

Notes: 1. The Company conducted a 1:3 stock split on common stock, with an effective on April 1, 2015 January 30, 2015 Meeting of the Board of Directors
2. Of the increase in the number of treasury stock, 16,584,700 shares were due to the purchase from the market.
3. Decrease in the number of treasury stock was due to contributions to the KDDI Foundation.
4. In the balance of treasury stock as of March 31, 2016, 1,738,000 shares of the Company owned by BIP and ESOP are included.

### (3) Retained earnings

The Companies Act provides that 10% of the dividend of retained earnings shall be appropriated as legal capital surplus or as legal retained earnings until their aggregate amount equals 25% of common stock. The legal retained earnings may be used to eliminate or reduce a deficit or be transferred to retained earnings upon approval at the general meeting of shareholders.

**(4) Changes in accumulated other comprehensive income**

Changes in each component of accumulated other comprehensive income are as follows:

**i. Changes in each component of accumulated other comprehensive income**

For the year ended March 31, 2015:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Translation differences on foreign operations | Changes measured in fair value of financial assets at fair value through other comprehensive income | Changes in fair value of cash flow hedge | Remeasurements of benefit pension plan | Total |
| Balance as of April 1, 2014 | ¥ — | ¥ 44,826 | ¥(1,236) | ¥ — | ¥ 43,589 |
| Amount incurred during the year | 9,737 | 7,860 | 374 | 8,619 | 26,589 |
| Reclassified to consolidated statement of income | — | — | (832) | — | (832) |
| Transferred to retained earnings | — | (33,266) | — | (8,619) | (41,885) |
| Balance as of March 31, 2015 | ¥9,737 | ¥ 19,419 | ¥(1,694) | ¥ — | ¥ 27,462 |

Note: Amounts presented above are net of tax. Income taxes related to each component of other comprehensive income are set out in "Note 30. Other comprehensive income."

For the year ended March 31, 2016:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Translation differences on foreign operations | Changes measured in fair value of financial assets at fair value through other comprehensive income | Changes in fair value of cash flow hedge | Remeasurements of benefit pension plan | Total |
| Balance as of April 1, 2015 | ¥ 9,737 | ¥19,419 | ¥ (1,694) | ¥ — | ¥ 27,462 |
| Amount incurred during the year | (10,191) | (43) | (2,423) | (24,436) | (37,092) |
| Reclassified to consolidated statement of income | — | — | 202 | — | 202 |
| Transferred to retained earnings | — | (1,437) | — | 24,436 | 22,998 |
| Balance as of March 31, 2016 | ¥ (454) | ¥17,939 | ¥ (3,915) | ¥ — | ¥ 13,570 |

For the year ended March 31, 2016:

| | Millions of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Translation differences on foreign operations | Changes measured in fair value of financial assets at fair value through other comprehensive income | Changes in fair value of cash flow hedge | Remeasurements of benefit pension plan | Total |
| Balance as of April 1, 2015 | $ 86 | $172 | $(15) | $ — | $ 244 |
| Amount incurred during the year | (90) | (0) | (22) | (217) | (329) |
| Reclassified to consolidated statement of income | — | — | 2 | — | 2 |
| Transferred to retained earnings | — | (13) | — | 217 | 204 |
| Balance as of March 31, 2016 | $ (4) | $159 | $(35) | $ — | $ 120 |

Note: Amounts presented above are net of tax. Income taxes related to each component of other comprehensive income are set out in "Note 30. Other comprehensive income."

**ii. The analysis of accumulated other comprehensive income**

Accumulated other comprehensive income includes following items.

(a) Translation differences on foreign operations

This represents the exchange differences incurred upon consolidation of the foreign operations' financial statements denominated in foreign currencies.

(b) Changes in fair value of financial assets at fair value through other comprehensive income

This represents the valuation differences on fair value of financial assets at fair value through other comprehensive income.

(c) Changes in fair value of cash flow hedge

This represents the effective portion of changes in fair value of derivative transactions designated as cash flow hedge which is used by the Group to avoid the risk of future cash flows fluctuation.

(d) Remeasurements of defined benefit pension plan

Remeasurements of defined benefit pension plan are mainly the effects of differences between the actuarial assumptions at the beginning of the year and their actual results, and the effects of changes in actuarial assumptions.

## 24. Dividends

Dividends to common shareholders are as follows:

### (1) Dividends paid

For the year ended March 31, 2015:

| Resolution | Type | Aggregate amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| June 18, 2014<br>General meeting of shareholders | Common stock | ¥58,449 | ¥70 | March 31, 2014 | June 19, 2014 |
| October 31, 2014<br>Board of directors | Common stock | 66,798 | 80 | September 30, 2014 | December 3, 2014 |

For the year ended March 31, 2016

| Resolution | Type | Aggregate amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| June 17, 2015<br>General meeting of shareholders | Common stock | ¥75,148 | ¥90 | March 31, 2015 | June 18, 2015 |
| November 5, 2015<br>Board of directors | Common stock | 87,712<br>(Note 2) | 35<br>(Note 1) | September 30, 2015 | December 7, 2015 |

| Resolution | Type | Aggregate amount of dividends (Millions of U.S. dollars) | Dividends per share (U.S. dollar) | Record date | Effective date |
|---|---|---|---|---|---|
| June 17, 2015<br>General meeting of shareholders | Common stock | $667 | $0.80 | March 31, 2015 | June 18, 2015 |
| November 5, 2015<br>Board of directors | Common stock | 778<br>(Note 2) | 0.31<br>(Note 1) | September 30, 2015 | December 7, 2015 |

Notes: 1. The Company conducted a 1:3 stock split on common stock, with an effective date of April 1, 2015. Dividends per share were calculated including the effect on this stock split.
2. Dividends ¥61 million (U.S.$1 million) of the Company's shares owned by executive compensation BIP trust and stock grants ESOP trust are not included in aggregate amount of the dividends above.

### (2) Dividends whose record date is in the current fiscal year but whose effective date is in the following fiscal year are as follows:

For the year ended March 31, 2015:

| Resolution | Type | Aggregate amount of dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 17, 2015<br>General meeting of shareholders | Common stock | ¥75,148 | Retained earnings | ¥90 | March 31, 2015 | June 18, 2015 |

For the year ended March 31, 2016:

| Resolution | Type | Aggregate amount of dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 22, 2016<br>General meeting of shareholders | Common stock | ¥87,131<br>(Note 2) | Retained earnings | ¥35<br>(Note 1) | March 31, 2016 | June 23, 2016 |

| Resolution | Type | Aggregate amount of dividends (Millions of U.S. dollars) | Source of dividends | Dividends per share (U.S. dollars) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 22, 2016<br>General meeting of shareholders | Common stock | $773<br>(Note 2) | Retained earnings | $0.31<br>(Note 1) | March 31, 2016 | June 23, 2016 |

Notes: 1. The Company conducted a 1:3 stock split on common stock, with an effective date of April 1, 2015. Dividends per share were calculated including the effect on this stock split.
2. Dividends ¥61 million (U.S.$1 million) of the Company's shares owned by executive compensation BIP trust and stock grants ESOP trust are not included in aggregate amount of the dividends above.

## 25. Revenue

For the details of revenue, please refer to "Note 5. Segment information."

## 26. Expenses by Nature

Expenses by nature that constitute cost of sales and selling, general and administrative expenses are as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Handset sales cost, repair cost | ¥ 774,543 | ¥ 821,205 | $ 7,288 |
| Depreciation and amortization | 518,708 | 531,667 | 4,718 |
| Communication equipment usage fee and rentals | 407,985 | 404,623 | 3,591 |
| Sales commission | 374,334 | 397,879 | 3,531 |
| Staff cost | 356,326 | 377,085 | 3,347 |
| Operations outsourcing | 258,983 | 260,007 | 2,307 |
| Utilities | 59,891 | 61,461 | 545 |
| Rent | 58,813 | 61,346 | 544 |
| Other (Note) | 808,088 | 731,863 | 6,495 |
| Total | ¥3,617,670 | ¥3,647,136 | $32,367 |

Note: Other is mainly consisted of advertising expense and maintenance costs for communication equipment, etc.

## 27. Other Income and Other Expense

**(1) The analysis of other income**

The analysis of other income is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Compensation income, etc. | ¥ 2,123 | ¥ 3,369 | $ 30 |
| Income from recovery of bad debts | 651 | 639 | 6 |
| Subsidy income, etc. | 2,452 | 285 | 3 |
| Other | 7,842 | 8,574 | 76 |
| Total | ¥13,069 | ¥12,866 | $114 |

**(2) The analysis of other expense**

The analysis of other expense is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Loss on sale of fixed assets | ¥ 564 | ¥ 619 | $ 5 |
| Reduction entry of land contribution for construction | 709 | 360 | 3 |
| Other | 3,423 | 2,699 | 24 |
| Total | ¥4,697 | ¥3,677 | $33 |

## 28. Finance Income and Finance Cost

**(1) The analysis of finance income**

The analysis of finance income is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Interest income: | | | |
| Financial assets at amortized cost | ¥ 489 | ¥ 394 | $ 3 |
| Dividend income: | | | |
| Financial assets at fair value through other comprehensive income | 1,786 | 1,376 | 12 |
| Gain on foreign currency exchange | 5,714 | — | — |
| Other | 228 | 79 | 1 |
| Total | ¥8,216 | ¥1,848 | $16 |

**(2) The analysis of finance cost**

The analysis of finance cost is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Interest expense: | | | |
| Financial liabilities at amortized cost | ¥15,103 | ¥12,074 | $107 |
| Financial liabilities at fair value through profit or loss | | | |
| Derivatives | 67 | 1,251 | 11 |
| Loss on foreign currency exchange | — | 5,796 | 51 |
| Other | 431 | 517 | 5 |
| Total | ¥15,602 | ¥19,638 | $174 |

## 29. Other Non-operating Profit

The analysis of other non-operating profit is as follows:

| For the year ended March 31 | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Gain on step acquisitions | ¥ — | ¥3,196 | $28 |
| Gain on deemed disposal of subsidiaries | 3,337 | 420 | 4 |
| Gain on sales of stocks of subsidiaries and associates | 1,196 | — | — |
| Total | ¥4,533 | ¥3,616 | $32 |

## 30. Other Comprehensive Income

Amounts arising during the year, amounts transferred to profit and tax effect included in other comprehensive income of the Group are as follows.

| For the year ended March 31 | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Items that will not be reclassified subsequently to profit or loss | | | |
| Actuarial gain and loss of defined benefit plan | | | |
| Gain (loss) arising during the year | ¥12,837 | ¥(35,554) | $(316) |
| Tax effect | (4,225) | 11,161 | 99 |
| After tax effect | 8,613 | (24,393) | (216) |
| Net change in financial assets at fair value through other comprehensive income | | | |
| Gain (loss) arising during the year | 9,676 | (7,035) | (62) |
| Tax effect | (2,795) | 3,779 | 34 |
| After tax effect | 6,881 | (3,256) | (29) |
| Share of investments accounted for using the equity method | | | |
| Gain (loss) arising during the year | 1,221 | 3,239 | 29 |
| After tax effect | 1,221 | 3,239 | 29 |
| Total | 16,714 | (24,410) | (217) |
| Items that may be reclassified subsequently to profit or loss | | | |
| Changes in fair value of cash flow hedge | | | |
| Gain (loss) arising during the year | (1,952) | (7,213) | (64) |
| Transferred to profit for the year | (832) | 202 | 2 |
| Before tax effect | (2,784) | (7,011) | (62) |
| Tax effect | 903 | 2,101 | 19 |
| After tax effect | (1,881) | (4,909) | (44) |
| Exchange differences on translating foreign operations | | | |
| Gain (loss) arising during the year | 9,622 | (11,009) | (98) |
| Transferred to profit for the year | — | — | — |
| Before tax effect | 9,622 | (11,009) | (98) |
| After tax effect | 9,622 | (11,009) | (98) |
| Share of investments accounted for using the equity method | | | |
| Gain (loss) arising during the year | 1,302 | 58 | 1 |
| Transferred to profit for the year | 522 | 376 | 3 |
| After tax effect | 1,824 | 434 | 4 |
| Total | 9,566 | (15,485) | (137) |
| Total other comprehensive income | ¥26,280 | ¥(39,894) | $(354) |

## 31. Financial Instruments

**(1) Risk management**

The Group's operating activities are subject to influence from the business and financial market environment. Financial instruments held or assumed in the course of business are exposed to risks inherent in those instruments. Such risks include (i) Credit risk, (ii) Liquidity risk and (iii) Market risk. The Group has a risk management program in place to minimize effects on the Group's financial position and results of operations through establishing an internal management system and using financial instruments. Specifically, the Group manages these risks by using methods as described below.

**i. Credit risk management**

Credit risk is the risk that a party to the Group's financial instrument will cause a financial loss for the Group by failing to discharge its contractual obligation. Specifically, the Group is exposed to the following credit risks. Trade and other receivables of the Group are exposed to the credit risk of our customers. The debt securities held for surplus investment are exposed to the issuer's credit risk. In addition, derivatives used by the Group to hedge exchange risk and interest rate risk and bank balances are exposed to the credit risk of the financial institutions that are counterparties to these transactions.

With regard to trade receivables, the Group has a system in place for assessing credit status as well as performing term administration and balance management for each counterparty based on the credit management guidelines of each Group company. Specifically, the Group regards the trade receivables which were past a certain period of time since initial recognition as default and recognizes the impairment loss. Allowance for doubtful accounts for trade receivables is recognized by estimating the expected credit losses based on historical experience for the age of each trade receivables, after dividing into different types of trade receivables such as mobile-line telecommunications services and fixed-line telecommunications services.

The Group's receivables have no significantly concentrated credit risk exposure to any single counterparty or any group of counterparties.

The Group considers that there is substantially no credit risk resulting from counterparty default because counterparties of the Group's derivatives and bank transactions are limited to high credit quality financial institutions. For surplus investments and derivative transactions, the finance and accounting department, following internal rules of each Group company and accompanying regulations that prescribe details, arranges to have each transaction approved by an authorized person as designated in the authorization regulation on a transaction-to-transaction basis so that the Group can minimize credit risk. Counterparties to those transactions are limited to high credit quality financial institutions.

(a) Changes in allowance for doubtful accounts
Impairment of financial assets relating to trade receivables

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| As of April 1 | ¥30,914 | ¥67,002 | $595 |
| Increase during the year | 65,444 | 28,442 | 252 |
| Decrease during the year (reversal) | (13,082) | (13,575) | (120) |
| Decrease during the year (intended use) | (16,456) | (18,010) | (160) |
| Other (unwinding of discounts and exchange differences) | 181 | 146 | 1 |
| As of March 31 | ¥67,002 | ¥64,005 | $568 |

Allowance and reversal of allowance for doubtful accounts are recorded in "selling, general and administrative expenses" in the consolidated statement of income. Fair value of trade and other receivables is described in "Note 32. Fair value of financial instruments."

(b) Exposure to credit risk of financial assets
Except for items set out below, at the end of each fiscal year, maximum exposure to credit risk of financial assets without taking into account the value of collateral is the carrying amount less impairment presented in the consolidated financial statements. The maximum exposure represents maximum amount of loss that the Group may suffer in cases where its financial assets lost their value, and it does not indicate possible loss or credit enhancement.

Maximum amount exposure of credit risk

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Debt guarantee | ¥8,835 | ¥6,009 | ¥5,634 | $50 |

**ii. Liquidity risk management**
The Group is exposed to liquidity risk that the Group may be unable to meet the obligations such as notes and trade payables.

The Group finances necessary funds through bank borrowings and bond issuances, in the context of its capital expenditure project mainly to conduct telecommunications businesses. Any excess funds incurred are invested in short-term deposits etc.

Most of the trade and other payables are payable within one year. The Group's current liabilities including such trade payables are exposed to liquidity risk at the time of settlement, however, the Group avoids the risk using methods such as monthly financial planning review conducted by each Group company. In addition, to manage liquidity risk, the Group aims for continuously stable cash management through monitoring account activity by preparing monthly cash flow projection, and maintains liquidity at certain level. At March 31, 2016, the Group has short-term deposits etc. which is considered to be readily convertible into cash to address liquidity risk. Please refer to "Note 14. Cash and cash equivalents" for details.

Long-term financing is conducted following approval by the Board of Directors of the annual financial plan prepared by the finance and accounting department. The Group minimizes its liquidity risk by entering into a number of long- and short-term unextended commitment line contracts with domestic dominant financial institutions and leading financial institutions in foreign countries in addition to uncommitted credit facilities.

(a) Maturity analysis

Following tables represent analysis of the Group's non-derivative financial liabilities and derivative financial liabilities to be settled on a net basis by category based on respective remaining periods to contractual maturity at the end of each fiscal year. Amounts shown in the tables below are contractual undiscounted cash flows.

As of date of transition to IFRSs (April 1, 2014)

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | Within one year | Over one year to two years | Over two years to three years | Over three years to four years | Over four years to five years | Over five years |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | ¥ 494,605 | ¥ 494,605 | ¥487,919 | ¥ 1,224 | ¥ 570 | ¥ 443 | ¥ 681 | ¥ 3,767 |
| Short-term borrowings | 95,256 | 95,260 | 95,260 | — | — | — | — | — |
| Long-term borrowings | 755,018 | 777,131 | 186,039 | 130,365 | 52,046 | 36,201 | 106,993 | 265,487 |
| Bonds payable | 299,530 | 317,421 | 98,786 | 23,109 | 27,958 | 22,178 | 12,073 | 133,318 |
| Preference share | 95,000 | 104,775 | — | — | — | — | 104,775 | — |
| Lease payment | 51,999 | 54,757 | 19,776 | 14,781 | 9,023 | 5,736 | 3,038 | 2,402 |
| Sub total | 1,791,407 | 1,843,949 | 887,779 | 169,480 | 89,597 | 64,558 | 227,560 | 404,974 |
| Derivative financial liabilities (Note) | | | | | | | | |
| Exchange contracts | 4 | 4 | 4 | — | — | — | — | — |
| Interest rate swaps | 23 | 23 | 23 | — | — | — | — | — |
| Sub total | 27 | 27 | 27 | — | — | — | — | — |
| Total | ¥1,791,434 | ¥1,843,976 | ¥887,807 | ¥169,480 | ¥89,597 | ¥64,558 | ¥227,560 | ¥404,974 |

Note: Credits and debts resulted from derivative transactions are presented on a net basis.

As of March 31, 2015:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | Within one year | Over one year to two years | Over two years to three years | Over three years to four years | Over four years to five years | Over five years |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | ¥ 535,489 | ¥ 535,489 | ¥528,954 | ¥ 1,121 | ¥ 512 | ¥ 691 | ¥ 436 | ¥ 3,775 |
| Short-term borrowings | 3,140 | 3,140 | 3,140 | — | — | — | — | — |
| Long-term borrowings | 758,799 | 776,721 | 130,672 | 52,338 | 37,491 | 196,992 | 32,611 | 326,618 |
| Bonds payable | 234,523 | 249,637 | 23,203 | 28,031 | 22,450 | 12,130 | 61,728 | 102,096 |
| Preference share | 95,000 | 104,775 | — | — | — | 104,775 | — | — |
| Lease payment | 62,655 | 65,077 | 21,701 | 14,974 | 10,570 | 7,999 | 6,181 | 3,650 |
| Sub total | 1,689,605 | 1,734,838 | 707,670 | 96,464 | 71,023 | 322,587 | 100,956 | 436,138 |
| Derivative financial liabilities (Note) | | | | | | | | |
| Exchange contracts | 0 | 0 | 0 | — | — | — | — | — |
| Interest rate swaps | 2,659 | 2,659 | — | — | — | 553 | — | 2,106 |
| Sub total | 2,659 | 2,659 | 0 | — | — | 553 | — | 2,106 |
| Total | ¥1,692,264 | ¥1,737,497 | ¥707,670 | ¥96,464 | ¥71,023 | ¥323,141 | ¥100,956 | ¥438,244 |

Note: Credits and debts resulted from derivative transactions are presented on a net basis.

As of March 31, 2016:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | Within one year | Over one year to two years | Over two years to three years | Over three years to four years | Over four years to five years | Over five years |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | ¥ 426,172 | ¥ 426,172 | ¥418,937 | ¥ 1,648 | ¥ 866 | ¥ 506 | ¥ 436 | ¥ 3,779 |
| Short-term borrowings | 22,105 | 22,105 | 22,105 | — | — | — | — | — |
| Long-term borrowings | 816,917 | 826,715 | 52,951 | 36,388 | 195,912 | 55,887 | 110,270 | 375,306 |
| Bonds payable | 214,613 | 226,434 | 28,031 | 22,450 | 12,130 | 61,728 | 40,671 | 61,425 |
| Preference share | 95,000 | 104,775 | — | — | 104,775 | — | — | — |
| Lease payment | 86,652 | 90,289 | 26,220 | 19,896 | 16,365 | 13,909 | 9,952 | 3,948 |
| Sub total | 1,661,459 | 1,696,491 | 548,245 | 80,382 | 330,047 | 132,031 | 161,328 | 444,458 |
| Derivative financial liabilities (Note) | | | | | | | | |
| Exchange contracts | 174 | 174 | 162 | 7 | 4 | 2 | — | — |
| Interest rate swaps | 9,080 | 9,080 | — | — | 1,130 | — | 1,990 | 5,960 |
| Sub total | 9,254 | 9,254 | 162 | 7 | 1,134 | 2 | 1,990 | 5,960 |
| Total | ¥1,670,713 | ¥1,705,745 | ¥548,406 | ¥80,390 | ¥331,181 | ¥132,032 | ¥163,317 | ¥450,418 |

As of March 31, 2016:

| | Millions of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | Within one year | Over one year to two years | Over two years to three years | Over three years to four years | Over four years to five years | Over five years |
| Non-derivative financial liabilities | | | | | | | | |
| Trade and other payables | $ 3,782 | $ 3,782 | $3,718 | $ 15 | $ 8 | $ 4 | $ 4 | $ 34 |
| Short-term borrowings | 196 | 196 | 196 | — | — | — | — | — |
| Long-term borrowings | 7,250 | 7,337 | 470 | 323 | 1,739 | 496 | 979 | 3,331 |
| Bonds payable | 1,905 | 2,010 | 249 | 199 | 108 | 548 | 361 | 545 |
| Preference share | 843 | 930 | — | — | 930 | — | — | — |
| Lease payment | 769 | 801 | 233 | 177 | 145 | 123 | 88 | 35 |
| Sub total | 14,745 | 15,056 | 4,866 | 713 | 2,929 | 1,172 | 1,432 | 3,944 |
| Derivative financial liabilities (Note) | | | | | | | | |
| Exchange contracts | 2 | 2 | 1 | 0 | 0 | 0 | — | — |
| Interest rate swaps | 81 | 81 | — | — | 10 | — | 18 | 53 |
| Sub total | 82 | 82 | 1 | 0 | 10 | 0 | 18 | 53 |
| Total | $14,827 | $15,138 | $4,867 | $713 | $2,939 | $1,172 | $1,449 | $3,997 |

Note: Credits and debts resulted from derivative transactions are presented on a net basis.

**iii. Market risk**

Market risk management consists of (a) Exchange risk management, (b) Interest rate risk management and (c) Price risk management of equity instruments.

(a) Exchange risk

The Group is exposed to exchange rate fluctuation risk ("exchange risk") resulted from translating foreign currency denominated trade receivables arising from transactions that the Group conducted using non-functional currencies into their functional currencies at the exchange rate prevailing at the end of reporting period.

The Group also operates in foreign countries. Currently, the Group is developing international businesses through capital contribution and establishment of joint ventures in Asia (Singapore and China etc.), North America and Europe etc. As a result of these international operating activities, the Group is exposed to various exchange risks primarily related to US dollar and Hong Kong dollar.

Certain subsidiary hedges exchange fluctuation risk by adopting forward exchange contracts as derivative transactions. The purpose is to fix the exchange fluctuation for broadcasting right related to foreign program. For derivative transactions, the Company develops implementation plans on a transaction-to-transaction basis following internal rules approved by the Board of Directors, and obtains approval as stipulated in the authorization regulation, before conducting the transactions. The Group's policy is to use derivative transactions only to avoid risk and conduct no speculative transactions in order to gain trading profits.

*(i) Sensitivity analysis of exchange rate*

Sensitivity analysis of the impact of the 10% appreciation of Japanese yen against US dollar and Hong Kong dollar at the end of each fiscal year against profit before tax of the Group is as follows.

This analysis is on presumption that all other variables (balance, interest etc.) are held constant, and the sensitivity analysis below does not contain impacts of translation of financial instruments denominated in functional currencies, and impacts of translation of revenues and expenses, assets and liabilities of foreign operations into presentation currency.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit before tax | | | |
| US dollar | ¥(2,242) | ¥(3,305) | $(29) |
| Hong Kong dollar | (1,065) | (846) | (8) |
| Total | ¥(3,307) | ¥(4,151) | $(37) |

At the end of each fiscal year, impact against the Group's profit or loss, in cases where Japanese yen depreciated 10% against US dollar and Hong Kong dollar, would be equal and opposite figures presented above on presumption that all other variables are held constant.

*(ii) Derivatives (forward foreign exchange contracts)*

Details of major exchange contracts existed at the date of transition to IFRSs (April 1, 2014), March 31, 2015 and March 31, 2016 are as follows:

Derivatives designated as hedges

Certain subsidiaries of the Group is to apply hedge accounting to foreign exchange risk.

| | Millions of yen | | | | | | Millions of U.S. dollars | |
|---|---|---|---|---|---|---|---|---|
| | As of date of transition to IFRSs (April 1, 2014) | | 2015 | | 2016 | | 2016 | |
| As of March 31 | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value |
| Forward foreign exchange contracts | | | | | | | | |
| Assets | | | | | | | | |
| Within one year | ¥1,396 | ¥868 | ¥ 806 | ¥824 | ¥ 583 | ¥213 | $ 5 | $2 |
| Over one year | 1,264 | | 2,631 | | 1,546 | | 14 | |
| Total | ¥2,660 | ¥868 | ¥3,437 | ¥824 | ¥2,129 | ¥213 | $19 | $2 |

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|---|
| Carrying amount | ¥ 868 | ¥ 824 | ¥ 213 | $ 2 |
| Contractual amount | 2,660 | 3,437 | 2,129 | 19 |
| Maturity date | April 2014~ November 2017 | April 2015~ October 2018 | April 2016~ April 2019 | April 2016~ April 2019 |
| Hedge ratio (Note 1) | 1 | 1 | 1 | 1 |
| Change in intrinsic value of outstanding hedging instrument | — | (44) | (611) | (5) |
| Change in value of hedge item used to determine hedge effectiveness | — | 44 | 611 | 5 |

Notes: 1. Since the Group is engaged in the foreign exchange contracts in the same currency as the purchase transaction of contents to occur in the future with a high possibility, hedge ratio of foreign exchange contracts is one-to-one.
2. The Group have not recorded non-effective portion of the hedge.

Derivatives not designated as hedges

| | Millions of yen | | | | | | Millions of U.S. dollars | |
|---|---|---|---|---|---|---|---|---|
| | As of date of transition to IFRSs (April 1, 2014) | | 2015 | | 2016 | | 2016 | |
| As of March 31 | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value |
| Forward foreign exchange contracts | | | | | | | | |
| Assets | | | | | | | | |
| Within one year | ¥ — | ¥— | ¥4,975 | ¥18 | ¥ — | ¥ — | $ — | $— |
| Over one year | — | | — | | — | | — | |
| Total | ¥ — | ¥— | ¥4,975 | ¥18 | ¥ — | ¥ — | $ — | $— |
| Liabilities | | | | | | | | |
| Within one year | ¥1,686 | ¥ 4 | ¥ — | ¥ — | ¥2,766 | ¥152 | $25 | $ 1 |
| Over one year | 515 | | — | | — | | | |
| Total | ¥2,200 | ¥ 4 | ¥ — | ¥ — | ¥2,766 | ¥152 | $25 | $ 1 |

(b) Interest rate risk

Interest rate risk is defined as the risk that market interest rate fluctuation results in changes in fair value of financial instruments or future cash flows arising from financial instruments. Interest rate risk exposure of the Group mainly relates to payables such as borrowings or bonds, and receivables such as interest-bearing deposits. As amount of interest is influenced by market interest rate fluctuation, the Group is exposed to interest rate risk resulting from changes in future cash flows of interest.

The Group finances funds through bond issuance at fixed interest rate in order to avoid future interest payment increase, primarily resulting from rising interest rate.

Certain subsidiaries stabilize their cash flows by using interest rate swap transactions to minimize interest rate risk on borrowings.

*(i) Sensitivity analysis of interest rate*

Sensitivity analysis of the impact of the 1% increase of interest rate at the end of each fiscal year against profit before tax of the Group is as follows. This analysis is on presumption that all other variables (balance, exchange rate etc.) are held constant.

| For the year ended March 31 | Millions of yen: 2015 | 2016 | Millions of U.S. dollars: 2016 |
|---|---|---|---|
| Profit before tax | ¥(201) | ¥(0) | $(0) |

Amounts shown in parentheses represent negative impact against profit of the Group.

*(ii) Derivatives (interest swap contracts)*

In interest swap contracts, the Group enters into agreements to exchange the differences between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. Using these contracts, the Group minimizes its risk of cash flows fluctuation arising from floating rate borrowings

Derivatives designated as hedges

| | Millions of yen | | | | | | Millions of U.S. dollars | |
|---|---|---|---|---|---|---|---|---|
| | As of date of transition to IFRSs (April 1, 2014) | | 2015 | | 2016 | | 2016 | |
| As of March 31 | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value | Contractual amount | Fair value |
| Interest rate swap contracts | | | | | | | | |
| Asset | | | | | | | | |
| Within one year | ¥10,000 | ¥23 | ¥ — | ¥2,659 | ¥ — | ¥9,080 | $ — | $81 |
| Over one year | — | | 330,000 | | 330,000 | | 2,929 | |
| Total | ¥10,000 | ¥23 | ¥330,000 | ¥2,659 | ¥330,000 | ¥9,080 | $2,929 | $81 |

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Carrying amount | ¥ (23) | ¥ (2,659) | ¥ (9,080) | $ (81) |
| Contractual amount | 10,000 | 330,000 | 330,000 | 2,929 |
| Maturity dare | April 2014 | December 2018~ December 2025 | December 2018~ December 2025 | December 2018~ December 2025 |
| Hedge ratio (Note 1) | 1 | 1 | 1 | 1 |
| Change in intrinsic value of outstanding hedging instrument | — | (2,636) | (6,421) | (57) |
| Change in value of hedge item used to determine hedge effectiveness | — | — | — | — |

Notes: 1. Since the Group runs the borrowing (hedged item) and interest rate swap transaction (hedging instrument) in the same amount, hedge ratio of interest rate swap transaction is one-to-one.
2. The Group does not record non-effective portion of the hedge.

(c) Price risk management of equity instruments

Price risk of equity instruments is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to such price risk as it holds equity instruments.

To manage price risk arising from those equity instruments, the corporate finance and accounting department documents policies of investment in the equity instruments and the entire Group complies with those policies. For material investments, it is obliged to report to and obtain approval from the Board of Directors in a timely manner. To manage those equity instruments, the Group continuously reviews its holdings through monitoring market value and financial condition of the issuer (counterparty) taking into account the market condition and the relationship with the counterparty.

*(i) Sensitivity analysis of price of equity instruments*

Sensitivity analysis of the impact of the 10% decrease of price of equity instruments at the end of each fiscal year against other comprehensive income of the Group (before tax effect) is as follows:

This analysis is on presumption that all other variables (balance, exchange rate etc.) are held constant.

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Accumulated other comprehensive income (before tax effect) | ¥(2,470) | ¥(1,924) | $(17) |

Amounts shown in parentheses represent negative impact against other comprehensive income of the Group.

**(2) Capital management**

The Group seeks to realize sustainable medium- and long-term growth and maximize its corporate value. To achieve those objectives, the Group's basic policy for equity risk management is to maintain adequate equity structure while monitoring capital cost, along with maintaining current fund-raising capability and ensuring financial soundness. Major performance benchmarks used by the Group to manage its equity are Ratio of equity attributable to owners of the parent and debt / equity ratio ("D/E ratio").

Ratio of equity attributable to owners of the parent and D/E ratio at the end of each fiscal year are as follows:

| As of March 31 | Unit | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 |
|---|---|---|---|---|
| Ratio of equity attributable to owners of the parent (Note 1) | % | 52.0 | 54.5 | 57.0 |
| D/E ratio (debt/equity ratio) (Note 2) | ratio | 0.47 | 0.38 | 0.37 |

Notes: 1. Ratio of equity attributable to owners of the parent: Equity attributable to owners of the parent/Total assets ×100
2. D/E ratio (debt/equity ratio): Interest bearing debt/Equity attributable to owners of the parent
As of March 31, 2016, there is no material capital controls applicable to the Group (excluding general rules such as the Companies Act etc.).

### (3) Classification of financial assets and financial liabilities

Classification of financial assets and financial liabilities of the Group is as follows:

As of date of transition to IFRSs (April 1, 2014)

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial assets: | | | | |
| Non-current assets: | | | | |
| Other long-term financial assets | ¥ 42,432 | ¥91,999 | ¥463 | ¥ 134,893 |
| Current assets: | | | | |
| Trade and other receivables | 1,127,209 | — | — | 1,127,209 |
| Other short-term financial assets | 10,663 | — | 405 | 11,069 |
| Cash and cash equivalents | 249,732 | — | — | 249,732 |
| Total | ¥1,430,036 | ¥91,999 | ¥869 | ¥1,522,903 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial liabilities: | | | | |
| Non-current liabilities: | | | | |
| Borrowings and bonds payable | ¥ 779,454 | ¥— | ¥— | ¥ 779,454 |
| Other long-term financial liabilities | 131,138 | — | — | 131,138 |
| Current liabilities: | | | | |
| Borrowings and bonds payable | 370,349 | — | — | 370,349 |
| Trade and other payables | 494,605 | — | — | 494,605 |
| Other short-term financial liabilities | 18,679 | — | 27 | 18,706 |
| Total | ¥1,794,226 | ¥— | ¥27 | ¥1,794,253 |

As of March 31, 2015

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial assets: | | | | |
| Non-current assets: | | | | |
| Other long-term financial assets | ¥ 45,639 | ¥51,544 | ¥641 | ¥ 97,824 |
| Current assets: | | | | |
| Trade and other receivables | 1,231,095 | — | — | 1,231,095 |
| Other short-term financial assets | 8,821 | — | 202 | 9,023 |
| Cash and cash equivalents | 276,317 | — | — | 276,317 |
| Total | ¥1,561,873 | ¥51,544 | ¥843 | ¥1,614,259 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial liabilities: | | | | |
| Non-current liabilities: | | | | |
| Borrowings and bonds payable | ¥ 846,701 | ¥— | ¥ — | ¥ 846,701 |
| Other long-term financial liabilities | 145,709 | — | 2,659 | 148,367 |
| Current liabilities: | | | | |
| Borrowings and bonds payable | 149,760 | — | — | 149,760 |
| Trade and other payables | 535,489 | — | — | 535,489 |
| Other short-term financial liabilities | 20,698 | — | 0 | 20,698 |
| Total | ¥1,698,357 | ¥— | ¥2,659 | ¥1,701,016 |

As of March 31, 2016

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial assets: | | | | |
| Non-current assets: | | | | |
| Other long-term financial assets | ¥ 69,125 | ¥43,503 | ¥181 | ¥ 112,809 |
| Current assets: | | | | |
| Trade and other receivables | 1,357,820 | — | — | 1,357,820 |
| Other short-term financial assets | 14,912 | — | 54 | 14,966 |
| Cash and cash equivalents | 192,200 | — | — | 192,200 |
| Total | ¥1,634,057 | ¥43,503 | ¥235 | ¥1,677,795 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial liabilities: | | | | |
| Non-current liabilities: | | | | |
| Borrowings and bonds payable | ¥ 956,800 | ¥— | ¥ — | ¥ 956,800 |
| Other long-term financial liabilities | 165,698 | — | 9,093 | 174,791 |
| Current liabilities: | | | | |
| Borrowings and bonds payable | 96,836 | — | — | 96,836 |
| Trade and other payables | 426,172 | — | — | 426,172 |
| Other short-term financial liabilities | 24,875 | — | 162 | 25,037 |
| Total | ¥1,670,381 | ¥— | ¥9,254 | ¥1,679,635 |

As of March 31, 2016

| | Millions of U.S. dollars | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial assets: | | | | |
| Non-current assets: | | | | |
| Other long-term financial assets | $ 613 | $386 | $ 2 | $ 1,001 |
| Current assets: | | | | |
| Trade and other receivables | 12,050 | — | — | 12,050 |
| Other short-term financial assets | 132 | — | 0 | 133 |
| Cash and cash equivalents | 1,706 | — | — | 1,706 |
| Total | $14,502 | $386 | $ 2 | $14,890 |

| | Millions of U.S. dollars | | | |
|---|---|---|---|---|
| | Carrying amount | | | |
| | Financial assets at amortized cost | Financial assets at fair value through other comprehensive income | Financial assets at fair value through profit or loss | Total |
| Financial liabilities: | | | | |
| Non-current liabilities: | | | | |
| Borrowings and bonds payable | $ 8,491 | $— | $ — | $ 8,491 |
| Other long-term financial liabilities | 1,471 | — | 81 | 1,551 |
| Current liabilities: | | | | |
| Borrowings and bonds payable | 859 | — | — | 859 |
| Trade and other payables | 3,782 | — | — | 3,782 |
| Other short-term financial liabilities | 221 | — | 1 | 222 |
| Total | $14,824 | $— | $82 | $14,906 |

#### (4) Financial assets at fair value through other comprehensive income

The Group owns the equity instruments above as investment to maintain and strengthen the business relationship with investees, and therefore classifies them as financial assets at fair value through other comprehensive income.

##### i. The analysis and fair value by description of financial assets at fair value through other comprehensive income

The analysis and dividends received related to financial assets at fair value through other comprehensive income are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Fair value | | | | |
| Listed equities | ¥71,384 | ¥24,699 | ¥19,243 | $171 |
| Unlisted equities | 20,615 | 26,845 | 24,260 | 215 |
| Total | ¥91,999 | ¥51,544 | ¥43,503 | $386 |

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Dividends received | | | |
| Listed equities | ¥1,607 | ¥ 209 | $ 2 |
| Unlisted equities | 179 | 1,167 | 10 |
| Total | ¥1,786 | ¥1,376 | $12 |

Major description of investments in financial assets at fair value through other comprehensive income is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Listed equities | | | | |
| COLOPLA, Inc. | ¥13,795 | ¥ 6,680 | ¥ 6,128 | $ 54 |
| GREE, Inc. | 13,831 | 6,607 | 4,944 | 44 |
| Japan Airport Terminal Co. Ltd. | 1,633 | 4,434 | 2,436 | 22 |
| PIA Corporation | 1,209 | 2,321 | 2,018 | 18 |
| Internet Initiative Japan Inc. | 1,046 | 836 | 971 | 9 |
| Immarsat plc | 27,056 | — | — | — |
| Other | 12,814 | 3,821 | 2,746 | 24 |
| Sub total | 71,384 | 24,699 | 19,243 | 171 |
| Unlisted equities | | | | |
| COMMUNITY NETWORK CENTER INCORPORATED | 6,575 | 5,369 | 5,629 | 50 |
| A-Fund, L.P. | 1,875 | 5,674 | 5,578 | 50 |
| Other | 12,165 | 15,802 | 13,054 | 116 |
| Sub total | 20,615 | 26,845 | 24,260 | 215 |
| Total | ¥91,999 | ¥51,544 | ¥43,503 | $386 |

##### ii. Financial assets at fair value through other comprehensive income disposed during the period

The Group sells its financial assets at fair value through other comprehensive income as a result of periodic review of portfolio and for the management of risk assets. Fair value at the disposal date, accumulated gains / losses arising from sale and dividends received are as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Fair value at the disposal date | ¥53,361 | ¥509 | $ 5 |
| Accumulated gains/losses arising from sale | 51,588 | (139) | (1) |
| Dividends received | 1,532 | 0 | 0 |

##### iii. Reclassification to retained earnings

The Group reclassifies accumulated gains or losses arising from changes in the fair value of financial assets at fair value through other comprehensive income into retained earnings, when it disposes the investments, etc. Accumulated gains or losses, net of tax, reclassified from other comprehensive income into retained earnings are ¥33,266 million and ¥1,437 million (U.S.$13 million), respectively, for the years ended March 31, 2015 and 2016.

## 32. Fair Value of Financial Instruments

The financial instruments that are measured at fair value are classified into 3 levels of fair value hierarchy according to the observability and significance of the inputs used for measurement. The levels of the fair value hierarchy are defined as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The Group determines the hierarchy of the levels on the basis of the lowest level input that is significant to the fair value measurement.

**(1) The fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis**

**i. The hierarchy of the fair value**

The following table presents the classification by fair value hierarchy of the financial assets and financial liabilities recognized at fair value on the consolidated statement of financial position.

As of date of transition to IFRSs (April 1, 2014)

| | Millions of yen | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Financial assets: | | | | |
| Other financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equities | ¥71,384 | ¥ — | ¥20,615 | ¥91,999 |
| Financial assets at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 869 | — | 869 |
| Financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 4 | — | 4 |
| Interest rate swaps | — | 23 | — | 23 |

As of March 31, 2015

| | Millions of yen | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Financial assets: | | | | |
| Other financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equities | ¥24,699 | ¥ — | ¥26,845 | ¥51,544 |
| Financial assets at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 843 | — | 843 |
| Financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 0 | — | 0 |
| Interest rate swaps | — | 2,659 | — | 2,659 |

As of March 31, 2016

| | Millions of yen | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Financial assets: | | | | |
| Other financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equities | ¥19,243 | ¥— | ¥24,260 | ¥43,503 |
| Financial assets at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 235 | — | 235 |
| Interest rate swaps | — | 0 | — | 0 |
| Financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 174 | — | 174 |
| Interest rate swaps | — | 9,080 | — | 9,080 |

As of March 31, 2016

| | Millions of U.S. dollars | | | |
|---|---|---|---|---|
| | Level1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Financial assets: | | | | |
| Other financial assets | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equities | $219 | $— | $215 | $386 |
| Financial assets at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 2 | — | 2 |
| Interest rate swaps | — | 0 | — | 0 |
| Financial liabilities: | | | | |
| Other financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Derivatives | | | | |
| Exchange contracts | — | 2 | — | 2 |
| Interest rate swaps | — | 81 | — | 81 |

Any significant transfers of the financial instruments between levels are evaluated at each period end. There was no significant transfer of the financial instruments between levels for the years ended March 31, 2015 and 2016.

**ii. Measurement method of the fair value of financial assets and financial liabilities**

(a) Equities

Listed equities are based on the prices on exchange and within level 1 of fair value hierarchy.

Unlisted equities are calculated by the valuation technique based on the discounted future cash flows, valuation technique based on the market prices of the comparative companies, valuation technique based on the net asset value and other valuation techniques, and are within the level 3 of fair value hierarchy. Unobservable input such as discount rates and valuation multiples are used for fair value measurements of unlisted equities, adjusted for certain illiquidity discounts and non-controlling interest discounts, if necessary.

(b) Derivatives

*(i) Exchange contracts*

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the end of each fiscal year, with the resulting value discounted back to present value. The financial assets and financial liabilities related to exchange contracts are classified as level 2 of fair value hierarchy.

*(ii) Interest rate swaps*

Interest rate swaps are calculated by the present value of the future cash flows discounted using the interest rate adjusted for the remaining period until maturity and credit risk. The financial assets and financial liabilities related to interest rate swaps are classified as the level 2 of fair value hierarchy.

**iii. Reconciliation of level 3**

The following table presents the movement of financial instruments within level 3 for the year ended March, 31, 2015.

| | Millions of yen |
|---|---|
| | Financial assets at fair value through other comprehensive income |
| As of April 1, 2014 | ¥20,615 |
| Acquisition | 2,892 |
| Gain recognized on other comprehensive income | 4,006 |
| Sale | (240) |
| Other | (427) |
| As of March 31, 2015 | ¥26,845 |

The following table presents the movement of financial instruments within level 3 for the year ended March, 31, 2016.

| | Millions of yen |
|---|---|
| | Financial assets at fair value through other comprehensive income |
| As of April 1, 2015 | ¥26,845 |
| Acquisition | 1,691 |
| Gain recognized on other comprehensive income | (3,085) |
| Sale | (90) |
| Other | (1,101) |
| As of March 31, 2016 | ¥24,260 |

| | Millions of U.S. dollars |
|---|---|
| | Financial assets at fair value through other comprehensive income |
| As of April 1, 2015 | $238 |
| Acquisition | 15 |
| Gain recognized on other comprehensive income | (27) |
| Sale | (1) |
| Other | (10) |
| As of March 31, 2016 | $215 |

**iv. Evaluation process of level 3**

Fair value measurements of unlisted equities are performed by a management department independent from sales departments in accordance with the prescribed rules. Fair value measurements including fair value models are examined for the adequacy by periodically evaluating the business descriptions and the availability of business plans of the companies issuing the equities, as well as comparative listed companies.

**v. Quantitative information related to assets classified as level 3**

Information related to evaluation technique and significant unobservable inputs of assets measured at fair value on a recurring basis classified as level 3 is as follows:

As of date of transition to IFRSs (April 1, 2014)

| | Fair value (Millions of yen) | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Equities | ¥20,615 | Income approach | Discount rate | 5.2% |

As of March 31, 2015

| | Fair value (Millions of yen) | Valuation technique | Unobservable inputs | Range |
|---|---|---|---|---|
| Equities | ¥26,845 | Income approach | Discount rate | 5.3% |

As of March 31, 2016

| | Fair value | | | | |
|---|---|---|---|---|---|
| | Millions of yen | Millions of U.S. dollars | Valuation technique | Unobservable inputs | Range |
| Equities | ¥24,260 | $215 | Income approach | Discount rate | 4.7% |

**vi. Sensitivity analysis related to the changes in significant unobservable inputs**

For financial instruments classified as level 3, no significant changes in fair value are expected to occur as a result of changing unobservable inputs to other alternative assumptions that are considered reasonable.

**(2) The fair value of financial assets and financial liabilities that are not measured at fair value but disclosed on the fair value**

**i. The hierarchy of the fair value**

The following are the fair value of financial assets and financial liabilities that are not measured at fair value but disclosed on the fair value. The financial assets and financial liabilities that are measured at amortized cost are included.

As of date of transition to IFRSs (April 1, 2014)

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | |
| | | Level1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Other financial assets | | | | | |
| Government bonds | ¥ 3,004 | ¥ 3,180 | ¥ — | ¥— | ¥ 3,180 |
| Financial liabilities | | | | | |
| Borrowing and bonds payable | | | | | |
| Borrowings | 755,018 | — | 761,544 | — | 761,544 |
| Bonds payables | 299,530 | 300,159 | 10,032 | — | 310,191 |
| Other financial liabilities | | | | | |
| Lease payments | 51,999 | — | 53,142 | — | 53,142 |
| Preference share | 95,000 | — | 96,620 | — | 96,620 |

Notes: 1. Borrowings, bonds payable and lease payments in the table above contain their current portion.
2. Short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are similar to the carrying amounts.

As of March 31, 2015

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | |
| | | Level1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Other financial assets | | | | | |
| Government bonds | ¥ 3,003 | ¥ 3,164 | ¥ — | ¥— | ¥ 3,164 |
| Financial liabilities | | | | | |
| Borrowing and bonds payable | | | | | |
| Borrowings | 758,799 | — | 762,531 | — | 762,531 |
| Bonds payables | 234,523 | 244,319 | — | — | 244,319 |
| Other financial liabilities | | | | | |
| Lease payments | 62,655 | — | 64,242 | — | 64,242 |
| Preference share | 95,000 | — | 98,640 | — | 98,640 |

Notes: 1. Borrowings, bonds payable and lease payments in the table above contain their current portion.
2. Short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are similar to the carrying amounts.

As of March 31, 2016

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | |
| | | Level1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Other financial assets | | | | | |
| Government bonds | ¥ 3,003 | ¥ 3,168 | ¥ — | ¥ — | ¥ 3,168 |
| Lease receivables | 30,606 | — | — | 28,868 | 28,868 |
| Financial liabilities | | | | | |
| Borrowing and bonds payable | | | | | |
| Borrowings | 816,917 | — | 824,665 | — | 824,665 |
| Bonds payables | 214,613 | 223,717 | — | — | 223,717 |
| Other financial liabilities | | | | | |
| Lease payments | 86,652 | — | 88,760 | — | 88,760 |
| Preference share | 95,000 | — | 100,759 | — | 100,759 |

| | Millions of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Carrying amount | Fair value | | | |
| | | Level1 | Level 2 | Level 3 | Total |
| Financial assets | | | | | |
| Other financial assets | | | | | |
| Government bonds | $ 27 | $ 28 | $ — | $ — | $ 28 |
| Lease receivables | 272 | — | — | 256 | 256 |
| Financial liabilities | | | | | |
| Borrowing and bonds payable | | | | | |
| Borrowings | 7,250 | — | 7,319 | — | 7,319 |
| Bonds payables | 1,905 | 1,985 | — | — | 1,985 |
| Other financial liabilities | | | | | |
| Lease payments | 769 | — | 788 | — | 788 |
| Preference share | 843 | — | 894 | — | 894 |

Notes: 1. Borrowings, bonds payable and lease payments in the table above contain their current portion.
2. Short-term financial assets and short-term financial liabilities are not included in the table above because their fair values are similar to the carrying amounts.

**ii. Measurement method of the fair value of financial assets and financial liabilities**

(a) Government bonds
The fair value of government bonds is estimated based on quoted price. Government bonds are classified as level 1 of fair value hierarchy.

(b) Lease receivables
Fair value of lease receivables is measured at the present value of total expected lease receivables, discounted by the rate of interest to be used when the lessor newly contracts a similar lease transaction. Inputs of lease receivables are not based on observable market data. Therefore, the levels of the fair value hierarchy are classified as level 3. The discount rate is 8.1% as of March 31, 2016.

(c) Borrowings
For borrowings with variable interest rates, the carrying amount is used as fair value, as the rates reflect the market interest rate within a short term and there is no significant change expected in the Group entities' credit conditions after financing. For borrowings with fixed interest rates, fair value is estimated by discounting the total of principal and interest using the current interest rate adjusted for the remaining maturity period of the borrowings and credit risk. Borrowings are classified as level 2 of fair value hierarchy.

(d) Bonds payables
For bonds payable with quoted price, the fair value is estimated based on quoted price. For bonds payable without quoted price, the fair value is calculated by the present value of future cash flows discounted using the interest rate adjusted for the remaining maturity period and credit risk. Bonds payables with quoted price are classified as level 1 of fair value hierarchy and bonds payables without quoted price are classified as level 2 of fair value hierarchy.

(e) Lease payments
The fair value of lease obligations is estimated by the future cash flows discounted using the interest rate of a borrowing with the identical remaining maturity period and conditions. Lease payments are classified as level 2 of fair value hierarchy.

(f) Preference share
Under IFRS, a certain type of preference share is treated as financial liabilities because the Group has an obligation to deliver cash to holders of preference share. The fair value of the preference share is calculated by the present value of future cash flows discounted using the interest rate adjusted for the remaining maturity period and credit risk. Preferred stock is classified as level 2 of fair value hierarchy.

## 33. Commitments

**(1) Purchase commitments**

As of April 1, 2014 (the date of transition to IFRSs), March 31, 2015 and March 31, 2016, commitments to purchase property, plant and equipment, intangible assets, inventories and services amounted to ¥486,907 million, ¥536,942 million and ¥546,839 million (U.S.$4,853 million), respectively. Those commitments consist of outstanding commitments mainly related to purchase of communication equipment and mobile handsets. The amount of purchase commitments above does not represent all purchase commitments expected in the future.

**(2) Lease commitments**

The Group enters into lease contracts for property, plant and equipment in the ordinary course of business. Gross minimum lease payments under non-cancellable lease contracts are set out in "Note 36. Lease."

## 34. Earnings per Share

**(1) Basic earnings per share**

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

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit for the year attributable to owners of the parent | ¥ 395,805 | ¥ 494,465 | $4,388 |
| Number of weighted average common stocks outstanding (Thousands of shares) | 2,504,936 | 2,502,821 | — |
| Basic earnings per share (Yen and U.S. dollar) | 158.01 | 197.56 | 1.75 |

### (2) Diluted earnings per share

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

| For the year ended March 31 | Millions of yen 2015 | Millions of yen 2016 | Millions of U.S. dollars 2016 |
|---|---|---|---|
| Profit for the year attributable to owners of the parent | ¥395,805 | ¥494,465 | $4,388 |
| Adjustment of profit | — | — | — |
| Profit used in calculation of diluted earnings per share | 395,805 | 494,465 | 4,388 |

| For the year ended March 31 | Thousands of shares 2015 | Thousands of shares 2016 |
|---|---|---|
| Number of weighted average common stocks outstanding | 2,504,936 | 2,502,821 |
| Effect of dilutive potential common stocks | | |
| BIP trust and ESOP trust | — | 268 |
| Number of weighted average common stocks during the year | 2,504,936 | 2,503,089 |

| For the year ended March 31 | Yen 2015 | Yen 2016 | U.S. dollar 2016 |
|---|---|---|---|
| Diluted earnings per share | ¥158.01 | ¥197.54 | $1.75 |

Notes: 1. The Company conducted a 1:3 stock split on common stock with the effective date of April 1, 2015.
As a result, the basic earnings per share and the diluted earnings per share have been calculated as if the stock split was conducted at the beginning of the previous fiscal year.
2. In the calculation of basic earnings per share and diluted earnings per share, the Company's stocks owned by the executive compensation BIP trust and a stock-granting ESOP trust are included in treasury stock. Therefore, the number of those stocks is deducted in calculating the number of common stocks outstanding at the end of the year and weighted average common stocks outstanding during the year.

## 35. Contingent Liabilities

Guarantees

| As of March 31 | Millions of yen: As of date of transition to IFRSs (April 1, 2014) | Millions of yen: 2015 | 2016 |
|---|---|---|---|
| Guarantee for foreign exchange contracts | | | |
| Discovery Japan, Inc. | ¥3,689 | ¥ — | $ — |
| (of which, denominated in foreign currencies) | (U.S.$47 million) | (—) | (—) |
| Contingent liabilities for cable system supply contract | 5,146 | 6,009 | 5,634 |
| (of which, denominated in foreign currencies) | (U.S.$50 million) | (U.S.$50 million) | (U.S.$50 million) |
| Total | ¥8,835 | ¥6,009 | $5,634 |

## 36. Lease

### (1) Lease as a lessee

#### i. Finance lease

Finance lease of the Group mainly relates to in-home customer premises equipment for CATV and communication.

(a) Future gross minimum lease payments

Future gross minimum lease payments of the leased assets recognized based on finance lease contracts, their present value and future finance costs by due date are as follows:

| | Future gross minimum lease payments | | | | Present value of future gross minimum lease payments | | | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | Millions of U.S. dollars | Millions of yen | | | Millions of U.S. dollars |
| | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 | As of March 31, 2016 | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 | As of March 31, 2016 |
| Within one year | ¥19,777 | ¥21,701 | ¥26,296 | $233 | ¥18,679 | ¥20,698 | ¥24,875 | $221 |
| Over one year to five years | 32,724 | 39,953 | 60,263 | 535 | 31,050 | 38,408 | 57,905 | 514 |
| Over five years | 2,402 | 3,650 | 3,949 | 35 | 2,270 | 3,548 | 3,871 | 34 |
| Total | ¥54,903 | ¥65,305 | ¥90,508 | $803 | ¥51,999 | ¥62,655 | ¥86,652 | $769 |
| Less: Future finance cost (Note) | ¥ 2,904 | ¥ 2,650 | ¥ 3,856 | $ 34 | | | | |
| Present value of lease obligation | 51,999 | 62,655 | 86,652 | 769 | | | | |

Note: Difference between future gross minimum lease payments and their present value represents interest portion of the finance lease.

(b) Details of the lease contracts

Some of the Group's lease contracts contain terms of renewal or purchase options. However, the Group does not have any lease contracts that contain sublease contracts or contingent rents and escalation clauses, provision in a contract for increasing the contracted price, and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Fair values of the Group's lease obligations are set out in "Note 32. Fair value of financial instruments."

**ii. Operating lease**

Operating lease of the Group mainly relates to lease of land and buildings for base station.

(a) Gross minimum lease payments and contingent rent

For the years ended March 31, 2015 and 2016, gross minimum lease payments and contingent rents of cancellable or non-cancellable operating leases recognized as expenses are as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Gross minimum lease payments | ¥118,142 | ¥122,869 | $1,090 |
| Contingent rents | — | 13 | 0 |
| Total | ¥118,142 | ¥122,882 | $1,091 |

Lease payments are included in “Costs of sales” or “Selling, general and administrative expenses” in the consolidated statement of income.

(b) Future gross minimum lease payments under non-cancellable operating lease

At the end of each fiscal year, analysis of future gross minimum lease payments under non-cancellable operating leases of the Group by due date is as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Within one year | ¥ 7,329 | ¥15,095 | ¥16,221 | $144 |
| Over one year to five years | 16,735 | 27,750 | 21,755 | 193 |
| Over five years | 2,482 | 7,290 | 8,903 | 79 |
| Total | ¥26,546 | ¥50,135 | ¥46,879 | $416 |

(c) Details of the lease contracts

Some of the lease contracts contain terms of renewal. However, the Group does not have any lease contracts that contain purchase option, sublease contracts, escalation clauses (provision in a contract for increasing the contracted price) and restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

**(2) Lease as a lessor**

**i. Finance lease**

The Group leases communication equipment and other classified as finance lease under contracts.

Future gross minimum lease payments receivable

Future gross lease payments receivable under the finance leases held by the Group and their present value and future finance income are as follows:

| | Future gross minimum lease payments | | | | Present value of future gross minimum lease payments | | | |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | Millions of U.S. dollars | Millions of yen | | | Millions of U.S. dollars |
| | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 | As of March 31, 2016 | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 | As of March 31, 2016 |
| Within one year | ¥— | ¥1,300 | ¥ 7,436 | $ 66 | ¥— | ¥ 957 | ¥ 5,609 | $ 50 |
| Over one year to five years | — | 4,627 | 26,298 | 233 | — | 3,828 | 22,338 | 198 |
| Over five years | — | 1,008 | 2,817 | 25 | — | 952 | 2,659 | 24 |
| Total | ¥— | ¥6,935 | ¥36,552 | $324 | ¥— | ¥5,737 | ¥30,606 | $272 |
| Less: Future finance income | ¥— | ¥1,198 | ¥ 5,946 | $ 53 | | | | |
| Net investment in the lease | — | 5,737 | 30,606 | 272 | | | | |
| Less: Present value of unguaranteed residual value | — | — | — | — | | | | |
| Present value of lease obligation | — | 5,737 | 30,606 | 272 | | | | |

## 37. Non-cash Transactions

For the years ended March 31, 2015 and 2016, non-cash transactions, i.e. financial transactions that do not require the use of cash and cash equivalents, comprise acquisition of property, plant and equipment resulted from new finance leases of ¥31,260 million and ¥46,744 million (U.S.$415 million), respectively.

## 38. Major Subsidiaries

### (1) Organizational structure

Major subsidiaries of the Group are as follows. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

| Company name | Segment | Location | Key business | The proportion of voting rights (%) As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 | As of March 31, 2016 |
|---|---|---|---|---|---|---|
| Okinawa Cellular Telephone Company | Personal Services | Naha-shi, Okinawa | Telecommunications services (au mobile phone services) | 51.5 | 51.5 | 51.5 |
| Okinawa Telecommunication Network Co., Inc. | Personal Services | Naha-shi, Okinawa | Telecommunications services under Telecommunications Business Act | 53.7 (50.6) | 53.8 (50.7) | 53.8 (50.7) |
| Jupiter Telecommunications Co., Ltd. (Note 1) | Personal Services | Chiyoda-ku, Tokyo | Management of CATV operators and broadcasting service providers | 50.0 | 50.0 | 50.0 |
| J:COM West Co., Ltd. | Personal Services | Chuo-ku, Osaka | Management of CATV (broadcasting and telecommunication business) | 92.6 (92.6) | 92.6 (92.6) | 92.6 (92.6) |
| J:COM East Co., Ltd. | Personal Services | Chiyoda-ku, Tokyo | Management of CATV (broadcasting and telecommunication business) | 100.0 (100.0) | 100.0 (100.0) | 100.0 (100.0) |
| UQ Communications Inc. (Note 2) | Personal Services | Minato-ku, Tokyo | Wireless broadband services | 32.3 | 32.3 | 32.3 |
| Chubu Telecommunications Co., Inc. | Personal Services Business Services | Naka-ku, Nagoya-shi, Aichi | Telecommunications services under Telecommunications Business Act | 80.5 | 80.5 | 80.5 |
| KDDI financial Service Corporation | Value Services | Minato-ku, Tokyo | Credit card services and payment agency services | — | 90.0 | 90.0 |
| Syn.Holdings, Inc | Value Services | Minato-ku, Tokyo | Holding company of internet service companies | — | 100.0 | 91.1 |
| Jupiter Shop Channel Co., Ltd. | Value Services | Chuo-ku, Tokyo | Mail order services | — | — | 55.0 (50.0) |
| KDDI Matomete Office Corporation | Business Services | Shibuya-ku, Tokyo | IT support services for small and medium-sized companies | 95.0 | 95.0 | 95.0 |
| KDDI Engineering Corporation | Other | Shibuya-ku, Tokyo | Construction, maintenance and operation support for communication equipment | 100.0 | 100.0 | 100.0 |
| KDDI Evolva Inc | Other | Shinjuku-ku, Tokyo | Call center, temporary personnel services | 100.0 | 100.0 | 100.0 |
| Wire and Wireless Co., Ltd. | Personal Services | Chuo-ku, Tokyo | Wireless broadband services | 95.2 | 95.2 | 95.2 |
| WebMoney Corporation | Value Services | Minato-ku, Tokyo | Issuance and sales of server based e-money | 100.0 | 100.0 | 100.0 |
| mediba Inc. | Value Services | Shibuya-ku, Tokyo | Planning, production and sales of advertisements for mobile internet | 51.0 | 51.0 | 51.0 |
| Kokusai Cable Ship Co.,Ltd. | Other | Kawasaki-shi, Kanagawa | Construction and maintenance of submarine cable | 100.0 | 100.0 | 100.0 |
| KDDI R&D Laboratories, Inc. | Other | Fujimino-shi, Saitama | Technology research and product development related to telecommunication services | 91.7 | 91.7 | 91.7 |
| Japan Telecommunication Engineering Service Co., Ltd. | Other | Shinjuku-ku, Tokyo | Design, construction, operation support and maintenance for communication equipment | 74.3 | 74.3 | 74.3 |
| Japan Internet Exchange Co., Ltd. | Business Services | Chiyoda-ku, Tokyo | Exchange port providing services for internet service providers | 50.7 | 52.1 | 56.8 |
| KDDI America, Inc. | Global Services | New York, NY, U.S.A. | Diversified Telecommunications services in US | 100.0 | 100.0 | 100.0 |
| KDDI Europe Limited | Global Services | London, U.K. | Diversified Telecommunications services in Europe | 100.0 (4.2) | 100.0 (4.2) | 100.0 (4.2) |
| KDDI Singapore Pte Ltd. | Global Services | Singapore | Diversified Telecommunications services in Singapore | 100.0 | 100.0 | 100.0 |
| KDDI Summit Global Singapore Pte. Ltd. | Global Services | Singapore | Holding Company | — | 50.1 | 50.1 |
| KDDI Summit Global Myammar Co., Ltd. | Global Services | Yangon, Myanmar | Telecommunication business in collaboration with Myanmar Posts & Telecommunications (MPT) | — | 100.0 (100.0) | 100.0 (100.0) |
| KDDI China Corporation | Global Services | Beijing, China | Sales, maintenance and operation of communication equipment in China | 85.1 | 85.1 | 85.1 |
| CDNetworks Co., Ltd. | Global Services | Seoul, Korea | Contents delivery network services | 97.8 | 97.8 | 97.8 |
| KDDI Korea Corporation | Global Services | Seoul, Korea | Diversified Telecommunications services in Korea | 82.4 | 82.4 | 82.4 |
| TELEHOUSE International Corporation of America. | Global Services | New Castle, DE, U.S.A | Data center services in US | 70.8 (2.3) | 70.8 (2.3) | 70.8 (2.3) |
| TELEHOUSE Holdings Limited | Global Services | London, U.K. | Holding Company | 100.0 | 100.0 | 100.0 |
| TELEHOUSE International Corporation of Europe Ltd. | Global Services | London, U.K. | Data center services in Europe | 86.8 (86.8) | 92.8 (92.8) | 92.8 (92.8) |
| MobiCom Corporation LLC | Global Services | Ulaanbaatar, Mongolia | Diversified Telecommunications services in Mongolia | 30.0 (30.0) | 30.0 (30.0) | 63.9 (63.9) |

Numbers in parentheses represent indirect voting rights.

Notes: 1. The Group does not own majority of voting rights of Jupiter Telecommunications Co., Ltd. (“Jupiter Telecom”). However, the Group owns 50% of the voting rights of Jupiter Telecom and has the power to govern its financial and operating policies. Accordingly, Jupiter Telecom is controlled by the Group and included in the consolidated financial statements.

2. The Group does not own majority of voting rights of UQ Communications Inc. (“UQ”). However, UQ is consolidated by the Group because UQ is considered to be controlled by the Group on the grounds that the Group is the largest shareholder of UQ, and substantially controls UQ because the Group’s directors have the executive power in the UQ’s Board of Directors although they comprise only half of the board members (Note), and the operations of UQ are significantly dependent on the Company.

(Note) Since the fiscal year ended March 31, 2015, the Group’s directors became majority of the board members.

### (2) Financial statements of subsidiaries with material non-controlling interest for the Group

#### i. Jupiter Telecommunication Co Ltd. ("Jupiter telecom").

| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 |
|---|---|---|---|
| The proportion of ownership interests held by non-controlling interests | 50.0% | 50.0% | 50.0% |

The proportion of ownership interests by non-controlling interests held equals the voting rights by non-controlling interests.

Amounts before adjustments to internal transactions of the Group are as follows:

(a) Consolidated statements of financial position

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Current assets | ¥190,996 | ¥181,706 | ¥144,709 | $1,284 |
| Non-current assets | 730,362 | 737,020 | 884,550 | 7,850 |
| Current liabilities | 218,802 | 172,645 | 118,725 | 1,054 |
| Non-current liabilities | 522,976 | 521,412 | 667,628 | 5,925 |
| Total equity | ¥179,579 | 224,668 | 242,907 | 2,156 |

Amounts equivalent to the interests in total equity of Jupiter Telecom attributable to the Group, and the non-controlling interests are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Interests attributable to owners of the parent | ¥ 60,912 | ¥ 84,002 | ¥ 90,867 | $ 806 |
| Non-controlling interests | 118,667 | 140,666 | 152,040 | 1,349 |
| Total | ¥179,579 | ¥224,668 | ¥242,907 | $2,156 |

(b) Consolidated statements of income and comprehensive income

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Revenue | ¥516,413 | ¥560,577 | $4,975 |
| Profit for the year before income tax | 91,995 | 95,277 | 846 |
| Income taxes | 31,467 | 29,516 | 262 |
| Profit, net of tax | 60,528 | 65,761 | 584 |
| Other comprehensive income | (1,534) | (4,801) | (43) |
| Total comprehensive income | ¥ 58,994 | ¥ 60,961 | $ 541 |

Amounts equivalent to the profit for the year and comprehensive income attributable to the Group, and the non-controlling interests are as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit for the year attributable to owners of the parent | ¥29,812 | ¥33,979 | $302 |
| Profit for the year attributable to non-controlling interests | 30,716 | 31,783 | 282 |
| Sub total | 60,528 | 65,761 | 584 |
| Other comprehensive income attributable to owners of the parent | (717) | (2,436) | (22) |
| Other comprehensive income attributable to non-controlling interests | (817) | (2,365) | (21) |
| Sub total | (1,534) | (4,801) | (43) |
| Total comprehensive income attributable to owners of the parent | 29,095 | 31,543 | 280 |
| Total comprehensive income attributable to non-controlling interests | 29,899 | 29,418 | 261 |
| Total | ¥58,994 | ¥60,961 | $541 |

For the years ended March 31, 2015 and 2016, dividends paid by Jupiter Telecom to non-controlling interests were 5,117 million yen and 28,470 million yen, respectively.

(c) Consolidated Statement of cash flows

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Cash flows from operating activities (net) | ¥149,438 | ¥ 129,183 | $ 1,146 |
| Cash flows from investing activities (net) | (62,290) | (167,928) | (1,490) |
| Cash flows from financing activities (net) | (91,001) | (10,959) | (97) |
| Increase (decrease) of cash and cash equivalents | (3,868) | (49,722) | (441) |

### ii. UQ Communications

| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 |
|---|---|---|---|
| The proportion of ownership interests held by non-controlling interests | 67.7 | 67.7 | 67.7 |

The proportion of ownership interests by non-controlling interests held equals the voting rights by non-controlling interests.

Amounts before adjustments to internal transactions of the Group are as follows:

(a) Statements of financial position

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Current assets | ¥ 53,974 | ¥ 27,315 | ¥ 32,516 | $ 289 |
| Non-current assets | 93,112 | 174,140 | 204,431 | 1,814 |
| Current liabilities | 83,959 | 71,900 | 90,637 | 804 |
| Non-current liabilities | 154,803 | 218,757 | 196,816 | 1,747 |
| Total equity (Note) | ¥(91,677) | ¥ (89,202) | ¥ (50,505) | $ (448) |

Note: Under J-GAAP, preferred shares issued by UQ communications were accounted for as equity transactions. Under IFRSs, some of these preferred shares are accounted for as financial liabilities (non-current liabilities).
As a result, total equity of UQ became negative under IFRSs.

Amounts equivalent to the interests in total equity of UQ Communications attributable to the Group, and the non-controlling interests are as follows:

| | Millions of yen | | | Millions of U.S. dollars |
|---|---|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 | 2016 | 2016 |
| Interests attributable to owners of the parent | ¥(24,297) | ¥(17,409) | ¥ 5,846 | $ 52 |
| Non-controlling interests | (67,380) | (71,793) | (56,351) | (500) |
| Total | ¥(91,677) | ¥(89,202) | ¥(50,505) | $(448) |

(b) Statement of income and comprehensive income

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Revenue | ¥128,867 | ¥191,984 | $1,704 |
| Profit for the year before income tax | 2,839 | 43,838 | 389 |
| Income taxes | 65 | 4,841 | 43 |
| Profit, net of tax | 2,774 | 38,997 | 346 |
| Other comprehensive income | — | — | — |
| Total comprehensive income | ¥ 2,774 | ¥ 38,997 | $ 346 |

Amounts equivalent to the interests of net profit and comprehensive income attributable to the Group, and the non-controlling interests are as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Profit for the year attributable to owners of the parent | ¥ 895 | ¥13,069 | $116 |
| Profit for the year attributable to non-controlling interests | 1,879 | 25,928 | 230 |
| Sub total | 2,774 | 38,997 | 346 |
| Other comprehensive income attributable to owners of the parent | — | — | — |
| Other comprehensive income attributable to non-controlling interests | — | — | — |
| Sub total | — | — | — |
| Total comprehensive income attributable to owners of the parent | 895 | 13,069 | 116 |
| Total comprehensive income attributable to non-controlling interests | 1,879 | 25,928 | 230 |
| Total | ¥2,774 | ¥38,997 | $346 |

(c) Statement of cash flows

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Cash flows from operating activities (net) | ¥ 18,779 | ¥ 71,423 | $ 634 |
| Cash flows from investing activities (net) | (101,224) | (56,236) | (499) |
| Cash flows from financing activities (net) | 45,957 | (15,252) | (135) |
| Increase (decrease) of cash and cash equivalents | (36,487) | (65) | (1) |

## 39. Related Party Transactions

**(1) Related party transactions**

As of the date of transitions to IFRSs (April 1, 2014):

There are no significant related party balances to be disclosed, and the most common terms used by other entities include something like such transactions are negotiated in the ordinary course of business.

For the year ended March 31, 2015:

There are no significant related party transactions and balances to be disclosed, and the most common terms used by other entities include something like such transactions are negotiated in the ordinary course of business.

For the year ended March 31, 2016:

There are no significant related party transactions and balances to be disclosed, and the most common terms used by other entities include something like such transactions are negotiated in the ordinary course of business.

**(2) Remuneration of key management**

Remuneration of key management is as follows:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| For the year ended March 31 | 2015 | 2016 | 2016 |
| Short-term employee benefits | ¥564 | ¥554 | $5 |
| Share-based payment | — | 111 | 1 |
| Total | ¥564 | ¥665 | $6 |

Remuneration of key management represents remuneration to directors of the Company, including external directors.

## 40. Subsequent Events

Cancellation of treasury stocks

At the Board of Directors meeting held on May 12, 2016, the Company approved the item related to the cancellation of treasury stocks based on Article 178 of the Company act and executed the cancellation. Details are as follows.

(1) Type of shares to be canceled: Common stocks

(2) Number of shares to be canceled: 70,396,543 shares (2.62% of the total number of issued shares prior to cancellation)

(3) Date of cancellation: May 18, 2016

Note: Number of issued shares after cancellation: 2,620,494,257 shares

Acquisition of treasury stocks

At the Board of Directors meeting held on May 12, 2016, the Company approved the item related to the acquisition of its treasury stocks based on Article 156 of the Company Act, which is applicable in accordance with Article 165, Paragraph 3 of the same law.

(1) Reason for acquisition of treasury stock
The Company decided to acquire its own shares with the aim of improving capital efficiency to response to changes in the business environment and shareholders' benefit.

(2) Details of the acquisition of treasury stocks
(a) Type of shares to be acquired: Common stocks
(b) Number of shares to be acquired: 38,000,000 (maximum)
(c) Acquisition period: May 13, 2016 to September 23, 2016
(d) Total value of shares to be acquired: ¥100 billion (maximum)

(3) Method of acquisition: Market purchases in the Tokyo Stock Exchange

## 41. First-time Adoption of IFRSs

**(1) Transition to financial reporting under IFRSs**

In principle, IFRSs requires first-time adopters to apply standards required by IFRSs retrospectively. As exceptions, IFRS 1 prohibits retrospective application of some aspects, which shall be applied prospectively from the date of transition to IFRSs. The exemptions applied to the Group are as follows:

**i. Accounting estimates**

Accounting estimates used for preparing the consolidated financial statements under IFRSs are consistent with the estimates used for preparing the consolidated financial statements under Japanese GAAP, and do not reflect revision arising from the new information acquired thereafter.

#### ii. Non-controlling interests

The following requirements of IFRS 10 “Consolidated Financial Statements” are applied prospectively from the date of transition to IFRSs.

- the requirement that total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance; and
- the requirements for accounting for changes in the ownership interest in a subsidiary that do not result in a loss of control.

IFRS 1 specifies optional exemptions for certain requirements in IFRSs. The details of the exemptions adopted by the Group are as follows:

#### i. Business combinations

In accordance with the exemption from requirements under IFRSs on business combinations that occurred before the date of transition to IFRSs, the Group has not applied them retrospectively to business combinations that occurred before the date of transition to IFRSs. The amounts of goodwill at the date of transition to IFRSs are recognized at those carrying amounts that are taken over from the amount previously recognized under Japanese GAAP.

#### ii. Exchange differences on translating foreign operations

Cumulative exchange differences on translating foreign operations are regarded as zero at the date of transition to IFRSs.

#### iii. Designation of financial instruments

The Group designates equity instruments as the financial assets of which changes in fair value are presented as other comprehensive income at the date of transition to IFRSs.

#### iv. Share-based payments

IFRS 2 has not been retrospectively applied to share-based payments vested before the date of transition to IFRSs.

#### v. Borrowing costs

A first-time adopter may commence capitalization of borrowing costs relating to qualifying assets at the date of transition to IFRSs. The Group adopts this exemption.

#### vi. Lease

A first-time adopter may evaluate whether an arrangement contains lease or not at the date of transition to IFRSs. The Group adopts this exemption and evaluates it based on facts and circumstances existing at that date.

The Group reconciles the consolidated financial statements previously disclosed under Japanese GAAP to the consolidated financial statements under IFRSs, as necessary. The disclosure of reconciliation required upon first-time adoption of IFRSs is as follows.

“Reclassification” presents the items not affecting retained earnings and comprehensive income due to the reclassification of line items. Reclassification for each item is presented in a separate table from other adjustments in “(5) Notes for reclassification.” “Differences in the scope of consolidation” presents the differences from the change in the scope of consolidation under IFRSs from Japanese GAAP. “Unification of reporting period” presents the effect of changing the closing dates of subsidiaries and affiliates when they were previously different from that of the Company, and the effect of conforming the reporting period by preparing provisional financial statements. “Differences in recognition and measurement” presents the items affecting retained earnings and comprehensive income due to change to IFRSs.

The amounts shown in the following tables (2) ~ (4) “Adjustment to equity” and “Adjustment to comprehensive income” and (5) Reclassification table “a ~ c” are rounded to the nearest million yen.

**(2) Adjustment to equity as of April 1, 2014 (at the date of transition to IFRSs)**

Items on the consolidated statement of financial position

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japanese GAAP after reclassification (Note 1) | Differences in the scope of consolidation | Unification of reporting period | Differences in recognition and measurement | Note (Note 2) | IFRS |
| Assets | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | ¥2,138,009 | ¥ 84,037 | ¥(2,422) | ¥245,959 | B | ¥2,465,583 |
| Goodwill | 337,457 | — | (2,030) | (5,645) | H | 329,783 |
| Intangible assets | 644,964 | 7,468 | (393) | 13,029 | B, D, H | 665,068 |
| Investments accounted for using the equity method | 41,755 | — | 1 | 42 | F, G, H | 41,798 |
| Other long-term financial assets | 131,348 | 162 | (13) | 3,396 | E | 134,893 |
| Retirement benefit assets | 8,893 | — | — | (1,417) | | 7,476 |
| Deferred tax assets | 136,005 | — | 222 | (40,875) | J | 95,353 |
| Other non-current assets | 7,207 | (40) | (183) | 50,403 | D, E | 57,387 |
| Total non-current assets | 3,445,638 | 91,627 | (4,818) | 264,894 | | 3,797,340 |
| Current assets | | | | | | |
| Inventories | 86,876 | 182 | 588 | (3,871) | D | 83,776 |
| Trade and other receivables | 1,131,795 | (1,177) | (2,668) | (742) | D | 1,127,209 |
| Other short-term financial assets | 10,388 | — | 681 | — | | 11,069 |
| Income tax receivable | 9,626 | — | — | — | | 9,626 |
| Other current assets | 43,031 | 4,660 | 2,149 | 20,886 | D | 70,725 |
| Cash and cash equivalents | 212,530 | 36,869 | 333 | — | | 249,732 |
| Total current assets | 1,494,247 | 40,533 | 1,084 | 16,273 | | 1,552,137 |
| Total assets | ¥4,939,885 | ¥132,160 | ¥(3,734) | ¥281,167 | | ¥5,349,478 |
| Liabilities | | | | | | |
| Non-current liabilities | | | | | | |
| Borrowings and bonds payable | ¥ 723,697 | ¥ 57,400 | ¥ — | ¥ (1,642) | E | ¥ 779,454 |
| Other long-term financial liabilities | 33,798 | 807 | 1 | 96,532 | E | 131,138 |
| Retirement benefit liabilities | 18,676 | — | 3 | (1,417) | | 17,261 |
| Deferred tax liabilities | 50,338 | 3 | (2,321) | 123 | J | 48,142 |
| Provisions | 7,933 | — | (8) | — | | 7,925 |
| Other non-current liabilities | 71,345 | (24,484) | (716) | 104,136 | D | 150,282 |
| Total non-current liabilities | 905,787 | 33,726 | (3,041) | 197,732 | | 1,134,204 |
| Current liabilities | | | | | | |
| Borrowings and bonds payable | 310,264 | 60,300 | 0 | (215) | E | 370,349 |
| Trade and other payables | 452,536 | 8,702 | (1,403) | 34,770 | D, I | 494,605 |
| Other short-term financial liabilities | 18,485 | 188 | (4) | 37 | | 18,706 |
| Income taxes payables | 126,074 | 107 | (53) | 41 | | 126,169 |
| Provisions | 76,640 | — | (1) | (75,349) | D | 1,290 |
| Other current liabilities | 141,164 | 267 | (1,214) | 151,348 | D, F | 291,565 |
| Total current liabilities | 1,125,163 | 69,564 | (2,675) | 110,632 | | 1,302,684 |
| Total liabilities | 2,030,950 | 103,290 | (5,715) | 308,364 | | 2,436,888 |
| Equity | | | | | | |
| Equity attributable to owners of the parent | | | | | | |
| Common stock | 141,852 | — | — | — | | 141,852 |
| Capital surplus | 385,982 | — | — | (37) | E, G, H | 385,945 |
| Treasury stock | (161,822) | — | — | — | | (161,822) |
| Retained earnings | 2,283,459 | 1,250 | 4,866 | 84,805 | B~J | 2,374,381 |
| Accumulated other comprehensive income | 65,688 | — | (2,523) | (19,576) | E, F, G | 43,589 |
| Total equity attributable to owners of the parent | 2,715,160 | 1,250 | 2,343 | 65,192 | | 2,783,946 |
| Non-controlling interests | 193,775 | 27,620 | (362) | (92,390) | | 128,644 |
| Total equity | 2,908,935 | 28,870 | 1,981 | (27,197) | | 2,912,589 |
| Total liabilities and equity | ¥4,939,885 | ¥132,160 | ¥(3,734) | ¥281,167 | | ¥5,349,478 |

Notes: 1. The details of reclassification of Japanese GAAP for each item to line with IFRSs are presented in “(5) Notes for reclassification.”
2. The details are presented in “(8) Notes for differences in recognition and measurement.”

### (3) Adjustment to equity as of March 31, 2015

Items on the consolidated statement of financial position

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | Japanese GAAP after reclassification (Note 1) | Differences in the scope of consolidation | Unification of reporting period | Differences in recognition and measurement | Note (Note 2) | IFRS |
| Assets | | | | | | |
| Non-current assets | | | | | | |
| Property, plant and equipment | ¥2,157,982 | ¥159,083 | ¥— | ¥224,033 | B | ¥2,541,099 |
| Goodwill | 322,025 | — | — | 21,111 | A, H | 343,136 |
| Intangible assets | 685,385 | 9,213 | — | 4,733 | B, D, H | 699,332 |
| Investments accounted for using the equity method | 61,453 | 22,435 | — | (22,267) | F, G, H | 61,621 |
| Other long-term financial assets | 189,710 | (95,118) | — | 3,232 | E | 97,824 |
| Retirement benefit assets | 26,035 | — | — | — | | 26,035 |
| Deferred tax assets | 139,964 | — | — | (28,975) | J | 110,988 |
| Other non-current assets | 7,064 | 0 | — | 64,393 | D, E | 71,457 |
| Total non-current assets | 3,589,618 | 95,614 | — | 266,259 | | 3,951,491 |
| Current assets | | | | | | |
| Inventories | 81,579 | 282 | — | (6,024) | D | 75,837 |
| Trade and other receivables | 1,231,327 | (232) | — | — | | 1,231,095 |
| Other short-term financial assets | 20,176 | (11,153) | — | — | | 9,023 |
| Income tax receivable | 242 | — | — | — | | 242 |
| Other current assets | 51,486 | 8,016 | — | 23,217 | D | 82,719 |
| Cash and cash equivalents | 275,936 | 381 | — | — | | 276,317 |
| Total current assets | 1,660,747 | (2,706) | — | 17,194 | | 1,675,235 |
| Total assets | ¥5,250,365 | ¥ 92,908 | ¥— | ¥283,453 | | ¥5,626,725 |
| Liabilities | | | | | | |
| Non-current liabilities | | | | | | |
| Borrowings and bonds payable | ¥ 824,318 | ¥ 24,000 | ¥— | ¥ (1,617) | E | ¥ 846,701 |
| Other long-term financial liabilities | 48,974 | 1,028 | — | 98,366 | E | 148,367 |
| Retirement benefit liabilities | 14,826 | — | — | — | | 14,826 |
| Deferred tax liabilities | 39,571 | 1 | — | (3,651) | J | 35,921 |
| Provisions | 7,129 | — | — | — | | 7,129 |
| Other non-current liabilities | 43,299 | (168) | — | 117,448 | D | 160,578 |
| Total non-current liabilities | 978,116 | 24,861 | — | 210,546 | | 1,213,523 |
| Current liabilities | | | | | | |
| Borrowings and bonds payable | 116,510 | 33,400 | — | (150) | E | 149,760 |
| Trade and other payables | 485,517 | 6,994 | — | 42,977 | D, I | 535,489 |
| Other short-term financial liabilities | 20,419 | 241 | — | 38 | | 20,698 |
| Income taxes payables | 165,046 | 159 | — | 197 | | 165,402 |
| Provisions | 76,402 | — | — | (65,090) | D | 11,311 |
| Other current liabilities | 169,606 | 301 | — | 137,623 | D, F | 307,530 |
| Total current liabilities | 1,033,500 | 41,094 | — | 115,596 | | 1,190,190 |
| Total liabilities | 2,011,616 | 65,955 | — | 326,142 | | 2,403,713 |
| Equity | | | | | | |
| Equity attributable to owners of the parent | | | | | | |
| Common stock | 141,852 | — | — | — | | 141,852 |
| Capital surplus | 385,977 | — | — | (16,255) | E, G, H | 369,722 |
| Treasury stock | (161,822) | — | — | — | | (161,822) |
| Retained earnings | 2,586,144 | (2,420) | — | 103,101 | A~J | 2,686,824 |
| Accumulated other comprehensive income | 58,457 | — | — | (30,996) | E, F, G | 27,462 |
| Total equity attributable to owners of the parent | 3,010,608 | (2,420) | — | 55,850 | | 3,064,038 |
| Non-controlling interests | 228,141 | 29,373 | — | (98,540) | | 158,974 |
| Total equity | 3,238,749 | 26,952 | — | (42,690) | | 3,223,012 |
| Total liabilities and equity | ¥5,250,365 | ¥ 92,908 | ¥— | ¥283,453 | | ¥5,626,725 |

Notes: 1. The details of reclassification of Japanese GAAP for each item to line with IFRSs are presented in "(5) Notes for reclassification."
2. The details are presented in "(8) Notes for differences in recognition and measurement."

### (4) Adjustment to comprehensive income for the year ended March 31, 2015

Items on the consolidated statement of income

| | Japanese GAAP after reclassification (Note 1) | Differences in the scope of consolidation | Unification of reporting period | Differences in recognition and measurement | Note (Note 2) | IFRS |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| Operating revenue | ¥4,573,142 | ¥(24,101) | ¥(43,157) | ¥(235,791) | D | ¥4,270,094 |
| Cost of sales | 2,565,341 | (56,914) | (36,209) | 39,008 | B, D, F, I | 2,511,226 |
| Gross profit | 2,007,801 | 32,813 | (6,948) | (274,799) | | 1,758,868 |
| Selling, general and administrative expenses | 1,320,848 | 31,270 | (2,998) | (242,676) | A, B, D, E, F, H, I, J | 1,106,444 |
| Other income | 14,345 | 40 | (46) | (1,271) | B, E, H | 13,069 |
| Other expense | 39,032 | 22 | (32) | (34,324) | B, H | 4,697 |
| Share of profit (loss) of investments accounted for using the equity method | 5,802 | (1,881) | 0 | 1,002 | G | 4,923 |
| Operating income | 668,069 | (320) | (3,963) | 1,932 | | 665,719 |
| Finance income | 59,978 | (329) | (347) | (51,085) | E | 8,216 |
| Finance cost | 12,936 | 1,079 | (337) | 1,924 | E | 15,602 |
| Other non-operating profit and loss | 4,833 | — | (300) | — | | 4,533 |
| Profit before income tax | 719,944 | (1,728) | (4,273) | (51,077) | A, B, D~J | 662,867 |
| Income taxes | 270,350 | 63 | (963) | (26,108) | | 243,343 |
| Profit for the year | ¥ 449,593 | ¥ (1,791) | ¥ (3,310) | ¥ (24,969) | | ¥ 419,524 |
| Profit for the year attributable to: | | | | | | |
| Owner of the parent | ¥ 427,931 | ¥ (3,670) | ¥ (3,028) | ¥ (25,428) | | ¥ 395,805 |
| Minority interests | 21,662 | 1,879 | (281) | 459 | | 23,719 |
| Profit for the year | ¥ 449,593 | ¥ (1,791) | ¥ (3,310) | ¥ (24,969) | | ¥ 419,524 |

Notes: 1. The details of reclassification of Japanese GAAP for each item to line with IFRSs are presented in "(5) Notes for reclassification."
2. The details are presented in "(8) Notes for differences in recognition and measurement."

Items on the consolidated statement of comprehensive income

| Japanese GAAP line items | Japanese GAAP | Differences in the scope of consolidation | Change of closing date and other | Differences in recognition and measurement | Note (Note) | IFRS | Line items under IFRS |
|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | |
| Income before minority interests | ¥449,593 | ¥(1,791) | ¥(3,310) | ¥(24,969) | | ¥419,524 | Profit for the year |
| Other comprehensive income | | | | | | | Other comprehensive income, net of tax |
| Valuation difference on available-for-sale securities | (25,825) | — | 0 | 32,706 | E | 6,881 | Changes in fair value of financial assets at fair value through other comprehensive income |
| Deferred gains or losses on hedges | (1,811) | — | — | (70) | | (1,881) | Changes in fair value of cash flow hedge |
| Foreign currency translation adjustments | 5,851 | — | 2,933 | 838 | | 9,622 | Exchange differences on translating foreign operations |
| Remeasurements of defined benefit plans, net of tax | 10,333 | — | 11 | (1,731) | F | 8,613 | Remeasurements of defined benefit plans, net of tax |
| Share of other comprehensive income of investments accounted for using the equity method | 4,307 | — | — | (1,262) | G | 3,045 | Share of other comprehensive income of investments accounted for using the equity method |
| Total other comprehensive income | (7,146) | — | 2,945 | 30,482 | E, F, G | 26,280 | Total other comprehensive income, net of tax |
| Total comprehensive income | ¥442,447 | ¥(1,791) | ¥ (365) | ¥ 5,513 | | ¥445,803 | Total comprehensive income |
| Attributable to: | | | | | | | Attributable to: |
| Owner of the parent | ¥420,700 | ¥(3,670) | ¥ (268) | ¥ 4,800 | | ¥421,562 | Owner of the parent |
| Minority interests | 21,747 | 1,879 | (97) | 713 | | 24,241 | Minority interests |

Note: The details are presented in "(8) Notes for differences in recognition and measurement."

**(5) Notes for reclassification**

Certain reclassification has been made in the following line items to comply with the provisions of IFRSs, resulting in no impacts on retained earnings and comprehensive income.

a. Under Japanese GAAP, the Group previously disclosed its fixed assets by classifying them into fixed assets in telecommunications business and fixed assets in incidental business according to the form of “Rules for Telecommunications Business Accounting” (Ministry of Posts and Telecommunications Ordinance No. 26, 1985). Upon adoption of IFRSs, all property, plant and equipment are presented in a single line item as non-current assets.

b. Investments in related companies, which were included in stocks of affiliates under Japanese GAAP, are presented separately as investments accounted for using the equity method under IFRSs.

c. Deferred tax assets and liabilities, which were presented as current item under Japanese GAAP, are presented as non-current item under IFRSs.

d. Under Japanese GAAP, time deposits etc. were presented as cash and deposits. However, cash and deposits that have original maturity over 3 months and restricted cash and deposits are included in other short-term financial assets.

e. Receivables, such as notes and trade receivables, and deposits included in other current assets, which were presented separately under Japanese GAAP, are presented as trade and other receivables under IFRSs.

f. Bonds payables and long-term borrowings, which were presented separately under Japanese GAAP, are presented as borrowings and bonds payable (non-current) under IFRSs. In addition, short-term borrowings, current portion of long-term borrowings and current portion of bonds payable, which were presented separately under Japanese GAAP are presented as borrowings and bonds payable (current) under IFRSs.

g. Payables, such as notes and trade payable and accrued expenses included in other current liabilities, which were presented separately under Japanese GAAP, are presented as trade and other payables under IFRSs.

h. Under Japanese GAAP, provision for the Group’s point service programs was presented as non-current item because it is uncertain when the customers utilize their points, however, under IFRSs, provision for those programs is presented as current item because the customers can utilize their points at any time without any condition.

i. Under Japanese GAAP, the Group disclosed its operating income and operating expenses by classifying them into telecommunications business and incidental business according to the form of “Rules for Telecommunications Business Accounting” (Ministry of Posts and Telecommunications Ordinance No. 26, 1985). Under IFRSs, they are aggregated and presented as revenue, cost of sales, and selling, general and administrative expenses.

j. In the amounts previously presented as non-operating income and expenses under Japanese GAAP, financial items such as interest income and expenses are presented as finance income and finance costs under IFRSs.

k. In the amounts previously presented as extraordinary income and loss under Japanese GAAP, gain and loss on sales of stocks of subsidiaries and associates and gain and loss on change in equity are presented as other non-operating profit and loss under IFRSs. Impairment loss, loss on business on overseas subsidiaries, gain and loss on sales of non-current assets and loss on disposal of non-current assets etc. which were previously presented as extraordinary income and loss under Japanese GAAP, are presented as cost of sales, selling, general and administrative expenses, and other income and expenses under IFRSs.

   Gain and loss on valuation of investment securities and gain and loss on sales of investment securities which were previously presented as extraordinary income and loss under Japanese GAAP, are reclassified to finance income and finance cost in the following reclassification tables.

l. In addition, certain aggregation and separate presentation have been done to conform to line items under IFRSs.

a. Reclassification for consolidated statement of financial position as of April 1, 2014 (at the date of transition to IFRSs)

| Japanese GAAP line items | Japanese GAAP before reclassification (Millions of yen) | Reclassification (Millions of yen) | Japanese GAAP after reclassification (Millions of yen) | Line items under IFRSs |
|---|---|---|---|---|
| Assets | | | | Assets |
| Fixed assets | | | | Non-current assets |
| Property, plant and equipment | | | | |
| Property, plant and equipment in telecommunications business | | | | |
| Machinery, net | ¥ 650,596 | ¥ (650,596) | ¥ — | |
| Antenna equipment, net | 342,372 | (342,372) | — | |
| Local line facilities, net | 120,662 | (120,662) | — | |
| Long-distance line facilities, net | 4,582 | (4,582) | — | |
| Engineering facilities, net | 23,451 | (23,451) | — | |
| Submarine line facilities, net | 3,158 | (3,158) | — | |
| Buildings, net | 162,438 | (162,438) | — | |
| Structures, net | 26,065 | (26,065) | — | |
| Land | 247,866 | (247,866) | — | |
| Construction in progress | 156,710 | (156,710) | — | |
| Other property, plant and equipment, net | 26,831 | (26,831) | — | |
| Property, plant and equipment, net in incidental business | 373,277 | (373,277) | — | |
| | | 2,138,009 | 2,138,009 | Property, plant and equipment |
| Intangible fixed assets | | | | |
| Intangible fixed assets in telecommunications business | | | | |
| Rights to use facilities | 11,164 | (11,164) | — | |
| Software | 157,035 | (157,035) | — | |
| Goodwill | 21,048 | (21,048) | — | |
| Other intangible fixed assets | 8,672 | (8,672) | — | |
| Intangible fixed assets in incidental business | 545,200 | (545,200) | — | |
| | | 337,457 | 337,457 | Goodwill |
| | | 644,964 | 644,964 | Intangible assets |
| Investments and other assets | | | | |
| Investment securities | 91,509 | (91,509) | — | |
| Shares in related companies | 41,480 | 274 | 41,755 | Investments accounted for using the equity method |
| Investment in related companies | 274 | (274) | — | |
| Long-term prepaid expenses | 245,185 | (245,185) | — | |
| Retirement benefit assets | 8,893 | — | 8,893 | Retirement benefit assets |
| Deferred tax assets | 84,653 | 51,353 | 136,005 | Deferred tax assets |
| Other investments and other assets | 50,739 | (50,739) | — | |
| Allowance for doubtful accounts | (9,576) | 9,576 | — | |
| | | 131,348 | 131,348 | Other long-term financial assets |
| | | 7,207 | 7,207 | Other non-current assets |
| Total fixed assets | 3,394,286 | 51,353 | 3,445,638 | Total non-current assets |
| Current assets | | | | Current assets |
| Cash and deposits | 222,051 | (9,520) | 212,530 | Cash and cash equivalents |
| Accounts receivable—trade and notes receivable | 1,094,920 | 36,875 | 1,131,795 | Trade and other receivables |
| Other receivables | 68,298 | (68,298) | — | |
| Securities | 274 | (274) | — | |
| Supplies | 86,060 | 816 | 86,876 | Inventories |
| Deferred tax assets | 51,353 | (51,353) | — | |
| Other current assets | 44,177 | (44,177) | — | |
| Allowance for doubtful accounts | (21,533) | 21,533 | — | |
| | | 10,388 | 10,388 | Other short-term financial assets |
| | | 9,626 | 9,626 | Income tax receivable |
| | | 43,031 | 43,031 | Other current assets |
| Total current assets | 1,545,599 | (51,353) | 1,494,247 | Total current assets |
| Total assets | ¥4,939,885 | ¥ — | ¥4,939,885 | Total assets |

| Japanese GAAP line items | Millions of yen<br>Japanese GAAP before reclassification | Reclassification | Japanese GAAP after reclassification | Line items under IFRS |
|---|---|---|---|---|
| Liabilities | | | | Liabilities |
| Fixed liabilities | | | | Non-current liabilities |
| Bonds payable | ¥ 204,999 | ¥(204,999) | ¥ — | |
| Long-term borrowings | 518,698 | (518,698) | — | |
| | | 723,697 | 723,697 | Borrowings and bonds payable |
| Retirement benefit liabilities | 18,676 | — | 18,676 | Retirement benefit liabilities |
| Provision for point service program | 76,338 | (76,338) | — | |
| Other fixed liabilities | 163,302 | (163,302) | — | |
| | | 33,798 | 33,798 | Other long-term financial liabilities |
| | | 50,338 | 50,338 | Deferred tax liabilities |
| | | 7,933 | 7,933 | Provisions |
| | | 71,345 | 71,345 | Other non-current liabilities |
| Total fixed liabilities | 982,013 | (76,226) | 905,787 | Total non-current liabilities |
| Current liabilities | | | | Current liabilities |
| Current portion of fixed liabilities | 233,466 | 76,798 | 310,264 | Borrowings and bonds payable |
| Notes payable and accounts payable-trade | 87,232 | 365,304 | 452,536 | Trade and other payables |
| Short-term borrowings | 95,256 | (95,256) | — | |
| Accounts payable, other | 349,012 | (349,012) | — | |
| Accrued expenses | 26,732 | (26,732) | — | |
| Income taxes payables | 125,365 | 709 | 126,074 | Income taxes payables |
| Advances received | 55,254 | (55,254) | — | |
| Allowance for bonuses | 28,771 | (28,771) | — | |
| Other current liabilities | 47,848 | (47,848) | — | |
| | | 18,485 | 18,485 | Other short-term financial liabilities |
| | | 76,640 | 76,640 | Provisions |
| | | 141,164 | 141,164 | Other current liabilities |
| Total current liabilities | 1,048,937 | 76,226 | 1,125,163 | Total current liabilities |
| Total liabilities | 2,030,950 | — | 2,030,950 | Total liabilities |
| Net assets | | | | Equity |
| Shareholders' equity | | | | Equity attributable to owners of the parent |
| Capital stock | 141,852 | — | 141,852 | Common stock |
| Capital surplus | 385,943 | 40 | 385,982 | Capital surplus |
| Retained earnings | 2,283,459 | — | 2,283,459 | Retained earnings |
| Treasury stock | (161,822) | — | (161,822) | Treasury stock |
| Accumulated other comprehensive income | | | | |
| Valuation difference on available for-sale securities | 45,731 | (45,731) | — | |
| Deferred gain or loss on hedges | (1,585) | 1,585 | — | |
| Foreign currency translation adjustments | 15,189 | (15,189) | — | |
| Remeasurements of retirement benefit plans | 6,352 | (6,352) | — | |
| | | 65,688 | 65,688 | Accumulated other comprehensive income |
| | | | 2,715,160 | Total equity attributable to owners of the parent |
| Subscription rights | 40 | (40) | — | |
| Minority interests | 193,775 | — | 193,775 | Non-controlling interests |
| Total net assets | 2,908,935 | — | 2,908,935 | Total equity |
| Liabilities and total net assets | ¥4,939,885 | ¥ — | ¥4,939,885 | Total liabilities and equity |

b. Reclassification for consolidated statement of financial position as of March 31, 2015

| Japanese GAAP line items | Japanese GAAP before reclassification (Millions of yen) | Reclassification (Millions of yen) | Japanese GAAP after reclassification (Millions of yen) | Line items under IFRS |
|---|---|---|---|---|
| Assets | | | | Assets |
| Fixed assets | | | | Non-current assets |
| Property, plant and equipment | | | | |
| Property, plant and equipment in telecommunications business | | | | |
| Machinery, net | ¥ 653,448 | ¥(653,448) | ¥ — | |
| Antenna equipment, net | 346,349 | (346,349) | — | |
| Local line facilities, net | 113,720 | (113,720) | — | |
| Long-distance line facilities, net | 5,843 | (5,843) | — | |
| Engineering facilities, net | 20,361 | (20,361) | — | |
| Submarine line facilities, net | 2,397 | (2,397) | — | |
| Buildings, net | 155,845 | (155,845) | — | |
| Structures, net | 24,859 | (24,859) | — | |
| Land | 247,779 | (247,779) | — | |
| Construction in progress | 177,912 | (177,912) | — | |
| Other property, plant and equipment, net | 28,084 | (28,084) | — | |
| Property, plant and equipment, net in Incidental business | 381,384 | (381,384) | — | |
| | | 2,157,982 | 2,157,982 | Property, plant and equipment |
| Intangible fixed assets | | | | |
| Intangible fixed assets in telecommunications business | | | | |
| Rights to use facilities | 12,449 | (12,449) | — | |
| Software | 196,808 | (196,808) | — | |
| Goodwill | 18,314 | (18,314) | — | |
| Other intangible fixed assets | 7,991 | (7,991) | — | |
| Intangible fixed assets in incidental business | 529,004 | (529,004) | — | |
| | | 322,025 | 322,025 | Goodwill |
| | | 685,385 | 685,385 | Intangible assets |
| Investments and other assets | | | | |
| Investment securities | 50,595 | (50,595) | — | |
| Shares in related companies | 61,161 | 293 | 61,453 | Investments accounted for using the equity method |
| Investment in related companies | 293 | (293) | — | |
| Long-term loans receivable from related companies | 95,300 | (95,300) | — | |
| Long-term prepaid expenses | 247,985 | (247,985) | — | |
| Retirement benefit assets | 26,035 | — | 26,035 | Retirement benefit assets |
| Deferred tax assets | 92,774 | 47,190 | 139,964 | Deferred tax assets |
| Other investments and other assets | 90,466 | (90,466) | — | |
| Allowance for doubtful accounts | (44,729) | 44,729 | — | |
| | | 189,710 | 189,710 | Other long-term financial assets |
| | | 7,064 | 7,064 | Other non-current assets |
| Total fixed assets | 3,542,428 | 47,190 | 3,589,618 | Total non-current assets |
| Current assets | | | | Current assets |
| Cash and deposits | 264,240 | 11,696 | 275,936 | Cash and cash equivalents |
| Accounts receivable—trade and notes receivable | 1,173,434 | 57,893 | 1,231,327 | Trade and other receivables |
| Other receivables | 81,126 | (81,126) | — | |
| Securities | 20,320 | (20,320) | — | |
| Supplies | 79,233 | 2,346 | 81,579 | Inventories |
| Deferred tax assets | 47,190 | (47,190) | — | |
| Other current assets | 64,830 | (64,830) | — | |
| Allowance for doubtful accounts | (22,436) | 22,436 | — | |
| | | 20,176 | 20,176 | Other short-term financial assets |
| | | 242 | 242 | Income tax receivable |
| | | 51,486 | 51,486 | Other current assets |
| Total current assets | 1,707,937 | (47,190) | 1,660,747 | Total current assets |
| Total assets | ¥5,250,365 | ¥ — | ¥5,250,365 | Total assets |

| Japanese GAAP line items | Japanese GAAP before reclassification (Millions of yen) | Reclassification (Millions of yen) | Japanese GAAP after reclassification (Millions of yen) | Line items under IFRS |
|---|---|---|---|---|
| Liabilities | | | | Liabilities |
| Fixed liabilities | | | | Non-current liabilities |
| Bonds payable | ¥ 215,000 | ¥(215,000) | ¥ — | |
| Long-term borrowings | 609,318 | (609,318) | — | |
| | | 824,318 | 824,318 | Borrowings and bonds payable |
| Retirement benefit liabilities | 14,826 | — | 14,826 | Retirement benefit liabilities |
| Provision for point service program | 75,245 | (75,245) | — | |
| Other fixed liabilities | 138,972 | (138,972) | — | |
| | | 48,974 | 48,974 | Other long-term financial liabilities |
| | | 39,571 | 39,571 | Deferred tax liabilities |
| | | 7,129 | 7,129 | Provisions |
| | | 43,299 | 43,299 | Other non-current liabilities |
| Total fixed liabilities | 1,053,362 | (75,245) | 978,116 | Total non-current liabilities |
| Current liabilities | | | | Current liabilities |
| Current portion of fixed liabilities | 133,789 | (17,279) | 116,510 | Borrowings and bonds payable |
| Notes payable and accounts payable—trade | 101,739 | 383,778 | 485,517 | Trade and other payables |
| Short-term borrowings | 3,140 | (3,140) | — | |
| Accounts payable, other | 409,109 | (409,109) | — | |
| Accrued expenses | 30,417 | (30,417) | — | |
| Income taxes payables | 164,332 | 714 | 165,046 | Income taxes payables |
| Advances received | 42,960 | (42,960) | — | |
| Allowance for bonuses | 26,843 | (26,843) | — | |
| Other current liabilities | 45,926 | (45,926) | — | |
| | | 20,419 | 20,419 | Other short-term financial liabilities |
| | | 76,402 | 76,402 | Provisions |
| | | 169,606 | 169,606 | Other current liabilities |
| Total current liabilities | 958,254 | 75,245 | 1,033,500 | Total current liabilities |
| Total liabilities | 2,011,616 | — | 2,011,616 | Total liabilities |
| Net assets | | | | Equity |
| Shareholders' equity | | | | Equity attributable to owners of the parent |
| Capital stock | 141,852 | — | 141,852 | Common stock |
| Capital surplus | 385,943 | 34 | 385,977 | Capital surplus |
| Retained earnings | 2,586,144 | — | 2,586,144 | Retained earnings |
| Treasury stock | (161,822) | — | (161,822) | Treasury stock |
| Accumulated other comprehensive income | | | | |
| Valuation difference on available for-sale securities | 21,117 | (21,117) | — | |
| Deferred gain or loss on hedges | (1,993) | 1,993 | — | |
| Foreign currency translation adjustments | 22,648 | (22,648) | — | |
| Remeasurement of retirement benefit plans | 16,685 | (16,685) | — | |
| | | 58,457 | 58,457 | Accumulated other comprehensive income |
| | | | 3,010,608 | Total equity attributable to owners of the parent |
| Subscription rights | 34 | (34) | — | |
| Minority interests | 228,141 | — | 228,141 | Non-controlling interests |
| Total net assets | 3,238,749 | — | 3,238,749 | Total equity |
| Liabilities and total net assets | ¥5,250,365 | ¥ — | ¥5,250,365 | Total liabilities and equity |

c. Reclassification for consolidated statement of income for the year ended March 31, 2015

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Reclassification | | | | | | | | |
| | Japanese GAAP | Reclassified to operating revenue | Reclassified to cost of sales | Reclassified to Selling, general and administrative expenses | Reclassified to other income and expense | Reclassified to equity in income of affiliates | Reclassified to financial income and cost | Reclassified to other non-operating profit and loss | sub-total | After reclassification |
| Japanese GAAP line items | | | | | | | | | | |
| Operating revenues from telecommunications business | ¥2,734,555 | ¥(2,734,555) | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥(2,734,555) | ¥— |
| Operating revenues from incidental business | 1,838,588 | (1,838,588) | — | — | — | — | — | — | (1,838,588) | — |
| Operating expenses in telecommunications business | | | | | | | | | | |
| Business costs | 733,092 | — | (156,480) | (576,612) | — | — | — | — | (733,092) | — |
| Operational costs | 43 | — | (43) | — | — | — | — | — | (43) | — |
| Maintenance costs | 270,154 | — | (270,154) | — | — | — | — | — | (270,154) | — |
| Common costs | 2,330 | — | — | (2,330) | — | — | — | — | (2,330) | — |
| Management costs | 81,974 | — | (86) | (81,888) | — | — | — | — | (81,974) | — |
| Experiment and research expenses | 6,555 | — | — | (6,555) | — | — | — | — | (6,555) | — |
| Depreciation | 383,639 | — | (382,666) | (973) | — | — | — | — | (383,639) | — |
| Retirement of fixed assets | 25,304 | — | (25,303) | (1) | — | — | — | — | (25,304) | — |
| Communication equipment rentals | 392,130 | — | (392,130) | — | — | — | — | — | (392,130) | — |
| Taxes | 40,868 | — | (32,696) | (8,172) | — | — | — | — | (40,868) | — |
| Operating expenses in incidental business | 1,895,756 | — | (1,251,509) | (644,247) | — | — | — | — | (1,895,756) | — |
| Operating income | 741,299 | (4,573,142) | 2,511,065 | 1,320,778 | — | — | — | — | (741,299) | — |
| Non-operating revenue | | | | | | | | | | |
| Interest income | 976 | — | — | — | — | — | (976) | — | (976) | — |
| Dividends income | 1,829 | — | — | — | — | — | (1,829) | — | (1,829) | — |
| Share of profit (loss) of investments accounted for using the equity method | 5,802 | — | — | — | — | (5,802) | — | — | (5,802) | — |
| Gain on foreign currency exchange | 5,585 | — | — | — | — | — | (5,585) | — | (5,585) | — |
| Miscellaneous income | 13,412 | — | — | — | (13,412) | — | — | — | (13,412) | — |
| Non-operating expenses | | | | | | | | | | |
| Interest expenses | 12,273 | — | — | — | — | — | (12,273) | — | (12,273) | — |
| Miscellaneous expenditure | 4,227 | — | — | (69) | (4,026) | — | (131) | — | (4,227) | — |
| Ordinary income | 752,403 | (4,573,142) | 2,511,065 | 1,320,848 | (9,386) | (5,802) | 4,014 | — | (752,403) | — |
| Extraordinary income | | | | | | | | | | |
| Gain on sales of fixed assets | 224 | — | — | — | (224) | — | — | — | (224) | — |
| Gain on sale of investment securities | 51,588 | — | — | — | — | — | (51,588) | — | (51,588) | — |
| Gain on sale of stocks of related companies | 1,237 | — | — | — | — | — | — | (1,237) | (1,237) | — |
| Gains on change in equity | 3,596 | — | — | — | — | — | — | (3,596) | (3,596) | — |
| Contribution for construction | 709 | — | — | — | (709) | — | — | — | (709) | — |
| Extraordinary loss | | | | | | | | | | |
| Loss on sales of fixed assets | 498 | — | — | — | (498) | — | — | — | (498) | — |
| Impairment loss | 42,116 | — | (42,116) | — | — | — | — | — | (42,116) | — |
| Loss on retirement of fixed assets | 12,160 | — | (12,160) | — | — | — | — | — | (12,160) | — |
| Loss on valuation of investment securities | 532 | — | — | — | — | — | (532) | — | (532) | — |
| Reduction entry of contribution for construction | 709 | — | — | — | (709) | — | — | — | (709) | — |
| Loss on business of overseas subsidiaries | 33,799 | — | — | — | (33,799) | — | — | — | (33,799) | — |
| Income before income taxes and minority interests | ¥ 719,944 | ¥(4,573,142) | ¥ 2,565,341 | ¥1,320,848 | ¥ 24,687 | ¥(5,802) | ¥(47,042) | ¥(4,833) | ¥ (719,944) | ¥— |
| Line items under IFRS | | | | | | | | | | |
| Operating revenue | ¥— | ¥4,573,142 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — | ¥4,573,142 | ¥4,573,142 |
| Cost of sales | — | — | 2,565,341 | — | — | — | — | — | 2,565,341 | 2,565,341 |
| Gross profit | — | 4,573,142 | (2,565,341) | — | — | — | — | — | 2,007,801 | 2,007,801 |
| Selling, general and administrative expenses | — | — | — | 1,320,848 | — | — | — | — | 1,320,848 | 1,320,848 |
| Other income | — | — | — | — | 14,345 | — | — | — | 14,345 | 14,345 |
| Other expense | — | — | — | — | 39,032 | — | — | — | 39,032 | 39,032 |
| Share of profit (loss) of investments accounted for using the equity method | — | — | — | — | — | 5,802 | — | — | 5,802 | 5,802 |
| Operating income | — | 4,573,142 | (2,565,341) | (1,320,848) | (24,687) | 5,802 | — | — | 668,069 | 668,069 |
| Finance income | — | — | — | — | — | — | 59,978 | — | 59,978 | 59,978 |
| Finance cost | — | — | — | — | — | — | 12,936 | — | 12,936 | 12,936 |
| Other non-operating profit and loss | — | — | — | — | — | — | — | 4,833 | 4,833 | 4,833 |
| Profit before income tax | ¥— | ¥4,573,142 | ¥(2,565,341) | ¥(1,320,848) | ¥(24,687) | ¥5,802 | ¥47,042 | ¥4,833 | ¥ 719,944 | ¥ 719,944 |

### (6) Notes for differences in the scope of consolidation

Upon adoption of IFRSs, impacts resulted from the Company's review on the scope of consolidation under Japanese GAAP are presented separately in the reconciliation table.

UQ Communications Inc. ("UQ"), a provider of wireless broadband services, was accounted for using the equity method under Japanese GAAP as the Group owned 32.3% of its voting right. However, upon adoption of IFRSs, UQ was consolidated because UQ was considered to be controlled by the Group since its incorporation as the Group has the power over the UQ's board of directors on the ground that the Group was the largest shareholder of UQ, and the director from the Company has the right of representation in the UQ's board of directors although directors from the Company comprise only half of the board members (Note), and the operations of UQ are significantly dependent on the Company.

Note: Since the second quarter of the fiscal year ended March 31, 2015, the Group's directors became majority of the board members.

### (7) Unification of reporting period

Under Japanese GAAP, in case closing dates of subsidiaries and investments accounted for using the equity method were inconsistent with that of the Company, the consolidated financial statements were prepared using the financial statements as of those closing dates of the subsidiaries and investments accounted for using the equity method. Under IFRSs, the reporting dates of the financial statements of the subsidiaries and investments accounted for using the equity method are consistent with that of the Company for the purpose of consolidation by changing their closing dates or by preparing provisional financial statements, unless it is impractical to do so.

Under Japanese GAAP, the financial statements of subsidiaries and investments accounted for using the equity method were also prepared as of the Company's closing date at the end of the previous fiscal year by changing their closing dates or by preparing provisional financial statements. And the income for these subsidiaries from January 1, 2014 to March 31, 2014 was adjusted through consolidated income statements under Japanese GAAP, and their accounting period for the fiscal year ended March 31, 2015 is 15 months. However, consolidated financial statements under IFRSs for the fiscal year ended March 31, 2015 were prepared using financial statements of subsidiaries and investments accounted for using the equity method whose accounting period is 12 months. This resulted in the difference between Japanese GAAP and IFRSs.

### (8) Notes for differences in recognition and measurement

Key reconciliation items related to retained earnings resulting from the adoption of IFRSs are as follows:

| | Millions of yen | |
|---|---|---|
| As of March 31 | As of date of transition to IFRSs (April 1, 2014) | 2015 |
| Retained earnings under Japanese GAAP | ¥2,283,459 | ¥2,586,144 |
| Differences in the scope of consolidation | 1,250 | (2,420) |
| Unification of reporting period | 4,866 | — |
| Differences in recognition and measurement | | |
| A. Goodwill | — | 26,883 |
| B. Property, plant and equipment and intangible assets | 234,569 | 207,822 |
| C. Cumulative exchange differences at the date of transition to IFRSs | 12,784 | 12,784 |
| D. Revenue recognition | (96,923) | (101,413) |
| E. Financial instruments | (90,334) | (92,029) |
| F. Employee benefits | (3,895) | 11,034 |
| G. Investments in related companies | 62 | 1,088 |
| H. Business combination | 1,520 | (7,184) |
| I. Levies | (21,559) | (23,020) |
| J. Tax | 1,801 | 1,006 |
| Other | (480) | 1,246 |
| Tax effects on adjustment in difference in recognition and measurement/ Increase and decrease of non-controlling interests | 47,261 | 64,883 |
| Total differences in recognition and measurement | 84,805 | 103,101 |
| Retained earnings under IFRSs | ¥2,374,381 | ¥2,686,824 |

Note: Amounts presented in "A to I" and other are before tax.

Key reconciliation items related to profit before income taxes resulting from the adoption of IFRSs are as follows:

| For the year ended March 31 | Millions of yen<br>2015 |
|---|---|
| Income before income taxes minority interests under Japanese GAAP | ¥719,944 |
| Differences in the scope of consolidation | (1,728) |
| Unification of reporting period | (4,273) |
| Differences in recognition and measurement | |
| A. Goodwill | 28,158 |
| B. Property, plant and equipment and intangible assets | (26,586) |
| C. Cumulative exchange differences at the date of transition to IFRSs | — |
| D. Revenue recognition | (4,490) |
| E. Financial instruments | (53,009) |
| F. Employee benefits | 2,084 |
| G. Investments in related companies | 1,027 |
| H. Business combination | (1,867) |
| I. Levies | (1,461) |
| J. Tax | 5,193 |
| Other | (126) |
| Total differences in recognition and measurement | (51,077) |
| Profit for the year before income tax under IFRSs | ¥662,867 |

Details of major differences are as follows:

A. Goodwill

Under Japanese GAAP, goodwill was regularly amortized over the period in which the economic benefits were expected to be realized. Under IFRSs, goodwill is not regularly amortized.

As of April 1, 2014, goodwill was tested for impairment. As a result, no impairment loss was recognized at April 1, 2014.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
|---|---|---|
| Increase of goodwill | ¥— | ¥26,883 |
| Increase of retained earnings | ¥— | ¥26,883 |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Decrease of selling, general and administrative expenses | ¥28,158 |
| Increase of profit for year before income tax | ¥28,158 |

B. Property, plant and equipment and intangible assets

k. Upon adoption of IFRSs, we reviewed depreciation method, useful lives and estimated residual value of property, plant and equipment and intangible assets. Under Japanese GAAP, declining balance method was applied to most of communication equipment (excluding leased assets), however, under IFRSs, straight-line method is applied based on our review of depreciation method. Consequently, it gives rise to difference between carrying amounts of property, plant and equipment and intangible assets under Japanese GAAP and carrying amounts of property, plant and equipment and intangible assets under IFRSs.

l. Under Japanese GAAP, certain expenditures relating to advertisement and sales promotion activities were previously capitalized and expensed over certain period of time. Under IFRSs, those expenditures are expensed when incurred under IFRSs.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
|---|---|---|
| Increase of property, plant and equipment | ¥243,971 | ¥221,627 |
| Decrease of intangible assets | (9,402) | (13,805) |
| Increase of retained earnings | ¥234,569 | ¥207,822 |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Increase of cost of sales | ¥(25,616) |
| Decrease of selling, general and administrative expenses | 2,075 |
| Decrease of other income | (3) |
| Increase of other expense | (3,042) |
| Decrease of profit for the year before income tax | ¥(26,586) |

C. Cumulative exchange differences at the date of transition to IFRSs

Under IFRSs, retained earnings increased by 12,784 million yen as a result of transfer of full amount of cumulative exchange differences relating to foreign operations at the date of transition to IFRSs (April 1, 2014) into retained earnings, by applying exemption for the first-time adoption.

D. Revenue recognition

a. Under Japanese GAAP, some commission fees related to sales of mobile handsets paid to the distributors of the mobile handsets were expensed when incurred. Under IFRSs, amount of future anticipated fees are deducted from revenues at the time of sale of the mobile handsets. Accordingly, under IFRSs, those fees are reflected to net realizable value upon measurement of inventories at the end of fiscal year.

b. Under Japanese GAAP, considerations paid to customers were expensed when incurred. Under IFRSs, those amounts are deducted from revenues at the time when the revenues are recognized, unless economic substances becoming the basis of sales and marketing activities exist.

c. Under Japanese GAAP, activation fee income, administration fee income for mobile contract and construction fee income relating fixed-line telecommunications and CATV services were recognized upon receipt of cash as revenue, however, under IFRSs, those fees are recognized over estimated average contract or usage period. Direct costs related to those fees are deferred to the extent of the amount of those fees and amortized over the respective same period.

d. Under Japanese GAAP, estimated cost generating from utilization of points granted to customers were recognized as provision for point service program and the amount of the provision were recorded in operating expenses. Under IFRSs, point service is recognized separately as goods or services to be delivered in the future and fair value of benefits to be exchanged for the points are deferred from revenues and recognized as revenues when the customers utilize those points.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
|---|---|---|
| Increase of intangible assets | ¥ 15,885 | ¥ 14,002 |
| Increase of other non-current assets | 47,193 | 63,359 |
| Decrease of inventories | (2,489) | (4,392) |
| Decrease of trade and other receivables | (2) | — |
| Increase of other current assets | 23,333 | 23,316 |
| Increase of other non-current liabilities | (105,013) | (118,167) |
| Increase of trade and other payables | (13,223) | (20,305) |
| Decrease of provisions | 75,349 | 65,090 |
| Increase of other current liabilities | (137,958) | (124,317) |
| Decrease of retained earnings | ¥ (96,923) | ¥(101,413) |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Decrease of operating revenue | ¥(230,663) |
| Increase of cost of sales | (1,903) |
| Decrease of selling, general and administrative expenses | 228,076 |
| Decrease of profit for the year before income tax | ¥ (4,490) |

E. Financial instruments

a. Under Japanese GAAP, commission fees related to borrowings were treated as a lump-sum expense. Under IFRSs, those fees are included in measurement of borrowings' amortized cost and charged to expense over period up to the maturity date.

b. Under Japanese GAAP, securities with no market value (non-listed stocks) were valued based on their acquisition costs and impairment losses were recorded as necessary. Under IFRSs, those securities are measured at fair value through other comprehensive income. Accordingly, under IFRSs, differences between the acquisition costs and estimated fair value are recognized as accumulated other comprehensive income.

c. Under Japanese GAAP, gain (loss) on sales and impairment loss on equity instruments such as stocks were recognized as profit or loss. Under IFRSs, it is optional to present changes in fair value of equity instruments such as stocks as other comprehensive income. If the option is selected, gain (loss) on sales and impairment loss on equity instruments such as stocks are recognized not in the consolidated statement of income, but in other comprehensive income.

d. Under Japanese GAAP, transaction costs related to issuance or acquisition of equity instruments were recognized as profit or loss. Under IFRSs, equity transaction costs are deducted directly from capital surplus.

e. Under Japanese GAAP, a certain type of preference share that the Group has issued were treated as equity, but under IFRSs, those preference share are treated as financial liabilities because the Group has an obligation to deliver cash to holders of preference share in the future.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | Millions of yen<br>As of March 31, 2015 |
|---|---|---|
| Increase of other long-term financial assets | ¥ 4,050 | ¥ 3,887 |
| Increase of other non-current assets | 1,632 | 1,425 |
| Decrease of borrowings and bonds payable (non-current) | 1,642 | 1,617 |
| Increase of other long-term financial liabilities | (96,532) | (98,366) |
| Decrease of borrowings and bonds payable (current) | 215 | 150 |
| Decrease of capital surplus (before tax) | 641 | 641 |
| Increase of accumulated other comprehensive income (before tax) | (1,982) | (1,384) |
| Decrease of retained earnings | ¥(90,334) | ¥(92,029) |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Increase of selling, general and administrative expenses | ¥ (15) |
| Decrease of other income | (150) |
| Decrease of finance income | (51,608) |
| Increase of finance cost | (1,237) |
| Decrease of profit for the year before income tax | ¥(53,009) |

| (Consolidated statement of comprehensive income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Changes measured in fair value of financial assets through other comprehensive income | ¥32,706 |
| Increase of other comprehensive income | ¥32,706 |

F. Employee benefits

a. Upon adoption of IFRSs, unused paid holiday is recognized as a liability, which was not required under Japanese GAAP.

b. Under Japanese GAAP, actuarial gains and losses on retirement benefit obligations relating to defined benefit plans were recognized as other comprehensive income when incurred and charged to expense over certain period. Under IFRSs, actuarial gains and losses are recognized as other comprehensive income when incurred and transferred to retained earnings immediately. Past service costs are recognized in profit or loss over a certain period not longer than fourteen years, the average remaining service periods of the employees. However, under IFRSs, the Group should recognize past service cost as an expense.

c. Difference in actuarial assumptions between Japanese GAAP and IFRSs resulted in additional recognition of retirement benefit costs.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | Millions of yen<br>As of March 31, 2015 |
|---|---|---|
| Decrease of investments accounted for using the equity method | ¥ (112) | ¥ (119) |
| Increase of other current liabilities | (13,452) | (13,322) |
| Decrease of accumulated other comprehensive income (before tax) | 9,669 | 24,475 |
| Increase (decrease) of retained earnings | ¥ (3,895) | ¥ 11,034 |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Decrease of cost of sales | ¥ 418 |
| Decrease of selling, general and administrative expenses | 1,666 |
| Increase of profit for the year before income tax | ¥2,084 |

| (Consolidated statement of comprehensive income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Remeasurement of defined benefit plans | ¥(1,731) |
| Decrease of other comprehensive income | ¥(1,731) |

G. Investments in related companies

Under Japanese GAAP, goodwill relating to investments accounted for using the equity method was amortized by the straight-line method over the period during which the economic benefits of the goodwill is expected to be realized. However, under IFRSs, goodwill is not amortized. Moreover, investments in related companies including goodwill were tested for impairment. As a result, no impairment loss was recognized for the investments in related companies including goodwill at April 1, 2014.

And there are other differences with regard to investments in related companies as a result of reclassifying their financial statements from Japanese GAAP to IFRSs when applying the equity method.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
|---|---|---|
| Increase of investments accounted for using the equity method | ¥ 6 | ¥1,033 |
| Decrease of capital surplus (before tax) | 37 | 37 |
| Decrease of accumulated other comprehensive income (before tax) | 18 | 18 |
| Increase of retained earnings | ¥62 | ¥1,088 |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Increase of share of profit of investments accounted for using the equity method | ¥1,027 |
| Increase of profit for the year before income tax | ¥1,027 |

| (Consolidated statement of comprehensive income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Share of other comprehensive income of investments accounted for using the equity method | ¥(1,262) |
| Decrease of other comprehensive income | ¥(1,262) |

H. Business combination

a. Under Japanese GAAP, valuable acquisition-related costs for business combination were capitalized. Under IFRSs, those costs are charged to expense as transaction costs directly attributable to the business combination when those costs are generated or services are provided.

b. Under Japanese GAAP, changes in interests in subsidiaries that do not result in a change of control (additional acquisition and partial disposal) were treated as external transactions and adjustments were made to goodwill or profit and loss. Under IFRSs, no adjustments are made to goodwill or profit and loss as those changes are accounted for as equity transactions. Instead, this results in changes in capital surplus.

c. Some customer related assets not recognized as intangible assets in the past business combination under Japanese GAAP are recognized as intangible assets which were met requirements for recognition of intangible assets under IFRSs.

Impacts from those differences are summarized as follows:

| (Consolidated statement of financial position) | Millions of yen<br>As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
|---|---|---|
| Decrease of goodwill | ¥(5,645) | ¥ (5,772) |
| Increase of intangible assets | 6,970 | 5,208 |
| Increase (decrease) of investments accounted for using the equity method | 148 | (22,858) |
| Decrease of capital surplus | 48 | 16,239 |
| Increase (decrease) of retained earnings | ¥1,520 | ¥ (7,184) |

| (Consolidated statement of income) | Millions of yen<br>For the year ended March 31, 2015 |
|---|---|
| Increase of selling, general and administrative expenses | ¥(1,568) |
| Decrease of other income | (344) |
| Decrease of other expense | 45 |
| Decrease of profit for the year before income tax | ¥(1,867) |

I. Levies

Items qualified as Levies such as property tax were recognized at the time of payment under Japanese GAAP. Under IFRSs, they are recognized on the date when an obligation event occurs.

Impacts from those differences are summarized as follows:

| | Millions of yen | |
|---|---|---|
| (Consolidated statement of financial position) | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
| Increase of trade and other payables | ¥(21,559) | ¥(23,020) |
| Decrease of retained earnings | ¥(21,559) | ¥(23,020) |

| | Millions of yen |
|---|---|
| (Consolidated statement of income) | For the year ended March 31, 2015 |
| Increase of cost of sales | ¥ (526) |
| Increase of selling, general and administrative expenses | (935) |
| Decrease of profit for the year before income tax | ¥(1,461) |

J. Tax

a. Following the occurrence of temporary differences arising from adjustments to other items in the statement of financial position, e.g. review of depreciation method, examination was conducted for the probability of taxable income from deductible temporary differences according to IFRSs. Deferred tax assets are recognized on the portion of the taxable income that is considered to be recoverable.

b. Under Japanese GAAP, value-added tax in size-based corporate tax was included in operating expense. Under IFRSs, such tax is included in income taxes.

Impacts from those differences are summarized as follows:

| | Millions of yen | |
|---|---|---|
| (Consolidated statement of financial position) | As of date of transition to IFRSs (April 1, 2014) | As of March 31, 2015 |
| Increase of deferred tax assets | ¥1,692 | ¥1,489 |
| Decrease (increase) of deferred tax liabilities | 108 | (483) |
| Increase of retained earnings | ¥1,801 | ¥1,006 |

| | Millions of yen |
|---|---|
| (Consolidated statement of income) | For the year ended March 31, 2015 |
| Decrease of selling, general and administrative expenses | ¥5,193 |
| Increase of profit for the year before income tax | ¥5,193 |

**(9) Notes to cash flow adjustments**

For the year ended March 31, 2015

| | | Millions of yen | |
|---|---|---|---|
| (Consolidated statement of cash flows) | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities |
| Japanese GAAP | ¥962,249 | ¥(674,520) | ¥(224,862) |
| Differences in the scope of consolidation | 12,836 | 11,173 | (60,496) |
| Unification of reporting period | (4,309) | 3,229 | (14) |
| Differences in recognition and measurement | (2,024) | 24,373 | (25,157) |
| IFRSs | ¥968,752 | ¥(635,745) | ¥(310,528) |

Key differences in reclassifications within cash flow statements are as follows:

a. Under Japanese GAAP, cash flows from sales of subsidiary's stock not resulting in loss of control was included in "Cash flows from investing activities," but under IFRSs, included in "Cash flows from financing activities."

b. Under Japanese GAAP, cash possessed by the subsidiary was included in "Increase in cash and cash equivalents resulting from merger," but under IFRSs, included in "Cash flows from investing activities."

## 42. Approval of the Consolidated Financial Statements

The consolidated financial statements for the year ended March 31, 2016 have been approved by the Board of Directors on June 23, 2016.

## 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 statement of financial position as at March 31, 2016, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity 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 International Financial Reporting Standards, 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, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Convenience translations*

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 2 (3) to the consolidated financial statements.

PricewaterhouseCoopers Kyoto

PricewaterhouseCoopers Kyoto
Kyoto, Japan

June 23, 2016