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To Our Shareholders:

Disclosed information on the Internet at the Time of Notifying Convocation of the 34th Annual General Meeting of Shareholders

June 9, 2020

SoftBank Corp.

Table of Contents

Business Report
Status of the Company
(5) Overview of systems to ensure the appropriateness of operations and its implementation status
Page 2

Consolidated Statement of Changes in Equity
Page 8

Non-consolidated Statement of Changes in Net Assets
Page 9

Notes to Consolidated Financial Statements
Page 10

Notes to Non-consolidated Financial Statements
Page 51

All matters above are provided to shareholders of SoftBank Corp. on the website of SoftBank Corp. on the Internet (https://www.softbank.jp/corp/ir/) in accordance with all laws and Article 14 of the Articles of Incorporation of SoftBank Corp.

Business Report

Status of the Company

(5) Overview of systems to ensure the appropriateness of operations and its implementation status

Overview of the Board of Directors resolution on the systems to ensure the appropriateness of operations

At the Board of Directors meetings held on October 28, 2019 and March 24, 2020, the Company resolved to amend the basic policy for establishing the internal control system, which included the formulation of the code of conduct, reinforcement of the information management system, and enhancement of the risk management system at the Company. The details of the revised policy are as follows.

[1] Systems to ensure that the execution of the duties of board directors and employees is in compliance with laws, regulations, and the Articles of Incorporation of the Company

The Company has established the code of conduct to be followed by all board directors and employees to ensure that corporate activities are appropriate based not only on regulatory compliance, but also on high ethical standards, and has established the following structure to continuously reinforce the compliance system:

(1) A chief compliance officer (CCO) is appointed. The CCO proposes and carries out measures required to establish and enhance the Company's compliance system.

(2) Compliance Office is established. The Compliance Office assists the CCO.

(3) A compliance officer and a compliance manager shall be placed in each business unit for thorough compliance.

(4) Internal and external hotlines (compliance reporting desk) are established for direct reporting and consultations by board directors and employees, to quickly identify, rectify, and prevent the reoccurrence of any inappropriate issues in corporate activities. The Company ensures that persons who have reported or consulted on the hotlines will not be treated disadvantageously by prohibiting the disadvantageous treatment of persons on the grounds of having reported or consulted on the hotline in the Compliance Regulations.

(5) Audit & Supervisory Board Members and the Audit & Supervisory Board request measures for improvements to the Board of Directors, if they identify issues in the system for compliance with laws, regulations, and the Articles of Incorporation.

[2] System for the storage and management of information regarding the execution of duties by board directors

The Company has established the following system to appropriately store and maintain information related to the execution of duties by board directors:

(1) The Company determines retention periods and methods and measures to prevent accidents, based on the Information Management Regulations, and classifies and appropriately stores these

documents according to their degree of confidentiality.

(2) A chief information security officer (CISO) has been appointed as the person responsible for information security management, and persons responsible for information security are placed in each business unit to establish a system to store and manage information, based on the Basic Regulations for Information Security.

(3) The Chief Data Officer Office has been established and a chief data officer (CDO) has been appointed. In addition, policies and rules have been set out to manage and strategically utilize internal and external data, and the internal management system for handling secrecy of communication and personal information has been strengthened.

[3] Regulations and system relating to managing the risk of loss

The Company has established the following system to avoid and minimize risk and to implement necessary measures related to the variety of risks in its business operations:

Based on the Risk Management Regulations, the risk management department summarizes the status of risk evaluation, analysis and response at each unit, and regularly reports its findings to the Risk Management Committee consisting of representative directors and other committee members. The Risk Management Committee determines the degree of importance and owners of the risks, and confirms and promotes measures developed and taken by the risk owners, thereby reducing risks and preventing the occurrence of risk events. The Risk Management Committee then regularly reports ifs findings to the Board of Directors. When an emergency situation arises, an Emergency Response Department will be established and efforts will be made to minimize the damage (loss) based on the instructions of the Emergency Response Department.

[4] Systems to ensure the efficiency of board directors in the execution of their duties

The Company has established the following structure to maintain an efficient management system:

(1) The Company has set out the Rules of the Board of Directors to clarify matters to be decided and reported on by the Board of Directors, and the Internal Approval Regulations and other regulations relating to institutional decision-making to clarify decision-making authority.

(2) To strengthen functions for overseeing the execution of duties and enhance objectivity in management, the Board of Directors includes external directors who are independent of the Company.

(3) To ensure that the board directors can discuss matters fully at Board of Directors meetings, they are provided with materials for the meeting in advance, and with additional or supplementary materials upon their request.

(4) The scope of operations and responsibilities necessary for operations are clearly defined in the Organization Management Regulations.

[5] Systems to ensure appropriateness of operations of the Company and the Group consisting of its parent and subsidiaries

The Company shares fundamental concepts and policies throughout the Group and reinforces the management system and compliance in accordance with the SoftBank Charter of Corporate Behavior, etc. In addition, the following systems have been established to apply rules shared by Group companies to board directors and employees of the Company and its subsidiaries:

(1) The CCO establishes and reinforces the compliance system of each Group company. For practicing compliance, CCO gives advice, instructions, and orders to the CCOs of each Group company to ensure that such activities comply with the Group's basic compliance policy. The compliance reporting desk has also been established to receive reports and provide consultation to board directors and employees of each Group company to quickly identify, rectify, and prevent the reoccurrence of any inappropriate issues in corporate activities. The Company ensures that persons who have reported or consulted on the Hotline will not be treated disadvantageously by prohibiting the disadvantageous treatment of persons on the grounds of having reported or consulted on the Hotline in the Compliance Regulations.

(2) The Group Information Security Committee, composed of the persons responsible for information security in each Group company, has been established to report and share information on trends, plans and other matters related to information security. This Committee is headed by the CISO, who is responsible for information security in the Company.

(3) The representative of each Group company must submit a Representative Oath pertaining to the financial reports submitted to the Company, thereby ensuring the accuracy of the annual securities report and other reports submitted by the Group.

(4) The internal audit unit comprehensively judges the results of past internal audits, financial position, and carries out internal audits of Group companies deemed as having high risk.

(5) While each Group company addresses risk in an effort to reduce and prevent any possible risks, in the event of emergency, an immediate report to the Company is requested in accordance with the Risk Management Regulations. In addition, the Company will coordinate closely with each Group company according to the situation to minimize damage (loss).

[6] System for excluding antisocial forces

The Company clearly states in the Regulations on Countermeasures against Antisocial Forces its policy of having absolutely no association with antisocial forces that pose a threat to public order and safety. The Company establishes an internal system to counter antisocial forces and has a responsible division in place to carry out overall management. For dealing with inappropriate requests from antisocial forces, the Company will firmly refuse those requests in a resolute manner in cooperation with the police and other external specialist institutions.

[7] Matters relating to support staff that assists the Audit & Supervisory Board Members upon request for such placement from Audit & Supervisory Board Members, matters relating to the independence from the board directors, and matters relating to ensuring the effectiveness of

instructions given to the relevant employees

The Company has established the Assistant to Audit Department as an organization to support the work of the Audit & Supervisory Board Members, and has assigned dedicated staff to this department. The appointment of the support staff is notified to the Audit & Supervisory Board Members, and any personnel changes, evaluations, or other such actions require the agreement of the Audit & Supervisory Board Members. In addition, directions and instructions to the support staff are issued by the Audit & Supervisory Board Members to ensure the effectiveness of the instructions.

[8] System for reporting to the Audit & Supervisory Board Members by board directors and employees and other systems for reporting to the Audit & Supervisory Board Members

Board directors and employees will report the following matters to the Audit & Supervisory Board Members or the Audit & Supervisory Board promptly (or immediately for any urgent matters including facts that may potentially cause severe damage to the Company):

(1) Matters related to the compliance system or use of the compliance reporting desk.

(2) Matters related to finances (including financial reporting and actual results against planned budget).

(3) Matters related to human resources (including labor management).

(4) The status of work related to risk matters on information security.

(5) The status of work related to large-scale disaster and network disruption, etc.

(6) The development status of internal control.

(7) The status of work related to external fraud investigations.

(8) Matters related to violations of laws, regulations, or the Articles of Incorporation.

(9) Results of audits conducted by the internal audit unit.

(10) Other matters which could materially harm the Company or matters that the Audit & Supervisory Board Members have decided that need to be reported in order for them to execute their duties.

[9] Other systems to ensure that the audits by the Audit & Supervisory Board Members are conducted effectively

(1) When the Audit & Supervisory Board Members deem it necessary, opportunities shall be provided for them to interview board directors or employees of the Company and Group companies. In addition, the Audit & Supervisory Board Members periodically meet with the independent auditor and the Audit & Supervisory Board Members of major subsidiaries and other entities for an exchange of information and to ensure cooperation, and also attend important meetings.

(2) The Company ensures a system that persons who have reported or consulted with the Audit & Supervisory Board Members will not be treated disadvantageously on the grounds of having reported or consulted with the Audit & Supervisory Board Members.

(3) The Company shall pay expenses relating to the independent auditor, the attorneys and other professionals, and other expenses associated with the execution of duties by the Audit & Supervisory Board Members.

Overview of the implementation status of systems to ensure the appropriateness of operations

[1] Matters concerning compliance

The Company continues to conduct compliance training for board directors and employees, as well as the offering of information and giving of advice, etc., as necessary, for enhancing the compliance system. In addition, the Company works to ensure the effectiveness of compliance of the Company through setting and operating hotlines so that board directors and employees of the Company and its subsidiaries can report and consult directly. Effects of these measures are reviewed and improved, as necessary.

[2] Matters concerning risk

Based on the Risk Management Regulations, the risk management department summarizes the status of risk evaluation, analysis and response at each unit, and regularly reports its findings to the Risk Management Committee consisting of board directors. The Risk Management Committee determines the degree of importance and owners of the risks, and confirms and promotes measures developed and taken the by risk owners, thereby reducing risks and preventing the occurrence of risk events. The Risk Management Committee then regularly reports its findings to the Board of Directors.

The Group companies also continuously work on reducing risks and preventing the occurrence thereof.

[3] Matters concerning internal audits

The internal audit unit carries out audits on the effectiveness of the system for compliance with laws, regulations and the Articles of Incorporation as well as the risk management process at the Company. In addition, the unit continuously carries out audits of Group companies deemed as having a high risk and reports the results of the audits to the CEO each time.

[4] Matters concerning the execution of duties by board directors and employees

The Company ensures efficiency of the execution of duties by its board directors and employees based on internal regulations such as the Rules of the Board of Directors, Internal Approval Regulations and Organization Management Regulations. The Company also ensures an environment where matters can be fully discussed at the Board of Directors meetings by board directors.

[5] Matters concerning duties of Audit & Supervisory Board Members

Audit & Supervisory Board Members attend the Company's important meetings and arrange opportunities to interview board directors and employees of the Company and the Group, as necessary. In addition, they continue to enhance cooperation by holding regular meetings with the Independent Auditor and Audit & Supervisory Board Members, etc. of major subsidiaries. Through these efforts, Audit & Supervisory Board Members ensure the effectiveness of audits.

(Note) Within this Business Report, amounts less than stated units are rounded, and ratios less than stated units are rounded.

Consolidated Statement of Changes in Equity

(Fiscal year ended March 31, 2020)

(Millions of yen)

	Equity attributable to owners of the Company			
	Common stock	Capital surplus	Retained earnings	Treasury Stock
As of April 1, 2019	204,309	202,685	893,880	-
Retrospective adjustments from transactions under common control	-	(90,859)	284,402	-
Cumulative effect of adopting a new accounting standard	-	-	(618)	-
As of April 1, 2019 - restated	204,309	111,826	1,177,664	-
Comprehensive income				
Net income	-	-	473,135	-
Other comprehensive income (loss)	-	-	-	-
Total comprehensive income	-	-	473,135	-
Transactions with owners and other transactions				
Cash dividends	-	-	(398,354)	-
Purchase of treasury stock	-	-	-	(68,709)
Changes from transactions under common control	-	(246,996)	(249,991)	-
Changes from business combinations	-	-	-	-
Changes in interests in existing subsidiaries	-	(3,676)	-	-
Share-based payment transactions	-	4,931	-	-
Transfer from accumulated other comprehensive income (loss) to retained earnings	-	-	1,100	-
Total transactions with owners and other transactions	-	(245,741)	(647,245)	(68,709)
As of March 31, 2020	204,309	(133,915)	1,003,554	(68,709)

	Equity attributable to owners of the Company		Non-controlling interests	Total equity
	Accumulated other comprehensive income (loss)	Total		
As of April 1, 2019	(53,781)	1,247,093	17,362	1,264,455
Retrospective adjustments from transactions under common control	57,521	251,064	507,048	758,112
Cumulative effect of adopting a new accounting standard	-	(618)	(4,362)	(4,980)
As of April 1, 2019 - restated	3,740	1,497,539	520,048	2,017,587
Comprehensive income				
Net income	-	473,135	33,533	506,668
Other comprehensive income (loss)	(4,918)	(4,918)	(4,702)	(9,620)
Total comprehensive income	(4,918)	468,217	28,831	497,048
Transactions with owners and other transactions				
Cash dividends	-	(398,354)	(32,940)	(431,294)
Purchase of treasury stock	-	(68,709)	-	(68,709)
Changes from transactions under common control	(2,415)	(499,402)	(1,601)	(501,003)
Changes from business combinations	-	-	185,827	185,827
Changes in interests in existing subsidiaries	-	(3,676)	6,853	3,177
Share-based payment transactions	-	4,931	-	4,931
Transfer from accumulated other comprehensive income (loss) to retained earnings	(1,100)	-	-	-
Total transactions with owners and other transactions	(3,515)	(965,210)	158,139	(807,071)
As of March 31, 2020	(4,693)	1,000,546	707,018	1,707,564

Non-consolidated Statement of Changes in Net Assets

(For the fiscal year from April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	Treasury Stock	Total shareholders' equity
Balance as of April 1, 2019	204,309	71,371	29	71,400	713,771	713,771	-	989,480
Changes of items during period								
Cash dividends	-	-	-	-	(382,102)	(382,102)	-	(382,102)
Net income	-	-	-	-	406,871	406,871	-	406,871
Purchase of treasury stock	-	-	-	-	-	-	(68,709)	(68,709)
Net changes of items other than shareholders' equity	-	-	-	-	-	-	-	-
Total changes of items during period	-	-	-	-	24,769	24,769	(68,709)	(43,940)
Balance as of March 31, 2020	204,309	71,371	29	71,400	738,540	738,540	(68,709)	945,540

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of April 1, 2019	(48,825)	(4,733)	(53,558)	3,481	939,403
Changes of items during period					
Cash dividends	-	-	-	-	(382,102)
Net income	-	-	-	-	406,871
Purchase of treasury stock	-	-	-	-	(68,709)
Net changes of items other than shareholders' equity	49,082	1,039	50,121	2,901	53,022
Total changes of items during period	49,082	1,039	50,121	2,901	9,082
Balance as of March 31, 2020	257	(3,694)	(3,437)	6,382	948,485

Notes to Consolidated Financial Statements

(Basis of Preparation of Consolidated Financial Statements)

1. Basis of preparation of consolidated financial statements

The consolidated financial statements of the Group have been prepared on the basis of International Financial Reporting Standards ("IFRS") pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under IFRS.

Company names and abbreviations used in the notes, except as otherwise stated or interpreted differently in the context, are as follows:

Company names/Abbreviations	Definition
The Company	SoftBank Corp. (stand-alone basis)
The Group	SoftBank Corp. and its subsidiaries
SBG	SoftBank Group Corp. (stand-alone basis)

Effective October 1, 2019, Yahoo Japan Corporation, a subsidiary of the Company, changed its name to Z Holdings Corporation as it transitioned to a holding company structure through a company split (absorption-type company split). All the transactions and events pertaining to Z Holdings Corporation including those which occurred prior to the name change are referred to as those of Z Holdings Corporation in the following notes. Yahoo Japan Corporation hereinafter denotes the entity which absorbed the Yahoo Japan business through the company split.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 202

(2) Names of main consolidated subsidiaries

Wireless City Planning Inc., SB C&S Corp., Z Holdings Corporation., Yahoo Japan Corporation., ASKUL Corp., ZOZO, Inc., Ikyu Corp., The Japan Net Bank, Ltd., YJFX, Inc., YJ Card Corp., SB Payment Service Corp.

(3) Names of new and main consolidated subsidiaries and the reasons thereof

Z Holdings Corp.	Acquisition of shares
Yahoo Japan Corporation	New acquisition of Z Holdings Corporation
ASKUL Corp.	New acquisition of Z Holdings Corporation
Ikyu Corp.	New acquisition of Z Holdings Corporation
The Japan Net Bank, Ltd.	New acquisition of Z Holdings Corporation
YJFX, Inc.	New acquisition of Z Holdings Corporation
YJ Card Corp.	New acquisition of Z Holdings Corporation
ZOZO, Inc.	Acquisition of shares
PayPay Corp.[1]	New acquisition of Z Holdings Corp

(4) Names of subsidiaries excluded from consolidation and the reasons thereof

PayPay Corp.[1] Capital increase by third-party allotment

3. Scope of associates accounted for by the equity method

(1) Number of associates accounted for by the equity method: 58

(2) Names of main associates accounted for by the equity method

WeWork Japan GK, T Point Japan Co., Ltd., PayPay Corp.

(3) Names of new and main associates accounted for by the equity method and the reasons thereof

PayPay Corp.[1] Capital increase by third-party allotment

(4) Names of associates excluded from the scope of equity method and the reasons thereof

Cybereason Inc. Sale of shares

Note:

1. In accordance with the accounting policy for transactions under common control, subsequent to Z Holdings Corporation becoming a subsidiary, the Group retrospectively consolidates the financial statements of PayPay Corp. from the date of its inception to May 2019 when the capital increase by third-party allotment was conducted. As a result of the capital increase from the third-party allotment, PayPay Corp. has become an associate that was accounted for using the equity method because the ratio of voting rights held by the Group in PayPay Corp. has decreased from 100% to 50% and the Group has lost control of PayPay Corp.

Please refer to "(9) Accounting treatment of business combinations" under "4. Significant accounting policies" for accounting policy for transactions under common control and "1. Acquisition of investments in Z Holdings Corporation" under "(Notes Relating to Business Combinations)" for Z Holdings Corporation becoming a subsidiary.

4. **Significant accounting policies**

(1) Valuation standards and methods for financial assets and financial liabilities

a. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a contractual party to the instrument.

Financial assets and financial liabilities are measured at fair value at initial recognition. Except for financial assets at fair value through profit or loss ("financial assets at FVTPL") and financial liabilities at fair value through profit or loss ("financial liabilities at FVTPL"), transaction costs that are directly attributable to the acquisition of financial assets and issuance of financial liabilities are added to the fair value of the financial assets or deducted from the fair value of financial liabilities at initial recognition. Transaction costs that are directly attributable to the acquisition of the financial assets at FVTPL and financial liabilities at FVTPL are recognized in profit or loss.

b. Non-derivative financial assets

Non-derivative financial assets are classified as "financial assets at amortized cost," "investments in debt instruments at fair value through other comprehensive income ("debt instruments at FVTOCI")," "investments in equity instruments at fair value through other comprehensive income ("equity instruments at FVTOCI")," and "financial assets at FVTPL." The classification depends on the nature and purpose of the financial assets and is determined at initial recognition.

(a) Financial assets at amortized cost

Non-derivative financial assets are classified as "financial assets at amortized cost" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows; and
- 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.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost using the effective interest method less any impairment. Interest income based on the effective interest method is recognized in profit or loss.

(b) Debt instruments at FVTOCI

Non-derivative financial assets are classified as "debt instruments at FVTOCI" if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial asset; and
- 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.

Subsequent to initial recognition, debt instruments at FVTOCI are measured at fair value and gains or losses arising from changes in fair value are recognized in other comprehensive income. Upon derecognition, previously recognized accumulated other comprehensive income is transferred to profit or loss. Exchange differences arising on monetary financial assets classified as investments in debt instruments at FVTOCI and interest income calculated using the effective interest method relating to debt instruments at FVTOCI are recognized in profit or loss.

(c) Equity instruments at FVTOCI

The Group makes an irrevocable election at initial recognition to recognize changes in fair value of certain investments in equity instruments in other comprehensive income, rather than in profit or loss, and classifies them as investments in equity instruments at FVTOCI. Subsequent to initial recognition, investments in equity instruments at FVTOCI are measured at fair value and gains or losses arising from the changes in fair value are recognized in other comprehensive income.

The Group transfers accumulated gains or losses directly from other comprehensive income to retained earnings in the case of derecognition or decline in fair value significantly or persistently below the cost. Dividends received related to investments in equity instruments at FVTOCI are recognized in profit or loss.

(d) Financial assets at FVTPL

Non-derivative financial assets other than those classified as “financial assets at amortized cost,” “debt instruments at FVTOCI,” or “equity instruments at FVTOCI” are classified as “financial assets at FVTPL.” No financial assets have been designated as those measured at fair value through profit or loss to eliminate or significantly reduce accounting mismatches.

Subsequent to initial recognition, financial assets at FVTPL are measured at fair value and gains or losses arising from changes in fair value, dividend income, and interest income are recognized in profit or loss.

(e) Impairment of financial assets

Allowance for doubtful accounts is recognized for expected credit losses on financial assets at amortized cost, debt instruments at FVTOCI, and contract assets under IFRS 15 “Revenue from Contracts with Customers.” The Group assesses whether credit risk on financial assets has increased significantly since initial recognition at the end of each fiscal year and at the end of each quarter. If the credit risk on financial assets has not increased significantly since the initial recognition, the Group measures the allowance for doubtful accounts at an amount equal to the 12-month expected credit losses. If the credit risk on financial assets has increased significantly since the initial recognition or for credit-impaired financial assets, the Group measures the allowance for doubtful accounts at an amount equal to the lifetime expected credit losses. Allowances for doubtful accounts for trade receivables, contract assets, and lending commitments are always measured at an amount equal to the lifetime expected credit losses.

The Group measures expected credit losses in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date on past events, current conditions and forecasts of future economic conditions.

The Group shall recognize in profit or loss the amount of provision for the allowance of doubtful accounts and the amount of a reversal of the allowance of doubtful accounts if any event occurs that decreases the allowance for doubtful accounts.

The carrying amount of a financial asset is written off against the allowance for doubtful accounts when the Group has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

(f) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or the Group transfers substantially all the risks and rewards of ownership of the financial asset.

c. Non-derivative financial liabilities

Non-derivative financial liabilities are classified as “financial liabilities at FVTPL” or “financial liabilities at amortized cost,” and the classification is determined upon initial recognition.

Non-derivative financial liabilities are classified as “financial liabilities at FVTPL” when the Group designates the entire hybrid contract that contains one or more embedded derivatives as financial liabilities at FVTPL. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and gains or losses arising from changes in fair value and interest expense are recognized in profit or loss.

Financial liabilities at amortized cost are measured using the effective interest method subsequent to initial recognition.

The Group derecognizes financial liabilities when the Group satisfies its obligations or when the Group’s obligations are discharged, canceled, or expired.

d. Derivatives and hedge accounting

(a) Derivatives

The Group is engaged in derivative transactions, including foreign currency forward contracts and interest rate swap agreements, in order to manage its exposure to foreign exchange rate and interest rate volatility.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently measured at fair value at the end of the fiscal year. Changes in the fair value of derivatives are recognized immediately in profit or loss unless the derivative is designated as a hedging instrument and or works effectively as a hedge. Derivative financial assets not designated as hedging instruments are classified as “financial assets at FVTPL,” and derivative financial liabilities not designated as hedging instruments are classified as “financial liabilities at FVTPL.”

(b) Hedge accounting

The Group designates certain derivative transactions as hedging instruments that are accounted for as cash flow hedges.

At the inception of the hedge, the Group formally designates and documents the hedge relationship qualifying for hedge accounting, along with its risk management objectives and its strategy for undertaking various hedge transactions. At the inception of the hedge and on an ongoing basis, the Group evaluates whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the relevant hedged item during the underlying period.

Hedges are determined effective when 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; and
iii. the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirements relating to the hedge ratio, as long as the risk management objectives remains the same, the Group shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

The effective portion of changes in fair value of derivatives that are designated as and qualifies for cash flow hedges is recognized in other comprehensive income and accumulated in accumulated other comprehensive income. Accumulated other comprehensive income is transferred to profit or loss line items related to the hedged item in the consolidated statement of income as long as the cash flows from the hedged item affect profit or loss. Any ineffective portion of changes in the fair value of derivatives is recognized immediately in profit or loss.

When the hedged forecasted transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the Group transfers the associated gains or losses previously recognized in other comprehensive income in accumulated other comprehensive income to the historical cost of the

non-financial asset or non-financial liability at initial recognition.

Hedge accounting is discontinued prospectively only when the hedge relationship no longer meets the criteria for hedge accounting, such as when the hedging instrument expires, is sold, is terminated, or is exercised.

When hedge accounting is discontinued, any gains or losses recognized in accumulated other comprehensive income remain in equity and are recognized in profit or loss when the forecasted transaction is ultimately recognized in profit or loss. When a forecasted transaction is no longer expected to occur, the gains or losses recognized in accumulated other comprehensive income are recognized immediately in profit or loss.

(c) Embedded derivatives

Derivatives embedded in non-derivative financial assets ("embedded derivatives") are not separated from the host contract and accounted for as an integral part of the entire hybrid contract.

Derivatives embedded in non-derivative financial liabilities ("embedded derivatives") are separated from the host contract and accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contract and also if the whole financial instrument, including the embedded derivative, is not classified as a financial liability at FVTPL. The Group is required to separate an embedded derivative from its host contract. In case that the Group is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent fiscal year, the entire hybrid contract is designated and accounted for as a financial liability at FVTPL.

(2) Valuation standards and methods for inventories

Inventories are stated at the lower of cost or net realizable value. Inventories mainly consist of mobile devices and accessories. Their costs comprise all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs are calculated primarily by the moving-average method.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale, namely marketing, selling, and distribution costs.

(3) Valuation standards and methods for property, plant and equipment and intangible assets, and methods of depreciation and amortization thereof

a. Property, plant and equipment

Property, plant and equipment are measured on a historical cost basis and are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of the asset and the initial estimated costs related to disassembly, retirement, and site restoration.

Depreciation of property, plant and equipment is calculated mainly by the straight-line method over the estimated useful lives of each component, using the depreciable amount. The depreciable amount is calculated as the cost of an asset, less its residual value. Land and assets under construction are not depreciated.

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

Buildings and structures		
Buildings	20 - 50	years
Structures	10 - 50	years
Building fixtures	3 - 22	years
Network equipment		
Radio network equipment, core network equipment and other network equipment	5 - 15	years
Towers	10 - 42	years
Other	5 - 30	years
Furniture, fixtures and equipment		
Leased mobile devices	2 - 3	years
Other	2 - 20	years

Major assets in the above which are subject to operating leases as lessor are leased mobile devices.
The depreciation methods, useful lives, and residual values of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in accounting estimate.

b. Intangible assets

Intangible assets are measured on a historical cost basis and are stated at historical cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired individually are measured at cost upon initial recognition. Intangible assets acquired in a business combination are recognized separately from goodwill upon initial recognition and are measured at fair value at the acquisition date. Any internally generated research and development expenditure is recognized as an expense when it is incurred, except for expenditures on development activities eligible for capitalization (internally generated intangible assets). The amount of internally generated intangible assets is measured upon initial recognition as the sum of the expenditures incurred from the date when the intangible asset first meets all of the capitalization criteria to the date the development is completed.

Except intangible assets with indefinite useful lives, intangible assets with finite useful lives are amortized over their respective estimated useful lives. Amortization of customer relationships is calculated by the straight-line method or the sum-of-the-digits method and intangible assets with finite useful lives other than customer relationships are amortized by the straight-line method.

The estimated useful lives of major categories of intangible assets with finite useful lives are as follows:

Software	5 - 10 years
Customer relationships	8 - 25 years
Spectrum migration costs	18 years
Other	2 - 20 years

Spectrum migration costs are, based on the termination campaign, the Company's share of costs arising from the migration of pre-existing users of the spectrums newly assigned to the Company to other spectrums. Useful lives are estimated based on the actual utilization of the frequency spectrum in the past.

Amortization methods, useful lives, and residual values of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in accounting estimate.

Intangible assets with indefinite useful lives are not amortized. An intangible asset with indefinite useful life or the cash-generating unit to which the asset belongs is tested for impairment at a certain timing within the fiscal year and when any indication of impairment exists.

The Group's intangible assets that have indefinite useful lives primarily relate to its trademark usage right of the *SoftBank* brand and trademark of the *ZOZO* brand.

The Group does not apply IFRS 16 to leases of intangible assets.

c. Leased assets

At inception of a contract, the Group assesses whether contractual arrangements are, or contain, a lease. The lease terms are the non-cancelable period of a lease, together with the periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option, and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

(As lessee)

(a) Right-of-use assets

The Group recognizes right-of-use assets at the lease commencement date. The Group initially measures right-of-use assets at cost. The cost of right-of-use assets comprises of the amount of the initial measurement of the lease liability, any lease payments made at or before the lease commencement date less any lease incentives received, any initial direct costs incurred, and a total estimate of costs to be incurred in dismantling and removing the underlying asset, and restoring the site on which it is located or restoring the underlying asset.

Subsequent to initial recognition, a right-of-use asset is depreciated using the straight-line method over the estimated useful lives when it is certain that the lease transfers ownership of the underlying asset, or over the shorter the lease term or estimated useful life of the underlying asset when it is not certain that the lease transfers ownership of the underlying asset. The estimated useful lives of a right-of-use asset are determined in the same manner as property, plant and equipment. Right-of-use assets are measured at cost less accumulated depreciation and impairment losses.

(b) Lease liability
The Group recognizes a lease liability at the lease commencement date and measures the lease liability at the present value of the future lease payments that will be paid over the lease term after that date. In calculating the present value, the interest rate implicit in the lease is used as the discount rate if that rate can be readily determined. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

The lease payments included in the measurement of the lease liability primarily comprise of fixed lease payments, lease payments for an extended term if the lessee is reasonably certain to exercise an extension option, and payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to initial recognition, lease liabilities are measured at amortized cost using the effective interest method. Lease liabilities are remeasured if there is a change in future lease payments resulting from a change in an index or a rate, a change in the amounts expected to be payable under a residual value guarantee, or a change in the assessment of possibility of exercising an extension option or a termination option.

If a lease liability is remeasured, the amount of the remeasurement of the lease liability is recognized as an adjustment to the right-of-use asset. However, if the amount of decrease in liability resulting from the remeasurement of the lease liability is greater than the carrying amount of the right-of-use asset, any remaining amount after reducing the right-of-use asset to zero is recognized as profit or loss.

(As lessor)
(a) Lease classification
At the inception of a lease contract, the Group determines the classification of a lease as either a finance lease or operating lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, otherwise a lease is classified as an operating lease. If the lease term is for the major part of the economic life of the underlying asset, or the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset, it is deemed that substantially all the risks and rewards incidental to ownership of an underlying asset are transferred.

(b) Sublease classification
If the Group is a party to a sublease contract, the head lease (as lessee) and the sublease (as lessor) are accounted for separately. In classifying a sublease as a finance lease or an operating lease, the Group considers the risks, rewards, and useful life of a right-of-use asset recognized by the Group in the head lease rather than the assets subject to lease.

(c) Recognition and measurement
Lease receivables in finance leases are recognized at the amount of the Group's net investment in the leases, as of the date the lease is determined and through its maturity. Lease payments received are apportioned between financing income and the repayments of the principal portion. Lease receivables are measured at amortized cost using the effective interest method. Interest income based on the effective interest rate is recognized in profit or loss.
Lease payments under operating leases are recognized in income on a straight-line basis.

(4) Accounting treatment of goodwill

Please refer to "(9) Accounting treatment of business combinations" for the measurement of goodwill at initial recognition. Goodwill is measured at cost less accumulated impairment losses.

Goodwill is not amortized and is tested for impairment when there is an indication of impairment in operating segments to which goodwill has been allocated, and at a certain timing within the fiscal year, irrespective of whether there is any indication of impairment. For the details of impairment, please refer to "(5) Impairment of property, plant and equipment, right-of-use assets, intangible assets, and goodwill."

Any excess in the cost of acquisition of an associate or a joint venture over the Group's interest in the net fair value of the identifiable assets and liabilities recognized at the date of acquisition is recognized as goodwill and included within the carrying amount of the investments in associates and joint ventures.

Since goodwill is not separately recognized, it is not tested for impairment separately. Instead, the entire carrying amount of the investment in associates or joint ventures, including goodwill, is tested for impairment as a single asset whenever objective evidence indicates the investment may be impaired.

(5) Impairment of property, plant and equipment, right-of-use assets, intangible assets, and goodwill

a. Impairment of property, plant and equipment, right-of-use assets and intangible assets

At the end of each reporting period, the Group determines whether there is any indication that property, plant and equipment, right-of-use assets and intangible assets may be impaired.

If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are tested for impairment when any indication of impairment exists and at a certain timing within the fiscal year, regardless of whether there is any indication of impairment.

The recoverable amount is the higher of fair value less costs to sell 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, and an impairment loss is recognized in profit or loss.

At the end of the fiscal year, the Group evaluates whether there is any indication that an impairment loss recognized in prior years for assets other than goodwill has decreased or has been extinguished. If such an indication of a reversal of an impairment loss exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount of an asset or cash-generating unit is estimated to be higher than its carrying 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 (less depreciation and amortization) that would have been recognized had no impairment loss been recognized.

b. Impairment of goodwill

Goodwill is allocated to operating segments that are expected to benefit from the synergies arising from the business combination and is tested for impairment when there is an indication of impairment in the operating segments to which goodwill has been allocated, and at a certain timing within the fiscal year, irrespective of whether there is any indication of impairment. If, at the time of the impairment test, the recoverable amount of the asset group which belongs to the operating segment is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the operating segment and then to the other assets proportionately based on the carrying amount of each asset in the operating segment.

Any impairment loss for goodwill is recognized directly in profit or loss and is not reversed in subsequent periods.

(6) Accounting treatment of defined benefit plans

The liability recognized in respect of the defined benefit plans (the defined benefit liability) is the present value of the defined benefit obligation less the fair value of the plan assets at the end of the fiscal year.

The defined benefit obligation is determined by independent actuaries using the projected unit credit method, and its present value is determined by applying a discount rate based on the yield curve of high-quality corporate bonds over the approximate period of the benefit payments.

Defined benefit cost includes service cost, net interest on the net defined benefit liability (asset), and remeasurement 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 Group's remeasurement, which comprises actuarial gains and losses, is recognized in other comprehensive income and transferred to retained earnings immediately from accumulated other comprehensive income.

Since March 2007, the Group has frozen all defined benefit lump-sum plans. Liabilities for the frozen defined benefit lump-sum plans are calculated on the basis of retirement benefits vested at the time the plans were frozen and are recognized as defined benefit liabilities until they are paid in the form of a lump sum at the time of future retirement of employees. Therefore, service cost is not incurred for those defined benefit plans for the current fiscal year.

(7) Criteria for recording significant provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are measured using the estimated future cash flows, discounted using a pretax rate reflecting the time value of money and the specific risks of the liability, after taking into account the risks and uncertainties surrounding the obligation at the end of the fiscal year.

The Group recognizes asset retirement obligations and provision for interest repayment claims as major provisions.

(8) Revenue recognition

a. Revenue

Consumer business

Revenues in the Consumer business consist mainly of revenues from mobile communications services, sales of mobile devices, and broadband services for individual customers.

(a) Mobile communications services and sales of mobile devices

The Group provides mobile communications services, which consist of voice call services, data transmission services, and related optional services to subscribers, and sells mobile devices to customers.

In providing mobile communications services, sales revenue is mainly generated from basic monthly charges, mobile communications services, and other fees. Revenues from the sales of mobile devices are generated from the sales of mobile devices and accessories to subscribers or dealers.

The business flow of the above transactions consists of "Indirect" sales, where the Group sells mobile devices to dealers and enters into mobile communications service contracts with subscribers through dealers, and "Direct" sales, where the Group sells mobile devices to subscribers and enters into mobile communications services contracts directly with subscribers.

In mobile communications services, the contractual period is defined as the period in which the party to the contract has present enforceable rights and obligations based on the terms of the contract with the subscriber. If the subscriber is granted an option to renew the contract and it is determined that the option provides the subscriber with a "material right," a separate performance obligation is identified. As a practical alternative to estimating the stand-alone selling price of the option that represents a performance obligation, the Group allocates the transaction price to the mobile communications services related to the

option by reference to the mobile telecommunications services expected to be provided and the corresponding expected consideration.

Basic charges and mobile communications service fees are billed to subscribers on a monthly basis and are generally due within a short period of time. Mobile device payments for indirect sales are billed to dealers at the time of sale to the respective dealers and are generally due within a short period of time. In addition, mobile device payments for direct sales can be paid in full at the time of sale or paid in monthly installment over the contract period, normally due within a short period of time. As a result of both quantitative and qualitative analysis, the Company has determined that these transaction prices do not include significant financing components due to the timing of payment and have not been adjusted for such financing components. When the period between the revenue recognition and the payment is one year or less, the Company does not make an adjustment for significant financing components, as a practical expedient permitted by IFRS.

For mobile communications services and sales of mobile devices, the Company is obliged to allow returns and provide refunds for a certain period of time after the inception of the contract. Return and refund obligations are estimated and deducted from transaction prices for each type of good and service based on historical experience.

The Company provides optional additional warranty services for mobile devices. Under the contracts in which these services are provided, the services are identified as separate performance obligations, and are recognized as revenue when they are provided to subscribers.

i. Indirect sales

Revenues from the sales of mobile devices are recognized when mobile devices are delivered to dealers, which is when dealers are deemed to have obtained control over the mobile devices. Dealers involved in indirect sales have primary responsibility for fulfilling contracts, carry all inventory risk, and may independently establish their own inventory pricing. Accordingly, the Group considers that dealers involved in indirect sales act as principals.

Basic monthly charges and mobile communications service fees are recognized as revenue when mobile communications services are provided to subscribers. Discounts on mobile communications charges are deducted from the revenues recognized from monthly mobile communications services. Commission fees paid to dealers related to the sales of mobile devices are deducted from sales.

Other fees are primarily made up of activation fees received at inception of contracts and upgrade fees. These fees are recognized as contract liabilities, then reversed when the mobile communications services are provided, and are recognized as revenue.

ii. Direct sales

For direct sales, as the revenues from the sales of mobile devices and mobile communications services, including related fees, are considered to be one transaction, the total amount of transaction prices is allocated to sales of mobile devices and mobile communications services revenue based on the ratio of their stand-alone selling prices. Discounts on mobile communications charges related to mobile communications service revenue are deducted from the total transaction prices. In addition, if the amount of revenue recognized at the time of sales of mobile devices exceeds the amount of consideration received from the subscribers, the difference is recognized as contract assets and subsequently transferred to trade receivables when the claim is determined as a result of the provision of mobile communications services. If the amount of revenue recognized at the time of sales of mobile devices is less than the amount of consideration received from the subscribers, the difference is recognized as contract liabilities, which is then reversed when the mobile communications services are provided, and is recognized as revenue.

Stand-alone selling prices of mobile devices and mobile communications services are priced at their observable prices when the mobile devices and mobile communications services are sold independently to customers at the inception of the contract.

The amount allocated to sales of mobile devices is recognized as revenue at the time of delivery to the subscribers, representing the point in time when subscribers are considered to have obtained control of the mobile devices. Amounts allocated to mobile communications service revenues are recognized as revenue when mobile communications services are provided to subscribers.

Contract assets are included in “other current assets” in the consolidated statement of financial position.

(b) Broadband services

For broadband services, revenues are mainly generated from basic monthly charges and telecommunications service fees primarily related to Internet connection (“revenues from broadband services”), and other fees.

Revenues from broadband services are recognized when broadband services are provided to subscribers, based upon fixed monthly charges plus the fees charged for usage of the network. Activation fees are recognized as contract liabilities upon receipt, then reversed when the broadband services are provided, and are recognized as revenue.

Enterprise business

Revenues in the Enterprise business mainly consist of revenues from mobile communications services and mobile device rental services, fixed-line communications services, and business solution services and others for enterprise customers.

(a) Mobile communications services and mobile device rental services

Revenues from mobile communications services mainly consist of revenues from mobile communications services and other fees. Mobile device rental services are provided on the condition that mobile communications service contracts are entered into. Consideration arising from these transactions is allocated to lease and other based on the fair value of leased mobile devices and mobile communications services. The fair value is the price at which the mobile devices are sold individually and the price at which the mobile communications services are provided individually. Consideration allocated to other is recognized as revenues based on fixed monthly charges and the fees charged for usage of the network when services are provided to subscribers.

(b) Fixed-line communications services

Revenues from fixed-line communications services mainly consist of voice telecommunications service fees and data transmission service fees. Revenues from fixed-line communications services are recognized when services are provided to subscribers, based on fixed monthly charges and the fees charged for usage of the network.

(c) Business solution services and others

Revenues from business solution services and other mainly consist of equipment sales service fees, engineering service fees, management service fees, data center service fees, and cloud service fees.

Revenues from business solution services and other are recognized when products or services are provided to customers, based upon the consideration receivable from customers.

Distribution business

Revenues in the Distribution business are mainly generated from the sales of hardware, software, and services in relation to Information and Communication Technology (“ICT”), cloud and Internet of Things (“IoT”) solutions for enterprise customers. Revenues are also driven by the sales of PC software, IoT products, and mobile device accessories for individual customers.

Revenues in the Distribution business are recognized as revenue at the time of delivery to customers, representing the point in time when customers are deemed to have obtained control over the goods and other items.

For transactions conducted by the Group on behalf of third parties, revenues are presented on a net basis by excluding payment to third parties from the total consideration received from customers.

Yahoo business

Revenue in the commerce business consist of revenues from the sale of goods by the ASKUL Group, e-commerce-related services such as *ZOZOTOWN* and *YAHUOKU!*, and membership services such as *Yahoo! Premium*.

Revenues from the sale of goods by the ASKUL Group are recognized when a customer obtains control of the goods, that is, at the time the customer has the ability to direct the use of the goods and to obtain substantially all of the remaining economic benefits from the goods.

ZOZO Inc. operates *ZOZOTOWN* and sells goods on a consignment basis to individual users as an agent of each brand opening a store as a tenant in *ZOZOTOWN*. Consignment sales commission based on gross merchandise value multiplied by sales commission rate is recognized as revenue when the customer obtains control of the goods.

Yahoo provides online auction services through *YAHUOKU!* to individual users and corporations. System usage fees charged to the sellers according to auction proceeds are recognized as revenue when the auction transactions are completed.

Yahoo sells the *Yahoo! Premium* service to individual users, which provides the user with a variety of membership privileges. Its revenues are recognized over the period during which the membership is valid.

Revenue in the media business consist of revenues from paid search advertising, display advertising and other advertising.

Revenues from paid search advertising are recognized based on the per-click rate set by a customer when a visitor of the website clicks the advertisement.

Display advertising mainly comprises premium advertising, *Yahoo! Display Ad Network (YDN)* and others.

Revenues from premium advertising are recognized over the period in which the related advertisement is displayed.

Revenues from *Yahoo! Display Ad Network (YDN)* are recognized based on the per-click rate set by a customer when a visitor of the website clicks the advertisement on the page with the related content.

b. Contract costs

The Group recognizes the costs of obtaining telecommunications service contracts with subscribers that it would not have incurred if the contracts had not been obtained, and if it expects to recover those costs as contract assets. Contract acquisition costs to be capitalized by the Group are mainly sales commissions to dealers related to the acquisition and renewal of mobile communications services contracts between the Group and subscribers.

The Group recognizes the costs to fulfill a contract as an asset if the costs relate directly to the contract or to an anticipated contract that the Group can specifically identify, the costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future, and the costs are expected to be recovered. The costs to fulfill contracts capitalized by the Group are mainly setup costs that are incurred prior to the provision of *SoftBank Hikari*, high-speed Internet connection service via optical fiber lines.

Contract acquisition costs are amortized on a straight-line basis over the period (normally two to three years) during which goods or services directly related to such costs are expected to be provided. The costs to fulfill contracts are amortized on a straight-line basis over the period (mainly two years) during which goods or services directly related to such costs are expected to be provided.

The Group utilizes the practical expedient under IFRS 15 that allows the Group to recognize contract acquisition costs as an expense when incurred if the amortization period of the asset that the Group otherwise would have recognized is one year or less.

(9) Accounting treatment of business combinations

Business combinations are accounted for by the acquisition method at the acquisition date.

The consideration transferred in business combinations is measured as the sum of the assets transferred by the Group, liabilities assumed by the Group from the former owners of the acquiree, and the fair value at the acquisition date of the equity interests issued by the Group. Acquisition-related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired, and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefits are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets or disposal groups that are classified as held-for-sale are measured in accordance with IFRS 5 "Non-current Assets Held-for-Sale and Discontinued Operations."

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable net assets acquired at the acquisition date is recorded as goodwill. If the consideration transferred and the amount of any non-controlling interest in the acquiree is less than the fair value of the identifiable net assets of the acquired subsidiary, the difference is recognized immediately in profit or loss.

On an acquisition-by-acquisition basis, the Group chooses a measurement basis of non-controlling interests at either fair value or by the proportionate share of the non-controlling interests in the recognized amounts of the acquiree's identifiable net assets. When a business combination is achieved in stages, the Group's previously held interest in the acquiree is remeasured at fair value at the acquisition date and gain or loss from the remeasurement, if any, is recognized in profit or loss. The amount arising from changes in the value of interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are accounted for in the same way as those used in the disposal of the interests in the acquiree.

If the initial accounting for a business combination is incomplete by the end of the fiscal year, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. The Group retrospectively adjusts the provisional amounts recognized at the acquisition date as an adjustment during the measurement period when new information about facts and circumstances that existed as of the acquisition date and, if known, would have affected the recognized amounts for the business combination. The measurement period shall not exceed one year from the acquisition date.

Goodwill arising from business combinations that occurred before the date of transition to IFRS is carried over at the carrying amount under the previous accounting principles (Japanese Generally Accepted Accounting Principles) as of the date of transition to IFRS and recorded by that carrying amount after an impairment test.

For transactions under common control (all of the combining companies or businesses are ultimately controlled by the same party or parties both before and after the business combination, and the control is not transitory) , the Company accounts for those transactions based on the book value of the parent company and, regardless of the actual date of the transaction under common control, retrospectively combines the financial statements of the acquired companies as if such transactions were executed by the Group on the later of the date when the parent obtained control of the transferred companies prior to the transfer or the beginning of the previous fiscal year.

(10) Accounting method of consumption taxes

National consumption taxes and local consumption taxes are accounted for using the tax excluded method of reporting.

5.Changes in accounting policies

The Group has adopted IFRS 16 "Leases" from the fiscal year ended March 31, 2020, and it has resulted in changes to the Group's accounting policy

IFRS 16 "Leases" primarily replaces the previous IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease." Under the new standard, the distinction between finance leases and operating leases in lessee accounting is removed, and for all leases in principle, a right-of-use asset and a lease liability are recognized. The standard permits either a full retrospective or a modified retrospective approach for adoption. The accounting for lessors does not change significantly.

The Group does not apply IFRS 16 to leases of intangible assets. The Group applied the modified retrospective approach in accordance with the transitional provisions of IFRS 16 by recognizing the cumulative effect of applying this standard as an adjustment to the balance of assets, liabilities, and retained earnings on the date of initial application, April 1, 2019.

The Group uses the practical expedient that allows the Group to not reassess whether contractual arrangements are, or contain, a lease upon adoption of IFRS 16. Therefore, excluding the abovementioned lease contracts of intangible assets, as of the date of adoption, the Company applied IFRS 16 to the contracts that were identified as leases prior to the adoption in accordance with the previous IAS 17 and IFRIC 4. IFRS 16 was not applied to the contracts that were not identified as leases.

Of the practical expedients permitted upon making retrospective adjustments to each lease pursuant to the modified retrospective approach, the Group utilizes the following:

・Approach to rely on its assessment of whether leases are onerous by applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application of IFRS 16 as an alternative to IAS 36 "Impairment of Assets" and to adjust the right-of-use asset at the date of initial application of IFRS 16 by the amount of any provision for onerous leases recognized immediately before the date of initial application of IFRS 16

・Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application of IFRS16

・Use of hindsight in determining the lease term at the date of initial application of IFRS 16

Upon adoption of IFRS 16, the Group recognizes lease liabilities for leases that were previously classified as operating leases in accordance with the principles of IAS 17. It is required that these liabilities are measured at the present value of the lease payments that are not paid as of April 1, 2019, discounted using the incremental borrowing rate as of the same date. The weighted average of lessee's incremental borrowing rate applied to lease liabilities is 1.09%. The right-of-use assets are measured using either of the following:

・Measurements of lease liabilities adjusted by the amount of any prepaid or accrued lease payments; or

・Carrying amounts calculated as if IFRS 16 were applied from the start of the lease. The lessee's incremental borrowing rate at the date of initial application shall be used as a discount rate.

The difference between the future minimum lease payments under operating leases as of March 31, 2019 and the lease liabilities recognized on April 1, 2019 is as follows:

(Millions of yen)

Undiscounted future minimum lease payments under operating leases as of March 31, 2019	474,012
Discounts for future minimum lease payments under abovementioned operating leases	(20,608)
Discounted future minimum lease payments under operating leases as of April 1, 2019	453,404
Liabilities for leases that were classified as finance leases	876,484
Adjustments due to the reassessment of lease term	58,837
Adjustments due to other factors	(11,176)
Lease liabilities as of April 1, 2019	1,377,549

In addition to the above, the primary effect of adopting IFRS 16 is that ¥1,131,712 million of property, plant and equipment recognized as finance leases under IAS 17 were reclassified to right-of-use assets. As a result, right-of-use assets increased by ¥1,620,843 million.

(Notes to Changes in Presentation)

Consolidated statement of financial position

Z Holdings Corporation became a subsidiary of the Company and the Group retrospectively consolidates the financial statements of Z Holdings Corporation in accordance with the accounting policy for transactions under common control. As a result, “Investment securities”, which was included in “other financial assets” under “non-current assets” in the previous fiscal year, is presented as a separate item from the current fiscal year due to clarity.

(Notes Relating to Consolidated Statement of Financial Position)

1. Assets pledged as collateral and others

(1) Assets pledged as collateral

Certain investment securities of ¥47,831 million are pledged as collateral for financing and exchange settlement purposes by the banking subsidiary. In addition, deposits in the central clearing house of ¥115,273 million are included in other financial assets (non-current).

(2) Others

a. Assets with limited property rights due to installment purchase

Assets with limited property rights due to installment purchase by the Group are as follows:

	(Millions of yen)
Property, plant and equipment	541

Liabilities related to the assets with limited property rights above are as follows:

	(Millions of yen)
Interest-bearing debt:	
Current portion of installment payables	186
Installment payables	273
Total	459

b. Assets with limited property rights due to sale and leaseback transactions not accounted for as sales

Assets with limited property rights retained by lessors due to sale and leaseback transactions not accounted for as sales are as follows:

	(Millions of yen)
Property, plant and equipment	287,417

Liabilities related to the assets with limited property rights above are as follows:

	(Millions of yen)
Interest-bearing debt:	
Current portion of long-term borrowings	81,383
Long-term borrowings	220,947
Total	302,330

c. Assets with limited property rights due to lease contracts of intangible assets

Assets with limited property rights retained by lessors due to lease contracts of intangible assets to which the Group does not apply IFRS 16 are as follows:

	(Millions of yen)
Intangible assets	348,522

Liabilities related to the assets with limited property rights above are as follows:

	(Millions of yen)
Interest-bearing debt:	
Current portion of long-term borrowings	107,690
Long-term borrowings	208,896
Total	316,586

d. Deposits in the Bank of Japan

The banking subsidiary is required to deposit certain amounts, which are determined by a fixed ratio against

the deposits it receives ("the legal reserve requirement"), in the Bank of Japan in accordance with the Act on Reserve Deposit Requirement System in Japan. As of March 31, 2020, cash and cash equivalents include deposits at the Bank of Japan of ¥311,897 million, which are more than the legal reserve requirement.

2. Allowance for doubtful accounts directly deducted from assets

	(Millions of yen)
Trade and other receivables	19,457
Other financial assets (current)	986
Other financial assets (non-current)	22,427
Total	42,870

3. Accumulated depreciation of assets

	(Millions of yen)
Accumulated depreciation of property, plant and equipment	1,787,968
Accumulated depreciation of right-of-use assets	1,311,904

Accumulated depreciation includes accumulated impairment losses.

4. Contingencies

(1) Lending commitments

The lending commitments of the Group mainly consist of the shopping limits and cashing limits that are granted to customers in the Group's credit card business. The total amount and remaining balances at year-end are as follows.

	(Millions of yen)
Total lending commitments	4,982,730
Funded	407,592
Unfunded	4,575,138

The unfunded balance of the shopping limit and cashing limit does not indicate that the total amount of the balance will be used in the future because customers may use the credit card up to the limit at any time and do not always use the full amount of the limit and the Group may change the limit arbitrarily. Also, maturities of unfunded lending commitments are within one year because they are payable on demand.

(2) Credit guarantee

The credit guarantee of the Group mainly consists of guarantees that the Company provides when loans are taken from affiliate financial institutions to individuals regarding the credit guarantee business. The total amount and guarantee balances at year-end are as follows.

	(Millions of yen)
Total amount of financial guarantee contract	13,745
Guarantee balance	6,380

(3) Litigation

The Group is a party to a number of pending legal and administrative proceedings. As it is difficult to reasonably estimate the final results of such matters, provisions have not been recorded. Based on the information currently available, we do not expect that the results of these proceedings will have a material adverse effect on our financial position or results of operations.

a. On April 30, 2015, the Company filed a lawsuit with the Tokyo District Court against Japan Post Information Technology Co., Ltd. (“JPiT”), claiming for payment of remuneration, etc., for additional services provided in connection with the installation of telecommunication lines, etc., that were ordered by JPiT in relation to a project to migrate the communications network connecting approximately 27,000 sites (post offices, etc.) countrywide to a new network, the 5th PNET.

   Pursuant to a contract dated February 7, 2013, the Company was requested by JPiT to carry out, among other services, installation services for telecommunication lines for Japan Post Group’s business sites countrywide. The Company performed such services and upon JPiT’s request. The Company also performed services that exceeded the scope of services stipulated in the contract.

   Although the Company negotiated with JPiT over an extended period regarding the remuneration, etc. (approximately ¥14.9 billion) for these additional services, the Company and JPiT were unable to arrive at a settlement. Accordingly, the Company duly filed the lawsuit, claiming for payment of remuneration, etc., for such additional services.

b. On April 30, 2015, JPiT filed a lawsuit against the Company and Nomura Research Institute, Ltd. (“NRI”) as co-defendants.

   In such lawsuit, JPiT alleges that the Company and NRI delayed performance, etc., of the ordered services related to the project for migration to the 5th PNET mentioned in a. above, and alleges that such delay caused damages to JPiT (¥16.15 billion). JPiT made joint and several claims against both the Company and NRI for such alleged damages.

   The Company intends to fully contest JPiT’s claims in this lawsuit.

An order to consolidate the abovementioned lawsuits was made on July 29, 2015. The Company modified the amount of claim from approximately ¥14.9 billion to approximately ¥20.4 billion on November 13, 2015 as a result of a review of the remuneration etc. with respect to additional services regarding the lawsuit mentioned in a. above. In addition, in light of increased procurement costs of telecommunication lines for JPiT, the Company modified the amount of claim to approximately ¥22.3 billion on October 12, 2016, and further to approximately ¥24.0 billion on September 7, 2017.

5. Financial covenants

(1) Financial covenants on interest-bearing debts of the Company

The Company's interest-bearing debt is subject to financial covenants mainly as follows:

- At March 31 and September 30 of each year, the Company is required to maintain equity in the consolidated statement of financial position of the Group at a minimum of 75% of that of the same date during the previous fiscal year.
- At March 31 and September 30 of each year, the Company is required to maintain net assets in the non-consolidated balance sheet of the Company at a minimum of 75% of that of the same date during the previous fiscal year.
- The Company must not incur operating losses or net losses in the consolidated statement of income of the Group for two consecutive fiscal years.
- The Company must not incur operating losses or net losses in the non-consolidated statement of income of the Company for two consecutive fiscal years.
- At March 31 and September 30 of each year, the Company is required to maintain a net leverage ratio (a) below a certain value:

a. Net leverage ratio: Net debt (b) divided by adjusted EBITDA (c)

b. "Net debt" means the total amount of interest-bearing debt shown in the consolidated statement of financial position of the Group after deducting cash and cash equivalents adjusted for certain items. Interest-bearing debt is adjusted for certain items, such as an exclusion of interest-bearing debt resulting from financing transactions using an asset securitization scheme.

c. "Adjusted EBITDA" means EBITDA adjusted for certain items as specified in the loan agreement

(2) Financial covenants on interest-bearing debts of Z Holdings Corporation

The interest-bearing debt of Z Holdings Corporation, a subsidiary of the Company, is subject to financial covenants mainly as follows:

- At March 31 of each year subsequent to the current fiscal year-end, Z Holdings Corporation is required to maintain net assets presented in the non-consolidated balance sheet at a minimum of 75% of that of September 30, 2019.
- At March 31 and September 30 of each year subsequent to the current fiscal year-end, Z Holdings Group is required to maintain equity presented in the consolidated statement of financial position at a minimum of 75% of that of September 30, 2019.
- At March 31 of each year subsequent to the current fiscal year-end, Z Holdings Corporation must not have a net capital deficiency in the non-consolidated balance sheet.
- At March 31 and September 30 of each year subsequent to the current fiscal year-end, Z Holdings Group must not have a net capital deficiency in the consolidated balance sheet.
- At March 31 of each year subsequent to the current fiscal year-end, Z Holdings Corporation must not incur operating losses or net losses in the non-consolidated statement of income.
- At March 31 of each year subsequent to the current fiscal year-end, Z Holdings Group must not incur operating losses or net losses in the consolidated statement of income.
- At March 31 and September 30 of each year subsequent to the current fiscal year-end, Z Holdings Corporation is required to maintain a net leverage ratio (a) below a certain value:

a. Net leverage ratio: Net debt (b) divided by adjusted EBITDA (c)

b. "Net debt" means the total amount of interest-bearing debt shown in the consolidated statement of financial position of Z Holdings Group after deducting cash and cash equivalents. Interest-bearing debt is adjusted for certain items, such as an exclusion of interest-bearing debt resulting from financing transactions using an asset securitization scheme. Interest-bearing debt and cash and cash equivalents are adjusted not to include those of The Japan Net Bank, Limited.

c. "Adjusted EBITDA" means EBITDA adjusted for certain items as specified in the loan agreement.

(Notes Relating to Consolidated Statement of Income)

Other operating income and other operating expenses

The components of other operating income and other operating expenses are as follows:

	(Millions of yen)
Other operating income	
Gain on loss of control over subsidiaries[1]	12,937
Other operating expenses	
Impairment loss	(3,404)
Loss on remeasurement by business combinations	(3,403)
Total	(6,807)

Note

1. Gain on loss of control over subsidiaries is mainly attributable to gain from the loss of control over Cybereason Japan Corp. On September 30, 2019, the Company sold part of its shares in Cybereason Japan Corp. to Cybereason Inc. As a result, the Company's ratio of voting rights in Cybereason Japan Corp. decreased from 60% to 49.9%. Accordingly, Cybereason Japan Corp. has been reclassified from the Company's subsidiary to an equity method associate. Gain on loss of control over subsidiaries of ¥11,879 million is recognized for this transaction as other operating income.

(Notes Relating to Consolidated Statement of Changes in Equity)

1. Class and total number of outstanding shares

Class of shares	Number of shares at beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at end of the current fiscal year
Common stock (Thousands of shares)	4,787,145	-	-	4,787,145

2. Dividends

(1) Dividends paid

The Company

Board of Directors' meeting held on May 21, 2019

Class of shares	Common stock
Total dividends	¥179,518 million
Dividends per share	¥37.50
Record date	March 31, 2019
Effective date	June 10, 2019

Board of Directors' meeting held on October 28, 2019

Class of shares	Common stock
Total dividends	¥202,584 million
Dividends per share	¥42.50
Record date	September 30, 2019
Effective date	December 6, 2019

Transactions between entities under common control are accounted for based on the book value of SBG and, regardless of the actual date of the transaction under common control, the acquired companies are consolidated as if such transactions were executed by the Group on the later of the date when the parent, SBG, obtained control of the transferred companies prior to the transfer or the beginning of the previous fiscal year. As a result, the following dividend paid by Z Holdings Corporation before the date of the transaction under common control is included in "cash dividends" in the consolidated statement of changes in equity.

Z Holdings Corporation

Board of Directors' meeting held on May 16, 2019

Class of shares	Common stock
Total dividends	¥45,042 million
Dividends per share	¥8.86
Record date	March 31, 2019
Effective date	June 4, 2019

Note: The amount of dividends paid to owners of the Company was ¥16,253 million.

(2) Dividends for which the record date is in the fiscal year ended March 31, 2020, and the effective date for payment is in the following fiscal year

The resolution planned at the Board of Directors' meeting on May 21, 2020 is as follows:

The Company

Board of Directors' meeting held on May 21, 2020

Class of shares	Common stock
Total dividends	¥201,499 million
Dividends per share	¥42.50
Record date	March 31, 2020
Effective date	June 10, 2020
Source of dividends	Retained earnings

3. Class and number of shares for stock acquisition rights as of March 31, 2020

(Excluding stock acquisition rights for which the commencement date of exercise period has not yet arrived)

There are no applicable items.

(Notes Relating to Financial Instruments)

1. Matters regarding conditions of financial instruments

The Group is promoting diversification of its business and is subjected to various financial risks (credit risk, market risk, and liquidity risk) due to factors in its business and financial market environments. The Group manages its risks based on established policies to prevent and reduce these financial risks.

Derivative transactions entered into by the Company are executed and managed in accordance with internal rules and through the prescribed execution procedures, and are limited to the extent of actual demand.

(1) Credit risk

Credit risk is a risk of the financial loss of the Group resulting from the counterparties of the financial assets held failing to meet their contractual obligations.

In the course of the Group's business, trade and other receivables, contract assets, and other financial assets (including deposits, equity securities, debt securities, and derivatives), investment securities and investment securities in banking business are exposed to the credit risks of its counterparties.

In order to prevent and reduce the risk, the Group does not expose itself to significant concentrations of credit risk for such receivables and financial assets.

Investment securities in banking business mainly include investment securities such as domestic bonds and foreign bonds and trust beneficiary rights. Such bonds are exposed to the credit risk of issuers, whereas trust beneficiary rights are exposed to the credit risk of underlying assets.

Equity instruments at FVTOCI consist primarily of shares of companies with which the Group has business relationships and are exposed to the issuer's credit risk. This risk is managed by continuously monitoring the financial conditions of issuers and other factors.

Trade receivables include receivables from dealers, communications fee receivables from customers, and installment receivables of mobile devices, and are exposed to the credit risk of dealers and customers. To manage credit risk for receivables from dealers, the Group performs due date controls and balance controls for each dealer in accordance with its internal credit management policies and regularly monitors major dealers' credit statuses. For customer credit risk, the Group conducts screening in accordance with its internal company standards upon entering into an agreement with customers, and checks the status of usage and collection of each customer from time to time to avoid an increase in any uncollectible amounts. Regarding installment receivables, the Group refers to external institutions for credit risk information.

Derivative transactions are executed and managed in accordance with internal rules, and the Group enters into derivative transactions only with highly creditworthy financial institutions in order to mitigate credit risk.

The carrying amount of financial instruments, net of impairment, which is presented in the consolidated statement of financial position, as well as the amount of lending commitments, represents the Group's maximum exposure to credit risk on its financial assets. The value of collateral held, and other credit enhancements are not included.

Trade receivables, contract assets, and lending commitments are measured at the lifetime expected credit losses. For other receivables and financial assets, the Group assesses a significant increase in their credit risk, and then the future expected credit losses are measured accordingly. The Group determines whether credit risk has increased significantly or not, based on the change in the risk of default by considering the counterparty's past due information, deterioration of business performance, external credit rating, and other factors. For receivables and financial assets other than trade receivables and contract assets, the expected credit losses are measured at an amount equal to the 12-month expected credit losses in principle, but are measured at an amount equal to the lifetime expected credit losses when the credit risk has increased significantly since initial recognition.

Regarding events that have a detrimental impact on the estimated future cash flows of financial assets such as those listed below, the Group deems the financial assets to be credit-impaired and measures the expected credit losses individually. When financial assets are not individually significant, the expected credit losses are measured collectively based on the credit risk characteristics and the nature of the transactions that have occurred.

- significant financial difficulty of the issuer or borrower
- breach of contract, such as a default or delinquency in interest or principal payments
- high possibility of the borrower filing for bankruptcy or entering financial reorganization

(2) Market risk

a. Foreign exchange risk

The Group conducts foreign currency-denominated transactions and is exposed to currency risk arising mainly from changes in the exchange rate of U.S. dollars to Japanese yen. To avoid this risk, the Company utilizes forward foreign exchange contracts. In addition, to avoid currency risk arising from foreign exchange dealings, the Group enters into covering transactions with counterparties to cover its positions arising from transactions with customers.

b. Price risk

The Group, for the purposes of its business strategy, holds equity instruments traded on active markets, such as publicly-traded shares, and is exposed to market price fluctuation risk. Equity instruments are acquired to mutually expand businesses and enhance business relationships, and are not held for trading in the short term. To manage the market price fluctuation risk, the Group continuously monitors issuers' financial conditions and market prices, and reviews the holding status of the instruments considering the business relationships with those issuers.

c. Interest rate risk

The Group raises capital through interest-bearing loans including those with floating interest rates, and hence is exposed to the risk of an increase in the interest payments resulting from rising interest rates. In order to prevent or reduce the risk of interest rate fluctuations, the Group maintains an appropriate mix of interest-bearing debt with fixed and floating interest rates, and uses interest rate swap agreements for certain borrowings with floating interest rates to avoid the risk of interest rate fluctuations and convert the floating rates into fixed rates. For floating interest rate debt, the Group also continuously monitors interest rate fluctuations.

(3) Liquidity risk

The Group is exposed to liquidity risk through its potential difficulty to meet its obligations such as trade payables, accounts payable, borrowings, and lease liabilities.

In order to prevent and reduce liquidity risk, the Group maintains access to diversified fundraising sources, including both indirect financing, such as bank loans, issuance of bonds and leases, and direct financing, such as securitization, taking market conditions and its current/non-current debt ratios into consideration. Funds are mainly invested in short-term deposits.

The Group also continuously monitors its forecasted and actual cash flows and liquidity.

2. Fair value of financial instruments

The carrying amounts and fair values of financial liabilities that are not measured at fair value on a recurring basis as of the end of the current fiscal year are shown below. The table below does not include financial instruments whose carrying amounts are reasonably similar to fair values. Financial instruments that are measured at fair value on a recurring basis are also excluded because their fair values are the same as their carrying amounts.

(Millions of yen)

	Carrying amount	Fair value
Interest-bearing debt (non-current)		
Long-term borrowings	2,212,677	2,256,339

(1) Fair value measurement of financial instruments

The major valuation techniques for fair value measurements of the financial liabilities above are as follows:

Long-term borrowings

Fair values of the non-current portion of long-term borrowings with floating interest rates are measured based on the discounted cash flow method using observable inputs, such as market interest rates.

Fair values of the non-current portion of long-term borrowings with fixed rates are measured based on a discounted cash flow method using an interest rate, considering the credit spread that would be used for a borrowing with the same terms and maturity.

(2) Redemption schedule for interest-bearing debt and deposits for banking business

Redemption schedule for interest-bearing debt and deposits for banking business is as follows:

(Millions of yen)

	Carrying amount	Aggregation of redemption schedule	Within 1 year	1 year to 2 years
Interest-bearing debt				
Short-term borrowings	577,371	577,371	577,371	–
Commercial paper	100,000	100,000	100,000	–
Long-term borrowings (including current portion)	2,971,199	2,984,973	760,621	669,923
Bonds (including current portion)	394,327	395,000	10,000	15,000
Lease liabilities	1,038,896	1,038,896	365,202	255,135
Installment payables	459	459	186	146
Deposits for banking business[1]	901,883	901,883	880,847	6,750
Total	5,984,135	5,998,582	2,694,227	946,954

	2 years to 3 years	3 years to 4 years	4 years to 5 years	More than 5 years
Interest-bearing debt				
Short-term borrowings	–	–	–	–
Commercial paper	–	–	–	–
Long-term borrowings (including current portion)	511,076	408,150	619,983	15,220
Bonds (including current portion)	95,000	30,000	85,000	160,000
Lease liabilities	164,639	87,013	39,308	127,599
Installment payables	54	44	13	16
Deposits for banking business[1]	6,255	2,631	2,305	3,095
Total	777,024	527,838	746,609	305,930

Note: Deposits for banking business payable on demand are included in "Within 1 year." Deposits for banking business include ¥778,331 million deposits for banking business payable on demand.

(Notes Relating to Per Share Data)

1. Equity per share attributable to owners of the Company ¥211.03
2. Basic earnings per share ¥99.27

(Notes Relating to Business Combinations)

1. Acquisition of shares in Z Holdings Corporation

a. Summary of transaction

The Company underwrote a capital increase by third-party allotment conducted by Z Holdings Corporation. The purpose of the underwriting is to further enhance growth, development, and corporate value of the Group by jointly and actively developing non-telecommunications business including FinTech as well as making optimal deployment of management resources between the Company and Z Holdings Corporation based on an integrated strategy so as to maximize synergy effects. On June 27, 2019, the Company acquired 1,511,478 thousand new shares issued by Z Holdings Corporation for ¥456,466 million. As a result of this transaction, together with 613,889 thousand shares the Company acquired for ¥221,000 million excluding transaction costs in August 2018, the ratio of voting rights held by the Group in Z Holdings Corporation became 44.6%. In addition, officers from the Company were appointed as members of Z Holdings Corporation's Board of Directors. As a result, Z Holdings Corporation is considered substantially controlled by the Company and became a subsidiary of the Company.

Z Holdings Corporation is engaged in the "Commerce business" and the "Media business." The "Commerce business" mainly comprises sales of products, planning and sales of services, and settlement - and finance-related services, all of those are provided via the internet for small to medium-sized businesses and individual customers. The "Media business" mainly comprises planning and sales of internet-based advertising-related services, information listing services, and other corporate services.

b. Summary of accounting treatment

The abovementioned transaction was accounted for as a transaction under common control. For transactions under common control, the Company accounts for this transaction based on the book value of SBG, and regardless of the actual transaction date, retrospectively combines the financial statements of the transferred companies from April 1, 2018 as part of the consolidated financial statements of the Group.

Changes of equity for this transaction are presented as "Retrospective adjustments from transactions under common control" in the consolidated statement of changes in equity. The differences between the amount paid by SoftBank Corp. for subsidiaries that were transferred under common control and SBG's book value of the subsidiaries at the time of transfer are included in "Changes from transactions under common control".

2. Acquisition of ZOZO, Inc.

Summary of acquisition

Z Holdings Corporation, a subsidiary of the Company, conducted a tender offer for the common stock of ZOZO, Inc., which was resolved at its Board of Directors' meeting held on September 12, 2019 for the purpose of strengthening clothing/fashion e-commerce category in order to further expand its e-commerce business. The tender offer was completed on November 13, 2019, and Z Holdings Corporation acquired 152,953 thousand common stock of ZOZO, Inc. for ¥400,737 million in cash. Z Holdings Corporation acquired 50.1% of the equity interest of ZOZO, Inc., and ZOZO, Inc. became a subsidiary of the Company. In addition, in order to procure part of the funds necessary to acquire the target shares for this business combination, Z Holdings Corporation borrowed of ¥400,000 million.

The business of ZOZO, Inc. is planning and operation of fashion online shopping website "ZOZOTOWN", planning and development of private brand "ZOZO", customer support and operation of logistics center

"ZOZOBASE".

The table below shows the fair value of assets and liabilities, non-controlling interests, and goodwill as of the date of obtaining control, and the total consideration transferred [1]:

		(Millions of yen) Acquisition date (November 13, 2019)
Cash and cash equivalents		22,876
Trade and other receivables		30,443
Other current assets		7,770
Property, plant and equipment		8,610
Right-of-use assets		20,964
Intangible assets[2]		503,017
Other non-current assets		13,799
Total assets		607,479
Interest-bearing debt (current and non-current)		42,589
Trade and other payables		28,362
Other current liabilities		9,263
Deferred tax liabilities		150,269
Other non-current liabilities		3,420
Total liabilities		233,903
Net assets	A	373,576
Non-controlling interests[3]	B	185,750
Total consideration	C	400,737
Goodwill[4]	C-(A-B)	212,911

Notes:

1. Consideration transferred is allocated to acquired assets and assumed liabilities based on the fair value on the acquisition date. The allocation of consideration transferred was completed in the fourth quarter of the fiscal year ended March 31, 2020. There is no adjustment between the initial provisional amount and final amount.
2. The amount of intangible assets includes ¥502,199 million of identifiable assets and the table below shows the breakdown of the identifiable assets. The estimated useful lives of customer relationships are from 18 to 25 years, and trademarks are classified as intangible assets with indefinite useful lives.

	(Millions of yen) Acquisition date (November 13, 2019)
Customer relationships	322,070
Trademarks	178,720
Other identifiable assets	1,409
Total	502,199

3. Non-controlling interests that give the holder a pro-rata share of the net assets of the acquiree at the time of liquidation are measured at the recognized amounts of the acquiree's identifiable net assets as of the date of obtaining control, multiplied by the ratio of the non-controlling interests as of the date of

obtaining control after the business combination.

4. Goodwill reflects the ability to generate excess earnings resulting from expected future business development and synergies between the Group and the acquiree.

The table below shows payments for obtaining control of the subsidiary:

(Millions of yen)

	Acquisition date (November 13, 2019)
Consideration paid in cash	(400,737)
Cash and cash equivalents held by the acquiree at the time of obtaining control	22,876
Cash paid for obtaining control of the subsidiary	(377,861)

Revenue and net income of the acquiree:

The revenue and net income of the acquiree recorded in the consolidated statement of income for the fiscal year ended March 31, 2020 after the acquisition date are ¥57,463 million and ¥5,773 million, respectively.

Net income above includes amortization of intangible assets recognized as of the acquisition date.

(Other Notes)

1. Business Integration of Z Holdings Corporation and LINE Corporation

The Company, NAVER Corporation ("NAVER", and the Company and NAVER are collectively referred to as the "Proposing Parties"), Z Holdings Corporation (Securities Code: 4689, listed on the first section of the Tokyo Stock Exchange, Inc. ("TSE"), a consolidated subsidiary of the Company ("ZHD"), and LINE Corporation (Securities Code: 3938, listed on the first section of the TSE), a consolidated subsidiary of NAVER ("LINE"), have been discussing and evaluating a business integration between ZHD and its subsidiaries ("ZHD Group") and LINE and its subsidiaries ("LINE Group") ("Business Integration"). In accordance with the resolutions of the Board of Directors of each of NAVER, ZHD and LINE at a meeting held on December 23, 2019, and in accordance with the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on the same date, the four companies have on the same date entered into a business integration agreement, which is the definitive and legally-binding agreement regarding the Business Integration ("Definitive Integration Agreement"). In accordance with the resolutions of the Board of Directors of NAVER at a meeting held on the same date, and in accordance with the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on the same date, the Proposing Parties have entered into a legally-binding transaction agreement on the same date regarding the Definitive Integration Agreement and joint venture agreement ("Joint Venture Agreement").

As one step in a series of transactions to realize the Business Integration, by resolution of the Board of Directors of NAVER at a meeting held on December 23, 2019, and by the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on December 23, 2019, the Proposing Parties have decided to jointly conduct a tender offer in Japan and the United States ("Joint Tender Offer").

ZHD, the publicly listed integrated company following the Business Integration ("Combined Company"), is expected to be a consolidated subsidiary of the Company. The Business Integration is subject to receipt of required competition law and foreign exchange law and other clearances and permits required by applicable law and regulation in each country as well as the satisfaction of the other preconditions specified in the Definitive Integration Agreement, and the Business Integration is targeted to be completed in October 2020. Please also refer to "(2) Summary of the Business Integration" for the method of Business Integration.

(1) Purpose of the Business Integration

The Business Integration will be conducted on an equal basis by ZHD and LINE with the aim of forming a business group that can overcome fierce domestic and global competition through the ZHD Group and the LINE Group bringing together their business resources and through the Combined Company group, following the Business Integration, pursuing synergies in their respective business areas as well as implementing business investment targeting growth in the areas of AI, commerce, FinTech[1] advertising, and O2O[2] and other new business areas.

Notes:

1. FinTech is a word comprised of "finance" and "technology," and it refers to activities to attempt to resolve inefficiencies in existing financial services and to innovate financial services through the utilization of smart devices including smartphones and tablets and technologies that utilize big data.
2. O2O stands for "Online to Offline," and it refers to measures for online (internet)-based information to influence offline (real world) purchasing activities.

(2) Summary of Business Integration

In the Definitive Integration Agreement, the Company, NAVER, ZHD, and LINE agreed broadly on the following

method of Business Integration.

① The Company and NAVER or its wholly owned subsidiary (a Japanese entity) (NAVER and such wholly owned subsidiary, "NAVER Offerors") will implement the Joint Tender Offer for the purpose of taking LINE private.

② In the event that, following the completion of the Joint Tender Offer, a portion of the Target Shares[1] have not been tendered and acquired, the Company and the NAVER Offerors will implement squeeze-out procedures (with the intended result that post-squeeze out, the Company and the NAVER Offerors shall be the only shareholders of LINE) using a reverse share split or other methods permitted by law to take LINE private ("Squeeze-out"), and deliver consideration for the Squeeze-out in the same amount as the tender offer price to LINE shareholders in the Joint Tender Offer.

③ LINE will make a tender offer for ZHD shares ("Tender Offer for ZHD Shares")[2] for the purpose of acquiring all of ZHD shares ("Shares to be Tendered") held by Shiodome Z Holdings Corporation ("Shiodome Z Holdings"), which is a consolidated subsidiary of the Company[3].

④ Prior to the settlement of the Tender Offer for ZHD Shares, LINE will issue a corporate bond with the Company as the underwriter for the underwriting amount equivalent to the aggregate amount of the purchase price for the Tender Offer for ZHD Shares in order to secure the purchase funds for Tender Offer for ZHD Shares ("Bond Issuance").

⑤ After completion of the settlement for the Tender Offer for ZHD shares, an absorption-type merger ("Merger") will be conducted between Shiodome Z Holdings as the company ceasing to exist in the Merger and LINE as the surviving company. Assuming the total number of issued and outstanding LINE Shares and shares of ZHD are those of September 30, 2019 (excluding treasury shares), 180,882,293 new LINE Shares will be issued in consideration of the Merger[4], all of which will be allocated to the Company, which is the parent of Shiodome Z Holdings.

⑥ One day prior to the date of commencement of settlement for the Tender Offer for ZHD shares, the Company and the NAVER Offerors will undertake a shareholding adjustment transaction in order to make the ratio of voting rights in LINE held by the Company and the NAVER Offerors 50:50 immediately after the Merger becomes effective. This transaction shall take the form of a transfer of a portion of LINE Shares held by the Company from the Company to the NAVER Offerors ("JV Conversion Transaction"). Through the Merger and the JV Conversion Transaction, LINE will be a consolidated subsidiary of the Company.

⑦ At the same time as the Merger becomes effective, LINE will contribute all of its business (except for its shares in ZHD and the status, rights, and obligations in connection with the contracts entered into by LINE with respect to the Business Integration and any other rights and obligations specified in the absorption-type demerger agreement) to a newly formed wholly owned subsidiary ("LINE Successor") in an absorption-type demerger ("Corporate Demerger").

⑧ After the Corporate Demerger becomes effective, a share exchange will be conducted with ZHD shares as consideration whereby ZHD becomes the wholly owning parent company and the LINE Successor becomes the wholly owned subsidiary company ("Share Exchange") .

Notes:

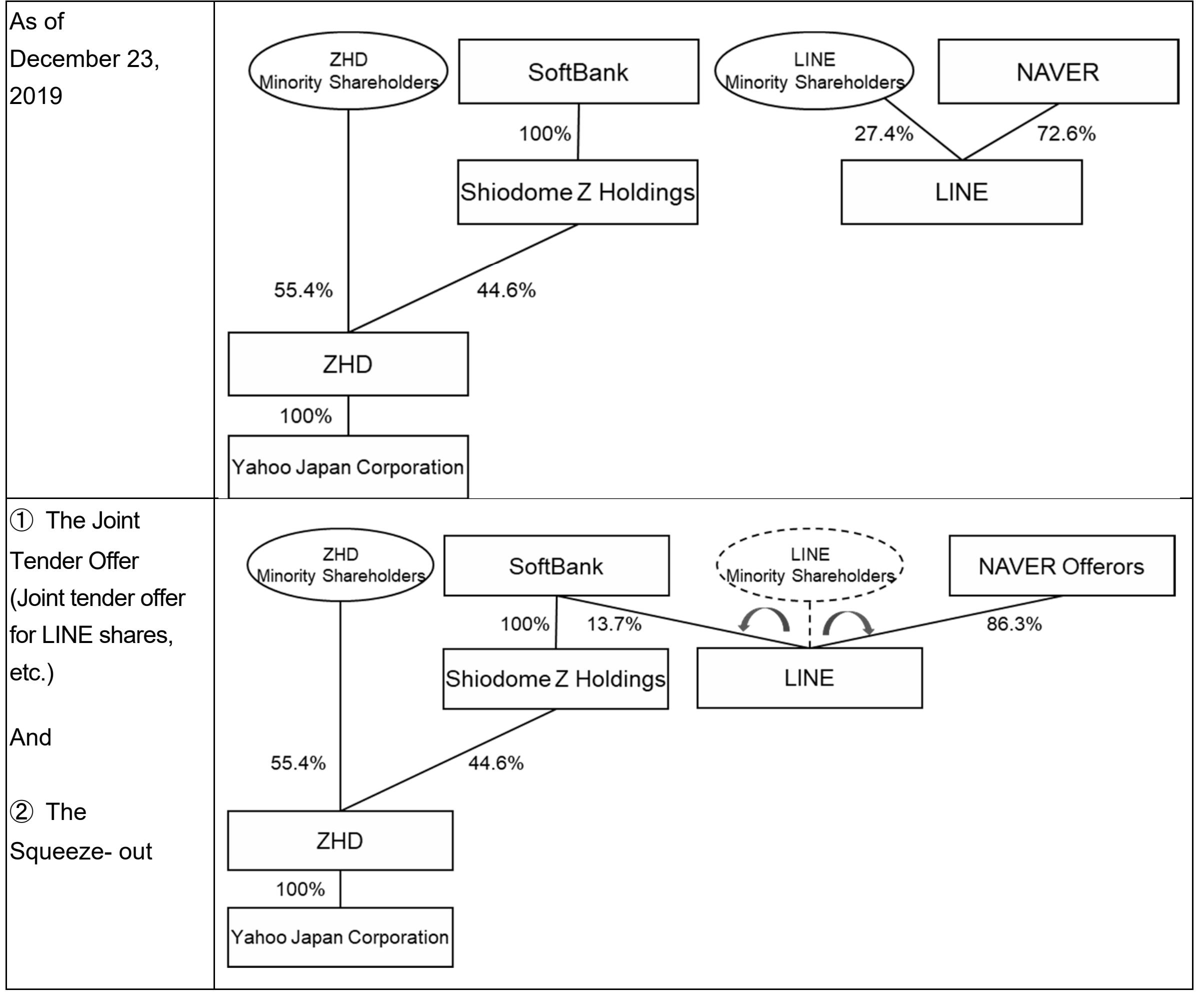
1. LINE Common stock, the Share Options, the Convertible Bonds, and the American Depositary Receipts are collectively referred to as the "Target Shares" (other than those owned by NAVER or owned by LINE as the treasury shares).
2. The Company transferred its shares in ZHD to its wholly owned consolidated subsidiary Shiodome Z Holdings, with an execution date of December 18, 2019. Shiodome Z Holdings made organizational change and transitioned to a limited liability company on March 31, 2020.
3. Because the Tender Offer for ZHD Shares is scheduled to be conducted in early September 2020, and will

be conducted in accordance with an agreement between the Company and NAVER to transfer the Shares to be Tendered from Shiodome Z Holdings to LINE, the method and terms of the transfer of the Shares to be Tendered from Shiodome Z Holdings to LINE may change to the extent permitted by applicable law and regulation. In addition, the Tender Offer for ZHD Shares will not be conducted, directly or indirectly, in the United States, and will not be extended to, or for the benefit of, shareholders in the United States, who are definitively excluded from the Tender Offer for ZHD Shares.

4. However, based on the result of the Squeeze-out or if there is any other reason that requires reasonable adjustment, the Company and NAVER intend to make appropriate adjustments according to such result or reason through a separate agreement.

Please also refer to below “Schematic Diagram of the Business Integration” for the summary of Business Integration.

Schematic Diagram of the Business Integration



	① The Company and the NAVER Offerors will jointly conduct the Joint Tender Offer for the purpose of taking LINE private. The commencement of the Joint Tender Offer is targeted to occur during the period from May to June 2020, and the Tender Offer Period is intended to be at least 30 business days, but it is difficult to accurately predict the amount of time required for procedures, etc. with the competition authorities in Japan and abroad, and therefore this is not a fixed schedule. The aggregate amount of the purchase price is expected to be approximately ¥372.0 billion, with the Company and the NAVER Offerors each purchasing 50%. ② In the event that the Joint Tender Offer is completed and all of the Target Shares have not been acquired in the Joint Tender Offer, the Squeeze-out using a reverse share split or other methods will be deployed to take LINE private and to make the Company and the NAVER Offerors the only shareholders of LINE, and will provide LINE shareholders with the same amount as the Tender Offer Price in the Joint Tender Offer.

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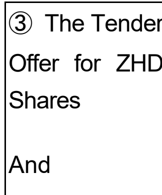
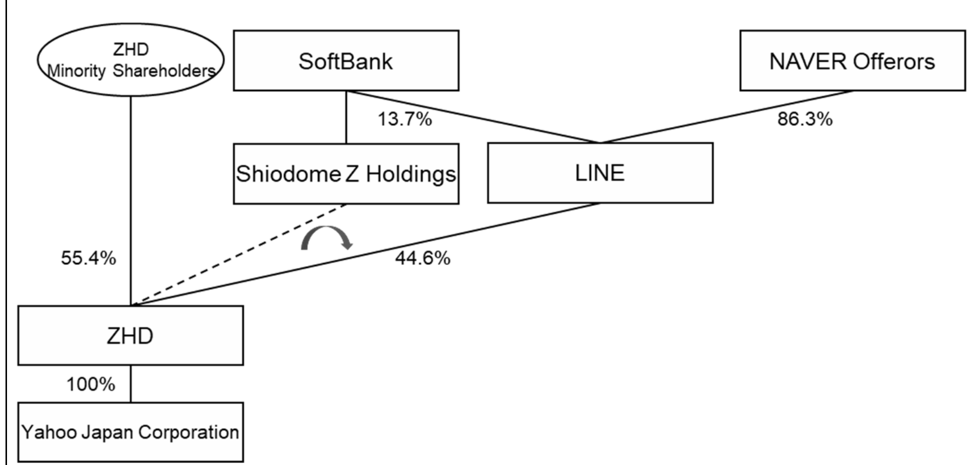
<td rowspan="2">
③ The Tender Offer for ZHD Shares

And

④ The Bond Issuance (Issuance of corporate bond by LINE)</td>
<td>
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<td>③ LINE will conduct the Tender Offer for ZHD Shares for the purpose of acquiring all ZHD shares held by Shiodome Z Holdings. The commencement of the Tender Offer for ZHD Shares is targeted to occur in early September 2020, but it is difficult to accurately predict the amount of time required for procedures, etc. with the competition authorities in Japan and abroad, and therefore, this is not a fixed schedule. In addition, the aggregate amount of the purchase price will be the number of shares to be purchased (2,125,366,950 shares) multiplied by the tender offer price pertaining to the Tender Offer for ZHD Shares (348 yen (or, if the lesser of (i) the closing price of ZHD shares on the First Section of the Tokyo Stock Exchange on the business day before the date of commencement of the Tender Offer for ZHD Shares and (ii) the simple average closing price over the past one month to the same date, discounted by 5% (rounded down to the nearest yen), is below 348 yen, then such amount); however, the specific amount is still to be finalized.
④ Prior to the settlement of the Tender Offer for ZHD Shares, LINE will issue bonds with the Company as the underwriter in order to secure the purchase funds for the Tender Offer for ZHD Shares. The Company and NAVER have agreed that the amount to be paid for the Bond Issuance will be equivalent to the aggregate amount of the purchase price in the Tender Offer for ZHD Shares.</td>
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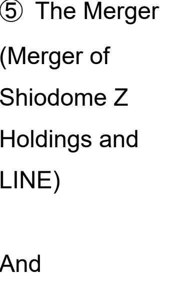
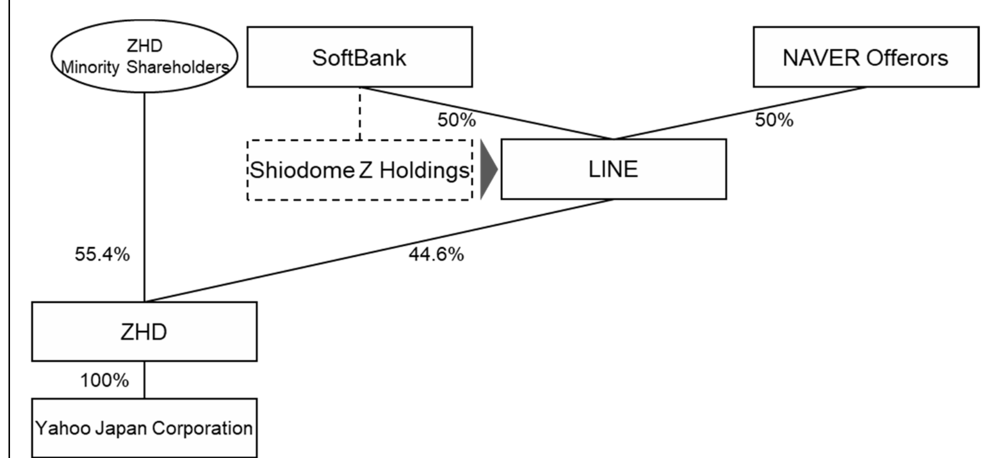
<td>
⑤ The Merger (Merger of Shiodome Z Holdings and LINE)

And

⑥ The JV Conversion Transaction</td>
<td>
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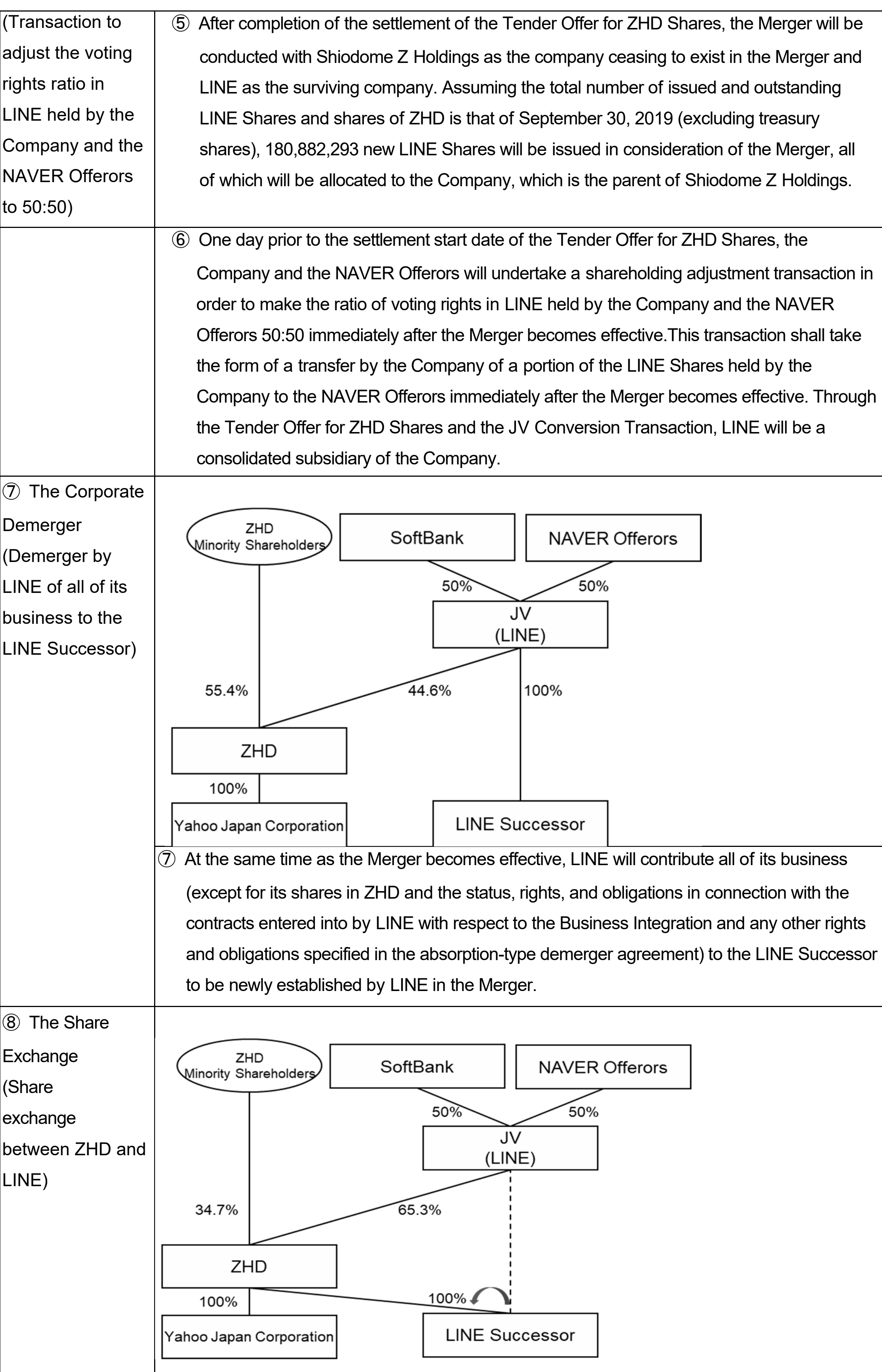
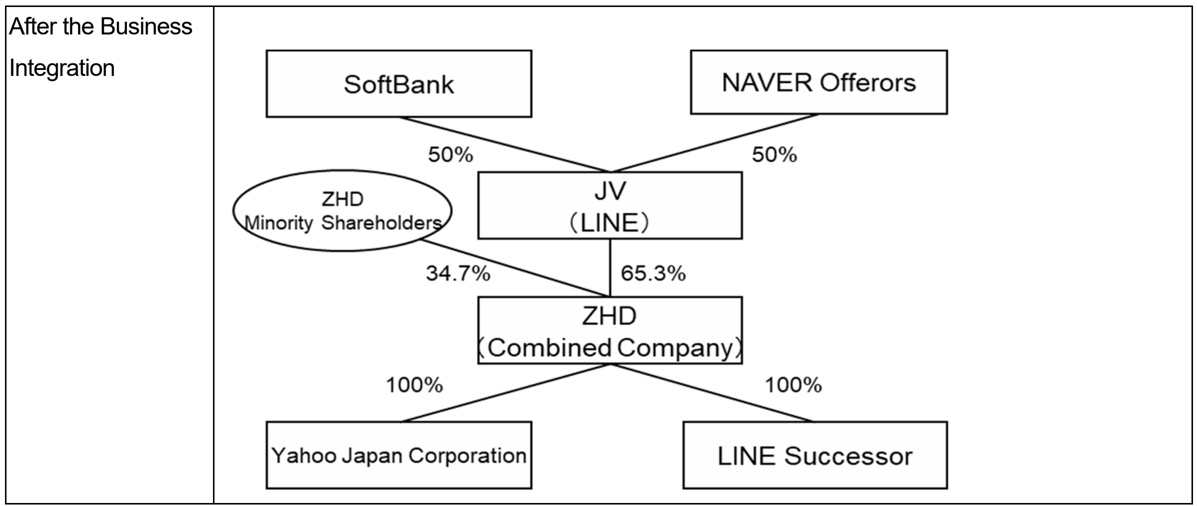


(Transaction to adjust the voting rights ratio in LINE held by the Company and the NAVER Offerors to 50:50)	⑤ After completion of the settlement of the Tender Offer for ZHD Shares, the Merger will be conducted with Shiodome Z Holdings as the company ceasing to exist in the Merger and LINE as the surviving company. Assuming the total number of issued and outstanding LINE Shares and shares of ZHD is that of September 30, 2019 (excluding treasury shares), 180,882,293 new LINE Shares will be issued in consideration of the Merger, all of which will be allocated to the Company, which is the parent of Shiodome Z Holdings.
	⑥ One day prior to the settlement start date of the Tender Offer for ZHD Shares, the Company and the NAVER Offerors will undertake a shareholding adjustment transaction in order to make the ratio of voting rights in LINE held by the Company and the NAVER Offerors 50:50 immediately after the Merger becomes effective.This transaction shall take the form of a transfer by the Company of a portion of the LINE Shares held by the Company to the NAVER Offerors immediately after the Merger becomes effective. Through the Tender Offer for ZHD Shares and the JV Conversion Transaction, LINE will be a consolidated subsidiary of the Company.
⑦ The Corporate Demerger (Demerger by LINE of all of its business to the LINE Successor)	⑦ At the same time as the Merger becomes effective, LINE will contribute all of its business (except for its shares in ZHD and the status, rights, and obligations in connection with the contracts entered into by LINE with respect to the Business Integration and any other rights and obligations specified in the absorption-type demerger agreement) to the LINE Successor to be newly established by LINE in the Merger.
⑧ The Share Exchange (Share exchange between ZHD and LINE)	

	⑧ After the Corporate Demerger becomes effective, a share exchange will be conducted with ZHD shares as consideration whereby ZHD becomes the wholly owning parent company and the LINE Successor becomes the wholly owned subsidiary company. The exchange ratio for the Share Exchange (allotted ratio of ZHD Shares to be exchanged for one share of the LINE Successor) is 11.75, and the Share Exchange is scheduled to be effective in October 2020.

After the Business Integration	

(3) Outline of the Parties

a. Parties involved in the Business Integration

(a) Outline of subsidiary subject to change

①	Name	LINE Corporation	
②	Address	4-1-6 Shinjuku, Shinjuku-ku, Tokyo	
③	Name and title of representative	Mr. Takeshi Idezawa, Representative Director and President	
④	Nature of business	Advertising service based on the mobile messenger application "LINE", core businesses including the sales of stamp and game service, and strategic businesses including Fintech, AI, and commerce service.	
⑤	Share capital	JPY 96,535 million (as of September 30, 2019)	
⑥	Major shareholders and shareholding ratios (as of June 30, 2019)	NAVER MOXLEY & CO LLC JAPAN TRUSTEE SERVICES BANK, LTD.	72.64% 3.64% 2.11%

b. Parties to the Merger

(a) Company ceasing to exist in the Merger

①	Name	Shiodome Z Holdings Co., Ltd.	
②	Address	1-9-1, Higashi-Shimbashi, Minato-ku, Tokyo	
③	Name and title of representative	Kazuhiko Fujihara, Representative Director	
④	Nature of business	Business preparation company	
⑤	Share capital	JPY 10 million (As of March 31, 2019)	
⑥	Major shareholders and shareholding ratios (as of September 30, 2019)	The Company	100%

Note: Shiodome Z Holdings made organizational change and transitioned to limited liability company on March 31, 2020.

(b) Surviving company in the Merger

For an overview of LINE, which will be the surviving company in the Merger, please refer to "(a) Outline of subsidiary subject to change" in "a. Parties involved in the Business Integration" under "(3) Outline of the Parties."

(c) Status of the surviving company after the Merger

①	Name	LINE Corporation
②	Address	4-1-6 Shinjuku, Shinjuku-ku, Tokyo
③	Name and title of representative	Mr. Takeshi Idezawa, Representative Director and President
④	Nature of business	Advertising service based on the mobile messenger application “LINE,” core businesses including the sales of stamp and game service, and strategic businesses including Fintech, AI, and commerce service.
⑤	Share capital	JPY 96,535 million (as of September 30, 2019)

Note: The status prior to the Corporate Demerger becoming effective is shown. LINE plans to transfer all of its business to the LINE Successor through the Corporate Demerger, and after the Corporate Demerger becomes effective, LINE (the JV) will hold ZHD (the Combined Company) shares in order to run the business that controls and manages ZHD business activities and to run associated operations. In addition, the name of LINE (the JV) will be changed after the Corporate Demerger becomes effective, but the name after the change has not yet been decided.

c. Parties to the Share Exchange

(a) Wholly owning parent company in the Share Exchange and the wholly owned subsidiary in the Share Exchange

		Wholly owning parent company in Share Exchange	Wholly owned subsidiary company in Share Exchange
①	Name	Z Holdings Corporation	Preparatory corporation for demerger of LINE
②	Address	Tokyo Garden Terrace Kioi-cho Kioi Tower, 1-3, Kioicho, Chiyoda-ku, Tokyo	4-1-6 Shinjuku Shinjuku-ku, Tokyo
③	Name and title of representative	Kentaro Kawabe, Representative Director, President and CEO	Takeshi Idezawa, Representative Director
④	Nature of business	Management of group companies and related operations	Company for preparation of operations
⑤	Share capital	JPY 237,404 million (as of September 30, 2019)	JPY 1.50 million (as of the founding date of December 13, 2019)
⑥	Major shareholders and shareholding ratios[1] (as of September 30, 2019)	The Company 44.6%	LINE Corporation 100%
		STATE STREET BANK AND TRUST COMPANY 505325 3.0%	
		SSBTC CLIENT OMNIBUS ACCOUNT 1.9%	
		JAPAN TRUSTEE SERVICES BANK, LTD. (Trust account) 1.8%	
		The Master Trust Bank of Japan, Ltd. (Trust account) 1.8%	
		GOLDMAN, SACHS & CO. REG 1.7%	
		J.P. MORGAN BANK LUXEMBOURG S. A. 1300000 1.5%	
		JP MORGAN CHASE BANK 385632 1.2%	
		BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO) 1.1%	
		JAPAN TRUSTEE SERVICES BANK, LTD. (Trust account 9) 1.0%	

Note: ZHD is also holding 60,021,000 treasury shares in addition to the above.

(b) Outline of the wholly owning parent company in share exchange after the Share Exchange

①	Name	Z Holdings Corporation
②	Address	Tokyo Garden Terrace Kioi-cho Kioi Tower, 1-3, Kioicho, Chiyoda-ku, Tokyo
③	Name and title of representative	Takeshi Idezawa, Representative Director and Co-CEO Kentaro Kawabe, Representative Director, President and Co-CEO
④	Nature of business	Management of group companies and related operations
⑤	Share capital	Not yet finalized.

(4) Impact on future performance of the Group

Any impact on the results of our business and operations due to the Joint Tender Offer and the Business Integration are currently being evaluated.

2. The impact of outbreak of Coronavirus disease 2019

Due to the outbreak of the Coronavirus disease 2019 (COVID-19), there has been a sharp slowdown in economic activity and consequent deterioration in the economic environment, but this has not had a significant impact on the Group's business results for this fiscal year. As of this moment, it is difficult to reasonably estimate the period and extent of the impact of the outbreak of COVID-19, and if it is delayed to slow the outbreak, there are certain uncertainties in the estimates that affect the Group's future earnings and cash flows. In this situation, we reasonably estimate the amount on the evaluation, such as goodwill and intangible assets, in consideration of the period and the risks and uncertainties of the impact of the outbreak of COVID-19, based on the information and facts available at the time of preparation of the consolidated financial statements. However, future uncertainties may cause a discrepancy between the estimated amount as a result of the best estimates and the subsequent results.

Notes to Non-consolidated Financial Statements

(Significant Accounting Policies)

1. Valuation standards and methods for major assets

(1) Securities

Shares of subsidiaries and associates	: Stated at cost determined by the moving-average method
Available-for-sale securities	
With market quotations	: Stated at fair value, which represents the market prices at the balance sheet date (unrealized gains/losses at the end of the period are directly included in net assets; cost of securities sales during the period is determined by the moving-average method)
Without market quotations	: Stated at cost determined by the moving-average method
(2) Derivative instruments	: Stated at fair value
(3) Inventories	: Stated at cost determined primarily by the moving-average method (the balance sheet value is determined by the write-down method based on a decline in profitability.)

2. Depreciation and amortization

(1) Property, plant and equipment (including leased assets)	: Calculated using the straight-line method
(2) Intangible assets (including leased assets)	: Calculated using the straight-line method
(3) Long-term prepaid expenses	: Calculated using the straight-line method

3. Principles for allowances and provisions

(1) Allowance for doubtful accounts

In anticipation of uncollectible receivables, allowance for doubtful accounts is calculated based on bad debt ratio, as well as considering the collectability of the account on an individual basis.

(2) Provision for retirement benefits

Provision for retirement benefits is calculated based on the expected retirement benefit obligation at the end of the current fiscal year.

From March 31, 2007, the Group has frozen all defined benefit lump-sum plans.

1) Attributing expected retirement benefits to periods

In determining its retirement benefit obligation, the expected retirement benefits are attributed to periods until the end of the current fiscal year based on the benefit formula basis.

2) Accounting for unrecognized differences and prior service costs

Actuarial gains (losses) and past service costs are all expensed in the fiscal year when they are incurred.

(3) Provision for bonuses

Expected bonus payments are recorded based on the amount to be incurred in the current fiscal year.

(4) Provision for loss on business termination

To prepare for future losses associated with the termination of the business, an amount of losses for the next and subsequent fiscal years is estimated and the amount as deemed necessary is recorded.

4. Principles for revenue and expenses

Revenue from finance lease transactions

Revenue and cost of sales are recorded at the inception of lease contracts.

5. Other basis of presentation of financial statements

(1) Accounting for hedge transactions

Interest rate swaps

1) Hedge accounting

Recognitions of gains or losses resulting from changes in fair value of derivative instruments for hedging are deferred until the related gains and losses on hedged items are recognized.

2) Derivative instruments for hedging and hedged items

Derivative instruments for hedging	: Interest rate swap contracts
Hedged items	: Interest expense on borrowings

3) Hedging policy

In accordance with internal policy, the Company uses derivative financial instruments to hedge the risk of exposures to fluctuations in interest rates, regarding loans payable with variable interest rates.

4) Effectiveness of hedge transactions

The effectiveness of hedge transactions is assessed by measuring the correlation between the variability of cash flows associated with the interest rate of hedged items and the variability of cash flows of hedge instruments.

(2) Accounting method of consumption taxes

National consumption taxes and local consumption taxes are accounted for using the tax excluded method of reporting.

(Notes to Changes in Presentation)

(1)Balance sheet

1)“Assets under construction” (¥42,877 million in the previous fiscal year), which was included in “other intangible assets” under “intangible assets” in the previous fiscal year, is presented as a separate item from the current fiscal year due to an increase in materiality.

2) “Deposits paid” (¥57,087 million in the previous fiscal year), which was included in “other current assets” under “current assets” in the previous fiscal year, is presented as a separate item from the current fiscal year due to an increase in materiality.

3)“Short-term loans receivable” (¥25,996 million in the previous fiscal year), which was included in “other current assets” under “current assets” in the previous fiscal year, is presented as a separate item from the current fiscal year due to an increase in materiality.

4)“Suspense receipt” (¥52 million in the previous fiscal year), which was included in “other current liabilities” in the “current liabilities” in the previous fiscal year, is presented as a separate item from the current fiscal year due to an increase in materiality.

(2)Statement of income

1)“Dividend income” (¥658 million in the previous fiscal year), which was included in “miscellaneous income” in “non-operating income” in the previous fiscal year, is presented as a separate item from the current fiscal year due to an increase in materiality.

2) “Reversal of allowance for doubtful accounts” (¥108 million in the current fiscal year), which was presented as a separate item under “non-operating income” in the previous fiscal year, is included in “miscellaneous income” from the current fiscal year due to a decrease in materiality.

3)“Borrowing-related fee” (¥3,372 million in the current fiscal year), which was presented as a separate item under “non-operating expenses” in the previous fiscal year, is included in “miscellaneous expenses” from the current fiscal year due to a decrease in materiality.

(Notes Relating to Balance Sheet)

1. Contingencies

(1) Lending commitments

The Company entered into lending commitment contracts with subsidiaries.

The details of lending commitments with subsidiaries are as follows:

	(Millions of yen)
Total lending commitments	853,785
Funded	755,036
Unfunded	98,749

(2) Litigation

The Company is party to a number of pending legal and administrative proceedings. As it is difficult to reasonably estimate the final results of such matters, provisions have not been recorded. Based on the information currently available, we do not expect that the results of these proceedings will have a material adverse effect on our financial position or results of operations.

(a) On April 30, 2015, the Company filed a lawsuit with the Tokyo District Court against Japan Post Information Technology Co., Ltd. (“JPiT”), claiming for payment of remuneration, etc., for additional services provided in connection with the installation of telecommunication lines, etc., that were ordered by JPiT in relation to a project to migrate the communications network connecting approximately 27,000 sites (post offices, etc.) countrywide to a new network, the 5th PNET.

Pursuant to a contract dated February 7, 2013, the Company was requested by JPiT to carry out, among other services, installation services for telecommunication lines for Japan Post Group’s business sites countrywide. The Company performed such services and upon JPiT’s request, the Company also performed services that exceeded the scope of services stipulated in the contract.

Although the Company negotiated with JPiT over an extended period regarding the remuneration, etc. (approximately ¥14.9 billion) for these additional services. The Company and JPiT were unable to arrive at a settlement. Accordingly, the Company duly filed the lawsuit, claiming for payment of remuneration, etc., for such additional services.

(b) On April 30, 2015, JPiT filed a lawsuit against the Company and Nomura Research Institute, Ltd. (“NRI”) as co-defendants.

In such lawsuit, JPiT alleges that the Company and NRI delayed performance, etc., of the ordered services related to the project for migration to the 5th PNET mentioned in a. above, and alleges that such delay caused damages to JPiT (¥16.15 billion). JPiT made joint and several claims against both the Company and NRI for such alleged damages.

The Company intends to fully contest JPiT’s claims in this lawsuit.

An order to consolidate the abovementioned lawsuits was made on July 29, 2015. The Company modified the amount of claim from approximately ¥14.9 billion to approximately ¥20.4 billion on November 13, 2015 as a result of a review of the remuneration, etc. with respect to additional services regarding the lawsuit in a. above. In addition, in light of increased procurement costs of telecommunication lines for JPiT, the Company modified the amount of claim to approximately ¥22.3 billion on October 12, 2016, and further to approximately ¥24.0 billion on September 7, 2017.

2. Accumulated reduction entry of property, plant and equipment due to subsidies received from governments and others

(Millions of yen)
5,346

3. Non-current assets - incidental business

"Non-current assets - incidental business" are included in "non-current assets - telecommunications business" because the amount is not material. The amount of "non-current assets - incidental business" is ¥2,233 million as of the end of the current fiscal year.

4. Financial covenants

The Company's interest-bearing debt is subject to financial covenants mainly as follows:

- At March 31 and September 30 of each year, the Company is required to maintain equity in the consolidated statement of financial position of the Group at a minimum of 75% of that of the same date during the previous fiscal year.
- At March 31 and September 30 of each year, the Company is required to maintain net assets in the non-consolidated balance sheet of the Company at a minimum of 75% of that of the same date during the previous fiscal year.
- The Company must not incur operating losses or net losses in the consolidated statement of income of the Group for two consecutive fiscal years.
- The Company must not incur operating losses or net losses in the non-consolidated statement of income of the Company for two consecutive fiscal years.
- At March 31 and September 30 of each year, the Company is required to maintain a net leverage ratio[a] below a certain value:

a. Net leverage ratio: Net debt (b) divided by adjusted EBITDA (c)

b. "Net debt" means the total amount of interest-bearing debt shown in the consolidated statement of financial position of the Group after deducting cash and cash equivalents adjusted for certain items. Interest-bearing debt is adjusted for certain items, such as an exclusion of interest-bearing debt resulting from financing transactions using an asset securitization scheme.

c. "Adjusted EBITDA" means EBITDA adjusted for certain items as specified in the loan agreement.

5. Monetary receivables from and payables to subsidiaries and associates

Monetary receivables from and payables to subsidiaries and associates are as follows:

	(Millions of yen)
Long-term monetary receivables	1,114
Long-term monetary payables	1,908
Short-term monetary receivables	812,365
Short-term monetary payables	138,147

(Notes Relating to Statement of Income)

1. Transactions with subsidiaries and associates

	(Millions of yen)
Operating revenue	67,645
Operating expenses	262,484
Non-operating transactions	44,124

(Notes Relating to Statement of Changes in Net Assets)

Class and number of treasury stock at the end of the current fiscal year

	(Thousands of Shares)
Common stock	46,000

(Notes Relating to Tax Effect Accounting)

Significant components of deferred tax assets and liabilities

Deferred tax assets	(Millions of yen)
Non-qualified contribution-in-kind	113,868
Accounts payable - other and accrued expenses	33,244
Depreciable assets	23,552
Adjustment to shares of subsidiaries and associates by restructuring	18,984
Asset retirement obligations	18,549
Allowance for doubtful accounts	11,954
Valuation difference on available-for-sale securities	10,886
Provision for bonuses	9,926
Prepaid expenses	8,701
Enterprise tax payable	6,079
Inventories	4,881
Loss on valuation of investment securities	437
Others	14,003
Gross deferred tax assets	275,064
Less: Valuation allowance	(148,312)
Total deferred tax assets	126,752
Offset against deferred tax liabilities	(36,127)
Net deferred tax assets	90,625

Deferred tax liabilities	(Millions of yen)
Deferred gain on sale of shares of subsidiaries and associates based on group corporate tax system	(18,984)
Removal costs for asset retirement obligations	(8,459)
Lease investments assets	(5,642)
Intangible assets (customer relationships)	(1,462)
Others	(1,580)
Total deferred tax liabilities	(36,127)
Offset against deferred tax assets	36,127
Net deferred tax liabilities	—

(Notes Relating to Non-current Assets Used under Leases)

Leased assets used under finance lease transactions

Non-current assets - telecommunications business	(Millions of yen)
Machinery	530,419
Antenna facilities	292,997
Terminal facilities	45,880
Local line facilities	1,435
Long-distance line facilities	4,189
Engineering facilities	10,257
Buildings	29,326
Structures	4,974
Machinery and equipment	9
Vehicles	34
Tools, furniture and fixtures	2,823
Software	264,336
Total	1,186,679

(Notes Relating to Financial Instruments)

1. Status of financial instruments

(1) Policy relating to financial instruments

The Company manages funds mainly in short-term deposits, and raises funds through loans from financial institutions, issuance of commercial paper and bonds, securitization of receivables and sale and lease back transactions. The funds raised are primarily intended for capital expenditures.

(2) Details of financial instruments, related risks and risk management system thereof

As investment securities consist primarily of shares of companies with which the Company aims to expand business, maintain its competitive advantage or create synergies in business operations, these securities are exposed to the issuer’s credit risk and market price fluctuation risk. These risks are managed by continuously monitoring the financial conditions of issuers and other factors considering market price fluctuations.

Trade receivables include receivables from dealers, communications fee receivables from customers, and installment receivables of mobile devices, and are exposed to the credit risk of dealers and customers. To manage credit risk for receivables from dealers, the Company performs due date controls and balance controls for each dealer in accordance with its internal credit management policies and regularly monitors major dealers’ credit statuses. For customer credit risk, the Company conducts screening in accordance with its internal standards upon entering into an agreement with customers, and checks the status of usage and collection of each customer from time to time to avoid an increase in any uncollectible amounts. Regarding installment receivables, the Company refers to external institutions for credit risk information.

Short-term loans receivable consists mainly of loans extended to Shiodome Z Holdings GK, a subsidiary of the Company. This short-term loan is executed related to the business integration of LINE Company and Z Holdings Corporation.

Lease obligations are intended to raise funds required for capital expenditures. “Accounts payable – trade” and “accounts payable – other” in trade payables are generally due within one year.

Short-term loans payable mainly consist of loans from the Company’s subsidiaries, Wireless City Planning Inc. and SB Payment Service Corp. Loans from Wireless City Planning Inc. are provided through the Trust, which is a money trust agreement with Wireless City Planning Inc. as a consignor, a trust bank as a trustee, and the Company as the investment destination. Current portion of non-current liabilities, bonds and long-term loans payable are loans from financial institutions and funds raised from capital markets by issuing commercial paper.

Derivative transactions are interest rate swap agreements to avoid the risk of interest rate fluctuations for long-term loans with floating interest rates and convert the floating rates into fixed rates. Derivative transactions are executed and managed in accordance with the internal rules, and the Company enters into derivative transactions only with highly creditworthy financial institutions in order to mitigate credit risk.

(3) Supplementary explanation on matters regarding fair value of financial instruments

The fair value of financial instruments is based on market price or, when no market price is available, a reasonably determined value. Since certain assumptions and factors are reflected in determining the fair value, different assumptions and factors could result in a different fair value.

2. Fair value of financial instruments

The carrying amount, the fair value, and the differences between them as of the end of the current fiscal year are as follows.

Financial instruments whose fair values are extremely difficult to determine are not included in the table below. (Please refer to Note 2.)

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Investment securities			
Available-for-sale securities	6,491	6,491	-
(2) Shares of subsidiaries and associates	4,113	27,861	23,748
(3) Cash and deposits	148,127	148,127	-
(4) Accounts receivable – trade	804,123		
Less: Allowance for doubtful accounts (current assets) (*1)	(17,975)		
	786,148	786,148	-
(5) Accounts receivable – other	58,674		
Less: Allowance for doubtful accounts (current assets) (*2)	(170)		
	58,504	58,504	-
(6) Short-term loans receivable	755,036		
Less: Allowance for doubtful accounts (current assets) (*3)	(977)		-
	754,059	754,059	-
(7) Deposits paid	73,107	73,107	-
Total assets	1,830,549	1,854,297	23,748
(8) Bonds	40,000	40,000	-
(9) Long-term loans payable	1,425,528	1,454,466	28,938
(10) Lease obligations (non-current liabilities)	582,581	565,853	(16,728)
(11) Current portion of non-current liabilities	278,975	278,975	-
(12) Commercial paper	103,000	103,000	-
(13) Accounts payable - trade	68,559	68,559	-
(14) Short-term loans payable	61,000	61,000	-
(15) Lease obligations (current liabilities)	366,605	366,605	-
(16) Accounts payable - other	695,103	695,103	-
(17) Income taxes payable	108,044	108,044	-
(18) Deposits received	52,260	52,260	-
Total liabilities	3,781,655	3,793,865	12,210
(19) Derivative transactions (*4)	(5,324)	(5,324)	-

(*1) This amount represents the allowance for “accounts receivable - trade.”
(*2) This amount represents the allowance for “accounts receivable - other.”
(*3) This amount represents the allowance for “short-term loans receivable.”
(*4) The net amount of assets and liabilities arising from derivative transactions is presented, and the amount in parentheses represents a net liability position.

(Note 1) Method for measuring fair value of financial instruments, securities and derivative transactions

(1) Investment securities and (2) Shares of subsidiaries and associates

The fair value of stocks is based on quoted market price, and the fair value of investment trusts is based on net asset value.

(3) Cash and deposits, (5) Accounts receivable - other (6) Short-term loans receivable and (7) Deposits paid

The carrying amounts of these instruments approximate their fair values due to their short-term maturities.

(4) Accounts receivable - trade

Installment receivables are stated at carrying amount because their carrying amounts approximates their fair values which were determined based on the future cash inflows discounted using interest rates adjusted for the remaining period to maturity and credit risk. “Accounts receivable – trade” other than installment receivables are stated at carrying amount because they are settled in the short term and their carrying amounts approximates their fair values.

(8)Bonds

The carrying amounts of bonds are considered to approximate their fair value because they reflect market interest rates and the Company’s credit standing has not changed significantly since the issuance of the bonds. Accordingly, bonds are stated at carrying amount.

(9) Long-term loans payable

The fair values of long-term loans payable with fixed interest rates are measured by discounting the total of principal and interest at a rate that would be used for a similar new loan.

(10) Lease obligations (non-current liabilities)

The fair value of lease obligations are estimated by discounting the total of principal and interest at an interest rate that would be used for a lease contract with the same terms and maturity.

(11) Current portion of non-current liabilities, (12) Commercial paper, (13) Accounts payable - trade, (14) Short-term loans payable, (16) Accounts payable - other, (17) Income taxes payable, and (18) Deposits received

These instruments are stated at carrying amount because they are settled in the short term and their carrying amount approximates their fair value.

(15) Lease obligations (current liabilities)

Lease obligations are stated at carrying amount because their carrying amount approximates their fair value which was estimated by discounting the total of principal and interest at an interest rate that would be used for a lease contract with the same terms and maturity.

(19) Derivative transactions

1) Derivative transactions for which hedge accounting is not applied

There are no applicable items.

2) Derivative transactions for which hedge accounting is applied

The contract amount or notional amount specified in the contract for each hedge accounting method as of the end of the current fiscal year is as follows:

(Millions of yen)

Hedge accounting method	Transaction type, etc.	Main hedged item	Contract amount	Contract amount maturing over 1 year	Fair value (*1)
General treatment	Interest rate swaps Pay fixed / Receive floating	Long-term loans payable	500,000	500,000	(5,324)

(*1) Fair value measurement based on quoted prices by counterparty financial institutions

(Note 2) Financial instruments whose fair values are extremely difficult to determine

(Millions of yen)

Category	Carrying amount
Investment securities Unlisted shares	14,519
Shares of subsidiaries and associates Unlisted shares	355,470
Other	34,910

As there are no market prices available for these instruments, their fair values are extremely difficult to determine and therefore not subject to disclosure.

(Notes Relating to Profit and Loss on Equity Method Investments, etc.)

	(Millions of yen)
Amount of investments in associates	120,472
Amount of investments on equity method	80,149
Amount of investment losses on equity method	52,945

(Note) The amounts above include the amounts related to investments in associates held by subsidiaries of the Company. The amount of investments in associates is the carrying amount of the investments to which the equity method is applicable under IFRS, pursuant to the provisions of Paragraph 1 of Article 120 of the Regulation on Corporate Accounting. The amount of investments on equity method and the amount of investment losses on equity method are calculated in accordance with IFRS.
The amount of investment losses on equity method are presented by including impairment losses on investments calculated using the equity method.

(Notes Relating to Related-Party Transactions)

Subsidiaries

Category	Name	Nature of business or profession	Voting rights (%)	Relationship with related-party	Nature of transaction	Amount of transaction (Millions of yen)	Balance as of March 31, 2020	
							Account	Amount (Millions of yen)
Consolidated subsidiary	Shiodome Z Holdings	Holding company	(Own) Direct 100	Interlocking directorate Lending of loans	Lending of loans	739,628	Short-term loans receivable	739,628
					Receipt of interest	3,192	Other current assets	3,192
					Sale of shares	739,628	-	-
Consolidated subsidiary	Z Holdings Corporation	Holding company	(Own) Indirect 44.6	Interlocking directorate	Acquisition of shares	456,466	-	-
Consolidated subsidiary	Wireless City Planning Inc.	Telecommunications business	(Own) Direct 32.2	Interlocking directorate Borrowing of loans	Borrowing of loans	27,800	Short-term loans payable	14,000
					Repayment of loans	58,400		
					Payment of interest	67	Accrued expenses	0
					Receipt of dividend	29,993	-	-

The terms of transactions and policies

(Notes) 1. The interest rates for lending to, and borrowings from, related parties are reasonably determined in reference to market interest rates.

2. In connection with the business integration of Z Holdings Corporation and LINE Corporation, all the shares in Z Holdings held by the Company were transferred to Shiodome Z Holdings on the execution date of December 18, 2019. The purchase price was calculated based on changes in share price on the first section of the Tokyo Stock Exchange until November 13, 2019, which is the last date that share price was considered to be unaffected by the announcement of the business integration and speculation in the media.

3. The Company acquired new shares issued by Z Holdings Corporation by third-party allotment on June 27, 2019, for which the Company was the allottee, for ¥456,466 million. The purchase price was calculated based on the closing price of Z Holdings Corporation’s common stock of ¥302 on the first section of the Tokyo Stock Exchange, which was the business day immediately before the announcement date of the tender offer.

4. Borrowing and repayment of loans are based on a money trust agreement, with Wireless City Planning Inc. as a trustor, a trust bank as a trustee, and the Company as the investment destination. It is substantially a transaction between the Company and Wireless City Planning Inc. through the trust bank.

(Notes Relating to Asset Retirement Obligations)

Asset retirement obligations that are reported on the balance sheet

1. Summary of asset retirement obligations

Asset retirement obligations are recognized by the reasonably estimated amount required for the removal of equipment or site restoration for part of base stations, data centers, network centers, and offices including the corporate headquarters building.
The estimate is based on the current business plan and both the amounts provided for and timing of payments are uncertain and dependent on future business plan developments.

2. Calculation method for the amount of asset retirement obligations

The expected usage period is estimated, and the average yield of interest-bearing government bonds is used as a discount rate.

3. Increase or decrease in the total amount of asset retirement obligations during the current fiscal year

	(Millions of yen)
Balance at the beginning of the current fiscal year	59,775
Increase due to acquiring property, plant and equipment	1,172
Adjustment due to passage of time	148
Decrease due to payments for asset retirement obligations	(7,939)
Increase due to changes in estimates	7,423
Other	―
Balance at the end of the current fiscal year	60,579

4. Changes in estimates of asset retirement obligations

The Company considered the demands of communication traffic, efficient operation of network equipment and equipment replacement and concluded that it has become highly probable that certain network equipment will be disposed of. Accordingly, the Company recognized asset retirement obligations of ¥7,423 million.

(Notes Relating to Per Share Data)

Net assets per share	¥198.71
Net income per share	¥85.37

(Other Notes)

Business Integration of Z Holdings Corporation and LINE Corporation

The Company, NAVER Corporation ("NAVER", and the Company and NAVER are collectively referred to as the "Proposing Parties"), Z Holdings Corporation (Securities Code: 4689, listed on the first section of the Tokyo Stock Exchange, Inc. ("TSE"), a consolidated subsidiary of the Company ("ZHD"), and LINE Corporation (Securities Code: 3938, listed on the first section of the TSE), a consolidated subsidiary of NAVER ("LINE"), have been discussing and evaluating a business integration between ZHD and its subsidiaries and LINE and its subsidiaries ("Business Integration"). In accordance with the resolutions of the Board of Directors of each of NAVER, ZHD and LINE at a meeting held on December 23, 2019, and in accordance with the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on the same date, the four companies have on the same date entered into a business integration agreement, which is the definitive and legally-binding agreement regarding the Business Integration ("Definitive Integration Agreement"). In accordance with the resolutions of the Board of Directors of NAVER at a meeting held on the same date, and in accordance with the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on the same date, the Proposing Parties have entered into a legally-binding transaction agreement on the same date regarding the Definitive Integration Agreement and joint venture agreement ("Joint Venture Agreement").

As one step in the series of transactions to realize the Business Integration, by resolution of the Board of Directors of NAVER at a meeting held on December 23, 2019, and by the decision of Ken Miyauchi, Representative Director, President & CEO, who has been authorized in accordance with the resolution of the Board of Directors of the Company at a meeting held on December 23, 2019, the Proposing Parties have decided to jointly conduct a tender offer in Japan and the United States.

ZHD, the publicly listed integrated company following the Business Integration, is expected to be a consolidated subsidiary of the Company. The Business Integration is subject to receipt of required competition law and foreign exchange law approvals and other clearances and permits required by applicable law and regulation in each country as well as the satisfaction of the other preconditions specified in the Definitive Integration Agreement, and the Business Integration is targeted to be completed in October 2020.