

FINANCIAL SECTION 2021

From April 1, 2020 to March 31, 2021

SoftBank Corp.

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1. Consolidated Financial Statements

(1) Consolidated Financial Statements

a. Consolidated Statement of Financial Position

	Notes	(Millions of yen)		(Thousands of U.S. dollars)
		As of March 31, 2020	As of March 31, 2021	As of March 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	8	¥ 1,143,808	¥ 1,584,892	\$ 14,315,708
Trade and other receivables	9,28	1,800,301	2,082,223	18,807,904
Other financial assets	10,28	94,906	144,935	1,309,141
Inventories	11	96,896	119,411	1,078,593
Other current assets	12	228,392	102,384	924,793
Total current assets		3,364,303	4,033,845	36,436,139
Non-current assets				
Property, plant and equipment	13	986,095	1,251,663	11,305,781
Right-of-use assets	18	1,234,457	1,081,559	9,769,298
Goodwill	14	618,636	1,256,593	11,350,312
Intangible assets	14	1,709,511	2,110,493	19,063,255
Contract costs	15	212,638	248,194	2,241,839
Investments accounted for using the equity method	20	80,149	239,974	2,167,591
Investment securities	16,28	175,152	321,300	2,902,177
Investment securities in banking business	17	342,975	392,260	3,543,131
Other financial assets	10,28	905,562	1,129,858	10,205,564
Deferred tax assets	22	55,904	55,224	498,817
Other non-current assets	12	106,876	105,697	954,719
Total non-current assets		6,427,955	8,192,815	74,002,484
Total assets		¥ 9,792,258	¥ 12,226,660	\$ 110,438,623

	Notes	As of March 31, 2020	(Millions of yen) As of March 31, 2021	(Thousands of U.S. dollars) As of March 31, 2021
LIABILITIES AND EQUITY				
Current liabilities				
Interest-bearing debt	23,28,30	¥ 1,811,281	¥ 2,000,479	\$ 18,069,542
Trade and other payables	24,28	1,253,766	1,624,048	14,669,388
Contract liabilities	35	127,652	107,633	972,207
Deposits for banking business	25,28	880,847	1,165,577	10,528,200
Other financial liabilities	28	3,779	4,924	44,477
Income taxes payable		153,371	195,874	1,769,253
Provisions	27	6,794	17,710	159,967
Other current liabilities	26	259,119	177,391	1,602,303
Total current liabilities		4,496,609	5,293,636	47,815,337
Non-current liabilities				
Interest-bearing debt	23,28,30	3,270,971	3,692,113	33,349,408
Other financial liabilities	28	36,765	33,966	306,802
Provisions	27	83,871	106,093	958,296
Deferred tax liabilities	22	168,248	303,278	2,739,391
Other non-current liabilities	26	28,230	46,874	423,396
Total non-current liabilities		3,588,085	4,182,324	37,777,293
Total liabilities		8,084,694	9,475,960	85,592,630
Equity				
Equity attributable to owners of the Company				
Common stock	32	204,309	204,309	1,845,443
Capital surplus	32	(133,915)	340,262	3,073,453
Retained earnings	32	1,003,554	1,066,228	9,630,819
Treasury stock	32	(68,709)	(134,218)	(1,212,339)
Accumulated other comprehensive income (loss)	32	(4,693)	35,631	321,841
Total equity attributable to owners of the Company		1,000,546	1,512,212	13,659,217
Non-controlling interests	19	707,018	1,238,488	11,186,776
Total equity		1,707,564	2,750,700	24,845,993
Total liabilities and equity		¥ 9,792,258	¥ 12,226,660	\$ 110,438,623

b. Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Consolidated Statement of Income

		(Millions of yen)		(Thousands of U.S. dollars)
	Notes	Fiscal year ended March 31, 2020 ²	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2021
Revenue	7,35	¥ 4,861,247	¥ 5,205,537	\$ 47,019,574
Cost of sales	36	(2,536,837)	(2,701,790)	(24,404,210)
Gross profit		2,324,410	2,503,747	22,615,364
Selling, general and administrative expenses	36	(1,418,815)	(1,522,975)	(13,756,435)
Other operating income	37	12,937	—	—
Other operating expenses	37	(6,807)	(10,002)	(90,344)
Operating income		911,725	970,770	8,768,585
Share of losses of associates accounted for using the equity method	20	(46,060)	(45,490)	(410,893)
Financing income	38	2,745	5,806	52,443
Financing costs	38	(60,921)	(73,369)	(662,713)
Gain on sales of equity method investments		10,591	3,902	35,245
Impairment loss on equity method investments		(6,885)	(13,920)	(125,734)
Profit before income taxes		811,195	847,699	7,656,933
Income taxes	22	(304,527)	(299,979)	(2,709,593)
Net income ¹		¥ 506,668	¥ 547,720	\$ 4,947,340
Net income attributable to				
Owners of the Company		¥ 473,135	¥ 491,287	\$ 4,437,603
Non-controlling interests	19	33,533	56,433	509,737
		¥ 506,668	¥ 547,720	\$ 4,947,340
Earnings per share attributable to owners of the Company			(Yen)	(U.S. dollars)
Basic earnings per share	40	¥ 99.27	¥ 103.85	\$ 0.94
Diluted earnings per share	40	¥ 97.94	¥ 102.66	\$ 0.93

Notes:

- All net income of SoftBank Corp. and its subsidiaries for the fiscal years ended March 31, 2020 and 2021 was generated from continuing operations.
- As described in “(1) Acquisition of investments in Z Holdings Corporation” under “Note 6. Business combinations,” transactions under common control are accounted for as if such transactions were executed by SoftBank Corp. and its subsidiaries on the later of the acquisition date of the transferred companies by SoftBank Group Corp. or the opening balance sheet date of the comparative period as part of the consolidated financial statements of SoftBank Corp. and its subsidiaries.

Consolidated Statement of Comprehensive Income

	Notes	(Millions of yen)		(Thousands of U.S. dollars)
		Fiscal year ended March 31, 2020 ¹	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2021
Net income		¥ 506,668	¥ 547,720	\$ 4,947,340
Other comprehensive income(loss), net of tax				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit plan	39	41	(713)	(6,440)
Changes in the fair value of equity instruments at FVTOCI	28,39	(9,309)	56,034	506,133
Share of other comprehensive income (loss) of associates accounted for using the equity method	20,39	—	(22)	(199)
Total items that will not be reclassified to profit or loss		(9,268)	55,299	499,494
Items that may be reclassified subsequently to profit or loss				
Changes in the fair value of debt instruments at FVTOCI	28,39	(1,415)	700	6,323
Cash flow hedges	28,39	1,026	53	479
Exchange differences on translation of foreign operations	39	(536)	2,937	26,529
Share of other comprehensive income (loss) of associates accounted for using the equity method	20,39	573	776	7,009
Total items that may be reclassified subsequently to profit or loss		(352)	4,466	40,340
Total other comprehensive income (loss), net of tax		(9,620)	59,765	539,834
Total comprehensive income		¥ 497,048	¥ 607,485	\$ 5,487,174
Total comprehensive income attributable to				
Owners of the Company		¥ 468,217	¥ 529,890	\$ 4,786,289
Non-controlling interests		28,831	77,595	700,885
		¥ 497,048	¥ 607,485	\$ 5,487,174

Notes:

- As described in “(1) Acquisition of investments in Z Holdings Corporation” under “Note 6. Business combinations,” transactions under common control are accounted for as if such transactions were executed by SoftBank Corp. and its subsidiaries on the later of the acquisition date of the transferred companies by SoftBank Group Corp. or the opening balance sheet date of the comparative period as part of the consolidated financial statements of SoftBank Corp. and its subsidiaries.
- Income taxes related to the components of other comprehensive income are described in “Note 39. Other comprehensive income.”

c. Consolidated Statement of Changes in Equity
For the fiscal year ended March 31, 2020

(Millions of yen)

		Equity attributable to owners of the Company							
		Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehen- sive income (loss)	Total	Non- controlling interests	Total equity
Notes									
	As of April 1, 2019	204,309	111,826	1,178,282	—	3,740	1,498,157	524,410	2,022,567
	Cumulative effect of adopting a new accounting standard ¹	—	—	(618)	—	—	(618)	(4,362)	(4,980)
	As of April 1, 2019, restated	204,309	111,826	1,177,664	—	3,740	1,497,539	520,048	2,017,587
	Comprehensive income								
	Net income	—	—	473,135	—	—	473,135	33,533	506,668
	Other comprehensive income (loss)	—	—	—	—	(4,918)	(4,918)	(4,702)	(9,620)
	Total comprehensive income	—	—	473,135	—	(4,918)	468,217	28,831	497,048
	Transactions with owners and other transactions								
	Cash dividends ⁴	33	—	(398,354)	—	—	(398,354)	(32,940)	(431,294)
	Purchase of treasury stock	32	—	—	(68,709)	—	(68,709)	—	(68,709)
	Disposal of treasury stock		—	—	—	—	—	—	—
	Changes from transactions under common control ^{2, 3}		—	(246,996)	(249,991)	—	(2,415)	(499,402)	(1,601)
	Changes from business combinations	6	—	—	—	—	—	185,827	185,827
	Changes in interests in existing subsidiaries		—	(3,676)	—	—	(3,676)	6,853	3,177
	Share-based payment transactions		—	4,931	—	—	4,931	—	4,931
	Transfer from retained earnings to capital surplus		—	—	—	—	—	—	—
	Transfer from accumulated other comprehensive income to retained earnings	32	—	—	1,100	—	(1,100)	—	—
	Total transactions with owners and other transactions		—	(245,741)	(647,245)	(68,709)	(3,515)	(965,210)	158,139
	As of March 31, 2020	204,309	(133,915)	1,003,554	(68,709)	(4,693)	1,000,546	707,018	1,707,564

For the fiscal year ended March 31, 2021

(Millions of yen)

	Equity attributable to owners of the Company								
	Notes	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total	Non-controlling interests	Total equity
As of April 1, 2020		204,309	(133,915)	1,003,554	(68,709)	(4,693)	1,000,546	707,018	1,707,564
Comprehensive income									
Net income		—	—	491,287	—	—	491,287	56,433	547,720
Other comprehensive income (loss)		—	—	—	—	38,603	38,603	21,162	59,765
Total comprehensive income		—	—	491,287	—	38,603	529,890	77,595	607,485
Transactions with owners and other transactions									
Cash dividends	33	—	—	(406,119)	—	—	(406,119)	(30,796)	(436,915)
Purchase of treasury stock	32	—	—	—	(100,000)	—	(100,000)	—	(100,000)
Disposal of treasury stock		—	(17,439)	—	34,491	—	17,052	—	17,052
Changes from transactions under common control ^{2, 3}		—	—	—	—	—	—	—	—
Changes from business combinations	6	—	—	—	—	—	—	264,636	264,636
Changes in interests in existing subsidiaries ⁵		—	473,904	—	—	—	473,904	219,116	693,020
Share-based payment transactions		—	761	—	—	—	761	—	761
Transfer from retained earnings to capital surplus		—	17,370	(17,370)	—	—	—	—	—
Transfer from accumulated other comprehensive income to retained earnings	32	—	—	(1,721)	—	1,721	—	—	—
Other		—	(419)	(3,403)	—	—	(3,822)	919	(2,903)
Total transactions with owners and other transactions		—	474,177	(428,613)	(65,509)	1,721	(18,224)	453,875	435,651
As of March 31, 2021		204,309	340,262	1,066,228	(134,218)	35,631	1,512,212	1,238,488	2,750,700

For the fiscal year ended March 31, 2021

(Thousands of
U.S. dollars)

		Equity attributable to owners of the Company							
		Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehen- sive income (loss)	Total	Non- controlling interests	Total equity
Notes									
	As of April 1, 2020	\$1,845,443	\$(1,209,602)	\$9,064,710	\$(620,621)	\$(42,390)	\$9,037,540	\$6,386,216	\$15,423,756
	Comprehensive income								
	Net income	-	-	4,437,603	-	-	4,437,603	509,737	4,947,340
	Other comprehensive income (loss)	-	-	-	-	348,686	348,686	191,148	539,834
	Total comprehensive income	-	-	4,437,603	-	348,686	4,786,289	700,885	5,487,174
	Transactions with owners and other transactions								
	Cash dividends	33	-	(3,668,305)	-	-	(3,668,305)	(278,168)	(3,946,473)
	Purchase of treasury stock	32	-	-	(903,261)	-	(903,261)	-	(903,261)
	Disposal of treasury stock		-	(157,520)	-	311,543	154,023	-	154,023
	Changes from transactions under common control ^{2, 3}		-	-	-	-	-	-	-
	Changes from business combinations	6	-	-	-	-	-	2,390,353	2,390,353
	Changes in interests in existing subsidiaries ⁵		-	4,280,589	-	-	4,280,589	1,979,189	6,259,778
	Share-based payment transactions		-	6,874	-	-	6,874	-	6,874
	Transfer from retained earnings to capital surplus		-	156,905	(156,905)	-	-	-	-
	Transfer from accumulated other comprehensive income to retained earnings	32	-	-	(15,545)	-	15,545	-	-
	Other		-	(3,793)	(30,739)	-	(34,532)	8,301	(26,231)
	Total transactions with owners and other transactions		-	4,283,055	(3,871,494)	(591,718)	15,545	(164,612)	3,935,063
	As of March 31, 2021	\$1,845,443	\$ 3,073,453	\$9,630,819	\$(1,212,339)	\$321,841	\$13,659,217	\$11,186,776	\$24,845,993

Notes:

1. Upon adoption of IFRS 16 "Leases," the cumulative effect of initially applying this standard retrospectively on periods before the fiscal year ended March 31, 2020 was recognized as an adjustment to the opening balance of retained earnings as of April 1, 2019.
2. As described in "(1) Acquisition of investments in Z Holdings Corporation" under "Note 6. Business combinations," transactions under common control are accounted for as if such transactions were executed by SoftBank Corp. and its subsidiaries on the later of the acquisition date of the transferred companies by SoftBank Group Corp. or the opening balance sheet date of the comparative period as part of the consolidated financial statements of SoftBank Corp. and its subsidiaries.
3. The changes in "Capital surplus" and "Retained earnings" represent the differences between the amount paid by SoftBank Corp. for subsidiaries that were acquired under common control and SoftBank Group Corp.'s book value of the subsidiaries at the time of acquisition.
4. In relation to transactions under common control, any equity transactions undertaken by subsidiaries under common control with entities outside of SoftBank Corp. and its subsidiaries before the date of the actual transaction by SoftBank Corp. are included in "Cash dividends."
5. As described in "Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation" under "Note 6. Business combinations," Shiodome Z Holdings G.K., wholly owned by the Company, was merged into LINE Corporation, effective February 26, 2021. Effective March 1, 2021, a share exchange of common stock of LINE Split Preparation Corporation was conducted between Z Holdings Corporation and A Holdings Corporation. With these transactions, "Capital surplus" increased by ¥472,570 million.

d. Consolidated Statement of Cash Flows

		(Millions of yen)		(Thousands of U.S. dollars)
	Notes	Fiscal year ended March 31, 2020 ¹	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2021
Cash flows from operating activities				
Net income		¥ 506,668	¥ 547,720	\$ 4,947,340
Depreciation and amortization		675,241	696,342	6,289,784
Loss on disposal of property, plant and equipment and intangible assets		25,693	33,356	301,292
Gain relating to loss of control over subsidiaries	37	(12,937)	—	—
Financing income		(2,745)	(5,806)	(52,443)
Financing costs		60,921	73,369	662,713
Share of losses of associates accounted for using the equity method		46,060	45,490	410,893
Gain on sales of equity method investments		(10,591)	(3,902)	(35,245)
Impairment loss on equity method investments		6,885	13,920	125,734
Income taxes		304,527	299,979	2,709,593
(Increase) decrease in trade and other receivables		(150,408)	(204,101)	(1,843,564)
(Increase) decrease in inventories		40,801	(19,272)	(174,076)
Purchases of mobile devices leased to enterprise customers		(35,402)	(34,662)	(313,088)
Increase (decrease) in trade and other payables		28,742	137,586	1,242,760
Increase (decrease) in consumption taxes payable		8,827	(1,852)	(16,728)
Increase (decrease) in deposits in banking business		135,151	284,730	2,571,854
(Increase) decrease in loans in banking business		(16,193)	(142,751)	(1,289,414)
Other		(51,008)	(54,060)	(488,304)
Subtotal		1,560,232	1,666,086	15,049,101
Interest and dividends received		2,340	5,638	50,926
Interest paid		(60,464)	(59,215)	(534,866)
Income taxes paid		(258,430)	(390,726)	(3,529,275)
Income taxes refunded		5,857	117,166	1,058,315
Net cash inflow from operating activities		1,249,535	1,338,949	12,094,201
Cash flows from investing activities				
Purchases of property, plant and equipment and intangible assets		(431,783)	(479,522)	(4,331,334)
Proceeds from sales of property, plant and equipment and intangible assets		2,947	9,074	81,962
Payments for acquisition of investments		(115,061)	(1,114,385)	(10,065,803)
Proceeds from sales/redemption of investments		42,412	850,965	7,686,433
Purchase of investment securities in banking business		(275,681)	(309,685)	(2,797,263)
Proceeds from sales/redemption of investment securities in banking business		272,312	244,159	2,205,392
Proceeds (payments) from (for) obtaining control of subsidiaries	6	(378,212)	303,153	2,738,262
Other		(17,079)	(15,054)	(135,976)
Net cash outflow from investing activities		(900,145)	(511,295)	(4,618,327)

		(Millions of yen)		(Thousands of U.S. dollars)
	Notes	Fiscal year ended March 31, 2020 ¹	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2021
Cash flows from financing activities				
Increase in short-term interest-bearing debt, net	23	¥ 88,800	¥ 314,991	\$ 2,845,190
Proceeds from interest-bearing debt	23	2,531,035	2,429,231	21,942,291
Repayment of interest-bearing debt	23	(1,692,530)	(2,600,491)	(23,489,215)
Proceeds from stock issuance to non-controlling interests		4,630	7,176	64,818
Purchase of treasury stock	32	(68,709)	(100,000)	(903,261)
Cash dividends paid		(397,496)	(405,497)	(3,662,695)
Cash dividends paid to non-controlling interests		(29,335)	(30,786)	(278,078)
Purchase of treasury stock by subsidiaries	42	(526,826)	—	—
Decrease from loss of control over subsidiaries		(30,717)	—	—
Other		(22,465)	(3,086)	(27,875)
Net cash inflow (outflow) from financing activities		(143,613)	(388,462)	(3,508,825)
Effect of exchange rate changes on cash and cash equivalents		(357)	1,892	17,090
Increase (decrease) in cash and cash equivalents		205,420	441,084	3,984,139
Cash and cash equivalents at the beginning of the year		938,388	1,143,808	10,331,569
Cash and cash equivalents at the end of the year	8	¥ 1,143,808	¥ 1,584,892	\$ 14,315,708

Notes:

- As described in “(1) Acquisition of investments in Z Holdings Corporation” under “Note 6. Business combinations,” transactions under common control are accounted for as if such transactions were executed by SoftBank Corp. and its subsidiaries on the later of the acquisition date of the transferred companies by SoftBank Group Corp. or the opening balance sheet date of the comparative period as part of the consolidated financial statements of SoftBank Corp. and its subsidiaries.
- The consolidated statement of cash flows should be read in conjunction with “Note 41. Supplemental information to the consolidated statement of cash flows.”

Notes to Consolidated Financial Statements

1. Reporting entity

SoftBank Corp. (the “Company”) is a corporation (kabushiki kaisha) under the Companies Act of Japan and is domiciled in Japan. The registered address of its head office is 7-1 Kaigan 1-chome, Minato-ku, Tokyo, Japan¹. These consolidated financial statements are comprised of the Company and its subsidiaries (the “Group”). The parent of the Company is SoftBank Group Japan Corporation (“SBGJ”). The ultimate parent company of the Company is SoftBank Group Corp. (“SBG”).

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.

In addition, as part of the transaction to fulfill the business integration of Z Holdings Corporation and LINE Corporation, Shiodome Z Holdings G.K., the parent company of Z Holdings Corporation as well as a subsidiary of the Company, conducted an absorption-type merger with LINE Corporation, the surviving company. Effective February 28, 2021, LINE Corporation transferred all business to LINE Split Preparation Corporation through a company split (absorption-type company split) and therefore shifted to a holding company structure and changed its name to A Holdings Corporation. Effective March 1, 2021, a share exchange of common stock of LINE Split Preparation Corporation was conducted between Z Holdings Corporation and A Holdings Corporation whereby LINE Split Preparation Corporation became the wholly owned subsidiary of Z Holdings Corporation and changed its name to LINE Corporation.

The Group is engaged in a variety of businesses in the telecommunications and information technology industry centering on its Consumer, Enterprise, Distribution, and Yahoo businesses. For details, refer to “(1) Summary of reportable segments” under “Note 7. Segment information.”

Note:

1. Effective January 1, 2021, the Company changed the registered address of its head office from 9-1 Higashi-shimbashi 1-chome, Minato-ku, Tokyo, Japan.

2. Basis of preparation of consolidated financial statements

(1) Compliance with International Financial Reporting Standards (“IFRS”)

The consolidated financial statements of the Group have been prepared in accordance with IFRS.

(2) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except for certain items, such as financial instruments that are measured at fair value, as described in “Note 3. Significant accounting policies.”

(3) Presentation currency and unit of currency

The consolidated financial statements have been presented in Japanese yen, which is the currency of the primary economic environment of the Company (“functional currency”). Japanese yen amounts are rounded to the nearest million, except when otherwise indicated. Balances listed as “0” represent amounts less than ¥500 thousand rounded down, and balances listed as “-” represent amounts with a nil value.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at a rate of ¥110.71 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

(4) Changes in presentation

(Consolidated statement of financial position)

“Defined benefit liabilities,” which was presented as a separate item under “Non-current liabilities” as of March 31, 2020, is presented as “Other non-current liabilities” for the fiscal year ended March 31, 2021 due to a decrease

in materiality. In order to reflect this change, in the consolidated statement of financial position as of March 31, 2020, “Defined benefit liabilities” of ¥16,337 million in “Non-current liabilities” have been reclassified as “Other non-current liabilities.”

(Consolidated statement of cash flows)

a. “Increase in loans issued” and “Proceeds from repayment of loans,” which were presented as separate items under cash flows from investing activities for the fiscal year ended March 31, 2020, are presented as “Other” for the fiscal year ended March 31, 2021 due to a decrease in materiality.

In order to reflect this change, reclassification has been made in the consolidated financial statements for the fiscal year ended March 31, 2020. As a result, in the consolidated statement of cash flows for the fiscal year ended March 31, 2020, “Increase in loans issued” of ¥(3,110) million and “Proceeds from repayment of loans” of ¥1,536 million in cash flows from investing activities have been reclassified as “Other” of ¥(1,574) million.

b. “(Increase) decrease in loans in banking business,” presented as “Other” in cash flows from operating activities for the fiscal year ended March 31, 2020, is presented as a separate item for the fiscal year ended March 31, 2021, due to the increased materiality.

In order to reflect this change, reclassification has been made in the consolidated financial statements for the fiscal year ended March 31, 2020. As a result, in the consolidated statement of cash flows for the fiscal year ended March 31, 2020, “Other” of ¥(67,201) million in cash flows from operating activities has been reclassified as “(Increase) decrease in loans in banking business” of ¥(16,193) million and “Other” of ¥(51,008) million.

(5) New accounting standards and interpretations not yet adopted by the Group

Of the new or revised standards and interpretations that have been issued on or before the approval date of the accompanying consolidated financial statements, there are no standards or interpretations which have not been adopted by the Group and that may have a significant impact on the Group due to their application.

3. Significant accounting policies

The accounting policies adopted by the Group have been applied consistently to all periods presented in the consolidated financial statements.

(1) Basis of consolidation

a. Subsidiaries

A subsidiary is an entity that is controlled by the Company.

The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries’ financial statements are consolidated from the date when control is acquired (“acquisition date”) until the date when control is lost. For the accounting policies for transactions under common control at the time of consolidation, refer to “(2) Business combinations” under “Note 3. Significant accounting policies.”

Where the accounting policies adopted by subsidiaries differ from the accounting policies of the Group, adjustments are made to the financial statements of such subsidiaries as necessary.

Non-controlling interests consist of those interests at the acquisition date and any adjustments for subsequent changes in those interests.

Total comprehensive income of subsidiaries is generally attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intragroup balances and transactions and unrealized gains or losses arising from intragroup transactions are eliminated upon consolidation.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in its interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the

consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- the net carrying amount of the assets (including goodwill), liabilities and non-controlling interests of the subsidiary at the date that control is lost.

Any amounts previously recognized in accumulated other comprehensive income in relation to the former subsidiaries are reclassified to profit or loss.

b. Associates and joint ventures

An associate is an entity over which the Company has significant influence in financial and operating policy decisions, but does not have control or joint control.

A joint venture is an investment in which parties including the Company have joint control based on the contractual arrangement that requires unanimous consent related to significant decisions regarding business activities and have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The investment is adjusted thereafter to recognize the Group's interest in profit or loss and other comprehensive income from the date of acquisition to the date of loss of significant influence. For preferred stock investments in associates, when the features of the preferred stock are substantively different from common stock, they are not accounted for using the equity method, rather, they are designated as investments in equity instruments at fair value through other comprehensive income ("equity instruments at FVTOCI") or financial assets at fair value through profit or loss ("financial assets at FVTPL"). For the Group's accounting policy for equity instruments at FVTOCI and financial assets at FVTPL, refer to "(4) Financial instruments" under "Note 3. Significant accounting policies."

When the losses of an associate or joint venture exceed the Group's interest in the associate or joint venture, long-term interests that, in substance, form a part of the net investment in the Group are decreased to zero, and no additional loss is recognized except when the Group incurs legal or constructive obligations to or makes payments on behalf of the associate or joint venture.

Unrealized gains or losses on intercompany transactions with associates and joint ventures are added to or deducted from the carrying amount of the investments only to the extent of the Group's interests in the associate and joint venture.

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

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

(2) Business combinations

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

The consideration transferred in business combinations is measured at fair value as the sum of the acquisition date fair values of assets transferred by the Group, the liabilities assumed by the Group from the former owners of the acquiree, and 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 for the following:

- 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 is accounted for in the same way that the Group has disposed of the interest in the acquiree. The amounts 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 that the Group has disposed of the interest 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 consolidated 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 it acquires new information about facts and circumstances that existed as of the acquisition date that, 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, “JGAAP”) as of the date of transition to IFRS, and recorded at 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 consolidates the financial statements of the transferred companies 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 opening balance sheet date of the comparative period as part of the consolidated financial statements of the Group. Payment for the purchase of the equity interest of subsidiaries, through transactions under common control, is presented in cash flows from financing activities in the consolidated statement of cash flows.

(3) Foreign currency translation

Transactions denominated in foreign currencies

The financial statements of each Group company are prepared in their functional currency. Transactions in currencies other than the entity’s functional currency (foreign currencies) are translated at the rates of exchange prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are translated into the functional currency at the rates prevailing at the end of the fiscal year. Non-monetary items measured at fair value that are denominated in foreign currencies are translated into the functional currency at the rates prevailing at the date when the fair value was measured.

Foreign exchange differences arising from translation are recognized in profit or loss, except for those arising from investments in equity instruments at FVTOCI which are recognized in other comprehensive income.

(4) Financial instruments

a. Financial instruments

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

Financial assets and financial liabilities are measured at fair value at initial recognition. Except for 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 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”), 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.

All purchases and sales of financial assets made in a regular way are recognized and derecognized on a trade date basis. Purchases and sales made in a regular way refer to acquiring or disposing of financial assets under a contract that requires the delivery of assets within a time frame established by regulation or convention in the marketplace.

(a) Financial assets at amortized cost

Financial assets at amortized cost are classified 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

Debt instruments at FVTOCI are classified 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 fair value of investments in equity instruments at FVTOCI is measured in the manner described in “(1) Categorization by level within the fair value hierarchy” under “Note 29. Fair value of financial instruments.”

The Group transfers accumulated gains or losses directly from other comprehensive income to retained earnings in the case of derecognition or significant or prolonged decline in fair value below 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. The fair value of financial assets at FVTPL is measured in the manner described in “(1) Categorization by level within the fair value hierarchy” under “Note 29. Fair value of financial instruments.”

(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. 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 for 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 in profit or loss immediately unless the derivative is designated as a hedging instrument or works effectively as a hedge. Derivative financial assets not designated as hedging instruments are classified into 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 and accounts for them 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 entity 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 objective 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 the fair value of derivatives that are designated as and qualify 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 forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are removed from equity and included in 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 reclassified to 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 reclassified immediately to 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 contracts and accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contract. In this scenario, 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 the case where the Group is required to separate an embedded derivative from its host contract but is unable to measure the embedded derivative separately either at acquisition or subsequently at the end of the fiscal year, the entire hybrid contract is designated and accounted for as a financial liability at FVTPL.

e. Offsetting financial assets and financial liabilities

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

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments with maturities of three months or less that are readily convertible to cash and subject to an insignificant risk of changes in value.

(6) 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 related to purchases and other costs incurred in bringing inventory to its present location and condition. The costs are calculated primarily using 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.

(7) 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.

Property, plant and equipment is depreciated mainly using the straight-line method over the estimated useful lives of each component. The depreciable amount is calculated as the cost of an asset less its residual value. Land and 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

The primary assets subject to operating lease as lessor of the above 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.

(8) Goodwill

Refer to “(2) Business combinations” under “Note 3. Significant accounting policies” 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 whenever there is an indication of impairment in operating segments to which goodwill has been allocated, and at a certain time within the fiscal year, irrespective of whether there is any indication that the operating segment may be impaired. For details relating to impairment, refer to “(11) Impairment of property, plant and equipment, right-of-use assets, intangible assets, and goodwill” under “Note 3. Significant accounting policies.”

The Group’s policy for goodwill arising from the acquisition of an associate is described in “(1) Basis of consolidation” under “Note 3. Significant accounting policies.”

(9) 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 separately 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 expenditure 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 expenditure incurred from the date when the intangible asset first meets all of the capitalization criteria to the date the development is completed.

Intangible assets with finite useful lives are amortized over their respective estimated useful lives. Amortization of customer relationships is calculated using the straight-line method or the sum-of-the-digits method and intangible assets with finite useful lives other than customer relationships are amortized using 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 spectrum newly assigned to the Company to another spectrum. 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 an indefinite useful life or the cash-generating unit to which the asset belongs is tested for impairment at a certain time within the fiscal year and whenever an indication of impairment exists. For details relating to impairment, refer to “(11) Impairment of property, plant and equipment, right-of-use assets, intangible assets, and goodwill” under “Note 3. Significant accounting policies.”

The Group’s intangible assets that have indefinite useful lives primarily relate to its trademark usage right of the “SoftBank” brand and trademarks of the “ZOZO” and “LINE” brands. For further details on trademarks, refer to “Note 14. Goodwill and intangible assets.”

In addition, the Group does not apply IFRS 16 to leases of intangible assets.

(10) Leases

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) Separating components of a contract

For a contract that is, or contains, a lease, the Group accounts for each lease component as a lease separately from non-lease components by allocating the consideration in the contract to each lease component based on the ratio of aggregate stand-alone price of the lease component and the non-lease components.

(b) Leases of intangible assets

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

(c) 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 the total 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 an estimate of costs to be incurred in dismantling and removing the underlying asset, 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 life when it is certain that the lease transfers ownership of the underlying asset, or over the shorter of 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 life of a right-of-use asset is determined in the same manner as property, plant and equipment. Right-of-use assets are measured at cost less accumulated depreciation and impairment losses.

(d) 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 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) Separating components of a contract

For a contract that is, or contains, a lease, the Group allocates the consideration in the contract to lease components and non-lease components in accordance with IFRS 15.

(b) Lease classification

At 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.

(c) 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 estimated useful life of a right-of-use asset recognized by the Group in the head lease rather than the assets subject to lease.

(d) Recognition and measurement

Lease receivables in finance leases are recognized at the amount of the Group's net investment in the lease, 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 method is recognized in profit or loss.

Lease payments under operating leases are recognized in income on a straight-line basis.

(11) 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 assesses 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 whenever an indication of impairment exists, and at a certain time 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 that 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 synergies arising from a business combination and is tested for impairment whenever there is an indication of impairment in the operating segments to which goodwill has been allocated, and at a certain time within the fiscal year, irrespective of whether there is any indication that the operating segment may be impaired. 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.

(12) 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 estimated future cash flows, discounted using a pre-tax 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 mainly recognizes asset retirement obligations, provision for loss on contract and provision for loss on interest repayment as provisions.

(13) Treasury stock

When the Company acquires its own equity share capital ("treasury stock"), the consideration paid, including any directly attributable increment costs (net of tax), is deducted from equity. No gain or loss is recognized on the purchase, sale, or cancellation of treasury stock. The difference between the carrying amount and the consideration on sale is recognized as capital surplus.

(14) Share-based payments

The Group's remuneration system includes stock option and restricted stock plans, as equity-settled share-based compensation, which have been granted to the directors and employees of the Group.

Equity-settled share-based compensation is measured at fair value at the grant date. The fair value of stock options is calculated using the Black-Scholes model, the Monte Carlo simulation and other methods. The fair value determined at the grant date is expensed over the vesting period, based on the estimate of stock options that will eventually vest. The Group regularly reviews the assumptions made and revises estimates of the number of stock options that are expected to vest, when necessary. The fair value of Restricted Stock is calculated based on the stock price on the grant day and is expensed immediately at the time of the grant.

In addition, SBG has a remuneration system that includes stock option plans as equity-settled share-based compensation, a portion of which has been granted to the directors and employees of the Group. Equity-settled share-based compensation is measured at fair value at the grant date and is expensed over the vesting period, with a corresponding increase in equity recognized under capital surplus as a contribution from the owners of the Group.

(15) Revenue

a. Revenue

Consumer business

Revenues in the Consumer business consist mainly of revenues from mobile communications services, sales of mobile devices, broadband services, and electricity 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 service 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 one month. Mobile device payments for indirect sales are billed to dealers at the time of sale to the respective dealers and are generally due within one month. 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 one month. 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 the 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 over time during the contractual period because the performance obligation of mobile communications services is to provide a certain amount of data communications monthly to subscribers during the contractual period. 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.

ii. Direct sales

For direct sales, the total amount of transactions is allocated to sales of mobile devices and mobile communications service revenue based on the ratio of their stand-alone selling prices as the revenues from the sales of mobile devices and mobile communications services, including related fees, are considered to be one transaction. 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 sale 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 sale of mobile device 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 over time during the contractual period because the performance obligation of mobile communications services is to provide a certain amount of data communications monthly to subscribers during the contractual period.

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 services fees primarily related to internet connection (“revenues from broadband services”) and other fees.

Revenues from broadband services are recognized when 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 when received, which are then reversed when the broadband services are provided, and are recognized as revenue.

(c) Electricity services

For electricity services, revenues are mainly generated from purchase and sale, supply and intermediation of electricity services, including *Ouchi Denki*. Revenues from supply of electricity (retail service) are recognized when services are provided to subscribers, based upon fixed monthly charges plus the fees charged for usage of electricity.

Enterprise business

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

Revenues from business solution and others 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 and others are recognized when products or services are provided to subscribers, representing the point when subscribers have obtained control of the product or service, based upon the consideration receivable from subscribers.

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 the 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

Revenues 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.

Revenues 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 comprises display advertising (reservation) and display advertising (programmatic). Revenues from display advertising (reservation) are recognized over the period in which the related advertisement is displayed. Revenues from display advertising (programmatic) 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.

Revenues in LINE advertising services consist of revenues from display advertising, account advertising and other advertising.

Revenues from display advertising are recognized upon the fulfilment of certain actions under contracts with advertisers, such as impressions, views, and clicks.

Account advertising mainly comprises LINE Official Accounts and LINE Sponsored Stickers. Revenues from LINE Official Accounts are recognized over time during the contractual period in which the account is available for the registered user.

Revenues from LINE Sponsored Stickers are recognized over time during the contractual period.

b. Contract costs

The Group recognizes the costs of obtaining telecommunications service contract 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 service 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*, a 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.

(16) Financing income and costs

Financing income consists primarily of interest income, dividend income, foreign exchange gain, and changes in the fair value of financial assets at FVTPL. Interest income is recognized as incurred using the effective interest method. Dividend income is recognized when the Group's entitlement to the dividend is established.

Financing costs consist primarily of interest expense, foreign exchange loss, and changes in the fair value of financial assets at FVTPL. Interest expense is recognized as incurred using the effective interest rate method.

(17) Income taxes

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

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the asset and liability method. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, net operating loss carryforwards, and tax credit carryforwards can be utilized. The recoverability of deferred tax assets is reassessed at the end of each fiscal year.

Deferred tax assets are not recognized for temporary differences from initial recognition of assets and liabilities that do not arise from business combinations and that do not impact accounting profit or taxable income.

In relation to investments in subsidiaries, associates and joint ventures, deferred tax assets are recognized for deductible temporary differences when it is probable that the temporary difference will reverse in the foreseeable future and when there will be sufficient taxable profits against which the temporary differences can be utilized.

Deferred tax liabilities are basically recognized for taxable temporary differences, except for:

- temporary differences arising from the initial recognition of assets and liabilities, and related transactions other than

- business combinations, that affect neither the accounting profit nor the taxable profit;
- taxable temporary differences arising from the initial recognition of goodwill; and
- taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(18) Earnings per share

Basic earnings per share is calculated by dividing net income attributable to owners of the Company by the weighted-average number of common stock (after adjusting for treasury stock) outstanding for the period.

Diluted earnings per share assumes full conversion of the issued potential stocks having a dilutive effect, with an adjustment for net income attributable to owners of the Company and the weighted-average number of common stock (after adjusting for treasury stock) outstanding for the period.

4. Changes in accounting policies

(1) Application of new accounting standards and interpretations

There is no application of new accounting standards and interpretations.

5. Significant judgments and estimates

In preparing the consolidated financial statements under IFRS, management makes judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue, and expenses.

These estimates and underlying assumptions are based on management's best judgments, through their evaluation of various factors that were considered reasonable as of the respective period-end, based on historical experience and by collecting available information.

By the nature of its estimates or assumptions, however, actual results in the future may differ from those projected estimates or assumptions.

Estimates and underlying assumptions are continuously reviewed. Revisions to accounting estimates are recognized in the fiscal year in which the estimates are revised as well as in the subsequent fiscal years.

(1) Significant judgments

Significant judgments that affect the amounts recognized in the Group's consolidated financial statements are as follows:

a. Judgments of whether an entity is controlled by the Company in determining the scope of consolidation (“(1) Basis of consolidation” under “Note 3. Significant accounting policies”)

The Company assesses whether or not it has the ability to control subsidiaries based on whether the Company has the practical ability to direct the relevant activities of the subsidiary unilaterally. In making this judgment, the Company considers the absolute size of its equity share, voting interest, contractual rights, and any other factors that may indicate the Company's ability to direct the relevant activities of the entity. Upon completion of the assessment, the Company will then determine if the subsidiary should be consolidated, accounted for using the equity method, or accounted for as an investment. For further details, refer to “Note 19. Major subsidiaries” and “Note 21. Structured entities.”

b. Judgments for accounting treatment of contracts including leases (“(10) Leases” under “Note 3. Significant accounting policies” and “Note 18. Leases”)

Determining whether an arrangement contains a lease

At inception of a contract, the Group assesses whether contractual arrangements are, or contain, a lease. It is determined that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In determining whether the right to control the use of an identified asset is conveyed, the Group assesses the following:

- (a) The contract includes the use of an identified asset and the lessor does not have the substantive right to substitute the asset.
- (b) The lessee has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- (c) The lessee has the right to direct the use of the asset. If the decisions about how and for what purpose the asset is used are predetermined, it is determined that the customer has the right to direct the use of the asset if either of the following is satisfied:
 - i. the customer has the right to operate the asset; or
 - ii. the customer designed the asset in a way that predetermines how and for what purpose the asset will be used.

Lease classification

The Group, as a lessor, also applies judgment in determining the classification of a lease as either a finance lease or operating lease. In determining whether a lease is a finance lease, the Group assesses the following:

- (a) if the lease transfers all the risks and rewards associated with the ownership of the asset;
- (b) if ownership of the asset will transfer to the lessee at the conclusion of the lease;
- (c) whether the lessee will have the ability to purchase the leased asset at a cost significantly below the asset's fair value;
- (d) whether the term of the lease is for a major part of the asset's useful economic life; and
- (e) the level of risk that the Group retains in relation to the asset.

If one or a combination of the above is present in relation to the lease, the Group classifies the lease as a finance lease, and all other leases are classified as operating leases.

c. Judgments for accounting for revenue recognition (“(15) Revenue” under “Note 3. Significant accounting policies”)

Principal versus agent considerations

Gross versus net presentation

When the Group sells goods or services as a principal, income and payments to suppliers are reported on a gross basis in revenue and operating expenses. If the Group sells goods or services as an agent, revenue and payments to suppliers are recorded in revenue on a net basis, representing the margin earned. Whether the Group is considered to be a principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgments impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities, or cash flows.

Timing of revenue recognition for indirect sales

When the Group enters into indirect sales, management determines whether a dealer acts as either an agent or principal. When a dealer acts as a principal for the Group, revenue is recognized when control of the underlying inventory has been transferred to the dealer. When a dealer acts as an agent, revenue is recognized when control of the underlying inventory is transferred to the customer that the dealer has sold to. In performing its assessment, management considers whether control is transferred upon delivery of inventory to the dealer. Where management determines that a dealer acts as a principal, revenue is recognized upon delivery of inventory to the dealer. Alternatively, where the dealer is determined to be acting as an agent, revenue is recognized when goods or services are received by the customer. For further details on the application of this judgment, refer to “(a) Mobile communications services and sales of mobile devices” under “a. Revenue” in “(15) Revenue” in “Note 3. Significant accounting policies.”

Judgements for determining “contractual period” and whether an arrangement contains a “material right”

The Group determines the duration of a contract (i.e., contractual period) during which the parties to the contract have their current enforceable rights and obligations based on the terms and conditions of the contract with the customer.

In addition, the Group determines whether the option will provide a “material right” to the customer if the customer has the option to renew the contract based on the terms and conditions of the contract with the customer and if the customer may receive a discount for future telecommunications services by exercising the option. If the Group determines that the option provides a “material right” to the customer, it identifies the option as a separate performance obligation. As a practical alternative to estimating the stand-alone selling price of the option, the Group allocates the transaction price to the telecommunications services pertaining to the option by reference to the telecommunications services that are expected to be provided and the corresponding amount of consideration expected to be received from the customer.

(2) Significant estimates

Uncertainties involved in estimates and assumptions made by management with the risk of significant adjustments to the carrying amounts of assets and liabilities during the next fiscal year are summarized as follows:

In addition, the Company reasonably estimates the amounts by considering the period of spread of COVID-19 infections and related risks and uncertainties based on the information and facts available as of preparing the consolidated financial statements. However, in case of increased uncertainties in the future, such as a delay in the containment of COVID-19, there is a risk that the accounting estimates and assumptions will be impacted and significant adjustments to the carrying amount of assets or liabilities may be necessary.

a. Estimated fair value measurement and impairment loss of intangible assets and goodwill acquired from business combinations

The Group recognizes intangible assets and goodwill acquired from business combinations at fair value as of the acquisition date. When allocating the consideration transferred from business combinations, management's judgements and estimates may have a material impact on the consolidated financial statements of the Group. Intangible assets, such as customer relationships and trademarks, and goodwill recognized from business combinations are measured based on assumptions such as estimated future cash flow, discount rate, attrition rate of existing customers, future sales forecast generated by trademarks, and royalty rate.

In assessing intangible assets and goodwill for impairment, the Group needs to estimate the recoverable amount of the cash-generating unit and the recoverable amount is measured based on assumptions such as the useful lives of assets, estimated future cash flows expected to be generated by the cash-generating unit, expected market growth rate, expected market share and discount rate.

These assumptions determined by management's best estimates may be affected by uncertainties in future economic conditions and may have a material impact on the consolidated financial statements of the Group if the assumptions were revised.

Regarding information relating to estimated fair value measurement of intangible assets and goodwill acquired by business combinations, refer to “(2) Business combinations” under “Note 3. Significant accounting policies” and “Note 6. Business combinations.” Regarding information relating to impairment loss of intangible assets and goodwill, refer to “(11) Impairment of property, plant and equipment, right-of-use assets, intangible assets, and goodwill” under “Note 3. Significant accounting policies” and “Note 14. Goodwill and intangible assets.”

b. Estimated residual values and useful lives of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets represent a significant portion of the total assets of the Group. Estimates and assumptions made may have a material impact on their carrying amounts and related depreciation and amortization.

The depreciation charge for an asset is derived using estimates of its expected useful life and in the case of property, plant and equipment, expected residual value. The expected useful life and residual value of the asset are estimated when they are acquired or generated, and are reviewed at the end of each fiscal year. Changes to an asset's expected useful life or residual value could result in material adjustments to the consolidated financial statements. Management determines the useful lives and residual values of these assets when assets are acquired or generated or the useful lives and residual values for assets are reviewed based on experience with similar assets, taking into account other relevant factors such as expected changes in technology, expected costs to be incurred upon disposal, expected availability period, estimated attrition rate of existing customers, number of production or similar units expected to be obtained from the asset and any related contractual arrangements that would be indicative of the useful life of an asset.

Regarding information relating to carrying amounts and related depreciation of property, plant and equipment and amortization of intangible assets, refer to “Note 13. Property, plant and equipment” and “Note 14. Goodwill and intangible assets.” Regarding information relating to estimated residual values and useful lives of property, plant and equipment and intangible assets, refer to “(7) Property, plant and equipment” and “(9) Intangible assets” under “Note 3. Significant accounting policies.”

c. Fair value measurement of financial instruments

In evaluating the fair value of certain financial instruments, the Group uses valuation techniques that use unobservable inputs in the market. Unobservable inputs may be affected by the consequences of uncertain changes in economic conditions in the future and may have a material impact on the consolidated financial statements if any revaluation is required.

Regarding information relating to fair value of financial instruments, refer to “(1) Categorization by level within the fair value hierarchy” and “(2) Fair value measurements of financial instruments that are categorized as Level 3” under “Note 29. Fair value of financial instruments.”

d. Estimated amortization period of contract acquisition costs

Contract acquisition costs are amortized on a straight-line basis over the period during which goods or services directly related to such costs are expected to be provided. The amortization period is determined taking into account relevant factors such as churn rate and estimated period until the customer trades in their used handset to upgrade to a designated new model based on conditions of contracts and past performance data. Changes in the amortization period of contract acquisition costs may have a material impact on the consolidated financial statements of the Group.

Regarding information relating to contract acquisition costs, refer to “b. Contract costs” under “(15) Revenue” in “Note 3. Significant accounting policies” and “Note 15. Contract costs.”

6. Business combinations

Fiscal year ended March 31, 2020

(1) Acquisition of investments in Z Holdings Corporation

a. Summary of acquisition

The Company acquired new shares issued by third-party allotment conducted by Z Holdings Corporation. The purpose of the transaction 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. 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 which 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 as if such transaction was executed by the Group on the opening balance sheet date of the comparative period, as part of the consolidated financial statements of the Group.

(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 ¥400,000 million.

The business of ZOZO, Inc. includes planning and operation of fashion online fashion shopping website *ZOZOTOWN*, planning and development of the private brand *ZOZO*, and 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 acquisition date, and the total consideration transferred¹:

	(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		<u>607,479</u>
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		<u>233,903</u>
Net assets	A	<u>373,576</u>
Non-controlling interests ³	B	185,750
Total consideration	C	<u>400,737</u>
Goodwill ⁴	C-(A-B)	<u>212,911</u>

Notes:

1. Consideration transferred is allocated to assets acquired and liabilities assumed based on their fair value on the acquisition date. Allocation of the consideration transferred was completed during the three months ended March 31, 2020. There are no adjustments between the provisional and final amounts.
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. The amount of intangible assets recognized from business combinations is measured based on assumptions such as estimated future cash flows, discount rate, attrition rate of existing customers, future sales forecast generated by trademarks, and royalty rate.

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

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 acquisition date, multiplied by the ratio of the non-controlling interests as of the acquisition date 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 on and 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.

Consolidated revenue and net income on the assumption that the business combination was completed at the beginning of the year:

On the assumption that the acquisition date is April 1, 2019, the Company's consolidated pro forma financial information (unaudited) for the fiscal year ended March 31, 2020 is as follows:

	(Millions of yen)
	For the fiscal year ended March 31, 2020
Revenue (Pro forma financial information)	4,928,326
Net income (Pro forma financial information)	508,998

Fiscal year ended March 31, 2021

Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation

a. Summary of acquisition

The Company consolidated LINE Corporation and implemented the business integration of LINE Corporation and Z Holdings Corporation for the purpose of maximizing synergy in each business field pertaining to Z Holdings Corporation and the LINE Group, aggregating management resources and enhancing growth in new business fields.

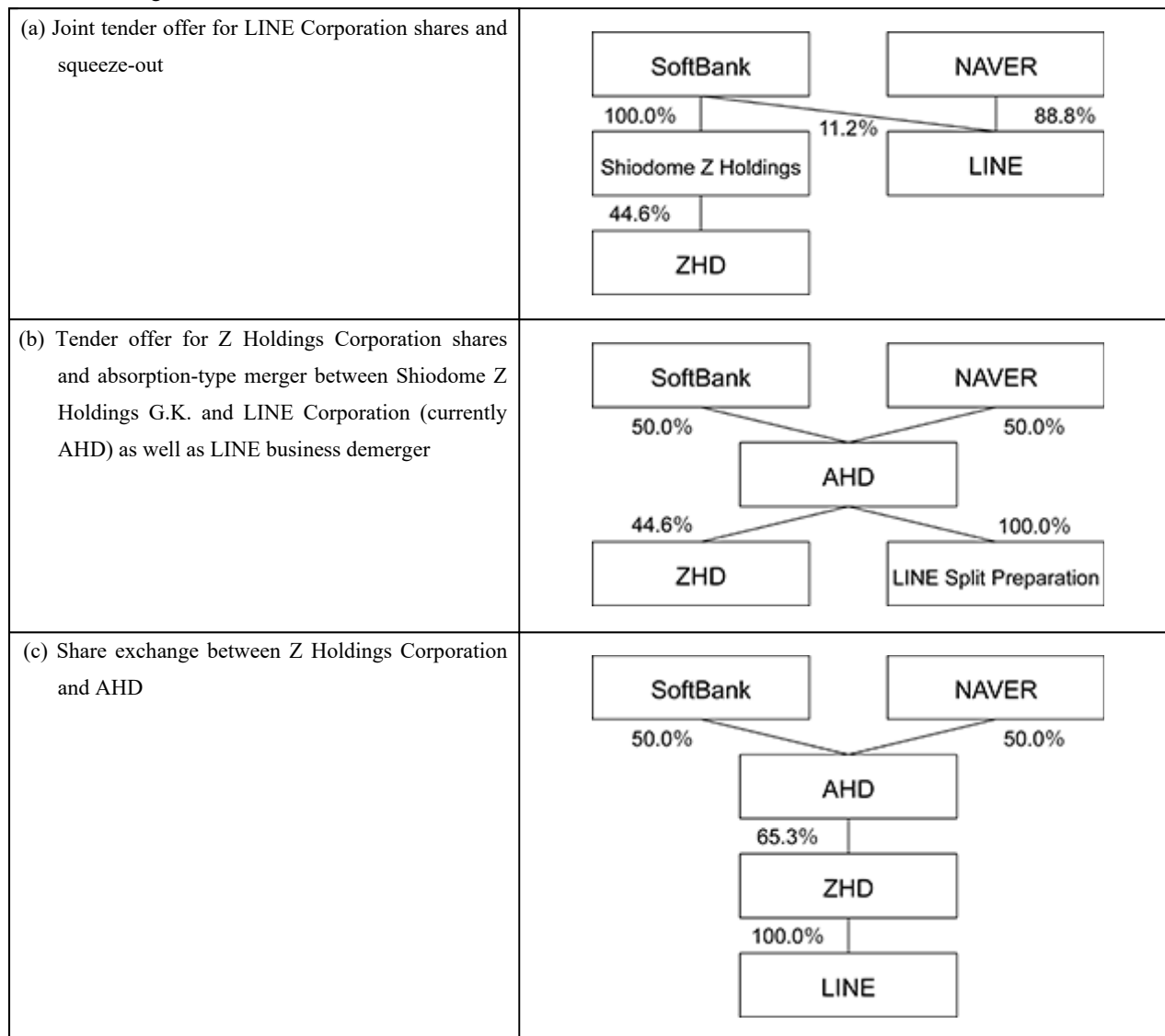
Through this acquisition, the Company first transferred all the Z Holdings Corporation shares held by the Company to Shiodome Z Holdings Co., Ltd. (subsequently, its corporate form was changed to Shiodome Z Holdings G.K.), and the Company and NAVER J.Hub Corporation, which is wholly owned by NAVER Corporation, a major shareholder of LINE Corporation, conducted a joint tender offer for the common stock of LINE Corporation and implemented squeeze-out procedures of minority shareholders as well as making adjustments of ownership interests of the LINE Corporation shares held by the Company and NAVER J.Hub Corporation. As a result, the Company acquired 26,220 thousand common stock of LINE Corporation for ¥172,992 million (excluding transaction costs) and therefore the ratio of voting rights held by the Company in LINE Corporation became 11.2% as of February 25, 2021 (refer to (a) under "Structure Diagram" below).

LINE Corporation conducted a tender offer for the common stock of Z Holdings Corporation and an absorption-type merger with Shiodome Z Holdings G.K. As a result, the Company and NAVER Corporation each came to hold 50.0% of the voting rights in LINE Corporation as of February 26, 2021. Effective February 28, 2021, LINE Corporation transferred all the business to LINE Split Preparation Corporation through a company split (absorption-type company split) and changed its name to A Holdings Corporation ("AHD"). Under the joint venture agreement entered into with NAVER Corporation, the Company owns the rights to appoint the majority of the Board of Directors of AHD. As a result, AHD and LINE Split Preparation Corporation are considered substantially controlled by the Company and became subsidiaries of the Company, effective February 28, 2021, on which the legally binding joint venture agreement was entered into by conducting the absorption-type merger. Also, through AHD, the Company owns the rights to appoint the majority of the Board of Directors of Z Holdings Corporation and accordingly, Z Holdings Corporation is considered continuously controlled by the Company

(refer to (b) under “Structure Diagram” below).

In addition, effective March 1, 2021, a share exchange of common stock of LINE Split Preparation Corporation was conducted between Z Holdings Corporation and AHD (exchange ratio: allotted ratio of Z Holdings Corporation shares to be exchanged for one share of LINE Split Preparation Corporation is 11.75; allotted number of Z Holdings Corporation shares: 2,831,284 thousand shares) whereby LINE Split Preparation Corporation became the wholly owned subsidiary of Z Holdings Corporation. As a result, the ratio of voting rights held by AHD in Z Holdings Corporation became 65.3%. Subsequently, LINE Split Preparation Corporation changed its name to LINE Corporation (refer to (c) under “Structure Diagram”).

Structure Diagram



b. Summary of acquiree

Name LINE Corporation¹
 Business Advertising service based on the mobile messenger application “LINE,” core business including the sales of stamp and game services, and strategic business including FinTech, AI and commerce services.

Note:

1. Refers to LINE Corporation, surviving company in the absorption-type merger conducted by Shiodome Z Holdings G.K. As described in (b) in “Structure Diagram” above, LINE Corporation, the acquiree, transferred all business to LINE Split Preparation Corporation (currently, LINE Corporation) and changed its name to AHD, effective February 28, 2021.

c. Acquisition date
February 28, 2021

d. Consideration and its breakdown

	(Millions of yen)
	Acquisition Date (February 28, 2021)
Fair value of LINE Corporation shares held as of the acquisition date	172,922
Fair value of Shiodome Z Holdings shares transferred as of the acquisition date	689,150
Total consideration	A <u><u>862,072</u></u>

Acquisition-related costs incurred for this business combination were ¥1,970 million in total, of which ¥932 million and ¥1,038 million are included in “Selling, general and administrative expenses” for the fiscal years ended March 31, 2020 and 2021, respectively. In addition, as a result of remeasurement of the Company’s previously held interests in LINE Corporation to the fair value as of the acquisition date, negative difference arising from the step acquisition of ¥70 million was recognized. This amount is included in “Changes in the fair value of equity instruments at FVTOCI” in the consolidated statement of comprehensive income.

e. The table below shows the fair value of assets and liabilities, non-controlling interests, and goodwill as of the acquisition date¹:

	(Millions of yen)
	Acquisition date (February 28, 2021)
Cash and cash equivalents	312,791
Trade and other receivables	67,553
Other current assets	46,687
Property, plant and equipment	24,667
Right-of-use assets	62,940
Intangible assets ²	425,401
Share of losses of associates accounted for using the equity method	168,093
Other non-current assets	104,809
Total assets	<u>1,212,941</u>
Interest-bearing debt (current and non-current)	244,248
Trade and other payables	233,671
Other current liabilities	49,169
Deferred tax liabilities	155,856
Other non-current liabilities	20,745
Total liabilities	<u>703,689</u>
Net assets	B <u><u>509,252</u></u>
Non-controlling interests ³	C <u>264,257</u>
Goodwill ⁴	A-(B-C) <u><u>617,077</u></u>

Notes:

1. As the recognition of identifiable assets acquired and liabilities assumed as of the acquisition date and measurement of their fair values were not complete at the end of the current fiscal year, the above amounts are provisional based on the best estimate at present. Accordingly, the allocation of the consideration transferred to assets acquired, liabilities assumed and

resulting goodwill may change in a year from the acquisition date when additional information related to facts and circumstances that existed as of the acquisition date are obtained and evaluated.

2. The amount of intangible assets includes ¥406,964 million of identifiable assets and the table below shows the breakdown of the identifiable assets. The estimated useful lives of customer relationships are from 12 to 18 years, and trademarks are classified as intangible assets with indefinite useful lives. The amount of intangible assets recognized from business combinations is measured based on assumptions such as estimated future cash flows, discount rate, attrition rate of existing customers, future sales forecast generated by trademarks, and royalty rate.

	(Millions of yen) Acquisition date (February 28, 2021)
Intangible assets with indefinite useful lives	
Trademarks	170,078
Intangible assets with finite useful lives	
Customer relationships	236,886
Total	<u>406,964</u>

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 acquisition date, multiplied by the ratio of the non-controlling interests as of the acquisition date 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.

- f. The table below shows proceeds from obtaining control of the subsidiary:

	(Millions of yen) Acquisition date (February 28, 2021)
Cash and cash equivalents held by the acquiree at the time of obtaining control	312,791
Cash proceeds from obtaining control of the subsidiary	<u>312,791</u>

- g. Revenue and net loss of the acquiree:

The revenue and net loss of the acquiree recorded in the consolidated statement of income for the fiscal year ended March 31, 2021 on and after the acquisition date are ¥25,205 million and ¥5,877 million, respectively.

Net loss above includes impairment loss of ¥10,002 million and deferred tax revenue on this impairment loss of ¥3,147 million.

- h. Consolidated revenue and net income on the assumption that the business combination was completed at the beginning of the year:

On the assumption that the acquisition date is April 1, 2020, the Company's consolidated pro forma financial information (unaudited) for the fiscal year ended March 31, 2021 is as follows:

The increases in amortization of identifiable intangible assets provisionally recognized at the acquisition date are included in Pro forma financial information. (Accordingly, Pro forma financial information may change in a year from the acquisition date)

	(Millions of yen) For the fiscal year ended March 31, 2021
Revenue (Pro forma financial information)	<u>5,440,243</u>
Net income (Pro forma financial information)	<u>512,484</u>

7. Segment information

(1) Summary of reportable segments

The reportable segments of the Group are based on operating segments for which separate financial information is available, and which the Board of Directors (the Group's chief operating decision maker) regularly reviews to determine the allocation of management resources and evaluate their performance. The Group has "Consumer," "Enterprise," "Distribution," and "Yahoo" as its reportable segments. No operating segments have been aggregated in arriving at the reportable segments of the Group.

In the "Consumer" segment, the Group provides mobile communications and broadband services to individual customers. In mobile communications services, the Group provides mobile communications services under the *SoftBank*, *Y!mobile*, and *LINE MOBILE* brands, and sells mobile devices such as phones and tablets. In addition, the Group launched an online exclusive brand under *LINEMO* in March 2021. In broadband services, the Group provides internet services, including *SoftBank Hikari*, and sells and rents related customer-premises equipment for broadband services. In electricity services, the Group provides purchase and sale, supply and intermediation of electricity services, including *Ouchi Denki*.

In the "Enterprise" segment, the Group provides a wide range of services to enterprise customers, including mobile communications services, voice call services and fixed-line communications services, data transmission and dedicated services, telecommunications consulting and construction for telecommunications carriers and general service providers, rental and maintenance of telecommunications facilities, housing, data center services, and sales and rental of telecommunications equipment.

In the "Distribution" segment, the Group provides hardware, software, and services in relation to ICT, cloud, and IoT solutions to enterprise customers. The Group also provides PC software, IoT products, and mobile device accessories to individual customers.

In the "Yahoo" segment, the Group 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 which are provided via the internet for small to medium-sized businesses and individual customers. The "Media business" comprises planning and sales of internet-based advertising-related services, information listing services, and other corporate services. With the business integration of LINE Corporation and Z Holdings Corporation, services related to LINE are included in the "Yahoo" segment.

Information not included in the preceding reportable segments is summarized in "Other." "Other" mainly includes operating results of subsidiaries, such as SB Payment Service Corp., PayPay Securities Corporation,¹ and others.

"Adjustments" includes eliminations of intersegment transactions and expenses not allocated to each reportable segment.

As described in "(1) Acquisition of investments in Z Holdings Corporation" under "Note 6. Business combinations," transactions under common control are accounted for as if such transactions were executed by SoftBank Corp. and its subsidiaries on the later of the acquisition date of the transferred companies by SBG or the opening balance sheet date of the comparative period as part of the consolidated financial statements of the Company and its subsidiaries, and the following segment information includes the financial information of subsidiaries acquired through common control transactions. For further details of the Group's accounting policy regarding common control transactions, refer to "(2) Business combinations" under "Note 3. Significant accounting policies."

Note:

1. Effective February 1, 2021, One Tap BUY Co., Ltd. changed its name to PayPay Securities Corporation.

(2) Segment revenue, income, and other information of reportable segments

Income of reportable segments is defined as "Operating income." Intersegment transaction prices are determined by taking into consideration the equivalent prices for an arm's length transaction or gross costs after price negotiation.

Income and loss which are not attributable to operating income and loss, such as financing income, financing costs, and income and loss on equity method investments, are not managed by each reportable segment and therefore these income and losses are excluded from segment income. Assets and liabilities are not allocated to reportable segments and are not monitored by the Board of Directors.

Fiscal year ended March 31, 2020

	Reportable segments					Other	Adjustments	Consolidated
	Consumer	Enterprise	Distribution	Yahoo	Total			
(Millions of yen)								
Revenue								
Sales to external customers	2,685,035	627,746	440,200	1,030,589	4,783,570	77,677	—	4,861,247
Intersegment revenue or transferred revenue	11,652	11,130	42,241	22,353	87,376	30,438	(117,814)	—
Total	<u>2,696,687</u>	<u>638,876</u>	<u>482,441</u>	<u>1,052,942</u>	<u>4,870,946</u>	<u>108,115</u>	<u>(117,814)</u>	<u>4,861,247</u>
Segment income	647,270	83,607	17,164	152,276	900,317	10,835	573	911,725
Depreciation and amortization ¹	422,454	157,937	3,052	83,209	666,652	8,589	—	675,241

Fiscal year ended March 31, 2021

	Reportable segments					Other	Adjustments	Consolidated
	Consumer	Enterprise	Distribution	Yahoo	Total			
(Millions of yen)								
Revenue								
Sales to external customers	2,762,305	681,773	479,512	1,182,545	5,106,135	99,402	—	5,205,537
Intersegment revenue or transferred revenue	8,083	9,860	51,821	23,302	93,066	40,376	(133,442)	—
Total	<u>2,770,388</u>	<u>691,633</u>	<u>531,333</u>	<u>1,205,847</u>	<u>5,199,201</u>	<u>139,778</u>	<u>(133,442)</u>	<u>5,205,537</u>
Segment income	658,624	107,731	22,293	162,125	950,773	19,515	482	970,770
Depreciation and amortization ¹	423,842	160,309	3,641	101,738	689,530	6,812	—	696,342

Note:

1. Depreciation and amortization includes amortization of long-term prepaid expenses which are recorded in “Other non-current assets” in the consolidated statement of financial position.

Reconciliation of segment income to consolidated profit before income taxes is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Segment income	911,725	970,770
Share of losses of associates accounted for using the equity method	(46,060)	(45,490)
Financing income	2,745	5,806
Financing costs	(60,921)	(73,369)
Gain on sales of equity method investments	10,591	3,902
Impairment loss on equity method investments	(6,885)	(13,920)
Profit before income taxes	<u>811,195</u>	<u>847,699</u>

(3) Information about products and services

The nature of products and services provided and related revenue are as described in “Note 35. Revenue.”

(4) Information about regions

The description of revenue by region is omitted as overseas revenue from external customer accounts is not material. The description of non-current assets by region is omitted because the carrying amount of non-current assets attributable to the Group's operations in Japan accounts for the majority of non-current assets in the consolidated statement of financial position.

(5) Information about major customers

This information is omitted because no revenue from a single external customer exceeds 10% of the Group's revenue.

8. Cash and cash equivalents

The components of cash and cash equivalents are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Cash and demand deposits ¹	1,084,904	1,538,718
Time deposits (maturities of three months or less)	51,604	45,612
Other	7,300	562
Total	1,143,808	1,584,892

Note:

1. 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 Requirement System in Japan. As of March 31, 2020 and 2021, cash and cash equivalents include deposits in the Bank of Japan of ¥311,897 million and ¥294,165 million, respectively, which are more than the legal reserve requirement.

9. Trade and other receivables

The components of trade and other receivables are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Trade receivables	727,786	799,285
Installment receivables	410,343	398,293
Loans in credit card business	257,375	313,484
Loans in banking business	13,139	18,686
Call loans in banking business	—	65,000
Foreign exchange dealings cash deposits with trust banks	97,189	111,224
Non-trade receivables	193,258	261,470
Advances paid	31,874	30,913
Deposits	83,622	93,628
Other	5,172	9,361
Allowance for doubtful accounts	(19,457)	(19,121)
Total	1,800,301	2,082,223

Installment receivables represent receivables arising from the Group's advance payments to dealers on behalf of its customers who choose to purchase mobile devices by installments in indirect sales. The amounts are charged to customers together with telecommunications service fees over the periods of installment payments.

The period of installment payments for the receivables above is 24 to 48 months. As such, the amounts due within a year after the period-end date are included in "Trade and other receivables," and those due after one year are included in "Other financial assets (non-current)."

10. Other financial assets

The components of other financial assets are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Current		
Investment securities in banking business	64,768	80,398
Derivative assets	28,263	22,602
Other	1,875	41,935
Total	94,906	144,935
Non-current		
Installment receivables ¹	493,526	481,943
Loans in credit card business	95,429	105,232
Loans in banking business	85,945	228,623
Deposits in the central clearing house ²	115,273	155,210
Rental and other deposits	53,502	63,686
Other	84,314	119,333
Allowance for doubtful accounts	(22,427)	(24,169)
Total	905,562	1,129,858

Notes:

- For further information on installment receivables, refer to "Note 9. Trade and other receivables."
- Deposits in the central clearing house represents cash pledged to the central clearing house as collateral for financing and exchange settlement purposes by the banking subsidiary.

11. Inventories

The components of inventories are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Merchandise	87,122	103,226
Other	9,774	16,185
Total	<u>96,896</u>	<u>119,411</u>

Write-down of inventories recognized as an expense during the fiscal year is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Write-down of inventories	<u>13,913</u>	<u>16,137</u>

Write-downs of inventories are included in “Other operating expenses” in the consolidated statement of income.

12. Other current assets and other non-current assets

The components of other current assets and other non-current assets are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Current		
Prepaid expenses	46,444	58,017
Contract assets	57,666	18,423
Income taxes receivable	112,660	4,266
Other	11,622	21,678
Total	<u>228,392</u>	<u>102,384</u>
Non-current		
Long-term prepaid expenses	83,225	81,917
Consideration paid to customer ¹	22,858	20,913
Other	793	2,867
Total	<u>106,876</u>	<u>105,697</u>

Note:

1. Consideration paid to a customer that requires a reduction in revenue when the goods or services are transferred to the customer.

13. Property, plant and equipment

Changes in property, plant and equipment at historical cost are as follows:

	(Millions of yen)						
Historical cost	Buildings and structures	Building fixtures	Furniture, fixtures, and equipment	Network equipment	Assets under construction	Other	Total
As of April 1, 2019	114,337	131,283	413,667	3,750,558	95,097	51,871	4,556,813
Cumulative effect of adopting a new accounting standard ¹	(17,622)	(36,550)	(71,933)	(2,188,393)	—	(18,112)	(2,332,610)
As of April 1, 2019, restated	96,715	94,733	341,734	1,562,165	95,097	33,759	2,224,203
Additions	942	3,248	26,980	25,831	185,509	3,626	246,136
Business combinations	1,706	1,239	3,849	—	1,871	166	8,831
Disposals	(294)	(2,361)	(18,342)	(108,608)	(1,774)	(475)	(131,854)
Transfers ²	8,186	9,298	68,528	476,329	(143,172)	(3,144)	416,025
Other ³	(23)	1,253	1,468	7,582	(168)	610	10,722
As of March 31, 2020	107,232	107,410	424,217	1,963,299	137,363	34,542	2,774,063
Additions	1,362	12,688	19,958	32,494	218,621	3,723	288,846
Business combinations	758	4,649	19,709	—	1,833	1,337	28,286
Disposals	(5,077)	(9,623)	(40,788)	(88,669)	(2,987)	(2,518)	(149,662)
Transfers ²	6,589	26,381	71,892	547,959	(182,773)	(146)	469,902
Other ³	(227)	(1,709)	1,691	9,141	(271)	2,079	10,704
As of March 31, 2021	110,637	139,796	496,679	2,464,224	171,786	39,017	3,422,139

Changes in the accumulated depreciation and impairment losses of property, plant and equipment are as follows:

	(Millions of yen)						
Accumulated depreciation and impairment losses	Buildings and structures	Building fixtures	Furniture, fixtures, and equipment	Network equipment	Assets under construction	Other	Total
As of April 1, 2019	(67,113)	(64,215)	(262,602)	(2,359,298)	(129)	(12,196)	(2,765,553)
Cumulative effect of adopting a new accounting standard ¹	3,993	15,842	29,057	1,148,295	—	3,711	1,200,898
As of April 1, 2019, restated	(63,120)	(48,373)	(233,545)	(1,211,003)	(129)	(8,485)	(1,564,655)
Depreciation	(2,758)	(9,052)	(48,978)	(79,260)	—	(2,385)	(142,433)
Impairment losses	(16)	(160)	(42)	—	—	(181)	(399)
Disposals	214	1,986	15,807	96,681	117	203	115,008
Transfers ²	(125)	(1,724)	(7,041)	(184,096)	2	1,177	(191,807)
Other	(1)	(267)	(2,095)	(1,112)	(43)	(164)	(3,682)
As of March 31, 2020	(65,806)	(57,590)	(275,894)	(1,378,790)	(53)	(9,835)	(1,787,968)
Depreciation	(2,630)	(11,914)	(63,485)	(117,214)	—	(2,696)	(197,939)
Impairment losses	—	(17)	(317)	—	—	0	(334)
Disposals	4,266	8,364	38,189	75,869	3	398	127,089
Transfers ²	(713)	(3,677)	(14,143)	(290,220)	—	66	(308,687)
Other	293	1,237	(1,587)	(2,546)	30	(64)	(2,637)
As of March 31, 2021	(64,590)	(63,597)	(317,237)	(1,712,901)	(20)	(12,131)	(2,170,476)

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

	(Millions of yen)						
Carrying amounts	Buildings and structures	Building fixtures	Furniture, fixtures, and equipment	Network equipment	Assets under construction	Other	Total
As of March 31, 2020	41,426	49,820	148,323	584,509	137,310	24,707	986,095
As of March 31, 2021	46,047	76,199	179,442	751,323	171,766	26,886	1,251,663

Notes:

1. The Group has adopted IFRS 16 from the fiscal year ended March 31, 2020. Consequently, the lessee's finance lease assets, which were previously included in property, plant and equipment, have been reclassified to right-of-use assets. For the details of right-of-use assets refer to "Note 18. Lease."
2. The amount of "Transfers" includes amounts for assets transferred from "Right-of-use assets" under "Non-current assets" as their ownership was transferred to the Group at the end of the lease contract, and the components are as follows:

	(Millions of yen)				
Historical cost	Buildings and structures	Building fixtures	Furniture, fixtures, and equipment	Network equipment	Total
As of March 31, 2020	816	3,161	32,357	358,894	395,228
As of March 31, 2021	1,000	5,041	29,275	414,796	450,112

	(Millions of yen)				
Accumulated depreciation and impairment losses	Buildings and structures	Building fixtures	Furniture, fixtures, and equipment	Network equipment	Total
As of March 31, 2020	(124)	(1,718)	(21,490)	(182,882)	(206,214)
As of March 31, 2021	(715)	(3,314)	(19,840)	(293,437)	(317,306)

The remaining amount of "Transfers" in "Furniture, fixtures, and equipment" excluding the amount above is mainly due to the transfer of leased mobile devices from "Inventories" in "Current assets."

3. The amount of "Other" in "Network equipment" included within historical cost includes the amount due to a change in the accounting estimate of asset retirement obligations in the Group. This change was caused by the increased probability of removal of certain network equipment following the consideration of demand of communications traffic, efficient operation of network equipment, and equipment replacements.

Major assets in the above that are subject to operating leases as lessor are leased mobile devices included in "Furniture, fixtures, and equipment," and their changes in historical cost, accumulated depreciation and impairment loss, and carrying amount are as follows:

	(Millions of yen)
Historical cost	Furniture, fixtures, and equipment
As of April 1, 2019	123,873
Additions	—
Business combinations	—
Disposals	(9,084)
Transfers ¹	50,127
Other	—
As of March 31, 2020	164,916
Additions	—
Business combinations	—
Disposals	(10,691)
Transfers ¹	53,615
Other	—
As of March 31, 2021	207,840

	(Millions of yen)
Accumulated depreciation and impairment losses	Furniture, fixtures, and equipment
As of April 1, 2019	(111,712)
Depreciation	(16,504)
Impairment losses	—
Disposals	8,918
Transfers ¹	(3,478)
Other	—
As of March 31, 2020	(122,776)
Depreciation	(27,802)
Impairment losses	—
Disposals	10,286
Transfers ¹	(11,651)
Other	—
As of March 31, 2021	(151,943)
	(Millions of yen)
Carrying amounts	Furniture, fixtures, and equipment
As of March 31, 2020	42,140
As of March 31, 2021	55,897

Note

1. Amount of “Transfers” under “Historical cost” of ¥26,553 million and amount of “Transfers” under “Accumulated depreciation and impairment losses” of ¥(17,386) million are due to the transfer from “Right-of-use assets” under “Non-current assets” as ownership of the underlying assets was transferred to the Group at the end of the lease contracts (¥30,706 million and ¥(19,849) million, respectively, for the fiscal year ended March 31, 2020).

Property, plant and equipment with limited property rights are described in “(3) Assets with limited property rights” under “Note 23. Interest-bearing debt.”

14. Goodwill and intangible assets

Changes in goodwill and intangible assets at historical cost are as follows:

(Millions of yen)

Historical cost	Goodwill	Intangible assets with indefinite useful lives	Intangible assets with finite useful lives				Total intangible assets
		Trademarks	Software	Customer relationships	Spectrum migration costs	Other	
As of April 1, 2019	393,312	380,253	1,557,088	180,255	194,286	17,754	2,329,636
Additions	—	—	151,791	—	1,305	845	153,941
Internal development	—	—	39,070	—	—	—	39,070
Business combinations	225,543	178,720	2,574	322,070	—	1,161	504,525
Disposals	—	—	(65,462)	—	—	(967)	(66,429)
Other	(219)	—	(2,933)	—	171	(190)	(2,952)
As of March 31, 2020	618,636	558,973	1,682,128	502,325	195,762	18,603	2,957,791
Additions	—	—	164,109	—	1,561	1,060	166,730
Internal development	—	—	35,453	—	—	—	35,453
Business combinations	642,222	170,078	1,366	236,930	—	3,445	411,819
Disposals	(370)	—	(68,460)	—	—	(134)	(68,594)
Other	(3,895)	—	(1,110)	11	—	601	(498)
As of March 31, 2021	1,256,593	729,051	1,813,486	739,266	197,323	23,575	3,502,701

Changes in the accumulated amortization and impairment losses of goodwill and intangible assets are as follows:

(Millions of yen)

Accumulated amortization and impairment losses	Goodwill	Intangible assets with indefinite useful lives	Intangible assets with finite useful lives				Total intangible assets
		Trademarks	Software	Customer relationships	Spectrum migration costs	Other	
As of April 1, 2019	—	—	(942,634)	(128,713)	(31,025)	(14,874)	(1,117,246)
Amortization	—	—	(156,617)	(15,447)	(11,016)	(614)	(183,694)
Impairment losses	—	—	(1,501)	—	—	(7)	(1,508)
Disposals	—	—	54,226	—	—	284	54,510
Other	—	—	(325)	—	—	(17)	(342)
As of March 31, 2020	—	—	(1,046,851)	(144,160)	(42,041)	(15,228)	(1,248,280)
Amortization	—	—	(163,963)	(20,472)	(11,031)	(850)	(196,316)
Disposals	—	—	52,517	—	—	134	52,651
Other	—	—	(95)	(25)	—	(143)	(263)
As of March 31, 2021	—	—	(1,158,392)	(164,657)	(53,072)	(16,087)	(1,392,208)

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

Carrying amounts	(Millions of yen)						Total intangible assets
	Goodwill	Intangible assets with indefinite useful lives	Intangible assets with finite useful lives				
		Trademarks	Software	Customer relationships	Spectrum migration costs	Other	
As of March 31, 2020	618,636	558,973	635,277	358,165	153,721	3,375	1,709,511
As of March 31, 2021	1,256,593	729,051	655,094	574,609	144,251	7,488	2,110,493

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

With regard to the *SoftBank* brand, the trademark usage right was established in a license agreement between the Company and SBG, with no expiration date, which provides the right to use the *SoftBank* trademark. As the license agreement has no expiration and use of the trademark is expected to produce net cash inflows for an indefinite period, the Group considers the usage rights to be an intangible asset with an indefinite useful life. With regard to the trademarks of the *ZOZO* and *LINE* brands, as long as the *ZOZO* and the *LINE* businesses continue, the trademarks can continue to be used legally, and management plans to provide services for the foreseeable future. Accordingly, such rights are determined to be intangible assets with indefinite useful lives.

Customer relationships reflects the expected excess earning power of the customers that existed at the time of the business combination of the transferred company.

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 spectrum newly assigned to the Company to another spectrum.

Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of income.

The carrying amounts of internally generated intangible assets included in intangible assets are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Software	76,329	85,195

The aggregate amounts of research and development costs recognized as an expense during the period are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Research and development costs	14,671	16,457

Goodwill and intangible assets with indefinite useful lives acquired as a part of business combinations are allocated to operating segments (cash-generating units) that are expected to benefit from the synergies arising from the combination and business activities.

The allocation of goodwill and intangible assets with indefinite useful lives to operating segments (cash-generating units) for impairment testing purposes is as follows:

Goodwill

Operating segments (Cash-generating units)	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Consumer	154,894	155,074
Enterprise	41,971	42,014
Yahoo		
Yahoo ¹	16,519	15,382
Marketing solution	32,623	39,075
Shopping	272,755	272,665
Ikyu	72,044	72,044
LINE ²	—	632,509
Finance	23,488	23,488
Other	2,180	2,180
Subtotal	419,609	1,057,343
Other	2,162	2,162
Total	618,636	1,256,593

Notes:

1. Goodwill is allocated to “Yahoo” since it is expected that benefits will come from the Yahoo business as a whole rather than the individual cash-generating units under the Yahoo business.
2. Goodwill is allocated to “LINE” since it is expected that benefits will come from the LINE business as a whole rather than the individual cash-generating units under the LINE business. As the recognition of identifiable assets acquired and liabilities assumed as of the acquisition date and measurement of their fair values were not complete at the end of the current fiscal year, the above amounts are provisional based on the best estimate at present. For further details, refer to “Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation” under “Note 6. Business combinations.”

Intangible assets with indefinite useful lives

Operating segments (Cash-generating units)	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Consumer	293,956	293,956
Enterprise	51,954	51,954
Distribution	4,093	4,093
Yahoo		
Shopping	198,850	198,850
Ikyu	10,120	10,120
LINE ¹	—	170,078
Subtotal	208,970	379,048
Total	558,973	729,051

Note:

1. As the recognition of identifiable assets acquired as of the acquisition date and measurement of their fair values were not complete at the end of the current fiscal year, the above amounts are provisional based on the best estimate at present. For further details, refer to “Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation” under “Note 6. Business combinations.”

The recoverable amount is measured at the higher of fair value less costs to sell or value in use. Fair value less costs to sell is primarily measured based on the market price in the active market. Value in use is assessed by discounting to the present value the estimated cash flows in the next 3 to 5 years based on the financial budget approved by management, which reflects

past experience and external information, using a pre-tax discount rate of 5.3 to 17.7% of the operating segment (6.2 to 10.2% for the fiscal year ended March 31, 2020). With respect to estimating cash flows, value in use for cash flows beyond three years is assessed, assuming that the main growth rate each period is 0.0 to 0.9% (0.0 to 0.6% for the fiscal year ended March 31, 2020). With respect to estimating future cash flows, value in use for the “Shopping” cash-generating unit is assessed, assuming that GMV (gross merchandise volume), take rate (monetization rate), expected market growth rate, expected market share rate and discount rate are used.

The impairment test conducted at a certain time within the fiscal year recognized no impairment losses for goodwill or intangible assets with indefinite useful lives.

The Company determined that for operating segments or cash-generating unit to which the goodwill and intangible assets with indefinite useful lives are allocated, the recoverable amount is unlikely to fall below the carrying amount, even if major assumptions used in the impairment test change to a reasonably foreseeable extent.

In addition, for the “Ikyu” cash-generating unit, the Japanese government has declared a state of emergency due to the spread of COVID-19 infections, and parts of accommodations and restaurants which have contract relationships with the Group temporarily closed or shortened their business hours that affect the impact on the business performance for this fiscal year. However, although temporary suspensions are currently being taken, the government resumed efforts to boost the demands of domestic travels and accordingly the business performance of Ikyu is expected to recover in the medium-term and long-term. Therefore, the Company determines the recoverable amount is unlikely to fall below the carrying amount. In case of delays in containing the spread of the COVID-19 infection, there are certain uncertainties in the estimates that cause a discrepancy between the current estimates and the subsequent results.

The Group does not apply IFRS 16 to leases of intangible assets. For the details of intangible assets with limited property rights on these lease transactions, refer to “c. Assets for lease contracts of intangible assets” under “(3) Assets with limited property rights” in “Note 23. Interest-bearing debt.”

Intangible assets with limited property rights due to installment purchases are described in “a. Assets with limited property rights due to installment purchases” under “(3) Assets with limited property rights” in “Note 23. Interest-bearing debt.”

15. Contract costs

The components of contract costs are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Contract acquisition costs	209,722	243,323
Contract fulfillment costs	2,916	4,871
Total	212,638	248,194

The components of amortization of contract costs are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Amortization		
Contract acquisition costs	188,493	168,131
Contract fulfillment costs	2,508	3,647
Total	191,001	171,778

16. Investment securities

The components of investment securities are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Stocks	133,085	266,296
Other	42,067	55,004
Total	175,152	321,300

17. Investment securities in banking business

The components of investment securities in banking business are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Debt securities	249,250	264,418
Trust beneficiary rights	88,191	114,575
Other	5,534	13,267
Total	342,975	392,260

Certain investment securities are pledged as collateral for financing and exchange settlement purposes by the banking subsidiary. The carrying amount of such investment securities in banking business as of March 31, 2020 and 2021 are ¥47,831 million and ¥86,248 million, respectively.

In addition to the above, investment securities in banking business (current) of ¥80,398 million as of March 31, 2021 (¥64,768 million as of March 31, 2020) are included in “other financial assets (current).”

18. Leases

(As lessee)

(1) Right-of-use assets

The Group leases assets including network equipment, properties for base stations and space for structures, properties for communications network, offices and warehouses, and mobile devices, mainly for the purpose of efficient cash management.

Many of the lease contracts have termination options and extension options to enhance operational flexibility. Many of the options are only exercisable by the Group if certain advance notices are given. When determining the lease term, the Group considers all facts and circumstances that might create an economic incentive to exercise the extension option or not to exercise the termination option. If a significant event or change in circumstances occurs that may affect this assessment, a reassessment is performed.

Network equipment

The Group's leases of network equipment are leases (as lessee) of machinery equipment and transmission equipment for telecommunications used in the telecommunications business. Many of the lease contracts have termination options and extension options. The lease term of the leases is primarily 5 or 10 years. In order to provide stable communications services, the lease of the transmission equipment for telecommunications may be extended beyond the initial lease period if necessary. In that case, it is likely that the Group will extend for the same period as the original contract period. "Network equipment" as right-of-use assets mainly corresponds to "Network equipment" under "Property, plant and equipment."

Properties for base stations and space for structures

The Group's leases of properties for base stations and space for structures are leases (as lessee) of land to construct towers and poles for the installment of base station equipment and areas for buildings and structures to install base station equipment. Many of the lease contracts have termination options and extension options to extend the contract by a term equal to the initial contract term. The lease term of the leases is primarily 10 - 20 years. In order to provide stable communications services, the leases may be extended beyond the initial lease period if necessary. In that case, it is likely that the Group will extend for the same period as the original contract period. "Properties for base stations and space for structures" as right-of-use assets mainly corresponds to "Buildings and structures" or "Land" under "Property, plant and equipment."

Properties for communications network

The Group's leases of properties for communications network are leases (as lessee) of land, buildings, and part of space thereof for the installment of network equipment excluding base station equipment. Many of the leases have extension options only exercisable by the Group. The lease terms of the leases are primarily 20 years for land and buildings and primarily 3 - 27 years for part of space thereof. In order to provide stable communications services, the leases may be extended beyond the initial lease period if necessary. "Properties for communications network" as right-of-use assets mainly corresponds to "Buildings and structures" or "Land" under "Property, plant and equipment."

Offices and warehouses

The Group's leases of offices and warehouses are leases (as lessee) of land and buildings used for purposes other than the installment of network equipment, such as offices, warehouses and stores. Many of the leases have extension options only exercisable by the Group. The lease terms of the leases are primarily 5 - 15 years for offices, primarily 3 - 11 years for warehouses and primarily 3 years for stores. In order to continue the business, the leases may be extended beyond the initial lease period if necessary." Offices and warehouses" as right-of-use assets mainly corresponds to "Buildings and structures" or "Land" under "Property, plant and equipment."

Mobile devices

The Group's leases of mobile devices are leases (as lessee) of rental mobile devices. Many of the lease contracts have ownership transfer clauses. The lease term of the leases is primarily 2 years. "Mobile devices" as right-of-use assets mainly corresponds to "Furniture, fixtures, and equipment" under "Property, plant and equipment."

The components of the carrying amount of right-of-use assets are as follows:

	(Millions of yen)	
Carrying amount of right-of-use assets	As of March 31, 2020	As of March 31, 2021
Network equipment	852,561	606,240
Properties for base stations and space for structures	138,487	142,089
Properties for communications network	81,416	94,329
Offices and warehouses	146,862	237,874
Mobile devices	13,095	—
Other	2,036	1,027
Total	1,234,457	1,081,559

Note:

1. The increase of right-of-use assets for the fiscal year ended March 31, 2020 is ¥174,526 million. This amount includes the increase of ¥20,964 million due to acquisition of ZOZO, Inc.

The increase of right-of-use assets for the fiscal year ended March 31, 2021 is ¥310,811 million. This amount includes the increase of ¥62,940 million due to acquisition of LINE Corporation.

The components of depreciation expense of right-of-use assets are as follows:

	(Millions of yen)	
Depreciation expense of right-of-use assets	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Network equipment	225,381	180,701
Properties for base stations and space for structures	34,182	34,286
Properties for communications network	13,997	14,214
Offices and warehouses	43,083	51,974
Mobile devices	13,162	3,686
Other	1,702	985
Total	331,507	285,846

(2) Lease liabilities

Lease liabilities by maturity are described in "(b) Financial liabilities by maturity" under "c. Liquidity risk" in "(2) Financial risk management" in "Note 28. Financial instruments."

Interest expenses from lease liabilities are described in "(2) Components of financing costs" under "Note 38. Financing income and financing costs."

(3) Cash outflows for leases

Total cash outflow for leases is described in “(2) Cash outflow for leases” under “Note 41. Supplemental information to the consolidated statement of cash flows.”

(4) Lease contracted but not yet started

Some of the Group's contracts are not reflected in the measurement of lease liabilities because they have a fixed-term building lease contract or fixed-term building lease reservation contract, and the lease term has not yet started. Underlying assets of right-of-use assets held under lease contracts are all classified as properties for communications network, offices and warehouses, and the lease start date is after the next consolidated fiscal year, and the contract term is 5 to 15 years. The total amount to be paid after the next consolidated fiscal year is ¥29,994 million.

(As lessor)

The Group provides mobile device rental services for enterprise customers. Since mobile device leases are provided on the condition that mobile communications service contracts are entered into, consideration arising from these transactions is allocated to lease component and non-lease component, specifically to the amount of payments to be received for mobile device leases and others based on the fair value of mobile device leases and mobile communications services.

The Group sells mobile devices to trade-in vendors after the conclusion of the lease term. To manage the residual asset risk of mobile devices, the Group obtains purchase prices from more than one trade-in vendor and regularly monitors the development of the purchase prices.

(1) Finance leases

The components of income from finance leases recognized on the consolidated statement of income are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Sales income / loss (net)	2,053	622
Financial income on uncollected amount of net lease investments	113	126
Total	2,166	748

Amounts above include income of ¥1,011 million from sub-leases.

Undiscounted total lease payments at the end of the fiscal year and the maturity analysis of the uncollected amount of net lease investments are as follows:

As of March 31, 2020	(Millions of yen)			
	Undiscounted total lease payments	Unearned finance income relating to lease payments receivable	Discounted unguaranteed residual value	Uncollected amount of net lease investments
Within 1 year	13,898	(98)	—	13,800
1 to 2 years	7,934	(53)	—	7,881
2 to 3 years	3,113	(20)	—	3,093
3 to 4 years	567	(3)	—	564
4 to 5 years	153	(0)	—	153
Over 5 years	—	—	—	—
Total	25,665	(174)	—	25,491

As of March 31, 2021

	(Millions of yen)			
	Undiscounted total lease payments	Unearned finance income relating to lease payments receivable	Discounted unguaranteed residual value	Uncollected amount of net lease investments
Within 1 year	14,257	(104)	—	14,153
1 to 2 years	9,020	(58)	—	8,962
2 to 3 years	3,460	(19)	—	3,441
3 to 4 years	518	(2)	—	516
4 to 5 years	125	(0)	—	125
Over 5 years	—	—	—	—
Total	<u>27,380</u>	<u>(183)</u>	<u>—</u>	<u>27,197</u>

(2) Operating leases

The maturity analysis of operating leases are as follows:

	(Millions of yen)
	As of March 31, 2020
Within 1 year	24,440
1 to 2 years	12,695
2 to 3 years	4,148
3 to 4 years	—
4 to 5 years	—
Over 5 years	—
Total	<u>41,283</u>

Lease income (excluding variable lease payments that do not depend on an index or a rate) from operating leases for the fiscal year ended March 31, 2020 is ¥56,637 million, including lease income of ¥30,469 million from subleases.

For changes in the historical cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment subject to operating leases, refer to “Note 13. Property, plant and equipment.”

	(Millions of yen)
	As of March 31, 2021
Within 1 year	23,246
1 to 2 years	12,620
2 to 3 years	3,938
3 to 4 years	30
4 to 5 years	23
Over 5 years	—
Total	<u>39,857</u>

Lease income (excluding variable lease payments that do not depend on an index or a rate) from operating leases for the fiscal year ended March 31, 2021 is ¥55,868 million, including lease income of ¥17,423 million from subleases.

For changes in the historical cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment subject to operating leases, refer to “Note 13. Property, plant and equipment.”

19. Major subsidiaries

(1) Organizational structure

The Group's major subsidiaries are as follows:

Major subsidiaries as of March 31, 2021

Company name	Reportable segment	Location	Ownership percentage of voting rights (%) ¹	
			As of March 31, 2020	As of March 31, 2021
Wireless City Planning Inc. ²	Consumer / Enterprise	Tokyo	32.2	32.2
SB C&S Corp.	Distribution	Tokyo	100	100
Z Holdings Corporation	Yahoo	Tokyo	44.6	65.3
Yahoo Japan Corporation	Yahoo	Tokyo	100	100
ASKUL Corporation ³	Yahoo	Tokyo	45.1	45.0
ZOZO, Inc.	Yahoo	Chiba	50.1	50.1
Ikyu Corporation	Yahoo	Tokyo	100	100
The Japan Net Bank, Limited ⁴	Yahoo	Tokyo	46.6	46.6
YJFX, Inc.	Yahoo	Tokyo	100	100
YJ Card Corporation ⁵	Yahoo	Fukuoka	100	100
LINE Corporation	Yahoo	Tokyo	—	100
LINE Pay Corporation	Yahoo	Tokyo	—	100
LINE Financial Asia Corporation Limited	Yahoo	China	—	100
SB Payment Service Corp.	—	Tokyo	100	100
A Holdings Corporation ⁶	—	Tokyo	—	50.0

Notes:

- As noted in “(2) Business combinations” under “Note 3. Significant accounting policies,” regardless of the actual date of the business combination transaction under common control, the Group retrospectively consolidates the financial statements of the transferred companies as if such transactions were executed by the Group on the later of the control acquisition date of the transferred companies by the parent company or the opening balance sheet date of the comparative period as part of the consolidated financial statements of the Group. For details of the actual acquisition dates and accounting treatment of the major subsidiaries listed in the table above, refer to “Note 6. Business combinations.”
- The Group does not own a majority of the voting rights of Wireless City Planning Inc (“WCP”). However, directors and executive officers of the Company account for the majority of the members of WCP’s Board of Directors, and WCP’s business activities depend heavily on the Company. Accordingly, the Company determined that it controls WCP and consequently consolidated it.
- The Group does not own a majority of the voting rights of ASKUL Corporation. However, taking into consideration that the Group owns 45.0% of the voting rights of ASKUL Corporation, the dispersion of holdings of the other vote holders and the voting patterns of past shareholders’ meetings, ASKUL Corporation is considered substantially controlled by the Group and became a subsidiary of the Group.
- The Group does not own a majority of the voting rights of The Japan Net Bank, Limited. However, the Group owns 46.6% of the voting rights of The Japan Net Bank, Limited, and appoints the majority of the members of its Board of Directors. As a result, The Japan Net Bank, Limited is considered substantially controlled by the Group and became a subsidiary of the Group. Effective April 5, 2021, The Japan Net Bank, Limited changed its name to PayPay Bank Corporation.
- Effective October 1, 2021, YJ Card Corporation will change its name to PayPay Card Corporation.

6. The Group does not own a majority of the voting rights of A Holdings Corporation. However, the Group owns 50.0% of the voting rights of A Holdings Corporation and owns the rights to appoint the majority of the members of its Board of Directors. As a result, A Holdings Corporation is considered substantially controlled by the Group and became a subsidiary of the Group.

(2) Summarized consolidated financial information and other information on subsidiaries with significant non-controlling interests

a. Z Holdings Corporation and its subsidiaries

The Company consolidated LINE Corporation and implemented the business integration of LINE Corporation and Z Holdings Corporation. Accordingly, “(a) General information” and “(b) Condensed consolidated financial information” of Z Holdings Corporation and its subsidiaries for the fiscal years ended March 31, 2020 and 2021 are included in “b. A Holdings Corporation and its subsidiaries.”

(a) General information

	As of March 31, 2020	As of March 31, 2021
Ownership ratio of the non-controlling interests (%)	55.4	—
Accumulated amount attributable to the non-controlling interests of the subsidiary group (Millions of yen)	689,964	—

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net income allocated to the non-controlling interests of the subsidiary group	39,783	—

(b) Condensed consolidated financial information

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Total assets	3,933,910	—
Total liabilities	2,886,086	—
Total equity	1,047,824	—

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	1,052,943	—
Net income	88,020	—
Total comprehensive income	79,393	—

Dividend paid by Z Holdings Corporation to the non-controlling interests for the fiscal year ended March 31, 2020 was ¥23,329 million.

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities (net)	243,278	—
Cash flows from investing activities (net)	(503,034)	—
Cash flows from financing activities (net)	593,410	—
Effect of exchange rate changes on cash and cash equivalents	(338)	—
Increase (decrease) in cash and cash equivalents	333,316	—

b. A Holdings Corporation and its subsidiaries

(a) General information

	As of March 31, 2020	As of March 31, 2021
Ownership ratio of the non-controlling interests (%)	—	50.0%
Accumulated amount attributable to the non-controlling interests of the subsidiary group (Millions of yen)	—	1,220,548

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net income allocated to the non-controlling interests of the subsidiary group	—	58,108

(b) Condensed consolidated financial information

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Total assets	—	6,812,880
Total liabilities	—	3,822,930
Total equity	—	2,989,950

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	—	1,205,846
Net income	—	88,970
Total comprehensive income	—	121,077

Dividend paid by Z Holdings Corporation, subsidiary of A Holdings Corporation, to the non-controlling interests for the fiscal year ended March 31, 2021 was ¥23,360 million.

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities (net)	—	187,711
Cash flows from investing activities (net)	—	(12,349)
Cash flows from financing activities (net)	—	(12,040)
Effect of exchange rate changes on cash and cash equivalents	—	2,124
Increase (decrease) in cash and cash equivalents	—	165,446

20. Investments accounted for using the equity method

(1) Condensed consolidated financial information and other information on significant investments

PayPay Corporation (“PayPay”)

a. General information

PayPay (Chiyoda-ku, Tokyo) operates an electronic settlement business offering mobile payment services and other services.

b. Condensed consolidated financial information

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Total assets	292,019	499,042
Cash and cash equivalents	180,680	334,983
Total liabilities	249,307	461,172
Total equity	42,712	37,870
Ownership interests (%)	50.0%	50.0%
Carrying amount of the investments	0	0

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	9,161	29,990
Selling, general and administrative expenses	89,516	103,010
Net loss	(82,501)	(73,160)
Other comprehensive income	—	—
Total comprehensive loss	(82,501)	(73,160)
Investment in the Group in Total comprehensive income		
Net loss ²	(37,868)	(36,580)
Other comprehensive income	—	—
Total comprehensive loss	(37,868)	(36,580)

Notes:

1. No dividends were received from PayPay for the fiscal years ended March 31, 2020 and 2021.
2. The Group owns preferred stock in addition to investments accounted for using the equity method in PayPay Corporation, and the stock are accounted for equity instruments at FVTOCI. In addition, since the loss incurred at the corporation exceeded the investments of the Group in the corporation, share of losses of associates accounted for using the equity method of ¥27,580 million has been recognized on the preferred stock for the fiscal year ended March 31, 2021 (¥13,644 million for the fiscal year ended March 31, 2020).

(2) Investments accounted for using the equity method that are not individually material

Excluding “(1) Condensed consolidated financial information and other information on significant investments” above, other financial information of investments accounted for using the equity method that are not individually material is as follows:

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Carrying amounts	80,149	239,974

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net loss	(8,192)	(8,910)
Other comprehensive income, net of tax	573	754
Total comprehensive loss	(7,619)	(8,156)

21. Structured entities

Consolidated structured entities

The Group set up a monetary trust (the “Trust”) as a consolidated structured entity.

The Trust has been designed so that voting rights or similar rights do not constitute a determinant of control. Even though no voting rights or similar rights exist, the Group has determined that the Group has the current ability to direct provision of funding and relevant activities of the Trust. Additionally, the Group has exposure or rights to variable returns from the Trust as interest earned from lending by the Trust is attributable to the Group, and has the ability to use its power over the Trust to affect the variable returns. Accordingly, the Group consolidated the Trust.

The Group has not provided nor intends to provide any material financial or other material assistance to any consolidated structured entities without contractual obligations.

22. Income taxes

(1) Tax expenses

The components of income tax expenses are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Current tax expenses	(276,122)	(318,541)
Deferred tax expenses	(28,405)	18,562
Total	<u>(304,527)</u>	<u>(299,979)</u>

(2) Reconciliation of the statutory effective tax rate to the actual tax rate

The reconciliation of the statutory effective tax rate to the actual tax rate is as follows. The actual tax rate represents the ratio of income taxes to profit before income taxes.

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	(%)
Statutory effective tax rate	31.5	31.5	31.5
Effect of permanent differences	(0.0)	0.7	0.7
Effect of evaluating recoverability of deferred tax assets	0.7	1.4	1.4
Effect of investments accounted for using the equity method	2.3	2.2	2.2
Deferred gain on sale of shares of subsidiaries and associates based on group corporate tax system	2.4	—	—
Other	0.6	(0.4)	(0.4)
Actual tax rate	<u>37.5</u>	<u>35.4</u>	35.4

(3) Movement of deferred tax assets and deferred tax liabilities

The movements of deferred tax assets and deferred tax liabilities are as follows:

Fiscal year ended March 31, 2020

(Millions of yen)

	As of April 1, 2019	Cumulative effect of adopting a new accounting standard ¹	As of April 1, 2019, restated	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Other	As of March 31, 2020
Deferred tax assets								
Property, plant and equipment and intangible assets	47,142	—	47,142	(4,885)	—	2,164	(23)	44,398
Operating payables and other liabilities	83,108	—	83,108	7,301	—	1,656	(35)	92,030
Inventories	9,860	—	9,860	(4,042)	—	1,308	—	7,126
Net operating loss carryforwards	8,560	—	8,560	509	—	41	(30)	9,080
Contract liabilities	19,744	—	19,744	3,675	—	—	—	23,419
Other	31,570	3,560	35,130	112	(2,531)	3,358	1,990	38,059
Total	199,984	3,560	203,544	2,670	(2,531)	8,527	1,902	214,112
Deferred tax liabilities								
Leases	(7,092)	—	(7,092)	1,295	—	—	—	(5,797)
Contract assets	(10,432)	—	(10,432)	(7,452)	—	—	—	(17,884)
Contract costs	(66,609)	—	(66,609)	(2,375)	—	—	—	(68,984)
Property, plant and equipment and intangible assets	(37,777)	—	(37,777)	(7,074)	—	(150,258)	—	(195,109)
Deferred gain on sale of shares of subsidiaries and associates based on group corporate tax system	—	—	—	(19,504)	—	—	—	(19,504)
Other	(25,832)	(1,413)	(27,245)	4,035	4,333	(45)	(256)	(19,178)
Total	(147,742)	(1,413)	(149,155)	(31,075)	4,333	(150,303)	(256)	(326,456)
Net	52,242	2,147	54,389	(28,405)	1,802	(141,776)	1,646	(112,344)

Fiscal year ended March 31, 2021

(Millions of yen)

	As of April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Business combinations	Other	As of March 31, 2021
Deferred tax assets						
Property, plant and equipment and intangible assets	44,398	(2,253)	—	13,465	65	55,675
Operating payables and other liabilities	92,030	9,733	19	10,379	179	112,340
Inventories	7,126	(157)	—	22	0	6,991
Net operating loss carryforwards	9,081	3,243	—	54	102	12,480
Contract liabilities	23,419	(12,720)	—	—	(1)	10,698
Other	38,059	6,280	2,843	4,052	(1,387)	49,847
Total	214,113	4,126	2,862	27,972	(1,042)	248,031
Deferred tax liabilities						
Leases	(5,797)	(49)	—	—	—	(5,846)
Contract assets	(17,884)	12,321	—	—	—	(5,563)
Contract costs	(68,984)	(7,369)	—	—	—	(76,353)
Property, plant and equipment and intangible assets	(195,109)	(1,540)	—	(130,360)	—	(327,009)
Deferred gain on sale of shares of subsidiaries and associates based on group corporate tax system	(19,504)	19,504	—	—	—	—
Other	(19,179)	(8,431)	(27,361)	(26,147)	(196)	(81,314)
Total	(326,457)	14,436	(27,361)	(156,507)	(196)	(496,085)
Net	(112,344)	18,562	(24,499)	(128,535)	(1,238)	(248,054)

Note:

1. The Group has adopted IFRS 16 from the fiscal year ended March 31, 2020. Consequently, the cumulative effect of retrospective adjustments for periods prior to the year ended March 31, 2020 is recognized as an adjustment to deferred tax liabilities.

In the Group, deferred tax assets which belong to individual entities that recorded losses as of March 31, 2020 and 2021 are ¥2,454 million and ¥10,655 million, respectively. The Group recognizes deferred tax assets to the extent that it is probable that future taxable profit will be available.

(4) Deductible temporary differences and net operating loss carryforwards for which no deferred tax assets have been recognized

Deductible temporary differences and net operating loss carryforwards for which no deferred tax assets have been recognized are as follows. The amounts below are on a tax basis.

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Deductible temporary differences	25,063	39,994
Net operating loss carryforwards	20,990	47,709
Total	46,053	87,703

Expiration schedule of net operating loss carryforwards for which no deferred tax assets have been recognized is as follows. There is no deductible temporary difference with an expiry date.

Net operating loss carryforwards (tax basis)	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
1st year	32	198
2nd year	14	433
3rd year	342	482
4th year	555	673
5th year and thereafter	20,047	45,923
Total	20,990	47,709

In addition to the above, total deductible temporary differences (before multiplying by the tax rate) for which no deferred tax assets have been recognized that are related to the investments in subsidiaries, associates and joint ventures as of March 31, 2021 are ¥2,510,884 million (as of March 31, 2020: ¥1,207,518 million).

- (5) Taxable temporary differences for which no deferred tax liabilities have been recognized that are related to the investments in subsidiaries, associates and joint ventures

Total taxable temporary differences (before multiplying by the tax rate) for which no deferred tax liabilities have been recognized that are related to the investment in subsidiaries, associates and joint ventures as of March 31, 2021 are ¥740,661 million (as of March 31, 2020: ¥750,809 million).

23. Interest-bearing debt

(1) Components of interest-bearing debt

The components of interest-bearing debt are as follows:

	(Millions of yen)			
	As of March 31, 2020	As of March 31, 2021	Average interest rate (%) ¹	Maturity ²
Current				
Short-term borrowings	577,371	660,281	0.40	—
Commercial paper	100,000	162,701	0.07	—
Current portion of long-term borrowings	758,522	844,816	0.96	—
Current portion of corporate bonds ³	10,000	39,971	0.19	—
Current portion of lease liabilities	365,202	292,572	1.28	—
Current portion of installment payables	186	138	1.76	—
Total	1,811,281	2,000,479		
Non-current				
Long-term borrowings	2,212,677	2,290,489	1.19	April 2022– June 2031
Corporate bonds ³	384,327	764,021	0.37	July 2022– December 2030
Lease liabilities	673,694	637,477	1.41	April 2022– March 2051
Installment payable	273	126	1.76	April 2022– July 2027
Total	3,270,971	3,692,113		

Notes:

1. Average interest rate represents the weighted-average interest rate as of March 31, 2021.
2. Maturity represents the maturity of the outstanding balance as of March 31, 2021.

3. A summary of the issuance condition of bonds is as follows:

(Millions of yen)

Company name/Name of bond	Date of issuance	As of March 31, 2021 ¹	Interest rate (%)	Date of maturity
The Company				
1 st Unsecured Straight Bond	Mar. 18, 2020	10,000	0.13	Mar. 17, 2023
2 nd Unsecured Straight Bond	Mar. 18, 2020	10,000	0.33	Mar. 18, 2025
3 rd Unsecured Straight Bond	Mar. 18, 2020	10,000	0.45	Mar. 18, 2027
4 th Unsecured Straight Bond	Mar. 18, 2020	10,000	0.5	Mar. 18, 2030
5 th Unsecured Straight Bond	Jul. 29, 2020	10,000	0.1	Jul. 28, 2023
6 th Unsecured Straight Bond	Jul. 29, 2020	70,000	0.36	Jul. 29, 2025
7 th Unsecured Straight Bond	Jul. 29, 2020	20,000	0.58	Jul. 29, 2030
8 th Unsecured Straight Bond	Dec. 3, 2020	80,000	0.35	Dec. 3, 2025
9 th Unsecured Straight Bond	Dec. 3, 2020	25,000	0.48	Dec. 3, 2027
10 th Unsecured Straight Bond	Dec. 3, 2020	15,000	0.57	Dec. 3, 2030
Z Holdings Corporation				
2 nd Unsecured Straight Bond	Feb. 28, 2017	15,000 (15,000)	0.17	Feb. 28, 2022
3 rd Unsecured Straight Bond	Feb. 28, 2017	15,000	0.37	Feb. 28, 2024
5 th Unsecured Straight Bond	Dec. 7, 2017	25,000	0.2	Dec. 7, 2022
6 th Unsecured Straight Bond	Dec. 7, 2017	25,000	0.35	Dec. 6, 2024
7 th Unsecured Straight Bond	Dec. 7, 2017	10,000	0.4	Dec. 7, 2027
8 th Unsecured Straight Bond	Dec. 6, 2018	15,000	0.2	Dec. 6, 2023
9 th Unsecured Straight Bond	Dec. 6, 2018	10,000	0.5	Dec. 6, 2028
10 th Unsecured Straight Bond	Jul. 31, 2019	59,927	0.04	Jul. 29, 2022
11 th Unsecured Straight Bond	Jul. 31, 2019	49,888	0.18	Jul. 31, 2024
12 th Unsecured Straight Bond	Jul. 31, 2019	69,822	0.37	Jul. 31, 2026
13 th Unsecured Straight Bond	Jul. 31, 2019	49,837	0.46	Jul. 31, 2029
14 th Unsecured Straight Bond	Jun. 11, 2020	24,971 (24,971)	0.2	Dec. 10, 2021
15 th Unsecured Straight Bond	Jun. 11, 2020	79,834	0.35	Jun. 9, 2023
16 th Unsecured Straight Bond	Jun. 11, 2020	69,802	0.6	Jun. 11, 2025
17 th Unsecured Straight Bond	Jun. 11, 2020	14,950	0.79	Jun. 11, 2027
18 th Unsecured Straight Bond	Jun. 11, 2020	9,961	0.9	Jun. 11, 2030
Total		803,992	—	—

Note: () is the estimated redemption amount within one year.

(2) Financial covenants

a. 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

b. 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 six-month period ended September 30, 2020, Z Holdings Corporation is required to maintain net assets presented in the non-consolidated balance sheet 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 beginning with the six-month period ended September 30, 2020, the Z Holdings Group is required to maintain equity presented in the consolidated statement of financial position at a minimum of 75% of that of the same date during the previous fiscal year.
- At March 31 of each year subsequent to the six-month period ended September 30, 2020, 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 beginning with the six-month period ended September 30, 2020, the Z Holdings Group must not have a net capital deficiency in the consolidated balance sheet.
- At March 31 of each year from the current fiscal year-end, Z Holdings Corporation must not incur operating losses or net losses in the non-consolidated statement of income for two consecutive fiscal years.
- At March 31 of each year from the current fiscal year-end, the Z Holdings Group must not incur operating losses or net losses in the consolidated statement of income for two consecutive fiscal years.
- At March 31 and September 30 of each year beginning with the six-month period ended September 30, 2020, 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 the 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 (currently PayPay Bank Corporation).
 - (c) "Adjusted EBITDA" means EBITDA adjusted for certain items as specified in the loan agreement.

(3) Assets with limited property rights

a. Assets with limited property rights due to installment purchases

Assets with limited property rights due to installment purchases are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Property, plant and equipment	541	444

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

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Interest-bearing debt		
Current portion of installment payables	186	138
Non-current portion of installment payables	273	126
Total	459	264

b. Assets under sale and leaseback transactions for which the transfer is not a sale

If the transfer of an asset does not satisfy the requirements of IFRS 15 to be accounted for as a sale of the asset, the Group continues to recognize the asset as property, plant and equipment. Such assets with limited property rights are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Property, plant and equipment	287,417	490,356

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

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Interest-bearing debt		
Current portion of long-term borrowings	81,383	121,910
Long-term borrowings	220,947	351,249
Total	302,330	473,159

c. Assets for lease contracts of intangible assets

Assets for which the Group's property rights are limited on transfer, sublease or provision as collateral due to being involved in lease contracts for intangible assets are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Intangible assets	348,522	350,198

Liabilities related to the assets which are limited on transfer, sublease or provision as collateral above are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Interest-bearing debt		
Current portion of long-term borrowings	107,690	115,058
Long-term borrowings	208,896	228,442
Total	316,586	343,500

(4) Changes in interest-bearing debt arising from financial activities

Changes in interest-bearing debt arising from financial activities¹ are as follows:

	(Millions of yen)							
	Short-term borrowings	Commercial paper	Long-term borrowings	Bonds	Lease obligations	Lease liabilities	Installment payables	Total
As of April 1, 2019	41,120	—	2,435,824	130,000	876,484	—	8,290	3,491,718
Cumulative effect of adopting a new accounting standard ¹	—	—	—	—	(876,484)	1,377,549	—	501,065
As of April 1, 2019, restated	41,120	—	2,435,824	130,000	—	1,377,549	8,290	3,992,783
Changes from financing cash flows								
Increase (decrease) in short-term interest-bearing debt, net	43,800	45,000	—	—	—	—	—	88,800
Proceeds from new financing ²	944,327	55,000	1,261,708	270,000	—	—	—	2,531,035
Repayment ²	(472,004)	—	(727,512)	(5,000)	—	(480,183)	(7,831)	(1,692,530)
Changes from operating cash flows								
Interest paid	(3,210)	—	(2,971)	(783)	—	(16,198)	—	(23,162)
Non-cash changes								
New lease transactions or remeasurement of lease liabilities	—	—	—	—	—	138,668	—	138,668
Amortized cost	1,338	—	4,273	110	—	16,634	—	22,355
Changes arising from obtaining or losing control of subsidiaries or other businesses	22,000	—	—	—	—	2	—	22,002
Other	—	—	—	—	—	2,424	—	2,424
Other	—	—	(123)	—	—	—	—	(123)
As of March 31, 2020	577,371	100,000	2,971,199	394,327	—	1,038,896	459	5,082,252
Changes from financing cash flows								
Increase (decrease) in short-term interest-bearing debt, net	308,990	6,001	—	—	—	—	—	314,991
Proceeds from new financing ²	893,493	148,700	967,038	420,000	—	—	—	2,429,231
Repayment ²	(1,232,265)	(92,000)	(876,948)	(10,000)	—	(389,093)	(185)	(2,600,491)
Changes from operating cash flows								
Interest paid	—	—	(2,080)	(633)	—	(12,708)	—	(15,421)
Non-cash changes								
New lease transactions or remeasurement of lease liabilities	—	—	—	—	—	236,840	—	236,840
Amortized cost	1,893	—	4,879	298	—	12,803	—	19,873
Changes arising from obtaining or losing control of subsidiaries or other businesses	110,774	—	71,103	—	—	55,142	—	237,019
Other	25	—	0	—	—	(11,831)	(10)	(11,816)
Other	—	—	114	—	—	—	—	114
As of March 31, 2021	660,281	162,701	3,135,305	803,992	—	930,049	264	5,692,592

Notes:

1. The Group has adopted IFRS 16 from the fiscal year ended March 31, 2020. As a result, lease obligation has not been recognized since April 1, 2019. And the Group does not apply IFRS 16 to leases of intangible assets. Accordingly, finance lease transactions of intangible asset disclosed for the fiscal year ended March 31, 2019 has been restated as long-term borrowings.
2. Proceeds from the securitization of installment receivables are included in “Proceeds from new financing” in “Long-term borrowings” and payments associated with the securitization are included in “Repayment” in “Long-term borrowings.” Proceeds from the securitization of installment receivables for the fiscal year ended March 31, 2021 totaled ¥381,308 million (for the fiscal year ended March 31, 2020: ¥447,684 million). Payments associated with the securitization for the fiscal year ended March 31, 2021 totaled ¥378,118 million (for the fiscal year ended March 31, 2020: ¥417,613 million).

24. Trade and other payables

The components of trade and other payables are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Operating payables	487,643	720,004
Fixed asset payables	230,100	248,197
Trade payables	259,961	306,502
Foreign exchange dealings deposits from customers	118,978	122,917
Deposits	119,817	176,650
Other	37,267	49,778
Total	1,253,766	1,624,048

25. Deposits for banking business

The components of deposits for banking business are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Ordinary deposits	778,331	1,057,510
Time deposits	102,516	108,067
Total	880,847	1,165,577

In addition to the above, deposits for banking business (non-current) of ¥19,199 million as of March 31, 2021 (¥21,037 million as of March 31, 2020) are included in “Other financial liabilities (non-current).” Both of them are time deposits (non-current).

26. Other current liabilities and other non-current liabilities

The components of other current liabilities and other non-current liabilities are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Current		
Short-term accrued employee benefits	78,533	93,198
Consumption and other taxes payable	60,519	55,231
Withholding tax	103,384	4,032
Other	16,683	24,930
Total	259,119	177,391
Non-current		
Long-term accrued employee benefits	7,405	8,001
Defined benefit liabilities	16,337	28,571
Other	4,488	10,302
Total	28,230	46,874

27. Provisions

Changes in provisions are as follows:

	(Millions of yen)				
	Asset retirement obligations	Provision for loss on contract	Provision for interest refund loss	Others	Total
As of April 1, 2020	76,060	—	10,076	4,529	90,665
Additions	9,410	23,130	—	—	32,540
Used	(6,735)	—	(2,064)	(1,373)	(10,172)
Change in estimates ¹	4,908	—	—	—	4,908
Interest due to passage of time	182	—	—	—	182
Other	5,682	—	—	(2)	5,680
As of March 31, 2021	<u>89,507</u>	<u>23,130</u>	<u>8,012</u>	<u>3,154</u>	<u>123,803</u>

Note:

- Changes in estimates resulted from the changes in estimates of the asset retirement obligations due to the increased probability of disposal of certain network equipment following the consideration of demand for communication traffic, efficient operation of network equipment, and equipment replacements.

The components in provisions are as follows:

	(Millions of yen)				
	Asset retirement obligations	Provision for loss on contract	Provision for interest refund loss	Others	Total
As of March 31, 2021					
Current liabilities	14,783	43	1,812	1,072	17,710
Non-current liabilities	74,724	23,087	6,200	2,082	106,093
Total	<u>89,507</u>	<u>23,130</u>	<u>8,012</u>	<u>3,154</u>	<u>123,803</u>

Asset retirement obligations

Asset retirement obligations are recognized by the reasonably estimated amount required for the removal or site restoration of equipment such as 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.

Provision for loss on contract

In mobile communications services, provision for loss on contract is recognized in order to prepare for losses resulting from the difference between the sales price of devices received from customers and residual installment receivables from customers. The sales price of the devices and the amount of the residual installment receivables may fluctuate due to changes in the market environment and other factors.

Provision for loss on interest repayment

As for subsidiaries operating card businesses, provision for interest repayment claims is calculated by estimating the future repayment amount based on the historical experience of repayments and expirations due to the statute of limitations. Provision for interest repayment claims may fluctuate due to changes in the market environment and other factors.

28. Financial instruments

(1) Capital management

The Group's policy is to realize and maintain an optimum capital composition to maintain medium-term and long-term sustainable growth and maximize corporate value.

Major indicators used for capital management are as follows:

- Equity capital
- Equity capital ratio

Note:

Equity capital is the amount of "Equity attributable to owners of the Company." The equity capital ratio represents "Equity attributable to owners of the Company" divided by "Total liabilities and equity."

Equity capital and the equity capital ratio are as follows:

	As of March 31, 2020	As of March 31, 2021
Equity capital (Millions of yen)	1,000,546	1,512,212
Equity capital ratio (%)	10.2	12.4

The Group is subject to regulatory capital requirements under the applicable laws and regulations, and is required to maintain capital adequacy ratios and net assets at certain levels.

Significant capital requirements attributable to the Group relate to our subsidiary The Japan Net Bank, Limited (currently PayPay Bank Corporation), and are stated in "(2) Financial risk management." No revisions were made to applicable laws that have a significant impact on the capital requirements for the fiscal years ended March 31, 2020 and 2021.

For details of financial covenants on interest-bearing debt, refer to "(2) Financial covenants" under "Note 23. Interest-bearing debt."

(2) Financial risk management

The Group is promoting diversification of its business and is subject 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.

In accordance with capital adequacy ratio requirements as prescribed in the Banking Act and the notification issued by the Financial Services Agency in Japan, The Japan Net Bank, Limited (currently PayPay Bank Corporation) is required to maintain a capital adequacy ratio of at least 4.0% as a bank that does not have overseas locations as a sales base.

a. Credit risk

Credit risk is a risk of a financial loss of the Group resulting from 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, 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 issuers' credit risk. This risk is managed by continuously monitoring the financial conditions of issuers.

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 dealers' 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 periodically to avoid an increase in the uncollectible amounts. Regarding installment receivables, the Group refers to external institutions for credit risk information.

Derivative transactions are executed and managed based on 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 assets, net of impairment, which is presented in the consolidated statement of financial position, as well as the amount of lending commitments and credit guarantees, 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. Other receivables and financial assets are measured at the future expected credit losses upon assessing whether there is a significant increase in their credit risk. The Group determines whether credit risk has increased significantly or not, based on the change in default risk by considering the counterparties' 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.

The Group considers a financial asset to be in default when the financial asset becomes credit-impaired. In case of events such as those listed below, that have a detrimental impact on the estimated future cash flows of financial assets, the financial assets are deemed to be credit-impaired and the expected credit losses are measured 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

The details of lending commitments and credit guarantees are described in "(1) Lending commitments" and "(2) Credit guarantees" under "Note 43. Contingencies."

There were no financial or non-financial assets acquired as a result of foreclosure of collateral or enforcement of other credit enhancements during the fiscal years ended March 31, 2020 and 2021.

(a) The carrying amount of financial assets and contract assets subject to allowance for doubtful accounts

i. Trade receivables and contract assets

The table below presents the exposure to credit risk of trade receivables and contract assets. Allowances for doubtful accounts for trade receivables and contract assets are always measured at an amount equal to the expected lifetime credit losses.

As of March 31, 2020

(Millions of yen)

	Before due	Past due					Total
		Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	
Trade receivables	895,719	65,667	12,854	17,486	7,814	3,086	1,002,626
Contract assets	57,666	—	—	—	—	—	57,666
Allowance for doubtful accounts	(2,297)	(984)	(2,388)	(3,188)	(5,392)	(2,954)	(17,203)
Total	951,088	64,683	10,466	14,298	2,422	132	1,043,089

As of March 31, 2021

(Millions of yen)

	Before due	Past due					Total
		Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	
Trade receivables	1,106,597	67,223	9,527	7,997	9,030	4,327	1,204,701
Contract assets	18,423	—	—	—	—	—	18,423
Allowance for doubtful accounts	(2,277)	(857)	(2,286)	(3,067)	(5,513)	(2,290)	(16,290)
Total	1,122,743	66,366	7,241	4,930	3,517	2,037	1,206,834

ii. Financial assets other than trade receivables and contract assets

The table below presents the exposure to credit risk of financial assets other than trade receivables and contract assets:

As of March 31, 2020

(Millions of yen)

Financial assets other than trade receivables and contract assets	Before due	Past due					Total
		Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	
12-month expected credit losses	1,709,155	13,184	—	—	—	—	1,722,339
Lifetime expected credit losses							
Financial assets that are not credit-impaired	—	—	2,702	—	—	—	2,702
Financial assets that are credit-impaired	—	—	—	2,825	5,708	13,729	22,262
Total	1,709,155	13,184	2,702	2,825	5,708	13,729	1,747,303

As of March 31, 2021

(Millions of yen)

Financial assets other than trade receivables and contract assets	Before due	Past due					Total
		Within 1 month	1 month to 3 months	3 months to 6 months	6 months to 1 year	More than 1 year	
12-month expected credit losses	2,016,859	23,075	—	—	—	—	2,039,934
Lifetime expected credit losses							
Financial assets that are not credit-impaired	—	—	13,648	—	—	—	13,648
Financial assets that are credit-impaired	—	—	—	3,056	4,496	14,335	21,887
Total	2,016,859	23,075	13,648	3,056	4,496	14,335	2,075,469

There are no significant assets held as collateral or other credit enhancements for financial assets.

(b) Allowance for doubtful accounts

The table below presents changes in the allowance for doubtful accounts for trade receivables and financial assets other than trade receivables.

Fiscal year ended March 31, 2020

i. Trade receivables

	(Millions of yen) Lifetime expected credit losses
Balance at the beginning of the year	17,951
Additions	5,598
Used	(6,346)
Balance at the end of the year	17,203

ii. Financial assets other than trade receivables

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses		Total
		Financial assets that are not credit-impaired	Financial assets that are credit-impaired	
Balance at the beginning of the year	5,407	722	14,004	20,133
Additions	1,299	174	14,770	16,243
Used	(287)	(56)	(10,892)	(11,235)
Reversal	(443)	(0)	(21)	(464)
Other	(375)	(46)	1,411	990
Balance at the end of the year	5,601	794	19,272	25,667

Fiscal year ended March 31, 2021

i. Trade receivables

	(Millions of yen)
	Lifetime expected credit losses
Balance at the beginning of the year	17,203
Additions	3,374
Used	(4,287)
Balance at the end of the year	16,290

ii. Financial assets other than trade receivables

	Lifetime expected credit losses			(Millions of yen)
	12-month expected credit losses	Financial assets that are not credit-impaired	Financial assets that are credit-impaired	Total
Balance at the beginning of the year	5,601	794	19,272	25,667
Additions	1,643	(140)	14,670	16,173
Used	(144)	(13)	(12,135)	(12,292)
Reversal	(27)	(0)	(554)	(581)
Other	2,185	0	(1,904)	281
Balance at the end of the year	9,258	641	19,349	29,248

Additions to and reversal of allowance for doubtful accounts are recorded as “Selling, general and administrative expenses” in the consolidated statement of income.

For the fiscal years ended March 31, 2020 and 2021, there were no significant changes in the gross carrying amount that affected changes in the allowance for doubtful accounts, and there were no financial assets that were directly written off but are still subject to recovery.

b. Market risk

(a) Currency risk

The Group conducts foreign currency-denominated transactions and is exposed to currency risk arising mainly from fluctuations in the exchange rate of U.S. dollars to Japanese yen. To avoid this risk, the Group 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.

Sensitivity analysis for the exchange rate

The table below presents the currency risk exposure of financial instruments related to the U.S. dollar which is the main foreign currency of companies that use the Japanese yen as their functional currency:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net exposure affecting profit before income taxes	(8,030)	9,854
Net exposure affecting other comprehensive income (before tax effect)	18,029	29,309

The table below presents the effect of 1% appreciation of Japanese yen against U.S. dollar on profit before income taxes and other comprehensive income (before tax effect) assuming that all other factors are constant. The sensitive analysis below does not contain impacts of translation of assets and liabilities of foreign operations into presentation currency:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Decrease in profit before income taxes	80	(99)
Decrease in other comprehensive income (before tax effect)	(180)	(293)

(b) Price risk

The Group, for the purposes of its business strategy, holds securities 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.

Sensitivity analysis for the price of securities

The table below presents the effect of a 10% decrease in market price for securities traded in active markets on other comprehensive income (before tax effect) assuming that all other factors are constant:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Decrease in other comprehensive income (before tax effect)	(2,151)	(5,004)

(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 transactions for certain borrowings with floating interest rates to hedge 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.

i. Interest rate sensitivity analysis

The table below presents the effect of adding an additional 1% to interest rates for the Group's floating interest rate debt on profit before income taxes in the consolidated statement of income assuming that all other factors are constant. The analysis excludes floating interest rate debt with interest rate payments that are fixed using interest rate swap agreements.

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Decrease in profit before income taxes	(19,929)	(18,014)

ii. Derivatives (interest rate swaps)

The Group designates interest rate swap transactions as cash flow hedges. The hedge is determined to have been effective by confirming that there is an economic relationship between the hedged item and the hedging instrument through assessing effectiveness at the inception of the hedge and on a regular basis. As the main terms of the hedging instrument match the terms of the hedged item, hedge ineffectiveness is not recognized. During the fiscal year ended March 31, 2021, there were no transactions for which hedge accounting had been applied but was discontinued because they were no longer expected to occur.

The details of hedging instruments designated as cash flow hedges are presented in the table below:

As of March 31, 2020

	(Millions of yen)					
	Total amount of agreement	Amount of agreement with maturity over 1 year	Carrying amount		Average interest rate	Line item on the consolidated statement of financial position
			Assets	Liabilities		
Interest rate risk						
Interest rate swaps	500,500	500,500	—	5,325	1.96%	Other financial liabilities
Total	500,500	500,500	—	5,325	1.96%	

As of March 31, 2021

	(Millions of yen)					
	Total amount of agreement	Amount of agreement with maturity over 1 year	Carrying amount		Average interest rate	Line item on the consolidated statement of financial position
			Assets	Liabilities		
Interest rate risk						
Interest rate swaps	500,000	500,000	—	5,247	1.96%	Other financial liabilities
Total	500,000	500,000	—	5,247	1.96%	

Changes in accumulated other comprehensive income (after tax effect) related to designated hedging instruments are as follows:

As of March 31, 2020

	(Millions of yen)
Interest risk	<u>Interest rate swaps</u>
Balance as of April 1, 2019	(4,675)
Amounts arising during the year	126
Reclassification adjustments ¹	900
Balance as of March 31, 2020	<u><u>(3,649)</u></u>

As of March 31, 2021

	(Millions of yen)
Interest risk	<u>Interest rate swaps</u>
Balance as of April 1, 2020	(3,649)
Amounts arising during the year	(847)
Reclassification adjustments ¹	900
Balance as of March 31, 2021	<u><u>(3,596)</u></u>

Note:

1. The adjustments, which are the amount reclassified from other comprehensive income to profit or loss when the hedged item affects profit or loss, are recorded in “Financing costs” in the consolidated statement of income.

c. Liquidity risk

The Group is exposed to liquidity risk through 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 borrowings and leases, and direct financing, such as issuance of bonds and securitization, taking market conditions and its current/non-current debt ratios into consideration. As part of fund management activities, the Group invests its funds primarily in liquid short-term deposits.

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

(a) Committed lines of credit

The Group entered into committed lines of credit mainly with financial institutions to reduce liquidity risk.

The undrawn balance of the Company's credit facilities is ¥349,574 million as of March 31, 2021 (¥279,148 million as of March 31, 2020).

With the Group's diversified fundraising sources, credit facilities contracts that are considered homogeneous as normal borrowings increased and accordingly, only the undrawn balance of credit facilities is presented to clarify the Group's year-end liquidity position from the fiscal year ended March 31, 2021.

In addition, borrowable securitization contracts depending on the balance of receivables were previously presented in the amounts above due to their similarity to committed lines of credit. However, as a result of reevaluating the relevancy of undrawn credit facilities, such as committed lines of credit, and liquidity risk reduction, the Group presented the undrawn balance without including the amount of the securitization contracts from the fiscal year ended March 31, 2021, in order to reflect the reality of the fundraising sources.

In order to reflect the changes in presentation, the securitization contracts are not included in the undrawn balance as of March 31, 2020.

The carrying amount of the securitization contracts above is included in the carrying amount of transferred assets under “Note 30. Transfers of financial assets.”

(b) Financial liabilities by maturity

The table below presents the analysis of financial liabilities (including derivative financial instruments) by maturity. Receivables and payables arising from derivative transactions are presented on a net basis.

As of March 31, 2020

	(Millions of yen)							
	Carrying amount	Aggregation of redemption schedule	Within 1 year ¹	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	More than 5 years
Non-derivative financial liabilities								
Interest-bearing debt ²								
Short-term borrowings	577,371	577,371	577,371	—	—	—	—	—
Commercial paper	100,000	100,000	100,000	—	—	—	—	—
Long-term borrowings ³ (including current portion)	2,971,199	2,984,973	760,621	669,923	511,076	408,150	619,983	15,220
Bonds (including current portion)	394,327	395,000	10,000	15,000	95,000	30,000	85,000	160,000
Lease liabilities	1,038,896	1,038,896	365,202	255,135	164,639	87,013	39,308	127,599
Installment payables	459	459	186	146	54	44	13	16
Trade and other payables	1,253,766	1,253,766	1,244,663	6,189	2,766	147	1	—
Deposits for banking business (current)	880,847	880,847	880,847	—	—	—	—	—
Other financial liabilities (non-current)								
Deposits for banking business (non-current)	21,037	21,037	—	6,751	6,255	2,631	2,305	3,095
Others (non-current)	10,016	10,016	—	1,232	643	609	2,048	5,484
Total	7,247,918	7,262,365	3,938,890	954,376	780,433	528,594	748,658	311,414
Derivative financial liabilities								
Forward exchange foreign contract	3,779	3,779	3,779	—	—	—	—	—
Interest rate swaps	5,712	6,110	1,318	1,826	1,350	1,202	414	—
Total	9,491	9,889	5,097	1,826	1,350	1,202	414	—
Off-balance sheet items								
Credit guarantees ⁴	—	6,380	6,380	—	—	—	—	—
Lending commitments ⁴	—	4,575,138	4,575,138	—	—	—	—	—

As of March 31, 2021

(Millions of yen)

	Carrying amount	Aggregation of redemption schedule	Within 1 year ¹	1 year to 2 years	2 years to 3 years	3 years to 4 years	4 years to 5 years	More than 5 years
Non-derivative financial liabilities								
Interest-bearing debt ²								
Short-term borrowings	660,281	660,281	660,281	—	—	—	—	—
Commercial paper	162,701	162,701	162,701	—	—	—	—	—
Long-term borrowings ³ (including current portion)	3,135,305	3,150,554	846,893	726,197	712,409	758,943	72,873	33,239
Bonds (including current portion)	803,992	805,000	40,000	95,000	120,000	85,000	220,000	245,000
Lease liabilities	930,049	930,049	292,572	197,750	112,807	62,911	51,437	212,572
Installment payables	264	264	138	54	44	13	6	9
Trade and other payables	1,624,048	1,624,048	1,615,066	7,465	1,473	33	11	—
Deposits for banking business (current)	1,165,577	1,165,577	1,165,577	—	—	—	—	—
Other financial liabilities (non-current)								
Deposits for banking business (non-current)	19,199	19,199	—	7,100	5,426	2,186	1,574	2,913
Others (non-current)	9,520	9,520	6	1,099	534	511	1,925	5,445
Total	8,510,937	8,527,194	4,783,234	1,034,665	952,693	909,597	347,826	499,179
Derivative financial liabilities								
Forward exchange foreign contract	4,606	4,606	4,606	—	—	—	—	—
Interest rate swaps	5,558	6,068	2,037	2,016	1,583	432	—	—
Total	10,164	10,674	6,643	2,016	1,583	432	—	—
Off-balance sheet items								
Credit guarantees ⁴	—	8,356	8,356	—	—	—	—	—
Lending commitments ⁴	—	5,210,077	5,210,077	—	—	—	—	—

Notes:

1. Financial liabilities payable on demand are classified as being due “Within 1 year.” Deposits for banking business include ¥1,057,510 million of demand deposits for the fiscal year ended March 31, 2021 (¥778,331 million for the fiscal year ended March 31, 2020).
2. For the average interest rates of interest-bearing debt, refer to “(1) Components of interest-bearing debt” under “Note 23. Interest-bearing debt.”
3. The Group does not apply IFRS 16 to leases of intangible assets.
4. For further details regarding credit guarantees and lending commitments, refer to “Note 43. Contingencies.”

(3) Categories of financial instruments

Components of financial instruments (excluding cash and cash equivalents) by category are as follows:

As of March 31, 2020

	(Millions of yen)				
	Financial assets at FVTPL	Debt instruments at FVTOCI	Equity instruments at FVTOCI	Financial assets at amortized cost	Total
Financial assets					
Current assets					
Trade and other receivables	—	—	—	1,800,301	1,800,301
Other financial assets	28,263	46,763	—	19,880	94,906
Non-current assets					
Investment securities	58,807	—	116,345	—	175,152
Investment securities in banking business	11,718	308,347	—	22,910	342,975
Other financial assets	8	—	—	905,554	905,562
Total	98,796	355,110	116,345	2,748,645	3,318,896
Financial liabilities					
Current liabilities					
Interest-bearing debt	—	—	1,811,281	1,811,281	
Trade and other payables	—	—	1,253,766	1,253,766	
Deposits for banking business	—	—	880,847	880,847	
Other financial liabilities	3,779	0	—	3,779	
Non-current liabilities					
Interest-bearing debt	—	—	3,270,971	3,270,971	
Other financial liabilities	388	5,324	31,053	36,765	
Total	4,167	5,324	7,247,918	7,257,409	

As of March 31, 2021

	(Millions of yen)				
	Financial assets at FVTPL	Debt instruments at FVTOCI	Equity instruments at FVTOCI	Financial assets at amortized cost	Total
Financial assets					
Current assets					
Trade and other receivables	—	—	—	2,082,223	2,082,223
Other financial assets	22,700	50,438	—	71,797	144,935
Non-current assets					
Investment securities	82,442	1,209	237,439	210	321,300
Investment securities in banking business	14,765	355,283	—	22,212	392,260
Other financial assets	1	—	—	1,129,857	1,129,858
Total	119,908	406,930	237,439	3,306,299	4,070,576
	Financial liabilities at FVTPL	Derivatives designated as hedges	Financial liabilities at amortized cost	Total	
Financial liabilities					
Current liabilities					
Interest-bearing debt	—	—	2,000,479	2,000,479	
Trade and other payables	—	—	1,624,048	1,624,048	
Deposits for banking business	—	—	1,165,577	1,165,577	
Other financial liabilities	4,918	—	6	4,924	
Non-current liabilities					
Interest-bearing debt	—	—	3,692,113	3,692,113	
Other financial liabilities	—	5,246	28,720	33,966	
Total	4,918	5,246	8,510,943	8,521,107	

(4) Equity instruments at FVTOCI

The Group holds certain investments in equity instruments primarily to maintain or enhance business relationships, and hence categorizes those investments as equity instruments at FVTOCI.

The major industry sectors of equity instruments at FVTOCI and the fair value thereof are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Industry sector	Fair value	Fair value
Information and communications ¹	91,101	207,087
Services	22,146	36,806

Note:

- Investments in the information and communications sector mainly consist of preferred stock issued by PayPay Corporation, and the fair value of the investment is ¥176,000 million as of March 31, 2021 (¥70,000 million as of March 31, 2020).

The Group has sold (derecognized) equity instruments that were no longer in line with the Group's investment strategy. The table below presents the fair value at the date of sale and the accumulated gain or loss on sale of equity instruments at FVTOCI that were sold during the period:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Fair value at the date of sale	15,952	102,714
Accumulated gain or (loss) on sale	4,200	4,983

The Group directly transfers accumulated gains or losses from other comprehensive income to retained earnings in the case of derecognition or significant or prolonged decline in the fair value below cost. The amount transferred from accumulated other comprehensive income or loss to retained earnings is ¥(1,463) million for the fiscal year ended March 31, 2021 (¥1,083 million for the fiscal year ended March 31, 2020).

29. Fair value of financial instruments

(1) Categorization by level within the fair value hierarchy

Financial instruments that are measured at fair value on a recurring basis after initial recognition are classified into three levels of the fair value hierarchy based on the observability and significance of inputs used for valuation.

The fair value hierarchy is defined as follows:

Level 1: Fair value is measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value is measured using inputs other than Level 1 that are observable, either directly or indirectly.

Level 3: Fair value is measured using unobservable inputs.

If the fair value measurement uses different levels of inputs, the fair value is categorized based on the lowest level of input that is significant to the entire fair value measurement.

Transfers between levels of the fair value hierarchy are recognized as if they have occurred at the beginning of each quarter.

There were no transfers between Level 1 and Level 2 during the fiscal year ended March 31, 2020. The share of LINE Corporation was transferred to Level 2 from Level 1 due to delisting during the fiscal year ended March 31, 2021. However, the Company consolidated LINE Corporation effective February 28, 2021 and accordingly LINE Corporation was accounted for as a consolidated subsidiary as of March 31, 2021. For the acquisition of LINE Corporation, refer to “Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation” under “Note 6. Business combinations.”

The table below presents financial instruments measured at fair value on a recurring basis by level within the fair value hierarchy:

As of March 31, 2020

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Equity securities	11,949	—	121,136	133,085
Bonds	5,028	243,572	2,182	250,782
Trust beneficiary rights	—	—	110,211	110,211
Derivative financial assets	14	28,257	—	28,271
Other	4,614	6,450	36,838	47,902
Total	<u>21,605</u>	<u>278,279</u>	<u>270,367</u>	<u>570,251</u>
Financial liabilities				
Derivative financial liabilities	92	9,399	—	9,491
Total	<u>92</u>	<u>9,399</u>	<u>—</u>	<u>9,491</u>

As of March 31, 2021

	(Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Equity securities	37,214	—	229,082	266,296
Bonds	10,578	246,816	1,648	259,042
Trust beneficiary rights	—	—	148,126	148,126
Derivative financial assets	55	22,548	—	22,603
Other	2,464	16,070	49,676	68,210
Total	<u>50,311</u>	<u>285,434</u>	<u>428,532</u>	<u>764,277</u>
Financial liabilities				
Derivative financial liabilities	266	9,898	—	10,164
Total	<u>266</u>	<u>9,898</u>	<u>—</u>	<u>10,164</u>

The major valuation techniques for financial instruments measured at fair value on a recurring basis are as follows:

a. Equity securities

Equity securities are measured using quoted prices in active markets for identical assets if such prices are available, and are classified as Level 1. Where such quoted prices in active markets for identical assets are not available, they are measured using appropriate valuation techniques such as the comparable company analysis, discounted cash flow method and transaction case approach. They are classified as Level 2 if all significant inputs such as quoted prices of comparable companies and discount rates that are used for the measurement are observable, whereas if inputs include significant unobservable inputs, they are classified as Level 3. The Group uses EBIT multiples of equivalent companies, capital cost and perpetual growth rate as the significant unobservable inputs to calculate the fair value of financial assets classified as Level 3.

b. Debt securities and trust beneficiary rights

Fair value using quoted prices (unadjusted) in active markets for identical assets are measured using such quoted prices and is classified as Level 1. Fair value using inputs other than Level 1 that are observable, either directly or indirectly, are measured by using prices based on available information, mainly such as reference trading statistics and brokers' quotes. The Group also utilizes the discounted cash flow method using discount rates as inputs after taking into account risk-free interest rates and credit spreads. They are categorized as Level 2 or Level 3 depending on their observability and significance.

c. Derivative financial assets and liabilities

Derivative financial assets and liabilities are measured using quoted prices in active markets for identical assets if such prices are available, and are classified as Level 1. Where such quoted prices in active markets for identical assets are not available, they are measured using prices of comparable contracts and quoted by financial institutions with which contracts were concluded and are categorized as Level 2.

(2) Fair value measurements of financial instruments that are categorized as Level 3

a. Fair value measurements and Inputs

Equity securities

Fair value of equity securities is measured primarily based on the discounted cash flow method and transaction case approach. The significant unobservable inputs of the discounted cash flow method used for major equity securities are cost of capital and EBIT multiples of equivalent companies. This cost of capital and EBIT multiple to use for measurements of financial instruments as of March 31, 2021 are 35.0% and 20.1 times, respectively (40.0% and 20.3 times, respectively as of March 31, 2020).

b. Sensitivity analysis

Fair value of equity securities decreases (increases) when cost of capital increases (decreases) among unobservable inputs. On the other hand, fair value of equity securities increases (decreases) when EBIT multiples increase (decrease).

The financial instruments classified as Level 3 are not expected to significantly change its fair value in case the unobservable inputs are changed to reasonably possible alternative assumption.

c. Valuation processes

Fair value is measured by the Group's personnel in the treasury and accounting departments based on internal regulations, using the most appropriate valuation techniques and inputs that reflect the nature, characteristics, and risks of the financial instruments subject to fair value measurement. The fair value of financial instruments that require a high level of knowledge and experience for the valuation is measured by external specialists if the amount of such financial instruments is material. The result of the measurement conducted at the end of each quarter, including the valuation by

the external specialists and the analysis of fair value changes and other contents, is reviewed and approved by the personnel responsible in the treasury and accounting departments.

d. Changes in financial instruments categorized as Level 3

Changes in financial instruments categorized as Level 3 are as follows:

Fiscal year ended March 31, 2020

	(Millions of yen)			
	Equity securities	Bonds	Trust beneficiary rights	Other
As of April 1, 2019	52,973	2,896	94,720	21,468
Gains or losses				
Net income ¹	314	60	—	940
Other comprehensive income ²	(1,780)	(4)	(14)	(201)
Purchases ³	85,229	—	31,274	15,621
Sales	(1,655)	(770)	(15,769)	(598)
Changes in the scope of consolidation	910	—	—	—
Other ³	(14,855)	—	—	(392)
As of March 31, 2020	<u>121,136</u>	<u>2,182</u>	<u>110,211</u>	<u>36,838</u>

Notes

- Gains or losses recognized in net income are included in “Financing income” and “Financing costs” in the consolidated statement of income.
- Gains or losses recognized in other comprehensive income, net of tax, are included in “Changes in the fair value of equity instruments at FVTOCI,” “Changes in the fair value of debt instruments at FVTOCI” and “Exchange differences on translation of foreign operations” in the consolidated statement of comprehensive income.
- The Group acquired preferred stock in PayPay Corporation, and “Purchases” includes acquisition cost of ¥70,000 million. “Other” includes share of losses of associates accounted for using the equity method of ¥13,644 million recognized on the preferred stock. For further details, refer to “(1) Condensed consolidated financial information and other information on significant investments” under “Note 20. Investments accounted for using the equity method.”

Fiscal year ended March 31, 2021

	(Millions of yen)			
	Equity securities	Bonds	Trust beneficiary rights	Other
As of April 1, 2020	121,136	2,182	110,211	36,838
Gains or losses				
Net income ¹	4,557	—	—	(10,659)
Other comprehensive income ^{2,3}	68,336	2	(64)	1,621
Purchases ³	46,952	50	60,900	5,503
Sales	(1,919)	(686)	(22,921)	(5,482)
Changes in the scope of consolidation	(8,127)	—	—	—
Increase by business integration ⁴	27,836	100	—	17,198
Transfer to Level 1 by listing	(4,411)	—	—	—
Other ³	(25,278)	—	—	4,657
As of March 31, 2021	<u>229,082</u>	<u>1,648</u>	<u>148,126</u>	<u>49,676</u>

Notes

- Gains or losses recognized in net income are included in “Financing income” and “Financing costs” in the consolidated statement of income.
- Gains or losses recognized in other comprehensive income, net of tax, are included in “Changes in the fair value of equity instruments at FVTOCI,” “Changes in the fair value of debt instruments at FVTOCI” and “Exchange differences on translation of foreign operations” in the consolidated statement of comprehensive income.
- The Group acquired preferred stock in PayPay Corporation, and “Purchases” includes acquisition cost of ¥36,000 million. “Other comprehensive income” includes a valuation gain of ¥70,000 million recognized on the preferred stock

in PayPay Corporation. “Other” includes share of losses of associates accounted for using the equity method of ¥27,580 million recognized on the preferred stock. For further details, refer to “(1) Condensed consolidated financial information and other information on significant investments” under “Note 20. Investments accounted for using the equity method.”

4. Financial instruments that the LINE Group holds are included in “Increase by business integration” as a result of consolidating LINE Corporation.

(3) Carrying amounts and fair values of financial instruments

The table below presents carrying amounts and fair values of financial liability not measured ordinarily at fair value:

As of March 31, 2020

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		(Millions of yen)			
Interest-bearing debt (non-current)					
Long-term borrowings	2,212,677	—	1,552,815	703,524	2,256,339

As of March 31, 2021

	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
		(Millions of yen)			
Interest-bearing debt (non-current)					
Long-term borrowings	2,290,489	—	1,441,053	884,217	2,325,270

Financial instruments that are measured at fair value or have carrying amounts that are reasonably similar to their fair values are not included in the table above. In addition, financial instruments that are measured at fair value on a recurring basis are not included in the table above since the fair value matches the carrying amounts.

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

a. 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 interests, and are categorized as Level 2.

Fair values of the non-current portion of long-term borrowings with fixed rates are measured based on the 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, and are categorized as Level 3.

Fair values of the non-current portion of long-term borrowings associated with leases of intangible assets are measured based on the discounted cash flow method using an interest rate considering the period until payment and credit risk, and are categorized as Level 3.

Fair values of the non-current portion of long-term borrowings in relation to sale and leaseback transactions not accounted as sales are measured based on the discounted cash flow method using an interest rate considering the period until payment and credit risk, and are categorized as Level 3.

30. Transfers of financial assets

The Group enters into securitization transactions involving trade and installment receivables.

The major securitization transactions involve the securitization of installment receivables recognized from the mobile device sales business.

For each transaction, the Group transfers receivables to financial institutions and acquires cash and subordinate interest in the transferred receivables for financing purposes. The receivables transferred are not derecognized because in each transaction the Group retains subordinate interest and, therefore, substantially retains all the risks and rewards of ownership of the transferred assets. Cash received from transferring the receivables is included in “Interest-bearing debt” under current liabilities and non-current liabilities.

The following table presents the carrying amount of financial assets and related liabilities that are transferred but do not meet the derecognition criteria, as well as the fair value where related liabilities have recourse only to the transferred assets:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Carrying amount of transferred assets	794,514	788,847
Carrying amount of related liabilities	(706,091)	(719,099)

(Fair value of financial assets and financial liabilities where related liabilities have recourse only to the transferred assets)

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Fair value of transferred assets	794,514	788,847
Fair value of related liabilities	(706,015)	(719,396)
Net position	88,499	69,451

The difference between transferred assets and related liabilities is the subordinate interest which the Group retains on securitization.

In addition, the Group enters into securitization transactions involving a part of the monthly lump sum payment receivables included in loans in the card business. However, there are securitization receivables for which the Group bears a credit risk until collection and is obligated to pay retrospectively if a debtor does not pay. Those securitization receivables are not derecognized because they do not meet the derecognized criteria. Cash received from transferring the receivables is included in “Interest-bearing debt” under current liabilities.

The carrying amounts of the receivables transferred and related liabilities in financial assets transferred by the method not to meet the derecognized criteria are ¥775 million and ¥85,000 million, respectively, as of March 31, 2021 (¥1,361 million and ¥60,000 million, respectively, as of March 31, 2020). The liability is settled without significant delay when a debtor pays for receivables transferred, but the Group cannot use the receivables transferred until the settlement of the liability or payment from the debtor is completed. The discrepancy between receivables transferred and related liabilities are mainly due to the amount of loan collection in the card business.

31. Offsetting financial assets and liabilities

The following table presents the amount of financial assets and liabilities presented net in the consolidated statement of financial position, as well as the amount of financial assets and liabilities that are under enforceable master netting agreements or similar contracts, but are not offset as they do not meet certain or all criteria for offsetting.

Rights to offset based on the enforceable master netting agreements or similar contracts are enforceable only in certain events such as bankruptcy or obligation default of the counterparty.

Transactions subject to offset consist primarily of receivables and payables that the Group attributes to dealers.

The Group's receivables from mobile device sales to dealers and the Group's obligation for incentive fees payable to dealers are presented net in the consolidated statement of financial position as they meet the criteria for offsetting.

As of March 31, 2020

Financial assets					(Millions of yen)
	Gross amount of financial assets	Gross amount of financial liabilities offset against financial assets	Net amount of financial assets presented in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	167,747	(82,268)	85,479	(17,079)	68,400
Financial liabilities					(Millions of yen)
	Gross amount of financial liabilities	Gross amount of financial assets offset against financial liabilities	Net amount of financial liabilities presented in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	244,594	(82,268)	162,326	(16,552)	145,774
Other financial liabilities	713	—	713	(527)	186
Total	245,307	(82,268)	163,039	(17,079)	145,960

As of March 31, 2021

Financial assets					(Millions of yen)
	Gross amount of financial assets	Gross amount of financial liabilities offset against financial assets	Net amount of financial assets presented in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other receivables	179,853	(93,080)	86,773	(19,877)	66,896
Financial liabilities					(Millions of yen)
	Gross amount of financial liabilities	Gross amount of financial assets offset against financial liabilities	Net amount of financial liabilities presented in the consolidated statement of financial position	Amount not offset in the consolidated statement of financial position	Net amount
Trade and other payables	288,874	(93,080)	195,794	(19,362)	176,432
Other financial liabilities	719	—	719	(515)	204
Total	289,593	(93,080)	196,513	(19,877)	176,636

32. Equity

(1) Common stock

a. Shares authorized

The number of shares authorized to be issued is as follows:

	(Thousands of shares)	
	As of March 31, 2020	As of March 31, 2021
Common stock ¹	8,010,960	8,010,960

b. Shares issued

Changes in the number of shares issued are as follows:

	(Thousands of shares)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Balance at the beginning of the year	4,787,145	4,787,145
Increase during the year		
Issuance of new shares	-	-
Balance at the end of the year	4,787,145	4,787,145

Note:

1. Shares issued by the Company are common stock with no par value. Shares issued have been fully paid.

(2) Capital surplus

Capital surplus of the Group includes additional paid-in capital, which is legal capital surplus.

Under the Companies Act of Japan (the “Companies Act”), at least 50% of the proceeds upon issuance of equity instruments shall be credited to common stock. The remainder of the proceeds shall be credited to additional paid-in capital. The Companies Act permits, upon approval at the general meeting of shareholders, the transfer of amounts from additional paid-in capital to common stock.

(3) Retained earnings

Retained earnings of the Group include reserves legally required as legal retained earnings.

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

(4) Treasury stock

Changes in treasury stock are as follows:

	(Thousands of shares)	
	As of March 31, 2020	As of March 31, 2021
Balance at the beginning of the year	—	46,000
Increase ¹	46,000	78,461
Decrease ²	—	(23,801)
Balance at the end of the year	46,000	100,660

Notes:

1. For the fiscal year ended March 31, 2020, due to a purchase of treasury stock under the resolution passed at the Board of Directors meeting held on July 24, 2019, the number of treasury stock increased by 46,000 thousand (amount purchased ¥68,709 million).

In addition, for the fiscal year ended March 31, 2021, due to a purchase of treasury stock under the resolution passed at the Board of Directors meeting held on August 28, 2020, the number of treasury stock increased by 78,461 thousand (amount purchased ¥100,000 million).

2. For the fiscal year ended March 31, 2021, mainly due to the exercise of stock acquisition rights, the number of treasury stock decreased by 23,801 thousand. As a result, treasury stock decreased by ¥34,491 million and a loss on disposal of treasury stock of ¥17,439 million is recognized as a decrease in “Capital surplus,” of which ¥17,370 million is transferred from “Retained earnings.”

(5) Accumulated other comprehensive income

Changes in accumulated other comprehensive income are as follows:

Fiscal year ended March 31, 2020

	(Millions of yen)						
	Remeasurements of defined benefit plan	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Cash flow hedges	Exchange differences on translation of foreign operations	Share of other comprehensive income (loss) of associates accounted for using the equity method	Total
As of April 1, 2019	—	8,504	233	(4,675)	221	(543)	3,740
Other comprehensive income (attributable to owners of the Company)	41	(5,986)	(314)	1,026	(258)	573	(4,918)
Changes from transactions under common control	—	(2,563)	—	—	148	—	(2,415)
Transfer to retained earnings	(41)	(1,059)	—	—	—	—	(1,100)
As of March 31, 2020	—	(1,104)	(81)	(3,649)	111	30	(4,693)

Fiscal year ended March 31, 2021

	(Millions of yen)						
	Remeasurements of defined benefit plan	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Cash flow hedges	Exchange differences on translation of foreign operations	Share of other comprehensive income (loss) of associates accounted for using the equity method	Total
As of April 1, 2020	—	(1,104)	(81)	(3,649)	111	30	(4,693)
Other comprehensive income (attributable to owners of the Company)	(258)	36,915	117	53	1,522	254	38,603
Changes from transactions under common control	—	—	—	—	—	—	—
Transfer to retained earnings	258	1,463	—	—	—	—	1,721
As of March 31, 2021	—	37,274	36	(3,596)	1,633	284	35,631

The above amounts are presented net of tax effect. The amount of income taxes on each item in other comprehensive income is described in “Note 39. Other comprehensive income.”

33. Dividends

Dividends paid are as follows:

The Company

Fiscal year ended March 31, 2020

(1) Dividends paid are as follows:

Resolution	Class of shares	Dividends per share (Yen)	Total dividends (Millions of yen)	Record date	Effective date
Board of Directors meeting held on May 21, 2019	Common stock	37.50	179,518	March 31, 2019	June 10, 2019
Board of Directors meeting held on October 28, 2019	Common stock	42.50	202,584	September 30, 2019	December 6, 2019

(2) Dividends whose record date is in the fiscal year ended March 31, 2020, but whose effective date is after March 31, 2020 are as follows:

Resolution	Class of shares	Dividends per share (Yen)	Total dividends (Millions of yen)	Record date	Effective date
Board of Directors meeting held on May 21, 2020	Common stock	42.50	201,499	March 31, 2020	June 10, 2020

Fiscal year ended March 31, 2021

(1) Dividends paid are as follows:

Resolution	Class of shares	Dividends per share (Yen)	Total dividends (Millions of yen)	Record date	Effective date
Board of Directors meeting held on May 21, 2020	Common stock	42.50	201,499	March 31, 2020	June 10, 2020
Board of Directors meeting held on October 26, 2020	Common stock	43.00	204,620	September 30, 2020	December 25, 2020

(2) Dividends whose record date is in the fiscal year ended March 31, 2021, but whose effective date is after March 31, 2021 are as follows:

Resolution	Class of shares	Dividends per share (Yen)	Total dividends (Millions of yen)	Record date	Effective date
Board of Directors meeting held on May 21, 2021	Common stock	43.00	201,519	March 31, 2021	June 8, 2021

Transactions under common control result in the Group retrospectively consolidating the financial statements of the transferred companies 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 opening balance sheet date of the earliest comparative period as part of the consolidated financial statements of the Group. As a result, the following dividends paid by Z Holdings Corporation and before the date of the transaction under common control are included in "Cash dividends" in the consolidated statement of changes in equity.

Z Holdings Corporation

Fiscal year ended March 31, 2020

Resolution	Class of shares	Dividends per share (Yen)	Total dividends (Millions of yen) ¹	Record date	Effective date
Board of Directors meeting held on May 16, 2019	Common stock	8.86	45,042	March 31, 2019	June 4, 2019

Note:

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

34. Share-based payment transactions

The Company grants stock options and restricted stock compensation plan as share-based payment awards.

Share-based payment awards are granted to directors and employees of the Group based on the terms resolved at shareholders' meetings or Board of Directors meetings of the Company.

SBG also grants stock options as share-based payment awards. Certain parts of the awards are granted to the Group's directors and employees based on the terms resolved at shareholders' meetings or Board of Directors meetings of SBG.

Z Holdings Corporation has an equity-settled share option plan as an incentive plan for directors and employees.

Share-based payment awards are accounted for as equity-settled share-based payments. Expense recognized from share-based payment awards is as follows:

Expense arising from share-based payments

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Equity-settled	4,815	4,254

(1) Details of the stock option plan

The details of the stock option plan for the fiscal years ended March 31, 2020 and 2021 are as follows:

a. SoftBank Corp.

The Company grants stock options to directors and employees of the Company, and the stock option plan is designed to provide incentives for participants to increase the performance of the Group and maximize shareholder value.

Shares granted by the exercise of stock options are those issued by the Company.

Year issued / Name	Grant date	Due date for exercise
2018 March stock acquisition rights ¹	March 30, 2018	March 31, 2025
2020 July stock acquisition rights ²	July 31, 2020	July 31, 2027
2021 January stock acquisition rights ³	January 22, 2021	March 31, 2028

Notes:

1. Vesting conditions

In the case where the common stock of the Company is newly listed on the financial instruments market established by the financial instruments exchange by March 31, 2020, an entitled person is able to exercise the above stock acquisition rights.

The number of rights which an entitled person is able to exercise is as follows:

- (a) Where the total number of shares granted by the stock acquisition rights initially allotted is from 3,000 to less than 12,000, the number of the stock acquisition rights which an entitled person is able to exercise is limited to:
 - i. up to 30% of the total allotted rights are exercisable from April 1, 2020 to March 31, 2021;
 - ii. up to 60% of the total allotted rights, including the rights exercised during the period (i), are exercisable from April 1, 2021 to March 31, 2022; and
 - iii. up to 100% of the total allotted rights, including the rights exercised during the periods (i) and (ii), are exercisable from April 1, 2022 to March 31, 2025.

- (b) Where the total number of shares granted by the stock acquisition rights initially allotted is 12,000 or more, the number of the stock acquisition rights which an entitled person is able to exercise is limited to:
 - i. up to 20% of the total allotted rights, are exercisable from April 1, 2020 to March 31, 2021;
 - ii. up to 40% of the total allotted rights, including the rights exercised during the period (i), are exercisable from April 1, 2021 to March 31, 2022;
 - iii. up to 60% of the total allotted rights, including the rights exercised during the periods (i) and (ii), are exercisable from April 1, 2022 to March 31, 2023;
 - iv. up to 80% of the total allotted rights, including the rights exercised during the periods (i), (ii), and (iii), are exercisable from April 1, 2023 to March 31, 2024; and
 - v. up to 100% of the total allotted rights, including the rights exercised during the periods (i), (ii), (iii), and (iv), are exercisable from April 1, 2024 to March 31, 2025.

When an eligible person (director, employee, or executive officer) retires from the Company and its subsidiaries, the unexercised acquisition rights are forfeited. However, this shall not apply in the case of a good cause, such as resignation due to expiration of the term or mandatory retirement.

2. Vesting conditions

Stock acquisition rights vest when service period requirements are met with the vesting period of two years.

Vesting requires continuous service from the grant date to the vesting date. When an eligible person retires, vested acquisition rights are forfeited.

3. Vesting conditions

The number of rights which an entitled person is able to exercise is as follows:

- (a) Where the total number of shares granted by the stock acquisition rights initially allotted is from 3,000 to less than 12,000, the number of the stock acquisition rights which an entitled person is able to exercise is limited to:
 - i. up to 30% of the total allotted rights are exercisable from April 1, 2023 to March 31, 2024;
 - ii. up to 60% of the total allotted rights, including the rights exercised during the period (i), are exercisable from April 1, 2024 to March 31, 2025; and
 - iii. up to 100% of the total allotted rights, including the rights exercised during the periods (i) and (ii), are exercisable from April 1, 2025 to March 31, 2028.

- (b) Where the total number of shares granted by the stock acquisition rights initially allotted is 12,000 or more, the number of the stock acquisition rights which an entitled person is able to exercise is limited to the following, provided that the number of exercisable stock acquisition rights is given by rounding down any fractions of less than one.
 - i. up to 20% of the total allotted rights are exercisable from April 1, 2023 to March 31, 2024;
 - ii. up to 40% of the total allotted rights, including the rights exercised during the period (i), are exercisable from April 1, 2024 to March 31, 2025;
 - iii. up to 60% of the total allotted rights, including the rights exercised during the periods (i) and (ii), are exercisable from April 1, 2025 to March 31, 2026;
 - iv. up to 80% of the total allotted rights, including the rights exercised during the periods (i), (ii), and (iii), are exercisable from April 1, 2026 to March 31, 2027; and
 - v. up to 100% of the total allotted rights, including the rights exercised during the periods (i), (ii), (iii), and (iv), are exercisable from April 1, 2027 to March 31, 2028.

When an eligible person (director, employee, or executive officer) retires from the Company and its subsidiaries, the unexercised acquisition rights are forfeited. However, this shall not apply in the case of a good cause, such as resignation due to expiration of the term or mandatory retirement.

b. SoftBank Group Corp.

SBG grants stock options as equity-settled share-based payments.

SBG grants stock options to the Group's directors and employees.

Shares granted by the exercise of stock options are those issued by SBG.

On June 28, 2019, SBG conducted a 2-for-1 common stock split.

The number of shares related to stock options for the fiscal years ended March 31, 2020 and 2021 has been adjusted to reflect the common stock split above.

Year issued / Name	Grant date	Due date for exercise
2016 July stock acquisition rights ¹	July 28, 2016	July 31, 2022
2017 July stock acquisition rights ¹	July 28, 2017	July 31, 2023
2018 August stock acquisition rights ²	August 31, 2018	August 31, 2025

Notes:

1. Vesting conditions

Stock acquisition rights vest when service period requirements are met with the vesting period of two years.

Vesting requires continuous service from the grant date to the vesting date. When an eligible person retires, vested acquisition rights are forfeited.

2. Vesting conditions

Stock acquisition rights vest when service period requirements are met with the vesting period of three years.

Where the total number of shares granted by the stock acquisition rights initially allotted is 400 or more, the number of the stock acquisition rights which an entitled person is able to exercise is limited to the following, provided that the number of exercisable stock acquisition rights is given by rounding down any fractions of less than one.

- i. up to 25% of the total allotted rights are exercisable from September 1, 2021 to August 31, 2022;
- ii. up to 50% of the total allotted rights, including the rights exercised during the period (i), are exercisable from September 1, 2022 to August 31, 2023;
- iii. up to 75% of the total allotted rights, including the rights exercised during the periods (i) and (ii), are exercisable from September 1, 2023 to August 31, 2024; and
- iv. up to 100% of the total allotted rights, including the rights exercised during the periods (i), (ii), and (iii), are exercisable from September 1, 2024 to August 31, 2025.

Vesting requires continuous service from the grant date to the vesting date. When an eligible person retires, vested acquisition rights are forfeited.

c. Z Holdings Corporation

Z Holdings Corporation grants stock options as equity-settled share-based payments.

Z Holdings Corporation grants stock options to directors and employees of Z Holdings Corporation or a subsidiary of Z Holdings Corporation.

Shares granted by the exercise of stock options are those issued by Z Holdings Corporation.

Year issued / Name	Grant date	Due date for exercise
2010 ¹	From May 11, 2010 to February 8, 2011	From April 27, 2020 to January 25, 2021
2011 ¹	From June 3, 2011 to February 17, 2012	From May 20, 2021 to February 3, 2022
2012 1st ¹	May 16, 2012	May 2, 2022
2020 LINE 22nd ^{2,3}	March 1, 2021	From July 29, 2022 to July 8, 2029
2020 LINE 24th ^{2,4}	March 1, 2021	From July 29, 2022 to July 8, 2029
2020 LINE 25th ^{2,4}	March 1, 2021	From July 29, 2022 to July 8, 2029
2020 LINE 26th ^{2,5}	March 1, 2021	From November 5, 2023 to November 5, 2030
2020 LINE 28th ⁶	March 30, 2021	From November 5, 2023 to November 5, 2030

Notes:

1. Vesting conditions

Share options mainly vest in stages beginning after two years from the grant date. One-half of the total granted shares vests after two years from the grant date, and one-fourth vests per year in the subsequent two years. Vesting requires continuous service from the grant date to the vesting date. When the holder of vested share options retires, those vested share options are forfeited.

2. Stock acquisition rights to be provided for Z Holdings Corporation's participants.

Based on the capital alliance agreement entered into on December 23, 2019 that stipulates Z Holdings Corporation's governance, management and other matters after the business integration, at the effective date of the share exchange between Z Holdings Corporation and LINE Corporation as its grant date, Z Holdings Corporation grants the Z Holdings Corporation's participants alternative stock options as same scale as that issued by Z Holdings Corporation to which A Holdings Corporation (formerly LINE Corporation) was granting A Holdings' participants.

3. Vesting conditions

If the stock price of Z Holdings Corporation's common stock meets the following requirements, the number of shares of

stock acquisition rights specified in (i), (ii), and (iii) is exercisable.

(i) At any day from July 29, 2022 through July 29, 2025, including 10 days before the last business day (excluding the day on which ordinary transactions of Z Holdings Corporation's common stock are not closed; same conditions apply to "3. Vesting conditions"), if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds ¥640 ("basic stock price"), up to 20% of the total allotted rights are exercisable.

(ii) At any day from July 29, 2023 through July 29, 2026, including 10 days before the last business day, if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds the basic stock price, up to 30% of the total allotted rights are exercisable.

(iii) At any day from July 29, 2024 through July 29, 2027, including 10 days before the last business day, if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds the basic stock price, up to 50% of the total allotted rights are exercisable.

Regardless of the exercise period (July 29, 2022 through July 8, 2029. However, if the final day of the exercise period conflicts with a holiday of Z Holdings Corporation, its last business day shall be the final day), an entitled person is able to exercise the stock acquisition rights (including the stock acquisition rights already exercised) in the following period (either period shall include the first and last day), to the extent specified in (a), (b), and (c). If there are any fractions less than one unit in the number of the exercisable stock acquisition rights, the number shall be rounded down.

(a) up to 20% of the total allotted rights are exercisable from July 29, 2022 to July 8, 2029;

(b) up to 50% of the total allotted rights are exercisable from July 29, 2023 to July 8, 2029; and

(c) up to 100% of the total allotted rights are exercisable from July 29, 2024 to July 8, 2029.

4. Vesting conditions

Regardless of the exercise period (July 29, 2022 through July 8, 2029. However, if the final day of the exercise period conflicts with a holiday of Z Holdings Corporation, its last business day shall be the final day), an entitled person is able to exercise the stock acquisition rights (including the stock acquisition rights already exercised) in the following period (either period shall include the first and last day), to the extent specified in (a), (b), and (c). If there are any fractions less than one unit in the number of the exercisable stock acquisition rights, the number shall be rounded down.

(a) up to 20% of the total allotted rights are exercisable from July 29, 2022 to July 8, 2029;

(b) up to 50% of the total allotted rights are exercisable from July 29, 2023 to July 8, 2029; and

(c) up to 100% of the total allotted rights are exercisable from July 29, 2024 to July 8, 2029.

5. Vesting conditions

If the stock price of Z Holdings Corporation's common stock meets the following requirements, the number of shares of stock acquisition rights specified in (i), (ii), and (iii) is exercisable.

(i) At any day from November 5, 2023 through November 5, 2026, including 10 days before the last business day (excluding the day on which ordinary transactions of Z Holdings Corporation's common stock are not closed; same conditions apply to "5. Vesting conditions"), if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds ¥640 ("basic stock price"), up to 20% of the total allotted rights are exercisable.

(ii) At any day from November 5, 2024 through November 5, 2027, including 10 days before the last business day, if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds the basic stock price, up to 30% of the total allotted rights are exercisable.

(iii) At any day from November 5, 2025 through November 5, 2028, including 10 days before the last business day, if the average of closing price of Z Holdings Corporation's common stock ordinary transaction on the Tokyo Stock Exchange exceeds the basic stock price, up to 50% of the total allotted rights are exercisable.

Regardless of the exercise period (November 5, 2023 through November 5, 2030. However, if the final day of the exercise period conflicts with a holiday of Z Holdings Corporation, its last business day shall be the final day), an entitled person is able to exercise the stock acquisition rights (including the stock acquisition rights already exercised) in the following period (either period shall include the first and last day), to the extent specified in (a), (b), and (c). If there are any fractions less than one unit in the number of the exercisable stock acquisition rights, the number shall be rounded down.

(a) up to 20% of the total allotted rights are exercisable from November 5, 2023 to November 5, 2030;

(b) up to 50% of the total allotted rights are exercisable from November 5, 2024 to November 5, 2030; and

(c) up to 100% of the total allotted rights are exercisable from November 5, 2025 to November 5, 2030.

6. Vesting conditions

Regardless of the exercise period (November 5, 2023 through November 5, 2030. However, if the final day of the exercise period conflicts with a holiday of Z Holdings Corporation, its last business day shall be the final day), an entitled person is able to exercise the stock acquisition rights (including the stock acquisition rights already exercised) in the following period (either period shall include the first and last day), to the extent specified in (a), (b), and (c). If there are any fractions less than one unit in the number of the exercisable stock acquisition rights, the number shall be rounded down.

(a) up to 20% of the total allotted rights are exercisable from November 5, 2023 to November 5, 2030;

(b) up to 50% of the total allotted rights are exercisable from November 5, 2024 to November 5, 2030; and

(c) up to 100% of the total allotted rights are exercisable from November 5, 2025 to November 5, 2030.

(2) Fair value of stock options granted during the period

Weighted-average fair value at the measurement date and fair value measurement method of the stock options granted during the period are as follows:

a. SoftBank Corp.

The weighted-average fair value at the measurement date of the stock options granted to the Group's directors and employees during the fiscal year ended March 31, 2021, which was granted in July 2020 is ¥1,254, whereas that of those stock options, which was granted in January 2021 is ¥76.

The method, key inputs and assumptions used to calculate fair value are as follows:

Year issued / Name	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2021
	2020 July stock acquisition rights	2021 January stock acquisition rights
Valuation method used	Black-Scholes model	Black-Scholes model
Key inputs and assumptions:		
Weighted-average stock price	¥1,415	¥1,347
Weighted-average exercise price	¥1	¥1,366
Volatility of stock price ¹	20.47%	20.70%
Estimated residual period	2 years	2 - 6 years
Estimated dividend	¥85 per share	¥86 per share
Risk-free interest rate	0.07%	0.10%

Note:

- The Company was listed on the First Section of the Tokyo Stock Exchange on December 19, 2018 and its listing period does not meet the estimated residual period. Accordingly, volatility of the stock price is calculated based on the stock information of all the periods after the listing.

b. SoftBank Group Corp.

No stock options granted during the period.

c. Z Holdings Corporation

The weighted-average fair value at the measurement date of the stock options granted to Z Holding's directors and employees during the period is ¥312 per common stock.

The method, key inputs and assumptions used to calculate fair value are as follows:

Year issued / Name	Fiscal year ended March 31, 2021				
	2020 LINE 22nd	2020 LINE 24th	2020 LINE 25th	2020 LINE 26th	2020 LINE 28th
Valuation method used	Binomial model	Binomial model	Binomial model	Binomial model	Binomial model
Key inputs and assumptions:					
Stock price	¥648.5	¥648.5	¥648.5	¥648.5	¥550.6
Exercise price ¹	¥298	¥298	¥298	¥481	¥481
Volatility of stock price ²	36.33%	36.33%	36.33%	35.29%	35.33%
Estimated residual period	8.28 years	8.28 years	8.28 years	9.62 years	9.62 years
Estimated dividend ³	Dividend yield 0.86%	Dividend yield 0.86%	Dividend yield 0.86%	Dividend yield 0.86%	Dividend yield 1.01%
Risk-free interest rate	0.070%	0.070%	0.070%	0.130%	0.075%

Notes:

- The Company reflects achievement probability of stock price conditions on 2020 LINE 22nd and 26th.
- The Company's calculations are based on the stock price performance of the most recent period corresponding to the period until the maturity.
- The Company's calculations are based on the most recent dividend paid.

(3) Changes in stock options during the period and stock options at the period-end

Changes in stock options during the period and stock options at the period-end are as follows:

a. SoftBank Corp.

	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	Number of shares	Weighted- average exercise price (Yen)	Number of shares	Weighted- average exercise price (Yen)
Beginning balance - Unexercised	117,776,100	623	115,093,500	623
Granted	—	—	103,930,500	1,361
Forfeited	(2,682,600)	623	(846,700)	775
Exercised	—	—	(23,236,100)	623
Ending balance - Unexercised	115,093,500	623	194,941,200	1,016
Ending balance - Exercisable	—	—	20,029,600	623

The unexercised options as of March 31, 2021 are as follows:

Range of exercise price (Yen)	Number of shares	Weighted-average exercise price (Yen)	Weighted-average remaining contract period (Years)
623	91,184,100	623	4.0
1	409,800	1	6.3
1,366	103,347,300	1,366	7.0
Total	194,941,200	1,016	5.6

b. SoftBank Group Corp.

	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	Number of shares	Weighted- average exercise price (Yen)	Number of shares	Weighted- average exercise price (Yen)
Beginning balance - Unexercised	14,001,800	4,072	10,591,800	4,307
Granted	—	—	—	—
Forfeited	(128,400)	4,255	(15,800)	3,639
Exercised	(2,852,400)	3,169	(5,469,800)	4,377
Increase due to secondment and other reasons	72,200	3,628	11,000	2,128
Decrease due to secondment and other reasons	(501,400)	4,124	(50,400)	4,633
Ending balance - Unexercised	10,591,800	4,307	5,066,800	4,226
Ending balance - Exercisable	10,363,600	4,402	4,837,800	4,426

The unexercised options as of March 31, 2021 are as follows:

Range of exercise price (Yen)	Number of shares	Weighted-average exercise price (Yen)	Weighted-average remaining contract period (Years)
3,080	1,032,000	3,080	1.3
4,791	3,805,800	4,791	2.3
1	229,000	1	4.4
Total	5,066,800	4,226	2.2

c. Z Holdings Corporation

	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	Number of shares	Weighted- average exercise price (Yen)	Number of shares	Weighted- average exercise price (Yen)
Beginning balance - Unexercised	47,246,200	431	817,400	303
Granted	—	—	197,416,450	384
Forfeited	(45,951,600)	435	(60,300)	302
Exercised	(131,900)	305	(287,400)	308
Expired	(345,300)	305	(188,100)	345
Ending balance - Unexercised	817,400	303	197,698,050	383
Ending balance - Exercisable	817,400	303	281,600	269

The unexercised options as of March 31, 2021 are as follows:

Range of exercise price (Yen)	Number of shares	Weighted-average exercise price (Yen)	Weighted-average remaining contract period (Years)
201–300	105,345,400	298	8.3
401–500	92,352,650	481	9.6
Total	197,698,050	383	8.9

(4) Stock options exercised during the period

a. SoftBank Corp.

The weighted-average stock price at the time of exercise of stock options during the period is as follows:

Fiscal year ended March 31, 2020			Fiscal year ended March 31, 2021		
Year issued / Name	Number of shares	Weighted-average exercise price (Yen)	Year issued / Name	Number of shares	Weighted-average exercise price (Yen)
—	—	—	2018 March stock acquisition rights	23,236,100	1,385

b. SoftBank Group Corp.

The weighted-average stock price at the time of exercise of stock options during the period is as follows:

Fiscal year ended March 31, 2020			Fiscal year ended March 31, 2021		
Year issued / Name	Number of shares	Weighted-average exercise price (Yen)	Year issued / Name	Number of shares	Weighted-average exercise price (Yen)
2016 July stock acquisition rights	2,703,200	5,309	2016 July stock acquisition rights	1,324,400	7,448
2017 July stock acquisition rights	149,200	5,352	2017 July stock acquisition rights	4,145,400	7,958

c. Z Holdings Corporation

The weighted-average stock price at the time of exercise of stock options during the period is as follows:

Fiscal year ended March 31, 2020			Fiscal year ended March 31, 2021		
Year issued / Name	Number of shares	Weighted-average exercise price (Yen)	Year issued / Name	Number of shares	Weighted-average exercise price (Yen)
2009	14,100	352	2009	—	—
2010	52,100	415	2010	150,400	520
2011	63,100	358	2011	129,000	593
2012	2,600	401	2012	8,000	534

(5) Restricted stock compensation plan

The Company adopts restricted stock compensation plan (hereinafter the “Plan”) where the Company grants stocks, the transfer of which is restricted for a certain period until vested, and they are accounted for as equity-settled share-based payments.

The details of the Plan for the fiscal year ended March 31, 2021 are as follows:

In June 2020, the Company granted shares of SoftBank Corp. as restricted stocks to five directors and three corporate executive officer (“Eligible Director(s)”).

The Plan is vested on the day when shares of restricted stocks are granted, and the granted shares of restricted stocks shall not be transferred, the rights of pledge shall not be established, and the others shall not be disposed of from the grant day to the day of resignation from the Eligible Directors.

The number of restricted stocks granted for the fiscal year ended March 31, 2021 was 565,800 shares. The fair value of restricted stocks is calculated based on the Company’s common stock price on the grant date and the fair value of restricted stocks granted for the fiscal year ended March 31, 2021 was ¥1,431.5 per share.

35. Revenue

(1) Components of revenue

The components of revenue are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Consumer business		
Service revenues ⁴		
Mobile communications	1,665,192	1,669,436
Broadband	383,784	399,559
Electricity ⁵	77,233	130,941
Revenues from sales of goods and others ⁵	558,826	562,369
Subtotal	2,685,035	2,762,305
Enterprise business		
Mobile ³	267,294	298,976
Fixed-line	192,536	187,181
Business solution and others ³	167,916	195,616
Subtotal	627,746	681,773
Distribution business	440,200	479,512
Yahoo business		
Commerce ⁶	719,090	834,237
Media ⁶	309,368	322,639
Other ⁷	2,131	25,669
Subtotal	1,030,589	1,182,545
Other	77,677	99,402
Total	4,861,247	5,205,537

Notes:

- The components of revenue represent sales to external customers.
- The components of revenue include revenues from other sources, excluding those arising from IFRS 15 (mainly from Enterprise business leases). Revenues from other sources for the fiscal years ended March 31, 2020 and 2021 were ¥108,880 million and ¥112,701 million, respectively.
- “Mobile” and “Business solution and others” under “Enterprise business” include telecommunications service revenues and revenues from sales of goods and others. Telecommunications service revenues for the fiscal years ended March 31, 2020 and 2021 were ¥345,255 million and ¥386,356 million, respectively. Revenues from sales of goods and others for the fiscal years ended March 31, 2020 and 2021 were ¥89,955 million and ¥108,236 million, respectively.
- “Telecommunications service revenues” under “Consumer business” was changed to “Service revenues.”
- “Electricity,” which was included in “Revenues from sales of goods and others” under “Consumer business” for the fiscal year ended March 31, 2020, is presented as a separate item from the fiscal year ended March 31, 2021 due to an increase in materiality. In order to reflect this change, reclassification has been made in the components of revenue for the fiscal year ended March 31, 2020. As a result, for the fiscal year ended March 31, 2020, “Revenues from sales of goods and others” under “Consumer business” has been reclassified as “Electricity” of ¥77,233 million and “Revenues from sales of goods and others” of ¥558,826 million.
- Effective April 1, 2020, some services and subsidiaries in the Yahoo business were transferred from “Commerce” to “Media” to focus on providing efficient services and respond to rapid change in the market. As a result, the components of revenue have been restated for the fiscal year ended March 31, 2020.
- Due to the business integration between Z Holdings and the LINE Group, sales of the LINE Group are included in “Other” under “Yahoo business.”

(2) Contract balances

The components of contract balances are as follows:

	(Millions of yen)		
	As of April 1, 2019	As of March 31, 2020	As of March 31, 2021
Receivables from contracts with customers	705,223	753,216	836,857
Contract assets	33,719	57,666	18,423
Total	738,942	810,882	855,280
Contract liabilities	126,354	127,652	112,854

Contract assets are the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer (when that right is conditioned on something other than the passage of time). Major contract assets are as follows:

- Various campaign discounts provided to a customer are accounted for as a reduction of the transaction price. The total of the transaction price is allocated per performance obligation, and the amount of the Group's right to consideration in exchange for fulfilling the performance obligations, excluding the receivables, is recognized as a contract asset.

Contract liabilities are the Group's obligation to transfer goods or services to a customer for which the Group has already received consideration from the customer. Major contract liabilities are as follows:

- Activation fees and upgrade fees received from customers at the inception of a new contract and model changes; and
- Consideration for services already received from the customer, such as advances received, is recognized as contract liabilities.

Of the revenue recognized during the fiscal years ended March 31, 2020 and 2021, the amounts included in the balance of contract liabilities at the beginning of the year are ¥81,059 million and ¥85,701 million, respectively.

In addition, contract liabilities as of March 31, 2021 increased by ¥36,144 million, due to the acquisition of LINE Corporation as a subsidiary.

Impairment loss recognized for receivables arising from contracts with customers during the fiscal years ended March 31, 2020 and 2021 are ¥10,626 million and ¥7,402 million, respectively.

(3) Transaction prices allocated to remaining performance obligations

The aggregate amount of transaction prices allocated to unsatisfied (or partially unsatisfied) performance obligations as of March 31, 2021 is ¥120,155 million (¥102,407 million as of March 31, 2020). The unsatisfied performance obligations arise primarily from mobile communications services and mobile device rental services in the Enterprise business, and are expected to be recognized as revenue mainly within three years.

As the Group applies the practical expedient in paragraph 121 of IFRS 15, the following transaction prices for the remaining performance obligations are not included:

- the transaction price for a contract that has an original expected duration of one year or less; and
- the transaction price for a contract in which consideration is received from the customer in the amount that corresponds directly with the value of services provided, such as fees charged per use.

36. Cost of sales and selling, general and administrative expenses

The components of cost of sales and selling, general and administrative expenses are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cost of goods sold	(1,262,617)	(1,402,672)
Sales commissions and sales promotion expenses	(430,941)	(445,070)
Depreciation and amortization ¹	(675,241)	(696,342)
Amortization of contract costs	(191,001)	(171,778)
Loss on disposal of property, plant and equipment and intangible assets	(25,693)	(33,356)
Telecommunications equipment usage fees	(227,593)	(235,206)
Employees and directors benefit costs	(320,169)	(365,396)
Outsourced service fees	(243,416)	(267,056)
Other	(578,981)	(607,889)
Total	<u>(3,955,652)</u>	<u>(4,224,765)</u>

Note:

1. “Depreciation and amortization” includes the amortization of long-term prepaid expenses which are recorded in “Other non-current assets” in the consolidated statement of financial position.

37. Other operating income and other operating expenses

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Other operating income		
Gain on loss of control over subsidiaries ¹	12,937	—
Other operating expenses		
Impairment loss	(3,404)	(10,002)
Loss on a remeasurement in business combinations	(3,403)	—
Total	<u>(6,807)</u>	<u>(10,002)</u>

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 recognized for this transaction was ¥11,879 million including gain on remeasurement associated with the application of the equity method of ¥9,879 million.

38. Financing income and financing costs

(1) Components of financing income

The components of financing income are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Dividends received	497	3,018
Interest received	249	477
Foreign exchange gains	—	720
Realized gain from financial instruments at FVTPL	1,261	—
Other	738	1,591
Total	<u>2,745</u>	<u>5,806</u>

(2) Components of financing costs

The components of financing costs are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Interest expenses ¹	(60,206)	(64,360)
Foreign exchange losses	(216)	—
Realized loss from financial instruments at FVTPL	—	(5,796)
Other	(499)	(3,213)
Total	<u>(60,921)</u>	<u>(73,369)</u>

Note:

- Interest expenses are primarily from financial liabilities measured at amortized cost and include interest expenses from lease liabilities of ¥16,634 million and ¥12,804 million for the fiscal years ended March 31, 2020 and 2021, respectively.

39. Other comprehensive income

The table below presents the amounts arising during the year, reclassification adjustments to profit or loss, and the income tax effect of each item in other comprehensive income:

Fiscal year ended March 31, 2020

	(Millions of yen)				
	Amounts arising during the year	Reclassification adjustments	Before tax effect	Income tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Remeasurements of defined benefit plan	60	—	60	(19)	41
Changes in the fair value of equity instruments at FVTOCI	(10,978)	—	(10,978)	1,669	(9,309)
Total	(10,918)	—	(10,918)	1,650	(9,268)
Items that may be reclassified to profit or loss					
Changes in the fair value of debt instruments at FVTOCI	(1,625)	(414)	(2,039)	624	(1,415)
Cash flow hedges	184	1,314	1,498	(472)	1,026
Exchange differences on translation of foreign operations	(536)	—	(536)	—	(536)
Share of other comprehensive income (loss) of associates accounted for using the equity method	573	—	573	—	573
Total	(1,404)	900	(504)	152	(352)
Total other comprehensive income (loss)	(12,322)	900	(11,422)	1,802	(9,620)

Fiscal year ended March 31, 2021

	(Millions of yen)				
	Amounts arising during the year	Reclassification adjustments	Before tax effect	Income tax effect	After tax effect
Items that will not be reclassified to profit or loss					
Remeasurements of defined benefit plan	(910)	—	(910)	197	(713)
Changes in the fair value of equity instruments at FVTOCI	81,727	—	81,727	(25,693)	56,034
Share of other comprehensive income (loss) of associates accounted for using the equity method	(22)	—	(22)	—	(22)
Total	80,795	—	80,795	(25,496)	55,299
Items that may be reclassified to profit or loss					
Changes in the fair value of debt instruments at FVTOCI	1,040	(138)	902	(202)	700
Cash flow hedges	(1,235)	1,313	78	(25)	53
Exchange differences on translation of foreign operations	2,937	—	2,937	—	2,937
Share of other comprehensive income (loss) of associates accounted for using the equity method	776	—	776	—	776
Total	3,518	1,175	4,693	(227)	4,466
Total other comprehensive income (loss)	84,313	1,175	85,488	(25,723)	59,765

40. Earnings per share

Basic earnings per share and diluted earnings per share are as follows:

(1) Basic earnings per share

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net income used in the calculation of basic earnings per share (Millions of yen)		
Net income attributable to owners of the Company	473,135	491,287
Weighted-average number of shares of common stock outstanding (Thousands of shares)	4,766,178	4,730,759
Basic earnings per share (Yen)	99.27	103.85

(2) Diluted earnings per share

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net income used in the calculation of diluted earnings per share (Millions of yen)		
Net income attributable to owners of the Company	473,135	491,287
Effect of dilutive securities issued by subsidiaries and associates	(10)	(38)
Total	473,125	491,249
Weighted-average number of shares of common stock used in the calculation of diluted earnings per share (Thousands of shares)		
Weighted-average number of shares of common stock outstanding	4,766,178	4,730,759
Increase in the number of shares of common stock due to stock acquisition rights	64,457	54,406
Total	4,830,635	4,785,165
Diluted earnings per share (Yen)	97.94	102.66

41. Supplemental information to the consolidated statement of cash flows

(1) Scope of purchases of property, plant and equipment and intangible assets

“Purchases of property, plant and equipment and intangible assets” includes cash outflows from long-term prepaid expenses that are included in “Other non-current assets” in the consolidated statement of financial position.

(2) Cash outflow for leases

Total cash outflow for leases for the fiscal year ended March 31, 2021 was ¥402,871 million (¥498,662 million for the fiscal year ended March 31, 2020).

(3) Significant non-cash transactions

Significant non-cash investing and financing activities are as follows:

(a) Acquisition of investments in subsidiaries and associates

The Company implemented an absorption-type merger and split to consolidate LINE Corporation in the fiscal year ended March 31, 2021. These transactions are non-cash transactions as shares were used as consideration for the acquisition. For further details in relation to the transaction, refer to “Note 6. Business combinations.”

(b) Issuance of stock options

The Company granted equity-settled stock options to the Group's directors and employees for the fiscal year ended March 31, 2021. The stock options granted with no cash consideration are non-cash transactions. For details, refer to “Note 34. Share-based payment transactions.”

(c) Lease transactions

The increase in the amount of the right-of-use asset on the lease transactions for the fiscal year ended March 31, 2020, was ¥153,326 million (excluding lease payments and initial direct costs paid before the lease commencement date), and is non-cash transactions.

The increase in the amount of the right-of-use asset on the lease transactions for the fiscal year ended March 31, 2021, was ¥239,872 million (excluding lease payments and initial direct costs paid before the lease commencement date), and is non-cash transactions.

42. Related party transactions

(1) Related party transactions and balances

Related party transactions of the Group are as follows:

Fiscal year ended March 31, 2020

Name of the company or individual	Nature of relationship	Nature of transaction	(Millions of yen)	
			Fiscal year ended March 31, 2020	As of March 31, 2020
			Amount of transaction ¹	Balance at period-end
SoftBank Group Japan Corporation	Parent company	Acquisition of investments in subsidiaries ²	514,539	—
SoftBank Group Corp.	Ultimate parent company	Third-party allotment of new shares ³	46,000	—
PayPay Corporation	Related company	Underwriting of capital increase ⁴	70,000	—

The terms and conditions of transactions and policy on how to determine those terms and conditions:

- Transaction amounts do not include consumption taxes.
- The Company acquired 1,792,819 thousand shares of Z Holdings Corporation's common stock at ¥287 per share by way of tender offer based on a resolution at a Z Holdings Corporation's Board of Directors meeting held on May 8, 2019. The tender offer price per share was determined on the basis of the closing share price of Z Holdings Corporation's common stock on May 7, 2019, the business day immediately prior to the announcement date of the tender offer.
- PayPay Corporation ("PayPay"), an affiliate of the Company, decided on a third-party allotment of new shares of PayPay's common stock to SBG based on a resolution at a PayPay's Board of Directors meeting held on April 22, 2019, and the payment of ¥46,000 million from SBG was made on May 15, 2019. Following the acquisition of Z Holdings Corporation as a subsidiary of the Company, the Company has consolidated PayPay as a subsidiary, as part of the consolidated financial statements retrospectively for the period from the establishment of PayPay until the implementation of this transaction. After the completion of this transaction, the Group's ratio of voting rights in PayPay decreased from 100% to 50%, resulting in the Group's loss of control over PayPay. Accordingly, the Company has accounted for PayPay as an equity method associate. This transaction is a transaction under common control and therefore has been accounted for as an equity transaction.

The transaction price was determined by negotiations based on a price determined by an independent third party.

- The transaction price was determined by negotiations based on a price determined by an independent third party. There are no changes in the Group's ratio of voting rights in PayPay regarding this transaction due to underwriting of preferred stocks.

Fiscal year ended March 31, 2021

Name of the company or individual	Nature of relationship	Nature of transaction	(Millions of yen)	
			Fiscal year ended March 31, 2021	As of March 31, 2021
			Amount of transaction ¹	Balance at period-end
Masayoshi Son	Director of the Company	Sale of goods ²	66	—
		Exercise of stock options ³	498	—
Ken Miyauchi	Director of the Company	Exercise of stock options ³	498	—
Junichi Miyakawa	Director of the Company	Exercise of stock options ³	249	—
Jun Shimba	Director of the Company	Exercise of stock options ³	249	—
Yasuyuki Imai	Director of the Company	Exercise of stock options ³	249	—
Kazuhiko Fujihara	Director of the Company	Exercise of stock options ³	187	—

The terms and conditions of transactions and policy on how to determine those terms and conditions:

1. Transaction amounts do not include consumption taxes.
2. Transaction amounts are determined based on the historical cost of the Company.
3. Transaction amounts represent the exercise of stock options within this consolidated fiscal year, based on resolutions at the Board of Directors meetings held on March 6 and March 27, 2018. In addition, transaction amounts represent the number of shares granted by exercising the stock options multiplied by the amount to be paid.

Loan to Junichi Miyakawa, Representative Director, President & CEO:

To share the value created by the growth of the Company's business with the shareholders through holding of the Company's shares, Junichi Miyakawa, President & CEO of the Company, commenced the purchase of ¥20 billion worth of the Company's shares through market transactions from April 2, 2021.

As of April 23, 2021, Junichi Miyakawa held 13,937,600 shares of the Company.

The purchases are executed in Miyakawa's personal capacity, and the given prices and conditional parameters of the actual purchases are left to the discretion of a securities brokerage. In addition to taking appropriate measures to safeguard assets, the Company provided financing to Miyakawa for the share purchases.

(2) Remuneration for key management personnel

Remuneration for key management personnel is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Short-term benefits	1,347	1,381
Share-based payments	872	895
Total	2,219	2,276

Notes:

1. Remuneration for key management personnel includes all directors of the Company.
2. Key management personnel are not entitled to any material post-employment benefits, long-term employment benefits, or termination benefits for the fiscal years ended March 31, 2020 and 2021.

43. 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)	
	As of March 31, 2020	As of March 31, 2021
Total lending commitments	4,982,730	5,698,992
Funded	407,592	488,915
Unfunded	4,575,138	5,210,077

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 for the unfunded lending commitments are within one year because they are payable on demand.

(2) Credit guarantees

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

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Total credit guarantees	13,745	16,837
Guarantee balance	6,380	8,356

Expected credit losses that could occur from the performance of the above credit guarantee contracts are not recorded since the amount is expected to be immaterial.

(3) Litigation

The Group is a party to several pending legal and administrative proceedings. When it is difficult to reasonably estimate the outcomes of such matters, provisions have not been recorded. Based on the information currently available, management does not expect that the results of these proceedings will have a material adverse effect on the Group's 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 for additional services provided in connection with the installation of telecommunications lines, as well as other items, 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 telecommunications lines for Japan Post Group's business sites existing 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 (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 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 this lawsuit, JPiT alleges that the Company and NRI delayed performance 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 the 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 the 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 lawsuit a. above. In addition, in light of increased procurement costs of telecommunications lines for JPiT and other factors, the Company modified the amount of the claim to approximately ¥22.3 billion on October 12, 2016, and to approximately ¥24.0 billion on September 7, 2017.

JPiT filed an additional claim regarding the lawsuit mentioned in b. above on June 24, 2020, modifying the amount of its claim against the Company from ¥16.15 billion to ¥16.81 billion.

44. Purchase commitments

Business integration of Z Holdings Corporation and LINE Corporation

The Company, NAVER Corporation, Z Holdings Corporation, a consolidated subsidiary of the Company, and LINE Corporation, a consolidated subsidiary of NAVER, entered into a business integration agreement on December 23, 2019, which is the legally binding agreement regarding the business integration between Z Holdings Corporation and its subsidiaries and LINE and its subsidiaries (“Business Integration”). The Company and NAVER Corporation have entered into a legally binding transaction agreement regarding a definitive integration agreement and joint venture agreement.

As one step in the series of transactions to realize the Business Integration, the Company and NAVER or its wholly owned subsidiary implemented the joint tender offer for the purpose of taking LINE private, and an absorption-type merger (“Merger”) was conducted between Shiodome Z Holdings G.K.¹ as the company ceasing to exist in the Merger and LINE as the surviving company, and 180,882,293 shares of LINE Corporation were newly issued in the consideration of the Merger, all of which were allocated to the Company.

For further details of the Business Integration, refer to “Acquisition of LINE Corporation and business integration of the LINE Group and Z Holdings Corporation” under “Note 6. Business combinations.”

Purchase commitments for the purchase of goods and services other than above are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Inventories	145,410	159,525
Property, plant and equipment and intangible assets	197,791	302,982
Other ²	142,706	150,991
Total	<u>485,907</u>	<u>613,498</u>

Notes:

1. Shiodome Z Holdings G.K. made organizational changes and transitioned to a limited liability company on March 31, 2020.
2. “Other” primarily includes the amount of unfulfilled contracts regarding outsourced services, telecommunications equipment usage and common service fee for offices.

45. Subsequent events

Share transfer of YJFX, Inc.

Effective May 28, 2021, Yahoo Japan Corporation, a subsidiary of the Company, entered into a legally binding transaction agreement regarding the transfer of all the shares (“Share Transfer”) of YJFX, Inc., its wholly owned subsidiary operating a foreign exchange trading business, to GMO Financial Holdings, Inc. The consideration of the Share Transfer will be approximately ¥28.8 billion. In addition, the Share Transfer is subject to approval by Japan Fair Trade Commission. The gain on the Share Transfer is being calculated and is scheduled to be recorded in the second quarter of the fiscal year ending March 31, 2022.

46. Additional information

Impact of coronavirus disease 2019

Due to the outbreak of coronavirus disease 2019 (COVID-19), there has been a downward trend in business sentiment among Japanese companies, but this has not had a significant impact on the Group's business results for this fiscal year. Currently, it is difficult to reasonably estimate the duration and extent of the impact of the outbreak of COVID-19, and if the containment of COVID-19 is further delayed, it may affect the Group's future earnings and cash flows and there will be certain uncertainties in the estimates. In this situation, we have made reasonable estimates of valuation of intangible assets and goodwill, in consideration of the duration and the risks and uncertainties of the impact 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 discrepancies between the estimated amounts as a result of the best estimates and the subsequent results.

47. Approval of consolidated financial statements

These consolidated financial statements were approved by Junichi Miyakawa, Representative Director, President & CEO, and Kazuhiko Fujihara, Director, Executive Vice President & CFO, as of June 22, 2021.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of SoftBank Corp.:

Opinion

We have audited the consolidated financial statements of SoftBank Corp. and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the fiscal year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2(3) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition - significant judgments and estimates required in the application of IFRS 15 “Revenues from Contracts with Customers” (“IFRS 15”) to telecommunication contracts, and the reliability of IT systems based on which revenues are recorded (Note 3. Significant group accounting policy (16) Revenues, Note 15. Contract costs and Note 35. Revenues)

(1) Significant judgments and estimates required in the application of IFRS 15 to telecommunication contracts

Key Audit Matter Description

As stated in Note 35, the Group recorded telecommunication service revenues of JPY 2,529,831 million for the current fiscal year, which represent 48.6% of total revenues in the consolidated statement of income. As stated in the Note 15 and Note 35, the Group recognized contract liabilities in the amount of JPY 112,854 million, and capitalized contract costs in the amount of JPY 248,194 million, representing 2.1% of current liabilities and 3.0% of non-current assets in the consolidated statement of financial position, respectively.

The telecommunication services include mobile services and broadband services to consumers, and mobile and fixed line services to corporate customers. For each of the services, SoftBank Corp. (the “Company”) has a wide range of frequently changing tariff structures, incentive arrangements, and discounts.

Application of IFRS 15 involves a number of key judgments and estimates. The measurement and allocation of the transaction prices of individual contracts and, specifically, the timing of revenue recognition and the amount of contract costs expensed are highly dependent upon such judgments and estimates, in particular:

- Estimates on the duration of telecommunication service contracts, based on which management determines the amortization period of capitalized contract costs (primarily, sales commissions for obtaining and renewing mobile telecommunication contracts);
- Judgment on principal versus agent considerations, identification of contracts and performance obligations, and determining the transaction prices in terms of new service plans and incentive plans.

Given the significant quantitative impact to the consolidated financial statements from the judgments and estimates required in applying IFRS15, we believe the application of IFRS 15 is a key audit matter.

How the Key Audit Matter Was Addressed

To address the key audit matter, we evaluated the design and tested the operating effectiveness of controls over the application of IFRS 15, and evaluated whether key judgments and estimates used by the management in

revenue recognition of telecommunication service contracts were in accordance with IFRS 15 with the following audit procedures, in particular:

- Assessed whether the amortization periods of capitalized contract costs were reasonably estimated, particularly, whether the expected durations of telecommunication services were reasonably estimated. Our procedures included inspections of the relevant terms and conditions of certain contracts with customers, evaluations of management's analyses on churn rates categorized by customer attributes for consistency with the Company's operating results and movements in its market environments, and examination of the supporting data for objectivity and accuracy;
- Assessed the determination of principal versus agent, identification of contracts and performance obligations, and management analyses of the transaction prices for reasonableness based on our understanding of terms and conditions of service plan discounts and incentive plans newly implemented during the current financial year.

(2) The reliability of IT system based on which revenues are recorded

Key Audit Matter Description

Revenue recognition processes in telecommunication services, such as the calculation of amounts to be billed to customers, billing to customers, and interface of information into the financial reporting systems, are highly dependent on IT systems.

Billing systems cover a combination of different service plans, and process large volumes of data through a number of different IT systems. Such data include customer contract data, revenue transaction data captured and recorded for variable-pay plans, CDR (detailed call records), and a wide range of tariffs that change frequently during the year.

Given the quantitative significance of the telecommunication service revenues to total revenues in the consolidated statement of income, and the fact that the design and operating effectiveness of the IT systems underpin the accuracy of billing to customers and consequently the accuracy of revenue recognized, we believe the reliability of the IT systems is a key audit matter.

How the Key Audit Matter Was Addressed

To address the key audit matter, we evaluated the design and tested the operating effectiveness of IT controls over revenue recognition with the assistance of our IT specialists specifically as follows:

- Tested the end to end reconciliation from the customer management systems to the billing systems, and to the general ledger;
- Tested whether the actual billing data agree to our independently calculated data using the customer database, CDR, and tariff tables for accuracy, as a part of the control testing of the automated business process control for billing;
- Tested IT general controls such as access controls of the customer management system, the billing system and other relevant support systems, system operation management, and change management controls around systems relating to material revenue streams.

2. Accounting treatment of LINE Corporation acquisition and appropriateness of fair values in the purchase price allocation (PPA) (Note 3. Significant group accounting policies (2) Business combination, Note 6. Business combination and Note 14. Goodwill and intangible assets)

Key Audit Matter Description

As stated in Note 6 and Note 44 to the consolidated financial statements, the Company acquired LINE Corporation (currently A Holdings Corporation) (the “Acquiree”) pursuant to the Business Integration Agreement signed on December 23, 2019, where control was achieved through several transactions. An aggregate consideration transferred for the business combination amounting to JPY 862,072 million was calculated as the sum of the acquisition-date fair value of: an equity interest previously held in the Acquiree remeasured to its acquisition-date fair value based on discounted cash flows using the business plan of the Acquiree, and, the shares of Shiodome Z Holdings transferred by the Company through a series of transactions measured based on the market value of Z Holdings Corporation (ZHD). The Company performed certain procedures to measure fair values of the consideration transferred and to recognize and measure identifiable assets acquired and liabilities assumed (PPA) using external fair value experts, and provisionally recognised intangible assets of JPY 406,964 million (trade name of JPY 170,078 million and customer-related assets of JPY 236,886 million) and goodwill of JPY 617,077 million.

The future cash flows used in the valuation of the previously held interest of the Acquiree was prepared based on the mid-term business plan approved by the Group management. Estimating discounted cash-flow from advertising business, which is a core business of the Acquiree, involved significant assumptions, such as revenue growth rates estimated based on market environments, and discount rates.

The following key assumptions were used by the Group management in the initial measurement of intangible assets: projected revenues from the use of the trademark, royalty rate, and discount rate for the trademark; and projected revenues from existing customers, attrition rate estimate, and discount rate for the customer related assets.

Given the significantly high level of judgments required by the Company management in determining the sequence of transactions to apply business combination accounting to and in estimating fair values used in the step acquisition, and the quantitative significance of the considerations transferred in the business combination, we believe the accounting treatment of LINE Corporation is a key audit matter. In addition, given the significant impact of judgments and estimates made by the Group management in fair value measurements, and the quantitative significance of the intangible assets, and the goodwill recognized in the consolidated financial statements, we believe the appropriateness of the fair value measurement of intangible assets is a key audit matter.

How the Key Audit Matter Was Addressed

To address the key audit matters, we evaluated the design and tested the operating effectiveness of controls over the business combination accounting and PPA process, and performed the following substantive

procedures, among others:

- Read minutes of the Board of Directors meetings, discussion materials of CEO meetings, major contracts and related legal documents in order to obtain an understanding of the terms and conditions and objective of the whole business integration process, and economic impact of each transaction in the integration process.
- Assessed the consistency between the objectives of the individual transactions in the business integration process and their accounting treatments through corroborative inquiries with the management involved in the transaction including the CEO and CFO of the Company and its subsidiary.
- Assessed tax treatments underlying the accounting treatments of the series of transactions involving business combination with the assistance of our tax specialist.

Additionally, we performed the following procedures to assess the valuations of the equity interests based on the entity value of the Acquiree and the intangible assets:

- Assessed the appropriateness of the valuation models and discount rates used by the management to determine the consideration transferred with the assistance of our fair value specialist.
- Evaluated whether management's assessments over useful lives complied with the requirements in International Accounting Standards No. 38 "Intangible Assets," with a particular emphasis on the consideration as to whether the tradename had an indefinite useful life, the selection of amortization method, and the estimate of the amortization period for customer-related assets.
- Performed the following procedures over the business plan developed by management for fair value measurement at the acquisition date:
 - Performed qualitative analyses of business environment and business models of the Acquiree and assessed whether the business plan underlying the cash-flow projections was consistent with the business environment and business strategy of the management.
 - Performed comparative analyses of the key assumptions, particularly those used in revenue forecasts against available third-party data, such as social media advertising market growth rates, and the historical data of the Acquiree and its competitors.
- Performed the following procedures over the key assumptions used by management in the fair value measurements of intangible assets:

[Trademark]

- Assessed whether the Group appropriately determined the scope of projected revenues to be generated by the trademark by analyzing the business structure of the Acquiree.
- Assessed whether the projected revenues used for trademark valuation by management were determined in line with the historical revenues and market conditions by analyzing business environment, business structure, and other factors.
- Evaluated whether management's valuation modeling, the royalty rate and discount rate used by management were reasonable under the circumstances with the assistance of our fair value specialist.

[Customer related assets]

- Assessed the scoping rationale of business segments generating revenues and operating profit from existing customers used in the valuation model.
- Assessed the reasonableness of the attrition rate, by discussing with the management regarding the

terms of contracts and relationships with major existing customers at the time of acquisition, and by recalculation of the past five-year fluctuation analysis of historical advertising revenues by customers (dealers).

- Evaluated whether management's valuation modeling, the attrition rate calculation modeling, and discount rate applied in the valuation model were reasonable under the circumstances with the assistance of our fair value specialists.

Responsibilities of Management and Audit & Supervisory Board Members, and the Audit & Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend

on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRS, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit & Supervisory Board members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current fiscal year and are therefore the key audit matters. We describe these matters in our auditor's report

unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2021