感動を生む。想いをつなぐ。
The Entertainmedia Company
J:COM

Jupiter Telecommunications Co., Ltd.

Financial Report 2012

For the year ended December 31, 2012

<Contents>

1. Management's discussion and analysis of financial condition, results of operations and cash flow ······ P. 2
2. Changes in business ······ P. 11
3. Acquisitions or dispositions of assets ······ P. 11
4. Issuance, redemption or acquisition of securities ······ P. 11
5. Changes in management or control ······ P. 11
6. Granting of options or the payment of other remuneration to directors or officers ······ P. 11
7. Transactions with directors, officers or principal security holders ······ P. 17
8. Consolidated financial statements ······ P. 18

Independent auditor's report

1. Management's discussion and analysis of financial condition, results of operations and cash flows

The following should be read in conjunction with the consolidated financial statements and associated notes.

(1) Overview

The following table sets forth individual items in consolidated statements of income and comprehensive income constituted for the year ended December 31, 2012, and for the year ended December 31, 2011 and operating data for cable television franchises.
Jupiter Telecommunications Co., Ltd. (J:COM) and its subsidiaries (the Company) began to announce operating data based on the new definition from 2012. For more information, please refer to "The difference between the new definition and the former definition" on page 3.

< Consolidated statements of income and comprehensive income > (yen in millions)

	2011	As a % of revenue	2012	As a % of revenue	¥ Change	% Change
Revenue:						
Subscription fees	307,935	83.4%	313,276	83.1%	5,341	1.7%
Others	61,138	16.6%	63,559	16.9%	2,421	4.0%
	369,073	100.0%	376,835	100.0%	7,762	2.1%
Operating costs and expenses:						
Operating and programming costs	(140,525)	(38.1)%	(148,445)	(39.4)%	(7,920)	(5.6)%
Selling, general and administrative expenses	(72,150)	(19.5)%	(75,622)	(20.0)%	(3,472)	(4.8)%
Depreciation and amortization	(85,323)	(23.1)%	(81,354)	(21.6)%	3,969	4.7%
	(297,998)	(80.7)%	(305,421)	(81.0)%	(7,423)	(2.5)%
Operating income	71,075	19.3%	71,414	19.0%	339	0.5%
Interest expense, net	(4,278)	(1.1)%	(3,531)	(0.9)%	747	17.5%
Equity in earnings of affiliates	1,473	0.3%	1,048	0.3%	(425)	(28.9)%
Other, net	262	0.1%	1,192	0.2%	930	354.2%
Income before noncontrolling interests and income taxes	68,532	18.6%	70,123	18.6%	1,591	2.3%
Income taxes expense	(28,358)	(7.7)%	(25,681)	(6.8)%	2,677	9.4%
Net income	40,174	10.9%	44,442	11.8%	4,268	10.6%
Net income attributable to noncontrolling interests	(2,896)	(0.8)%	(2,819)	(0.8)%	77	2.7%
Net income attributable to J:COM shareholders	37,278	10.1%	41,623	11.0%	4,345	11.7%
Net income	40,174	10.9%	44,442	11.8%	4,268	10.6%
Other comprehensive income/(loss), net of taxes	320	0.1%	1,027	0.3%	707	221.0%
Comprehensive income	40,494	11.0%	45,469	12.1%	4,975	12.3%
Comprehensive income attributable to noncontrolling interests	(2,889)	(0.8)%	(2,895)	(0.8)%	(6)	(0.2)%
Comprehensive income attributable to J:COM shareholders	37,605	10.2%	42,574	11.3%	4,969	13.2%

< Operating data – New definition >

As of December 31	2011	2012	Change	% Change
Homes passed:				
Cable television	13,620,100	13,873,500	253,400	1.9%
High-speed Internet	13,620,100	13,873,500	253,400	1.9%
Telephone	13,599,700	13,861,500	261,800	1.9%
Subscribers:				
Cable television	3,072,500	3,116,800	44,300	1.4%
High-speed Internet	1,820,000	1,980,300	160,300	8.8%
Telephone	2,216,400	2,480,600	264,200	11.9%
Total RGUs	7,108,900	7,577,700	468,800	6.6%
RGU connects	1,349,000	1,279,800	(69,200)	(5.1)%
Total number of subscribing households	3,620,900	3,741,200	120,300	3.3%
Bundle ratio	1.96	2.03	0.07	3.6%
Average revenue per user (Yen)	7,574	7,354	(220)	(2.9)%

< Operating data – Former definition >

As of December 31	2011	2012	Change	% Change
Homes passed:				
Cable television	13,620,100	13,873,500	253,400	1.9%
High-speed Internet	13,620,100	13,873,500	253,400	1.9%
Telephone	13,599,700	13,861,500	261,800	1.9%
Subscribers:				
Cable television	2,875,400	2,905,400	30,000	1.0%
High-speed Internet	1,826,200	1,941,800	115,600	6.3%
Telephone	2,216,400	2,480,600	264,200	11.9%
Total RGUs	6,918,000	7,327,800	409,800	5.9%
RGU connects	1,280,500	1,185,000	(95,500)	(7.5)%
Total number of subscribing households	3,656,500	3,793,600	137,100	3.7%
Bundle ratio	1.89	1.93	0.04	2.1%
Average revenue per user (Yen)	7,499	7,265	(234)	(3.1)%

The difference between the new definition and the former definition

- Pay terrestrial digital and BS digital retransmission service subscribers are included in cable television subscribers under the new definition.
- For service subscriptions under Bulk Plan, the number of subscriptions to cable television and high speed Internet access services and the total subscribing households were calculated using multipliers based on discount rates from listing pricing applied to owners/management associations and residents, respectively. As below, the numbers of cable television, high speed Internet access service subscribers and total subscribing households under the new definition are counted based on the actual number of users.

(2) Results of operations

In the following discussion, the company quantifies the acquisition impact, which represents the effect by consolidating an acquired entity on the Company's results of operations during the first twelve months following the acquisition date. The company represents changes that exclude the impact of acquisitions as changes at existing consolidated subsidiaries. Included as acquisition impacts in the following discussion of cumulative consolidated business results for the year ended December 31, 2012 are YOKOHAMA CABLE VISION Inc., consolidated on October 7, 2011 and ASMIK ACE ENTERTAINMENT, INC.,(*) consolidated on March 30, 2012.

* ASMIK ACE ENTERTAINMENT, INC. took over VOD business which was spun off by Jupiter Entertainment Co. Ltd. and at the same time changed the trade name to ASMIK ACE, INC. on December 1, 2012.

a. Revenue

Revenue increased by ¥7,762 million, or 2.1% from ¥369,073 million for the year ended December 31, 2011 to ¥376,835 million for the year ended December 31, 2012. This increase included ¥7,730 million that was attributable to the aggregate impact of acquisitions.
Subscription fees increased by ¥5,341 million, or 1.7%, from ¥307,935 million for the year ended December 31, 2011 to ¥313,276 million for the year ended December 31, 2012. This increase included ¥2,349 million that was attributable to the aggregate impact of acquisitions. Excluding the impact of acquisitions, subscription fees at existing subsidiaries increased by ¥2,992 million, or 1.0%.
Cable television subscription fees increased by ¥2,534 million, or 1.5%, from ¥165,350 million for the year ended December 31, 2011 to ¥167,884 million for the year ended December 31, 2012. High-speed Internet access subscription fees increased by ¥3,195 million, or 3.5% from ¥90,079 million for the year ended December 31, 2011 to ¥93,274 million for the year ended December 31, 2012. Telephony subscription fees decreased by ¥388 million, or 0.7%, from ¥52,506 million for the year ended December 31, 2011 to ¥52,118 million for the year ended December 31, 2012. The increase in cable television subscription fees and high-speed Internet access subscription fees, in spite of a decrease in ARPU caused largely by an increase in subscription rate of economical long term contract plan of J:COM TV My style and Value Plan, etc., was mainly due to an increase in the number of consolidated subsidiary subscribing households. The decrease in telephony subscription fees in comparison with that of the previous year was primarily the result of a temporary increase brought by the Great East Japan Earthquake in March 2011. Turning to existing consolidated subsidiary subscription fees for the year ended December 31, 2012 by type of service, income through subscription fees for cable television and high-speed Internet access service increased by 0.4% and 3.1%, respectively, while that for telephony service decreased by 0.8%.

Other revenue increased by ¥2,421 million, or 4.0%, from ¥61,138 million for the year ended December 31, 2011 to ¥63,559 million for the year ended December 31, 2012. The increase was mainly attributable to the aggregate impact of acquisitions of ¥5,381 million, which was partially offset by a decrease in revenue relating to poor reception compensation.

b. Operating costs and expenses

Operating and programming costs increased by ¥7,920 million, or 5.6%, from ¥140,525 million for the year ended December 31, 2011 to ¥148,445 million for the year ended December 31, 2012. This increase was mainly due to an increase in costs relating to programming and the aggregate impact of acquisitions of ¥3,903 million. Selling, general and administrative expenses increased by ¥3,472 million, or 4.8%, from ¥72,150 million for the year ended December 31, 2011 to ¥75,622 million for the year ended December 31, 2012. This was mainly due to an increase in personnel and the aggregate impact of acquisitions of ¥2,600 million. Depreciation and amortization expenses decreased by ¥3,969 million, or 4.7%, from ¥85,323 million for the year ended December 31, 2011 to ¥81,354 million for the year ended December 31, 2012. The decrease was largely due to certain fully depreciated assets before December 31, 2012.

c. Operating income

Operating income, as a result of the above items, increased by ¥339 million, or 0.5% from ¥71,075 million for the year ended December 31, 2011 to ¥71,414 million for the year ended December 31, 2012.

d. Interest expense, net

Interest expense, net decreased by ¥747 million, or 17.5%, from ¥4,278 million for the year ended December 31, 2011 to ¥3,531 million for the year ended December 31, 2012. The decrease was largely due to decrease in capital lease obligations and debt.

e. Equity in earnings of affiliates

Equity in earnings of affiliates decreased by ¥425 million, or 28.9%, from ¥1,473 million for the year ended December 31, 2011 to ¥1,048 million for the year ended December 31, 2012.

f. Other, net

Other, net increased by ¥930 million, or 354.2%, from ¥262 million for the year ended December 31, 2011 to ¥1,192 million for the year ended December 31, 2012.

g. Income before noncontrolling interests and income taxes

Income before noncontrolling interests and income taxes increased by ¥1,591 million, or 2.3%, from ¥68,532 million for the year ended December 31, 2011 to ¥70,123 million for the year ended December 31, 2012.

h. Income taxes expense

Income taxes expense decreased by ¥2,677 million, or 9.4%, from ¥28,358 million for the year ended December 31, 2011 to ¥25,681 million for the year ended December 31, 2012. The decrease was largely due to decrease in income taxes expense by lapse of the statute of limitations on unrecognized tax benefits and others.

i. Net income

Net income increased by ¥4,268 million, or 10.6%, from ¥40,174 million for the year ended December 31, 2011 to ¥44,442 million for the year ended December 31, 2012.

j. Net income attributable to noncontrolling interests

Net income attributable to noncontrolling interests decreased by ¥77 million, or 2.7%, from ¥2,896 million for the year ended December 31, 2011 to ¥2,819 million for the year ended December 31, 2012.

k. Net Income Attributable to J:COM Shareholders

Net income attributable to J:COM shareholders increased by ¥4,345 million, or 11.7%, from ¥37,278 million for the year ended December 31, 2011 to ¥41,623 million for the year ended December 31, 2012 for the reasons discussed above.

l. Operating data – new definition

(a) Average revenue per user

Total number of subscribing households increased from 3,621 thousand as of December 31, 2011 to 3,741 thousand as of December 31, 2012. Bundle ratio increased from 1.96 services at December 31, 2011 to 2.03 services at December 31, 2012. Average revenue per user decreased by ¥220 from ¥7,574 for the year ended December 31, 2011 to ¥7,354 for the year ended December 31, 2012 as a result of increase in subscription rate of economical packaged services with long-term contracts, including "J:COM TV My style", "Value Plan" and others.

(b) Churn rate

The average monthly churn rates for cable television, highspeed Internet access and telephony services averaged 0.95%, 1.14%, and 0.74%, respectively, for the year ended December 31, 2012, compared to 1.00%, 1.16%, and 0.76%, respectively, for the year ended December 31, 2011.

(3) Financial position

Total assets decreased by ¥343 million, from ¥812,373 million as of December 31, 2011 to ¥812,030 million as of December 31, 2012. This was due to a decrease in net book value of property and equipment, and identifiable intangible assets by depreciation, which was partially offset by an increase in cash and cash equivalents.

Total liabilities decreased by ¥25,638 million, from ¥355,057 million as of December 31, 2011 to ¥329,419 million as of December 31, 2012. This was primarily due to a decrease in long-term debt, capital lease obligations and deferred revenue.

Total J:COM shareholders' equity increased by ¥22,883 million from ¥431,664 million as of December 31, 2011 to ¥454,547 million as of December 31, 2012. The increase was due to the upswing by net income attributable to J:COM shareholders for the year ended December 31, 2012, which was partially offset by dividends paid to shareholders and purchases of treasury stock.

Total J:COM shareholders' equity as of December 31, 2011 were restated. Please refer to b Restatements of Prior Year's Consolidated Financial Statements on page 32.

(4) Liquidity and capital resources

a. Liquidity

The Company's principal sources of liquidity for working capital, capital expenditures and acquisitions are mainly cash flows from operating activities and debt available under the Company's loan facilities.

The total amount of debt and corporate bond for the Company as of December 31, 2012 is ¥133,170 million. The Development Bank of Japan Inc. (DBJ) is a main lender to the Company. As of December 31, 2012, debt from DBJ is ¥23,109 million. ¥5,109 million (of which interest-free loans account for ¥3,933 million) of debt from DBJ which have periods of 1 to 7 years remaining until maturity are borrowed by cable television subsidiaries. Furthermore, the Company has typically financed cable television set-top boxes by capital leases. As of December 31, 2012, total outstanding of capital lease obligations was ¥44,154 million. Aside from the above, as of December 31, 2012, the Company has a commitment line of ¥30,000 million per an agreement with a group of syndicated banks. The commitment line can be utilized for any management purpose except for a hostile acquisition. Furthermore, to provide direct access to the capital markets, the Company has established a registration facility to issue domestic straight corporate bonds in the amount of ¥50,000 million. The registration has been rated by Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&I). As of December 31, 2012, the Company is rated "A+" and "A", respectively.

b. Cash flows

For the year ended December 31, 2012, the net cash was provided by operating activities of ¥123,959 million, used in investing activities of ¥53,417 million and financing activities of ¥49,568 million, respectively. Resulting from the aforementioned activities, cash and cash equivalents increased by ¥20,974 million from ¥89,879 million as of December 31, 2011 to ¥110,853 million as of December 31, 2012.

(a) Cash provided by operating activities

Net cash provided by operating activities increased by ¥617 million, from ¥123,342 million for the year ended December 31, 2011 to ¥123,959 million for the year ended December 31, 2012. The increase was attributable to decrease in income taxes payment, which was partially offset by a decrease in depreciation and amortization, deferred revenue and other liabilities.

(b) Cash used in investing activities

Net cash used in investing activities decreased by ¥4,892 million, from ¥58,309 million for the year ended December 31, 2011 to ¥53,417 million for the year ended December 31, 2012. This was mainly due to a decrease in acquisitions of new subsidiaries, net of cash acquired.

(c) Cash used in financing activities

Net cash used in financing activities decreased by ¥3,798 million, from ¥53,366 million for the year ended December 31, 2011 to ¥49,568 million for the year ended December 31, 2012. This was mainly due to an increase in long-term debt and a decrease in principal payments of long-term debt and capital lease obligations, which was partially offset by an increase in purchases of treasury stock and dividends paid to shareholders.

c. Factors affecting future sources of liquidity

The Company's future sources of working capital and liquidity depend upon a number of factors, including the following:

- Cash flows from operating activities, which will primarily be affected by the ability to generate operating income;
- The quality of the Company's credit and credit ratings, which will impact the borrowing costs and the ability to raise additional funds; and
- Future financial market conditions for bank borrowings and the issuance of debt and equity securities.

d. Capital expenditures (including capital leases)

Capital expenditures, including capital lease additions, decreased by ¥5,845 million, or 8.7%, from ¥67,496 million as of December 31, 2011 to ¥61,651 million as of December 31, 2012. As a percentage of revenue, capital expenditures were approximately 16.4% for the year ended December 31, 2012 and 18.3% for the year ended December 31, 2011.

e. Contractual obligations

The Company's principal outstanding contractual obligations relate to short-term loans, long-term debt, corporate bonds, capital leases and non-cancellable operating leases and purchasing agreements. The following table summarizes contractual obligations that exist as of December 31, 2012, shown by year of maturity:

Contractual Obligations **(yen in millions)**

	Total	2013	2014	2015	2016	2017	Thereafter
Short-term loans	5,061	5,061	—	—	—	—	—
Long-term debt and corporate bond	128,109	69,847	45,365	11,069	1,664	141	23
Capital leases	44,154	14,503	11,452	8,559	5,143	2,581	1,916
Non-cancellable operating leases	9,237	2,552	2,134	1,096	985	718	1,752
Non-cancellable purchase and other commitments	43,457	12,208	10,290	8,576	5,336	2,848	4,199
Total contractual obligations	230,018	104,171	69,241	29,300	13,128	6,288	7,890
Projected cash interest payments on debt and capital lease obligations*	4,411	2,070	1,141	615	308	158	119

*Based on interest rates and contractual maturities in effect on December 31, 2012.

f. Contingent liabilities and off-balance sheet transactions

The Company does not have any material contingent liabilities or offbalance sheet transactions except for those noted in the consolidated financial statements as of December 31, 2012.

g. Interest rates

The Company's primary market risk exposure consists of risk related to changes in interest rates. The Company utilizes interest rate swap agreements to hedge a portion of this risk. The Company does not use derivative instruments for speculative or trading purposes.

As of December 31, 2012, ¥88,561 million, or 67%, of the Company's total outstanding debt are subject to variable rates, and therefore sensitive to changes in market interest rates. The Company has interest rate swap agreements for ¥49,500 million, or 56%, of all variable rate debt, which effectively hedges the interest rate risk of such portions of Japanese-yen LIBOR-indexed and Japanese-yen TIBOR-indexed debt. Taking the interest rate swap agreements into account, a 1% increase in the market rates would result in an increase in the Company's annual interest expense of approximately ¥391 million. This amount is determined by considering the impact of hypothetical interest rates on borrowing cost, but not all the effects to the overall economic activity that could exist in such an environment is considered.

(5) Significant accounting estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affected the reported amounts of assets and liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities at the date of financial statements. Actual results may differ from those estimates under different assumptions or conditions. With regard to the important accounting policies provided below, the Company believes important estimates have been reflected in consolidated financial statements. For a summary of all of the Company's significant accounting policies, please refer to 1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies on page 23.

a. Evaluation for impairment of property and equipment, identifiable intangible assets and goodwill

The carrying amount of the Company's property and equipment, identifiable intangible assets and goodwill comprised 78% and 80% of the Company's total assets as of December 31, 2012, and December 31, 2011, respectively. Pursuant to Accounting Standards Codifications (ASC) Topic 360, *Property, Plant, and Equipment* and Topic 350, *Intangibles - Goodwill and Other Intangible Assets*, the Company is required to assess the recoverability of long-lived assets.

The Company evaluates long-lived assets for potential impairment whenever there are indicators that its carrying amount may not be recoverable. In the event that an impairment test indicates that the carrying amount of property and equipment exceeds the sum of the undiscounted cash flows (excluding interest) that are expected to result from the use and eventual disposition of the asset, the Company would recognize an impairment loss to the extent the carrying amount exceeded the estimated fair value of the asset. The estimate of expected future net cash flows is inherently uncertain and relies on management assumptions and estimates about the future and current market conditions and events that affect the value of the asset.

In the case of goodwill, the Company is required on an annual basis and whenever there are indicators that the impairment exists. The impairment judgment entails performing qualitative analysis before implementing the two-step impairment test. If under the qualitative analysis there is found to be at least a 50% probability that the fair value of the reporting unit may be less than its carrying amount, the two-step impairment test must be performed. Under the impairment test, in step one the fair value of the reporting unit is assessed and a judgment is made as to whether impairment is or is not necessary. In step two, the fair value of the reporting unit goodwill is assessed, and impairment loss is recognized.
The Company performs qualitative assessments by considering the macroeconomic situation, industry and market circumstances, overall business results and share price performance. Furthermore, in appraising fair value the Company prepares future cash flows using estimates based on rational and appropriate assumptions from internally prepared forecasts. Future cash flow estimates include many management judgments, including subscriber rates for the services the Company provides, operating margins and capital expenditures, as well as the timing and amount of and discount rate applied to cash flow generation.

b. Fair value of assets acquired and liabilities assumed in a business combination
The Company measures the assets and liabilities of the acquiree at fair value. In determining fair value, the Company ordinarily retains third-party valuation specialists to assess certain of these assets and liabilities. Estimates used in valuing assets acquired and liabilities assumed include, but are not limited to, expected future cash flows, market comparables and appropriate discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain.

c. Tax accounting
In addition to estimated taxes payable or refundable, the Company posts deferred taxes associated with differences in the amounts assigned to assets and liabilities in financial statements vis-à-vis those amounts for tax purposes and future tax implications of losses carried forward using enacted tax rates applicable to the period in which the temporary differences and carryforwards are expected to be recovered or settled. These estimates require management to make assessments regarding the timing and probability of the ultimate tax impact of such items.
Deferred tax assets are reduced by a valuation allowance if the Company believes it more-likely-than-not such net deferred tax assets will not be realized. Establishing a tax valuation allowance requires us to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning strategies.
Actual income taxes could vary from these estimates due to future changes in income tax law in the jurisdictions in which the Company operates, inability to generate sufficient future taxable income, differences between estimated and actual results, or unpredicted results from the final determination of each year's liability by taxing authorities.

(6) Recent Accounting Pronouncements
Please refer to *t. Accounting changes and recent accounting pronouncements* on page 30.

2. Changes in business

There are not significant changes in business for the year ended December 31, 2012.

3. Acquisitions or dispositions of assets

There are not significant acquisitions or dispositions for the year ended December 31, 2012.

4. Issuance, redemption or acquisition of securities

There are not significant issuances, redemptions or acquisitions of securities for the year ended December 31, 2012.

5. Changes in management or control

There are not significant changes in management or control for the year ended December 31, 2012.

6. Granting of options or the payment of other remuneration to directors or officers

J:COM resolved in the board of directors meeting held on February 29, 2012 to grant stock acquisition rights as stock based compensation type stock options on the terms below

(1) Reason for granting stock acquisition rights as stock based compensation type stock options

a. Jupiter Telecommunications Co., Ltd. 2012 Stock based compensation Type Stock Acquisition Rights (mid-term incentive).
With the objective of improving mid-term business results and stock prices, J:COM intends to provide mid-term incentives to J:COM's directors and corporate officers (11 in total). The subjected stock acquisition rights can be exercised in accordance to the prescribed procedures only when the director or corporate officer satisfies the prescribed conditions such as resignation.

b. Jupiter Telecommunications Co., Ltd. 2012 Stock based compensation Type Stock Acquisition Rights (long-term incentive).
With the objective of improving long-term business results and stock prices, J:COM intends to provide long-term incentives to J:COM's directors and auditors (7 in total). The subjected stock acquisition rights can be exercised in accordance to the prescribed procedures only when the director or director satisfies the prescribed conditions such as resignation.

(2) Terms of Grant of Stock Acquisition Rights

1. Name of Stock Acquisition Rights	Jupiter Telecommunications Co., Ltd. 2012 Stock based compensation Type Stock Acquisition Rights (mid-term incentive).	Jupiter Telecommunications Co., Ltd. 2012 Stock based compensation Type Stock Acquisition Rights (long-term incentive).
2. Total Number of Stock Acquisition Rights to be Granted	389 stock acquisition rights.	310 stock acquisition rights.
	Provided, the total number above shall be the planned number of stock acquisition rights to be granted, and if the total number of allocated stock acquisition rights decrease due to lack of subscription or for other reasons, the total number of stock acquisition rights issued shall be the total number of such allocated stock acquisition rights.	
3. Type and Number of Shares Subject to Stock Acquisition Rights	The shares to be granted upon exercise of the stock acquisition rights shall be ordinary shares of J:COM, and the number of shares to be granted upon exercise of each stock acquisition right (Number of Shares Granted) shall be one. (total number of mid-term incentive: 389 stocks, total number of long-term incentive: 310 stocks) Provided, if there occurs a share split (including grants of J:COM's ordinary shares without consideration, and the same hereafter for references to share splits) or a consolidation of shares, after the date provided in 12 below as the date on which the stock acquisition rights are granted (Grant Date), the Number of Shares Granted shall be adjusted in accordance with the following. (number of shares granted after adjustment) = (number of shares granted before adjustment) × (ratio of share split or consolidation of shares) In the case of a share split, the number of shares granted after adjustment shall apply after the date on which the relevant share split occurs, and in the case of a consolidation of shares, the number of shares granted after adjustment shall apply after the effective date of the relevant consolidation of shares. Provided, if a share split is subject to with the condition that the reduction of the capital surplus and the increase of the capital or the capital reserve is to be approved at J:COM's shareholders meeting, and the applicable share split date is before the date of the shareholders meeting, the number of shares granted after adjustment shall apply dating back to the following date of the relevant share split date after the date of the relevant shareholders meeting. In addition to the above, if after the Grant Date it becomes appropriate to change the Number of Shares Granted due to a merger, the issuance of new shares or a company split of J:COM, J:COM may change the Number of Shares Granted as necessary. Shares of less than one full share resulting from the adjustments above shall be rounded down. When adjusting the Number of Shares Granted, J:COM shall, on or before the date immediately prior to the date on which the number of shares granted after adjustment will apply, send notice	

	or publicly announce the relevant details to each person who is recorded in the registry of stock acquisition rights as a holder of stock acquisition rights (Stock Acquisition Rights Holders). Provided, if notice or announcement cannot be made prior to the date immediately preceding the applicable adjustment date, notice or announcement shall be made promptly thereafter.	
4. Exercise Price of the Stock Acquisition Rights	The exercise price shall be one yen for each share to be issued upon the exercise of stock acquisition rights, and the total exercise price shall be this amount multiplied by the Number of Shares Granted.	
5. Exercise Period of the Stock Acquisition Rights	From March 16, 2012 to February 29, 2020.	From March 16, 2012 to February 29, 2032.
6. Increase in Capital and Capital Reserve as a Result of the Issuance of Shares upon the Exercise of Stock Acquisition Rights	(1) The amount of capital to be increased as the result of the issuance of shares upon the exercise of stock acquisition rights shall be one half of the maximum amount of capital increase calculated in accordance with article 17 paragraph 1 of the Corporate Accounting Regulations, and any amounts of less than one yen shall be rounded up. (2) The amount of capital reserve to be increased as the result of the issuance of shares upon the exercise of stock acquisition rights shall be calculated as the maximum amount of the capital increase provided in paragraph (1) above, minus the amount of capital to be increased pursuant to paragraph (1) above.	
7. Restrictions on Transfers of Stock Acquisition Rights	The transfer of stock acquisition rights shall require the approval of the board of directors of J:COM.	
8. Conditions to the Acquisition of Stock Acquisition Rights	If any of items (1), (2), or (3) below are approved by J:COM's shareholders meeting (or where an approval of the shareholders' meeting is not required, approved by J:COM's board of directors), J:COM may acquire, for no consideration, the stock acquisition rights on a date determined separately by J:COM's board of directors. (1) A resolution approving a merger agreement under which J:COM is the extinct company. (2) A resolution approving a company split agreement or a company split plan under which J:COM is the split company. (3) A resolution approving a share exchange agreement or a share transfer plan under which J:COM becomes the wholly-owned subsidiary.	
9. Policy for Issuance of Stock Acquisition Rights in a Reorganization	If J:COM consummates a merger (limited to when J:COM is the extinct company), an absorption-type or an incorporation-type company split (limited to where J:COM is the split company), a share exchange or a share transfer (in each case where J:COM becomes the wholly-owned subsidiary) (each of the above hereinafter, a "Reorganization"), in each case, stock acquisition rights of J:COM provided in subparagraphs (i) to (v) of Paragraph 8, Section 1, Article 236 of Corporate Law (hereinafter, Reorganized Company) shall be granted to the Stock Acquisition	

	Rights Holders who hold the remaining stock acquisition rights (Remaining SARS) on the date immediately preceding the effective date of the Reorganization (which shall be, for an absorption-type merger, the effective date of the absorption-type merger; for an incorporation-type merger, the incorporation date of the new company; for an absorption-type company split, the effective date of the absorption-type company split; for an incorporation-type company split, the incorporation date of the newly formed corporation; for a share exchange, the effective date of the share exchange; and for a share transfer, the incorporation date of the parent company). Provided, the relevant absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan shall provide for the grant of the stock acquisition rights of the Reorganized Company in accordance with the following terms: (1) Number of stock acquisition rights of Reorganized Company granted. The number of stock acquisition rights shall be equal to the number of Remaining SARS held by the Stock Acquisition Rights Holders. (2) Type of shares of Reorganized Company subject to stock acquisition rights. The ordinary shares of the Reorganized Company. (3) The number of shares of the Reorganized Company subject to stock acquisition rights. Calculated in accordance with 3 above, taking into consideration the terms of reorganization. (4) Exercise price of the stock acquisition rights The exercise price of each stock acquisition right shall be the amount of the post reorganization payment amount (defined below) multiplied by the number of shares of the Reorganized Company subject to each stock acquisition right calculated in accordance with (3) above. The post reorganization payment amount shall be one yen per share of the Reorganized Company to be issued upon the exercise of each stock acquisition right to be granted. (5) Exercise period of the stock acquisition rights The exercise period of the stock acquisition rights shall be from the later of the beginning of the exercise period provided in 5 above and the effective date of the Reorganization, until the end of the exercise period provided in 5 above. (6) Increase in capital and capital reserve as a result of the issuance of shares upon the exercise of stock acquisition rights To be determined in accordance with 6 above. (7) Restrictions on transfers of stock acquisition rights The transfer of stock acquisition rights shall require the approval of the board of directors of the Reorganized

<table>
<tr><td></td><td colspan="2">Company.
(8)Conditions to the acquisition of stock acquisition rights
To be determined in accordance with 8 above.
(9)Other conditions on the exercise of stock acquisition rights
To be determined in accordance with 10 below.</td></tr>
<tr><td rowspan="3">10. Other Conditions on the Exercise of Stock Acquisition Rights</td><td>(1) A Stock Acquisition Rights Holder may exercise stock acquisition rights on the day (Start of the Exercise Period) following the date on which he or she resigns (or retires) from the office of director or corporate officer of J:COM, as a result of the expiration of such office (in cases where such Stock Acquisition Rights Holder subsequently becomes a director, a corporate officer or an employee of J:COM, or subsidiaries or affiliated companies of J:COM (Subsidiaries), the Start of the Exercise Period is the day following the date on which he or she resigns or retires from such position, as a result of the expiration of such office).</td><td>(1) A Stock Acquisition Rights Holder may exercise stock acquisition rights on the day (Start of the Exercise Period) following the date on which he or she resigns (or retires) from the office of director or auditor of J:COM, as a result of the expiration of such office (in cases where such Stock Acquisition Rights Holder subsequently becomes a director, a corporate officer or an employee of J:COM, or subsidiaries or affiliated companies of J:COM (Subsidiaries), the Start of the Exercise Period is the day following the date on which he or she resigns or retires from such position, as a result of the expiration of such office).</td></tr>
<tr><td colspan="2">(2) In case that the stock acquisition rights are exercised in accordance with (1) above, a Stock Acquisition Rights Holder may exercise them only for a period of two years from the Start of the Exercise Period.
(3) Notwithstanding (1) and (2) above, a Stock Acquisition Rights Holder may exercise stock acquisition rights in the period provided below if either of (i) or (ii) below occur (provided, (ii) below shall not apply if stock acquisition rights of the Reorganized Company will be granted to the Stock Acquisition Rights Holder in accordance with 9 above):</td></tr>
<tr><td>(i) If the Start of the Exercise Period does not occur by February 28, 2014, the stock acquisition rights may be exercised between March 1, 2014 and February 29, 2020; or</td><td>(i) If the Start of the Exercise Period does not occur by February 28, 2030, the stock acquisition rights may be exercised between March 1, 2030 and February 29, 2032; or</td></tr>
</table>

	(ii) If a resolution approving a merger agreement under which J:COM is the extinct company, or a share exchange agreement or a share transfer plan under which J:COM becomes the wholly-owned subsidiary is approved by J:COM's shareholders meeting (or where a shareholders meeting is not required, approved by J:COM's board of directors), the stock acquisition rights may be exercised for a period of fifteen days from the date immediately after the relevant approval date.	
	(4) In case that the stock acquisition rights are exercised in accordance with (3) (i)above, the number of stock acquisition rights to be exercised is limited to the number provided in (i) or (ii) below, and any number less than an integral number shall be rounded up: (i) Between March 1, 2014 and February 28, 2015 50% of the stock acquisition rights of such Stock Acquisition Rights Holder; and (ii) Between March 1, 2015 and February 29, 2020 100% of remaining stock acquisition rights of such Stock Acquisition Rights Holder.	(4) If a Stock Acquisition Rights Holder is dismissed as a director or statutory auditor, he or she shall not be allowed to exercise stock acquisition rights after the dismissal.
	(5) If a Stock Acquisition Rights Holder is dismissed from the position of director or corporate officer of J:COM (or in cases where such Stock Acquisition Rights Holder subsequently becomes a director, a corporate officer or an employee of J:COM or the Subsidiaries, as a result of the expiration of such office ,dismissed from the position of director, corporate officer or employee of J:COM or the Subsidiaries), he or she may not exercise stock acquisition rights after the dismissal.	(5) If a Stock Acquisition Rights Holder forfeits stock acquisition rights, he or she may not exercise the relevant stock acquisition rights.

	(6) If a Stock Acquisition Rights Holder forfeits stock acquisition rights, he or she may not exercise the relevant stock acquisition rights.	
11. Calculation of Payment Price of Stock Acquisition Rights	The fair market value of the stock acquisition rights shall be calculated in accordance with the Black-Scholes model, using the share price of the Grant Date of the stock acquisition rights and the exercise price provided in 4 above.	
12. Grant date of stock acquisition rights	March 15, 2012.	
13. Payment date for grant of stock acquisition rights	March 15, 2012.	

7. Transactions with directors, officers or principal security holders

There are not transactions with directors or officers for the year ended December 31, 2012. For principal security holders, please refer to (5) Related Party Transactions on page 36.

8. Consolidated financial statements

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(YEN IN MILLIONS)

	December 31,	
	2011	2012
Current assets:		
Cash and cash equivalents	89,879	110,853
Accounts receivable	18,270	16,149
Allowance for doubtful accounts	(480)	(473)
Deferred tax assets – current (Note 10)	7,941	6,902
Prepaid expenses and other current assets (Note 9)	8,070	7,537
Total current assets	123,680	140,968
Investments:		
Investments in affiliates (Note 3)	10,381	10,095
Investments in other securities, at cost	2,150	2,060
Total investments	12,531	12,155
Property and equipment, at cost:		
Land	4,158	4,185
Distribution system and equipment (Notes 2, 5 and 7)	733,669	732,660
Support equipment and buildings (Notes 5 and 7)	69,477	73,119
	807,304	809,964
Less accumulated depreciation (Note 7)	(445,113)	(462,913)
Total property and equipment	362,191	347,051
Other assets:		
Goodwill (Notes 2 and 4)	253,079	253,079
Identifiable intangible assets, net (Notes 2 and 4)	38,413	33,621
Deferred tax assets – non current (Note 10)	5,436	6,678
Others	17,043	18,478
Total other assets	313,971	311,856
Total assets	812,373	812,030

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

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – (Continued)
(YEN IN MILLIONS)

	December 31,	
	2011	2012
Current liabilities:		
Short-term loans (Note 6)	5,521	5,061
Long-term debt – current portion (Notes 6 and 8)	10,681	69,847
Capital lease obligations – current portion (Note 7):		
Related parties (Note 5)	15,960	13,625
Others	1,184	878
Accounts payable	28,324	27,407
Income taxes payable	9,853	16,298
Deposit from related parties (Note 5)	268	268
Deferred revenue – current portion (Note 1)	8,108	7,865
Accrued expenses and other liabilities (Notes 1 and 9)	11,068	11,117
Total current liabilities	90,967	152,366
Long-term debt, less current portion (Notes 6 and 8)	118,302	48,262
Corporate bond, less current portion (Notes 6 and 8)	10,000	10,000
Capital lease obligations, less current portion (Note 7):		
Related parties (Note 5)	33,590	25,974
Others	4,259	3,677
Deferred revenue (Note 1)	58,996	52,665
Deferred tax liabilities – non current (Notes 2 and 10)	11,615	10,845
Other liabilities (Notes 1, 9 and 10)	27,328	25,630
Total liabilities	355,057	329,419
Commitments and contingencies (Note 14)		
Shareholders' equity (Note 12):		
Common stock no par value	117,550	117,550
Authorized 15,000,000 shares;		
Issued 6,947,813 shares as of December 31, 2011		
Issued 6,947,813 shares as of December 31, 2012		
Additional paid-in capital	226,293	226,377
Retained earnings (Notes 1)	90,782	117,592
Accumulated other comprehensive income/(loss) (Note 1)	(833)	118
Treasury stock, at cost	(2,128)	(7,090)
22,640 shares as of December 31, 2011		
83,168 shares as of December 31, 2012		
Total J:COM shareholders' equity (Note 1)	431,664	454,547
Noncontrolling interests in subsidiaries (Note 1)	25,652	28,064
Total shareholders' equity	457,316	482,611
Total liabilities and shareholders' equity	812,373	812,030

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

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(YEN IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	Year ended December 31,	
	2011	2012
Revenue:		
Subscription fees	307,935	313,276
Others (Notes 1 and 5)	61,138	63,559
	369,073	376,835
Operating costs and expenses:		
Operating and programming costs (other than depreciation and amortization) (Notes 5, 7 and 11)	(140,525)	(148,445)
Selling, general and administrative expenses (Notes 1, 5, 7, 11 and 12)	(72,150)	(75,622)
Depreciation and amortization (Notes 1 and 4)	(85,323)	(81,354)
	(297,998)	(305,421)
Operating income	71,075	71,414
Other income (expenses):		
Interest expense, net (Note 10):		
Related parties (Note 5)	(1,424)	(1,135)
Others	(2,854)	(2,396)
Equity in earnings of affiliates (Note 3)	1,473	1,048
Other, net (Note 2)	262	1,192
Income before noncontrolling interests and income taxes	68,532	70,123
Income taxes expense (Note 10)	(28,358)	(25,681)
Net income	40,174	44,442
Net income attributable to noncontrolling interests	(2,896)	(2,819)
Net income attributable to J:COM shareholders	37,278	41,623
Net income attributable to J:COM shareholders per share:		
Basic	¥ 5,383.59	¥ 6,052.36
Diluted	¥ 5,381.49	¥ 6,050.64
Weighted average number of common stock outstanding:		
Basic	6,924,297	6,877,162
Diluted	6,927,003	6,879,121
Net income	40,174	44,442
Other comprehensive income/(loss),net of taxes		
Unrealized gain/(loss) on cash flow hedge (Note 1)	(179)	602
Foreign currency translation adjustments	—	53
Reclassification adjustments for gain/(loss) on cash flow hedge included in net income	499	372
Other comprehensive income/(loss), net of taxes	320	1,027
Comprehensive income	40,494	45,469
Comprehensive income attributable to noncontrolling interests	(2,889)	(2,895)
Comprehensive income attributable to J:COM shareholders	37,605	42,574

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

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(YEN IN MILLIONS)

	Common stock no par value	Additional paid-in capital	Retained Earnings	Accumulated other comprehensive income/(loss)	Treasury stock, at cost	Total J:COM shareholders' equity	Noncontrolling interests in subsidiaries	Total shareholders' equity
Balance as of January 1, 2011 (Note 1)	117,550	226,017	65,967	(1,160)	(2,266)	406,108	20,302	426,410
Net income	—	—	37,278	—	—	37,278	2,896	40,174
Other comprehensive income/(loss), net of taxes (Note 1)	—	—	—	327	—	327	(7)	320
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	(112)	(112)
Stock-based compensation (Notes 1 and 12)	—	47	—	—	—	47	—	47
Acquisition of new subsidiaries (Note 2)	—	—	—	—	—	—	3,259	3,259
Purchase of subsidiary shares from noncontrolling interests	—	361	—	—	—	361	(686)	(325)
Cash dividends paid to shareholders (Note 12)	—	—	(12,463)	—	—	(12,463)	—	(12,463)
Net changes in treasury stock	—	(132)	—	—	138	6	—	6
Balance as of December 31, 2011 (Note 1)	117,550	226,293	90,782	(833)	(2,128)	431,664	25,652	457,316
Net income	—	—	41,623	—	—	41,623	2,819	44,442
Other comprehensive income/(loss), net of taxes (Note 1)	—	—	—	951	—	951	76	1,027
Cash dividends paid to noncontrolling interests	—	—	—	—	—	—	(166)	(166)
Stock-based compensation (Notes 1 and 12)	—	50	—	—	—	50	—	50
Purchase of subsidiary shares from noncontrolling interests	—	61	—	—	—	61	(317)	(256)
Cash dividends paid to shareholders (Note 12)	—	—	(14,813)	—	—	(14,813)	—	(14,813)
Net changes in treasury stock	—	(27)	—	—	(4,962)	(4,989)	—	(4,989)
Balance as of December 31, 2012	117,550	226,377	117,592	118	(7,090)	454,547	28,064	482,611

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

JPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(YEN IN MILLIONS)

	Year ended December 31,	
	2011	2012
Cash flows from operating activities:		
Net income	40,174	44,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85,323	81,354
Equity in earnings of affiliates	(1,473)	(1,048)
Dividends from affiliates	1,203	873
Stock-based compensation expenses (Note 12)	47	50
Deferred income taxes expense/(benefit) (Note 10)	639	(1,489)
Changes in operating assets and liabilities, excluding effects of business combinations:		
Decrease/(increase) in accounts receivable, net	4,359	4,089
Decrease/(increase) in prepaid expenses and other assets (Note 1)	(879)	1,985
Increase/(decrease) in accounts payable	2,305	(3,000)
Increase/(decrease) in income taxes payable	(6,629)	6,434
Increase/(decrease) in accrued expenses and other liabilities	1,917	(2,238)
Increase/(decrease) in deferred revenue	(3,644)	(6,576)
Others	—	(917)
Net cash provided by operating activities	123,342	123,959
Cash flows from investing activities:		
Capital expenditures	(55,082)	(54,654)
Acquisition of new subsidiaries, net of cash acquired (Note 2)	(3,327)	564
Other investing activities	100	673
Net cash used in investing activities	(58,309)	(53,417)
Cash flows from financing activities:		
Purchases of treasury stock	—	(5,000)
Acquisition of noncontrolling interests in consolidated subsidiaries	(325)	(284)
Net increase/(decrease) in short-term loans (Note 6)	(990)	(810)
Proceeds from long-term debt (Note 6)	—	5,000
Principal payments of long-term debt (Note 6)	(19,700)	(15,875)
Principal payments of capital lease obligations (Note 7)	(20,875)	(18,374)
Cash dividends paid to shareholders (Note 12)	(12,463)	(14,813)
Other financing activities	987	588
Net cash used in financing activities	(53,366)	(49,568)
Net increase/(decrease) in cash and cash equivalents	11,667	20,974
Cash and cash equivalents at beginning of year	78,212	89,879
Cash and cash equivalents at end of year	89,879	110,853

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

JUPITER TELECOMMUNICATIONS CO., LTD.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business, Basis of Financial Statements and Summary of Significant Accounting Policies

Business and Organization

Jupiter Telecommunications Co., Ltd. (J:COM), established in 1995, is a multiple system operator and also a multiple channel operator. As for cable television business, J:COM and its subsidiaries (the Company) provide cable television service, high-speed Internet access service and telephony service through subsidiary cable television companies, supported by network systems established in five areas in Japan; Sapporo, Sendai, Kanto, Kansai and Kyushu. As for media business, the Company operates channels as well as producing their contents for cable TV, satellite broadcasting, IPTV, etc.
As of December 31, 2012, Sumitomo Corporation (Sumitomo) and KDDI Corporation (KDDI) which are major shareholders of J:COM owned 40.46% and 31.08% of the common stocks with voting rights, respectively.

Basis of Financial Statements

The Company's individual financial statements maintain their books of account in conformity with Japan generally accepted accounting principles (JGAAP). The consolidated financial statements presented herein are prepared in a manner and reflect certain adjustments which are necessary to conform to U.S. generally accepted accounting principles (U.S.GAAP). These adjustments include those related to the scope of consolidation and the accounting for business combinations, income taxes, goodwill and identifiable intangible assets, stock-based compensation, deferred revenue, derivative financial instruments, revenue recognition, post-retirement benefits, depreciation and amortization, and accruals for certain expenses, etc.

Summary of Significant Accounting Policies

(1) Principles of consolidation

The consolidated financial statements include J:COM's accounts and the accounts of all entities where J:COM exercises a controlling financial interest through the ownership of a direct or indirect controlling voting interest and variable interest entities for which J:COM is the primary beneficiary. All significant intercompany accounts and transactions are eliminated in consolidation.

(2) Cash and cash equivalents

Cash equivalents consist of all investments that are readily convertible into cash and have maturities of three months or less at the time of the acquisition. The Company's significant non-cash investing activities are disclosed in Note (13).

(3) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the Company's assessment of probable losses on accounts receivable considering historical experience and other known factors.

Concentration of credit risk with respect to accounts receivable is limited due to a large number of small individual customers throughout Japan. The Company also manages this risk by disconnecting services to customers whose accounts are delinquent.

(4) Investments

For those investments in affiliates in which the Company's voting interest is between 20% to 50% and the Company has the ability to exercise significant influence over the affiliates' operation and financial policies, the equity method of accounting is used. Under this method, the investment is originally recorded at cost and adjusted to recognize the Company's share of the net earnings or losses of its affiliates as they occur, with the Company's recognition of losses generally limited to the extent of its investment in and loans and commitments to the affiliate. All significant intercompany profits on transactions with these affiliates which are included in assets in the balance sheets of the Company or the affiliate are eliminated to the extent of the Company's ownership in the affiliate.

Investments in other securities carried at cost represent non-marketable equity securities in which the Company's ownership is less than 20% and the Company does not have the ability to exercise significant influence over the entities' operation and financial policies.

The Company evaluates its investments in affiliates and non-marketable equity securities for impairment due to declines in fair value considered to be other-than-temporary. The primary factors considered in these evaluations are the extent and length of time that the fair value of the investment is below its carrying amount and the financial condition, operating performance and near-term prospects of the investee, industry specific or investee specific factors. Those are also changes in the stock price or valuation by third party, and the impacts of exchange rates, if applicable. If the decline in fair value is deemed to be other-than-temporary, the carrying amount of the security is written down to fair value.

(5) Derivative instruments

The Company uses certain derivative financial instruments to manage its foreign currency and interest rate exposure. The Company enters into forward contracts to reduce its exposure to the movements in exchange rates applicable to firm funding commitments that are denominated in currencies other than the Japanese yen. The Company uses interest rate derivative instruments, such as interest rate swaps, to manage interest costs to achieve a desired mix of fixed and variable rate debt. As a matter of policy, the Company does not enter into derivative contracts for trading or speculative purposes.

The Company accounts for its derivative instruments in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, which requires that all derivative instruments be reported in the consolidated balance sheets as either assets or liabilities measured at fair value. For derivative instruments designated and effective as fair value hedges, changes in the fair value of the derivative instruments and of the hedged item attributable to the hedged risk are recognized in earnings. For derivative instruments designated as cash flow hedges, the effective portion of any hedge is reported in other comprehensive income/(loss) until it is recognized in earnings in the same period in which the hedged item affects earnings. The ineffective portion of all hedges is recognized in earnings each period. Changes in fair value of derivative instruments that are not designated as a hedge are recorded each period in earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to specific assets and liabilities in the balance sheet or to specific firm commitments or forecasted transactions. Ongoing assessments of effectiveness are made every three months. Also, the Company discontinues hedge accounting prospectively when (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) the derivative expires or is sold, terminated, or exercised, (iii) it is determined that the forecasted hedged transaction will no longer occur, (iv) a hedged firm commitment no longer meets the definition of a firm commitment, or (v) the Company determines that the designation of the derivative as a hedge instrument is no longer appropriate.

The Company has several outstanding forward contracts with commercial banks to hedge foreign currency exposures related to U.S. dollar denominated equipment purchases and other firm commitments. As of December 31, 2011 and 2012, such forward contracts had an aggregate notional amount of ¥243 million and ¥335 million, respectively, and expire on various dates through October 2013. These forward contracts have not been designated as accounting hedges. However, the Company believes such forward contracts are closely related with the firm commitments designated in U.S. dollars and those are utilized to manage associated currency risk.

The Company also has several outstanding forward contracts with commercial banks to hedge foreign currency exposures related to foreign currencies denominated firm commitments. As of December 31, 2011 and 2012, such forward contracts had an aggregate notional amount of ¥6,577 million and ¥5,060 million, respectively, and expire on various dates through November 2017. These forward contracts are designated and documented as cash flow hedging instruments. J:COM also has several interest rate swap agreements to manage variable rate debt. These interest rate exchange agreements effectively fix the Japanese Yen TIBOR and Yen LIBOR components of variable interest rates on borrowings of ¥49,500 million that mature between April 2013 and April 2014. These interest rate exchange agreements are designated and documented as cash flow hedging instruments.

(6) Programming rights and language versioning

Programming rights and language versioning costs acquired for broadcast by channel operators are stated at the lower of cost or net realizable value. Programming right licenses generally state a fixed time period within which a program can be aired, and generally limit the number of times a program can be aired. The licensor retains ownership of the program until expiration of the license. Programming rights and language versioning costs are amortized over the license period for the program rights based on the nature of the contract or program. Where airing runs are limited, amortization is generally based on runs usage, where usage is unlimited, a straight-line basis is used as an estimate of actual usage for amortization purposes. Programs produced in-house are mainly amortized fully upon first airing. Such amortization is included in operating and programming costs in the consolidated statements of income and comprehensive income. The portion of unamortized programming rights and language versioning costs expected to be amortized within one year is included in prepaid expenses and other current assets in the consolidated balance sheets.

(7) Property and equipment

Property and equipment, including construction materials, is recorded at cost, which includes all direct costs and certain indirect costs associated with the construction of cable television transmission and distribution systems, and the costs of new subscriber installations. Depreciation is computed on a straight-line method over the estimated useful lives, as follows:

Asset description	Estimated useful lives
Distribution system and equipment..	6 to 17 years
Buildings and structures	5 to 40 years
Support equipment..	5 to 15 years

Equipment under capital leases is stated at the present value of minimum lease payments. Equipment under capital leases is amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset, which ranges from 2 to 20 years. The useful lives are assessed periodically and are adjusted when warranted. When systems are undergoing a rebuild, the property and equipment to be retired will be fully depreciated by the time the rebuild is complete.

In accordance with ASC Topic 922, *Entertainment - Cable Television,* the Company capitalizes costs associated with the construction of new cable transmission and distribution facilities and the initial installation of cable television service. Capitalized construction and installation costs include materials, labor and other directly attributable costs. Installation activities that are capitalized include (i) the initial connection (or drop) from the Company's network systems to a customer location, (ii) the replacement of a drop, and (iii) the installation of equipment for additional services, such as digital additional services, high-speed Internet access service or telephony service, etc. The costs of other customer-facing activities such as reconnecting locations where a drop already exists, disconnecting customer locations, and repairing or maintaining drops, are expensed as incurred.

Certain capitalized development costs associated with internal-use software are included in support equipment. These costs include external costs of material and services, as well as payroll costs for employees devoting time to the software projects. Capitalized development costs are amortized over a period not to exceed 5 years beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred.

Ordinary maintenance and repairs are charged to expenses as incurred. Major replacements and improvements are capitalized. When property and equipment is retired or otherwise disposed, the cost and related accumulated depreciation accounts are relieved and any differences are recognized as depreciation expense. The impact of such retirements and disposals resulted in additional depreciation expense of ¥2,664 million and ¥2,353 million for the years ended December 31, 2011 and 2012, respectively.

According to ASC Topic 410, *Asset Retirement and Environmental Obligations*, the Company recognizes a liability for asset retirement obligations if sufficient information is available to make a reasonable estimate of fair value. The Company's conditional legal obligations are mainly restoration obligations for office space of buildings and shops, head-end facilities and studios based on lease contracts and restoration obligations (costs for industrial wastes disposal and equipment removal, etc.) for transmission lines and facilities based on Telecommunications Business Act and other relevant laws. The Company does not recognize asset retirement obligations if these removals of equipment are difficult on business continuity and reasonable estimates of timing for equipment removal are difficult. As of December 31, 2011 and 2012, the amount of the Company's asset retirement obligations was ¥2,422 million and ¥2,491 million, respectively, and was included in accrued expenses and other liabilities (current liabilities), other liabilities in the consolidated balance sheets.

(8) Goodwill

The Company recognizes goodwill, measured as the excess of the consideration transferred for a business combination over the net of the fair value of the identifiable assets acquired and the liabilities assumed in the acquiree. The Company performs the goodwill impairment test on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.
The Company performs the option to first assess qualitative factors prior to performing the first step of the goodwill impairment test. In the qualitative assessment, the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, considering relevant events and circumstances that affect the fair value or carrying amount of a reporting unit, such as macroeconomic conditions, industry and market considerations, overall financial performance and share price conditions, etc. If, after assessing them, the Company determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. However, if the Company concludes otherwise, then it is required to perform the first step of the two-step goodwill impairment test.
The first step compares the fair value of a determined reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of the goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized.
The Company performs the annual goodwill impairment test on the first day of October. The Company determines that reporting units are the same as operating segments. The Company did not recognize an impairment loss of goodwill for the years ended December 31, 2011 and 2012.

(9) Long-lived assets

The Company's long-lived assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to the future net cash flows (undiscounted and without interest) expected to be generated by the asset or asset group. If the carrying amount of the asset or asset group is greater than the undiscounted cash flows, impairment is recognized and measured by the amount by which the carrying amount of the assets or asset group exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(10) Other assets

Other assets include certain deferred financing costs, primarily legal fees and bank facility fees, incurred to negotiate and secure J:COM's bank facilities. These costs are amortized to interest expense using effective interest method over the term of the facility.

(11) Income taxes

The Company accounts for deferred income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and the expected benefits of utilizing net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for each taxing jurisdiction in which the Company operates for the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income/loss in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance if the Company believes it is more likely than not such deferred tax assets will not be realized.
In accordance with rules for Uncertainty in Income Taxes, tax benefit is recognized when it is more likely than not that filed tax position will be maintained after examination by the tax authorities. When it is not more likely than not that filed tax position will be maintained, taxes expenses are recognized. Also, interest related to income tax liabilities is included in interest expense and penalties are included in income taxes expense.

(12) Severance and retirement plans

The Company sponsors a defined contribution pension plan (corporate type) for substantially all of its full-time employees excluding directors. Pension expenses related to defined contribution pension plan are charged to expense as incurred. The Company is also a member of Sumisho Rengo Corporate Pension Fund, which is a multiemployer plan and recognizes contribution as expenses in the same way as a defined contribution pension plan.

(13) Revenue recognition

The Company recognizes revenues for cable television service, high-speed Internet access service and telephony service when such services are provided to subscribers. Initial subscriber installation revenues are recognized in the period in which the related services are provided to the extent of direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that the subscribers are expected to continue our services. Historically, installation revenues have been less than related direct selling costs, and therefore, such revenues have been recognized as installations are completed.

The Company provides rebroadcasting services to noncable television viewers who receive poor reception of broadcast television signals as a result of obstacles that were constructed by third parties. The Company enters into agreements with these third parties, whereby the Company receives up-front compensation to construct and maintain cable facilities to provide rebroadcasting services to the affected viewers at no cost during the agreement period. Revenue from these agreements is deferred and is being recognized in income on a straight-line basis over periods that are consistent with the durations of the underlying agreements up to 20 years. For the years ended December 31, 2011 and 2012, the Company recognized revenue under these arrangements totaling ¥11,870 million and ¥6,969 million, respectively, which is included in revenue - others in the consolidated statements of income and comprehensive income. Deferred revenue under these poor reception rebroadcasting service arrangements (PRC) included in the consolidated balance sheets was as follows:

	(Yen in millions) December 31,	
	2011	2012
Deferred revenue PRC – current	¥ 7,123	¥ 5,970
Deferred revenue PRC – non current	58,091	51,891
Total deferred revenue PRC	¥ 65,214	¥ 57,861

The Company's channel operators distribute programs to individual satellite subscribers through an agreement with the satellite service provider. Individual satellite subscribers pay a monthly fee for channel operators under the terms of rolling one-month subscription contracts. Cable television operators and IPTV service providers generally pay a per-subscriber fee for the right to distribute the Company's programs on their systems under the terms of generally annual distribution contracts. Revenue for such services including subscription revenues is recognized in the periods in which the services are provided to cable television operators, the satellite service provider and IPTV service providers.

See Note (5) for a description of related party revenue in the consolidated statements of income and comprehensive income.

(14) Advertising and sales promotion expenses

Advertising and sales promotion expenses are charged to expense as incurred. Advertising and sales promotion expenses amounted to ¥6,636 million and ¥8,242 million for the years ended December 31, 2011 and 2012, respectively, and were included in selling, general and administrative expenses in the consolidated statements of income and comprehensive income.

(15) Consumption taxes

All transactions are recorded net of national and regional consumption taxes.

(16) Stock-based compensation

The Company accounts for stock-based compensation awards using the fair value method. Under this method, the fair value of the stock-based compensation awards is determined using the Black-Scholes option-pricing model, and the fair value is generally needed to be reviewed every fiscal year closing until stock-based awards are vested. For awards granted during 2011and 2012, the fair value was calculated using the Black-Scholes option-pricing model with the following assumptions:

	Years ended December 31,	
	2011	2012
Expected dividends yield	1.92%	2.19%
Volatility	38.10%-41.09%	36.14%-38.04%
Risk-free rate	0.42%-1.21%	0.27%-1.04%
Expected life	4 & 10 years	4 & 10 years

The expected life of stock options was calculated using the "simplified method" set forth in ASC Topic 718*, Compensation - Stock Compensation.* The expected volatility for stock options was based on the historical volatility of J:COM.

(17) Earnings per share

Earnings per share (EPS) is presented in accordance with the provisions of ASC Topic 260, *Earnings per share*. Under ASC Topic 260, basic EPS excludes dilution for potential common stock and is computed by dividing net income attributable to J:COM shareholders by the weighted average number of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

(18) Segments

The Company reports operating segment information in accordance with ASC Topic 280, *Segment Reporting*. ASC Topic 280 defines operating segments as components of an enterprise of which separate financial information is available that is regularly evaluated by the chief operating decision maker in deciding how to allocate resources to an individual segment and in assessing performance of the segment.

The Company's media business is considered as a separate operating segment, however, due to the insignificant size of these operations as of December 31, 2012, management has determined that the Company has one reportable segment, cable television business.

(19) Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used in accounting for, among other things, the valuation of acquisition-related assets and liabilities, allowance for doubtful accounts, deferred tax assets/liabilities and related valuation allowances, loss contingencies, fair value measurements, impairment assessments, depreciation and amortization, capitalization of internal costs associated with construction and installation activities, stock-based compensation, etc. Actual results could differ from those estimates.

(20) Accounting changes and recent accounting pronouncements

Accounting Changes

ASU2011-04

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement* (*Accounting Standards Codification (ASC) Topic 820*): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* ASU2011-04 is intended to develop common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S.GAAP and IFRS. To achieve this objective, ASU2011-04 clarifies existing fair value measurement and disclosure requirements and changes a particular principle or requirement regarding fair value measurement and disclosure. The Company adopted ASU2011-04 in the first quarter of 2012. Such adoption did not have an impact on the Company's financial position and results of operations.

ASU2011-05/12

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*. ASU2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires an entity to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The Company adopted ASU2011-05 in the first quarter of 2012. ASU2011-05 being a disclosure regulation, such adoption did not have an impact on the Company's financial position and results of operations.
Also, it requires to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. In December 2011, the FASB issued ASU2011-12, *Comprehensive Income (ASC Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU2011-05*. By adopting ASU2011-12 in the first quarter of 2012, the Company did not present on this regulation.

Recent Accounting Pronouncements

ASU2012-07

In October 2012, the FASB issued ASU2012-07, *Entertainment - Films (ASC Topic 926):Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs*. ASU2012-07 eliminates that "For films released before or after the date of the balance sheet for which evidence of the possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before the financial statements are issued or are available to be issued, a rebuttable presumption exists that the conditions leading to the write-off existed at the date of the balance sheet. In such situations, an entity shall adjust its financial statements for the effect of any changes in estimates resulting from the use of the subsequent evidence." in ASC Topic 926, *Entertainment - Films*. Therefore, unamortized film costs shall be tested for impairment whenever events or changes in circumstances indicate that the fair value of the film may be less than its unamortized costs. The Company will adopt ASU2012-07 in the first quarter of 2014. The Company does not yet complete our evaluation of the impact of ASU2012-07 on the Company's financial position and results of operations.

(21) Reclassifications

a. Certain prior year amounts have been reclassified to conform to the current year presentation.

b. Restatements of Prior Year's Consolidated Financial Statements

The Company recorded a portion of Net income attributable to noncontrolling interests as Net income attributable to J:COM shareholders up to 2008. In accordance with ASC Topic 250, *Accounting Changes and Error Corrections*, consolidated financial statements as of December 31, 2011 were restated during the third quarter of 2012.
These restatements resulted in changes to Retained earnings, Total J:COM shareholders' equity, Noncontrolling interests in subsidiaries and J:COM shareholders' equity per share. Consequently, Retained earnings and Total J:COM shareholders' equity decreased by ¥4,043 million and Noncontrolling interests in subsidiaries increased by ¥4,043 million as of January 1, 2011.
These restatements did not have a material impact on the prior year's consolidated financial statements.

The impacts of restatements on consolidated balance sheet and consolidated statement of shareholders' equity as of December 31, 2011 were as follows:

(Yen in millions except per share amounts)

Consolidated Balance Sheet	As of December 31, 2011		
	Before restatement	Adjustments	After restatement
Shareholders' equity:			
Common stock no par value	¥ 117,550	¥ —	¥ 117,550
Additional paid-in capital	226,293	—	226,293
Retained earnings	94,825	(4,043)	90,782
Accumulated other comprehensive income/(loss)	(833)	—	(833)
Treasury stock, at cost	(2,128)	—	(2,128)
Total J:COM shareholders' equity	435,707	(4,043)	431,664
Noncontrolling interests in subsidiaries	21,609	4,043	25,652
Total shareholders' equity	¥ 457,316	¥ —	¥ 457,316
Per share information:			
J:COM shareholders' equity per share	¥ 62,916.36	¥ (583.81)	¥ 62,332.55

(Yen in millions)

Consolidated Statement of Shareholders' Equity	As of December 31, 2011		
	Before restatement	Adjustments	After restatement
Retained earnings			
Balance as of January 1, 2011	¥ 70,010	¥ (4,043)	¥ 65,967
Net income	37,278	—	37,278
Cash dividends paid to shareholders	(12,463)	—	(12,463)
Balance as of December 31, 2011	¥ 94,825	¥ (4,043)	¥ 90,782
Noncontrolling interests in subsidiaries			
Balance as of January 1, 2011	¥ 16,259	¥ 4,043	¥ 20,302
Net income	2,896	—	2,896
Other comprehensive income/(loss), net of taxes	(7)	—	(7)
Cash dividends paid to noncontroling interests	(112)	—	(112)
Acquisition of new subsidiaries	3,259	—	3,259
Purchase of subsidiary shares from noncontrolling interest	(686)	—	(686)
Balance as of December 31, 2011	¥ 21,609	¥ 4,043	¥ 25,652

The restatements had no impact on the consolidated statement of income and the statement of cash flows for the year ended December 31, 2011.

2. Acquisitions

One of the primary business strategies of the Company is growth through acquisitions of companies. The Company recognizes the identifiable assets acquired and the liabilities assumed in the acquiree at the acquisition date, and goodwill measured as the excess of the consideration transferred over the net of the above assets and liabilities.

The Company acquired 51% of all shares of YOKOHAMA CABLE VISION Inc. owned by Sotetsu Holding Inc. and made it a consolidated subsidiary in October 2011. Due to the acquisition, goodwill and identifiable intangible assets recognized as of December 31, 2011 were ¥4,857 million and ¥1,480 million, respectively.

In accordance with ASC Topic 805, *Business Combinations,* if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. The measurement period shall not exceed one year from the acquisition date.

Based on additional information obtained about YOKOHAMA CABLE VISION Inc., which became consolidated subsidiary in October 2011, the Company adjusted the provisional amounts recognized in the consolidated balance sheet as of December 31, 2011 during the first quarter of 2012. Consequently, compared with the amounts before retroactive adjustment, Distribution system and equipment, and Deferred tax liabilities – non current increased by ¥171 million and ¥70 million, and Goodwill decreased by ¥101 million, respectively. Due to the retroactive adjustment, goodwill and identifiable intangible assets amounted to ¥4,756 million and ¥1,480 million, respectively.

The Company acquired all shares of ASMIK ACE ENTERTAINMENT, INC.(*1) and made it a consolidated subsidiary in March 2012. Due to the acquisition, Other income (expenses): Other, net amounted to ¥917 million.

*1: ASMIK ACE ENTERTAINMENT, INC. took over VOD business which was spun off from Jupiter Entertainment Co., Ltd. and changed the trade name to ASMIK ACE, INC. on December 1, 2012.

3. Investments in Affiliates

The Company's affiliates are primarily engaged in a program supply business, cable television business and those related businesses. As of December 31, 2012, the Company held the following investments:

Investment	Ownership percentage
Discovery Japan, Inc.	50.00%
Jupiter Satellite Broadcasting Co., Ltd.	50.00%
Japan Digital Serve Corp.	37.34%
AXN Japan, Inc.	35.00%
InteracTV Co., Ltd.	32.50%
Open Wireless Platform LLC.	32.22%
Green City Cable Television Co., Ltd.	20.00%
MediaCreate Co., Ltd.	20.00%

The carrying amount of investments in affiliates as of December 31, 2011 and 2012 included ¥2,996 million and ¥3,000 million, respectively of unamortized excess cost of the initial investments over the acquired equity in the net assets of the affiliates. Amounts associated with intangible assets other than goodwill are amortized over their estimated useful lives. As of December 31, 2012 such estimated useful lives are 17 and 19 years.

Condensed financial information of the Company's unconsolidated affiliates as of December 31, 2011 and 2012 and for the periods in which the Company used the equity method to account for these affiliates for the years ended December 31, 2011 and 2012 were as follows:

(Yen in millions)

Combined financial position:	2011	2012
Property and equipment, net	¥ 4,079	¥ 3,792
Other assets, net	20,906	41,681
Total assets	¥ 24,985	¥ 45,473
Debt	¥807	¥416
Other liabilities	10,334	29,184
Shareholders' equity	13,844	15,873
Total liabilities and shareholders' equity	¥ 24,985	¥ 45,473

Combined Operations:	2011	2012
Revenue	¥ 34,422	¥ 23,934
Operating, selling, general and administrative expenses	(27,696)	(17,760)
Depreciation and amortization	(1,603)	(1,185)
Operating income	5,123	4,989
Interest income/expense, net	1	6
Other expense, net	(2,024)	(2,237)
Net income	¥ 3,100	¥ 2,758

Discovery Japan, Inc. merged with Animal Plant Japan Co., Ltd. in January 2012.

4. Goodwill and Identifiable Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2012 consisted of the following:

(Yen in millions)

	2011	2012
Goodwill, beginning of year	¥ 248,323	¥ 253,079
Acquisitions	4,756	—
Goodwill, end of year	¥ 253,079	¥ 253,079

Based on additional information obtained about YOKOHAMA CABLE VISION Inc., which became consolidated subsidiary in October 2011, the Company adjusted the provisional amounts recognized in the consolidated balance sheet as of December 31, 2011 during the first quarter of 2012. Consequently, compared with the amounts before retroactive adjustment, goodwill decreased by ¥101 million as of December 31, 2011.

Identifiable intangible assets

Identifiable intangible assets include customer relationships, channel franchises and trademark which are originally recorded at fair value in connection with business combinations. Customer relationships, channel franchises and trademark are amortized on a straight-line basis over their respective estimated useful lives, which are 10, 17 and 10 years, respectively, and reviewed for impairment in accordance with ASC Topic 350, *Intangibles - Goodwill and Other Intangible Assets*.

The intangible assets, net as of December 31, 2011 and 2012 consisted of the following:

(Yen in millions)

	Gross carrying amount	Accumulated amortization	Net carrying amount
2011			
Customer relationships	¥ 31,101	¥ (15,016)	¥16,085
Channel franchises	27,641	(5,505)	22,136
Trademark	240	(48)	192
	¥ 58,982	¥ (20,569)	¥38,413
2012			
Customer relationships	¥ 31,101	¥ (18,155)	¥12,946
Channel franchises	27,641	(7,134)	20,507
Trademark	240	(72)	168
	¥ 58,982	¥(25,361)	¥33,621

The Company recorded amortization expenses of ¥4,682 million and ¥4,792 million for the years ended December 31, 2011 and 2012, respectively.

Estimated amortization expenses of intangible assets were expected to be as follows:

	(Yen in millions)
2013	¥ 4,793
2014	4,793
2015	4,540
2016	3,718
2017	2,458
Thereafter	13,319
	¥ 33,621

5. Related Party Transactions

Related party transactions recorded for the years ended December 31, 2011 and 2012 were as follows:

		(Yen in millions)	
		Year ended December 31,	
		2011	2012
Revenue earned from related parties	(1)	¥ 12,046	¥ 13,576
Operating and programming costs charged by related parties	(2)	¥ 15,949	¥ 16,979
SG&A expenses charged by related parties	(3)	¥ 3,911	¥ 4,748
Interest expense, net, charged by related parties	(4)	¥ 1,424	¥ 1,135
Capital lease additions from related parties	(5)	¥ 12,106	¥ 6,690

(1) The Company received consideration for facility use related to telephony service from KDDI and for program supply, program distribution, etc. from other related parties.

(2) The Company paid for (i) telephony service and circuit line, etc. to KDDI, (ii) using billing system and logistic services to Sumitomo subsidiaries, and (iii) program purchase for cable television service and program distribution to other related parties.

(3) The Company paid service fees to Sumitomo and KDDI based on secondees' payroll costs as the Company has management service agreements with Sumitomo and KDDI, whose staff are seconded as directors or management persons in the Company. Also, the Company paid IT support expenses to Sumitomo subsidiaries.

(4) The Company primarily paid interest expenses of capital leases to Sumitomo certain related party.

(5) The Company leases, in the form of capital leases, customer premise equipment and etc. from Sumitomo certain related party. As of December 31, 2011 and 2012, the Company owed those capital lease obligations of ¥49,550 million and ¥39,599 million, respectively.

Certain of the Company's equity method affiliates deposit excess funds with J:COM Finance Co., Ltd. The aggregate amount owed by the Company to these equity method affiliates as of December 31, 2011 and 2012 were ¥268 million and ¥268 million, respectively.

6. Debt

A summary of debt as of December 31, 2011 and 2012 was as follows:

	(Yen in millions)	
	2011	2012
Loan:		
Short-term loan, variable interest at 0.48% to 1.30% and 0.48% to 0.68% as of December 31, 2011 and 2012, respectively	¥ 5,521	¥ 5,061
Term loans, due fiscal 2013 - 2016, interest at 0.46% to 2.26%	121,000	113,000
0% secured loans from Development Bank of Japan, due fiscal 2013 - 2019	6,183	3,933
Secured loans from Development Bank of Japan, due fiscal 2013 - 2018, interest at 0.65% to 2.20%	1,800	1,176
Total	134,504	123,170
Less: current portion	(16,202)	(74,908)
Long-term debt, less current portion	¥ 118,302	¥ 48,262
Corporate bond:		
Unsecured corporate bond, due fiscal 2014, interest at 1.51%	¥ 10,000	¥ 10,000

Term Loans

The summary of J:COM's debt balance on term loans as of December 31, 2012 was as follows. All loan agreements except for those for small amount, require compliance with various financial covenants such as maximum senior debt to EBITDA, minimum debt service coverage ratio, and a total shareholder's equity test.

From March to May of 2006, J:COM refinanced the existing term loan with ¥20 billion of fixed-interest rate loans and ¥20 billion of variable-interest rate loans. These loans mature in 2013.

In connection with the September 2006 acquisition of Cable West Inc., J:COM entered into a ¥22 billion term loan agreement with financial institutions. As a part of the agreed payment, J:COM repaid ¥6 billion term loan in September 2011 and ¥4 billion term loan in March and September 2012, respectively. The remaining ¥8 billion is fixed-interest rate term loan (payment started in 2011 and scheduled to mature in 2013). J:COM entered into a ¥30 billion syndicated term loan agreement in October 2006, and repaid ¥10 billion in October 2011. The remaining ¥20 billion consists of ¥19.5 billion variable-interest rate term loan and ¥0.5 billion fixed-interest rate term loan (both mature in 2013).

In March 2008, J:COM entered into a ¥25 billion syndicated term loan agreement in order to repay the existing term loan. This loan matures in 2014.

In March 2009, in connection with the acquisition of Mediatti Communications, Inc., J:COM entered into ¥30 billion term loan agreements with financial institutions. J:COM repaid ¥10 billion in September 2010 prior to the maturity date. The remaining ¥20 billion loans consist of a ¥9 billion variable-interest rate term loan (matures in 2014), a ¥10 billion variable-interest rate term loan (matures in 2015), and a ¥1 billion fixed-interest rate term loan (matures in 2016).

Other than above mentioned loans, J:COM entered into a ¥30 billion commitment line facility agreement in October 2010 (valid until 2015) with a syndicate of banks. With these agreements, J:COM holds ¥30 billion readily available for immediate borrowing for purposes other than hostile takeover as of December 31, 2012.

Development Bank of Japan Loans to Cable Television Subsidiaries

These loans represent institutional loans from the Development Bank of Japan (DBJ), which were made available to telecommunication companies operating in specific local areas designated as "Teletopia" by the Ministry of Internal Affairs and Communications to facilitate development of local telecommunications networks. Requirements to qualify for such financing include use of optical fiber cables, equity participation by local and municipal governments and guarantee by third parties, among other things. These loans are obtained by the subsidiaries and are guaranteed by J:COM.

Corporate Bond

On July 2, 2009, J:COM completed a ¥10 billion unsecured corporate bond offering at par value with final maturity at June 30, 2014 with interest rate of 1.51%. These proceeds are for general corporate purposes, including the refinancing of existing borrowings.

Securities on Long-term Debt

Non-syndicated bank facility loans from DBJ to certain of J:COM's subsidiaries are secured by substantially all property and equipment held by such subsidiaries. As of December 31, 2012, the aggregate net carrying amount of this property and equipment, etc. was ¥58,811 million.

The aggregate annual maturities of long-term debt outstanding as of December 31, 2012 were as follows:

	(Yen in millions)
Year ending December 31,	
2013	¥ 69,847
2014	45,365
2015	11,069
2016	1,664
2017	141
Thereafter	23
	¥ 128,109

7. Leases

The Company is obligated under various capital leases, primarily for set top boxes and other noncancelable operating leases. See Note (5) for further discussion of capital leases from related parties.

As of December 31, 2011 and 2012, the amount of property and equipment and related accumulated depreciation recorded under capital leases were as follows:

	(Yen in millions)	
	2011	**2012**
Distribution system and equipment	¥ 102,831	¥ 84,916
Support equipment and buildings	5,933	4,602
Less: accumulated depreciation	(55,363)	(50,307)
	¥ 53,401	¥ 39,211

Depreciation of assets under capital leases is included in depreciation and amortization in the consolidated statements of income and comprehensive income.

Future minimum lease payments under capital leases and noncancelable operating leases as of December 31, 2012 were as follows:

(Yen in millions)

Year ending December 31,	Capital leases	Operating leases
2013	¥ 15,718	¥ 2,552
2014	12,276	2,134
2015	9,085	1,096
2016	5,446	985
2017	2,739	718
Thereafter	2,036	1,752
Total minimum lease payments	47,300	¥ 9,237
Less: amount representing interest	(3,146)	
Present value of net minimum lease payments	44,154	
Less: current portion	(14,503)	
Noncurrent portion	¥ 29,651	

The Company occupies certain offices under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2011 and 2012 were as follows:

(Yen in millions)

	2011	2012
Operating and programming costs	¥ 4,155	¥ 3,983
Selling, general and administrative expenses	180	223
	¥ 4,335	¥ 4,206

The Company occupies certain transmission facilities and uses poles and other equipment under cancelable lease arrangements. Rental expenses for such leases for the years ended December 31, 2011 and 2012 were as follows:

(Yen in millions)

	2011	2012
Operating and programming costs	¥14,992	¥10,439
Selling, general and administrative expenses	90	54
	¥15,082	¥10,493

8. Fair Value of Financial Instruments

The Company believes that the fair value of short term financial instruments such as cash and cash equivalents, accounts receivable, short-tem loans and accounts payable, etc. and their carrying amount are approximately equal. For additional information on derivative instruments, see Note (9). Long term financial instruments were as follows.

(Yen in millions)

	2011		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term debt (including current portion)	¥ 128,983	¥ 129,882	¥ 118,109	¥ 118,228
Corporate bond	¥ 10,000	¥ 10,246	¥ 10,000	¥ 10,156

Fair value is measured by the method where future cash flow is deducted by using a discount rate with remaining period and the credit risk taken into account.
The Company believes that the valuations of these long term financial instruments fall under Level 2 of a fair value hierarchy.

9. Fair Value Measurements

ASC Topic 820, *Fair value Measurements and Disclosures,* defines fair value as an exit price, or the price that would be received to sell an asset or paid to transfer a liability. Also, it provides for a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for the identical asset or liability that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

As described in Note (15) Derivative instruments, the Company has entered into interest rate swaps contract and foreign exchange forward contract. The fair value measurements of them are determined using cash flow models. These cash flow models consist of, or are derived from, observable Level 2 data for these derivative instruments, including interest rates, swap rates and yield curves, which are retrieved or derived from available market data. The Company believes that the valuations of these derivative instruments fall under Level 2 of the hierarchy.

The assets and liabilities measured at fair value that were included in our consolidated balance sheets as of December 31, 2011 and 2012 were as follows:

(Yen in millions)

December 31, 2011	Level 1	Level 2	Level 3
Assets:			
Interest rate swaps contract	¥ —	¥ —	¥ —
Foreign exchange forward contract	—	1	—
Total assets	¥ —	¥ 1	¥ —
Liabilities:			
Interest rate swaps contract	¥ —	¥ 1,077	¥ —
Foreign exchange forward contract	—	352	—
Total liabilities	¥ —	¥ 1,429	¥ —

December 31, 2012	Level 1	Level 2	Level 3
Assets:			
Interest rate swaps contract	¥ —	¥ —	¥ —
Foreign exchange forward contract	—	512	—
Total assets	¥ —	¥ 512	¥ —
Liabilities:			
Interest rate swaps contract	¥ —	¥ 533	¥ —
Foreign exchange forward contract	—	—	—
Total liabilities	¥ —	¥ 533	¥ —

10. Income Taxes

All income taxes expense is mainly derived from Japanese operations. Income taxes expense for the years ended December 31, 2011 and 2012 was as follows:

(Yen in millions)

	2011	2012
Current	¥ 27,719	¥ 27,170
Deferred	639	(1,489)
Income taxes expense	¥ 28,358	¥ 25,681

The reconciliation between the statutory tax rate and the effective tax rate in the consolidated statements of income and comprehensive income for the years ended December 31, 2011 and 2012 was as follows:

	2011	2012
Statutory tax rate	40.7%	40.7%
Increase/(decrease) in valuation allowance	(0.3)	(1.7)
Tax effect on undistributed earnings of subsidiaries and affiliates	0.0	0.3
Impact by tax rate changes	0.3	0.0
Per capita tax	0.4	0.4
Non-deductible expenses	0.1	0.1
Adjustment of unrecognized tax benefit	—	(2.4)
Others	0.2	(0.8)
Effective tax rate	41.4%	36.6%

The components of temporary differences and carryforwards that give rise to deferred tax assets and liabilities as of December 31, 2011 and 2012 were as follows:

(Yen in millions)

	2011	2012
Deferred tax assets:		
Deferred revenue	¥ 20,311	¥ 18,203
Accrued expenses and others	5,092	4,803
Property and equipment	3,397	3,248
Lease obligations	4,270	1,659
Net operating loss carryforwards	265	946
Total gross deferred tax assets	33,335	28,859
Less: valuation allowance	(228)	(34)
Deferred tax assets, net of valuation allowance	33,107	28,825
Deferred tax liabilities:		
Intangible assets (mainly identifiable intangible assets)	14,556	12,647
Property and equipment	13,748	9,913
Investments	2,717	2,977
Others	324	553
Total gross deferred tax liabilities	31,345	26,090
Net deferred tax assets	¥ 1,762	¥ 2,735

Based on additional information obtained about YOKOHAMA CABLE VISION Inc., which became consolidated subsidiary in October 2011, the Company adjusted the provisional amounts recognized in the consolidated balance sheet as of December 31, 2011 during the first quarter of 2012. Consequently, compared with the amounts before retroactive adjustment, Deferred tax liabilities – Property and equipment increased by ¥70 million.

Valuation allowance for deferred tax assets decreased by ¥194 million, from ¥228 million as of December 31, 2011 to ¥34 million as of December 31, 2012. The reasons for the decrease in valuation allowance were mainly utilization of net operating loss carryforwards and reversal by reviewing the collectibility of deferred tax assets.

The Company assesses the realizability in recognition of deferred tax assets and considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. The ultimate realization of deferred tax assets is dependent upon whether future taxable income generates or not during the periods in which those temporary differences become deductible. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management expects to realize its deferred tax assets net of existing valuation allowance.

As of December 31, 2012, the Company had net operating loss carryforwards for income tax purposes of ¥2,488 million which were available to offset future taxable income. Net operating loss carryforwards, if not utilized, will expire in each of the years as follows:

	(Yen in millions)	
Year ending December 31,		
2013	¥	—
2014		—
2015		—
2016		—
2017		855
Thereafter		1,633
	¥	2,488

As of December 31, 2012, the Company had tax benefits that would decrease the Company's effective tax rate. According to ASC Topic 740, *Income taxes*, however, all amounts were unrecognized in the consolidated financial statements.

The Company is subject to income tax examinations of the National Tax Administrative Agency. Substantially all material income tax examinations have been concluded for tax years through 2005. Currently, the Company is not under examination in any jurisdictions in which the Company operates. Although it is reasonably possible that an examination could be conducted in future that would result in changes to the Company's unrecognized tax benefits related to tax positions taken as of December 31, 2012, the Company does not expect that any such changes will have a material impact on its 2013 effective tax rate. Although it is reasonably possible that some additional tax benefits unrecognized in the consolidated financial statements could generate through transactions by the Company, the Company does not disclose any estimate of increase in such tax benefits as it is not possible to assure nature of future tax position and its impact.

During 2012, income taxes expense increased by ¥254 million representing the accrual of penalties incurred by uncertainty tax position and decreased by ¥1,718 million by lapse of the statute of limitations on unrecognized tax benefits. Interest expense of ¥248 million representing the accrual of interest from estimated penalties by uncertainty tax position was included during the period. In addition, accrued interest and penalties of ¥4,334 million as of December 31, 2012 were included in other liabilities in the consolidated balance sheet.

The changes in the Company's unrecognized tax benefits during 2012 were summarized below:

	(Yen in millions)	
Balance as of January 1, 2012	¥	16,458
Additions based on tax positions related to the current year		—
Lapse of the statute of limitations		(1,718)
Balance as of December 31, 2012	¥	14,740

11. Severance and Retirement Plans

The Company sponsors a defined contribution pension plan (corporate type) for substantially all of its full-time employees excluding directors. It is a defined contribution type of corporate pension plan adopted in October 2005 based on Japan's Defined Contribution Pension Act. The Company is responsible for all contributions while each employee has risk and return for the investment. The contributions are booked as retirement benefit expenses, whose amount for the years ended December 31, 2011 and 2012 was ¥688 million and ¥714 million, respectively.

The Company is also a member of Sumisho Rengo Corporate Pension Fund (the Fund), which is a multiemployer plan. The Fund is a fund type of corporate pension which was established according to Defined Contribution Pension Act and is a corporate type of fund managed jointly by multiple companies in Sumitomo Corporation Group. The Fund is a defined benefit plan which provides an old-age pension, a lump-sum withdrawal payment and a survivor's pension. Since the Company is unable to acquire sufficient information for the amount of the plan assets corresponding to the Company's contributions in a rational manner, the Company books contributions as retirement benefit expenses in the same way as a defined contribution pension plan.
By participating in the Fund, the Company can reduce the risk of failing to maintain the pension plan due to reduction of cost burden for administration work and fund management. On the other hand, it does not perfectly suit the Company's policy in some aspects as it is jointly managed by multiple companies.
The Fund's financial information in the latest annual report (based on actuarial accounting) is as below. The Fund owes no obligation under any other employer who does not belong to the Fund as it does not accept or take over such obligation.

(Yen in millions)

	March 31, 2011		March 31, 2012	
Plan assets	¥	21,132		24,809
Actuarial benefit obligation		25,166		27,692
Difference	¥	(4,034)		(2,883)
Funded ratio of plan assets		84.0%		89.6%
Details of difference:				
Surplus (deficit)	¥	12	¥	(107)
Unamortized prior service obligation	¥	(4,046)	¥	(2,776)

Below shows that the amount of the Company's contributions were more than 5% of that of the total contributions to the Fund.

(Yen in millions)

	March 31, 2011		March 31, 2012	
Amount of the Company's contributions	¥	1,365	¥	1,475
Amount of total contributions to the Fund	¥	3,325	¥	3,448
Ratio of the Company's contributions to the Fund		41.1%		42.8%

The Company recorded ¥1,526 million and ¥1,564 million for the years ended December 31, 2011 and 2012, respectively, in the consolidated statements of income and comprehensive income.

The Company pays contributions which are calculated by multiplying employee's average earning based on salary amount by the fixed contribution rates to the Fund every month. Contributions consist of standard contribution for pension benefit, special contribution for amortizing underfunding and contribution for administrative expenses for fund management. The Fund calculates the rates of contributions in order to keep the Fund's financial position safe for the future according to the related laws, taking into consideration the estimated amounts for pension payments and return on plan assets and so on. Employers owe obligation for all contributions.

The Fund reviews the rates of contributions every five years in accordance with the laws and the agreements, and when there are some remarkable changes such as significant change in the number of participants (Next review will be run based on the balance at the end of March 2013). Also, the Fund confirms whether to change the rates of the contributions every year, checking the financial position based on the estimated amounts for pension payments and contribution incomes. The Fund also confirms whether enough plan assets equivalent to the benefit obligation for participants' prior service terms are kept every year. When the Fund's financial position becomes underfunding, in order to solve it within a certain period of time, the Fund imposes special contribution, etc. which are calculated by multiplying employee's average earning based on salary amount by the fixed contribution rates on all members of the Fund.
The Fund reviewed as mentioned above at the end of March 2012 and concluded no change in the contribution rates. All members of the Fund have to pay special contribution to cover amortization of prior service cost for the period of 4 years and 6 months from October 2009 to March 2014.

Subsidiaries acquired by the Company sometimes continue severance and retirement plans different from the Company's plan for a certain period of time. YOKOHAMA CABLE VISION Inc. and ASMIC ACE, INC. had an unfunded defined benefit severance and retirement plan (lump-sum payment) in 2012. Neither case was material to the consolidated financial statements.

12. Shareholders' Equity

Dividends

Under the Corporate Law (the Law), the distributable amount available for dividends is based on the amount of capital surplus and retained earnings as recorded on the books of J:COM maintained in conformity with JGAAP. As of December 31, 2012, the distributable amount available for dividends on the books of J:COM was ¥114,776 million.
The Law provides that an amount equal to at least 10% of dividends shall be appropriated to capital reserve or legal reserve up to 25% of common stock.

Stock-Based Compensation

J:COM has stock option plans for certain directors, auditors and employees, etc. of the Company. A summary of stock option activity for the year ended December 31, 2012 was as follows:

	Number of shares	Weighted average exercise price (Yen)	Weighted average remaining contractual term (Yrs)	Aggregate intrinsic value (Yen in millions)
Outstanding at beginning of the year	11,037	¥ 68,932		
Granted	699	1		
Expired, cancelled or forfeited	(9,366)	80,000		
Exercised	(448)	25,715		
Outstanding as of December 31, 2012	1,922	¥ 1	10.63	¥ 207
Exercisable as of December 31, 2012	513	¥ 1	4.66	¥ 55

Stock-based compensation expense amounted to ¥47 million and ¥50 million for the years ended December 31, 2011 and 2012, respectively, and all amounts were included in selling, general and administrative expenses.

13. Supplemental Disclosures to Consolidated Statements of Cash Flows

	2011	2012
	(Yen in millions)	
Cash paid for:		
Interest	¥ 4,042	¥ 3,430
Income taxes	¥ 31,686	¥ 21,578
Non-cash activities:		
Property and equipment acquired under capital leases	¥ 12,414	¥ 6,997

14. Commitments

The Company's channel operators have agreements with contents holder companies concerning purchase of programming rights and J:COM also has agreements with channel operators outside the Company concerning program supply. There is the provision to guarantee certain minimum payment in some agreements.
The Company's channel operators have agreements with the satellite service provider, in order to utilize transponder according to bandwidth needs of individual channels and uplink services to transmit each channel's signal to the satellite through subsidiaries and affiliates which are licensed broadcasting companies.
Also, as of December 31, 2012, the Company had foreign exchange forward contracts of ¥5,229 million on behalf of affiliates.
As of December 31, 2012, the aggregate amount of commitment obligations and those payment schedules were as follows:

Year ending December 31,	(Yen in millions)
2013	¥ 12,208
2014	10,290
2015	8,576
2016	5,336
2017	2,848
Thereafter	4,199
	¥ 43,457

15. Subsequent Events

J:COM has resolved at its board of directors meeting held on February 26, 2013, to express an opinion in favor of the tender offer (the Tender Offer) for all of J:COM's issued common shares and stock acquisition rights to be conducted by KDDI and NJ Corporation (NJ; KDDI and NJ collectively, the Tender Offerors) the voting rights of which are owned in equal number by Sumitomo and KDDI, and to recommend that the shareholders and stock acquisition right holders of J:COM accept the Tender Offer.

(1) Outline of the Tender Offerors (as of February 26, 2013, unless otherwise noted)

(a)	Name	KDDI Corporation	
(b)	Location	2-3-2, Nishishinjuku, Shinjuku-ku, Tokyo	
(c)	Name and Title of Representative	Takashi Tanaka, President and Representative Director	
(d)	Description of Business	Telecommunications business	
(e)	Amount of Stated Capital	141,851 million yen (as of December 31, 2012)	
(f)	Date of Establishment	June 1, 1984	
(g)	Major Shareholders and Shareholding Ratios (as of December 31, 2012)	KYOCERA Corporation	12.76%
		Toyota Motor Corporation	11.09%
		The Master Trust Bank of Japan, Ltd. (Trust Account)	4.80%
		Japan Trustee Services Bank, Ltd. (Trust Account)	4.43%
		State Street Bank and Trust Company (Standing proxy: The Hong Kong and Shanghai Banking Corporation Limited Tokyo Branch)	3.75%
		State Street Bank and Trust Company 505223 (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Business Department)	1.26%
		Mellon Bank, N.A. As Agent For Its Client Mellon Omnibus U.S. Pension (Standing proxy: Mizuho Corporate Bank, Ltd., Settlement Business Department)	0.99%
		Japan Post Mutual Aid Association	0.96%
		Japan Trustee Services Bank, Ltd. (Trust Account 4)	0.86%
		Japan Trustee Services Bank, Ltd. (Trust Account 9)	0.80%
(h)	Relationship between J:COM and the Tender Offerors		
	Capital Relationship	KDDI directly or indirectly owns 30.71% (2,133,797 shares) of the total issued common shares of J:COM (as of December 31, 2012: 6,947,813 shares).	
	Personnel Relationship	KDDI dispatches Mr. Hirofumi Morozumi and Mr. Makoto Takahashi to J:COM as part-time directors, and Mr. Kenichiro Takagi as an outside company auditor. All three are officers/employees of KDDI. KDDI also seconds employees to J:COM.	
	Business Relationship	KDDI provides J:COM services (such as telephone switching functions and interconnections) necessary for J:COM to provide fixed-line services to its customers as wholesale telecommunications services. KDDI also provides J:COM upper lines necessary for J:COM's customers to connect to the Internet.	

	Status as Related Party	J:COM is KDDI's affiliate accounted for under the equity method, so it is a related party of KDDI.

(a)	Name	NJ Corporation.	
(b)	Location	3-10-10, Iidabashi, Chiyoda-ku, Tokyo	
(c)	Name and Title of Representative	Koichi Kawakami, President and Representative Director	
(d)	Description of Business	To acquire and hold the shares of J:COM	
(e)	Amount of Stated Capital	355 million yen	
(f)	Date of Establishment	January 7, 2013	
(g)	Major Shareholders and Shareholding Ratios	Sumitomo Corporation	50.00%
		KDDI Corporation	50.00%
(h)	Relationship between J:COM and the Tender Offerors		
	Capital Relationship	Not applicable.	
	Personnel Relationship	Not applicable.	
	Business Relationship	Not applicable.	
	Status as Related Party	Not applicable.	

(2) Outline of the Tender Offer

As announced in a statement titled "Notice on Tender Offer for Share Certificates etc. of Jupiter Telecommunications Co., Ltd." released by Sumitomo and KDDI as of October 24, 2012, Sumitomo and KDDI decided at their respective board of directors meetings to jointly conduct the Tender Offer by KDDI and NJ, so that J:COM will be delisted and Sumitomo and KDDI will each own 50% of the voting rights of J:COM upon certain conditions being met, such as completion of the procedures and responses required under domestic and foreign competition laws. (Sumitomo and KDDI resolved to change the price of the purchase, etc. per common share of J:COM in the Tender Offer (the Tender Offer Price), at each board of directors meeting held on February 26, 2013, to 123,000 yen per share from the 110,000 yen per share price determined on October 24, 2012.) Upon completion of the procedures and responses required under domestic and foreign competition laws, and the conditions to commence the Tender Offer by the Tender Offerors set forth in the shareholders agreement (the Shareholders Agreement) executed between Sumitomo and KDDI regarding the joint operation of J:COM as of October 24, 2012 being met, and pursuant to the decisions above, the Tender Offerors determined to jointly commence the Tender Offer on February 26, 2013.

For the Tender Offer, neither a maximum nor a minimum number of shares to be purchased will be set. Therefore, in the Tender Offer, all the share certificates, etc. tendered will be purchased. However, (i)(a) KDDI will purchase all tendered common shares until the number of voting rights owned by Sumitomo and KDDI become equal (644,115 shares), (b) NJ will purchase all common shares exceeding the number of such common shares, and (ii) NJ will purchase all of the Stock Acquisition Rights (as defined below).

Should Sumitomo and KDDI fail to acquire all the issued common shares of J:COM (including J:COM's common shares to be delivered upon the exercise of the Stock Acquisition Rights; however, excluding the treasury shares held by J:COM) in the Tender Offer, then after the Tender Offer, notwithstanding the number of share certificates, etc. tendered in the Tender Offer, the Tender Offerors plan to implement procedures for either Sumitomo, KDDI, and NJ, or Sumitomo and KDDI, to acquire all the issued shares of J:COM) (details of which procedures are as stated in "*(4) Policy on Reorganization, etc. after the Tender Offer (Matters regarding So-Called Two Step Acquisition)*").

a. Types of Share Certificates, Etc. of the Tender Offer

(a) Common shares

(b) Stock acquisition rights

(i) Stock acquisition rights issued pursuant to the resolution of the general shareholders' meeting of J:COM held on March 28, 2006
(ii) Stock acquisition rights issued pursuant to the resolution of the board of directors meeting of J:COM held on April 27, 2007
(iii) Stock acquisition rights (mid-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on July 29, 2008
(iv) Stock acquisition rights (mid-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on April 23, 2009
(v) Stock acquisition rights (long-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on March 25, 2009
(vi) Stock acquisition rights (mid-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 25, 2010
(vii) Stock acquisition rights (long-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 25, 2010
(viii) Stock acquisition rights (mid-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 24, 2011
(ix) Stock acquisition rights (long-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 24, 2011
(x) Stock acquisition rights (mid-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 29, 2012
(xi) Stock acquisition rights (long-term incentive) issued pursuant to the resolution of the board of directors meeting of J:COM held on February 29, 2012
(The stock acquisition rights described in (i) through (xi) above are hereinafter collectively referred to as the Stock Acquisition Rights.)

b. Period of the Tender Offer

From Wednesday, February 27, 2013 to Wednesday, April 10, 2013 (30 business days)

c. Price for the Tender Offer

(a) Common Shares : 123,000 yen per share
(b) The Stock Acquisition Rights : 122,999 yen per share option

d. Number of share Certificates, etc of the Tender Offer

(a) Number of Shares of the Tender Offer : 1,801,954 shares
(b) Minimum Number of Shares of the Tender Offer : — shares
(c) Maximum Number of Shares of the Tender Offer : — shares

(Note1) In the Tender offer, none of the conditions set forth in each Item of Article 27 – 13, Paragraph 4 of the Financial Instruments and Exchange Act (Act No.25 of 1948, as amended) are imposed and all the tendered Share Certificates, etc. will be purchased.

(Note2) In the column "Number of shares of the Tender Offer," 1,801,954 shares, the maximum number of J:COM's Share Certificates, etc. to be acquired by the Tender offerors in the Tender offer is entered. This maximum number (1,801, 954 Shares) was calculated as follows: the sum of (i) the total issued common shares of J:COM as of December 31, 2012 (6,947,813 shares), and (ii) the number of J:COM common shares underlying the Stock Acquisition Rights of December 31, 2012 (1,922 shares); then deducting from the sum of (i) and (ii) (6,949,735 shares), (iii) the number of treasury shares (83,168 shares) held by J:COM as of December 31, 2012, (iv) the number of J:COM's common shares (2,133,797 shares) held by KDDI, the Tender Offeror, as of February 26, 2013, (v) J:COM's common shares (152,904 shares) entrusted for a securities custodial trust by KDDI to Mizuho Trust & Banking Co., Ltd. as of February 26, 2013, which are not planned to be tendered in the Tender Offer, and (vi) the number of J:COM's common shares (2,777,912 shares) held by Sumitomo as of February 26, 2013, which are not planned to be tendered in the Tender Offer.

(Note3) The treasury shares of J:COM are not planned to be acquired through the Tender Offer.

(Note4) The Stock Acquisition Rights could be exercised by the last day of the Tender Offer Period. J:COM's common shares to be delivered upon the exercise of the Stock Acquisition Rights are also subject to the Tender Offer.

(Note5) Out of the tendered Share Certificates, etc. to be purchased in the Tender Offer, (1) (i) KDDI will purchase all common shares up to 644,115 shares, (ii) NJ will purchase all common shares exceeding 644,115 shares, and (2) NJ will purchase all the Stock Acquisition Rights.

e. Commencement Date of Settlement

Wednesday, April 17, 2013

(3) Decision-Making Process and Reasons for Decision to Support Tender Offer

a. Course of events up to October 24, 2012

On September 28, 2012, J:COM received from Sumitomo and KDDI an initial general explanation regarding their intention to conduct the Tender Offer and a series of proposed procedures (collectively, the Transaction) as stated in "*(4) Policy on Reorganization, etc. after the Tender Offer (Matters related to the So-Called Two Step Acquisition)*" below (in which the tender offer price was 110,000 yen per common share of J:COM (the Initially Proposed Tender Offer Price)).

J:COM, upon receiving that initial general explanation, appointed Mori Hamada & Matsumoto as its legal adviser and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (Mitsubishi UFJ Morgan Stanley Securities) as its financial adviser.

J:COM held a board of directors meeting on October 9, 2012, where the following matters were resolved:

(i) to establish a third-party committee consisting of attorneys, certified public accountants, and other members with expertise who are highly independent of J:COM, Sumitomo, and KDDI;

(ii) to request to the third-party committee the following matters (the Delegated Matters): (a) to consider, and make a recommendation to J:COM's board of directors on, whether or not J:COM's board of directors should express an opinion in favor of the Tender Offer and, if it should, whether or not J:COM should express an opinion to recommend the acceptance of the Tender Offer and (b) to consider, and give its opinion to J:COM's board of directors on, whether it would not be disadvantageous for J:COM's minority shareholders if J:COM's board of directors decided to express its opinion in favor of the Tender Offer and recommend the acceptance of the Tender Offer and decided to implement the procedures for the acquisition by the Tender Offerors of all of the issued shares of J:COM after the Tender Offer; and

(iii) on condition that the number of members of the third-party committee should be three and the members are to be appointed from among attorneys, certified public accountants, and other persons with expertise who are also highly independent from J:COM, Sumitomo, and KDDI, to entrust the appointment of the members of the third-party committee to Mr. Tomoya Aoki, Mr. Mineo Fukuda, and Mr. Toru Kato, three of the five present directors of J:COM (the remaining two present directors being Mr. Ryosuke Yamazoe and Mr. Yoshiki Nakai, who had been officers/employees of Sumitomo or KDDI until relatively recently (until March or June 2011), and the absent directors being Mr. Yoshio Osawa, Mr. Hirofumi Morozumi, Mr. Makoto Takahashi, Mr. Daisuke Mikogami, Mr. Shuichi Mori, and Mr. Shunsuke Oyama).

Pursuant to those resolutions, Mr. Aoki, Mr. Fukuda, and Mr. Kato established the third-party committee by unanimously appointing, as the members thereof, Mr. Shiro Kuniya, an attorney at Oh-Ebashi LPC & Partners, Mr. Nobumichi Hattori, a visiting professor of Graduate School of Finance, Accounting and Law of Waseda University, and Mr. Toru Mio, a representative director of Mio & Company Inc. and Oct Advisors Inc., concurrently, from among attorneys, certified public accountants, and several other candidates for the committee members with expertise who were highly independent from J:COM, Sumitomo, and KDDI.

J:COM then received from Sumitomo and KDDI a written proposal and explanation of the Transaction dated October 15, 2012. Upon receipt of that proposal, during the period from October 17, 2012 up to October 23, 2012, J:COM requested Sumitomo and KDDI to increase the tender offer price and had discussions and negotiations with them with respect to the tender offer price, with the advices received from Mitsubishi UFJ Morgan Stanley Securities and Mori Hamada & Matsumoto. However, in response, Sumitomo and KDDI consistently rejected the proposal to increase the Initially Proposed Tender Offer Price of 110,000 yen on the basis that it was a good price that took the interest of minority shareholders into account.

After J:COM received the proposal dated October 15, 2012 as described above, five meetings of a third-party committee (the Phase-One Third-Party Committee) were held in total between October 15, 2012 and October 23, 2012 in which the Delegated Matters were discussed and examined. For the discussion and examination by the Phase-One Third-Party Committee, information regarding the Transaction was collected through the following ways: (A) J:COM was asked to explain its business plan and the impact of the Transaction on the corporate value of J:COM along with other subjects, and question-and-answer sessions about these matters were conducted; (B) Mitsubishi UFJ Morgan Stanley Securities was asked to explain the result of the share price valuation, and question-and-answer sessions about it were conducted; (C) questionnaires were sent to Sumitomo and KDDI on three occasions, and Sumitomo and KDDI answered them; (D) J:COM and Mitsubishi UFJ Morgan Stanley Securities reported the status of the negotiation regarding the tender offer price with Sumitomo and KDDI, and question-and-answer sessions about it were conducted; (E) the decision-making process of J:COM and certain other matters regarding the Transactions were explained by Mori Hamada & Matsumoto, and

question-and-answer sessions about these matters were conducted; and (F) in addition to the foregoing, relevant materials regarding the Transaction were submitted. At the meeting of the Phase-One Third-Party Committee, it was also explained by Mitsubishi UFJ Morgan Stanley Securities that, with respect to the tender offer price of 139,500 yen (the 2010 Tender Offer Price) per common share of J:COM upon the tender offer by Sumitomo for J:COM's share certificates announced in February 2010, , the Initially Proposed Tender Offer Price would not be considered inappropriate due to the fact that the Initially Proposed Tender Offer Price was lower than the 2010 Tender Offer Price, because, (i) a considerable period of time has passed since February 2010, and (ii) the business environment surrounding, and the growth potential of, the domestic cable television industry, where J:COM belongs, have changed since February 2010, due to continuous decreasing trend of ARPU (Average Revenue per User) owing to factors such as increased competition with fixed carriers, and the growth of alternative media distribution business using tablet PC and other media owing to the rapid expansion of high-speed mobile communication market.

In consideration of the above factors, the Phase-One Third-Party Committee discussed and examined the Delegated Matters, and as a result, at the meeting held on October 23, 2012, by unanimous resolution of all the members, the Phase-One Third-Party Committee reported to J:COM's board of directors that (a) it is appropriate for J:COM's board of directors to express an opinion in favor of the Tender Offer and to express an opinion to recommend that its shareholders and stock acquisition right holders tender their shares or stock acquisition rights in the Tender Offer, and (b) that J:COM's minority shareholders would not be disadvantaged if J:COM's board of directors decides to express an opinion in favor of the Tender Offer and recommend the acceptance of the Tender Offer and decides to implement the procedures for the acquisition directly or indirectly by Sumitomo and KDDI of all of the issued shares of J:COM after the Tender Offer. The Phase-One Third-Party Committee also submitted its written report (the October Written Report) to J:COM's board of directors on the same day.
According to the October Written Report received from the Phase-One Third-Party Committee, the main factors that the Phase-One Third-Party Committee took into account in making its report as described above were as follows:

(i) the Initially Proposed Tender Offer Price is considered to be appropriate in light of the calculation results in the October Share Price Valuation Report (as defined below); the Tender Offer Price was also considered to be appropriate in the October Fairness Opinion (as defined below) from a financial perspective for J:COM's shareholders (excluding Sumitomo and the Tender Offerors, and their related companies); the premium added to the market value of J:COM's shares is in line with that added in the cases similar to the Transaction; there were several negotiations to increase the tender offer price between J:COM and Sumitomo and KDDI; the purchase price for the Stock Acquisition Rights calculated by deducting their exercise price from the tender offer price of J:COM's common stock was found to be appropriate in light of the advices given by Mitsubishi UFJ Morgan Stanley Securities to J:COM;

(ii) no particular problems are found with the Transaction or the Initially Proposed Tender Offer Price from the viewpoint of the impact of the Transaction on the corporate value of J:COM such as synergies; and

(iii) the interests of J:COM's minority shareholders have been taken into account through appropriate and fair procedures.

J:COM has obtained a share price valuation report (*kabushiki-kachi santei-sho*) on J:COM's common stock from Mitsubishi UFJ Morgan Stanley Securities dated October 23, 2012 (the October Share Price Valuation Report), and received the explanation thereof. J:COM has also obtained a fairness opinion, and received the explanation thereof, from Mitsubishi UFJ Morgan Stanley Securities dated October 23, 2012 (the October Fairness Opinion), which states that the Initially Proposed Tender Offer Price to be applied in the Transaction is

appropriate for J:COM's shareholders (excluding Sumitomo and the Tender Offerors, and their related companies) from a financial perspective. J:COM also received from Mitsubishi UFJ Morgan Stanley Securities advice regarding the purchase price of the Stock Acquisition Rights.

Taking into consideration the content of the October Written Report submitted by the Phase-One Third-Party Committee, the October Share Price Valuation Report, and the October Fairness Opinion described above as well as the advices received from Mitsubishi UFJ Morgan Stanley Securities and Mori Hamada & Matsumoto, J:COM's board of directors, at its meeting held on October 24, 2012, concluded, after careful discussions and examinations, that the Initially Proposed Tender Offer Price is appropriate and that the Tender Offer provides J:COM's shareholders with a reasonable opportunity to sell their shares for the following reasons:

(i) it was considered that the Transaction would contribute to an increase in the corporate value of J:COM through business expansion as a result of the integration of the cable television business of Japan Cablenet Limited and J:COM, the effective utilization of the management resources of Sumitomo and KDDI, and the deepening of relations with Sumitomo and KDDI in various business areas, including the media industry; and

(ii) the Initially Proposed Tender Offer Price fell within the range of calculation results derived from the DCF analysis in the October Share Price Valuation Report, was close to the median value of such range, and exceeded the upper end of the range of calculation results of the historical share exchange ratio and comparable companies analyses; an opinion (the October Fairness Opinion) stating that the Initially Proposed Tender Offer Price was appropriate for J:COM's shareholders (excluding Sumitomo and the Tender Offerors, and their related companies) from a financial perspective had been obtained; and a premium in line with premium standards in the cases similar to the Transaction had been added to the market value of J:COM's shares.

For the Stock Acquisition Rights, J:COM's board of directors also concluded that the purchase price of the Stock Acquisition Rights provided the Stock Acquisition Right holders with a reasonable opportunity to sell their Stock Acquisition Rights, because the purchase price of each Stock Acquisition Right was calculated by multiplying the Initially Proposed Tender Offer Price less the exercise price of the Stock Acquisition Rights by the number of common stock allotted for each Stock Acquisition Right exercised.

Then, J:COM's board of directors resolved, through a unanimous decision of all directors present (excluding two directors who abstained from voting on the resolution from the viewpoint of maintaining the resolution's fairness) that J:COM's opinion as of October 24, 2012 was to express an opinion in favor of the Tender Offer and recommend that its shareholders and stock acquisition right holders tender their shares or stock acquisition rights in the Tender Offer if the Tender Offer commenced (the October Expression of Endorsement).

According to Sumitomo and KDDI, the Tender Offerors would conduct the Tender Offer subject to the completion of procedures and responses required under domestic and foreign competition laws and other certain conditions. However, it was anticipated that it would take a certain period of time to complete the procedures involving domestic and foreign competition authorities, and it was difficult to accurately estimate the amount of time required for those procedures. Given that, the board of directors held on October 24, 2012 also resolved (i) to request the third-party committee when the Tender Offer is about to commence to consider whether or not there had been any change in the opinion expressed by the Phase-One Third-Party Committee in the October Written Report, and, if not, to state as such to J:COM's board of directors or, if so, to state to J:COM's board of directors the changed opinion, and (ii) to express an opinion of board of directors again on the Tender Offer at the

time of the commencement of the Tender Offer.

b. Course of events after October 24, 2012

After that, on January 9, 2013, Sumitomo and KDDI informed J:COM that Sumitomo and KDDI desired to commence the Tender Offer as early as the beginning of February, taking into account the status of preliminary investigations by competition authorities in China.

After being so informed, J:COM promptly started to discuss and consider how to proceed, requesting Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and Mori Hamada & Matsumoto for their advice, and on January 18, 2013, the third-party committee was reconvened to examine, among other things, whether J:COM should be in favor of the Tender Offer. At the outset of such discussion and consideration, J:COM confirmed that (i) its performance for the fiscal year ended December 2012 was almost the same as that projected in J:COM's business plan that was used as the basis for the October Share Price Valuation Report and the October Fairness Opinion and that (ii) after October 24, 2012, there was no material change to J:COM's business plan and other factors that affect the calculation of J:COM's corporate value.
On the other hand, based on the fact that the market value of comparable listed companies and general stock market conditions have improved to a certain extent since October 24, 2012, and also taking into account that J:COM had received from some of its shareholders requests to raise the Initially Proposed Tender Offer Price, J:COM concluded that it should renegotiate with Sumitomo and KDDI with respect to the tender offer price and other terms and conditions for the Tender Offer, aiming to raise the Initially Proposed Tender Offer Price.

Thus, on January 22, 2013, J:COM made a request to Sumitomo and KDDI to recommence discussions and negotiations regarding the tender offer price and other terms and conditions for the Tender Offer, and had discussions and negotiations with Sumitomo and KDDI therefrom aiming to raise the tender offer price.

Meanwhile, on February 8, 2013, Sumitomo and KDDI informed J:COM that the Tender Offer would not commence by early February 2013 because procedures and steps required under China competition law did not complete in China as of February 8, 2013. Then on February 18, 2013, Sumitomo and KDDI informed J:COM that those procedures and steps required under China competition law had been completed in China and Sumitomo and KDDI desired to commence the Tender Offer on February 27, 2013.

During the period from January 22, 2013 to February 19, 2013, J:COM continued sincere discussions and negotiations with Sumitomo and KDDI in order to raise the tender offer price, taking into consideration advice from Mitsubishi UFJ Morgan Stanley Securities and Mori Hamada & Matsumoto and examinations made so far at the third-party committee. As a result, on February 19, 2013, J:COM received from Sumitomo and KDDI a final proposal that Sumitomo and KDDI intend to conduct the Tender Offer with the increased tender offer price of 123,000 yen.

The third-party committee held its sixth meeting on January 18, 2013, and nine meetings of a third party committee (the Phase-Two Third-Party Committee) were held in total between then and February 25, 2013 in which the members mainly discussed and examined, among other things, whether J:COM should be in favor of the Tender Offer. For the discussion and examination by the Phase-Two Third-Party Committee, J:COM, Mitsubishi UFJ Morgan Stanley Securities, and Mori Hamada & Matsumoto respectively gave explanations, and questions and answers were made, with respect to the following: (i) after October 24, 2012, whether there was any material change in J:COM's business plan and other factors affecting the calculation of J:COM's corporate value, (ii) the movement of the market value of

comparable listed companies and movements in general stock market conditions after October 24, 2012, (iii) opinions of J:COM's minority shareholders received after October 24, 2012 requesting that the Initially Proposed Tender Offer Price be raised for the Tender Offer, (iv) the content of the Share Price Valuation Reports (as defined below) and the Fairness Opinions (as defined below), and (v) the status of price negotiations with Sumitomo and KDDI. The third-party committee also gathered information regarding the Transaction from the relevant materials submitted to the committee.

In consideration of the above factors, the Phase-Two Third-Party Committee discussed and examined whether J:COM should be in favor of the Tender Offer and recommend the acceptance of the Tender Offer, and as a result, at its meeting held on February 25, 2013, by an unanimous resolution of all the members, the Phase-Two Third-Party Committee reported to J:COM's board of directors that (a) it is appropriate for J:COM's board of directors to express an opinion in favor of the Tender Offer and to express an opinion to recommend that its shareholders and stock acquisition right holders tender their shares or stock acquisition rights in the Tender Offer, and (b) J:COM's minority shareholders would not be disadvantaged if J:COM's board of directors decided to express an opinion in favor of the Tender Offer and recommend the acceptance of the Tender Offer and decided to implement the procedures for the direct or indirect acquisition by Sumitomo and KDDI of all of the issued shares of J:COM after the Tender Offer. The Phase-Two Third-Party Committee also submitted its written report (the February Written Report) to J:COM's board of directors on the same day.

According to the February Written Report received from the Phase-Two Third-Party Committee, in addition to the analyses made in the October Written Report, the main factors that the Phase-Two Third-Party Committee took into account in making its report as described above were as follows:

(i) according to the financial results of the fiscal year ended in December 2012 and other reports, no material change was found in J:COM's business conditions after the October Written Report was submitted;

(ii) the Tender Offer Price is considered to be appropriate in light of the calculation results in the February Share Price Valuation Report (as defined below); the Tender Offer Price was also considered to be appropriate in the February Fairness Opinion (as defined below) from a financial perspective for J:COM's shareholders (excluding Sumitomo and the Tender Offerors and their related companies); the valuation method adopted in the February Share Price Valuation Report has not changed from that of October Share Price Valuation Report in any substantial aspects and is considered to be consistent;

(iii) there were sincere negotiations to increase the Tender Offer Price between J:COM and Sumitomo and KDDI, through which the Tender Offer Price was ultimately increased from the Initially Proposed Tender Offer Price by 13,000 yen (approximately 11.8% (rounded off to one decimal place; hereinafter the same));

(iv) while the general stock market conditions improved after October 24, 2012, the premium added in the Tender Offer Price is still considered to be in line with that of recent cases similar to the Transaction, taking into consideration, among other things, the movement of the market value of comparable listed companies and the fact that the Tender Offer Price was increased from the Initially Proposed Tender Offer Price by 13,000 yen (approximately 11.8%) ;

(v) the Tender Offer Price would not be considered inappropriate due to the fact that the Tender Offer Price is lower than the 2010 Tender Offer Price, because (i) a considerable

period of time has passed since February 2010, and (ii) the business environment surrounding, and the growth potential of, the domestic cable television industry, including J:COM, have changed since February 2010, due to continuous decreasing trend of ARPU (Average Revenue per User) owing to factors such as increased competition with fixed carriers, and the growth of alternative media distribution business using tablet PC and other media owing to the rapid expansion of high-speed mobile communication market;

(vi) the purchase price for the Stock Acquisition Rights, which was calculated by deducting their exercise price from the Tender Offer Price, was found to be appropriate in light of the advices given by Mitsubishi UFJ Morgan Stanley Securities to J:COM; and

(vii) the interests of J:COM's minority shareholders are considered to have been taken into account through appropriate and fair procedures after announcement of J:COM's October Press Release.

Because more than four months have passed from the reference date of the October Share Price Valuation Report and the October Fairness Opinion, J:COM obtained the share price valuation report (*kabushiki-kachi santei-sho*) from Mitsubishi UFJ Morgan Stanley Securities dated February 25, 2013 (the February Share Price Valuation Report; together with the October Share Price Valuation Report, the Share Price Valuation Reports), and received the explanation thereof. J:COM has also obtained a fairness opinion from Mitsubishi UFJ Morgan Stanley Securities, dated February 25, 2013 (the February Fairness Opinion; together with the October Fairness Opinion, the Fairness Opinions), which states that the Tender Offer Price to be applied in the Transaction is appropriate for J:COM's shareholders (excluding Sumitomo and the Tender Offerors, and their related companies) from a financial perspective, and also received the explanation thereof. J:COM also received advice from Mitsubishi UFJ Morgan Stanley Securities regarding the purchase price of the Stock Acquisition Rights.

Thus, J:COM has conducted careful discussions and examinations, taking into consideration the content of the October Written Report submitted by the Phase-One Third-Party Committee, the February Written Report submitted by the Phase-Two Third-Party Committee, the Share Price Valuation Reports, and the Fairness Opinions described above as well as the advice received from Mitsubishi UFJ Morgan Stanley Securities and Mori Hamada & Matsumoto.

Based on such discussions and examinations, J:COM concluded at the board of directors meeting held on February 26, 2013 as follows in relation to the Transaction. With regards to the appropriateness of the Tender Offer Price, it was concluded that the Tender Offer Price was appropriate, and that the Tender Offer provides J:COM's shareholders with a reasonable opportunity to sell their shares, taking into consideration, in addition to the matters already examined at the board of directors meeting held on October 24, 2012, (i) the content and conclusion of the February Written Report, (ii) the fact that from October 24, 2012 (when the proposal of the Tender Offer was publicly announced) and up to February 26, 2013, there was no material change to J:COM's business plan and other factors affecting the calculation of the corporate value of J:COM, (iii) the fact that the Tender Offer Price was raised from 110,000 yen to 123,000 yen as a result of the discussion and negotiation between J:COM and Sumitomo and KDDI, (iv) the Tender Offer Price is above the price range calculated by DCF analysis and almost equal to the upper end of its price range, and is above the price range calculated by the comparable companies analysis, in each case as described in the February Share Price Valuation Report, and the opinion (the February Fairness Opinion) that the Tender Offer Price was appropriate from a financial perspective for J:COM's shareholders (excluding Sumitomo and the Tender Offerors and their related companies) has been received, (v) it is set forth in the February Written Report that while the general stock market

conditions improved after October 24, 2012, the premium added in the Tender Offer Price is still considered to be in line with that of recent cases similar to the Transaction, taking into consideration, among other things, the movement of the market value of comparable listed companies and the fact that the Tender Offer Price was increased from the Initially Proposed Tender Offer Price by 13,000 yen (approximately 11.8%), (vi) according to the explanation from Mitsubishi UFJ Morgan Stanley Securities, the Tender Offer Price would not be considered inappropriate due to the fact that the Tender Offer Price is lower than the 2010 Tender Offer Price, because a considerable period of time has passed since February 2010, and the business environment surrounding, and the growth potential of, the domestic cable television industry, including J:COM, have changed since February 2010, due to continuous decreasing trend of ARPU (Average Revenue per User) owing to factors such as increased competition with fixed carriers, and the growth of alternative media distribution business using tablet PC and other media owing to the rapid expansion of high-speed mobile communication market.

For the Stock Acquisition Rights, J:COM's board of directors also concluded that the purchase price of the Stock Acquisition Rights offered the Stock Acquisition Right holders with a reasonable opportunity to sell their Stock Acquisition Rights, because the purchase price of each Stock Acquisition Right was calculated by multiplying the Tender Offer Price less the exercise price of the Stock Acquisition Rights by the number of common stock allotted for each Stock Acquisition Right exercised.

Then, J:COM resolved, through a unanimous decision of all directors present (excluding two directors who abstained from voting on the resolution from the viewpoint of maintaining the resolution's fairness) that J:COM expresses its opinion in favor of the Tender Offer and recommends that the shareholders and stock acquisition right holders of J:COM accept the Tender Offer.

Upon the examination, discussion and negotiation of the Tender Offer in order to avoid conflicts of interest among the board of directors, J:COM has taken the following measures. First, out of the 11 directors of J:COM, four directors, Mr. Yoshio Osawa, Mr. Hirofumi Morozumi, Mr. Makoto Takahashi, and Mr. Daisuke Mikogami, who concurrently serve as officers/employees of Sumitomo and KDDI, and two directors, Mr. Shuichi Mori and Mr. Shunsuke Oyama, who were officers/employees of Sumitomo or KDDI until relatively recently (until March 2011), did not attend any of the board of directors meetings regarding the Transaction, nor did they participate in any examination of the Transaction or any discussion or negotiation with Sumitomo and KDDI regarding the Transaction on behalf of J:COM. Out of the other five directors, Mr. Ryosuke Yamazoe and Mr. Yoshiki Nakai who were officers/employees of Sumitomo or KDDI until relatively recently (until March or June 2011) participated in the board of directors meetings regarding the Transaction, including the board of directors meeting held on February 26, 2013, in order to ensure that the quorum for J:COM's board of directors meeting was met. However, from the viewpoint of maintaining the resolution's fairness, they made no remarks at J:COM's board of directors meeting regarding the Transactions, abstained from voting on resolutions, and did not participate in any examination of the Transaction or any discussion or negotiation with Sumitomo and KDDI regarding the Transaction on behalf of J:COM, except for their attendance at the board of directors meetings.

J:COM decided at the board of directors meeting held on February 26, 2013 to comprehensively approve the Stock Acquisition Right holders' transferring their Stock Acquisition Rights to the Tender Offerors by tendering them in the Tender Offer.

Further, J:COM decided at the board of directors meeting held on February 26, 2013 not to declare an interim dividend for the record date of June 30, 2013 in respect of the fiscal year

ending December 2013, on the condition that the Tender Offer is completed.

(4) Policy on Reorganization, etc. after the Tender Offer (Matters related to the So-Called Two Step Acquisition)

J:COM has received the following explanation from Sumitomo and KDDI about their policy of reorganization, etc. after the Tender Offer.

According to Sumitomo and KDDI, the Tender Offer will be conducted as part of the Transaction. Should it not be possible for all of the issued common shares of J:COM (including common shares of J:COM to be delivered upon the exercise of Share Options; however, excluding the treasury shares held by J:COM) to be acquired in the Tender Offer, notwithstanding the number of share certificates, etc. tendered in the Tender Offer, it is contemplated that either Sumitomo, KDDI, and NJ or Sumitomo and KDDI will acquire all of the issued shares of J:COM (excluding, however, the treasury shares held by J:COM) in the manner described below. Specifically, after the completion of the account settlement of the Tender Offer, in order to make either Sumitomo, KDDI, and NJ or Sumitomo and KDDI J:COM's only shareholders, the following is planned to be requested of J:COM, which is a company with class shares as provided for in the Companies Act (Act No. 86 of 2005, as amended; the Companies Act):

(i) to partially amend the articles of incorporation in order to, for example, subject all common shares issued by J:COM to a call option entitling J:COM to buy them back in their entirety (meaning the provision on the matters provided in Article 108, Paragraph 1, Item (vii) of the Companies Act; hereinafter the same);

(ii) to acquire all common shares of J:COM subject to the call option entitling J:COM to buy them back in their entirety (excluding, however, the treasury shares held by J:COM) and deliver shares of a separate class from the common shares of J:COM in exchange for this acquisition;

(iii) to hold an extraordinary meeting of shareholders that includes items (i) and (ii) above as proposals submitted for deliberation and to put items (i) and (ii) above on the agenda for that meeting;

(iv) to hold a class shareholders' meeting for shareholders of J:COM's common shares that includes the partial amendment of the articles of incorporation set out in item (i) above as a proposal submitted for deliberation and to put item (i) above on the agenda for that meeting.

Sumitomo and the Tender Offerors plan to vote for each of the proposals above at the extraordinary shareholders' meeting and class shareholders' meeting mentioned above.
If each of the above procedures is implemented, all common shares issued by J:COM will be subject to a call option entitling J:COM to buy them back in their entirety, all of these shares (excluding, however, the treasury shares held by J:COM) will be acquired by J:COM, and J:COM's shareholders (excluding, however, J:COM) will receive the separate-class shares of J:COM as consideration for the acquisition. However, to those Company shareholders who would receive a fraction of a number of separate-class shares, the amount of money to be obtained such as through the sale to KDDI or NJ of the separate-class shares equivalent to the total of the fraction (any fraction in the total will be rounded off) will be paid, pursuant to the procedures provided in Article 234 of the Companies Act and other relevant laws and regulations. The sale price of the separate-class shares equivalent to the total of the fraction of shares will be calculated so that the amount of cash to be delivered to each shareholder as a result of the sale will be equal to the price obtained by multiplying the price of the purchase,

etc. for common shares of J:COM in the Tender Offer by the number of common shares of J:COM held by each of the shareholders. Furthermore, although the class and the number of shares of J:COM to be delivered as consideration for the acquisition of common shares of J:COM subject to the call option entitling J:COM to buy them back in their entirety is not determined as of February 26, 2013, the class and the number of shares of J:COM are planned to be determined so that the number of shares of J:COM that must be delivered to J:COM's shareholders who did not accept the Tender Offer (excluding Sumitomo, KDDI, and NJ or Sumitomo and KDDI, but including J:COM's common stock which KDDI has entrusted to Mizuho Trust & Banking Co., Ltd. for the securities custodial trust), will be a fraction of a share, in order for Sumitomo, KDDI, and NJ or Sumitomo and KDDI hold all of J:COM's issued shares (excluding, however, the treasury shares held by J:COM).

With respect to the provisions under the Companies Act that aim to protect the rights of minority shareholders related to the procedures above, if shareholders resolve to acquire all of the shares subject to the call option described in item (ii) above, it is provided that shareholders may petition the court for a determination of the price for the acquisition of the relevant shares pursuant to the provisions of Article 172 of the Companies Act and other relevant laws and regulations. If this method is used, the acquisition price per share will ultimately be determined by the court. In addition to the foregoing, upon the change in the articles of incorporation to subject the common shares to the call option described in (i) above, it is provided that shareholders may demand that J:COM purchase the shares they own pursuant to the provisions of Articles 116 and 117 of the Companies Act and other relevant laws and regulations. However, under this method, if the call of the common shares comes into effect based on the shareholders' resolution described in item (ii) above and the shareholders lose the relevant common shares, then the shareholders may be deemed to have lost their standing to file the petition for the determination of the purchase price provided for in Article 117, Paragraph 2 of the Companies Act.

Moreover, the method described above, whereby all the common shares issued by J:COM are subjected to the call option entitling J:COM to buy them back in their entirety and J:COM's separate class of shares is delivered in exchange for the acquisition of the common shares, may require time to be implemented or the method of implementation might change, depending on the circumstances of the relevant authorities' interpretation, etc. of the relevant laws and regulations, the state of the shareholding ratios of Sumitomo and the Tender Offerors in J:COM after the Tender Offer, and the state of the shareholding ratios of J:COM's shareholders other than Sumitomo and the Tender Offerors in J:COM. However, if there is a change in the methods described above, the amount of money, etc. ultimately to be paid to each shareholder of J:COM is planned to be calculated so as to make it the same as the price of the purchase, etc. of the common shares of J:COM in the Tender Offer.

The specific procedures and the schedule of implementation thereof in the foregoing circumstances (currently scheduled to be implemented within four months from the completion of the account settlement of the Tender Offer) and the like will be announced promptly by J:COM once it has decided them after consultation with Sumitomo and KDDI.

Sumitomo and the Tender Offerors plan to conduct the Merger whereby J:COM will be the surviving company and NJ will be absorbed after the implementation of each of the procedures above. Therefore, even if NJ remains a shareholder of J:COM after the implementation of each procedure above, the ratio of voting rights directly held by each of Sumitomo and KDDI in J:COM is planned to be 50% as a result of the Merger.

Please consult your own tax advisors with respect to tax matters relating to the tendering of shares or stock acquisition rights in the Tender Offer, the receipt of money, etc. as consideration for the implementation of the procedures above, or the sale of shares to J:COM

pursuant to its demand to buy them in connection with the implementation of the procedures above.

(5) Prospect of Being Delisted and the Reasons Therefor

J:COM's common shares are listed on the JASDAQ standard market (the JASDAQ Market) as of February 26, 2013. However, because the Tender Offerors have not set a maximum number of shares to be purchased in the Tender Offer, the common shares of J:COM might be delisted depending on the result of the Tender Offer pursuant to JASDAQ's delisting standards after the prescribed procedures. Also, Sumitomo and KDDI have stated that even if the relevant standards do not apply at the time of completion of the Tender Offer, if the Tender Offer takes effect as set forth in "*(4) Policy on Reorganization, etc. after the Tender Offer (Matters related to the So-Called Two Step Acquisition)*" above, Sumitomo and the Tender Offerors plan to implement procedures for the purpose of acquiring all the issued shares of J:COM (excluding, however, the treasury shares held by J:COM) pursuant to applicable laws and regulations. In this case, J:COM's common shares will be delisted after the prescribed procedures pursuant to JASDAQ's delisting standards. After the delisting, J:COM's common shares may not be traded on the JASDAQ Market.

If the procedures set forth in "*(4) Policy on Reorganization, etc. after the Tender Offer (Matters related to the So-Called Two Step Acquisition)*" above are implemented, an application for listing of shares is not contemplated to be made for the separate class of J:COM's shares to be delivered as consideration for J:COM's common shares subject to the call option.

Independent Auditors' Report

The Shareholders and the Board of Directors of
Jupiter Telecommunications Co., Ltd.:

We have audited the accompanying consolidated financial statements of Jupiter Telecommunications Co., Ltd. (the Company) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2011 and 2012, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Jupiter Telecommunications Co., Ltd. and its subsidiaries as of December 31, 2011 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 15 to the consolidated financial statements, the Company resolved at its board of directors meeting held on February 26, 2013 to express an opinion in favor of the tender offer for all of the Company's issued common shares and stock acquisition rights being conducted by KDDI CORPORATION and NJ Corporation the voting rights of which are owned in equal number by Sumitomo Corporation and KDDI CORPORATION. Our opinion is not modified with respect to this matter.

/s/ KPMG AZSA LLP

Tokyo, Japan
March 27, 2013