August 21, 2015
KDDI Corporation

Notification of Receipt of Investigative Report of External Investigating Committee

As notified by KDDI Corporation (hereinafter, "KDDI" or the "Company") in the "Notification of Reporting of Extraordinary Loss in Consolidated Financial Statement and Establishment of External Investigating Committee by KDDI", on May 12, 2015 (hereinafter, "Notification on May 12"), the Company established the External Investigating Committee aiming (i) to investigate and analyze KDDI's capital participation in DMX Technologies Group Limited ("DMX", located in Hong Kong and listed on the main board of the Singapore Exchange, or "SGX"), a KDDI overseas consolidated subsidiary, and KDDI's governance on DMX and its subsidiaries since its capital participation in DMX, and (ii) to investigate the causes of the incidents and to develop preventive measures for the future, and has been operating investigations and analyzations by External Investigating Committee.

Today, on August 21, 2015, the Company received the Investigative Report from the External Investigating Committee, and issues the Investigative Report (Disclosure Version).

As described on the 7th page[1] of the Investigative Report (Disclosure Version), the statement of the facts in the Investigative Report are described as the assumption of the investigation by the External Investigating Committee, based on the contents of materials the Company provided and the results of the interviews with the persons concerned. As notified in Notification on May 12, DMX, as the listing company, is still operating an investigation by its an internal investigating committee formed under the new management team led by the new CEO; a financial audit by the DMX's accounting auditor; and investigations by external attorneys including investigations regarding its previous transactions, the financial impact and where responsibility lies, and furthermore, KDDI is still operating its own investigation into this matter. It should be noted that the above mentioned statement of the facts in the Investigative Report described as the assumption of the investigation are yet to be finalized.

In addition, due to protection of personal information or to prevent harmful influences on the on-going investigations, some of the statements with regard to past DMX transactions have been omitted, and proper nouns have amended to be anonymous in the Investigative Report (Disclosure Version) with consent of the

1 In the English translation of the report, this page number is "6th page."

External Investigating Committee.

This Investigative Report is a report on the investigation of subsidiary management and governance of the Company, triggered by the problem of DMX's suspicious transactions in China, and the Company takes the suggestions contained in the Investigative Report seriously as necessity for improvement of KDDI group management, and the Company intends to make best efforts to improve the governance of KDDI group in accordance with the suggestions.

[Translation]

August 21, 2015

To: KDDI Corporation

Investigative Report (Disclosure Version)

External Investigating Committee

Chairman Yukio MACHIDA

Member Mikio YAMAGUCHI

Member Toshifumi TAKAOKA

Table of Contents

Part 1 Overview of External Investigating Committee

1. Circumstances in which the External Investigating Committee was formed and the objective thereof

(1) Circumstances in which the External Investigating Committee was formed

In order to close the account for the December 2014 period, DMX Technologies Group Limited ("**DMX**"), an overseas consolidated subsidiary of KDDI Corporation ("**KDDI**") and listed on the Singapore Exchange, has been account-audited by PricewaterhouseCoopers LLP ("**PwC**"), which has replaced Deloitte Tohmatsu LLC ("**Deloitte**") as an auditing company of DMX since 2014, wherein PwC indicated that some of the transactions mainly handled by DMX Technologies and an affiliated company were involved include suspicious transactions("**transactions in question**").

In addition to the above indication, on February 3, 2015, the then-CEO of DMX, Ms. Jismyl Teo ("**Ms. Jismyl**") and the then-CFO of DMX, Mr. Skip Tan ("**Mr. Skip**") were arrested by the Hong Kong Police on suspicion of suspected offence regarding transactions conducted within DMX in 2008 before KDDI's capital participation concerning DMX. In response to the arrest, DMX formed an internal investigating committee under the direction of the Audit Committee, and appointed "a" law firm, a law firm in Hong Kong to launch an internal investigation into transactions between 2008 and 2009. During this process, "a" law firm also indicated the possibility of irregular accounting regarding the transactions in question.

In view of the above, in announcing the consolidated financial statement for the March 2015 period of KDDI, KDDI accounted as extraordinary loss, the accounts receivable or the like outstanding so far worth 33,798 million yen in total on May 12, 2015, as the consolidated financial statement for the March 2015 period of KDDI, having determined that it should conduct the accounting on the premise that there have been irregular accounting regarding the transactions in question, not only between 2008 and 2009 but also thereafter. KDDI also formed an investigation committee ("**the present committee**") comprising external experts and announced it on the same day. It did this in order to be accountable to the shareholders and investors by investigating and analyzing the facts regarding KDDI's capital participation concerning DMX and subsidiary management thereafter, and by investigating the causes of the incidents and developing preventive measures.

(2) Objective of the present committee

The objective of the present committee is to investigate and analyze the facts regarding KDDI's capital participation concerning DMX and subsidiary management thereafter, and to investigate the causes of the incidents and develop preventive measures ("**the present investigation**").

Please note that the present committee has not directly conducted an investigation into the facts regarding DMX's transactions in question. Please also note that the facts regarding the transactions in question have not been revealed, including whether there has been such transactions in question, and the investigation into the facts have been continued up to now only by DMX and KDDI.

In view of this, please note that the statement of facts regarding the transactions in question made in the present Investigative Report is merely a statement, as the assumption for the present investigation, of facts understood by the present committee based on the materials provided by KDDI and the result of the hearing up to the time the present Investigative Report was created.

2. The composition of the present committee or the like

The composition of the present committee is as follows.

Chairman MACHIDA Yukio, Attorney
(former Deputy Prosecutor-General, Supreme Public Prosecutors' Office)
Member Mikio YAMAGUCHI, Attorney
(former Deputy Chief Prosecutor, the Hiroshima District Public Prosecutors Office)
Member Toshifumi TAKAOKA, Certified Public Accountant

None of the Chairman and the members of the present committee have a special interest in KDDI.

3. The method and the contents of investigation by the present committee

(1) Hearing conducted with the persons concerned

In the present investigation so far, a hearing was conducted with the following 12 persons (the posts are as of May 2015) in total who supposedly know the facts, background or the like regarding KDDI's capital participation concerning DMX and subsidiary management thereafter.

Mr. Takashi TANAKA (KDDI, President)
Mr. Yuzo ISHIKAWA (KDDI, Senior Managing Executive Officer, General Manager of Consumer Business Sector)
Mr. A (KDDI, Administrative Officer, Manager of Global ICT Business Division in Global Business Sector)
Mr. B (DMX Executive Vice Chairman)
Mr. C (Chubu Telecommunications CO., Inc., Auditor)
Mr. D(KDDI AMERICA, INC. COO)
Mr. E(KDDI, Vice Manager of Global Business Planning Division in Global Business Sector)
Mr. F(UQ Communications Inc. Executive Member, Manager of Planning Division)
Mr. G(KDDI, Manager of 1G Group Leader Planning Division in Global Business Management Department in Global Business Sector)

Mr. H(KDDI, Group Leader, Group Business Administration, Group Business Management Department, in Corporate Management Division)
Mr. I(KDDI, Group Business Administration, Group Business Management Department, Corporate Management Division)
Mr. J(KDDI, 3G in Global Business Management Department in Global Business Sector)

In addition, other than 12 persons mentioned above, a hearing was conducted with the following 4 persons. The purpose of additional hearings were to survey measures regarding capital participation in overseas companies and reinforcement of KDDI's subsidiary management conducted after KDDI's capital participation in DMX in December 2009.

Mr. K(KDDI, General Manager of Global Management Department, Global Business Sector
Mr. L(KDDI, General Manager of Corporate Strategy Department, Corporate Strategy Planning Division)
Mr. M(KDDI, General Manager of Risk Management Division)
Mr. N(KDDI, General Manager of Group Business Administration, Group Business Management Department, Corporate Management Division)

(2) Examination and review of the relevant materials

Regarding investigation into the facts relating to KDDI's capital participation concerning DMX, the present investigation has examined and reviewed the relevant materials created when KDDI was considering capital participation concerning DMX, such as internal review materials, management-meeting minutes and other internal meeting-related materials, DD reports made by external advisors, minutes regarding the review meetings with DMX, other materials created while negotiating the capital participation, and contract documents such as stock subscription contracts.

Regarding investigation into the facts relating to subsidiary management after the capital participation, examination and review were conducted on such relevant materials as various management regulations for subsidiaries made by KDDI such as management regulations for subsidiaries, internal control regulations or the like, materials reported by the subsidiaries to KDDI, materials related to internal meetings such as materials regarding regular meetings, management meetings or the like regarding subsidiary management, internal audit reports regarding the internal audit of DMX, materials on the internal investigations that KDDI previously conducted independently regarding DMX or the like.

Regarding DMX's company overview and the facts regarding the transactions in question (which form the premise of the present investigation), examination and review were conducted on DMX's publicly disclosed information, such as Annual Reports, press releases, materials related to internal meetings regarding the transactions in question such as internal report materials, board of directors' meetings' materials or the like, as well as relevant documents such as investigation reports or the like made by King & Wood Malleson appointed by KDDI to investigate the facts regarding the transactions in question.

Part 2 Facts found by the present investigation

1. DMX's company overview and its relationship with KDDI

(1) DMX company overview

DMX is a company founded on October 29, 2001, which has expanded its systems integration business ("**SI business**") and digital media business in several countries in Asia, particularly in China and Hong Kong. The main office of DMX is located in Hong Kong; however, the Company was founded under the law of Bermuda. In addition, DMX is listed on the main board[1] of the Singapore Exchange.

DMX itself is a holding company, and organizes a corporate group ("**DMX Group**") with DMX at the top and including bases in various countries, thereby expanding its business in each company.

The organizational configuration of the DMX Group as of March 2015 is as shown in the Attachment.

DMX Group is a company founded by Ms. Jismyl and Mr. Emmy Wu ("**Mr. Wu**") made independent from "b" company, which is a listed company in Singapore dealing with SI business and so on. Its business contents are roughly classified into SI business and digital media business, which are explained later. Among them, the DMX Group's SI business provides such services as network construction for communications operators, having bases in several Asian countries particularly in China; whereas the digital media business provides software and hardware and so on independently developed for communications operators such as CATVs in China.

The sales and operating income of DMX Group from 2007 to 2013 are as follows.

【Table 1】Sales and operating income of DMX Group

year	2007	2008	2009	2010	2011	2012	2013
Sales (100 million yen)	152	162	196	279	346	391	408
Operating income (100 million yen)	9	3	9.7	16.5	20	22.6	25.3

1 The stock markets of Singapore can be classified into two types: main board and catalyst. In the main board, securities of corporations satisfying certain listing standards defined by the Singapore Exchange and having passed a listing examination of the Singapore Exchange are exchanged.

(2) Relationship between KDDI and DMX

KDDI acquired approximately 51.7% of the DMX shares by capital increase by allotment of new shares to third parties on December 1, 2009 (It was the first time that KDDI acquired capital in DMX.), and it made DMX a consolidated subsidiary of KDDI while maintaining its listing position on the Singapore Exchange. Even as of March 2015, KDDI owns approximately 51.3% of DMX shares, and maintains its consolidation with DMX.

2. Overview of the transactions in question conducted by DMX

(1) Assumed facts regarding the transactions in question

A. Circumstances in which the transactions in question were discovered

As stated in 1(2) above, KDDI acquired approximately 51.7% of the DMX shares by capital increase by allotment of new shares to third parties on December 1, 2009, and made DMX a consolidated subsidiary of KDDI.

Regarding both its domestic and overseas subsidiaries, KDDI integrated the accounting auditors for the financial audit into the audit corporation belonging to the group in which the audit corporation appointed by KDDI also belongs. Furthermore, KDDI has adopted an internal policy (One Firm Policy) that aims to implement a financial audit in accordance with the integral and uniform point of view. Therefore, KDDI changed the accounting auditor of DMX from the former Deloitte to PwC, from the December 2014 period. As stated in 1(1) above, PwC was conducting audits regarding the transactions of DMX Group to close DMX's account for the December 2014 period. During this process, PwC indicated there was a shortage of certificates to certify the transactions' existence of transactions involved by a DMX group company, and it asked DMX to submit a certificate, which DMX was unable to do within a time limit. Under such circumstances, on February 3, 2015, the then-CEO of DMX, Ms. Jismyl and the then-CFO of DMX, Mr. Skip were arrested by the Hong Kong Police on suspicion of suspected offence regarding the transactions performed between DMX and a Chinese company in 2008. In response to the arrest, DMX formed an internal investigating committee under the direction of the Audit Committee; furthermore, it appointed "a" law firm, thereby launching an internal investigation into suspected transactions in mainland China mainly handled by DMX Hong Kong and DMX Macao and in which DMX Beijing was involved between 2008 and 2009. During this internal investigation, the possibility of irregular accounting was indicated for some of the transactions between 2008 and 2009.

This is how KDDI has come to recognize the possibility of irregular accounting for the transactions in question.

B. Contents of the transactions in question

(A) Contents of the transactions

The contents of the transactions in question was SI business and whose contents were to provide comprehensive services in which communication appliances and so on were purchased from suppliers (with the end users being Chinese communications operators or CATV operators in China and to supply and install the same for the end users, as well as to operate, maintain, and manage the same.

(B) The distribution channels regarding the transactions in question

The following are the distribution channels allegedly adopted by DMX regarding the transactions in question.

1) The end user concludes an agreement regarding implementation of the SI business with an import/export firm ("**IE firm**").
2) Based on the agreement in 1), the IE firm orders a DMX group company to supply the appliances regarding the SI business and to provide a service.
3) The DMX group company, upon receiving the order of 2), places an order with the appliance agency ("**agency**") regarding procurement of the communication appliances or the like.
4) The agency, having received the order placement of 3), orders the supplier to supply the communication appliances or the like.
5) Upon placement of the order of 4), the communication appliances or the like are supplied by the supplier via the IE firm to the end user.

Please note that, until around February 2015 after PwC indicated the transactions in question to DMX, only a few people in DMX was aware of the fact that an agency had been introduced in the purchase of the communication appliances or the like in the distribution channels explained above. Many people believed that the DMX group company was directly receiving the communication appliances or the like from the supplier.

(2) DMX accounting concerning the transactions in question

When DMX has ordered communication appliances or the like, there is a rule that the purchase price of the communication appliances to the agency must be paid within 30 days after the invoice date. The purchase price of the communication appliances or the like is temporarily accounted for as inventory. On the other hand, when DMX has sold communication appliances or the like, it accounted for 95% of the price as sales 14 days after delivery to the end user, before a payment of the sales price from the IE firm as well as accounting for the total price of the delivered communication appliances or the like as cost; and DMX accounted for the remaining 5% as sales after the final inspection at the end user[2]. Please note that payment receipt from the IE firm was hardly carried out according to how the agreement stipulated actual collection, although it stipulated that it would be carried out at each stage of appliance delivery, installment, provisional inspection, final inspection, and the like in the agreement concluded between DMX and the IE firms. In actual practice, the timing of payment receipt was determined by negotiation between DMX and the end user, and the payment receipt was normally severely delayed, according to DMX's explanation. Under such a collection practice, receipt of the payment made by the IE firm was delayed from the sales accounting period in most cases. Under such circumstances, most of the sales concerning the transactions in question were accounted for as accounts receivable.

(3) The suspicion for transactions in question

As explained in Part 1, 1(2) above, not all of the transactions in question have been discovered. However, as explained in 2(1)A above, DMX group company has not directly concluded any agreement with an end user or with a supplier, being the source of the communication appliances or the like sold in the distribution channels of the transactions in question. Moreover, in DMX, there is no certificate evidencing the actual shipping of the communication appliances or the like from the supplier and delivering them to the end user, nor has the certificate been received from the supplier or the end user. This raises doubt regarding the existence of the transactions in question.

3. The internal control system of KDDI and DMX

(1) Group internal control in KDDI

There are 18 Executive Members in KDDI in total: 13 Directors (of which four are Representative Directors); three Audit & Supervisory Board Members (full-time); and two Audit & Supervisory Board Members(part-time). Four of the Directors are external Directors, and one of the Audit & Supervisory Board Members (full-time) and the two Audit & Supervisory Board Members(part-time) are Outside Audit & Supervisory Board Members (three in total). KDDI also adopts an Executive Officer System, consisting of 25 Executive Officers (including 7 Executive Officers who are also Directors). Meetings consist of General Shareholders' Meetings, Board of Directors , and Audit & Supervisory Board , as well as Corporate Management Committee organized by Directors, Executive Officers and the like. The agenda for these meetings includes not only discussing important matters regarding carrying out duties, but also discussing internal control evaluation.

---

2 Such accounting method has no problem in the light of accounting standards in Singapore, and KDDI confirmed that when they considered their capital participation.

Based on the provisions of Article 362, Paragraph 5 of the Companies Act, KDDI passed "the Basic Policy for Constructing an Internal Control System[3]" at Board of Directors and issued a public announcement. KDDI aims to ensure fair, transparent, and efficient execution of its corporate duties.

Regarding compliance management, the above-mentioned basic policy declares, as follows: that all Directors should continuously maintain high ethical standards in accordance with the basic principles set forth in the 'KDDI Action Guideline,' which should be complied with, and aim to execute their business duties properly, that each KDDI Group company shall make efforts to promptly identify and resolve any serious violation of laws and ordinances or other compliance-related matters or incidents, at KDDI Group company meetings pertaining to business ethics, that KDDI shall aim to appropriately operate a compliance-related internal reporting system established both internally and externally to the company, that KDDI shall strive to improve the understanding and awareness of compliance through both internal and external training and enhancement activities, and the like. In addition, as a risk management and subsidiary management policy, it declares that all Divisions and their Directors shall work in cooperation with the meetings participated in by Directors concerning business strategy and the Risk Management Division, which regularly identifies and uniformly manages risk information. The KDDI Group's risks shall be managed appropriately and in accordance with internal regulations, and efforts shall be made to achieve business objectives fairly and efficiently, that in pursuing the aforementioned, in each Division and each group company, a person shall be appointed as the person responsible for internal control, and this person shall autonomously promote the risk management so that business objectives may be achieved fairly and efficiently. Furthermore, also as a risk management and subsidiary management policy, collaboration with subsidiaries shall be maintained through the establishment of a system through which subsidiaries submit appropriate, timely reports based on the management regulations for subsidiaries, and the like. Moreover, as the policy regarding internal audits, declaring that internal audits are conducted for all aspects of business of the KDDI Group, and the suitability and effectiveness of the Internal Control system is verified regularly. The results of internal audits are reported to the President with added suggestions for points that can be improved or revised, and a report is also made to the Auditor.

As a specific internal control system in line with the above-stated policy, concerning the management of business sections or group companies, KDDI implements management and supervision using the following 4 organizations:

Internal Audit Division (Risk Management Division, Internal Auditing Department)
Disclosure Committee
Business Ethics Committee (Group Business Ethics Committee, Overseas Subsidiaries Business Ethics Committee)

[3] For the most recent official version, please refer to http://www.kddi.com/english/corporate/csr/governance/control/policy/

18 Executive Officers (excluding seven Executive Officers who are also Directors)

In the management regulations for subsidiaries, each subsidiary is assigned a division deeply related to each subsidiary (“**Investees Management Division**”). The Division Manager of the section(the “**Investees Management Division Manager**”) is obliged to decide a collaboration method between his/her section, the related sections, and the subsidiary, to design a system such as the regulations within the subsidiary or the like, to report to the Audit & Supervisory Board Member when occurrence of critical situations are suspected to have arisen in the subsidiary regarding business and management, and the like. The Investees Management Division of DMX had consistently been the Global ICT Business Division from the enforcement of the management regulations for subsidiaries on April 1, 2013 to March 31, 2015, and the Investees Management Division Manager has been Mr. A, the Manager of the Global ICT Business Division since January 1, 2013 to date.

In addition, the internal control regulations prescribe assigning senior controllers responsible for internal control (eight in total) and controllers responsible for internal control (36 in total) depending on the levels within the company. The internal control regulations also prescribe that, for subsidiaries for which it is determined necessary, the senior controllers responsible for internal control and the controllers responsible for internal control appoint a controller responsible for internal control for the subsidiary from among the managers of the subsidiary; furthermore, those persons assuming these three posts should be obliged to cooperate with each other to be responsible for ensuring the internal controls in each organization including the subsidiary.

The senior controller responsible for internal control for the overseas subsidiaries including DMX was the General Manager of the Solution Business Sector during the period from January 1, 2010 to March 31, 2011, and the General Manager of the Global Business Sector during the period from April 1, 2011 to date. After the capital participation of KDDI, the following persons have assumed the posts of senior controllers responsible for internal control for the overseas subsidiaries.

January 1, 2010 to March 31, 2011
  Mr. Yuzo ISHIKAWA (“**Mr. Ishikawa**”)
April 1, 2011 to September 30, 2011
  Mr. C
October 1, 2011 to March 31, 2013
  Mr. O
April 1, 2013 to date
  Mr. P

In addition, since the capital participation of KDDI to date, the controllers responsible for internal control for the overseas subsidiaries including DMX have consistently been the Manager of the Global ICT Business Division. The following persons have assumed the posts of controllers responsible for internal control for the overseas subsidiaries:

January 1, 2010 to March 31, 2011
Mr. C
April 1, 2011 to December 31, 2012
Mr. O
January 1, 2013 to date
Mr. A

KDDI has also appointed a controller responsible for internal control for the subsidiary in DMX since August 1, 2012. The same post was assumed by Mr. A until December 2012, and by Mr. B consistently since January 1, 2013 to date.

(2) Internal control system of DMX

The executive members to date of DMX are as follows.

【Table 2】Directors to date of DMX

Period	Executive directors	Non-Executive directors	Independent directors
December 1, 2009 to May 11, 2010	Mr. Wu Ms. Jismyl Mr. Shinichi SUZUKAWA(“**Mr. Suzukawa**”) Mr. Iwao OISHI(“**Mr. Oishi**”)	Mr. Thian Nie Khian (Venture Co., Ltd., “**Mr. Thian**”) Mr. Masaaki NAKANISHI(“**Mr. Nakanishi**”) Mr. Akio NOZAKA (“**Mr. Nozaka**”) Mr. Shigenobu HATAKEYAMA(“**Mr. Hatakeyama**”) Mr. Yasunori MATSUDA(“**Mr. Matsuda**”)	Mr. Foo Meng Tong (“**Mr. Foo Meng Tong**”) Mr. Mark Wang Yat-Yee (“**Mr. Mark**”)
May 11, 2010 to November 9, 2010	Mr. Wu Ms. Jismyl Mr. Suzukawa Mr. Oishi	Mr. Thian Mr. Nakanishi Mr. Kazuo MIWA (“**Mr. Miwa**”) Mr. Hatakeyama Mr. Matsuda	Mr. Foo Meng Tong Mr. Mark
November 9, 2010 to March 1, 2011	Mr. Wu Ms. Jismyl Mr. Suzukawa Mr. Oishi	Mr. Thian Mr. Nakanishi Mr. Miwa Mr. Kenichiro UCHIMURA (“**Mr. Uchimura**”) Mr. Hiroaki HOSOI(“**Mr. Hosoi**”)	Mr. Foo Meng Tong Mr. Mark

Period	Executive directors	Non-Executive directors	Independent directors
March 1, 2011 to March 30, 2011	Mr. Wu Ms. Jismyl Mr. Suzukawa Mr. Oishi	Mr. Thian Mr. Nakanishi Mr. Miwa Mr. Uchimura Mr. Hosoi	Mr. Foo Meng Tong Mr. Mark Mr. Takuro AWAZU (“**Mr. Awazu**”)
March 30, 2011 to November 30, 2011	Mr. Wu Ms. Jismyl Mr. Suzukawa Mr. Oishi	Mr. Thian Mr. Nakanishi Mr. Miwa Mr. Uchimura	Mr. Foo Meng Tong Mr. Mark Mr. Awazu
November 30, 2011 to February 26, 2013	Mr. Wu Ms. Jismyl Mr. Suzukawa Mr. Oishi	Mr. Thian Mr. Takashi NAGASHIMA(“**Mr. Nagashima**”) Mr. Miwa Mr. Uchimura	Mr. Foo Meng Tong Mr. Mark Mr. Awazu
February 26, 2013 to May 9, 2013	Mr. Wu Ms. Jismyl Mr. Oishi	Mr. Thian Mr. Nagashima Mr. Miwa Mr. Uchimura Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu Mr. Daniel Kung (“**Mr. Daniel**”)
May 9, 2013 to April 30, 2014	Mr. Wu Ms. Jismyl Mr. Oishi	Mr. Thian Mr. Hidehiko TAJIMA(“**Mr. Tajima**”) Mr. Miwa Mr. Uchimura Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu Mr. Daniel
April 30, 2014 to January 27, 2015	Mr. Wu Ms. Jismyl Mr. Oishi	Mr. Thian Mr. Tajima Mr. Yasuhiko SHIOZAKI(“**Mr. Shiozaki**”) Mr. Uchimura Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu Mr. Daniel
January 27, 2015 to February 9, 2015	Mr. Wu Ms. Jismyl Mr. Oishi	Mr. Thian Mr. Tajima Mr. Shiozaki Mr. Uchimura Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu Mr. Daniel
February 9, 2015 to May 8, 2015	Mr. Wu Mr. Oishi	Mr. Thian Mr. Tajima Mr. Shiozaki Mr. Uchimura Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu

Period	Executive directors	Non-Executive directors	Independent directors
May 8, 2015 to date	Mr. Wu Mr. Oishi	Mr. Thian Mr. Tajima Mr. Shiozaki Mr. Nobuhara Mr. Suzukawa	Mr. Foo Meng Tong Mr. Mark Mr. Awazu

DMX is a so-called committee-installed company including a Remuneration Committee, an Audit Committee, and a Nominating Committee. The rule of the Singapore Exchange prescribes that a majority of the members of each committee should be independent directors. Regarding meetings, there are shareholders' meetings, Board of Directors, and various committees.

Regarding the organization of the DMX Group, please refer to 1(1) above. Although the specifics of the management method for each base are not necessarily known, Ms. Jismyl or Mr. Wu are executive members of all the companies at bases in countries that are the grandchild companies of DMX. Therefore, it is presumed that Ms. Jismyl and Mr. Wu have played the main role in establishing their internal control system. The person responsible for the risk management of the whole group is apparently the CFO.

In addition, DMX allegedly had an internal reporting system according to its regulations. The contact persons for internal reporting in this system were Mr. R and the Independent Directors. The outcome of the internal reporting was reported to Board of Directors of DMX on a quarterly basis. However, there haven't been any significant results.

4. Capital Participation in DMX by KDDI

(1) Reasons for the capital participation and the KDDI company structure

In 2008, as a result of concerns that domestic operations had reached their peak due to the high penetration of mobile phones in Japan, KDDI planned to expand its business globally for the purpose of overcoming the limitation of organic growth based on its existing management resources and establishing an overseas management base by incorporating overseas companies into its group through aggressive investment and using them as an engine for growth.

In 2008, the Global ICT Business Division was responsible for overseas M&A matters in KDDI. Under its direct control, either the Global Business Planning Section or the Global Business Development Section, which have been integrated into the Global Business Planning and Development Section since January 2010, was in charge of negotiations on business tie-ups and capital participation, etc. with overseas companies.

(2) Background of capital participation

A. Status of discussions with DMX and confirmation of operations conducted by DMX

Based on the overseas business strategies described in (1) above, KDDI expanded its sales network to non-Japanese companies in addition to its continued customer base centered on Japanese companies. At the same time, KDDI planned to make use of communications-related infrastructure of companies that operated in the SI business to obtain new customers by building partnerships with them, made a plan to invest in companies that had been expanding the SI business in a multifaceted manner in several countries in Asia, and selected several companies as candidates based on documents provided by consultants.

Among the several candidate companies, DMX was eventually selected as a candidate investee because DMX had strategies that matched those of KDDI described above as outlined below, particularly DMX set up China, which maintained a high growth rate in SI business and which was expected to further expand into the digital broadcasting market as a main business area. It was also considered that DMX operated stable management according to its indicators, such as sales.

On October 28, 2008, KDDI organized a kick-off meeting in the office of DMX Singapore in order to consider its capital participation in DMX. From the KDDI side, Mr. A, then president of KDDI Singapore, and Mr. D, then Section Manager of the Overseas Business Development Section of the ICT International Sales Division of KDDI, and Ms. Jismyl, representing DMX, attended this kick-off meeting. At the meeting, the business operations of DMX and its main business focus on China were presented and then discussions commenced in which the possibility of a future business tie-up between KDDI and DMX through capital participation was considered.

KDDI and DMX decided to hold continuous discussions aimed at capital participation. On November 14, 2008, KDDI and DMX had a further discussion with regard to capital participation at the office of DMX Beijing. At this discussion, details of the SI business of DMX were presented by introducing some sales orders of services rendered within China to global companies and by highlighting that DMX provided high quality services according to ISO9001[4] in China and Hong Kong, and as a CISCO partner[5] in Malaysia and Indonesia.

In addition, KDDI obtained disclosure of samples of proposal documents provided by DMX to its customers in order to confirm the quality of the SI business of DMX. In around January 2009, with DMX

---

[4] ISO 9001 is the commonly used international standard defined by the International Organization for Standardization (ISO) about a framework where companies provide quality products and services that customers and society demand.

[5] CISCO partner is a qualification provided to companies that are recognized to have appropriate knowledge of CISCO products as well as CISCO network skills. CISCO is the world’s largest computer network equipment development company and is headquartered in the U.S.

as a vendor, KDDI placed orders with DMX and investigated the contents and degree of its services in detail. The results showed that its services sufficiently met the quality level, even when compared to KDDI technology. It was evaluated that a “synergy effect” would be achieved with the strong SI resources in the KDDI group, on the condition that the existing human resources would not leave.

As a result of the discussions and the quality confirmation mentioned above, KDDI decided to start official negotiations with DMX for capital participation. The FA agreement was concluded between KDDI and ”c” Securities .

Detailed business operations of DMX were confirmed at the time of the aforementioned discussions with DMX, and at a visit by Mr. E from the Global Business Development Section to the office of DMX Hong Kong in July 2009, together with an presentation by DMX management that included Ms. Jismyl on descriptions and DMX’s existing customers of the SI business, the digital media business, as well as the disclosure of the proposal documents provided from DMX to its customers. As a result, KDDI understood that DMX had built a good relationship with major accounts including Chinese communication providers in the SI business, and that DMX had been proactively attempting to expand its digital media business by using the customer base it had cultivated in the SI business and resources, including staff with technical support capabilities.

B. Implementation of due diligence and evaluation by KDDI

For the period from around June to July 2009, law offices “d” law firm and “e” law firm, conducted legal due diligence and PwC conducted financial due diligence.[6]

The financial due diligence report by PwC showed that DMX had such a significant amount of accounts receivable because of recording 95% of sales within 14 days of delivering equipment, that sales proceeds collection terms of more than one-year were seen in some cases, and that about US$ 88 million of accounts receivable as of December 2007 had increased to around US$ 126 million as at the end of March 2009, with accounts receivable with a collection term of more than one-year occupying 26% of the total. PwC pointed out that there was a tendency of DMX keeping accounts receivable uncollected for a long time, that the amount of long-term accounts receivable had increased, and that these made the collection risk higher. PwC recommended carefully considering the collectability of accounts receivable and to consider reviewing individual agreements with major customers.

Based on the recommendations in the financial due diligence report, as a result of information on the risk of uncollected accounts receivable gathered from “c” Securities and former employees of mobile phone business related companies in China, KDDI analyzed that longer collection terms of accounts receivable resulted not from DMX’s financial structure, but from an increasingly common practice in China of delaying

6 With regard to the period of the due diligence, KDDI proposed to extend the period because the time schedule was very tight. However, it was not extended on the request of DMX.

payment of accounts receivable as a kind of business practice, and delaying the payment of accounts receivable due to an increase in capital expenditure to support the digital broadcasting of CATV operators. It was judged that the risk of uncollectable receivables was low, as accounts receivable were generally collected eventually, and the practice did not result in uncollected accounts receivable, even if the collection terms were long and, in cases where customers had longer collection terms, such customers were government-run media, such as Chinese communication providers and CATV providers in China.

While the judgment was made by KDDI confirming the management capabilities of the management of DMX, including Ms. Jismyl and Mr. Wu, and the leadership of employees at the time of the discussions, a specific survey into the background of the careers of these individuals was not conducted.

C. Recognition of both KDDI and DMX with regard to KDDI's involvement after the capital participation

With regard to the management structure of DMX after the capital participation, KDDI had an intention to secure a majority of directors by sending officers and employees from KDDI and to appoint the vice president, the chief operating officer (COO) and the chief financial officer (CFO) from these dispatched people.

When the due diligence previously described was being conducted, Mr. D verbally explained such a management structure to Ms. Jismyl. Ms. Jismyl did not make specific objections to this explanation. Therefore, he understood that Ms. Jismyl finally accepted the proposal. Above all, this agreement did not go beyond a verbal promise, and measures such as the documentation of the agreement were not taken.[7]

As described in Part3,3(1) below, as a matter of fact, Ms. Jismyl refused to accept this management structure once capital participation was made by KDDI, so KDDI was forced to give up its proposal to secure the positions of COO and CFO. However, this was attributable to an insufficient sharing of their understanding in the course of the negotiations towards the capital participation in terms of the management structure of DMX and governance control of DMX by KDDI after the capital participation. It was also considered that there was lack of perspective with the group control proposal including Post Merger Integration (PMI) after the capital participation, and of an awareness of the risks accompanied with global management (management of overseas subsidiaries) in KDDI at that time.

[7] According to meeting documents concerning the management meeting and the Board of Directors of KDDI, the description of "CFO/Financial Director" as a position taken by a dispatched person from KDDI might contain a selective meaning. It is highly likely that it was not clearly agreed with Ms. Jismyl that KDDI would take the CFO position and that each other's understanding was not matched at that time.

D. The presence of a cautious approach to the capital participation

It was assumed that the Finance Department and the Accounting Department under the Corporate Management Division took a cautious approach in the process of considering the capital participation in DMX, as sufficient documents were not disclosed in due diligence, the business operations of DMX were not clear, and inter-company transactions were complicated due to the number of group companies. The presence of such different approach was reported to executives, Mr,Takashi TANAKA("**Mr.Tanaka**"), Director, Senior Managing Executive Officer in charge of at that time, and Mr.Ishikawa, Executive Officer in charge of at that time has a measurable understanding about the approach.

However, at the time of proceeding with these overseas M&A items, the cooperation and collaboration structure between the Global ICT Business Division, which was responsible for these items, and the corporate divisions, which were responsible for managing corporate planning and finance, etc., was insufficient. Furthermore, there was no structure in place whereby the corporate divisions were involved in the decision-making process of these items in any form. For these reasons, it is likely that such awareness of these issues was not sufficiently considered with regard to making final decision about the capital participation in DMX.

E. Decisions of the capital participation

Taking into consideration the results of the due diligence described in B above, at the management meeting of KDDI on September 8, 2009, an acquisition of a majority of interests in DMX through third-party share issuance (the "**Acquisition**")[8] was proposed. After the following opinions were raised: "the directors dispatched and employees temporarily transferred from KDDI need to control the allocation of management resources"; "as the present CEO and talented engineers are key people, it is important that these people continue to be involved for the time being in the structure whereby DMX becomes a subsidiary of KDDI"; "it is requested that it be considered in what events/specific circumstances KDDI should withdraw its investment in the future," the Acquisition was approved. Following the management meeting, the Acquisition was also approved at the Board of Directors of KDDI organized on September 11, 2009.

At management meeting, as the assumptions of the acquisition, the decision, that as previously mentioned, KDDI was to send officers and employees to and secure a majority of directors in the DMX management structure after the acquisition, that the positions of vice president, COO and CFO were to be assumed by dispatched people from KDDI, were decided.

---

8 After the management meeting on September 8, 2009 previously mentioned, and the Board of Directors on September 11, 2009, it became clear that KDDI aimed to take control of DMX by acquiring a majority of interests in DMX through third-party share issuance, so the term has been unified here to "acquisition" in replacement of the term "capital participation".

In addition to the opinions raised at the aforementioned management meeting, the following circumstances were examined and considered when KDDI implemented the Acquisition.

- The average annual increase in sales for the last four financial years may reach 10% (sales in the 2008 financial year amounted to about 16.2 billion yen at the exchange rate of that time). Consolidation may become a driving force of the future growth of the KDDI group.
- It is expected that the SI business of DMX can produce a "synergy effect" with the SI business operated by KDDI. By incorporating DMX, which is locally rooted, KDDI can strengthen its approach to the local market.
- Other than SI business, it is promising the DMX's video business operated in China make a profit with the movement of a digitization in China at that time. Furthermore, It is expected that the DMX's video business can produce a "synergy effect" with the domestic entertainment business operated by KDDI.
- DMX has major accounts including Chinese communication providers and prominent sales strength in mainland China. In addition, it is expected that the CATV market scale in China will increase in the future. These factors support future growth of DMX.
- Main management members such as Ms. Jismyl and Mr. Wu are from "b" company and have sufficient achievements. In addition, DMX has a lot of talented engineers.
- DMX is a listed company on the Singapore Exchange, which has been highly evaluated as meeting the criteria for listing examination. It is considered that there are no specific financial issues because Deloitte, a major accounting firm, conducted the accounting audit for DMX.

On December 1, 2009, KDDI acquired stocks of DMX equivalent to 51.7% through third-party share issuance, made DMX a consolidated subsidiary, sent 6 directors in total (full-time and part-time) and secured a majority of director positions in the Board of Directors consisting of 11 directors.

5. KDDI's Subsidiary management Concerning DMX

(1) Overview of management regulations for subsidiaries and DMX's position in the subsidiaries' management rules

In KDDI's segregation of duties rules Article 3, paragraph 2, it is stated that a Investees Management Division Manager takes management responsibility for the investees, provides necessary cooperation to the investees (sales support, business support, etc.) and manages performance (determination and analysis of the operating conditions, coordination of dispatch and temporary transfer of the Executive Members, and dealing with shareholders' meetings, etc.). It is also stated that a person who is an officer or an employee of KDDI and assumes office as a Director of the investees (the "**Dispatched Director**") is responsible for cooperation with KDDI, as well as faithfully working for the management of the investees.

In this way, KDDI's subsidiary management can be classified broadly into management by the Investees Management Division Manager and management by the Dispatched Directors.

Based on the segregation of duties rules mentioned above, for management of these subsidiaries, KDDI established important decision-making items for the subsidiaries that KDDI manages and working items for the management of those subsidiaries from April 1, 2013, and introduced management regulations for subsidiaries to promote smooth communication within the KDDI group and to improve business development, as well as business efficiency as a group.

As mentioned in Part2,3(1) above, the Investees Management Division is established within each subsidiary according to the management regulations for subsidiaries, and it is stated that the Investees Management Division Manager "must explain the gist of the regulations to the Director of the subsidiaries and closely cooperate with them, as well as determining the cooperation method between the Investees Management Division and relevant departments and subsidiaries and designing the plan including the regulations, etc. within the subsidiaries that are required for implementation of the regulations." It is also stated that the Investees Management Division Manager "must strive to establish the business management and control structure of subsidiaries" that KDDI manages through the subsidiaries. On the other hand, it is stated that "the Dispatched Directors must closely cooperate with the subsidiaries that are managed by the Investees Management Director and the company which the Dispatched Director belongs to by specifying the cooperation method with the subsidiaries managed by the Investees Management Division Manager, relevant departments, and the company to which the Dispatched Director belongs and by amending the regulations, etc. within the subsidiaries that are required for implementation of the regulations."

Please note that in the Attachment 1 of the management regulations for subsidiaries, the Division Manager of the Global ICT Business Division will be the Investees Management Division Manager of DMX. DMX is listed as a subsidiary that KDDI manages directly, and DMX BVI, DMX China, DMX Hong Kong, DMX Beijing, DMX Macao, etc. are listed as subsidiaries that KDDI manages through DMX.

(2) Management conditions by the Global ICT Business Division

A. Subsidiary management department

Back in 2009, within KDDI, items regarding profit management, management guidance, risk management, etc. of overseas subsidiaries were in charge of following sections during each period.

【Table3】The sections in charge of overseas subsidiaries

Period	Section name
April 1, 2009 - January 1, 2010	Global ICT Business Division, Global Business Planning Department
January 1, 2010 - April 1, 2011	Global ICT Business Division, Global Business Planning and Development Department
April 1, 2011 - October 1, 2013	Global Business Sector ,Global ICT Business Division, Business Planning Department
October 1, 2013 - April 1, 2015	Global Business Sector, Strategy and Business support Department
April 1, 2015-	Global Business Sector, Global Business Management Department

B. Specific contents of subsidiary management

In KDDI, meetings aimed at report the monthly profit situation of each business section to the executives and receiving the necessary directions and instructions, etc. (monthly profit review meeting) had been held every month from the past (the head of each business section and the main Executive Members including the President and the Chairman participated).

At this meeting, monthly profit reports with the operating income and recurring income of each business section and materials regarding cash flow were presented; performance was reviewed; discussions on future projects were held.

C. Management conditions concerning DMX

(A) Monthly regular meetings

From mid-2010, a regular meeting, in which DMX's performance is reported, has been held between KDDI and DMX every month. Ms. Jismyl and Mr. R from the DMX side, Mr. A as a director transferred from KDDI (participating from the KDDI side after 2013), Mr. B as a director transferred from KDDI, and Mr. F from the KDDI side participated.

Regarding the aftermentioned (B), since the increase in DMX's accounts receivable and the risk of uncollectibility were repeatedly indicated at KDDI's monthly profit review meeting, the KDDI side questioned the DMX side regarding the reason for the increased accounts receivable at the monthly regular meeting between KDDI and DMX. However, DMX explained that "by setting a long collection period of accounts receivable and offering financial conveniences to customers, we are strengthening the relationship with customers and expanding our business", and it was tentatively accepted as reasonable.

(B) The monthly profit review meeting

At the KDDI's monthly profit review meeting, concerns of an increase in DMX's accounts receivable were indicated since around 2012, especially by Mr. Tanaka who has been the current representative director. An increasing risk of uncollectibility due to increased accounts receivable has been repeatedly warned; furthermore, in August 2013, a field investigation was requested to be carried out to ascertain the status of DMX's accounts receivable, as stated below.

(C) Other operation reports

In addition to the aforementioned monthly regular meeting, Mr. F who is a part-time director of DMX had visited DMX several times each year and received reports regarding its operations. In addition, the responsible persons of all KDDI's overseas subsidiaries gathered in Japan twice a year and held an overseas management meeting to report on business strategies and DMX reported on operations to KDDI at these types of meetings. Mr. Tanaka indicatreed the issues regarding DMX's long-term uncollected accounts receivable several times and demanded confirmation and remediation.

(3) Management conditions of dispatched directors

A. Dispatch of officers and employees from KDDI to DMX

(A) Selection of dispatched people

As stated in 3.(2) above, after deciding on the Acquisition in around September 2009, KDDI moved forward to select officers and employees to be dispatched to DMX. First, KDDI decided appointing Mr. A, then president of KDDI Singapore, as COO, taking into account his work experience at overseas subsidiaries. As a result of discussions between Mr. A, Mr. D and Mr. E, it was agreed that Mr. B, who was a group leader of the Overseas Operations Control Group of the Global Business Planning Section under the Global ICT Business Division which had jurisdiction over the management of overseas subsidiaries, would be appointed as CFO. In addition, a plan was put in place for Mr. Q, representative of KDDI China, to assume the position of a part-time director (the vice chairman) of DMX.

Mr. A actually negotiated for the Acquisition and requested to send human resources who were familiar with a history of the negotiations and DMX operation details, etc. However, this was not realized as KDDI did not have a plan to assign employees who actually negotiated for the capital participation to management operations of subsidiaries after the capital participation in order to promote the end-to-end group control, other investment items were also under way at that time, and so on.

(B) Positions of dispatched directors and their decision-making-authority

As stated in 4(2)C.E. above, when KDDI decided on the Acquisition, with regard to the management structure of DMX after the Acquisition, KDDI planned to secure the majority of the board of directors with KDDI related people and to make dispatched people from KDDI take positions as the “vice chairman”, “COO” and “CFO/Financial Director”. Specifically, KDDI planned to appoint Mr. Q as the vice chairman of DMX, Mr. A as COO and Mr. B as CFO respectively, and to make dispatched people from KDDI control finance of DMX in order to manage use of money invested from KDDI to DMX etc. In addition, regarding the positions of dispatched people, at least Mr. D recognizes that Ms. Jismyl agreed with Mr. D, and regarding the authority of Mr. B, at least Mr. D also recognizes that Ms. Jismyl agreed with Mr. D at the limit to dispatch the person who become a ‘safe keeper’ in the cashflow of DMX from KDDI, although it is not clear whether Mr. D stated a post, “CFO” or “Financial Director”, clearly.

Regarding the decision-making-authorities of dispatched directors, operational responsibilities and authorities of the dispatched directors in DMX were not defined, and it was also not clear who was authorized to decide how to use the investments from KDDI. For these reasons, in December 2009, immediately after the Acquisition, KDDI requested DMX to change rules for decision-making-authority to include the dispatched directors in the decision-making process for reaching operational decisions for the purpose of understanding the overall management of DMX.

Although it was understood that Mr. D obtained the consent of Ms. Jismyl on the management structure of DMX after the Acquisition, in reality DMX strongly opposed the appointment of Mr. A as COO and Mr. B as CFO from immediately after the Acquisition. The request for the change in the rules for the decision-making authority was also intensely rejected.

Regarding the proposed appointment of Mr. A as COO, Ms. Jismyl opposed it in around December 2009 because Mr. A did not understand the businesses of DMX in detail and cannot correspond to .questions from outside. Ms. Jismyl proposed appointment of Mr. A as vice president, not as COO.

In around December 2009, Ms. Jismyl also opposed the appointment of Mr. B as CFO because Mr. R had already assumed the CFO position since 2008. Ms. Jismyl said that “DMX already has a CFO.” and that “There is no need for two CFOs.”, and indicated that

Mr. B might not build a confidential relationship with officers and employees of DMX because of his high-handed way of instructions.

On around January 8, 2010, Mr. Wu talked to Mr. A who was assigned to DMX and had a talk that Ms. Jismyl suffered from depression and wanted to leave DMX to take a responsibility for the mistake of having agreed the Acquisition. The existence of such a talk was reported to headquarters of KDDI. Therefore, Mr. Ishikawa was to discuss with the DMX side to seek to improve relations with DMX in a business trip of Mr. Ishikawa to DMX on January 19, 2010 which had been planned before aforementioned talk. In addition to Mr. Wu, Ms. Jismyl and Mr. R attended the discussion in this business trip. In the discussion, the DMX side offered that DMX wants KDDI to respect the inherent decision-making process of DMX since DMX shares information with KDDI timely.

KDDI considered that the SI business which DMX operated fell under a business type largely depending on individual sales capacity etc., and if Ms. Jismyl, who is a main officer and held the CEO position to control overall operations, left the company, people might leave in a stream after that, and that might make DMX operations uncertain. In addition, KDDI expected Ms. Jismyl, who seemed to be a brilliant manager good at accounts knowledge for KDDI, to take a role to check and control Mr. Wu, who appeared the riotous side manager, so KDDI decided to accept DMX's request. Despite its initial plan to appoint Mr. A as COO and Mr. B as CFO, it was decided that the COO position would be left vacant and that Mr. R, the present CFO, would stay in the position. Consequently, that was different from the initial plan. Mr. A and Mr. B were appointed as the Vice chairman and the Financial Director respectively. Mr. B also served as a secretary of the "Remuneration Committee", the "Audit Committee" and the "Nominating Committee" at DMX.

Furthermore, KDDI requested to change the rules for decision-making-authority, but changes were not put into place. In the end, the authorities of operational decisions were not granted to the dispatched directors and DMX just allowed for information sharing, and the dispatched directors ended up being outside of the ordinary decision-making process at DMX. As a result, KDDI barely managed to persuade DMX to accept obtaining Mr. B's approval for disbursement of the investments from KDDI, but opportunities where the dispatched directors had access to information relating to DMX operations were forced to be limited.

Regarding the point that the authorities of the dispatched directors were limited in this way, Mr. D and others, who were in charge of those days of the KDDI side, considered that maintaining the previous decision-making process once is not to be a severe risk, because KDDI may stop the execution of operation by sharing information before decision-making even if officers or employees executed unnatural operations. In addition, Mr. D and others considered that being made the offer which maintained the previous decision-making process by the DMX side was caused by the insufficiency of building a confidential relationship between KDDI and DMX, so Mr. D and others also considered if both companies made their confidential relationship strong, Mr. B was to be able to take a role as the 'safe keeper' of DMX in the near future. Furthermore, according to Mr. D, when it was decided to maintain the previous decision-making process, KDDI agreed with DMX to review the post of the dispatched people from KDDI in a proper timing after the confidential relationship between KDDI and DMX were built enough. However, the specific term or timing etc., of the review the post were not agreed (In addition, Mr. D is a only person concerned who mentions the existence of such an agreement.), in the end, such a review was not executed.

As just described, the management methods of DMX were materially different from the initial plan and were limited significantly. However, almost nothing was seen to prove that KDDI took this issue seriously and considered the issue sufficiently. Regarding this point, Mr. Tanaka and Mr. Ishikawa, who were directors in charge of these days, were reported and accepted about the passing of the appointment of Mr. A as COO, as it was indicated that "Mr. A might not be COO because Mr. A did not understand the businesses of DMX in detail and COO is a position to control operations of DMX" by Ms. Jismyl. On the other hand, regarding the authority of Mr. B, Mr. Ishikawa recognized that Mr. B had the authority of signature at least about significant receiving and making payments, while Mr. Tanaka recognized that Mr. B had the authority of signature about common receiving and making payments. In addition to such contradictions of recognitions, both of Mr. Ishikawa and Mr. Tanaka did not recognize that Mr. B did not have the authority about receiving and making payments except for the disbursement of the investment from KDDI. Accordingly, because the management did not recognize correctly about the management methods of DMX which were more restrictive than the initial plan, not surprisingly, KDDI did not take particularly effective measures.

B. Specific management conditions by the dispatched directors

Mr. A and Mr. B, who were full-time directors of DMX, spent around half a year since January 2010 to ensure submitting profit data, controlling profit, setting performance objectives and managing the budget and actual results on a monthly basis as part of the management of subsidiaries, in order to make the management of DMX meet the KDDI standard level of subsidiary management.

With regard to the business situations of each subsidiary of DMX, Ms. Jismyl and Mr. R first received reports on the monthly P&L and data relating to projects committed to in the month and expected to be committed to in the near future from each subsidiary of DMX, and summarized such data in monthly reports. Mr. A received the monthly reports from Ms. Jismyl and Mr. R. Based on the monthly reports, Ms. Jismyl and Mr. R organized and prepared materials for reporting to KDDI and performed a monthly report to KDDI by sending the materials to the Global Business Sector of KDDI.

When Ms. Jismyl and Mr. R prepared the materials for reporting to KDDI, Mr. A and Mr. B, did not check directly accessing original sources etc., based on the based on the data reported from Ms. Jismyl and Mr. R.

(4) Status of audits conducted in relation with DMX

A. Accounting audit by Deloitte

The following table presents a trend of sales, extraordinary profit, accounts receivable and cash and deposits of DMX from 2010 to 2013.

[Table 4] Sales, extraordinary profit, accounts receivable and cash and deposits of DMX

(US$ thousand)	2010	2011	2012	2013
Sales	270,615	335,716	379,592	408,755
Extraordinary profit	17,502	21,257	25,894	28,710
Accounts receivable	195,214	242,920	292,352	320,747
Cash and deposits	80,022	46,162	39,556	40,937

As shown in the table above, in terms of DMX accounting, while cash and deposits decreased after the Acquisition, accounts receivable went up. Therefore, the final audit report for each financial year to the Audit Committee prepared by Deloitte, which was in charge of accounting audits for DMX, raised the evaluation of long-term uncollected accounts receivable as a major audit risk matter in each financial year after the year 2010. Matters pointed out for each financial year went nearly unchanged every year. The balance of uncollected accounts receivable at the end of each financial year, general payment terms of DMX customers, and comparisons of uncollected balances with the preceding year, etc., are described. In the report of the year 2012 in particular, depending on the collection trends of the accounts receivable, the credit risk of DMX might significantly increase in businesses other than the communication business, so it was recommended to negotiate with customers in order to shorten the collection terms.

However, Deloitte expressed unqualified opinions in its accounting treatments of DMX from the beginning to the end, up to the year 2013 when Deloitte served as accounting auditor of DMX. From the KDDI's standpoint, as DMX's accounts were audited like that by Deloitte, KDDI might not have been given a proper understanding on the true issues regarding the transactions in question.

B. Investigation on the application to the tax haven counter-measures

KDDI paid the Japanese Regional Taxation Bureau nearly 300 million yen as taxes about income of DMX Macao in 2009 based on the tax haven counter-measures of Japanese tax laws due to a conservative stance. Triggered by this payment, in around April 2010, a field investigation in DMX Macao was conducted from a viewpoint of whether or not DMX

Macao violated the tax haven counter-measures (for example, whether DMX Macao had substantial business activities).

Since the time when the above-mentioned investigation was conducted, similarly with the transactions in question, DMX Macao made transactions through IE firms, not directly with customers. However, the purpose of the investigation was just to verify whether or not DMX violated the tax haven counter-measures, so the existence of transactions conducted by DMX Macao was not within the target of the investigation.

C. Internal audit by the Internal Audit Division

As a result of an internal audit on DMX operations conducted by Audit 1G of the Internal Auditing Department of the Risk Management Division of KDDI from November 9 to 18, 2011, as matters discovered in one of the items during the course of the audit, in a head named "accounts receivable issue", it was pointed out that no clear policies and procedures of the credit control for new accounts were defined and the credit control for new accounts was not implemented. It was asked 'to put in place policies and procedures for the credit control of the DMX group'.

In the internal audit, DMX explained that the credit risk was low because its major customers in China and Hong Kong consisted of listed companies or public companies. The only description in the improvement status report prepared by KDDI after the audit was that "because accounts receivable are mostly with good governmental customers, the uncollectible risk is small. However, the accounts receivable are forced to be long-term under agreements with customers, so individual receivables are managed and collection statuses are confirmed on a monthly basis" and this indicates that KDDI seems to accept DMX's explanations as it is. Although DMX had accounts receivable directly with IE firms, the only focus was placed on the credit risk of end-users with which DMX did not have direct transactions. There is no evidence that KDDI considered collecting accounts receivable from IE firms. Furthermore, there is no evidence that KDDI considered the existence of accounts receivable, as a prerequisite for the credit risk, with doubts in the internal audit.

D. Investigations on accounts receivable conducted in August 2013

As shown in (2)C(B) above, Mr. Tanaka, the current representative director of KDDI, indicated concerns with the increase in accounts receivable of DMX at the monthly profit review meeting. In response to his repeated indication about a rising risk of uncollectibility due to an increase in accounts receivable, KDDI conducted a field investigation on the accounts receivable of DMX in August 2013 as described below. This means that in August 2013 Mr. Tanaka instructed a field investigation to be conducted on the status of accounts receivable of DMX and persons in charge in the Global ICT Business Division, and the Corporate Management Division visited the office of DMX Hong Kong.

Matters conducted in this field investigation included customer analysis based on the investigation of details of accounts receivable, sample analysis of agreements and the collection status of accounts receivable, interviews with the Hong Kong office of ”f” auditing firm, and investigations on financial conditions and reputations of communications carriers and cable television companies who were end-users of DMX products etc., as mentioned below.

In this investigation, firstly, the investigations on the details of accounts receivable were conducted in order to confirm samples of agreements and the collection status of accounts receivable between DMX and IE firms. Mr. R explained that it was a general practice in China to involve IE firms in the terms of foreign currency restrictions and that a period in which cash stayed in IE firms was less than one week. For these reasons, it was explained that the collection risk was as low as the one for end-users. A visit to IE firms for an investigation was proposed to DMX, but Mr. R explained that “as IE firms are located in mainland China and they have many crusty people, it is difficult to contact them directly.” In the end, the field investigations at IE firms were not carried out.

In addition, inquiries were made to “f” auditing firm regarding whether it was a common way of distribution to make IE firms stand between the sellers and the end-users in China and whether very long collection terms were common for transactions through IE firms and transactions with companies in mainland China. The response was that this kind of distribution channel and the long collection terms were common. When these inquiries were made, “f” auditing firm proposed that it was possible to conduct a field investigation of IE firms if requested, but in the end, such investigation was not conducted.

Furthermore, although investigations were made on financial conditions and the reputation of Chinese communication operators and CATV operators, which were end-users, the purpose of this investigation of accounts receivable was just to confirm the collectability of accounts receivable. So, interviews with the end-users were not conducted to consider the existence of accounts receivable.

On the other hand, in contract-related documents between DMX and IE firms, the name of the end-users were described, but only IE firms affixed their seals, and no seals were affixed by any end-users. This means that a direct business partners of DMX are IE firms, so it is obvious for both legal and accounting purposes that invoices for payments of accounts receivable must be sent to only IE firms, not to the end-users. In this case, it is not deniable that final decisions could not be made by conducting investigations just focusing on the credit worthiness and risks of the end-users without focusing on IE firms, the direct business partners of DMX, in order to confirm the collectability of accounts receivable, and also that investigations on IE firms were not sufficiently conducted.

Taking the investigations mentioned above as an opportunity, KDDI strongly recognized the need to reduce DMX’s balance of accounts receivable, so KDDI changed the former policy of prioritizing profit increase to focus on ensuring positive cash flows even by controlling sales and ensured the monthly management for ensuring positive cash flows. As a result of these policy changes, DMX controlled cash outflows for capital expenditures by stopping capital expenditures to the Chinese communication operators which had reached a limit, focusing on capital expenditures to the CATV operators which had been growing, and reducing costs including personnel expenses and succeeded in returning to about US$ 3 million of positive cash flow in the year 2014 from about US$ 75 million of negative cash flow in the year 2010.

However, as just described, it can be considered that the superficial success of changing the management policy of DMX might prevent the fact that an actual cause hidden in the increasing balance of accounts receivable of DMX existed due to irregular accounting which did not reflect its actual condition from discovering.

Part 3 Causes, problems and background, etc. of the present case

1. Introduction

The insufficient awareness of the aforementioned signs in DMX's unnatural accounting caused that KDDI could not find DMX's irregular accounting until discovering the present case. However, more fundamentally, it is considered that a major problem is the fact that KDDI could not have a clear vision of how KDDI, as the parent company, would be involved in the management of its subsidiary, DMX.

That is, KDDI initially expected that KDDI could not but depend on Ms. Jismyl, who had been responsible for the management of DMX until then, among others, with respect to the management of DMX to a considerable extent, considering the facts that 1) DMX's main business operation was business for Chinese companies in China, about which KDDI did not have sufficient experience and knowledge, 2) because DMX's main operation, the SI business, required maintenance support, such as operation and maintenance management after installing and adjusting products following their delivery to customers, the confidential relationships between engineers of the DMX side and customers were important elements and these personal confidential relationships needed to be maintained, 3) against the background that the DMX management established DMX through a spin-out from "b" company, it was necessary to handle the management based on trust in the DMX management to avoid a talent drain from DMX, while relying on their experience and capability.

However, KDDI considered that KDDI had to take control of the management of DMX once KDDI had made a significant investment, while adopting thinking that it would execute an acquisition of a majority interest in DMX without conducting particular background investigation, etc. on the DMX management, including Ms. Jismyl, who KDDI had never met. Therefore, KDDI determined policies to control DMX's management from financial and accounting aspects by taking the positions of COO and CFO, despite allowing the DMX side to take the position of CEO. Also, KDDI determined policies to ensure that a majority of directors of DMX were from the KDDI side.

However, as mentioned above, KDDI proceeded with the procedure of the Acquisition without clear agreement with the DMX side on assignment of such posts in the process of acquisition negotiation. In addition, as for the management structure of DMX after the Acquisition, the KDDI side planned to occupy 6 full-time and part-time director positions in total, securing a majority of the director posts. However, the KDDI member who was engaged in the Acquisition negotiations assumed only the post of a part-time director, and most of the positions which required residing at the DMX site and required being substantially involved in the management of DMX were assigned to KDDI member who were not involved in the Acquisition at all. Moreover, under this situation, the Dispatched Director from KDDI, who was planned to be appointed as a new CFO of DMX, went to the site and requested such assumption of the position of CFO and a review of the rules for the decision-making authority, and the result was that the DMX management strongly opposed these.

In this crucial point, the KDDI side, which was afraid of an outflow of DMX management, decided to make a full concession regarding ensuring COO and CFO, and review of the rules for the decision-making authority, and as a result, as mentioned before, it secured a majority of directors only in number, and Mr. Wu, Ms. Jismyl, and Mr. R served as chairman, CEO, and CFO of DMX as before. In addition, a review of the rules for the decision-making authority was not conducted, and in the end, KDDI adopted the system of depending on Ms. Jismyl and others in the execution of business of the consolidated subsidiary. The problem in subsidiary management in question was largely due to this point.

Of course, employees dispatched to the site, etc., including Dispatched Directors from KDDI, presumably made efforts to conduct proper subsidiary management for DMX to the extent possible. However, it is considered that this bitter experience of frictions with and concessions to the DMX management fostered an atmosphere that they avoided conflict with the DMX management. This is acknowledged to have been affected by the value judgment of KDDI that subsidiary management should be conducted without causing further frictions with DMX management in order to retain the meaning of the Acquisition, in addition to vague agreement on assignment of posts of dispatched, etc. in the negotiations before the Acquisition, as mentioned repeatedly, rather than the problem of the working stance of those dispatched, etc.).

In this way, the actual situation of management involvement retreated significantly from the initial policy, but DMX had good sales and was seen to have generated favorable sales results on the surface. Therefore, on the other hand, the issue with delay in the collection of accounts receivable, etc., was acknowledged; however, due to the tendency to emphasize PL (profit-and-loss statements) in KDDI at that time, there might have been a strong belief that there would probably be no problem with entrusting business execution to the management of the DMX side.

The following points out the issues and so forth, and these are categorized into the process of reaching the decision on the Acquisition, the subsidiary management after the decision on the Acquisition, and other background circumstances.

2. Problems with the process of deciding on the Acquisition

(1) There was not sufficient awareness of matters that were mentioned in the financial due diligence, and the decision was reached on the Acquisition without appropriate follow-up measures for those matters.

As stated in Part 2 4.(2)B. above, the financial due diligence pointed out, among other things, large amounts of accounts receivable due to a unique method for adding up sales (95% of sales were acknowledged and added up at 14 days after deliveries of appliances) and the situation where long-term retention of accounts receivable occurred (the average collection period was about 9 months, and the period was over 1 year in some cases). In addition, careful judgment regarding the possibility of collection of accounts receivable and studies of individual contracts were recommended. Based on these suggestions, KDDI did investigations to some extent, such as interviews with FA and so forth. However, considering that DMX was listed on the Singapore Exchange, and auditing firm of DMX was Deloitte, a globally famous auditing firm, KDDI considered, among other things, that it could feel sufficiently secure about DMX's management situation. Therefore, KDDI had not studied or investigated individual contracts.

Originally, regarding distribution channels related to DMX, the fact that deliveries of appliances do not go through DMX as well as accounts receivable remaining in large amounts and long-term retention of such accounts generally gives rise to doubts about fraud, because the fact is one of typical signs of fraudulent accounting procedures. Even if this was not the case, the risk of uncollectibility could not be denied. Therefore, KDDI should have had deeper awareness of the issue and conducted studies and investigations that could wipe out such doubts and risk, but as stated below, one has to say that there was a problem with KDDI's attitude of accepting the DMX side's explanations at face value.

In addition, uniformly, officers and employees of KDDI, who had involved the Acquisition of DMX, indicate the facts DMX list on the Singapore Exchange, that is expressed one of the most difficult exchanges to list on the global basis, and auditing firm of DMX was Deloitte, and express that they trusted DMX strongly. However, listed companies do not disclose all information related to essential part of operation in due diligence before acquisitions, due to insider trading regulations. Moreover, listed companies are also limited to disclose particular information to only particular shareholders after acquisitions. For these reasons, there is an aspect that it is more difficult to discover the true character of a listed company than a non-listed company. One has to say that it was a problem that officers and employees of KDDI did not recognize such risk of acquisitions of listed companies enough originally, and they felt at ease too much for the reason that DMX was a listed company by contraries.

(2) KDDI believed the DMX side's explanations and did not assume at all risk that the explanation may include fallacy and exaggeration.

In parallel with conducting each of the aforementioned due diligence investigations, KDDI has acquired tentative verifications by confirming the quality of DMX's business operations through actually placing orders with DMX, etc. as well as by getting information on business operations and end customers, etc., of DMX from the DMX management.

However, most of the information which KDDI acquired was premised on explanations from the DMX side, and information regarding service contents of the SI business accounted for most of the information. This indicates that without taking into consideration the risks, which include the risk of non-existence or uncollectibility of accounts receivable related to accounts receivable remaining in large amounts and long-term retention of such accounts or the risk of fictitious round-trip transactions, and then getting information from other sources independently or carrying out sufficient verification, etc., KDDI believed the contents of the explanations as it was.

To summarize, although originally KDDI was not acquainted with DMX and there was no circumstance such as a reliable third party having introduced DMX, KDDI did not conduct any investigation focused on the backgrounds and personal profiles of the DMX management. In addition, there is no record found of checking multifaceted valuation and reputation of DMX in the industry[9] or carrying out verification about business relationships, etc. between DMX and end customers. Also, although information disclosure was not adequate as a whole in the aforementioned legal due diligence conducted by "e" law firm, due to disclosure of contractual documents with customers was refused by the DMX side and so on, and the inadequateness of information disclosure in the legal due diligence was indicated in the aforementioned legal due diligence report conducted by law offices "d" law firm, KDDI advanced consideration for the Acquisition without requesting any further confirmation.

In summary, it is reasonable to say that KDDI was focusing on merits expected to be obtained by the Acquisition, which were highlighted in a presentation by the DMX side, and not paying enough attention to real

[9] There were records of hearing of service evaluation from multiple customers presented by DMX. However, KDDI acquired from each of them only superficial evaluation on DMX's services which has the exact same content and lacks specific facts, such as "want to continue to cooperate with DMX because DMX provides effective guarantee of technical support and faithful after-sale service by its specialized provision of services and active, excellent team leadership". It must be said that reliability was lacking in that not KDDI but DMX, which was the subject being investigated, chose customers in the first place.

risks[10]. As a result of these factors, even when risks with the Acquisition were discovered and recognized in the process of the consideration, it is presumed that KDDI took only superficial and insufficient measures due to an impression that the DMX side's explanations were not false.

(3) Knowledge and experience of overseas M&A transactions, especially cases covering local overseas companies, was lacking, and the structures of such overseas M&A transactions were also weak.

KDDI's actual business expansion overseas before the present case was focused on doing business for Japanese companies overseas, and most overseas subsidiaries were KDDI's 100%-owned local subsidiaries engaged in such business. KDDI had almost no experience in acquiring a local company developing business for non-Japanese companies, and the necessary knowledge and experience were not sufficient (in this sense, the Acquisition in question was KDDI's first large overseas M&A case).

Overseas M&As are controlled by the Global ICT Business Division when KDDI acquired DMX, and such M&As were decided on after being reported for decision-making along the "vertical" route to the director in charge and the Representative Director, following discussions and resolutions at management meetings and board of directors' meetings. However, it is acknowledged that because this division lacked experience in acquiring overseas local companies and did not fully recognize real risks following acquisitions, while overrating the Acquisition advantages, as stated above, this division could not appropriately present problems regarding the Acquisition to the directors of the KDDI head office.

Originally, for proceeding with studies on an acquisition, it is considered that not only Global ICT Business Division, the business division in charge, but also related divisions, such as Risk Management Division; Finance Department and Accounting Department, supervised by Corporate Management Division; and Legal Department, supervised by General Administration & Human Resources Division, should gather knowledge across the company. After that, based on various viewpoints, an appropriate comprehensive judgment should have been reached as a result.

However, at KDDI then, such related divisions sometimes experienced consultation with persons in charge from the Global ICT Business Division, but these were only unofficial facts, and to begin with, there was no structure to organize a team by gathering persons in charge of related divisions across the company when KDDI consider an acquisition, and to get related divisions involved or cooperate officially in the progress or

10 Although it is sufficiently understandable that a management decision requires rapidity, DMX was selected as a candidate for acquisition in a very short period of time after it was mentioned as one of the candidates. It is unlikely that during the evaluation period KDDI went through the process of reaching a conclusion through narrowing candidates from some options by comparing and examining strengths and weaknesses carefully. This also indicates the rough-and-ready characteristic of the present case.

decisions regarding the project[11]. In addition, a structure to report conditions of consideration regarding investment to the management executives, as previous step of being presented overseas M&A transactions to management meetings or board of directors' meetings, was not settled. Thus, for example, at the level of persons in charge at the corporate divisions, who were unofficially consulted in the course of consideration of the Acquisition then, there appears to have been a cautious viewpoint about the signing of the Acquisition, as stated above, but it seems that this did not surface particularly, and such awareness of the issue was never communicated appropriately to management executives.

The fact that the project was promoted with vertically-structured thinking, lacking horizontal cooperation, as explained above, can be mentioned as one of the causes giving rise to the present case.

(4) Prior to the Acquisition, system establishment, clear management policies and plans that took into consideration PMI after the Acquisition were not organized, and Dispatched Directors were not fully informed of the Acquisition; thus, a system to sufficiently control DMX could not be prepared.

As stated in Part 2 4.(2)C., E. and 5.(3)A.(A), (B) above, KDDI initially expected to assign Dispatched Directors from KDDI to key posts such as COO and CFO, and such intention was explained at management meetings and board of directors' meetings within the company when deciding whether to carry out the Acquisition. However, in reality, the agreement with the DMX side was only a verbal promise between Mr. D and Ms. Jismyl, and, regarding the post in charge of financial affairs, there were only vague discussions, such as 'a post equivalent to CFO or Financial Director' or 'signer regarding significant receiving and making payments'. To begin with, it is highly likely that there was a discrepancy with the recognition of the DMX side. Therefore, immediately after the Acquisition, the DMX side strongly opposed the above mentioned assignment, and it is acknowledged that KDDI could not help but give up the securing of these posts by Dispatched Directors from KDDI.

In addition, regarding the decision-making route for business execution, as stated above, although KDDI tried to formulate new rules to let Dispatched Directors join the decision-making route of DMX, the DMX side also strongly opposed this. Finally, Dispatched Directors of KDDI did not have any decision-making authority, and only accepted to take the passive position of merely receiving information provided, and their access to business-related material and information was limited largely. In addition, it is acknowledged that there was a discrepancy with the

[11] At KDDI then, Planning Section, Corporate Planning Office, which had charge of supporting acquisitions of companies mainly, existed. However, such section did not support aggressively the cases of acquisitions handled by the Global ICT Business Division, as well as the Corporate Division.

recognition within KDDI whether Dispatched Directors secured original planned authorities or authorities of substantial 'safe keeper'[12].

It is acknowledged that the situation referred to above was largely due to the fact that acquisition negotiations that took into consideration appropriate PMI after the Acquisition were not conducted sufficiently, in addition to there being an insufficiency of risk analysis or consideration following the Acquisition of an overseas subsidiary, as stated above. Also, it is acknowledged that the situation referred to above was due to the strategic weak point that the correspondence based on a decision by a person in charge had been executed for an unexpected event, but not a consideration by the whole company, such as there is no record found of reporting that Dispatched Directors from KDDI might not secure the original planned posts and authorities to management.

It is obvious that in terms of the management of an overseas subsidiary, the positions or authorities of Dispatched Directors are extremely important points. The fact that this aspect was not followed through in acquisition negotiations is deemed as one of the causes of the delay in finding the irregularity in question by DMX.

Furthermore, none of Dispatched Directors from KDDI was involved in the Acquisition, and they were not sufficiently shared about problems which surfaced in the process of the due diligence. Along with the fact that their positions within DMX were deviated from the decision-making, as stated above, this is considered to have greatly influenced the fact that they were not fully conscious of controlling the DMX management actively.

3. Problems in subsidiary management

(1) Although the way of control over DMX after the Acquisition differed greatly from what was initially expected, necessary studies or measures were not conducted.

Regarding the way of control over DMX after the Acquisition, KDDI planned in advance, among other things, that Dispatched Directors of KDDI would assume key posts, such as COO and CFO, as stated above. However, in this regard, as the Acquisition was concluded without a clear agreement between the two companies, immediately after the Acquisition, the DMX side strongly opposed such plan, and in the end, KDDI could not secure either post and could not secure decision-making authority for business execution. Therefore, the deterrent of Dispatched Directors for DMX's financial matters was weak, and the situation where Dispatched Directors' direct access to business-related information was significantly restricted occurred. Control over DMX was at a level much lower than what KDDI initially expected. In particular, immediately after the

12 To begin with, the word, 'safe keeper', itself is very vague. It is considered that the discrepancy with the recognition within KDDI was caused as a result of incomplete comprehension without defined awareness of persons concerned about meaning of the word. However, in reality, Mr. B did not have an authority regarding finance of DMX except investments from KDDI, and a way to confirm directly conditions regarding receiving and making payment, as mentioned above.

Acquisition, the DMX side indicated that there was a possibility of loss of core staff, who was Ms. Jismyl, claiming that the speeches and actions of those seconded from KDDI placed stress on the DMX management and it was a mistake to accept the Acquisition, among other things. This was one of the causes that led to a passive management attitude by persons in charge from the KDDI side toward DMX , and those seconded from KDDI, among others).

In this way, objectively, it would be reasonable to consider that an extremely alarming situation occurred as a problem in subsidiary management. However, at that time, in response to this unexpected circumstance, KDDI did not implement sufficient measures; furthermore, the situation was not told the management collectively, and no evidence that serious investigation had been conducted within the company was found.

This indicates that the general management policy had a sense of "hesitation" because at that time, KDDI was traumatized in a sense by DMX's opposition immediately after the Acquisition, and people involved in KDDI feared that if KDDI strengthened its control over DMX, there would be a possibility of loss of DMX's core staff, and that if this happened, the meaning of not only the Acquisition, but also of the global business strategies could be lost.

(2) Insufficiency of monitoring of DMX's internal control system

KDDI seconded several officers and employees to DMX; however, as stated above, since none of them was involved in the negotiations and so forth of the Acquisition and officers and employees dispatched were not in the position to have direct contact with customers, KDDI did not have any opportunity to see DMX's actual business situation, such as actual transactions with customers, and KDDI lacked willingness to understand that actual business situation. Specifically, until the present case was found, KDDI was not aware that there was an agency between DMX and its suppliers, as stated in Part 2 2.(1)B.(B) above, among other things.

In addition, regarding materials of reports on DMX's business situation, KDDI only verified them based on the data made by the DMX side, and did not confirm the original materials of the data.

As a method for KDDI's head office to understand DMX's state, as stated above, monthly profit review meetings were held. However, these meetings involved discussions mainly focused on business profitability according to reports from Dispatched Directors, who only had access to indirect information, without sufficient risk awareness. Therefore, problems with the transactions in question were never brought up in such discussions.

(3). An investigation was conducted on the assumption that DMX's explanations were true even regarding its internal control.

As stated in 2(2) above, KDDI had preoccupation and an assumption that the DMX side's explanations were not false. Therefore, although there were several opportunities to perceive problems with the transactions in question, such as the internal audit in 2011, the local investigation of accounts receivable in 2013, and so forth, KDDI did not confirm whether end customers existed, or the contents of contracts, and so forth, and did not conduct thorough investigations or studies until now.

It is commonly known that the existence of remaining accounts receivable in a large amount as well as long-term retention of accounts receivable and loss in cash flow are all signs of typical deceptive accounting. However, although these signs had continued to appear consistently before the acquisition, and they were discussed multiple times on occasions such as internal audits, monthly profit review meetings, local investigation of accounts receivable, and so forth, KDDI just believed the same explanations that the DMX side repeated every time (explanations, such as one about Chinese commercial practice and another that concerns about collection were minor and there was no record of irrecoverable debts as the main customers were good government-related customers, had hardly changed since the due diligence phase before the acquisition), and did not think of conducting more thorough investigations or study. Especially, although DMX had accounts receivable directly with IE Firm, it is regrettable that the focus was placed on the credit risk of end-users with which DMX did not have direct transactions, and the possibility of collection from IE firm and the reality of accounts receivable were not studied.

4. Background

(1) Trust in the transaction partner without sufficient basis, one-sided investigation methods, and insufficiency of studies of investigation results

In the process of the due diligence and subsequent subsidiary management, regarding an increase in the remaining accounts receivable, collection of accounts receivable over a long period, a decrease in cash flow, and so forth, the contents of explanations from the DMX management were not verified sufficiently, and problems of the transactions in question could not be found for a long time. As background, it is as stated above that KDDI was convinced that the explanations by the DMX side were not false.

Especially, it is worth noting that even in light of the so-called “China Risk,” mentioned for a long time, the present case is considered to be a case that needed deeper awareness regarding potential problems, and although there were multiple opportunities for this, they were all missed. Such unconditional trust in the transaction partner[13] = so-called “lack of preparation” and “lack of care” needs to be mentioned as one cause of the present case.

---

13 On the grounds that DMX was a company listed on the Singapore Exchange, and DMX’s financial audits were handled by the major auditing firm Deloitte, it appears that KDDI placed a high degree of trust in DMX. However, the risk of listed company acquisition is as stated in 2(1), and in the sense that the confirmation of specific facts was not sufficient, it is quite hard to say that there were firm grounds for the trust.

(2) Lack of risk awareness

In the present case, as a result of placing unfounded trust in DMX while underestimating the concerns found in the due diligence before the Acquisition and various audits after the acquisition, KDDI could not understand risk appropriately.

Companies carry out various projects, and while there are advantages for all projects, there are disadvantages (=risks). After comparing these, appropriate corporate actions are selected and decided. During such process, reasonable risk taking should be allowed. However, in the present case, it is considered that as the advantages of the acquisition were overrated, KDDI's risk awareness was not sufficient, and its judgment was lenient, to begin with. Corporate activities are becoming varied, complex, and globalized. With this, these days, when there is a possibility of facing various risks, it is necessary to improve this defenseless attitude for the future.

(3) Efforts to know the actual business situation were not sufficient.

As stated earlier, KDDI was not aware of DMX's distribution channels, as stated in Part 2, 2(1)B(B) above, until the finding in the present case. Originally, if KDDI aimed to expand the SI business in the Asian region, among other things, with a synergy effect from incorporating DMX into the KDDI group, it should have understood the actual situation regarding DMX's commercial transactions, and based on this, formulated realistic business strategies. However, in the present case, it is acknowledged that KDDI was caught up in DMX's superficial financial figures, and did not make enough efforts to understand the actual situation, which formed the basis of the figures (as stated above, it cannot be denied that the fact that Dispatched Directors from KDDI were not given decision-making authority for business execution was a constraint). It is considered that this point should be accepted seriously, also as an issue regarding the management stance.

(4) Formulation of responsible system and attitude, etc. when proceeding with new business strategies was lacking.

At that time, KDDI had a lack of experience in acquiring overseas companies, insufficient human resources with knowledge and experience about overseas M&As, and clearly inadequate recognition of the Chinese market or Chinese companies, and as mentioned above, its internal system had not been adequately developed. As mentioned above, these causes resulted in the failure to acquire a substantial management right over DMX, and were some of the causes which made KDDI believe the false explanation given by the DMX management. Considering the difficulty in management of overseas subsidiaries, it is considered that KDDI should have made more preparation, such as more cautious risk examination, etc. for executing an acquisition of DMX-scale companies, which KDDI had never executed, and undertaking full-scale global management.

KDDI was not significantly involved in subsidiary management business from the head office side, much less in seconding human resources to DMX other than two employees who was involved in preparation and negotiation of the Acquisition and became an outside director of DMX. Such operating style, which can be deemed as "to leave the rest to others" is especially problematic. If the employees who were involved in the Acquisition were supposed to be seconded to DMX, they would have cautiously prepared information on DMX's business, problems, and evaluation of staff and of organizational structure, including DMX's management team, and would have cautiously prepared for establishing mutual trust with DMX management, etc., resolving to do so at their own responsibility. It is quite hard to say that two employees who was involved in preparation and negotiation of the Acquisition and became an outside director of DMX adequately took care of accounts receivable issue that was found in the process of the acquisition negotiation and failure of securing the CFO post.

Presumably, gathering a large number of opinions by, among other ways, organizing a task force across the company, and collaborating with each other, should have been required when KDDI was about to officially start operating a business strategy in an area in which KDDI did not have sufficient experience, like the present case. However, as mentioned above, basically with an attitude and structure based on vertically-structured thinking, organic and functional coordination beyond the immediate division of relevant staff was not assured, which can be considered to be a big problem. This is the widely necessary point of view for proceeding with new strategies, not only regarding overseas subsidiaries.

Part 4 Recommendations for recurrence preventive measures

1. Introduction

As stated in Part 1.1.(1) above, the present investigation was triggered by an arrest of DMX's CEO and CFO by Hong Kong police in 2015 when over 5 years had passed since KDDI acquired DMX on suspicion of a crime in relation to transactions conducted in 2008. This case has a long history in which a considerable period of time has passed since the occurrence of a suspected offence subject to investigation. Therefore, KDDI put in place an internal system for the acquisition and management of its subsidiaries in response to changing business practices of the acquisition for a period from the time of acquiring DMX to the detection in the present case. Thus, in some circumstances differences are found between the KDDI's internal system or business practice at the time of acquiring DMX and those at present, although some differences were caused by the detection of the present case and others are not.

The present committee recommends the following ways to consider recurrence prevention measures by taking the present case as an opportunity, and based on the actions and measures that KDDI have been taking up to the present date as well as acquisition cases at the time of acquiring DMX and the approaches and actual conditions of practice at the time:

2. Efforts to Improve Awareness of Fraud Risks across the Company

An understanding of what is the essential fraud risk is a major prerequisite for detection of fraud. It is most important that each officer and employee understand what the risks of fraud are and prepare to detect and correct frauds at an early stage if any exist.

It is recommended that recognition and understanding of the fraud risks across the company (including identification of risk factors and acquisition of knowledge about signs and maneuver of frauds) be improved, to always keep in mind that frauds may be inherent in all types of operations (it is occasionally necessary to assume the worst-case scenario); get rid of preconceived notions, maintain healthy skepticism, be diligent in fully understanding the actual goods and sites or actual conditions and confirming evidential documents or the like without accepting “specious explanations” if signs of fraud are detected and set these solidly as corporate culture.

Specifically, the following can be considered:

(i) Management should have high awareness of risk management or compliance, clearly indicate their solid stance, and make it known to everyone internally.

(ii) Based on the present case, training to improve recognition and understanding of a fraud risk accompanying the acquisition and management of overseas subsidiaries, and education for acquiring related accounting literacy should be provided to officers and employees.

3. Formulation of Basic Policy of M&A Strategies and Management Governance for Overseas Subsidiaries (Management Participation and Control of Subsidiaries)

As the acquisition of DMX in question was KDDI’s first large overseas M&A, at that time KDDI had poor know-how and experience that were necessary and did not always establish solid policy for deciding and implementing the acquisition and management. These are considered as some of the remote causes for the present case.

In order to implement this kind of transaction strategically, efficiently, and appropriately, it is inevitable and necessary that KDDI establish, as the cornerstone, a clear guideline on M&A strategies and management governance of overseas subsidiaries. It is desirable to include the organization structure of governance, approach to personnel selection of key posts such as directors, fundamental state of reporting lines (internal decision-making of businesses, reporting system or procedures), division of roles from a parent company, roles of each post (responsibilities and authorities), and basic structure and methods of monitoring in the basic policy of management governance.

KDDI accumulated a considerable amount of know-how based on M&A experiences implemented after the acquisition of DMX. Today, it is said that the following actions have begun to be prerequisites for the acquisition of overseas companies: (i) a person seconded from KDDI should assume a CFO post, in principle, and if there are specific reasons why KDDI cannot secure CFO posts, then KDDI should secure CEO or COO posts that are ranked higher than the CFO and appoint person(s) seconded from KDDI as manager(s) who will work under the CFO; and (ii) as far as possible, KDDI must send staff who have thorough knowledge of finance and accounting from the Corporate Management Division, not from the Global Business Sector .

These actions can be evaluated because these help to understand the business operations of the target company from the financial perspective and ensure the effectiveness of fund management by appointing suitable persons across the company. However, from the perspective of unification and clarification of decisions, it is desirable to develop a written policy as a guideline and to thoroughly communicate it. In addition, in the case of an acquisition of a local company that engages in a unique business in the overseas market like DMX, there are some cases in which the daily business operations and profit management are delegated to subsidiaries, in principle, and a parent company controls management by emphasizing governance. Thus, KDDI should request the top management of overseas subsidiaries to establish transparency in the business and to fulfill accountability, and it is considered that this needs to be clearly stated in the basic policy.

4. Establishment and Proper Operation of Common Risk Management System, etc. across Global Group

As the premises for management strategy targeting the expansion of a business on a global scale, it is extremely important to develop an environment (advancement of risk management) in which various factors, contents, and characteristics of risk can be accurately recognized and understood according to details of the business expansion, area characteristics, national circumstances, business practice, and nationality of location where the business is conducted, and which risks can be taken appropriately.

Obviously, individual risk management and measures are challenges that each subsidiary is supposed to tackle with a sense of ownership, but a parent company has responsibilities to oversee and supervise the establishment and operation of the internal control system of subsidiaries from the perspective of the management strategy as stated above. Based on the basic policy stated in 3 above, the particular state or methodology[14] of the risk management that is

[14] For example, detailed methods are thought to include risk identification methods; risk evaluation criteria (the existence of materiality, or the like); an organization and staff designated to risk management: monitoring structure; reporting line, frequency, and method to a parent company (including emergency reporting system); development of IT (information technology) environment appropriately including the core system with operational control functions (for example, by introducing the global accounting system that **standardizes the accounting system of each company of the group** and monitors subsidiaries' business operations from the financial and accounting perspectives on a daily basis, the monitoring itself has **the effect of restraint and fraud prevention**. It also leads to **ensuring transparency** of the management, so it is considered as worthy of consideration as one of measures particularly if there are constraints in the local legal system.); **encouraging use of IT in operational processes** of each group company (this promotes **clarification, recording and standardization of the decision-making process** in each company, with the result of contributing to the **improvement to transparency in business operations and post verifiability**.).

applied to the entire group should be decided and introduced appropriately according to the actual conditions of each subsidiary.

On this matter, the detection of the present case was one of driving forces, and KDDI formed a group that was in charge of governance of overseas subsidiaries, fraud prevention measures, and IT-related operations within the Global Management Department, the Global Business Sector after April 2015, and changed the system in which the Global Business Sector, which was a business division, was also in charge of operations relating to risk management and fraud prevention measures of overseas subsidiaries. This can be evaluated as fulfillment of the risk management system. From the viewpoint of fully operating a restraining function on overseas subsidiaries, it is desirable to operate these systems and to manage human resources or the like effectively.

5. Reinforcement of Promotion System, etc.—Improvement and Reinforcement of Internal Control Concerning Acquisition and Management of Overseas Subsidiaries

(1) Reinforcement of systems, etc. concerning acquisition and Post Merger Integration (PMI) of overseas subsidiaries

This paragraph recommends recurrence prevention measures by listing important matters in order to reinforce the systems concerning the acquisition and Post Merger Integration (PMI) of overseas subsidiaries in A. to F. below. However, based on the present investigation, if the overseas subsidiary is a listed company, it is assumed that considerable difficulties are accompanied when realizing all these items. The present committee adds a remark to KDDI as a warning that it is necessary to understand difficulties well in acquiring a listed company, especially an overseas listed company, as a subsidiary and managing it, while if neglecting the management, a risk of overlooking fraud always exists.

A. A system which involves not only a business division (the Global Business Sector), but also management divisions (Accounting and Finance Department, Legal Department, Human Resources Department and Risk Management Division) in the acquisition and PMI of overseas subsidiaries should be structured. In particular, as the business division tends to focus on only advantages such as business expansion and profit increase as a result of the acquisition, the management divisions are expected to play a role in determining through an analysis of risks associated with the acquisition, whether or not the acquisition is appropriate from a composed and objective viewpoint.

KDDI set up the “Corporate Strategy Department” as an organization directly reporting to the president after April 2010. This develops a system in which persons in charge with experiences of acquisition projects supports the acquisition negotiation and organizes and controls the corporate acquisition review team[15]. In addition, this develops a system in which information can be shared to senior management at an early stage by setting the review status of investment to overseas companies as a matter to be reported by the Corporate Strategy Department, so that this can be evaluated because this contributes to reinforcement of a system for acquisition of overseas subsidiaries.

With regard to PMI, the business results of the invested company started to be reported once a year for three years after the acquisition (previously, for one year after the acquisition) after 2010. A system was developed in which the follow-up for findings in the due diligence was reported. KDDI has been developing its internal systems in order to make persons who were engaged in an acquisition to be continuously involved in the management of the target company. It is desirable to continue to develop systems and to enhance human resources.

B. Based on the basic policy stated in 3 above, items to be checked that are focused on governance should be developed systematically, it should be noted that all items should not be neglected from being considered and tackled. In addition, appropriate and sufficient follow-up should be considered depending on the items[16].

C. With regard to risks indicated in the due diligence (finance and legal) before the acquisition, measures to resolve issues should be taken by conducting appropriate investigations before the investment as much as possible (if it is not resolved, it should be considered whether to withdraw the plan depending on the magnitude of the risk), or the focus should be placed on the resolution of issues at an early stage at least in the process of management control after the acquisition.

D. With regard to the governance itself of subsidiaries, the only choice is to depend on indirect control through the management of concerned subsidiaries, rather than directly by a parent company. Thus, personality, qualification, and professional

---

15 Teams including the corporate division are organized according the nature of a target company. For example, in special cases such as the case requiring business due diligence relating to information security technology, members of the Risk Management Division (Internal Control Department) that are in charge of information security technology may be incorporated depending on the case.

16 Based on the fundamental state of the risk management that is applied across the group as stated above, it is considered necessary to promote a review of the state of internal control of subsidiaries themselves, in other words, relationship with the executive body, the board of directors, and other supervisory bodies; roles and authorities of dispatched officers and employees; compliance promotion system; enhancement of the internal audit system; development of reporting lines to a parent company in the process of the business integration after the acquisition.

background (not only management skills, but also appraisal of human nature such as their nature, characteristics, personality and character, detailed experiences, relationship, reputation in the industry) of the management of concerned subsidiaries are very important. In particular, before the acquisition of non-Japanese companies, it is desirable to make utmost efforts to investigate the background information of managements.

Along with the advancement of M&A practices, it is said that KDDI attempts to partly use external professionals for the due diligence of human resources (background checks) on the management of the target company depending on the nature of the acquisition project. Therefore, this is expected to be a useful measure to mitigate risks associated with personality evaluation.

E. In the process of the acquisition negotiation, with respect to personnel selection for key posts such as directors and executive officers that are crucial for management governance after the acquisition (to secure important posts for dispatched officers and employees from a parent company[17]); clarification of authority; the state of reporting lines, a clear agreement[18] should be made with the present management as much as possible and be shared with them in order to avoid differences of understanding among related parties after the acquisition.

As stated in 3 above, it is said that KDDI has already started taking such actions. KDDI should strive for further enhancement, formulate these actions as internal policy or rules, and realize sound operations.

F. In principle, it is desirable that a person who is in charge of the acquisition becomes a responsible person for the administration of acquired subsidiary for several years until the business integration is complete after the acquisition (at least, it is necessary that a person who was involved directly in the acquisition commits to PMI substantially.).

(2) Strengthening of the System for Regular Management of Overseas Subsidiaries

A. As stated in terms of the acquisition and PMI, with regard to the regular management of overseas subsidiaries, a system

---

17 For example, in light of difficulties in detecting irregular accounting because of no access to so-called “raw data” such as agreement documents and sales, even if CFO posts are secured for the dispatched officers and managers, a recent trend for subsidiary management is to focus on securing CIO, a responsible person in the IT Division by dispatching officers and employees and securing all access to such “raw data.” In doing so, it is worthwhile to consider securing posts for dispatched officers and employees of responsible persons in IT as well as in management.

18 Documentation is desirable with any sort of agreement or minutes of meetings to be prepared in writing.

should be established with the involvement or support in many forms of not only the Global Business Sector, which is directly responsible for these subsidiaries, but also the management division. Furthermore, human resources who have knowledge and experience of finance and accounting or risk management should be allocated to the department that is in charge of subsidiary management.

As mentioned in 4 above, it is said that KDDI introduced a system of investigative activities to check fraud risks or the like in accordance with the business description of each overseas subsidiary within the Global Business Sector. The Global Business Sector is the Overseas Business Division to be separated from auditing, the latter of which has been the responsibility of the Risk Management Division (Internal Auditing Department) since April 2015 and has just started its operations. Although it has basically been considered as desirable measures of improvement, further attention should be paid to strengthen a collaboration with related departments and to secure proper resources in the future.

B. In order to avoid overlooking signs of fraud, KDDI should be alert when controlling the management of overseas subsidiaries. This should be done by sufficiently considering the issues recognized in the process of the due diligence before the acquisition and the PMI, based on risk factors relevant to the circumstances of the concerned subsidiaries as well as their business profits base.

C. With respect to regular management, items to be checked that focus on governance should be systematically developed, and it should be noted that all items need to be investigated or tackled.

D. A system should be established in which sufficient communication between the business division, which is the division directly responsible, and the management division (including the Internal Audit Division) is made on a regular basis and the necessary collaboration is secured. Through this system, issues on the administration of overseas subsidiaries can be shared and the appropriate measures can be taken promptly if necessary.

6. Improvement and strengthening of the monitoring system

(1) Enriching and strengthening internal audits

A. The division in charge of internal audits is one of the vital elements of internal risk management and plays a significantly major role in preventing the occurrence of misconduct, finding it at an early stage, etc. Therefore, based on 2 above, this division should strive to further enhance the accuracy of risk awareness and establish a structure to conduct more efficient and accurate internal audits with limited resources[19] (we believe that it is not only necessary to conduct regular audits at fixed intervals, but it is also necessary to coordinate regularly with the business division for subsidiary management and other related divisions to acquire necessary information, and if there seems to be a possibility of risk such as fraud, then based on the content and level of such risk, it is necessary to make active efforts such as conducting thorough special audits focused on relevant matters as appropriate).

In this regard, KDDI has considered introduction of audit procedures using computers to cover overseas subsidiaries, following the finding of the present case, and these procedures can be credited with improving the accuracy of detecting fraud. However, as stated above, it is necessary to fully bear in mind that these procedures will operate appropriately only when employees and others who use these tools will have awareness of fraud risk and exercise healthy skepticism.

B. For conducting audits, it is necessary to make efforts to realize effective and full audits, such as, when necessary (for example, in the case of the above special audits), gaining support from staff who have a thorough degree of knowledge of finance and accounting and legal affairs, among other matters, from other divisions and taking advantage of external experts (it has been learned that KDDI has started to involve an audit corporation, which is an external expert, in its internal audits since 2011. However, after all, as stated above, in light of the fact that it was not possible to find DMX's fraud even in the investigation of accounts receivable involving the audit corporation in 2011, it will be necessary to keep making further improvements for effective coordination with experts).

C. As stated in 2 above, KDDI should get rid of preconceived notions, maintain healthy skepticism, and if signs of a fraud are detected, should conduct persistent and strict audits with a rationale of priority on actual sites and goods, focusing on facts, and enforcement of collection of evidence.

D. It is a must to give appropriate and sufficient feedback on the results of internal audits to the business division performing regular subsidiary management, and to make sure to offer follow-ups on matters of concern.

[19] It is expected that, for a large-scale group company like KDDI, the role of the parent company's Internal Audit Division, which controls and supervises the governance of the entire group, including many domestic and overseas subsidiaries and affiliated companies, will become more and more important in the future. Therefore, strengthening the division's personnel and physical structures should be considered.

(2) More diversified and multi-layered monitoring

The bigger the group scale, the more difficult it will be to keep an eye on subsidiaries and affiliated companies within the group. Thus, it will be necessary to establish several monitoring structures that will be applied across the group and connect them with each other in an organic manner and utilize them.

In this regard, it has been learned that KDDI is currently introducing a new structure to give CFOs of overseas regional headquarters a role of subsidiary monitoring in the region, and is preparing to establish a corporate risk management division at overseas subsidiaries and dispatch staff from the head office's Risk Management Division in order to support to construct systems. Including these, it will be useful to operate, in an organic and unified manner, structures such as regular management emphasizing the governance by the business division, audit control activities by the Internal Audit Division, and a monitoring system using IT technologies, as stated above.

(3) Support for officers and employees dispatched to subsidiaries and more enriched and substantial communications

Dispatched officers and employees, as members of the subsidiaries to which they have been dispatched, strive to improve the subsidiaries' sales results and profitability. At the same time, from the perspective of group governance, they play an important part in subsidiary monitoring by the parent company. Therefore, in order for dispatched officers and employees to display their abilities to the full, in accordance with the actual circumstances of the subsidiaries to which they have been dispatched, KDDI should develop a system for sufficient support from the parent company and keep in mind maintenance of close communications with them.

(4) More enriched and active global internal reporting system

The global internal reporting system has already been developed at KDDI, and in fact, there seem to be cases of misconduct found through this system[20], but its operating results have been unfavorable as a whole, and there has been no case of internal reporting regarding DMX in the present case until now.

The internal reporting system is generally acknowledged to be an effective structure to find fraud at an early stage. Especially for overseas subsidiaries, if the internal reporting system for local staff of overseas subsidiaries functions well, it can be extremely useful since the information that the parent company can acquire is not enough in terms of both quality and quantity due to the physical distance, differences in time, language, and customs, among other things, and the tools to acquire information are limited. Therefore, KDDI should proceed with actual efforts to improve usage results of the system from now on (in order to do

---

[20] The internal reporting system was introduced in 2011 for overseas subsidiaries.

this, what is most important is to communicate messages clearly and effectively from the top management and to make them permeated in the entire group. In addition, KDDI should discuss ways to enhance functionality, such as full protection of informers and adoption of a leniency system).

7. Other

(1) Problem with awareness of Dispatched Directors

Needless to say, Dispatched Directors should be aware that they themselves play an important part in group governance and should perform their functions of supervision and overseeing as board of director members. They should not only observe subsidiary management as, so to speak, onlookers, but it is important that they communicate closely with local management teams and local staff, get deeply involved in decision making for business operations, and play a substantial role in the internal control of subsidiaries.

In order to do this, Dispatched Directors should always communicate closely with relevant divisions at the parent company and managers of overseas regional headquarters, among others, and when they recognize a problem, they should make sure to report and discuss it voluntarily and actively.

(2) Fostering, training, and reinforcing of global human resources (including hiring and appointment of experts)

So long as KDDI will develop its business globally, it is essential to foster and train staff who have skills necessary for overseas M&As and management administration of overseas subsidiaries and who will be able to work in the global environment[21]. KDDI should enrich its employee education (training, OJT, etc.) for this purpose and make active efforts to hire and appoint external experts with sufficient necessary knowledge of overseas M&A, such as attorneys and certified public accountants, and staff with expertise in business in overseas companies and experience of working abroad.

(3) Accumulation and sharing of experience in overseas M&A

KDDI should compile within the company the know-how and lessons, among other things, actually learned by KDDI, developed from overseas M&As and from the management of overseas subsidiaries, by recording such know-how and lessons into knowledge repositories (for example by

---

[21] Only language skills are not enough, and an understanding of foreign cultures and knowledge of actual situations and systems overseas, as well as various skills, such as negotiation and explanation skills and ability to think and judge, will be necessary.

making documents and manuals)[22], and should consider using such know-how and lessons to standardize related business in the future, hand over work duties to new staff, etc., and for in-house education, among other purposes.

Part 5 Ending Comments

We have two things that have left an impression on us after reflecting on the present investigation.

Firstly, in the present case, KDDI continued to be deceived for a long period from the acquisition to the finding of the case. The biggest cause of this failure was that KDDI could not proceed at the time of the acquisition with enough awareness that it was about to acquire a company in an area in which it lacked knowledge and experience, and so KDDI's subsequent handling of subsidiary management became off the point, resulting in its poor move in risk management and not being able to evaluate the true picture of past DMX management until the end. In this sense, we have recognized again the importance of consciously aiming to realize "all's well that begins well."

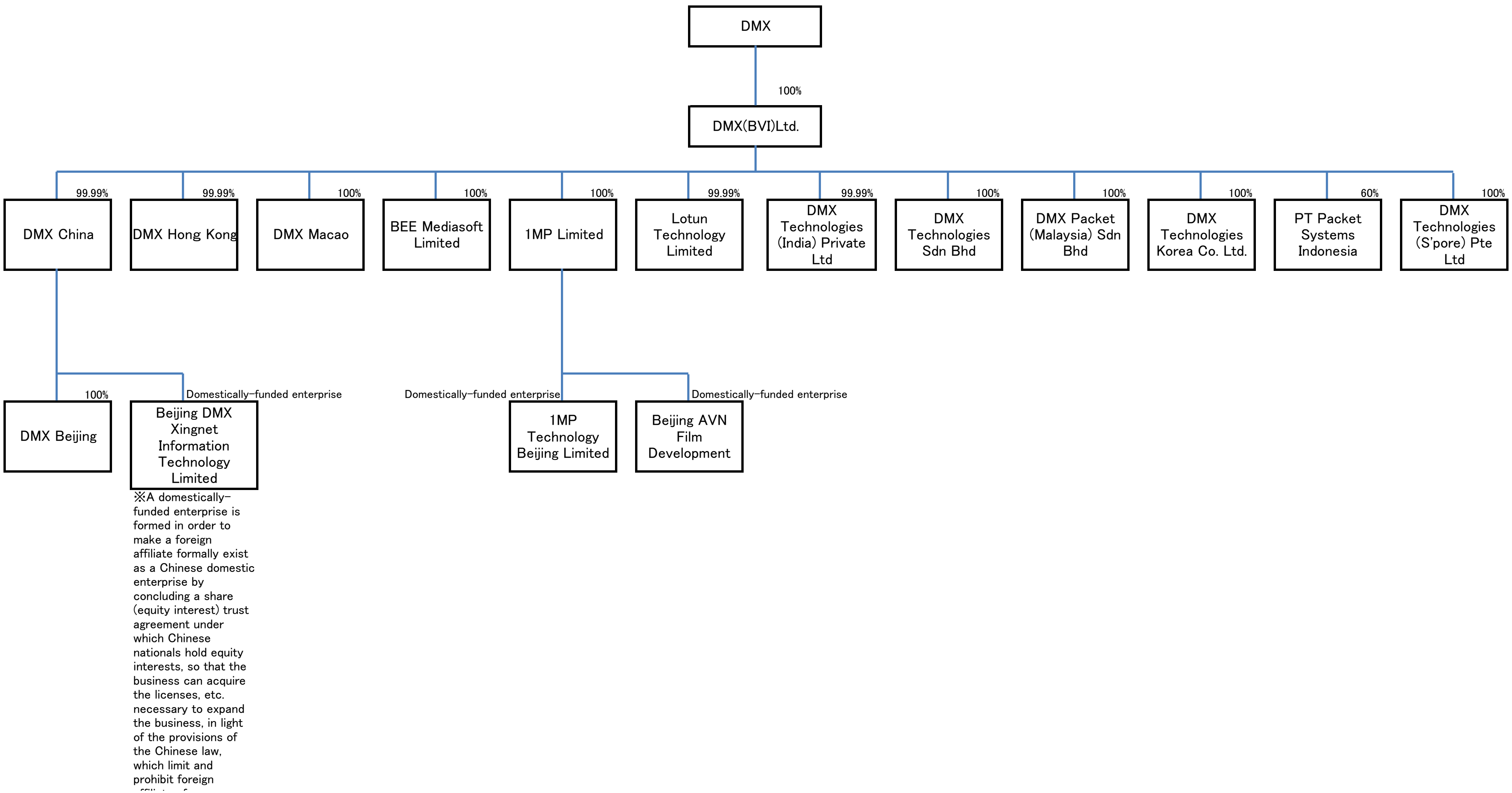
Secondly, in the process of the investigation, on numerous times we have felt KDDI's sound corporate culture, the passion of its officers and employees towards their work, and the depth of their care for the company while we were interviewing the officers and employees and reading relevant materials. Further, as stated in relation to recurrence prevention, KDDI is establishing suitable measures in terms of structures and policies, among others, for acquisitions and subsidiary management, although these measure are based on experiences different from the present case. This is why we believe that KDDI will surely be stronger and grow a great deal by using the failure of the present case as a stepping-stone, and we truly hope this will happen.

End

---

22 From now on, it will be necessary to leave behind the attitude of focusing on how to avoid opposition from the management team of a subsidiary, etc. and shift the focus to how to independently control the management of an acquired subsidiary. For this, the reinforcement of know-how and efficient accumulation of experience will be more important than anything else.

Attachment


DMX
100%
DMX(BVI)Ltd.
99.99%
DMX China
99.99%
DMX Hong Kong
100%
DMX Macao
100%
BEE Mediasoft Limited
100%
1MP Limited
99.99%
Lotun Technology Limited
99.99%
DMX Technologies (India) Private Ltd
100%
DMX Technologies Sdn Bhd
100%
DMX Packet (Malaysia) Sdn Bhd
100%
DMX Technologies Korea Co. Ltd.
60%
PT Packet Systems Indonesia
100%
DMX Technologies (S'pore) Pte Ltd
100%
DMX Beijing
Domestically-funded enterprise
Beijing DMX Xingnet Information Technology Limited
Domestically-funded enterprise
1MP Technology Beijing Limited
Domestically-funded enterprise
Beijing AVN Film Development
※A domestically-funded enterprise is formed in order to make a foreign affiliate formally exist as a Chinese domestic enterprise by concluding a share (equity interest) trust agreement under which Chinese nationals hold equity interests, so that the business can acquire the licenses, etc. necessary to expand the business, in light of the provisions of the Chinese law, which limit and prohibit foreign