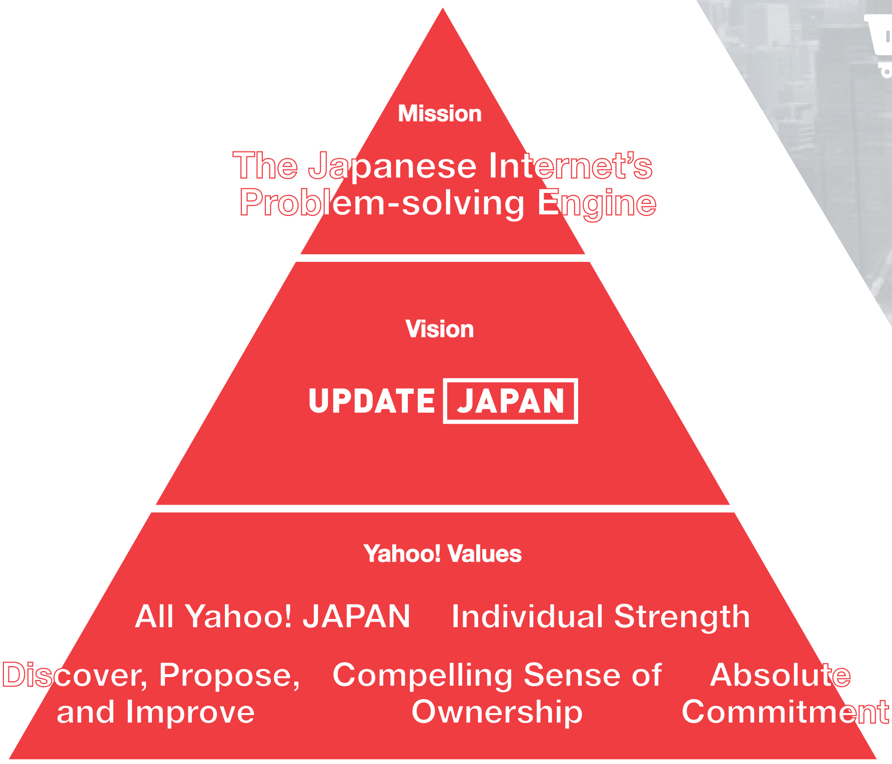
YAHOO! JAPAN

Annual Report 2017

Year ended March 31, 2017

Mission, Vision, and Values



Firmly established as the Japanese Internet's problem-solving engine, Yahoo! JAPAN's mission is to provide useful, solutions-oriented services by leveraging Internet technologies. In order to realize Yahoo! JAPAN's vision of UPDATE JAPAN, we have formulated a set of five Yahoo! Values that thoroughly infuse our work culture and guide our day-to-day business activities.

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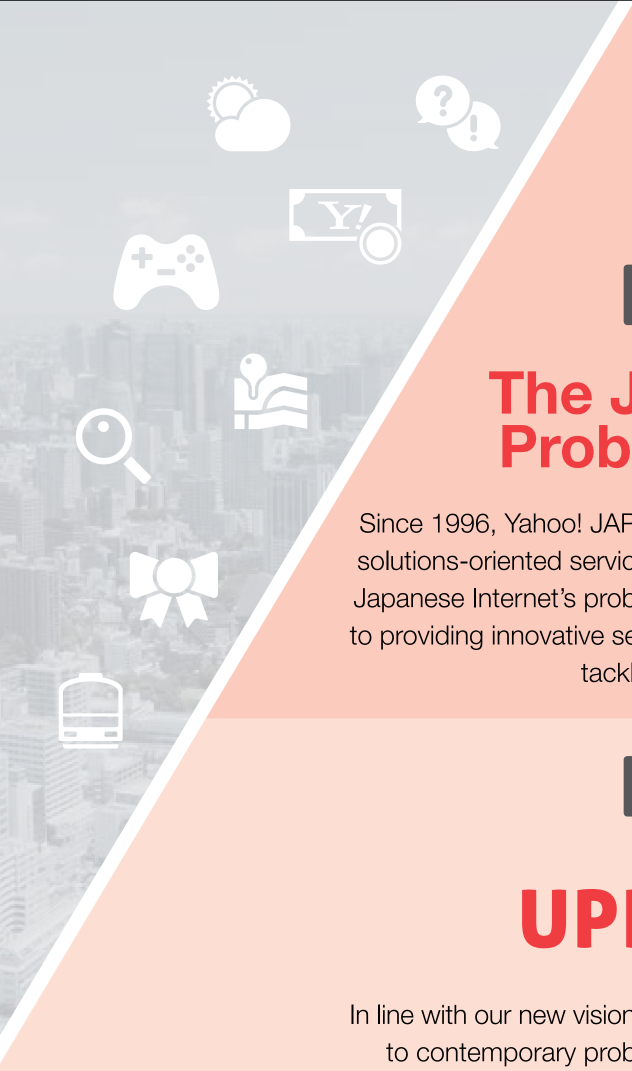
Disclaimer on Forward-looking Statements

All forward-looking statements appearing in this Annual Report, including but not limited to forecasts, estimates, and future strategies, are based on information available at the time of publication and certain assumptions generally deemed reasonable. Such forward-looking statements are subject to various risks and uncertainties, including but not limited to unanticipated changes in the competitive environment, economic trends, market demand, and outcome of pending or future litigation, in addition to indeterminate factors and faulty presuppositions. Should one or more of these risks or uncertainties materialize, our actual results or performance might vary materially from those described in the relevant forward-looking statements. We therefore gently advise you to refrain from relying completely on these forward-looking statements. The Company assumes no obligation to update or revise these forward-looking statements in light of future developments.



Mission

The Japanese Internet's Problem-solving Engine

Since 1996, Yahoo! JAPAN has tirelessly carried out its mission of providing useful, solutions-oriented services based on cutting-edge information technologies. As the Japanese Internet's problem-solving engine, Yahoo! JAPAN remains fully committed to providing innovative services that inspire and empower Japanese Internet users to tackle the pressing problems of modern life.

Vision

UPDATE JAPAN

In line with our new vision, UPDATE JAPAN, we will strive not only to provide solutions to contemporary problems but also to inspire hope and enhance expectations throughout Japanese society for progressive change and a better future for all.

Yahoo! Values

All Yahoo! JAPAN

Individual Strength

Discover, Propose, and Improve

Compelling Sense of Ownership

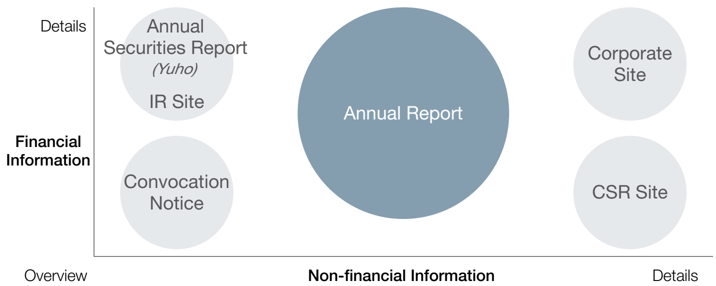
Absolute Commitment

Management encourages all employees to remain ever-mindful of these five Yahoo! Values and to embody them to the extent possible with the goal of achieving continuous personal and professional evolution, which ultimately benefits the users of Yahoo! JAPAN services.

Editorial Policy

This Annual Report provides a comprehensive overview of the business operations and corporate activities of Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group), including but not limited to information about finances, strategies, results, and other aspects of our business operations in addition to descriptions of our corporate governance system and corporate social responsibility (CSR) activities. Because this Annual Report is provided primarily for the edification of our shareholders, investors, and other stakeholders, those topics deemed to be of particular interest to said stakeholders were selected for inclusion. We sincerely hope that this Annual Report helps to deepen stakeholders' and other readers' understanding of the Company and the Yahoo Japan Group. For more detailed information, please refer to our Investor Relations website (https://about.yahoo.co.jp/ir/en/).

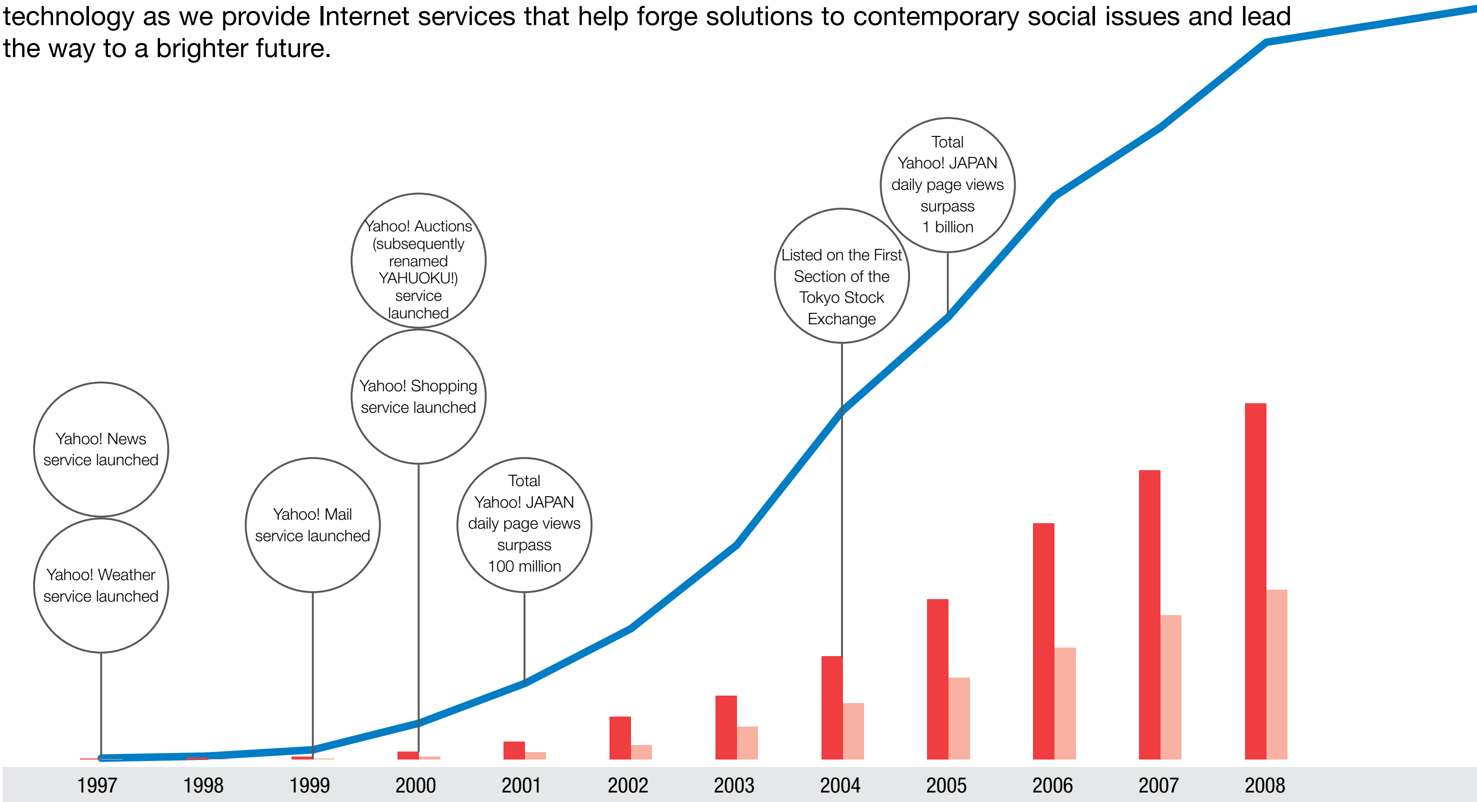
Positioning of various information disclosure tools



Growth History

In the vanguard of the Japanese Internet services industry

Since its establishment in January 1996, Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group) have been a key driving force behind the rapid proliferation of Internet usage in Japan. By reliably providing an ever-expanding range of secure, useful, and cutting-edge services, the Yahoo! JAPAN portal site has long been the undisputed market leader in terms of user numbers and page views. Committed to further strengthening Yahoo! JAPAN's position as the Japanese Internet market's problem-solving engine, we will continue to leverage the power of information technology as we provide Internet services that help forge solutions to contemporary social issues and lead the way to a brighter future.



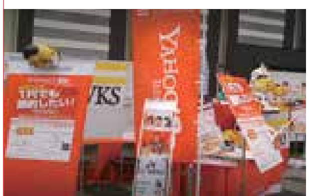
1996 April

Launch of Yahoo! JAPAN

Yahoo! JAPAN was launched as the Internet's first Japanese-language search engine, providing Japanese-language website database and directory tree data search as well as keyword search services.

2001 September

Launch of Yahoo! BB service



The launch of Yahoo! BB high-speed Internet connection service, offering unlimited access for just ¥2,280 per month, fueled the proliferation of Internet connectivity throughout Japan, setting the stage for enormous growth in Internet usage.

2008 January

Renewal of Yahoo! JAPAN PC version top page

In our first complete renewal of Yahoo! JAPAN's top page since the inaugural 1996 launch, we added a personals service as well as entertainment and other lifestyle-related information services in an effort to become a more comprehensive and broadly appealing destination for Internet users.

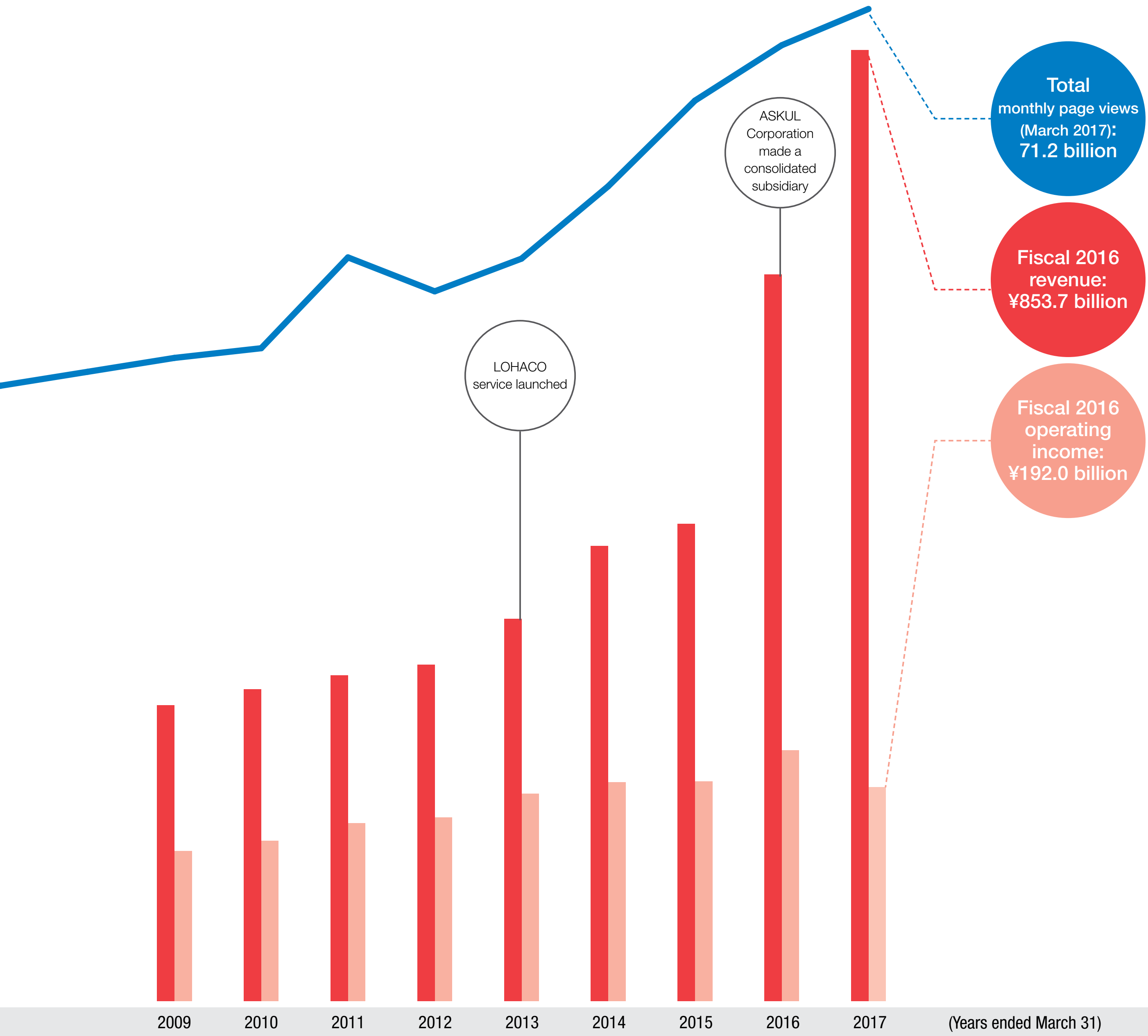
2008 July

iPhone optimization of Yahoo! JAPAN services

After SoftBank began exclusive sales in Japan of Apple's iPhone 3G model, we began the process of optimizing all Yahoo! JAPAN services for easy iPhone 3G access. To optimize the user interface, we created iPhone 3G start-up screen icons corresponding to 65 Yahoo! JAPAN service top pages.

Key developments in the Internet industry

1994	Yahoo! Inc. established
1995	Microsoft's Windows 95 and Internet Explorer released
1999	i-mode mobile Internet service launched in Japan
2000	Google's Japanese-language search engine service launched
	Amazon's Japanese-language version launched
2001	Wikipedia's Japanese-language version launched
2003	Skype service launched
2004	mixi social networking service launched in Japan
2006	niconico video-sharing service launched in Japan
2007	YouTube Japanese-language localization service launched



2012 April

Implementation of new management structure

In response to rapid smartphone proliferation and related changes in the Internet usage environment, we implemented a new management structure and rejuvenated the management team, the first such move since the Company's establishment in 1996.

2013 October

Implementation of new e-commerce strategy

In our Yahoo! Shopping service, by eliminating monthly store tenant fees and system-use fees we set in motion the shopping business's transition from a fee-based to an advertising-based revenue model. In our YAHUOKU! auction service, we loosened bidding restrictions to entice more buyers and also eliminated monthly store tenant fees and auction listing fees to attract more sellers.

2015 May

Renewal of Yahoo! JAPAN smartphone version top page

In our renewal of the Yahoo! JAPAN smartphone version top page, we introduced a vertical scrolling timeline design that not only enhances the convenience of contents viewing on small-screen smartphones but also facilitates the distribution of new in-feed type advertising.

2015 June

Adoption of new corporate governance structure

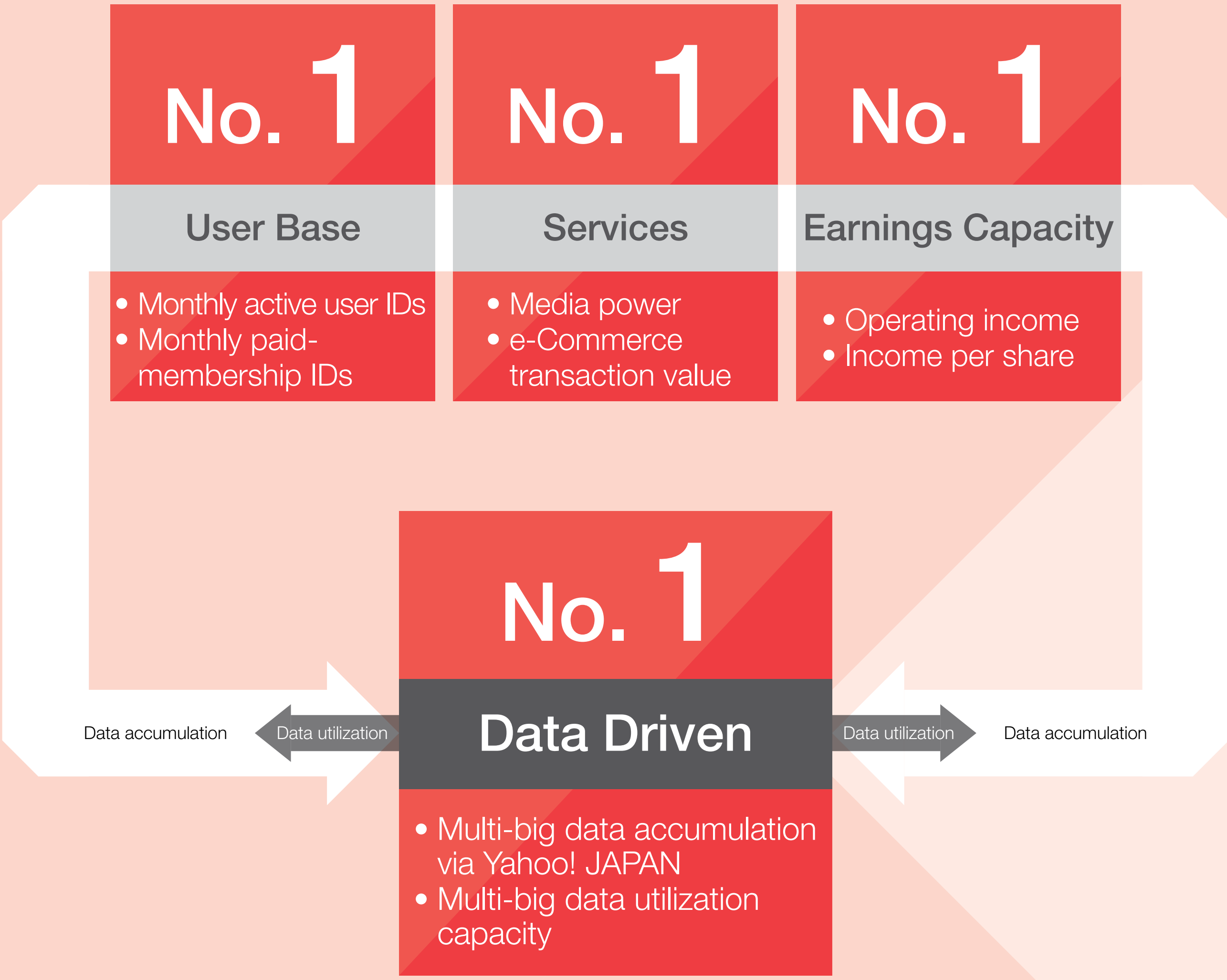
In keeping with Japan's new corporate governance code in effect from June 2015, the Company adopted a new corporate governance structure based on an Audit and Supervisory Committee in order to strengthen the governance framework and facilitate quick and decisive decision-making. At the same time, we appointed two independent outside directors with the goal of promoting transparent and fair decision-making, as well as clearly separated the monitoring function of the Board of Directors from the business execution function of corporate officers.

2008 Apple's App Store launched
Google's Android Market (subsequently renamed Google Play) launched
Facebook's Japanese-language version launched
Twitter's Japanese-language version launched

2010 Apple's iPad released
2011 LINE call and messaging app service launched in Japan

2015 Apple Watch released

In Many Ways, the Undisputed Leader in the Japanese Internet market



The Yahoo Japan Group's strength stems first and foremost from Yahoo! JAPAN's user base, by far the largest of any Internet portal site in the Japanese market. Ongoing efforts in recent years to promote logged-in usage of Yahoo! JAPAN services have boosted the number of monthly active user IDs to almost 40 million. Moreover, as a result of continual enhancements to our paid-membership services centered on Yahoo! Premium, monthly paid-membership IDs currently exceed 17 million.

By providing more than 100 services to millions of Yahoo! JAPAN users, we have amassed considerable media power and continue to make significant gains in e-commerce transaction value. By keenly focusing on service improvements and sales promotion activities, we are steadily working to attain the highest e-commerce transaction value of any Japanese portal site—not only in the auction business, where we already enjoy an overwhelmingly dominant market share, but also in the shopping business, where we boast the highest number of stores and item listings in the market*.

Thanks to our competitive advantages, myriad service offerings, and revenue source diversification, On the Road to the Future

Becoming a Multi-big Data Driven Enterprise

Becoming a multi-big data driven enterprise entails leveraging huge volumes of user data accumulated over years of service provision with the aim of developing more sophisticated, highly personalized services that are amenable to monetization. By employing user login IDs for the purposes of authentication and access, we have accumulated user-specific browsing and purchase data on a cross-sectional basis across multiple devices and services. Because of our huge user base and breadth of services, we have to date accumulated a massive volume and diverse range of data. At this key developmental juncture, this is an invaluable asset that sets us apart from other Japanese Internet companies.

Roadmap to the Future

1
Expand multi-big data accumulation

Attain No. 1 rank in media-related services, e-commerce related services, and financial and payment-related services

Specific measures:

1 Maximize e-commerce related transaction value

2 Utilize rich media

2
Strengthen data science related capabilities

Enhance multi-big data utilization capacity

Specific measure:

3 Become a multi-big data driven enterprise

For more details, please refer to the Growth Strategies section of this report. P15

we have built up one of the most sustainable earnings capacities of any corporation in Japan based on operating income and other key financial indicators.

Going forward, we aim also to become far and away the No. 1 Japanese Internet company in terms of multi-big data accumulation and utilization capacity by leveraging our user base, services, and earnings capacity. By enhancing our multi-big data utilization capacity, we intend to further expand our user base and usage times, differentiate and improve our services, and strengthen our earnings capacity.

By combining media-related services, e-commerce related services, and financial and payment-related services into a uniquely integrated business model, we expect to pioneer new markets and sustainably create value in the years ahead.

*As of March 31, 2017, based on an industry study conducted by Yahoo Japan Corporation

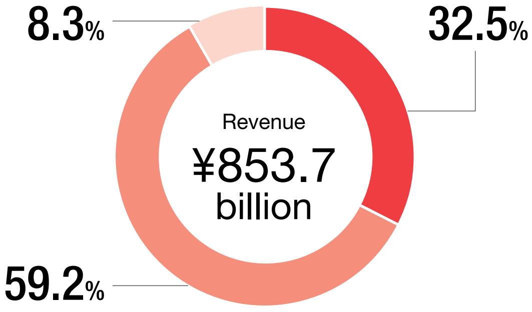
Business Segment Overview

The business operations of Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group) are organized into three business segments: the Marketing Solutions Business segment, the Consumer Business segment, and the Others segment. While operating independently of one another, these three business segments leverage significant inter-segment synergies to achieve maximum consolidated revenue and profit. Moving forward, we will remain focused on expanding our share not only of the online advertising and domestic e-commerce markets but also of the financial and payment-related services market, where we anticipate especially high levels of growth.

	Description	Principal services
Marketing Solutions Business P19	The Marketing Solutions Business segment provides a diverse, high-quality selection of essential media-related services such as Yahoo! News with the aim of maximizing Yahoo! JAPAN's daily usage metrics. Based on those metrics, the segment generates revenue via advertising placements. Smartphones accounted for more than half of the Yahoo Japan Group's total advertising-related revenue for the first time in fiscal 2016, testifying to the success of our product development and marketing efforts in recent years. Moving forward, we expect to achieve higher profitability by maintaining a sharp focus on enhancing our media-related services with an eye to boosting user numbers, usage frequency, and usage time, while at the same time making functional improvements to advertising products incorporating distribution systems that leverage accumulated user-specific behavioral data.	• Yahoo! JAPAN top page, Yahoo! News and other media-related services • Paid search advertising, display advertising, and other advertising-related services
Consumer Business P21	The Consumer Business segment primarily comprises e-commerce related services, membership services, and information listing services. Owing largely to contributions from consolidated subsidiaries ASKUL Corporation and Ikyu Corporation, the Consumer Business segment generates the largest amount of revenue among our three business segments. In our flagship Yahoo! Shopping service, from October 2013 we introduced a new e-commerce strategy for increasing advertising-related revenue by eliminating monthly store tenant fees and transaction-based system-use fees. Enhanced privileges newly offered during the period to specific user groups such as Yahoo! Premium members supported strong growth in the Yahoo Japan Group's total domestic e-commerce transaction value, which, after adding on the online B2B revenue generated by ASKUL on a stand-alone basis, rose to ¥1.85 trillion for fiscal 2016. Moving forward, we aim to become No. 1 in total transaction value in the rapidly expanding Japanese e-commerce market, where YAHUOKU! already boasts an overwhelmingly dominant share of the online auction market.	• YAHUOKU!, Yahoo! Shopping, ASKUL, and other e-commerce related services • Yahoo! Premium, Yahoo! BB, and other membership services • Yahoo! Real Estate and other information listing services
Others P23	The Others segment includes financial and payment-related services, cloud-related services, corporate services including data center related operations, and other services not included in either of the other two business segments. Financial and payment-related services, the Yahoo Japan Group's third business pillar after advertising and domestic e-commerce, chiefly comprise the credit card, e-money, and foreign exchange margin trading businesses. Sharing significant synergies with our e-commerce related business, the credit card business is expected to grow in tandem with total domestic e-commerce transaction value. Looking ahead, we intend to expand these businesses by carrying out new-member acquisition drives and promotional campaigns to boost usage.	• Credit card, e-money, foreign exchange margin trading, and other financial and payment-related services • Cloud-related services

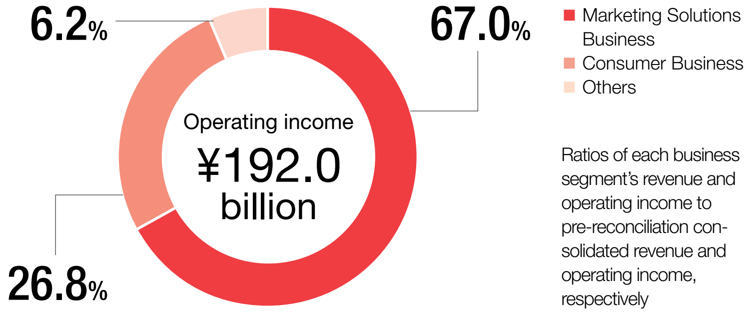
Revenue Breakdown, by Business Segment

(Year ended March 31, 2017)



Operating Income Breakdown, by Business Segment

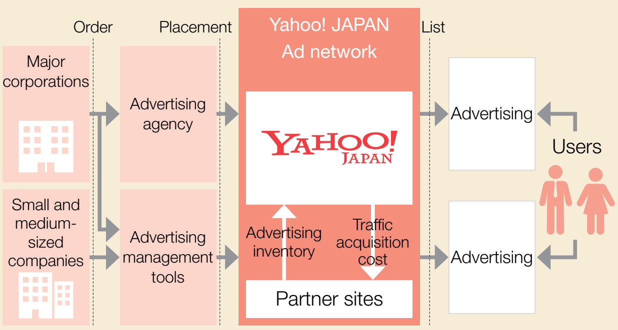
(Year ended March 31, 2017)



Ratios of each business segment's revenue and operating income to pre-reconciliation consolidated revenue and operating income, respectively

Profit structure of principal businesses

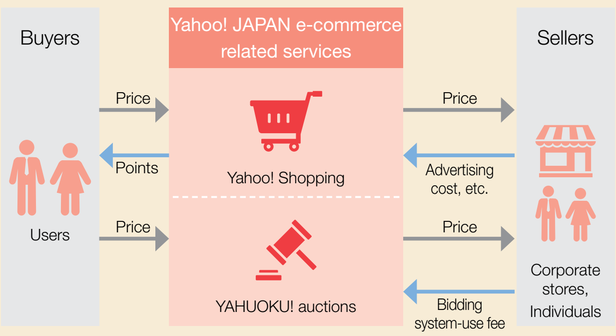
Advertising listing flow



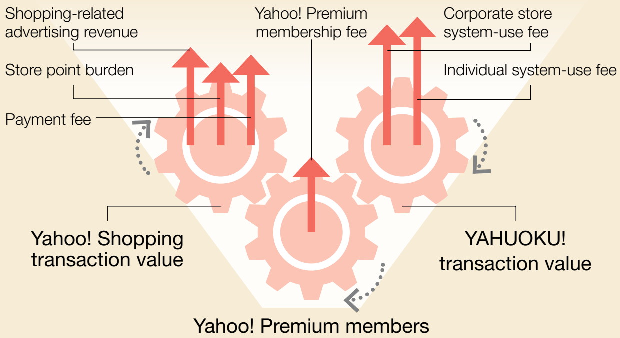
Main factors affecting advertising revenue

Traffic	Advertising unit price	Click-through rate
• Increase in user numbers • Increase in usage frequency • Increase in usage time	• Increase in advertiser numbers • Create high-impact Rich Ads • Improve advertising effects	• Enhance targeting accuracy • Improve the user experience

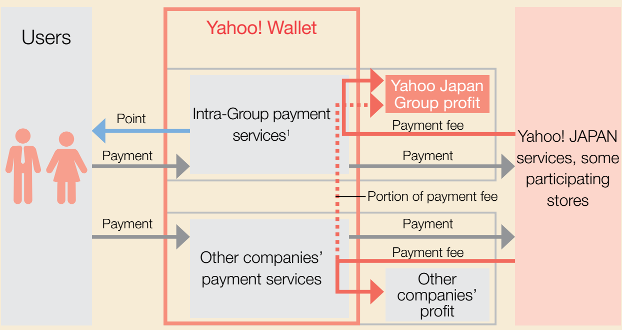
Yahoo! Shopping and YAHUOKU! business flow



Consumer Business segment overall growth strategy

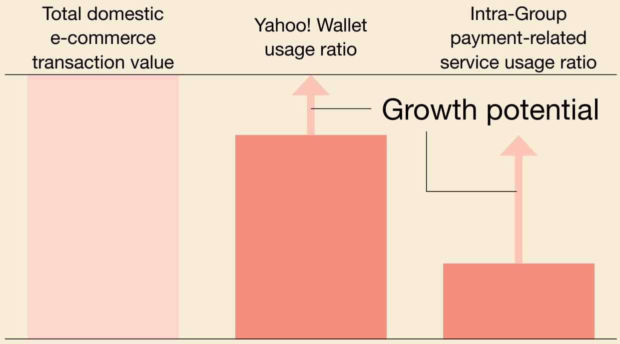


Financial and payment-related services profit structure



1. Yahoo! JAPAN Card, The Japan Net Bank, Yahoo! Money

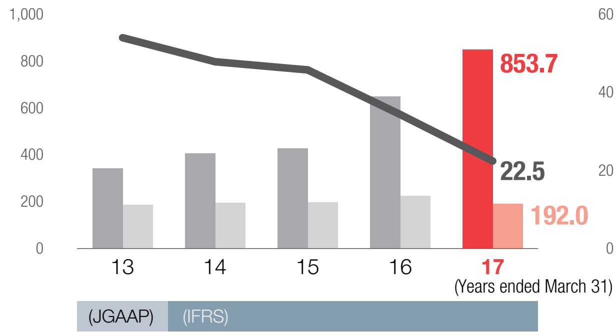
Financial and payment-related services profit expansion policy



Financial Highlights*

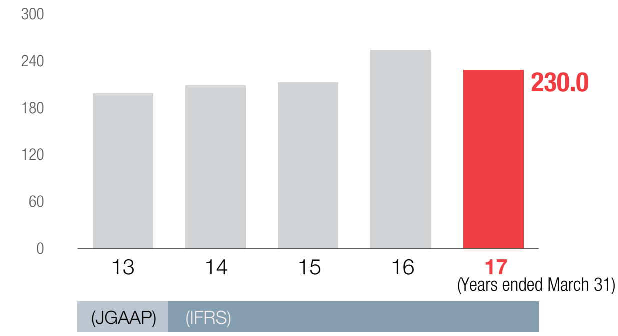
Financial Indicators

Revenue & Operating income[1] & Operating margin
(Billions of yen) (%)

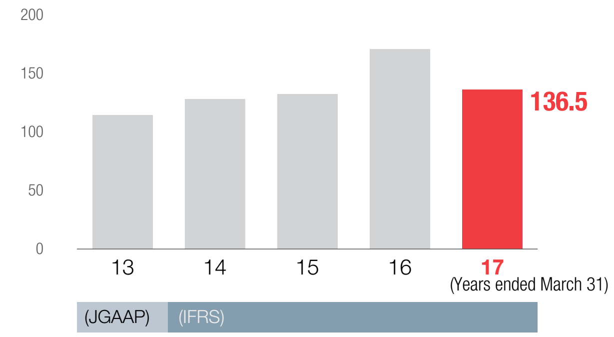


Revenue (left) Operating income (left) Operating margin (right)

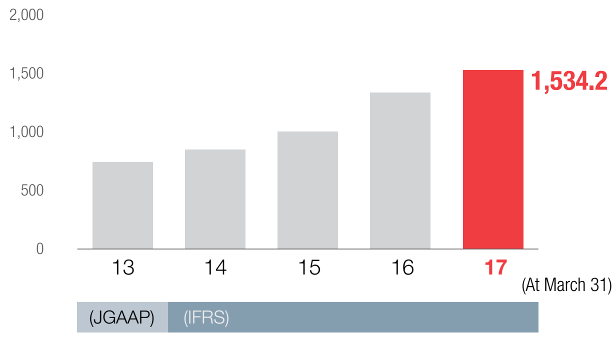
EBITDA[2]
(Billions of yen)



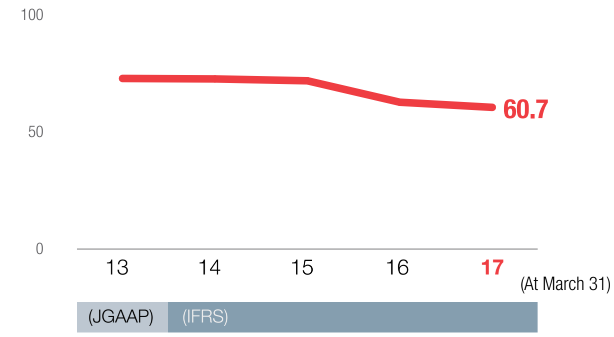
Net income/Profit for the year attributable to owners of the parent[3]
(Billions of yen)



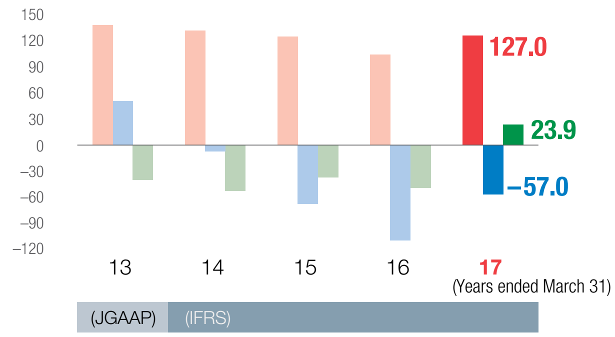
Total assets
(Billions of yen)



Total equity/Total assets ratio
(%)

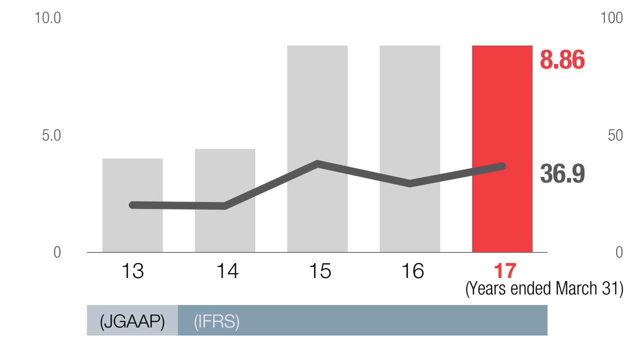


Cash flows
(Billions of yen)



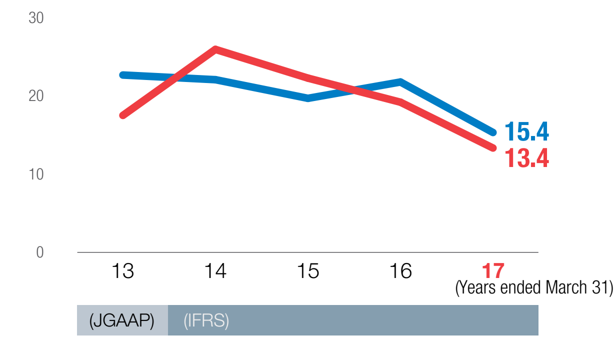
Cash flows from operating activities Cash flows from investing activities
Cash flows from financing activities

Dividends per share[4] & Dividend ratio
(Yen) (%)



Dividends per share (left) Dividend ratio (right)

ROA & ROE
(%)

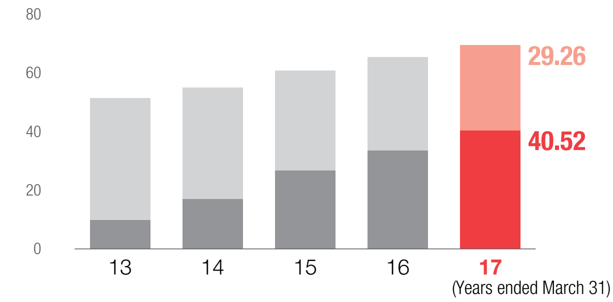


ROA ROE

Performance Indicators

Total monthly page views (annual average)

(Billions)

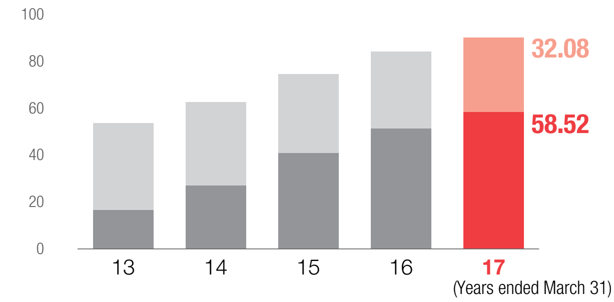


Monthly page views via smartphones (annual average)[5]

Monthly page views via PCs and other non-smartphone devices (annual average)

Total daily unique browsers (DUBs) (annual average)[6]

(Millions)

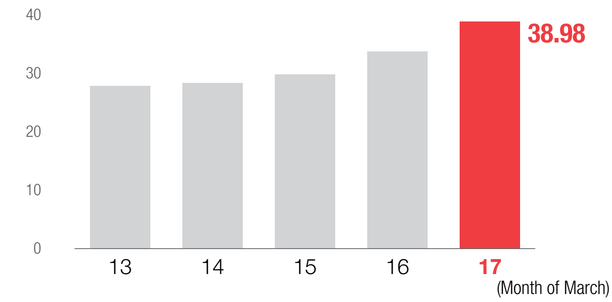


DUBs via smartphones (annual average)[5, 6]

DUBs via PCs and other non-smartphone devices (annual average)[6]

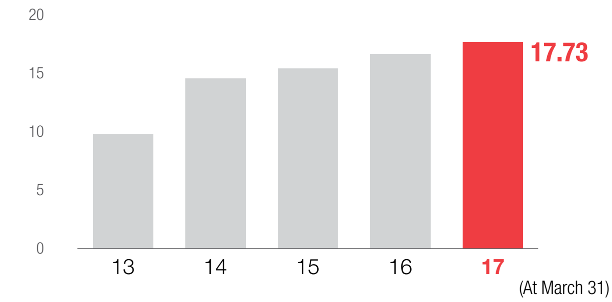
Total monthly active user IDs (month of March)[7]

(Millions)



Total monthly paid-membership IDs (at March 31)[8]

(Millions)



* Yahoo Japan Corporation adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2015. Figures for the fiscal year ended March 31, 2014, have been restated on an IFRS basis.
Regarding certain indicators for which new, more accurate calculation methods have been adopted, results for years prior to adopting said methods have been retroactively adjusted.

1. Includes a ¥59.6 billion gain from remeasurement relating to business combinations recorded in fiscal 2015 in conjunction with the consolidation of ASKUL Corporation, and ¥13.0 billion in disaster losses attributable to a fire at the ASKUL Logistics Center in fiscal 2016
2. EBITDA = operating income + depreciation and amortization
3. Net income based on JGAAP for fiscal 2012 only
4. Dividends per share for fiscal 2012 have been retroactively restated to reflect a 100-for-1 stock split made on October 1, 2013.
5. Includes Yahoo! JAPAN access via iPhones/iPods, Android smartphones (with screen sizes of less than 7 inches), Windows Phones, and most smartphone applications, but excludes Yahoo! JAPAN access via iPads or Android tablets as well as some smartphone applications
6. Includes Yahoo! JAPAN access via browsers and applications using any device; browser and application access tabulated separately even if made by a single user
7. Includes Yahoo! JAPAN IDs logged in at least once during the month
8. Includes Yahoo! Premium members, Yahoo! BB subscribers, and subscribers to paid digital content and other paid services provided by Yahoo! JAPAN and partner sites, with payment made only via Yahoo! Wallet. Paid-membership IDs are tabulated separately for each service, even if belonging to a single user. The fiscal 2012 figure indicates only Yahoo! Premium membership IDs.

Management Messages

CEO MESSAGE

The Internet of Limitless Potential

With the April 1996 debut of Yahoo! JAPAN, the Internet's first Japanese-language search engine, Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group) launched Japan into the Internet Age. I joined the Company the following year, in 1997, and together with my new colleagues enthusiastically set to the task of developing useful, appealing services such as Yahoo! News. Soon thereafter, the Yahoo Japan Group embarked on a period of breakneck-pace expansion during which I was charged with developing e-commerce services, first as the head of Yahoo! Auctions (subsequently renamed YAHUOKU!) and then as the head of Yahoo! Shopping. Guided by the Yahoo Japan Group's Users First philosophy, I consistently advocated for an approach to service development focused squarely on user needs and expectations. From the start, user-oriented service development and delivery has been a key factor behind Yahoo! JAPAN's dominant market position in terms of user numbers and usage times. This is an issue on which I remain proudly uncompromising.

Upon taking office as president and CEO in 2012, I quickly moved to implement our Smartphone First policy initiative. In response to the shift in Internet usage patterns arising from the widespread proliferation of smartphones, the entire Yahoo Japan Group resolved to swiftly optimize each of our existing PC-based services for smartphones, in addition to developing new mobile-based services and applications. As a result, smartphones accounted for more than 60% of Yahoo! JAPAN's daily unique browsers (DUBs)[1] and over half of both total advertising-related revenue and domestic e-commerce related transaction value in fiscal 2016, the year ended March 31, 2017. In rising to the challenge posed by the mobile Internet revolution, the Yahoo Japan Group rejuvenated itself and emerged even stronger.

Next, we launched a new e-commerce strategy in 2013. Prior to commencing this new strategy, Yahoo! Shopping's transaction value growth rate lagged that of rival sites owing to a relatively small seller base and limited item listings. Thanks to our strategic decision to eliminate monthly store tenant fees and transaction-based system-use fees across the board, Yahoo! Shopping is now Japan's No. 1 site in terms of both number of stores and number of item listings[2]. Moreover, our shopping business posted record-high transaction value and revenue in fiscal 2016. Meanwhile, our credit card business, which we have aggressively cultivated since 2015, is recording subscriber and transaction value growth rates that exceed those even of our robust shopping business.

The Yahoo Japan Group's progress to date is grounded on prescient strategic responses to a series of challenges, including nimble user-oriented service development, rapid service optimization for mobile access, e-commerce business model reconfiguration, and aggressive cultivation of financial and payment-related services. Our next challenge is to analyze huge volumes of user data collected during the course of providing more than 100 services via Yahoo! JAPAN in an effort to better understand our huge user base with the goal of more effectively providing increasingly personalized, useful services.

Confident in our ability to further exploit the seemingly limitless potential of the Internet, we are committed to further strengthening Yahoo! JAPAN's position as a problem-solving engine indispensable to the lives of all of our stakeholders.

Manabu Miyasaka, President and CEO

1. Including both application-based and browser-based access, with each access mode recorded separately
2. As of March 31, 2017, based on an industry study conducted by Yahoo Japan Corporation

CFO MESSAGE

Balancing Profitability and Future Growth

Since commencing operations in 1996, Yahoo Japan Group has recorded 20 consecutive years of revenue growth. Achieving continuous growth in the Internet business, which is susceptible to a wide range of risk factors, is a laudable accomplishment that testifies to the firm resolve and concerted efforts of all employees to achieve growth targets. The support of all of our stakeholders, moreover, has been indispensable, and we deeply appreciate their involvement. In light of the importance of reaching fiscal-year objectives while securing long-term growth, we will continue to proactively make future-oriented investments going forward.

In 2012, we entered into a business and capital tie-up with ASKUL Corporation to launch LOHACO, an online BtoC direct sales and delivery service primarily of daily-use necessities. The combination of LOHACO and Yahoo! Shopping, which is the No. 1 Japanese shopping site in terms of both number of stores and number of item listings[3], enhances our ability to satisfy a wider range of user requirements. In tandem with our new e-commerce strategy, in 2013 we integrated Yahoo! Points with T-Points, Japan's No. 1 rewards point system for offline transactions, thereby enhancing users' payment-related convenience. In 2015, we aggressively entered the credit card business and promoted the in-house provision of payment-related services. As a result, our shopping business has shown considerable improvement and continues to perform favorably. Yahoo! Shopping's business transaction value grew 26.5% year on year, more than double the roughly 10% growth rate in the entire domestic e-commerce market[4]. Furthermore, in 2017 we kicked off a campaign aimed at encouraging SoftBank Mobile users to make purchases on Yahoo! Shopping. This contributed to a record-high number of total users making purchases on Yahoo! Shopping in fiscal 2016, in addition to helping drive up transaction value and revenue for the period. These results bode well with regard to future growth. The aforementioned strategies are fueling revenue growth not only in the e-commerce and financial and payment-related businesses but also in the media services business, thereby helping to consolidate our operational base.

In order to maintain revenue growth amid the ongoing decline of the Japanese population, we are focused on boosting per-user revenue. One way to do this is to provide increasingly personalized services. Through sophisticated analyses of big data, we are able to provide content that closely matches the interests of individual users. The ultimate objective of providing personalized services is to enhance user satisfaction levels, which affects profitability in two significant ways: (1) higher user access frequency and usage times, resulting in increased advertisement placements; and (2) enhanced user targeting accuracy, resulting in higher unit pricing of advertisements. In order to store massive amounts of big data, we are increasing our capital investments primarily in data-center servers. Furthermore, in order to expand our lineup of video content and leverage big data going forward, we will further modernize and update our development environment by investing in platform innovations and other initiatives. These investments are essential to ensuring sustainable future growth.

Our efforts to balance profitability and future growth are progressing as planned, ensuring the Yahoo Japan Group's ongoing transformation.

Toshiki Oya, CFO

3. As of March 31, 2017, based on an industry study conducted by Yahoo Japan Corporation
4. Source: *2016 Foundation for Japan's Data-driven Society* (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry

COO MESSAGE

The Importance of Promoting Services

The fact that each and every Yahoo! JAPAN service is updated and refined on a daily basis gives us great confidence in the quality of our services. In order to convey that confidence to users, we focus a significant amount of time and energy on promotional activities.

Throughout 2015 and 2016, we undertook large-scale promotional campaigns for each of our new mobile service applications with the twin goal of stimulating user interest and sparking utilization. In addition to television commercials featuring popular young actresses, we made strategic advertisement placements on online media sites other than Yahoo! JAPAN. As a result, we achieved the No. 1* ranking in Japan for total downloads of non-game applications for three consecutive years beginning in 2014. Furthermore, in 2016 we also were ranked No. 1* in Japan for total downloads of all applications, including games. One particularly gratifying result of our promotional efforts was the surge in users of our Yahoo! JAPAN top page application, which contributed to increases not only in performance indicators such as DUBs and monthly active user IDs but also in Yahoo! News usage times and Yahoo! Search access frequency.

We also carried out various promotional campaigns for our mainstay Yahoo! Shopping service. For example, in our so-called x5 Day campaign users receive five times the usual number of T-Points for purchases made on the 5th, 15th, and 25th of each month. Campaigns built around periodically recurring sale days tend to encourage repeat purchases, which in turn support steady growth in transaction value. Moreover, we introduced a Good shopping Day campaign on November 11, a move inspired by the wildly popular Singles' Day online sale held on the same date in China. As part of the 2016 Good shopping Day campaign, Yahoo! Shopping rewarded buyers with 11 times the usual number of T-Points. Other major services also held promotional Good shopping Day campaigns on November 11, contributing to a festival atmosphere on Yahoo! JAPAN and helping to boost overall transaction value. Although we have held the Good shopping Day campaign only twice so far, the second campaign attracted a far larger number of participating T-Point partners, led by Family Mart Co., Ltd., which suggests the potential for this campaign to become a gigantic annual event both online and offline. In addition to encouraging a significant number of first-time buyers, our Good shopping Day campaign has fueled record-high daily transaction values on Yahoo! Shopping.

Organizationally, we have established the Marketing & Communication Division to handle all Companywide promotional activities. With a single division now responsible for handling functions previously dispersed among various divisions, we expect to enhance both cost effectiveness and communications integrity. In 2016, we created two official mascots named "Search" and "Engine" as part of a branding campaign for our flagship Yahoo! Search service. These mascots appear on the Yahoo! JAPAN top page and various other service pages.

Going forward, we will continue to confidently promote our services through various activities, including promotional events designed to strengthen the Yahoo! JAPAN brand.

Kentaro Kawabe, COO

*Source: *App Annie Application Market Report* (total downloads from iOS App Store and Google Play)

CTO MESSAGE

A Forum for Engineers

Say "Internet company," and many people imagine a large, windowless room filled with high-powered computers and a wall-mounted whiteboard nearly black with algorithmic formulae. In fact, though, an Internet company is essentially a collection of people, many of whom happen to be engineers.

In order to transform technical capacity into market-beating competitiveness, it is essential to assemble a team of talented engineers in a work setting conducive to the continuous honing of skills. The Company has created a non-traditional office environment and freeform work culture as part of an effort to attract and retain the best engineering talent in Japan and from abroad. In 2016 we relocated our operations to the Kioicho district in central Tokyo. Our new office is configured as an open workspace in which employees can move about freely and work wherever convenient to the task at hand. Moreover, we have established an Office Anywhere system that allows individual employees to work at home or any other location, provided that they maintain office contact throughout the day. In addition, we offer personalized flex-time scheduling and variable work-week options that allow employees raising a child or caring for an elderly or sick family member to leave the office early or work just four days a week. These and other work-style accommodations greatly enhance employees' sense of freedom.

We strive to promote the exchange of information and ideas among employees and with interested persons outside the Company. For example, Hack Day is our annual developer event open to developers and creators from outside the Company. Offering an opportunity for intra-industry engagement and competition, this event is the largest of its kind in Japan, typically attracting more than 300 participants. These events have occasionally resulted in the establishment of companies that develop new businesses on behalf of the Company. In addition, adjacent to our new office we have created a large-scale public-access working space designed to spur innovation by providing opportunities for collaboration with developers and creators from outside the Yahoo Japan Group as well as to foster greater mutual understanding between employees and the general public.

Sophisticated analyses of big data can be undertaken only by highly skilled persons with specialized academic backgrounds. While focusing recruitment efforts on such highly skilled individuals, we have established rigorous in-house training programs for current employees. At the same time, to fortify our research capabilities in applied data science fields, especially natural language processing and machine learning, we offer promising employees scholarships to pursue doctoral degree programs. We have also established a system that recognizes certain research activities as work. Some of the research results generated by employees is incorporated into proprietary AI technologies, IoT, and advertising technologies, as well as presented in lectures at conferences both in Japan and abroad in a spirit of collaboration with other companies and research organizations working in cutting-edge technical fields. Additionally, our Black Belt program recognizes employees working in designated technical fields requiring a high level of specialized expertise who make significant technical contributions, help to resolve internal technical issues, participate in determining Company policy, or make efforts to educate others both inside and outside the Company. To the extent possible, we intend to maintain our support and recognition of highly motivated and technically skilled employees.

To further buttress our technological predominance, we have embarked upon various state-of-the-art initiatives designed to enhance our development environment, including a project to acquire a specially modified supercomputer. In addition to stimulating the imaginations of our engineers, new challenges open the way to new possibilities for the Yahoo Japan Group.

We view our new cutting-edge workspace and work culture as a forum for highly skilled and passionate engineers keenly determined to further distance and differentiate the Yahoo Japan Group from our rivals. As an engineer hired directly out of college many years ago, I look forward in particular to the contributions of my younger engineering staff.

Chiaki Fujimon, CTO

Challenged to Become a Multi-big Data Driven Enterprise

By consistently responding to emerging business challenges with strategies attuned to prevailing market trends, the Yahoo Japan Group has for two decades maintained a perfect record of continuous year-on-year growth, even in the highly volatile Internet business. Taking on the new challenge of becoming a multi-big data driven enterprise, we are strategically leveraging our accumulated business strengths and competitive advantages with high expectations of generating sustainable growth moving forward.

Past Challenges

From 1996

Establishing Yahoo! JAPAN as the Japanese Internet's No. 1 portal site

Launched in 1996 as the Internet's first Japanese-language search engine, Yahoo! JAPAN quickly became the No. 1 portal site in the Japanese Internet market in terms of both user numbers and usage times by pursuing a strategy of user-oriented service development and delivery.

From 2008

Optimizing Yahoo! JAPAN services for smartphone use

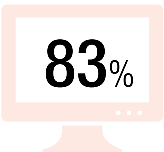
In response to the seismic shift in Internet usage patterns accompanying the rapid proliferation of smartphones in Japan, the Yahoo Japan Group similarly shifted its strategic focus from PCs to smartphones and set to the task of optimizing all existing PC-based services for smartphone use, in addition to developing new mobile-based services and applications. As a result, smartphones accounted for more than half of both total advertising-related revenue and total e-commerce related transaction value in fiscal 2016.

From 2013

Implementing a new e-commerce strategy

Targeting the No. 1 spot in total transaction value in the expanding Japanese e-commerce market, from October 2013 we implemented a new e-commerce strategy focused primarily on revamping Yahoo! Shopping's business model. This strategy has succeeded in vaulting Yahoo! Shopping to Japan's No. 1 shopping site in terms of both number of stores and number of item listings. Moreover, shopping-related business transaction value continues to grow at a much faster pace than the entire domestic e-commerce market.

Share of total Internet user base in Japan accessing Yahoo! JAPAN via PC at least once per month



Source: Nielsen NetView JP, residential and workplace PC-based access, excluding Internet applications, December 2011. (Unauthorized use of Nielsen Online materials or data is not permitted.)

Shift toward smartphone-based use of Yahoo! JAPAN services

	Smartphone-based share of total advertising-related revenue	Smartphone-based share of total e-commerce related transaction value
FY2016/4Q	53.1%	51.4%
	Significant increase	
FY2012/4Q	16.0%	23.3%

Expansion of Yahoo! JAPAN's e-commerce related services

	Shopping-related business transaction value	Number of Yahoo! Shopping item listings	Number of Yahoo! Shopping stores
FY2016/4Q	¥137.0 billion	270 million	514,000
	Approx. double	Approx. triple	Approx. 6.5-fold
FY2013/4Q	¥71.6 billion	90 million	78,000

Monitoring market trends in anticipation of new challenges

[Market trend]

Converting to personalized online service provision

Online services traditionally provided in standardized formats are increasingly being converted to personalized formats suited to the interests and preferences of individual users. As this conversion process accelerates, competitiveness will hinge on achieving highly accurate user-specific service personalization.

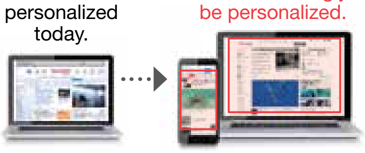
[Internal capacity]

High-quality big data possession is one of the Yahoo Japan Group's strengths

To achieve highly accurate user-specific personalization, it is first necessary to fully understand the interests and preferences of individual users. Yahoo! JAPAN's many top-ranked services across multiple sectors, including Yahoo! News and Yahoo! Search, are viewed by millions of users each day. The capacity to accumulate high-quality big data while providing popular services to a huge user base is one of the Yahoo Japan Group's particular strengths. Because some users access only Yahoo! JAPAN's media-related services, however, discrepancies exist between data quality and volume.

Very few online services are personalized today.

Moving forward, online services increasingly will be personalized.



High-quality big data

Service diversity	Huge user base	Useful, up-to-date content
More than 100 Yahoo! JAPAN services	Approx. 60 million Yahoo! JAPAN user IDs, of which approx. 40 million actively log in to Yahoo! JAPAN at least once a month	Frequent-access services such as Yahoo! Search and Yahoo! News

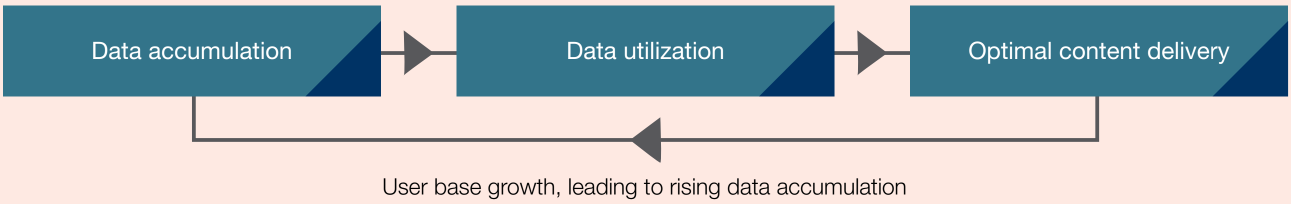
From 2017

Becoming a Multi-big Data Driven Enterprise

Establishing a growth ecosystem centered on enhanced multi-big data utilization

In becoming a multi-big data driven enterprise, the Yahoo Japan Group is focusing on enhancing utilization of user-specific multi-big data with the goal of providing increasingly personalized services to individual users. Leveraging enhanced data utilization to strengthen our service personalization capabilities, we expect to boost user satisfaction levels, thus setting in motion a virtuous-cycle growth ecosystem of ever-expanding service usage and resultant data accumulation. Enhanced utilization of multi-big data lies at the center of this growth ecosystem.

The Yahoo Japan Group's future growth ecosystem



Promoting multiple-service usage in order to boost data quality and volume

The quality and volume of multi-big data are also important factors that affect our growth ecosystem. To improve the balance between data quality and volume, we are implementing promotional measures encouraging individual users to use not just one but rather multiple Yahoo! JAPAN services. At the same time, we are also working to increase user numbers in each of three service sectors, namely, media-related, e-commerce related, and financial and payment-related services.

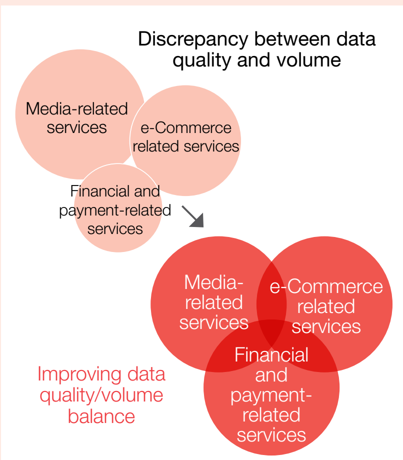
Personalizing services by gaining a deeper understanding of individual users

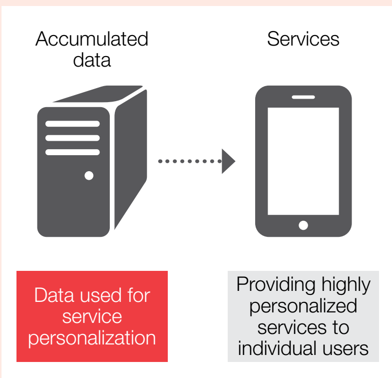
A thorough, multifaceted understanding of each user's interests and preferences is essential to achieving high-quality service personalization. Leveraging Yahoo! JAPAN's unparalleled volume of high-quality multi-big data accumulated over the course of providing a wide range of diverse services to the Japanese Internet market's largest user base, we employ sophisticated cross-service user-specific data analyses to gain a more comprehensive and nuanced understanding. Based on that understanding, we are able to provide highly precise service personalization to each Yahoo! JAPAN user.

Maximizing the benefits of high-precision personalization

By providing optimal service personalization for each user, we effectively enhance the targeting precision and efficacy of our content, advertising, and shopping recommendations. This, in turn, leads to improvements in performance indicators such as media view-through rates, advertising click-through rates, and purchase conversion rates.

The Yahoo Japan Group leverages accumulated multi-big data with an eye not only to increasing user satisfaction but also to benefiting business partners and expanding the Group's profitability and user base.





Users

- Increasing satisfaction

Business partners

- Advertisers: Enhancing advertising effects
- Stores: Increasing sales

Yahoo Japan Group

- Increasing profitability
- Expanding user base

Specific measures for becoming a multi-big data driven enterprise

In charting a path to becoming a multi-big data driven enterprise, the Yahoo Japan Group has laid out two guiding principles—expand multi-big data accumulation and strengthen data science related capabilities—and formulated three specific measures, as outlined below.

《 1 》

Expand multi-big data accumulation

Attain No. 1 rank in media-related services, e-commerce related services, and financial and payment-related services

Specific measures:

1 Maximize e-commerce related transaction value

2 Utilize rich media

《 2 》

Strengthen data science related capabilities

Enhance multi-big data utilization capacity

Specific measure:

3 Become a multi-big data driven enterprise

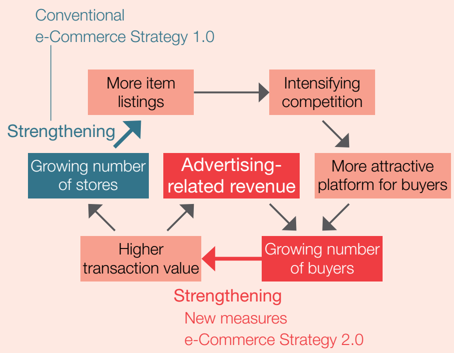
1 Expand multi-big data accumulation

Measure 1 Maximize e-commerce related transaction value

Ensuring continuous transaction value growth

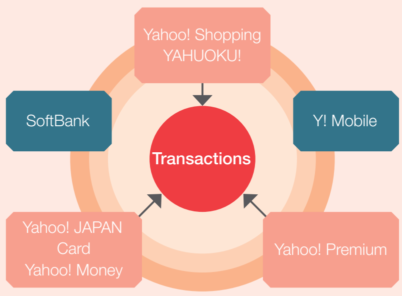
In our e-commerce related business, we are focused primarily on maximizing transaction value, the key performance indicator for this business. Maximizing transaction value entails growth also in the number of users of our e-commerce related services, which in turn benefits Yahoo Japan Group multiple-income models in addition to expanding multi-big data volume.

In October 2013, we initiated a new e-commerce strategy aimed at rejuvenating Yahoo! Shopping. The strategy's first phase, dubbed e-Commerce Strategy 1.0: Exponentially Increase Sellers, focused on enhancing Yahoo! Shopping's market appeal by significantly expanding store numbers. At the same time, we revamped Yahoo! Shopping's business model by transforming the site into an expanding media platform. Currently, we are implementing e-Commerce Strategy 2.0: Exponentially Increase Buyers, geared to maximizing transaction value by boosting the number of buyers.



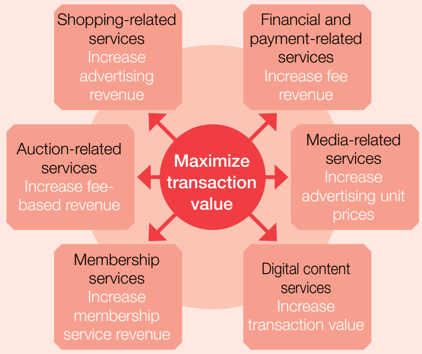
Exploiting business synergies

In tandem with the implementation of e-Commerce Strategy 2.0, we are focused on exploiting various business synergies that exist not only among Yahoo! JAPAN services but also among SoftBank Group companies, reflecting our positive experience to date with measures targeting specific user groups. Recent efforts have emphasized greater collaboration between our membership services and our Yahoo! Money and Yahoo! JAPAN Card services, for example, in addition to promotional tie-ups with other SoftBank Group companies.



Generating favorable effects on multiple-income models

Maximizing e-commerce related transaction value not only entails growth in user numbers, fee-based revenue, and shopping-related advertising revenue but also generates favorable effects on Yahoo Japan Group multiple-income models. For example, an increase in the number of new Yahoo! Shopping users generates favorable effects on the number of membership service subscribers as well as on payment-related service revenue. Going forward, we intend to maximize transactions that leverage synergies throughout the Yahoo Japan Group.



Measure 2 Utilize rich media

Boosting usage of media-related services in order to expand multi-big data accumulation

Yahoo! JAPAN's media-related services attract a huge number of users and are therefore an important source of big data. To accumulate even higher volumes of user-specific data, we aim to fortify our position in the media-related services market by boosting user numbers and usage times. We are focusing in particular on initiatives related to rich media, given its future growth potential.

Expanding video content to boost rich media utilization

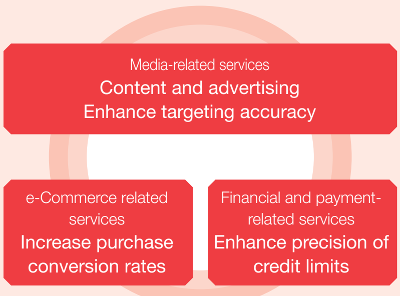
The expansion of video content is one specific measure being implemented to boost rich media utilization. In April 2017, we launched Yahoo! News Video on the PC and smartphone versions of the Yahoo! News top page and are now preparing video channels for the PC version of the Yahoo! JAPAN top page. These and other initiatives reflect our quest to be No. 1 in the reach of video services, beginning with our news service. By expanding and diversifying video news content, we are bringing rich media to a steadily growing number of users.

2 Strengthen data science related capabilities

Measure 3 Become a Multi-big Data Driven Enterprise

Fostering mutual growth across service sectors through multiple-sector data integration

One of the Yahoo Japan Group's strengths in data utilization is the ability to integrate data accumulated discretely in multiple service sectors and then use that integrated data to foster mutual growth across all of the sectors in question. For example, we can easily produce an integrated record of all browsing and purchase data for a user logged on to multiple services via multiple devices. Currently, we are focused on integrating data accumulated discretely in our media-related, e-commerce related, and financial and payment-related service sectors and then utilizing it in a manner that fosters mutual growth across those three sectors.



Investing in three areas for accelerated technological ascension

To facilitate the successful implementation of various initiatives marking our evolution into a multi-big data driven enterprise, the Yahoo Japan Group is pursuing an aggressive tripartite investment strategy. First, we are investing in the equipment necessary to store and analyze a huge and ever-expanding volume of data. Second, we are making investments in the development environment to support platform innovations for sustaining our development and data technology base with the aim of increasing output quality and volume. Third, we are investing in human resources, aggressively hiring both inside and outside Japan and expanding training and educational frameworks with the goal of assembling and nurturing a truly world-class pool of engineers and scientists.

We expect these investments to accelerate the Yahoo Japan Group's technological ascension, which will in turn support our sustainable future growth.

Investments in equipment
• Data-center storage for vast amounts of data • Servers for high-spec computation processing
Investments in our development environment
• Platform innovations for sustaining our development and data technology base • Continuous maintenance of our technological base
Investments in human resources
• Aggressive hiring both inside and outside Japan • Expansion of training and educational frameworks

Marketing Solutions Business

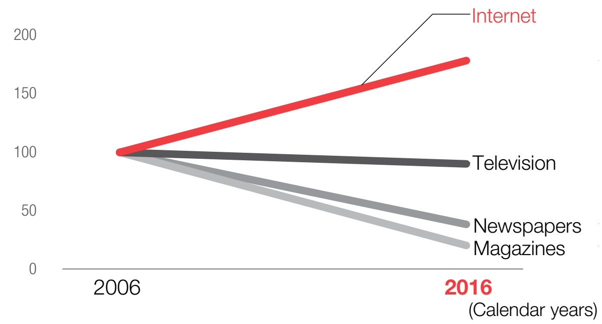
Revenue
¥281.5 billion

Operating income
¥161.9 billion

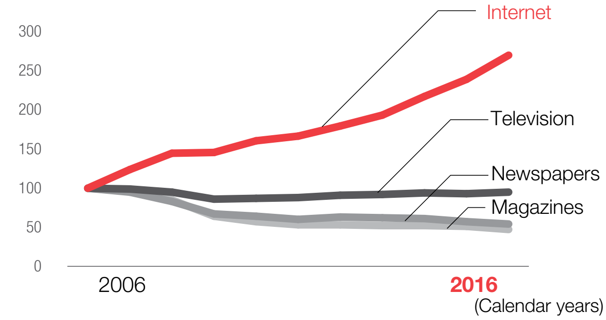
Market Environment

According to industry data compiled by DENTSU INC., total expenditures in the Japanese advertising market in calendar 2016 increased 1.9% year on year, to ¥6,288 billion, the fifth consecutive year of growth[1]. While total advertising expenditures in the four traditional media markets of television, newspapers, magazines, and radio decreased 0.4% in calendar 2016, Internet-related advertising placement expenditures were up 12.9%, to ¥1,038 billion, exceeding ¥1 trillion for the first time. Steadily growing expenditures on Internet-related advertising largely reflect a shift in market demand toward products incorporating advanced distribution technologies that leverage large volumes of user-specific data. These and other products for which advertiser fees are calculated on a per-click basis now account for roughly 70% of all Internet-related advertising spending. At the same time, demand for video advertising has shown explosive growth in recent years and is expected to continue apace.

Usage time, by media type (2006=100)[2, 3, 4]



Total advertising expenditures in Japan, by media type (2006=100)[4, 5]



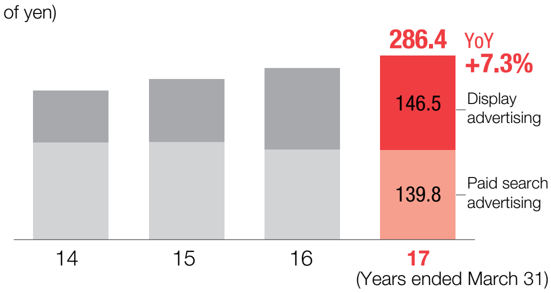
Fiscal 2016 Results

Marketing Solutions Business segment revenue for fiscal 2016, the year ended March 31, 2017, increased 4.9% year on year, to ¥281.5 billion, accounting for approximately 32.5% of consolidated revenue[6].

Total advertising revenue, which is generated almost entirely by the Marketing Solutions Business segment, expanded 7.3% year on year, to ¥286.4 billion[7]. Display advertising revenue increased 15.9% year on year, to ¥146.5 billion, reflecting a surge in Yahoo! Display Ad Network (YDN) sales as well as strong demand for Premium Advertising primarily from Yahoo! Shopping store owners. Despite the negative impact on paid search advertising revenue arising from the ongoing usage shift away from PCs toward smartphones, paid search advertising revenue dropped just 0.4% year on year, to ¥139.8 billion, thanks to measures aimed at better optimizing smartphone-based advertising.

Testifying to the success of our product development initiatives in recent years, in fiscal 2016 smartphones for the first time accounted for more than half of the Yahoo Japan Group's total advertising-related revenue.

Total advertising revenue
(Billions of yen)



1. Source: *2016 Advertising Expenditures in Japan*, DENTSU INC.
2. Source: *Media Contact Report* (May–June 2006) and *MCR/ex* (Apri–June 2016), Video Research Ltd.
3. Survey period and scope changed in 2014
4. Calendar 2006 data indexed to 100
5. Source: Yahoo Japan Corporation, based on DENTSU's *2016 Advertising Expenditures in Japan*
6. Ratio of segment revenue to pre-reconciliation consolidated revenue
7. Total advertising revenue includes shopping-related advertising.

TOPICS

Recovery in Paid Search Advertising

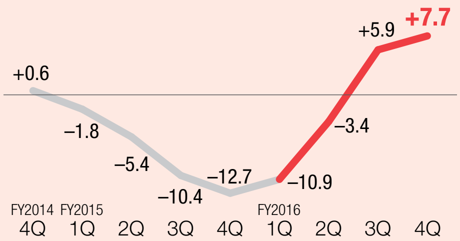
In line with the ongoing shift in Internet usage toward smartphones in recent years, paid search advertising revenue declined in fiscal 2015. For fiscal 2016, despite the unabated continuation of the device shift paid search advertising revenue showed improvement each quarter and mostly recovered, down only 0.4% year on year. This result, attributable to measures aimed at enhancing optimization and strengthening our advertising sales efforts, points to a recovery in paid search advertising revenue moving forward.

New optimization measures included the introduction of extended text advertising (ETA) featuring a text supplement option that accommodates a longer title and expanded body text for more in-depth product feature descriptions. This and other measures aimed at optimizing advertising display formats for smartphone use boosted advertising efficacy and buoyed revenue. Moreover, our focus on user experience design for enhanced smartphone-based viewing effectively narrowed the monetizing efficiency gap between PC-based and smartphone-based paid search advertising. At the same time, we fortified our advertising sales efforts by providing additional support to advertisers, which contributed to greater utilization of newly optimized services and, as a result, expanded revenue.

Moving forward, we intend to further optimize paid search advertising with an eye to resetting this core advertising product on a clear path to revenue growth.

Paid search advertising revenue, quarterly YoY growth rate

(%)



Extended text advertising (ETA)

Launch of In-feed Video Advertising

Thanks to advances in Internet-related communications technologies and rapid proliferation of video-based online services in recent years, the availability of and advertiser demand for video advertising services have increased sharply. While the Yahoo Japan Group has for some time provided PC-based video advertising for such services as Yahoo! News and GYAO!, operated by consolidated subsidiary GYAO Corporation, in March 2017 we inaugurated smartphone-based video advertising services, for which we anticipate strong demand growth in coming years. On Yahoo! JAPAN's smartphone top page app, for example, we now provide in-feed video advertising that automatically begins playing in Wi-Fi environments but requires a user tap to start off in 3G and 4G environments, with advertiser fees charged only in cases where an advertisement is viewed for a predetermined amount of time. With an eye to balancing convenience and profitability, we intend to increase our provision of both news-centered video content and video advertising, thereby simultaneously enhancing media content and video advertising revenue.

In-feed video advertising

Consumer Business

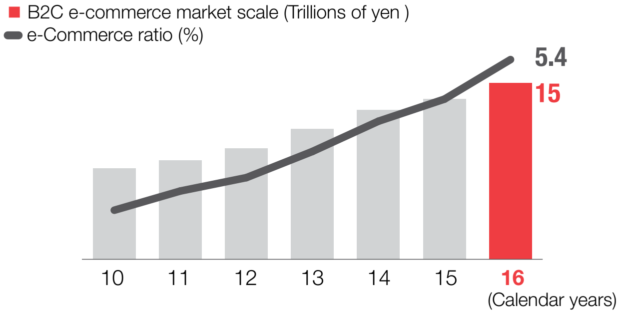
Revenue
¥511.7 billion

Operating income
¥64.9 billion

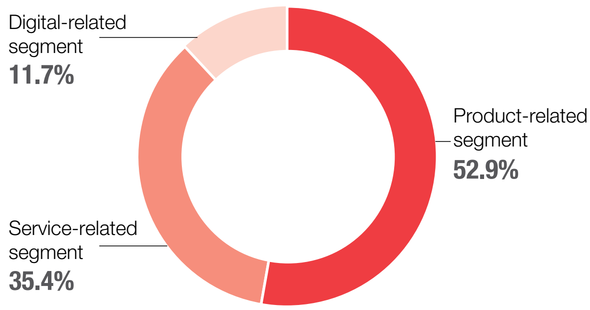
Market Environment

According to a survey by the Ministry of Economy, Trade and Industry[1], the Japanese business-to-consumer (B2C) e-commerce market expanded 9.9% in calendar 2016, exceeding the ¥15 trillion mark for the first time. The product-related e-commerce segment's transaction value was approximately ¥8 trillion, up 10.6% year on year, with an e-commerce ratio of 5.4% in calendar 2016 compared with 4.8% a year earlier. Japan's e-commerce ratio remains low by international standards, implying strong growth potential moving forward. The online auction market recorded approximately ¥1.1 trillion in transaction value in calendar 2016, with online flea-market auctions attracting growing user interest. The service-related e-commerce segment recorded about ¥5.3 trillion in transaction value, a 9.2% rise, with travel services the most significant component. In restaurant services, which recorded the highest growth rate in calendar 2016, the online reservation market is expanding thanks to a surge in the number of establishments with Internet-based booking facilities. The digital-related e-commerce segment was worth approximately ¥1.7 trillion, up 8.9% year on year, of which about 70% was generated by online games, although e-book, paid video, and music distribution markets continued to broaden.

Japanese B2C e-commerce market scale and e-commerce ratio[1]



Share breakdown of Japanese B2C e-commerce market[1], by segment

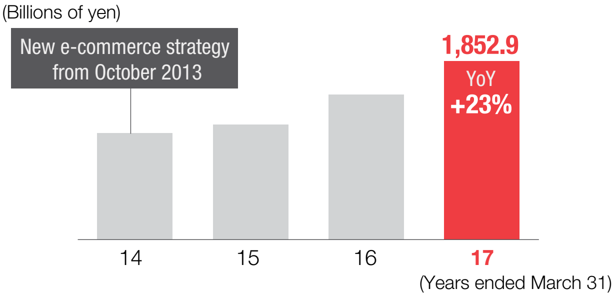


Fiscal 2016 Results

Consumer Business segment revenue for fiscal 2016 surged 52.4% year on year, to ¥511.7 billion, accounting for approximately 59.2% of consolidated revenue[2].

Several factors contributed to this favorable result, including higher YAHUOKU! transaction value, upward revisions to system-use fees paid by YAHUOKU! sellers, a higher number of paid-membership IDs, an upward revision to the monthly Yahoo! Premium membership fee, and strong growth in shopping-related advertising revenue. In addition, the consolidation of ASKUL and Ikyu in fiscal 2015 and of eBOOK Initiative Japan Co., Ltd., in fiscal 2016 also contributed to the segment's solid revenue performance. Segment operating income, on the other hand, decreased 45.1% year on year, to ¥64.9 billion, owing primarily to (1) the absence from fiscal 2016 results of a one-off ¥59.6 billion gain from remeasurement relating to business combinations recorded in fiscal 2015 in conjunction with the consolidation of ASKUL, and (2) ¥13.0 billion in damages stemming from a fire at the ASKUL Logistics Center in the fourth quarter of fiscal 2016. Auction-related transaction value rose 3.4% year on year, to ¥896.6 billion, while shopping-related transaction value soared 42.4%, to ¥743.6 billion. The Yahoo Japan Group's total domestic e-commerce transaction value for fiscal 2016, including the online B2B revenue generated by ASKUL on a stand-alone basis, was ¥1.85 trillion, a 23.0% increase over the previous year's result.

Total domestic e-commerce transaction value
(Billions of yen)



1. Source: *2016 Foundation for Japan's Data-driven Society* (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry
2. Ratio of segment revenue to pre-reconciliation consolidated revenue

TOPICS

Yahoo! Shopping: Moving toward Profitability

In the Yahoo! Shopping service, the October 2013 start of our new e-commerce strategy sparked dramatic growth in the number of new-store IDs and of item listings, and our extensive promotional activities succeeded in swiftly expanding shopping-related transaction value. In fiscal 2016, we turned our focus to securing sustainable growth in transaction value and attaining profitability.

Shopping-related advertising revenue for fiscal 2016 amounted to ¥17.3 billion, more than double the previous year's result and higher than total monthly tenant fees and transaction-based system-use fees recorded for the one-year period prior to October 2013 under Yahoo! Shopping's former business model. The main factor behind the jump in shopping-related advertising revenue was rising demand for PR Option, a flexible advertising product that appeals especially to Yahoo! Shopping store owners intent on attracting more buyers and logging higher sales. Shopping-related advertising revenue as a share of Yahoo! Shopping transaction value was approximately 4% in fiscal 2016, already very close to our 4–5% medium-term target.

With an eye to boosting cost-efficiency during the period, we focused promotional campaigns based on generous T-Point incentives primarily on two specific user groups: Yahoo! Premium members and SoftBank Mobile subscribers. Because SoftBank covers part of the costs associated with promotional campaigns targeting SoftBank Mobile subscribers, and owing to a newly revised agreement stipulating store-owner T-Point contributions of 2.5% rather than the previous 1%, we managed to control sales promotion costs during the year. Yahoo! Shopping business transaction value for fiscal 2016 swelled 26.5% year on year, to ¥478.8 billion, easily surpassing the total domestic e-commerce market growth rate.

Shopping-related advertising revenue
(Billions of yen)

T-Point rewards for SoftBank Mobile subscribers

YAHUOKU! Fee Revisions and FURIMA Mode Launch

Long the overwhelmingly dominant player in the Japanese online auction market, YAHUOKU! has since its debut consistently recorded stable growth. Aiming to attract new buyers and boost YAHUOKU! transaction value, from January 2016 we waived the fee previously paid by buyers making auction payments via Yahoo! ezPay. To offset the resultant loss of Yahoo! ezPay revenue, we increased the seller system-use fee. As a result of these measures, we boosted both the ezPay usage rate and YAHUOKU! revenue.

Seizing on the expanding online reuse market as a new growth opportunity, in June 2016 YAHUOKU! launched One Price Listings, subsequently renamed FURIMA Listings in February 2017. Rather than a competitive-bid auction format, FURIMA Listings adopts the fixed-price buy-it-now format popular with younger users attracted to the reuse market. In February 2017, FURIMA Listings was optimized for use with PC-based browsers as well as smartphone-based browsers, which spurred an increase in item listings. We have also introduced FURIMA Mode, a function that facilitates fixed-price product searches on YAHUOKU! By incorporating FURIMA Listings and FURIMA Mode into the YAHUOKU! service, we aim to provide a convenient, easy-to-use online reuse market to younger users looking to cut quick deals at agreed-upon prices.

FURIMA Mode

Others

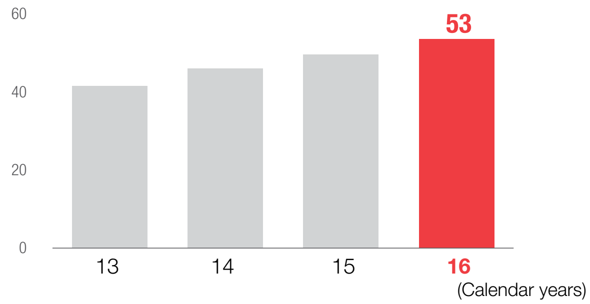
Revenue
¥71.6 billion

Operating income
¥15.1 billion

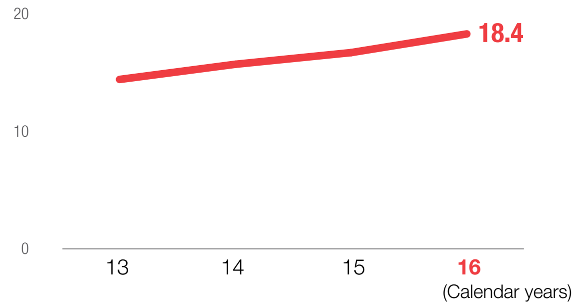
Market Environment

Credit card utilization in Japan has shown upward momentum in recent years. In calendar 2016, the domestic credit facility amount, a measure of actual credit card utilization volume, was approximately ¥53.9 trillion, up 8.2% from the previous year and the first time that the figure exceeded ¥50 trillion[1]. This rise is attributable to the expansion of the domestic e-commerce market, a proliferation of loyalty reward systems such as point and mileage, and a broadening scope of card usage that now includes the payment of taxes and medical bills. The transaction value of electronic payment services linked to credit or debit cards is expected to rise steadily in coming years. In view of the recent increase in smartphone-based electronic payments, we expect further payment method diversification moving forward.

Credit facility amount[1]
(Trillions of yen)



Ratio of credit facility amount to total private final consumption expenditure[2]
(%)



Fiscal 2016 Results

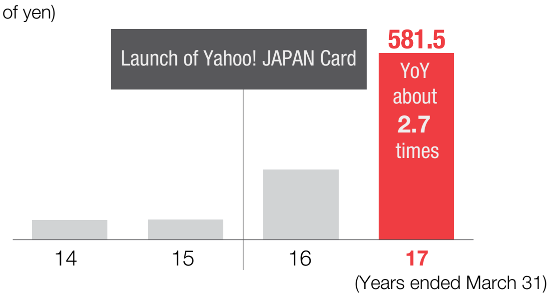
Others segment revenue for fiscal 2016 was up 18.8%, to ¥71.6 billion, representing approximately 8.3% of consolidated revenue[3].

The number of valid credit card holders at the fiscal 2016 year-end was 3.6 million, up 62.9% compared with the figure at the previous fiscal year-end. Credit card transaction value was ¥581.5 billion for fiscal 2016, about 2.7 times the amount posted for the previous fiscal year.

Incorporating registered users' credit card or bank account information, Yahoo! Wallet is our secure online payment service. At the fiscal 2016 year-end, the number of Yahoo! Wallet accounts stood at 36.53 million, a 9.1% year-on-year increase. Fiscal 2016 Yahoo! Wallet transaction value rose 38.2%, to ¥1.20 trillion.

As a share of total domestic e-commerce transaction value, Yahoo Japan Group payment-related service usage[4] remains on a gradually upward trend. Moving forward, we fully intend to ensure that this trend continues.

Credit card transaction value[5, 6]
(Billions of yen)



1. Source: *2016 Market Statistics (Annual)* (credit-related statistics), Japan Consumer Credit Association
2. Source: Yahoo Japan Corporation, based on credit facility amounts provided in *2016 Market Statistics (Annual)*, Japan Consumer Credit Association's credit-related statistics, private consumption figures in Annual Nominal GDP (calendar year), GDP (expenditure approach) and its components (at June 8, 2016), Cabinet Office
3. Ratio of segment revenue to pre-reconciliation consolidated revenue
4. Including YJ Card Corporation, The Japan Net Bank, T-Points, and others
5. Excludes cash advance service
6. Includes holders of KC Card, Yahoo! JAPAN Card, and SoftBank Card (Omakase Charge)

TOPICS

Credit Card Related Service Strategy

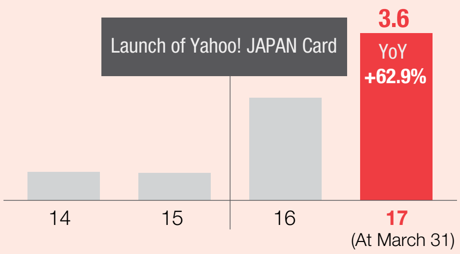
In our financial and payment-related services, we are keenly focused on exploiting growth opportunities arising from the ongoing expansion of total domestic e-commerce transaction value. Specifically, we aim to expand profit by increasing usage rates of Yahoo Japan Group payment-related services, which enables us to retain payment fees within the Group. To that end, we carried out initiatives to acquire new Yahoo! JAPAN Card holders through online promotions targeted primarily at users of Yahoo! JAPAN e-commerce related services.

At the same time, we implemented various measures designed to promote usage among existing cardholders. For example, in addition to awarding Yahoo! JAPAN Card holders T-Points equivalent to 1% of all card-based payments, we now award an additional 1% of card-based payments for purchases made on Yahoo! Shopping or LOHACO. As a result, the Yahoo! JAPAN Card offers the most generous T-Points loyalty reward system of any credit card in the Japanese market. Also during fiscal 2016, we conducted a lottery-style campaign wherein Yahoo! JAPAN Card holders were granted a chance to win bonus T-points each time the card was used to make a payment, either online or offline. The aim of the campaign was to encourage habitual use by cardholders.

With credit card related services expected to grow in concert with total domestic e-commerce transaction value in future years, we resolved to maximize that growth using working capital procured through stable, long-term financing. To that end, in December 2016 we filed our first corporate bond shelf registration, with an issuance amount of ¥130.0 billion and an issuance period of two years.

New-cardholder acquisition campaign

Number of valid credit card holders[6]
(Millions)



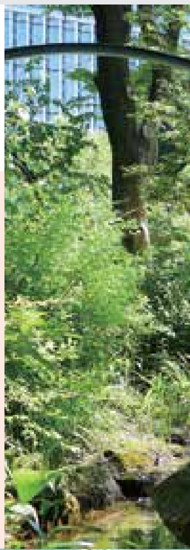
Launch of Yahoo! Money

In May 2016, we launched Yahoo! Money, Yahoo! Wallet's inaugural e-money offering that can be used to pay for purchases made on YAHUOKU!, Yahoo! Shopping, and LOHACO. As of March 2017, Yahoo! Money boasted 44 partner banks.

In order to promote Yahoo! Money usage, users making purchases with Yahoo! Money are awarded T-Points equivalent to 1% of the purchase amount. Moreover, in February 2017 we began conducting campaigns promoting Yahoo! Money usage on YAHUOKU! that effectively waive seller system-use fees for transactions where sellers receive payment with Yahoo! Money. These and other initiatives are helping to steadily boost Yahoo! Money usage. Looking ahead, we aim to expand total e-commerce related transaction value by, for example, encouraging users to make purchases on Yahoo! Shopping with Yahoo! Money and T-Points earned through selling on YAHUOKU!

Campaign promoting Yahoo! Money usage on YAHUOKU!

UPDATE JAPAN: Our new vision for the next 20 years



As the Japanese Internet's problem-solving engine, we are dedicated to the mission of solving various social problems in Japan by leveraging the power of information technologies. All of our corporate activities derive from this mission.

UPDATE JAPAN, our new guiding vision for the next 20 years, expresses our intention to "update" Japanese society. By combining information technologies and big-data analyses, we are able not only to provide viable solutions to pressing social problems but also to inspire hope throughout Japanese society for a brighter future.

Through our corporate social responsibility (CSR) activities, we will continue to update Japan as we work to provide solutions that support the creation of a more progressive, happier society. As a result, we will strengthen our position as a truly indispensable company to Japanese society not only for the next 20 years but also for the next 100.

Four Updates for a brighter future

Although the Company alone is unable to solve each and every problem facing Japanese society, we hereby declare our commitment to take on this challenge as we pursue our goal of updating Japanese society. To that end, we have formulated Four Updates that lay out broad focus areas where we are committed to finding solutions to pressing social issues.

UPDATE 1	**Promote an IT Society**	We promote a society where information technology (IT) is deployed with the goal of benefiting all members of society and solidly contributing to social progress.
UPDATE 2	**Support Disaster Relief and Social Problem-solving Efforts**	In addition to independently carrying out disaster relief initiatives, the Yahoo Japan Group supports the activities of nonprofit organizations (NPOs) and other entities dedicated to solving social problems.
UPDATE 3	**Foster Diversity**	We aim to foster a society that values diversity, where persons of various backgrounds and worldviews equally participate, harmoniously coexist, and fully respect each other's individuality.
UPDATE 4	**Work toward a Sustainable Society**	We are committed to sustainable development that preserves the environment and society and passes them on intact to the next generation.

Guided by these Four Updates and incorporating feedback from our various stakeholders, we aim to play an important social role in carrying out our business operations.

Stakeholder Communication

By heeding the voices of our valued stakeholders and implementing the Four Updates, we are simultaneously working toward a sustainable society and enhancing our corporate value.

Stakeholders	Communication methods and content	Reflecting on the goals of corporate activities
Users	• Solicit feedback from users of Yahoo! JAPAN services • Conduct user surveys and hold events with fans of Yahoo! JAPAN services in order to directly receive feedback and service-related requests • Collect user opinions about Yahoo! JAPAN services through various websites and social networking service pages • Post corporate information and business results on our official websites and social networking service pages	• Enhance customer service • Continually update Yahoo! JAPAN services
Shareholders and other investors	• Annual general meetings of shareholders • Quarterly results briefings • Dialogues with Japanese and overseas institutional investors	• Provision of timely, accurate information on such topics as business operating conditions • Constructive dialogues leading to enhanced quality of corporate management
Partners	• Maintain daily communication through transactions • Hold conferences, training sessions, and other events with advertisers, content providers, e-commerce store operators, and others	• Strengthen relationships based on mutual trust
Employees	• Employee awareness surveys • Compliance Hotline (internal reporting system) • Harassment Hotline • Intranet-based information dissemination • Active internal project implementation • Informal gatherings of former Company employees	• Employee-friendly workspace and work culture • Planning and evaluation of labor and human resource policies • Respect the human rights and individuality of each employee
Regions and society	• Participate in joint public/private sector projects • Participate in economic and Internet-related industrial organizations • Collaborate with law enforcement and investigative bodies • Cooperate in regional contribution activities and events at each business location • Outsource Company personnel via corporate fellowships to governmental agencies and ministries as well as to local municipal offices	• Participate actively in regional communities • Propose measures to invigorate the entire Japanese economy and information technology (IT) industry • Leverage state-of-the-art information technologies to identify and solve social issues
The next generation	• Provide Yahoo! Kids service • Collaborate with educational organizations in formulating policy proposals for children's education • Promote Hack Kids, Yahoo! JAPAN MeetUP, and other services	• Provide appropriate Internet access to children and disseminate information both inside and outside the Company about children's appropriate Internet usage • Offer programming instruction and other learning courses to nurture IT literacy among children in preparation for a better Internet-based society in the future

SDGs and Yahoo Japan Group initiatives

In September 2015, all 193 member-states of the United Nations unanimously adopted the Sustainable Development Goals (SDGs), comprising 17 goals with 169 targets. The year 2030 is the target date for achieving the SDG action plan, specific goals of which include eliminating poverty and hunger, reducing energy consumption, combating climate change, and promoting peaceful and inclusive societies.

The Company has classified its SDG initiatives into Four Updates that lay out broad focus areas for action.

	Four Updates	SDGs	Examples of initiatives
UPDATE 1	Promote an IT Society	4 QUALITY EDUCATION	• Yahoo! Kids • Study group on Internet usage by children • Hack Kids • Hack Day • Hack U • IT Human Resource Development Project • Promote IT education and foster human resource development in collaboration with educational organizations
UPDATE 2	Support Disaster Relief and Social Problem-solving Efforts	1 NO POVERTY 2 ZERO HUNGER	• Disaster Calendar • Yahoo! Disaster Alert • Yahoo! News Special Feature • Distribute news articles related to social contribution, including NPO activities, via Yahoo! News • Yahoo! Internet Fund Raising • Yahoo! Fund • reU funding
UPDATE 3	Foster Diversity	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	• Woman PJ (women's workplace participation) • Rainbow Project • Office Anywhere • Flex-time scheduling and variable work-week options • Open workspace • LODGE co-working space
UPDATE 4	Work toward a Sustainable Society	13 CLIMATE ACTION 14 LIFE BELOW WATER	• Constructing environment-friendly next-generation data centers • Promoting usage of renewable energy • Collaborating with Fisherman Japan (https://fishermanjapan.com/) • Serving Blue Seafood (http://sailorsforthesea.jp/blueseafood) at Company restaurants

Four Updates

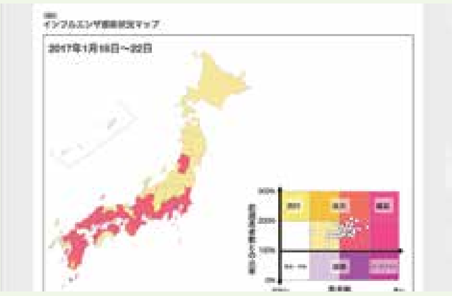
Tirelessly pursuing our mission as the Japanese Internet's problem-solving engine, the Yahoo Japan Group aims to provide solutions to social problems in accordance with our Four Updates.

1 Promote an IT Society

Using big data to address social exigencies

The Company's Big Data Report demonstrates the power and wonder of big data utilization by carrying out trend-based analyses of anonymous user data accumulated over the course of providing Yahoo! JAPAN services, particularly Yahoo! Search, as well as advertising and social media services.

In the event of an unusually large-scale earthquake or other major disaster affecting a major city in Japan, to supplement designated evacuation areas it might be necessary to quickly identify ad hoc emergency evacuation areas and provide necessary assistance and support. Addressing this potential scenario, Yahoo! Japan Research has utilized big data to analyze traffic congestion patterns throughout the day with the goal of identifying probable ad hoc emergency evacuation areas in the event of a large-scale urban disaster.



Helping persons in need via Yahoo! Search

In cooperation with various governmental ministries and agencies, Yahoo! Search supports efforts to combat a range of social problems including bullying, suicide, illegal drugs, and consumer fraud. When a keyword related to any of these issues is entered into Yahoo! Search, a window containing consultation hotline and other contact information automatically appears at the top of the search results display screen. In most cases, smartphone users can immediately access consultation hotlines simply by tapping the relevant telephone number appearing at the top of the search results display screen.

Cooperating partners: • Around-the-clock Child SOS Dial (Ministry of Education, Culture, Sports, Science and Technology) • Mental Health Integrated Hotline (Ministry of Health, Labor and Welfare) • Illegal Drugs Contact Center (Ministry of Health, Labor and Welfare) • Consumer Hotline (Consumer Affairs Agency)

2 Support Disaster Relief and Social Problem-solving Efforts

Supporting disaster recovery efforts: Tour de Tohoku

We have sponsored the annual Tour de Tohoku bicycling event since 2013 to commemorate the Great East Japan Earthquake & Tsunami of March 11, 2011, and support disaster recovery efforts throughout Japan. Tour de Tohoku 2016, the event's fourth installment, attracted a total of 3,764 bicyclists who pedaled a course from Ishinomaki to Kesennuma and then on to Onagawa and finally Minami-Sanrikucho along Miyagi Prefecture's Sanriku Coast.

Conceived of as a way to support long-term disaster recovery efforts in the region, the Tour de Tohoku is slated to take place each year over a period of about 10 years. In addition to sponsoring the annual event, the Company is further supporting regional revitalization by promoting year-round bicycle tourism based on a public/private sector partnership.

Providing real-time disaster information: Disaster Notification app

Our free-download Disaster Notification app provides smartphone users with potentially life-saving real-time notices and updates about earthquakes, torrential rains, landslides, heatwaves, floods, volcanic eruptions, and other natural disasters. Moreover, e-mail notices are sent to both mobile phone and PC users registered on the Disaster Notification mailing list.

In addition, we have entered into agreements with various municipal governments to provide a system ensuring that local residents receive timely and detailed broadcasts of regional disaster-related information, evacuation area information, crime prevention information, and more.

Further details are provided in our CSR Report (https://about.yahoo.co.jp/csr/).
All information in this section is accurate as of May 2017.

3 Foster Diversity

Creating a freeform, collaborative workplace

After relocating our head office to central Tokyo's Kioicho district in October 2016, we introduced an open workspace in which employees can move about freely and work wherever convenient to the task at hand. Also, we newly arranged desks in a zig-zag pattern to facilitate greater interaction among employees.

Adjacent to our new office we have created a large-scale public-access co-working space, dubbed LODGE. One of the largest spaces of its kind in Japan, LODGE is designed to spur innovation that could lead to new services and businesses by providing opportunities for collaboration with developers and creators from outside the Company.

Adapting the workplace to employees' lives

Our Office Anywhere system allows employees to work up to five days each month at home or any other location. By reducing total commuting time and rush-hour stress, this system provides employees with more time and energy to pursue self-enrichment activities, attend to the demands of child-rearing, or care for an elderly or sick family member. In fiscal 2016, 81.4% of all Company employees took advantage of this system.

Looking ahead, it will become increasingly necessary to adapt the workplace to the reality of a diminishing labor force by, for example, granting employees more flexibility regarding work schedules to accommodate familial obligations such as childcare and eldercare. While continuing to focus on elevating productivity, we will strive to remain in the vanguard of workplace reform in Japan.

4 Work toward a Sustainable Society

Constructing environment-friendly next-generation data centers

Built in 2008 in Kita-Kyushu City, Fukuoka Prefecture, our environment-friendly next-generation Kita-Kyushu Data Center has achieved a nearly 40% reduction in air-conditioning electricity consumption thanks to an air-conditioning system that incorporates an external-air cooling system.

In 2012, we began operations at our large-scale environment-friendly data center in Shirakawa City, Fukushima Prefecture. In addition to updating the external-air cooling system used at the Kita-Kyushu Data Center we thoroughly revised both the building format and air-conditioning equipment, thereby achieving a year-round external-air utilization rate of over 90%. Looking ahead, we intend to boost the number of highly energy-efficient data centers in keeping with our environmental conservation goals.

Helping to preserve biodiversity

In the interests of advancing biodiversity preservation and making a regional contribution, we are cooperating in Urbanization for the Creation of an Ecological Network of Precious Downtown Green Spaces (Eco-corridor), a program promoted by the Tokyo Garden Terrace Kioicho office building in central Tokyo's Kioicho district. Specifically, since June 2016 we have worked to recreate a biotope environment within the grounds of the Tokyo Garden Terrace Kioicho office building capable of sustaining a population of fireflies, which can be found in their natural habitat around the inner moat of the Imperial Palace.

Corporate Governance

Directors, Audit and Supervisory Committee Members, and Operating Team

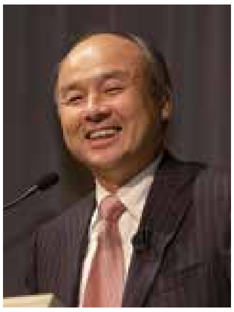
Directors (As of June 20, 2017)

President and Representative Director
President Corporate Officer
Chief Executive Officer

Manabu Miyasaka

Apr. 1991	Joined UPU Co., Ltd.
Jun. 1997	Joined Yahoo Japan Corporation
Jan. 2002	Senior Manager, Media Business Group
Apr. 2009	Operating Officer, Head of Consumer Business Group
Apr. 2012	CEO & Operating Officer
Jun. 2012	President & Representative Director
Jun. 2013	Director, SoftBank Corp. (currently SoftBank Group Corp.) (to present)
Jun. 2015	President and Representative Director, President Corporate Officer, Chief Executive Officer (to present)
Jun. 2017	Director, SoftBank Corp. (to present)

Note: Manabu Miyasaka has resigned as a director of SoftBank Group Corp. as of June 21, 2017.



Director

Masayoshi Son

Sep. 1981	Chairman & CEO, SOFTBANK Corp. Japan (currently SoftBank Group Corp.)
Apr. 1983	Chairman, SOFTBANK Corp. Japan (currently SoftBank Group Corp.)
Feb. 1986	Chairman & CEO, SOFTBANK Corp. Japan (currently SoftBank Group Corp.) (to present)
Jan. 1996	President and Representative Director, Yahoo Japan Corporation
Jul. 1996	Chairman of the Board of Directors, Yahoo Japan Corporation
Oct. 2005	Director, Alibaba Group Holding Limited (to present)
Apr. 2006	Chairman of the Board, President & CEO, Vodafone K.K. (currently SoftBank Corp.)
Jun. 2007	Chairman & CEO, SoftBank Mobile Corp. (currently SoftBank Corp.)
Jul. 2013	Chairman of the Board, Sprint Corporation (to present)
Apr. 2015	Chairman, SoftBank Mobile Corp. (currently SoftBank Corp.) (to present)
Jun. 2015	Director, Yahoo Japan Corporation (to present)
Mar. 2016	President, Softbank Group International GK (to present)
Sep. 2016	Chairman and Executive Director, ARM Holdings plc (to present)

Director

Ken Miyauchi

Feb. 1977	Joined Japan Management Association
Oct. 1984	Joined SOFTBANK Corp. Japan (currently SoftBank Group Corp.)
Feb. 1988	Director, SOFTBANK Corp. Japan (currently SoftBank Group Corp.)
Apr. 2006	Executive Vice President, Director & COO, Vodafone K.K. (currently SoftBank Corp.)
Jun. 2007	Representative Director & COO, SoftBank Mobile Corp. (currently SoftBank Corp.)
Jun. 2012	Director, Yahoo Japan Corporation (to present)
Apr. 2013	Representative Director and Executive Vice President, SoftBank Corp. (currently SoftBank Group Corp.)
Jun. 2013	Representative Director and Senior Executive Vice President, SoftBank Corp. (currently SoftBank Group Corp.)
Jan. 2014	Director, Brightstar Global Group Inc.
Apr. 2015	President & CEO, SoftBank Mobile Corp. (currently SoftBank Corp.) (to present)
Jun. 2015	Director, SoftBank Corp. (currently SoftBank Group Corp.)
Mar. 2016	President, Softbank Group Japan GK
Jun. 2016	President & COO, SoftBank Group Corp. (to present)
Apr. 2017	President, Softbank Group International GK (to present)

Director

Jonathan Bullock

Sep. 1997	Managing Consultant, Gemini Consulting
Jun. 2001	Head of News & Data Strategy, Reuters
Apr. 2006	Interim Marketing Manager BSkyB, Curzon Ltd.
Jun. 2007	Head of EMEA Business Strategy, Google Inc.
Oct. 2009	Director Global Business Strategy & Chief of Staff GBO, Google Inc.
Oct. 2014	Managing Director, SB Internet and Media, Inc. (currently SB Group US, Inc.) (to present)
Jul. 2015	Director, SB Energy Holdings Ltd. (to present)
Jan. 2016	Director, Brightstar Corp. (to present)
Dec. 2016	Director, Yahoo Japan Corporation (to present)

Outside Director

Arthur Chong

Sep. 1978	Associate, McCutchen, Doyle, Brown & Enersen
Apr. 1981	Counsel, McKesson Corp.
Jun. 1999	Deputy General Counsel, McKesson Corp.
Nov. 2005	Executive Vice President and Chief Legal Officer, Safeco Corp.
Oct. 2008	Executive Vice President, General Counsel and Secretary, Broadcom Corporation
Jun. 2016	Special Advisor, Sheppard, Mullin, Richter & Hampton LLP
Oct. 2016	Outside Legal Advisor, Yahoo! Inc. (currently Altaba Inc.)
Mar. 2017	General Counsel and Secretary, Yahoo! Inc. (currently Altaba Inc.) (to present)
Jun. 2017	Outside Director, Yahoo Japan Corporation (to present)

Outside Director

Alexi A. Wellman

Jun. 1992	Accountant, Mutual of Omaha
Jan. 1994	Joined KPMG LLP
Oct. 1999	Senior Manager, KPMG LLP
Oct. 2004	Partner, KPMG LLP
Dec. 2011	Chief Financial Officer, Nebraska Book Company, Inc.
Nov. 2013	Vice President, Finance, Yahoo! Inc. (currently Altaba Inc.)
Oct. 2015	Vice President, Global Controller, Yahoo! Inc. (currently Altaba Inc.)
Jun. 2017	Chief Financial and Accounting Officer, Altaba Inc. (to present)
Jun. 2017	Outside Director, Yahoo Japan Corporation (to present)

Outside Director
(Independent Director)
Full-Time Audit and Supervisory Committee Member

Shingo Yoshii

Apr. 1971	Joined Sumitomo Corporation
Apr. 2003	Executive Officer, General Manager, Media Business Unit and CATV Business, Sumitomo Corporation
Apr. 2005	Managing Executive Officer, General Manager, Network Business, Sumitomo Corporation
Jun. 2005	Representative Director, Managing Executive Officer, Sumitomo Corporation
Apr. 2007	Representative Director, Managing Executive Officer, General Manager, the Media, Network & Lifestyle Retail Business, Sumitomo Corporation
Apr. 2008	Representative Director, Assistant to President, Sumitomo Corporation
Jun. 2008	Audit and Supervisory Board Member, Yahoo Japan Corporation
Jun. 2015	Outside Director (Independent Director), Full-time Audit and Supervisory Committee Member, Yahoo Japan Corporation (to present)

Outside Director
(Independent Director)
Full-Time Audit and Supervisory Committee Member

Hiromi Onitsuka-Baur

Apr. 1976	Joined Tokyo Shibaura Electric Co., Ltd. (currently TOSHIBA CORPORATION)
Apr. 2005	General Manager, Clinical Laboratory Systems Division, Toshiba Medical Systems Corporation
Jun. 2009	Vice President, Chief Marketing Executive and General Manager, Clinical Laboratory Systems Division, Toshiba Medical Systems Corporation
Apr. 2010	Vice President, Chief Marketing Executive and General Manager, Corporate Audit Department, Toshiba Medical Systems Corporation
Jun. 2011	Temporary Advisor, Toshiba Medical Systems Corporation
Jun. 2012	Audit and Supervisory Board Member, Yahoo Japan Corporation
Jun. 2015	Outside Director (Independent Director), Full-time Audit and Supervisory Committee Member, Yahoo Japan Corporation (to present)

Director
Audit and Supervisory Committee Member

Kazuhiko Fujihara

Apr. 1982	Joined Toyo Kogyo Co., Ltd. (currently Mazda Motor Corporation)
Apr. 2001	Joined SoftBank Corp. (currently Softbank Group Corp.)
Nov. 2004	Director & CFO, SoftBank BB Corp. (currently SoftBank Corp.)
Apr. 2006	Senior Vice President, CFO, Vodafone K.K. (currently SoftBank Corp.)
Jun. 2012	Executive Vice President, Board Director & CFO, SoftBank Mobile Corp. (currently SoftBank Corp.)
Apr. 2014	Executive Corporate Officer, Corporate Planning, Global Business Synergies Division and General Manager, Corporate Planning, SoftBank Corp. (currently SoftBank Group Corp.)
Jun. 2014	Director, SoftBank Corp. (currently SoftBank Group Corp.)
Aug. 2014	Director, Brightstar Global Group Inc. (to present)
Apr. 2015	Board Director, Executive Vice President & CFO, SoftBank Mobile Corp. (currently SoftBank Corp.) (to present)
Jun. 2015	Director, Audit and Supervisory Committee Member, Yahoo Japan Corporation (to present)
Sep. 2016	Executive Corporate Officer, Head of Business Unit, SoftBank Group Corp. (to present)

Operating Team (As of April 1, 2017)

Name	Title
Manabu Miyasaka	President and Representative Director, President Corporate Officer, Chief Executive Officer
Kentaro Kawabe	Senior Executive Vice President Corporate Officer, Chief Operating Officer, President of Commerce Group
Toshiki Oya	Senior Executive Vice President Corporate Officer, Chief Financial Officer
Chiaki Fujimon	Executive Corporate Officer, Executive Vice President, Chief Technology Officer
Gen Miyazawa	Executive Corporate Officer, Executive Vice President, President of Media Group
Kosuke Honma	Executive Corporate Officer, Executive Vice President, President of Corporate Group
Masatsugu Shidachi	Corporate Officer, Executive Vice President, Head of CEO Office
Hiroshi Kataoka	Corporate Officer, Executive Vice President, President of Media Company, Media Group
Koichiro Tanabe	Corporate Officer, Executive Vice President, President of Marketing Solutions Company, Media Group
Shin Murakami	Corporate Officer, Executive Vice President, President of ID Services Management Group, Chief Mobile Officer
Takao Ozawa	Corporate Officer, Executive Vice President, President of Shopping Company, Commerce Group
Yuji Umemura	Corporate Officer, Executive Vice President, President of YAHUOKU! Company, Commerce Group
Yusuke Tanaka	Corporate Officer, Executive Vice President, President of Personal Services Company, Commerce Group
Tomoaki Tanida	Corporate Officer, Executive Vice President, President of Financial & Payment Services Company, Commerce Group
Hideyuki Nakahara	Corporate Officer, Executive Vice President, President of System Management Group, Chief Information Security Officer
Kiyoshi Sasaki	Corporate Officer, Executive Vice President, President of Data & Science Solutions Group, Chief Data Officer
Naoya Bessho	Corporate Officer, Executive Vice President, Corporate Group, General Counsel
Toshiya Segoshi	Corporate Officer, Executive Vice President, Corporate Group, Finance
Shuichi Nishida	Corporate Officer, Executive Vice President, President of Social Responsibility Promotion Group

Basic Views

Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group) consider good corporate governance to be essential to enhancing corporate value over the medium to long term. In clarifying the roles and responsibilities of directors, corporate officers, and employees within the corporate governance system, the Company aims to conduct appropriate and effective business operations. By maintaining appropriate corporate governance and conducting effective corporate activities, the Company intends to retain the trust and understanding of all stakeholders.

Corporate governance system

Japan's new corporate governance code, which took effect on June 1, 2015, establishes fundamental principles of good corporate governance, including transparent, fair, timely, and decisive decision-making as well as proactive management.

Given that timely and decisive decision-making is a key governance principle among companies in the Internet industry, management believes that the Company's basic stance on corporate governance is in broad alignment with that outlined in the new corporate governance code. Bearing in mind the intent of the new code, the Company converted to a company with an Audit and Supervisory Committee as its corporate governance structure after approval at the general shareholders meeting on June 18, 2015. In further compliance with the new corporate governance code, we also appointed two independent outside directors in order to ensure independent perspectives and to enhance transparent and fair decision-making. In addition, we have clearly separated the decision-making and supervisory functions of the Board of Directors from the business execution functions of corporate officers, in addition to granting the Board of Directors an additional role as a discussion forum for the Company's medium- to long-term business trajectory. Moreover, by delegating broad authority to corporate officers we have reinforced the Company's proactive management stance.

Board of Directors

The Board of Directors is responsible for corporate management policies, management strategy, business planning, the acquisition or disposal of important assets, decision-making regarding important organizational or personnel matters, and the supervision of business execution throughout the Yahoo Japan Group. The Company's corporate governance structure, which clearly separates the decision-making and supervisory functions of the Board of Directors from the business execution functions of corporate officers and autonomous business units within the Company, is designed specifically to promote swift, strategic managerial operations with the goal of enhancing competitiveness.

Audit and Supervisory Committee

The Audit and Supervisory Committee is composed of three members, two of whom are independent outside directors. The Audit and Supervisory Committee is responsible for auditing and supervising all aspects of the Company's business activities, including the appropriateness of policy, planning, and procedures; the effectiveness of business implementation; and compliance with laws and regulations, carried out by means of, for example, perusing important documents and inspecting subsidiary companies. Furthermore, the Audit and Supervisory Committee receives reports on auditing methods and results from account auditors and the Internal Audit Office. Based on these activities and reports, the Audit and Supervisory Committee regularly presents opinions to the full-time directors who are not Audit and Supervisory Committee members.

Remuneration Committee

In accordance with the Regulation of Remunerations for Directors formulated by the Board of Directors, remuneration of directors and senior management is determined after deliberations by the Remuneration Committee based on the Company's business performance and respective individual contributions thereto for the fiscal period under review. The Remuneration Committee comprises three persons, namely, the president, a non-executive director who is not also an independent outside director, and an independent outside director.

President's Committee

Important issues requiring deliberation and judgment by the Board of Directors are reviewed in advance by the President's Committee. Important issues on which the president independently makes judgments are reviewed by the President's Committee in accordance with internal Company regulations.

Internal Audit Office

Reporting directly to the president, the Internal Audit Office oversees the development and implementation of internal audit systems throughout the Yahoo Japan Group in addition to providing Groupwide systems evaluations and improvement guidance with the goal of ensuring that business operations are appropriate and executed effectively and efficiently. The Internal Audit Office carries out its various audit-related activities in cooperation with audited departments and subsidiaries.

Advisory Board

When the need for broad-based deliberation arises with regard to issues such as implementing a new business, launching a new service, or other issue of strategic significance, the Company convenes an Advisory Board composed of highly respected outside experts from the academic, legal, and business communities. This enables the Company to incorporate a diverse range of views and opinions into important management decision-making.

Management team (corporate officers) remit

In addition to formulating business strategies and management plans, the Company's Board of Directors shall make decisions on important business execution matters. Specifically, M&A and the acquisition or disposal of large amounts of assets shall be deemed matters to be resolved by decision of the Board of Directors, but in the case of other business execution matters responsibility for decisions shall in principle rest with the management team, in accordance with the Regulations of the Board of Directors Meetings.

Effectiveness of Board of Directors

An evaluation undertaken jointly by the outside directors and the Audit and Supervisory Committee concluded that the overall effectiveness of the Board of Directors is generally excellent, with the exception of certain Board materials that fail to adequately clarify focal issues. Moving forward, the Board is committed to constantly enhancing its overall effectiveness.

Committee meetings held

(FY2016)

	Number of meetings
Board of Directors	10
Audit and Supervisory Committee	7
Remuneration Committee	1
Advisory Board	2

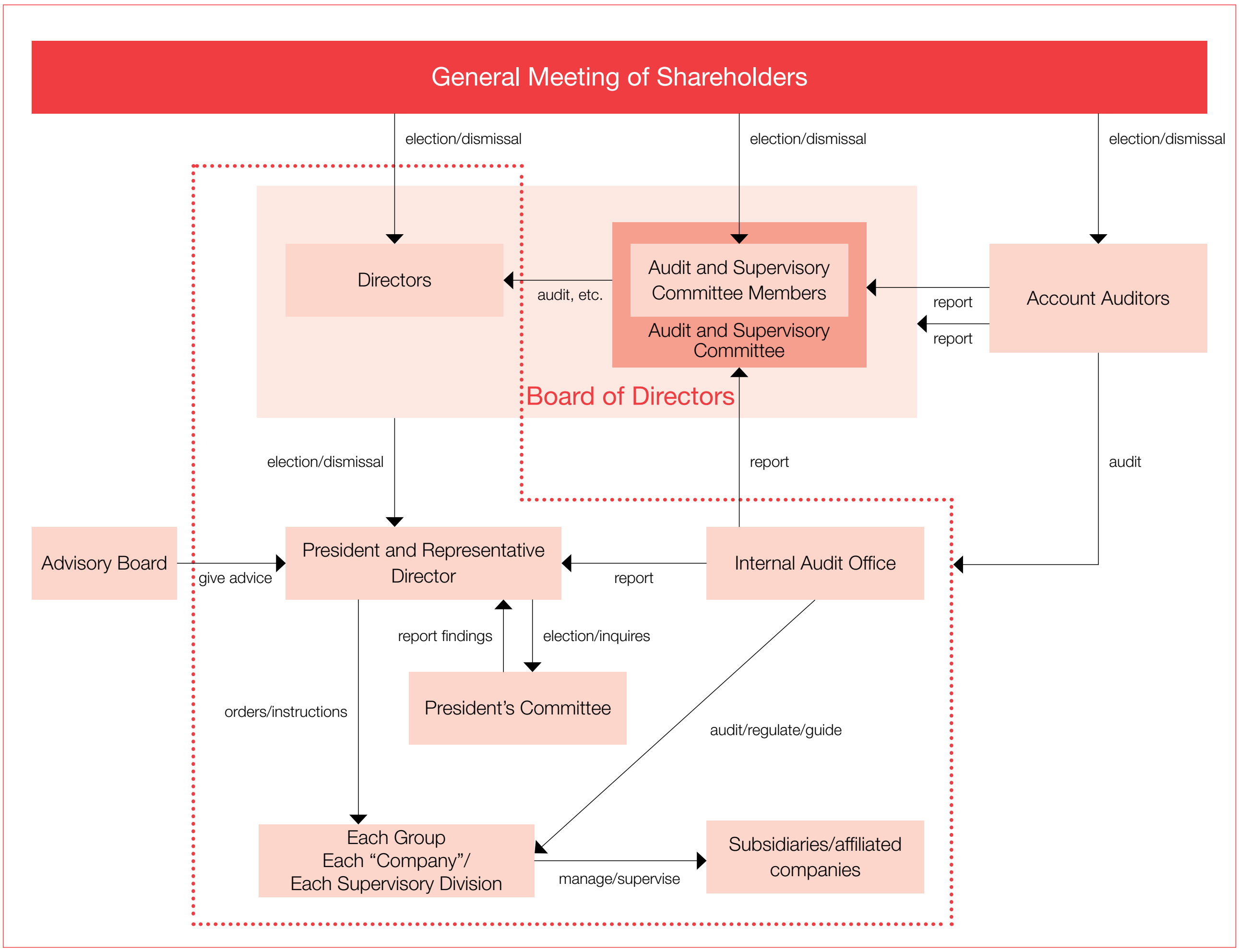
Committee member composition

(FY2016)

	Board of Directors	Audit and Supervisory Committee	Remuneration Committee
Manabu Miyasaka	◎		○
Masayoshi Son	○		○
Ken Miyauchi	○		
Jonathan Bullock	○		
Kenneth Goldman	○		
Ronald S. Bell	○		
Shingo Yoshii	○	◎	○
Hiromi Onitsuka-Baur	○	○	
Kazuhiko Fujihara	○	○	

◎: Chairperson ○: Member

Corporate governance system



Nomination of candidates for director and appointment of senior management

When nominating candidates for director or appointing senior management, such factors as performance experience, knowledge, and popularity at the Company or other companies shall be considered, and appropriate personnel appointed at a meeting of the Board of Directors on the basis of the Regulations of the Board of Directors Meeting. When nominating candidates for director, the Company shall give consideration to maintaining diversity on the Board of Directors so that no bias is shown toward personal characteristics, and listen to the opinions of independent outside directors prior to a decision being taken at a meeting of the Board of Directors.

Nomination of directors and Audit and Supervisory Committee members

	Nomination rationale
Manabu Miyasaka	Since assuming the role of President and Representative Director of the Company in 2012, Mr. Miyasaka has focused on the rapid deployment of smartphone-based services and shown strong leadership of the Yahoo Japan Group. In recognition of his performance, he has been renominated as representative director of the Company in order to achieve further growth of the Yahoo Japan Group as a multi-big data enterprise.
Masayoshi Son	Mr. Son has a great deal of executive management experience and extensive knowledge. To take advantage of his suggestions and advice about the management of the Yahoo Japan Group as a pioneer, he has been renominated as a director of the Company.
Ken Miyauchi	Mr. Miyauchi has a wealth of management experience in the mobile phone business as the President and CEO of SoftBank Corp., whose business operations are closely related to those of the Company. Since becoming a director in June 2012, he has offered helpful advice about the business operations of the Yahoo Japan Group. Therefore, he has been renominated as a director of the Company.
Jonathan Bullock	Mr. Bullock has a global knowledge of and deep insight into the Internet business, including a wealth of experience in building and expanding businesses. In order to continue receiving his valuable advice based on such knowledge and experience, he has been renominated as a director of the Company.
Arthur Chong	Mr. Chong possesses an abundance of knowledge and experience regarding laws and corporate governance. To take advantage of his valuable advice based on such knowledge and experience, he has been nominated as an outside director of the Company.
Alexi A. Wellman	Ms. Wellman possesses an abundance of knowledge and experience regarding finance and accounting. To take advantage of her valuable advice based on such knowledge and experience, she has been nominated as an outside director of the Company.
Shingo Yoshii	Mr. Yoshii has extensive knowledge and experience regarding corporate management and possesses deep insight into corporate governance. From June 2008, he served for seven years as an Audit and Supervisory Board member (full-time) and since June 2015 has been an independent outside director (full-time Audit and Supervisory Committee member), helping to fortify the Company's corporate governance and auditing framework. Therefore, he has been renominated as an independent outside director of the Company.
Hiromi Onitsuka-Baur	As a Vice President and Chief Marketing Executive at Toshiba Medical Systems Corporation, Ms. Onitsuka-Baur gained a tremendous amount of experience and a wide breadth of knowledge. From June 2012, she served for three years as an Audit and Supervisory Board member (full-time) and since June 2015 has been an independent outside director (full-time Audit and Supervisory Committee member), helping to fortify the Company's corporate governance and auditing framework. Therefore, she has been renominated as an independent outside director of the Company.
Kazuhiko Fujihara	Mr. Fujihara is the Executive Vice President and CFO of SoftBank Corp., a subsidiary of our parent company, SoftBank Group Corp. He has extensive work experience in and considerable knowledge of finance and accounting. Since June 2015, he has been a director of the Company and served as an Audit and Supervisory Committee member. Therefore, he has been renominated as a director of the Company.

Director and senior management remuneration

Based on the Regulation of Remunerations for Directors formulated by the Board of Directors, the Company decides on the remuneration and bonuses of its directors and senior management following deliberations by the Remuneration Committee, which comprises three persons, namely, the president, a non-executive director who is not also an independent outside director, and an independent outside director, based on each fiscal period's business performance and each director's contribution to business performance.

Director remuneration for fiscal 2016

	Number	Total remuneration (millions of yen)	Breakdown of total remuneration (millions of yen)		
			Base salary	Stock options*	Bonuses
Directors (excluding Audit and Supervisory Committee members)	7	105	55	–	50
(Of which for outside directors**)	(2)	(–)	(–)	(–)	(–)
Directors (Audit and Supervisory Committee members)	3	57	47	–	10
(Of which for outside directors**)	(2)	(57)	(47)	(–)	(10)
Total	10	162	102	–	60
(Of which for outside directors**)	(4)	(57)	(47)	(–)	(10)

*The amount of stock options is the cost posted for the fiscal year under review with regard to share subscription rights granted as stock options.
**For fiscal 2016, outside directors received no remuneration from either SoftBank Group Corp. or any of its consolidated subsidiaries, excluding above.

Fortifying internal control

In accordance with the Basic Policy for Internal Control established by the Board of Directors, the Company strives to ensure the appropriateness of all business activities and continuously makes improvements with the goal of creating a more effective system of internal control. One of the key objectives of internal control is to enhance the effectiveness and efficiency of business operations, and the Company therefore prioritizes operational systematization, automation, and integration in support of ongoing improvements.

Please refer to our website for detailed information about the Company's internal control efforts.
https://about.yahoo.co.jp/csr/stakeholder/03.html

Policy on measures to protect minority shareholders in conducting transactions with controlling shareholder

Yahoo Japan Corporation's parent company is SoftBank Group Corp., which nominates five of the Company's nine directors. While one of the roles of the Board of Directors is to oversee business execution with a view to further enhancing corporate value, with respect to determining specific matters and business execution the Company acts independently based on determinations made by corporate officers. The Company is not overly dependent on either the parent company or any of the other associated companies with respect to sales and marketing transactions. The vast majority of the Company's business transactions are conducted with individual consumers and companies having no capital-based relationship with the Company.

Moreover, the Company's Regulations for Appropriate Business Transactions and Practices by Yahoo Japan Corporation, its Parent Company, Subsidiaries, and Affiliates prohibit transactions with the parent company and/or other associated companies that give rise to either an unfair advantage or disadvantage with respect to similar transactions with other third parties, as well as transactions that seek to transfer profits, losses, or risk. Based on these and other initiatives, the Company maintains ample business and operational independence from associated companies and endeavors to maintain fair and appropriate transactions. Utilizing a raft of such measures, the Company is judged to be maintaining its independence from the business operations of its parent company to a sufficient degree.

Measures concerning shareholders and other stakeholders

The Company makes various efforts to vitalize shareholders meetings and to facilitate shareholders' exercise of voting rights. For example, the Company has since its founding held its annual general meeting of shareholders on a day when other major companies are not holding meetings. In addition, we promptly post notices of our annual general meeting of shareholders on the Company's Investor Relations website in both Japanese and English before mailing out notices to all shareholders. Appealingly designed and printed in full color, the notices in addition contain supplementary non-financial information to broaden shareholders' knowledge of our business operations. Moreover, to ensure that a maximum number of shareholders are able to exercise their voting rights, we permit individual investors to vote online and also offer a dedicated Internet voting platform for institutional investors.

Investor relations activities

The Company's investor relations (IR) activities aim to provide timely, accurate, and fair information disclosure in accordance with rules prescribed by the Financial Instruments and Exchange Law and the Tokyo Stock Exchange, Inc. In principle, the president is charged with supervising the dialogue with shareholders and other investors, while the chief financial officer (CFO) is responsible for information disclosure.

To support the ongoing dialogue with shareholders and other investors, the Company has established an internal IR division. By coordinating with the financial affairs, accounting, and legal affairs divisions as well as with various business divisions to create IR-related documents suitable for release, the IR division helps to ensure constructive dialogue with shareholders and other investors.

For individual investors, we provide updates on the Company's business status at general meetings of shareholders. Using various visual presentation tools, we explain medium- to long-term strategies and provide updates on the Company's business status, financial results, and other relevant information in order to deepen investors' understanding of the Company. Furthermore, for individual investors unable to attend general meetings of shareholders we provide live-streaming services and on-demand video services for viewing at a later date.

For analysts and institutional investors, we provide detailed explanations of the Company's financial results and business status at quarterly results briefings. We also provide a public-access live-streaming service of these briefings. Moreover, in order to promote greater understanding of the Company among a growing number of persons, we also carry out proactive disclosure activities, including the provision of on-demand video services later on the same day of the earnings announcement. At many of the approximately 500 separate meetings conducted each year with analysts and institutional investors either in person or by telephone, members of senior management, including the president, proactively discuss current growth strategies and business status updates.

For overseas institutional investors, we prepare English-language versions of nearly all of the Company's disclosure materials, in addition to publishing an English-language annual report. In addition, we have opportunities to directly engage in dialogue with overseas investors during periodic overseas roadshows, primarily in North America, the United Kingdom, and Asia.

Since the Company's initial public offering (IPO) in 1997, we have continually provided timely disclosure in the form of quarterly reports detailing our financial and business conditions as well as risk-related information of potential concern to the Company. A complete archive of all disclosure materials published to date is publicly accessible via the Company's Investor Relations website.

Opinions and proposals from shareholders and other investors are compiled in a quarterly report that is submitted to directors, corporate officers, and relevant divisions within the Company. In urgent cases, such opinions and proposals are communicated immediately to relevant Company divisions.

Regarding the potential misuse of insider information, sensitive information that has not yet been disclosed to the public is thoroughly controlled and appropriately handled in accordance with Insider Trading Prevention Regulations. In the case of financial results information, a quiet period is observed prior to the disclosure date in order to prevent information leaks. During the quiet period, the Company flatly refuses to comment upon or reply to inquiries about undisclosed financial results.

Anti-takeover measures

A small group of major shareholders account for a significant portion of the Company's ownership. Because the risk of a hostile takeover bid is considered to be low, the Company has not formulated takeover-related measures. Recognizing this matter as a potentially significant management issue, however, the Company intends to consider the necessity for and content of effective measures.

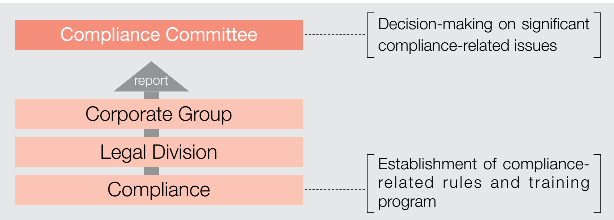
Compliance

As stipulated in the Company's Charter of Corporate Behavior, strict adherence to and compliance with all relevant laws and regulations, commercial practices, and social ethics is the fundamental principle underlying the Yahoo Japan Group's business activities. Accordingly, we constantly strive to strengthen our compliance system and enhance awareness of compliance-related issues.

Compliance System

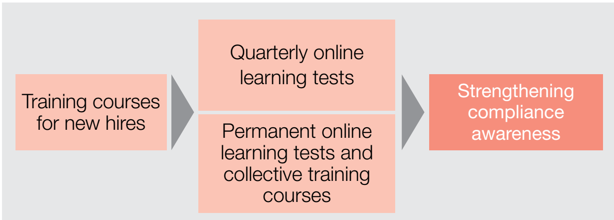
Responsible for ensuring compliance throughout the Yahoo Japan Group, the Compliance Committee identifies compliance-related issues as well as collects and collates compliance-related information with an eye to strengthening the compliance system and enhancing compliance awareness.

Compliance system



Compliance training program

To enhance employee awareness of compliance-related issues, the Company requires all new employees, whether recent graduates or mid-career hires, to take compliance-related training courses. Comprehension and retention of course materials are reinforced through periodic compliance questionnaires and quarterly online learning tests on specific themes such as personal information protection and proper information handling, harassment prevention, and intellectual property rights protection. In addition, we offer more specialized compliance-related training courses designed to meet the specific requirements of individual departments. Departments handling users' personal information, for example, are offered courses on legal and regulatory issues related to information security.



Compliance Hotline (internal reporting system)

The Company has established a Compliance Hotline that encourages anonymous disclosure of compliance violations. Reception staff both within and outside the Company strictly respect the privacy of whistle-blowers, and additional measures have been put in place to protect them from any negative consequences as a result of their disclosure.

Risk Management

The Company has adopted an approach to risk management that prioritizes identifying and eliminating risk factors but also includes detailed contingency plans in case risks actually materialize. Risk-related information is disclosed together with the Company's financial and business results on a quarterly basis.

Risk management

We reduce overall risk by adhering to a set of Risk Management Regulations that systematically consolidate and structure our ad hoc approaches to risk management adopted to date. Moreover, thanks to the implementation of enterprise risk management (ERM) measures by a specialized department in charge of risk management, risk-related information from each department can be collected and deployed as a proactive risk-management tool.

Incident reporting system

Within one hour of discovering a situation or incident with the potential to disrupt Yahoo! JAPAN service provision, for example, or the internal operations of a company within the Yahoo Japan Group, a report is filed in our incident reporting system. The details are shared immediately with all relevant departments and then the incident is recorded in the database according to category of significance. For each incident, the specific circumstances, responses, and causes are recorded and analyzed and managed with the goal of preventing recurrence of a similar incident in the future.

Information Security Initiatives

To remain capable of continuously providing safe and secure services to Yahoo! JAPAN users over the long term, the Company pursues policies and maintains systems with an eye to achieving maximum information security.

Prioritizing the security of users' personal information (privacy and confidentiality)

The Company prioritizes the security of all users' personal information and has implemented various measures to ensure that users' personal information entrusted to the Company is not leaked by either executives or employees. Our activities in this regard consist of a combination of systematic measures minimizing the number of staff authorized to access users' personal information with physical measures blocking staff access to securely monitored areas where users' personal information is stored.

The personal information of each user can be viewed, altered, or deleted only by the user in question directly on the system. Except in cases where a response to a user inquiry is required, no executive or employee is able to access users' personal information.

Constant service and data availability (usability and completeness)

Providing services around the clock, we have also implemented measures to ensure that information and contents received from users is not falsified or otherwise altered. Regarding services of high importance to users and society, we have implemented special measures safeguarding uninterrupted provision even under the most challenging conditions.

Acquisition of ISMS (Information Security Management System) certification

In August 2004, the Company acquired Information Security Management System (ISMS) certification BS7799-2:2002, the international standard at the time, and ISMS certification standards (Ver. 2.0), the Japanese version of the American standard at the time. Since then, the Company and its principal subsidiaries have complied with each standards revision in order to maintain valid certification. Currently, the Company and its principal subsidiaries hold ISO/IEC 27001:2013 certification, the international standard, and JIS Q27001:2014 certification, the Japanese standard.

Each of the Company's principal subsidiaries holding ISMS certification comply with the Company's information security rules and maintain security information management systems identical to those of the Company.

Acquisition of ISO 15408 certification

In November 2007, the Company developed iTres, a proprietary monitoring system for detecting information leaks in the Group's databases, and subsequently acquired ISO 15408 certification. iTres, a system that protects corporate databases from information leaks by monitoring access thereto based on pre-established policies, is Japan's first ISO-certified product to be made available for public use in the field of database access monitoring systems. iTres has been incorporated into the management of the Company's massive database of users' personal and other information as part of an effort to strengthen the Company's oversight and monitoring capabilities.

Acquisition of PCI DSS accreditation

In November 2008, the Company obtained Payment Card Industry Data Security Standard (PCI DSS) accreditation for its Yahoo! Wallet online payment service. PCI DSS is the international standard for payment processing, including the handling and storage of credit card holder and transaction information.

Owing to Yahoo! Wallet's high transaction value, the Company was obligated to obtain level-1 PCI DSS certification entailing the most stringent examination process. All systems related to information management and transaction processing of Yahoo! Wallet, one of Japan's largest online payment services, have international-level security accreditation.

We acquired licenses to issue credit cards and manage participating retailers for VISA and MasterCard, and since March 2012 we have provided financial payment services independently for almost all credit-card payments required to offer our services. We acquired PCI DSS accreditation for these operations in February 2012 and have subsequently renewed certification validity annually.

Please refer to our website for detailed information about the Company's information security.
https://about.yahoo.co.jp/csr/stakeholder/06.html

Financial Section

Financial Summary

JGAAP

Years ended March 31	2009	2010	2011	2012	2013
Consolidated Results					(Millions of yen)
Revenue	265,754	279,856	292,423	302,088	342,989
Gross profit	237,946	247,211	263,129	274,054	306,596
SG&A expenses	103,328	103,385	103,525	109,049	120,244
Operating income	134,618	143,825	159,604	165,004	186,351
Net income	74,715	83,523	92,174	100,559	115,035
Total assets[1]	311,551	418,262	471,745	562,022	743,311
Total liabilities[1]	75,081	105,988	86,639	93,721	192,046
Total equity[1]	236,469	312,273	385,105	468,300	551,264
Cash flows from operating activities	87,805	140,095	67,580	99,736	139,396
Cash flows from investing activities	(53,946)	(7,356)	11,630	(12,309)	51,404
Cash flows from financing activities	(109,923)	(31,381)	(28,924)	(18,846)	(40,184)
Number of employees[1]	4,599	4,882	4,748	5,124	5,780
Per-share Information[2]					(Yen)
Basic net income per share	12.56	14.38	15.90	17.34	19.84
Diluted net income per share	12.54	14.37	15.88	17.34	19.84
Dividends per share	1.30	2.88	3.18	3.47	4.01
Dividend ratio (%)	10.4	20.0	20.0	20.0	20.2
Principal Performance Indicators					(%)
Operating margin	50.7	51.4	54.6	54.6	54.3
ROA	21.9	22.9	20.7	19.5	17.6
ROE	31.0	30.7	26.6	23.7	22.8
Total equity/Total assets ratio	75.2	74.0	81.1	82.8	73.1
Price earnings ratio (Times)[3]	20.61	23.67	18.72	15.45	21.82

Yahoo Japan Corporation adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2015. Figures for the fiscal year ended March 31, 2014, have been restated on an IFRS basis.

1. At March 31
2. Per-share figures have been restated to reflect a 100-for-1 stock split made on October 1, 2013.
3. Price earnings ratio is calculated using the share price at the fiscal year-end.
4. The major components of other gains and losses are ¥59,696 million gain from remeasurement relating to business combinations resulting from the consolidation of ASKUL Corporation in 2016, and ¥13,006 million in disaster losses attributable to a fire at the ASKUL Logistics Center in 2017.
5. EBITDA = operating income + depreciation and amortization

IFRS

Years ended March 31	2014	2015	2016	2017
Consolidated Results				(Millions of yen)
Revenue	408,514	428,487	652,327	**853,730**
Gross profit	332,653	342,986	404,955	**480,217**
SG&A expenses	136,215	145,774	239,661	**277,430**
Other gains and losses[4]	—	—	59,703	**(10,737)**
Operating income	196,437	197,212	224,997	**192,049**
EBITDA[5]	209,890	214,147	255,695	**230,096**
Profit for the year attributable to owners of the parent	128,605	133,051	171,617	**136,589**
Total assets[1]	849,987	1,007,602	1,342,799	**1,534,212**
Total liabilities[1]	222,269	267,048	430,035	**535,502**
Total equity[1]	627,718	740,554	912,764	**998,709**
Cash flows from operating activities	132,793	126,239	105,409	**127,023**
Cash flows from investing activities	(7,274)	(67,864)	(110,537)	**(57,047)**
Cash flows from financing activities	(53,129)	(37,166)	(49,357)	**23,996**
Number of employees[1]	6,291	7,034	9,177	**11,231**
Per-share Information[2]				(Yen)
Basic earnings per share attributable to owners of the parent	22.43	23.37	30.15	**23.99**
Diluted earnings per share attributable to owners of the parent	22.43	23.37	30.14	**23.99**
Dividends per share	4.43	8.86	8.86	**8.86**
Dividend ratio (%)	19.8	37.9	29.4	**36.9**
Principal Performance Indicators				(%)
Operating margin	48.1	46.0	34.5	**22.5**
ROA	26.1	22.4	19.3	**13.4**
ROE	22.2	19.8	21.9	**15.4**
Total equity/Total assets ratio	72.9	72.1	62.9	**60.7**
Price earnings ratio (Times)[3]	22.56	21.22	15.89	**21.42**

Management's Discussion and Analysis

RESULTS OF OPERATIONS

In fiscal 2016, the year ended March 31, 2017, Yahoo Japan Corporation (the Company) and its subsidiaries (the Group) recorded revenue growth of 30.9% compared with the previous year's result owing primarily to higher display advertising revenue and the consolidation of ASKUL Corporation in August 2015. Operating income, profit before tax, and profit for the year attributable to owners of the parent all recorded year-on-year declines owing chiefly to (1) the absence from fiscal 2016 results of a one-off ¥59.6 billion gain from remeasurement relating to business combinations recorded in fiscal 2015 in conjunction with the aforementioned ASKUL consolidation, and (2) ¥13.0 billion in disaster losses attributable to a fire at the ASKUL Logistics Center in the fourth quarter of fiscal 2016.

Revenue

Revenue for fiscal 2016 increased ¥201,403 million, or 30.9%, to ¥853,730 million, owing primarily to higher advertising revenue and the consolidation of ASKUL. By business segment, Marketing Solutions Business revenue improved 4.9%, to ¥281,515 million; Consumer Business revenue surged 52.4%, to ¥511,798 million; and Others revenue climbed 18.8%, to ¥71,601 million. Reconciliation was ¥11,185 million.

Cost of Sales

Cost of sales for fiscal 2016 increased ¥126,141 million, or 51.0%, to ¥373,513 million, again owing primarily to higher advertising revenue and the consolidation of ASKUL.

SG&A Expenses

Selling, general and administrative (SG&A) expenses for fiscal 2016 increased ¥37,769 million, or 15.8%, to ¥277,430 million. The major components of SG&A expenses were as follows:

Personnel expenses were up ¥10,785 million, or 16.7%, to ¥75,258 million, owing largely to a rise in the number of Group employees accompanying the consolidation of ASKUL.

Business commissions rose ¥10,541 million, or 37.6%, to ¥38,566 million, owing chiefly to the consolidation of ASKUL.

Sales promotion costs decreased ¥7,078 million, or 17.1%, to ¥34,404 million, reflecting a streamlining of sales promotion activities.

Depreciation and amortization jumped ¥6,917 million, or 25.4%, to ¥34,098 million, a result mainly of the consolidation of ASKUL.

Significant other expenses included (1) lease and utility expenses, which increased ¥6,416 million, or 49.9%, to ¥19,268 million; (2) packing and freight, which climbed ¥8,339 million, or 98.4%, to ¥16,817 million; and (3) advertising and promotional expenses, which fell ¥2,373 million, or 35.6%, to ¥4,291 million.

Other Gains and Losses

Disaster losses were ¥13,006 million, attributable entirely to the ASKUL Logistics Center fire.

Cost of sales and SG&A expenses breakdown

(Millions of yen)

	JGAAP		IFRS			
Years ended March 31	2013	2014	2014	2015	2016	2017
Cost of sales	36,393	49,047	75,860	85,501	247,372	373,513
SG&A expenses:						
Personnel expenses	39,256	45,247	45,688	48,619	64,473	75,258
Business commissions	14,348	16,722	16,722	18,126	28,025	38,566
Sales promotion costs	10,849	14,685	14,114	15,267	41,483	34,404
Depreciation and amortization	10,209	11,492	10,819	13,940	27,181	34,098
Lease and utility expenses	7,240	7,347	7,347	9,138	12,852	19,268
Packing and freight	123	75	75	104	8,478	16,817
Royalties	9,946	11,226	11,226	11,606	12,651	14,147
Content provider fees	6,927	8,918	8,918	11,312	7,365	7,725
Communication charges	6,332	5,986	5,986	5,606	6,561	7,692
Administrative and maintenance expenses	2,507	2,870	2,870	3,686	4,762	6,342
Others	12,502	15,247	12,444	8,365	25,818	23,106
Total SG&A expenses	120,244	139,820	136,215	145,774	239,661	277,430
Total	156,637	188,867	212,076	231,275	487,033	650,943

Operating Income

Operating income for fiscal 2016 declined ¥32,947 million, or 14.6%, to ¥192,049 million, owing primarily to the absence from fiscal 2016 results of a one-off ¥59.6 billion gain from remeasurement relating to business combinations recorded in fiscal 2015 in conjunction with the consolidation of ASKUL. By business segment, Marketing Solutions Business operating income improved 9.8%, to ¥161,955 million; Consumer Business operating income dropped 45.1%, to ¥64,954 million; and Others operating income soared 134.7%, to ¥15,110 million. Reconciliation was ¥49,970 million.

Other Non-operating Income, Other Non-operating Expenses, and Equity in Earnings of Associates and Joint Venture

After accounting for other non-operating income, other non-operating expenses, and equity in earnings of associates and joint venture, the Group recorded net other non-operating income for fiscal 2016 of ¥1,425 million, down ¥162 million, or 10.2%. Principal components were (1) gain on sale of investment securities of ¥1,934 million, up ¥402 million, or 26.3%; and (2) loss on sale of investment securities of ¥1,341 million, down ¥674 million, or 33.5%.

Profit before Tax

Profit before tax for fiscal 2016 came to ¥193,475 million, down ¥33,110 million, or 14.6%, compared with the figure for fiscal 2015.

Income Tax Expense

Total income tax expense for fiscal 2016 amounted to ¥60,841 million, representing an actual tax rate of 31.5%.

Profit for the Year

Profit for the year for fiscal 2016 was ¥132,634 million, down ¥39,858 million, or 23.1%.

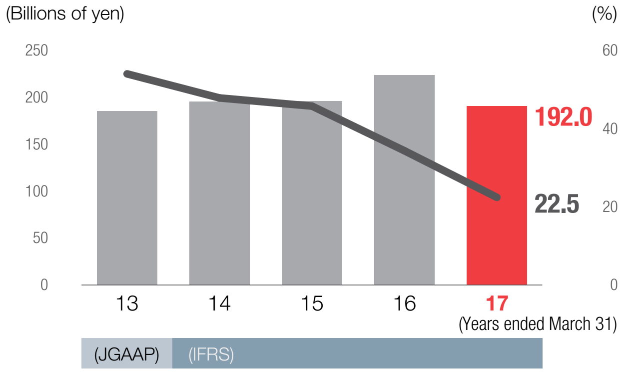
Profit for the Year Attributable to Owners of the Parent

Profit for the year attributable to owners of the parent for fiscal 2016 came to ¥136,589 million, down ¥35,027 million, or 20.4%. Basic earnings per share attributable to owners of the parent was ¥23.99, down 20.4% year on year. Diluted earnings per share attributable to owners of the parent was ¥23.99, also down 20.4%.

Loss for the Year Attributable to Non-controlling Interests

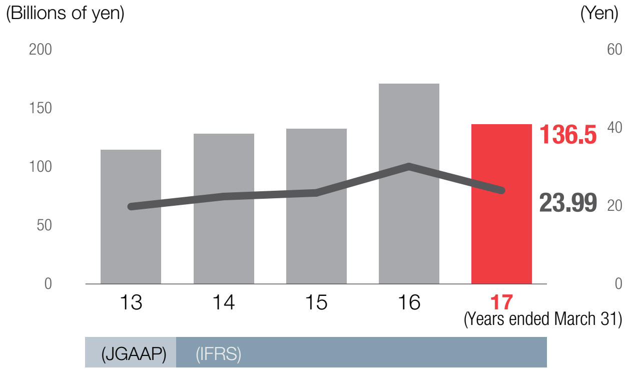
Loss for the year attributable to non-controlling interests for fiscal 2016 amounted to ¥3,955 million, compared with a profit of ¥875 million for fiscal 2015.

Operating income & Operating margin



Operating income (left) Operating margin (right)

Net income (JGAAP)/Profit for the year attributable to owners of the parent (IFRS)
Net income per share (JGAAP)/Earnings per share attributable to owners of the parent (IFRS)



Net income/Profit for the year attributable to owners of the parent (left)
Net income per share/Earnings per share attributable to owners of the parent (right)

FINANCIAL POSITION

Assets, Liabilities, and Equity

Assets

Total assets stood at ¥1,534,212 million as of March 31, 2017, up ¥191,413 million, or 14.3%, compared with the balance as of the previous fiscal year-end.

Total current assets amounted to ¥966,818 million, an increase of ¥160,438 million, or 19.9%.

Cash and cash equivalents stood at ¥543,067 million, up ¥93,902 million, or 20.9%. This increase resulted primarily from a surge in net cash provided by operating activities as well as from higher capital procurement from corporate bond issuances and other sources.

Trade and other receivables were ¥380,888 million, a rise of ¥75,129 million, or 24.6%, resulting largely from higher transaction value in the credit card business.

Other financial assets (current) stood at ¥21,712 million, down ¥8,405 million, or 27.9%, compared with the figure as of the previous fiscal year-end. This decrease stems primarily from a security deposit refund in connection with the Company's headquarters relocation and lower derivative financial assets associated with foreign exchange dealings.

Total non-current assets stood at ¥567,393 million as of March 31, 2017, up ¥30,974 million, or 5.8%.

Intangible assets amounted to ¥138,692 million, up ¥9,981 million, or 7.8%, owing chiefly to higher software purchases.

Other financial assets (non-current) stood at ¥79,965 million, up ¥9,644 million, or 13.7%, owing primarily to increased purchases of investment securities.

Liabilities

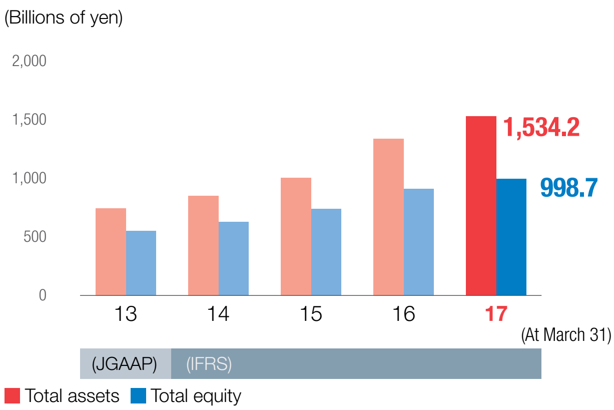
Total liabilities as of March 31, 2017, stood at ¥535,502 million, an increase of ¥105,467 million, or 24.5%, compared with the figure as of the previous fiscal year-end.

Total current liabilities came to ¥416,168 million, up ¥50,145 million, or 13.7%.

Trade and other payables were ¥287,978 million, an increase of ¥17,211 million, or 6.4%, owing mostly to higher deposits associated with newly introduced financial and payment-related services, including an influx of deposits accompanying our launch of Yahoo! Money.

Interest-bearing liabilities (current) amounted to ¥36,889 million, up ¥22,350 million, or 153.7%, owing chiefly to an increase in bank loans of YJ Card Corporation.

Total assets & Total equity



Total non-current liabilities were ¥119,334 million, up ¥55,321 million, or 86.4%.

Interest-bearing liabilities (non-current) stood at ¥67,657 million as of March 31, 2017, up ¥57,902 million, or 593.6%, compared with the figure as of the previous fiscal year-end. This significant expansion is due primarily to corporate bond issuances in addition to higher bank loans of YJ Card and ASKUL.

Total Equity

As of March 31, 2017, total equity stood at ¥998,709 million, up ¥85,945 million, or 9.4%, compared with the figure as of the previous fiscal year-end.

Retained earnings were ¥913,178 million, up ¥86,154 million, or 10.4%. This increase chiefly reflects the posting of profit for the year attributable to owners of the parent.

Cash Flows

Cash Flows from Operating Activities

Net cash generated by operating activities in fiscal 2016 amounted to ¥127,023 million, an increase of ¥21,614 million, owing primarily to the absence of a gain from remeasurement relating to business combinations and the addition of disaster losses attributable to the ASKUL Logistics Center fire.

Cash Flows from Investing Activities

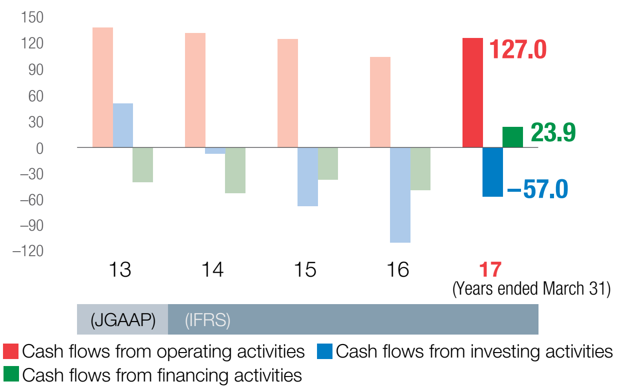
Net cash used in investing activities in fiscal 2016 amounted to ¥57,047 million, a decrease of ¥53,491 million, primarily reflecting reduced net cash outflow on obtaining control of subsidiaries as well as lower purchases of property and equipment and of intangible assets.

Cash Flows from Financing Activities

Net cash generated by financing activities in fiscal 2016 amounted to ¥23,996 million, compared with net cash used in financing activities of ¥49,357 million in the previous fiscal year. This significant reversal is due primarily to corporate bond issuances and higher bank loans.

After accounting for each of the aforementioned activities, the net increase in cash and cash equivalents in fiscal 2016 was ¥93,902 million, compared with a net decrease of ¥54,772 million in fiscal 2015. As a result, cash and cash equivalents at the end of the year stood at ¥543,067 million, a rise of 20.9% compared with the figure as of March 31, 2016.

Cash flows
(Billions of yen)



Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Financial Position

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	As of March 31		As of March 31,
	2017	2016	2017
ASSETS:			
Current assets:			
Cash and cash equivalents (Note 7)	¥ 543,067	¥ 449,164	$ 4,840,600
Trade and other receivables (Notes 8 and 24)	380,888	305,758	3,395,026
Inventories	14,352	14,902	127,925
Other financial assets (Notes 9 and 24)	21,712	30,118	193,528
Other current assets	6,798	6,436	60,593
Total current assets	966,818	806,380	8,617,684
Non-current assets:			
Property and equipment (Note 10)	124,021	121,133	1,105,455
Goodwill (Note 11)	159,505	156,362	1,421,739
Intangible assets (Note 11)	138,692	128,711	1,236,224
Investments accounted for using the equity method (Note 12)	37,748	34,257	336,464
Other financial assets (Notes 9 and 24)	79,965	70,321	712,764
Deferred tax assets (Note 13)	24,511	23,331	218,477
Other non-current assets	2,948	2,300	26,276
Total non-current assets	567,393	536,419	5,057,429
TOTAL ASSETS	¥ 1,534,212	¥ 1,342,799	$ 13,675,122

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Financial Position

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	As of March 31		As of March 31,
	2017	2016	2017
LIABILITIES AND EQUITY:			
Liabilities:			
Current liabilities:			
Trade and other payables (Notes 14 and 24)	¥ 287,978	¥ 270,766	$ 2,566,877
Interest-bearing liabilities (Notes 2, 15 and 24)	36,889	14,538	328,808
Other financial liabilities (Note 24)	3,631	3,749	32,364
Income taxes payable (Note 13)	36,490	30,782	325,251
Provisions (Note 16)	9,790	12,547	87,262
Other current liabilities (Note 18)	41,387	33,638	368,900
Total current liabilities	416,168	366,022	3,709,492
Non-current liabilities:			
Interest-bearing liabilities (Notes 2, 15 and 24)	67,657	9,754	603,057
Other financial liabilities (Note 24)	427	808	3,806
Provisions (Note 16)	20,938	20,089	186,629
Deferred tax liabilities (Note 13)	21,812	27,515	194,420
Other non-current liabilities (Note 18)	8,498	5,844	75,746
Total non-current liabilities	119,334	64,012	1,063,677
Total liabilities	535,502	430,035	4,773,170
Equity:			
Equity attributable to owners of the parent:			
Common stock (Note 21)	8,428	8,358	75,122
Capital surplus (Notes 21 and 23)	(4,366)	(3,081)	(38,916)
Retained earnings (Note 21)	913,178	827,024	8,139,566
Treasury stock (Note 21)	(1,316)	(1,316)	(11,730)
Accumulated other comprehensive income	14,896	13,180	132,774
Total equity attributable to owners of the parent	930,820	844,165	8,296,817
Non-controlling interests	67,888	68,598	605,116
Total equity	998,709	912,764	8,901,943
TOTAL LIABILITIES AND EQUITY	¥ 1,534,212	¥ 1,342,799	$ 13,675,122

See notes to consolidated financial statements.

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Profit or Loss

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
REVENUE (Note 27)	¥ 853,730	¥ 652,327	$ 7,609,680
COST OF SALES (Note 28)	373,513	247,372	3,329,289
Gross profit	480,217	404,955	4,280,390
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 28)	277,430	239,661	2,472,858
GAIN FROM REMEASUREMENT RELATING TO BUSINESS COMBINATIONS (Note 5)	—	59,696	—
GAIN ON SALES OF PROPERTY AND EQUIPMENT	2,269	7	20,224
DISASTER LOSSES (Note 29)	13,006	—	115,928
Operating income	192,049	224,997	1,711,819
OTHER NON-OPERATING INCOME	2,590	3,016	23,085
OTHER NON-OPERATING EXPENSES	2,112	2,746	18,825
EQUITY IN EARNINGS OF ASSOCIATES AND JOINT VENTURE (Note 12)	947	1,317	8,441
PROFIT BEFORE TAX	193,475	226,585	1,724,529
INCOME TAX EXPENSE (Note 13)	60,841	54,092	542,303
PROFIT FOR THE YEAR	¥ 132,634	¥ 172,492	$ 1,182,226
ATTRIBUTABLE TO:			
Owners of the parent	¥ 136,589	¥ 171,617	$ 1,217,479
Non-controlling interests	(3,955)	875	(35,252)
PROFIT FOR THE YEAR	¥ 132,634	¥ 172,492	$ 1,182,226
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic (yen and U.S. dollars) (Note 31)	¥ 23.99	¥ 30.15	$ 0.21
Diluted (yen and U.S. dollars) (Note 31)	23.99	30.14	0.21

See notes to consolidated financial statements.

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Comprehensive Income

	Millions of Yen Year Ended March 31 2017	Millions of Yen Year Ended March 31 2016	Thousands of U.S. Dollars (Note 2(3)) Year Ended March 31, 2017
PROFIT FOR THE YEAR	¥ 132,634	¥ 172,492	$ 1,182,226
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets (Notes 25 and 30)	2,725	2,058	24,289
Exchange differences on translating foreign operations (Notes 25 and 30)	(18)	(810)	(160)
Share of other comprehensive income of associates (Note 30)	(905)	(236)	(8,066)
Other comprehensive income, net of tax	1,802	1,011	16,062
TOTAL COMPREHENSIVE INCOME	¥ 134,436	¥ 173,504	$ 1,198,288
ATTRIBUTABLE TO:			
Owners of the parent	¥ 138,306	¥ 172,834	$ 1,232,783
Non-controlling interests	(3,869)	669	(34,486)
TOTAL COMPREHENSIVE INCOME	¥ 134,436	¥ 173,504	$ 1,198,288

See notes to consolidated financial statements.

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Changes in Equity

	Millions of Yen							
	Equity Attributable to Owners of the Parent							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total	Non-controlling Interests	Total
BALANCE AT APRIL 1, 2015	¥ 8,281	¥ 1,235	¥ 705,839	¥ (1,316)	¥ 11,962	¥ 726,002	¥ 14,551	¥ 740,554
Profit for the year	—	—	171,617	—	—	171,617	875	172,492
Other comprehensive income, net of tax	—	—	—	—	1,217	1,217	(205)	1,011
Total comprehensive income for the year	—	—	171,617	—	1,217	172,834	669	173,504
Issue of common stock (Note 21)	77	77	—	—	—	155	—	155
Payment of dividends (Note 22)	—	—	(50,432)	—	—	(50,432)	(757)	(51,189)
Changes attributable to obtaining or losing control of subsidiaries	—	—	—	—	—	—	55,562	55,562
Changes in ownership interests in subsidiaries without losing control	—	(4,304)	—	—	—	(4,304)	(1,428)	(5,733)
Others	—	(89)	—	—	—	(89)	0	(88)
Total	77	(4,316)	(50,432)	—	—	(54,671)	53,377	(1,294)
BALANCE AT MARCH 31, 2016	8,358	(3,081)	827,024	(1,316)	13,180	844,165	68,598	912,764
Profit for the year	—	—	136,589	—	—	136,589	(3,955)	132,634
Other comprehensive income, net of tax	—	—	—	—	1,716	1,716	86	1,802
Total comprehensive income for the year	—	—	136,589	—	1,716	138,306	(3,869)	134,436
Issue of common stock (Note 21)	69	69	—	—	—	138	—	138
Payment of dividends (Note 22)	—	—	(50,435)	—	—	(50,435)	(1,094)	(51,529)
Changes attributable to obtaining or losing control of subsidiaries	—	—	—	—	—	—	2,150	2,150
Changes in ownership interests in subsidiaries without losing control	—	(1,310)	—	—	—	(1,310)	1,840	530
Others	—	(43)	—	—	—	(43)	263	219
Total	69	(1,284)	(50,435)	—	—	(51,651)	3,160	(48,490)
BALANCE AT MARCH 31, 2017	¥ 8,428	¥ (4,366)	¥ 913,178	¥ (1,316)	¥ 14,896	¥ 930,820	¥ 67,888	¥ 998,709

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Changes in Equity

	Thousands of U.S. Dollars (Note 2(3))							
	Equity Attributable to Owners of the Parent							
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total	Non-controlling Interests	Total
BALANCE AT MARCH 31, 2016	$ 74,498	$ (27,462)	$ 7,371,637	$ (11,730)	$ 117,479	$ 7,524,422	$ 611,444	$ 8,135,876
Profit for the year	—	—	1,217,479	—	—	1,217,479	(35,252)	1,182,226
Other comprehensive income, net of tax	—	—	—	—	15,295	15,295	766	16,062
Total comprehensive income for the year	—	—	1,217,479	—	15,295	1,232,783	(34,486)	1,198,288
Issue of common stock (Note 21)	615	615	—	—	—	1,230	—	1,230
Payment of dividends (Note 22)	—	—	(449,549)	—	—	(449,549)	(9,751)	(459,301)
Changes attributable to obtaining or losing control of subsidiaries	—	—	—	—	—	—	19,163	19,163
Changes in ownership interests in subsidiaries without losing control	—	(11,676)	—	—	—	(11,676)	16,400	4,724
Others	—	(383)	—	—	—	(383)	2,344	1,952
Total	615	(11,444)	(449,549)	—	—	(460,388)	28,166	(432,213)
BALANCE AT MARCH 31, 2017	$ 75,122	$ (38,916)	$ 8,139,566	$ (11,730)	$ 132,774	$ 8,296,817	$ 605,116	$ 8,901,943

See notes to consolidated financial statements.

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax	¥ 193,475	¥ 226,585	$ 1,724,529
Depreciation and amortization	38,046	30,697	339,121
Gain from remeasurement relating to business combinations (Note 5)	—	(59,696)	—
Disaster losses (Note 29)	13,006	—	115,928
Increase in trade and other receivables	(74,142)	(39,865)	(660,861)
Increase in trade and other payables	21,719	40,522	193,591
Others	(1,162)	(26,472)	(10,357)
Subtotal	190,943	171,771	1,701,960
Income taxes—paid	(63,919)	(66,361)	(569,738)
Net cash generated by operating activities	127,023	105,409	1,132,213
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(39,807)	(29,254)	(354,817)
Proceeds from sales of property and equipment (Note 2)	7,345	104	65,469
Purchase of intangible assets	(16,911)	(9,088)	(150,735)
Purchase of other investments	(10,137)	(17,343)	(90,355)
Net cash outflow on obtaining control of subsidiaries (Notes 5 and 32)	(1,909)	(92,831)	(17,015)
Net cash inflow on obtaining control of subsidiaries (Note 5)	—	31,323	—
Others	4,373	6,553	38,978
Net cash used in investing activities	(57,047)	(110,537)	(508,485)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase of short-term bank loans (Note 2)	20,200	3,073	180,051
Proceeds from long-term bank loans (Note 2)	25,300	700	225,510
Proceeds from issuance of bonds	35,000	—	311,970
Dividends paid	(50,414)	(50,398)	(449,362)
Others	(6,088)	(2,732)	(54,265)
Net cash generated by (used in) financing activities	23,996	(49,357)	213,887
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(70)	(286)	(623)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 93,902	¥ (54,772)	$ 836,990

Yahoo Japan Corporation and Subsidiaries

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS—(Forward)	¥ 93,902	¥ (54,772)	$ 836,990
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 7)	449,164	503,937	4,003,601
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 7)	¥ 543,067	¥ 449,164	$ 4,840,600

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. REPORTING ENTITY

Yahoo Japan Corporation (the "Company") is a corporation incorporated and domiciled in Japan. The parent company of the Company is SoftBank Group Corp., which is also the ultimate parent company of the Company and its subsidiaries (collectively, the "Group"). The registered address of the Company's head office is 1-3, Kioicho, Chiyoda-ku, Tokyo, Japan. The nature of the Company's principal businesses is described in "Note 6. Segment information."

2. BASIS OF PREPARATION

(1) *Compliance with International Financial Reporting Standards*

The accompanying consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(2) *Basis of Measurement*

These consolidated financial statements have been prepared on the historical cost basis, except for certain items, such as financial instruments, that are measured at fair value at the end of each reporting period, as explained in the accounting policies provided in "Note 3. Significant accounting policies."

(3) *Presentation Currency and Unit of Currency*

These consolidated financial statements have been presented in Japanese yen, which is the currency of the primary economic environment of the Company ("functional currency").

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers and have been made at the rate of ¥112.19 to U.S.$1, the approximate rate of exchange at March 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

In the prior-year consolidated financial statements, Japanese yen amounts in millions are rounded to the nearest million. Effective this fiscal year, the Japanese yen amounts in millions are rounded down to the nearest million, from which the translations into U.S. dollar amounts are computed. U.S. dollar amounts in thousands are also rounded down to the nearest thousand.

(4) *Changes in Presentation*

(Consolidated statement of financial position)

Interest-bearing liabilities, which were included in both current and non-current "other financial liabilities" in the prior-year consolidated statement of financial position, have been reclassified and presented separately in the current-year consolidated statement of financial position due to increased materiality.

As a result, the prior-year amount of ¥14,538 million, which was included in current "other financial liabilities" in the prior-year consolidated statement of financial position, has been reclassified into "interest-bearing liabilities" (current) of ¥14,538 million. The prior-year amount of ¥9,754 million, which was included in non-current "other financial liabilities" in the prior-year consolidated statement of financial position, has been reclassified into "interest-bearing liabilities" (non-current) of ¥9,754 million.

(Consolidated statement of cash flows)

Decrease in consumption taxes payable, increase in other financial assets, and decrease in other financial liabilities, which were presented separately in the cash flows from operating activities in the prior-year consolidated statement of cash flows, have been reclassified and aggregated into "others" in the current-year consolidated statement of cash flows due to decreased materiality.

As a result, decrease in consumption taxes payable of ¥(9,383) million, increase in other financial assets of ¥(4,877) million, and decrease in other financial liabilities of ¥(5,323) million in cash flows from operating activities in the prior-year consolidated statement of cash flows have been reclassified and aggregated into "others" of ¥(19,584) million.

Proceeds from sales of property and equipment, which were included in "others" in cash flows from investing activities in the prior-year consolidated statement of cash flows, have been reclassified and presented separately in the current-year consolidated statement of cash flows due to increased materiality.

As a result, the prior-year amount of ¥104 million, which was included in "others" in cash flows from investing activities in the prior-year consolidated statement of cash flows, has been reclassified and presented as "proceeds from sales of property and equipment" of ¥104 million.

Net increase of short-term bank loans and proceeds from long-term bank loans, which were included in "others" in cash flows from financing activities in the prior-year consolidated statement of cash flows, have been reclassified and presented separately in the current-year consolidated statement of cash flows due to increased materiality. Repayment of long-term bank loans and payment for acquisition of interests in a subsidiary from non-controlling interests, which were presented separately in the cash flows from financing activities in the prior-year consolidated statement of cash flows, have been reclassified and aggregated into "others" in the current-year consolidated statement of cash flows due to decreased materiality.

As a result, the prior-year amount of ¥3,773 million, which was included in "others" in cash flows from financing activities in the prior-year consolidated statement of cash flows, has been reclassified and presented separately as "net increase of short-term bank loans" of ¥3,073 million and "proceeds from long-term bank loans" of ¥700 million. Repayment of long-term bank loans of ¥(1,441) million and payment for acquisition of interests in a subsidiary from non-controlling interests of ¥(196) million in cash flows from financing activities in the prior-year consolidated statement of cash flows have been reclassified and aggregated into "others" of ¥(1,637) million.

(5) *New or Revised Standards and Interpretations Issued but Not Yet Effective*

New or revised standards and interpretations that have been issued on or before the approval date of the accompanying consolidated financial statements are summarized below. The Company has not adopted these new or revised standards and interpretations. The Company is currently evaluating potential impacts from the application of these new or revised standards and interpretations, but they are not estimable at the time of this report.

1) *Amendments to International Accounting Standard ("IAS") 7 "Statement of Cash Flows"*

(a) Mandatory adoption (for annual periods beginning on or after)

January 1, 2017

(b) Scheduled date of initial application

April 1, 2017

(c) Outline of the new or revised standards and interpretations

The amendments to IAS 7 require entities to disclose the following changes in liabilities arising from financing activities (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

2) *IFRS 9 "Financial Instruments"*

(a) Mandatory adoption (for annual periods beginning on or after)

January 1, 2018

(b) Scheduled date of initial application

April 1, 2018

(c) Outline of the new or revised standards and interpretations

IFRS 9 replaces a part of the previous IAS 39. The main revisions are:

(i) to revise classification into measurement categories of financial instruments (amortized costs and fair values) and measurement;

(ii) to revise the treatment of changes in fair values of financial liabilities measured at fair values;

(iii) to revise the eligibility requirement of hedged items and hedging instruments, and requirements related to the effectiveness of the hedge; and

(iv) to revise the measurement approach for impairment by introducing an impairment model based on the expected credit loss.

3) *IFRS 15 "Revenue from Contracts with Customers"*

(a) Mandatory adoption (for annual periods beginning on or after)

January 1, 2018

(b) Scheduled date of initial application

April 1, 2018

(c) Outline of the new or revised standards and interpretations

The core principle of IFRS 15, which replaces a part of the previous IAS 11 "Construction Contracts" and IAS 18 "Revenue," is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer;
Step 2: Identify the performance obligations in the contract;
Step 3: Determine the transaction price;
Step 4: Allocate the transaction price to the performance obligations in the contract; and
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

4) *IFRS 16 "Leases"*

(a) Mandatory adoption (for annual periods beginning on or after)

January 1, 2019

(b) Scheduled date of initial application

April 1, 2019

(c) Outline of the new or revised standards and interpretations

Under IFRS 16, which replaces IAS 17 "Leases," a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise specified.

(1) *Basis of Consolidation*

1) *Basic policy of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company ("subsidiaries"). Control is achieved when the Company has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. The Company considers all relevant facts and circumstances in assessing whether the Company controls the investee, including the size of its holding of voting rights or similar rights or contractual arrangements with the investee.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Comprehensive income of subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup balances and transactions and unrealized gain or loss relating to transactions between members of the Group are eliminated in full on consolidation.

2) *Changes in the Company's ownership interests in existing subsidiaries*

Changes in the Company's ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the parent. When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (a) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (b) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Any amounts previously recognized in accumulated other comprehensive income in relation to that subsidiary are reclassified to profit or loss.

3) *Business combinations*

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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

(a) deferred tax assets and liabilities, and assets and liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits," respectively;

(b) liabilities or equity instruments related to "share-based payment arrangements of the acquiree" or "share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree" are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and

(c) assets or disposal groups that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

Goodwill arising upon a business acquisition is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. The excess, if negative, is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value, or, when applicable, on the basis specified in another standard.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

4) *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Each cash-generating unit to which the goodwill is allocated is determined based on the unit at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment before aggregation.

Goodwill is not amortized and is allocated to a cash-generating unit or groups of cash-generating units. A cash-generating unit to which goodwill is allocated is tested for impairment at the same time every annual period, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash-generating unit pro rata based on the carrying amount of each asset in the cash-generating unit. Any impairment loss for goodwill is recognized directly in profit or loss and is not reversed in subsequent periods.

The Group's policy for goodwill arising on acquisition of an associate is described below in "5) Investments in associates."

5) *Investments in associates*

An associate is an entity (a) over which the Group holds 20% or more of the voting power and has significant influence in the financial and operating policy decisions, unless it can be clearly demonstrated that this is not the case; or (b) over which the Group can exercise significant influence even if it holds less than 20% of the voting power.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method from the date when the investee ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39 "Financial Instruments: Recognition and Measurement." The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets."

(2) *Foreign Currency Translation*

1) *Transactions denominated in foreign currencies*

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

At the end of each quarter, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from translation are recognized in profit or loss in the period in which they arise, except those arising from "2) Foreign operations."

2) *Foreign operations*

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations (including adjustments for goodwill and fair value arising from acquisitions) are translated into Japanese yen using exchange rates prevailing at the end of each quarter. Income and expense items are translated at the average exchange rates for each quarter period. Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income and cumulative differences are included in exchange differences on translating foreign operations in accumulated other comprehensive income.

These cumulative differences are reclassified from equity to profit or loss when the Company fully or partially disposes of its interest in the foreign operation.

(3) ***Financial Instruments***

1) *Recognition*

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities other than financial assets at fair value through profit or loss ("financial assets at FVTPL") and financial liabilities at fair value through profit or loss ("financial liabilities at FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL and financial liabilities at FVTPL are recognized immediately in profit or loss.

2) *Classification*

(a) Non-derivative financial assets

Non-derivative financial assets are classified as "financial assets at FVTPL," "held-to-maturity investments," "loans and receivables," and "available-for-sale financial assets." The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

i) Financial assets at FVTPL

Financial assets held for trading purposes are initially measured at fair value, with any net gains or losses arising on remeasurement recognized in profit or loss. Transaction costs are recognized in profit or loss when incurred. Interest and dividend income earned on the financial assets are recognized in profit or loss.

ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intention and ability to hold to maturity are classified as "held-to-maturity investments." Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment. Interest income calculated based on the effective interest method is recognized in profit or loss.

iii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as "loans and receivables." Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income calculated based on the effective interest method is recognized in profit or loss.

iv) Available-for-sale financial assets

Non-derivative financial assets are classified as "available-for-sale financial assets," if:

(A) the assets are designated as "available-for-sale financial assets" at initial recognition; or

(B) the assets are not classified as "financial assets at FVTPL," "held-to-maturity investments," or "loans and receivables."

Subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value and gains or losses arising from changes in fair value are recognized in other comprehensive income. When there is objective evidence that an available-for-sale financial asset is impaired, previously recognized accumulated other comprehensive income is reclassified to profit or loss.

Foreign exchange gains and losses arising on monetary financial assets classified as available-for-sale financial assets, interest income calculated using the effective interest method and dividends received are recognized in profit or loss. When an available-for-sale financial asset is derecognized, the accumulated profit or loss recorded in other comprehensive income is reclassified to profit or loss.

(b) Non-derivative financial liabilities

The Group's non-derivative financial liabilities mainly consist of trade and other payables. These financial liabilities are measured at amortized cost using the effective interest method, subsequent to initial recognition.

(c) Derivative financial assets and financial liabilities

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each quarter. The resulting gain or loss is recognized in profit or loss immediately. Derivative financial assets and financial liabilities are classified as "financial assets at FVTPL" and "financial liabilities at FVTPL," respectively.

3) *Derecognition of financial assets and financial liabilities*

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party. The difference between the carrying amount of a financial asset derecognized and the consideration received is recognized in profit or loss. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

4) *Offsetting financial assets and financial liabilities*

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

5) *Impairment of financial assets*

The Group assesses financial assets for any objective evidence of impairment at the end of each quarter. Financial assets, other than financial assets at FVTPL, are considered to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the financial assets, and these events have an adverse effect on the estimated future cash flows of the financial assets that can be reliably estimated. For available-for-sale equity instruments, a significant or prolonged decline in the fair value below cost is considered to be objective evidence of impairment.

In recognizing an impairment loss on held-to-maturity investments or loans and receivables, the Group reduces the carrying amount of the asset directly. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. Interest income after impairment recognition is thereafter recognized through reversal of discount due to passage of time.

For available-for-sale financial assets, an impairment loss is measured as the difference between the asset's carrying amount and its fair value and is recognized in profit or loss.

For held-to-maturity investments or loans and receivables, if, in a subsequent period, an event that decreases the amount of the impairment loss occurs, the amount of decrease is reversed through profit or loss to the extent that it does not exceed the amortized cost of the asset.

For equity instruments classified as available-for-sale financial assets, impairment losses are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. For debt instruments classified as available-for-sale financial assets, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

(4) *Cash and Cash Equivalents*

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

(5) *Inventories*

Inventories are measured at the lower of cost and net realizable value. Costs of inventories are determined primarily by using the moving-average method. Net realizable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale. Inventories of the Group mainly comprise merchandise.

(6) *Property and Equipment*

Property and equipment are measured on a historical cost basis under the cost model, less accumulated depreciation and accumulated impairment losses. Historical cost includes costs directly attributable to the acquisition of the asset and the initial estimated costs related to dismantling, removing and site restoration.

Property and equipment, other than land and construction in progress, are depreciated using the straight-line method over the estimated useful life of each asset.

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

Buildings and structures:	3–50 years
Furniture and fixtures:	4–15 years
Machinery and equipment:	3–17 years

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

Assets held under finance leases are depreciated over their estimated useful lives when there is reasonable certainty that ownership will be obtained by the end of the lease term. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term or their estimated useful lives.

(7) *Intangible Assets*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses under the cost model. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Expenditures for research activities are recognized as an expense in the period in which it is incurred. The amount initially recognized for internally-generated intangible assets during the development phase is the sum of the expenditures incurred from the date when the intangible asset first meets all of the capitalization criteria to the date the development is completed. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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

Software:	2–5 years
Customer relationships:	6–24 years

Amortization methods, useful lives, and residual values of assets are reviewed at the end of each fiscal year and any changes are applied prospectively as a change in an accounting estimate. Certain trademarks that have been assessed as having indefinite useful lives are not amortized because the Group expects to continue to benefit from the trademarks as long as the related businesses continue to operate.

(**8**) ***Leases***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of assets to the lessee. All other leases are classified as operating leases. The assessment of whether an arrangement is a lease or contains a lease is made on a basis of all of the facts and circumstances at the inception of the arrangement.

1) *Finance leases (the Group as lessee)*

At the inception of a lease, the Group initially recognizes finance leases as assets and the lease obligation at the amount equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Subsequent to initial recognition, the accounting policy for assets held under finance leases is consistent with that of assets that are owned. Lease payments are apportioned between finance cost (other non-operating expenses) and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

2) *Operating leases (the Group as lessee)*

Gross operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(**9**) ***Impairment of Property and Equipment and Intangible Assets Other Than Goodwill***

At the end of each quarter, the Group reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested annually for impairment or whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

(10) *Provisions*

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

When the effect of the time value of money is material, provisions are measured using the estimated future cash flows and discounted using a pre-tax rate reflecting the time value of money and the specific risks of the liability. Reversal of discount due to passage of time is recognized in profit or loss.

Major provisions of the Group are as follows:

1) *Provision for interest repayment claims*

To cover interest repayment claims for the interest rates charged in excess of the maximum rate imposed by the Interest Rate Restriction Act, the Group provides for the estimated future repayment. The amount of future interest repayment is subject to changes in business environment.

2) *Asset retirement obligations*

The Group recognizes asset retirement obligations for obligations to restore leased offices to their original conditions upon termination of the lease contract. The amount and timing of future cash flows are based on the present business plans and assumptions and subject to changes depending on revised future business plans and assumptions.

3) *Provision for customer point reward programs*

In anticipation of the future redemption of points granted to customers under its point reward programs, the Group recognizes a provision at the amount estimated to be redeemed by customers in the future based on historical activity. There is uncertainty regarding the extent to which such points will be redeemed.

(11) *Share-Based Payments*

The Company has an equity-settled share option plan as an incentive plan for directors and employees. Share options are measured at the fair value of the equity instruments at the grant date. The fair value of share options is computed by using the Black-Scholes model, Monte Carlo simulation and other methods considering the terms and conditions of each share option. The fair value of share options determined at the grant date is expensed over the vesting period with a corresponding increase in equity.

At the end of each reporting period, the Company reviews estimates of the number of share options that are expected to vest, and revises them when necessary.

(12) *Revenue*

Revenue of the Group mainly consists of providing services and sale of goods. Revenue from providing services comprises paid search advertising, display advertising, commission fees related to e-commerce such as YAHUOKU!, and membership fees such as Yahoo! Premium. Revenue from the sale of goods mainly consists of sale of office-related goods by the Company's subsidiaries such as ASKUL Corporation ("ASKUL").

Revenue from providing services is recognized based on the stage of completion of transactions at the end of each quarter. Revenue from paid search advertising is recognized when a visitor of the website clicks the advertisement. Display advertising comprises premium advertising, Yahoo! Display Ad Network ("YDN") and others. Revenue from premium advertising is recognized over a period in which the related advertisement is displayed. Revenue from YDN is recognized when a visitor of the website clicks the advertisement on the page with the related content. Revenue from e-commerce related commission fees is recognized when a transaction occurs. Revenue from membership fees is recognized over an effective period of the membership. Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied: (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) it is probable that the economic benefits associated with the transaction will flow to the Group; and (4) the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(**13**) ***Retirement Benefits***

The Group primarily participates in defined contribution pension plans.

Defined contribution plans are post-employment benefit plans under which an employer pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions. Contributions to the defined contribution plans are recognized as expenses when the related services are rendered by employees, and contributions payable are recognized as liabilities.

(**14**) ***Income Tax***

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

1) *Current tax*

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

2) *Deferred tax*

Deferred tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profits will be available. Recoverability of deferred tax assets is reviewed at the end of each quarter. Deferred tax liabilities are generally recognized for taxable temporary differences.

Deferred tax assets and liabilities are not recognized for:

(a) temporary differences arising from the initial recognition, other than in a business combination, of assets and liabilities in a transaction that affects neither the accounting profit nor the taxable profit;

(b) taxable temporary differences arising from initial recognition of goodwill;

(c) deductible temporary differences associated with investments in subsidiaries and associates, where it is not probable that the temporary difference will reverse in the foreseeable future or where it is not probable that there will be sufficient taxable profits against which the temporary differences can be utilized; and

(d) taxable temporary differences associated with investments in subsidiaries and associates, where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

(15) *Treasury Stock*

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

(16) *Earnings per Share*

Basic earnings per share are calculated by dividing profit for the year attributable to owners of the parent by the weighted-average number of common stock (after adjusting for treasury stocks) outstanding for the period.

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

4. USE OF ESTIMATES AND JUDGMENTS

In preparing consolidated financial statements under IFRSs, management makes judgments, estimates, and assumptions that affect the application of accounting policies and carrying amounts of assets, liabilities, revenue, and expenses. Actual results in the future may differ from those estimates or assumptions. Estimates and underlying assumptions are continuously reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as in the future periods.

The following is the critical judgment that has been made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognized in the consolidated financial statements:

- Determination of scope of subsidiaries and associates ("Note 3. Significant accounting policies (1)")

The following are the key assumptions concerning the future, and other key sources of estimating uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current and next financial year:

- Estimates regarding impairment of property and equipment, goodwill and intangible assets ("Note 3. Significant accounting policies (1) and (9)" and "Note 11. Goodwill and intangible assets")

- Estimates regarding impairment of investments in associates ("Note 3. Significant accounting policies (1)")
- Fair value measurement of financial assets and liabilities ("Note 3. Significant accounting policies (3)" and "Note 25. Fair value of financial instruments")
- Estimates of useful life and residual value of property and equipment and intangible assets ("Note 3. Significant accounting policies (6) and (7)")
- Judgments and estimates regarding recognition and measurement of provisions ("Note 3. Significant accounting policies (10)" and "Note 16. Provisions")
- Fair value of share options ("Note 3. Significant accounting policies (11)" and "Note 23. Share-based payments")
- Recoverability of deferred tax assets ("Note 3. Significant accounting policies (14)" and "Note 13. Income taxes")

5. BUSINESS COMBINATIONS

For the Year Ended March 31, 2017

No significant business combinations occurred in the year ended March 31, 2017.

For the Year Ended March 31, 2016

Significant business combinations that occurred in the year ended March 31, 2016 were as follows:

ASKUL Corporation

(1) *Outline of business combination*

ASKUL, previously an associate of the Company whose principal activity consists of providing mail order services for stationery, became a subsidiary of the Company on August 27, 2015 (the acquisition date) as a result of the repurchase of its own shares (treasury shares) following the resolution made at the meeting of ASKUL's Board of Directors held on May 19, 2015. The percentage of the Company's voting rights of ASKUL increased from 41.7% as of May 20, 2015 to 44.4% after the repurchase of treasury shares. The Company did not and does not have a majority of the voting rights before and following this transaction; however, the Company determined that it now has the practical ability to direct the relevant activities unilaterally and therefore has control over ASKUL and accounts for ASKUL as a subsidiary after considering all facts and circumstances including the widely dispersed holdings of voting rights among shareholders and the voting patterns at previous ASKUL shareholders meetings.

As a result of remeasurement of the Company's previously held equity interests in ASKUL at fair value as of the acquisition date, the Company recognized ¥59,696 million of a gain from remeasurement relating to the business combination acquired in stages. This gain is presented as "Gain from remeasurement relating to business combinations" in the consolidated statement of profit or loss.

(2) *Outline of acquiree*

Company name: ASKUL Corporation
Businesses: Mail order services for stationery and other products

(3) *Acquisition date*

August 27, 2015

(4) *Fair value of the Company's previously held interests, acquired assets and assumed liabilities, and non-controlling interests and goodwill, as of the acquisition date*

	Millions of Yen
Fair value of the Company's previously held interests	¥ 93,611
Fair value of acquired assets and assumed liabilities:	
Current assets:	
Cash and cash equivalents	¥ 31,291
Trade and other receivables	45,365
Others	13,458
Non-current assets:	
Property and equipment	32,314
Intangible assets	69,124
Others	8,393
Current liabilities:	
Trade and other payables	(56,772)
Others	(14,722)
Non-current liabilities	(34,585)
Equity	93,868
Non-controlling interests (Note 1)	(54,036)
Goodwill (Note 2)	53,779
Total	¥ 93,611

Notes:

1. Non-controlling interests

   Non-controlling interests are measured at the proportionate interests in the identifiable net assets of the acquiree.

2. Goodwill

   Goodwill reflects excess earning power expected from the future business development and the synergies generated between the Group and the acquiree.

(5) *Revenue and profit of the acquiree on and after the acquisition date*

The amounts of ASKUL's revenue and profit on and after the acquisition date, which were recorded in the consolidated statement of profit or loss for the year ended March 31, 2016, were ¥189,013 million and ¥2,970 million, respectively. In addition, the above profit includes amortization expenses, which were related to intangible assets recognized at the acquisition date, and others.

Ikyu Corporation

(1) *Outline of business combination*

The Company resolved at its Board of Directors meeting held on December 15, 2015 to acquire common stock of Ikyu Corporation ("Ikyu") through a tender offer. The tender offer period ended on February 3, 2016 and the Company acquired 27,480,682 shares (representing 94.3% of voting rights) of Ikyu at a cost of ¥94,341 million in cash. As a result, Ikyu became a subsidiary of the Company.

(2) *Outline of acquiree*

Company name:	Ikyu Corporation
Businesses:	Operation of various websites that provide reservation services for hotels and restaurants and other services

(3) *Acquisition date*

February 3, 2016

(4) *Fair value of acquired assets and assumed liabilities, and non-controlling interests and goodwill, as of the acquisition date*

	Millions of Yen
Fair value of consideration—Cash	¥ 94,341
Fair value of acquired assets and assumed liabilities:	
Current assets	¥ 8,934
Non-current assets (Note 1)	27,313
Current liabilities	(4,270)
Non-current liabilities	(8,177)
Equity	23,799
Non-controlling interests (Note 2)	(1,503)
Goodwill (Note 3)	72,044
Total	¥ 94,341

Notes:

1. Details of acquired assets

   Non-current assets include ¥26,183 million of intangible assets.

2. Non-controlling interests

   Non-controlling interests are measured at the proportionate interests in the identifiable net assets of the acquiree.

3. Goodwill

   Goodwill reflects excess earning power expected from the future business development and the synergies generated between the Group and the acquiree.

(5) *Revenue and profit of the acquiree on and after the acquisition date*

Information about operating results on and after the acquisition date is not presented because the impact on the consolidated financial statements is not significant.

Pro forma Information (Unaudited)

Pro forma consolidated sales and pro forma profit for the year ended March 31, 2016, assuming that the business combinations were completed and control was obtained as of April 1, 2015, are ¥776,974 million and ¥173,290 million, respectively. Amortization expenses of intangible assets newly recognized on the acquisition date and others have been reflected in the pro forma information above.

6. SEGMENT INFORMATION

(**1**) ***Reportable Segments***

The Group's reportable segments are components of the Group for which discrete financial information is available, and whose operating results are regularly reviewed by the Company's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group has two reportable segments, namely, the (1) marketing solutions business and (2) consumer business.

The marketing solutions business segment comprises (1) planning and sale of Internet-based advertising-related services, (2) information listing services, and (3) other corporate services. The consumer business segment comprises three operating segments: shopping, YAHUOKU! and personal. These operating segments share similar business characteristics as they operate (1) sales of products and (2) planning and sales of services, both provided via the Internet, for small to medium-sized businesses and individual customers. In addition, considering the transaction volume and other economic indices, the Company determined that these operating segments also share similar economic characteristics. Therefore, these three segments are aggregated into one reportable segment.

Other business consists of operating segments that are not included in the reportable segments and includes settlement- and finance-related services and cloud-related services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in "Note 3. Significant accounting policies." Segment income is computed based on operating income with certain adjustments for corporate expenses not allocable to a reportable segment. Corporate expenses consist primarily of general and administrative expenses that are not attributable to reportable segments. Intersegment sales are based on prevailing market prices.

Effective April 1, 2016, the Group changed its basis of segmentation by transferring its services and subsidiaries among segments in order to provide services more effectively and to respond to the changing market more rapidly. Specifically, video-related services including GYAO Corporation, which were included in the marketing solutions business, were transferred into the consumer business.

Consequently, segment information for the year ended March 31, 2016, is restated in accordance with the new basis of segmentation.

Segment information of the Group as of and for the year ended March 31, 2017, is as follows:

	Millions of Yen					
	Reportable Segments					
	Marketing Solutions Business	Consumer Business	Total	Other Business	Reconciliation	Consolidated
Revenue:						
Sales to customers	¥ 280,301	¥ 505,347	¥ 785,648	¥ 68,081	—	¥ 853,730
Intersegment sales	1,214	6,451	7,665	3,519	¥ (11,185)	—
Total sales	¥ 281,515	¥ 511,798	¥ 793,314	¥ 71,601	¥ (11,185)	¥ 853,730
Segment income (Note)	¥ 161,955	¥ 64,954	¥ 226,910	¥ 15,110	¥ (49,970)	¥ 192,049
Other non-operating income						2,590
Other non-operating expenses						(2,112)
Equity in earnings of associates and a joint venture						947
Profit before tax						¥ 193,475
Others—Depreciation and amortization	¥ 3,462	¥ 14,096	¥ 17,559	¥ 7,527	¥ 12,960	¥ 38,046

	Thousands of U.S. Dollars					
	Reportable Segments					
	Marketing Solutions Business	Consumer Business	Total	Other Business	Reconciliation	Consolidated
Revenue:						
Sales to customers	$ 2,498,449	$ 4,504,385	$ 7,002,834	$ 606,836	—	$ 7,609,680
Intersegment sales	10,820	57,500	68,321	31,366	$ (99,696)	—
Total sales	$ 2,509,269	$ 4,561,886	$ 7,071,164	$ 638,211	$ (99,696)	$ 7,609,680
Segment income (Note)	$ 1,443,577	$ 578,964	$ 2,022,551	$ 134,682	$ (445,405)	$ 1,711,819
Other non-operating income						23,085
Other non-operating expenses						(18,825)
Equity in earnings of associates and a joint venture						8,441
Profit before tax						$ 1,724,529
Others—Depreciation and amortization	$ 30,858	$ 125,643	$ 156,511	$ 67,091	$ 115,518	$ 339,121

Note: Consumer business includes ¥13,006 million ($115,928 thousand) of disaster losses. (Please refer to "Note 29. Disaster losses.")

Segment information of the Group as of and for the year ended March 31, 2016, is as follows:

	Millions of Yen					
	Reportable Segments					
	Marketing Solutions Business	Consumer Business	Total	Other Business	Reconciliation	Consolidated
Revenue:						
Sales to customers	¥ 267,665	¥ 328,115	¥ 595,780	¥ 56,546	—	¥ 652,327
Intersegment sales	587	7,647	8,234	3,744	¥ (11,979)	—
Total sales	¥ 268,252	¥ 335,762	¥ 604,015	¥ 60,291	¥ (11,979)	¥ 652,327
Segment income (Note)	¥ 147,531	¥ 118,351	¥ 265,883	¥ 6,438	¥ (47,324)	¥ 224,997
Other non-operating income						3,016
Other non-operating expenses						(2,746)
Equity in earnings of associates and a joint venture						1,317
Profit before tax						¥ 226,585
Others—Depreciation and amortization	¥ 3,363	¥ 8,531	¥ 11,894	¥ 6,570	¥ 12,232	¥ 30,697

Note: Consumer business includes ASKUL's operating results on and after the acquisition date and ¥59,696 million of gain from remeasurement relating to business combinations. (Please refer to "Note 5. Business combinations.")

(2) ***Sales to Customers, by Services and Major Goods***

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Advertising	¥ 286,443	¥ 266,911	$ 2,553,195
Business	391,552	251,530	3,490,079
Personal	175,733	133,885	1,566,387
Total	¥ 853,730	¥ 652,327	$ 7,609,680

	Main Services and Goods
Advertising	• Paid search, display and other advertising-related services
Business	• Data center-related and other corporate services • Yahoo! Real Estate and other information listing services • Sale of goods such as ASKUL
Personal	• YAHUOKU!, Yahoo! Shopping, and other e-commerce related services • Yahoo! Premium, Yahoo! BB, and other membership services • Sale of goods such as LOHACO

7. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Cash and demand deposits	¥ 405,983	¥ 214,381	$ 3,618,709
Time deposits (maturities of three months or less)	132,584	230,784	1,181,780
Others	4,499	3,998	40,101
Total	¥ 543,067	¥ 449,164	$ 4,840,600

8. TRADE AND OTHER RECEIVABLES

The components of trade and other receivables are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Credit card receivables	¥ 129,648	¥ 69,863	$ 1,155,611
Trade receivables	128,128	123,442	1,142,062
Foreign exchange dealings cash—deposits with trust banks	80,871	78,560	720,839
Others	42,240	33,892	376,504
Total	¥ 380,888	¥ 305,758	$ 3,395,026

9. OTHER FINANCIAL ASSETS

The components of other financial assets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Equity securities	¥ 46,959	¥ 43,119	$ 418,566
Deposits paid	18,121	16,681	161,520
Derivative financial assets	17,310	21,072	154,291
Others	19,286	19,566	171,904
Total	¥ 101,678	¥ 100,439	$ 906,301
Current assets	¥ 21,712	¥ 30,118	$ 193,528
Non-current assets	79,965	70,321	712,764

10. PROPERTY AND EQUIPMENT

Changes in carrying amounts of property and equipment, acquisition costs, and accumulated depreciation and impairment losses are as follows:

Carrying Amounts

	Millions of Yen						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of April 1, 2015	¥ 16,947	¥ 30,668	¥ 12,014	¥ 7,154	¥ 680	—	¥ 67,465
Purchase	3,956	21,815	2,267	297	6,961	¥ 1,131	36,428
Business combinations	13,717	1,173	5,917	9,436	2,256	—	32,501
Disposals	(56)	(866)	(82)	(0)	—	(50)	(1,055)
Depreciation	(4,766)	(10,053)	(2,173)	—	—	(128)	(17,122)
Transfer of accounts	2,063	1,535	1,238	—	(4,837)	—	—
Others	3,373	(237)	(63)	—	(155)	—	2,916
As of March 31, 2016	35,235	44,034	19,117	16,888	4,905	952	121,133
Purchase	8,524	16,608	3,715	347	11,233	915	41,345
Business combinations	63	90	0	—	—	—	154
Disposals	(7,589)	(447)	(2,034)	(5,001)	(588)	(80)	(15,742)
Depreciation	(4,257)	(12,884)	(3,009)	—	—	(310)	(20,461)
Transfer of accounts	7,795	1,530	4,790	—	(14,121)	—	(4)
Others	(1,149)	(101)	(185)	(723)	(243)	—	(2,404)
As of March 31, 2017	¥ 38,623	¥ 48,831	¥ 22,394	¥ 11,510	¥ 1,185	¥ 1,477	¥ 124,021

	Thousands of U.S. Dollars						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of March 31, 2016	$ 314,065	$ 392,494	$ 170,398	$ 150,530	$ 43,720	$ 8,485	$ 1,079,712
Purchase	75,978	148,034	33,113	3,092	100,124	8,155	368,526
Business combinations	561	802	—	—	—	—	1,372
Disposals	(67,644)	(3,984)	(18,129)	(44,576)	(5,241)	(713)	(140,315)
Depreciation	(37,944)	(114,840)	(26,820)	—	—	(2,763)	(182,378)
Transfer of accounts	69,480	13,637	42,695	—	(125,866)	—	(35)
Others	(10,241)	(900)	(1,648)	(6,444)	(2,165)	—	(21,427)
As of March 31, 2017	$ 344,264	$ 435,252	$ 199,607	$ 102,593	$ 10,562	$ 13,165	$ 1,105,455

Acquisition Costs

	Millions of Yen						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of April 1, 2015	¥ 28,835	¥ 60,563	¥ 22,510	¥ 7,154	¥ 680	—	¥ 119,743
As of March 31, 2016	51,851	79,056	31,442	16,888	4,905	¥ 1,077	185,221
As of March 31, 2017	51,659	91,715	36,685	11,510	1,185	1,899	194,655

	Thousands of U.S. Dollars						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of March 31, 2017	$ 460,459	$ 817,497	$ 326,989	$ 102,593	$ 10,562	$ 16,926	$ 1,735,047

Accumulated Depreciation and Impairment Losses

	Millions of Yen						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of April 1, 2015	¥ (11,888)	¥ (29,894)	¥ (10,495)	—	—	—	¥ (52,277)
As of March 31, 2016	(16,616)	(35,021)	(12,325)	—	—	¥ (125)	(64,087)
As of March 31, 2017	(13,036)	(42,884)	(14,290)	—	—	(422)	(70,633)

	Thousands of U.S. Dollars						
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others	Total
As of March 31, 2017	$ (116,195)	$ (382,244)	$ (127,373)	—	—	$ (3,761)	$ (629,583)

11. GOODWILL AND INTANGIBLE ASSETS

Changes in carrying amounts of goodwill and intangible assets, acquisition costs, and accumulated amortization and impairment losses are as follows:

Carrying Amounts

	Millions of Yen					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of April 1, 2015	¥ 27,673	—	¥ 22,468	¥ 7,490	¥ 2,423	¥ 32,382
Purchase	—	—	3,907	—	2,749	6,657
Internal development	—	—	9,147	—	—	9,147
Business combinations	128,688	¥ 30,250	8,244	56,680	149	95,324
Disposals	—	—	(1,506)	—	(0)	(1,506)
Amortization	—	—	(9,500)	(3,414)	(443)	(13,358)
Others	—	—	67	—	(2)	65
As of March 31, 2016	156,362	30,250	32,829	60,755	4,876	128,711
Purchase	—	—	8,625	1,837	4,467	14,930
Internal development	—	—	12,509	—	—	12,509
Business combinations	3,143	—	663	—	268	931
Disposals	—	—	(1,017)	—	—	(1,017)
Amortization	—	—	(10,416)	(6,033)	(872)	(17,322)
Others	—	—	(47)	—	(2)	(50)
As of March 31, 2017	¥ 159,505	¥ 30,250	¥ 43,146	¥ 56,559	¥ 8,737	¥ 138,692

	Thousands of U.S. Dollars					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of March 31, 2016	$ 1,393,724	$ 269,631	$ 292,619	$ 541,536	$ 43,461	$ 1,147,259
Purchase	—	—	76,878	16,374	39,816	133,077
Internal development	—	—	111,498	—	—	111,498
Business combinations	28,014	—	5,909	—	2,388	8,298
Disposals	—	—	(9,064)	—	—	(9,064)
Amortization	—	—	(92,842)	(53,774)	(7,772)	(154,398)
Others	—	—	(418)	—	(17)	(445)
As of March 31, 2017	$ 1,421,739	$ 269,631	$ 384,579	$ 504,135	$ 77,876	$ 1,236,224

Acquisition Costs

	Millions of Yen					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of April 1, 2015	¥ 27,673	—	¥ 50,978	¥ 9,360	¥ 3,030	¥ 63,368
As of March 31, 2016	156,362	¥ 30,250	70,190	66,040	5,798	172,279
As of March 31, 2017	159,505	30,250	90,613	67,877	10,553	199,294

	Thousands of U.S. Dollars					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of March 31, 2017	$ 1,421,739	$ 269,631	$ 807,674	$ 605,018	$ 94,063	$ 1,776,397

Accumulated Amortization and Impairment Losses

	Millions of Yen					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of April 1, 2015	—	—	¥ (28,509)	¥ (1,869)	¥ (606)	¥ (30,985)
As of March 31, 2016	—	—	(37,360)	(5,284)	(922)	(43,568)
As of March 31, 2017	—	—	(47,467)	(11,317)	(1,816)	(60,601)

	Thousands of U.S. Dollars					
		Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives			
	Goodwill	Trademarks	Software	Customer Relationships	Others	Total Intangible Assets
As of March 31, 2017	—	—	$ (423,094)	$ (100,873)	$ (16,186)	$ (540,164)

Certain trademarks that have been assessed as having indefinite useful lives are not amortized because the Group expects to continue to benefit from the trademarks as long as the related businesses continue to operate.

Customer relationships represent probable expected future economic benefits attributable to the existing customers of the acquiree at the time of the business combination.

Amortization expenses are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

Research and development costs charged to income for the years ended March 31, 2017 and 2016 were ¥389 million ($3,467 thousand) and ¥289 million, respectively.

The carrying amounts of internally-generated intangible assets related to software as of March 31, 2017 and 2016 are ¥22,013 million ($196,211 thousand) and ¥16,117 million, respectively.

Significant goodwill and intangible assets with indefinite useful lives of the Group are allocated to the following groups of cash-generating units:

Goodwill

		Millions of Yen		Thousands of U.S. Dollars
		As of March 31		As of March 31,
	Cash-Generating Unit	2017	2016	2017
Reportable segment:				
Marketing solutions business	Marketing solutions	¥ 10,904	¥ 10,904	$ 97,192
Consumer business	Shopping	58,327	56,724	519,894
	Ikyu	72,044	72,044	642,160
	Others	1,791	250	15,963
Other business	Settlement- and finance-related	16,437	16,437	146,510
Total		¥ 159,505	¥ 156,362	$ 1,421,739

Intangible Assets with Indefinite Useful Lives

		Millions of Yen		Thousands of U.S. Dollars
		As of March 31		As of March 31,
	Cash-Generating Unit	2017	2016	2017
Reportable segment:				
Consumer business	Shopping	¥ 20,130	¥ 20,130	$ 179,427
	Ikyu	10,120	10,120	90,204
Total		¥ 30,250	¥ 30,250	$ 269,631

In testing goodwill and intangible assets with indefinite useful lives for impairment, the recoverable amount is determined based on its value in use.

Value in use is determined by discounting the estimated future cash flows to their present value based on the business plan and growth rate approved by management.

Business plans are prepared based on external and internal information, which reflect management's assessment of future trends in the industry and past data, and generally do not exceed five years. The perpetual growth rate is determined considering the long-term average growth rate of the market or country to which the cash-generating unit belongs. The perpetual growth rates used for the years ended March 31, 2017 and 2016 were 1.7% and 1.7%, respectively. The pretax discount rates used in measurement of value in use for the years ended March 31, 2017 and 2016 were 7.9%–13.1% and 8.1%–13.8%, respectively.

The pre-tax discount rate used in measuring the value in use of the Ikyu business was 9.2%. If the pre-tax discount rate rises by 1%, the Group may record impairment losses.

As to the groups of cash-generating units other than above, because value in use sufficiently exceeds the carrying values of cash-generating units, the Company determined that the recoverable amount is unlikely to decrease below the carrying value, even if major assumptions such as the discount rate and the perpetual growth rate used in the impairment test change to a reasonably foreseeable extent.

12. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

(1) *Subsidiaries*

The Company's major subsidiaries as of March 31, 2017 and 2016 are as follows:

		Ownership Percentage of Voting Rights (%)	
		As of March 31	
Name of Subsidiary	Location	2017	2016
Y's Sports Inc.	Tokyo	100.0 %	100.0 %
Netrust, Ltd	Tokyo	75.0	75.0
Y's Insurance Inc.	Tokyo	60.0	60.0
FirstServer, Inc.	Osaka	100.0	100.0
IDC Frontier Inc.	Tokyo	100.0	100.0
GYAO Corporation	Tokyo	66.7	66.7
YJ Capital Inc.	Tokyo	100.0	100.0
YJ1 Investment Partnership	Tokyo	—	—
ValueCommerce Co., Ltd.	Tokyo	52.3	50.5
Carview Corporation	Tokyo	100.0	100.0
YJFX, Inc.	Tokyo	100.0	100.0
Synergy Marketing, Inc.	Osaka	100.0	100.0
YJ2 Investment Partnership	Tokyo	—	—
YJ Card Corporation	Fukuoka	65.0	65.0
ASKUL Corporation (Note 1)	Tokyo	45.3	44.4
ecohai Co., Ltd.	Tokyo	68.5 (68.5)	68.5 (68.5)
Ikyu Corporation (Note 2)	Tokyo	100.0	100.0
YJ Tech Investment Partnership	Tokyo	—	—
eBOOK Initiative Japan Co., Ltd. (Note 3)	Tokyo	44.3	—

Notes:

1. ASKUL, previously an associate of the Company whose principal activity consists of providing mail order services for stationery, became a subsidiary of the Company on August 27, 2015 (the acquisition date) as a result of the repurchase of its own shares (treasury shares) following the resolution made at the meeting of ASKUL's Board of Directors held on May 19, 2015. The percentage of the Company's voting rights of ASKUL increased from 41.7% as of May 20, 2015 to 44.4% after the repurchase of treasury shares. The Company did not and does not have a majority of the voting rights before and following this transaction; however, the Company determined that it now has the practical ability to direct the relevant activities unilaterally and therefore has control over ASKUL and accounts for ASKUL as a subsidiary after considering all facts and circumstances including the widely dispersed holdings of voting rights among shareholders and the voting patterns at previous ASKUL shareholders meetings. (Please refer to "Note 5. Business combinations.")

2. On February 3, 2016, the Company acquired common stock of Ikyu and as a result Ikyu became a subsidiary of the Company. (Please refer to "Note 5. Business combinations.") Subsequently, Ikyu became a wholly-owned subsidiary of the Company during the year ended March 31, 2016.

3. The Company does not have a majority of the voting rights of eBOOK Initiative Japan Co., Ltd. ("eBOOK"); however, the Company determined that it has the practical ability to direct the relevant activities unilaterally and therefore has control over eBOOK and accounts for eBOOK as a subsidiary because the Company's officers and employees comprise the majority of the Board of Directors of eBOOK.

4. Figures in parentheses represent indirect ownership percentages of voting rights.

(2) *Summarized Consolidated Financial Information and Other Information on Subsidiaries with Significant Non-controlling Interests*

ASKUL (ASKUL and its group companies)

(a) General information

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Proportion of ownership interests held by the non-controlling interests (%)	54.7	55.6	
Accumulated non-controlling interests of ASKUL	¥ 47,656	¥ 55,250	$ 424,779

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
(Loss) profit allocated to the non-controlling interests of ASKUL	¥ (3,695)	¥ 1,567	$ (32,935)

(b) Summarized consolidated financial information

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Current assets	¥ 110,971	¥ 100,355	$ 989,134
Non-current assets	101,391	117,437	903,743
Current liabilities	88,556	86,349	789,339
Non-current liabilities	37,942	32,835	338,194
Equity	85,863	98,608	765,335

Note: Non-current assets above do not include ¥53,779 million ($479,356 thousand) of goodwill arising from the business combination.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Revenue	¥ 334,812	¥ 189,013	$ 2,984,330
Profit for the year	(7,375)	2,970	(65,736)
Comprehensive income	(7,350)	2,642	(65,513)

Notes:

1. The figures for the year ended March 31, 2016 in the above table are revenue, profit for the year and total comprehensive income earned on and after August 27, 2015, the acquisition date.

2. Dividends paid by ASKUL to the non-controlling interests for the years ended March 31, 2017 and 2016 were ¥1,031 million ($9,189 thousand) and ¥432 million, respectively.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Cash flows from operating activities—net	¥ 10,339	¥ 8,709	$ 92,156
Cash flows from investing activities—net	(3,428)	(8,250)	(30,555)
Cash flows from financing activities—net	6,522	(5,629)	58,133
Effects of exchange rate changes on cash and cash equivalents	5	(1)	44
Net increase (decrease) in cash and cash equivalents	¥ 13,439	¥ (5,171)	$ 119,787

Note: The figures for the year ended March 31, 2016 in the above table are cash flows of ASKUL on and after the acquisition date.

(3) *Investments Accounted for Using the Equity Method*

Aggregated amount of investments accounted for using the equity method that are not individually material is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Carrying amount	¥ 37,748	¥ 34,257	$ 336,464

Other financial information of investments accounted for using the equity method that are not individually material is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Profit for the year attributable to the Group	¥ 947	¥ 1,317	$ 8,441
Other comprehensive loss, net of tax, attributable to the Group	(905)	(236)	(8,066)
Comprehensive income attributable to the Group	42	1,080	374

(4) *Structured Entities*

The Group invests inside and outside Japan by utilizing investment partnerships. Such partnerships provide their investees with cash raised from members of the partnerships mainly in the form of investments, and have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity.

The Group invests in unconsolidated structured entities such as investment funds and trusts over which the Group does not have control with regard to operating policies such as those related to selecting investees.

The Company does not have any contractual obligations to provide any financial support to the unconsolidated structured entities. The potential maximum loss exposure incurred from the involvement with such structured entities is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Other financial assets (non-current)	¥ 8,327	¥ 5,989	$ 74,222

The Company's maximum loss exposure represents the potential maximum loss amount, and does not indicate the probability of occurrence.

13. INCOME TAXES

(1) *Deferred Taxes*

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

As of March 31, 2017

	Millions of Yen				
	As of March 31, 2016	Recognized in Profit for the Year	Recognized in Other Comprehensive Income	Others	As of March 31, 2017
Deferred tax assets:					
Enterprise tax payable	¥ 1,962	¥ (501)	—	¥ 1	¥ 1,462
Property and equipment and intangible assets	8,877	2,897	—	39	11,814
Net operating loss carryforwards	4,750	2,699	—	178	7,627
Liabilities related to employee benefits (Note)	4,292	(101)	—	65	4,255
Available-for-sale financial assets	1,667	483	—	—	2,150
Provision for interest repayment claims	6,968	(1,168)	—	—	5,799
Others	6,375	2,045	—	23	8,444
Total deferred tax assets before offset	34,893	6,353	—	307	41,554
Offset of deferred tax assets and liabilities	(11,562)				(17,043)
Total deferred tax assets, net	¥ 23,331				¥ 24,511
Deferred tax liabilities:					
Property and equipment and intangible assets	¥ 30,530	¥ (1,925)	—	—	¥ 28,604
Available-for-sale financial assets	5,457	—	¥ 1,141	¥ 0	6,599
Others	3,090	562	—	—	3,652
Total deferred tax liabilities before offset	39,078	(1,363)	1,141	0	38,855
Offset of deferred tax assets and liabilities	(11,562)				(17,043)
Total deferred tax liabilities, net	¥ 27,515				¥ 21,812

	Thousands of U.S. Dollars				
	As of March 31, 2016	Recognized in Profit for the Year	Recognized in Other Comprehensive Income	Others	As of March 31, 2017
Deferred tax assets:					
Enterprise tax payable	$ 17,488	$ (4,465)	—	$ 8	$ 13,031
Property and equipment and intangible assets	79,124	25,822	—	347	105,303
Net operating loss carryforwards	42,338	24,057	—	1,586	67,982
Liabilities related to employee benefits (Note)	38,256	(900)	—	579	37,926
Available-for-sale financial assets	14,858	4,305	—	—	19,163
Provision for interest repayment claims	62,108	(10,410)	—	—	51,689
Others	56,823	18,228	—	205	75,265
Total deferred tax assets before offset	311,017	56,627	—	2,736	370,389
Offset of deferred tax assets and liabilities	(103,057)				(151,911)
Total deferred tax assets, net	$ 207,959				$ 218,477
Deferred tax liabilities:					
Property and equipment and intangible assets	$ 272,127	$ (17,158)	—	—	$ 254,960
Available-for-sale financial assets	48,640	—	$ 10,170	$ 0	58,819
Others	27,542	5,009	—	—	32,551
Total deferred tax liabilities before offset	348,319	(12,149)	10,170	0	346,332
Offset of deferred tax assets and liabilities	(103,057)				(151,911)
Total deferred tax liabilities, net	$ 245,253				$ 194,420

Note: Liabilities related to employee benefits include liabilities attributable to accrued bonuses and paid absences.

As of March 31, 2016

	Millions of Yen				
	As of March 31, 2015	Recognized in Profit for the Year	Recognized in Other Comprehensive Income	Others (Note 1)	As of March 31, 2016
Deferred tax assets:					
Enterprise tax payable	¥ 2,370	¥ (495)	—	¥ 88	¥ 1,962
Property and equipment and intangible assets	5,622	2,805	—	450	8,877
Net operating tax loss carryforwards	162	3,361	—	1,226	4,750
Liabilities related to employee benefits (Note 2)	3,426	623	—	242	4,292
Available-for-sale financial assets	1,005	661	—	0	1,667
Provision for interest repayment claims	8,198	(1,230)	—	—	6,968
Others	4,362	766	—	1,246	6,375
Total deferred tax assets before offset	25,148	6,491	—	3,253	34,893
Offset of deferred tax assets and liabilities	(10,042)				(11,562)
Total deferred tax assets, net	¥ 15,105				¥ 23,331
Deferred tax liabilities:					
Property and equipment and intangible assets	¥ 2,601	¥ (2,840)	—	¥ 30,769	¥ 30,530
Available-for-sale financial assets	4,528	180	¥ 604	144	5,457
Others	2,942	147	—	—	3,090
Total deferred tax liabilities before offset	10,071	(2,512)	604	30,913	39,078
Offset of deferred tax assets and liabilities	(10,042)				(11,562)
Total deferred tax liabilities, net	¥ 28				¥ 27,515

Notes:

1. The items included in "others" are mainly attributable to the conversion of ASKUL and Ikyu into subsidiaries.

2. Liabilities related to employee benefits include liabilities attributable to accrued bonuses and paid absences.

Deferred tax assets which belong to individual entities that recorded losses as of March 31, 2017 and 2016 are ¥10,769 million ($95,988 thousand) and ¥8,961 million, respectively. The Group recognizes deferred tax assets to the extent that it is probable that future taxable profit will be available.

Deductible temporary differences and net operating tax loss carryforwards (after multiplying by the tax rate) for which no deferred tax assets have been recognized are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Deductible temporary differences	¥ 1,504	¥ 1,592	$ 13,405
Net operating tax loss carryforwards which expire:			
Within one year	—	—	—
In one year to five years	¥ 1,026	¥ 654	$ 9,145
After five years	1,343	1,564	11,970
Total	¥ 2,369	¥ 2,218	$ 21,115

Total taxable temporary differences (before multiplying by the tax rate) for which no deferred tax liabilities related to the investments in subsidiaries have been recognized as of March 31, 2017 and 2016 are ¥35,500 million ($316,427 thousand) and ¥27,689 million, respectively.

(2) ***Tax Expenses***

The components of income tax expense are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Current tax expense	¥ 68,558	¥ 63,096	$ 611,088
Deferred tax expense	(7,716)	(9,003)	(68,776)
Total	¥ 60,841	¥ 54,092	$ 542,303

The reconciliation of the statutory effective tax rate and actual tax rate is as follows, with the actual tax rate representing the ratio of income tax expenses to profit before tax:

	Year Ended March 31	
	2017	2016
Statutory effective tax rate (%)	31.69	33.06
Gain from remeasurement relating to business combinations (%)	—	(8.71)
Others (%)	(0.24)	(0.48)
Actual tax rate (%)	31.45	23.87

14. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Foreign exchange dealings deposits from customers	¥ 94,730	¥ 95,285	$ 844,371
Accounts payable—other	83,007	74,589	739,878
Accounts payable—trade	72,200	69,819	643,551
Others	38,040	31,073	339,067
Total	¥ 287,978	¥ 270,766	$ 2,566,877

15. INTEREST-BEARING LIABILITIES

The components of interest-bearing liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars	Weighted Average Interest Rate (%)	Repayment Date
	As of March 31		As of March 31, 2017	As of March 31, 2017	As of March 31, 2017
	2017	2016			
Bank loans	¥ 64,019	¥ 20,151	$ 570,630	0.31	From April 2017 to March 2022
Bonds (Note)	35,100	—	312,862	0.24	From April 2017 to February 2024
Lease liabilities	5,427	4,142	48,373	1.07	From April 2017 to April 2026
Total	¥ 104,546	¥ 24,293	$ 931,865		
Current liabilities	¥ 36,889	¥ 14,538	$ 328,808		
Non-current liabilities	67,657	9,754	603,057		

Note: Outline of terms and conditions of the bonds are as follows:

	Date of Issue	Millions of Yen	Thousands of U.S. Dollars	Interest Rate (%)	Redemption Date
		As of March 31, 2017	As of March 31, 2017	As of March 31, 2017	As of March 31, 2017
The Company:					
1st Series Unsecured Bonds	February 28, 2017	¥ 5,000	$ 44,567	0.04	February 28, 2020
2nd Series Unsecured Bonds	February 28, 2017	15,000	133,701	0.17	February 28, 2022
3rd Series Unsecured Bonds	February 28, 2017	15,000	133,701	0.37	February 28, 2024
Other (Note)	October 30, 2015	100	891	0.26	October 31, 2018
Total		¥ 35,100	$ 312,862		

Note: The figure includes ¥49 million ($436 thousand) of current portion of bonds as of March 31, 2017.

16. PROVISIONS

The components of provisions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Provision for interest repayment claims (Notes 1 and 2)	¥ 16,889	¥ 20,280	$ 150,539
Asset retirement obligations (Note 1)	6,883	7,374	61,351
Others (Notes 1 and 3)	6,955	4,981	61,993
Total	¥ 30,729	¥ 32,636	$ 273,901
Provisions (current)	¥ 9,790	¥ 12,547	$ 87,262
Provisions (non-current)	20,938	20,089	186,629

Notes:

1. Additional information on the nature of the provisions included in the table above is provided in "Note 3. Significant accounting policies (10) Provisions."

2. Provision for interest repayment claims is calculated by estimating the future repayment amount based on the historical experience of repayments and expirations due to the statute of limitations.

3. This item mainly consists of provision for customer point reward programs.

Changes in provisions are as follows:

	Millions of Yen			
	Provision for Interest Repayment Claims	Asset Retirement Obligations	Others	Total
As of April 1, 2016	¥ 20,280	¥ 7,374	¥ 4,981	¥ 32,636
Recognition of provisions	—	3,986	7,072	11,059
Business combinations	—	18	76	95
Increase due to passage of time	—	49	—	49
Used	(3,390)	(4,013)	(635)	(8,039)
Others	—	(531)	(4,539)	(5,071)
As of March 31, 2017	¥ 16,889	¥ 6,883	¥ 6,955	¥ 30,729

	Thousands of U.S. Dollars			
	Provision for Interest Repayment Claims	Asset Retirement Obligations	Others	Total
As of April 1, 2016	$ 180,764	$ 65,727	$ 44,397	$ 290,899
Recognition of provisions	—	35,529	63,035	98,573
Business combinations	—	160	677	846
Increase due to passage of time	—	436	—	436
Used	(30,216)	(35,769)	(5,660)	(71,655)
Others	—	(4,733)	(40,458)	(45,200)
As of March 31, 2017	$ 150,539	$ 61,351	$ 61,993	$ 273,901

17. PURCHASE COMMITMENTS

Commitments to purchase property and equipment and intangible assets as of March 31, 2017 and 2016 are ¥15,061 million ($134,245 thousand) and ¥6,401 million, respectively. The commitments are mainly attributable to executory contracts of purchase of assets to be used in logistics centers.

18. OTHER LIABILITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Advance received	¥ 12,839	¥ 10,914	$ 114,439
Accrued paid absences	6,819	5,907	60,780
Accrued expenses	5,835	2,574	52,009
Consumption taxes payable	5,742	2,908	51,181
Accrued bonuses	5,616	6,371	50,057
Others	13,032	10,806	116,160
Total	¥ 49,885	¥ 39,483	$ 444,647
Other current liabilities	¥ 41,387	¥ 33,638	$ 368,900
Other non-current liabilities	8,498	5,844	75,746

19. RETIREMENT BENEFITS

The Company and certain subsidiaries participate primarily in defined contribution pension plans.

Retirement benefit costs of defined contribution pension plans are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Contributions to defined contribution pension plans	¥ 924	¥ 860	$ 8,236

20. LEASES

(1) *Finance Leases*

As lessee

The Group leases machinery and equipment, software and system-related equipment, and other items through financing lease contracts. There are no contingent rents payable, purchase options, escalation clauses, or restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.

The carrying amounts of leased assets, net of accumulated depreciation and accumulated impairment losses, as of March 31, 2017 and 2016 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Software	¥ 225	¥ 336	$ 2,005
Machinery and equipment	4,481	3,967	39,941
Furniture and fixtures	384	424	3,422
Total	¥ 5,091	¥ 4,728	$ 45,378

The components of the total of future minimum lease payments and their present value under finance leases are as follows:

	Millions of Yen			
	Total of Future Minimum Lease Payments		Present Value of the Total of Future Minimum Lease Payments	
	As of March 31		As of March 31	
	2017	2016	2017	2016
Not later than one year	¥ 930	¥ 978	¥ 872	¥ 895
Later than one year and not later than five years	2,565	2,633	2,431	2,432
Later than five years	2,162	1,776	2,123	1,709
Total	5,658	5,388	¥ 5,427	¥ 5,037
Less: Future finance costs	(230)	(350)		
Present value of the total of future minimum lease payments	¥ 5,427	¥ 5,037		

	Thousands of U.S. Dollars	
	Total of Future Minimum Lease Payments	Present Value of the Total of Future Minimum Lease Payments
	As of March 31, 2017	As of March 31, 2017
Not later than one year	$ 8,289	$ 7,772
Later than one year and not later than five years	22,863	21,668
Later than five years	19,270	18,923
Total	50,432	$ 48,373
Less: Future finance costs	(2,050)	
Present value of the total of future minimum lease payments	$ 48,373	

(2) ***Operating Leases***

As lessee

The Group leases buildings to utilize as offices and data centers through operating lease contracts. Certain operating lease contracts have an automatic renewal option. There are no contingent rents payable, purchase options, escalation clauses, or restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing. Total rental expenses under operating lease contracts for the fiscal years ended March 31, 2017 and 2016, were ¥18,303 million ($163,142 thousand) and ¥11,733 million, respectively.

Non-cancelable Operating Leases

The components of the future minimum lease payments under non-cancelable operating leases are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Not later than one year	¥ 11,379	¥ 11,302	$ 101,426
Later than one year and not later than five years	44,653	37,464	398,012
Later than five years	6,918	15,741	61,663
Total	¥ 62,951	¥ 64,508	$ 561,110

Total future minimum lease payments as of March 31, 2017 include ¥800 million ($7,130 thousand) attributable to sale and leaseback transactions entered into on March 31, 2017. The period of the leaseback arrangement for the related assets is 48 months.

As lessor

Non-cancelable Operating Leases

The Group leases data-center services-related equipment (e.g., servers) as lessor through operating lease contracts. The components of the future minimum payments under non-cancelable operating leases are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Not later than one year	¥ 2,409	¥ 2,383	$ 21,472
Later than one year and not later than five years	877	675	7,817
Total	¥ 3,287	¥ 3,058	$ 29,298

21. EQUITY

(1) *Common Stock and Treasury Stock*

Numbers of authorized shares and issued shares are as follows:

	Year Ended March 31	
	2017	2016
Authorized shares—Common stock	24,160,000,000	24,160,000,000
Issued shares:		
Balance at the beginning of the year	5,695,291,400	5,694,945,000
Increase (Note)	286,200	346,400
Decrease		
Balance at the end of the year	5,695,577,600	5,695,291,400

Note: This item represents the exercise of share subscription rights.

The number of treasury stock included in issued shares as of March 31, 2017 and 2016 were 2,800,000 shares and 2,800,000 shares, respectively.

(2) ***Surplus***

1) *Capital surplus*

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

2) *Retained earnings*

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

22. DIVIDENDS

The total amount of dividends was as follows:

	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars		
Resolution	Total Dividends	Total Dividends	Dividends per Share	Dividends per Share	Record Date	Effective Date
Year Ended March 31, 2017						
Board of Directors meeting held on May 18, 2016	¥ 50,435	$ 449,549	¥8.86	$0.08	March 31, 2016	June 7, 2016
Year Ended March 31, 2016						
Board of Directors meeting held on May 21, 2015	¥ 50,432		¥8.86		March 31, 2015	June 4, 2015

Dividends to become effective during the year ending March 31, 2018 are as follows:

	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars		
Resolution	Total Dividends	Total Dividends	Dividends per Share	Dividends per Share	Record Date	Effective Date
Board of Directors meeting held on May 19, 2017	¥ 50,438	$ 449,576	¥8.86	$0.08	March 31, 2017	June 6, 2017

23. SHARE-BASED PAYMENTS

The Company and certain subsidiaries have share option plans as share-based payment awards. Share options are granted to the Company's directors and employees based on the terms approved by the Company's shareholders and the Board of Directors.

Share-based payments are accounted for as equity-settled share based payments. Expenses related to equity-settled share-based payments for the years ended March 31, 2017 and 2016 are not presented because they are not significant.

(1) *Share Option Plans*

1) *Details of share option plans*

The details of the Company's share option plans for the years ended March 31, 2017 and 2016 are as follows. The details of the subsidiaries' share option plans are not presented because they are not significant.

The Company grants share options to its directors and employees. The Company shares will be issued upon exercise of such share options.

Options Series	Grant Date	Exercise Period
2006 (Note 1)	From September 6, 2006 to February 7, 2007	From August 23, 2016 to January 24, 2017
2007 (Note 1)	From May 8, 2007 to February 13, 2008	From April 24, 2017 to January 30, 2018
2008 (Note 1)	From May 9, 2008 to February 10, 2009	From April 25, 2018 to January 27, 2019
2009 (Note 1)	From May 12, 2009 to February 10, 2010	From April 28, 2019 to January 27, 2020
2010 (Note 1)	From May 11, 2010 to February 8, 2011	From April 27, 2020 to January 25, 2021
2011 (Note 1)	From June 3, 2011 to February 17, 2012	From May 20, 2021 to February 3, 2022
2012		
1st (Note 1)	From May 16, 2012	From May 2, 2022
2nd (Note 2)	to March 1, 2013	to February 28, 2023
2013		
1st (Note 3)	From May 17, 2013	From May 16, 2023
2nd (Note 4)	to November 19, 2013	to November 18, 2023
2014		
1st (Note 4)	May 26, 2014	May 25, 2024

Notes:

1. Vesting condition

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

2. Vesting condition

   Share options vest according to the amount of operating income achieved as specified in (i) and (ii) below in any year from the fiscal year ended March 31, 2014 to fiscal year ending March 31, 2019.

   (i) If the operating income exceeds ¥250 billion

   Period of achievement: By fiscal year ending March 31, 2016;
   Exercisable ratio: 20%
   Period of achievement: By fiscal year ending March 31, 2017;
   Exercisable ratio: 14%
   Period of achievement: By fiscal year ending March 31, 2018;
   Exercisable ratio: 8%
   Period of achievement: By fiscal year ending March 31, 2019;
   Exercisable ratio: 2%

   (ii) If the operating income exceeds ¥330 billion

   Period of achievement: By fiscal year ending March 31, 2016;
   Exercisable ratio: 80%
   Period of achievement: By fiscal year ending March 31, 2017;
   Exercisable ratio: 56%
   Period of achievement: By fiscal year ending March 31, 2018;
   Exercisable ratio: 32%
   Period of achievement: By fiscal year ending March 31, 2019;
   Exercisable ratio: 8%

   Vesting requires continuous service from the grant date to the vesting date. When the holder of vested share options retires, those vested share options are forfeited.

3. Vesting condition

   Share options vest according to the amount of operating income achieved as specified in (i) and (ii) below in any year from the fiscal year ended March 31, 2014 to the fiscal year ending March 31, 2019.

   (i) If the operating income exceeds ¥250 billion; Exercisable ratio: 20%
   (ii) If the operating income exceeds ¥330 billion; Exercisable ratio: 80%

   Vesting requires continuous service from the grant date to the vesting date. When the holder of vested share options retires, those vested share options are forfeited.

4. Vesting condition

Share options vest once the operating income for the fiscal year exceeds ¥330 billion in any year from the fiscal year ended March 31, 2015 to the fiscal year ending March 31, 2019. Vesting requires continuous service from the grant date to the vesting date. When the holder of vested share options retires, those vested share options are forfeited.

(**2**) ***Fair Value of Share Options Granted during the Period***

Not applicable.

(**3**) ***Changes in Share Options during the Period and the Condition of Share Options at the Period End***

Changes in share options (expressed in the number of shares issued upon exercise) during the period and the condition of share options at the period end are as follows:

		Number of Shares	Weighted Average Exercise Price (Yen) (U.S. Dollars)
Balance at April 1, 2015	Unexercised	65,586,700	¥429
	Granted	—	—
	Forfeited	(1,260,700)	¥450
	Exercised	(346,400)	¥331
	Matured	(6,100)	¥680
Balance at March 31, 2016	Unexercised	63,973,500	¥429
	Granted	—	—
	Forfeited	(2,088,700)	¥445 ($3.97)
	Exercised	(286,200)	¥347 ($3.09)
	Matured	(343,300)	¥471 ($4.20)
Balance at March 31, 2017	Unexercised	61,255,300	¥429 ($3.82)

		Number of Shares	Weighted Average Exercise Price (Yen) (U.S. Dollars)
Balance at March 31, 2016	Exercisable	3,522,500	¥360
Balance at March 31, 2017	Exercisable	2,899,300	¥346 ($3.08)

The unexercised share options as of March 31, 2017, are as follows:

Range of Exercise Price (Yen)	Number of Shares	Weighted Average Exercise Price (Yen) (U.S. Dollars)	Weighted Average Remaining Contract Period (Years)
201–300	841,200	¥270 ($2.41)	4.4
301–400	24,797,500	¥324 ($2.89)	5.8
401–500	10,962,200	¥486 ($4.33)	5.9
501–600	24,654,400	¥514 ($4.58)	6.6
Total	61,255,300	¥429 ($3.82)	6.1

(4) *Share Options Exercised during the Period*

Weighted average stock prices at exercise for share options exercised during the period are as follows:

Year Ended March 31					
2017			2016		
Options Series	Number of Shares Issued	Weighted Average Stock Price at Exercise (Yen) (U.S. Dollars)	Options Series	Number of Shares Issued	Weighted Average Stock Price at Exercise (Yen)
2006	31,600	¥491 ($4.38)	2006	9,900	¥ 550
2007	51,200	¥525 ($4.68)	2007	34,400	¥ 530
2008	22,900	¥505 ($4.50)	2008	49,900	¥ 523
2009	37,300	¥510 ($4.55)	2009	46,000	¥ 505
2010	58,000	¥521 ($4.64)	2010	80,500	¥ 508
2011	69,100	¥501 ($4.47)	2011	116,500	¥ 504
2012	16,100	¥501 ($4.47)	2012	9,200	¥ 500

24. FINANCIAL INSTRUMENTS

(1) *Capital Management*

The Company's capital management policy is to realize and maintain optimum capital composition to continue mid- and long-term sustainable growth and maximize corporate value. The Group is subject to regulatory capital requirements under the applicable laws and regulations, and required to maintain capital adequacy ratios, net assets and other indicators at certain levels.

Significant capital requirements attributable to the Group are as follows:

1) *The Company*

The Company is subject to the Payment Services Act and is required to maintain equity (net assets) of at least ¥100 million.

2) *YJFX, Inc.*

YJFX, Inc. is subject to the Financial Instruments and Exchange Act and related laws and regulations and is required to maintain a ratio, which is calculated by dividing its unappropriated capital by the total amount of the following three risk equivalent amounts, of at least 120%. The three risk equivalent amounts are:

(a) market risk (risk arising from fluctuations in stock price, interest rate and exchange rate that affect holding assets) equivalent amount,
(b) counterparty risk (risk assumed to be attributable to counterparties of financial instrument transactions) equivalent amount, and
(c) fundamental risk (risk attributable to processing daily operations such as errors in paperwork) equivalent amount.

3) *YJ Card Corporation*

YJ Card Corporation is subject to the Payment Services Act, the Installment Sales Act and related laws and regulations and is required to maintain its equity (net assets) at a certain level. The minimum amount of net assets required to be maintained is the greater of the following two items:

(a) ¥100 million
(b) 90% of share capital or capital contribution

No revision was made to applicable laws that have a significant impact on the capital requirements for the years ended March 31, 2017 and 2016.

(2) ***Financial Risk Management***

The Group is exposed to a variety of financial risks (currency risk, price risk, interest rate risk, credit risk, and liquidity risk) in its operations. The Company manages risks based on its established policies to prevent and reduce these financial risks. Derivative transactions entered into by the Group are limited to the extent of actual demands. The Group does not enter into derivative contracts for speculative or trading purposes.

1) *Market risk*

(a) Currency Risk

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

Foreign exchange sensitivity analysis

The following table presents the effect of a 1% appreciation of the Japanese yen against the U.S. dollar on profit before tax and other comprehensive income (before net of tax effect) for the financial instruments with the above foreign currency risk exposure, assuming that all other factors are constant. The analysis does not include the effect of translating assets and liabilities of foreign operations into the presentation currency.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Increase in profit before tax	¥ 6	¥ 2	$ 53
Decrease in other comprehensive income before tax effect	(100)	(91)	(891)

(b) Price Risk

As a part of its business strategy, the Company holds equity securities traded in active markets and is exposed to market price fluctuation risk. To manage this risk, the Company continuously monitors the financial condition of the security issuers and stock market fluctuations.

Price sensitivity analysis

The table below presents the effect of a 10% decrease in market price in the securities traded in active markets on other comprehensive income before tax effect in the consolidated statement of comprehensive income, assuming that all other factors are constant.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Decrease in other comprehensive income before tax effect	¥ 2,143	¥ 1,965	$ 19,101

(c) Interest Rate Risk

The Group's use of funds for investing activities is exposed to interest rate risk. To prevent or reduce interest rate risk, the Company maintains an appropriate mix between fixed and floating interest rate debts and constantly monitors the interest rate fluctuations of the floating interest rate debts.

Interest rate sensitivity analysis

The table below presents the effect of a 1% increase in interest rates in the Group's financial instruments that are exposed to changes in interest rates on other comprehensive income before tax effect in the consolidated statement of comprehensive income, assuming that all other factors are constant.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Decrease in profit before tax	¥ 337	¥ 52	$ 3,003
Decrease in other comprehensive income before tax effect	597	533	5,321

2) *Credit risk*

In the course of the Company's business, trade and other receivables, and other financial assets (including equity securities and derivatives) are exposed to credit risk of its counterparties. In order to prevent and reduce the risk, the Company does not expose itself to significant concentrations of credit risk. To manage the credit risk, the Company secures collateral and obtains guarantees that correspond to each customer's credit status after performing credit research and setting a line of credit in accordance with internal customer credit management rules. In addition, the Company performs due date controls and balance controls for each customer and periodically monitors their credit status.

The Group conducts foreign exchange margin transactions with customers and covering transactions with counterparties in order to avoid risks arising from the transactions.

The Group is exposed to the credit risks of customers that include possible uncollectible receivables arising from losses that exceed the customers' funds, and the credit risks of financial institutions as counterparties of the transactions. Because automatic stop-loss rules and systems are implemented, the exposure to the credit risks of customers is limited. As to the credit risks of counterparties, the Group believes that the possibility of default is remote because the Group conducts covering transactions only with creditworthy financial institutions. Also, in conducting covering transactions, positions, gains and losses of the transactions are checked in accordance with internal management policy.

The Group recognizes impairment losses after evaluating collectability of trade and other receivables based on the debtor's credit status. The Group does not have any experience of material impairment losses. For trade and other receivables that are neither past due nor impaired, there is no indication that any debtor would be unable to meet their obligations at the time of this report.

The carrying amount of financial instruments, net of impairment, which is presented in the consolidated statement of financial position, as well as the amount of lending commitments, represents the Company's maximum exposure to credit risk on financial assets. The value of collateral held and other credit enhancements are not included. The details of lending commitments are described in "Note 34. Contingencies."

Trade and other receivables include security deposits received as credit enhancements. Such deposits as of March 31, 2017 and 2016 were ¥1,257 million ($11,204 thousand) and ¥1,233 million, respectively.

Foreign exchange dealings deposits from customers include security deposits received from customers. Such deposits as of March 31, 2017 and 2016 were ¥94,730 million ($844,371 thousand) and ¥95,285 million, respectively.

3) *Liquidity risk*

The Group is exposed to liquidity risk in funding, use and repayment of cash in relation to operating transactions and investing activities. In order to prevent and reduce the liquidity risk, the Group limits its use of funds to high-liquidity and low-risk investments which mature within a year. The Group finances its funds with bank loans for which repayment periods are decided after considering the market environment and long-term and short-term balances.

Maturities of financial liabilities are as follows:

As of March 31, 2017

	Millions of Yen							
	Carrying Amount	Contractual Cash Flow	Within a Year	1–2 Years	2–3 Years	3–4 Years	4–5 Years	5 Years and Thereafter
Non-derivative financial liabilities:								
Trade and other payables	¥ 287,978	¥ 287,978	¥ 287,978	—	—	—	—	—
Interest-bearing liabilities:								
Long-term bank loans	64,019	64,430	36,167	¥ 2,991	¥ 2,712	¥ 2,504	¥ 20,054	—
Bonds	35,100	35,594	132	133	5,081	81	15,055	¥ 15,111
Lease liabilities	5,427	5,658	930	813	628	602	521	2,162
Other financial liabilities	441	441	19	421	0	0	0	—
Derivative financial liabilities—								
Other financial liabilities	3,616	3,616	3,611	5	—	—	—	—
Off balance items:								
Committed lines of cash advances	—	261,696	261,696	—	—	—	—	—
Credit guarantees	—	10,920	10,920	—	—	—	—	—

	Thousands of U.S. Dollars							
	Carrying Amount	Contractual Cash Flow	Within a Year	1–2 Years	2–3 Years	3–4 Years	4–5 Years	5 Years and Thereafter
Non-derivative financial liabilities:								
Trade and other payables	$ 2,566,877	$ 2,566,877	$ 2,566,877	—	—	—	—	—
Interest-bearing liabilities:								
Long-term bank loans	570,630	574,293	322,372	$ 26,660	$ 24,173	$ 22,319	$ 178,750	—
Bonds	312,862	317,265	1,176	1,185	45,289	721	134,191	$ 134,691
Lease liabilities	48,373	50,432	8,289	7,246	5,597	5,365	4,643	19,270
Other financial liabilities	3,930	3,930	169	3,752	—	—	—	—
Derivative financial liabilities—								
Other financial liabilities	32,231	32,231	32,186	44	—	—	—	—
Off balance items:								
Committed lines of cash advances	—	2,332,614	2,332,614	—	—	—	—	—
Credit guarantees	—	97,334	97,334	—	—	—	—	—

As of March 31, 2016

	Millions of Yen							
	Carrying Amount	Contractual Cash Flow	Within a Year	1–2 Years	2–3 Years	3–4 Years	4–5 Years	5 Years and Thereafter
Non-derivative financial liabilities:								
Trade and other payables	¥ 270,766	¥ 270,766	¥ 270,766	—	—	—	—	—
Interest-bearing liabilities:								
Long-term bank loans	20,151	20,239	14,601	¥ 1,579	¥ 1,512	¥ 1,325	¥ 1,221	—
Lease liabilities	4,142	4,409	—	845	727	542	517	¥ 1,776
Other financial liabilities	804	804	2	497	83	37	37	146
Derivative financial liabilities—								
Other financial liabilities	3,752	3,752	3,746	6	—	—	—	—
Off balance items:								
Committed lines of cash advances	—	187,981	187,981	—	—	—	—	—
Credit guarantees	—	10,418	10,418	—	—	—	—	—

Note: Financial liabilities payable on demand are included in "Within a Year."

(3) *Categories of Financial Instruments*

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

As of March 31, 2017

Financial Assets	Millions of Yen Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Total
Current assets:				
Trade and other receivables	—	—	¥ 380,888	¥ 380,888
Other financial assets	¥ 17,004	—	4,708	21,712
Non-current assets—				
Other financial assets	306	¥ 64,640	15,018	79,965
Total	¥ 17,310	¥ 64,640	¥ 400,615	¥ 482,566

Financial Liabilities	Millions of Yen Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost	Total
Current liabilities:			
Trade and other payables	—	¥ 287,978	¥ 287,978
Interest-bearing liabilities	—	36,889	36,889
Other financial liabilities	¥ 3,611	19	3,631
Non-current liabilities:			
Interest-bearing liabilities	—	67,657	67,657
Other financial liabilities	5	422	427
Total	¥ 3,616	¥ 392,967	¥ 396,584

Financial Assets	Thousands of U.S. Dollars Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Total
Current assets:				
Trade and other receivables	—	—	$ 3,395,026	$ 3,395,026
Other financial assets	$ 151,564	—	41,964	193,528
Non-current assets—				
Other financial assets	2,727	$ 576,165	133,862	712,764
Total	$ 154,291	$ 576,165	$ 3,570,861	$ 4,301,328

Financial Liabilities	Thousands of U.S. Dollars		
	Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost	Total
Current liabilities:			
Trade and other payables	—	$ 2,566,877	$ 2,566,877
Interest-bearing liabilities	—	328,808	328,808
Other financial liabilities	$ 32,186	169	32,364
Non-current liabilities:			
Interest-bearing liabilities	—	603,057	603,057
Other financial liabilities	44	3,761	3,806
Total	$ 32,231	$ 3,502,691	$ 3,534,931

As of March 31, 2016

Financial Assets	Millions of Yen			
	Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Total
Current assets:				
Trade and other receivables	—	—	¥ 305,758	¥ 305,758
Other financial assets	¥ 20,765	¥ 1,760	7,591	30,118
Non-current assets—				
Other financial assets	306	57,599	12,415	70,321
Total	¥ 21,072	¥ 59,359	¥ 325,766	¥ 406,198

Financial Liabilities	Millions of Yen		
	Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost	Total
Current liabilities:			
Trade and other payables	—	¥ 270,766	¥ 270,766
Interest-bearing liabilities	—	14,538	14,538
Other financial liabilities	¥ 3,746	2	3,749
Non-current liabilities:			
Interest-bearing liabilities	—	9,754	9,754
Other financial liabilities	6	802	808
Total	¥ 3,752	¥ 295,864	¥ 299,617

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) *Categorization by Level within the Fair Value Hierarchy*

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

Levels 1 to 3 of the fair value hierarchy are defined as follows:

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

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

Level 3: Fair value is measured using unobservable inputs.

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

Transfers between levels of the fair value hierarchy are recognized as if they have occurred at the beginning of each quarter. There were no transfers between Levels 1 and 2 during the fiscal years ended March 31, 2017 and 2016.

Financial instruments measured at fair value on a recurring basis by level within the fair value hierarchy are as follows:

As of March 31, 2017

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 17,004	—	¥ 17,004
Others	—	—	¥ 306	306
Available-for-sale financial assets:				
Equity securities	¥ 21,820	—	25,139	46,959
Debt securities	—	7,585	1,032	8,617
Others	—	120	8,942	9,063
Total	¥ 21,820	¥ 24,710	¥ 35,420	¥ 81,951
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 3,605	—	¥ 3,605
Others	—	11	—	11
Total	—	¥ 3,616	—	¥ 3,616

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Derivatives used in foreign exchange dealings	—	$ 151,564	—	$ 151,564
Others	—	—	$ 2,727	2,727
Available-for-sale financial assets:				
Equity securities	$ 194,491	—	224,075	418,566
Debt securities	—	67,608	9,198	76,807
Others	—	1,069	79,704	80,782
Total	$ 194,491	$ 220,251	$ 315,714	$ 730,466
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	$ 32,132	—	$ 32,132
Others	—	98	—	98
Total	—	$ 32,231	—	$ 32,231

As of March 31, 2016

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 20,765	—	¥ 20,765
Others	—	—	¥ 306	306
Available-for-sale financial assets:				
Equity securities	¥ 19,922	—	23,197	43,119
Debt securities	—	8,020	1,327	9,347
Others	—	89	6,803	6,892
Total	¥ 19,922	¥ 28,875	¥ 31,634	¥ 80,431
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 3,746	—	¥ 3,746
Others	—	6	—	6
Total	—	¥ 3,752	—	¥ 3,752

(2) *Valuation Techniques for Financial Instruments*

Financial assets and liabilities at FVTPL mainly consist of foreign exchange dealings and are categorized as Level 2 as they are measured based on the quoted market price of similar transactions.

As to available-for-sale financial assets, fair values of listed equity securities are evaluated at quoted prices at the end of the year, whereas fair values of non-listed equity securities are measured using quoted prices of comparable companies and valuation techniques such as the discounted cash flow model. They are classified as Level 2 if all significant inputs such as quoted prices and perpetual growth rates that are used for the measurement of future cash flows are observable, whereas if inputs include significant unobservable inputs, they are classified as Level 3.

Fair values of debt securities are measured mainly by the discounted cash flow model using discount rates as inputs after taking into account risk-free interest rates and credit spreads. They are categorized as Level 2 or Level 3 depending on their observability and significance.

Because the fair values of financial assets on the consolidated statement of financial position other than above are the same or reasonably approximate carrying values, the carrying values are deemed to be their fair values.

(3) ***Fair Value Measurements of Financial Instruments That Are Categorized as Level 3***

1) *Valuation techniques and inputs*

Valuation techniques and significant unobservable inputs used in the Level 3 fair value measurements are as follows:

			Ranges of Unobservable Inputs	
			As of March 31	
	Valuation Techniques	Unobservable Inputs	2017	2016
Available-for-sale financial assets (equity securities)	Discounted cash flow	Capital cost	13.0%	12.4%
		Perpetual growth rate	1.6%	1.2%
Financial assets at FVTPL (other)	Monte Carlo simulation	Expected normal distribution of operating profit	¥(400) million ($(3,565) thousand)	¥(150) million

Perpetual growth rate has a positive correlation with the fair value of available-for-sale equity securities, whereas capital cost has a negative correlation. Probability of operating result achievement has a positive correlation with the fair value of other of financial assets at FVTPL. Other than those above, certain financial assets are measured by using the Guideline Transaction Method.

2) *Reconciliation of financial instruments categorized as Level 3*

Reconciliation of financial instruments categorized as Level 3 is as follows:

For the Year Ended March 31, 2017

	Millions of Yen			
	Financial Assets at FVTPL	Available-for-Sale Financial Assets		
	Other	Equity Securities	Debt Securities	Other
As of April 1, 2016	¥ 306	¥ 23,197	¥ 1,327	¥ 6,803
Gains or losses:				
Profit for the year (Note 1)	—	(786)	6	(232)
Other comprehensive income (Note 2)	—	1,364	13	112
Purchases	—	4,715	151	2,510
Sales	—	(2,251)	(420)	—
Others	—	(1,099)	(45)	(251)
As of March 31, 2017	¥ 306	¥ 25,139	¥ 1,032	¥ 8,942

	Thousands of U.S. Dollars			
	Financial Assets at FVTPL	Available-for-Sale Financial Assets		
	Other	Equity Securities	Debt Securities	Other
As of April 1, 2016	$ 2,727	$ 206,765	$ 11,828	$ 60,638
Gains or losses:				
Profit for the year (Note 1)	—	(7,005)	53	(2,067)
Other comprehensive income (Note 2)	—	12,157	115	998
Purchases	—	42,026	1,345	22,372
Sales	—	(20,064)	(3,743)	—
Others	—	(9,795)	(401)	(2,237)
As of March 31, 2017	$ 2,727	$ 224,075	$ 9,198	$ 79,704

Notes:

1. Gains or losses included in profit for the year are included in "Other non-operating income" and "Other non-operating expenses" in the consolidated statement of profit or loss.

2. Gains or losses included in other comprehensive income are included in "Available-for-sale financial assets" and "Exchange differences on translating foreign operations" in the consolidated statement of comprehensive income.

For the Year Ended March 31, 2016

	Millions of Yen			
	Financial Assets at FVTPL	Available-for-Sale Financial Assets		
	Other	Equity Securities	Debt Securities	Other
As of April 1, 2015	¥ 1,143	¥ 15,984	¥ 1,805	¥ 3,534
Gains or losses:				
Profit for the year (Note 1)	(51)	(1,362)	(1,037)	(147)
Other comprehensive income (Note 2)	—	(1,750)	(2)	(198)
Business combinations (Note 3)	—	1,166	1,660	10
Purchases	0	7,169	1,072	3,627
Transfers from Level 3 to Level 1 (Note 4)	—	(300)	—	—
Reclassification (Note 5)	(786)	2,701	(1,770)	—
Others	—	(412)	(399)	(24)
As of March 31, 2016	¥ 306	¥ 23,197	¥ 1,327	¥ 6,803

Notes:

1. Gains or losses included in profit for the year are included in "Other non-operating income" and "Other non-operating expenses" in the consolidated statement of profit or loss.

2. Gains or losses included in other comprehensive income are included in "Available-for-sale financial assets" and "Exchange differences on translating foreign operations" in the consolidated statement of comprehensive income.

3. Due mainly to ASKUL, a new subsidiary

4. Due to newly-listed investees

5. Due to conversion of convertible bonds with share subscription rights of Signal Digital, Inc. into shares in February 2016.

3) *Sensitivity analysis*

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

4) *Valuation processes*

The fair value of Level 3 financial instruments is measured by our personnel in the investment management department, taking into account external specialists' advice and using the most appropriate valuation techniques and inputs that reflect the nature, characteristics, and risks of the financial instruments subject to fair valuation. The result of the fair value measurement, including the valuation by the external specialists, is reviewed by managers of the investment management department and approved by the Chief Financial Officer (Vice President and Executive Director).

26. TRANSFERS OF FINANCIAL ASSETS

The Company enters into securitization transactions involving trade and other receivables. Certain securitized receivables have recourse that makes the Group obliged to pay in the case of the debtor's default. Such receivables are not derecognized because they do not meet the criteria for derecognition of financial assets.

The Group recorded ¥7,497 million ($66,824 thousand) and ¥7,497 million of such transferred assets in trade and other receivables as of March 31, 2017 and 2016, respectively. In addition, the Group recorded ¥7,499 million ($66,841 thousand) and ¥7,499 million of other financial liabilities (current) for the cash received at the time of transfer of the securitized assets as of March 31, 2017 and 2016, respectively. This liability will be settled when the payment for the transferred assets is executed; however, the Group is unable to utilize the transferred assets until then.

27. REVENUE

The components of revenue are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Services	¥ 531,472	¥ 470,846	$ 4,737,249
Sale of goods (Note)	322,258	181,480	2,872,430
Total	¥ 853,730	¥ 652,327	$ 7,609,680

Note: Sale of goods includes ASKUL's operating results on and after August 27, 2015, the acquisition date.

28. COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The components of cost of sales and selling, general and administrative expenses presented by nature of the expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Cost of goods sold	¥ 254,559	¥ 143,695	$ 2,268,999
Personnel expenses	77,596	66,031	691,648
Business commissions	72,111	57,036	642,757
Depreciation and amortization	38,046	30,697	339,121
Information services	36,555	30,685	325,831
Sales promotion costs	34,404	41,483	306,658
Sales commissions	27,233	37,372	242,739
Others	110,435	80,030	984,356
Total	¥ 650,943	¥ 487,033	$ 5,802,148

29. DISASTER LOSSES

In February 2017, a fire incident occurred at a logistics center of ASKUL, namely, ASKUL Logi PARK Tokyo Metropolitan. The fire inflicted damage on ASKUL's non-current assets and inventories resulting in a temporary operation shutdown. The loss from the fire incident consists of ¥10,230 million ($91,184 thousand) of damage on non-current assets, ¥2,510 million ($22,372 thousand) of destroyed inventories, and ¥266 million ($2,370 thousand) of related costs.

30. OTHER COMPREHENSIVE INCOME

The amount arising during the year, reclassification adjustments and income tax effects on each item in other comprehensive income for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Amount arising during the year	¥ 5,428	¥ 4,170	$ 48,382
Reclassification adjustments	(1,561)	(1,507)	(13,913)
Before tax effect	3,867	2,663	34,468
Income tax effect	(1,141)	(604)	(10,170)
Available-for-sale financial assets, after tax effect	2,725	2,058	24,289
Exchange differences on translating foreign operations:			
Amount arising during the year	(18)	(810)	(160)
Reclassification adjustments	—	—	—
Before tax effect	(18)	(810)	(160)
Income tax effect	—	—	—
Exchange differences on translating foreign operations, after tax effect	(18)	(810)	(160)
Share of other comprehensive income of associates:			
Amount arising during the year	(905)	(236)	(8,066)
Income tax effect	—	—	—
Share of other comprehensive income of associates, after tax effect	(905)	(236)	(8,066)
Other comprehensive income, net of tax	¥ 1,802	¥ 1,011	$ 16,062

31. EARNINGS PER SHARE

Basic and diluted earnings per share attributable to owners of the parent are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Basic earnings per share (yen and U.S. dollars)	¥23.99	¥30.15	$0.21
Profit for the year attributable to owners of the parent	¥136,589	¥171,617	$ 1,217,479
Profit for the year not attributable to owners of the parent	—	—	—
Profit for the year used in the calculation of basic earnings per share	¥136,589	¥171,617	$ 1,217,479
Weighted-average number of common stock (thousands of shares)	5,692,618	5,692,340	
Diluted earnings per share (yen and U.S. dollars)	¥23.99	¥30.14	$0.21
Adjustments on profit for the year			
Increase in the number of common stock (thousands of shares)	790	1,030	
Potential common stock that are anti-dilutive and therefore excluded from the calculation of diluted earnings per share	Options series: 2007—3rd and 4th, 2008—1st, 2012—2nd, 2013—1st and 2nd; 2014—1st (Please refer to "Note 23. Share-based payments.")	Options series: 2007—3rd, 2008—1st, 2012—2nd, 2013—1st and 2nd; 2014—1st (Please refer to "Note 23. Share-based payments.")	

32. SUPPLEMENTAL INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(1) *Significant Non-cash Transactions*

Significant non-cash investing and financing transactions (transactions that do not require the use of cash or cash equivalents) are as follows:

For the Year Ended March 31, 2017

No significant non-cash transactions occurred during the year ended March 31, 2017.

For the Year Ended March 31, 2016

During the year, ASKUL became a subsidiary of the Company as a result of ASKUL's repurchase of its treasury shares. For fair value of the acquired assets and assumed liabilities, and non-controlling interests and goodwill, please refer to "Note 5. Business combinations."

(2) *Net Cash Outflow on Obtaining Control of Subsidiaries*

For the Year Ended March 31, 2017

There were no significant cash outflows on obtaining control of subsidiaries during the year ended March 31, 2017.

For the Year Ended March 31, 2016

Assets and liabilities assumed of new subsidiaries at the time of acquiring control through purchase of shares and the relationship between consideration and payment for acquisition are as follows:

	Millions of Yen
	Year Ended March 31, 2016
Assets acquired	¥ 38,409
Liabilities assumed	(13,492)
Net assets of new subsidiaries (before deducting cash assumed at the time of acquisition)	24,916
Goodwill	74,820
Non-controlling interests	(1,686)
Fair value of consideration paid	98,051
Cash assumed at the time of acquisition	(5,219)
Net cash outflow on obtaining control of subsidiaries	¥ 92,831

33. RELATED PARTY TRANSACTIONS

The Company's ultimate parent company is SoftBank Group Corp. (a Japanese company).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed herein. Details of transactions between the Group and other related parties that are not members of the Group are disclosed below.

(1) *Related Party Transactions and Outstanding Balances*

Year Ended March 31, 2017

			Millions of Yen	
Nature of Relationship	Name of Company or Individual	Nature of Transaction	Amount of Transaction	Outstanding Balance at Year-End
Other related party	Yahoo! Inc.	Payment of royalty (Note 1)	¥ 14,147	¥ 3,747
A company in which a majority of its voting rights is held by a close family member of the Company's director	Creative Link Corporation (Note 2)	Commission for providing news content (Note 1)	14	—

Nature of Relationship	Name of Company or Individual	Nature of Transaction	Thousands of U.S. Dollars	
			Amount of Transaction	Outstanding Balance at Year-End
Other related party	Yahoo! Inc.	Payment of royalty (Note 1)	$ 126,098	$ 33,398
A company in which a majority of its voting rights is held by a close family member of the Company's director	Creative Link Corporation (Note 2)	Commission for providing news content (Note 1)	124	—

Notes:

1. Terms and conditions of the transactions are negotiated and determined based on the nature of the services to be rendered.
2. Mr. Taizo Son, a family member of the Company's director, Mr. Masayoshi Son, holds a majority of the voting rights.
3. Amount of transactions does not include consumption taxes, whereas outstanding balance at year-end includes consumption taxes.
4. Outstanding balances at year-end are not secured by any collateral and are subsequently settled by cash. No guarantee is given or received for such balances.

Year Ended March 31, 2016

Nature of Relationship	Name of Company or Individual	Nature of Transaction	Millions of Yen	
			Amount of Transaction	Outstanding Balance at Year-End
Other related party	Yahoo! Inc.	Payment of royalty (Note 1)	¥ 12,651	¥ 3,349
A company in which a majority of its voting rights is held by a close family member of the Company's director	MOVIDA JAPAN Inc. (Note 2)	Commission for fostering and promoting start-up companies (Note 1)	21	—
A company in which a majority of its voting rights is held by a close family member of the Company's director	Creative Link Corporation (Note 2)	Commission for providing news content (Note 1)	58	10
		Commission for advertisement insertion on partner sites (Note 1)	15	2
		Commission for news content guiding services (Note 1)	19	1

Notes:

1. Terms and conditions of the transactions are negotiated and determined based on the nature of the services to be rendered.
2. Mr. Taizo Son, a family member of the Company's director, Mr. Masayoshi Son, holds a majority of the voting rights.
3. Amount of transactions does not include consumption taxes, whereas outstanding balance at year-end includes consumption taxes.
4. Outstanding balances at year-end are not secured by any collateral and are subsequently settled by cash. No guarantee is given or received for such balances.

(2) *Remuneration for Major Executives*

Remuneration for major executives is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2017	2016	2017
Short-term benefits	¥ 326	¥ 406	$ 2,905
Retirement benefits	0	0	0
Share-based payments	0	0	0
Total	¥ 326	¥ 407	$ 2,905

Note: Remuneration for major executives represents remuneration for the Company's directors (including external directors) and other executive officers.

34. CONTINGENCIES

(1) *Committed Line of Cash Advances*

The Group provides cash advance services to customers in its credit card business. The remaining balances at year-end are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Total amount of committed lines of cash advances	¥ 271,491	¥ 194,619	$ 2,419,921
Outstanding balance	(9,794)	(6,638)	(87,298)
Remaining balance	¥ 261,696	¥ 187,981	$ 2,332,614

(2) *Credit Guarantee*

In its credit guarantee business, the Group implemented debt guarantees against customers' loans from partnered financial institutions.

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2017	2016	2017
Total amount of credit guarantees	¥ 14,554	¥ 13,822	$ 129,726
Balance of credit guarantees	10,920	10,418	97,334

35. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been authorized for issue by Mr. Manabu Miyasaka, President and Representative Director, President Corporate Officer and Chief Executive Officer, and Mr. Toshiki Oya, Senior Executive Vice President Corporate Officer and Chief Financial Officer, on June 7, 2017.

* * * * * *

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yahoo Japan Corporation:

We have audited the accompanying consolidated statement of financial position of Yahoo Japan Corporation and its subsidiaries as of March 31, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yahoo Japan Corporation and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

Tokyo, Japan
June 7, 2017

Risk Factors

Major risk factors with regard to the businesses of Yahoo Japan Corporation (the Company) and its consolidated subsidiaries and affiliates (the Yahoo Japan Group) as of the publication date of this document are discussed below. We proactively disclose risk factors deemed necessary for potential investors to consider in their investment decision-making, including external factors beyond our control and business risks with a low probability of materializing. Cognizant of potential risks, we make every effort to prevent them from materializing and will respond rapidly should problems arise. Management recommends that shareholders and potential investors consider the issues below before assessing the position of the Yahoo Japan Group and its future performance. Please note that the following is not an exhaustive discussion of all risk factors that should be considered before investing in the shares of Yahoo Japan Corporation.

1. Impact of Internet Markets and Competition

1) Macroeconomic Trends, Internet Markets, and Users

a. The Yahoo Japan Group's ongoing business expansion is contingent upon steadily increasing Internet usage and Internet-based market growth, the outlook for which is uncertain.

Internet usage in terms of both user numbers and usage times has grown steadily in Japan since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the spread of broadband communications and the proliferation of technologically advanced smart devices. Because the Yahoo Japan Group is dependent on the Internet both directly and indirectly, ongoing business expansion is contingent upon continuous growth in Internet-based information exchange and commercial activity in line with steadily increasing Internet user numbers and usage times, as well as constant maintenance of a stable and secure Internet access environment for users.

The outlook for continuous growth of Internet-based markets is uncertain owing to several eventualities, including (1) Internet user numbers and usage times might begin to decline, (2) new Internet regulations or fees might discourage Internet usage, and (3) misguided development and faulty implementation of new protocols and technologies in response to growing user numbers and increasingly advanced applications might disrupt Internet usage.

b. Continuous growth in our advertising media value is uncertain.

The Internet-based advertising industry in Japan is generally thought to have begun with the Company's start of operations in 1996. Since then, the Internet advertising market has grown significantly, accounting for 20.8% of the total domestic advertising market in calendar year 2016, according to a DENTSU INC. report.

The Yahoo Japan Group engages in a range of activities aimed at enhancing its advertising media value. For example, in an ongoing effort to consolidate and expand our client base of corporate advertisers and advertising agencies we conduct periodic seminars aimed at enhancing awareness within the overall advertising industry of Internet advertising's unique capabilities. In the area of Promotional Advertising, including Sponsored Search® and Yahoo! Display Ad Network (YDN), we are working to improve the match between advertisements and user interests and preferences, thereby becoming a more valuable advertising media both for users and for advertisers.

Further progress in this regard, however, could be hindered by such factors as lower-than-anticipated growth, or a slowing of growth, in the Internet advertising market. As a result, we might not achieve anticipated levels of advertising revenues, which could negatively impact our business performance.

c. Cyclical macroeconomic trends and related shifts in user behavior could exacerbate underlying volatility in our advertising business.

Advertising expenditures are among the first that companies reduce during economic downturns, making the advertising business highly susceptible to cyclical macroeconomic trends and related shifts in user behavior. This could exacerbate underlying volatility in our advertising business stemming both from relatively short advertising contract durations and from brief fluctuations in Internet usage throughout the year.

Demand for recruiting, real estate, and other information listing services is also strongly influenced by cyclical macroeconomic trends.

On the other hand, because our cost structure includes a high proportion of fixed costs such as personnel and lease expenses, expenditures cannot be quickly adjusted downward during periods of declining revenue, thereby exacerbating underlying volatility in our advertising earnings stream.

d. Trends in advertising budget allocations could affect our advertising revenues.
Generally in Japan, major corporations outsource the bulk of their advertising activities to advertising agencies. In addition to how the advertising budget is allocated among the various media, for example, Internet, television, and newspapers, our advertising revenues depend on the inclinations of major corporate advertisers and the amount of discretion granted to advertising agencies. While we have implemented various measures to enhance our appeal as an advertising media, including efforts to boost the effectiveness of advertising products, trends in advertising budget allocations among the various media could affect our advertising revenues.

e. We might fail to attain a share of the mobile advertising market comparable to our share of the PC market.
In line with recent growth in advertising via Internet-enabled terminals such as smart devices, the Yahoo Japan Group is prioritizing the provision of smart device services ahead of PC services under the slogan of Smart Devices First. If, however, the usage of smart devices expands further but we fail to acquire the share of user numbers and usage times that we command in the PC market, our overall market share might decrease. As a result, advertising revenue growth could taper off, with negative consequences for our earnings.

f. A decline in the number of users of member services and other fee-based services could affect our revenues.
With the spread of broadband and mobile communications in recent years, the number of Internet users has increased dramatically, fueling growth in the market for fee-based services. Recognizing that the number of Internet users in Japan is likely to eventually peak, we regularly implement innovative measures to enhance users' satisfaction with and promote broader usage of various services. Despite these efforts, the eventual decline in the number of users of such fee-based member services as Yahoo! Premium, our premier member service offering a variety of members-only benefits, could negatively impact our overall revenues.

g. Some of our fee-based content services, including videos and games, might fail to attract a critical mass of devoted daily users.
The Yahoo Japan Group offers a variety of fee-based content services, including videos and games, to meet changing user needs. Although we expect usage of such fee-based content services to grow in line with increasing Internet user numbers, some of these services might fail to attract a critical mass of devoted daily users.

2) Competition
With competitors in each of our service areas, we might have difficulties maintaining our dominant position in the Japanese Internet market.
Our flagship Yahoo! JAPAN portal site offers a diverse range of Internet-based services, including search services, various types of information services such as news, Internet tool services such as e-mail, shopping and other e-commerce services, and payment services. In each of these service areas, we vie against multiple competitors for market share.

In such a competitive environment, a degree of uncertainty exists as to whether or not we will be able to maintain our dominant market position. Earnings deterioration could result from price competition or increased customer acquisition costs. Also, we might be obligated to pay higher advertising commissions and content provider fees to advertising agencies and content providers, which could adversely affect our business performance.

Moreover, within our industry there have been cases of start-up companies introducing new services that attain popularity with users and spread rapidly throughout the market. Although we fully intend to continue gauging user opinions and usage patterns with an eye to offering services that users want, it is nevertheless possible that new services offered by a start-up company could pose a competitive challenge to our existing services. Furthermore, we could be obligated to make significant investments in developing new services to maintain our competitive advantage. Either eventuality could have a negative impact on our business performance.

3) Reliance on Other Companies' Products and Services
In providing services, the Yahoo Japan Group relies on other companies' products and services, including electricity, servers, Internet connection lines, information devices, and software.
Many of the products and services necessary for the provision of our services, including electricity, servers, Internet connection lines, information devices, and software, are provided by other companies. The smooth, uninterrupted provision of such products and services is a prerequisite to the successful provision of our services.

In providing Yahoo Japan Group services, we depend in particular on a stable supply of electricity to run our servers and other equipment and facilities. Given the possibility of disruptions to the electric power supply arising from power blackouts, usage restrictions, or other eventualities, we are setting up back-up data centers and autonomous power generation facilities with the goal of responding quickly and appropriately throughout the Yahoo Japan Group in the case of an actual electric power supply disruption. Despite these proactive efforts, we might be unable either to continuously provide services or to quickly restore them following an electric power supply disruption. In addition, higher electricity charges could reduce our profitability.

To access the Internet today, users can choose from several types of browser software and from a range of information devices including PCs, smart devices, TVs, video-game consoles, and car navigation systems. Some types of browser software and certain information devices, however, might be incompatible with our services. Moreover, sub-optimal usage conditions and faulty settings on software and information devices could prevent some users from accessing Yahoo Japan Group services. Furthermore, specification changes, rate adjustments, or insufficient market supply with regard to software and information devices could similarly block user access to our services, potentially resulting in lower usage times and reduced revenues.

4) Technological Change

Failure to quickly and appropriately implement new technologies in our services could significantly impact our competitiveness.

The Japanese Internet industry, a competitive market constantly teeming with new entrants, is particularly noted for rapid technological innovation and short service lifecycles. To maintain a competitive edge, we continuously enhance our services by quickly and appropriately implementing new technologies. If, however, despite our best efforts we fail to successfully implement new technologies and our services become obsolete, we could suffer a significant decline in competitiveness.

2. Legal and Institutional Changes

1) Legal Restrictions

a. New laws or amendments to existing laws could negatively impact our business performance and adversely affect the development of the Japanese Internet industry.

The Yahoo Japan Group complies with all applicable laws and regulations and carries out policies and awareness campaigns in cooperation with relevant organizations. Recurring media reports in Japan of Internet-based malfeasance might galvanize public support for new laws or amendments to existing laws applicable to the Internet industry. This could result in increased compliance-related expenses or otherwise negatively impact our business performance, as well as adversely affect the development of the Japanese Internet industry.

b. Changes to the Provider Liability Limitation Act could restrict our business.

The Act on the Limitation of Liability for Damages of Specified Telecommunications Service Providers and the Right to Demand Disclosure of Identification Information of the Senders (Provider Liability Limitation Act) merely clarifies the scope of liability for illegal behavior established by the Civil Code and therefore does not increase the liability of businesses that act as intermediates in Internet-based information distribution. Should a social consensus in support of increased liability of information distribution intermediates emerge, however, our business could be restricted as a result of the introduction of new laws, amendments to existing laws, or the implementation by industry associations of rules for self-regulation.

c. Amendments to the Telecommunications Business Act could restrict our business.

Within our business of operating Internet-based information communication services, there are areas where we are required to comply with the Telecommunications Business Act and related ordinances enforced by relevant government divisions. Amendments to this law or to related ordinances could restrict our business.

d. The Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People could impinge upon the development of the Internet industry in Japan.

Since our establishment, we have engaged in a variety of activities supporting the sound development of the Internet, including the operation of our Yahoo! Kids site, a safe Internet environment for children, In April 2009, the government promulgated the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People. Although the effect of the act on the Yahoo Japan Group’s business has been minor, the law nevertheless raises many issues that could impinge upon the development of the Japanese Internet industry and consequently affect our business performance, including restrictions on freedom of expression and inhibition of filtering development.

e. Legislation relating to e-commerce business could negatively affect our earnings.
In our YAHUOKU! auction service, we have implemented systems that detect and delete listings of illegal items and significantly reduce fraudulent activity generally. In compliance with the Act on Specified Commercial Transactions, sellers listing brand-name products for auction are required to provide proper identification. We revoke the Yahoo! JAPAN IDs of sellers who do not comply. In collaboration with other Internet auction operators, we have formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, we are actively working to devise measures to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, we have published on our website "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

An increasing number of stores registered on Yahoo! Shopping could lead to a higher number of violations of our usage guidelines and Terms of Service, resulting in a growing number of buyer complaints. Proactively addressing this potential problem, we are applying the accumulated know-how and proven operational methods for reducing fraudulent activity on YAHUOKU! to our Yahoo! Shopping business.

If these measures fail to bring about the expected results and reports of illegal merchandise and other fraudulent activity persist, legislation could be enacted restricting commercial activity carried out via the Internet. Depending on the degree of restriction entailed by such legislation, it could negatively affect our earnings.

f. Legislation relating to social media services could affect our provision of such services.
Social media services provide a space for users to communicate with each other via postings of opinion and content. In the context of such services, the potential exists for defamation, invasion of privacy, and infringement of intellectual property and other rights. We prohibit postings that violate these rights. Regarding postings containing copyright-protected content, we make concerted efforts to prevent and eliminate such infringements, such as operating a patrol system for detecting illegal content, soliciting user reports of illegal content, and responding swiftly to requests by legitimate rights holders to remove illegal content.

If these measures fail to bring about the expected results and reports of illegal postings continue and become an object of public concern, new legislation might be enacted that could restrict comment posting services on the Internet. Depending on the degree of restriction entailed, such legislation could significantly affect our provision of services that incorporate social media functions.

g. The formulation of new laws or amendments to existing laws concerning financial services could affect some Yahoo Japan Group services.
As the operator of the Yahoo! Money service, Yahoo Japan Corporation is subject to the Payment Services Act. In compliance with this act, Yahoo Japan Corporation is registered as a Fund Transfer Service Provider and as an Issuer of Prepaid Instruments for Third-Party Business with the Kanto Local Finance Bureau. Moreover, as an intermediary in opening yen savings accounts in collaboration with The Japan Net Bank, Limited, Yahoo Japan Corporation is registered as a Bank Agent with the Kanto Local Finance Bureau.

As an issuer of credit cards and loan cards, consolidated subsidiary YJ Card Corporation is subject to the Installment Sales Act for revolving payment and other transactions in its credit card business, as well as to the Money Lending Business Act and the Interest Rate Restriction Act for cash advance transactions in its credit card and loan card businesses. In compliance with the Installment Sales Act, YJ Card Corporation is registered as an Installment Seller with the Kyushu Bureau of Economy, Trade and Industry. In compliance with the Money Lending Business Act, YJ Card Corporation is registered as a Money Lender with the Fukuoka Local Finance Branch Bureau. As a result of the recent revision to the Money Lending Business Act lowering the interest rate ceiling on loans to match the interest rate ceiling specified in the Interest Rate Restriction Act, customers might claim that interest paid in excess of the rate permitted under the Interest Rate Restriction Act represents unfair profits, and demand repayment. Although adequate reserves, estimated conservatively, have been set aside, YJ Card Corporation’s business is especially exposed to the risk of refund claims.

Strengthening or revising financial services compliance structures or trading systems in case of a revision of relevant regulations might entail increased costs and could therefore negatively impact our earnings.

h. Obligated to comply with Japan’s Travel Agency Act, the Yahoo Japan Group’s travel agency business could be restricted by future legal revisions.
Yahoo! Travel, the travel agency business operated by the Yahoo Japan Group, is obligated to comply with the Travel Agency Act and related ordinances. Revisions to this act or to related ordinances could therefore restrict our business operations.

i. In addition to legal restrictions, official administrative guidance and governmental requirements could adversely affect our service provision and performance.
In addition to the aforementioned legal restrictions, official administrative guidance and requirements by the national government, governmental ministries, or local governments regarding the self-regulatory systems of companies in the information communications industry could adversely affect our service provision and performance.

j. Restrictions on the collection and analysis of users' behavioral history information could affect such advertising services as Yahoo! Display Ad Network (YDN).
Based on an analysis of users' Internet usage histories, such advertising services as Yahoo! Display Ad Network (YDN) distribute advertisements for products or services only to user groups with a demonstrated preference for or interest in those specific products or services. These advertising products are designed to boost advertising efficacy for all concerned parties, namely, advertisers, users, and the Internet media itself.

The Yahoo Japan Group rigorously respects the privacy of individual users in its collection and analysis of behavioral history. Advertising services such as YDN analyze three aspects of users' behavioral history: (1) the Yahoo! JAPAN services viewed by users, or more specifically, accessed via users' browsers; (2) the keywords employed by users in searches; and (3) the type of Display Advertising viewed, or clicked-on, by users. This information is used only for the purpose of grouping users, or more specifically, users' browsers, on the basis of similar preferences and interests; it is not used to analyze the preferences and interests of specific users.

Although we believe that we are taking adequate precautions to respect users' privacy, some users might object to the collection and analysis of their behavioral history, or legal restrictions might be placed on these activities. In addition to damaging our brand image, such objections or restrictions could lead to a prohibition on future sales of such advertising services as YDN, which could have a detrimental impact on our business performance.

2) Litigation
a. We could be subject to damage claims by related parties who do not wish to have information displayed in our search results.
With regard to information displayed in search results, we established a Panel of Experts on Internet Search Results and Privacy with the goal of examining the issue of freedom of expression and access to information versus the protection of user privacy. Reflecting the panel's conclusions, Yahoo Japan Corporation announced in March 2015 its policy regarding individual requests to have information removed from its search results. By responding appropriately and consistently to such requests on the basis of our new policy, we aim to both improve our service and reduce risks.

If, however, our efforts in this regard fail to have the expected effect, related parties could demand compensation from the Yahoo Japan Group. In such cases, we could incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance.

b. Victims of auction fraud might again take legal action against the Yahoo Japan Group.
We have implemented various measures to improve systems security for a safer and more stable auction environment. In May 2001, we introduced a fee-based personal identification system. In July 2004, we initiated a system that verifies by postal mail the physical addresses of users listing items on the auction site. To further reinforce security, we introduced an Internet auction fraud-detection model in November 2005. Moreover, through the establishment of a patrol team that searches out and eliminates auction listings of illegal items, and in cooperation with law enforcement agencies and copyright-related groups, the Yahoo Japan Group aims to provide crime-related information, improve service quality, and reduce risks.

A lawsuit brought against the Company by certain users of YAHUOKU! seeking damage compensation relating to the non-receipt of paid auction items was ruled definitively in our favor in October 2009 when the Japanese Supreme Court dismissed the appeal by said users, effectively upholding an initial judgment that the Yahoo Japan Group was not liable for damages because it had forewarned YAHUOKU! users of the potential for auction fraud by citing actual examples of fraud.

Despite this ruling in our favor, the likelihood that auction fraud will to some extent continue implies that certain YAHUOKU! users might again take legal action against the Yahoo Japan Group, regardless of responsibility. Moreover, the implementation of additional measures to further strengthen systems security in order to prevent illegal activity, as well as the improvement of management systems, could entail increased costs and, as a result, negatively affect our earnings.

We have instituted a system whereby users victimized by auction fraud are paid a limited solatium. This solatium system could lead to higher expenditures for the Yahoo Japan Group.

c. We could be subject to claims, reprimands, or damage suits brought by related parties or governmental agencies with regard to the content of advertisements or of websites accessed through advertisement links on Yahoo Japan Group sites.

To avoid conflict with Japanese legal restrictions, we have established an Advertisement Review Standard that internally regulates the content of advertisements and of websites accessible through advertisement links on our sites. As stipulated in our written contracts with advertisers, advertisers accept full responsibility for the content of advertisements. For such services as message boards, blogs, and auctions, where users can exchange information freely, we indicate clearly in our contracts with users that illegal or slanderous content is prohibited and that full responsibility lies with users. We maintain the right to remove content that is in violation of our contracts with users and will do so immediately upon discovering such content.

Through such internal regulation, we prohibit illegal and slanderous content on our sites and protect user privacy. In addition, we publish a disclaimer stating clearly that users bear full responsibility for web browsing and information posting, and that we accept no responsibility for damages incurred by users as a result of web browsing or use of Yahoo Japan Group sites. However, there is no guarantee that such measures will suffice to stave off litigation. We could be subject to claims, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements, websites accessible through advertisement links on our sites, contributions to community message boards, and/or trading on our auction site. The resulting decline in user confidence could lead to a drop in hits or time spent on our sites, or to a suspension of certain of our services.

d. We could be subject to compensation demands from interested parties with regard to content procured from companies outside the Yahoo Japan Group.

With regard to information services such as news, weather reports, and stock prices, and for entertainment services such as videos and games, we procure content from outside companies and provide it to our users. Aiming to maintain the reliability and quality of this content, we request that content providers understand and observe the basic policies detailed in our Yahoo! JAPAN Media Statement, produced by the Yahoo Japan Group in February 2016. In addition, content providers make contractual agreements to take responsibility for all content. In case interested parties make claims, both the Yahoo Japan Group and content providers are responsible for quickly investigating and dealing with them. Despite said contractual agreements and the implementation of other measures, interested parties could demand compensation from the Yahoo Japan Group even though responsibility is contractually assigned solely to content providers. As a result, we could incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance.

e. We could be subject to compensation demands from interested parties with regard to content produced entirely or in part by the Yahoo Japan Group.

With regard to certain of our information services, including news, the Yahoo Japan Group is involved in the production of content provided to our users. In all of our content production activities, we aim to produce high-quality, reliable information stated clearly to prevent misunderstanding, free of factual inaccuracies and demagoguery, and respectful of social norms and common decency. In case interested parties make claims, the Yahoo Japan Group is responsible for quickly dealing with them. Despite our adherence to high standards for content production, interested parties could demand compensation from the Yahoo Japan Group. Even in cases where such demands do not result in our actually making compensation payments, we could nevertheless incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance.

f. We could be subject to damage compensations that are in fact the responsibility of a third party.

To prevent misunderstanding or confusion about the scope of services provided by third parties through agreements with the Yahoo Japan Group and those provided by the Group itself, measures are taken to ensure the understanding and agreement of users through Terms of Service and related clauses posted on relevant Yahoo Japan Group websites. Even so, it is possible that these measures will fail and that users will demand compensation for damages from the Yahoo Japan Group that are in fact the responsibility of a third party. As a result, we could incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance.

The Yahoo Japan Group assigns all responsibility to users and accepts no responsibility regarding YAHUOKU!, making no guarantees as to the selection, display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, a disclaimer published on the Yahoo! Shopping site states that we assume no responsibility for the activities, products, services, or website content of the many retailers employing these services. Nor do we guarantee that users of these services will be able to purchase goods or services listed by these retailers. In addition, we do not accept responsibility for damage, loss, or delay in the delivery of such goods or services. It remains possible, however, that users of these services, or related parties, will take legal actions against the Yahoo Japan Group for claims or compensation related to the content of our services. As a result of such legal actions, we could incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance. Furthermore, it is possible that the treaty regarding the jurisdictions of international courts could result in future legal disputes with users of our services who reside outside of Japan.

g. We could be subject to damage claims by third parties for infringement of intellectual property rights, such as patents or copyrights owned by third parties.

Considering intellectual property to be an important management asset, the Yahoo Japan Group has established an in-house section devoted exclusively to activities related to patent rights, including investigation, filing, and internal awareness campaigns.

In many cases, the extent to which patent rights can be applied remains unclear. To avoid potential conflicts, we might be obligated to substantially increase expenditures related to patent management, which could impact our earnings. The geographic boundaries for the application of patent rights on Internet technologies also remain unclear. Consequently, we cannot rule out the possibility of patent issues arising overseas, in addition to in Japan.

Moreover, we have set up internal regulations and training programs with the goal of ensuring that our services or business-use software do not infringe on copyrights owned by third parties. Despite these efforts, infringements still might occur. If so, we could be sued for compensation, required to pay substantial royalty fees, or forced to cease providing certain services.

h. Advertisers could claim reimbursement of excessive fees resulting from click fraud or other methods of artificially increasing Promotional Advertising fees.

Regarding certain Promotional Advertising products, including Sponsored Search® and Yahoo! Display Ad Network (YDN), a problem known as click fraud might arise. Fees for Promotional Advertising are determined by the number of times an advertising link is clicked by users. Click fraud is used to artificially inflate the number of clicks, thereby increasing Promotional Advertising fees charged to advertisers. In the United States, major advertisers victimized by this type of fraud have brought class-action lawsuits against companies offering Promotional Advertising products. The Yahoo Japan Group systematically and in some cases manually monitors and determines whether click fraud is occurring and, in cases where click fraud is detected, removes fraudulent clicks from the count for billing. Nonetheless, a similar lawsuit might be brought against the Yahoo Japan Group, thereby damaging our brand image and negatively affecting our business performance.

3) Other Legal Regulations

a. Because we routinely consign business to outside contractors, the possibility exists for violations of the Worker Dispatch and Subcontract laws, resulting in diminished public confidence in the Yahoo Japan Group.

We periodically offer training courses related to the Worker Dispatch and Subcontract laws to all employees newly joining the Yahoo Japan Group and at regular intervals thereafter to ensure compliance with these laws in business transactions. Despite such efforts, violations of the Worker Dispatch and Subcontract laws might occur, which could damage our credibility and performance.

b. Changes to accounting standards or tax codes could have a material impact on our business results.

Against the backdrop of the recent trend in Japan to establish international accounting standards, the Company has made quick and appropriate changes to our accounting standards. Even so, significant future changes to accounting standards or tax codes could have a material impact on our business results.

3. Disasters and Emergency Situations

1) Disasters

The Yahoo Japan Group's operations are potentially vulnerable to disasters.

Our operations are potentially vulnerable to disasters including earthquakes, fires, and other large-scale catastrophes such as extensive outbreaks of infectious diseases, as well as to the resultant destruction of buildings, power outages, and network failures. Our network infrastructure and human resources are concentrated mainly in Tokyo. To cope with disasters and resultant surges in Internet access, we are committed to buttressing the reliability of our entire network infrastructure by building a redundancy system that effectively duplicates and disperses server capacity and data centers.

Although we have taken steps to ensure a quick and appropriate response throughout the Yahoo Japan Group in the event of a disaster, the unexpected nature and large scale of certain disasters might make it especially difficult to carry on with normal operations or to recover fully. Advertisers might be forced by circumstances to reduce or cancel advertising contracts, or users might be blocked from accessing our fee-based services, or we might be obligated to undertake major building reconstruction projects or be liable for damage to surrounding buildings in the event of large-scale fires originating in one of our buildings. Any of these eventualities could negatively affect our operations, business performance, and brand image.

2) Emergency Situations

Emergency situations could render us incapable of maintaining some of our services.

In the event of an international conflict or a terrorist attack that significantly disrupts global economic activity, our operations could be substantially affected, particularly with regard to a potential decline in revenues and the incurring of extraordinary costs. For example, a temporary inability to operate Yahoo Japan Group sites could disrupt planned advertising business, or advertisers might be forced to reduce or even cancel advertising contracts. Furthermore, the Internet access infrastructure might be damaged or some other circumstance arise, effectively blocking users' access to our fee-based services. In addition, our operations and revenues could be affected by damage to communications or transportation lines in the United States or other countries, which could impede our links to important business alliances. In the event of extensive physical damage to our offices or to the offices of companies offering closely related business services such as Internet connection or data-center services, it is possible that the Yahoo Japan Group could be rendered incapable of maintaining some of its services.

4. Business Management

1) Management Policy and Business Strategies

Failure to quickly and flexibly modify strategies in response to changing market conditions could compromise our competitive advantage.

Focused on our overriding management goal of increasing user numbers and per-user usage times, we are pursuing key strategies with a primary emphasis on smart devices. These strategies are modified quickly and flexibly according to changes in user needs, partner requirements, or technological or competitive trends.

If management fails either to modify these strategies as required or to implement them in a timely manner, our competitive advantage could be compromised.

2) Technological Development and Improvement

a. Although our R&D efforts aim to meet user needs by strategically developing new businesses, such efforts might fail to adequately address user needs or result in R&D delays or failures.

To respond to the growth and diversification of Internet usage and maintain a competitive advantage, we focus on strategically developing new businesses capable of providing content and services that meet user needs. To support this process, we established a new research institution, Yahoo! JAPAN Research, in April 2007. Although R&D expenses directly related to such efforts to date have been limited, future R&D expenditures could exceed projections, depending on the time period required for development, resulting in diminished competitiveness.

The Japanese Internet industry is crowded with entrants and highly competitive, the pace of technological innovation is rapid, and service lifecycles are short. In such an environment, we intend to improve operating efficiency not only by hiring specialists and technically skilled staff but also by engaging cooperatively with other companies boasting proven records of accomplishment in their respective business fields. To respond quickly to changing market needs, we are also focusing on strengthening our service planning and systems development. Despite such efforts, we might fall short of achieving targeted revenues and earnings owing to delays or failures of R&D programs, excessive expenses, or a failure to adequately address user needs. Moreover, focusing R&D investment on strategically developing new businesses might hinder the development and operation of our existing services. In addition, technical and operational issues could ultimately result in user demands for compensation from the Yahoo Japan Group.

b. Failure to effectively implement a program aimed at continuously improving our services could eventually render them obsolete.

Quick-paced technological innovation and short service lifecycles result in a steady stream of new Internet services. In such an environment, we believe that continuously improving the user experience is central to maintaining our competitive advantage. To this end, we focus broadly on (1) improving the visibility and design layout of the display screen with an eye to enhancing operational convenience; (2) tightening the correspondence between the results of searches and other information services and actual user requests; and (3) accelerating display speeds of the results of searches and other information services.

To maintain and increase our competitive advantage, we must continuously invest in such service improvements. Should these capital investments not be appropriately made, we could suffer a decline in competitiveness or damage to our brand image. Moreover, the level of investments required for achieving service improvements could rise. Either of these eventualities could adversely affect our business performance. Also, although we conduct adequate surveys and tests to determine the likely effects of planned improvements to or renewal of services, the actual effects could be a reduction in the number of users or of page views. As a result, advertising revenues could decline, negatively impacting our business performance.

c. Inadequate planning and implementation of capital investment programs could result in lower service quality and higher expenditures.

To support future business expansion and facilitate ongoing provision of quality services that meet user needs, we maintain a continuous capital investment program of comparatively large scale relative to the size of our current business operations. Against a background of continuing growth in the Internet user base, increasing diversification of Internet-enabled devices, and expanding Internet accessibility, we are obligated to add new and upgrade existing network-related facilities to accommodate higher peaks in access volume and more quickly handle larger volumes of data transmission and reception. With the recent acquisition of a proprietary large-scale data center, the Yahoo Japan Group benefits not only from stable and efficient server operations but also from cost reductions.

Consequently, we anticipate a growing need for ever larger capital investments made in a timely manner to build systems and networks for smoothly controlling large volumes of communications traffic, strengthen security systems to protect payment services and users' personal information, expand systems to appropriately respond to the growth and diversification of user inquiries, and utilize our big data. Furthermore, in line with our expanding business scope we will be required to continuously acquire more office space and invest in the expansion and upgrading of our facilities.

In making these capital investments, we intend to minimize cash outflows by closely considering costs and benefits with a mid- to long-term view and by keeping a tight rein on system development and equipment-related expenditures.

Although we believe that business expansion will result in earnings growth sufficient to provide operating cash flows to cover increased costs and cash outflows, insufficient returns on capital investments could substantially impact our future earnings and cash flows. Moreover, since the Internet industry is characterized by continuous technological innovation and rapidly changing user needs, the useful lives of new or upgraded facilities might be shorter than planned. Accordingly, depreciation timeframes might be shortened, annual depreciation costs might exceed current levels, and the accelerated disposal of existing facilities might result in higher-than-expected one-time losses.

d. Failure to properly adopt the specific information transmission standards of the full range of Internet-enabled devices could adversely affect our business development.

In recent years, the range of Internet-enabled terminals has grown to include smart devices, video-game consoles, TVs, and car navigation systems, resulting in a vastly expanded Internet-connection infrastructure for information terminals other than PCs. In response to this trend, we are promoting Internet usage via a wide range of information devices with the goal of increasing accessibility to and boosting usage times of our services. In line with this strategy, the following risks are implied:

To offer our services to users via various information devices, we must adopt the information transmission standards of each information device with the support of the company that developed it. If we fail to properly adopt the standards for a given information device, then we will not be able to provide services via that information device.

Our commitment to enabling users to easily connect to our websites via any Internet-enabled information device is a key element of our competitiveness, and we intend to continue working closely with companies that have developed Internet-enabled information devices to ensure easy connectivity. Failure to achieve smooth Internet connectivity could undermine our competitiveness. Furthermore, should higher-than-expected costs be incurred in achieving connectivity, our performance could be negatively affected.

In addition, each information device has unique features, such as screen size and input system. We are optimizing our websites for each information device. Achieving this goal might take longer than expected, or our services might be inferior to other companies' optimized services, resulting in an erosion of competitiveness. Moreover, higher-than-expected optimization-related expenditures could adversely affect our business performance.

e. Failure to properly incorporate innovative advertising methods could adversely affect our advertising revenues.

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Yahoo Japan Group develops and sells a variety of advertising products suited to the specific needs of individual advertisers, including products with guaranteed exposure periods and page views; video advertising products with audio accompaniment; Rich Advertising products boasting such features as user-activated display-area expandability; Yahoo! Premium DSP products leveraging Yahoo! JAPAN's trove of big data; and Promotional Advertising products such as Sponsored Search® and Yahoo! Display Ad Network (YDN) supporting effective advertisement distribution across major partner sites in addition to Yahoo! JAPAN.

In addition, we have developed and sold various advertising products incorporating innovative advertising distribution methods, including targeting advertising, which distributes advertising based on users' Internet usage histories, keyword search histories, demographic factors, and real-time physical location; Interest Match®, which distributes advertising based on the aforementioned usage histories and the content of web pages viewed at the time of ad distribution; and AD Network, which distributes advertising over a network of partner sites and thus achieves greater reach than single-site-distribution products.

If we fail to properly incorporate innovative advertising methods, our advertising revenues could decrease even as the cost of developing new products and forming new partnerships with companies possessing expertise in innovative advertising methods increases. As a result, our business performance could be negatively affected.

3) New Businesses

Although the Yahoo Japan Group is diversifying into new businesses and services, these new businesses and services might yield lower-than-expected earnings contributions.

We plan to further diversify into new businesses and services to strengthen our operating base and provide a growing range of quality services. To this end, we might be obligated to incur additional expenses to employ new staff, expand and upgrade facilities, and conduct research and development.

Moreover, new businesses are unlikely to begin contributing stable revenues immediately. Consequently, our profitability could decline temporarily.

In addition, new businesses might not develop in line with our expectations. Furthermore, we might be unable to recover investment expenses, which could negatively affect our business performance.

4) Services Provided

a. Development, operation, and maintenance of the system for the Yahoo Japan Group's search-related services are commissioned to Google Inc. and others.

Currently, we are using the search engine and Paid Search Advertising distribution system of Google Inc.

In the future, should our business relationship with Google Inc. change or Google Inc.'s service operations be disrupted, the sustainability of certain of our services could be jeopardized and our performance negatively affected as a result.

b. Any modifications to the business alliance contract with Google Asia Pacific Pte Ltd. could affect our earnings.

To enable the Yahoo Japan Group to provide search and Paid Search Advertising distribution technologies and other services, the Company has an ongoing business alliance contract with Google Asia Pacific Pte Ltd. Because search and Paid Search Advertising distribution technologies are key revenue sources for the Yahoo Japan Group, any modifications to the following contract could affect our earnings.

Contract name	GOOGLE SERVICES AGREEMENT
Contract date	October 21, 2014
Contract term end	March 31, 2019
Counterparty	Google Asia Pacific Pte Ltd.
Main details	1) Non-exclusive provision of search and Paid Search Advertising distribution technologies by counterparty The counterparty shall provide its search and Paid Search Advertising distribution technologies to Yahoo Japan Corporation on a non-exclusive basis, which will be used by Yahoo Japan Corporation to offer its own brand of services. 2) Differentiation of search services Both parties are entitled to freely develop and use additional functions for the search results in order to differentiate their search results. Yahoo Japan Corporation may decide on its own whether to display the search results provided by the counterparty. 3) Payment for counterparty's services The consideration for the counterparty's services shall be the sum of (1) an amount calculated using a method determined on an annual basis based on the revenue of the website of Yahoo Japan Corporation and (2) an amount calculated using the standard for excess amounts on any revenue of the website of Yahoo Japan Corporation in excess of a specific amount during the specified period. The consideration for the services used by Yahoo Japan Corporation on a partner site shall be the amount calculated by multiplying the revenue derived from the partner site by a rate determined on an annual basis.

c. For advertising products with guaranteed page views, failure to attain the guaranteed number of views could obligate the Yahoo Japan Group to provide some form of compensation.

Advertising contract periods and page views are guaranteed for some of our products, with advertising fees based on those two parameters. Failure to attain the guaranteed number of page views due to problems with the Internet connection environment or to similar problems could obligate the Yahoo Japan Group to extend advertising contract periods or to provide some other form of compensation, which could negatively impact advertising revenues.

Moreover, we might fail to provide services that meet the needs of certain advertisers, which could result in the loss of earnings opportunities as well as reduced demand from those advertisers, thereby negatively impacting our advertising revenues.

d. Expenditures for additional Internet connections and capital investment in infrastructure could rise in line with expanding bandwidth requirements.

We provide streaming and other services, such as GYAO!, requiring relatively large bandwidth compared with services consisting only of text and images. Brand Panel and video advertising, incorporating interactive features, also require relatively large bandwidth. Because usage of these types of services and advertising products is likely to grow steadily in the future, expenditures for additional Internet connections and capital investment in infrastructure such as servers required to deliver these services and products could increase as well.

5) Compliance

Despite our efforts to ensure compliance with laws and regulations, compliance-related risk exists.

The Yahoo Japan Group recognizes that legal and regulatory compliance is a prerequisite for enhancing corporate value. Consequently, we have established various compliance-related regulations and standards for all corporate officers and employees with regard to relevant laws and our Articles of Incorporation. In an effort to promote thorough observation of those regulations and standards, we have posted them on our intranet and conduct periodic in-house training.

Despite these efforts, it is impossible to entirely eliminate compliance-related risk. If a violation occurs, our brand image and business performance could be affected.

6) Management and Operation Systems

a. Failure to adequately increase staff levels as required by business diversification could negatively affect our business development.

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, we must increase staff in line with ongoing business diversification to support operational expansion and quality improvement of various services arising from the recent surge in Internet users, as well as to handle billing and provide customer support for fee-based services.

Failure on the part of management or staff to respond adequately to these expanding administrative duties could inconvenience users and owners of stores registered on the Yahoo! Shopping and YAHUOKU! sites, affect operational efficiency, and undermine our competitiveness.

Although we aim to minimize the effects of increased staff levels on our operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

b. The resignation of key personnel could temporarily hinder our continuous business development.

The development of the Yahoo Japan Group's businesses depends on senior management and, notably, on key technical personnel, including corporate officers as well as representatives of each department who possess specialized knowledge and technical expertise concerning the Yahoo Japan Group and its businesses. In the case of the departure of key personnel, management replaces them as quickly as possible with appropriate successors, either from within or from outside the Yahoo Japan Group. Even so, the replacement process could temporarily disrupt our continuous business development.

In addition, some corporate officers and employees participate in the stock-option plan, one of our personnel incentive measures. Rather than motivate participants, however, the stock-option plan might actually be an inducement for certain corporate officers and employees to leave the Yahoo Japan Group.

c. Efforts to protect our intellectual property rights with the goal of maintaining competitive advantages might not be effective.

The Yahoo Japan Group believes that its intellectual property rights, including copyrights, patents, trademarks, designs, and domain names, are valuable management resources central to its ability to maintain competitive advantages in the market and that it is therefore necessary to protect them. Applying for, registering, and maintaining patents, however, entail a great deal of time and expense, including expenditures required to secure appropriate human resources. Moreover, in some cases patent rights are not granted to applicants, or requests for the invalidation of patents are made but fail to result in the provision of sufficient protection. Even if the Yahoo Japan Group successfully protects its intellectual property rights, including patents, these rights do not immediately confer competitive advantages. Considering that the Yahoo Japan Group operates in an industry noted for rapid-fire technological innovation, efforts to protect intellectual property rights might not be especially effective and, moreover, could have a negative impact on our business performance.

d. As the Yahoo Japan Group conducts a growing proportion of business transactions with a base of unspecified individual and corporate users, costs related to payment/collection and customer service might increase.

In line with the expansion of our business scope and the strengthening of our Promotional Advertising, fee-based member services, and paid-content businesses, the proportion of our revenues derived from a diverse base of unspecified individual and corporate users has grown.

The Yahoo Japan Group has assembled a special team responsible for strengthening the management of this pool of users and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, we might be exposed to increased risks related to the payment and collection of receivables owing to increasing amounts of small sales receivables and uncollected receivables, expanding credit-card payment problems, and rising costs of receivables collection.

Meanwhile, the array and quantity of user inquiries continue to broaden, including questions related to service usage, payment issues, and the return or exchange of goods and services as well as matters relating to distribution or payment services provided by consigned third-party vendors. To maintain an effective response capacity, we are in the process of increasing staff, strengthening and expanding our management organization, and improving efficiency by standardizing and automating businesses. Higher costs associated with these measures could negatively affect our earnings. In addition, these measures do not guarantee that all users will be sufficiently satisfied, implying potential damage to our brand image and a negative impact on our business performance.

5. Relationship with Major Stakeholders

1) Major Shareholders

a. Changes in parent company policies or in major shareholders could affect the Yahoo Japan Group's business.

With SoftBank Group Corp. as the parent company of Yahoo Japan Corporation, the Company provides Internet portal services in Japan under the Yahoo! brand name provided by Yahoo! Inc. The business relationships between the Yahoo Japan Group and the various associated business partners such as SoftBank Group Corp. and Yahoo! Inc. are favorable. Moving forward, we intend to maintain these favorable relationships. It is possible, however, that our services or business contracts could be affected, or relationships with associated business partners transformed, as a result either of changes in the business strategies of certain companies or of changes in important shareholders, most notably the parent company and other major investors in the Company. Such changes could adversely affect our businesses in various ways.

The shareholder agreement between SoftBank Group Corp. and Yahoo! Inc., the Company's major shareholders, places certain restrictions on the sale or purchase of Yahoo Japan Corporation's stock.

b. Competition within the SoftBank Group could arise in the future.

The Company works with SoftBank Group Corp. on mobile communications, Yahoo! BB, and other businesses. If SoftBank Group Corp. should invest in or tie up with a company offering services similar to those offered by the Company, competition within the SoftBank Group could arise in the future. Although we intend to proactively deal with such an eventuality by collaborating, any resultant competition within the SoftBank Group could affect our performance in some manner.

c. Modifications to the license agreement with Yahoo! Inc. could affect our business performance.

The Yahoo Japan Group's operations are based on a license agreement with Yahoo! Inc., one of the founding partners of the Company. Most of the Yahoo! trademark, software, and tools (hereinafter referred to as the trademark) used in the operation of our Internet search services are the property of Yahoo! Inc. We conduct business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo! Inc. is crucial to our core operations, and any modifications to the agreement could affect our business performance.

Contract name	YAHOO! JAPAN LICENSE AGREEMENT
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the outstanding shares of Yahoo Japan Corporation by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SoftBank Group Corp. incapable of maintaining over 50% of shareholder voting rights of Yahoo Japan Corporation (may be waived by agreement of Yahoo! Inc.).
Counterparty	Yahoo! Inc.
Main details	1) Licensing rights granted by Yahoo! Inc. to Yahoo Japan Corporation: • Non-exclusive rights granted to Yahoo Japan Corporation for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services) • Non-exclusive rights granted to Yahoo Japan Corporation for use in Japan of the Yahoo! trademark • Exclusive rights granted to Yahoo Japan Corporation for publishing of the Yahoo! trademark in Japan • Exclusive rights granted to Yahoo Japan Corporation worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services 2) Non-exclusive rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by Yahoo Japan Corporation 3) Royalties to be paid by Yahoo Japan Corporation to Yahoo! Inc. (see Note, below) Note: Initially, royalties were calculated as 3% of gross profit less sales commissions. Effective January 2005, the calculation method for determining royalties was revised, as follows: Royalty calculation method {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

d. Issues related to the management of the Yahoo! brand overseas could restrict the expansion of the Yahoo Japan Group's business.

We consider the establishment and proliferation of the Yahoo! JAPAN brand to be important, both for attracting users and advertisers and for expanding our business. The importance of brand recognition is increasing rapidly with the growth in the number of Internet services and low barriers to entry in the Internet business. Especially given the intensifying competition among Internet companies, expenditures for establishing the Yahoo! JAPAN brand and boosting brand recognition could increase substantially.

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, it is impossible for the Yahoo Japan Group to guarantee the outcome of these efforts. Failure on the part of Yahoo! Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Yahoo Japan Group in the form of weaker brand presence. In addition, some agreements with overseas Yahoo! Group companies contain exclusionary provisions. We are not able to place certain advertisements while these agreements are in force. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations, and presence, the possibility exists that Yahoo! Inc. has not registered trademarks necessary to our business in Japan.

It is also possible that third parties will acquire domain names that we might find necessary to our business or will use domain names that resemble Yahoo! JAPAN or the services we offer with the intention of carrying out unfair competition or harassment. Such actions could affect our brand strategy and damage our brand image.

e. Any modifications to the business alliance contract with Yahoo! Netherlands B.V. and Yahoo! Inc. could affect our earnings.

The Company has signed the following business alliance contract with Yahoo! Netherlands B.V. and Yahoo! Inc. to provide services such as Paid Search Advertising. Any modifications to the contract could affect our earnings.

Contract name	ADVERTISER AND PUBLISHER SERVICES AGREEMENT
Contract date	July 27, 2010 (Original contract dated August 31, 2007)
Contract term	August 31, 2007, to August 30, 2017 (10 years)
Counterparties	Yahoo! Netherlands B.V. and Yahoo! Inc.
Main details	1) Exclusive rights regarding Yahoo! Netherlands B.V. services Yahoo Japan Corporation and its subsidiaries for which Yahoo Japan Corporation holds more than 50% of the voting rights will have exclusive rights in Japan for those advertising-related services of Yahoo! Netherlands B.V. (with the exception of Paid Search Advertising distribution technologies) adopted as contracted services through the procedure given in the contract. However, Yahoo Japan Corporation makes no promise to exclusively use Yahoo! Netherlands B.V.'s Paid Search Advertising distribution technologies and may freely choose and adopt other third-parties' search and Paid Search Advertising distribution technologies. 2) Payment for Yahoo! Netherlands B.V. services Yahoo Japan Corporation shall pay to Yahoo! Netherlands B.V. a service fee multiplied by a rate prearranged for each year on the gross revenues earned by Yahoo Japan Corporation and its subsidiaries for which Yahoo Japan Corporation holds 20% or more of the voting rights, for the use of services contracted from Yahoo! Netherlands B.V. (including use of other third-parties' search and Paid Search Advertising distribution technologies). 3) Yahoo Japan Corporation's option right Should Yahoo Japan Corporation desire, the search and Paid Search Advertising distribution technologies that Yahoo! Inc. has the right to provide may be offered to Yahoo Japan Corporation on a non-exclusive basis. Provision of those services will be based on contracts separately formed with Yahoo! Inc. and Microsoft Corporation. 4) Cooperation regarding transfer of customer data When Yahoo Japan Corporation decides to use technologies other than those of Yahoo! Inc. or Microsoft Corporation, Yahoo! Netherlands B.V. will cooperate with Yahoo Japan Corporation regarding the transfer of customer data.

2) Consolidated Group Management

a. Inadequate consolidated management coordination could impact our performance.

The Company has subsidiaries and affiliates of all sizes with varying degrees of in-house management depending on their size. Each of the subsidiaries and affiliates maintains a policy of acquiring necessary additional staff and strengthening the organization as businesses expand. If these measures are not implemented in a timely manner, the Yahoo Japan Group's performance could be negatively affected.

Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of the Company's businesses and those of its subsidiaries and affiliates, which could negatively impact the performance of each company.

b. The Yahoo Japan Group faces risks related to its foreign exchange (FX) margin trading operations.

(i) Regulatory infringements could negatively affect our performance and financial condition.

On January 31, 2013, the Company converted FX trading company YJFX, Inc., into a wholly owned subsidiary. As a Financial Instruments Business Operator registered under Japan's Financial Instruments and Exchange Act (FIEA), YJFX carries out its operations in compliance with the FIEA, related regulations, and Cabinet Office ordinances.

Nevertheless, should an infringement of any of these regulations or ordinances occur, YJFX could have its operations suspended, be deregistered, or receive some other administrative disciplinary action. Moreover, in the case of future tightening of regulations the Yahoo Japan Group could be obligated to incur additional expenses to strengthen its compliance structures or trading systems or to implement other organizational adjustments. Any of these actions could negatively affect our performance and financial condition.

(ii) Customer FX margin transactions could negatively affect our performance and financial condition.
Under the Yahoo Japan Group's FX margin trading system, customers conduct transactions after making margin cash deposits in amounts specified by the Yahoo Japan Group based on customers' chosen levels of leverage. Because this system allows customers to conduct transactions in excess of their actual cash deposits, they can earn high returns on their investments or suffer great losses. In accordance with the transaction agreement with customers, the Yahoo Japan Group is able to take action to protect customers from further losses when their trading accounts fall below a 50% margin level by forcing customers to close out their positions using a reversing transaction method specified by the Yahoo Japan Group. However, should customers suffer losses in excess of their deposits and be unable to cover those losses, it is possible that the Yahoo Japan Group would have to assume a write-off loss for all or a portion of the outstanding liability of its customers. If such a situation occurs, it could negatively affect our performance and financial condition.

(iii) Covering transactions with counterparties could negatively affect our performance and financial condition.
To minimize the risk associated with FX margin trading carried out on behalf of its customers, the Yahoo Japan Group places covering transactions with various reputable banks, securities companies, and other financial institutions. However, should any of these financial institutions become unable to honor their contractual obligations owing to deterioration in business performance or financial condition or to other circumstances, we might as a result be unable to cover our customers' trading positions. In addition, the Yahoo Japan Group might be unable to recover its collateral deposits placed with such financial institutions in the case of their bankruptcy or failure. As a result, our performance and financial condition could be negatively affected.

(iv) Violations of asset segregation requirements could adversely affect our performance, financial condition, and business development.
In order to safeguard customer assets, Financial Instruments Business Operators are required to segregate customer assets from proprietary assets and manage them separately. Accordingly, the Yahoo Japan Group systematically deposits customer assets with major financial institutions, thereby segregating them from proprietary assets and managing them separately as trust assets. Nevertheless, if a computer system failure or other unforeseen circumstance were to impair our ability to properly calculate customer assets, or if unforeseen circumstances were to make it impossible to manage customer assets on a segregated basis, the Yahoo Japan Group's FX business operations could be suspended, deregistered, or subjected to other administrative disciplinary action. Any of these actions could negatively affect our performance, financial condition, and business development.

(v) Computer system failure could negatively affect our performance, financial condition, and business development.
The Yahoo Japan Group is dedicated to maintaining computer system stability as part of its ongoing efforts to strengthen its FX trading system. However, in the event of a computer system failure or unauthorized system access customers could suffer losses for which the Yahoo Japan Group is not covered by the liability exclusion clauses in customer contracts. As a result, customers could endure opportunity losses and the Yahoo Japan Group could suffer a loss of credibility and increased damage liability, thereby negatively affecting its performance and financial condition.

Furthermore, the Yahoo Japan Group does not hold the copyright to some of the software used in its FX trading system. Although we have obtained the legally required licenses to use such software, if after the expiration of a software licensing contract we become unable to continue using the software in question owing to the bankruptcy or failure of the company holding the copyright, our performance, financial condition, and business development could be negatively affected.

(vi) Foreign currency exchange rate fluctuations could adversely affect our performance and financial condition.
Foreign currency exchange rate fluctuations directly affect the trading losses or gains of customers using our FX trading services. An increase in trading losses due to unfavorable movements in foreign currency exchange rates could dampen customer sentiment, leading to a decrease in this business' transaction value. Because earnings

from this business are based on transaction value, a prolonged period of depressed transaction value could adversely affect our performance and financial condition. Moreover, if currency exchange rates fluctuate sharply, our covering transactions with major financial institutions might be inadequate for covering customer positions. As a result, our performance and financial condition could be negatively affected.

(vii) The Yahoo Japan Group could be penalized for violating FIEA regulations related to customer suitability.

Under FIEA regulations, Financial Instruments Business Operators are obligated to confirm the suitability of individual customers with regard to FX trading activities. Accordingly, we undertake appropriate background investigations before allowing customers to use our FX trading services. However, if as a result of inadequate investigations or other oversight on our part a customer is allowed to engage in inappropriate transactions, we could be subjected to administrative disciplinary action or to legal action initiated by the customer in question.

(viii) The Act on Prevention of Transfer of Criminal Proceeds could negatively affect our performance and business development.

Effective March 1, 2008, the Act on Prevention of Transfer of Criminal Proceeds requires that financial institutions conduct customer identification procedures as well as maintain customer identification and customer transaction records, activities previously undertaken on a voluntary basis. Furthermore, the Act mandates the establishment of customer management and information storage systems, which facilitate the tracing of funds to, and help to prevent the flow of funds to, terrorists, as well as discourage money laundering.

In accordance with said Act, the Yahoo Japan Group collects required documentation from customers of its FX trading services, conducts customer identification procedures, and maintains customer identification and customer transaction records. Nevertheless, if the Yahoo Japan Group's operational management is found to not be in accordance with said Act, or if a new regulatory framework is imposed, our performance and business development could be negatively affected.

3) Other Major Business Partners

a. Any modifications to the business alliance contract with SoftBank Corp. could affect our earnings.

The Company has signed a business alliance contract concerning various kinds of communications-related services, including Yahoo! BB services, with SoftBank Corp., a subsidiary of SoftBank Group Corp. Should any modifications be made to the business alliance contract, our earnings could be affected.

b. Because various kinds of communications-related services, including the Yahoo! BB business, rely on SoftBank Corp., the service quality of SoftBank Corp. could affect our performance.

The portion of such communications-related services handled by SoftBank Corp. could indirectly influence our performance. If SoftBank Corp. fails to complete construction on time and services to subscribers are delayed, we might be unable to account for projected sales on time and could lose business opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel services early, thereby negatively impacting our earnings.

6. Finances, Loans, and Investments

1) Funds Procurement and Interest Rate Changes

a. In our Yahoo! ezPay service, we might be required to borrow funds to bridge the collection of reimbursement funds from buyers.

Yahoo! ezPay is a payment service provided by the Company whereby upon request of the seller and buyer of an item listed on YAHUOKU!, the Company acts as the intermediate in the payment of the transaction.

Because the Company reimburses the seller of an item one to three business days after the buyer has made payment by credit card or Internet banking, it must carry the credit-card receivables for the period up to the fixed payment date of the financial institutions used by the credit-card company. If the pace of growth of this service should substantially exceed expectations, then we might not be able to raise the required funds at a reasonable cost. Moreover, should the amount of the reimbursement funds increase to a substantial level, interest payments to financial institutions might increase owing to rising interest rates, which could have a negative impact on our business performance.

b. In our Yahoo! Card service, we might be required to borrow funds to bridge the collection of reimbursement funds from cardholders.

The Yahoo! Card is a credit card issued by the Company and through which the Company provides credit to persons issued with the card. We reimburse payments made by cardholders to merchants honoring the card. Because payments are collected from cardholders once a month while reimbursements to merchants are made about three times a month, it will be necessary to finance those reimbursements. Although we are considering diversifying our funding sources as this business expands, obtaining the necessary funding for making reimbursements to merchants at a suitable cost could prove to be impossible.

2) Investments

The Yahoo Japan Group often makes investments in or loans to other companies. In some cases, appropriate returns might not be obtained on investments or loans, or investments or loans could become irrecoverable.

We make investments as a result of business tie-ups or with an eye to forming business tie-ups in the future. The recoverability of these investments is not guaranteed.

Some of the public companies in which we have invested have already produced evaluation profits or losses. In the future, evaluation profits could decline or become evaluation losses; moreover, evaluation losses could worsen.

We take the utmost care to ensure that the performances of the companies in which we invest are reflected appropriately in our own performance results by observing in-house rules in accordance with general accounting standards and by applying asset-impairment accounting. Nevertheless, depending on the direction of the stock market and the performances of the companies in which we have invested, they could have an increasingly adverse effect on our profit or loss in the future.

To maximize business synergies or to expand our business, we expect to further invest or loan funds for capital participation in third-party companies, fund joint ventures, engage in new investments by establishing companies, or provide new loans to adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risks of the investments or loans based on thorough analysis in compliance with in-house procedures. However, if these new investments or loans do not achieve the originally projected level of profit or, in the worst case, become irrecoverable, our future financial condition could be adversely affected.

7. Relationship with Other Companies and Partners

1) Business Alliances and Contracts

a. Our emphasis on building partnerships entails certain risks.

By actively forming partnerships with both corporate and personal websites, we are building an extended network that is expected to result in increased usage of our services by users of partner sites as well as by our users.

In the advertising business, the Yahoo Japan Group is expanding its advertising network, known as AD Network, by partnering with new sites and incorporating their advertising space in a network-wide advertising distribution system, thereby enabling partner sites with limited viewer reach to increase their advertising media value. Advertisers, meanwhile, can achieve wider exposure by targeting advertisements at the entire network’s user base. By jointly providing advertisers with advertising services, the Yahoo Japan Group and its partners are achieving superior performance. In addition, we are offering other services, such as our online payment service, Yahoo! Wallet, on partner sites. By establishing an extended network, we are helping to enhance the convenience, security, efficiency, user appeal, and profitability of all partner sites on the network. At the same time, by working together with partner sites we aim to provide the full range of Internet services that users demand.

In pursuing these actions, we face the following risks:

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect our performance.
- We provide services to partners via proprietary systems and via systems owned by the Company or by our affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then our brand image could be tarnished or we could be sued for damage compensation, either of which could negatively affect our performance.
- Because the quality and reputation of our partners’ services reflect on our own reputation and credibility, any problems with partners’ services could tarnish our brand image.
- The quality or reputation of a partner’s services impact on the Yahoo Japan Group’s reputation and trustworthiness. Any detrimental impact, therefore, could negatively affect our brand image.

b. The termination of Paid Search Advertising business agreements could affect our profitability.
The Yahoo Japan Group provides its Paid Search Advertising services not only to Yahoo Japan Group companies but also to other domestic portal sites and partners with which it has business agreements. We intend to continue to expand the number of our partners and to create new services. However, should business agreements with such partners be terminated, our profitability could be negatively impacted.

c. Our procurement of information and broadband content from third parties could be affected.
We offer and plan to continue offering Internet users high-quality, appealing information, such as news, weather, and stock quotes, as well as broadband content such as films and games. However, should we not be able to acquire information and content as expected or the costs of acquiring information and content be higher than anticipated, use of our services might decline, possibly resulting in a failure to achieve our projected earnings.

d. As we pursue business alliances with other sites and corporations, unforeseen problems could make it impossible to achieve our objectives.
We are pursuing business alliances with other sites and corporations in an effort to expand usage of our services. Even if we offer our services via such business alliances based on our own guidelines, in some cases we might be unable to achieve our objectives owing to troubles caused by business alliance partners, including leaks of personal information due to deficient information management systems, service disruptions caused by inadequate systems, and lengthy delays in service development.

Conversely, certain business alliance partners might fail to provide agreed-upon services owing to problems that we caused, in which case those business alliance partners might demand some form of compensation.

Either situation could have a negative impact on user numbers and, as a result, on our business performance.

2) Collection of Sales Credit Claims

a. Economic fluctuations or client business deterioration could hinder the collection of receivables from certain clients.
In sales of advertising and other products, we follow a set of internal rules in carefully examining the credit standing of clients. We also exercise sufficient precautions so that the collection of receivables will not be delayed, such as setting upper limits for transaction amounts, adopting advanced payments, making sales through advertising agencies, or using credit card payments. Nevertheless, economic fluctuations or deterioration of client businesses could increase delays in collection and the occurrence of defaults.

b. We might be unable to collect payments from certain Yahoo! Card holders.
In our Yahoo! Card service, we plan to curtail unrecoverable debt by rigorously evaluating the creditworthiness of individual cardholders and monitoring their card use. Even so, we might be unable to collect payments from certain cardholders owing to declines in cardholder creditworthiness.

3) Relationship with Third Parties

a. Each of the Yahoo Japan Group's businesses depends to some extent on specific customers or sales agents.
Each of our businesses depends to some extent either on sales to specific customers or on sales by specific sales agents other than the related parties described above.

Part of our advertising business depends on specific advertising agencies and media representatives because of the marketing activities provided by advertising agencies. In our other businesses, as well, we have major business transactions with specific customers, which transactions account for a growing percentage of our total sales.

If there were a change in our business relationships with or by these specific customers or sales agents, or deterioration in their business conditions, or a problem with their systems or other facilities, the viability of our services and our performance could be negatively impacted.

b. Relationships with third-party joint-venture partners could deteriorate.
Several companies in the Yahoo Japan Group have been established and are operated as joint ventures with third parties. These joint ventures depend substantially on their non-Group partners. Currently, cooperative relationships between joint-venture partners are excellent and contribute to the performances of the Yahoo Japan Group companies involved. However, if for some reason cooperative relationships between joint-venture partners

were to deteriorate, the performance of each company could be damaged and, in certain cases, its operations discontinued.

c. In some cases, system development and operations essential to services are consigned to specific third parties.
Among the services offered by the Yahoo Japan Group, there are cases where system development and operations essential to the service are consigned to specific third parties or where service operations are premised on linkage with a third party. These third parties are selected by the Yahoo Japan Group, using standards based on suitable technical and operating capabilities judged by past performance. In addition, the Yahoo Japan Group maintains close contact with relevant sections to ensure that problems affecting our services do not arise. Nevertheless, a system development delay could occur owing to a situation at a consigned third party that we cannot manage, or a situation could arise whereby obstruction of operations or some other event causes the stoppage of third-party systems to which our services are linked. Such events could lead to a loss of sales opportunities and reduce the competitiveness of our services, negatively impacting our performance or, in the worst case, resulting in the termination of the services. In addition, in cases where third parties have direct contact with users, such as delivery-related services, mishandling of such services could damage our brand image.

d. Other services are also dependent on external third parties.
In addition to the aforementioned, the Yahoo Japan Group provides certain services by consigning operations to external third parties, in which cases we are reliant on the information and services provided by those third parties. Deterioration of business conditions and service quality at such third parties could hinder our service provision and negatively impact our performance.

8. Information Security

1) Efforts to Promote Information Security

a. Information leaks could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.
The entire Yahoo Japan Group takes a mid- to long-term perspective on information security with the goal of providing safe and secure services to users.

Nevertheless, our efforts to promote information security could fall short. Information leaks, destruction or falsification of data, or termination of services could occur as a result of human operational error or intentional acts of sabotage, system failure due to natural disasters, cyber-attacks due to malware infections or targeted attacks, or vulnerability of systems and related equipment. Any of these eventualities could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.

b. Information leaks at subsidiaries and affiliates could affect our business performance.
The Company provides information security support to its subsidiaries and affiliates. Specifically, support is provided with regard to the sharing and implementation of information security measures, sharing of security-related vulnerability information, and consulting about information security measures, as requested by specific subsidiaries and affiliates.

Moreover, we provide support to subsidiaries and affiliates with regard to the provision of regulations and the acquisition of third-party certifications in order to ensure that subsidiaries and affiliates implement security measures comparable to those of the Company.

Nevertheless, if threats such as cyber-attacks were to occur, additional costs could arise and affect our earnings.

c. Increased sophistication or scale of such threats as cyber-attacks could negatively affect our business performance.
The Yahoo Japan Group makes adequate investments in forward-looking measures required to protect against such threats as cyber-attacks, which are becoming increasingly sophisticated and larger in scale.

Nevertheless, if such threats as cyber-attacks were to unexpectedly increase in sophistication or scale, we could be obligated to incur additional costs, which could affect our earnings.

2) Personal Data

a. Leaks of users' personal data could negatively affect our business performance.
The Yahoo Japan Group discloses its privacy policy to its users and fully complies with the policy in its usage of users' personal data obtained through the provision of services.

Users' personal data is protected by means of several measures, including storage in isolated systems to which only a very limited number of authorized persons are granted access. Nevertheless, such measures could fall short of preventing leaks of users' personal data, in which case termination or curtailment of services might occur, which could not only negatively affect our business performance but also damage our credibility. In addition, breaches of information security relating to personal data could lead to legal disputes.

Inquiries about, amendments to, and deletion of personal data can be carried out on the system only by individual users themselves. Measures have been implemented to prevent corporate officers and employees from browsing users' personal data except when absolutely necessary in order to answer user inquiries.

Moreover, when work related to users' personal data is consigned to outside contractors, we select only those companies that meet our strict criteria regarding information security. In addition, we offer supervision to and periodically undertake inspections of outside contractors throughout the consignment period.

Nevertheless, these efforts could fall short of preventing information leaks or the destruction or falsification of data, which could damage our credibility and lead to legal disputes.

b. Leaks of users' bank account numbers and credit card numbers could damage our brand image and result in legal disputes.

The Yahoo Japan Group obtains and stores the bank account and credit card numbers of users in order to provide financial and payment-related services such as Yahoo! Wallet, our online payment service, as well as for identity verification purposes.

Based on the understanding that direct financial damages could be inflicted upon users if their personal data were to be exploited by a third party, the Company places such sensitive information under strict control in isolated systems.

Yahoo! Wallet has received the highest level of Payment Card Industry Data Security Standard (PCI DSS) certification, as have almost all Yahoo Japan Group–affiliated stores accepting credit card payments. PCI DSS is a global security standard for handling credit card payment procedures.

Nevertheless, these measures do not guarantee perfect maintenance of our information security systems. If, under some circumstance, a problem such as an information leak were to occur, it could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.

c. Leaks of personal data by stores registered on Yahoo! Shopping or YAHUOKU! could negatively affect our business performance.

In Yahoo! Shopping and YAHUOKU! BtoC transactions, personal data provided by buyers is sent directly to stores where buyers have made purchases. Accordingly, individual stores are the main repositories of personal data and take responsibility for controlling it. Moreover, to ensure that buyers' personal data is not disclosed to other individuals or entities, stores are given clear instructions on proper methods of information control and are strictly prohibited from using personal data for purposes other than the delivery of items or sales promotions.

To clear credit card payments, stores may either use the payment system operated by the Yahoo Japan Group or deal directly with credit card companies. Stores opting to use our payment system do not store credit card numbers, as these are provided directly to credit card companies by the Yahoo Japan Group. Stores opting to deal directly with credit card companies are provided with strict instructions for controlling buyers' credit card numbers in the same manner used to control other personal data.

Nevertheless, such measures could fall short of preventing the occurrence of information leaks, resulting in damage to our credibility and a decrease in user numbers, regardless of whether or not we are in fact responsible. In such cases, our business performance could be negatively affected.

3) Communications Privacy

Leaks of information related to communications privacy could negatively affect our business performance.

The Yahoo Japan Group handles information related to communications privacy in such services as Yahoo! Mail. In handling this type of information, we take appropriate measures with regard to information security to meet the requirements of the Telecommunications Business Act.

Despite these measures, if such information were leaked, either deliberately or through negligence, by persons related to the Yahoo Japan Group, by companies with which business alliances have been forged, or by companies to which the Group consigns work, or as a result of malware or defective systems used to provide services such as Yahoo! Mail or physical intrusion into the Group's communications facilities, we could be drawn into legal disputes and our brand image could be tarnished, with a resultant negative impact on business performance due to a decrease in user numbers, damage compensation associated with the termination or curtailment of services, or a decrease in revenue.

4) Fraudulent Use

Fraudulent use of Yahoo Japan Group services by malicious users could negatively affect our business performance.

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users' Yahoo! JAPAN IDs, passwords, or credit card information, and then impersonate unsuspecting users in order to use Yahoo Japan Group or partner site services, or use fraudulently obtained Yahoo! Cards to make payments. As examples of fraud on YAHUOKU!, malicious users might use unsuspecting users' accounts to list fraudulent items or to make payments via Yahoo! Wallet or Yahoo! ezPay. Similarly, malicious users might send spoof e-mails via unsuspecting users' Yahoo! Mail accounts.

The Yahoo Japan Group has taken steps to protect Yahoo! JAPAN IDs and passwords, educate Internet users in Japan about safe ID management, and implement certain measures against anticipated fraud. Nevertheless, fraudulent use by malicious users could prevent the collection of advances paid or necessitate expenditures to prevent the recurrence of such fraudulent use, which could negatively affect our earnings in addition to damaging our brand image.

5) Internal Management Information

Leaks of internal management information (insider information) that could impact investment decisions might affect our business performance.

The Yahoo Japan Group separates internal management information such as patent information before application, undisclosed information regarding M&A and business alliances, personal data of business partners, shareholders, and employees, audit materials, and other sales materials from the personal data of users, and manages such information under appropriate access controls.

Despite these measures, this type of information could be leaked or falsified, or become unusable. In such cases, it could directly affect interested parties such as shareholders, business partners, or employees, weaken our market position, lead to the termination of business operations in the case of legal violations, or damage our brand image.

6) Genetic Analysis Service

In this service, genetic samples provided by subscribers to the service are analyzed and the personal genetic information resulting from the analysis is stored as sensitive personal information within the Yahoo Japan Group under extremely tight security conditions. However, if for some reason an information leak or some other problem were to occur, the credibility of the Yahoo Japan Group could deteriorate and legal disputes for damage compensation could arise.

9. Corporate Governance

Corporate Governance System

Inadequate systems for corporate governance might negatively affect operations and business performance.

To prevent or reduce the recurrence of problems related to improper employee conduct or human operational error, the Yahoo Japan Group has implemented stricter controls and operational standards under the guidance of the Internal Audit Office, an independent organization directly supervised by the President and Representative Director.

From June 2015 Yahoo Japan Corporation has based its corporate governance structure on an Audit and Supervisory Committee comprising three members, two of whom are outside directors. By clearly separating the monitoring and supervisory functions of the Board of Directors from the business execution function of corporate officers, this corporate governance structure encourages the quick, aggressive management decision-making necessary for success in Japan's Internet Industry while at the same time facilitating the rigorous monitoring of the effectiveness and appropriateness of management decision-making. More broadly, the structure promotes the aims of Japan's corporate governance code, namely, transparent, fair, timely, and decisive decision making and proactive management.

Despite our efforts to strengthen corporate governance, the incidence of human operational error and its recurrence or illegal conduct by Company officers or employees might increase, thereby negatively affecting operations and business performance.

Principal Associated Enterprises

(As of March 31, 2017)

Parent Company

Name	Common Stock (Millions of yen)	SoftBank Group Corp.'s Ownership of Yahoo Japan Corporation (%)	Business
SoftBank Group Corp.[1, 2, 3, 4]	238,772	43.0 (6.6)	Holding company

Consolidated Subsidiaries

Name	Common Stock (Millions of yen)	Yahoo Japan Corporation's Ownership (%)	Business
Y's Sports Inc.	100	100.0	Collection of sports-related information and production of articles and content
Synergy Marketing, Inc.	100	100.0	Cloud service and agent service
GYAO Corporation[5]	888	66.7	Internet distribution of video-streaming; entertainment information provision; planning, production, and sale of Internet advertising
ValueCommerce Co., Ltd.[2, 5]	1,728	52.3	Advertising business (affiliate marketing, Storematch, ad network) and CRM business (marketing automation)
Carview Corporation	100	100.0	e-Commerce, online media, and other related businesses for automobiles and total driving experience
ASKUL Corporation[2, 5, 6, 7]	21,189	45.3	Mail-order service of office-related products and other delivery services
ecohai Co., Ltd.[5, 8]	2,563	68.5 (68.5)	Parcel delivery service
Ikyu Corporation	400	100.0	Operation of various Internet sites providing reservation services for high-end hotels and restaurants
eBOOK Initiative Japan Co., Ltd.[2, 5, 6]	845	44.3	Content digitization and distribution service; planning, development, and production of digital content; publishing and editorial services for magazines and books
Netrust, Ltd	243	75.0	Online payment services
Y's Insurance Inc.	30	60.0	Life/Non-life insurance agency busines
FirstServer, Inc.	363	100.0	Rental server service, domain registration service, and cloud service
IDC Frontier Inc.	100	100.0	Cloud computing service and data center business
YJ Capital Inc.	200	100.0	Venture capital business
YJ1 Investment Partnership[5]	3,000	—	Investment securities and equity interest acquisition and ownership
YJFX, Inc.	490	100.0	Foreign exchange margin trading business
YJ2 Investment Partnership[5]	20,000	—	Investment securities and equity interest acquisition and ownership
YJ Card Corporation	100	65.0	Credit card, card loan, and credit guarantee business
YJ Tech Investment Partnership[5]	3,500	—	Investment securities and equity interest acquisition and ownership
45 additional consolidated subsidiaries	—	—	—

Affiliates

Name	Common Stock (Millions of yen)	Yahoo Japan Corporation's Ownership (%)	Business
BOOKOFF CORPORATION LIMITED[2, 9]	3,652	15.1	Reuse business
The Japan Net Bank, Limited	37,250	41.2	Banking
35 additional affiliates	—	—	—

Other Associated Enterprise

Name	Common Stock (Thousands of U.S. dollars)	Yahoo! Inc.'s Ownership of Yahoo Japan Corporation (%)	Business
Yahoo! Inc.	971	35.6	Online advertising sales

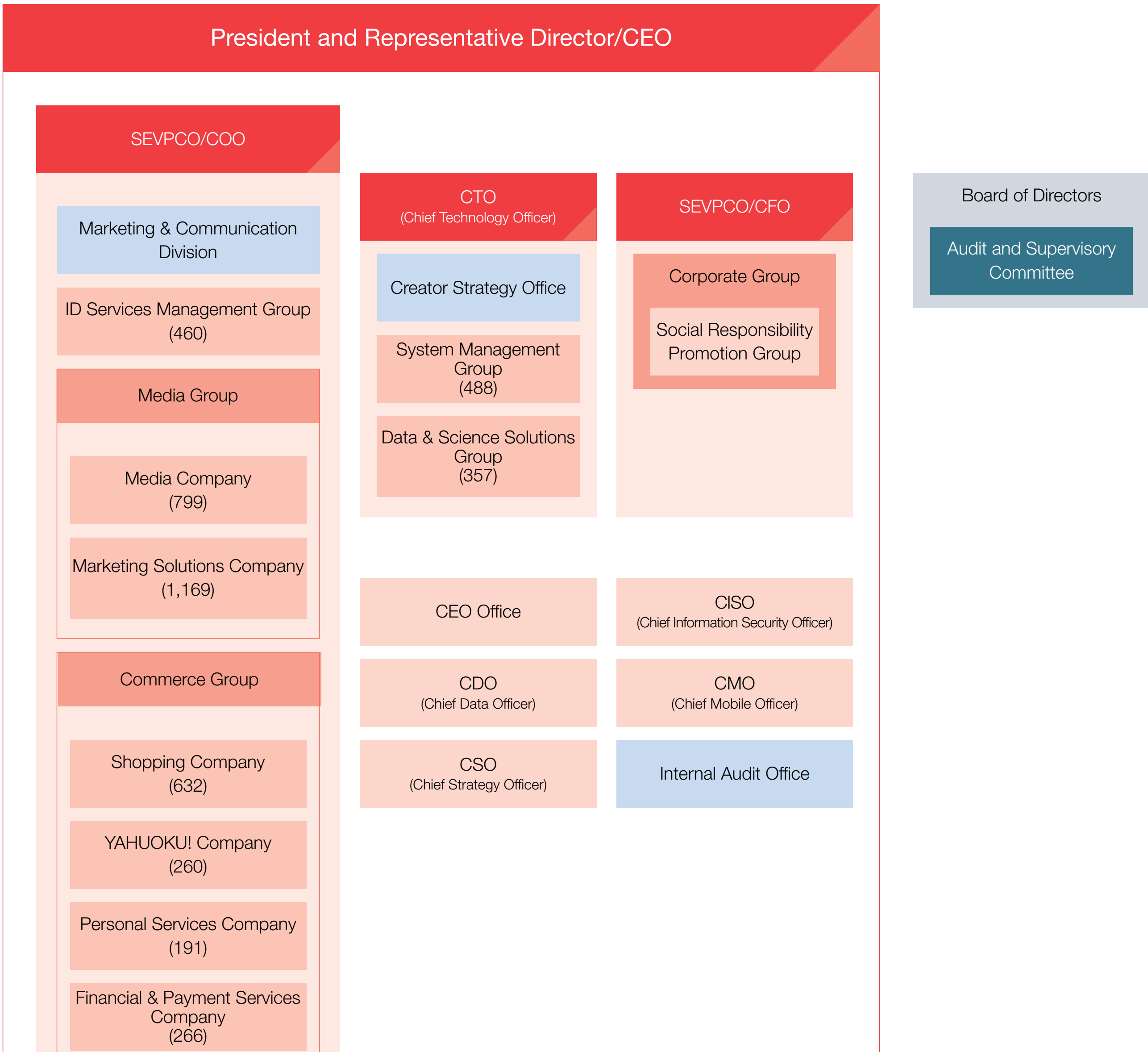
1. Although its voting rights ownership ratio is less than 50%, SoftBank Group Corp. is our parent company based on control criteria.
2. Filer of Annual Securities Report *(Yuho)*
3. The figure in parentheses is SoftBank Group Corp.'s indirect ownership ratio of Yahoo Japan Corporation.
4. On June 1, 2017, all Company shares owned by SoftBank Group Corp. were transferred to SoftBank Group International GK, a wholly owned subsidiary of SoftBank Group Corp. Despite this share transfer, SoftBank Group Corp. remains our parent company.
5. Specified consolidated subsidiary
6. Although our voting rights ownership ratio is less than 50%, we consider ASKUL Corporation and eBOOK Initiative Japan Co., Ltd. to be consolidated subsidiaries because we essentially control them.
7. Although the ratio of ASKUL Corporation's net sales (excluding consolidated intersegment sales) to consolidated net sales exceeds 10%, this consolidated subsidiary is a filer of Annual Securities Report *(Yuho)*. Therefore, major P/L information is omitted.
8. The figure in parentheses is the Company's indirect ownership ratio of ecohai Co., Ltd.
9. Although our voting rights ownership ratio is less than 20%, we consider BOOKOFF CORPORATION LIMITED to be an affiliate owing to our substantial influence over it.

Related Business Segments

Marketing Solutions Business　Consumer Business　Others

Organization Chart of Yahoo Japan Corporation

(As of April 1, 2017)



1. SEVPCO = Senior Executive Vice President Corporate Officer
2. Employee numbers in parentheses

Corporate Information/Shareholders' Information

(As of March 31, 2017)

Yahoo Japan Corporation

Headquarters

Kioi Tower
1-3 Kioicho, Chiyoda-ku
Tokyo 102-8282, Japan

Founded

January 31, 1996

Common Stock

¥8,428 million

Number of Employees

5,826
11,231 (consolidated)

Shares of Common Stock

Authorized shares: 24,160,000,000 shares
Shares outstanding: 5,695,577,600 shares (Treasury stock: 2,800,000 shares)
Number of shareholders: 115,927

Share Listing

The First Section of the Tokyo Stock Exchange (listed on October 28, 2003)

Securities Code

4689

Transfer Agent

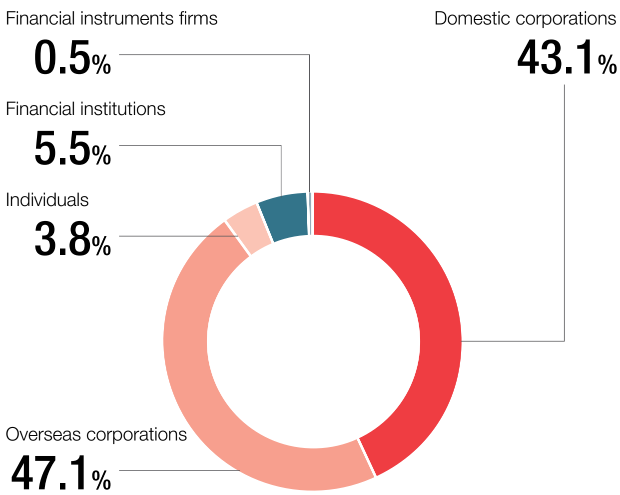
Mitsubishi UFJ Trust and Banking Corporation

Major Shareholders

Name	Shareholding	Percent of total shares issued*
SoftBank Group Corp.	2,071,926,400	36.4
Yahoo! Inc.	2,025,923,000	35.6
SBBM Corporation	373,560,900	6.6
Japan Trustee Services Bank, Ltd. (Trust Account)	81,739,400	1.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	65,020,400	1.1
STATE STREET BANK AND TRUST COMPANY	57,110,517	1.0
JP MORGAN CHASE BANK 385632	51,277,029	0.9
THE BANK OF NEW YORK MELLON SA/NV 10	35,338,589	0.6
JP MORGAN CHASE BANK 380634	30,015,089	0.5
GOLDMAN, SACHS & CO. REG	28,013,317	0.5

*Excluding treasury stock of 2,800,000 shares

Breakdown of Shares Outstanding, by Shareholder Type



Historical Number of Shares Outstanding

Date	Action	Number of shares outstanding
1996/1/31	Establishment of the Company	4,000.00
1997/9/6	Rights offering	5,800.00
1997/11/4	Public offering	6,775.00
1999/3/6	Public offering at market price	6,900.00
1999/5/20	2-for-1 stock split	13,822.00
1999/11/19	2-for-1 stock split	27,826.00
2000/3/1	New stock issuance at merger	28,954.15
2000/5/19	2-for-1 stock split	57,940.30
2000/9/1	New stock issuance at merger	58,167.50
2000/11/20	2-for-1 stock split	116,917.00
2002/5/20	2-for-1 stock split	235,063.60
2002/11/20	2-for-1 stock split	471,059.04
2003/5/20	2-for-1 stock split	942,118.08
2003/11/20	2-for-1 stock split	1,884,923.16
2004/5/20	2-for-1 stock split	3,772,188.32
2004/11/19	2-for-1 stock split	7,546,426.64

Date	Action	Number of shares outstanding
2005/5/20	2-for-1 stock split	15,100,808.28
2005/11/18	2-for-1 stock split	30,209,708.56
2006/4/1	2-for-1 stock split	60,452,137.12
2008/8/8	Retirement of treasury stock	59,284,577.68
2008/12/30	Retirement of treasury stock	59,290,736
2009/3/31	Retirement of treasury stock	58,107,980
2010/3/31	Exercise of stock option	58,118,909
2011/3/31	Exercise of stock option	58,177,294
2012/3/31	Exercise of stock option	58,184,240
2013/3/31	Retirement of treasury stock	57,510,554
2013/10/1	100-for-1 stock split	5,751,839,700
2014/3/31	Retirement of treasury stock	5,694,900,600
2015/3/31	Exercise of stock option	5,694,945,000
2016/3/31	Exercise of stock option	5,695,291,400
2017/3/31	Exercise of stock option	5,695,577,600

Note: All new stock issuances have been made at fair value.

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