



Yahoo Japan Corporation

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Integrated Report 2018

Year ended March 31, 2018



Kentaro Kawabe

President and Representative Director,  
President Corporate Officer,  
Chief Executive Officer (CEO)

In the 22 years since its founding, Yahoo Japan Corporation (“Yahoo! JAPAN” or “the Company”) has expanded its business in accordance with innovation in information technology. After riding the waves of the desktop Internet generation, which focused on PCs, and the mobile Internet generation, which focused on smartphones, Yahoo! JAPAN is now taking on challenges in the data generation, which represents the next wave of the journey.

Against the backdrop of outstanding technological innovations such as AI, the Internet of Things (IoT), and virtual reality (VR), the structure of society is now becoming more complex, and the speed at which changes occur is becoming remarkably faster. Additionally, in the Internet industry, there have been significant changes to the device and communications environment. By adopting an approach

in which we promptly ascertain these changes and boldly take on challenges in response, I believe we can achieve sustainable growth.

Going forward, we will continue to contribute to society by solving problems facing both people and society through information technologies while we pursue efforts to further improve our corporate value.

As a new endeavor for the Company, we have decided to publish an integrated report, which introduces both financial and non-financial information in an integrated manner. With this integrated report, we will provide explanations that allow our various stakeholders to better understand the Company’s businesses, initiatives, and vision. At the same time, we will continue our efforts to improve our communication while receiving feedback from our stakeholders.

CONTENTS

Profile & Growth Story	
3	Growth Story
5	Value Creation
9	At a Glance
11	Financial and Non-financial Highlights
Our Strategy	
13	CEO Message
17	Growth Strategies
23	Special Feature: Creating the Future through New User Experiences
25	Technological Strategy
27	Financial Strategy
29	Human Resources Strategy
Business Review	
31	Business Overview
32	Media Business
35	Commerce Business

Sources of Our Value	
39	UPDATE JAPAN: Our CSR Activities
47	Corporate Governance
55	Risk Management
59	Information Security
Data Section	
63	Financial Section
140	Risk Factors
162	Principal Associated Enterprises
163	Organization Chart of Yahoo Japan Corporation (Non-consolidated basis)
164	Corporate Information/ Shareholders' Information

**Editorial Policy**

This integrated report provides a comprehensive overview of the business operations and corporate activities of Yahoo Japan Corporation (“Yahoo! JAPAN” or “the Company”) and its consolidated subsidiaries and affiliates (“the Yahoo Japan Group” or “the 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 integrated report is provided primarily for the edification of our stakeholders, those topics deemed to be of particular interest to said stakeholders were selected for inclusion. We sincerely hope that this integrated 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/>

**Disclaimer on Forward-looking Statements**

All forward-looking statements appearing in this integrated 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 may vary materially from those described in the relevant forward-looking statements. We therefore kindly 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, Vision, and Values

Firmly established as a “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 action guidelines entitled Yahoo! Values, which are thoroughly infused in our work culture and guide our day-to-day business activities.

Mission

Problem-solving Engine

Yahoo! JAPAN continues to pursue initiatives to solve problems in people’s daily lives and problems facing society by leveraging information technologies. As a “problem-solving engine,” Yahoo! JAPAN will contribute to people and society through its various businesses.

Vision

UPDATE JAPAN

By drawing on the power of the Internet, Yahoo! JAPAN will take on further challenges to inspire hope and to bring about progressive change to Japanese society.

Values

All Yahoo! JAPAN

Individual Strength

Discover, Propose, and Improve

Compelling Sense of Ownership

Absolute Commitment

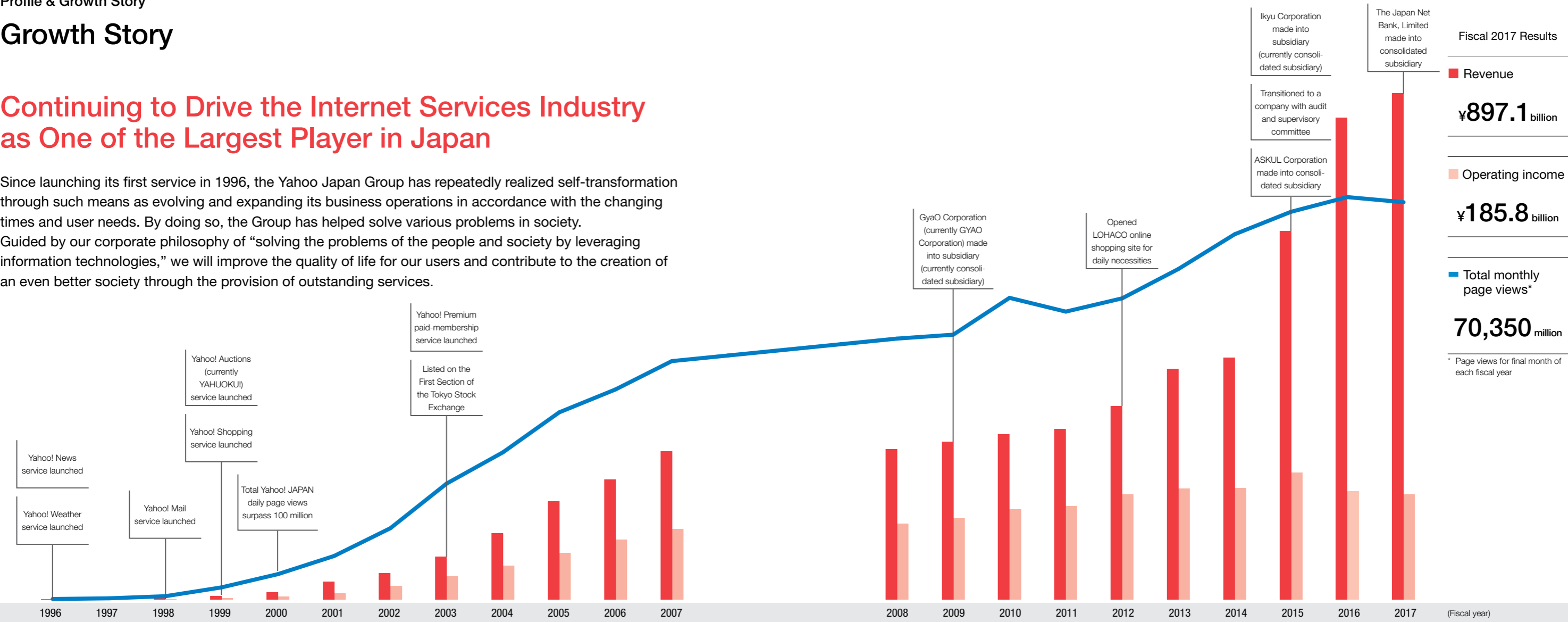
To continue to solve the various problems facing Japan through the power of the Internet, we have adopted five action guidelines entitled Yahoo! Values, which represent the values of which our employees should remain ever-mindful and which provide an overview of how employees should carry out their work. We believe our employees should embody these values with the goal of continuing to evolve both personally and professionally on behalf of our users.



Growth Story

Continuing to Drive the Internet Services Industry as One of the Largest Player in Japan

Since launching its first service in 1996, the Yahoo Japan Group has repeatedly realized self-transformation through such means as evolving and expanding its business operations in accordance with the changing times and user needs. By doing so, the Group has helped solve various problems in society. Guided by our corporate philosophy of “solving the problems of the people and society by leveraging information technologies,” we will improve the quality of life for our users and contribute to the creation of an even better society through the provision of outstanding services.



Implementing Self-Transformation in Accordance with the Changing Business Environment

Inoue regime (1996–2011)					Miyasaka regime (2012–2017)					Kawabe regime (2018–)									
Aiming to be the No. 1 PC-based Internet service					Promoting the Smartphone First policy														
										Expanding the Commerce Business									
										Promoting data utilization									
1996	Apr.	2001	Sep.	2008	Jul.	2012	Apr.	2013	Oct.	2015	Apr.	2015	May	2017	Jun.	2018	Jan.	2018	Feb.
Launch of Yahoo! JAPAN		Launch of Yahoo! BB service		Optimization of Yahoo! JAPAN services for iPhone		Transition to new management structure		Announcement of new e-commerce strategy		Launch of Yahoo! JAPAN Card		Renewal of Yahoo! JAPAN smartphone version top page		Provision of Yahoo! Premium to SoftBank members		Announcement of new management structure		Announcement of DATA FOREST Initiative	
Yahoo! JAPAN was launched as the Internet's first commercial Japanese-language search engine, providing a database of Japanese-language websites and a directory tree data search as well as keyword search services.		The launch of Yahoo! BB commercial high-speed Internet connection service, offering unlimited access for just ¥2,280 per month, fueled the proliferation of Internet connectivity throughout Japan, providing the catalyst for tremendous growth in Internet use.		After SoftBank began exclusive sales of Apple's iPhone 3G model in Japan, 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.		In response to rapid smartphone proliferation and related changes in the environment for Internet use, we introduced a new management structure and rejuvenated the management team, the first such move since the Company's establishment in 1996.		In our Yahoo! Shopping service, we announced the transition from a fee-based revenue model to one based on advertising, thereby eliminating monthly store tenant fees and system-use fees. In a similar manner, we decided to eliminate monthly store tenant fees in our YAHUOKU! auction service.		In collaboration with our consolidated subsidiary, YJ Card Corporation, we entered the credit card business through the joint development of Yahoo! JAPAN Card, which offers T-point rewards. Usability and transaction value of our e-commerce services such as Yahoo! Shopping and YAHUOKU! were also enhanced.		In our renewal of the Yahoo! JAPAN smartphone version top page, we introduced a vertical scrolling timeline design that not only increases the amount of content that can be viewed on small-screen smartphones but also facilitates the distribution of new In-feed Advertising.		We began providing Yahoo! Premium monthly membership service free of charge to SoftBank members who have set up Smart Logins. In addition, we implemented campaigns that consistently offer 10 times the number of points received when purchasing any product using Yahoo! Shopping or LOHACO services. In these ways, we made efforts to expand new purchases.		Upon adopting the new challenge of shifting from a smartphone company to a data-driven company, we announced the transition to a new management structure. By combining the position of CEO and COO, this structure works to accelerate the decision-making process and rejuvenate the management team.		By combining the data possessed by corporations, local governments, and research institutions with our big data and AI technologies, the DATA FOREST Initiative aims to create new businesses that support the problem-solving efforts of our clients. Full-scale proof-of-concept trials began to meet this purpose.	

# Value Creation—Roadmap for Improving Corporate Value

## Creating the Future with the Power of the Internet

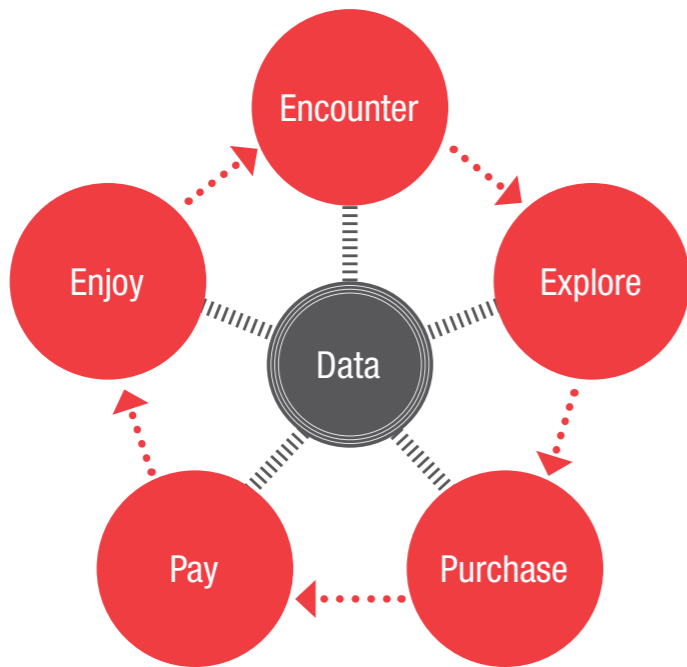
Since the commencement of its operations in 1996, the Yahoo Japan Group has continued to create highly convenient services that only the Internet can offer. By doing so, the Group has brought about various lifestyle and industrial changes. Currently, the Internet is further demonstrating its ability to shape the future. Going forward, the Group will continue to develop unique, outstanding services that leverage information technologies while accelerating initiatives with the aim of becoming a company that can create the future and spur new user actions.

### OUR BUSINESS MODEL

## Providing Comprehensive “User Actions” through Yahoo!JAPAN Services

“User action” refers to the sequence of behavior of Internet users in which they encounter information, explore in detail by using search functions, purchase services and products, and complete payments. By offering over 100 services that center on media, e-commerce, and payment businesses, we are a globally unique corporate group that has a comprehensive grasp of user actions. We fully leverage the connections between our wide array of services to offer a comprehensive user experience. At the same time, by leveraging the data we obtain through these various services in a manner that extends across a broad range of domains, we are able to create user experiences that cater to the needs of our users.

● User actions on the Internet  
..... Cycle of user actions



Please see page 7 for more details on our business model. ➤

### OUR GROWTH STRATEGY

## Becoming a Company That Creates the Future through User Actions

Following the transition to a new management structure in fiscal 2018, the Group revised its service growth and investment policies based on the common guideline to maximize user actions by leveraging the Group’s long-cultivated business foundation and competitive edge. While working to form links within our service lineup, which is one of the largest in Japan, we will utilize the data we receive from each service on a cross-sectional basis. In these ways, we will create unique services that achieve differentiation and bring new experiences and value to our users. Going forward, we aim to become a company that creates the future through such efforts.

### Our Growth Driver

## Maximizing User Actions

We aim to maximize user actions by forming links between services that generate one of the neighboring pair of user actions, such as encountering and exploring. Through the linkage of services, we will offer a comprehensive and convenient user experience based on the past actions and anticipated actions of users. At the same time, we will increase service use by encouraging user traffic between services. Also, we will identify core fields for which we see significant growth potential and take bold steps to invest our management resources in these fields over the medium to long term. In this way, we will promote initiatives that capitalize on growth opportunities.

### Our Value Driver

## Unleashing the Power of Data

As a result of the rapid advancement of information technologies, the potential offered by data is becoming greater. The abundance of unique data we collect through our extensive lineup of services provides us with an important competitive edge in the creation of new and unique services. Going forward, we will combine our abundant data with our diverse services in a cross-sectional manner to transform these services to better meet the needs of our users and offer higher levels of quality. At the same time, we will work to create new services that offer highly unique and original experiences to users.

Please see page 17 for more details on our growth strategies. ➤



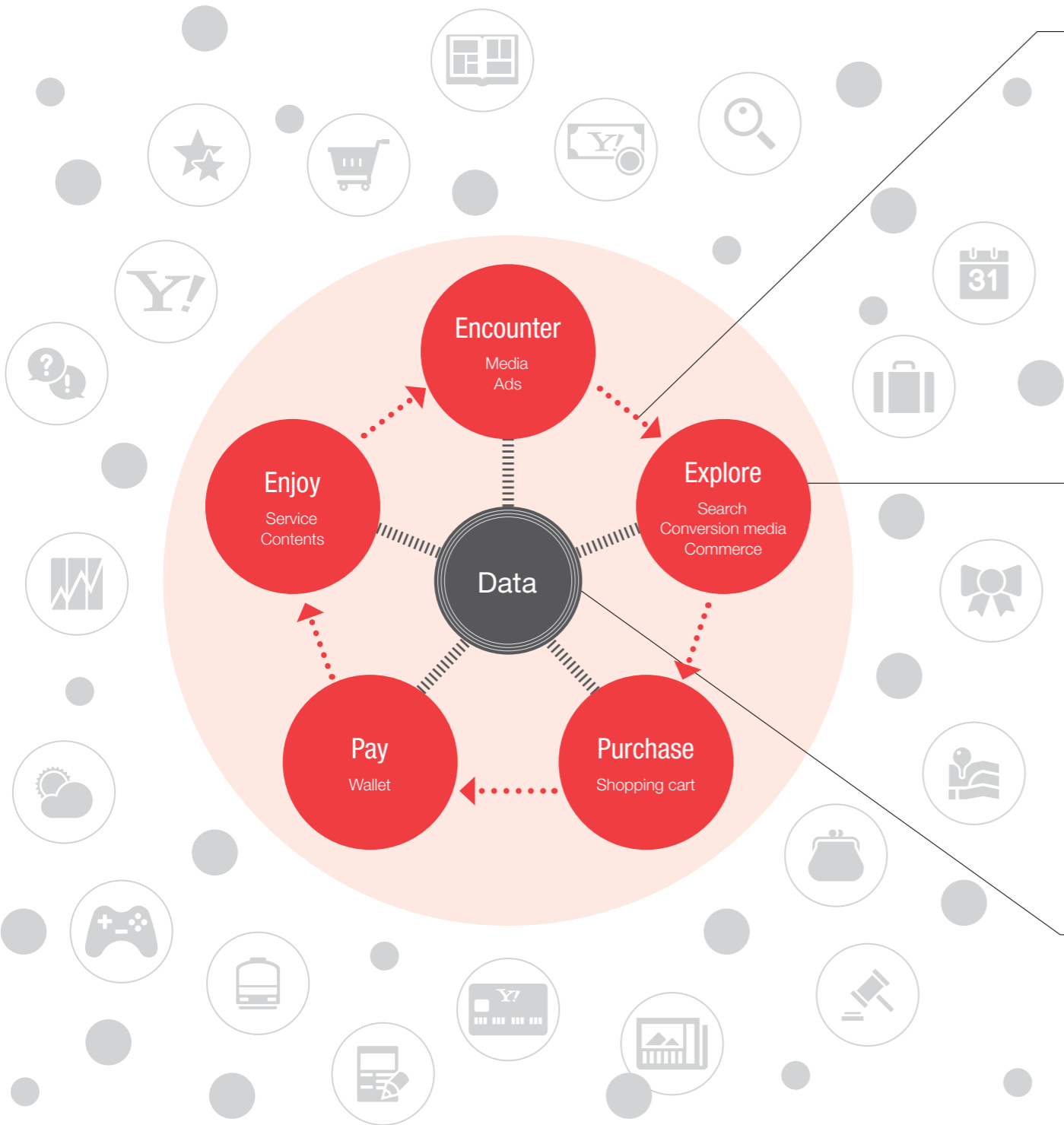
Building a Future That  
Only Yahoo! JAPAN  
Can Create

Changing lifestyle and  
industrial frameworks by  
transforming user actions

Value Creation—Business Model

Leveraging Our Diverse Services, Extensive User Base, and Multi-big Data as a Foundation for Value Creation

The Yahoo Japan Group offers a wide array of services related to various user actions. In addition, we have numerous services that boast some of the largest user base in Japan, such as Yahoo! News, YAHUOKU!, and Yahoo! Wallet. Furthermore, the data we collect from our many services and enormous user base represents one of our unique strengths in the Internet market. By making full use of our long-cultivated business foundation and competitive edge, we will realize sustainable growth going forward.



Competitive Edge 1

Diverse Service Lineup That Provides Comprehensive User Actions

The Yahoo Japan Group offers over 100 services in the differing domains of media and commerce, and these services are offered in a comprehensive manner that caters to all kinds of user actions on the Internet. This highly unique business foundation supports the provision of integrated, high-quality user experiences by forming links between services. In addition, this foundation enables user traffic between our services and leads to enhanced profitability by increasing the number of monetization opportunities. As a result, we are able to collect an abundance of diverse data through these comprehensive services, which helps deepen our understanding of user needs and provides us with the competitive edge needed to create personalized user experiences.

Number of services provided

Over **100**\*

Number of Yahoo! Premium member IDs

**19.79** million\*

\* As of March 31, 2018

Competitive Edge 2

Japan's Largest User Base

The Yahoo Japan Group has a long history of providing services for PCs. Throughout this history, the Group has amassed one of the largest number of users in Japan. In recent years, we have also established the largest user base for smartphones in Japan, which was proven by our No. 1 position in the "Domestic Application Publishers Ranking in Japan for All Downloads" for the past two years. Furthermore, we have created numerous services that demonstrate a strong presence in their respective business domain. Our individual services have received high levels of satisfaction from users, allowing us to secure an outstanding user base. This enables us to further link our services and encourage user traffic between them, and provides us with a foundation for the realization of sustainable growth.

2017 Domestic Application Publishers Ranking in Japan for All Downloads

**No. 1** for two consecutive years

- 1. **Yahoo! JAPAN**
- 2. Google
- 3. LINE
- 4. NTT
- 5. Facebook

Source: App Annie 2017 Retrospective Report

Competitive Edge 3

High-quality Multi-big Data

In addition to the large volume and variety of data collected through the aforementioned various services and extensive user base, we also possess up-to-date data collected through services such as Yahoo! Search and Yahoo! News, which enjoy high usage frequency. To utilize this data on a cross-sectional basis, we promote efforts to encourage use of apps and user logins in order to collect and manage a wide range of data from browsing and purchasing through multiple devices and services. In addition, we are actively working to establish cutting-edge systems and pursuing research on machine learning.

High-quality Big Data

Service diversity	Huge user base	Up-to-date content
More than <b>100</b> Yahoo! JAPAN services	More than <b>40</b> million monthly logged-in user IDs	Frequently accessed services e.g. Yahoo! Search and Yahoo! News

Profile & Growth Story

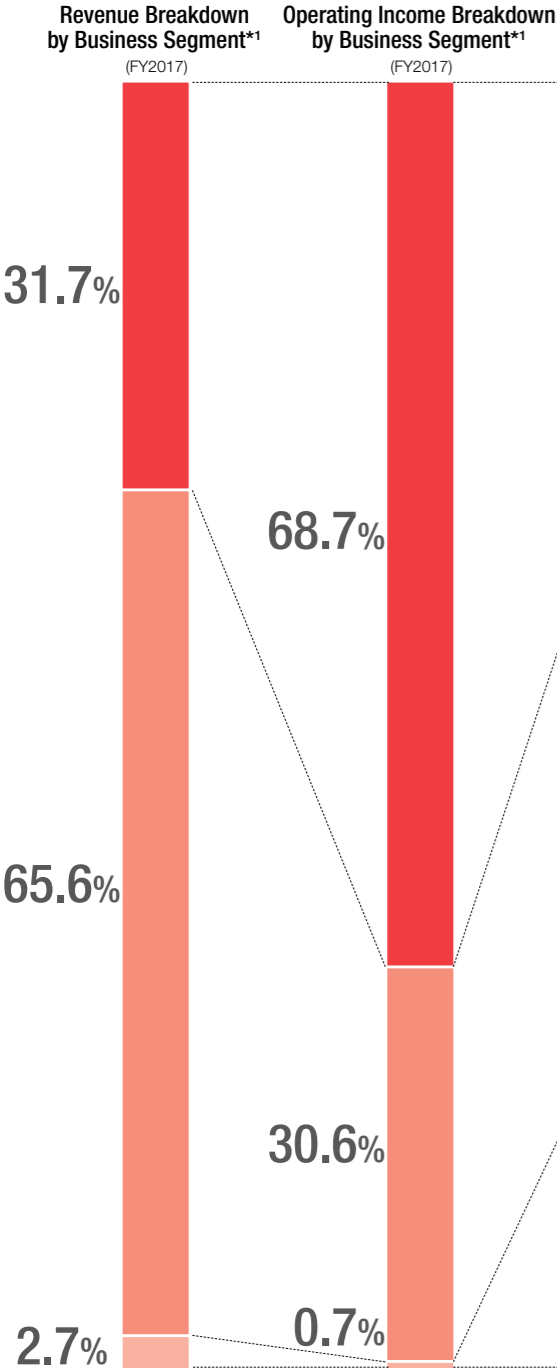
# At a Glance

The business operations of Yahoo! JAPAN and the Yahoo Japan Group are organized into three business segments: the Media Business segment, the Commerce Business segment, and the Others segment, with the Others segment not classified as a reportable segment. While operating independently of one another, these three business segments leverage significant intersegment synergies through mutual collaboration to achieve maximum consolidated revenue and profit. Moving forward, we will enhance our presence as a leading Japanese company in the domains of online advertising and domestic e-commerce markets, where we anticipate especially high levels of growth.

Yahoo Japan Group (FY2017)			
Revenue	¥ 897.1 billion	ROE	13.5%
Operating Income	¥ 185.8 billion	Number of Employees (Consolidated)	12,244
Operating Margin	20.7%	Consolidated Subsidiaries (As of June 30, 2018)	43

Position of the Yahoo Japan Group

Our share of online advertising market <small>Source: Estimated by Yahoo! JAPAN based on 2017 Advertising Expenditures in Japan, DENTSU INC.</small>	Approx. 25%	Smartphone app download ranking <small>Source: App Annie 2017 Retrospective Report (total downloads from iOS App Store and Google Play Store) 2017 Domestic Application Publishers Ranking in Japan for All Downloads</small>	No. 1
Our reach of Internet users in Japan*2 <small>*2 "Total digital" share of number of users excluding overlap in users of both PCs and smartphones Source: Nielsen Digital Content Ratings (May 2018), Nielsen Digital Co., Ltd.</small>	No. 1	Total domestic e-commerce transaction value (FY2017)	¥ 2.1 trillion



## Media Business

The Media Business segment provides users the opportunity to “encounter” and “explore” in their daily lives through its media and search-related services, and is monetized through the advertising business, etc.

Principal services

- Yahoo! JAPAN top page, Yahoo! News, and other media-related services
- Paid search advertising, display advertising, and other advertisement-related services



## Commerce Business

The Commerce Business segment provides users the ability to “purchase” and “pay” in their daily lives through its e-commerce related services, membership services, and financial and payment-related services.

Principal services

- Yahoo! Shopping, YAHUOKU!, and other commerce-related services
- Yahoo! Premium and other membership services
- Credit cards, e-money, foreign exchange margin trading, and other financial and payment-related services



## Others

The Others segment provides data center-related services, utilities payment-related services, and others.

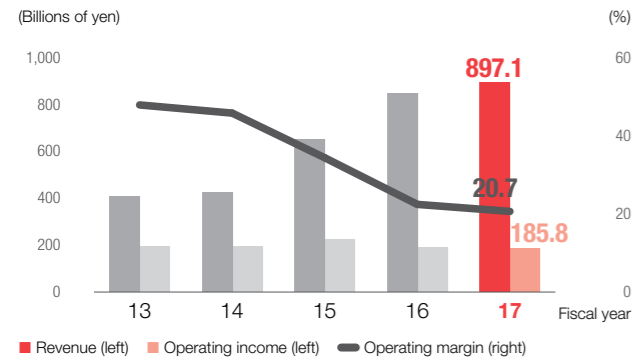


\*1 Ratio of segment revenue to total revenue for all segments and ratio of segment operating income to total operating income for all segments. Totals for segment revenue and segment operating income do not include adjustments.

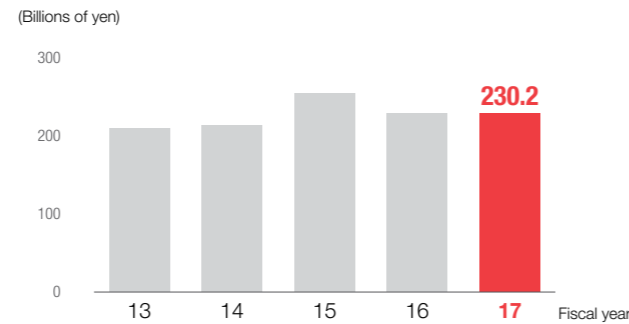
# Financial and Non-financial Highlights

## Financial Indicators

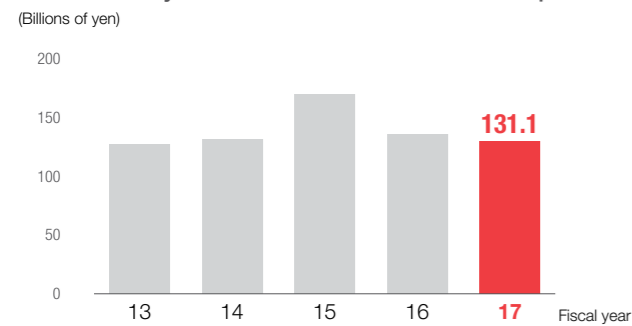
### Revenue & Operating income\*1 & Operating margin



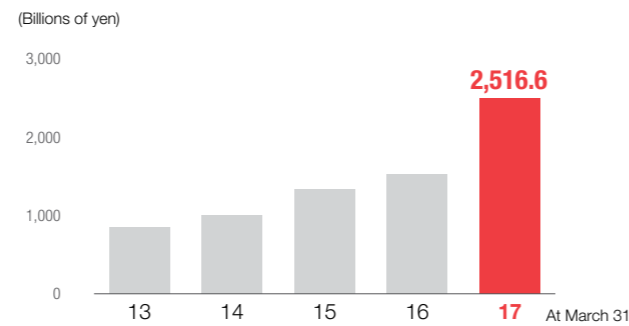
### EBITDA\*2



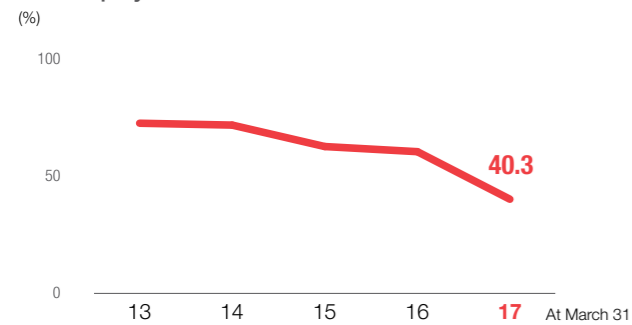
### Profit for the year attributable to owners of the parent



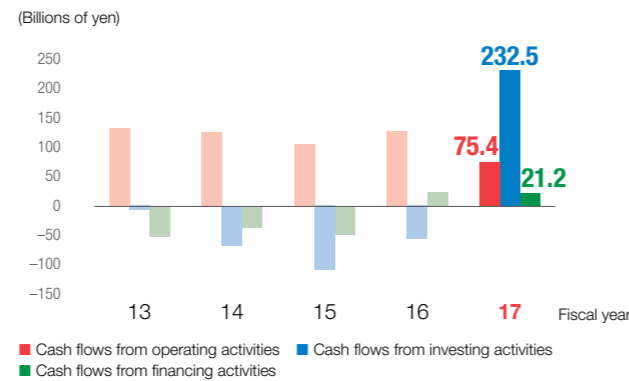
### Total assets



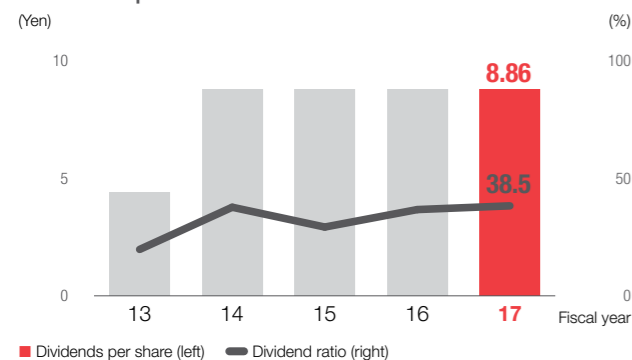
### Total equity/Total assets ratio



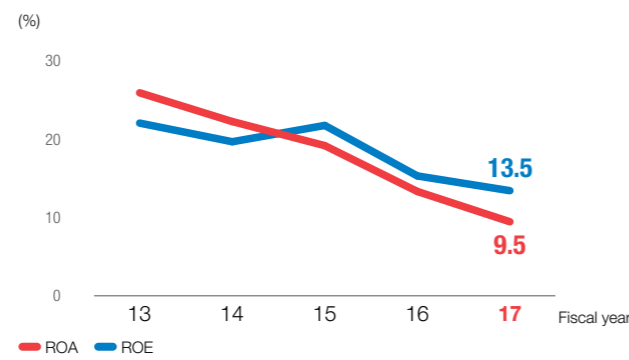
### Cash flows



### Dividends per share & Dividend ratio

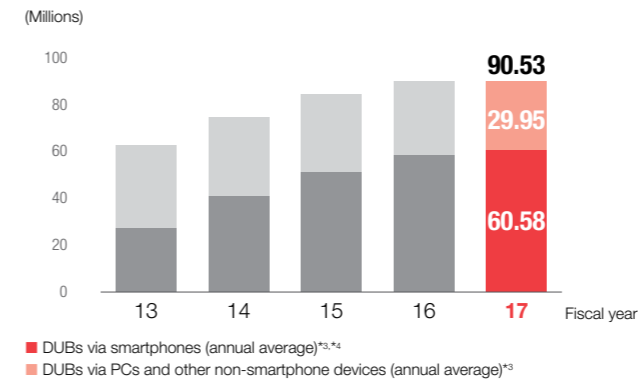


### ROA & ROE

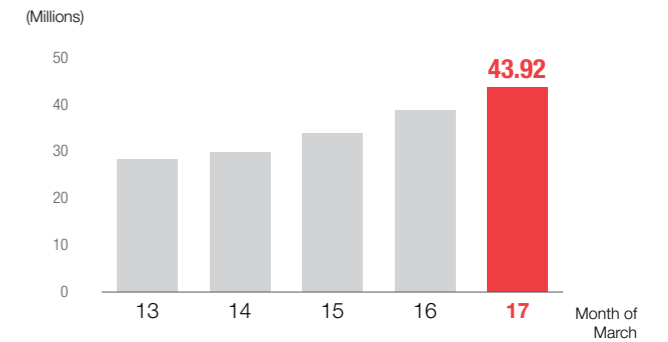


## Non-financial Indicators

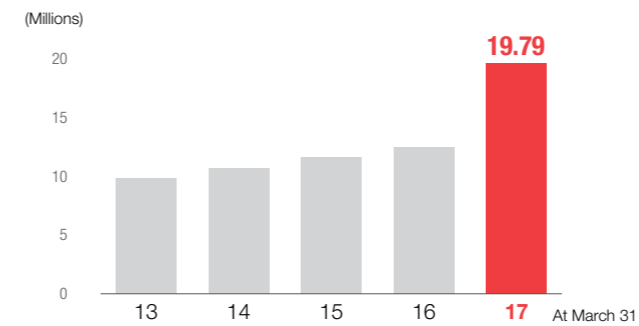
### Number of DUBs (daily unique browsers) (annual average)\*3



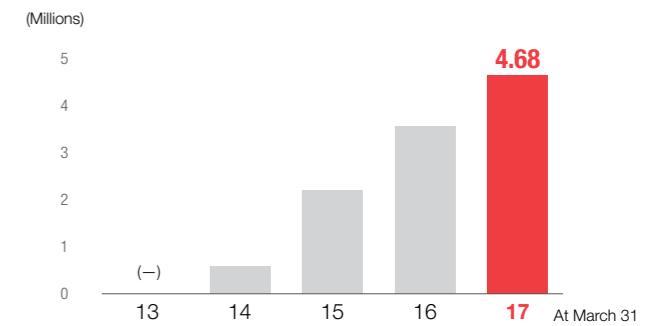
### Number of monthly logged-in user IDs\*5



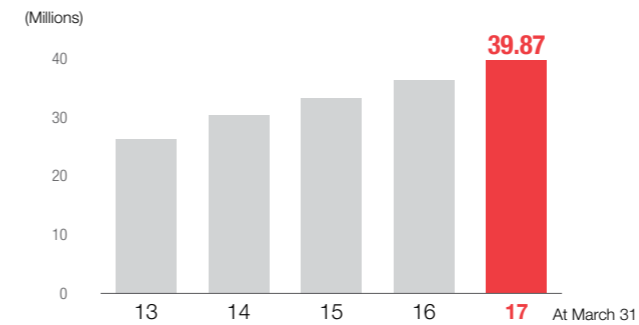
### Number of Yahoo! Premium member IDs\*6



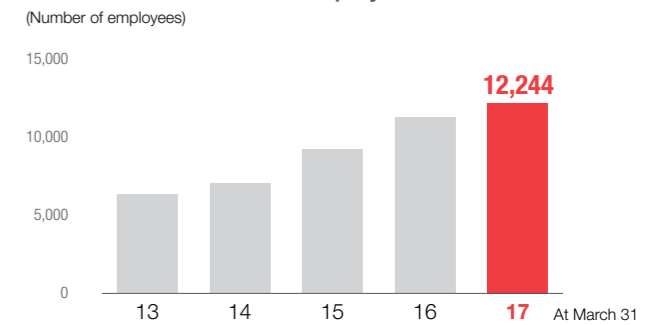
### Number of valid credit card holders\*7



### Number of Yahoo! Wallet accounts



### Consolidated number of employees



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: Gain from remeasurement relating to business combination with ASKUL Corporation of ¥59.6 billion in FY2015; loss related to the fire incident at the ASKUL Logistics Center of ¥13.0 billion in FY2016; and insurance proceeds, etc. related to the said fire incident of ¥6.6 billion and ASKUL Corporation's gain on sales of property and equipment of ¥3.5 billion in FY2017  
 \*2 EBITDA = operating income + depreciation and amortization in cash flows from operating activities  
 \*3 The cumulative total number of browsers accessing Yahoo! JAPAN. Access via browser and access via application are counted separately, even if there is an overlap in users

\*4 Includes access through iPhones/iPods, Android smartphones (with screen sizes of less than 7 inches), Windows Phones and smartphone applications. They do not include page views using iPads or Android tablets. They also do not include some access via smartphone applications  
 \*5 Number of Yahoo! JAPAN IDs logged in each month  
 \*6 Includes SoftBank members and Y!mobile members, etc. who are eligible for Yahoo! Premium privileges. Overlap in IDs is excluded  
 \*7 Number of card holders who can purchase goods and receive services, etc. using the card. Includes card holders of KC Card, Yahoo! JAPAN Card and SoftBank Card ("Omakase charge")

# Aiming to Realize Sustainable Growth as a Company That Creates the Future



**Kentaro Kawabe**  
President and Representative Director,  
President Corporate Officer,  
and Chief Executive Officer (CEO)

- 1995 Established Dennotai Corporation
- 1999 Established PIM Corporation
- 2000 Joined Yahoo Japan Corporation  
Producer, Yahoo! Mobile
- 2007 Producer, Yahoo! News
- 2009 Representative Director, GYAO Corporation
- 2012 Senior Executive Vice President,  
Chief Operating Officer (COO)
- 2018 President and Representative Director,  
Chief Executive Officer (CEO)

As the newly appointed President and Representative Director of the Company, I would like to take this opportunity to introduce myself to our shareholders, investors, and all other stakeholders.

I was a student when Windows95 was released in November 1995. On the day of its release, I was in Akihabara, Tokyo and witnessed people's wild enthusiasm and excitement. It was at that moment that I was strongly moved and became confident that the Internet would change the world and create a brand new future. Driven by the desire to realize an even better society through the use of Internet-related technologies, I joined the Company after starting up several venture companies of my own. Since then, I have been involved in such services as Yahoo! Mobile and Yahoo! News. In the 23 years since starting my first venture company, I have grown together with the Internet and have been enamored with the idea of how the Internet can change the fabric of society. As a person who has unlimited love for the Internet, I am thrilled to now be the head of management for the Yahoo Japan Group. Under this new role, I will put forth the utmost effort in fully leveraging the potential of the Internet to make our world an even better place.

From the time the Internet became widespread to today, there has been a constant creation of services that has completely changed people's lifestyles. Based on our mission as a problem-solving engine, we have offered a diverse lineup of services that have helped create the future by bringing about change to user behavior, and this is a fact we take great pride in. However, in recent years, we have fallen behind our competitors in several business domains due to the dramatic speed with which information technologies have evolved. The possibility of a future created through information technologies such as big data, AI, and Fintech continues to grow day by day. We will therefore make diligent efforts to provide our users with new experiences faster than any other company as we take steps to build a future that only we can create.

**The Business Environment and Our Current Growth Stage**  
**Bold initiatives are needed to realize sustainable growth within an increasingly competitive business environment.**

While the Internet tech giants are enhancing their presence around the world, there is a steady stream of venture companies in Japan. Within the increasingly competitive Internet market, dramatic changes are expected to continue well into the future. To realize sustainable and significant growth for the Group under these conditions, we need to take a bolder approach to our business development with a greater sense of urgency. The Yahoo Japan Group has continued to steadily tackle the challenges that have appeared before its eyes, including promoting the transition from PCs to smartphones and strengthening its e-commerce business, thereby further reinforcing its business foundation. I can say with confidence that, as a result, we have sufficiently secured the assets we need to take the next leap forward. These assets include the diverse lineup of Internet-related services we offer in various domains and our predominantly solid domestic user base, as well as the high-quality multi-big data we have obtained through our services and user base. I would now like to explain the direction of our Group strategies aimed at fully leveraging these assets to create user experiences that only we can offer.

**Direction of Our Growth Strategies**  
**Positioning our new management structure as our third founding, we will take on the challenge of transforming ourselves anew.**

For our existing businesses, we are drastically reviewing the way we approach growth, giving consideration to all aspects of our policies such as those for service growth, investments, and profit. To provide a specific example, when it comes to policies for service growth, the Group has traditionally upheld the general rule of having each service generate a profit on an individual basis. However, due to changes in the market environment, the measures that a service can take on its own are becoming extremely limited. Accordingly, to realize sustainable growth, we need to put in place a framework that allows us to more easily leverage our competitive edge on a Groupwide basis. To this end, we reorganized the position of each service within our Companywide business model from the perspective of user action and in light of the current situation (see pages 17–18).



As a shared set of guidelines for maximizing user actions, we will clarify and thoroughly manage key goal indicators (KGIs) for each service from the standpoint of Companywide optimization. At the same time, we will aim to create comprehensive user experiences by enhancing the links between our diverse range of services. In terms of investment, we will move away from our conventional policy of emphasizing returns in the short term and adopt a more medium- to long-term perspective. Through the heavy concentration of

management resources in areas for which we anticipate significant growth, we will actively capitalize on growth opportunities going forward.

Furthermore, the multi-big data that we acquire from our over 100 diverse services will be our biggest competitive advantage in creating unique user experiences. We therefore position the next several years as the period of our third founding in which we will accelerate efforts aimed at transforming ourselves into a data-driven company, in addition to being a smartphone company. To be a problem solver in the information-oriented society of the future, the active incorporation of data will undoubtedly help set us apart from other companies in terms of productivity and creativity. Accordingly, when creating services, rather than overly relying on the experience and intuition of our employees, we need to adopt a data-driven approach and transition to a framework that allows us to realize results in accordance with such an approach. To that end, we will seamlessly utilize the data the Group possesses to provide optimal services to our users while also pursuing external collaboration and new business creation.

#### Progress and Reflection on Our Growth Strategy

**We are steadily advancing initiatives aimed at transforming ourselves into a data-driven company.**

Fiscal 2017 was a year in which we focused on establishing a foundation to transform ourselves into a data-driven company with a view toward future growth. While revenue increased for the 21st consecutive year, to ¥897.1 billion, operating income declined to ¥185.8 billion, due to approximately ¥35.0 billion in investments aimed at maximizing e-commerce transaction value and advancing the shift toward becoming a data-driven company. For fiscal 2018, we expect our top line to continue to gradually expand. On the other hand, we forecast a decline in operating income as we expect additional costs of nearly ¥30.0 billion associated with such factors as the enhancement of video content and the launch of the mobile payment business, efforts that represent new challenges for the Company. As we enter into the period of our third founding, in which we will transform into a data-driven company, our new growth strategies are only just beginning. By making proactive efforts to capitalize on growth opportunities, I feel confident that we can realize significant profit growth over the medium to long term.

#### Direction of Initiatives in Fiscal 2018

**We will enter into new domains and establish a foundation for further leaps in the future.**

In fiscal 2018, in addition to further advancing our transformation into a data-driven company, we will focus our efforts on three newly established key areas.

For our transformation into a data-driven company, we have utilized the ¥11.6 billion in investments carried out in fiscal 2017 to accumulate data based on shared platforms and have made preparations for establishing a foundation that will allow us to leverage this data in a seamless manner. As for our actual operational activities in fiscal 2017, we started to see results in terms of optimizing/maximizing ad reach, increasing the frequency of user visits, and lengthening the user time spent. Going forward, we will pivot from the stage of establishing a foundation for data toward the stage of active data use, including the promotion of the DATA FOREST Initiative, which we announced in February 2018. In these ways, we will work toward achieving sustainable profit growth.

In conjunction with these efforts, we have established “e-commerce transaction value (sale of goods),” “Internet ad revenue,” and “mobile payment transaction value” as three key areas in which we will aim to become No. 1. These areas were determined from the perspective of future growth potential and maximization of user actions. Going forward, we will actively capture growth opportunities through the heavy concentration of management resources in these key areas from a medium- to long-term perspective.

Meanwhile, we will make proactive efforts to enhance video content and launch the mobile payment business so that we can transition to services that will be accepted by users from a shorter-term perspective.

When we consider the current business environment, where a broad range of Internet services are transitioning to video format, it is clear that video content is an area that cannot be ignored if we wish to maintain and enhance our position as a media service provider. Through the investments we will carry out in fiscal 2018, we will work to enhance our video content and extend the length of viewing time of such content. Additionally, we will work to revamp our advertising platform with an emphasis on monetization in an effort to accelerate growth in our advertising business.

Furthermore, the launch of the mobile payment business provides us with an opportunity to extend into the offline domain for the first time ever, as we have thus far developed and rolled out services solely via the Internet. We already boast a 90% reach of Internet users in Japan, and the entrance into the offline domain is a crucial step for realizing sustainable profit growth going forward. At the same time, pursuing this step will give us an important opportunity to create new user experiences by integrating online and offline domains. During fiscal 2018, the first year for undertaking such efforts, we will maximize the number of merchants participating in our payment service as we strive to boost our presence as a provider of convenient payment services that can be used anywhere.

#### In Closing

**I firmly believe in the potential of the Internet in creating the future.**

Under our new management structure, we are embarking on the path toward transforming into a data-driven company. Even as we change the methods for developing services and realizing growth, our mission of solving problems that relate closely to people’s daily lives remains unchanged. When trends undergo significant change, there is a tendency to lose sight of what is truly meaningful to the user. We will therefore reexamine the user-first approach, the essence of our operations, and work to ascertain major trends. In these ways, we will continue to provide services that are loved by users. To cultivate the human resources needed to pursue these goals, we will further enhance our in-house educational activities and move forward with the devolution of authority so that our employees can gain both successful and unsuccessful experiences at their own discretion.

I believe that the future is changing from something we forecast to something we create. All of the employees of the Yahoo Japan Group, including myself, have a sincere love for the Internet, and we will put forth the utmost effort to provide the best possible user experience. We will create the future through services that utilize cutting-edge information technologies. We will also aim to continue to be a company that takes the lead over other companies in providing new solutions to the problems facing our users. We must constantly UPDATE ourselves so that we are always able to provide people in Japan with ways to solve problems in their daily lives and with opportunities to encounter new information. Naturally, our employees are the ones who provide the core of these efforts to UPDATE ourselves. I would like to ask all stakeholders for their continued support of the Yahoo Japan Group going forward.



External Environment

**Changes in the competitive environment**

Recently, major overseas Internet companies have been enhancing their presence through the use of cutting-edge technologies such as AI, IoT, and big data. In addition to these overseas companies, the Yahoo Japan Group is in competition with domestic venture companies in each category of its services, and this competition is expected to intensify going forward.

**Accelerated advancement of information technologies**

The accelerated advancement of information technologies in recent years has led to the successive creation of services that leverage cutting-edge technologies. Accordingly, the Company needs to constantly be aware of the latest technological trends and take the lead over other companies in creating services that offer new user experiences.

**Changes in people's lifestyles due to the integration of online and offline domains**

Internet services have brought about dramatic changes in people's lifestyles. Going forward, the creation of services that change people's behavior is expected in a wide range of fields, including cashless payment and sharing economy.

**Diversification of social issues**

Often referred to as a front-runner in solving social challenges, Japan is faced with social issues such as the declining birth rate and aging population, and efforts to address such issues are being promoted through collaboration between public and private sectors. Accordingly, there is a greater need for solving problems using state-of-the-art technologies.

Management Resources

**High-quality multi-big data**

The personalization of services is advancing in the Internet market, and the precision of this personalization has a direct impact on the satisfaction levels of user experiences. The big data possessed by the Yahoo Japan Group allows for a deep understanding of its users and is important in setting the Group apart from other companies in terms of realizing service optimization.

**Business foundation in the Japanese market**

Since its foundation, the Yahoo Japan Group has continued to offer new problem-solving methods in accordance with the changing times. By doing so, the Group has cultivated a business foundation that allows it to provide services in all types of Internet domains. As a result, the Group has established a solid position as a service provider that boasts one of the largest number of users in the Japanese Internet market.

**Abundant human capital and robust relationships with business partners**

The Yahoo Japan Group has a pool of over 12,000 diverse employees, including approximately 3,000 engineers, who are involved in the creation, development, and operation of optimal services offered in the Japanese market. Furthermore, as a leading corporate group in this market, the Group has formed robust relationships with its business partners.

**Ability to generate stable cash flows**

In fiscal 2017, not only did the Yahoo Japan Group achieve revenue increases for the 21st consecutive year, it also maintained a stable financial base as well as the ability to generate a high level of cash flows, with cash and deposits exceeding ¥860.0 billion. While fully leveraging its abundance of capital and preserving its sound financial position, we will promptly capitalize on growth opportunities by conducting quick and proactive growth investments in key areas.

Overview of Growth Strategies

## Becoming a Company That Creates the Future through User Actions

To realize sustainable growth through its long-cultivated business foundation and competitive edge, the Yahoo Japan Group has revised its service growth and investment policies with a shared set of guidelines for creating better-integrated user experiences and maximizing the user actions that stem from such experiences. By fully drawing on our extensive service lineup, which is one of the largest in Japan, and the data collected through our services, we will create services that are difficult for competitors to imitate with the aim of becoming a company that creates the future by stimulating new user actions.

### Our Growth Driver

#### Maximizing User Actions

By forming links between the diverse range of Group services and providing them in a comprehensive manner, we aim to create high-quality user experiences and maximize user actions. At the same time, we will promote the use of multiple services by encouraging user traffic between them, thereby realizing mutual service growth. Additionally, we have established e-commerce (sale of goods), Internet ads, and mobile payment as three key areas in which we will maximize user actions. We will accelerate growth through bold investment of management resources in these areas over the medium to long term.

### Our Value Driver

#### Unleashing the Power of Data

Through recent investments in such areas as enhancing our facilities, revamping our technological foundation, and strengthening our human resources, we have steadily proceeded with the establishment of a foundation that will allow us to transform ourselves into a data-driven company. By making full use of the big data we possess and our know-how on data utilization in an effort to understand users better than any other company, not only will we improve the quality of our services, but we will also accelerate initiatives for creating services that offer new experiences to users.

Values Created by the Group

**High-quality user experiences through comprehensive services**

For the wide array of user actions on the Internet, from "encounter" to "enjoy," the Group will provide comprehensive services that will be closely linked to each other. In this way, the Group will offer high-quality user experiences that also include the integration of online and offline domains.

**Deep understanding of user needs and provision of optimal services using data**

While there are innumerable Internet companies around the world, the Group strives to remain the corporate enterprise with the best understanding of Japanese Internet users. Through the use of data, the Group will continue to enhance its understanding of user needs, thereby realizing optimal services.

**Creation of new services by unleashing the power of data**

The Group views technology as a means to providing users with new experiences. In addition to drawing on information technology and data to their full extent, the Group will pursue collaborations that transcend corporate frameworks in order to create unprecedented services.

**Solving of social issues using information technologies**

As a problem-solving engine, the Group's mission is to solve the various issues facing society through the use of information technologies. In Japan, a country known as a front-runner in solving social challenges, the Group will take on the challenge of leading the way in providing solutions to a wide range of social issues using cutting-edge information technology.

Further Evolution of Our Business Model

**Reinforcement of customer base and enhancement of presence in the Japanese market**

In addition to expanding from online to offline domain, the Yahoo Japan Group will remain committed to the provision of high-quality user experiences by forming links between services and utilizing data. Through this effort, we will further enhance its position as a provider of highly convenient, easily accessible services.

**Improvement in profitability**

The Yahoo Japan Group will optimize its services through the use of data in order to enhance the quality of user experiences and maximize user actions. At the same time, this service optimization will help the Group improve a large number of key performance indicators, such as the view-through rate, click-through rate, and conversion rate, which in turn will maximize the effects of advertisements and help play a role in improving profitability.

**Creation of new profit models**

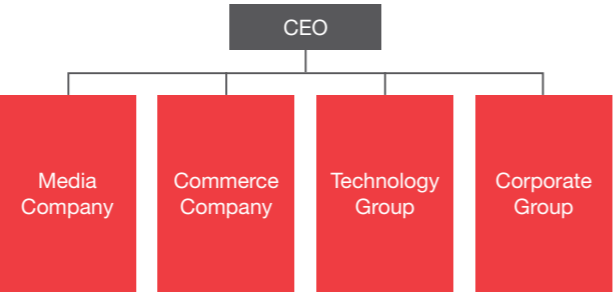
By utilizing the Group's big data and expertise on data utilization to the greatest extent possible, we will promote medium- to long-term initiatives aimed at establishing data solution services as a pillar for future profits.

**Transition in profit structure**

In fiscal 2017, the media business accounted for nearly 70% of the Group's operating income. For the future, we will raise the percentage of income from the commerce business to the same level as that of the media business while working to establish new profit pillars through the creation of new businesses. In these ways, we will aim to transition to a more stable profit structure.

**Change in Organizational Structure**

From fiscal 2018, the Yahoo Japan Group has adopted a new organizational structure in order to accelerate the pace of decision-making and enhance the flexibility of its personnel allocation. Specifically, in addition to integrating the position of COO within the position of CEO, we have transitioned to a two-company, two-group structure. In the Internet industry, where changes occur rapidly, the Group will establish a structure for swift and appropriate decision-making and flexible allocation of personnel into key areas, and will aim to promptly acquire new growth opportunities.



**Overview of Expenses for New Challenges**

Transitioning to an investment policy that focuses less on the short term and more on the medium to long term, we are actively carrying out investments in areas where we forecast significant growth. In fiscal 2017, we conducted growth investments of nearly ¥35.0 billion into maximizing e-commerce transaction value and promoting the shift toward becoming a data-driven company. In addition, we were able to achieve business growth in line with our management targets. For fiscal 2018, we will invest resources into enhancing video content and launching the mobile payment business with a view toward medium- to long-term growth, and will push forward with efforts to establish new profit pillars.

Expenses for New Challenges for Fiscal 2018 (Planned)	
Estimate (Billions of yen)	
Media-related	10.0
■ Video content enhancement ■ Original content production ■ Content promotion	
Commerce-related	20.0
■ Costs to launch the mobile payment business, etc.	

# Our Growth Driver

## Maximizing User Actions

### Making Groupwide Efforts to Improve the Quality of User Experiences

The Yahoo Japan Group has thus far operated its business under a basic growth policy of maximizing profit growth within the budgets of each business. However, in light of recent changes in the competitive environment, we have reorganized the position of each service based on user actions and implemented revisions to our growth policy in order to fully leverage the Group's business foundation. Going forward, amid efforts to achieve Companywide optimization, we will adopt and manage different KGIs for each service while making Groupwide efforts to improve the quality of user experiences and maximizing user actions. In these ways, we will realize sustainable profit growth.


### Newly Establishing Three Key Areas and Capitalizing on Growth Opportunities over the Medium to Long Term

Taking into account the changing market environment and the Group's long-cultivated business foundation, we have newly established three key areas for which we anticipate significant growth. Specifically, these areas are "e-commerce transaction value (sale of goods)," "Internet ad revenue," and "mobile payment transaction value." By heavily concentrating management resources in these areas from a medium- to long-term perspective, we will accelerate initiatives aimed at achieving the top position in each area.

No.1  
in E-commerce  
(Sale of Goods)  
Transaction Value



No.1  
in Internet Ad  
Revenue



No.1  
in Mobile Payment  
Transaction Value





### No. 1 in E-commerce (Sale of Goods) Transaction Value

#### Aiming to Establish Ecosystems through Multifaceted Service Expansion

The maximization of e-commerce transaction value will have a positive impact on the Group's numerous profit models and will help us enhance and expand our data and thus, we will give top priority to promoting efforts in this area. While we have already been working to maximize e-commerce transaction value through such means as our new e-commerce strategy launched in fiscal 2013, we will place even greater emphasis on initiatives aimed at becoming the No. 1 company in terms of e-commerce transaction value (sale of goods). We have been expanding services pertaining to consumption, such as our e-commerce-related services and financial and payment-related services, in a multifaceted manner with the aim of establishing an ecosystem that promotes mutual growth between these services. During fiscal 2018, we will increase user numbers and expand sales per customer by encouraging user traffic between these services, including media services, and pursuing collaboration with the SoftBank Group. Additionally, we will leverage data to improve the accuracy of our recommendations to users. Furthermore, we will continue our efforts toward improving user interfaces and user experiences in order to remain a provider of user-friendly services.



### No. 1 in Internet Ad Revenue

#### Working to Maximize Media Power and Monetization Power

In the Japanese market, where the population is expected to decrease, we already boast a 90% reach of Internet users. However, there is still ample room for us to grow in relation to users' visit frequency and time spent. To this end, we will aim to improve the quality of our content through measures that include leveraging the Group's data in order to simultaneously boost our media power and monetization power. By doing so, we will aim to realize sustainable growth and become No. 1 in terms of revenue in the Internet advertising field. For video content, in particular, we anticipate that we will be able to lengthen user time spent and increase ad reach. Accordingly, we position video content as a growth driver and will focus on making investments toward its enhancement as well as revamping our advertising platforms.



### No. 1 in Mobile Payment Transaction Value

#### Extending Our Services to the Offline Domains

Recently, there has been an emerging global trend toward cashless payments. The Japanese government has adopted a policy of raising the cashless payment ratio to 40% by 2025, with a long-term goal of 80%, the highest level globally.\*1 To promote the widespread use of cashless payments in Japan and to realize even more convenient services for both users and participating merchants, Yahoo! JAPAN established PayPay Corporation\*2 in June 2018 as a joint venture with SoftBank Corp. PayPay Corporation plans on launching PayPay, a new smartphone cashless payment service that utilizes barcodes and QR codes. In launching this service, we are teaming up with India's largest digital payment company Paytm, a SoftBank Vision Fund portfolio company. Yahoo! JAPAN, PayPay Corporation, SoftBank Corp., and Paytm will expand the number of users by including the customer base of SoftBank Corp., and "Yahoo! Wallet," which exceeds 40 million accounts. We will also leverage SoftBank's sales know-how to acquire new participating merchants, in addition to using Paytm's technologies to develop highly convenient services. By doing so, we will aim to become No.1 in mobile payment transaction value.

\*1 Source: *Cashless Vision*, Ministry of Economy, Trade and Industry  
\*2 Renamed in July 2018 from Pay Corporation, which was the name of the company at the time of its establishment

# Our Value Driver

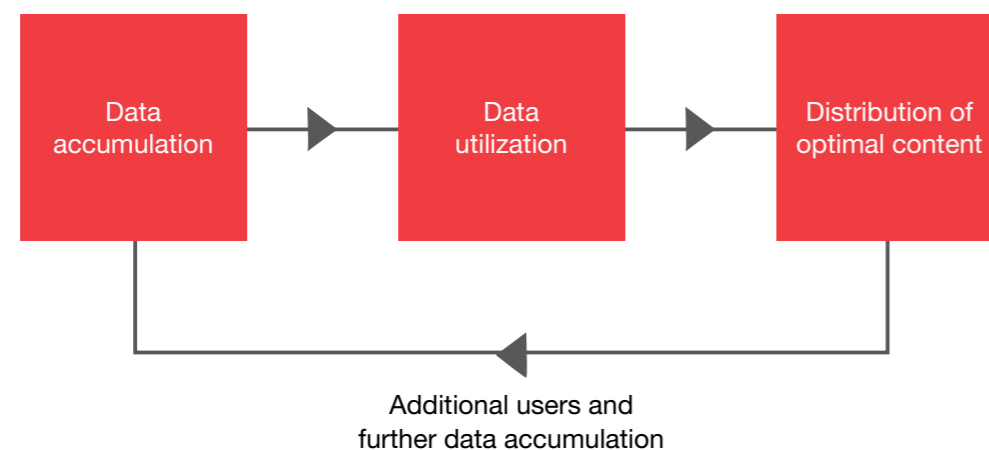
## Unleashing the Power of Data

### Transforming into a Data-driven Company That Can Bring Out the Potential of Data to Its Full Extent

We possess big data that is exceptional from the perspectives of both quality and quantity, and this big data will be a crucial element in setting us apart from other companies in terms of creating new and unique user experiences. In order to consistently maintain a foundation of cutting-edge technologies that will help us transform into a data-driven company, we are carrying out investments in such areas as enhancing our facilities, revamping our technological foundation, and strengthening our human resources. Moving forward, we will commence full-scale efforts to leverage data by making use of our long-cultivated business foundation and work to draw out the potential of data to its full extent. Through these means, we will create new value that only we can offer.

### Aiming to Realize a Growth Ecosystem through Seamless Data Utilization

We have amassed a tremendous amount of big data through a broad range of services. This big data is a crucial element in acquiring a deep understanding of Internet users in Japan. By seamlessly making use of this big data from our services in a cross-sectional manner, we will provide easy-to-use services that are optimized for each user. Furthermore, optimizing our services through the accumulation and utilization of data will help us improve user satisfaction levels and create a virtuous cycle that enables the maximization of user actions and the further accumulation of data. Accordingly, we aim to realize this “growth ecosystem.”



### Improving the Quality of Our Services through Data Utilization

### Steadily Seeing Results from Data Use That Transcends Domains

Through an additional investment made in fiscal 2017, we have been taking steps to establish a system that enables us to efficiently and in real time accumulate the multi-big data generated from over 100 services offered by the Group. In addition, we are working to put in place a foundation for data utilization through such means as start of operations of “kukai,”\* a supercomputer that specializes in deep learning. We are steadily seeing the results of such efforts in various ways, including improvement in service quality through the use of data for such services as Yahoo! Knowledge Search and an increase in the conversion rate for the Yahoo! Shopping service. In addition, through our mobile payment services that will begin in fiscal 2018, we will be able to secure new offline payment data, which we will leverage to the greatest extent possible in addition to our online data to create highly unique services.

Improving Visit Frequency and Time Spent	Optimizing and Maximizing Ad Reach	Strengthening Recommendations
Introduction of language processing technologies for the generation of headlines in the Yahoo! Knowledge Search service	Introduction of the Company's patented technologies in certain categories of Yahoo Display Network (YDN)	Introduction of machine learning for recommended products in the Yahoo! Shopping service
Increase in response rate:	Improvement in ad reach:	Improvement in click-through rate:
<b>2.4</b> times	<b>148</b> %	<b>4.5</b> times

\* “kukai” has been developed through collaboration with ExaScaler Inc. and HPC SYSTEMS Inc.

### Promoting New Ways to Use Data That Transcend Corporate Frameworks

### Aiming to Solve the Various Problems Facing Corporations Based on the DATA FOREST Initiative

In February 2018, we announced the DATA FOREST Initiative, which supports the corporate activities of our clients by combining the data they possess with the big data and AI technologies of the Company. We also commenced proof-of-concept trials geared toward the creation of businesses based on this initiative. In addition to the extensive big data we own related to Internet searches, media, e-commerce transactions, payment, and other matters, these trials utilize highly sophisticated calculation technologies such as AI technologies and supercomputers to analyze the data possessed by our client companies. By doing so, we aim to provide solutions to the various problems facing companies in their corporate activities, including enhancing product planning based on a deep understanding of consumers and optimizing production and logistics based on demand forecasts.

Through the proof-of-concept trials, we will accumulate know-how on big data-related collaboration between companies and aim to commercialize this initiative in fiscal 2019. Going forward, we aim to realize a new world in which the wide range of issues facing Japan are resolved by promoting the mutual utilization of big data between multiple companies.

#### Roadmap toward Commercialization

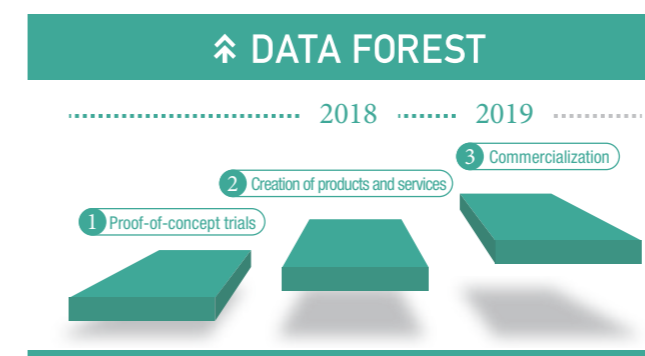
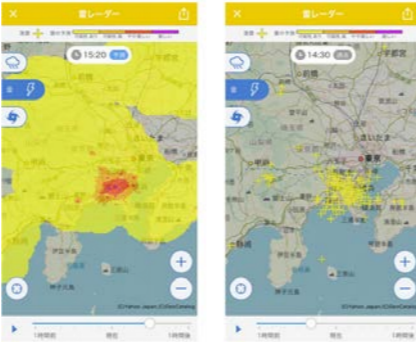


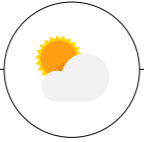
Photo: Aflo

Enabling People to Check the Weather Anytime, Anywhere and Adjust Their Plans Accordingly  
Addition of Lightning Radar Feature to Rain Cloud Radar of Yahoo! Weather Service

Rain cloud radar of the Yahoo! Weather service is an extremely popular feature that receives roughly nine million daily unique browsers (DUBs) on days when the weather is unfavorable. With Yahoo! Weather, users can easily confirm weather conditions in real time in their surrounding area via their smartphones, even when on the go. The service also conveniently provides users with information that helps them decide on such matters as taking shelter from the rain or taking an umbrella with them when they go out. Furthermore, in August 2017, we started offering a lightning radar feature for this service, which allows users to check the possibility of lightning strikes in surrounding areas as well as its severity. Through this feature, we hope to prevent injuries as a result of lightning strikes during leisurely activities and outdoor sports, as well as in everyday life, in our aim to realize a safer society.



Lightning radar display screen



Special Feature

Creating the Future through New User Experiences

The Yahoo Japan Group has taken the lead over other companies in creating new user experiences through its various services. These include not only the Internet portal site Yahoo! JAPAN, which was the first of its kind in Japan, but also Yahoo! NEWS, which has a comment section for users to exchange opinions on news topics, and YAHUOKU!, which allows users to sell and purchase items among themselves online. Through its years of providing new experiences, the Group has brought about change in the daily actions of users. Today, the Group continues to leverage information technologies to solve daily lifestyle issues and create new services that spur new user actions.

Helping to Prevent the High Stress of Crowded Trains  
Release of Forecast for Abnormally Crowded Train Times via the Yahoo! Transit Navigation Service

In February 2018, we began offering a new feature for the Yahoo! Transit Navigation service, which provides forecasts of abnormal crowdedness on trains and at train stations. This feature leverages big data taken from the nearly 40 million users of Yahoo! Transit Navigation and utilizes AI to provide a five-day forecast of times when trains and train stations may be abnormally crowded. These forecasts allow users to identify beforehand any trains that may be more crowded than usual and make plans to avoid times of peak crowdedness by adjusting their schedule for going out or choosing an alternate route. By doing so, the forecasts help eliminate stress and enable smooth travel for users. The release of the forecast feature for abnormally crowded train times was covered by 38 media outlets. In addition, the thesis on the technology for these forecasts written by Yahoo! Japan Research ranked in the top three of 2,733 documents submitted at prestigious conferences in terms of attracting attention. In these ways, this feature is garnering significant attention.

Going forward, we will continue to improve and expand the features of Yahoo! Transit Navigation with the aim of establishing this service as a navigation tool for not just daily commutes to school or work but also business trips and travel, thereby solving the various problems users face when on the go.



Enabling Solutions for Specific Concerns and Questions of Users on the Internet  
Project to Mitigate Low-quality Posts on Yahoo! Knowledge Search

Yahoo! Knowledge Search is a service where users share knowledge and information among themselves to address questions posted on online forums. This service receives over 100,000 posts a day as it allows users to find solutions or answers to problems or questions that relate closely to them but to which they cannot find solutions or answers by using search functions. However, as these posts are done anonymously, the quality of certain posts has become an issue. To address this issue, we leveraged the supercomputer kukai to develop a model for determining post quality based on information gathered through the past monitoring activities that were performed manually by our CS Division. As a result of this model's introduction, the efficiency of low-quality post elimination via the CS Division has improved by roughly 22%. Furthermore, the model has almost completely eliminated low-quality posts that appear on the Yahoo! Knowledge Search's top page and in its Q&A rankings. As Japan's largest online service for sharing knowledge, Yahoo! Knowledge Search will continue to provide information that is useful in the daily lives of users.



Realizing a Cashless Society through Payment Services That Can Be Used Anywhere  
PayPay—New Smartphone Payment Service That Utilizes Barcodes

To promote the widespread use of cashless payments in Japan, we established PayPay Corporation in June 2018 as a joint venture with SoftBank Corp. By leveraging the technologies of Paytm, India's largest digital payment company, we will provide PayPay, a new smartphone payment service that utilizes barcodes. Users can utilize this service to read QR codes presented by merchants to make payments or can also make payments by displaying a barcode (one-dimensional barcode or QR code) on their app and presenting it at the merchant's payment terminals and registers. Amid the rapid proliferation of cashless lifestyles around the world, we will leverage PayPay to provide convenient shopping experiences in Japan that utilize cashless payments and that seamlessly integrate online and offline domains.



Providing New Smartphone App Service to Attract New Customers to Stores  
Launch of Yahoo! Check-in Point

In April 2018, we added a new check-in function to Yahoo! MAP and commenced the Yahoo! Check-in Point service, a smartphone app for attracting new customers to stores. As of February 2018, Yahoo! Check-in Point had been introduced at roughly 600 stores in the Shibuya and Shinjuku wards of Tokyo, including at Matsuya and Jiyu Kukan stores. Going forward, we will gradually expand the area promoting this service nationwide with the aim of increasing the number of participating stores to 10,000 by spring 2019.

Using Yahoo! Check-in Point, stores can expect to acquire new customers and increase the frequency of repeat customer visits via a new method that leverages T-points, campaign information, and coupons. Furthermore, Yahoo! MAP users can receive benefits simply by visiting stores. Through Yahoo! Check-in Point, we will help stores attract new customers. At the same time, we will aim to expand the coverage area and usage environment for this service so that our users can enjoy new and exciting experiences that offer good value when going out.



Image of check-in screen



## Technological Strategy

Number of engineers

Approx. **3,000**

Amount of capital investment  
(Non-consolidated basis)

Approx. ¥ **40.0** billion

Number of theses presented at  
conferences in Japan and overseas

**55**

### Basic Approach

Every month, Yahoo! JAPAN boasts over 72.5 billion page views, handling a tremendous amount of traffic, which at its largest can be up to 600GB per second. In addition, with its lineup of over 100 services, Yahoo! JAPAN is one of the few companies in the world that is able to accumulate a diverse range of user data, and this represents the Company's greatest strength. Utilizing this data, Yahoo! JAPAN is pursuing various research activities while making proactive efforts to communicate the results of these activities to the

outside world. In fiscal 2017, the Company was able to present a total of 55 theses at conferences both in Japan and overseas. Particularly overseas, the Company has a strong track record of making presentations at prestigious conferences. Going forward, Yahoo! JAPAN will aim for further growth by leveraging these successes in its services. To support this aim, the Company continues to focus its efforts on establishing facilities, enhancing development environments, and strengthening human resources.



**By drawing on our technological strengths to utilize data to its full extent, we will create the best possible experiences for our users.**

### Chiaki Fujimon

Managing Corporate Officer  
EVP, Chief Technology Officer (CTO)  
President of Technology Group

Yahoo! JAPAN's history can also be defined as a history of solving problems that people face through technology. We have a lineup of over 100 services, including Yahoo! Search, Yahoo! News, and Yahoo! Shopping, which are loved by our users and relate closely to their daily lives. In addition, as a corporation that has been driving the Internet industry, we have adopted a mission of delivering a safe and secure environment to our users. Guided by this mission, we have been independently overseeing the majority of the process related to the provision of services, including not only the development and operation of various services but also the management of our data centers, which handle the data we collect on our users. In these ways, we have been fortunate to establish an environment in which we offer a diverse range of services and collect an abundance of data. Under such an environment, we will leverage our technological strengths to unlock the limitless potential of data.

Over the course of the Internet's history, there have been a great number of cases where data has been utilized. However, the major-

ity of these cases have simply been leveraging data acquired through a single service. At Yahoo! JAPAN, we leverage data in a manner that transverses all our services so that we can go beyond simply identifying apparent user needs to drawing out latent needs, thereby enabling us to make accurate proposals at the most appropriate times. By doing so, we are able to offer our users the best possible experiences, different from anything they have experienced before. Furthermore, we have adopted the DATA FOREST Initiative in which we solve the various problems facing Japan by combining the data we possess with the data of external organizations. Under this initiative, we have commenced proof-of-concept trials based on collaboration between industry, government, and academia.

Through these means, we are drawing on our technological strengths to utilize data to its full extent with the aim of becoming a company that knows Japanese Internet users better than anyone else. As such a company, we will offer the best possible experiences to our users in a way that only Yahoo! JAPAN can.

To leverage our data to the greatest extent possible, in fiscal 2017 we actively carried out investment in facilities, development environments, and human resources. Going forward, we will continue to strengthen these areas while pursuing further business growth centered on data.

### Investment in Facilities

As the amount of data from our services continues to increase, capital investments aimed at accumulating and leveraging that data efficiently and in real time are essential. To that end, in fiscal 2017 we increased our number of servers and expanded Hadoop, an open source distributed processing framework that can handle a tremendous amount of data. In these ways, we were able to triple the amount of data accumulated over the previous fiscal year. In addition, we introduced a super computer that specializes in deep learning, which earned second place in the global energy-efficiency ranking GREEN500. "kukai", which achieved calculation processing speeds of roughly 200 times that of normal speeds, is expected to make a significant impact on data utilization going forward.

### Investment in Development Environments and Reinforcement of Development Structure

Development environments in the Internet industry evolve on a daily basis. With the aim of further enhancing our development efficiency and realizing an environment where data can be easily utilized, we began efforts to upgrade and maintain our development environments. Without interrupting the operation of our services, which receive 72.5 billion monthly page views, we are boldly taking on the challenge of transitioning to new development environments, a medium- to long-term effort that we view as highly difficult. In fiscal 2017, we were able to transition a certain number of our services into the latest development environments of Communication as a Service (CaaS) and Platform as a Service (PaaS) which has already produced results such as reduction in operations workload.

### Investment in Human Resources

Being a technology company, we place the utmost importance on the human resources who support our technologies. To secure outstanding engineers, we actively conduct employment activities at our domestic locations and on a global basis. In addition, with the aim of improving the engineering capabilities and scientific knowledge of our employees, we have been working to enhance our in-house training and other programs and are providing support for obtaining PhDs through such means as covering full tuition for employees. In fiscal 2017, 55 of our employee theses were adopted at prestigious conferences in Japan and overseas, and there have been over 200 cases of applied research being conducted based on these theses. Furthermore, ideas introduced in these theses are already being adopted in certain services. For example, as a result of employee efforts to leverage deep learning technologies in the Yahoo! JAPAN app, we were able to improve the click-through rate of listed articles by 12.3% and extend user time spent by 6.7%. In these ways, we position our employees as the most important asset for enhancing our technological capabilities in a comprehensive manner that covers everything from research to application and development. We will therefore continue efforts to strengthen our human resources going forward.

# Financial Strategy

EBITDA*1	ROIC*2	Total equity/Total assets ratio	*1 EBITDA = operating income + depreciation and amortization in cash flows from operating activities *2 ROIC (Return on invested capital) = operating income after taxes ÷ (total equity + interest-bearing liabilities)
¥230.2 billion	10%	40%	

## Basic Approach

The environment surrounding the Internet industry is undergoing dramatic change. Within this industry, the Yahoo Japan Group has established a robust financial foundation that enables it to capitalize on growth opportunities and promptly respond to its funding needs. This foundation has been established on the premise that the capital expenditures necessary for service development and operation and dividends to our shareholders will be covered by the cash flows from operating activities for the corresponding fiscal period.

Currently, the Group carries out investments with a focus on improving corporate value over the medium to long term. Because we focus on financial discipline, regardless of past results, effectiveness of investments are always verified when investment strategies are decided.

The Group has received an A ranking for its credit rating from Japan Credit Rating Agency, Ltd. and aims to maintain this rating going forward.



We will work to improve corporate value over the medium to long term with a focus on financial discipline.

### Ryosuke Sakaue

Corporate Officer,  
EVP, Chief Financial Officer (CFO),  
President of Finance Management Group,  
Corporate Group

The Group invests its management resources from a medium-term perspective. During fiscal 2017, we invested approximately ¥23 billion toward maximizing e-commerce transaction value and ¥12 billion toward transforming ourselves into a data-driven company. For the former, active sales promotional activities were conducted. Although measures for the auction business were revised because we did not realize the expected results, the shopping, membership, and credit card businesses grew in line with our expectations. Investments for transforming ourselves into a data-driven company were made mainly in three areas: enhancement of facilities, improvement of development environments, and development of human resources.

In fiscal 2018, we plan to invest in the two key domains of “media-related services” and “commerce-related services.” In the media-related domain, we will invest approximately ¥10 billion in such areas as enhancing video content to prepare ourselves for growth in the video advertising market. Furthermore, for the commerce-related domain, we expect to invest nearly ¥20 billion for all of our commerce businesses. These investments will mainly be focused on acquiring participating merchants to facilitate our entry into the mobile payment domain, which is expected to expand in the future. While profits may decline over the short term due to these efforts, we consider these investments to be essential in realizing growth over the medium to long term. Going forward, we will actively undertake initiatives aimed at realizing further growth in the future while adhering to financial discipline.

We carry out various investments in accordance with an investment policy that emphasizes financial discipline. While giving consideration to sustainable management in all of our business domains, we will actively pursue efforts aimed at realizing further growth in the future.

## M&A Strategy and Capital and Business Alliances

We pursue M&A with the aim of achieving growth by strengthening existing businesses and creating new businesses. We carefully select companies that we anticipate will grow further through collaboration with our Group. Additionally, when deciding on an investment, we place priority on having our return on invested capital (ROIC) or internal rate of return (IRR) exceed our weighted average cost of capital (WACC). We also aim to establish a structure that allows us to play a leading role in the management of our investee companies by owning a majority of their issued shares.

Our subsidiary investment company, YJ Capital Inc., achieves high levels of return as a leader in corporate venture capital through its long-term investments in promising venture companies in Japan and Southeast Asia. Furthermore, we aim to create new businesses through collaboration with SoftBank Vision Fund, promoted by our parent company SoftBank Group Corp.

## Capital Investment

Going forward, we expect the data volume handled by our Group to increase even further. We therefore need to carry out capital investments on a continuous basis. To this end, we make efforts to realize efficient capital investments that will allow us to respond to the larger volume of data we handle.

In addition, to become a company that can lead the competition in terms of technologies, it is crucial that we establish state-of-the-art development environments. Through the introduction of cutting-edge technologies, which evolve on a daily basis, we are working to put in place a structure that allows us to swiftly and actively take on challenges even under a rapidly changing environment.

Furthermore, to respond to the expanding e-commerce market, we will proactively examine ways to enhance our logistics centers, primarily through ASKUL Corporation, our consolidated subsidiary.

In fiscal 2017, we carried out capital investments of approximately ¥40 billion on a non-consolidated basis, and we intend to maintain annual capital investments at a level between ¥40 billion and ¥50 billion. With that said, we may carry out additional investments in the event of the construction of new data centers and logistic centers or other circumstances.

## Shareholder Returns

We aim to return profits to our shareholders through sustainable improvements in corporate value over the medium to long term. To this end, we recognize the importance of actively pursuing upfront investments in our services, capital investments, and M&A toward future growth. At the same time, we understand our responsibility as a listed company to recompense our shareholders through sharing profits. In fiscal 2017, we issued a year-end cash dividend of ¥8.86 per share (total dividend amount of approximately ¥50 billion), the same amount paid in fiscal 2016. While continuing to invest in future growth, we will further improve our corporate value by providing an appropriate and steady return of profits to our valued shareholders.



# Human Resources Strategy

<b>Recruitment</b> Number of employees who joined in the past three years via the Potential Recruitment System	<b>Development</b> Number of employees who changed positions via the Job Change System in the past three years	<b>Work Environment</b> Percentage of employees who utilized Office Anywhere System in the past year
623	472 (total)	87 %

Basic Approach

Recognizing the importance of both business growth and employee growth, the Yahoo Japan Group aims to become a “People Development Company.”

Amid the fierce changes occurring in the Internet industry, we are working to transform from an Internet company to a data-driven company that knows Japanese Internet users better than anyone else. To this end, we are making

strategic efforts to reinforce our human resources recruitment and development practices. Furthermore, we are actively promoting the creation of an employee-friendly environment. In these ways, we are working to secure outstanding human resources and establish an environment where they can play an active role.



**Focusing our efforts on unleashing the talents and passion of our employees with the aim of becoming the No. 1 “People Development Company” in Japan.**

**Takayasu Yukawa**  
Corporate Officer,  
EVP, President of People Development Group,  
Corporate Group

The growth of “people” is an essential element in realizing the sustainable growth of Yahoo! JAPAN. Accordingly, we have positioned the aim of becoming a “People Development Company” as the core of our human resources strategy, and are therefore focusing our efforts on supporting the growth of our employees.

As the Company consists of a diverse pool of employees with different values and skill sets, there is no uniform way of realizing employee growth. In response to this, we offer our employees various kinds of support to ensure that they are able to grow on their own initiative and take the necessary actions to do so. This support includes establishing human resource systems and training curriculums as well as promoting efforts to encourage daily communication between employees and their supervisors.

In addition, we place emphasis on securing a diverse group of outstanding personnel who can create the future and realize growth together with the Company. As such, we provide our employees with the option to choose flexible working styles and promote the creation of a workplace that embraces and utilizes diverse points of view. We believe that such efforts will lead to improvements in the overall attractiveness of our working environment and provide us with significant leverage in securing and maintaining human resources.

As the Internet domain undergoes rapid changes, we will take steps to swiftly and flexibly respond to such changes. At the same time, by adhering to the aim of becoming a “People Development Company” through mid- to long-term efforts, we will provide high levels of value to society.

We promote the hiring of outstanding human resources through flexible recruitment programs and the introduction of new technologies. In addition, by establishing an environment that unleashes the talents and passion of our employees, we will encourage employees to achieve growth in their own initiative and realize sustainable growth for the Company.

Human Resources Recruitment

## Providing Opportunities for Fair Employment Screening to a Diverse Pool of Human Resources

As part of our efforts to enhance our employees’ engineering capabilities, which contribute to our transformation into a data-driven company, we abolished the system for simultaneously recruiting new graduates in October 2016. To replace this system, we established the new Potential Recruitment System, which targets all people of 30 years of age and under, regardless of whether they are new graduates, previous graduates, or unemployed recent graduates with work experience. We also commenced year-round recruitment activities.

Within our previous new graduate recruiting system and mid-career recruiting system, the latter of which emphasized work experience, there were cases where we were not able to offer opportunities for fair employment screening to previous graduates or unemployed recent graduates. Furthermore, in recent years, the job-hunting season has been diversifying

due to such factors as an increase in overseas exchange students and people acquiring Ph.D. Amid such an environment, we believe our new Potential Recruitment System will help us provide opportunities for fair employment screening to a diverse pool of human resources, thereby enabling us to recruit outstanding talent.

Also, in our recruitment practices going forward, we will introduce an online coding test and make efforts to compile and analyze data on relevant information related to applicants. At the same time, we will free applicants from the restrictions of interview locations and times through introduction of online interviews and video recorded interviews. In these ways, we will strongly push forward with efforts to secure outstanding human resources.

Human Resources Development

## Offering Opportunities for Employees to Examine Their Career Choices and Achieve Growth on Their Own Initiative

We aim to become the “People Development Company” that unleashes the talents and passion of each employee. To this end, we have prepared various types of training programs and provide opportunities for growth in an effort to support the skill development of our employees.

**Job Change System**

For employees who wish to gain new experience and take on new challenges, we offer the Job Change System, which allows them to report their desire to change positions via a personal statement. In this way, we offer all our employees the opportunity to pursue the challenges of their choice, which in turn will encourage them to consider their career path and achieve growth on their own initiative.

**Yahoo! Academia**

With the aim of creating and developing the leaders of the next generation, we established the Yahoo! Academia, an in-house university program. This program strives to enable participants to freely demonstrate leadership qualities so that they can take on a guiding role for both people and society in the future. This program targets all employees, including those at Group companies. One significant feature of Yahoo! Academia is that participants can receive earnest guidance from current corporate officers. Thus far, over 500 employees have participated in the program, which has helped them play an active role in various settings both inside and outside the Company.

**Support for the Activities of Creators**

With the aim of improving the technical capabilities of our creators, we have established the creator activity support system “My Polaris,” which combines nine support systems and initiatives in a package format, including offering a monthly allowance of ¥10,000 to creators so that they can pursue ways to improve their skills. Other technical capability support systems offered through “My Polaris” include the OSS Developer Certification Program, support for obtaining a PhD, Hack Day, support for attending top conferences, and interaction with global technology companies.

Work Environment

## Establishing Diverse Working Styles That Improve Productivity and Spur Innovation

In April 2014, we established an Office Anywhere System that allows individual employees to work at home or at any other location. Recently, we increased the number of days employees can utilize this system from two to five per month. In doing so, we have made it easier for employees to flexibly choose their preferred work location.

In Japan, it is becoming increasingly important to implement

working styles that flexibly respond to the declines in working age population, in addition to meeting the needs of various life stages, including providing nursing care and raising children. While making efforts to promote work styles that boost productivity and communicating these efforts both inside and outside the Company, we will work to reform the work styles of Japan itself.

# Business Overview

## Revenue and Operating Income by Segment

Media Business		Commerce Business		Others	
Revenue	¥288.3 billion	Revenue	¥596.5 billion	Revenue	¥24.4 billion
Operating income	¥169.1 billion	Operating income	¥75.2 billion	Operating income	¥1.8 billion

## Growth Strategies by Segment

### Media Business

#### Basic Policies

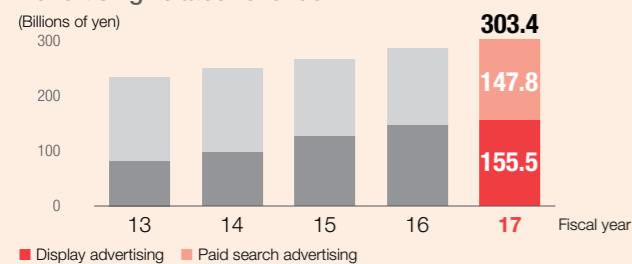
- Continue to promote the use of smartphone applications
- Shift toward video media by expanding the range of video services (for content and advertising)
- Support marketing activities through use of both online and offline data

### Commerce Business

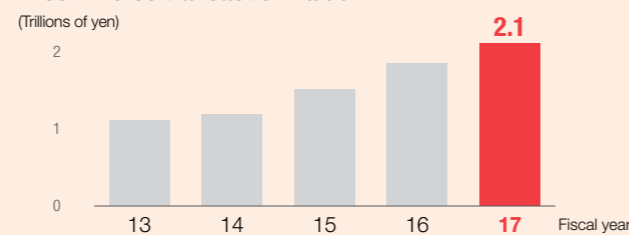
#### Basic Policies

- Leverage user base including Yahoo! Premium members and SoftBank members
- Reciprocal user transfer among services, and use of data
- Merge online and offline domains starting with mobile payment

### Advertising-related revenue

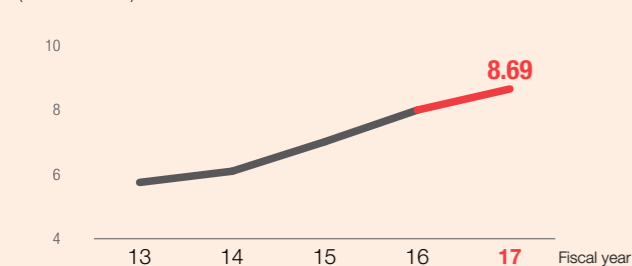


### E-commerce transaction value



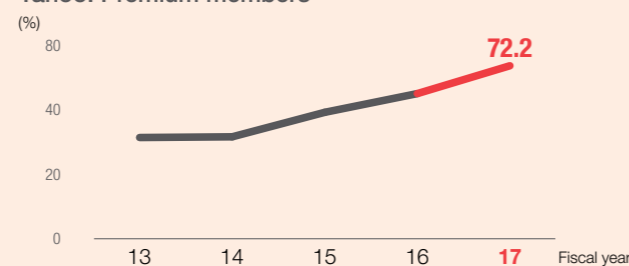
### Key Performance Indicators

#### Time spent by logged-in users (total for fiscal year)

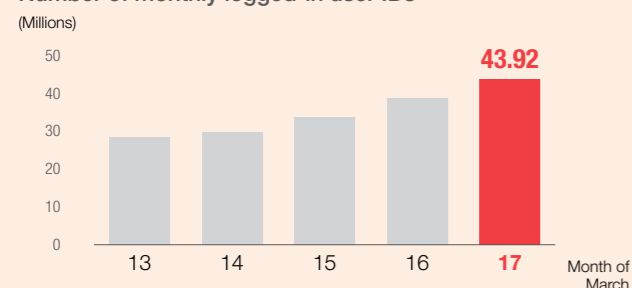


### Key Performance Indicators

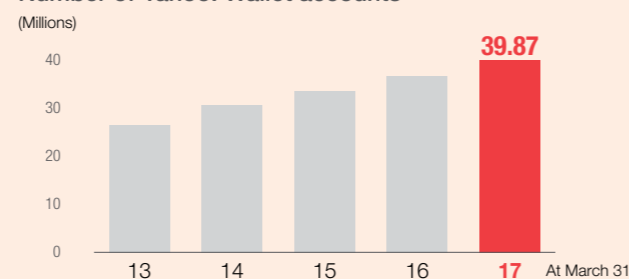
#### Ratio of shopping transaction value generated by Yahoo! Premium members



### Number of monthly logged-in user IDs



### Number of Yahoo! Wallet accounts



# Media Business

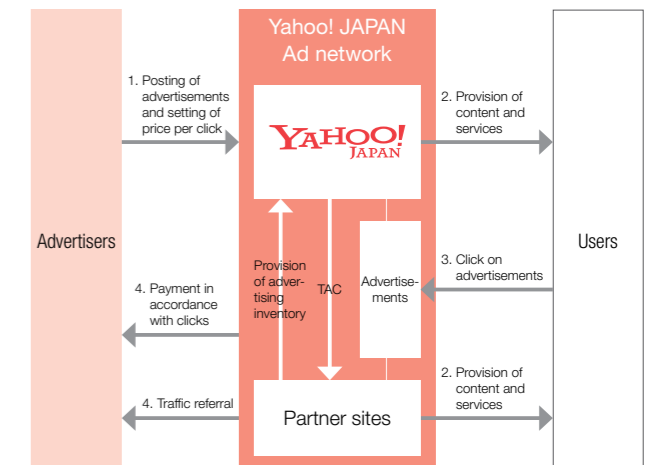
## Overview of the Media Business

In fiscal 2017, the name of this segment was changed from the Marketing Solutions Business to the Media Business. Through this change, the Media Business will strengthen the connection between the provision of information through media and the enhancement of profitability from advertising to a level higher than ever before with the aim of realizing further growth as the most widely used Internet service in Japan.\*1

The Media Business is a very important business segment because it is the initial point of contact with users who encounter with and explore information. It attracts a large number of users by providing a wide range of information and services that are essential to people's daily lives and records earnings through segments such as the advertising business (through Sponsored Search paid search advertising and display advertising such as Yahoo! Display Ad Network (YDN) and Premium Advertising).

## Outline of the Media Business

Example: Pay-per-click advertising



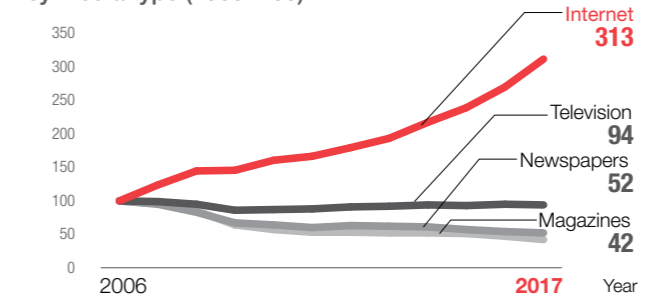
## Market Environment

In calendar 2017, amid sustained gradual economic growth, total expenditures in the Japanese advertising market rose for the sixth consecutive year, increasing 1.6% year on year, to ¥6.4 trillion.\*2 While total advertising expenditures in the four traditional media markets of television, newspapers, magazines, and radio decreased 2.3%,\*2 Internet-related advertising placement expenditures were up 17.6%.\*2 This was the fourth consecutive year of double-digit year-on-year growth and the market remained strong even after topping ¥1.0 trillion for the first time in calendar 2016. Even amid this growing market, video advertising expenditures showed especially noteworthy growth. With users increasingly accessing the

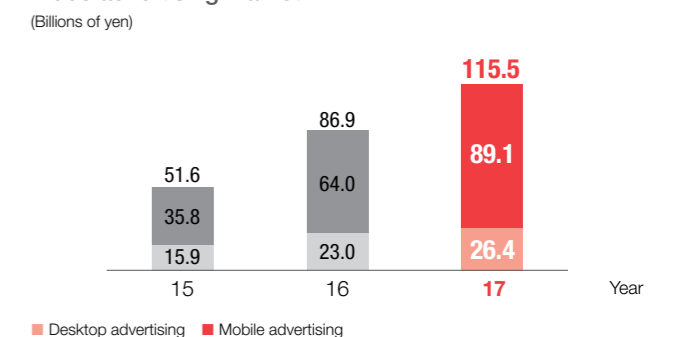
Internet using mobile devices such as smartphones, video content is becoming more prevalent on these devices as well. This has resulted in increased demand for video content, and media and advertising distribution companies have expanded their lineup of video advertising content as a result.

Brand advertising has traditionally employed media such as television and newspapers, but in 2017, we saw growth in online brand advertising including video advertising. We expect to see more television commercials and online video advertising to be utilized on a cross-sectional basis and therefore anticipate further growth in the online advertising market.

### Total advertising expenditures for 2017 in Japan, by media type (2006=100)\*3 \*4



### Video advertising market\*5



\*1 Source: Nielsen Digital Content Ratings, Nielsen Digital Co., Ltd. "Total digital" share of number of users excluding overlap in users of both PCs and smartphones

\*2 Source: 2017 Advertising Expenditures in Japan, DENTSU INC. [http://www.dentsu.com/knowledgeanddata/ad\\_expenditures/](http://www.dentsu.com/knowledgeanddata/ad_expenditures/)

\*3 Calendar 2006 data indexed to 100

\*4 Source: Created by Yahoo! JAPAN based on 2017 Advertising Expenditures in Japan, DENTSU INC.

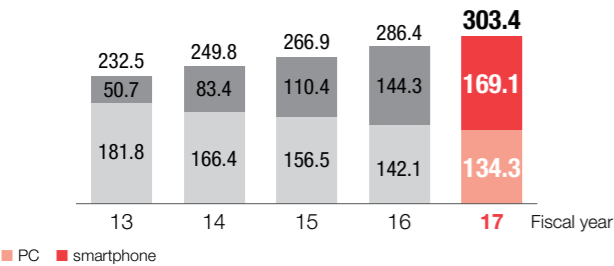
\*5 Source: 2017 Internet Advertising Market Survey, D2C Inc. and cyber communications inc.

Fiscal 2017 Results

In the Media Business, revenue increased 2.6% year on year, to ¥288.3 billion in fiscal 2017, accounting for 31.7% of consolidated revenue,\* while operating income rose 2.9%, to ¥169.1 billion. Total advertising revenue, which is generated almost entirely by the Media Business segment, expanded 5.9% year on year, to ¥303.4 billion.

In the area of paid search advertising, new optimization measures included the introduction of extended text advertising (ETA), which enhances visibility by accommodating a longer title and more body text, and a text supplement option that displays product appeal and features in bulleted form of

Total advertising revenue  
(Billions of yen)



Growth Strategy of the Media Business

We aim to achieve growth in the Media Business by providing information that fits the users most and improving profitability.

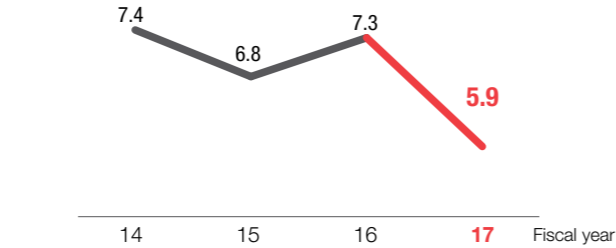
In order to increase usage frequency, we are pulling together tools and services in Yahoo! JAPAN top page. These tools and services include popular content such as the rain cloud radar and sports news flashes, and new mobile payment functions, which we think have growth potential.

We also aim to increase the user time spent on our services in anticipation of growth in demand for viewing videos driven by higher data transmission speeds due to the adoption of 5G technology and the 2020 Tokyo Olympic and Paralympic Games. To achieve this, we will further expand

in addition to the body text. This and other measures aimed at optimizing advertising display formats boosted advertising efficacy, thereby significantly improving profitability, and paid search advertising revenue rose 5.7% year on year, to ¥147.8 billion, turning upward after declining since fiscal 2015.

Display advertising revenue rose 6.1% year on year, to ¥155.5 billion, due to higher revenue from Yahoo! Display Ad Network (YDN), especially from In-feed Advertising, and an increase in Premium Advertising on rising demand from Yahoo! Shopping store owners driven by rising transaction values.

Advertising revenue growth rate  
(%)

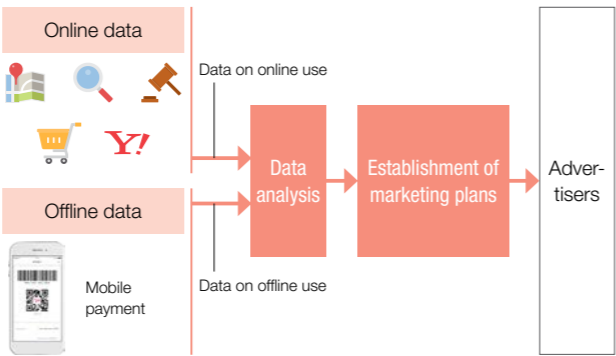


our portfolio of video content and live up to the varied expectations of our users.

Furthermore, we will increase revenue by expanding video advertising and thereby optimizing and maximizing ad reach.

In addition to our wide range of online services, we will also launch an offline mobile payment business. We plan to utilize data from both our online services and our offline payment business to support online-to-offline (O2O) marketing strategies of advertisers that take into account purchases in brick-and-mortar stores (measuring the impact of O2O marketing strategies).

Examples of Data Use in the Media Business



Yahoo! JAPAN top page application  
Increasing usage frequency by putting together popular functions

- Mobile payments
- Rain cloud radar
- Time-line
- Video

\* Ratio of segment revenue to total revenue for all segments. Segment revenue total does not include adjustments.

TOPICS

Launch of Yahoo! News Video

In April 2017, we launched Yahoo! News Video, which uses video to deliver a multifaceted news experience on the Yahoo! News website. This service live streams video news content provided by television broadcasters 24 hours a day, 365 days a year.

Monthly video viewing time for the Yahoo! News website (including Yahoo! News Video) has skyrocketed, increasing roughly ninefold year on year in March 2018. Recently, demand for video-format news viewable on smartphones is increasing. As this demand is expected to further expand, Yahoo! JAPAN will strive to enhance its portfolio of video content.



Launch of video advertising for smartphones

The market for video advertising in Japan has been growing in the past few years and, in response to the increased popularity of mobile video, Yahoo! JAPAN has begun to provide video advertising for smartphones.

Starting in December 2017, we gradually began providing support for premium video advertising for a number of devices.

In addition to providing In-feed Advertising for applications, starting in February 2018, we began providing support for smartphone browsers.

Increasing earnings from video advertising is an important part of the growth strategy of the Media Business. We will increase our earnings potential by continuing to strengthen and expand our lineup of video advertising products from fiscal 2018 and onwards.



Addressing Social Issues through Our Business Activities



Sharing social issues and reflecting them in our actions (Yahoo! News Sponsored Content)

In order to raise awareness of social issues that are not well known and promote the activities of NPOs and other organizations that work to resolve such issues, we created Yahoo! News Sponsored Content, a branding advertorial that leverages the reliability of the Yahoo! News service.

The sponsored articles include links that lead users to the Yahoo! Internet Fund Raising and Yahoo! Volunteer services. This in turn helps provide opportunities to encourage people interested in social issues to take action in such ways as making donations and participating in volunteer activities.



Yahoo! News Sponsored Content

Addressing issues that impact society as a whole

In Yahoo! News Feature, in an effort to highlight the issues that have a long-term impact on society as a whole, we use unique perspectives to delve into issues that tend to get buried within the large volume of information available on the Internet. Through Yahoo! News Feature, we will help solve social issues by providing not only information for consumption but also article content that can be used as reference materials and that can be accessible to readers in the long term.

# Commerce Business

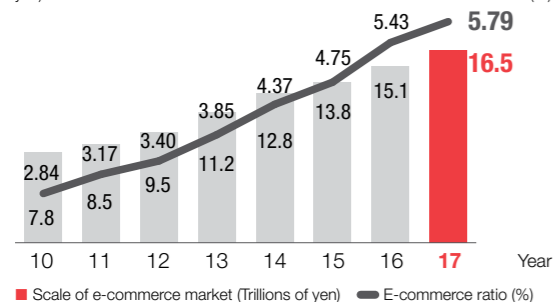
## Overview of the Commerce Business

In fiscal 2017, the Consumer Business and the financial and payment-related services in the Others segment were integrated into the Commerce Business. The purpose behind this change was to achieve synergies between the Company's businesses and within the Group as a means to maximize e-commerce transaction value. The Commerce Business comprises e-commerce related services (auction-related services and shopping-related services), membership services (Yahoo! Premium, Yahoo! BB, etc.), and financial and payment-related services (Yahoo! JAPAN Card, YJFX!, The Japan Net Bank, Limited, etc.). Consolidated subsidiaries such as ASKUL Corporation and Ikyu Corporation also have an impact on earnings and the Commerce Business accounts for the highest ratio of consolidated revenue. The Commerce Business plays a key role

## Market Environment

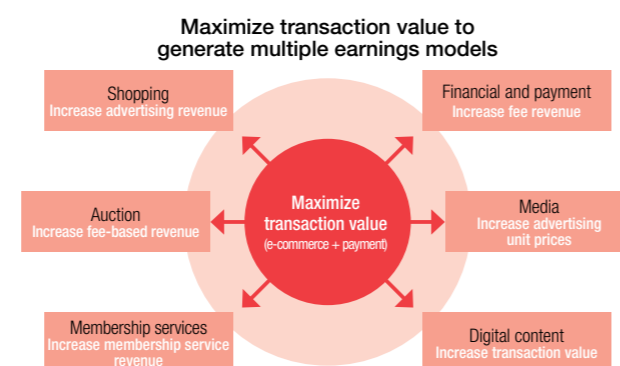
According to a survey by the Ministry of Economy, Trade and Industry,<sup>\*1</sup> the Japanese business-to-consumer (B2C) e-commerce market expanded 9.1% year on year in calendar 2017, reaching ¥16.51 trillion, and e-commerce sales accounted for 5.79% (up 0.36 percentage points year on year) of all retail product sales. As the ratio of e-commerce sales to total sales in Japan is still low compared with that of other countries, we see considerable upside potential. The market size of online auction is estimated to be ¥1.12 trillion in calendar 2017. Amid this growth in the e-commerce market, the domestic credit facility amount, a measure of actual credit card utilization volume, continued to rise in calendar 2017, reaching ¥58.37 trillion, up 10.1%<sup>\*2</sup> from the

Scale of e-commerce market and e-commerce ratio<sup>\*1</sup>  
(Trillions of yen) (%)



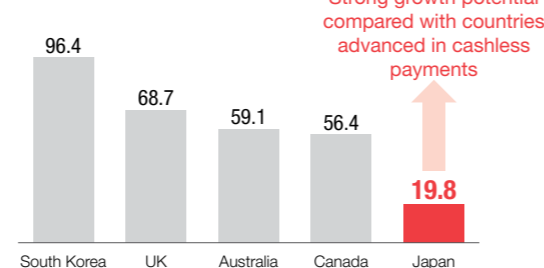
in deepening our understanding on the user actions related to "purchase" and "pay" as well as driving our efforts in becoming a data-driven company.

### Earnings model of the Commerce Business



previous year. Recently, electronic payments such as mobile payments are becoming more common and we expect to see an increase in the number of electronic payment methods going forward. According to a survey by the Ministry of Economy, Trade and Industry, cashless payments account for roughly 20% of all payments in Japan. As this ratio is low relative to that of other countries, the Ministry aims to increase this ratio to roughly 40%.<sup>\*3</sup> As the market for the Commerce Business grows, we expect increased use of technologies including big data and we believe the use of mobile payments will lead to the merging of online and offline domains.

Ratio of cashless payments in various countries<sup>\*4</sup>  
(%)



<sup>\*1</sup> Source: 2017 Foundation for Japan's Data-driven Society (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry

<sup>\*2</sup> Source: 2017 Market Statistics (Annual) (credit-related statistics), Japan Consumer Credit Association

<sup>\*3</sup> Source: Cashless Vision, Ministry of Economy, Trade and Industry

<sup>\*4</sup> Source: Current Conditions in Japan and Abroad with Regard to Promotion of Cashless Economies (February 2018), Nomura Research Institute

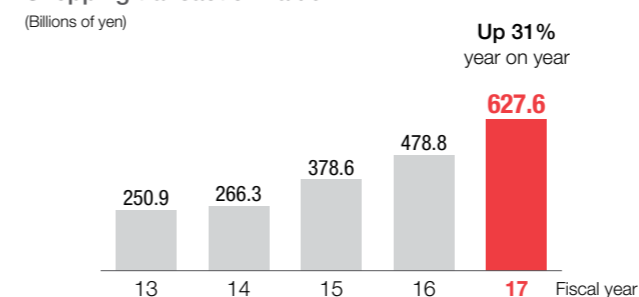
## Fiscal 2017 Results

In the Commerce Business, revenue rose 6.3% year on year, to ¥596.5 billion in fiscal 2017, accounting for 65.6% of consolidated revenue,<sup>\*5</sup> due to increases in advertising revenue

### Shopping

Shopping-related transaction value rose 25.7% year on year, to ¥935.1 billion. Of this, shopping transaction value accounted for ¥627.6 billion, up 31.1% year on year, as it gained market share by continuing to outpace the growth rate of the market. Yahoo! Shopping advertising revenue from stores rose 47.5% year on year, to ¥25.5 billion<sup>\*6</sup>, and the ratio

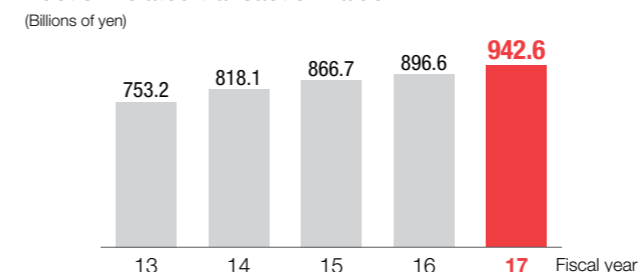
### Shopping transaction value<sup>\*7</sup>



### Auction

In fiscal 2017, auction-related transaction value rose 5.1% year on year, to ¥942.6 billion. Categories with high unit prices, such as automobiles and real estate, and official ticket sales showed steady growth. We conducted sales promotions including provision of T-point rewards and took measures to make functional improvements in our services. In November 2017, in cooperation with Japan Post Co., Ltd., we launched an anonymous shipping service allowing sellers and purchasers to send and receive auction goods without revealing each other's names and addresses. In addition, in March 2018, we launched a service available

### Auction-related transaction value<sup>\*8</sup>



<sup>\*5</sup> Ratio of segment revenue to total revenue for all segments. Segment revenue total does not include adjustments.

<sup>\*6</sup> Total of shopping-related advertising revenue of Yahoo Japan Corporation; advertising revenue of "StoreMatch," an advertising product in Yahoo! Shopping sold by ValueCommerce Co., Ltd. to stores in Yahoo! Shopping, etc.; and revenues of paid search advertising and YDN, etc. placed by stores in Yahoo! Shopping. The revenues of paid search advertising and YDN, etc. placed by stores in Yahoo! Shopping are posted under advertising revenue for the Media Business segment.

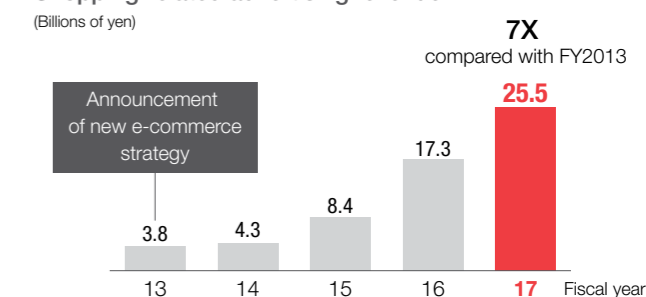
<sup>\*7</sup> Includes transaction values of Yahoo! Shopping, LOHACO (transaction value of ASKUL Corporation's LOHACO business (closed on the 20th of each month)), and Charm Co., Ltd.

<sup>\*8</sup> Transaction values of YAHUOKU!, tradecarview (<https://www.tradecarview.com/>), BOOKOFF Online (<http://www.bookoffonline.co.jp/>), Yahoo! Tickets (from April 2015), and others. Prior data has been retroactively adjusted.

in Yahoo! Shopping and the ASKUL Group's revenue. Operating income grew 4.4% year on year, to ¥75.2 billion.

of advertising revenue to transaction value in Yahoo! Shopping was roughly 4.5%. We increased profitability by boosting the efficiency of sales promotion activities by focusing on specific memberships. Transaction value in the travel business (including Ikyu Corporation) rose steadily, up 16.1% year on year, to ¥307.5 billion.

### Shopping-related advertising revenue<sup>\*6</sup>



### Yahoo! Premium membership not required when listing auction items through smartphone app



Commerce Business

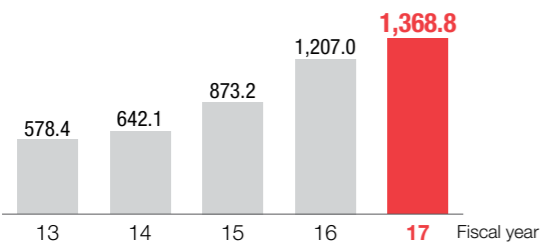
Financial and Payment-related Services

In the payment services business, the number of accounts for our online payment service, Yahoo! Wallet, rose 9.2% year on year, to 39.87 million, and transaction value increased 13.4%, to ¥1.37 trillion. In the credit card business, we conducted a membership drive campaign targeting potential customers such as e-commerce users, resulting in the number of valid credit card holders rising 29.8% year on year, to 4.68 million, and transaction value growing even faster, rising 64.2%, to ¥954.6 billion. We also conducted a campaign wherein customers using a Yahoo! JAPAN Card to pay for Yahoo! Shopping and YAHUOKU! purchases are

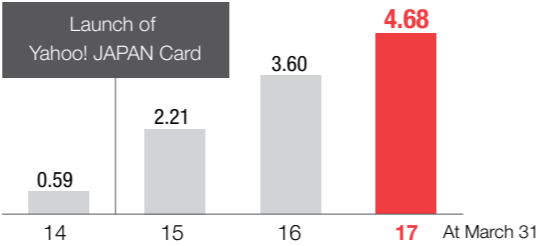
additionally rewarded with T-points. As a result of these efforts, the ratio of transactions using our proprietary payment services such as the Yahoo! JAPAN Card has increased along with the growth of the e-commerce business, thereby resulting in higher profitability in the payment services business.

In the financial services business, new investment trust Yjam Plus!, in which AI is used to analyze and manage the big data collected by the Group, has been growing rapidly, reaching roughly ¥30.0 billion in net assets as of March 31, 2018.

Yahoo! Wallet transaction value\*1  
(Billions of yen)



Number of valid credit card holders\*2  
(Millions)



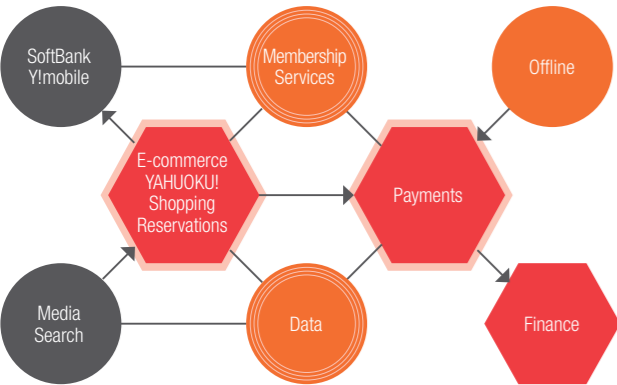
Growth Strategy of the Commerce Business

One strength of the Group's Commerce Business is that we operate a wide range of consumption-related services including e-commerce-related services and financial and payment-related services. Also, we have the unique strength of being able to leverage the user base of our Media Business, which boasts the largest number of users in Japan, as well as Yahoo! Premium members and SoftBank members.

We will leverage these strengths by striving to develop an ecosystem wherein services in the Commerce Business

promote mutual growth. Starting in fiscal 2018, we aim to be No. 1 in transaction value in the areas of e-commerce (sale of goods) and mobile payments. We will maximize transaction value by encouraging user traffic between services and using mobile payments as a lynchpin to encourage merging of online and offline domains. By capturing a large market share in terms of transaction value, we will strengthen our existing earnings models and create new ones.

Commerce Business ecosystem



Use of mobile payment



TOPICS

Joint campaigns targeting SoftBank members

In June 2017, we waived the membership fee for Yahoo! Premium, a paid monthly membership service, for SoftBank members who have linked their Yahoo! JAPAN IDs using the smart login setting. At the same time, we also ran a campaign wherein shoppers on Yahoo! Shopping and LOHACO were rewarded ten times the usual number of T-points. Yahoo! JAPAN and SoftBank Corp. shared costs related to these campaigns as appropriate. The number of Yahoo! Premium member IDs greatly increased thanks to these campaigns and, as of March 31, 2018, the number of IDs reached 19.79 million (up 56.9% year on year). Also, the ratio of Yahoo! Shopping transaction value attributable to Yahoo! Premium members rose to over 70% and Yahoo! Premium has become a major driver of growth in Yahoo! Shopping transaction value.



SoftBank members get perks on Yahoo! Shopping

The Japan Net Bank, Limited now a consolidated subsidiary

In February 2018, we converted The Japan Net Bank, Limited, a pioneer in the Japanese online banking market, into a consolidated subsidiary. The inclusion of a bank in our Group not only strengthens our finance business, but also enables the Group to offer a wider range of payment services, and we expect this move to energize our payment services business as a result. We aim to achieve further growth in the Commerce Business by maximizing synergies between the customer base and multi-big data we have developed and accumulated and The Japan Net Bank, Limited's services and customer base.



ジャパンネット銀行

Addressing Social Issues through Our Business Activities



Secure development of e-commerce

For our YAHUOKU! and Yahoo! Shopping services, we have in place a program that takes action to remove exhibits when notified to do so by the intellectual property rights holder of that particular exhibit. Through this program, not only do we protect users and intellectual property rights holders, we also work to ensure the secure development of e-commerce by addressing the important issue of preventing intellectual property right infringement.

In addition, we are strengthening our management structure and IT systems to prevent improper actions and are pushing forward with multifaceted initiatives to protect intellectual property rights, including raising user awareness and pursuing collaboration with rights holder associations. Going forward, we will continue to actively engage in these activities with the aim of completely eliminating improper access.



Announcement of the program

Recognizing stores nationwide through Yahoo! Shopping

In our Yahoo! Shopping service, we administer the Area Award, which recognizes outstanding stores that represent regions across Japan from the over 550,000 stores available through this service. We also hold an award ceremony at venues in each region.

By drawing attention to local products and small local stores striving to survive, this award is expected to create a positive ripple effect whereby the number of people who take pride in their local area increases and the outflow of talented individuals from local areas decreases.

The Area Award has also created synergistic effects with other initiatives. For example, the award was presented in the past to a store operated by a graduate of the IT Human Resources Development Project, which we promote in collaboration with Cyber University (SoftBank Group's online university), who gained e-commerce know-how through the project.

\*1 Includes payments using T-points and Yahoo! Money

\*2 Number of card holders who can purchase goods and receive services, etc. using the card. Includes card holders of KC Card, Yahoo! JAPAN Card and SoftBank Card ("Omakase charge")

UPDATE JAPAN: Our CSR Activities

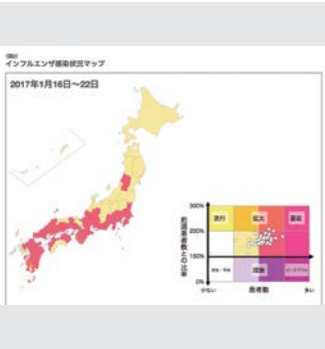


UPDATE JAPAN

UPDATE JAPAN MESSAGE

Our new vision for the next 20 years

As a problem-solving engine, Yahoo Japan Corporation (“Yahoo! JAPAN”) is dedicated to the mission of solving the problems of the people and society by leveraging the power of information technologies. UPDATE JAPAN, our guiding vision, expresses our intention to UPDATE Japanese society. We will UPDATE JAPAN by using information technology to resolve the issues facing people and society as a whole. We will continue to UPDATE JAPAN as we work to provide solutions to individual and social problems to strengthen our position as a company that is truly indispensable to Japanese society, not only for the next 20 years, but also for the next 100.



For more detailed information, please see our CSR website.  
<https://about.yahoo.co.jp/csr/en/>

Basic Approach to Sustainability

While continuing to engage in dialogue with its various stakeholders, Yahoo! JAPAN aims to fulfill its social responsibilities, contribute to the sustainable development of the environment and society, and enhance its corporate value.

At Yahoo! JAPAN, we view social responsibility as our responsibility to users (user first) and our responsibility to society (social contribution). By leveraging cutting-edge

information technologies to solve the various issues facing our users, we will UPDATE people’s lifestyles and society as a whole.

Rather than being a company that simply pursues economic expansion, we aim to be a company that can continue to exist for 100 years or more into the future by bringing maximum levels of happiness to society.

Creating the Future with Four UPDATES

With the aim of realizing a sustainable society, we have determined Four UPDATES, which lay out areas in which we will focus our efforts. In addition, the efforts we are pursuing to achieve the sustainable development goals (SDGs) are categorized in these Four UPDATES. For example, we are providing support for recovery in disaster-stricken areas to achieve Goal 1: No Poverty. We are also promoting work

style reforms to achieve Goal 8: Decent Work and Economic Growth. In these ways, we promote a broad range of initiatives through the Four UPDATES to realize the SDGs.

With the Four UPDATES acting as our core, we will work to fulfill our social responsibilities through our business.

Four UPDATES	SDGs	Examples of initiatives
<b>UPDATE 1</b> Promote an IT Society	4 QUALITY EDUCATION 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	<ul style="list-style-type: none"><li>Solving of social problems using big data</li><li>IT Human Resource Development Project</li><li>Study group on Internet usage by children</li><li>Cutting-edge research by Yahoo! JAPAN Research</li><li>Measures against illegal and harmful information</li><li>Security measures through the provision of apps and information</li><li>Yahoo! Kids</li><li>Hack Kids (programming classroom)</li><li>Hack day (event for creators)</li><li>Hack U (event for student IT creators)</li><li>Technology disclosure that contributes to market development</li></ul>
<b>UPDATE 2</b> Support Disaster Relief and Social Problem-solving Efforts	1 NO POVERTY 11 SUSTAINABLE CITIES AND COMMUNITIES 17 PARTNERSHIPS FOR THE GOALS	<ul style="list-style-type: none"><li>Yahoo! Fund</li><li>Yahoo! Volunteer</li><li>Social Emergency Management Alliance (SEMA)</li><li>Yahoo! Weather &amp; Disaster</li><li>Tour de Tohoku sponsorship</li><li>Search for 3.11</li><li>Collaboration with Fisherman Japan (<a href="https://fishermanjapan.com/">https://fishermanjapan.com/</a>)</li><li>Yahoo! Disaster Alert</li><li>Solving of social issues through reuse practices—reU funding</li><li>Yahoo! Government Auctions</li><li>Yahoo! News Special Feature</li><li>Activities at regional offices</li><li>Distribution of news articles related to social contribution, including NPO activities, via Yahoo! News Sponsored Content</li><li>Disaster Calendar</li></ul>
<b>UPDATE 3</b> Foster Diversity	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES	<ul style="list-style-type: none"><li>Health management promotion</li><li>Support of athletes with disabilities</li><li>Audible elections (accessibility)</li><li>Office Anywhere</li><li>Selectable work system (flex-time scheduling and variable work-week options)</li><li>Free address system</li><li>LODGE co-working space</li><li>One-on-one meetings</li><li>Potential recruitment system</li><li>Sponsorship programs</li></ul>
<b>UPDATE 4</b> Work toward a Sustainable Society	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 14 LIFE BELOW WATER	<ul style="list-style-type: none"><li>Tohoku Yell Market</li><li>Constructing environment-friendly next-generation data centers</li><li>Promoting use of renewable energy</li><li>Collaboration with Fisherman Japan</li><li>Serving Blue Seafood at Company restaurants</li><li>Support for carbon offset campaigns at national parks</li><li>Cultivation of firefly habitats in biotopes</li><li>Development of super computers with superior energy-saving performance</li><li>Reduction of waste from offices</li><li>Solving of social issues through reuse practices—reU funding</li><li>Application of ecohai bicycle deliveries</li></ul>

**SDGs**  
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.

Companies are now expected to actively contribute to the SDGs and work to realize a sustainable society while at the same time enhancing their corporate value.



UPDATE1

Promote an IT Society

4

QUALITY EDUCATION

9

INDUSTRY, INNOVATION AND INFRASTRUCTURE

16

PEACE, JUSTICE AND STRONG INSTITUTIONS

Importance to the Company

- Promotion of innovation
- Development of IT industry
- Solving of social issues through high-quality services

Expectations from Society

- Safe and secure development of an information-based society
- Safe and secure use of IT by children and improvement in IT literacy
- Cultivation of IT human resources
- Correction of information gap

Yahoo! JAPAN's Vision for UPDATE 1

To realize a safe and secure IT society, we will pursue such endeavors as providing high-quality education through the Internet and building a foundation for industrial and technological innovation.

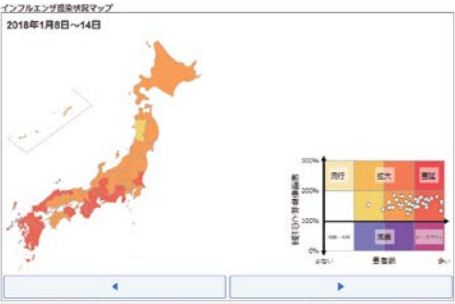
FOCUS ON

Solving Social Issues Using Big Data

The Company has published the Yahoo! JAPAN Big Data Report. In this report, we demonstrate the power and wonder of big data utilization by carrying out trend-based analyses of the abundant anonymous user data accumulated over the course of providing Yahoo! JAPAN services in various categories, particularly Yahoo! Search, as well as advertising and social media services.

The Yahoo! JAPAN Big Data Report also introduces the initiatives being undertaken by Yahoo! JAPAN Research. For example, in the event of a major disaster, it is necessary to quickly identify ad hoc emergency evacuation areas and provide necessary assistance and support to these areas in order to supplement designated evacuation areas. Addressing this potential scenario, Yahoo! JAPAN Research is utilizing 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 disaster.

Additionally, the report provides an easy-to-understand explanation regarding the mechanisms of Yahoo! Transit Information, a service that offers guidance for rail and bus transfers and boasts nearly 40 million users a month. This service compiles a massive amount of data, including not only data for searches using current train/bus times but also data for searches using future train/bus times. By combining big data on transportation routes and times, Yahoo! Transit Information uses AI to estimate which lines will be abnormally crowded and at what time. Utilizing these estimations, the service provides users with a forecast feature for abnormally crowded train times.



Providing Internet Education to Children across Japan

Children are the future, and we are pursuing a variety of initiatives to provide children with education in consideration of the Internet society for the next generation.

Amid expectations that programming education will become mandatory at elementary schools nationwide by fiscal 2020, there has been a rapid opening of programming classrooms at various locations. However, these classrooms are primarily being opened in the Tokyo metropolitan area and other urban locations.

Our Hack Kids program works to address the regional disparities in programming education by providing opportunities for children across Japan to experience the excitement of programming and expand their options for the future.

The exciting nature of this program provides the motivation for children to become immersed in learning about programming. To ensure that children participating in Hack Kids view programming as something fun, we use unique teaching materials that incorporate active learning techniques, giving them chances to find ways of enjoying programming on their own.

To further ensure safe Internet use, we have established the Laboratory on Children's Internet Use (Children's Internet Laboratory). While seeking the cooperation of educational institutions, researchers, and parents and guardians, the Children's Internet Laboratory provides educational materials and develops regional personnel who can promote Internet safety. Through such efforts, the Children's Internet Laboratory is working to improve Internet literacy.

UPDATE2

Support Disaster Relief and Social Problem-solving Efforts

1

POVERTY

11

CLIMATE ACTION

17

PARTNERSHIPS FOR THE GOALS

Importance to the Company

- Strengthening of relationships with stakeholders such as local governments, public offices, and NPOs
- Improvement of service reliability as a social infrastructure company
- Enhancement of brand value and expansion of user base

Expectations from Society

- Reinforcement of disaster prevention and mitigation, strengthening of IT infrastructure
- Revitalization of local communities
- Solving of social issues through NPO support

Yahoo! JAPAN's Vision for UPDATE 2

We are working to solve social issues through collaboration with various sectors, including government agencies, corporations, NPOs/NGOs, and academic research institutions. In addition to independently carrying out disaster relief initiatives, we support the activities of organizations working to address social issues.

FOCUS ON

Collaborating with Private Enterprises and NPOs in SEMA Activities

Japan is a country where major natural disasters frequently occur. Accordingly, when such disasters occur, a prompt and integrated response that incorporates the strengths of various parties is essential.

Through collaboration among 20 private enterprises that engage in disaster relief activities, including Yahoo! JAPAN, and six NPOs, the Social Emergency Management Alliance (SEMA) was established to serve as an organization that transcends the boundaries between corporations and NPOs. SEMA aims to curtail the impact that natural disasters have on victims and on Japanese society as a whole to the greatest extent possible and support prompt recovery efforts.

SEMA compiles lists of the goods and services that participating companies and organizations have under normal conditions. In the event of a large-scale natural disaster, SEMA uses these lists to swiftly deliver disaster relief packages prepared by each company to disaster-stricken areas. NPOs oversee the smooth collection of information in disaster-stricken areas and provide support for a prompt recovery. Furthermore, the participating companies and NPOs cooperate under the aim of ensuring that disaster relief reaches its destination, eliminating waste, and easing the burden of recovery efforts on local governments in the affected areas.



Concluding Agreements with Local Governments to Steadily Deliver Emergency Information to Local Community Members

We have concluded cooperative agreements with the aim of promptly communicating emergency information to local community members in the event of a disaster. Under these agreements, we will compile, manage, and provide various kinds of information, including evacuation advisories and orders issued by local governments as well as designated evacuation areas, and ensure that local communities have easy access to such information. Additionally, to prevent difficulties in browsing the websites of local governments, which see a sharp increase in access during times of emergency, we will open a cache website to help reduce burden. Currently, we have concluded such agreements with 450 local government bodies (as of February 2, 2018).

Furthermore, we offer tools to help transmit emergency information provided by local governments. These tools are being used in disaster drills as they can transmit information to not only local community members but also to anyone in nearby areas who has turned on location notification settings on their smartphone. These tools were used as a communication method to warn people of danger when the main streets of Naha City, Okinawa Prefecture were shut down to dispose of an unexploded bomb. Going forward, we will continue to conclude agreements with local governments to provide information to local community members in a timely fashion.



UPDATE 3

Foster Diversity

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Importance to the Company

- Securing of diverse human resources that understand various social needs
- Cultivation of human resources that can accurately ascertain social issues
- Acquisition and retention of outstanding talent
- Realization of a company where a diverse pool of people play active roles, harmoniously coexist, and embrace each other's individuality
- Securing of accessibility

Expectations from Society

- Realization of a society where a diverse pool of people play active roles, harmoniously coexist, and embrace each other's individuality
- Fulfillment of work-life balance
- Development of working skills, expansion of employment opportunities, and enhancement of productivity
- Achievement of a society where everyone can play an active role, including women and people with disabilities

Yahoo! JAPAN's Vision for UPDATE 3

We aim to have our employees fully exercise their strengths, regardless of experience, beliefs, life stages, or attributes, as they work to spur innovation in our broad range of services and businesses.

FOCUS ON

**Promoting Health Management and Maximizing Employee Performance**

We believe that being in good physical and mental health is directly linked to optimal work performance. We also believe that it leads to the happiness of our employees and their families. Guided by these beliefs, the president and representative director took on the role of Chief Conditioning Officer (CCO) on his own initiative in 2016, and subsequently announced the "Good Condition Declaration." Today, the current president, representative director, and CEO Kentaro Kawabe continues to fulfill this role, making diligent efforts to promote employee health.

We have established the Good Condition Promotion Office, which serves as a promotion structure for enhancing health management and assists employees to work personally toward better health. We are also promoting employee health in collaboration with the YG Health Insurance Society, which was launched in April 2018. Furthermore, for the second year in a row, we have been acknowledged in the large enterprise category (White 500) of the Certified Health and Productivity Management Organization Recognition Program by Nippon Kenko Kaigi.

Going forward, we aim to continue to be a company where employees can approach their work both physically and mentally in optimal condition.



**Creating Services with an Awareness of Web Accessibility**

We work to secure Internet accessibility to ensure that an even greater number of users are able to use the online content we provide in various settings.

In the design and development of the online content of our services, which we pursue with a vision for the near future, we will actively adopt new technical specifications for web accessibility. By doing so, our browsers and support technologies (hardware and software that assist users with disabilities) will become compatible with new technologies at an even faster pace. When this is accomplished, we believe we will be able to contribute to the improvement and promotion of technologies related to web accessibility in Japan.

On June 20, 2013, we released our Web Accessibility Policy. On August 1, 2016, we updated this policy so that it conforms to the Japanese Industrial Standards (Guidelines for Older Persons and Persons with Disabilities – Information and Communications Equipment, Software, and Services-Part 3: Web Content).



UPDATE 4

Work toward a Sustainable Society

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

Importance to the Company

- Reduction of risks related to energy and other environmental regulations
- Decrease in energy costs through energy and resource conservation
- Differentiation of our services
- Stabilization of business environment

Expectations from Society

- Response to climate change and global warming
- Securing of sustainable energy
- Maintenance of social environment

Yahoo! JAPAN's Vision for UPDATE 4

It is absolutely essential that we consider the environment in our business development. Accordingly, we will work to pass on nature and the social environment to the next generation in a sustainable manner.

FOCUS ON

**Developing the "kukai" Energy-efficient Supercomputer**

We have developed kukai,\* a highly energy-efficient supercomputer that specializes in the utilization of deep learning and enables large-scale deep learning processing in shorter times and at lower costs. Compared with the previous in-house processing environment which used graphic processing units (GPU), kukai is theoretically able to process calculations at nearly 225 times the speed. Additionally, kukai has recorded world-leading values in terms of processing performance per power consumption, and is expected to decrease energy costs by nearly 15% compared with the latest GPU servers of similar size.

Calculation processing equipment such as central processing units (CPU) and GPU generate heat when in operation and therefore need to be cooled by a fan or other form of air conditioning to maintain their processing capabilities. Instead of air cooling, kukai uses liquid immersion cooling whereby the hardware is immersed directly in a special liquid that does not conduct electricity. This method enhances both cooling and energy efficiencies.

As a result of these features, kukai earned second place in the global energy-efficiency ranking GREEN500.

\* "kukai" has been developed through collaboration with ExaScaler Inc. and HPC SYSTEMS Inc.



**Reducing Environmental Burden at Our Data Centers through Use of Latest Technologies**

We independently manage the servers needed to operate our Internet business. At the same time, we engage in a data center business that involves the operation, management, and maintenance of servers that we handle on behalf of our client companies.

We have upgraded existing facilities and invested in new equipment in the eight data centers we possess across Japan, thereby working to improve the efficiency of energy use.

In particular, at Asian Frontier, our data center in Kitakyushu City, Fukuoka Prefecture, as well as at our Shirakawa Data Center in Shirakawa City, Fukushima Prefecture, we implement measures to combat global warming using the latest technologies, including the installation of air conditioning systems that use outside air.

Additionally, our data center in the United States operates using 100% renewable energy (hydroelectricity).



Stakeholder Engagement

By working to earn the deep-rooted trust of our various stakeholders, including our users, shareholders, investors, business partners, and employees, as well as members of local communities, we aim to achieve a harmonious existence with society as a whole. To contribute to a secure and sustainable Internet society that can be passed on to the next generation, we will fulfill our social responsibilities as a corporation. Heeding the voices of our valued stakeholders, we will promote the Four UPDATEs as we work to realize a sustainable society and enhance corporate value.

Major Stakeholders



We adopt a user-first approach in all our services and strive to provide high-quality, valuable services as a problem-solving engine for the various issues facing our users.

Communication methods and content

- Establish a mechanism for receiving feedback from users through feedback forms for each service and other means
- Conduct user surveys and hold events for fans of our services in order to directly receive feedback and service-related requests
- Collect user opinions about our services through various websites and social networking service pages
- Post corporate information and details regarding our businesses on our official websites and social networking service pages

Goals/corporate activities

- Enhance customer service
- Continually improve Yahoo! JAPAN services



We aim to be a company where all employees can utilize their abilities to the greatest extent possible and work in a lively manner regardless of which life stage there are in.

Communication methods and content

- Employee satisfaction surveys
- Compliance Hotline (internal reporting system)
- Harassment Hotline
- Intranet-based information dissemination
- Active implementation of internal projects
- Informal gatherings of alumni

Goals/corporate activities

- Establish an employee-friendly workspace and work culture
- Plan and evaluate labor and human resources policies
- Respect the human rights and diversity of employees



To achieve sustainable improvements to our corporate value, it is essential that we carry out upfront investments in our services and capital investments based on the understanding of our shareholders and other investors. By providing shareholders and other investors with prompt and appropriate feedback on their opinions and by working to return profits, we will endeavor to enhance our shareholder value.

Communication methods and content

- Annual general meetings of shareholders
- Quarterly results briefings
- Dialogues with Japanese and overseas institutional investors

Goals/corporate activities

- Provide timely, accurate information on such topics as business operating conditions
- Enhance quality of corporate management through constructive dialogues



We place emphasis on invigorating each area where our offices are located and contributing to the local communities in those areas.

Communication methods and content

- Participate in joint public-private sector projects
- Participate in economic and Internet industry 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

Goals/corporate activities

- Participate actively in regional communities
- Propose measures to invigorate the entire Japanese economy and Internet industry
- Leverage state-of-the-art information technologies to identify and solve social problems



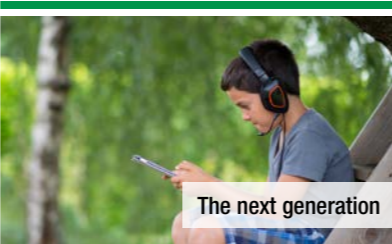
We believe that working together with our business partners with the aim of realizing a secure and sustainable Internet society is an extremely important task. Accordingly, we ask that our business partners make active efforts under our Basic Purchasing Policy, which stipulates such matters as ensuring opportunities for fair competition and logical selection of suppliers.

Communication methods and content

- Maintain daily communication through transactions
- Hold conferences, training sessions, and other events with advertisers, content providers, e-commerce store operators, and other partners

Goals/corporate activities

- Strengthen relationships based on mutual trust



For the children who represent the next generation, we will provide safe and secure services and contribute to the cultivation of IT personnel.

Communication methods and content

- 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

Goals/corporate activities

- Provide appropriate Internet access to children and disseminate information both inside and outside the Company on children's appropriate Internet usage
- Implement efforts focused on the Internet society of the next generation

ESG Data

Environmental

Data item	Fiscal 2015	Fiscal 2016	Fiscal 2017
Gross CO <sub>2</sub> emissions (t-CO <sub>2</sub> )*1	121,987	86,551	83,865
Scope 1	—	27	2
Scope 2	—	86,524	83,863
Total energy consumption (GJ)	2,164,526	1,607,567	1,718,057
Water consumption (m³)	—	—	245,546
Waste (t)	—	—	89.2
Recycling rate of waste	—	—	77.3%
Total paper used (t)	—	—	27.5
Carbon offset	—	CO <sub>2</sub> reduction of approx. 93.42 t	CO <sub>2</sub> reduction of approx. 47.18 t
Paper recycling	—	Deforestation reduction equivalent to 967 trees	Deforestation reduction equivalent to 429 trees

Social

Data item	Fiscal 2015	Fiscal 2016	Fiscal 2017
Employees in managerial positions	Overall 1,229 Male 1,052 Female 177	1,305 1,116 189	1,226 1,049 177
Percentage of female employees in managerial positions out of all employees in managerial positions	14.4%	14.5%	14.4%
New appointments of female employees to managerial positions	42 (16.2%)	64 (18.4%)	57 (18.2%)
Average length of service (years)	Overall 6.6 Male 6.5 Female 6.9	6.9 6.8 7.1	6.6 6.7 6.4
Average age	35.5	35.8	35.9
Number of employees using childcare systems	Male 46 Female 338	52 495	57 484
Utilization of childcare leave	Male 12.1% Female 97.8% Overall 81.7%	14.6% 98.5% 80.6%	17.8% 99.0% 81.9%
Annual total working hours (average per employee)	Overall 2,081	2,001	1,926
Annual hours of overtime worked (average per employee)	Overall 309	289	228
Percentage of employees using the Office Anywhere System*2	Overall 74.1%	81.4%	87.0%
Number of employees who took the problem-solving leave*3	Overall 267	300	480
Number of employees on sabbatical*4	Overall 16	33	42

Governance

Data item	Fiscal 2017	
Number of directors (As of July 11, 2018)	Directors (including Audit and Supervisory Committee members)	Overall 7 Male 5 Female 2
	incl. outside directors	Overall 2 Male 1 Female 1
		1
		1
		(—)
Director remuneration	Directors not serving on the Audit and Supervisory Committee (outside directors)	Total amount of remuneration, etc. 116 million yen (—)
		2
		(2)
	Directors serving on the Audit and Supervisory Committee (outside directors)	Number of directors 2 Total amount of remuneration, etc. 57 million yen (57 million yen)
	Total (outside directors)	Number of directors 3 (2) Total amount of remuneration, etc. 173 million yen (57 million yen)
Number of reported cases of whistleblowing		29

\*1 CO<sub>2</sub> emissions until fiscal 2015 are calculated including those for leased assets (data center of IDC Frontier Inc.) and excluding borrowed rental assets (data center of BroadBand Tower, Inc.). From fiscal 2016, figures for leased assets are excluded, but those for borrowed rental assets are included. When Scope 3 will be calculated in the future, the figures for leased assets are scheduled to be included and restated.  
\*2 A system where employees can work in a location of their choosing. Can be used up to five times per month.  
\*3 A system where employees can take holidays in order to solve issues through volunteer activities, thus contributing to society. A maximum of three days per fiscal year allowed.  
\*4 A system where permanent employees who have worked 10 consecutive years or more can take a holiday lasting two to three months.

Acknowledgment as a Sustainable Company

In order for the Yahoo Japan Group to achieve continuous growth over the long term and to enhance shareholder value, it is important that we contribute to the realization of a sustainable society through our business. At the same time, we understand our responsibility as a listed company to reward shareholders through the return of profits.



FTSE4Good

FTSE4GOOD Index Series

Yahoo! JAPAN has been continuously selected for inclusion in the FTSE4Good Index Series since 2007.



FTSE Blossom Japan

FTSE Blossom Japan Index

Yahoo! JAPAN became a constituent of the FTSE Blossom Japan Index, which is designed to measure the performance of Japanese companies that excel in addressing ESG-related issues.



2018 Constituent  
MSCI Japan Empowering Women Index (WIN)

MSCI Japan Empowering Women Index

Yahoo! JAPAN was included in the MSCI Japan Empowering Women Index (WIN), which recognizes companies with exceptional gender diversity. A disclaimer statement is posted on the following website. <https://about.yahoo.co.jp/csr/en/stakeholder/08.html>



2018 Certified Health and Productivity Management Organization Recognition Program, Large Enterprise Category (White 500)

For the second year in a row, Yahoo! JAPAN was recognized by Nippon Kenko Kaigi for the Certified Health and Productivity Management Organization Recognition Program, Large Enterprise Category (White 500).



2018 Competitive IT Strategy Company

For the third consecutive year, as a result of the high evaluations it received for its proactive and multifaceted use of IT, Yahoo! JAPAN was selected as a Competitive IT Strategy Company by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.

Corporate Governance

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 ordinary general meeting of the shareholders 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.



Initiatives toward Strengthening Corporate Governance

1997	• Listed on the over-the-counter (OTC) market (currently JASDAQ).
2001	• Formulated investment guidelines (currently Investment and Loan Regulations), and began deliberations through the investment committee (currently Investment and Loan Committee).
2003	• Established a content-related advisory board (currently Advisory Board). • Listed on the First Section of the Tokyo Stock Exchange.
2006	• Formulated the Charter of Corporate Behavior.
2009	• Implemented the corporate officer system with the aim of achieving further growth and an efficient organizational structure.
2012	• Implemented new management structure in response to rapid smartphone proliferation and related changes in Internet usage environment, and appointed Manabu Miyasaka as President and Representative Director.
2015	• Transitioned to a company with an audit and supervisory committee, with the aim of further promoting the separation of the supervisory functions of the Board of Directors from the business execution function of corporate officers. • Appointed two independent outside directors and reduced the number of officers from 11 (seven directors, four auditors) to nine, in order to strengthen the supervisory functions and downsize the Board of Directors. • Established the Remuneration Committee to enhance transparency of remunerations.
2016	• Commenced evaluation of effectiveness of the Board of Directors.
2017	• Appointed Alexi A. Wellman, who became the first female non-Japanese member of the Board, increasing the number of female Board members to two. • Adopted restricted stock compensation plan to sustainably increase corporate value.
2018	• In addition to becoming a smartphone company, took on a new challenge of becoming a data-driven company and adopted a new management structure. Appointed Kentaro Kawabe as President and Representative Director. • SoftBank Corp. acquired roughly 10% of Altaba Inc.'s shares in the Company through a tender offer; the Company decided to acquire approximately 10% of treasury shares from SoftBank Group Corp. through a tender offer; and the number of directors was reduced from nine to seven. Through these transactions, the Company aimed to further enhance synergy with SoftBank Corp. while maintaining independence as a listed company.

Corporate Governance System (As of July 11, 2018)

Board of Directors

Number of meetings held (FY2017): 9

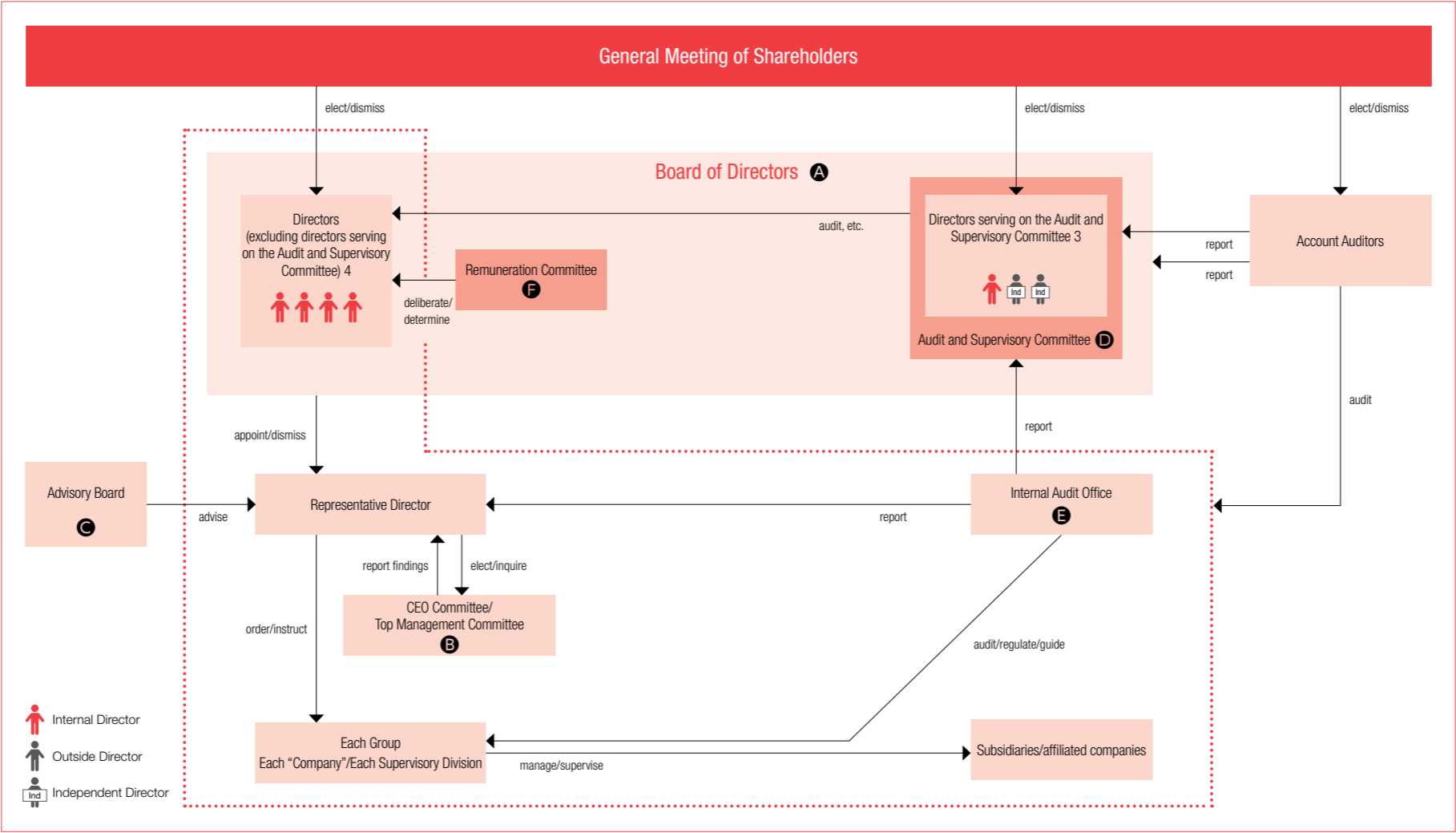
The Board of Directors is responsible for management policies, management strategy, business planning, the acquisition or disposal of important assets, decision-making regarding important organizational or personnel matters, and the supervision of business execution throughout company. At Yahoo! JAPAN, in order to promote swift, strategic managerial operations and to maintain and enhance competitiveness, we have introduced an internal company system. Furthermore, the decision-making and supervisory functions of the Board of Directors are clearly separated from the business execution function assumed by the corporate officers.

CEO Committee/Top Management Committee

Important issues requiring deliberation and judgment by the Board of Directors are reviewed in advance by the CEO Committee. Important issues on which the president independently makes judgments are reviewed in accordance with internal Company regulations. Important issues that may have a significant impact on our business are regularly monitored by the Top Management Committee, and the president and managing corporate officers hold discussions in order to achieve timely, decisive decision-making.

Advisory Board

When the need for broad-based deliberation arises with regard to issues such as managing a business, launching a new service, or other issue of strategic significance, we convene an Advisory Board composed of highly respected outside experts from the academic and business communities such as university professors, legal professionals, persons from the media sector, and others. This enables us to incorporate a diverse range of views and opinions into important management decision-making. The Advisory Board has convened a total of over 30 times to date to discuss on such themes as "Revisions to the Privacy Policy" and "Yahoo! JAPAN's New CSR/CSV Strategies."



Audit and Supervisory Committee

Number of meetings held (FY2017): 6

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. Each member of the committee monitors overall business administration, including the appropriateness of individual matters of business execution, by attending important meetings, including the Board of Directors meetings. 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.

Audit and Supervisory Committee Members  
Shingo Yoshii, Hiromi Onitsuka-Baur, and Kazuko Kimiwada

Internal Audit Office

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

Remuneration Committee

Number of meetings held (FY2017): 1

Based on the Regulation of Remunerations for Directors as determined by the Board of Directors, the Remuneration Committee of Yahoo Japan Corporation, which consists of the President and Representative Director, Chairman of the Board of Directors, non-executive directors who are not independent outside directors, and independent outside directors, determines the amounts of the remunerations and bonuses of the directors and officers, etc. after careful deliberation, according to the business performance in each quarter, the individual's contributions to the business performance, and other factors.

Remuneration Committee Members  
Kentaro Kawabe, Manabu Miyasaka, Ken Miyauchi, and Shingo Yoshii

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 reputation 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 Meetings.

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.

Appointment of Directors (Including Audit and Supervisory Committee Members) (As of July 11, 2018)

Directors	Reason for appointment
Kentaro Kawabe	Since joining the Company in 2000, Kentaro Kawabe has been serving with distinction for 17 years in important positions of the Company including manager of the Company's core services such as Yahoo! News and Chief Operating Officer (COO), contributing to the growth of the Company. He was appointed Chief Executive Officer (CEO) in April 2018. He has been appointed as a director so that he can lead the growth of the Company even further.
Manabu Miyasaka	Since his appointment in 2012, Manabu Miyasaka has served as President & Representative Director of the Company for six years. Under his strong leadership, he has led the growth of the Yahoo Japan Group such as by transforming the Company from a PC company to a company used through smartphones and promoting the "e-commerce revolution." He has been appointed as a director so that his valuable advice based on his experience as a leader can be utilized for the management of the Group.
Masayoshi Son	Masayoshi Son has a great deal of experience and extensive knowledge as an executive manager. He has been appointed as a director so that his suggestions and advice as a pioneer can be utilized for the management of the Group.
Ken Miyauchi	Ken Miyauchi is the Chief Executive Officer of SoftBank Corp., which is closely involved in the business operations of the Company, and has a wealth of management experience in the mobile phone business. He has been appointed as a director so that his valuable advice can be utilized for the business operations of the Group.
Shingo Yoshii	Shingo Yoshii has a wealth of knowledge and experience in business management. He has a great deal of insight regarding corporate governance, and has served with distinction for seven years since his assumption of office as an outside auditor of the Company in June 2008 and three years as an outside director (independent director) and full-time Audit and Supervisory Committee member since his assumption of office in June 2015. He has been appointed as a director serving on the Audit and Supervisory Committee of the Company, because he has contributed to the strengthening of corporate governance and to the improvement of the corporate auditing system.
Hiromi Onitsuka-Baur	As a Vice President and Chief Marketing Executive at Toshiba Medical Systems Corporation (currently Canon Medical Systems Corporation), Hiromi Onitsuka-Baur gained a tremendous amount of experience and a wide breadth of knowledge. She served for three years as an Audit and Supervisory Board member (full time) from June 2012, and has been an independent outside director (full-time Audit and Supervisory Committee member) since her assumption of office in June 2015. She has been appointed as a director serving on the Audit and Supervisory Committee of the Company, because she has contributed to the strengthening of corporate governance and to the improvement of the corporate auditing system.
Kazuko Kimiwada	Kazuko Kimiwada is an experienced Certified Public Accountant and concurrently serves as Executive Corporate Officer, Head of Accounting Unit of the SoftBank Group Corp., the parent company of the Company. She has been appointed as a director serving on the Audit and Supervisory Committee of the Company, based on her abundant knowledge and experience in the finance and accounting field.

Director and Senior Management Remuneration

Based on the Regulation of Remunerations for Directors as determined by the Board of Directors, the Remuneration Committee of Yahoo Japan Corporation, which consists of the President and Representative Director, Chairman of the Board of Directors, non-executive directors who are not independent outside directors, and independent outside directors, determines the amounts of the remunerations and bonuses

of the directors and officers, etc. after careful deliberation, according to the business performance in each quarter, the individual's contributions to the business performance, and other factors. Remuneration is classified into the following three types and the amount of remuneration is determined by adjusting its proportion according to the type of remuneration based on the roles and responsibilities of the position.

		(As of July 11, 2018)			
1. Base remuneration					
2. Short-term performance-based remuneration					
Remuneration for the purpose of enhancing commitment toward the achievement of budgets for the fiscal year under review.					
Given the fact that the Company is in an investment phase, we also conduct performance evaluations for major KPIs in addition to operating income for the fiscal year. Moreover, if a risk occurs, we conduct a comprehensive evaluation by taking into consideration any negative effects for the purpose of enhancing commitment from a risk management point of view.					
3. Mid- to long-term performance-based remuneration					
We have implemented a stock option system as remuneration to enhance awareness of medium- to long-term improvements in corporate value.					
Moreover, from fiscal 2017, we provide incentives with the aim of achieving sustainable improvements in corporate value, and have adopted a restricted stock compensation plan with the purpose of further promoting shared value with shareholders.					

Director Remuneration for Fiscal 2017

	Number	Total remuneration (millions of yen)	Breakdown of total remuneration (millions of yen)		
			Base remuneration	Bonuses	Restricted stock compensation
Directors	1	116	55	50	11
(excluding Audit and Supervisory Committee members)					
(Of which, outside directors)	(—)	(—)	(—)	(—)	(—)
Directors (Audit and Supervisory Committee members)	2	57	47	10	—
(Of which, outside directors)	(2)	(57)	(47)	(10)	(—)
Total	3	173	102	60	11
(Of which, outside directors)	(2)	(57)	(47)	(10)	(—)

\*1 The amount of restricted stock compensation is the cost recorded as restricted stock compensation for the fiscal year under review.  
\*2 For fiscal 2017, outside directors received no remuneration, etc. as directors from either SoftBank Group Corp. or any of its consolidated subsidiaries, excluding above.

Effectiveness of the Board of Directors

The Company regularly conducts an analysis and evaluation on the effectiveness of the Board of Directors once a year. At the Board meetings, opinions were exchanged regarding the fiscal 2017 evaluations based on interviews conducted with directors (including two independent outside directors). As a result, it was confirmed that the effectiveness of the Board is generally secured. We were able to see progress with the

issues relating to the Board of Directors' materials that were outlined in fiscal 2016, and improved our score for the overall evaluation. Meanwhile, conducting discussions based on a broader, mid- to long-term perspective was identified as an issue for improvement. In light of these events, we will work to continue to improve the Board's effectiveness.

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.

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 establishes operational flows and prioritizes operational systematization, automation, and integration in support of ongoing improvements.

Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

Yahoo Japan Corporation's parent company as of July 11, 2018 is SoftBank Group Corp., which nominates three of the Company's seven 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 specifically call for the prohibition of 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 strives 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 and/or other associated companies 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, since its founding the Company has 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 and their English translations on the Company's Investor Relations website before mailing out notices to all

shareholders. Appealingly designed and printed in full color, the notices contain supplementary non-financial information to broaden shareholders' knowledge of our business operations. Moreover, to ensure that a greater 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 and representative director supervises 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 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 securities companies and investors, we provide detailed explanations of the Company's financial results and business status at 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 people, we also carry out proactive disclosure activities, including the provision of on-demand video services later on the day of the earnings announcement as well as teleconferences. At separate meetings conducted each year with securities companies and institutional investors either in person or by telephone, members of senior management, including the president and representative director, proactively discuss current growth strategies and business status updates.

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

For overseas investors, we prepare English versions of nearly all of the Company's disclosure materials. 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 report that is submitted to directors, corporate officers, and relevant divisions within the Company or, in urgent cases, are communicated to the related parties immediately.

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 the Regulations on the Prevention of Insider Trading. Regarding information on our business results, in order to prevent leaks in information and preserve impartiality, we have instated a quiet period. During this period, company representatives will refrain from answering any questions or providing any comments related to the business results.

this matter as a potentially significant management issue, however, the Company intends to consider the necessity for and content of effective measures.

Messages from Independent Outside Directors



**Hiromi Onitsuka-Baur**  
Outside Director (Independent Director)  
Full-time Audit and Supervisory  
Committee Member

**Shingo Yoshii**  
Outside Director (Independent Director)  
Full-time Audit and Supervisory  
Committee Member

Further Strengthening Governance through Independent, External Perspectives

Since the Company's conversion into a company with an audit and supervisory committee in 2015, as independent outside directors, we have worked to further enhance governance throughout the Yahoo Japan Group. By combining "aggressive governance" and "transparent, fair, timely, and decisive decision-making," which is the aim of the corporate governance code, we endeavor to help establish a structure that enables the achievement of sustainable growth. As a result of the conversion, we have realized a structure in which the supervisory functions of the Board of Directors is emphasized and the business execution functions of the corporate officers are conducted in a bold and timely manner through the delegation of authority.

As outside directors serving full time, we actively provide opinions on the Company's business by sharing information regularly with corporate officers as well as directors and employees. We believe that this is the exceptionally unique strength of our company structure. With regard to proposals submitted to the Board of Directors Meetings, in addition to attending every meeting of the Investment and Loan Committee and other important meetings for the execution side, we proactively collect any necessary information including periodical reports from the CFO, Internal Audit Office, the Legal Division, and other bodies. Because we serve full time on the Board, we are in a position where we can provide opinions from a broad, objective perspective based on this abundance of information. Leveraging this position, we make a point to actively participate in Board meetings in an effort to facilitate the lively exchange of opinions.

While serving full time within the Company, as independent outside directors, we maintain a stance that differs from that for execution and constantly consider the perspectives of all stakeholders, including protecting the interests of minority shareholders. To that end, we make proactive efforts to acquire external information.

Moreover, in order to preserve sufficient independence, the Company has established a structure in which the legal advisors of the Audit and Supervisory Committee always provide beforehand opinions regarding conflict-of-interest transactions, under the assumption that parties directly related to a proposed transaction do not participate in discussions or decisions regarding that transaction. For transactions requiring confirmation, we propose the establishment of a third-party committee to hear opinions, etc. to ensure appropriate decisions are made under fair, strict supervision.

We believe that the Company is in a fortunate environment where it can conduct aggressive management toward the achievement of mid- to long-term growth in line with its corporate governance objectives. Since its foundation, Yahoo! JAPAN has achieved exceptional results in various fields such as e-commerce and finance by combining the powers of the Internet and communications. The presence of the SoftBank Group, which represents the Company's strengths in aggressive management, has contributed significantly to enhancing the value of the Company, and this collaboration has generated considerable results in numerous fields.

Lastly, as previously announced, SoftBank Corp. acquired roughly 10% of shares in the Company from Altaba Inc. through a tender offer while, at the same time, the Company acquired approximately 10% of treasury stock from SoftBank Group Corp. also through a tender offer. These transactions will lead to further evolvement of the Company's business relationship with SoftBank Corp. and while maintaining the Company's independence as a listed company, we expect to achieve greater synergistic effects in the businesses of both companies, thereby realizing further growth as a company and improving our corporate value.

Corporate Governance

Directors, Audit and Supervisory Committee Members, and Operating Team

(As of July 11, 2018)

Directors



**Kentaro Kawabe**

President and Representative Director  
President Corporate Officer  
Chief Executive Officer (CEO)



**Manabu Miyasaka**

Chairman of the Board of Directors



**Shingo Yoshii**

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



**Hiromi Onitsuka-Baur**

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

Dec. 1996 Director, Dennotai Corporation  
Sep. 1999 CEO, Dennotai Corporation  
Dec. 1999 Director, PIM Corporation  
Aug. 2000 Joined Yahoo Japan Corporation, Yahoo! Mobile Producer  
Jan. 2007 Yahoo! News Producer  
May 2009 Representative Director, GyaO Corporation (currently GYAO Corporation)  
Apr. 2012 Corporate Officer, Chief Operating Officer (COO), President of Media Business Group  
Jul. 2012 Senior Executive Vice President, Chief Operating Officer (COO), Head of Media Service Company  
Jun. 2014 Senior Executive Vice President, Managing Corporate Officer, Director and Chief Operating Officer (COO)  
Jun. 2015 Senior Executive Vice President Corporate Officer, Chief Operating Officer (COO)  
Apr. 2017 Senior Executive Vice President Corporate Officer, Chief Operating Officer (COO), President of Commerce Group  
Apr. 2018 Chief Executive Officer (CEO), Senior Executive Vice President Corporate Officer  
Jun. 2018 President and Representative Director, President Corporate Officer, Chief Executive Officer (to present)

Apr. 1992 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 Chief Executive Officer (CEO) & Operating Officer  
Jun. 2012 President and Representative Director  
Jun. 2013 Director, SoftBank Corp. (currently SoftBank Group Corp.)  
Jun. 2015 President and Representative Director, President Corporate Officer, Chief Executive Officer (CEO)  
Jun. 2017 Director, SoftBank Corp.  
Feb. 2018 Representative Director, Z Corporation Incorporated  
Apr. 2018 President and Representative Director, Yahoo Japan Corporation  
Apr. 2018 President and Representative Director, Z Corporation Incorporated (to present)  
Jun. 2018 Chairman of the Board of Directors, Yahoo Japan Corporation (to present)

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)

Apr. 1976 Joined Tokyo Shibaura Electric Co., Ltd. (currently TOSHIBA CORPORATION)  
Apr. 2005 General Manager, Clinical Laboratory Systems Division, Toshiba Medical Systems Corporation (currently Canon 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)



**Masayoshi Son**

Director



**Ken Miyauchi**

Director



**Kazuko Kimiwada**

Director  
Audit and Supervisory Committee Member

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.)  
Jan. 1996 President and Representative Director, Yahoo Japan Corporation  
Jul. 1996 Chairman of the Board of Directors, Yahoo Japan Corporation  
Oct. 2005 Director, Alibaba.com Corporation (currently 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.)  
Jun. 2015 Director, Yahoo Japan Corporation (to present)  
Mar. 2016 Chairman, Softbank Group International GK (currently SoftBank Group Japan GK)  
Sep. 2016 Chairman and Executive Director, ARM Holdings plc (currently Arm Holdings plc; to present)  
Jun. 2017 Chairman & CEO, SoftBank Group Corp. (to present)  
Apr. 2018 Chairman, SoftBank Corp. (to present)  
Jun. 2018 Representative Director, SoftBank Group Japan GK (to present)

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.)  
Jun. 2015 Director, SoftBank Corp. (currently SoftBank Group Corp.)  
Jun. 2016 Representative Director, President & COO, SoftBank Group Corp.  
Apr. 2017 President, SoftBank Group International GK (currently SoftBank Group Japan GK)  
Apr. 2018 President & CEO, SoftBank Corp. (to present)  
Apr. 2018 Director, SoftBank Group Corp. (to present)

Sep. 1982 Passed the second stage of the Certified Public Accountant examination  
Apr. 1983 Joined Deloitte Haskins & Sells Certified Public Accountant Joint Firm (currently Deloitte Touche Tohmatsu LLC)  
Aug. 1986 Passed the third stage of the Certified Public Accountant examination and registered as a Certified Public Accountant  
Apr. 1995 Joined Mallinckrodt Medical Co., Ltd. Manager, Management Division  
Feb. 1996 Joined SoftBank Corp. Japan (currently SoftBank Group Corp.)  
Oct. 2000 Accounting Section Manager, Finance & Accounting Department General Manager, Accounting Department, SoftBank Corp. (currently SoftBank Group Corp.)  
Nov. 2004 General Manager, Accounting Department and Group Management Department, SoftBank Corp. (currently SoftBank Group Corp.)  
Apr. 2007 General Manager, Accounting Department and Internal Control Department, SoftBank Corp. (currently SoftBank Group Corp.)  
Jul. 2012 Corporate Officer, General Manager, Accounting Department and Internal Control Department, SoftBank Corp. (currently SoftBank Group Corp.)  
Jun. 2014 Audit & Supervisory Board Member, SoftBank Mobile Corp. (currently SoftBank Corp.; to present)  
Sep. 2016 Corporate Officer, Head of Accounting Unit, General Manager, Accounting Department and Internal Control Department, SoftBank Group Corp.  
Jun. 2017 Executive Corporate Officer, Head of Accounting Unit, SoftBank Group Corp. (to present)  
Jun. 2018 Director, Audit and Supervisory Committee Member, Yahoo Japan Corporation (to present)

\* Yahoo Japan Corporation has appointed in advance two substitute directors serving on the Audit and Supervisory Committee in case the number of directors serving on the Audit and Supervisory Committee falls short of the number stipulated by laws and regulations. This appointment was approved at the 23rd Ordinary General Meeting of the Shareholders held on June 25, 2018.

Operating Team

(As of July 24, 2018)

Name	Title
Kentaro Kawabe	President and Representative Director, President Corporate Officer, Chief Executive Officer
Gen Miyazawa	Managing Corporate Officer, EVP, President of Media Company
Takao Ozawa	Managing Corporate Officer, EVP, President of Commerce Company, President of Shopping Services Group, Commerce Company
Chiaki Fujimon	Managing Corporate Officer, EVP, Chief Technology Officer (CTO), President of Technology Group
Kosuke Homma	Managing Corporate Officer, EVP, President of Corporate Group
Ryosuke Sakaue	Corporate Officer, EVP, Chief Financial Officer (CFO), President of Finance Management Group, Corporate Group
Masatsugu Shidachi	Corporate Officer, EVP, Head of Chairman's Office
Takeshi Mori	Corporate Officer, EVP, President of ID Services Management Group
Hiroshi Kataoka	Corporate Officer, EVP, President of Media Services Group, Media Company
Akishi Tsumori	Corporate Officer, EVP, President of Search Services Group, Media Company
Koichiro Tanabe	Corporate Officer, EVP, President of Marketing Solutions Group, Media Company

Name	Title
Kiyoshi Sasaki	Corporate Officer, EVP, President of Platform Group, Media Company, Chief Data Officer (CDO)
Yusuke Tanaka	Corporate Officer, EVP, President of Business Promotion Group, Media Company, President and Representative Director, GYAO Corporation
Makoto Hide	Corporate Officer, EVP, President of Business Promotion Group, Commerce Company
Ichiro Nakayama	Corporate Officer, EVP, President of O2O Services Group, Commerce Company, President and Representative Director, PayPay Corporation
Yuji Umemura	Corporate Officer, EVP, President of YAHUOKU! Services Group, Commerce Company
Tomoaki Tanida	Corporate Officer, EVP, President of Financial & Payment Services Group, Commerce Company
Hideyuki Nakahara	Corporate Officer, EVP, President of System Management Group, Technology Group, Chief Information Security Officer (CISO)
Koji Tsukamoto	Corporate Officer, EVP, President of Data & Science Solutions Group, Technology Group
Toshiya Segoshi	Corporate Officer, EVP, President of Legal Management Group, Corporate Group
Takayasu Yukawa	Corporate Officer, EVP, President of People Development Group, Corporate Group
Shuichi Nishida	Corporate Officer, EVP, President of Social Responsibility Promotion Group, Corporate Group

Risk Management

The Yahoo Japan Group has established an Enterprise Risk Management (ERM) framework throughout the entire Group as a part of its efforts to achieve an accurate awareness of all risks associated with its business activities as well as to minimize their impact on management and the frequency of incidents.

Basic Policy

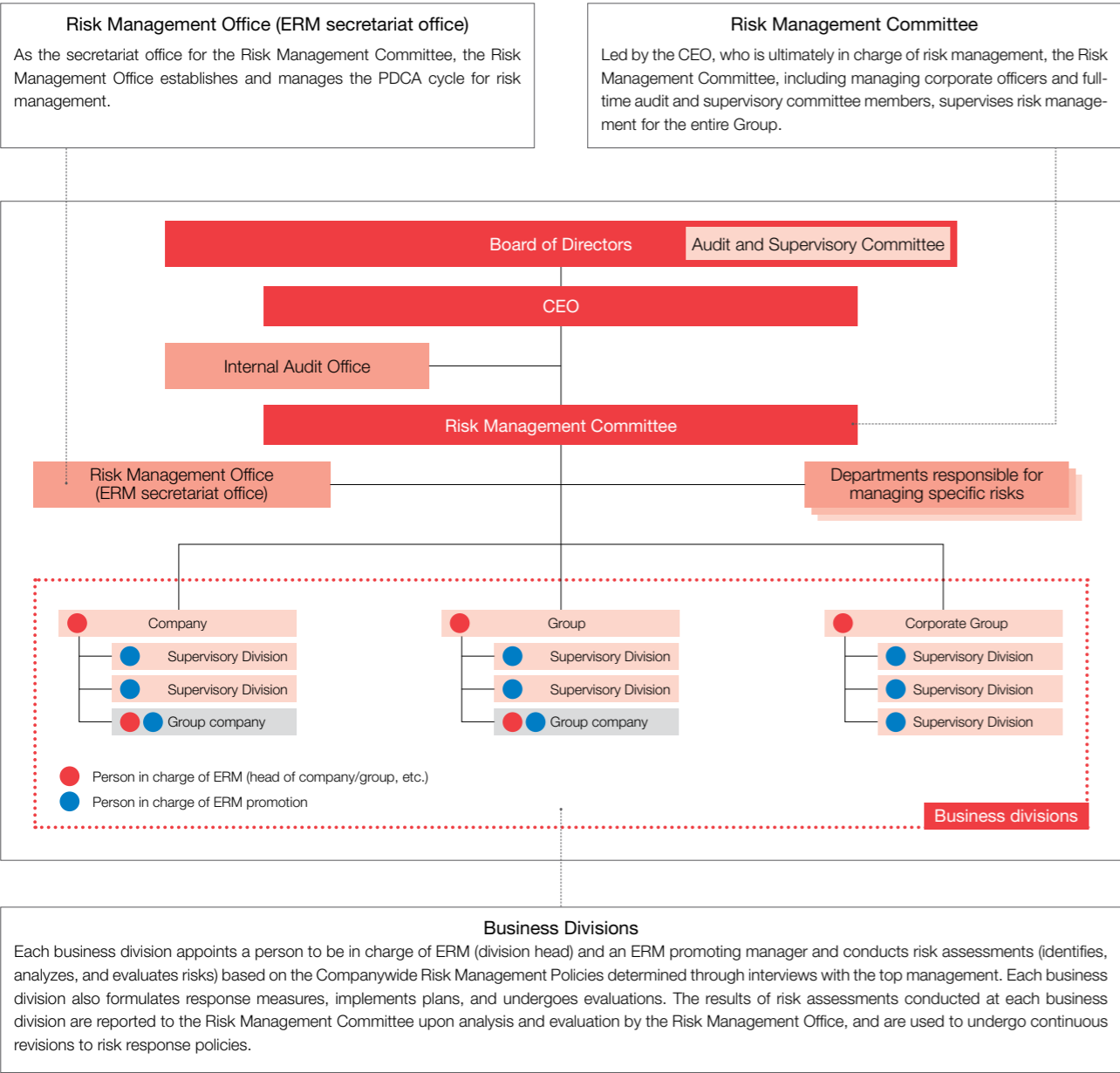
The Internet industry, which is constantly advancing at dizzying speeds, is experiencing remarkable shifts in the number of risks and opportunities. Through the establishment of an ERM framework, the Group has ensured the effectiveness and transparency of its risk management in order to address various risks in a timely and appropriate manner.

We have established a structure based on our three lines of defense (business divisions, departments responsible for

managing specific risks/risk management division, and audit divisions) as a necessary element for instilling risk management throughout the entire Group and fulfilling the duties of each division and department.

Moreover, we have formulated Regulations on Risk Management in order to minimize any losses in case risks materialize.

ERM Promotion Framework

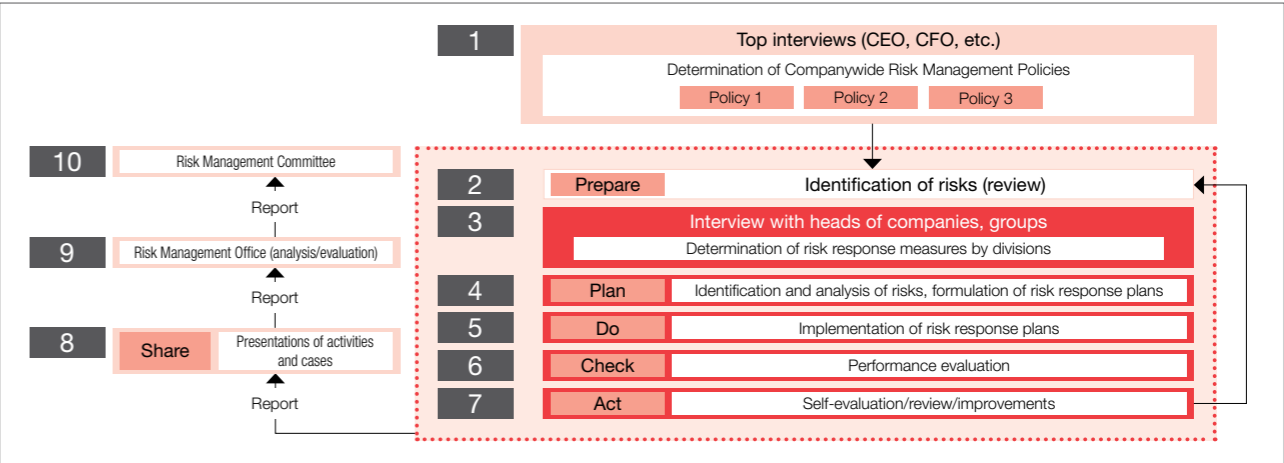


Initiatives to Ensure Appropriate ERM

We implement a wide variety of initiatives to ensure appropriate ERM. These initiatives are aimed at instilling an understanding of the decisions made by the top management among all our employees, responding to Companywide risks, and optimizing our overall risk management activities.

Formulation of Companywide Risk Management Policies	In each fiscal year, we conduct an interview with the Company's top management, including the CEO and CFO, to formulate key policies for the respective year. Through efforts to enhance the awareness of and rigorously enforce these policies, we work to ensure an understanding of the decisions made by the top management as well as consistency between these decisions and the risk management initiatives in each division throughout the Group.
Standardization of risk assessment methods	We aim to establish a risk management system that flexibly responds to organizational restructuring and personnel rearrangements in accordance with changes in the business environment.
Enhancement of educational programs	For personnel in charge of risk management, we hold explanatory meetings, risk management training seminars, BCP response training, and various other educational programs.
Presentation of ERM activities and successful examples	Two times a year, we provide opportunities for personnel in charge of risk management in all divisions of the Group to confirm the progress and share examples of ERM activities carried out in their respective division and at each Group company.

Yahoo! JAPAN ERM Process Diagram



Departments Responsible for Managing Specific Risks

To support the ERM structure and enhance the effectiveness of risk management, we define the departments responsible for managing specific risks within our Regulations on Risk Management, thereby clarifying responsibilities and roles.

In response to risk diversification, the Group has determined 11 specific risks and clarified the departments responsible for the management of each risk.

These departments use their expert knowledge to provide support to other divisions. At the same time, these departments are responsible for managing risks that extend over multiple divisions and that cannot be addressed by one division alone. In addition, these departments are responsible for overseeing risk management throughout the entire Company and Group.

Examples of Specific Risks

Information security risk	Information security risk refers to the risk of damage to our information security structure in terms of such matters as integrity, confidentiality, and availability (managed by the CISO Office and other divisions).
Information system risk	Information system risk refers to risks that impact our overall information systems in terms of such matters as system management and disaster recovery (managed by System Management Group and other divisions).
Corporate risk	Corporate risk refers to the various kinds of corporate related risks, including human resources, legal, financial, purchasing, and others (managed by People Development Group, Legal Management Group, Finance Management Group, and other divisions).

Specific Efforts toward Important Risks

Disaster Response System (BCP)

We provide services that utilize multiple data centers and backbones so that we will not be simultaneously affected by natural disasters that ensue over a wide area. Such system is implemented so that we are able to continue to provide the necessary news and disaster information to our users without interruption, even in times of emergency, such as an earthquake centered on Tokyo or a Nankai Trough megathrust quake.

In order for the Osaka and Kitakyushu editing offices, which were established in a geographically distant area from

our Kioicho Office in Tokyo, to continue updating services alone, including the Yahoo! JAPAN top page and Yahoo! News, we conduct regular and thorough disaster preparations and simulations.

Moving forward, we will conduct periodic revisions to our business continuity plan (BCP). Specifically, we are implementing measures which include redundancy for the services that make up our social information infrastructure and creating systems capable of delivering appropriate information to our users.

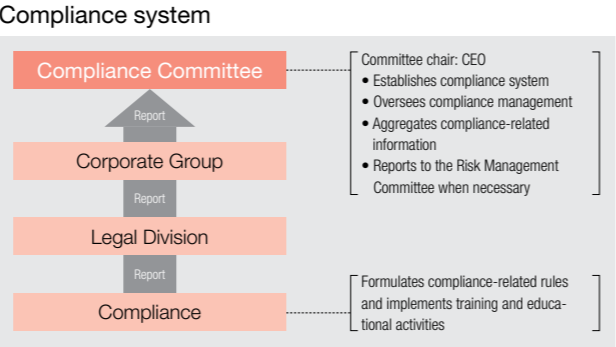
Incident Reporting System

When an incident or a situation occurs in relation to our services or the various internal businesses, including those of Yahoo Japan Corporation and its subsidiaries, a report is filed in our incident reporting system within one hour of discovering such situation or incident. The details are shared immediately with all relevant departments and the incidents

are then classified into three severity levels to be recorded in the database. For each incident, the specific circumstances, responses, and causes are recorded and analyzed and the progress of fundamental response measures is managed with the goal of preventing recurrence of a similar incident in the future.

Compliance

We have formulated and publicly disclose the Charter of Corporate Behavior to ensure strict adherence to and compliance with all relevant laws and regulations, commercial practices, and social ethics. For Group employees, we have formulated and disseminated a compliance program that sets forth specific codes of conduct. In these ways, we have put into place a structure for instilling and improving awareness of compliance-related issues on a Groupwide basis.



Compliance Training

Through various methods, we implement necessary trainings to ensure compliance.

Training courses for new hires	This training targets all new employees, including both new graduates and mid-career hires. It acts as an important first step in instilling compliance awareness.
Quarterly online learning programs	These programs target all employees. Implemented under specific themes, such as the protection of personal information, appropriate information handling, the prevention of harassment, and the protection of intellectual properties, these programs work to ensure understanding and enhance awareness of compliance-related issues.
Permanent online learning and collective training courses	These programs and training focus on fundamental compliance-related matters, including harassment, insider trading, refusal of relationships with antisocial forces, and information management.
Training for newly appointed managers	This training helps newly appointed managers acquire the necessary compliance-related knowledge.
Division-specific training	This training provides highly specialized information in accordance with the characteristics of each division.
Position-specific training	This training provides information relevant to each position and focuses primarily on the prevention of harassment.

Establishment of Compliance Hotline (Internal Reporting System)

We have established compliance hotlines both inside (two hotlines: one where employees file reports to corporate officers and one where employees file reports to the compliance consultation desk) and outside (law firm) the Company. These hotlines allow for the anonymous disclosure (consultation) of compliance-related issues, such as rule violations. We work to increase awareness of these hotlines among all

employees via the Company’s intranet. These hotlines strictly respect the privacy of whistle-blowers and those seeking consultation, and as a company, we ensure that such individuals are protected not only legally in accordance with the Whistleblower Protection Act but also under our Regulations for the Compliance Hotline (Regulations on Whistleblowing).

TOPICS

Our Vision for BCP

Ensuring the Delivery of Necessary Information to Users Especially in Times of Crisis

The kind of BCP the Yahoo Japan Group has in place to respond to the occurrence of major earthquakes and other disasters is completely different to the BCP at an ordinary company. At an ordinary company, BCP is created from the perspective of restoring the rate of operation, which declines suddenly when disasters occur, to the lowest level required within a targeted recovery time. In contrast to this, for such services as Yahoo! Weather & Disaster and Yahoo! News, which act as social infrastructure, our BCP needs to consider how to maintain operations without the deterioration of communication functions so that we can deliver the necessary information to our users, who will be using these services at a much greater rate than normal. Additionally, our BCP needs to respond and adapt flexibly to the unanticipated levels of burden that will likely be placed on our services at times of emergency.

To this end, within our annual Group disaster response training, we aim to respond to the increased user demand at times of crisis by transferring operations, without fail, from locations affected by a disaster to specified geographically redundant locations, while giving first priority to securing the safety of employees in those disaster-stricken locations.

The theme of our disaster response training in fiscal 2017 was “learning the flow of the initial disaster response and understanding the current state of the equipment needed to continue operations.” While keeping in mind the areas we wished to improve upon in the training implemented in fiscal 2016, we carried out this year’s training under the assumption of greater severity than the year before, with a 7.3-magnitude earthquake occurring in the southern section of Tokyo Bay at 5:00 p.m. on November 17, with the 23 wards of Tokyo sustaining the largest impact. At the beginning of the training, we turned off all lighting at the Disaster Response Headquarters, with only a projector in operation that was connected to an uninterruptible power supply. We made the assumption that blackout conditions would

continue for five minutes until power was switched over to an emergency power supply. Simulated news streamed across the projector and simulated information was posted on social network services. Amid lighting conditions that were even darker than anticipated and under the leadership of Disaster Response Headquarters Chief Manabu Miyasaka (who was Company President at the time), employees responded diligently under a “blind training” format in which scenarios are not provided beforehand. Employees who received e-mails or gathered on their own judgment formed disaster response teams such as the communications team or external relations team and responded to various kinds of difficult situations that occurred one after the other.

Chief Miyasaka actively asked questions aimed at confirming various conditions, including “How many employees are unaccounted for?” and “How are the iOS and Android smartphone apps, smartphone browsers, tablet apps, and websites? How about our browsers on PCs and flip phones?”

When the Osaka and Kitakyushu offices, which served as geographically redundant locations for this training, were able to successfully take over operations and primary initial response information on our disaster-affected Kioicho Head Office was gathered, Chief Miyasaka determined priority items and declared a basic response policy. At the very end of the training, an overall evaluation and feedback were given by an external institution, which brought the training to a close after a total of two hours. Through this training, various issues were discovered, such as conflicting reports and having to wait in line to make reports. In light of these issues, we decided to revise our disaster response and management structure. Going forward, we will continue to make concerted Group-wide efforts so that we are able to immediately deliver information that helps ensure the safety and security of our users.



Fiscal 2017 disaster response training



Information Security

To remain capable of continuously providing safe and secure services to our users, the Yahoo Japan Group strives to achieve maximum information security throughout the Group under the following policies and structures.

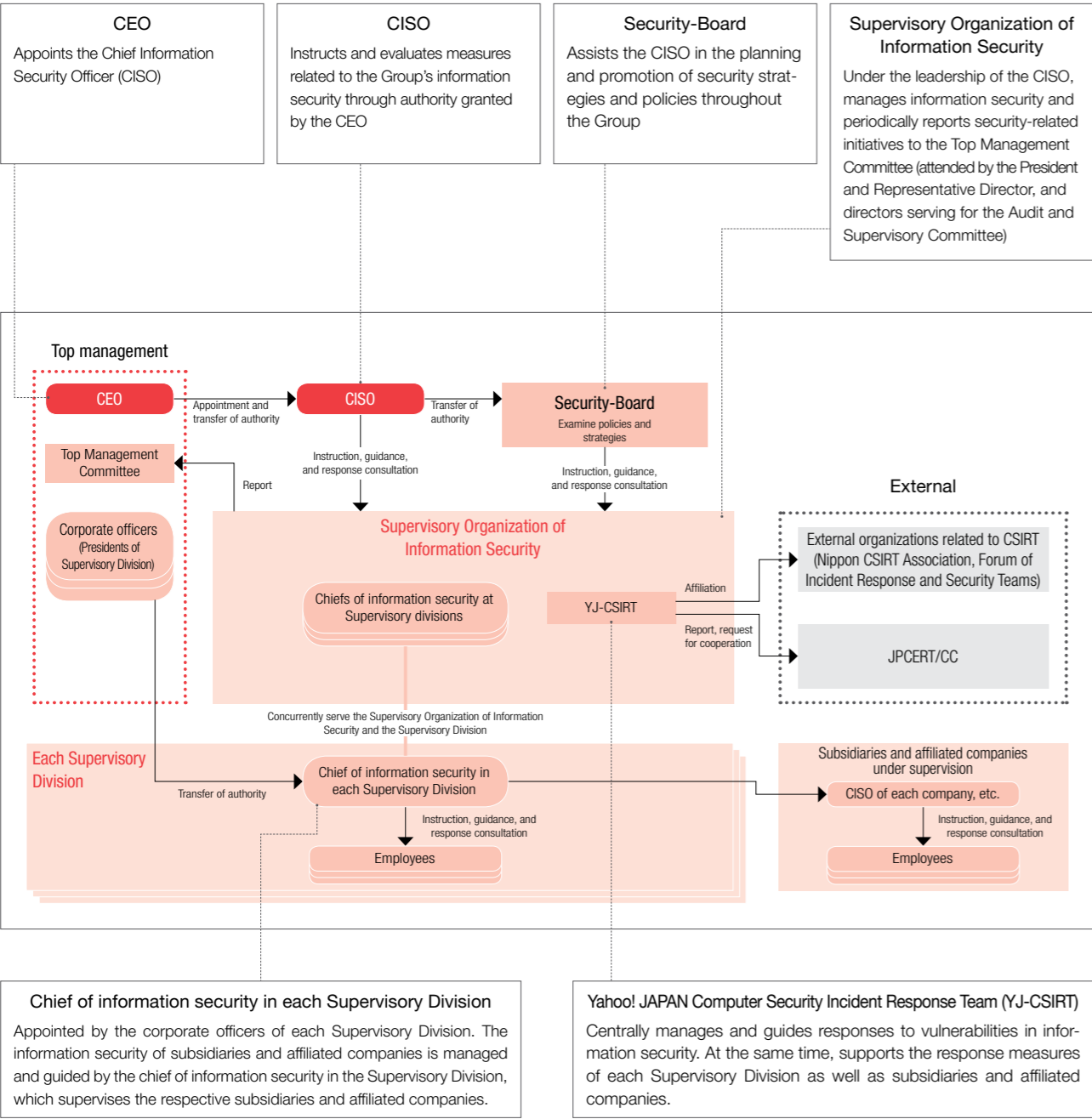
Basic Approach to Information Security

Under the initiatives of the CEO, we promote ERM across the entire Group. We have declared “protecting people’s lives and ensuring information security (confidentiality, availability, integrity)” as our utmost priorities and are incorporating this declaration into various strategies.

In regard to information security, which takes precedence after the protection of human life, our policy is to protect our users from information leaks (confidentiality), to provide round-the-clock service (availability), and to securely protect the service contents from destruction or fabrication (integrity).

Information Security System

We have established a cross-functional information security system under medium- to long-term perspectives.

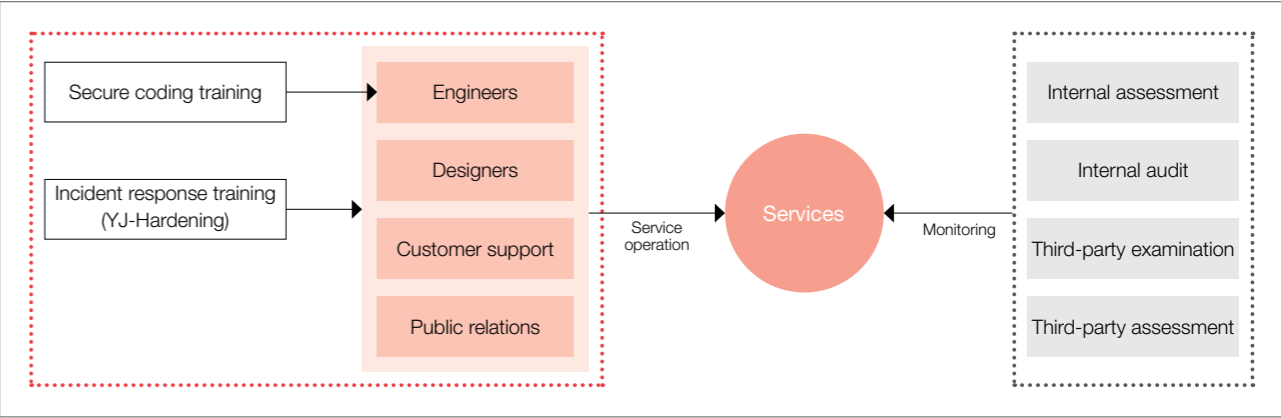


Efforts to Ensure Security

Efforts to Provide Safe and Secure Services

As part of our efforts to provide robust services, we address the vulnerabilities of applications by conducting such measures as vulnerability examinations through internal dedicated organizations and third-party institutions. In addition, we hold secure coding trainings for engineers in our aim to

ensure that applications do not have vulnerabilities. We also conduct incident response training against cyber-attacks (YJ-Hardening) in order to strengthen our responsiveness to such issues.



To respond appropriately to newly emerging security threats, we are striving to remain constantly aware of technological trends by obtaining the latest information from outside sources and by becoming a member of the following organizations.

System for Sharing Information with External Organizations

<b>Nippon CSIRT Association</b> <a href="http://www.nca.gr.jp/en/">http://www.nca.gr.jp/en/</a>	To respond to new security-related threats, we work to remain constantly aware of technological trends.
<b>Forum of Incident Response and Security Teams (FIRST)</b> <a href="https://www.first.org/">https://www.first.org/</a>	
<b>JC3: Japan Cybercrime Control Center</b> <a href="https://www.jc3.or.jp/">https://www.jc3.or.jp/</a>	We work with the JC3 to collect information on cybercrime and enact appropriate countermeasures.
<b>Japan Computer Emergency Response Team Coordination Center (JPCERT/CC)</b> <a href="https://www.jpcert.or.jp/english/">https://www.jpcert.or.jp/english/</a>	We collaborate with JPCERT/CC to respond to incidents when they occur.

Initiatives to Protect Users

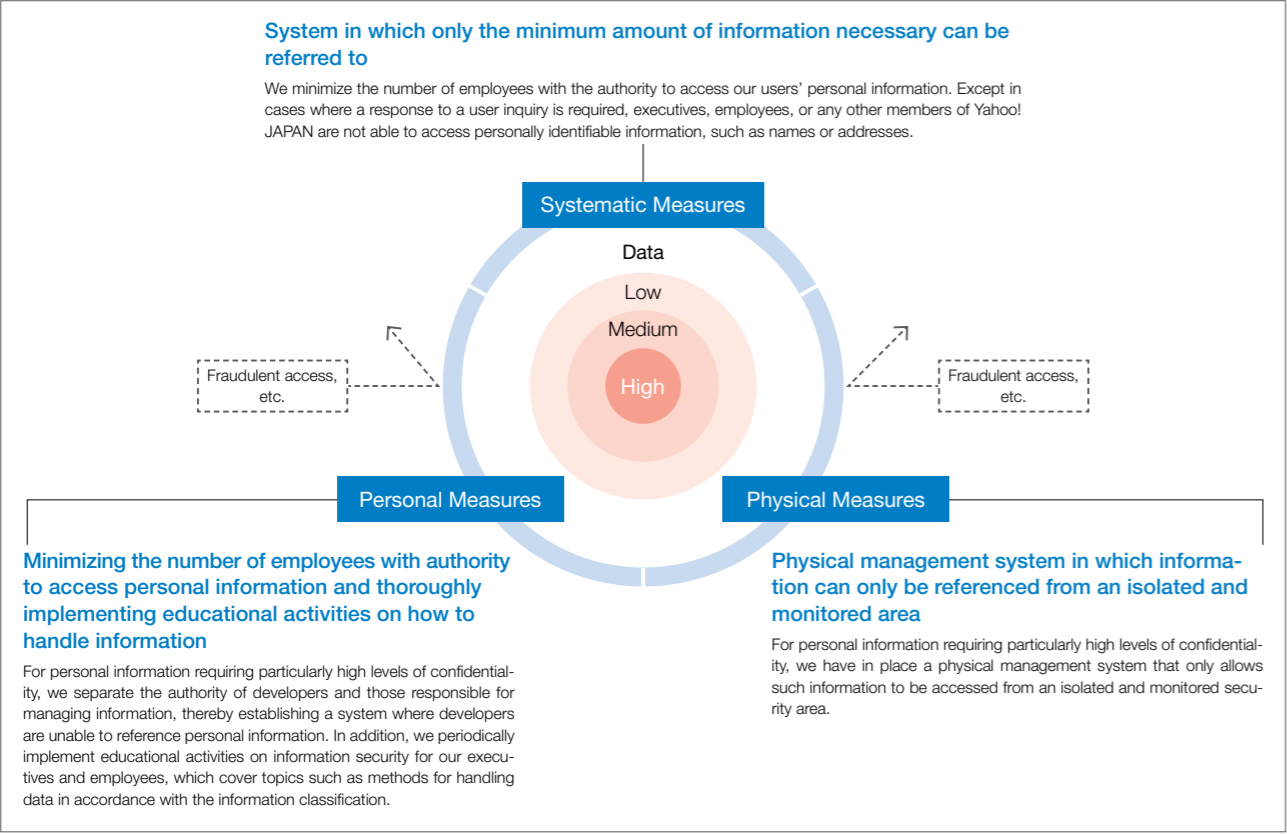
To prepare for instances where a third party gains knowledge of a user's Yahoo! JAPAN ID or password, we conduct countermeasures to prevent fraudulent logins and mitigate damage should such logins occur. In addition, we work to

raise awareness among Japanese Internet users on managing login IDs in a secure manner. At the same time, we have preventive measures in place that anticipate a certain level of improper access.

<b>Awareness raising</b>	We provide information on measures that can be implemented by the users themselves to protect their Yahoo! JAPAN IDs from fraudulent use. Yahoo! Security Center: <a href="https://security.yahoo.co.jp/">https://security.yahoo.co.jp/</a>
<b>Provision of tools</b>	<ul style="list-style-type: none"><li>• Login history and login alerts: Allow users themselves to detect any fraudulent use of their Yahoo! JAPAN ID.</li><li>• One-time password: Prevents fraudulent logins in the event a third party gains knowledge of a user's Yahoo! JAPAN ID or password.</li></ul>
<b>Detection and measures against fraudulent logins</b>	<ul style="list-style-type: none"><li>• Analysis, cut-off, and re-authentication of suspected logins by third parties with malicious intentions</li><li>• Verification and monitoring by dedicated internal departments</li></ul>

Initiatives to Protect Data

We organize our data into multiple categories based on the level of importance and have in place measures for protecting data in each category.



Acquisition of Third-Party Certification

Acquisition of Information Security Management System (ISMS) Certification

As a group, Yahoo Japan Corporation and some subsidiaries received third-party audits and acquired Information Security Management System (ISMS) certification ISO/IEC 27001:2013, the ISMS international standard, and JIS Q27001:2014 certification, the Japanese standard for all of their businesses.

Subsidiaries holding ISMS certification comply with information security rules of Yahoo! JAPAN and maintain

information security management systems identical to those of Yahoo! JAPAN.

Yahoo! JAPAN has a long history of ISMS certification. In August 2004, it acquired BS7799-2:2002, the international standard at the time, and ISMS certification standards (Ver. 2.0), the Japanese version of the international standard at the time. Since then, we have complied with revision to the international standard in order to maintain valid certification.

Acquisition of PCI DSS Accreditation

In November 2008, Yahoo! JAPAN obtained Payment Card Industry Data Security Standard (PCI DSS) accreditation, a security standard for member information, transaction information, and payment processes related to credit card payments for its Yahoo! Wallet online payment service by fulfilling the level 1 requirement. The level 1 requirement is the most stringent security standard within PCI DSS geared toward participating merchants that handle a large volume of transactions.

Through this accreditation, all systems related to information management and transaction processing of Yahoo! Wallet,

one of Japan's largest online payment services, have received verification that they have an international-level security in place.

Furthermore, we have acquired licenses for issuing and acquiring business from VISA and MasterCard, and since March 2012, we have conducted the acquiring business for almost all credit-card payments in our services. Since February 2012, we have continued to obtain PCI DSS accreditation for these operations.

Data Section

63 Financial Section

63 Financial Summary

65 Management's Discussion and Analysis

67 Consolidated Statement of Financial Position

69 Consolidated Statement of Profit or Loss

70 Consolidated Statement of Comprehensive Income

71 Consolidated Statement of Changes in Equity

72 Consolidated Statement of Cash Flows

74 Notes to Consolidated Financial Statements

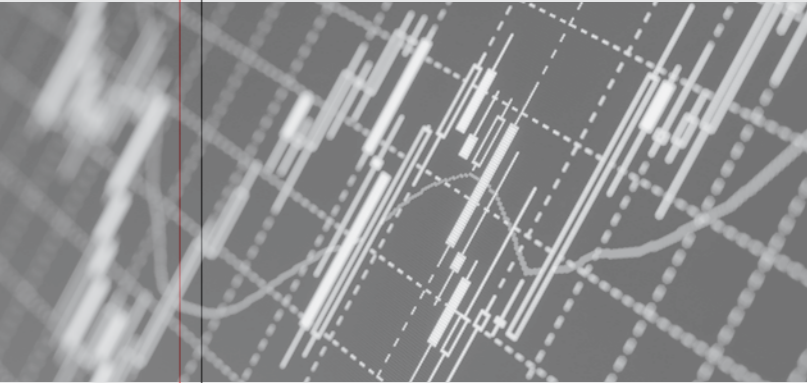
139 Independent Auditor's Report

140 Risk Factors

162 Principal Associated Enterprises

163 Organization Chart of Yahoo Japan Corporation (Non-consolidated basis)

164 Corporate Information/Shareholders' Information



Financial Summary

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

IFRS					
Years ended March 31	2014	2015	2016	2017	2018
Consolidated Results	(Millions of yen)				
Revenue*1	408,514	428,487	652,327	853,730	897,185
SG&A expenses	136,215	145,774	239,661	277,430	339,573
Other gains and losses*4	—	—	59,703	(10,737)	10,665
Operating income	196,437	197,212	224,997	192,049	185,810
EBITDA*5	209,890	214,147	255,695	230,096	230,215
Profit for the year attributable to owners of the parent	128,605	133,051	171,617	136,589	131,153
Total assets	849,987	1,007,602	1,342,799	1,534,212	2,516,633
Total liabilities	222,269	267,048	430,035	535,502	1,394,746
Total equity	627,718	740,554	912,764	998,709	1,121,887
Cash flows from operating activities	132,793	126,239	105,409	127,023	75,457
Cash flows from investing activities	(7,274)	(67,864)	(110,537)	(57,047)	232,556
Cash flows from financing activities	(53,129)	(37,166)	(49,357)	23,996	21,289
Per-share Information	(Yen)				
Basic earnings per share attributable to owners of the parent	22.43	23.37	30.15	23.99	23.04
Diluted earnings per share attributable to owners of the parent	22.43	23.37	30.14	23.99	23.03
Dividends per share	4.43	8.86	8.86	8.86	8.86
Dividend ratio (%)	19.8	37.9	29.4	36.9	38.5
Principal Performance Indicators	(%)				
Operating margin	48.1	46.0	34.5	22.5	20.7
ROA	26.1	22.4	19.3	13.4	9.5
ROE	22.2	19.8	21.9	15.4	13.5
Total equity/Total assets ratio	72.9	72.1	62.9	60.7	40.3
Price earnings ratio (Times)*3	22.56	21.22	15.89	21.42	21.45
Number of employees	6,291	7,034	9,177	11,231	12,244

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 Consumption tax, etc. are not included in revenue.

\*2 Per-share figures have been restated to reflect a 100-for-1 stock split made on October 1, 2013. Per-share figures in the table above have been retroactively revised to reflect the impact of this stock split.

\*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 combination resulting from the consolidation of ASKUL Corporation in FY2015, and ¥13,006 million in disaster losses attributable to a fire at the ASKUL Logistics Center in FY2016, ¥6,725 million in insurance proceeds, etc. in FY2017 related to said fire incident, and ¥3,566 million in gain on sales of property and equipment at ASKUL Corporation.

\*5 EBITDA = operating income + depreciation and amortization in cash flows from operating activities

Management’s Discussion and Analysis

Results of Operations

In fiscal 2017, the year ended March 31, 2018, Yahoo Japan Corporation (the Company) recorded revenue growth of 5.1% compared with fiscal 2016, due in part to higher revenue for advertising-related services, including paid search advertising and Premium Advertising, as well as increased revenue of the ASKUL Group.

Operating income, profit before tax, and profit for the year attributable to owners of the parent decreased year on year, despite the higher revenue, due to such factors as additional

investments toward maximizing e-commerce transaction value and toward becoming a data-driven company.

As a result, for fiscal 2017 the Company recorded revenue of ¥897,185 million (5.1% increase), operating income of ¥185,810 million (3.2% decrease), profit before tax of ¥193,177 million (0.2% decrease), and profit for the year attributable to owners of the parent of ¥131,153 million (4.0% decrease).

Financial Position

Assets

Total assets at the end of fiscal 2017 were ¥2,516,633 million, an increase of ¥982,421 million, or 64.0%, from the end of fiscal 2016. The main factors for this change were the following:

Cash and cash equivalents grew from the end of fiscal 2016, due mainly to the consolidation of The Japan Net Bank, Limited.

Call loans in banking business, investment securities in banking business, and loans in banking business were newly recognized as a result of the consolidation of The Japan Net Bank, Limited.

Loans in credit card business rose compared with the end of fiscal 2016, due primarily to the higher transaction value of the credit card business.

Other financial assets increased from the end of fiscal 2016, owing mostly to the consolidation of The Japan Net Bank, Limited.

Assets classified as held for sale were newly recognized as a result of an agreement to transfer the shares of IDC Frontier Inc.

Liabilities

Total liabilities at the end of fiscal 2017 were ¥1,394,746 million, an increase of ¥859,243 million, or 160.5%, from the end of fiscal 2016. The main factors for this change were the following:

Customer deposits in banking business was newly recognized due to the consolidation of The Japan Net Bank, Limited.

Interest-bearing liabilities rose in comparison with the end of fiscal 2016, due mainly to the issuance of bonds.

Equity

Total equity at the end of fiscal 2017 was ¥1,121,887 million, an increase of ¥123,177 million, or 12.3%, from the end of fiscal 2016. The main factor for this change was the following:

Retained earnings grew from the end of fiscal 2016, due to profit for the year attributable to owners of the parent, despite the decrease from the payment of dividends.

Cash Flows

Cash and cash equivalents at the end of fiscal 2017 were ¥868,325 million, a ¥325,257 million increase from the end of fiscal 2016. This comprised deposits at the Bank of Japan in relation to the banking business of ¥284,234 million. Cash flows for fiscal 2017 are summarized as follows:

Cash flows from operating activities amounted to a cash inflow of ¥75,457 million, due primarily to profit before tax, despite the payment of income taxes and an increase in receivables related to the credit card business.

Cash flows from investing activities amounted to a cash inflow of ¥232,556 million, owing mainly to the consolidation of The Japan Net Bank, Limited, despite the purchase of property and equipment and intangible assets.

Cash flows from financing activities amounted to a cash inflow of ¥21,289 million, due mainly to the issuance of bonds, despite the payment of dividends.

Capital Investment

Capital investment for fiscal 2017 amounted to a total of ¥91,037 million, comprising property and equipment of ¥46,966 million and intangible assets of ¥44,071 million. This was due mainly to the purchase of servers and network-related facilities, the establishment of ASKUL Corporation's

new logistics center, and the acquisition of software. Because these assets are utilized throughout the Company's business segments and therefore are not allocable to a specific segment, capital investment is not presented for each reportable segment.

Dividend Policy

Dividends are determined by the Board of Directors of the Company and paid in principle once a year as a year-end dividend.

The Company aims to achieve sustainable growth in corporate value over the medium to long term. To that end, the Company recognizes the importance of actively pursuing upfront investments to its services, capital investments, and capital and business alliances toward future growth. At the same time, the Company recognizes its responsibility as a

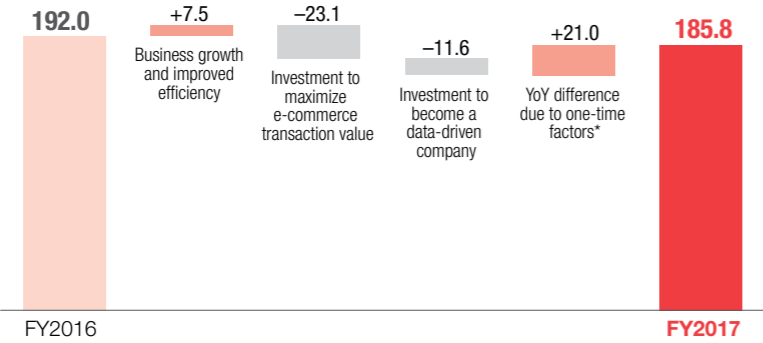
listed company to recompense shareholders through the return of profits.

Based on the above policy, the Company resolved at its Board of Directors meeting held on April 27, 2018 to pay year-end dividends of ¥8.86 per share, equivalent to a total dividend payout of ¥50.4 billion, for fiscal 2017.

Going forward, while investing toward future growth, the Company aims to enhance corporate value by providing an appropriate return of profits to shareholders.

Factors of Change in Operating Income

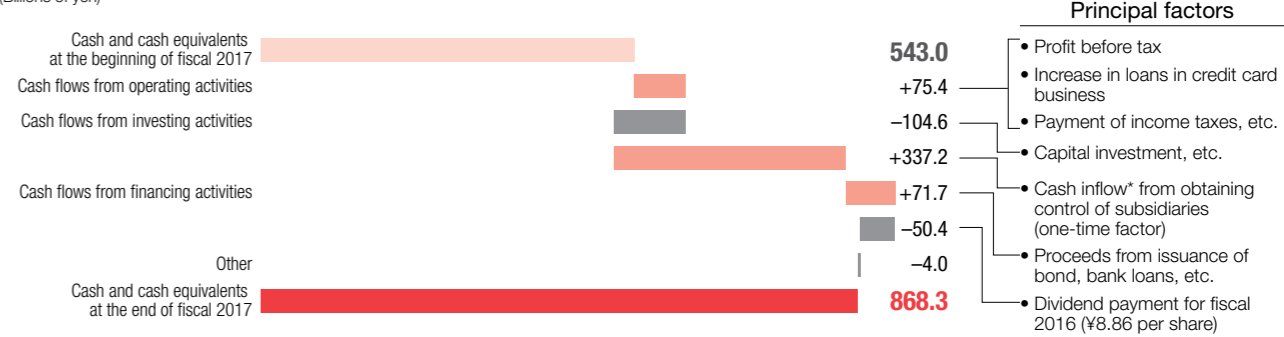
(Billions of yen)



\* Includes loss related to the fire incident at the ASKUL Logistics Center of ¥13.0 billion in FY2016, and insurance proceeds etc. related to the said fire incident of ¥6.6 billion and ASKUL Corporation's gain on sales of property and equipment of ¥3.5 billion in FY2017.

Factors of Change in Cash Flows

(Billions of yen)



\* Cash and cash equivalents held by The Japan Net Bank Limited on the date of consolidation (Feb. 1, 2018).

Consolidated Statement of Financial Position

Yahoo Japan Corporation and Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	As of March 31		As of March 31,
	2018	2017	2018
ASSETS:			
Cash and cash equivalents (Note 7)	¥ 868,325	¥ 543,067	\$ 8,173,239
Call loans in banking business (Note 28)	78,000	—	734,186
Trade and other receivables (Notes 8 and 28)	297,050	251,239	2,796,027
Inventories	17,685	14,352	166,462
Loans in credit card business (Note 28)	186,711	129,648	1,757,445
Investment securities in banking business (Notes 9 and 28)	308,436	—	2,903,200
Loans in banking business (Note 28)	76,077	—	716,086
Other financial assets (Notes 10 and 28)	163,380	101,678	1,537,838
Property and equipment (Note 11)	123,943	124,021	1,166,632
Goodwill (Note 12)	162,015	159,505	1,524,990
Intangible assets (Note 12)	167,112	138,692	1,572,966
Investments accounted for using the equity method (Note 13)	10,865	37,748	102,268
Deferred tax assets (Note 14)	27,686	24,511	260,598
Other assets	14,373	9,746	135,288
Subtotal	2,501,662	1,534,212	23,547,270
Assets classified as held for sale (Note 15)	14,970	—	140,907
TOTAL ASSETS	¥ 2,516,633	¥ 1,534,212	\$ 23,688,187

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	As of March 31		As of March 31,
	2018	2017	2018
LIABILITIES AND EQUITY:			
Liabilities:			
Trade and other payables (Notes 16 and 28)	¥ 348,346	¥ 287,978	\$ 3,278,859
Customer deposits in banking business (Notes 17 and 28)	708,054	—	6,664,664
Interest-bearing liabilities (Notes 18 and 28)	190,574	104,546	1,793,806
Other financial liabilities (Note 28)	5,034	4,058	47,383
Income taxes payable	29,094	36,490	273,851
Provisions (Note 19)	30,652	30,729	288,516
Deferred tax liabilities (Note 14)	22,956	21,812	216,076
Other liabilities (Note 21)	56,818	49,885	534,807
Subtotal	1,391,532	535,502	13,098,004
Liabilities directly attributable to assets classified as held for sale (Note 15)	3,214	—	30,252
Total liabilities	1,394,746	535,502	13,128,256
Equity:			
Equity attributable to owners of the parent:			
Common stock (Note 25)	8,737	8,428	82,238
Capital surplus (Notes 25 and 27)	(4,602)	(4,366)	(43,317)
Retained earnings (Note 25)	993,894	913,178	9,355,176
Treasury stock (Note 25)	(1,316)	(1,316)	(12,387)
Accumulated other comprehensive income	16,655	14,896	156,767
Total equity attributable to owners of the parent	1,013,368	930,820	9,538,478
Non-controlling interests	108,518	67,888	1,021,442
Total equity	1,121,887	998,709	10,559,930
TOTAL LIABILITIES AND EQUITY	¥ 2,516,633	¥ 1,534,212	\$ 23,688,187

See notes to consolidated financial statements.

Consolidated Statement of Profit or Loss

Yahoo Japan Corporation and Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
REVENUE (Note 31)	¥ 897,185	¥ 853,730	\$ 8,444,888
COST OF SALES (Note 32)	382,467	373,513	3,600,028
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 32)	339,573	277,430	3,196,282
GAIN FROM REMEASUREMENT RELATING TO BUSINESS COMBINATIONS (Note 5)	372	—	3,501
GAIN ON SALES OF PROPERTY AND EQUIPMENT	3,567	2,269	33,574
INSURANCE INCOME (Note 33)	4,973	—	46,809
GAIN ON DEBT FORGIVENESS (Note 34)	1,752	—	16,490
DISASTER LOSSES (Note 35)	—	13,006	—
Operating income	185,810	192,049	1,748,964
OTHER NON-OPERATING INCOME (Note 36)	9,112	2,590	85,768
OTHER NON-OPERATING EXPENSES	2,791	2,112	26,270
EQUITY IN EARNINGS OF ASSOCIATES AND JOINT VENTURE (Note 13)	1,045	947	9,836
PROFIT BEFORE TAX	193,177	193,475	1,818,307
INCOME TAX EXPENSE (Note 14)	58,764	60,841	553,125
PROFIT FOR THE YEAR	¥ 134,412	¥ 132,634	\$ 1,265,173
ATTRIBUTABLE TO:			
Owners of the parent	¥ 131,153	¥ 136,589	\$ 1,234,497
Non-controlling interests	3,258	(3,955)	30,666
PROFIT FOR THE YEAR	¥ 134,412	¥ 132,634	\$ 1,265,173
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE PARENT:			
Basic (yen and U.S. dollars) (Note 38)	¥ 23.04	¥ 23.99	\$ 0.22
Diluted (yen and U.S. dollars) (Note 38)	23.03	23.99	0.22

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Yahoo Japan Corporation and Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
PROFIT FOR THE YEAR	¥ 134,412	¥ 132,634	\$ 1,265,173
OTHER COMPREHENSIVE INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets (Notes 29 and 37)	2,656	2,725	25,000
Exchange differences on translating foreign operations (Notes 29 and 37)	(1,023)	(18)	(9,629)
Share of other comprehensive income of associates (Notes 13 and 37)	(0)	(905)	(0)
Other comprehensive income, net of tax	1,632	1,802	15,361
TOTAL COMPREHENSIVE INCOME	¥ 136,045	¥ 134,436	\$ 1,280,544
ATTRIBUTABLE TO:			
Owners of the parent	¥ 132,912	¥ 138,306	\$ 1,251,054
Non-controlling interests	3,132	(3,869)	29,480
TOTAL COMPREHENSIVE INCOME	¥ 136,045	¥ 134,436	\$ 1,280,544

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

Yahoo Japan Corporation and Subsidiaries

	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, 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 25)	69	69	—	—	—	138	—	138
Payment of dividends (Note 26)	—	—	(50,435)	—	—	(50,435)	(1,094)	(51,529)
Changes attributable to obtaining or losing control of subsidiaries	—	—	—	—	—	2,150	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
Profit for the year	—	—	131,153	—	—	131,153	3,258	134,412
Other comprehensive income, net of tax	—	—	—	—	1,758	1,758	(126)	1,632
Total comprehensive income for the year	—	—	131,153	—	1,758	132,912	3,132	136,045
Issue of common stock (Note 25)	309	309	—	—	—	618	—	618
Payment of dividends (Note 26)	—	—	(50,438)	—	—	(50,438)	(1,170)	(51,608)
Changes attributable to obtaining or losing control of subsidiaries (Note 5)	—	—	—	—	—	—	37,700	37,700
Changes in ownership interests in subsidiaries without losing control	—	(317)	—	—	—	(317)	1,066	748
Others	—	(228)	—	—	—	(228)	(99)	(327)
Total	309	(236)	(50,438)	(0)	—	(50,364)	37,497	(12,867)
BALANCE AT MARCH 31, 2018	¥ 8,737	¥ (4,602)	¥ 993,894	¥ (1,316)	¥ 16,655	¥ 1,013,368	¥ 108,518	¥ 1,121,887

	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, 2017	\$ 79,329	\$ (41,095)	\$ 8,595,425	\$ (12,387)	\$ 140,210	\$ 8,761,483	\$ 639,006	\$ 9,400,498
Profit for the year	—	—	1,234,497	—	—	1,234,497	30,666	1,265,173
Other comprehensive income, net of tax	—	—	—	—	16,547	16,547	(1,185)	15,361
Total comprehensive income for the year	—	—	1,234,497	—	16,547	1,251,054	29,480	1,280,544
Issue of common stock (Note 25)	2,908	2,908	—	—	—	5,817	—	5,817
Payment of dividends (Note 26)	—	—	(474,755)	—	—	(474,755)	(11,012)	(485,768)
Changes attributable to obtaining or losing control of subsidiaries (Note 5)	—	—	—	—	—	354,856	—	354,856
Changes in ownership interests in subsidiaries without losing control	—	(2,983)	—	—	—	(2,983)	10,033	7,040
Others	—	(2,146)	—	(0)	—	(2,146)	(931)	(3,077)
Total	2,908	(2,221)	(474,755)	(0)	—	(474,058)	352,946	(121,112)
BALANCE AT MARCH 31, 2018	\$ 82,238	\$ (43,317)	\$ 9,355,176	\$ (12,387)	\$ 156,767	\$ 9,538,478	\$ 1,021,442	\$ 10,559,930

See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows

Yahoo Japan Corporation and Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before tax	¥ 193,177	¥ 193,475	\$ 1,818,307
Depreciation and amortization	44,404	38,046	417,959
Disaster losses (Note 35)	—	13,006	—
Increase in call loans in banking business	(8,000)	—	(75,301)
Increase in trade and other receivables	(14,743)	(14,357)	(138,770)
Increase in trade and other payables	42,395	21,719	399,049
Increase in loans in credit card business	(57,063)	(59,785)	(537,114)
Increase in loans in banking business	(2,715)	—	(25,555)
Decrease in customer deposits in banking business	(27,931)	—	(262,904)
(Increase) decrease in other financial assets	(15,707)	3,743	(147,844)
Others	(6,433)	(4,905)	(60,551)
Subtotal	147,381	190,943	1,387,245
Income taxes—paid	(71,924)	(63,919)	(676,995)
Net cash generated by operating activities	75,457	127,023	710,250
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investment securities in banking business	(45,790)	—	(431,005)
Proceeds from sales of investment securities in banking business	14,969	—	140,897
Purchase of other investments	(11,010)	(10,137)	(103,633)
Purchase of property and equipment	(43,284)	(39,807)	(407,417)
Proceeds from sales of property and equipment	20,669	7,345	194,550
Purchase of intangible assets	(44,338)	(16,911)	(417,338)
Net cash inflow on obtaining control of subsidiaries (Note 5)	337,224	—	3,174,171
Others	4,117	2,464	38,751
Net cash generated by (used in) investing activities	232,556	(57,047)	2,188,968
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase of short-term bank loans	4,321	20,200	40,672
Proceeds from long-term bank loans	2,800	25,300	26,355
Proceeds from issuance of bonds	70,000	35,000	658,885
Dividends paid	(50,439)	(50,414)	(474,764)
Others	(5,392)	(6,088)	(50,753)
Net cash generated by financing activities	21,289	23,996	200,385
<b>FORWARD</b>	¥ 329,302	¥ 93,972	\$ 3,099,603

Consolidated Statement of Cash Flows

Yahoo Japan Corporation and Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars (Note 2(3))
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
FORWARD	¥ 329,302	¥ 93,972	\$ 3,099,603
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(562)	(70)	(5,289)
DECREASE IN CASH AND CASH EQUIVALENTS DUE TO CLASSIFICATION OF ASSETS AS HELD FOR SALE (Note 15)	(3,484)	—	(32,793)
NET INCREASE IN CASH AND CASH EQUIVALENTS	325,257	93,902	3,061,530
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 7)	543,067	449,164	5,111,699
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (Note 7)	¥ 868,325	¥ 543,067	\$ 8,173,239

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Yahoo Japan Corporation and Subsidiaries

1. REPORTING ENTITY

Yahoo Japan Corporation (the "Company") was incorporated and is domiciled in Japan. SoftBank Group Corp. is 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 ¥106.24 to U.S.\$1, the approximate rate of exchange at March 31, 2018. 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.

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

1) Consolidated statement of financial position

Prior to April 1, 2017, the Group presented current and non-current assets, and current and non-current liabilities, as separate classifications in the consolidated statement of financial position. Given the conversion of The Japan Net Bank, Limited ("JNB") into a subsidiary and the materiality of the assets and liabilities of the banking business and credit card business, beginning in the current fiscal year, the Group has presented all assets and liabilities in order of liquidity in the consolidated statement of financial position. As a result, the Group reclassified the following items:

- (a) Other financial assets, which were presented separately as current and non-current in the prior-year consolidated statement of financial position, have been presented as "other financial assets" in total in the current year.

- (b) Other financial liabilities, which were presented separately as current and non-current in the prior-year consolidated statement of financial position, have been presented as "other financial liabilities" in total in the current year.
- (c) Interest-bearing liabilities, which were presented separately as current and non-current in the prior-year consolidated statement of financial position, have been presented as "interest-bearing liabilities" in total in the current year.
- (d) Other current assets and other non-current assets, which were presented separately as current and non-current in the prior-year consolidated statement of financial position, are presented as "other assets" in total in the current year.
- (e) Other current liabilities and other non-current liabilities, which were presented separately as current and non-current in the prior-year consolidated statement of financial position, are presented as "other liabilities" in total in the current year.
- (f) Loans in credit card business, which were included in trade and other receivables, are reclassified and presented separately in the current-year consolidated statement of financial position due to increased materiality.

## 2) Consolidated statement of profit or loss

After the Group began to consolidate JNB, in order to more relevantly present income and expenses of settlement- and finance-related services and investment results of financial assets and financial liabilities, the Group changed the presentation manner of the consolidated statement of profit or loss. Effective in the current fiscal year, "gross profit," which was presented in the consolidated statement of profit or loss in the previous year, is not presented.

## 3) Consolidated statement of cash flows

Increases in loans in the credit card business, which were included in "increase in trade and other receivables" in the cash flows from operating 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 ¥(59,785) million, which was included in "increase in trade and other receivables" in the cash flows from operating activities in the prior-year consolidated statement of cash flows, has been reclassified and presented separately as ¥(59,785) million in "increase in loans in credit card business."

Decrease in other financial assets, which were included in "others" in cash flows from operating 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 ¥3,743 million, which was included in "others" in cash flows from operating activities in the prior-year consolidated statement of cash flows, has been reclassified and presented as ¥3,743 million in "decrease in other financial assets."

Net cash outflow on obtaining control of subsidiaries, which was presented separately in the cash flows from investing activities in the prior-year consolidated statement of cash flows, has 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 ¥(1,909) million in cash flows from investing activities in the prior-year consolidated statement of cash flows have been reclassified and aggregated into "others" at ¥(1,909) 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.

### 1) 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 International Accounting Standard ("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.

### 2) 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.

3) *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 been 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.

In applying the requirements of IFRS 9 for classification and measurement of financial assets, the Group plans to reclassify certain debt instruments out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category.

In applying the requirements for impairment of financial assets of IFRS 9, the Company plans to measure lifetime expected credit losses of a financial instrument at each reporting date if the credit risk on that financial instrument has increased significantly since initial recognition. If the credit risk on a financial instrument has not increased significantly since initial recognition, the Group plans to measure the 12-month expected credit losses. For trade and other receivables, the Group plans to apply the simplified approach as provided in IFRS 9 and measure the lifetime expected credit losses. In addition, the Group plans to review the definitions of default and credit-impaired financial assets in accordance with the requirements of IFRS 9.

The impact of applying IFRS 9 on the consolidated financial statements was not significant.

In applying IFRS 15, based on the five-step approach, the Group plans to recognize revenue at an amount of consideration in a contract that the Group expects to be entitled in exchange for transferring promised goods or services to a customer, except for interest and dividend income to which IFRS 9 is applied. The Group plans to recognize as an asset the incremental costs of obtaining a contract with a customer and costs to fulfil a contract if the costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The impact of applying IFRS 15 on the consolidated financial statements was not significant.

The effect of applying IFRS 16 is currently being evaluated.

3. SIGNIFICANT ACCOUNTING POLICIES

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

*Change in Accounting Policies*

Effective April 1, 2017, the Group applied the following standard:

*IAS 7 "Statement of Cash Flows"*

Outline of the revised standard is as follows:

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.

The impact of applying this standard on the consolidated financial statements was not significant.

(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 upon 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 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 group 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 and customer deposits in the banking business. 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:	4–15 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:	Principally 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) *Assets or Disposal Groups Classified as Held for Sale***

An asset (or disposal group) of which the carrying amount will be recovered principally through a sale transaction rather than through continuing use is classified as held for sale, if all the following conditions are satisfied: (a) the sale of the asset (or disposal group) within one year is probable; (b) the asset (or disposal group) is available for immediate sale; and (c) management is committed to a plan to sell the asset (or disposal group).

If the Group is committed to a sale plan involving loss of control of a subsidiary and all the criteria above are met, the Group classifies all the assets and liabilities of that subsidiary as held for sale, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

The Group does not depreciate property and equipment classified as held for sale and does not amortize intangible assets classified as held for sale once the classification has been made.

**(12) *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.

**(13) *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.

**(14) *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.

**(15) *Income Tax***

Income tax expense comprises current and deferred taxes, and is 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.

(16) *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.

(17) *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:

- Fair value measurement of assets acquired and liabilities assumed through business combinations ("Note 3. Significant accounting policies (1)" and "Note 5. Business combinations")
- Estimates regarding impairment of property and equipment, goodwill and intangible assets ("Note 3. Significant accounting policies (1) and (9)" and "Note 12. 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 29. 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 19. Provisions")
- Fair value of share options ("Note 3. Significant accounting policies (12)" and "Note 27. Share-based payments")
- Recoverability of deferred tax assets ("Note 3. Significant accounting policies (15)" and "Note 14. Income taxes")

5. BUSINESS COMBINATIONS

For the Year Ended March 31, 2018

*The Japan Net Bank, Limited*

(1) *Outline of business combination*

On August 1, 2017, the Company modified the shareholders agreement with Sumitomo Mitsui Banking Corporation regarding the investments in JNB, according to the resolution reached at the meeting of Board of Directors held on the same date. This resulted in the Company accounting for JNB as a subsidiary by holding the majority of JNB's directors in accordance with the resolution reached at the extraordinary meeting of the shareholders of JNB held on February 1, 2018.

The Company has rapidly increased its transaction volume since the commencement of new strategies in its commerce business in October 2013, by implementing various measures such as waiving tenant and other fees, point reward programs, and initiation of the credit card business. The Company believes that it needs to strengthen its settlement- and finance-related business to further revitalize the commerce business. The Company intends to enter fully into the banking business by acquiring JNB and generate synergies within the Group. In addition, the Company plans to lead the management of JNB and provide high value-added financial services for JNB customers by utilizing the customer base and the multi big data that the Company has amassed.

The ratio of JNB voting rights held by the Company remains the same, at 41.2%, as before and does not constitute the majority; however, the Company accounted for JNB as a subsidiary because the Company determined that the Company has substantial control over JNB by holding the majority of JNB's director positions in accordance with the resolution reached at the extraordinary meeting of the shareholders of JNB held on February 1, 2018.

Equity interests of JNB already held by the Company were remeasured at fair value as of the date of the Company acquiring control, and as a result, the Company recorded ¥372 million (\$3,501 thousand) as gain on a step acquisition. This gain is recorded as "gain from remeasurement relating to business combinations" in the consolidated statement of profit or loss.

(2) *Outline of acquiree*

Company name: The Japan Net Bank, Limited  
Businesses: Banking business

(3) *Acquisition date*

February 1, 2018

Financial Section

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

	Millions of Yen	Thousands of U.S. Dollars
Fair value of the Company's previously held interests	¥ 26,224	\$ 246,837
Fair value of acquired assets and assumed liabilities:		
Assets:		
Cash and cash equivalents	¥ 337,224	\$ 3,174,171
Investment securities in banking business	277,515	2,612,151
Loans in banking business	73,393	690,822
Others	130,663	1,229,885
Liabilities:		
Customer deposits in banking business	(735,986)	(6,927,579)
Others	(18,885)	(177,757)
Equity	63,924	601,694
Non-controlling interests (Note)	(37,700)	(354,856)
Total	¥ 26,224	\$ 246,837

Note: Non-controlling interests

Non-controlling interests are measured at the proportionate interests in the identifiable net assets of 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 revenue and pro forma profit for the year ended March 31, 2018, assuming that the business combinations were completed and control was obtained as of April 1, 2017, would have been ¥916,922 million (\$8,630,666 thousand) and ¥135,298 million (\$1,273,512 thousand), respectively. Amortization expenses of intangible assets newly recognized on the date of acquiring control and others have been reflected in the pro forma information above.

For the Year Ended March 31, 2017

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

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) media business and (2) commerce business.

The media business segment comprises (1) planning and sale of internet-based advertising-related services, (2) information listing services, and (3) other corporate services. The commerce business segment mainly comprises (1) sales of products, (2) planning and sales of services, and (3) settlement- and finance-related services, all of which are provided via the internet, for small to medium-sized businesses and individual customers.

Other business consists of operating segments that are not included in the reportable segments and includes 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.

The Group periodically reviews the basis of segmentation of its services and subsidiaries in order to provide services more effectively and to respond to the changing market more rapidly. Effective April 1, 2017, the Group integrated the settlement- and finance-related business, which were formerly included in the other business, into the consumer business and renamed the marketing solutions business and the consumer business to the media business and the commerce business, respectively.

Consequently, segment information for the year ended March 31, 2017, is restated in accordance with the new basis of segmentation.

Segment information of the Group as of and for the year ended March 31, 2018, is as follows:

	Millions of Yen					
	Reportable Segments			Other Business	Reconciliation	Consolidated
	Media Business	Commerce Business	Total			
Revenue:						
Sales to customers	¥ 286,914	¥ 590,457	¥ 877,371	¥ 19,814	—	¥ 897,185
Intersegment sales	1,444	6,110	7,554	4,602	¥ (12,157)	—
Total sales	¥ 288,359	¥ 596,567	¥ 884,926	¥ 24,416	¥ (12,157)	¥ 897,185
Segment income (Note)	¥ 169,180	¥ 75,267	¥ 244,447	¥ 1,840	¥ (60,477)	¥ 185,810
Other non-operating income						9,112
Other non-operating expenses						(2,791)
Equity in earnings of associates and a joint venture						1,045
Profit before tax						¥ 193,177
Others—Depreciation and amortization	¥ 3,287	¥ 21,135	¥ 24,422	¥ 5,221	¥ 14,760	¥ 44,404

	Thousands of U.S. Dollars					
	Reportable Segments			Other Business	Reconciliation	Consolidated
	Media Business	Commerce Business	Total			
Revenue:						
Sales to customers	\$ 2,700,621	\$ 5,557,765	\$ 8,258,386	\$ 186,502	—	\$ 8,444,888
Intersegment sales	13,591	57,511	71,103	43,317	\$ (114,429)	—
Total sales	<u>\$ 2,714,222</u>	<u>\$ 5,615,276</u>	<u>\$ 8,329,499</u>	<u>\$ 229,819</u>	<u>\$ (114,429)</u>	<u>\$ 8,444,888</u>
Segment income (Note)	\$ 1,592,432	\$ 708,461	\$ 2,300,894	\$ 17,319	\$ (569,248)	\$ 1,748,964
Other non-operating income						85,768
Other non-operating expenses						(26,270)
Equity in earnings of associates and a joint venture						<u>9,836</u>
Profit before tax						<u>\$ 1,818,307</u>
Others—Depreciation and amortization	\$ 30,939	\$ 198,936	\$ 229,875	\$ 49,143	\$ 138,930	\$ 417,959
Note: Commerce business includes ¥4,973 million (\$46,809 thousand) of insurance income, ¥3,561 million (\$33,518 thousand) of gain on sales of property and equipment, and ¥1,752 million (\$16,490 thousand) of gain on debt forgiveness. (Please refer to "Note 33. Insurance income" and "Note 34. Gain on debt forgiveness.")						

Segment information of the Group as of and for the year ended March 31, 2017, which is based on the new basis of segmentation, is as follows:

	Millions of Yen					
	Reportable Segments			Other Business	Reconciliation	Consolidated
	Media Business	Commerce Business	Total			
Revenue:						
Sales to customers	¥ 279,898	¥ 553,119	¥ 833,017	¥ 20,713	—	¥ 853,730
Intersegment sales	1,207	7,876	9,084	5,083	¥ (14,168)	—
Total sales	<u>¥ 281,105</u>	<u>¥ 560,995</u>	<u>¥ 842,101</u>	<u>¥ 25,796</u>	<u>¥ (14,168)</u>	<u>¥ 853,730</u>
Segment income (Note)	¥ 164,416	¥ 72,125	¥ 236,542	¥ 5,103	¥ (49,596)	¥ 192,049
Other non-operating income						2,590
Other non-operating expenses						(2,112)
Equity in earnings of associates and a joint venture						<u>947</u>
Profit before tax						<u>¥ 193,475</u>
Others—Depreciation and amortization	¥ 3,255	¥ 17,930	¥ 21,186	¥ 3,662	¥ 13,197	¥ 38,046
Note: Commerce business includes ¥13,006 million of disaster losses. (Please refer to "Note 35. Disaster losses.")						

(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,
	2018	2017	2018
Advertising	¥ 303,443	¥ 286,443	\$ 2,856,202
Business	407,640	391,552	3,836,972
Personal	185,735	175,733	1,748,258
Others	<u>365</u>	<u>—</u>	<u>3,435</u>
Total	<u>¥ 897,185</u>	<u>¥ 853,730</u>	<u>\$ 8,444,888</u>

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,
	2018	2017	2018
Cash and demand deposits	¥ 698,811	¥ 405,983	\$ 6,577,663
Time deposits (maturities of three months or less)	164,013	132,584	1,543,797
Others	<u>5,499</u>	<u>4,499</u>	<u>51,760</u>
Total	<u>¥ 868,325</u>	<u>¥ 543,067</u>	<u>\$ 8,173,239</u>

Note: The banking subsidiary is required to deposit certain amounts, which are determined by a fixed ratio against the deposits it receives ("the legal reserve requirement"), in the Bank of Japan in accordance with the Act on Reserve Requirement System in Japan. As of March 31, 2018, cash and cash equivalents include ¥284,234 million (\$2,675,395 thousand) of deposits at the Bank of Japan, which are more than the legal reserve requirement.

Financial Section

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,
	2018	2017	2018
Trade receivables	¥ 123,409	¥ 128,128	\$ 1,161,605
Foreign exchange dealings cash— deposits with trust banks	98,210	80,871	924,416
Other receivables	31,476	17,056	296,272
Others	43,953	25,183	413,714
Total	¥ 297,050	¥ 251,239	\$ 2,796,027

9. INVESTMENT SECURITIES IN BANKING BUSINESS

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

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2018	2017	2018
Debt securities	¥ 252,167	—	\$ 2,373,559
Trust beneficiary rights	45,910	—	432,134
Others	10,359	—	97,505
Total	¥ 308,436	—	\$ 2,903,200

Note: Certain investment securities are pledged as collateral for financing and exchange settlement by the banking subsidiary. The carrying amount of such investment securities in banking business as of March 31, 2018 was ¥62,961 million (\$592,629 thousand).

10. 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,
	2018	2017	2018
Equity securities	¥ 56,072	¥ 46,959	\$ 527,786
Deposits in the central clearing house (Note)	40,259	—	378,943
Derivative financial assets	25,284	17,310	237,989
Deposits paid	17,790	18,121	167,451
Others	23,972	19,286	225,640
Total	¥ 163,380	¥ 101,678	\$ 1,537,838

Note: This item represents cash pledged to the central clearing house as collateral for financing and exchange settlement by the banking subsidiary.

11. 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
As of April 1, 2016	¥ 35,235	¥ 44,034	¥ 19,117	¥ 16,888	¥ 4,905	¥ 952
Purchase	8,524	16,608	3,715	347	11,233	915
Business combinations	63	90	0	—	—	—
Disposals	(7,589)	(447)	(2,034)	(5,001)	(588)	(80)
Depreciation	(4,257)	(12,884)	(3,009)	—	—	(310)
Transfer of accounts	7,795	1,530	4,790	—	(14,121)	—
Others	(1,149)	(101)	(185)	(723)	(243)	—
As of March 31, 2017	38,623	48,831	22,394	11,510	1,185	1,477
Purchase	4,536	20,062	14,535	364	6,499	967
Business combinations	368	330	9	30	—	—
Disposals	(8,299)	(416)	(417)	(8,699)	(86)	(114)
Depreciation	(3,464)	(14,751)	(3,856)	—	—	(465)
Transfer of accounts	241	3,419	377	74	(4,295)	—
Classification of assets as held for sale	(148)	(3,236)	(2,877)	(0)	(462)	—
Others	54	(298)	2	(18)	(43)	—
As of March 31, 2018	¥ 31,912	¥ 53,940	¥ 30,167	¥ 3,260	¥ 2,796	¥ 1,865

	Thousands of U.S. Dollars					
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others
As of March 31, 2017	\$ 363,544	\$ 459,629	\$ 210,786	\$ 108,339	\$ 11,153	\$ 13,902
Purchase	42,695	188,836	136,812	3,426	61,172	9,102
Business combinations	3,463	3,106	84	282	—	—
Disposals	(78,115)	(3,915)	(3,925)	(81,880)	(809)	(1,073)
Depreciation	(32,605)	(138,846)	(36,295)	—	—	(4,376)
Transfer of accounts	2,268	32,181	3,548	696	(40,427)	—
Classification of assets as held for sale	(1,393)	(30,459)	(27,080)	(0)	(4,348)	—
Others	508	(2,804)	18	(169)	(404)	—
As of March 31, 2018	\$ 300,376	\$ 507,718	\$ 283,951	\$ 30,685	\$ 26,317	\$ 17,554

Acquisition Costs

	Millions of Yen					
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others
As of April 1, 2016	¥ 51,851	¥ 79,056	¥ 31,442	¥ 16,888	¥ 4,905	¥ 1,077
As of March 31, 2017	51,659	91,715	36,685	11,510	1,185	1,899
As of March 31, 2018	44,038	101,529	42,624	3,260	2,796	2,720

	Thousands of U.S. Dollars					
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others
As of March 31, 2018	\$ 414,514	\$ 955,657	\$ 401,204	\$ 30,685	\$ 26,317	\$ 25,602

Accumulated Depreciation and Impairment Losses

	Millions of Yen					
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others
As of April 1, 2016	¥ (16,616)	¥ (35,021)	¥ (12,325)	—	—	¥ (125)
As of March 31, 2017	(13,036)	(42,884)	(14,290)	—	—	(422)
As of March 31, 2018	(12,126)	(47,589)	(12,456)	—	—	(855)
	Thousands of U.S. Dollars					
	Buildings and Structures	Furniture and Fixtures	Machinery and Equipment	Land	Construction in Progress	Others
As of March 31, 2018	\$ (114,137)	\$ (447,938)	\$ (117,243)	—	—	\$ (8,047)

12. 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				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of April 1, 2016	¥ 156,362	¥ 30,250	¥ 32,829	¥ 60,755	¥ 4,876
Purchase	—	—	8,625	1,837	4,467
Internal development	—	—	12,509	—	—
Business combinations	3,143	—	663	—	268
Disposals	—	—	(1,017)	—	—
Amortization	—	—	(10,416)	(6,033)	(872)
Others	—	—	(47)	—	(2)
As of March 31, 2017	159,505	30,250	43,146	56,559	8,737
Purchase	—	—	15,288	—	7,924
Internal development	—	—	20,859	—	—
Business combinations	2,509	—	6,151	2,690	28
Disposals	—	—	(1,826)	—	(103)
Amortization	—	—	(13,812)	(6,162)	(1,503)
Classification of assets as held for sale	—	—	(1,106)	—	(0)
Others	—	—	25	—	(33)
As of March 31, 2018	¥ 162,015	¥ 30,250	¥ 68,725	¥ 53,087	¥ 15,049

	Thousands of U.S. Dollars				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of March 31, 2017	\$ 1,501,364	\$ 284,732	\$ 406,118	\$ 532,370	\$ 82,238
Purchase	—	—	143,900	—	74,585
Internal development	—	—	196,338	—	—
Business combinations	23,616	—	57,897	25,320	263
Disposals	—	—	(17,187)	—	(969)
Amortization	—	—	(130,007)	(58,000)	(14,147)
Classification of assets as held for sale	—	—	(10,410)	—	(0)
Others	—	—	235	—	(310)
As of March 31, 2018	\$ 1,524,990	\$ 284,732	\$ 646,884	\$ 499,689	\$ 141,650

Acquisition Costs

	Millions of Yen				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of April 1, 2016	¥ 156,362	¥ 30,250	¥ 70,190	¥ 66,040	¥ 5,798
As of March 31, 2017	159,505	30,250	90,613	67,877	10,553
As of March 31, 2018	162,015	30,250	144,097	70,567	18,395

	Thousands of U.S. Dollars				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of March 31, 2018	\$ 1,524,990	\$ 284,732	\$ 1,356,334	\$ 664,222	\$ 173,145

Accumulated Amortization and Impairment Losses

	Millions of Yen				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of April 1, 2016	—	—	¥ (37,360)	¥ (5,284)	¥ (922)
As of March 31, 2017	—	—	(47,467)	(11,317)	(1,816)
As of March 31, 2018	—	—	(75,372)	(17,479)	(3,345)

	Thousands of U.S. Dollars				
	Goodwill	Intangible Assets with Indefinite Useful Lives	Intangible Assets with Definite Useful Lives		
		Trademarks	Software	Customer Relationships	Others
As of March 31, 2018	—	—	\$ (709,450)	\$ (164,523)	\$ (31,485)

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, 2018 and 2017 were ¥697 million (\$6,560 thousand) and ¥389 million, respectively.

The carrying amounts of internally-generated intangible assets related to software as of March 31, 2018 and 2017 are ¥32,711 million (\$307,897 thousand) and ¥22,013 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,
		2018	2017	2018
Cash-Generating Unit				
Reportable segment:				
Media business	Marketing solutions	¥ 10,904	¥ 10,904	\$ 102,635
Commerce business	Shopping	60,180	58,327	566,453
	Ikyu	72,044	72,044	678,125
	Settlement- and finance-related	16,437	16,437	154,715
	Others	2,447	1,791	23,032
Total		¥ 162,015	¥ 159,505	\$ 1,524,990

Intangible Assets with Indefinite Useful Lives

		Millions of Yen		Thousands of U.S. Dollars
		As of March 31		As of March 31,
		2018	2017	2018
Cash-Generating Unit				
Reportable segment:				
Commerce business	Shopping	¥ 20,130	¥ 20,130	\$ 189,476
	Ikyu	10,120	10,120	95,256
Total		¥ 30,250	¥ 30,250	\$ 284,732

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, 2018 and 2017 were 0.6% and 1.7%, respectively. The pretax discount rates used in measurement of value in use for the years ended March 31, 2018 and 2017 were 7.0%–12.3% and 7.9%–13.1%, respectively.

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.

13. DISCLOSURE OF INTERESTS IN OTHER ENTITIES

(1) Subsidiaries

The Company's major subsidiaries as of March 31, 2018 and 2017 are as follows:

Name of Subsidiary	Location	Ownership Percentage of Voting Rights (%)	
		As of March 31 2018	2017
GYAO Corporation	Tokyo	75.5	66.7
ValueCommerce Co., Ltd.	Tokyo	52.1	52.3
YJFX, Inc.	Tokyo	100.0	100.0
YJ Card Corporation	Fukuoka	65.0	65.0
ASKUL Corporation (Note 1)	Tokyo	45.2	45.3
Ikyu Corporation	Tokyo	100.0	100.0
eBOOK Initiative Japan Co., Ltd. (Note 2)	Tokyo	44.0	44.3
The Japan Net Bank, Limited (Note 3)	Tokyo	41.2	41.2

Notes:

1. The Company does not have a majority of the voting rights; however, the Company determined that it 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.
2. 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.
3. The Company does not have a majority of the voting rights of JNB, which remains the same at the same percentage (41.2%) as at March 31, 2017; however, the Company determined that it has the practical ability to direct the relevant activities unilaterally and therefore has control over JNB and accounts for JNB as a subsidiary because the Company's officers and employees occupy the majority of JNB's directors through the resolution in the extraordinary meeting of the shareholders of JNB held on February 1, 2018. (Please refer to "Note 5. Business combinations.")

(2) **Summarized Consolidated Financial Information and Other Information on Subsidiaries with Significant Non-controlling Interests***ASKUL Group (ASKUL and its group companies)*

## (a) General information

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2018	2017	2018
Proportion of ownership interests held by the non-controlling interests (%)	54.8	54.7	
Accumulated non-controlling interests of ASKUL	¥ 51,058	¥ 47,656	\$ 480,591
	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
Profit (loss) allocated to the non-controlling interests of ASKUL	¥ 4,237	¥ (3,695)	\$ 39,881

## (b) Summarized consolidated financial information

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2018	2017	2018
Assets	¥ 237,174	¥ 212,362	\$ 2,232,435
Liabilities	145,544	126,498	1,369,954
Equity	91,629	85,863	862,471
	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
Revenue	¥ 351,085	¥ 334,812	\$ 3,304,640
Profit (loss) for the year	7,324	(7,375)	68,938
Comprehensive income (loss)	7,327	(7,350)	68,966

Note: Dividends paid by ASKUL to the non-controlling interests for the years ended March 31, 2018 and 2017 were ¥1,003 million (\$9,440 thousand) and ¥1,031 million, respectively.

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
Cash flows from operating activities—net	¥ 11,675	¥ 10,339	\$ 109,892
Cash flows from investing activities—net	(3,948)	(3,428)	(37,161)
Cash flows from financing activities—net	(3,525)	6,522	(33,179)
Effects of exchange rate changes on cash and cash equivalents	(3)	5	(28)
Net increase in cash and cash equivalents	¥ 4,198	¥ 13,439	\$ 39,514

*JNB*

## (a) General information

	As of March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Proportion of ownership interests held by the non-controlling interests (%)	58.8	
Accumulated non-controlling interests of JNB	¥ 37,690	\$ 354,762

	Year Ended March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Profit allocated to the non-controlling interests of JNB	¥ 124	\$ 1,167

## (b) Summarized consolidated financial information

	As of March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Assets	¥ 834,799	\$ 7,857,671
Liabilities	770,743	7,254,734
Equity	64,056	602,936
	Year Ended March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Revenue	¥ 3,690	\$ 34,732
Profit for the year	210	1,976
Comprehensive loss	(16)	(150)

Note: The figures for the year ended March 31, 2018 in the above table are revenue, profit for the year, and total comprehensive income earned on and after the acquisition date.

	Year Ended March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Cash flows from operating activities—net	¥ (7,332)	\$ (69,013)
Cash flows from investing activities—net	(31,180)	(293,486)
Cash flows from financing activities—net	—	—
Effects of exchange rate changes on cash and cash equivalents	(21)	(197)
Net decrease in cash and cash equivalents	¥ (38,534)	\$ (362,707)

Note: The figures for the year ended March 31, 2018 in the above table are cash flows of JNB 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, 2018	As of March 31, 2017	As of March 31, 2018
	2018	2017	2018
Carrying amount	¥ 10,865	¥ 37,748	\$ 102,268

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, 2018	Year Ended March 31, 2017	Year Ended March 31, 2018
	2018	2017	2018
Profit for the year attributable to the Group	¥ 1,045	¥ 947	\$ 9,836
Other comprehensive loss, net of tax, attributable to the Group	(0)	(905)	(0)
Comprehensive income attributable to the Group	1,044	42	9,826

(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, 2018	As of March 31, 2017	As of March 31, 2018
	2018	2017	2018
Other financial assets	¥ 10,040	¥ 8,327	\$ 94,503

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

14. INCOME TAXES

(1) Deferred Taxes

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

As of March 31, 2018

	Millions of Yen			
	As of April 1, 2017	Recognized in Profit for the Year	Recognized in Other Comprehensive Income	Others
Deferred tax assets:				
Enterprise tax payable	¥ 1,462	¥ 24	—	¥ 4
Property and equipment and intangible assets	11,814	(2,253)	—	(18)
Net operating loss carryforwards	7,627	3,085	—	(15)
Liabilities related to employee benefits (Note)	4,255	1,435	—	64
Allowance for doubtful receivables	1,848	891	—	33
Provision for interest repayment claims	5,799	(977)	—	—
Others	8,746	1,538	—	(236)
Total deferred tax assets before offset	41,554	3,743	—	(168)
Offset of deferred tax assets and liabilities	(17,043)			
Total deferred tax assets, net	¥ 24,511			
Deferred tax liabilities:				
Property and equipment and intangible assets	¥ 28,604	¥ (2,990)	—	¥ 1,530
Available-for-sale financial assets	6,599	—	¥ 1,197	122
Others	3,652	1,682	—	—
Total deferred tax liabilities before offset	38,855	(1,307)	1,197	1,653
Offset of deferred tax assets and liabilities	(17,043)			
Total deferred tax liabilities, net	¥ 21,812			

	Thousands of U.S. Dollars				
	As of April 1, 2017	Recognized in Profit for the Year	Recognized in Other Comprehensive Income	Others	As of March 31, 2018
Deferred tax assets:					
Enterprise tax payable	\$ 13,761	\$ 225	—	\$ 37	\$ 14,024
Property and equipment and intangible assets	111,201	(21,206)	—	(169)	89,815
Net operating loss carryforwards	71,790	29,038	—	(141)	100,687
Liabilities related to employee benefits (Note)	40,050	13,507	—	602	54,169
Allowance for doubtful receivables	17,394	8,386	—	310	26,101
Provision for interest repayment claims	54,583	(9,196)	—	—	45,387
Others	82,323	14,476	—	(2,221)	94,578
Total deferred tax assets before offset	391,133	35,231	—	(1,581)	424,783
Offset of deferred tax assets and liabilities	(160,419)				(164,175)
Total deferred tax assets, net	<u>\$ 230,713</u>				<u>\$ 260,598</u>
Deferred tax liabilities:					
Property and equipment and intangible assets	\$ 269,239	\$ (28,143)	—	\$ 14,401	\$ 255,506
Available-for-sale financial assets	62,114	—	\$ 11,266	1,148	74,538
Others	34,375	15,832	—	—	50,216
Total deferred tax liabilities before offset	365,728	(12,302)	11,266	15,559	380,261
Offset of deferred tax assets and liabilities	(160,419)				(164,175)
Total deferred tax liabilities, net	<u>\$ 205,308</u>				<u>\$ 216,076</u>

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

As of March 31, 2017

	Millions of Yen				
	As of April 1, 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
Allowance for doubtful receivables	1,304	543	—	0	1,848
Provision for interest repayment claims	6,968	(1,168)	—	—	5,799
Others	6,737	1,985	—	23	8,746
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

Note: 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, 2018 and 2017 are ¥12,687 million (\$119,418 thousand) and ¥10,769 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 2018	2017	As of March 31, 2018
Deductible temporary differences	¥ 2,539	¥ 1,504	\$ 23,898
Net operating tax loss carryforwards which expire:			
Within one year	—	—	—
In one year to five years	¥ 284	¥ 1,026	\$ 2,673
After five years	2,148	1,343	20,218
Total	<u>¥ 2,432</u>	<u>¥ 2,369</u>	<u>\$ 22,891</u>

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, 2018 and 2017 are ¥37,817 million (\$355,958 thousand) and ¥35,500 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 2018	2017	Year Ended March 31, 2018
Current tax expense	¥ 63,815	¥ 68,558	\$ 600,668
Deferred tax expense	(5,050)	(7,716)	(47,533)
Total	<u>¥ 58,764</u>	<u>¥ 60,841</u>	<u>\$ 553,125</u>

The statutory effective tax rate for each of the years ended March 31, 2018 and 2017 was 31.69%. The actual tax rates for the years ended March 31, 2018 and 2017 were 30.42% and 31.45%, respectively. The actual tax rate represents the ratio of income tax expense to profit before tax.

15. ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On March 20, 2018, the Company entered into a sales and purchase agreement with Softbank Group Corp. to transfer all of its shares held in its subsidiary, IDC Frontier Inc. ("IDC"), after transferring certain Company assets in the data center business and the cloud business to IDC. As a result, assets and liabilities of IDC have been reclassified to a disposal group classified as held for sale. IDC's assets are measured at their carrying amounts because their fair values less costs to sell (scheduled sales price) exceed their carrying amounts.

## Financial Section

On May 1, 2018, the Group sold all of its shares held in IDC to Softbank Group Corp. and no longer accounted for IDC as a subsidiary.

Assets classified as held for sale are as follows:

	As of March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 3,484	\$ 32,793
Trade and other receivables	1,958	18,429
Property and equipment	6,726	63,309
Others	2,801	26,364
Total	<u>¥ 14,970</u>	<u>\$ 140,907</u>

Liabilities directly attributable to assets classified as held for sale are as follows:

	As of March 31, 2018	
	Millions of Yen	Thousands of U.S. Dollars
Trade and other receivables	¥ 745	\$ 7,012
Provisions	649	6,108
Others	1,819	17,121
Total	<u>¥ 3,214</u>	<u>\$ 30,252</u>

## 16. 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, 2018	As of March 31, 2017	
Foreign exchange dealings deposits from customers	¥ 116,537	¥ 94,730	\$ 1,096,922
Other payables	99,316	83,007	934,826
Trade payables	76,915	72,200	723,974
Others	55,577	38,040	523,126
Total	<u>¥ 348,346</u>	<u>¥ 287,978</u>	<u>\$ 3,278,859</u>

## 17. CUSTOMER DEPOSITS IN BANKING BUSINESS

The components of customer deposits in banking business are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2018	As of March 31, 2017	
Savings deposits	¥ 573,572	—	\$ 5,398,832
Time deposits	134,482	—	1,265,832
Total	<u>¥ 708,054</u>	<u>—</u>	<u>\$ 6,664,664</u>

## 18. 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, 2018	As of March 31, 2017			
Bank loans	¥ 69,782	¥ 64,019	\$ 656,833	0.32	From April 2018 to September 2026
Bonds (Note)	105,050	35,100	988,798	0.25	From October 2018 to December 2027
Others	15,741	5,427	148,164	—	—
Total	<u>¥ 190,574</u>	<u>¥ 104,546</u>	<u>\$ 1,793,806</u>		

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, 2018	As of March 31, 2018	As of March 31, 2018	As of March 31, 2018
The Company:					
1st Series Unsecured Bonds	February 28, 2017	¥ 5,000	\$ 47,063	0.04	February 28, 2020
2nd Series Unsecured Bonds	February 28, 2017	15,000	141,189	0.17	February 28, 2022
3rd Series Unsecured Bonds	February 28, 2017	15,000	141,189	0.37	February 28, 2024
4th Series Unsecured Bonds	December 7, 2017	10,000	94,126	0.07	December 7, 2020
5th Series Unsecured Bonds	December 7, 2017	25,000	235,316	0.2	December 7, 2022
6th Series Unsecured Bonds	December 7, 2017	25,000	235,316	0.35	December 6, 2024
7th Series Unsecured Bonds	December 7, 2017	10,000	94,126	0.4	December 7, 2027
Other (Note)	October 30, 2015	50	470	0.26	October 31, 2018
Total		<u>¥ 105,050</u>	<u>\$ 988,798</u>		

Note: This figure includes ¥50 million (\$470 thousand) of current portion of bonds as of March 31, 2018.

**19. PROVISIONS**

The components of provisions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of		As of
	2018	2017	March 31, 2018
Provision for interest repayment claims (Notes 1 and 2)	¥ 14,054	¥ 16,889	\$ 132,285
Asset retirement obligations (Note 1)	7,587	6,883	71,413
Others (Notes 1 and 3)	9,010	6,955	84,807
Total	<u>¥ 30,652</u>	<u>¥ 30,729</u>	<u>\$ 288,516</u>

Notes:

1. Additional information on the nature of the provisions included in the table above is provided in "Note 3. Significant accounting policies."
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, 2017	¥ 16,889	¥ 6,883	¥ 6,955	¥ 30,729
Recognition of provisions	—	1,452	9,488	10,941
Business combinations	—	74	120	194
Used	(2,835)	(63)	(1,166)	(4,065)
Others	—	(759)	(6,387)	(7,147)
As of March 31, 2018	<u>¥ 14,054</u>	<u>¥ 7,587</u>	<u>¥ 9,010</u>	<u>¥ 30,652</u>

	Thousands of U.S. Dollars			
	Provision for Interest Repayment Claims	Asset Retirement Obligations	Others	Total
As of April 1, 2017	\$ 158,970	\$ 64,787	\$ 65,464	\$ 289,241
Recognition of provisions	—	13,667	89,307	102,983
Business combinations	—	696	1,129	1,826
Used	(26,684)	(592)	(10,975)	(38,262)
Others	—	(7,144)	(60,118)	(67,272)
As of March 31, 2018	<u>\$ 132,285</u>	<u>\$ 71,413</u>	<u>\$ 84,807</u>	<u>\$ 288,516</u>

**20. PURCHASE COMMITMENTS**

Commitments to purchase property and equipment and intangible assets as of March 31, 2018 and 2017 are ¥8,523 million (\$80,224 thousand) and ¥15,061 million, respectively. The commitments are mainly attributable to executory contracts of purchase of assets to be used in data centers.

**21. OTHER LIABILITIES**

The components of other liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of		As of
	2018	2017	March 31, 2018
Advance received	¥ 12,504	¥ 12,839	\$ 117,695
Accrued bonuses	10,107	5,616	95,133
Accrued expenses	8,974	5,835	84,469
Accrued paid absences	7,552	6,819	71,084
Consumption taxes payable	4,933	5,742	46,432
Others	12,746	13,032	119,973
Total	<u>¥ 56,818</u>	<u>¥ 49,885</u>	<u>\$ 534,807</u>

**22. 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		Year Ended
	2018	2017	March 31, 2018
Contributions to defined contribution pension plans	¥ 1,049	¥ 924	\$ 9,873

## 23. 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, 2018 and 2017 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31		As of March 31,
	2018	2017	2018
Software	¥ 127	¥ 225	\$ 1,195
Machinery and equipment	14,720	4,481	138,554
Furniture and fixtures	296	384	2,786
Total	<u>¥ 15,144</u>	<u>¥ 5,091</u>	<u>\$ 142,545</u>

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	
	2018	2017	2018	2017
Not later than one year	¥ 2,111	¥ 930	¥ 1,887	¥ 872
Later than one year and not later than five years	7,349	2,565	6,706	2,431
Later than five years	<u>7,401</u>	<u>2,162</u>	<u>7,142</u>	<u>2,123</u>
Total	16,862	5,658	<u>¥ 15,735</u>	<u>¥ 5,427</u>
Less: Future finance costs	<u>(1,127)</u>	<u>(230)</u>		
Present value of the total of future minimum lease payments	<u>¥ 15,735</u>	<u>¥ 5,427</u>		

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, 2018	As of March 31, 2018
Not later than one year	\$ 19,870	\$ 17,761
Later than one year and not later than five years	69,173	63,121
Later than five years	<u>69,663</u>	<u>67,225</u>
Total	158,716	<u>\$ 148,108</u>
Less: Future finance costs	<u>(10,608)</u>	
Present value of the total of future minimum lease payments	<u>\$ 148,108</u>	

(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, 2018 and 2017 were ¥21,426 million (\$201,675 thousand) and ¥18,303 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,
	2018	2017	2018
Not later than one year	¥ 16,991	¥ 11,379	\$ 159,930
Later than one year and not later than five years	58,892	44,653	554,329
Later than five years	<u>22,637</u>	<u>6,918</u>	<u>213,074</u>
Total	<u>¥ 98,521</u>	<u>¥ 62,951</u>	<u>\$ 927,343</u>

Total future minimum lease payments as of March 31, 2018 include sale and leaseback transactions entered into at ASKUL Logi PARK Tokyo Metropolitan and ASKUL Logi PARK Fukuoka on November 9, 2017.

## 24. CURRENT/NON-CURRENT DISTINCTION

*As of March 31, 2018*

	Millions of Yen		
	Expected Period to Recover or Settle		Total
	No More than 12 Months	More than 12 Months	
Assets:			
Cash and cash equivalents	¥ 868,325	—	¥ 868,325
Call loans in banking business	78,000	—	78,000
Trade and other receivables	297,050	—	297,050
Inventories	17,685	—	17,685
Loans in credit card business	129,071	¥ 57,640	186,711
Investment securities in banking business	47,701	260,735	308,436
Loans in banking business	9,946	66,130	76,077
Other financial assets	34,165	129,214	163,380
Property and equipment	—	123,943	123,943
Goodwill	—	162,015	162,015
Intangible assets	—	167,112	167,112
Investments accounted for using the equity method	—	10,865	10,865
Deferred tax assets	—	27,686	27,686
Other assets	10,277	4,095	14,373
Assets classified as held for sale	14,970	—	14,970
Total assets	¥ 1,507,194	¥ 1,009,439	¥ 2,516,633
Liabilities:			
Trade and other payables	¥ 348,346	—	¥ 348,346
Customer deposits in banking business	683,833	¥ 24,220	708,054
Interest-bearing liabilities	43,539	147,035	190,574
Other financial liabilities	4,329	704	5,034
Income taxes payable	29,094	—	29,094
Provisions	11,635	19,017	30,652
Deferred tax liabilities	—	22,956	22,956
Other liabilities	48,522	8,296	56,818
Liabilities directly attributable to assets classified as held for sale	3,214	—	3,214
Total liabilities	¥ 1,172,515	¥ 222,230	¥ 1,394,746

	Thousands of U.S. Dollars		
	Expected Period to Recover or Settle		Total
	No More than 12 Months	More than 12 Months	
Assets:			
Cash and cash equivalents	\$ 8,173,239	—	\$ 8,173,239
Call loans in banking business	734,186	—	734,186
Trade and other receivables	2,796,027	—	2,796,027
Inventories	166,462	—	166,462
Loans in credit card business	1,214,900	\$ 542,545	1,757,445
Investment securities in banking business	448,992	2,454,207	2,903,200
Loans in banking business	93,618	622,458	716,086
Other financial assets	321,583	1,216,246	1,537,838
Property and equipment	—	1,166,632	1,166,632
Goodwill	—	1,524,990	1,524,990
Intangible assets	—	1,572,966	1,572,966
Investments accounted for using the equity method	—	102,268	102,268
Deferred tax assets	—	260,598	260,598
Other assets	96,733	38,544	135,288
Assets classified as held for sale	140,907	—	140,907
Total assets	\$ 14,186,690	\$ 9,501,496	\$ 23,688,187
Liabilities:			
Trade and other payables	\$ 3,278,859	—	\$ 3,278,859
Customer deposits in banking business	6,436,681	\$ 227,974	6,664,664
Interest-bearing liabilities	409,817	1,383,989	1,793,806
Other financial liabilities	40,747	6,626	47,383
Income taxes payable	273,851	—	273,851
Provisions	109,516	179,000	288,516
Deferred tax liabilities	—	216,076	216,076
Other liabilities	456,720	78,087	534,807
Liabilities directly attributable to assets classified as held for sale	30,252	—	30,252
Total liabilities	\$ 11,036,474	\$ 2,091,773	\$ 13,128,256

As of March 31, 2017

	Millions of Yen		
	Expected Period to		Total
	No More than	More than	
	12 Months	12 Months	
Assets:			
Cash and cash equivalents	¥ 543,067	—	¥ 543,067
Trade and other receivables	251,239	—	251,239
Inventories	14,352	—	14,352
Loans in credit card business	93,091	¥ 36,557	129,648
Other financial assets	21,712	79,965	101,678
Property and equipment	—	124,021	124,021
Goodwill	—	159,505	159,505
Intangible assets	—	138,692	138,692
Investments accounted for using the equity method	—	37,748	37,748
Deferred tax assets	—	24,511	24,511
Other assets	6,798	2,948	9,746
Total assets	¥ 930,261	¥ 603,950	¥ 1,534,212
Liabilities:			
Trade and other payables	¥ 287,978	—	¥ 287,978
Interest-bearing liabilities	36,889	¥ 67,657	104,546
Other financial liabilities	3,631	427	4,058
Income taxes payable	36,490	—	36,490
Provisions	9,790	20,938	30,729
Deferred tax liabilities	—	21,812	21,812
Other liabilities	41,387	8,498	49,885
Total liabilities	¥ 416,168	¥ 119,334	¥ 535,502

25. EQUITY

(1) Common Stock and Treasury Stock

Numbers of authorized shares and issued shares are as follows:

	Year Ended March 31	
	2018	2017
Authorized shares—Common stock	24,160,000,000	24,160,000,000
Issued shares:		
Balance at the beginning of the year	5,695,577,600	5,695,291,400
Increase (Note)	1,288,700	286,200
Decrease	—	—
Balance at the end of the year	5,696,866,300	5,695,577,600

Note: For the year ended March 31, 2018

This item represents the exercise of share subscription rights and issue of shares with restriction on transfer.

For the year ended March 31, 2017

This item represents the exercise of share subscription rights.

The number of treasury stock included in issued shares as of March 31, 2018 and 2017 was 2,818,585 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.

26. DIVIDENDS

The total amount of dividends was as follows:

Resolution	Millions of Yen Total Dividends	Thousands of U.S. Dollars Total Dividends	Yen Dividends per Share	U.S. Dollars Dividends per Share	Record Date	Effective Date
Year Ended March 31, 2018						
Board of Directors meeting held on May 19, 2017	¥ 50,438	\$ 474,755	¥ 8.86	\$ 0.08	March 31, 2017	June 6, 2017
Year Ended March 31, 2017						
Board of Directors meeting held on May 18, 2016	¥ 50,435		¥ 8.86		March 31, 2016	June 7, 2016

Dividends to become effective during the year ending March 31, 2019 are as follows:

Resolution	Millions of Yen Total Dividends	Thousands of U.S. Dollars Total Dividends	Yen Dividends per Share	U.S. Dollars Dividends per Share	Record Date	Effective Date (Note)
Board of Directors meeting held on April 27, 2018	¥ 50,449	\$ 474,858	¥ 8.86	\$ 0.08	March 31, 2018	June 26, 2018

Note: On May 31, 2018, the Board of Directors resolved to change the effective date of dividends from June 5, 2018 to June 26, 2018.

27. 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, 2018 and 2017 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 year ended March 31, 2018 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
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) 2nd (Note 2)	From May 16, 2012 to March 1, 2013	From May 2, 2022 to February 28, 2023
2013 1st (Note 3) 2nd (Note 4)	From May 17, 2013 to November 19, 2013	From May 16, 2023 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 shares vests after two years from the grant date, and one-fourth vests per year in the subsequent two years. Vesting requires continuous service from the grant date to the vesting date. When the holder of vested share options retires, those vested share options are forfeited.

2. 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 March 31, 2016	Unexercised	63,973,500	¥429
	Granted	—	—
	Forfeited	(2,088,700)	¥445
	Exercised	(286,200)	¥347
	Matured	(343,300)	¥471
Balance at March 31, 2017	Unexercised	61,255,300	¥429
	Granted	—	—
	Forfeited	(4,500,400)	¥430 (\$4.05)
	Exercised	(483,700)	¥341 (\$3.21)
	Matured	(284,100)	¥438 (\$4.12)
Balance at March 31, 2018	Unexercised	55,987,100	¥430 (\$4.05)
		Number of Shares	Weighted Average Exercise Price (Yen) (U.S. Dollars)
Balance at March 31, 2017	Exercisable	2,899,300	¥346
Balance at March 31, 2018	Exercisable	1,997,100	¥334 (\$3.14)

The unexercised share options as of March 31, 2018, 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	639,800	¥271 (\$2.55)	3.3
301–400	22,816,500	¥324 (\$3.05)	4.8
401–500	9,868,000	¥489 (\$4.60)	5.1
501–600	22,662,800	¥514 (\$4.84)	5.6
Total	55,987,100	¥430 (\$4.05)	5.2

(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					
2018			2017		
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	—	—	2006	31,600	¥491
2007	139,500	¥499 (\$4.70)	2007	51,200	¥525
2008	58,700	¥515 (\$4.85)	2008	22,900	¥505
2009	50,500	¥505 (\$4.75)	2009	37,300	¥510
2010	70,700	¥504 (\$4.74)	2010	58,000	¥521
2011	94,800	¥508 (\$4.78)	2011	69,100	¥501
2012	69,500	¥521 (\$4.90)	2012	16,100	¥501

28. 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

4) *JNB*

In accordance with the requirements of capital adequacy ratio as prescribed in the Banking Act and the Notification issued by Financial Services Agency in Japan, JNB is required to maintain its capital adequacy ratio of at least 4.0% as a bank that does not have overseas locations.

No revision was made to applicable laws that have a significant impact on the capital requirements for the years ended March 31, 2018 and 2017.

(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.

As an online only bank, the banking subsidiary raises funds mainly from customer deposits and manages the funds by investing in loans, securities, and others. Because the banking subsidiary holds financial assets and financial liabilities that are subject to the risk of interest rate fluctuations, the subsidiary conducts asset-liability management ("ALM") to protect itself from the negative effects of the interest rate fluctuations. As a part of such activities, the Group utilizes derivative transactions.

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,
	2018	2017	2018
(Decrease) increase in profit before tax	¥ (65)	¥ 6	\$ (611)
Decrease in other comprehensive income before tax effect	(86)	(100)	(809)

(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,
	2018	2017	2018
Decrease in other comprehensive income before tax effect	¥ 3,445	¥ 2,143	\$ 32,426

(c) *Interest Rate Risk (except the Banking Subsidiary)*

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,
	2018	2017	2018
Decrease in profit before tax	¥ 388	¥ 337	\$ 3,652
Decrease in other comprehensive income before tax effect	724	597	6,814

(d) Interest Rate Risk Management by the Banking Subsidiary

The banking subsidiary identifies assets and liabilities from the portfolio that are subject to interest rate risk management and sets the allowable risk limits of present value fluctuations, monitoring the limits daily. The banking subsidiary also periodically analyzes present value fluctuations arising from shifts of the yield curve (flattening or steepening) and monitors the effects of such changes on assets and liabilities. In monitoring such risks, the business units are separated into a front-office department, middle-office department, and back-office department, and monitored by the Risk Management Department, which is independent of the business units. The results of monitoring are reported internally on a daily basis, and periodically at ALM Committee meetings and Board of Directors meetings to ensure the appropriate independent checks have taken place.

The principal financial assets, financial liabilities, and derivative transactions in the banking business that are subject to the major risk parameters of interest rate risks are loans and investment securities, customer deposits, and bond futures transactions and interest rate futures transactions.

The banking subsidiary calculates BPV (basis point value: denotes the change in value of a financial instrument resulting from a 0.01 percentage-point change in the yield) as the change in the present value of the portfolio due to interest rate fluctuations to perform a quantitative analysis to manage interest rate risk. In calculating BPV, the corresponding financial instruments are categorized by type of the instrument, and then each instrument is allocated to an appropriate cash flow, based on its maturity, with a fluctuation range of the interest rate for the period set forth by the banking subsidiary.

Based on the assumption that all risk variables except interest rate risks are consistent, and that all interest rate indices increased by 1 basis point (0.01%), net fair value of the financial instruments as of March 31, 2018 would decrease by ¥96 million (\$903 thousand) on a pre-tax basis. If the interest rate decreased by 1 basis point (0.01%), based on the same assumptions, net fair value would increase by ¥96 million (\$903 thousand) on a pre-tax basis. The change in net fair value presumes that risk variables except interest rate risks are consistent and disregards the correlation between interest rates and other risk variables.

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 the credit risk of counterparties. Loans in the credit card business include individual loans that are exposed to the credit risk of individual customers. Investment securities in banking business include domestic bonds, foreign bonds, and trust beneficiary rights. Such bonds are exposed to the credit risk of issuers, whereas trust beneficiary rights are exposed to the credit risk of underlying assets. Loans in the banking business include individual loans that are exposed to credit risk of individual customers. To manage the credit risk of such financial instruments, which is mainly from counterparties in Japan, the Group 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.

All non-business individual loans in the banking business are guaranteed by guarantee companies.

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 41. Contingencies."

Trade and other receivables include security deposits received as credit enhancements. Such deposits as of March 31, 2018 and 2017 were ¥1,356 million (\$12,763 thousand) and ¥1,257 million, respectively. Non-business individual loans in the banking business are guaranteed for credit enhancements. The guaranteed amount as of March 31, 2018 was ¥72,506 million (\$682,473 thousand).

Foreign exchange dealings deposits from customers include security deposits received from customers. Such deposits as of March 31, 2018 and 2017 were ¥116,537 million (\$1,096,922 thousand) and ¥94,730 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 highly liquid 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.

The banking subsidiary's funds are managed with an emphasis on financing capabilities in emergencies and a preference for investment in bonds with high liquidity. As to fund raising, in order to prevent excessive dependence on short-term finances, the banking subsidiary sets limits on short-term cash requirements and monitors the observance of such limits on a daily basis. The banking subsidiary also monitors the balances of assets that can be converted into cash to respond to emergency cash requirements, such as large outflows of customer deposits.

Maturities of financial liabilities are as follows:

As of March 31, 2018

	Millions of Yen							5 Years and Thereafter
	Carrying Amount	Contractual Cash Flow	Within a Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	
Non-derivative financial liabilities:								
Trade and other payables	¥ 348,346	¥ 348,346	¥ 348,346	—	—	—	—	—
Customer deposits in banking business	708,054	708,290	683,846	¥ 6,326	¥ 5,445	¥ 3,253	¥ 3,331	¥ 6,085
Interest-bearing liabilities:								
Long-term bank loans	69,782	70,165	41,825	3,013	3,541	20,061	1,500	223
Bonds	105,050	106,688	317	5,265	10,258	15,233	25,183	50,430
Lease liabilities	15,741	16,868	2,114	1,929	1,894	1,806	1,723	7,401
Other financial liabilities	1,226	1,226	525	700	0	0	—	—
Derivative financial liabilities—								
Other financial liabilities	3,807	3,807	3,804	3	—	—	—	—
Off-balance items:								
Committed lines of cash advances	—	426,258	426,258	—	—	—	—	—
Credit guarantees	—	9,404	9,404	—	—	—	—	—

	Thousands of U.S. Dollars							5 Years and Thereafter
	Carrying Amount	Contractual Cash Flow	Within a Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	
Non-derivative financial liabilities:								
Trade and other payables	\$ 3,278,859	\$ 3,278,859	\$ 3,278,859	—	—	—	—	—
Customer deposits in banking business	6,664,664	6,666,886	6,436,803	\$ 59,544	\$ 51,251	\$ 30,619	\$ 31,353	\$ 57,275
Interest-bearing liabilities:								
Long-term bank loans	656,833	660,438	393,684	28,360	33,330	188,827	14,118	2,099
Bonds	988,798	1,004,216	2,983	49,557	96,554	143,382	237,038	474,679
Lease liabilities	148,164	158,772	19,898	18,157	17,827	16,999	16,217	69,663
Other financial liabilities	11,539	11,539	4,941	6,588	0	0	—	—
Derivative financial liabilities—								
Other financial liabilities	35,833	35,833	35,805	28	—	—	—	—
Off-balance items:								
Committed lines of cash advances	—	4,012,217	4,012,217	—	—	—	—	—
Credit guarantees	—	88,516	88,516	—	—	—	—	—

As of March 31, 2017

	Millions of Yen							5 Years and Thereafter
	Carrying Amount	Contractual Cash Flow	Within a Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	
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	—	—	—	—	—

Note: Financial liabilities payable on demand are included in "Within a Year." Customer deposits in banking business include ¥573,572 million (\$5,398,832 thousand) of demand deposits as of March 31, 2018.

(3) Categories of Financial Instruments

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

As of March 31, 2018

	Millions of Yen				
Financial Assets	Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	Held-to-Maturity Investments	Total
Call loans in banking business	—	—	¥ 78,000	—	¥ 78,000
Trade and other receivables	—	—	297,050	—	297,050
Loans in credit card business	—	—	186,711	—	186,711
Investment securities in banking business	—	¥ 268,423	—	¥ 40,013	308,436
Loans in banking business	—	—	76,077	—	76,077
Other financial assets	¥ 25,286	78,846	59,247	—	163,380
Total	¥ 25,286	¥ 347,270	¥ 697,087	¥ 40,013	¥ 1,109,656

Financial Liabilities	Millions of Yen		
	Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost	Total
Trade and other payables	—	¥ 348,346	¥ 348,346
Customer deposits in banking business	—	708,054	708,054
Interest-bearing liabilities	—	190,574	190,574
Other financial liabilities	¥ 3,807	1,226	5,034
Total	¥ 3,807	¥ 1,248,202	¥ 1,252,009

	Thousands of U.S. Dollars				
Financial Assets	Financial Assets at FVTPL	Available-for- Sale Financial Assets	Loans and Receivables	Held-to-Maturity Investments	Total
Call loans in banking business	—	—	\$ 734,186	—	\$ 734,186
Trade and other receivables	—	—	2,796,027	—	2,796,027
Loans in credit card business	—	—	1,757,445	—	1,757,445
Investment securities in banking business	—	\$ 2,526,571	—	\$ 376,628	2,903,200
Loans in banking business	—	—	716,086	—	716,086
Other financial assets	\$ 238,008	742,149	557,671	—	1,537,838
Total	\$ 238,008	\$ 3,268,731	\$ 6,561,436	\$ 376,628	\$ 10,444,804

Financial Liabilities	Thousands of U.S. Dollars		
	Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost	Total
Trade and other payables	—	\$ 3,278,859	\$ 3,278,859
Customer deposits in banking business	—	6,664,664	6,664,664
Interest-bearing liabilities	—	1,793,806	1,793,806
Other financial liabilities	\$ 35,833	11,539	47,383
Total	\$ 35,833	\$ 11,748,889	\$ 11,784,723

As of March 31, 2017

Financial Assets	Millions of Yen			Total
	Financial Assets at FVTPL	Available-for-Sale Financial Assets	Loans and Receivables	
Trade and other receivables	—	—	¥ 251,239	¥ 251,239
Loans in credit card business	—	—	129,648	129,648
Other financial assets	¥ 17,310	¥ 64,640	19,727	101,678
Total	¥ 17,310	¥ 64,640	¥ 400,615	¥ 482,566

Financial Liabilities	Millions of Yen			Total
	Financial Liabilities at FVTPL	Financial Liabilities at Amortized Cost		
Trade and other payables	—	¥ 287,978		¥ 287,978
Interest-bearing liabilities	—	104,546		104,546
Other financial liabilities	¥ 3,616	441		4,058
Total	¥ 3,616	¥ 392,967		¥ 396,584

## 29. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Financial instruments that are measured at fair value on a recurring basis after initial recognition are classified into three levels of the fair value hierarchy based on the observability and significance of inputs used for 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, 2018 and 2017.

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

As of March 31, 2018

	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 25,283	—	¥ 25,283
Others	—	—	¥ 2	2
Available-for-sale financial assets:				
Equity securities	¥ 24,926	—	31,145	56,072
Debt securities	6,704	230,173	3,942	240,820
Others	10,359	6,328	33,689	50,376
Total	¥ 41,990	¥ 261,785	¥ 68,779	¥ 372,556
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 3,804	—	¥ 3,804
Others	—	3	—	3
Total	—	¥ 3,807	—	¥ 3,807

	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL:				
Derivatives used in foreign exchange dealings	—	\$ 237,980	—	\$ 237,980
Others	—	—	\$ 18	18
Available-for-sale financial assets:				
Equity securities	\$ 234,619	—	293,157	527,786
Debt securities	63,102	2,166,538	37,104	2,266,754
Others	97,505	59,563	317,102	474,171
Total	\$ 395,237	\$ 2,464,090	\$ 647,392	\$ 3,506,739
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	\$ 35,805	—	\$ 35,805
Others	—	28	—	28
Total	—	\$ 35,833	—	\$ 35,833

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	<u>¥ 21,820</u>	<u>¥ 24,710</u>	<u>¥ 35,420</u>	<u>¥ 81,951</u>
Financial liabilities at FVTPL:				
Derivatives used in foreign exchange dealings	—	¥ 3,605	—	¥ 3,605
Others	—	11	—	11
Total	<u>—</u>	<u>¥ 3,616</u>	<u>—</u>	<u>¥ 3,616</u>

**(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 using prices based on available information, including reference trading statistics and brokers' quotes. The Group also utilizes 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 their 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:

	Valuation Techniques	Unobservable Inputs	Ranges of Unobservable Inputs	
			As of March 31	
			2018	2017
Available-for-sale financial assets (equity securities)	Discounted cash flow	Capital cost Perpetual growth rate	13.0% 1.8%	13.0% 1.6%

Perpetual growth rate has a positive correlation with the fair value of available-for-sale equity securities, whereas capital cost has a negative correlation. 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, 2018

	Millions of Yen			
	Financial Assets at FVTPL	Available-for-Sale Financial Assets		
		Equity Securities	Debt Securities	Other
As of April 1, 2017	¥ 306	¥ 25,139	¥ 1,032	¥ 8,942
Gains or losses:				
Profit for the year (Note 1)	(305)	(1,046)	—	265
Other comprehensive income (Note 2)	—	1,933	(5)	(109)
Business combinations (Note 3)	—	—	—	2,174
Purchases	1	5,154	3,610	24,646
Others (Note 4)	0	(35)	(694)	(2,229)
As of March 31, 2018	<u>¥ 2</u>	<u>¥ 31,145</u>	<u>¥ 3,942</u>	<u>¥ 33,689</u>

	Thousands of U.S. Dollars			
	Financial	Available-for-Sale		
	Assets at	Financial Assets		
	FVTPL	Equity	Debt	
	Other	Securities	Securities	Other
As of April 1, 2017	\$ 2,880	\$ 236,624	\$ 9,713	\$ 84,167
Gains or losses:				
Profit for the year (Note 1)	(2,870)	(9,845)	—	2,494
Other comprehensive income (Note 2)	—	18,194	(47)	(1,025)
Business combinations (Note 3)	—	—	—	20,463
Purchases	9	48,512	33,979	231,984
Others (Note 4)	0	(329)	(6,532)	(20,980)
As of March 31, 2018	<u>\$ 18</u>	<u>\$ 293,157</u>	<u>\$ 37,104</u>	<u>\$ 317,102</u>

Notes:

- 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.
- 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.
- Due mainly to JNB, a new subsidiary.
- Others mainly comprise of transfers between levels of fair value hierarchy due to inputs that became observable.

For the Year Ended March 31, 2017

	Millions of Yen			
	Financial	Available-for-Sale		
	Assets at	Financial Assets		
	FVTPL	Equity	Debt	
	Other	Securities	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	<u>¥ 306</u>	<u>¥ 25,139</u>	<u>¥ 1,032</u>	<u>¥ 8,942</u>

Notes:

- 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.
- 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) *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).

**30. 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 ¥7,499 million (\$70,585 thousand) and ¥7,497 million of such transferred assets in trade and other receivables as of March 31, 2018 and 2017, respectively. In addition, the Group recorded ¥7,499 million (\$70,585 thousand) and ¥7,499 million of other financial liabilities for the cash received at the time of transfer of the securitized assets as of March 31, 2018 and 2017, 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.

**31. REVENUE**

The components of revenue are as follows:

	Millions of Yen		Thousands of
	Year Ended		U.S. Dollars
	March 31	March 31	Year Ended
	2018	2017	March 31,
			2018
Services (Note)	¥ 557,672	¥ 531,472	\$ 5,249,171
Sale of goods	<u>339,512</u>	<u>322,258</u>	<u>3,195,707</u>
Total	<u>¥ 897,185</u>	<u>¥ 853,730</u>	<u>\$ 8,444,888</u>

Note: Services include ¥24,357 million (\$229,263 thousand) and ¥18,583 million of finance income for the years ended March 31, 2018 and 2017, respectively.

## Financial Section

**32. 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,
	2018	2017	2018
Cost of goods sold	¥ 264,997	¥ 254,559	\$ 2,494,324
Personnel expenses	89,556	77,596	842,959
Business commissions	74,273	72,111	699,105
Sales promotion costs	53,838	34,404	506,758
Depreciation and amortization	44,404	38,046	417,959
Information services	42,277	36,555	397,938
Sales commissions	26,727	27,233	251,571
Others	125,966	110,435	1,185,673
Total	<u>¥ 722,041</u>	<u>¥ 650,943</u>	<u>\$ 6,796,319</u>

**33. INSURANCE INCOME**

Insurance income represents the receipt of insurance proceeds for damages caused by a fire that occurred at a logistics center of ASKUL, namely, ASKUL Logi PARK Tokyo Metropolitan in February 2017. (Please refer to "Note 35. Disaster losses.")

**34. GAIN ON DEBT FORGIVENESS**

Gain on debt forgiveness represents a gain arising from forgiveness of obligations to pay damages caused by a fire that occurred at ASKUL Logi PARK Tokyo Metropolitan in February 2017. (Please refer to "Note 35. Disaster losses.")

**35. DISASTER LOSSES**

In February 2017, a fire occurred at ASKUL Logi PARK Tokyo Metropolitan. The fire inflicted damages to ASKUL's property and equipment and inventories resulting in a temporary shutdown of its operations. The loss from the fire consisted of ¥10,230 million of damage on property and equipment, ¥2,510 million of destroyed inventories, and ¥266 million of other costs.

**36. OTHER NON-OPERATING INCOME**

The components of other non-operating income are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
Gain on sale of investment securities	¥ 6,414	¥ 1,934	\$ 60,372
Others	<u>2,697</u>	<u>655</u>	<u>25,385</u>
Total	<u>¥ 9,112</u>	<u>¥ 2,590</u>	<u>\$ 85,768</u>

**37. 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, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Year Ended March 31		Year Ended March 31,
	2018	2017	2018
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
Amount arising during the year	¥ 8,540	¥ 5,428	\$ 80,384
Reclassification adjustments	<u>(4,686)</u>	<u>(1,561)</u>	<u>(44,107)</u>
Before tax effect	3,854	3,867	36,276
Income tax effect	<u>(1,197)</u>	<u>(1,141)</u>	<u>(11,266)</u>
Available-for-sale financial assets, after tax effect	<u>2,656</u>	<u>2,725</u>	<u>25,000</u>
Exchange differences on translating foreign operations:			
Amount arising during the year	(1,023)	(18)	(9,629)
Reclassification adjustments	<u>—</u>	<u>—</u>	<u>—</u>
Before tax effect	(1,023)	(18)	(9,629)
Income tax effect	<u>—</u>	<u>—</u>	<u>—</u>
Exchange differences on translating foreign operations, after tax effect	<u>(1,023)</u>	<u>(18)</u>	<u>(9,629)</u>
Share of other comprehensive income of associates:			
Amount arising during the year	(0)	(905)	(0)
Income tax effect	<u>—</u>	<u>—</u>	<u>—</u>
Share of other comprehensive income of associates, after tax effect	<u>(0)</u>	<u>(905)</u>	<u>(0)</u>
Other comprehensive income, net of tax	<u>¥ 1,632</u>	<u>¥ 1,802</u>	<u>\$ 15,361</u>

38. 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
	2018	2017	March 31, 2018
Basic earnings per share (yen and U.S. dollars)	¥23.04	¥23.99	\$0.22
Profit for the year attributable to owners of the parent	¥131,153	¥136,589	\$ 1,234,497
Profit for the year not attributable to owners of the parent	—	—	—
Profit for the year used in the calculation of basic earnings per share	¥131,153	¥136,589	\$ 1,234,497
Weighted-average number of common stock (thousands of shares)	5,693,586	5,692,618	
Diluted earnings per share (yen and U.S. dollars)	¥23.03	¥23.99	\$0.22
Adjustments on profit for the year	—	—	—
Increase in the number of common stock (thousands of shares)	765	790	
Potential common stock that are anti-dilutive and therefore excluded from the calculation of diluted earnings per share	Options series: 2012—2nd, 2013—1st and 2nd; 2014— 1st  (Please refer to "Note 27. Share-based payments.")	Options series: 2007—3rd and 4th, 2008—1st, 2012—2nd, 2013—1st and 2nd; 2014— 1st  (Please refer to "Note 27. Share-based payments.")	

39. 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 amounts of assets acquired under finance lease contracts, please refer to "New Finance Leases" in "(2) Reconciliation of liabilities arising from financing activities."

During the year, JNB became a subsidiary of the Company as a result of the Company holding the majority of JNB's director positions. For fair value of the acquired assets and assumed liabilities, and non-controlling interests, please refer to "Note 5. Business combinations."

(2) Reconciliation of Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities for the year ended March 31, 2018 are as follows:

	Millions of Yen					March 31, 2018
	April 1, 2017	Financing Cash Flows	Non-cash Changes			
			Obtaining Control	New Finance Leases	Others	
Bonds	¥ 35,100	¥ 69,950	—	—	—	¥ 105,050
Bank loans	64,019	3,586	¥ 2,177	—	—	69,782
Lease liabilities	5,427	(1,008)	45	¥ 11,792	¥ (521)	15,735
	Thousands of U.S. Dollars					March 31, 2018
	April 1, 2017	Financing Cash Flows	Non-cash Changes			
			Obtaining Control	New Finance Leases	Others	
Bonds	\$ 330,384	\$ 658,414	—	—	—	\$ 988,798
Bank loans	602,588	33,753	\$ 20,491	—	—	656,833
Lease liabilities	51,082	(9,487)	423	\$ 110,993	\$ (4,903)	148,108

The figure of financing cash flows from bonds above is the net amount of "proceeds from issuance of bonds" and "repayment of bonds," which is included in "others," in cash flows from financing activities in the consolidated statement of cash flows.

The figure of financing cash flows from bank loans above is the net amount of "net increase of short-term bank loans," "Proceeds from long-term bank loans," and "repayment of bank loans," which is included in "others," in cash flows from financing activities in the consolidated statement of cash flows.

The figure of financing cash flows from lease liabilities above is "repayment of lease liabilities," which is included in "others," in cash flows from financing activities in the consolidated statement of cash flows.

40. 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, 2018

No significant related party transactions occurred during the year ended March 31, 2018. No significant unsettled related party balances remained as of March 31, 2018.

Year Ended March 31, 2017

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 A company in which a majority of its voting rights is held by a close family member of the Company's director	Yahoo! Inc. Creative Link Corporation (Note 2)	Payment of royalty (Note 1) Commission for providing news content (Note 1)	¥ 14,147	¥ 3,747
			14	—

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,
	2018	2017	2018
Short-term benefits	¥ 345	¥ 326	\$ 3,247
Retirement benefits	—	0	0
Share-based payments	22	0	207
Total	¥ 367	¥ 326	\$ 3,454

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

41. CONTINGENCIES

(1) *Committed Line of Cash Advances*

The Group provides cash advance services to customers in its credit card business and banking 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,
	2018	2017	2018
Total amount of committed lines of cash advances	¥ 510,533	¥ 271,491	\$ 4,805,468
Outstanding balance	(84,274)	(9,794)	(793,241)
Remaining balance	¥ 426,258	¥ 261,696	\$ 4,012,217

(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,
	2018	2017	2018
Total amount of credit guarantees	¥ 14,360	¥ 14,554	\$ 135,165
Balance of credit guarantees	9,404	10,920	88,516

42. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been authorized for issue by Mr. Manabu Miyasaka, President and Representative Director, and Mr. Ryosuke Sakaue, Corporate Officer, Executive Vice President and Chief Financial Officer, on June 5, 2018.

\* \* \* \* \*

Independent Auditor’s Report

Deloitte.

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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, 2018, 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, 2018, 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

June 5, 2018

Member of  
Deloitte Touche Tohmatsu Limited

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 time of preparation 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 23.6% of the total domestic advertising market in calendar year 2017, 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.

Risk Factors

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. A decline in the number of users of member services and other fee-based services could affect our business results.

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 business results.

f. 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 will 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 Social Infrastructure, and Other Companies' Products and Services

In providing services, the Yahoo Japan Group relies on social infrastructure including electricity and Internet connection lines, and other companies' products and services, including facilities such as servers, and users' information devices and software.

Many of the products and services necessary for the provision of our services, including social infrastructure such as electricity and Internet connection lines, and facilities such as servers, and users' information devices and software, are provided by other companies. The smooth, uninterrupted provision of such products and services, and their operation are 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 affect our business results.

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 could affect our services and business results.

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.

Risk Factors

**e. Legislation relating to e-commerce business could negatively affect our financial results.**

In our YAHUOKU! auction service, there are sometimes reports on listings of illegal items and fraudulent activities. Auction sellers who are judged to be operators as prescribed in the Act on Specified Commercial Transactions are instructed to comply with the obligation to identify themselves as operators. 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 business results.

**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.**

Yahoo! Money service, operated by 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, etc., 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, our 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 business results.

**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.**

In Ikyu, a business operated by the Yahoo Japan Group, we are 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.

Risk Factors

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 financial results.

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 complaints, reprimands, or damage suits brought by related parties or governmental agencies with regard to the content of advertisements and display method, or of websites accessed through advertisement links on Yahoo Japan Group sites.**

The Yahoo Japan Group gives due considerations to prohibit inappropriate advertising, distribution of illegal or harmful information, and to protect user privacy, etc., through the following voluntary standards, restrictions and measures. i) To avoid conflict with Japanese legal restrictions, we have established an independent publication standard, “Advertisement Publication Standard” that internally regulates the content of advertisements and of websites accessible through advertisement links on our sites. ii) As stipulated in our written contracts with advertisers, we confirm that advertisers accept full responsibility for the content of advertisements. iii) In regards to the display method of advertisements, we endeavor to display them in ways that users can recognize them as advertisements and provide appropriate explanations. iv) For such services as message boards, blogs, and YAHUOKU!, where users can exchange information freely, we indicate clearly in our contracts with users that illegal or harmful 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.

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 are sufficient. We could be subject to complaints, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements and display method, websites accessible through advertisement links on our sites, posts to community message boards, and/or trading on our YAHUOKU! site, etc.

This could result in financial burden, decline in user confidence which could lead to a drop in the number of users 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, website content, or content of live channels 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 business results. 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 paid search advertising 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.

Risk Factors

**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 such cases, our revenue may be negatively affected and we may be forced to bear special expenses. In addition, our operations and business results 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 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 will 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 constantly respond quickly to changing market needs, we will also focus on strengthening our service planning and systems development. Despite such efforts, we might fall short of achieving targeted 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

Risk Factors

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 will 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 fully leveraging Yahoo! JAPAN's multi big data and media; 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 Yahoo! Ad Partner, 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 contributions to our business results.

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 to our financial results 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. The agreement with Yahoo Holdings, Inc. is crucial to our operations, and modifications to the license agreement with Yahoo Holdings, Inc. could affect our business performance.

The Yahoo Japan Group's operations are based on a license agreement with Yahoo Holdings, Inc. Most of the trademark, software, and tools (hereinafter referred to as the trademark) used in the operation of our Internet search services are the property of Yahoo Holdings, Inc. We conduct business operations through a license obtained for the use of the trademark. As such, the agreement with Yahoo Holdings, Inc. is crucial to our core operations, and any modifications to the agreement could affect our business performance.

Note: The counterparty of the YAHOO JAPAN LICENSE AGREEMENT formerly entered into between the Company and Yahoo! Inc. was changed from Yahoo! Inc. to Yahoo Holdings, Inc. Yahoo Holdings, Inc. is a company that holds all of the assets and liabilities of Yahoo! Inc.'s core businesses which were sold by Yahoo! Inc. to Verizon Communications Inc. on June 13, 2017. Verizon Communications Inc. holds all the shares of Yahoo Holdings, Inc.

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: (i) mutual decision by the companies to terminate the agreement; (ii) cancellation of the agreement following bankruptcy or loan default by one of the companies; (iii) purchase of one-third or more of the outstanding shares of Yahoo Japan Corporation by a competitor of Yahoo Holdings, Inc.; or (iv) merger or acquisition of Yahoo Japan Corporation rendering shareholders of Yahoo Japan Corporation before such merger or acquisition incapable of maintaining over 50% of shareholder voting rights of Yahoo Japan Corporation (may be waived by agreement of Yahoo Holdings, Inc.).
Counterparty	Yahoo Holdings, Inc.
Main details	1) Licensing rights granted by Yahoo Holdings, Inc. to Yahoo Japan Corporation: • Non-exclusive rights granted to Yahoo Japan Corporation for reproduction and use of Yahoo Holdings, 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 Holdings, Inc. worldwide for use of Japanese content added by Yahoo Japan Corporation  3) Royalties to be paid by Yahoo Japan Corporation to Yahoo Holdings, 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 {(Revenue) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%

b. 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 Holdings, 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 Holdings, 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.

**c. 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.

**d. Any modifications to the business alliance contract with Google Asia Pacific Pte Ltd. could affect our business.**

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 service is one of our core business pillars, any modifications to the following contract could affect our business performance.

Contract name	GOOGLE SERVICES AGREEMENT
Contract date	October 21, 2014
Contract term end	March 31, 2019
Counterparty	Google Asia Pacific Pte Ltd.
Main details	<div>1) Non-exclusive provision of search and paid search advertising distribution technologies by counterparty</div> <div>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.</div> <div>2) Differentiation of search services</div> <div>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.</div> <div>3) Payment for counterparty’s services</div> <div>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.</div> <div>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.</div>

**e. 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 opportunities to earn advertising revenue as well as reduced demand from those advertisers, thereby negatively impacting our advertising revenues.

**f. Expenditures for additional Internet connections and capital investment in infrastructure could rise in line with expanding video services and high-bandwidth advertising.**

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 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, we grant stock-based remunerations, such as stock option plans to some corporate officers and employees as one of our personnel incentive measures. Rather than motivate participants, however, these remunerations 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

Risk Factors

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, our direct revenue opportunities derive increasingly from a diverse base of unspecified individual and corporate users.

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 financial results. 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 Holdings, Inc. The business relationships between the Yahoo Japan Group and the various associated business partners such as SoftBank Group Corp. are favorable. Moving forward, we will 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.

**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.

**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 financial instruments business and banking business.**

**(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. In addition, on February 1, 2018, the Company consolidated The Japan Net Bank, Limited, a pure play Internet bank with a banking license conducting business in accordance with the Banking Act and other relevant laws, rules and regulations. As a registered financial institution, The Japan Net Bank, Limited conducts foreign exchange (FX) margin trading operations and sells investment trust products as incidental business, etc., in accordance with the FIEA, Act on Sales, etc. of Financial Instruments, and other relevant laws, rules and regulations.

Nevertheless, should an infringement of any of these regulations or ordinances occur, our operations may be suspended, 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, and there may be a decline in the business performance of our services. 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 certain 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 and transactions of foreign currency deposits carried out with our 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.

Risk Factors

**(v) Computer system failure could negatively affect our performance, financial condition, and business development.**

In regards to our FX margin trading and banking business, the Yahoo Japan Group is dedicated to maintaining and strengthening the computer system stability. 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 the systems of its FX margin trading or its banking business. 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 largely affect the trading losses or gains of customers using our FX trading services and foreign currency deposits. 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 our operating results 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 trading activities. Accordingly, we undertake appropriate background investigations before allowing customers to use our FX trading services, investment trust funds and foreign currency deposits. 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 when conducting FX margin trading and banking transactions with them, 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.

**(ix) The Japan Net Bank, Limited could be exposed to market and credit risks.**

The financial assets of The Japan Net Bank, Limited (the Bank) consist mainly of marketable securities (government bonds, municipal bonds, FILP bonds, corporate bonds, investment trust, etc.) as well as short term call loans and monetary claims bought. These monetary assets are exposed to various risks, such as credibility of the issuer, fluctuations in interest rates, foreign exchange and market price. As for loans, all non-business loans to individuals are loans guaranteed by guarantee companies, thus are not subject to direct credit risks. However, business loans are subject to credit risk due to customers' default.

The financial liabilities of the Bank consist mainly of deposits, and the Bank sometimes raises funds through the call money market. Both liabilities are subject to fluctuation risks of interest rates.

In order to manage these risks appropriately, the Bank employs an asset liability management system by setting upper limits to risks on assets and liabilities and monitoring their compliance and so on.

Nevertheless, despite such control, volatility in the financial market may be caused by economic changes, changes in international relations, and occurrence of large-scale natural disasters, etc., resulting in increased interest rates and foreign exchange risks, sudden drop in share and bond prices, and rise in credit risks of customers due to deterioration in their business results. These results may have negative effect on the business performance and financial status of the Bank.

**(x) The Japan Net Bank, Limited may be exposed to liquidity risks.**

The Japan Net Bank, Ltd. procures its funds through deposits that are short-term or without a set period, and invests the funds in loans with various maturities and securities, etc. If, for some reason, the customers concentrate their withdrawal of their deposits, the Bank may have a maturity gap in its funding and investments. Thus, the Bank is exposed to liquidity risks.

In order to minimize such risk, the Bank sets thresholds to the necessary short-term funding amount and periodically monitors the compliance. Moreover, it monitors the balance of liquid investment assets and performs thorough control in order to avoid funding liquidity risks.

However, it is impossible to eliminate the risk of concentrated outflow of deposits that exceeds expectations as a result of turmoil in the financial market or bankruptcy of other financial institutions, etc. Emergency funding under unfavorable terms to respond to such risks could cause negative impact on the Bank's performance. Moreover, in the worst case, the continuity of the Bank's business may be at risk if fundraising becomes difficult.

**3) Other Major Business Partners**

**a. Any modifications to the business alliance contract with SoftBank Corp. could affect our business.**

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 business performance 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 revenue on time and could lose revenue opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel services early, thereby negatively impacting our business results.

**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! JAPAN Card service, etc., we reimburse payments made by cardholders to merchants and we procure funds for this purpose.**

The Yahoo! JAPAN Card is a credit card issued by our consolidated subsidiary, YJ Card Corporation. In Yahoo! JAPAN Card, etc., we reimburse payments made by cardholders to merchants honoring the card. Payments are collected from cardholders once a month while reimbursements to merchants are made

Risk Factors

about twice a month. Moreover, if the cardholder specifies payment in installments or revolving payment as his/her payment method, the reimbursed funds will be collected from the cardholder throughout the agreed period. Therefore, it will be necessary to finance those reimbursements for the relevant period. Although we are considering diversifying our funding sources as this business expands, we might not be able to obtain the necessary funding for making reimbursements to merchants at a suitable cost.

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, such as Yahoo! Ad Partner, 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 performance 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 performance.**

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 will continue to expand the number of our partners and to create new services. However, should business agreements with such partners be terminated, our business results could be negatively impacted.

**c. Our procurement of information and broadband content from third parties could be affected.**

We offer and will continue offering Internet users high-quality, appealing information, such as news, weather, and stock quotes, as well as broadband content such as videos 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 due to various factors such as termination of agreements caused by other companies, use of our services might decline, possibly resulting in a failure to achieve our projected financial results.

**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.

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 revenue 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 revenue.

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.

Risk Factors

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 business performance.

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 business results.

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 fraudulently use Yahoo! JAPAN Cards to make payments. As examples of fraud, malicious users might use unsuspecting users’ accounts to list fraudulent items in YAHUOKU! or 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 financial results 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, 2018)

Parent company

Name	Common stock (millions of yen)	Parent company ownership (%)	Main business
SoftBank Group Corp.*1,*2,*3	238,772	43.0 (43.0)	Holding company

Consolidated subsidiaries

Name	Common stock (millions of yen)	Percentage of voting rights (%)	Main 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*4	2,888	75.5	Internet distribution of video-streaming; entertainment information provision; planning, production, and sale of Internet advertising
ValueCommerce Co., Ltd.*3, *4	1,728	52.1	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
YJFX, Inc.	490	100.0	Foreign exchange margin trading business
YJ Card Corporation	100	65.0	Credit card, card loan, and credit guarantee business
ASKUL Corporation*3, *4, *5, *6	21,189	45.2	Mail-order service of office-related products and other delivery services
Ikyu Corporation	400	100.0	Operation of various Internet sites providing reservation services for high-end hotels and restaurants
eBOOK Initiative Japan Co., Ltd.*3, *4, *5	854	44.0	Content digitization and distribution service; planning, development, and production of digital content; publishing and editorial services for magazines and books
The Japan Net Bank, Limited*4, *5	37,250	41.2	Banking
YJ Capital Inc.	200	100.0	Venture capital business
63 other consolidated subsidiaries	–	–	–

Equity-method affiliates

Name	Common stock (millions of yen)	Percentage of voting rights (%)	Main business
BOOKOFF CORPORATION LIMITED*3,*7	3,652	15.1	Reuse business
30 other affiliates	–	–	–

Other associated enterprises

Name	Common stock	Parent company ownership (%)	Main business
SoftBank Group International GK	(millions of yen) 24	36.4	Holding company
Altaba Inc.*8	(Thousands of U.S. dollars) 8,728,669	35.6	Investment company

\*1 Although its voting rights ownership ratio is less than 50%, SoftBank Group Corp. is our parent company based on control criteria.  
\*2 The figure in parentheses represents SoftBank Group Corp.’s indirect ownership in Yahoo Japan Corporation.  
\*3 Companies that file annual securities reports (Yuho)  
\*4 Specified subsidiaries  
\*5 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.  
\*6 Although the ratio of ASKUL Corporation’s sales revenue (excluding consolidated intersegment sales) to consolidated sales revenue exceeds 10%, this consolidated subsidiary files annual securities reports (Yuho). Therefore, major P/L information is omitted.  
\*7 Although our voting rights ownership ratio is less than 20%, we consider BOOKOFF CORPORATION LIMITED to be an equity-method affiliate owing to our substantial influence.  
\*8 The amount for common stock represents paid-in capital listed on the FORM N-CSR that was submitted by Altaba Inc. to the U.S. Securities and Exchange Commission.

Related business segments  
■ Media Business ■ Commerce Business ■ Others

# Organization Chart of Yahoo Japan Corporation (Non-consolidated basis)

(As of March 31, 2018)

