

## Results for the Three Months Ended December 31, 2016 (FY2016-3Q) [IFRSs]

February 3, 2017

Company Name: Yahoo Japan Corporation Share Listings: 1<sup>st</sup> section of TSE  
 Code No.: 4689 URL: <http://www.yahoo.co.jp>  
 Representative: Manabu Miyasaka, President and Representative Director, CEO Tel: 03-6898-8200  
 Contact: Toshiki Oya, Senior Executive Vice President  
 Corporate Officer, CFO

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Fiscal Results Supplementary Briefing Materials to Be Created: Yes

Fiscal Results Investors Meeting to Be Held: Yes (for Financial Analysts)

(Amounts less than one million yen are omitted)

### 1. Consolidated Results for FY2016-3Q (April 1, 2016 - December 31, 2016)

(1) Consolidated Business Performance (April 1, 2016 - December 31, 2016) (Figures in parenthesis are % change YoY)

	Revenue	Operating income	Income before income taxes	Net income	Net income attributable to owners of the parent	Total comprehensive income
	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)	Millions of yen (%)
FY2016-3Q	630,957 (41.7)	152,158 (-22.0)	152,962 (-22.9)	104,803 (-31.9)	104,799 (-31.7)	104,498 (-33.2)
FY2015-3Q	445,298 (43.3)	195,083 (34.7)	198,480 (27.4)	153,799 (52.4)	153,531 (53.4)	156,518 (55.8)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2016-3Q	18.41	18.41
FY2015-3Q	26.97	26.97

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%
FY2016-3Q	1,470,093	963,876	896,944	61.0
FY2015	1,342,799	912,764	844,165	62.9

### 2. Cash Dividends

(Record date)	Dividends per share				
	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2015	—	0.00	—	8.86	8.86
FY2016	—	0.00	—		
FY2016 (Estimates)				8.86	8.86

Revision in dividends previously announced: No

### 3. Consolidated Performance Estimates for FY2016 (April 1, 2016 – March 31, 2017)

In the fiscal year ending March 31, 2017, the consolidated revenue is expected to grow year on year over the fiscal year ended March 31, 2016, due to the expansion of the existing businesses and contributions by the conversions of ASKUL Corporation and Ikyu Corporation to consolidated subsidiaries. The consolidated operating income for the fiscal year ending March 31, 2017 is expected to grow year on year over the consolidated operating income after adjustments in the fiscal year ended March 31, 2016 (198.0 billion yen\*) due to the expansion of the existing businesses and increased efficiency in investment activities. For details, please refer to 3) Consolidated Performance Estimates for This Fiscal Year (April 1, 2016 – March 31, 2017) in (1) Qualitative Information regarding the Consolidated Business Performance of 1. Qualitative Information regarding the Consolidated Operating Results on page 5 of the Results for the Three Months (Attachments).

\* The consolidated operating income after adjustments is derived by excluding: the impacts of gain from remeasurement relating to business combination with ASKUL Corporation of 59.6 billion yen; upfront investment costs of 28.2 billion yen; and temporary factors of 4.4 billion yen including office relocation costs, from the consolidated operating income for the fiscal year ended March 31, 2016 of 224.9 billion yen.

#### 4. Others

(1) Changes in significant subsidiaries during the period (changes in significant subsidiaries causing changes in scope of consolidation): Yes

New consolidated subsidiaries: 2 (YJ Tech Investment Partnership, eBook Initiative Japan Co., Ltd.)

(2) Changes in the accounting principles, procedures and presentation methods

1) Changes due to IFRSs: None

2) Changes other than 1): None

3) Changes in accounting estimate: None

(3) Number of stocks issued (common stock)

1) Number of stocks issued at the year end (including treasury stocks)

2) Number of treasury stocks at the year end

3) Average number of stocks

FY2016-3Q	5,695,441,800	FY2015	5,695,291,400
FY2016-3Q	2,800,000	FY2015	2,800,000
FY2016-3Q	5,692,595,630	FY2015-3Q	5,692,293,888

\* Disclosure Regarding Implementation of Quarterly Review

These Results for the Three Months are not subject to the quarterly review procedures stipulated in the Financial Instruments and Exchange Act. Moreover, at the point of disclosure of these Results for the Three Months, the financial statement review procedures based on the Financial Instruments and Exchange Act has not been completed.

\* Explanation of the proper use of performance estimates, and other special notes

• The performance estimates, etc., and other forward-looking statements contained in this document are based on the information currently available to the Company and premised on assumptions that have been deemed reasonable by management. For a variety of reasons, actual performance estimates, etc., could differ significantly.

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## 1. Qualitative Information regarding the Consolidated Operating Results

### (1) Qualitative Information regarding the Consolidated Business Performance

#### 1) Consolidated Business Performance Summary (April 1, 2016 to December 31, 2016)

	FY2015 1Q-3Q	FY2016 1Q-3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥445.2 billion	¥630.9 billion	+¥185.6 billion	+41.7%
Operating Income	¥195.0 billion	¥152.1 billion	-¥42.9 billion	-22.0%
Income before income taxes	¥198.4 billion	¥152.9 billion	-¥45.5 billion	-22.9%
Net Income attributable to owners of the parent	¥153.5 billion	¥104.7 billion	-¥48.7 billion	-31.7%

In the cumulative consolidated third quarter of the fiscal year ending March 31, 2017, the Yahoo Japan Group recorded a revenue growth of 41.7% compared with the same quarter last year due to the increase in the revenue of Display Advertising. The consolidation of ASKUL Corporation during the last consolidated fiscal year also contributed to this result.

Operating income, income before income taxes and net income attributable to the owners of the parent in the period under review decreased year on year. This is because the gain from remeasurement relating to business combination with ASKUL Corporation of ¥59.6 billion was recognized in the consolidated second quarter of the previous year.

#### 2) Segment Business Results Summary (April 1, 2016 – December 31, 2016)

##### Revenue and Operating Income by Segment

	FY2015 1Q-3Q	FY2016 1Q-3Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Marketing Solutions Business				
Revenue	¥196.2 billion	¥205.3 billion	+¥9.1 billion	+4.6%
Operating income	¥110.8 billion	¥117.9 billion	+¥7.1 billion	+6.4%
Consumer Business				
Revenue	¥212.2 billion	¥381.1 billion	+¥168.8 billion	+79.6%
Operating income	¥106.6 billion	¥60.5 billion	-¥46.1 billion	-43.2%
Others				
Revenue	¥45.6 billion	¥52.9 billion	+¥7.2 billion	+15.9%
Operating income	¥9.1 billion	¥11.1 billion	+¥1.9 billion	+21.5%
Adjustments				
Revenue	-¥8.8 billion	-¥8.4 billion	—	—
Operating income	-¥31.5 billion	-¥37.4 billion	—	—
Total				
Revenue	¥445.2 billion	¥630.9 billion	+¥185.6 billion	+41.7%
Operating income	¥195.0 billion	¥152.1 billion	-¥42.9 billion	-22.0%

Notes: 1. The main revenue included in the Others segment is that for financial and payment-related services and cloud-related services among business activities not included in reporting segments.  
2. Adjustments figures represent inter-segment transactions and general corporate expenses not belonging to any reporting segment.

## Reporting Segment

	Major Revenues
Marketing Solutions Business	<ul style="list-style-type: none"> <li>• Paid search, display and other advertising-related services</li> </ul>
Consumer Business	<ul style="list-style-type: none"> <li>• YAHUOKU!, Yahoo! Shopping, ASKUL, LOHACO, and other commerce-related services</li> <li>• Yahoo! Premium, Yahoo! BB, and other membership services</li> <li>• Yahoo! Real Estate and other information listing services</li> </ul>

## Main advertising products

Advertising products		Main Format	Fee Calculation	Placement Pages	Main Advertiser Base	
Paid Search Advertising	Sponsored Search®		Text	Search results pages	Major corporations	
Display Advertising	YDN and others	Yahoo! Display Ad Network (YDN) *1	Text Banner	Top page *1	Small and medium-sized companies	
		Yahoo! Premium DSP	Banner		Interior pages of service sites *1	Major corporations
	Premium Advertising	Brand Panel, Prime Display, etc.	Rich ad (Including video) Banner	Yahoo! Shopping		
		Banner Text ads Others	Text Banner			
		PR Option		Conversion-based		

\*1 Includes In-feed Advertising on timeline-view pages

\*2 Advertising that is programmatically or manually managed on a real-time basis to optimize advertising effects

\*3 Advertising for which specific placement is reserved in advance

### ■ Marketing Solutions Business in the Cumulative Consolidated Third Quarter

The revenue of Display Advertising grew year on year primarily due to the continued increase in the revenue of Yahoo! Display Ad Network (YDN) as well as increase in the revenue of Yahoo! Premium DSP. In Paid Search Advertising, revenue decreased year on year, impacted by the shift to smart devices. However, in the consolidated third quarter, revenue of Paid Search Advertising grew compared with the same period last year.

As a result, revenue of the Marketing Solutions Business for the cumulative consolidated third quarter amounted to ¥205.3 billion, rising 4.6% from the prior year, and accounted for 32.5% of total revenue. Operating income increased 6.4% year on year, to ¥117.9 billion.

- The revenue of Yahoo! Display Ad Network (YDN) increased compared with the result of the same period last year due to continuous functional improvements and increase in the number of displays.
- The revenue of Yahoo! Premium DSP increased year on year.
- The revenue of Paid Search Advertising decreased year on year. In the consolidated third quarter, however, revenue grew compared with the same period last year due to continuous functional improvements and increased demand from several of our advertisers.
- Out of the advertising revenue, the proportion of advertising through smartphones increased year on year.

## ■ Consumer Business in the Cumulative Consolidated Third Quarter

Revenue of the Consumer Business greatly rose from a year earlier, due to the fee revision of YAHUOKU! and Yahoo! Premium, and the increase in the advertising revenue from Yahoo! Shopping, as well as the conversion of ASKUL Corporation to a consolidated subsidiary in the last consolidated fiscal year. Total domestic e-commerce transaction value (\*1) amounted to ¥1,366.5 billion, increasing 27.3% year on year. Out of the transaction value, business-to-business (BtoB) revenue (transaction value; closed on every 20th) via Internet in ASKUL Corporation's non-consolidated revenue amounted to ¥160.2 billion.

As a result, revenue of the Consumer Business for the cumulative consolidated third quarter amounted to ¥381.1 billion, increasing 1.8 times year on year and accounting for 60.4% of the total revenue.

Operating income for the cumulative consolidated third quarter reduced by 43.2% year on year to ¥60.5 billion, affected by the gain from remeasurement relating to business combination with ASKUL Corporation of ¥59.6 billion, recognized in the consolidated second quarter of the previous year. For reference, without such an impact, the operating income of the cumulative consolidated third quarter of the previous year would have been ¥46.9 billion and the operating income of this cumulative consolidated third quarter would have expanded by 28.9%.

- Continued increase of Auction-related transaction value, along with the revision of the transaction fee resulted in a year-on-year increase in the revenue of YAHUOKU!.
- In Yahoo! Shopping, contributed by the continued increase in the number of product items and enhanced traffic referral from our own services, the total transaction value of Yahoo! Shopping and LOHACO (revenue of ASKUL Corporation's LOHACO business; (transaction value; closed on every 20th)) significantly expanded by 28.6% year on year. In addition, Shopping-related advertising revenue (\*2) increased dramatically.
- Both in YAHUOKU! and Yahoo! Shopping, smartphone-related transaction value continued to expand year on year.
- Number of monthly paid-membership IDs (\*3) as of December 31, 2016, climbed to 17.55 million IDs. In addition to the increase of the number of monthly paid-membership IDs, revision of the membership fee of Yahoo! Premium also led to revenue increase.

\*1 Includes the Shopping- and Auction-related transaction values, as well as business-to-business (BtoB) revenue (transaction value; closed on every 20th) via Internet in ASKUL Corporation's non-consolidated revenue.

\*2 Total of Yahoo Japan Corporation's non-consolidated Shopping-related advertising revenue; advertising revenue of "StoreMatch", an advertising product in Yahoo! Shopping sold by ValueCommerce Co., Ltd. to stores in Yahoo! Shopping; and revenues of paid search advertising and YDN, etc., placed by stores in Yahoo! Shopping. Revenues of paid search advertising and YDN, etc., placed by stores in Yahoo! Shopping are accounted for in the advertising revenue of Marketing Solutions Business segment.

\*3 Total of membership IDs of Yahoo! Premium members, Yahoo! BB subscribers, monthly paid-subscribers of digital content and services provided by Yahoo! JAPAN and partner sites (IDs with payment through Yahoo! Wallet only). Paid-membership IDs are counted separately for each service, even if there is an overlap in IDs.

### 3) Consolidated Performance Estimates for This Fiscal Year (April 1, 2016 – March 31, 2017)

Year-on-year, double-digit growth is expected in revenue of Display Advertising such as Yahoo! Display Ad Network (YDN). Shopping-related advertising revenue is expected to grow in tandem with the expansion of transaction value. While Paid Search Advertising revenue is affected by the shift to smart devices, the Group is anticipating that the Paid Search Advertising revenue in fiscal 2016 will be nearly flat compared with the previous fiscal year, due to continuous functional improvements and increased demand from several of our advertisers. In light of these circumstances, the Group aims at year-on-year, mid-to-high single-digit growth in total advertising-related revenue in the fiscal year ending March 31, 2017.

The total domestic e-commerce transaction value, including YAHUOKU! and Yahoo! Shopping, is forecast to continue its year-on-year expansion. Yahoo! Shopping operations will place the main emphasis on expanding transaction value and Shopping-related advertising revenue by continuing more efficient sales promotional activities while refining services and advertising products.

As for the credit card business, the next several years, including the fiscal year ended March 31, 2016, have been positioned as a "Period of Upfront Investment for Future Growth". During this period, the operations continue to aggressively expand the card subscriber base and endeavor to promote usage.

## (2) Qualitative Information regarding the Consolidated Financial Position

### Assets, Liabilities and Equity

#### 1) Assets

Total assets at the end of this third quarter amounted to ¥1,470,093 million, increasing ¥127,293 million, or 9.5% from the end of fiscal 2015. The main components of change were the following:

- Trade and other receivables increased from the end of fiscal 2015, mainly due to the increase in the transaction values of the credit card business and Hometown tax.
- Other financial assets (current) decreased compared with the end of fiscal 2015 mainly because of the decrease in the derivative assets in foreign exchange margin trading.
- Property and equipment increased compared with the end of fiscal 2015 mainly because of headquarters relocation.
- Intangible assets increased from the end of fiscal 2015 primarily due to acquisition of software.

#### 2) Liabilities

Total liabilities at the end of this third quarter were ¥506,216 million, increasing ¥76,181 million, or 17.7%, from the end of fiscal 2015. The major components of change were the following:

- Trade and other payables increased from the end of fiscal 2015, mainly because of the increase in accounts payable related to Hometown tax.
- Interest-bearing debt (current) increased compared with the end of fiscal 2015, mainly due to the increase in loans payable of YJ Card Corporation.
- Interest-bearing debt (non-current) increased compared with the end of fiscal 2015, chiefly because of the increase in loans payable of YJ Card Corporation and lease obligations of ASKUL Corporation.

#### 3) Equity

Total equity at the end of this third quarter amounted to ¥963,876 million, increasing ¥51,112 million, or 5.6%, from the end of fiscal 2015. The primary reason for change in equity was as follows:

- Retained earnings increased from the end of fiscal 2015 because of the recognition of net income attributable to owners of the Company, despite the decrease due to cash dividends paid.

### Cash Flows

At the end of the third quarter, cash and cash equivalents amounted to ¥451,300 million, down ¥69,527 million from the end of the same quarter last year.

The following are the movements in the main components of cash flow and the factors contributing to the changes for this third quarter:

Cash flows from operating activities amounted to a cash inflow of ¥76,233 million mainly because of the recognition of net income for the quarter despite the payment of income taxes and the increase of receivables pertaining to the credit card business.

Cash flows from investing activities amounted to a cash outflow of ¥47,232 million, chiefly due to the acquisitions of property and equipment and intangible assets.

Cash flows from financing activities amounted to a cash outflow of ¥26,855 million, attributed mainly to dividends paid, despite proceeds from loans payable.



### (3) Risk Factors

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

#### **1. Impact of Internet Markets and Competition**

##### **1) Macroeconomic Trends, Internet Markets, and Users**

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

Internet usage in terms of both user numbers and usage times has grown steadily in Japan since the Internet's emergence as a recognizable force in 1995, with particularly notable growth due to the spread of broadband communications and the proliferation of technologically advanced smart devices. Because the Yahoo Japan Group is dependent on the Internet both directly and indirectly, ongoing business expansion is contingent upon continuous growth in distribution of information and commercial activities over the Internet, steadily increasing Internet users and their usage time, as well as the realization and 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 18.8% of the total domestic advertising market in calendar year 2015, 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 (Sponsored Search, Yahoo! Display Ad Network (YDN), etc.), 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 less-than-anticipated market growth, or a slowing of growth, in the Internet advertising market. As a result, we might not achieve anticipated levels of advertising revenues, which could negatively impact our business performance.

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

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

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

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

###### **d. Trends in advertising budget allocations could affect our advertising revenues.**

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

###### **e. We might fail to attain a share of the mobile advertising market comparable to our share of the PC market.**

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

###### **f. A decline in the number of users of member services and other fee-based services could affect our revenues.**

With the spread of broadband and mobile communications in recent years, the number of Internet users has increased dramatically, fueling growth in the number of potential users of Yahoo! JAPAN member services and other fee-based services. Recognizing that the number of Internet users in Japan is likely to eventually peak, we regularly implement innovative measures to enhance users' satisfaction with and promote broader usage of various services. Despite these efforts, the eventual decline in

the number of users of such fee-based member services as Yahoo! Premium, our premier member service offering a variety of members-only benefits, could negatively impact our overall revenues.

**g. The popularity of various fee-based contents services, including those provided by the Yahoo Japan Group, might decrease.**

The Yahoo Japan Group delivers a variety of fee-based contents services, including videos and games, to meet changing user needs. Although we expect the popularity of such fee-based contents services to grow in line with increasing Internet user numbers, these services might fail to become a regular part of many users' lives.

## **2) Competition**

**a. 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. Income 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 performance.

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

## **3) Reliance on Other Companies' Products and Services**

**a. In providing services, the Yahoo Japan Group relies on other companies' products and services, including electricity, servers, Internet connection lines, information devices, and software.**

Many of the products and services necessary for the provision of our services, including electricity, servers, Internet connection lines, information devices, and software, are provided by other companies. The smooth, uninterrupted provision of such products and services is a prerequisite to the successful provision of our services.

In providing Yahoo! JAPAN services appropriately, 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 duplicate data centers and independent power generation facilities. In the case of an electric power supply disruption actually occurring, we are prepared to respond quickly and appropriately throughout the Yahoo Japan Group. Despite these proactive efforts, if we are unable either to continuously provide services or to quickly restore them following an electric power supply disruption, our revenues and brand image could be negatively affected. In addition, higher electricity charges could reduce our profitability.

To access the Internet today, users can choose from several types of browser software and from a range of information devices including PCs, smart devices, TVs, video-game consoles, and car navigation systems. Some types of browser software and certain information devices, however, are incompatible with Yahoo! JAPAN services. In addition, sub-optimal usage conditions and faulty settings of software and information devices could prevent some users from accessing Yahoo! JAPAN. Furthermore, specification changes, rate adjustments, or insufficient market supply with regard to software and information devices could similarly block user access to our services, may lower usage times and may affect our services and earnings.

## **4) Technological Change**

**a. Failure to quickly and appropriately implement new technologies could reduce the competitiveness of Yahoo! JAPAN services.**

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 Yahoo! JAPAN's competitive edge in the industry, we continuously enhance our services by quickly implementing new technologies as appropriate. If, however, despite our best efforts we fail to quickly implement new technologies emerging in the market and our services become obsolete, we could suffer a decline in competitiveness.

## **2. Legal and Institutional Changes**

### **1) Legal Restrictions**

**a. New laws or amendments could negatively impact our provision of services.**

Reports of incidents in Japan related to the viewing or posting of sensitive information or to dubious business transactions on the Internet have fueled a trend toward applying certain legal restrictions to Internet-based information and goods distribution. To ensure a safe, secure, and convenient Internet environment in Japan, we comply with all laws and regulations and carry out policies and awareness campaigns in cooperation with relevant organizations.

The introduction of new laws or amendments to existing laws could result in increased compliance-related expenses or otherwise negatively impact our provision of services, 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 intermediaries 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 its establishment, the Yahoo Japan Group has undertaken a variety of measures to contribute to the sound development of the Internet and has taken steps to protect minors from potentially harmful information, such as the operation of Yahoo! Kids. In April 2009, the government enforced the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People. Based on the content of the act and the nature of the Yahoo Japan Group's business, the effect on our business is expected to be minor. Nevertheless, the law raises many issues, such as restrictions on freedom of expression or inhibition of filtering development, which could impinge upon the development of the Internet industry in Japan and, consequently, affect our performance.

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

In YAHUOKU!, there are cases in which listings of illegal items and other cases of fraudulent activity are reported. When sellers, who are subject to the Act on Specified Commercial Transactions, list branded products for auction, we instruct them to properly identify themselves and will revoke their IDs if they 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, the Company is 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 Web site "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

In addition, stores violating our guidelines and Terms of Service, and buyer complaints may also increase in Yahoo! Shopping, in which the number of stores is increasing. We endeavor to prevent damages by applying the accumulated know-how and proven operational methods for reducing fraudulent activity on YAHUOKU! to our Yahoo! Shopping business.

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

**f. Legislation relating to social media services could affect our provision of such services.**

Social media services provide a space for users to communicate with each other via postings of opinion and content. In the context of such services, the potential exists for defamation, invasion of privacy, and infringement of intellectual property rights 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 the Yahoo Japan Group.**

Yahoo Japan Corporation is subject to the "Payment Services Act" in its operation of "Yahoo! Money". For this reason, Yahoo Japan Corporation is registered as a "Fund Transfer Service Provider" based on the Payment Services Act, and as an "Issuer of Prepaid Instruments for Third-Party Business" for prepaid payment instrument with the Kanto Local Finance Bureau.

Moreover, in the collaboration with The Japan Net Bank, Limited, Yahoo Japan Corporation acts as an intermediary in opening Yen saving accounts, as a bank agent with the authorization of the Kanto Local Finance Bureau.

YJ Card Corporation, our consolidated subsidiary, issues credit cards and loan cards. It is subject to the Installment Sales Act for its revolving payment transactions, etc., in its credit card business, and is subject to the Money Lending Business Act and the Interest Rate Restriction Act for the cash advance transactions in its credit card business and loan cards. For this reason, YJ Card Corporation is registered with the Kyushu Bureau of Economy, Trade and Industry as an installment seller based on the Installment Sales Act, and with the Fukuoka Local Finance Branch Bureau as a money lender based on the Money Lending Business Act. Please note that as a result of the recent revision to the Money Lending Business Act lowering the interest rate ceiling on loans to match the interest rate ceiling specified in the Interest Rate Restriction Act, customers might claim that interest paid in excess of the rate permitted under the Interest Rate Restriction Act represents unfair profits, and demand repayment. Although adequate reserves, estimated conservatively, have been set aside, YJ Card Corporation's business is especially exposed to the risk of refund claims.

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

**h. Obligated to comply with Japan's Travel Agency Act, the Yahoo Japan Group's travel agency business could be restricted by future legal revisions.**

Yahoo! Travel, the travel agency business operated by the Yahoo Japan Group, is obligated to comply with the Travel Agency Act and related ordinances. Revisions to this act or to related ordinances could therefore restrict Yahoo! Travel's 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 wish to have personal information removed from Yahoo! JAPAN 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, we announced in March 2015 our policy regarding individual requests to have personal information removed from Yahoo! JAPAN 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 Company.**

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 Supreme Court dismissed the appeal by said users, effectively upholding an initial judgment that the Company was not liable for damages because it had forewarned YAHUOKU! users of the potential for auction fraud by citing actual examples of fraud.

Despite this ruling in our favor, the likelihood that auction fraud will to some extent continue implies that certain YAHUOKU! users might again take legal action against the Company, 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 earnings.

In case users suffer damages due to illegal acts, etc., we have instituted a system in which a solatium will be paid within a limited amount for such victimized users. This solatium system could lead to higher expenditures for the Yahoo Japan Group.

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

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

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

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

With regard to information services such as news, weather reports, and stock prices, and for entertainment services such as videos and games, we procure content from outside companies and provide it to Yahoo! JAPAN 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 Yahoo! JAPAN 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. As a result, we could incur substantial expenses or suffer a loss of brand image, which could negatively affect our business performance.

**f. We could be subject to damages 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 or clauses posted on relevant Yahoo! JAPAN sites. 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.

We assign all responsibility to users and accept no responsibility regarding YAHUOKU!, making no guarantees as to the selection, display, or bidding process for goods or services offered or the formation or honoring of contracts agreed to while using this service. Similarly, a disclaimer published on the Yahoo! Shopping site states that we assume no responsibility for the activities, products, services, or Web site content of the many retailers employing these services. Nor do we guarantee that users of these services will be able to purchase goods or services listed by these retailers. In addition, we do not accept responsibility for damage, loss, or delay in the delivery of such goods or services. It remains possible, however, that users of these services, or related parties, will take legal action against the Yahoo Japan Group for claims or compensation related to the content of its services. Such legal action could have a negative impact as a result of monetary obligations or damage to our brand image. Furthermore, it is possible that the treaty regarding the jurisdictions of international courts could result in future legal disputes with users of our services who reside outside of Japan.

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

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

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

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

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

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

**3) Other Legal Regulations**

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

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

**b. Changes to accounting standards or tax codes could have a material impact on our profits or losses.**

Against the backdrop of the recent trend in Japan to establish international accounting standards, we have 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 profits or losses.

### **3. Disasters and Emergency Situations**

#### **1) Disasters**

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

Our operations are potentially vulnerable to disasters such as earthquakes, fires, and other large-scale catastrophes and to the resultant destruction of buildings, power outages, and network failures, or extensive outbreak of infectious diseases. 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.

We have taken steps to ensure a quick and appropriate response throughout the Yahoo Japan Group in the event of a disaster. However, if the incident, etc., is caused by unexpected causes or is an unexpected incident, or the advertisers cancel or reduce advertising due to their circumstance, or users will not be able to use Yahoo! JAPAN's fee-based services, etc., or for any other reasons, carrying on with normal operations or full recovery after the incident might be difficult, which may negatively affect our operations, business performance, and brand image.

#### **2) Emergency Situations**

##### **a. Our operations could be affected by international conflicts, terrorist attacks, or other emergency situations.**

In the event of outbreaks of international conflicts or terrorist attacks that significantly disrupt global political and economic activity, we expect that our operations could be substantially affected.

Specifically, under the impact of such an event our revenues could decline or we could incur extraordinary costs. This might occur because of a temporary limitation in the operation of Yahoo! JAPAN, causing disruption to planned advertising business. Or, for their own reasons advertisers might cancel or reduce advertising. Furthermore, the Internet access infrastructure might be disrupted or some other circumstances may arise whereby users can no longer access our fee-based services. In addition, operations and earnings could be affected by damage to communications or transportation lines in the United States or other countries that could impede our links to business alliances in those countries. If our offices were physically disabled, or if other companies in closely related business fields, such as companies providing Internet connection or data-center services, were physically disabled, 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**

##### **a. Failure to quickly and flexibly modify strategies in response to changing market conditions could compromise the Yahoo Japan Group's 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 to modify these strategies as required, our competitive advantage could be compromised.

#### **2) Technological Development and Improvement**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**e. Failure to properly incorporate innovative advertising methods could adversely affect our advertising revenues.**

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Yahoo Japan Group develops and sells a variety of advertising products suited to the specific needs of individual advertisers, including products with guaranteed exposure periods and page views; video advertising products with audio accompaniment; Rich Advertising products boasting such features as user-activated display-area expandability; Yahoo! Premium DSP products leveraging Yahoo! JAPAN's trove of big data; and Promotional Advertising products 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' Yahoo! JAPAN usage histories, keyword search histories, demographic factors, and real-time physical location; Interest Match<sup>®</sup>, which distributes advertising based on the aforementioned usage histories and the content of Web pages viewed at the time of ad distribution; and AD Network, which distributes advertising over a network of partner sites and thus achieves greater reach than single-site-distribution products.

If we fail to properly incorporate innovative advertising methods, our advertising revenues could decrease even as the cost of developing new products and forming new partnerships with companies possessing expertise in innovative advertising methods grows. As a result, our performance could be negatively affected.

**3) New Businesses**

**a. Our diversification into new businesses might yield lower-than-expected earnings contributions.**

We plan to further diversify into new businesses to strengthen our operating base and provide a growing range of quality services. To this end, we might be obligated to incur additional expenses to employ new staff, expand and upgrade facilities, and conduct research and development.

Moreover, new businesses are unlikely to begin contributing stable revenues immediately. Consequently, our profitability could decline temporarily.

In addition, new businesses might not develop in line with our expectations. Furthermore, we might be unable to recover investment expenses, which could negatively affect our performance.

**4) Services Provided**

**a. Development, operation, and maintenance of 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 the Company's business relationship with Google change or Google's service operations be disrupted, the sustainability of certain of our services could be jeopardized and our performance negatively affected as a result.

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

To enable the Yahoo Japan Group to provide search and Paid Search Advertising distribution technologies and other services, the Company has an ongoing business alliance contract with Google Asia Pacific Pte Ltd. Because search and Paid Search Advertising distribution technologies are key revenue sources for the Yahoo Japan Group, any modifications to the following contract could affect our earnings.

Contract name	GOOGLE SERVICES AGREEMENT
Contract date	October 21, 2014
Contract term end	March 31, 2019
Counterparty	Google Asia Pacific Pte Ltd.
Main details	<p>1) Non-exclusive provision of search and Paid Search Advertising distribution technologies by counterparty The counterparty shall provide its search and Paid Search Advertising distribution technologies to Yahoo Japan Corporation on a non-exclusive basis, which will be used by Yahoo Japan Corporation to offer its own brand of services.</p> <p>2) Differentiation of search services Both parties are entitled to freely develop and use additional functions for the search results in order to differentiate their search results. Yahoo Japan Corporation may decide on its own whether to display the search results provided by the counterparty.</p> <p>3) Payment for counterparty's services The consideration for the counterparty's services shall be the sum of (1) an amount calculated using a method determined on an annual basis based on the revenue of the Web site of Yahoo Japan Corporation and (2) an amount calculated using the standard for excess amounts on any revenue of the Web site of Yahoo Japan Corporation in excess of a specific amount during the specified period. The consideration for the services used by Yahoo Japan Corporation on a partner site shall be the amount calculated by multiplying the revenue derived from the partner site by a rate determined on an annual basis.</p>

**c. For advertising products with guaranteed page views, failure to attain the guaranteed number of views could obligate the Yahoo Japan Group to provide some form of compensation.**

Advertising contract periods and page views are guaranteed for some of our products, with advertising fees based on those two parameters. Failure to attain the guaranteed number of page views due to problems with the Internet connection environment or to similar problems could obligate the Yahoo Japan Group to extend advertising contract periods or to provide some other form of compensation, which could negatively impact advertising revenues.

Moreover, we might fail to provide services that meet the needs of certain advertisers, which could result in reduced demand from those advertisers and thereby negatively impact our advertising revenues.

**d. Expenditures for additional Internet connections and capital investment in infrastructure could rise in line with expanding bandwidth requirements.**

We provide streaming and other services, such as GYAO!, requiring relatively large bandwidth compared with services consisting only of text and images. Brand Panel and video advertising, incorporating interactive features, also require relatively large bandwidth. Because usage of these types of services and advertising products is likely to grow steadily in the future, expenditures for additional Internet connections and capital investment in infrastructure such as servers required to deliver these services and products could increase as well.

**5) Compliance**

**a. 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 competitiveness.



Although we aim to minimize the effects of increased staff levels on our operating results, personnel expenses, lease expenses, and other fixed costs are likely to rise, resulting in lower profit margins.

**b. The resignation of key personnel could temporarily hinder our continuous business development.**

The development of the Yahoo Japan Group's businesses depends on senior management and, notably, on key technical personnel, including the corporate officers of the Company 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 intends to replace them as quickly as possible with appropriate successors, either from within or from outside the Yahoo Japan Group. Even so, the replacement process could temporarily disrupt our continuous business development.

In addition, some corporate officers and employees participate in the stock-option plan, one of our personnel incentive measures. Rather than motivate participants, however, the stock-option plan might actually be an inducement for certain corporate officers and employees to leave the Yahoo Japan Group.

**c. Efforts to protect our intellectual property rights with the goal of maintaining competitive advantages might not be effective.**

The Yahoo Japan Group believes that its intellectual property rights, including copyrights, patents, trademarks, designs, and domain names, are valuable management resources central to its ability to maintain competitive advantages in the market and that it is therefore necessary to protect them. Applying for, registering, and maintaining patents, however, entail a great deal of time and expense, including expenditures required to secure appropriate human resources. Moreover, in some cases patent rights are not granted to applicants, or requests for the invalidation of patents are made but fail to result in the provision of sufficient protection. Even if the Yahoo Japan Group successfully protects its intellectual property rights, including patents, these rights do not immediately confer competitive advantages. Considering that the Yahoo Japan Group operates in an industry noted for rapid-fire technological innovation, efforts to protect intellectual property rights might not be especially effective and, moreover, could have a negative impact on our business performance.

**d. As the Yahoo Japan Group conducts a growing proportion of business transactions with a base of unspecified individual and corporate users, costs related to payment/collection and customer service might increase.**

In line with the expansion of our business scope and the strengthening of our Promotional Advertising, fee-based member services, and paid-content businesses, the proportion of our revenues derived from a diverse base of unspecified individual and corporate users has grown.

The Yahoo Japan Group has assembled a special team responsible for strengthening the management of this pool of users and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, we might be exposed to increased risks related to the payment and collection of receivables owing to increasing amounts of small sales receivables and uncollected receivables, expanding credit-card payment problems, and rising costs of receivables collection.

Meanwhile, the array and quantity of user inquiries continue to broaden, including questions related to service usage, payment issues, and the return or exchange of goods and services as well as matters relating to distribution or payment services provided by consigned third-party vendors. To maintain an effective response capacity, we are in the process of increasing staff, strengthening and expanding our management organization, and improving efficiency by standardizing and automating businesses. Higher costs associated with these measures could negatively affect our earnings. In addition, these measures do not guarantee that all users will be sufficiently satisfied, implying potential damage to our brand image and a negative impact on our business performance.

## **5. Relationship with Major Stakeholders**

### **1) Major Shareholders**

**a. Changes in parent company policies or in major shareholders could affect the Yahoo Japan Group's business.**

With SoftBank Group Corp. as the parent company, the Yahoo Japan Group provides Internet portal services in Japan under the Yahoo! brand name provided by Yahoo! Inc. The business relationships between the Yahoo Japan Group and the various associated business partners such as SoftBank Group Corp. and Yahoo! Inc. are favorable. Moving forward, we intend to maintain these favorable relationships. It is possible, however, that our services or business contracts could be affected, or relationships with associated business partners transformed, as a result either of changes in the business strategies of certain companies or of changes in important shareholders, most notably the parent company and other major investors in the Company. Such changes could adversely affect our businesses in various ways.

The shareholder agreement between SoftBank Group Corp. and Yahoo! Inc., the Company's major shareholders, places certain restrictions on the sale or purchase of Yahoo Japan Corporation's stock.

**b. Competition within the SoftBank Group could arise in the future.**

The Yahoo Japan Group 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 Yahoo Japan Group, competition within the SoftBank Group could arise in the future. Although we intend to proactively deal with such an eventuality by collaborating, any resultant competition within the SoftBank Group could affect our performance in some manner.

**c. Modifications to the license agreement with Yahoo! Inc. could affect our business performance.**

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

Contract name	YAHOO! JAPAN LICENSE AGREEMENT
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: mutual decision by the companies to terminate the agreement; cancellation of the agreement following bankruptcy or loan default by one of the companies; purchase of one-third or more of the outstanding shares of Yahoo Japan Corporation by a competitor of Yahoo! Inc.; merger or acquisition rendering Yahoo! Inc. and SoftBank Group Corp. incapable of maintaining over 50% of shareholder voting rights of Yahoo Japan Corporation (may be waived by agreement of Yahoo! Inc.).
Counterparty	Yahoo! Inc.
Main details	<p>1) Licensing rights granted by Yahoo! Inc. to Yahoo Japan Corporation:</p> <ul style="list-style-type: none"> <li>• Non-exclusive rights granted to Yahoo Japan Corporation for reproduction and use of Yahoo! Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of the Yahoo! search services)</li> <li>• Non-exclusive rights granted to Yahoo Japan Corporation for use in Japan of the Yahoo! trademark</li> <li>• Exclusive rights granted to Yahoo Japan Corporation for publishing of the Yahoo! trademark in Japan</li> <li>• Exclusive rights granted to Yahoo Japan Corporation worldwide for development, commercial use, and promotion of the Japanese version of the Yahoo! search services</li> </ul> <p>2) Non-exclusive rights granted (gratis) to Yahoo! Inc. worldwide for use of Japanese content added by Yahoo Japan Corporation</p> <p>3) Royalties to be paid by Yahoo Japan Corporation to Yahoo! Inc. (see Note, below) Note: Initially, royalties were calculated as 3% of gross profit less sales commissions. Effective January 2005, the calculation method for determining royalties was revised, as follows:</p> <p>Royalty calculation method  <math>\{(Consolidated\ net\ sales) - (Advertising\ sales\ commissions\ on\ a\ consolidated\ basis) - (Cost\ of\ sales\ of\ consolidated\ subsidiaries\ with\ a\ different\ gross\ margin\ structure\ and\ others)\} \times 3\%</math></p>

**d. Issues related to the management of the Yahoo! brand overseas could restrict the expansion of the Yahoo Japan Group's business.**

We consider the establishment and proliferation of the Yahoo! JAPAN brand to be important, both for attracting users and advertisers and for expanding our business. The importance of brand recognition is increasing rapidly with the growth in the number of Internet services and low barriers to entry in the Internet business. Especially given the intensifying competition among Internet companies, expenditures for establishing the Yahoo! JAPAN brand and boosting brand recognition could increase substantially.

Although efforts are under way to promote the Yahoo! brand with cooperation from Yahoo! Group companies overseas, it is impossible for the Yahoo Japan Group to guarantee the outcome of these efforts. Failure on the part of Yahoo! Group companies overseas to effectively establish and proliferate the Yahoo! brand could impact the Yahoo Japan Group in the form of weaker brand presence. In addition, some agreements with overseas Yahoo! Group companies contain exclusionary provisions. We are not able to place certain advertisements while these agreements are in force. Although Yahoo! Inc. is making efforts around the world to protect trademarks that are core to its brand rights through applications, registrations, and presence, the possibility exists that Yahoo! Inc. has not registered trademarks necessary to our business in Japan.

It is also possible that third parties will acquire domain names that we might find necessary to our business or will use domain names that resemble Yahoo! JAPAN or the services we offer with the intention of carrying out unfair competition or harassment. Such actions could affect our brand strategy and damage our brand image.

**e. Any modifications to the business alliance contract with Yahoo! Netherlands B.V. and Yahoo! Inc. could affect our earnings.**

The Company has signed the following business alliance contract with Yahoo! Netherlands B.V. and Yahoo! Inc. to provide services such as Paid Search Advertising. Any modifications to the contract could affect our earnings.

Contract name	ADVERTISER AND PUBLISHER SERVICES AGREEMENT
Contract date	July 27, 2010 (Original contract dated August 31, 2007)
Contract term	August 31, 2007, to August 30, 2017 (10 years)
Counterparties	Yahoo! Netherlands B.V. and Yahoo! Inc.
Main details	<p>1) Exclusive rights regarding Yahoo! Netherlands B.V. services  Yahoo Japan Corporation and its subsidiaries for which Yahoo Japan Corporation holds more than 50% of the voting rights will have exclusive rights in Japan for those advertising-related services of Yahoo! Netherlands B.V. (with the exception of Paid Search Advertising distribution technologies) adopted as contracted services through the procedure given in the contract. However, Yahoo Japan Corporation makes no promise to exclusively use Yahoo! Netherlands B.V.'s Paid Search Advertising distribution technologies and may freely choose and adopt other third-parties' search and Paid Search Advertising distribution technologies.</p> <p>2) Payment for Yahoo! Netherlands B.V.'s services  Yahoo Japan Corporation shall pay to Yahoo! Netherlands B.V. a service fee multiplied by a rate prearranged for each year on the gross revenues earned by Yahoo Japan Corporation and its subsidiaries for which Yahoo Japan Corporation holds 20% or more of the voting rights, for the use of services contracted from Yahoo! Netherlands B.V. (including use of other third-parties' search and Paid Search Advertising distribution technologies).</p> <p>3) Yahoo Japan Corporation's option right  Should Yahoo Japan Corporation desire, the search and Paid Search Advertising distribution technologies that Yahoo! Inc. has the right to provide may be offered to Yahoo Japan Corporation on a non-exclusive basis. Provision of those services will be based on contracts separately formed with Yahoo! Inc. and Microsoft Corporation.</p> <p>4) Cooperation regarding transfer of customer data  When Yahoo Japan Corporation decides to use technologies other than those of Yahoo! Inc. or Microsoft Corporation, Yahoo! Netherlands B.V. will cooperate with Yahoo Japan Corporation regarding the transfer of customer data.</p>

## 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. It is the Company's policy to acquire necessary additional staff and to strengthen the Yahoo Japan Group's 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 Yahoo Japan Corporation's businesses and those of its subsidiaries and affiliates, which could negatively impact the performance of each company.

### b. The Yahoo Japan Group faces risks related to its foreign exchange (FX) margin trading operations.

#### (i) Regulatory infringements could negatively affect our performance and financial condition.

On January 31, 2013, Yahoo Japan Corporation converted FX trading company YJFX, Inc., into a wholly owned subsidiary. As a Financial Instruments Business Operator registered under Japan's Financial Instruments and Exchange Act (FIEA), YJFX carries out its operations in compliance with the FIEA, related regulations, and Cabinet Office ordinances.

Nevertheless, should an infringement of any of these regulations or ordinances occur, YJFX could have its operations suspended, be deregistered, or receive some other administrative disciplinary action. Moreover, in the case of future tightening of regulations the Yahoo Japan Group could be obligated to incur additional expenses to strengthen its compliance structures or trading systems or to implement other organizational adjustments. Any of these actions could negatively affect our performance and financial condition.

#### (ii) Customer FX margin transactions could negatively affect our performance and financial condition.

Under the Yahoo Japan Group's FX margin trading system, customers conduct transactions after making margin cash deposits in amounts specified by the Yahoo Japan Group based on customers' chosen levels of leverage. Because this system allows customers to conduct transactions in excess of their actual cash deposits, they can earn high returns on their investments or suffer great losses. In accordance with the transaction agreement with customers, the Yahoo Japan Group is able to take action to protect customers from further losses when their trading accounts fall below a 50% margin level by forcing customers to close out their positions using a reversing transaction method specified by the Yahoo Japan Group. However, should customers suffer losses in excess of their deposits and be unable to cover those losses, it is possible that the Yahoo Japan Group would have to assume a write-off loss for all or a portion of the outstanding liability of its customers. If such a situation occurs, it could negatively affect our performance and financial condition.

#### (iii) Covering transactions with counterparties could negatively affect our performance and financial condition.

To minimize the risk associated with FX margin trading carried out on behalf of its customers, the Yahoo Japan Group places covering transactions with various reputable banks, securities companies, and other financial institutions. However, should any of these financial institutions become unable to honor their contractual obligations owing to deterioration in business performance or financial condition or to other circumstances, we might as a result be unable to cover our customers' trading positions. In addition, the Yahoo Japan Group might be unable to recover its collateral deposits placed with such financial institutions in the case of their bankruptcy or failure. As a result, our performance and financial condition could be negatively affected.

**(iv) Violations of asset segregation requirements could adversely affect our performance, financial condition, and business development.**

In order to safeguard customer assets, Financial Instruments Business Operators are required to segregate customer assets from proprietary assets and manage them separately. Accordingly, the Yahoo Japan Group systematically deposits customer assets with major financial institutions, thereby segregating them from proprietary assets and managing them separately as trust assets. Nevertheless, if a computer system failure or other unforeseen circumstance were to impair our ability to properly calculate customer assets, or if unforeseen circumstances were to make it impossible to manage customer assets on a segregated basis, the Yahoo Japan Group's FX business operations could be suspended, deregistered, or subjected to other administrative disciplinary action. Any of these actions could negatively affect our performance, financial condition, and business development.

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

The Yahoo Japan Group is dedicated to maintaining computer system stability as part of its ongoing efforts to strengthen its FX trading system. However, in the event of a computer system failure or unauthorized system access customers could suffer losses for which the Yahoo Japan Group is not covered by the liability exclusion clauses in customer contracts. As a result, customers could endure opportunity losses and the Yahoo Japan Group could suffer a loss of credibility and increased damage liability, thereby negatively affecting its performance and financial condition.

Furthermore, the Yahoo Japan Group does not hold the copyright to some of the software used in its FX trading system. Although we have obtained the legally required licenses to use such software, if after the expiration of a software licensing contract we become unable to continue using the software in question owing to the bankruptcy or failure of the company holding the copyright, our performance, financial condition, and business development could be negatively affected.

**(vi) Foreign currency exchange rate fluctuations could adversely affect our performance and financial condition.**

Foreign currency exchange rate fluctuations directly affect the trading losses or gains of customers using our FX trading services. An increase in trading losses due to unfavorable movements in foreign currency exchange rates could dampen customer sentiment, leading to a decrease in this business' transaction value. Because earnings from this business are based on transaction value, a prolonged period of depressed transaction value could adversely affect our performance and financial condition. Moreover, if currency exchange rates fluctuate sharply, our covering transactions with major financial institutions might be inadequate for covering customer positions. As a result, our performance and financial condition could be negatively affected.

**(vii) The Yahoo Japan Group could be penalized for violating FIEA regulations related to customer suitability.**

Under FIEA regulations, Financial Instruments Business Operators are obligated to confirm the suitability of individual customers with regard to FX trading activities. Accordingly, we undertake appropriate background investigations before allowing customers to use our FX trading services. However, if as a result of inadequate investigations or other oversight on our part a customer is allowed to engage in inappropriate transactions, we could be subjected to administrative disciplinary action or to legal action initiated by the customer in question.

**(viii) The Act on Prevention of Transfer of Criminal Proceeds could negatively affect our performance and business development.**

Effective March 1, 2008, the Act on Prevention of Transfer of Criminal Proceeds requires that financial institutions conduct customer identification procedures as well as maintain customer identification and customer transaction records, activities previously undertaken on a voluntary basis. Furthermore, the Act mandates the establishment of customer management and information storage systems, which facilitate the tracing of funds to, and help to prevent the flow of funds to, terrorists, as well as discourage money laundering.

In accordance with said Act, the Yahoo Japan Group collects required documentation from customers of its FX trading services, conducts customer identification procedures, and maintains customer identification and customer transaction records. Nevertheless, if the Yahoo Japan Group's operational management is found to not be in accordance with said Act, or if a new regulatory framework is imposed, our performance and business development could be negatively affected.

### **3) Other Major Business Partners**

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

Yahoo Japan Corporation 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 with regard to the Yahoo! BB business, our earnings could be affected.

**b. Because various kinds of communications-related services, including the Yahoo! BB business, are partially handled by SoftBank Corp., the service quality of SoftBank Corp. could affect our performance.**

The portion of such communications-related services handled by SoftBank Corp. could indirectly influence our performance. If SoftBank Corp. fails to complete construction on time and services to subscribers are delayed, we might be unable to account for projected sales on time and could lose business opportunities due to cancellations. Failure to build infrastructure and problems with service quality could cause subscribers to cancel services early, thereby negatively impacting our earnings.

## **6. Finances, Loans, and Investments**

### **1) Funds Procurement and Interest Rate Changes**

**a. In our Yahoo! ezPay service, we might be required to borrow funds to bridge the collection of reimbursement funds from buyers.**

Yahoo! ezPay is a payment service provided by Yahoo Japan Corporation whereby upon request of the seller and buyer of an item listed on YAHUOKU!, Yahoo Japan Corporation acts as the intermediate in the payment of the transaction.

Because Yahoo Japan Corporation reimburses the seller of an item one to three business days after the buyer has made payment by credit card or Internet banking, it must carry the credit-card receivables for the period up to the fixed payment date of the financial institutions used by the credit-card company. If the pace of growth of this service should substantially exceed expectations, then we might not be able to raise the required funds at a reasonable cost. Moreover, should the amount of the

reimbursement funds increase to a substantial level, interest payments to financial institutions might increase owing to rising interest rates, which could have a negative impact on our business performance.

**b. In our Yahoo! Card service, we might be required to borrow funds to bridge the collection of reimbursement funds from cardholders.**

The Yahoo! Card and Yahoo! JAPAN Card Suica credit card are credit cards issued by the Yahoo Japan Group and through which the Group provides credit to persons issued with the cards. We reimburse payments made by cardholders to merchants honoring the card. Because payments are collected from cardholders once a month while reimbursements to merchants are made about three times a month, it will be necessary to finance those reimbursements. Although we are considering diversifying our funding sources as this business expands, obtaining the necessary funding for making reimbursements to merchants at a suitable cost could prove to be impossible.

## **2) Investments**

**a. 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 Web sites, 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 Yahoo! JAPAN users.

In the advertising business, the Yahoo Japan Group is expanding its advertising network, known as AD Network, by partnering with new sites and incorporating their advertising space in a network-wide advertising distribution system, thereby enabling partner sites with limited viewer reach to increase their advertising media value. Advertisers, meanwhile, can achieve wider exposure by targeting advertisements at the entire network's user base. By jointly providing advertisers with advertising services, the Yahoo Japan Group and its partners are achieving superior performance. In addition, we are offering other services, such as our online payment service, Yahoo! Wallet, on partner sites. By establishing an extended network, we are helping to enhance the convenience, security, efficiency, user appeal, and profitability of all partner sites on the network. At the same time, by working together with partner sites we aim to provide the full range of Internet services that users demand.

In pursuing these actions, we face the following risks:

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect our performance.
- We provide services to partners via proprietary systems and via systems owned by 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 Yahoo Japan Group's reputation and trustworthiness. Any detrimental impact, therefore, could negatively affect our brand image.

**b. The termination of Paid Search Advertising business agreements could affect our profitability.**

The Yahoo Japan Group provides its Paid Search Advertising services not only to Yahoo Japan Group companies but also to other domestic portal sites and partners with which it has business agreements. We intend to continue to expand the number of our partners and to create new services. However, should business agreements with such partners be terminated, our profitability could be negatively impacted.

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

We offer and plan to continue offering Internet users high-quality, appealing information, such as news, weather, and stock quotes, as well as broadband content such as films and games. However, should we not be able to acquire information and content as expected or the costs of acquiring information and content be higher than anticipated, use of our services might decline, possibly resulting in a failure to achieve our projected earnings.

**d. As we pursue business alliances with other sites and corporations, unforeseen problems could make it impossible to achieve our objectives.**

We are pursuing business alliances with other sites and corporations in an effort to expand usage of our services. Even if we offer our services via such business alliances based on our own guidelines, in some cases we might be unable to achieve our

objectives owing to troubles caused by business alliance partners, including leaks of personal information due to deficient information management systems, service disruptions caused by inadequate systems, and lengthy delays in service development.

Conversely, certain business alliance partners might fail to provide agreed-upon services owing to problems that we caused, in which case those business alliance partners might demand some form of compensation.

Either situation could have a negative impact on user numbers and, as a result, on our business performance.

## **2) Collection of Sales Credit Claims**

### **a. Economic and business deterioration might make the collection of receivables from certain clients more difficult or impossible.**

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 and deterioration of client businesses could increase delays in collection and the occurrence of defaults.

### **b. We might be unable to collect payments from certain Yahoo! Card holders.**

We plan to curtail unrecoverable debt by rigorously evaluating the creditworthiness of individual Yahoo! Card and Yahoo! JAPAN Card Suica credit card holders and monitoring their card use. Even so, we might be unable to collect payments from certain cardholders owing to declines in cardholder creditworthiness.

## **3) Relationship with Third Parties**

### **a. Each of the Yahoo Japan Group's businesses depends to some extent on specific customers or sales agents.**

Each of our businesses depends to some extent either on sales to specific customers or on sales by specific sales agents other than the related parties described above.

Part of our advertising business depends on specific advertising agencies and media representatives because of the marketing activities provided by advertising agencies. In our other businesses, as well, we have major business transactions with specific customers, which transactions account for a growing percentage of our total sales.

If there were a change in our business relationships with or by these specific customers or sales agents, or deterioration in their business conditions, or a problem with their systems or other facilities, the viability of our services and our performance could be negatively impacted.

### **b. Relationships with third-party joint-venture partners could deteriorate.**

Several companies in the Yahoo Japan Group have been established and are operated as joint ventures with third parties. These joint ventures depend substantially on their non-Group partners. Currently, cooperative relationships between joint-venture partners are excellent and contribute to the performances of the Yahoo Japan Group companies involved. However, if for some reason cooperative relationships between joint-venture partners were to deteriorate, the performance of each company could be damaged and, in certain cases, its operations discontinued.

### **c. In some cases, system development and operations essential to services are consigned to specific third parties.**

Among the services offered by the Yahoo Japan Group, there are cases where system development and operations essential to the service are consigned to specific third parties or where service operations are premised on linkage with a third party. These third parties are selected by the Yahoo Japan Group, using standards based on suitable technical and operating capabilities judged by past performance. In addition, the Yahoo Japan Group maintains close contact with relevant sections to ensure that problems affecting our services do not arise. Nevertheless, a system development delay could occur owing to a situation at a consigned third party that we cannot manage, or a situation could arise whereby obstruction of operations or some other event causes the stoppage of third-party systems to which our services are linked. Such events could lead to a loss of sales opportunities and reduce the competitiveness of our services, negatively impacting our performance or, in the worst case, resulting in the termination of the services. In addition, in cases where third parties have direct contact with users, such as delivery-related services, mishandling of such services could damage our brand image.

### **d. Other services are also dependent on external third parties.**

In addition to the aforementioned, the Yahoo Japan Group provides certain services by consigning operations to external third parties, in which cases we are reliant on the information and services provided by those third parties. Deterioration of business conditions and service quality at such third parties could hinder our service provision and negatively impact our performance.

## **8. Information Security**

### **1) Efforts to Promote Information Security**

#### **a. Information leaks could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.**

The entire Yahoo Japan Group takes a mid- to long-term perspective on information security with the goal of providing safe and secure services to users.

Nevertheless, our efforts to promote information security could fall short. Information leaks, destruction or falsification of data, or termination of services could occur as a result of human operational error or intentional acts of sabotage, system failure due to natural disasters, cyber-attacks due to malware infections or targeted attacks, or vulnerability of systems and related equipment. Any of these eventualities could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.

#### **b. Information leaks at subsidiaries and affiliates could affect our business performance.**

The Company provides information security support to its subsidiaries and affiliates. Specifically, support is provided with regard to the sharing and implementation of information security measures, sharing of security-related vulnerability information, and consulting about information security measures, as requested by specific subsidiaries and affiliates.

Moreover, we provide support to subsidiaries and affiliates with regard to the provision of regulations and the acquisition of third-party certifications in order to ensure that subsidiaries and affiliates implement security measures comparable to those of the Company.

Nevertheless, if threats such as cyber-attacks were to occur, additional costs could arise and affect our profit.

**c. Increased sophistication or scale of such threats as cyber-attacks could negatively affect our business performance.**

The Yahoo Japan Group makes adequate investments in forward-looking measures required to protect against such threats as cyber-attacks, which are becoming increasingly sophisticated and larger in scale.

Nevertheless, if such threats as cyber-attacks were to unexpectedly increase in sophistication or scale, we could be obligated to incur additional costs, which could affect our earnings.

**2) Personal Data**

**a. Leaks of users' personal data could negatively affect our business performance.**

The Yahoo Japan Group discloses its privacy policy to its users and fully complies with the policy in its usage of users' personal data obtained through the provision of services.

Users' personal data is protected by means of several measures, including storage in isolated systems to which only a very limited number of authorized persons are granted access.

Nevertheless, these efforts could fall short of preventing leaks of users' personal information. In such a case, termination or curtailment of services might occur, which could not only negatively affect our business performance but also damage our credibility.

If there is a breach of information security of personal data that fall under "personal information", there is a possibility of this leading to a legal dispute in addition to the abovementioned risks.

Inquiries about, amendments to, and deletion of personal information 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 information except when absolutely necessary in order to answer user inquiries.

Moreover, when work related to users' personal information 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, as well as for identity verification purposes.

Based on the understanding that direct financial damages could be inflicted upon users if these pieces of information were to be exploited by a third party, we place such information as sensitive personal information under strict control in isolated systems.

Our Yahoo! Wallet credit card payment service has received the highest level of Payment Card Industry Data Security Standard (PCI DSS) certification, as have almost all affiliated stores using credit card payments in the Yahoo Japan Group. 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 information by stores registered on Yahoo! Shopping or YAHUOKU! could negatively affect our business performance.**

In Yahoo! Shopping and YAHUOKU! BtoC transactions, personal information provided by buyers is sent directly to stores where buyers have made purchases. Accordingly, individual stores are the main repositories of personal information and take responsibility for controlling it. Moreover, to ensure that buyers' personal information 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 information 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 information.

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**

**a. 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 concluded, or by companies to which the Group consigns work, or as a result of defective systems used to provide services such as Yahoo! Mail, etc., or malware, etc., or of 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**

##### **a. Fraudulent use of Yahoo Japan Group services by malicious users could negatively affect our business performance.**

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users' Yahoo! JAPAN IDs, passwords, or credit card information, and then impersonate unsuspecting users in order to use Yahoo Japan Group or partner site services, or use fraudulently obtained Yahoo! Cards to make payments. As examples of fraud on YAHUOKU!, malicious users might use unsuspecting users' accounts to list fraudulent items or to make payments via Yahoo! Wallet or Yahoo! ezPay. Similarly, malicious users might send spoof e-mails via unsuspecting users' Yahoo! Mail accounts.

The Yahoo Japan Group has taken steps to protect Yahoo! JAPAN IDs and passwords, educate users of our services and other 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, and could necessitate expenditures to prevent the recurrence of such fraudulent use, all of which could negatively affect our earnings in addition to damaging our brand image.

#### **5) Internal Management Information**

##### **a. Leaks of internal management information (insider information) that could impact investment decisions could 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 information of business partners, shareholders, and employees, audit materials, and other sales materials from the personal data of users, and manages the 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 could affect business operations or result in higher operating expenses.**

The Yahoo Japan Group has implemented stricter controls and operational standards to prevent or reduce the recurrence of problems related to improper employee conduct or human operational error, and has established the Internal Audit Office as an independent organization under the direct supervision of the President and Representative Director. Through these efforts, it has strengthened legal and appropriate corporate governance.

Yahoo Japan Corporation has converted to a company with Audit and Supervisory Committee from June 2015, in order to establish both: a structure that encourages "aggressive governance" so that timely business decisions can be made in the Internet industry; and a structure that promotes the aim of the corporate governance code, namely "transparent, fair, timely, and decisive decision making".

Two out of the three Audit and Supervisory Committee members are outside directors; and the speedy decision-making and monitoring of management is secured by dividing the roles of supervision of the management decision-making and execution of business (Board of Directors) and execution of business (corporate officers).

However, if these systems do not function effectively, there is a possibility that there will be a higher incidence of business-related human error and its recurrence, problems due to illegal acts by insiders, etc.



## 2. Notes to Summary Information

### (1) Changes in Significant Subsidiaries during the Period

Changes in significant subsidiaries during the consolidated first quarter were the addition of one subsidiary as described below:

Addition due to its establishment

YJ Tech Investment Partnership

Changes in significant subsidiaries during the consolidated second quarter were the addition of one subsidiary as described below:

Addition due to acquisition of shares

eBOOK Initiative Japan Co., Ltd.

### 3. Interim Condensed Consolidated Financial Statements

#### (1) Interim Condensed Consolidated Statements of Financial Position

(Millions of yen)

	As of Mar. 31, 2016	As of Dec. 31, 2016	Increase/decrease	
	Amount	Amount	Amount	Change (%)
<b>Assets</b>				
Current assets				
Cash and cash equivalents	449,164	451,300	2,135	0.5
Trade and other receivables	305,758	399,748	93,989	30.7
Inventories	14,902	16,061	1,159	7.8
Other financial assets	30,118	23,617	-6,501	-21.6
Other current assets	6,436	7,901	1,464	22.8
Total current assets	806,380	898,628	92,247	11.4
Non-current assets				
Property and equipment	121,133	136,592	15,458	12.8
Goodwill	156,362	159,505	3,143	2.0
Intangible assets	128,711	135,939	7,228	5.6
Investments accounted for using the equity method	34,257	36,987	2,729	8.0
Other financial assets	70,321	74,632	4,310	6.1
Deferred tax assets	23,331	24,787	1,456	6.2
Other non-current assets	2,300	3,020	719	31.3
Total non-current assets	536,419	571,464	35,045	6.5
<b>Total assets</b>	<b>1,342,799</b>	<b>1,470,093</b>	<b>127,293</b>	<b>9.5</b>

(Millions of yen)

	As of Mar. 31, 2016	As of Dec. 31, 2016	Increase/decrease	
	Amount	Amount	Amount	Change (%)
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Current liabilities				
Trade and other payables	270,766	321,196	50,429	18.6
Interest-bearing debt	14,538	34,823	20,285	139.5
Other financial liabilities	3,749	3,931	182	4.9
Income taxes payable	30,782	20,266	-10,515	-34.2
Provisions	12,547	12,254	-293	-2.3
Other current liabilities	33,638	34,523	885	2.6
Total current liabilities	366,022	426,996	60,973	16.7
Non-current liabilities				
Interest-bearing debt	9,754	25,117	15,362	157.5
Other financial liabilities	808	491	-316	-39.2
Provisions	20,089	20,844	755	3.8
Deferred tax liabilities	27,515	26,322	-1,193	-4.3
Other non-current liabilities	5,844	6,445	600	10.3
Total non-current liabilities	64,012	79,220	15,208	23.8
<b>Total liabilities</b>	430,035	506,216	76,181	17.7
<b>Equity</b>				
Equity attributable to owners of the parent				
Common stock	8,358	8,395	36	0.4
Capital surplus	-3,081	-4,343	-1,261	—
Retained earnings	827,024	881,388	54,364	6.6
Treasury stock	-1,316	-1,316	—	—
Accumulated other comprehensive income	13,180	12,819	-360	-2.7
Total equity attributable to owners of the parent	844,165	896,944	52,778	6.3
Non-controlling interests	68,598	66,931	-1,666	-2.4
<b>Total equity</b>	912,764	963,876	51,112	5.6
<b>Total liabilities and equity</b>	1,342,799	1,470,093	127,293	9.5

## (2) Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Nine months ended Dec. 31, 2015	Nine months ended Dec. 31, 2016	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	445,298	630,957	185,658	41.7
Cost of sales	154,399	277,607	123,207	79.8
Gross profit	290,898	353,350	62,451	21.5
Selling, general and administrative expenses	155,511	201,191	45,680	29.4
Gain from remeasurement relating to business combination	59,696	—	-59,696	—
Operating income	195,083	152,158	-42,925	-22.0
Other non-operating income	2,626	1,484	-1,142	-43.5
Other non-operating expenses	426	1,390	963	225.8
Equity in earnings (losses) of associates	1,196	709	-486	-40.7
Income before income taxes	198,480	152,962	-45,517	-22.9
Income taxes	44,680	48,159	3,479	7.8
Net income	153,799	104,803	-48,996	-31.9
Net income attributable to:				
Owners of the parent	153,531	104,799	-48,731	-31.7
Non-controlling interests	268	3	-265	-98.7
Net income	153,799	104,803	-48,996	-31.9
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	26.97	18.41	-8.56	-31.7
Diluted earnings per share (yen)	26.97	18.41	-8.56	-31.7

## (3) Interim Condensed Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended Dec. 31, 2015	Nine months ended Dec. 31, 2016
Net income	153,799	104,803
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss		
Available-for-sale financial assets	3,237	-50
Exchange differences on translating foreign operations	-58	413
Share of other comprehensive income of associates	-460	-667
Total other comprehensive income, net of tax	2,719	-304
Total comprehensive income	156,518	104,498
Total comprehensive income attributable to:		
Owners of the parent	156,313	104,438
Non-controlling interests	205	60
Total comprehensive income	156,518	104,498

## (4) Interim Condensed Consolidated Statements of Changes in Equity

Nine months ended December 31, 2015

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total		
As of April 1, 2015	8,281	1,235	705,839	-1,316	11,962	726,002	14,551	740,554
Net income			153,531			153,531	268	153,799
Other comprehensive income					2,782	2,782	-63	2,719
Total comprehensive income	—	—	153,531	—	2,782	156,313	205	156,518
Transactions with owners and other transactions								
New issue of shares	72	72				145		145
Cash dividends			-50,432			-50,432	-658	-51,091
Changes attributable to obtaining or losing control of subsidiaries						—	54,219	54,219
Changes in ownership interests in subsidiaries without losing control		17				17	-62	-45
Others		-84				-84	-4	-88
Total transactions with owners and other transactions	72	5	-50,432	—	—	-50,353	53,493	3,139
As of December 31, 2015	8,354	1,240	808,938	-1,316	14,744	831,962	68,250	900,212

Nine months ended December 31, 2016

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total		
As of April 1, 2016	8,358	-3,081	827,024	-1,316	13,180	844,165	68,598	912,764
Net income			104,799			104,799	3	104,803
Other comprehensive income					-360	-360	56	-304
Total comprehensive income	—	—	104,799	—	-360	104,438	60	104,498
Transactions with owners and other transactions								
New issue of shares	36	36				73		73
Cash dividends			-50,435			-50,435	-1,062	-51,498
Changes attributable to obtaining or losing control of subsidiaries						—	2,179	2,179
Changes in ownership interests in subsidiaries without losing control		-1,277				-1,277	-3,281	-4,558
Others		-20				-20	437	417
Total transactions with owners and other transactions	36	-1,261	-50,435	—	—	-51,660	-1,726	-53,386
As of December 31, 2016	8,395	-4,343	881,388	-1,316	12,819	896,944	66,931	963,876

## (5) Interim Condensed Consolidated Statements of Cash Flows

(Millions of Yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Three months ended December 31, 2016
	Amount	Amount	Amount
<b>Cash flows from operating activities:</b>			
Income before income taxes	198,480	152,962	52,799
Depreciation and amortization	20,892	27,866	9,364
Gain from remeasurement relating to business combination	-59,696	—	—
Increase in trade and other receivables	-48,765	-93,002	-85,417
Increase in trade and other payables	56,533	54,382	65,541
Decrease (increase) in other financial assets	-3,501	4,469	6,585
Other cash flows	-23,919	-8,212	294
Subtotal	140,022	138,466	49,168
Income taxes paid	-64,605	-62,232	-30,917
Cash flows from operating activities	75,417	76,233	18,250
<b>Cash flows from investing activities:</b>			
Expenditures on property and equipment	-21,688	-29,222	-8,622
Expenditures on intangible assets	-6,692	-12,685	-6,214
Expenditures on investment securities	-11,197	-7,379	-3,735
Proceeds from acquisition of control over subsidiaries	31,323	—	—
Other cash flows	2,876	2,055	3,318
Cash flows from investing activities	-5,378	-47,232	-15,253
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	-1,226	17,949	-2,550
Proceeds from long-term loans payable	—	15,300	2,000
Payments for purchase of subsidiaries' equity from non-controlling interests	-196	-5,694	—
Purchase of treasury stock of subsidiaries in consolidation	-5	-4,603	-4,586
Cash dividends paid	-50,392	-50,410	-10
Other cash flows	-1,292	602	-842
Cash flows from financing activities	-53,113	-26,855	-5,990
Effect of exchange rate changes on cash and cash equivalents	-35	-10	326
Net change in cash and cash equivalents	16,890	2,135	-2,666
Cash and cash equivalents at the beginning of the periods	503,937	449,164	453,966
Cash and cash equivalents at the end of the periods	520,828	451,300	451,300

## (6) Going Concern Assumption

Not applicable.

(Reference: Quarterly information)

Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2016	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	196,426	221,361	24,935	12.7
Cost of sales	86,851	96,651	9,799	11.3
Gross profit	109,574	124,710	15,135	13.8
Selling, general and administrative expenses	66,422	72,938	6,515	9.8
Operating income	43,151	51,772	8,620	20.0
Other non-operating income	241	1,155	913	378.6
Other non-operating expenses	262	369	107	41.0
Equity in earnings (losses) of associates	-21	241	262	—
Income before income taxes	43,109	52,799	9,689	22.5
Income taxes	14,072	16,679	2,606	18.5
Net income	29,037	36,119	7,082	24.4
Net income attributable to:				
Owners of the parent	28,784	35,680	6,896	24.0
Non-controlling interests	252	439	186	73.9
Net income	29,037	36,119	7,082	24.4
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	5.06	6.27	1.21	24.0
Diluted earnings per share (yen)	5.06	6.27	1.21	24.0



Breakdown of Selling, General and Administrative Expenses

(Millions of yen)

	Three months ended Dec. 31, 2015	Three months ended Dec. 31, 2016	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Selling, general and administrative expenses				
Personnel expenses	16,526	18,785	2,258	13.7
Sales promotion costs	12,276	10,590	-1,685	-13.7
Business commissions	8,289	10,115	1,825	22.0
Depreciation and amortization	7,850	8,355	505	6.4
Lease and utility expenses	3,884	5,659	1,774	45.7
Packing and freight	3,708	4,410	702	18.9
Royalties	3,196	3,669	472	14.8
Communication charges	1,683	1,951	267	15.9
Content provider fees	1,708	1,844	135	8.0
Administrative and maintenance expenses	1,341	1,634	293	21.8
Others	5,955	5,920	-34	-0.6
Total selling, general and administrative expenses	66,422	72,938	6,515	9.8

## Analysis of Business Results for the Third Quarter (October 1, 2016 to December 31, 2016)

### 1) Revenue

Revenue in the quarter under review amounted to ¥221,361 million, increasing ¥24,935 million, or 12.7%, from a year earlier. The increase can mainly be attributed to growth in advertising revenue and revenue increase of ASKUL Corporation.

### 2) Cost of Sales and Selling, General and Administrative Expenses

Cost of sales in the quarter under review increased ¥9,799 million, or 11.3%, year on year to ¥96,651 million, primarily because of the revenue increase of ASKUL Corporation and the consolidation of eBook Initiative Japan Co., Ltd.

Selling, general and administrative expenses for the quarter were ¥72,938 million, rising ¥6,515 million, or 9.8%, from the same quarter last year.

The major components of change in selling, general and administrative expenses were as follows:

- Personnel expenses amounted to ¥18,785 million, increasing ¥2,258 million, or 13.7%, year on year. This was due to the total number of employees of the Yahoo Japan Group rising to 11,185, an increase of 2,315 employees, or 26.1%, from the same quarter in the previous fiscal year.
- Sales promotion costs amounted to ¥10,590 million, decreasing ¥1,685 million or 13.7%, from the same quarter last year. The decrease can mainly be attributed to the streamlining of promotional activities.
- Business commissions rose ¥1,825 million or 22.0% year on year, to ¥10,115 million. This is mainly due to the increase in the operation commission fees for our services, etc.
- Lease and utility expenses increased ¥1,774 million or 45.7% year on year to ¥5,659 million. This increase is temporary and can be primarily attributed to the relocation of headquarters.

### 3) Other Non-Operating Income and Other Non-Operating Expenses

Other non-operating income in the quarter under review amounted to ¥1,155 million, increasing ¥913 million, or 378.6%, from a year earlier.

The major component of other non-operating income is gain on sales of investment securities.

Other non-operating expenses in the quarter under review amounted to ¥369 million, up ¥107 million, or 41.0%, from a year earlier. The major component of other non-operating expenses is loss on valuation of investment securities.

### 4) Income Taxes

Income taxes for the quarter under review amounted to ¥16,679 million. The effective income tax burden ratio for income before income taxes was 31.6% for the quarter.

### 5) Net Income

Net income amounted to ¥36,119 million, increasing ¥7,082 million, or 24.4%, from a year earlier. Basic earnings per share attributable to owners of the parent was ¥6.27 for the quarter.

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