

## Results for the Three Months Ended September 30, 2015 (FY2015-2Q) [IFRSs]

October 30, 2015

Company Name: Yahoo Japan Corporation Share Listings: 1<sup>st</sup> section of TSE  
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Scheduled Securities Report Submission Date: November 12, 2015

Scheduled Dividend Payment Date: -

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 FY2015-2Q (April 1, 2015 - September 30, 2015)

(1) Consolidated Business Performance (April 1, 2015 - September 30, 2015) (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 (%)
FY2015-2Q	248,871 (22.4)	151,931 (60.3)	155,370 (48.1)	124,762 (85.6)	124,747 (87.3)	123,234 (87.0)
FY2014-2Q	203,266 (2.6)	94,797 (-4.1)	104,908 (0.4)	67,207 (2.2)	66,619 (2.1)	65,897 (1.5)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2015-2Q	21.92	21.91
FY2014-2Q	11.70	11.70

(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	%
FY2015-2Q	1,247,850	868,421	798,866	64.0
FY2014	1,007,602	740,554	726,002	72.1

### 2. Cash Dividends

(Record date)	Dividends per share				
	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2014	—	0.00	—	8.86	8.86
FY2015	—	0.00	—	8.86	8.86
FY2015 (Estimates)	—	—	—	8.86	8.86

Revision in dividends previously announced: No

### 3. Consolidated Performance Estimates for FY2015 (April 1, 2015 – March 31, 2016)

In the fiscal year ending March 31, 2016, expenditures will notably increase because of sales promotional activities and others being made more proactively than before in Internet shopping and credit card businesses, and the applications for smartphones in the second half of the fiscal year. Nevertheless, the consolidated revenue and operating income for the fiscal year ending March 31, 2016 is expected to grow year on year over the fiscal year ended March 31, 2015, due to expansion of the existing businesses and conversion of ASKUL Corporation to a consolidated subsidiary. For details on the existing businesses, please refer to 3) Consolidated Performance Estimates for This Fiscal Year (April 1, 2015 – March 31, 2016) 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).

#### 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 (ASKUL Corporation, ecohai 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 quarter end (including treasury stocks)

2) Number of treasury stocks at the quarter end

3) Average number of stocks (accumulated for the quarter)

FY2015-2Q	5,695,152,000	FY2014	5,694,945,000
FY2015-2Q	2,800,000	FY2014	2,800,000
FY2015-2Q	5,692,241,704	FY2014-2Q	5,693,638,456

#### \* 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 had 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

### ■ Cumulative Consolidated Financial Results for the Second Quarter (April 1, 2015 - September 30, 2015)

In the cumulative consolidated second quarter of the fiscal year ending March 31, 2016, the Yahoo Japan Group recorded revenue growth of 22.4% compared with the same period last year mainly due to the increase in the revenue of Display Advertising, conversion of ASKUL Corporation from an affiliated company under the equity-method to a consolidated subsidiary in late August 2015 and the consolidation of YJ Card Corporation during the last fiscal year.

Although we continue to make upfront investments in order to strengthen our operating base for the future, operating income, income before income taxes and net income attributable to the owners of the parent increased significantly due to the recognition of gain from remeasurement relating to business combination with ASKUL Corporation.

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

##### 1) Cumulative Business Results Summary (April 1, 2015 to September 30, 2015)

	FY2014 1Q-2Q	FY2015 1Q-2Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥203.2 billion	¥248.8 billion	+¥45.6 billion	+22.4%
Operating Income	¥94.7 billion	¥151.9 billion	+¥57.1 billion	+60.3%
Income before income taxes	¥104.9 billion	¥155.3 billion	+¥50.4 billion	+48.1%
Net Income attributable to owners of the parent	¥66.6 billion	¥124.7 billion	+¥58.1 billion	+87.3%

2) Cumulative Segment Business Results Summary (April 1, 2015 – September 30, 2015)

Revenue and Operating Income by Segment

	FY2014 1Q-2Q	FY2015 1Q-2Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
<b>Marketing Solutions Business</b>				
Revenue	¥129.2 billion	¥142.6 billion	+¥13.4 billion	+10.4%
Operating income	¥69.0 billion	¥73.3 billion	+¥4.2 billion	+6.2%
<b>Consumer Business</b>				
Revenue	¥57.1 billion	¥82.3 billion	+¥25.1 billion	+44.1%
Operating income	¥32.9 billion	¥92.8 billion	+¥59.9 billion	+182.0%
<b>Others</b>				
Revenue	¥21.7 billion	¥29.5 billion	+¥7.7 billion	+35.8%
Operating income	¥7.2 billion	¥5.6 billion	-¥1.5 billion	-21.0%
<b>Adjustments</b>				
Revenue	-¥4.8 billion	-¥5.7 billion	—	—
Operating income	-¥14.3 billion	-¥19.9 billion	—	—
<b>Total</b>				
Revenue	¥203.2 billion	¥248.8 billion	+¥45.6 billion	+22.4%
Operating income	¥94.7 billion	¥151.9 billion	+¥57.1 billion	+60.3%

Notes: 1. The main revenue included in the Others segment is that for settlement- and finance-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, and other e-commerce-related services</li> <li>• Yahoo! Premium, Yahoo! BB, and other membership services</li> <li>• Yahoo! Real Estate and other information listing services</li> <li>• Game-related services</li> </ul>

■ **Cumulative Marketing Solutions Business in the Second Quarter**

The revenue of Display Advertising grew year on year primarily due to the continued expansion in the revenue of Yahoo! Display Ad Network (YDN) and increase in the revenues of Yahoo! Premium DSP and “Rich Advertising”, such as video advertising. In Paid Search Advertising, smartphone-related revenue grew significantly year on year, however, overall Paid Search Advertising revenue decreased slightly compared with the same period last year.

As a result, revenue of the Marketing Solutions Business amounted to ¥142.6 billion, rising 10.4% from the prior year, and accounted for 57.3% of total revenue. Operating income increased 6.2% year on year, to ¥73.3 billion.

- The revenue of Yahoo! Display Ad Network (YDN) largely increased compared with the same period last year due to continuous functional improvements, increase in the number of displays and renewal of the smartphone version of the Yahoo! JAPAN startup page.
- The revenue of Yahoo! Premium DSP has increased year on year, in terms of both PCs and smartphones.
- In Paid Search Advertising, although the smartphone-related revenue increased compared with the same period last year, PC-related revenue decreased, which led to the year-on-year decrease in the overall revenue.
- Out of the advertising revenue, the proportion of smartphone advertising increased year on year.

Main advertisement product categories

Paid Search Advertising	<p>Product name: Sponsored Search</p> <p>A per-click, performance-based advertising. Text advertising is listed on the search results pages. The product targets major companies and small and medium-sized business enterprises.</p>
Display Advertising	<p>Product name: Yahoo! Display Ad Network (YDN)</p> <p>A per-click, performance-based advertising. Text or banner advertising is listed on top or content pages. The product targets major companies and small and medium-sized business enterprises.</p>
	<p>Product name: Yahoo! Premium DSP</p> <p>A per-impression, performance-based advertising. Banner advertising is listed on top or content pages. The product targets major companies.</p>
	<p>Product name: Premium Advertising</p> <p>A per-impression, guarantee-based advertising. Advertising using richly expressive banners and videos is listed on top or content pages. The product targets major companies.</p>

- Performance-based advertising: Advertising that is programmatically or manually managed on a real-time basis to optimize advertising placement.
- Guarantee-based advertising: Advertising where specific placement is reserved in advance.

## ■ Cumulative Consumer Business in the Second Quarter

Earnings of the Consumer Business greatly rose from the same period last year, due to the increase in revenue of YAHUOKU! and conversion of ASKUL Corporation from an affiliated company under the equity-method to a consolidated subsidiary (\*1). Total domestic e-commerce transaction value (\*2) amounted to ¥644.6 billion, increasing 14.9% year on year. Out of the transaction value, business-to-business (BtoB) revenue (transaction value) via Internet in ASKUL Corporation's non-consolidated revenue from August 21 to September 20, 2015 amounted to ¥16.3 billion.

As a result, revenue of the Consumer Business amounted to ¥82.3 billion, increasing 44.1% year on year and accounting for 33.1% of total revenue. Operating income expanded 2.8 times compared with last year, to ¥92.8 billion.

- Along with the continuing steady increase of auction-related transaction value, revenue of YAHUOKU! increased year on year.
- In Yahoo! Shopping, as a result of the increase in the number of buyers and improvement of repeat purchase ratio, total transaction value of Yahoo! Shopping and LOHACO (revenue of ASKUL Corporation's LOHACO business from March 21 to September 20) significantly expanded by 26.7% year on year. As of September 30, 2015, the number of stores (\*3) in Yahoo! Shopping amounted to 340 thousand IDs and the number of product items reached 180 million.
- Both in YAHUOKU! and Yahoo! Shopping, smartphone-related transaction value expanded year on year.
- Number of monthly paid-membership IDs (\*4) as of September 30, 2015, climbed to 15.99 million IDs.

\*1 Includes the revenue and operating income from August 28 to September 30, 2015 and the gain from remeasurement relating to business combination.

\*2 Includes the auction- and shopping-related transaction values, as well as business-to-business (BtoB) revenue (transaction value) via Internet in ASKUL Corporation's non-consolidated revenue.

\*3 Number of stores is based on individual and corporate accounts issued. It includes accounts that are still preparing to launch store sites after passing the screening process.

\*4 Number of monthly paid-membership IDs is the 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\*. Paid-membership IDs are counted separately for each service, even if there is an overlap in IDs.

(\* ) IDs with payment through Yahoo! Wallet only

### 3) Consolidated Performance Estimates for This Fiscal Year (April 1, 2015 – March 31, 2016)

Continued year-on-year, double-digit growth is expected in revenue of Yahoo! Display Ad Network (YDN) including Yahoo! Premium DSP. On the other hand, there is an ongoing shift of Internet-enabled devices in Japan from personal computers to smart devices. Due to this shift, the Yahoo Japan Group is experiencing a decline in the use of its personal computer-based services and a rapid increase in the use of its smart device-based services. Based on the impact of this shift to smart devices, the Group is anticipating that Paid Search Advertising revenue in fiscal 2015 will decline at a single-digit pace compared with the previous fiscal year. As a result, total advertising-related revenue in the fiscal year ending March 31, 2016 is expected to post high single-digit growth year on year.

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 in the fiscal year ending March 2016 by proactively pursuing sales promotional activities while refining advertising products; in preparation for the shopping-related advertising revenue growth phase that is scheduled to start in the fiscal year ending March 2017.

As for the credit card business, into which Yahoo Japan Corporation has made a full-scale entry in January 2015, the next several years, including the current fiscal year, have been positioned as an "Upfront Investment for Future Growth Period". During this period, the operations plan to aggressively expand the card subscriber base.

Sales promotional activities on the applications for smartphones will also be pursued proactively in the second half of the fiscal year.

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

### Assets, Liabilities and Equity

#### 1) Assets

Total assets at the end of this second quarter amounted to ¥1,247,850 million, increasing ¥240,247 million, or 23.8% from the end of fiscal 2014. The main components of change were the following:

- Cash and cash equivalents increased from the end of fiscal 2014, mainly because of increase in cash from operating activities, although there was a decrease in cash due to payments of dividends and income taxes.
- Trade and other receivables have increased from the end of fiscal 2014, primarily due to the consolidation of ASKUL Corporation, although there was a decrease in balances of foreign exchange dealings cash-deposits with trust banks.
- Other current assets increased from the end of fiscal 2014, mainly due to the increase in inventories as a result of the consolidation of ASKUL Corporation.
- Property and equipment increased compared with the end of fiscal 2014, mainly due to the consolidation of ASKUL Corporation and purchase of servers, etc.
- Goodwill and intangible assets increased from the end of fiscal 2014, mainly due to the consolidation of ASKUL Corporation.
- Investments accounted for using the equity method decreased compared with the end of fiscal 2014, mainly due to the consolidation of ASKUL Corporation.

#### 2) Liabilities

Total liabilities at the end of this second quarter were ¥379,428 million, increasing ¥112,379 million, or 42.1%, from the end of fiscal 2014. The major components of change were the following:

- Trade and other payables increased from the end of fiscal 2014, mainly because of the consolidation of ASKUL Corporation.
- Other financial liabilities (non-current) increased compared with the end of fiscal 2014, chiefly because of the increase in loans payable and lease obligations due to the consolidation of ASKUL Corporation.
- Deferred tax liabilities increased from the end of fiscal 2014, primarily because the tax effect was recognized on the temporary difference related to intangible assets due to the consolidation of ASKUL Corporation.

#### 3) Equity

Total equity at the end of this second quarter amounted to ¥868,421 million, increasing ¥127,867 million, or 17.3%, from the end of fiscal 2014. The primary reasons for change in equity were as follows:

- Despite the decrease due to the cash dividends paid, retained earnings increased from the end of fiscal 2014 due to the recognition of net income attributable to owners of the Company.

### Cash Flows

At the end of the second quarter, cash and cash equivalents amounted to ¥521,829 million, up ¥36,494 million compared with the same quarter end last year.

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

Cash flows from operating activities amounted to a cash inflow of ¥60,840 million mainly because of an increase in net income despite the payment of corporate income taxes.

Cash flows from investing activities amounted to a cash inflow of ¥9,649 million, primarily due to the consolidation of ASKUL Corporation, despite expenditures on property and equipment and on investment securities.

Cash flows from financing activities amounted to a cash outflow of ¥52,455 million, attributed mainly to dividends paid.

### (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 the Company.

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

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

###### **a. The Yahoo Japan Group's business development has an aspect of synchronizing with the growth of Internet-based markets.**

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 as well as to advances in and proliferation of smart devices. Because the Yahoo Japan Group is dependent on the Internet both indirectly and directly, the most basic requirements for its business development are the continued expansion of Internet-based communications and commercial activities in line with increased Internet usage, as well as a stable and secure infrastructure for Internet users.

A number of factors contribute to uncertainty in the outlook for continued expansion of Internet-based markets: (1) growth of user numbers and Internet usage times might eventually slow down; (2) new Internet regulations or fees might constrict Internet usage; and (3) improper development and application of new protocols and technological standards in response to growing user numbers and increasingly advanced applications could result in reduced 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 17.1% of the total domestic advertising market in calendar year 2014, according to a DENTSU INC. report.

The Yahoo Japan Group engages in a range of activities aimed at enhancing its advertising media value. In the area of the advertising business, for example, we endeavor to expand and stabilize our client base of corporate advertisers and advertising agencies through various means, including periodic seminars aimed at promoting a greater understanding and appreciation of Internet advertising within the advertising industry. In the area of Promotion Advertising, meanwhile, we are working to improve the match between advertisements and the interests of each user, thereby becoming a more valuable media both for users and for advertisers.

However, further progress in this regard could be hindered by such factors as extremely slow growth in the Internet advertising market or a premature tapering-off of growth in the market. As a result, we might not achieve anticipated levels of advertising revenues, which would negatively impact our business performance.

###### **c. Cyclical macroeconomic trends and user behavior could contribute to underlying volatility in our Internet advertising business.**

The advertising business is highly susceptible to trends in the overall economy and user behavior. Especially when economic conditions deteriorate, advertising expenditures are among the first that companies reduce. Contract periods for Internet advertising are relatively short. In addition, potentially, there are short-term variable elements in Internet usage.

Recruiting, real estate, and other information listing services are also strongly influenced by macroeconomic trends.

On the other hand, our cost structure includes a high proportion of fixed costs, such as personnel and lease expense, etc.; therefore, expenditures cannot be adjusted easily according to revenues, contributing to underlying volatility in our income 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. However, if usage of smart devices expands further, we may fail to acquire the share of user numbers and usage times that we command in the PC market, and our overall market share might decrease. As a result, advertising revenue growth could taper off, with negative consequences in earnings.

###### **f. A slowdown in the growth rate 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. (Our premier member service, Yahoo! Premium, grants to subscribers special members-only benefits and entitlements.) Eventually, however, it is expected that growth in the number of Internet users will begin to slow. If, as a result, growth in the number of users of Yahoo! JAPAN member services and other fee-based services also slows, so too is growth in revenue derived from these services likely to decline. To offset the expected decline in revenue growth, we are implementing various measures to promote broader usage of Yahoo! JAPAN member services and other fee-based services. Despite these efforts, it is possible that

growth in revenues derived from member services and other fee-based services could slow, which could negatively impact our overall revenues.

**g. The popularity of various fee-based service contents offered through the Internet, or those provided by Yahoo! Japan might decrease.**

The Yahoo Japan Group delivers a variety of fee-based service content to meet changing user needs, including video and games. Demand for such service content is likely to expand as the number of Internet users increases. On the other hand, fee-based service content could fail to become a regular part of the lives of users.

**2) Competition**

**With competitors in each of our service areas, we might have difficulties maintaining our dominant position in the Japanese Internet market.**

Our flagship Yahoo! JAPAN portal site offers a diverse range of services over the Internet, 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. We have multiple competitors in each of these service areas.

In such a business climate, a degree of uncertainty exists as to whether or not we will be able to maintain our dominant position in the Japanese Internet market. 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. It is possible also that we will be obligated to make significant investments in developing new services to maintain our competitive advantage. Either eventuality could have a negative impact on our business performance.

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

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

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

In providing Yahoo! JAPAN services, we depend in particular on a stable supply of electricity to run our servers and other equipment and facilities. Given the possibility of disruptions to the electric power supply arising from power blackouts, usage restrictions, or other eventualities, we are setting up 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.

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 for accessing the Internet. Some types of browser software and certain information devices, however, are incompatible with Yahoo! JAPAN services. In addition, due to usage conditions and settings of information devices and software, users may not be able to adequately receive information provided by Yahoo! JAPAN. Furthermore, specification changes, rate adjustments, or insufficient market supply of these devices, software and services have the potential to disrupt user access to information provided by us, decreasing users' use frequency, thereby negatively affecting the contents of our services and our revenues.

**4) Technological Change**

**Failure to respond quickly and appropriately to technological innovation could greatly affect the Yahoo Japan Group's business.**

The computer industry is well known for technological innovation. The Internet industry is continuously developing new multimedia protocols and technologies. Our services are based on Internet technologies produced in an industry noted for rapid technological innovation, constant change in standards and customer needs, and continuous development of new technologies and services.

To keep up with the market and maintain competitiveness, we plan to implement innovative technologies while continuously improving and expanding services. Nevertheless, if we are slow to implement new technologies emerging in the market and our services become obsolete as a result, we could suffer a decline in competitiveness.

**2. Legal and Institutional Changes**

**1) Legal Restrictions**

**a. New laws or amendments could negatively affect 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 resulted in the move toward the application of 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 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 implementation 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 and the introduction of Yahoo! Safety Net. 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.**

Listings of illegal items on YAHUOKU! have been reported and other cases of fraudulent activity have been identified. 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.

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

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

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

Social media services provide a space for users to communicate with each other via postings of opinion and content. In the context of such services, the potential exists for defamation, invasion of privacy, and infringement of intellectual property rights and other legally protected ownership rights. We prohibit postings containing copyright-protected content and 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.**

In the area of financial services, the Yahoo Japan Group offers the Yahoo! Card service, wherein we have independently issued the Yahoo! JAPAN Card Suica credit card. YJ Card Corporation, a consolidated subsidiary, also issues a credit card and a loan card. Owing to their lending and other loan-related functions, both of these services fall under the Money Lending Business Act and the Interest Limitation Law. Under the former, the Company is registered as a money lender with the Kanto Local Finance Bureau, while YJ Card Corporation is registered with the Fukuoka Local Finance Branch Bureau. As a result of a 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 Limitation Law, customers might claim that interest paid in excess of the rate permitted under the Interest Limitation Law represents unfair profits, and demand repayment. Although adequate reserve, estimated conservatively, is set aside, YJ Card Corporation's business is especially exposed to the risk of being impacted by unfair profit claims.

Strengthening or revising financial services compliance structures or trading systems in response to a tightening 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.

\* In February 2009, the Company converted SOFTBANK IDC Solutions Corp. (IDC) into a consolidated subsidiary and subsequently absorbed it via merger the following March. In June 2010, the Company received notification from the Tokyo Regional Taxation Bureau of a revision to its tax payment related to those transactions. Refuting the taxation bureau's revision,

the Company submitted a request for reconsideration to the National Tax Tribunal, after which it filed for revocation in April 2011. Following the Tokyo High Court's November 5, 2014, dismissal of that legal action, the case is presently under final appeal.

## **2) Litigation**

### **a. We could be subject to damage claims by related parties who wish not to be listed in certain search results.**

In regard to information displayed in search results, we have set up a "Panel of Experts on Internet Search Results and Privacy" to examine the balance between both "freedom of expression" and "right to know" and privacy protection. Taking into consideration the result of the examination, we announced our policy toward requests to delist Internet search results in March 2015. By appropriately handling requests regarding information displayed in search results based on this policy, we work to improve our service and reduce risks.

However, if these measures fail to bring about expected results, related 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.

### **b. Victims of auction fraud might take legal action against the Yahoo Japan Group.**

We have implemented various measures to improve systems security for a safer and more stable auction environment. In May 2001, we introduced a fee-based personal identification system. In July 2004, we initiated a system that verifies by postal mail the physical addresses of users listing items on the auction site. To further reinforce security, we introduced an Internet auction fraud-detection model in November 2005. In addition, we have set up a patrol team to search out and eliminate auction listings of illegal items in cooperation with law enforcement agencies and copyright-related groups.

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 an appeal by said users, effectively upholding an initial judgment that the Company was not liable for damages because it had not only forewarned YAHUOKU! users of the potential for auction fraud but also offered advice on how to detect and avoid it by citing actual examples of fraud.

Despite this ruling in our favor, the strong 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 criminal activity, including an expansion of patrol capabilities, could entail increased costs and, as a result, reduced earnings.

We have instituted a system guaranteeing limited compensation for users victimized by auction fraud. This compensation 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 with each 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 regarding 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. 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 those 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 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 user rules 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. However, it remains possible 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.

**f. 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.

**g. Advertisers could claim reimbursement of excessive fees resulting from click fraud or other methods of artificially increasing advertising costs in Promotion Advertising.**

In Promotion Advertising, including paid search and Yahoo! Display Ad Network (YDN), a problem known as click fraud might arise. Fees for Promotion 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 Promotion 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 Promotion 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**

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

Our operations, like those of many other corporations in Japan, 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. 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 improving our network infrastructure by duplicating and dispersing server capacity and data centers.

Although we have taken steps to ensure a quick and appropriate response throughout the Yahoo Japan Group in the event of a disaster, the scale and nature of certain disasters might make it impossible to carry on normal operations or to recover fully. At the same time, advertisers might cancel or reduce advertising, and Yahoo! JAPAN's fee-based services might suffer a drop in user numbers, which would negatively affect our operations, business performance, and brand image.

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

**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, 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 access infrastructure might be disrupted or some other circumstances arise whereby users would no longer be able to 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 would impede our links to business alliances in those countries. If our offices were physically disabled, or if other companies closely related to our businesses, such as companies with businesses related to Internet connection and data centers, were hit with the same conditions, it is possible that the Yahoo Japan Group could be rendered incapable of maintaining some of its services.

### **4. Business Management**

#### **1) Management Policy and Business Strategies**

**Failure to quickly and flexibly modify strategies in response to changing market conditions could compromise 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 through the implementation of new strategies and the establishment of new businesses, such efforts might fail to adequately address user needs or result in R&D failures or delays.**

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

The Internet-related market is crowded with entrants and highly competitive, technological innovation is the norm, the pace of change is rapid, and service life cycles are short. For these reasons, 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 sales and profits 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 developing new strategies and 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.**

The pace of change in technology and services is very dynamic in the Internet market, resulting in a constant stream of new 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 continue to 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 current operations. Against a background of continuing growth in the Internet user base, increasing rates of diversification in devices and expanding Internet accessibility, we are obligated to add new and upgrade existing network-related facilities to adequately cope with higher peaks in access volume and larger volumes of data transmission and reception in short time periods. With the recent acquisition of a proprietary large-scale data center, the Yahoo Japan Group benefits not only from stable and efficient operations of its servers 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 settlement 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 shorter and depreciation costs higher compared with those of previous facilities. As a corollary, the accelerated disposal of existing facilities might result in higher-than-expected 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. Along 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.

Enabling users to easily connect to Yahoo! JAPAN via any Internet-enabled information device is a key element supporting our competitiveness. We intend to work 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 that are expressed through video and audio; "Rich Advertising" that have a wide variety of advertising expressions such as expandable display area through user initiated actions such as "mouse-over"; Yahoo! Premium DSP that allows full use of Yahoo! JAPAN's multi big data and media; and Promotion Advertising that enables effective approaches by posting advertisements on major partner sites including 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 physical location; Interest Match<sup>®</sup>, which distributes advertising based on the said 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**

**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 significantly affect our performance.

### **4) Services Provided**

**a. Development, operation, and maintenance of the Yahoo Japan Group's search services are commissioned to Google and others.**

Currently, we are using the search engine and Paid Search Advertising distribution system of Google.

In the future, should the Company's business relationship with Google change or Google's smooth service operations be obstructed, the sustainability of certain of our services could be jeopardized and our performance negatively affected as a result.

**b. Any modifications to the business 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. Since search and Paid Search Advertising distribution technologies are key income sources for the Yahoo Japan Group, any modifications to the 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 the Yahoo Japan Group on a non-exclusive basis, which will be used by the Group 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. The Company may decide on its own whether to display the other party's search results.</p> <p>3) Payment for counterparty's services Payment 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 Company Web site and (2) an amount calculated using the standard for excess amounts on any revenue of the Company Web site in excess of a specific amount during the specified period. The payment for the counterparty's services provided by the Company to partners shall be an amount calculated using a determined method based on the revenue received from each partner's Web site.</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**

**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 directors 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 directors 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 directors and employees to leave the Yahoo Japan Group.

**c. Efforts promoting the protection of our intellectual property rights with the goal of maintaining competitive advantage might not be cost-effective.**

The Yahoo Japan Group believes that its intellectual property rights are central to its ability to maintain certain competitive advantages in the market and that it is therefore essential to produce, acquire, and protect copyrights, patents, trademarks, designs, and domain names. Most of the content accompanying the services offered to Yahoo! JAPAN users is subject to copyright protection and other legal rights. Users are allowed to utilize said content within the scope of user contracts to which they have agreed.

Although rights pertaining to the content accompanying services offered to users are legally protected, certain content potentially could be used in a manner other than that sanctioned in user contracts, which could damage our brand image. The increased costs associated with minimizing the likelihood of such an eventuality could negatively affect our business performance. At the same time, additional expenditures required to fully support the exercise of those rights as competitive advantages could arise, making it difficult to gain sufficient benefit from the rights in view of the excessive expenditure entailed.

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

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

The Yahoo Japan Group has formed a special section responsible for strengthening the management of this pool of customers and for taking such steps as introducing a new system to improve business efficiency. Despite these measures, we might be exposed to expanded risks related to the settlement and collection of receivables owing to increasing amounts of small sales receivables and uncollected receivables, expanding credit card settlement problems, and growing costs of receivables collection.

Meanwhile, the array and quantity of customer 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 settlement services provided by our commissioned 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 computerizing businesses. Higher costs associated with these measures could negatively affect our profits. In addition, these measures do not guarantee that all customers 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 and Yahoo! Inc. as the owner of the Yahoo! brand name, it is to be expected that the Yahoo Japan Group has good business relationships with the various associated business partners of SoftBank Group Corp. and Yahoo! Inc. Moving forward, we intend to maintain these 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.**

The Yahoo Japan Group's operations are based on a license agreement with Yahoo! Inc., one of the founding partners of the Company. 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 Company's outstanding shares 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 the Company (may be waived by agreement of Yahoo! Inc.).
Counterparty	Yahoo! Inc.
Main details	<p>1) Licensing rights granted by Yahoo! Inc. to the Company:</p> <ul style="list-style-type: none"> <li>• Non-exclusive rights granted to the Company 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 the Company for use in Japan of the Yahoo! trademark</li> <li>• Exclusive rights granted to the Company for publishing of the Yahoo! trademark in Japan</li> <li>• Exclusive rights granted to the Company 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 the Company</p> <p>3) Royalties to be paid by the Company 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 {(Consolidated net sales) - (Advertising sales commissions on a consolidated basis) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3%</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 to predict 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. Therefore, 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 The Company and its subsidiaries for which it 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, the Company 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' Paid Search Advertising distribution technologies.</p> <p>2) Payment for Yahoo! Netherlands B.V.'s services The Company shall pay to Yahoo! Netherlands B.V. a service fee multiplied by a rate prearranged for each year on the Company revenues (gross revenues earned by the Company and its subsidiaries for which it holds 20% or more of the voting rights) associated with the use of services contracted from Yahoo! Netherlands B.V. (including use of other third-parties' Paid Search Advertising distribution technologies).</p> <p>3) The Company's option right Should the Company desire, the search and Paid Search Advertising distribution technologies that Yahoo! Inc. has the right to provide may be offered to the Company 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 the Company decides to use technologies other than those of Yahoo! Inc. or Microsoft Corporation, Yahoo! Netherlands B.V. will cooperate with the Company 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. 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 the Company's businesses and those of its subsidiaries and affiliates, which could negatively impact the Yahoo Japan Group's performance.

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

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

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

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

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

Under the Yahoo Japan Group's FX margin trading system, customers conduct transactions after making margin cash deposits in amounts specified by the Yahoo Japan Group based on customers' chosen levels of leverage. Because this system allows customers to conduct transactions in excess of their actual cash deposits, they can earn high returns on their investments or suffer great losses. In accordance with the transaction agreement with customers, the Yahoo Japan Group is able to take action to protect customers from further losses when their trading accounts fall below a 20% margin level by forcing customers to close out their positions using a reversing transaction method specified by the Yahoo Japan Group. However, should customers suffer losses in excess of their deposits and be unable to cover those losses, it is possible that the Yahoo Japan Group would have to assume a write-off loss for all or a portion of the outstanding liability of its customers. If such a situation occurs, it could negatively affect our performance and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**3) Other Major Business Partners**

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

The Company has signed the following business alliance contract and incentive agreement concerning 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.

Contract name	Business alliance contract
Contract date	March 31, 2007 (original contract signed on June 20, 2001)
Contract term	June 20, 2001~ (indefinite term)
Counterparty	SoftBank Corp.
Main details	<p>1) The Company and SoftBank Corp. will jointly provide Internet access services using FTTH and DSL technology.</p> <p>2) The Company's main roles:</p> <ul style="list-style-type: none"> <li>• Promoting Yahoo! BB services</li> <li>• Acquiring subscribers for Yahoo! BB services</li> <li>• Operating the Yahoo! BB portal site</li> <li>• Providing mail and Web site services</li> <li>• Providing Yahoo! Premium services (for the Yahoo! BB Premium Plan and Yahoo! BB basic services (Premium))</li> <li>• Providing a fee-collection platform for Yahoo! BB services</li> </ul> <p>3) SoftBank Corp.'s main roles:</p> <ul style="list-style-type: none"> <li>• Providing ADSL and FTTH services between subscribers and phone offices, installing network infrastructure between phone-office buildings, and providing connections to Internet networks</li> <li>• Handling subscriber inquiries and providing technical support</li> <li>• Compensation for connection device necessary for Internet connection (for Yahoo! BB basic services (Premium))</li> </ul> <p>4) SoftBank Corp. will pay the Company the following amounts, included in Yahoo! BB charges, for services provided by the Company:</p> <ul style="list-style-type: none"> <li>- Yahoo! BB ADSL subscribers acquired: ¥100 per subscriber per month</li> <li>- Yahoo! BB hikari with FLET'S/Yahoo! BB hikari FLET'S course subscribers acquired: ¥60 per subscriber per month</li> <li>- Yahoo! BB for Mobile subscribers acquired: ¥50 per subscriber per month</li> <li>- Yahoo! BB basic service subscribers acquired: ¥55 per subscriber per month</li> <li>- Yahoo! BB Premium Plan subscribers acquired: ¥180 per subscriber per month, in addition to the ¥50 to ¥100 per subscriber per month as above</li> </ul> <p>5) The Company will pay SoftBank Corp. ¥250 per new Yahoo! BB Premium Plan subscriber acquired.</p>

Contract name	Incentive agreement
Contract date	October 7, 2005
Contract term	One year, beginning October 1, 2004 (automatically renewed each year)
Counterparty	SoftBank Corp.
Main details	<p>As a distributor of Yahoo! BB services, the Company will receive the following incentive fees from SoftBank Corp.</p> <p>Incentive fees</p> <ul style="list-style-type: none"> <li>• New subscriber acquisition incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB ADSL: Approx. ¥15,000 per new subscriber</li> <li>Yahoo! BB ADSL + wireless LAN package: Approx. ¥20,000 per new subscriber</li> <li>Yahoo! BB hikari: Approx. ¥5,000 per new subscriber</li> <li>Yahoo! BB hikari + wireless LAN package: Approx. ¥10,000 per new subscriber</li> <li>SoftBank Air: Approx. ¥5,000 per new subscriber</li> <li>SoftBank hikari: Approx. ¥10,000 per new subscriber</li> <li>Yahoo! BB basic services (Standard): ¥1,000 per new subscriber</li> <li>Yahoo! BB basic services (Premium): ¥2,000 per new subscriber</li> </ul> </li> <li>• Continuing subscriber incentive fees <ul style="list-style-type: none"> <li>Yahoo! BB ADSL: Approx. ¥200 per month per continuing subscriber</li> <li>Yahoo! BB ADSL + wireless LAN package: Approx. ¥250 per month per continuing subscriber</li> <li>Yahoo! BB hikari: Approx. ¥50 per month per continuing subscriber</li> <li>Yahoo! BB hikari + wireless LAN package: Approx. ¥100 per month per continuing subscriber</li> <li>Yahoo! BB for Mobile: Approx. ¥50 per month per continuing subscriber</li> </ul> </li> </ul>

**b. Because the Yahoo! BB business is partially handled by SoftBank Corp., the service quality of SoftBank Corp. could affect our performance.**

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

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

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

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

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

Because the Company reimburses the seller of an item one to three business days after the buyer has made settlement by credit card or Internet banking, it must carry the credit-card receivables for the period up to the fixed settlement date of the bank 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, the amount of the reimbursement funds could increase to a level where, if interest rates rose higher, interest payments to banks or other financial institutions could have a negative impact on our business performance.

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

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

### **2) Investments**

#### **The Yahoo Japan Group often makes investments in or loans to other companies. In some cases, appropriate returns might not be obtained on investments or loans, or investments or loans could become irrecoverable.**

We make investments as a result of business tie-ups or with an eye to forming business tie-ups in the future. The recoverability of these investments is not guaranteed.

Some of the public companies in which we have invested have already produced evaluation profits or losses. In the future, evaluation profits could decline or become evaluation losses; moreover, evaluation losses could worsen.

We take the utmost care to ensure that the performances of the companies in which we invest are reflected appropriately in our own performance results by observing in-house rules in accordance with general accounting standards and by applying asset-impairment accounting. Nevertheless, depending on the direction of the stock market and the performances of the companies in which we have invested, they could have an increasingly adverse effect on our profit or loss in the future.

To maximize business synergies or to expand our business, we expect to further invest or loan funds for capital participation in third-party companies, fund joint ventures, engage in new investments by establishing companies, or provide new loans to adequately provide for the capital needs of subsidiaries and affiliates. These investments or loans will be made based on a careful investigation of the risks of the investments or loans based on thorough analysis in compliance with in-house procedures. However, if these new investments or loans do not achieve the originally projected level of profit or, in the worst case, become irrecoverable, our future financial condition could be adversely affected.

## **7. Relationship with Competitors 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 settlement 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 settlements. 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 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 commissioned to specific third parties.**

Among the services offered by the Yahoo Japan Group, there are several cases where system development and operations essential to the service are commissioned to specific third parties or where service operations are premised on linkage with a third party. These third parties are selected using standards based on suitable technical and operating capabilities judged by past performance. In addition, relevant sections of the Yahoo Japan Group maintain close contact with the third parties to ensure that problems affecting our services do not arise. Nevertheless, a system development delay could occur owing to a situation at a commissioned 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 systems, negatively impacting our performance or, in the worst case, resulting in the termination of the services. In addition, there are cases in which third-parties are assuming the role of having direct contact with customers such as delivery-related services, and mishandling of such services could damage our brand image.

**d. Some services are dependent on external third parties.**

We not only rely on the aforementioned Internet providers but also many of our services rely on third parties to whom we have consigned operations to or from whom we receive information or support. Worsening business conditions and service qualities at such third parties could hinder our operations and negatively impact our performance.

**8. Information Security**

**1) Efforts to Promote Information Security**

**Information leaks, network invasions, or computer virus attacks could erode public confidence in the Yahoo Japan Group, leading to loss of users.**

Due to the rapid growth of the Internet, we have become a society where a variety of information spreads quite easily. The development of Internet technology has broadened the horizons of users and boosted convenience. At the same time, the

importance of the security management of personal and other information has become a major social issue. As providers of a range of services over the Internet, the Yahoo Japan Group is obligated to address this issue extremely carefully.

Based on this understanding, we have proactively taken steps to deal with information security. Currently, we are working to protect customers' personal information and other sensitive management information by quickly and effectively implementing necessary measures throughout the Yahoo Japan Group. To facilitate this process, we have appointed a Chief Information Security Officer (CISO) empowered with wide-ranging authority. Moreover, we have established Information Security Basic Regulations and other in-house rules that clarify our procedure for handling customers' personal information and other important information. At the same time, to promote adherence to our in-house rules on information management we have established an information management system that is being run by our information security specialist team and employees in charge of information security appointed in individual business sections. Moreover, employee training programs on information security are offered to all employees newly joining the Yahoo Japan Group and at regular intervals thereafter. As part of our information security measures, the addresses and other information of our customers are obtained using encryption and access to stored data is tightly restricted. In August 2004, we acquired Information Security Management Systems (ISMS) certification. In November 2007, we became the first in Japan to receive ISO 15408 certification for our development of a monitoring system to prevent information leakage from our databases. In November 2008, we obtained Payment Card Industry Data Security Standard (PCI DSS) certification for our Yahoo! Wallet credit card settlement service. We have used these third-party certification systems to implement objective, global-standard checks of our operations with the goal of further strengthening our information security measures and fulfilling our social responsibility regarding this issue.

Nevertheless, these actions 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 performance.

## **2) Personal Information**

### **a. Leaks of personal information required for user identification could damage our credibility and lead to legal disputes.**

The Yahoo Japan Group is obligated to hold personal information for each Yahoo! JAPAN user in order to effectively provide services, including e-commerce.

We exercise the utmost care in protecting the privacy and personal information of each user and take extraordinary measures to ensure the security of each service. In addition, we observe strict guidelines regarding internal access to users' personal information, granting access rights only to a very limited number of personnel.

Nevertheless, we cannot completely eliminate the possibility that users' personal information will be leaked outside the Yahoo Japan Group, either deliberately or through negligence, by our personnel, by companies with which business alliances have been concluded, or by companies to which we outsource work, or as a result of computer viruses introduced via defective or malicious software. There have been multiple incidents of personal information stored on virus-infected PCs being unknowingly leaked onto networks, the source of the virus being file-sharing software. Also, the possibility always exists for third parties to fraudulently obtain passwords, for example, to gain unauthorized access to systems, or employ such methods as spoofing or phishing whereby personal user information is illicitly obtained, with unsuspecting users suffering the consequences. To guard against phishing attacks, we introduced a log-in theme system in May 2014. In December 2007, we added to Yahoo! Mail a function enabling users to refuse spoofed mail. In June 2008, we conducted open testing of an anti-phishing browser that provides basic protection against phishing, and we currently offer a phishing warning function on the Yahoo! Toolbar. In May 2012, we introduced Secret ID, a dedicated log-in ID, and in August 2012 we introduced a One Time Password service. Moreover, in January 2008 we began issuing OpenIDs, a shared-identity authorization system that eliminates the need for multiple IDs and passwords, thereby improving information security.

Although we continue to implement such measures with the goal of minimizing the damage caused by ill-intentioned users, there is no guarantee that these measures will be sufficient. If problems occur despite our efforts to thwart them, our services could be adversely affected and our brand image tarnished. Furthermore, we could become the target of lawsuits.

Regardless of questions of legal responsibility, our policy is to propose measures aimed at strengthening the management and monitoring of the security systems of companies with which we have business alliances. Yahoo Japan Group representatives currently participate on phishing e-mail countermeasures committees of the Ministry of Economy, Trade and Industry and the Ministry of Internal Affairs and Communications, as well as on a similar committee of the National Police Agency. By sharing information with relevant ministries, agencies, and Internet-related associations, we seek to establish effective measures against this type of fraud.

With the April 2005 promulgation of the Act on the Protection of Personal Information, relevant ministries and agencies issued guidelines for observing the law to businesses under their respective jurisdictions. The Yahoo Japan Group's handling of personal information is in accordance with the provisions of this law and with each of the guidelines related to its businesses.

### **b. Leaks of personal information by stores registered on Yahoo! Shopping or YAHUOKU!, or by business alliance partners, could damage our credibility and lead to legal disputes.**

Personal information obtained through our services is held within the Yahoo Japan Group in principle, and we are committed to taking all possible information protection measures. However, in some cases the personal information management systems of business alliance partners or of stores registered on the Yahoo! Shopping and YAHUOKU! sites counteract our efforts.

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 use the settlement system operated by Yahoo! JAPAN, or deal directly with credit card companies. Stores opting to use our settlement system cannot maintain records of credit card numbers, as these are provided directly to credit card companies by Yahoo! JAPAN. 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.

We outsource the bulk of business operations related to “Yahoo! Card” to business alliance partners with the intention of taking full advantage of available expertise in personal information management as well as to promote variable cost flexibility. Although we are extremely careful in choosing our business alliance partner, we could be sued for damages should this partner leak personal information. Despite such measures, information leaks might occur, resulting in damage to our credibility, regardless of whether or not we are in fact responsible.

### **3) Communications Privacy**

#### **Leaks of information related to communications privacy could tarnish our brand image and lead to legal disputes.**

The Yahoo Japan Group acts as a telecommunications provider in offering e-mail and other services to users. In these services, we handle information related to communications privacy, such as the content of communications. In handling this type of information, we take appropriate measures to meet the requirements of the Telecommunications Business Act using the information security system.

Despite these measures, it is possible that this information will be leaked outside the Yahoo Japan Group, either deliberately or through negligence, or used for malicious purposes by Group personnel, by companies with which business alliances have been concluded, or by companies to which the Group outsources work, or as a result of defective software, computer viruses, or physical intrusion into the Group’s communications facilities. In such cases, we could be drawn into legal disputes and our brand image could be tarnished, with a resultant negative impact on business performance.

### **4) Network Security**

#### **Attacks on or invasions of our networks could disrupt services, damaging our credibility and negatively affecting our business performance.**

Although the Yahoo Japan Group has established appropriate security systems to ensure the integrity of its external and internal computer networks, possible damage from invasion by computer viruses or hackers cannot be completely ruled out. Moreover, there have been several incidents of specific Web sites or networks being targeted by huge volumes of data sent over brief periods of time with the intention of paralyzing the targeted Web site or network. Although we have implemented effective security programs and strengthened our monitoring systems in preparation for such an attack, there is no guarantee that such an attack can be averted. Such obstructive actions could disrupt our service provision and negatively affect our business performance.

Furthermore, if the number and sophistication of attacks by specialized crime groups specifically targeting Yahoo! JAPAN increase, the costs of defending against these attacks might rise. Malware, account lists, or other attacks might result in the abuse of user IDs. Under such conditions, market growth could slow owing to rising security concerns among users, negatively affecting the Yahoo Japan Group’s business performance.

### **5) Fraudulent Use**

#### **Fraudulent use could result in damage to our customers and the Yahoo Japan Group, leading to loss of users and customers.**

Malicious users might employ phishing or other methods to fraudulently obtain unsuspecting users’ IDs, passwords, and credit card information, 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 settlements via Yahoo! Wallet or Yahoo! ezPay. Similarly, on Yahoo! Mail malicious users might send e-mail via unsuspecting users’ accounts.

The Yahoo Japan Group is taking steps to strengthen its information security, enlighten users about ID management, and take certain measures against anticipated fraud. Nevertheless, it is possible that fraudulent use of such information by malicious users will prevent the collection of advances paid, that claims will be made for damage compensation by victims of fraudulent use, that such compensation claims will be greater than expected, and that expenditures to prevent the recurrence of such fraudulent use will be high. Fraudulent use could also damage the brand image of Yahoo! JAPAN.

### **6) Behavioral History Information**

#### **Restrictions on the collection and analysis of users’ behavioral history information could affect our behavior-targeted advertising and interest-based advertising (Yahoo! Display Ad Network (YDN)).**

Based on an analysis of users’ Internet usage histories, behavior-targeted advertising and 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 efficiency 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 information. Behavior-targeted advertising and Yahoo! Display Ad Network (YDN) analyze three aspects of users’ behavioral history information: (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 information, 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 behavior-targeted advertising and Yahoo! Display Ad Network (YDN), which could have a detrimental impact on our business performance.

### **7) Genetic Analysis Service**

In this service, genetic samples provided by subscribers to the service are analyzed and the genetic information resulting from the analysis stored 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, confidence in the Yahoo Japan Group could drop and legal claims for damage compensation could arise.

## **9. Corporate Governance Corporate Governance System**

**Inadequate internal controls 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. In April 2006, the Company established the Internal Audit Office as an independent organization under the direct supervision of the President. The Internal Audit Office works to ensure effective and efficient business activities, accurate financial reporting, and full legal compliance, as well as maintain appropriate corporate governance. Despite these efforts, problems related to business management and control issues could arise in the future. Moreover, increased costs stemming from efforts to improve internal control could negatively affect the Yahoo Japan Group's earnings.

## 2. Notes to Summary Information

### (1) Changes in significant subsidiaries during the period

Changes in significant subsidiaries during the period were the addition of two subsidiaries as described below:

Addition due to heightened voting rights holding ratio

ASKUL Corporation

Addition due to acquisition of shares

ecohai Co.,Ltd.

### 3. Interim Condensed Consolidated Financial Statements

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

(Millions of yen)

	As of Mar. 31, 2015	As of Sept. 30, 2015	Increase/decrease	
	Amount	Amount	Amount	Change (%)
<b>Assets</b>				
Current assets				
Cash and cash equivalents	503,937	521,829	17,892	3.6
Trade and other receivables	217,736	261,273	43,536	20.0
Other financial assets	15,901	23,006	7,104	44.7
Other current assets	4,251	19,280	15,028	353.4
Total current assets	741,827	825,389	83,561	11.3
Non-current assets				
Property and equipment	67,465	111,184	43,718	64.8
Goodwill	27,673	83,379	55,706	201.3
Intangible assets	32,382	106,977	74,594	230.4
Investments accounted for using the equity method	61,671	30,455	-31,215	-50.6
Other financial assets	58,104	67,957	9,853	17.0
Deferred tax assets	15,105	19,094	3,989	26.4
Other non-current assets	3,372	3,412	39	1.2
Total non-current assets	265,774	422,460	156,686	59.0
<b>Total assets</b>	<b>1,007,602</b>	<b>1,247,850</b>	<b>240,247</b>	<b>23.8</b>

(Millions of yen)

	As of Mar. 31, 2015	As of Sept. 30, 2015	Increase/decrease	
	Amount	Amount	Amount	Change (%)
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Current liabilities				
Trade and other payables	158,979	228,511	69,532	43.7
Other financial liabilities	9,671	15,782	6,111	63.2
Income taxes payable	33,071	33,737	666	2.0
Provisions	6,398	7,379	980	15.3
Other current liabilities	31,651	29,096	-2,554	-8.1
Total current liabilities	239,772	314,508	74,735	31.2
Non-current liabilities				
Other financial liabilities	920	11,017	10,097	—
Provisions	22,841	25,444	2,602	11.4
Deferred tax liabilities	28	22,863	22,834	—
Other non-current liabilities	3,485	5,594	2,109	60.5
Total non-current liabilities	27,276	64,919	37,643	138.0
<b>Total liabilities</b>	267,048	379,428	112,379	42.1
<b>Equity</b>				
Equity attributable to owners of the parent				
Common stock	8,281	8,328	47	0.6
Capital surplus	1,235	1,231	-3	-0.3
Retained earnings	705,839	780,154	74,314	10.5
Treasury stock	-1,316	-1,316	—	—
Accumulated other comprehensive income	11,962	10,467	-1,494	-12.5
Total equity attributable to owners of the parent	726,002	798,866	72,864	10.0
Non-controlling interests	14,551	69,555	55,003	378.0
<b>Total equity</b>	740,554	868,421	127,867	17.3
<b>Total liabilities and equity</b>	1,007,602	1,247,850	240,247	23.8

## (2) Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Six months ended Sept. 30, 2014	Six months ended Sept. 30, 2015	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	203,266	248,871	45,605	22.4
Cost of sales	40,350	67,547	27,197	67.4
Gross profit	162,915	181,323	18,408	11.3
Selling, general and administrative expenses	68,118	89,088	20,969	30.8
Gain from remeasurement relating to business combination	—	59,696	59,696	—
Operating income	94,797	151,931	57,134	60.3
Other non-operating income	9,950	2,385	-7,564	-76.0
Other non-operating expenses	204	164	-40	-19.8
Equity in earnings (losses) of associates	366	1,217	851	232.2
Income before income taxes	104,908	155,370	50,461	48.1
Income taxes	37,700	30,607	-7,093	-18.8
Net income	67,207	124,762	57,554	85.6
Net income attributable to:				
Owners of parent	66,619	124,747	58,127	87.3
Non-controlling interests	588	15	-572	-97.3
Net income	67,207	124,762	57,554	85.6
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	11.70	21.92	10.21	87.3
Diluted earnings per share (yen)	11.70	21.91	10.21	87.3

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

(Millions of yen)

	Six months ended Sept. 30, 2014	Six months ended Sept. 30, 2015
Net income	67,207	124,762
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss		
Available-for-sale financial assets	-1,959	-495
Exchange differences on translating foreign operations	308	-116
Share of other comprehensive income of associates	340	-916
Total other comprehensive income, net of tax	-1,310	-1,528
Total comprehensive income	65,897	123,234
Total comprehensive income attributable to:		
Owners of parent	65,286	123,252
Non-controlling interests	610	-18
Total comprehensive income	65,897	123,234

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

Six months ended Sept. 30, 2014

(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, 2014	8,271	3,892	598,012	-526	10,032	619,682	8,036	627,718
Net income			66,619			66,619	588	67,207
Other comprehensive income					-1,332	-1,332	22	-1,310
Total comprehensive income	—	—	66,619	—	-1,332	65,286	610	65,897
Transactions with owners and other transactions								
New issue of shares	7	7				15		15
Cash dividends			-25,223			-25,223	-124	-25,348
Net changes in treasury stock		2		-789		-787		-787
Change in interests in a subsidiary						—	227	227
Change in the interests in its controlled subsidiary		-1				-1	1	-0
Others		26				26		26
Total transactions with owners and other transactions	7	34	-25,223	-789	—	-25,971	104	-25,866
As of September 30, 2014	8,278	3,927	639,407	-1,316	8,700	658,998	8,751	667,749

Six months ended Sept. 30, 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			124,747			124,747	15	124,762
Other comprehensive income					-1,494	-1,494	-33	-1,528
Total comprehensive income	—	—	124,747	—	-1,494	123,252	-18	123,234
Transactions with owners and other transactions								
New issue of shares	47	47				95		95
Cash dividends			-50,432			-50,432	-225	-50,658
Change in interests in a subsidiary						—	55,313	55,313
Change in the interests in its controlled subsidiary		21				21	-62	-41
Others		-72				-72	-3	-75
Total transactions with owners and other transactions	47	-3	-50,432	—	—	-50,387	55,021	4,633
As of September 30, 2015	8,328	1,231	780,154	-1,316	10,467	798,866	69,555	868,421

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

(Millions of Yen)

	Six months ended September 30, 2014	Six months ended September 30, 2015
	Amount	Amount
<b>Cash flows from operating activities:</b>		
Income before income taxes	104,908	155,370
Depreciation and amortization	7,826	12,114
Gain from remeasurement relating to business combination	—	-59,696
Incremental realization of gain from remeasurement from associates	-6,249	—
Decrease (increase) in trade and other receivables	19	2,181
Increase (decrease) in trade and other payables	6,415	9,806
Increase (decrease) in accrued consumption taxes	3,542	-7,937
Decrease (increase) in other financial assets	-2,615	-6,311
Increase (decrease) in other financial liabilities	1,711	-3,578
Other cash flows	-11,921	-8,889
Subtotal	103,638	93,059
Income taxes paid	-44,768	-32,218
Cash flows from operating activities	58,870	60,840
<b>Cash flows from investing activities:</b>		
Expenditures on property and equipment	-9,292	-11,358
Expenditures on intangible assets	-2,740	-4,516
Expenditures on investment securities	-12,108	-6,817
Proceeds from acquisition of control over subsidiaries	59	31,291
Other cash flows	-5,799	1,051
Cash flows from investing activities	-29,881	9,649
<b>Cash flows from financing activities:</b>		
Cash dividends paid	-25,196	-50,380
Other cash flows	-898	-2,074
Cash flows from financing activities	-26,094	-52,455
Effect of exchange rate changes on cash and cash equivalents	104	-142
Net change in cash and cash equivalents	2,998	17,892
Cash and cash equivalents at the beginning of the periods	482,336	503,937
Cash and cash equivalents at the end of the periods	485,335	521,829

## (6) Going Concern Assumption

Not applicable.

## (7) Notes to Consolidated Financial Statements

### 1. Significant accounting policies

The significant accounting policies applied by the Yahoo Japan Group in preparing the statements are the same as those applied to Interim Condensed Consolidated Financial Statements for the previous fiscal year.

As a result of the addition of new subsidiaries in this consolidated second quarter, the following have been newly recognized as significant accounting policies.

#### Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated mainly using the moving average method, and net realizable value is calculated by deducting estimated costs necessary to make the sale from estimated selling price for the inventories in the ordinary course of business.

The major component of inventories is merchandise.

#### Intangible assets

Certain trademark rights basically continue to exist as long as the business continues to be in operation, thus their useful lives cannot be determined and are not amortized.

#### Revenue

Sales of goods are recognized when: the material risks and economic values related to the ownership of merchandise are transferred to the buyer; continuous control over the management of the sold merchandise ceases to be held; flow of transaction-related economic benefits to the Group is probable; and the cost and earnings related to the transaction can be measured with reliability.

### 2. Business combination

#### (1) Outline of Business Combination

ASKUL Corporation, the Company's affiliated company which primarily conducts mail order services for office supplies, became the Company's subsidiary on August 27, 2015 (date of acquisition) as a result of ASKUL Corporation's acquisition of its own treasury stock as resolved by its Board of Directors on May 19, 2015. As a result of ASKUL Corporation's acquisition of its own treasury stock, the ownership ratio of ASKUL Corporation's voting rights held by the Company rose from 41.7% (as of May 20, 2015) to 44.4% (as of August 27, 2015). The Company did not yet hold the majority of the voting rights of ASKUL Corporation, however, considering the dispersion of voting rights in ASKUL Corporation and the voting patterns exercised in ASKUL Corporation's past shareholders meetings, etc., the Company judged that it has substantial control of ASKUL Corporation and has converted it to a consolidated subsidiary. This business combination is a result of ASKUL Corporation's acquisition of its own treasury stock, thus constitutes a non-cash transaction.

Equity interest of ASKUL Corporation already held by the Company was remeasured at fair value as of the date of acquisition, and gain on step acquisitions of ¥59,696 million was recognized. This gain is accounted as "gain from remeasurement relating to business combination" in the consolidated statement of income.

#### (2) Outline of Acquired Company

Name:	ASKUL Corporation
Business description:	Mail-order business for stationery, other products and services

#### (3) Date of acquisition

August 27, 2015

(4) Fair value of equity interest already held, assets acquired and liabilities assumed; non-controlling interests and goodwill; as of the date of acquisition

(Millions of Yen)

Fair value of equity interest already held	93,611
Fair value of assets acquired and liabilities assumed	
Current assets	90,115
Cash and cash equivalents	31,291
Trade and other receivables	45,365
Others	13,458
Non-current assets	112,716
Property and equipment	32,408
Intangible assets	71,944
Others	8,363
Current liabilities	-71,494
Trade and other payables	-56,772
Others	-14,722
Non-current liabilities	-35,495
Net assets	95,842
Non-controlling interests *1	-55,133
Goodwill *2	52,902
Total	93,611

The amounts shown above are provisional fair values based on best possible estimates currently available. If additional information related to facts and circumstances that were in existence at the date of the acquisition can be acquired, the above amounts can be revised.

Notes:

1. Non-controlling interests

Non-controlling interests are measured based on appropriate share of acquiree's identifiable net assets value.

2. Goodwill

Goodwill reflects the future excess earning power expected to derive from future business development and synergies between the Group and the acquired company.

(5) Profit and loss information after the acquisition date of the business combination

The revenue of the acquired company after the acquisition date, recognized in this Consolidated Statements of Income, is ¥24,719 million, and the quarterly net income is ¥ 456 million.

Amortization of intangible assets recognized on the date of acquisition, etc., is included in the net income mentioned above.

(Reference: Quarterly information)

Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Three months ended Sept. 30, 2014	Three months ended Sept. 30, 2015	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	103,318	138,295	34,976	33.9
Cost of sales	20,793	43,391	22,597	108.7
Gross profit	82,525	94,903	12,378	15.0
Selling, general and administrative expenses	36,481	51,819	15,338	42.0
Gain from remeasurement relating to business combination	—	59,696	59,696	—
Operating income	46,043	102,779	56,736	123.2
Other non-operating income	342	1,702	1,360	397.7
Other non-operating expenses	137	96	-40	-29.5
Equity in earnings (losses) of associates	92	442	349	377.3
Income before income taxes	46,341	104,828	58,486	126.2
Income taxes	15,850	13,558	-2,291	-14.5
Net income	30,491	91,269	60,778	199.3
Net income attributable to:				
Owners of parent	30,202	91,366	61,164	202.5
Non-controlling interests	288	-97	-385	—
Net income	30,491	91,269	60,778	199.3
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	5.30	16.05	10.75	202.6
Diluted earnings per share (yen)	5.30	16.05	10.74	202.6

Breakdown of Selling, General and Administrative Expenses

(Millions of yen)

	Three months ended Sept. 30, 2014	Three months ended Sept. 30, 2015	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Selling, general and administrative expenses				
Personnel expenses	11,479	15,293	3,813	33.2
Sales promotion costs	4,094	8,789	4,695	114.7
Depreciation and amortization	3,447	5,708	2,260	65.6
Business commissions	4,574	5,626	1,051	23.0
Royalties	2,796	3,109	313	11.2
Lease and utility expenses	2,370	2,744	373	15.8
Content provider fees	2,925	1,908	-1,016	-34.8
Communication charges	1,447	1,565	117	8.1
License fees	661	1,226	564	85.3
Packing and freight	23	1,185	1,161	—
Others	2,660	4,663	2,002	75.3
Total selling, general and administrative expenses	36,481	51,819	15,338	42.0

## Analysis of Business Results for the Second Quarter (July 1, 2015 to September 30, 2015)

### 1) Revenue

Revenue in the quarter under review amounted to ¥138,295 million, increasing ¥34,976 million, or 33.9%, from a year earlier. The increase can mainly be attributed to the consolidation of ASKUL Corporation and growth in advertising revenue.

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

Cost of sales in the quarter under review climbed ¥22,597 million, or 108.7%, year on year to ¥43,391 million, primarily because of the consolidation of ASKUL Corporation and the changes in the terms of agreements related to search system usage.

Selling, general and administrative expenses for the quarter were ¥51,819 million, rising ¥15,338 million, or 42.0%, from the same quarter last year.

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

- Personnel expenses amounted to ¥15,293 million, edging up ¥3,813 million, or 33.2%, year on year. The higher personnel expenses resulted from the total number of employees of the Yahoo Japan Group rising to 8,803, an increase of 1,975 employees, or 28.9%, from the same quarter in the previous fiscal year.
- Sales promotion costs amounted to ¥8,789 million, increasing ¥4,695 million or 114.7%, from the same quarter last year. The increase can mainly be attributed to the increase in the T-POINT expenses and in the cost for acquiring the Yahoo! JAPAN card subscribers.
- Depreciation and amortization increased ¥2,260 million or 65.6% year on year to ¥5,708 million. The increase can primarily be attributed to the consolidation of ASKUL Corporation; increase in property and equipment due to acquisition of servers and network-related equipment; and an increase in intangible assets due to greater in-house development of software.
- Business commissions rose ¥1,051 million or 23.0% year on year, to ¥5,626 million. This is mainly due to the consolidation of ASKUL Corporation.
- Content provider fee decreased ¥1,016 million, or 34.8%, year on year to ¥1,908 million. The decrease is primarily due to the changes in the terms of agreements related to search system usage.

### 3) Gain from remeasurement relating to business combination

The gain from remeasurement relating to business combination in this quarter is due to the consolidation of ASKUL Corporation.

### 4) Other Non-Operating Income (Expenses)

Other non-operating income for the quarter under review amounted to ¥1,702 million, increasing ¥1,360 million or 397.7%, from the same quarter in the previous fiscal year. Major non-operating income includes the gain on sales of investment securities.

Other non-operating expenses for the quarter under review amounted to ¥96 million, decreasing ¥40 million or 29.5%, from the same quarter in the previous fiscal year.

### 5) Income Taxes

Income taxes for the quarter under review amounted to ¥13,558 million. The effective income tax burden ratio for income before income taxes was 12.9% for the quarter. The difference between the legal effective tax rate 33.06% and the tax burden ratio after the application of tax-effect accounting is mainly due to the effect of the gain from remeasurement relating to business combination.

### 6) Net Income

Net income amounted to ¥91,269 million, increasing ¥60,778 million, or 199.3%, from a year earlier. Basic earnings per share attributable to owners of the parent was ¥16.05 for the quarter.

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