

# Risk Factors

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

## 1. Impact of Internet Markets and Competition

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

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

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

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

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

The Internet-based advertising industry in Japan is generally thought to have begun with the Company's start of operations in 1996. Since then, the Internet advertising market has grown significantly, accounting for 23.6% of the total domestic advertising market in calendar year 2017, according to a DENTSU INC. report.

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

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

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

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

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

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

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

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

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

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

**f. Some of our fee-based content services, including videos and games, might fail to attract a critical mass of devoted daily users.**

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

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

Our flagship Yahoo! JAPAN portal site offers a diverse range of Internet-based services, including search services, various types of information services such as news, Internet tool services such as e-mail, shopping and other e-commerce services, and payment services. In each of these service areas, we vie against multiple competitors for market share.

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

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

**3) Reliance on Social Infrastructure, and Other Companies' Products and Services****In providing services, the Yahoo Japan Group relies on social infrastructure including electricity and Internet connection lines, and other companies' products and services, including facilities such as servers, and users' information devices and software.**

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

In providing Yahoo Japan Group services, we depend in particular on a stable supply of electricity to run our servers and other equipment and facilities. Given the possibility of disruptions to the electric power supply arising from power blackouts, usage restrictions, or other eventualities, we are setting up back-up data centers and autonomous power generation facilities with the goal of responding quickly and appropriately throughout the Yahoo Japan Group in the case of an actual electric power supply

disruption. Despite these proactive efforts, we might be unable either to continuously provide services or to quickly restore them following an electric power supply disruption. In addition, higher electricity charges could affect our business results.

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

**4) Technological Change****Failure to quickly and appropriately implement new technologies in our services could significantly impact our competitiveness.**

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

**2. Legal and Institutional Changes****1) Legal Restrictions****a. New laws or amendments to existing laws could negatively impact our business performance and adversely affect the development of the Japanese Internet industry.**

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

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

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

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

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

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

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

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

In our YAHUOKU! auction service, there are sometimes reports on listings of illegal items and fraudulent activities. Auction sellers who are judged to be operators as prescribed in the Act on Specified Commercial Transactions are instructed to comply with the obligation to identify themselves as operators. We revoke the Yahoo! JAPAN IDs of sellers who do not comply. In collaboration with other Internet auction operators, we have formulated and implemented Internet Auction Services Guidelines. In addition, as the chair of the Conference on Anti-distribution of Pirated Intellectual Property on the Internet, we are actively working to devise measures to prevent violations. For example, to help educate sellers and buyers of items on Internet auctions, we have published on our website "Intellectual Property Rights Protection Guide," which defines and explains copyrights, image rights, and trademarks.

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

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

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

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

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

**g. The formulation of new laws or amendments to existing laws concerning financial services could affect some Yahoo Japan Group services.**

Yahoo! Money service, operated by Yahoo Japan Corporation, is subject to the Payment Services Act. In compliance with this act, Yahoo Japan Corporation is registered as a Fund Transfer Service Provider and as an Issuer of Prepaid Instruments for Third-Party Business with the Kanto Local Finance Bureau.

Moreover, as an intermediary in opening yen savings accounts, etc., in collaboration with The Japan Net Bank, Limited, Yahoo Japan Corporation is registered as a Bank Agent with the Kanto Local Finance Bureau.

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

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

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

In Ikyu, a business operated by the Yahoo Japan Group, we are obligated to comply with the Travel Agency Act and related ordinances. Revisions to this act or to related ordinances could therefore restrict our business operations.

**i. In addition to legal restrictions, official administrative guidance and governmental requirements could adversely affect our service provision and performance.**

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

**j. Restrictions on the collection and analysis of users' behavioral history information could affect such advertising services as Yahoo! Display Ad Network (YDN).**

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

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

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

**2) Litigation****a. We could be subject to damage claims by related parties who do not wish to have information displayed in our search results.**

With regard to information displayed in search results, we established a Panel of Experts on Internet Search Results and Privacy with the goal of examining the issue of freedom of expression and access to information versus the protection of user privacy. Reflecting the panel's conclusions, Yahoo Japan Corporation announced in March 2015 its policy regarding individual requests to have information removed from its search results. By responding appropriately and consistently to such requests on the basis of our new policy, we aim to both improve our service and reduce risks.

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

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

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

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

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

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

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

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

In addition, we publish a disclaimer stating clearly that users bear full responsibility for web browsing and information posting, and that we accept no responsibility for damages incurred by users as a result of web browsing or use of Yahoo Japan Group sites. However, there is no guarantee that such measures are sufficient. We could be subject to complaints, reprimands, or damage suits brought by users, related parties, or governmental agencies with regard to the content of advertisements and display method, websites accessible through advertisement links on our sites, posts to community message boards, and/or trading on our YAHUOKU! site, etc.

This could result in financial burden, decline in user confidence which could lead to a drop in the number of users or time spent on our sites, or to a suspension of certain of our services.

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

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

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

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

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

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

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

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

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

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

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

**h. Advertisers could claim reimbursement of excessive fees resulting from click fraud or other methods of artificially increasing promotional advertising fees.**

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

**3) Other Legal Regulations**

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

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

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

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

**3. Disasters and Emergency Situations****1) Disasters****The Yahoo Japan Group's operations are potentially vulnerable to disasters.**

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

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

**2) Emergency Situations****Emergency situations could render us incapable of maintaining some of our services.**

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

**4. Business Management****1) Management Policy and Business Strategies****Failure to quickly and flexibly modify strategies in response to changing market conditions could compromise our competitive advantage.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In recent years, the range of Internet-enabled terminals has grown to include smart devices, video-game consoles, TVs, and car navigation systems, resulting in a vastly expanded Internet-connection infrastructure for information terminals other than PCs. In response to this trend, we are promoting Internet

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usage via a wide range of information devices with the goal of increasing accessibility to and boosting usage times of our services. In line with this strategy, the following risks are implied:

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

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

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

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

Many new advertising products incorporating a wide range of advertising methods have emerged in the Internet advertising market. The Yahoo Japan Group develops and sells a variety of advertising products suited to the specific needs of individual advertisers, including products with guaranteed exposure periods and page views; video advertising products with audio accompaniment; rich advertising products boasting such features as user-activated display-area expandability; Yahoo! Premium DSP products fully leveraging Yahoo! JAPAN's multi big data and media; and promotional advertising products such as Sponsored Search® and Yahoo! Display Ad Network (YDN) supporting effective advertisement distribution across major partner sites in addition to Yahoo! JAPAN.

In addition, we have developed and sold various advertising products incorporating innovative advertising distribution methods, including targeting advertising, which distributes advertising based on users' Internet usage histories, keyword search histories, demographic factors, and real-time physical location; Interest Match®, which distributes advertising based on the aforementioned usage histories and the content of web pages viewed at the time of ad distribution; and Yahoo! Ad Partner, which distributes advertising over a network of partner sites and thus achieves greater reach than single-site-distribution products.

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

**3) New Businesses**

**Although the Yahoo Japan Group is diversifying into new businesses and services, these new businesses and services might yield lower-than-expected contributions to our business results.**

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

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

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

**4) Services Provided**

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

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

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

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

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

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

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

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registrations, and presence, the possibility exists that Yahoo Holdings, Inc. has not registered trademarks necessary to our business in Japan.

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

**c. Development, operation, and maintenance of the system for the Yahoo Japan Group's search-related services are commissioned to Google Inc. and others.**

Currently, we are using the search engine and paid search advertising distribution system of Google Inc.

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

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

To enable the Yahoo Japan Group to provide search and paid search advertising distribution technologies and other services, the Company has an ongoing business alliance contract with Google Asia Pacific Pte Ltd. Because search service is one of our core business pillars, any modifications to the following contract could affect our business performance.

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

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

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

Moreover, we might fail to provide services that meet the needs of certain advertisers, which could result in the loss of opportunities to earn advertising revenue as well as reduced demand from those advertisers, thereby negatively impacting our advertising revenues.

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

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

**5) Compliance**

**Despite our efforts to ensure compliance with laws and regulations, compliance-related risk exists.**

The Yahoo Japan Group recognizes that legal and regulatory compliance is a prerequisite for enhancing corporate value. Consequently, we have established various compliance-related regulations and standards for all corporate officers and employees with regard to relevant laws and our Articles of Incorporation. In an effort to promote thorough observation of those regulations and standards, we have posted them on our intranet and conduct periodic in-house training.

Despite these efforts, it is impossible to entirely eliminate compliance-related risk. If a violation occurs, our brand image and business performance could be affected.

**6) Management and Operation Systems**

**a. Failure to adequately increase staff levels as required by business diversification could negatively affect our business development.**

In addition to personnel and organizational enhancements geared toward higher advertising sales and strengthened technological development, we must increase staff in line with ongoing business diversification to support operational expansion and quality improvement of various services arising from the recent surge in Internet users, as well as to handle billing and provide customer support for fee-based services.

Failure on the part of management or staff to respond adequately to these expanding administrative duties could inconvenience users and owners of stores registered on the Yahoo! Shopping and YAHUOKU! sites, affect operational efficiency, and undermine our competitiveness.

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

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

The development of the Yahoo Japan Group's businesses depends on senior management and, notably, on key personnel, including corporate officers as well as representatives of each department who possess specialized knowledge and technical expertise concerning the Yahoo Japan Group and its businesses. In the case of the departure of key personnel, management replaces them as quickly as possible with appropriate successors, either from within or from outside the Yahoo Japan Group. Even so, the replacement process could temporarily disrupt our continuous business development.

In addition, we grant stock-based remunerations, such as stock option plans to some corporate officers and employees as one of our personnel incentive measures. Rather than motivate participants, however, these remunerations might actually be an inducement for certain corporate officers and employees to leave the Yahoo Japan Group.

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

The Yahoo Japan Group believes that its intellectual property rights, including copyrights, patents, trademarks, designs, and domain names, are valuable management resources central to its ability to maintain competitive advantages in the market and that it is therefore necessary to protect them. Applying for, registering, and maintaining patents, however, entail a great deal of time and expense, including expenditures required to secure appropriate human resources. Moreover, in some cases patent rights are

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not granted to applicants, or requests for the invalidation of patents are made but fail to result in the provision of sufficient protection. Even if the Yahoo Japan Group successfully protects its intellectual property rights, including patents, these rights do not immediately confer competitive advantages. Considering that the Yahoo Japan Group operates in an industry noted for rapid-fire technological innovation, efforts to protect intellectual property rights might not be especially effective and, moreover, could have a negative impact on our business performance.

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

In line with the expansion of our business scope and the strengthening of our promotional advertising, fee-based member services, and paid-content businesses, our direct revenue opportunities derive increasingly from a diverse base of unspecified individual and corporate users.

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

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

## 5. Relationship with Major Stakeholders

### 1) Major Shareholders

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

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

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

The Company works with SoftBank Group Corp. on mobile communications, Yahoo! BB, and other businesses. If SoftBank Group Corp. should invest in or tie up with a company offering services similar to those offered by the Company, competition within the SoftBank Group could arise in the future. Although we intend to proactively deal with such an eventuality by collaborating, any resultant competition within the SoftBank Group could affect our performance in some manner.

### 2) Consolidated Group Management

**a. Inadequate consolidated management coordination could impact our performance.**

The Company has subsidiaries and affiliates of all sizes with varying degrees of in-house management depending on their size. Each of the subsidiaries and affiliates maintains a policy of acquiring necessary additional staff and strengthening the organization as businesses expand. If these measures are not implemented in a timely manner, the Yahoo Japan Group's performance could be negatively affected.

Tie-ups with the Company's services or network as well as personnel support are essential to the operations of all of the services of the Company's subsidiaries and affiliates. The relevant sections of the Company work closely with each subsidiary and affiliate to provide necessary support. However, it might become difficult to adequately provide such cooperative support owing to operational expansion of

the Company's businesses and those of its subsidiaries and affiliates, which could negatively impact the performance of each company.

**b. The Yahoo Japan Group faces risks related to its financial instruments business and banking business.**

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

On January 31, 2013, the Company converted FX trading company YJFX, Inc., into a wholly owned subsidiary. As a Financial Instruments Business Operator registered under Japan's Financial Instruments and Exchange Act (FIEA), YJFX carries out its operations in compliance with the FIEA, related regulations, and Cabinet Office ordinances. In addition, on February 1, 2018, the Company consolidated The Japan Net Bank, Limited, a pure play Internet bank with a banking license conducting business in accordance with the Banking Act and other relevant laws, rules and regulations. As a registered financial institution, The Japan Net Bank, Limited conducts foreign exchange (FX) margin trading operations and sells investment trust products as incidental business, etc., in accordance with the FIEA, Act on Sales, etc. of Financial Instruments, and other relevant laws, rules and regulations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**3) Other Major Business Partners****a. Any modifications to the business alliance contract with SoftBank Corp. could affect our business.**

The Company has signed a business alliance contract concerning various kinds of communications-related services, including Yahoo! BB services, with SoftBank Corp., a subsidiary of SoftBank Group Corp. Should any modifications be made to the business alliance contract, our business performance could be affected.

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

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

**6. Finances, Loans, and Investments****1) Funds Procurement and Interest Rate Changes****a. In our Yahoo! ezPay service, we might be required to borrow funds to bridge the collection of reimbursement funds from buyers.**

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

Because the Company reimburses the seller of an item one to three business days after the buyer has made payment by credit card or Internet banking, it must carry the credit-card receivables for the period up to the fixed payment date of the financial institutions used by the credit-card company. If the pace of growth of this service should substantially exceed expectations, then we might not be able to raise the required funds at a reasonable cost. Moreover, should the amount of the reimbursement funds increase to a substantial level, interest payments to financial institutions might increase owing to rising interest rates, which could have a negative impact on our business performance.

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

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

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

## 2) Investments

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

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

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

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

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

## 7. Relationship with Other Companies and Partners

### 1) Business Alliances and Contracts

**a. Our emphasis on building partnerships entails certain risks.**

By actively forming partnerships with both corporate and personal websites, we are building an extended network that is expected to result in increased usage of our services by users of partner sites as well as by our users.

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

In pursuing these actions, we face the following risks:

- Although partnerships (business tie-ups) are established with an eye to ensuring mutual benefits, some partners might fail to achieve sales or traffic goals. Furthermore, competition with other companies might result in delays in or increase the costs of setting up partnerships. In addition, partners might suddenly cancel agreements. Any of these eventualities could adversely affect our performance.
- We provide services to partners via proprietary systems and via systems owned by the Company or by our affiliated and business tie-up companies. If partners were to suffer service disruptions or other damages as a result of these systems, then our brand image could be tarnished or we could be sued for damage compensation, either of which could negatively affect our performance.
- Because the quality and reputation of our partners' services reflect on our own reputation and credibility, any problems with partners' services could tarnish our brand image.
- The quality or reputation of a partner's services impact on the Yahoo Japan Group's reputation and trustworthiness. Any detrimental impact, therefore, could negatively affect our brand image.

**b. The termination of paid search advertising business agreements could affect our performance.**

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

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

We offer and will continue offering Internet users high-quality, appealing information, such as news, weather, and stock quotes, as well as broadband content such as videos and games. However, should we not be able to acquire information and content as expected or the costs of acquiring information and content be higher than anticipated due to various factors such as termination of agreements caused by other companies, use of our services might decline, possibly resulting in a failure to achieve our projected financial results.

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

We are pursuing business alliances with other sites and corporations in an effort to expand usage of our services. Even if we offer our services via such business alliances based on our own guidelines, in some cases we might be unable to achieve our objectives owing to troubles caused by business alliance partners, including leaks of personal information due to deficient information management systems, service disruptions caused by inadequate systems, and lengthy delays in service development.

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

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

### 2) Collection of Sales Credit Claims

**a. Economic fluctuations or client business deterioration could hinder the collection of receivables from certain clients.**

In sales of advertising and other products, we follow a set of internal rules in carefully examining the credit standing of clients. We also exercise sufficient precautions so that the collection of receivables will not be delayed, such as setting upper limits for transaction amounts, adopting advanced payments, making sales through advertising agencies, or using credit card payments. Nevertheless, economic fluctuations or deterioration of client businesses could increase delays in collection and the occurrence of defaults.

### 3) Relationship with Third Parties

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

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

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

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

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

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

## Risk Factors

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

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

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

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

**8. Information Security****1) Efforts to Promote Information Security****a. Information leaks could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.**

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

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

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

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

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

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

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

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

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

**2) Personal Data****a. Leaks of users' personal data could negatively affect our business performance.**

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

Users' personal data is protected by means of several measures, including storage in isolated systems to which only a very limited number of authorized persons are granted access. Nevertheless, such measures could fall short of preventing leaks of users' personal data, in which case termination or curtailment of services might occur, which could not only negatively affect our business performance but

also damage our credibility. In addition, breaches of information security relating to personal data could lead to legal disputes.

Inquiries about, amendments to, and deletion of personal data can be carried out on the system only by individual users themselves. Measures have been implemented to prevent corporate officers and employees from browsing users' personal data except when absolutely necessary in order to answer user inquiries.

Moreover, when work related to users' personal data is consigned to outside contractors, we select only those companies that meet our strict criteria regarding information security. In addition, we offer supervision to and periodically undertake inspections of outside contractors throughout the consignment period.

Nevertheless, these efforts could fall short of preventing information leaks or the destruction or falsification of data, which could damage our credibility and lead to legal disputes.

**b. Leaks of users' bank account numbers and credit card numbers could damage our brand image and result in legal disputes.**

The Yahoo Japan Group obtains and stores the bank account and credit card numbers of users in order to provide financial and payment-related services such as Yahoo! Wallet, our online payment service, as well as for identity verification purposes.

Based on the understanding that direct financial damages could be inflicted upon users if their personal data were to be exploited by a third party, the Company places such sensitive information under strict control in isolated systems.

Yahoo! Wallet has received the highest level of Payment Card Industry Data Security Standard (PCI DSS) certification, as have almost all Yahoo Japan Group-affiliated stores accepting credit card payments. PCI DSS is a global security standard for handling credit card payment procedures.

Nevertheless, these measures do not guarantee perfect maintenance of our information security systems. If, under some circumstance, a problem such as an information leak were to occur, it could erode public confidence in the Yahoo Japan Group and negatively affect our business performance.

**c. Leaks of personal data by stores registered on Yahoo! Shopping or YAHUOKU! could negatively affect our business performance.**

In Yahoo! Shopping and YAHUOKU! BtoC transactions, personal data provided by buyers is sent directly to stores where buyers have made purchases. Accordingly, individual stores are the main repositories of personal data and take responsibility for controlling it. Moreover, to ensure that buyers' personal data is not disclosed to other individuals or entities, stores are given clear instructions on proper methods of information control and are strictly prohibited from using personal data for purposes other than the delivery of items or sales promotions.

To clear credit card payments, stores may either use the payment system operated by the Yahoo Japan Group or deal directly with credit card companies. Stores opting to use our payment system do not store credit card numbers, as these are provided directly to credit card companies by the Yahoo Japan Group. Stores opting to deal directly with credit card companies are provided with strict instructions for controlling buyers' credit card numbers in the same manner used to control other personal data.

Nevertheless, such measures could fall short of preventing the occurrence of information leaks, resulting in damage to our credibility and a decrease in user numbers, regardless of whether or not we are in fact responsible. In such cases, our business performance could be negatively affected.

**3) Communications Privacy****Leaks of information related to communications privacy could negatively affect our business performance.**

The Yahoo Japan Group handles information related to communications privacy in such services as Yahoo! Mail. In handling this type of information, we take appropriate measures with regard to information security to meet the requirements of the Telecommunications Business Act.

Despite these measures, if such information were leaked, either deliberately or through negligence, by persons related to the Yahoo Japan Group, by companies with which business alliances have been forged, or by companies to which the Group consigns work, or as a result of malware or defective systems used to provide services such as Yahoo! Mail or physical intrusion into the Group's communications facilities, we could be drawn into legal disputes and our brand image could be tarnished, with a resultant negative impact on business performance due to a decrease in user numbers, damage compensation associated with the termination or curtailment of services, or a decrease in revenue.

## Risk Factors

### 4) Fraudulent Use

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

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

The Yahoo Japan Group has taken steps to protect Yahoo! JAPAN IDs and passwords, educate Internet users in Japan about safe ID management, and implement certain measures against anticipated fraud. Nevertheless, fraudulent use by malicious users could prevent the collection of advances paid or necessitate expenditures to prevent the recurrence of such fraudulent use, which could negatively affect our financial results in addition to damaging our brand image.

### 5) Internal Management Information

#### **Leaks of internal management information (insider information) that could impact investment decisions might affect our business performance.**

The Yahoo Japan Group separates internal management information such as patent information before application, undisclosed information regarding M&A and business alliances, personal data of business partners, shareholders, and employees, audit materials, and other sales materials from the personal data of users, and manages such information under appropriate access controls.

Despite these measures, this type of information could be leaked or falsified, or become unusable. In such cases, it could directly affect interested parties such as shareholders, business partners, or employees, weaken our market position, lead to the termination of business operations in the case of legal violations, or damage our brand image.

### 6) Genetic Analysis Service

In this service, genetic samples provided by subscribers to the service are analyzed and the personal genetic information resulting from the analysis is stored as sensitive personal information within the Yahoo Japan Group under extremely tight security conditions. However, if for some reason an information leak or some other problem were to occur, the credibility of the Yahoo Japan Group could deteriorate and legal disputes for damage compensation could arise.

## 9. Corporate Governance

### Corporate Governance System

#### **Inadequate systems for corporate governance might negatively affect operations and business performance.**

To prevent or reduce the recurrence of problems related to improper employee conduct or human operational error, the Yahoo Japan Group has implemented stricter controls and operational standards under the guidance of the Internal Audit Office, an independent organization directly supervised by the President and Representative Director.

From June 2015 Yahoo Japan Corporation has based its corporate governance structure on an Audit and Supervisory Committee comprising three members, two of whom are outside directors. By clearly separating the monitoring and supervisory functions of the Board of Directors from the business execution function of corporate officers, this corporate governance structure encourages the quick, aggressive management decision-making necessary for success in Japan's Internet Industry while at the same time facilitating the rigorous monitoring of the effectiveness and appropriateness of management decision-making. More broadly, the structure promotes the aims of Japan's corporate governance code, namely, transparent, fair, timely, and decisive decision making and proactive management.

Despite our efforts to strengthen corporate governance, the incidence of human operational error and its recurrence or illegal conduct by Company officers or employees might increase, thereby negatively affecting operations and business performance.