

# Business Overview

## Revenue and Operating Income by Segment

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

## Growth Strategies by Segment

### Media Business

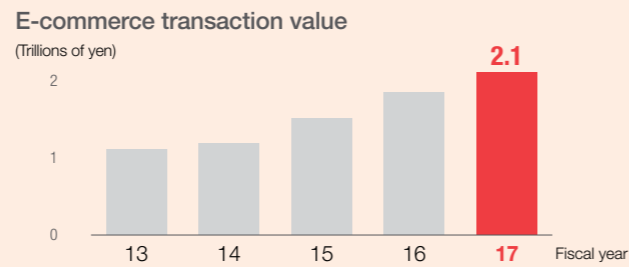
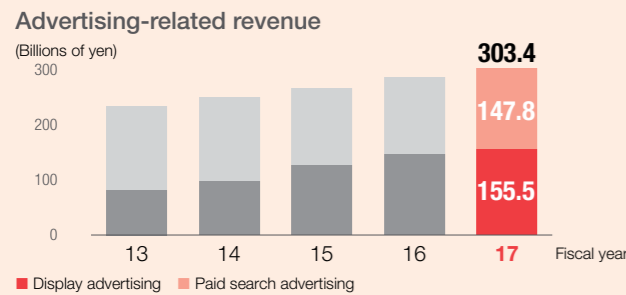
#### Basic Policies

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

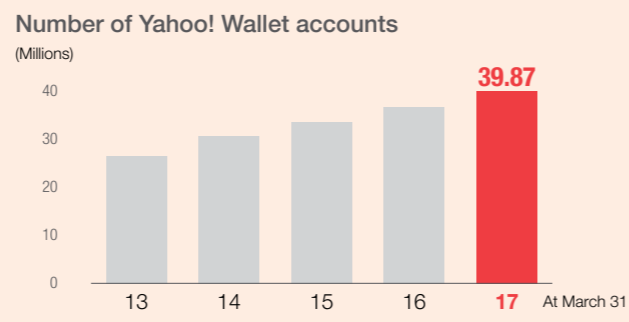
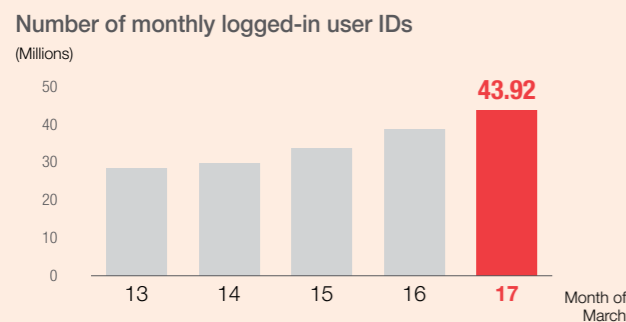
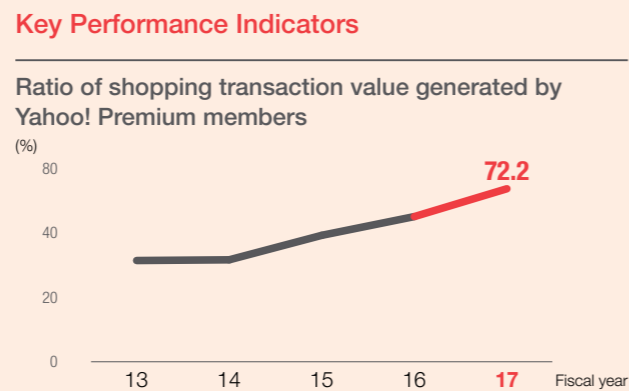
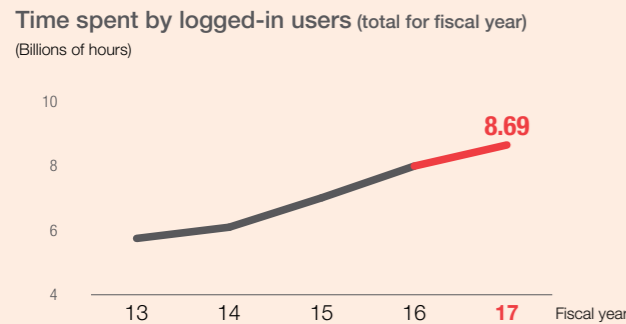
### Commerce Business

#### Basic Policies

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



## Key Performance Indicators



# Media Business

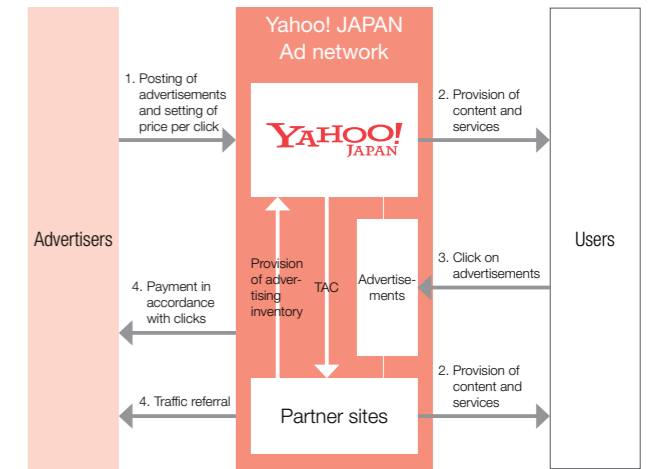
## Overview of the Media Business

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

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

## Outline of the Media Business

Example: Pay-per-click advertising



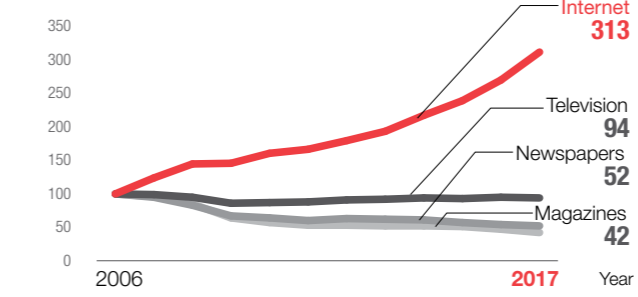
## Market Environment

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

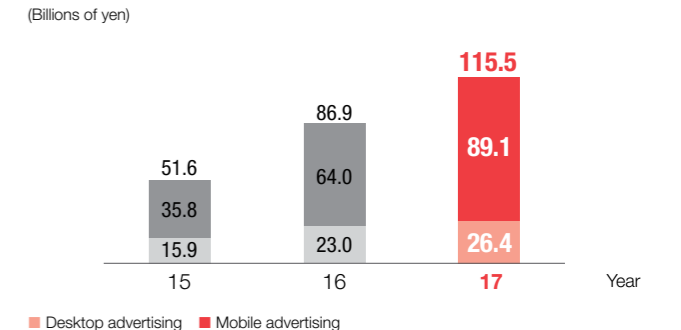
Internet using mobile devices such as smartphones, video content is becoming more prevalent on these devices as well. This has resulted in increased demand for video content, and media and advertising distribution companies have expanded their lineup of video advertising content as a result.

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

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



## Video advertising market\*5



\*1 Source: Nielsen Digital Content Ratings, Nielsen Digital Co., Ltd. "Total digital" share of number of users excluding overlap in users of both PCs and smartphones  
 \*2 Source: 2017 Advertising Expenditures in Japan, DENTSU INC. [http://www.dentsu.com/knowledgeanddata/ad\\_expenditures/](http://www.dentsu.com/knowledgeanddata/ad_expenditures/)  
 \*3 Calendar 2006 data indexed to 100  
 \*4 Source: Created by Yahoo! JAPAN based on 2017 Advertising Expenditures in Japan, DENTSU INC.  
 \*5 Source: 2017 Internet Advertising Market Survey, D2C Inc. and cyber communications inc.

Fiscal 2017 Results

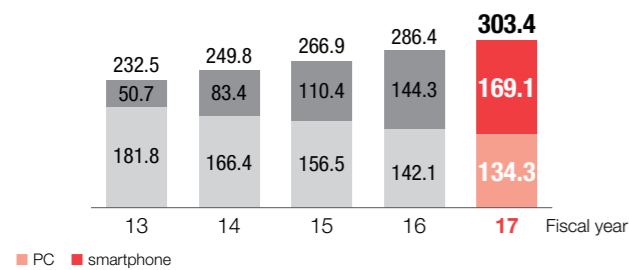
In the Media Business, revenue increased 2.6% year on year, to ¥288.3 billion in fiscal 2017, accounting for 31.7% of consolidated revenue,\* while operating income rose 2.9%, to ¥169.1 billion. Total advertising revenue, which is generated almost entirely by the Media Business segment, expanded 5.9%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

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

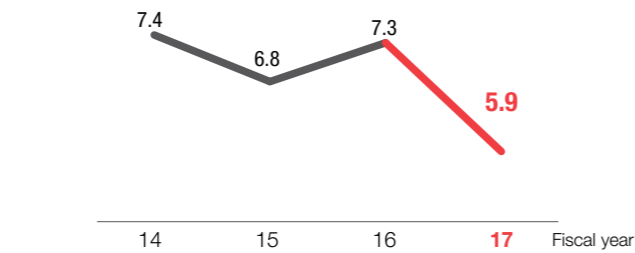
in addition to the body text. This and other measures aimed at optimizing advertising display formats boosted advertising efficacy, thereby significantly improving profitability, and paid search advertising revenue rose 5.7% year on year, to ¥147.8 billion, turning upward after declining since fiscal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

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

Total advertising revenue (Billions of yen)



Advertising revenue growth rate (%)



Growth Strategy of the Media Business

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

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

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

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

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

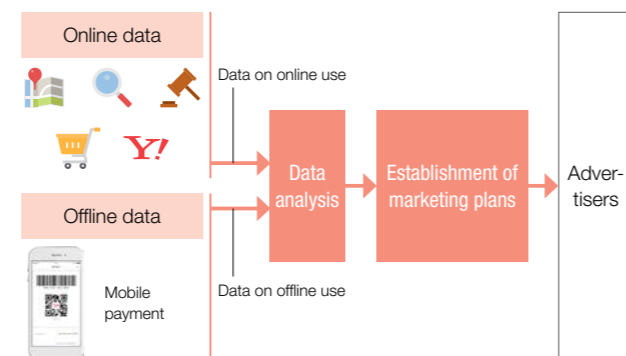
In addition to our wide range of online services, we will also launch an offline mobile payment business. We plan to utilize data from both our online services and our offline payment business to support online-to-offline (O2O) marketing strategies of advertisers that take into account purchases in brick-and-mortar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



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

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

Examples of Data Use in the Media Business



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

TOPICS

Launch of Yahoo! News Video

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

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



Launch of video advertising for smartphones

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

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

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

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



Addressing Social Issues through Our Business Activities



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

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

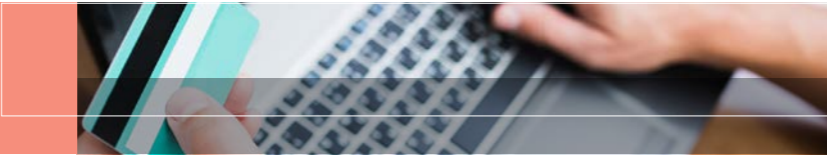
The sponsored articles include links that lead users to the Yahoo! Internet Fund Raising and Yahoo! Volunteer services. This in turn helps provide opportunities to encourage people interested in social issues to take action in such ways as making donations and participating in volunteer activities.



Addressing issues that impact society as a whole

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

# Commerce Business

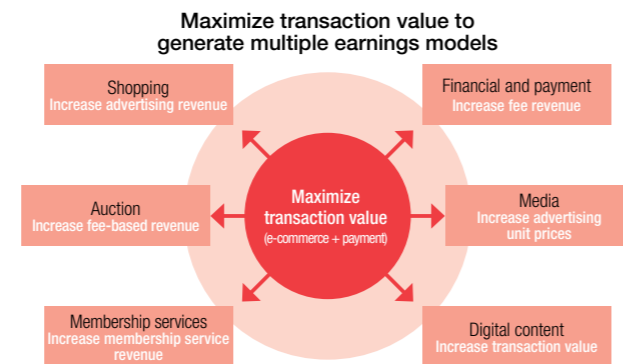


## Overview of the Commerce Business

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

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

### Earnings model of the Commerce Business

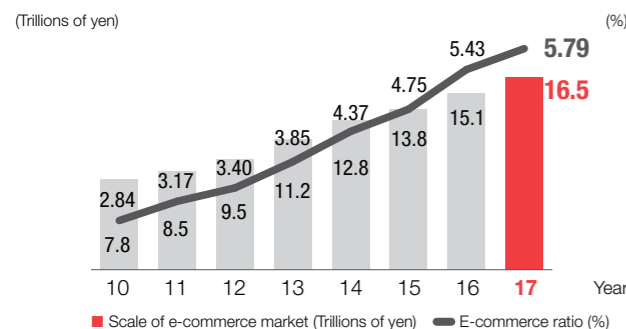


## Market Environment

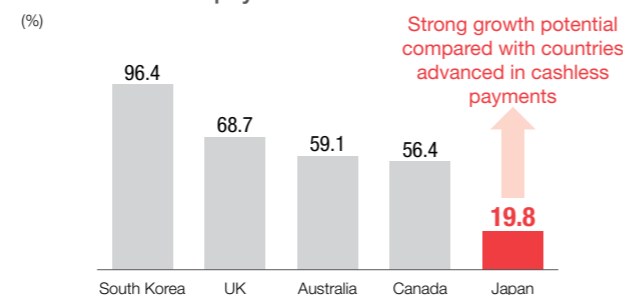
According to a survey by the Ministry of Economy, Trade and Industry,<sup>\*1</sup> the Japanese business-to-consumer (B2C) e-commerce market expanded 9.1% year on year in calendar 2017, reaching ¥16.51 trillion, and e-commerce sales accounted for 5.79% (up 0.36 percentage points year on year) of all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

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

### Scale of e-commerce market and e-commerce ratio<sup>\*1</sup>



### Ratio of cashless payments in various countries<sup>\*4</sup>



<sup>\*1</sup> Source: 2017 Foundation for Japan's Data-driven Society (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry  
<sup>\*2</sup> Source: 2017 Market Statistics (Annual) (credit-related statistics), Japan Consumer Credit Association  
<sup>\*3</sup> Source: Cashless Vision, Ministry of Economy, Trade and Industry  
<sup>\*4</sup> Source: Current Conditions in Japan and Abroad with Regard to Promotion of Cashless Economies (February 2018), Nomura Research Institute

## Fiscal 2017 Results

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

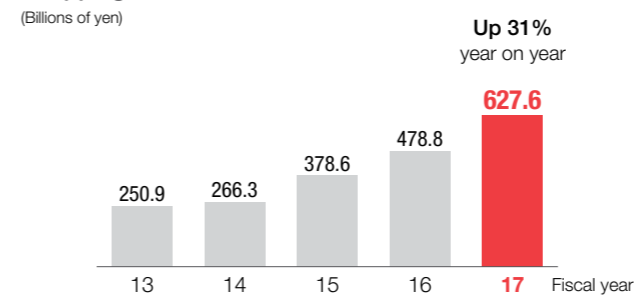
in Yahoo! Shopping and the ASKUL Group's revenue. Operating income grew 4.4% year on year, to ¥75.2 billion.

## Shopping

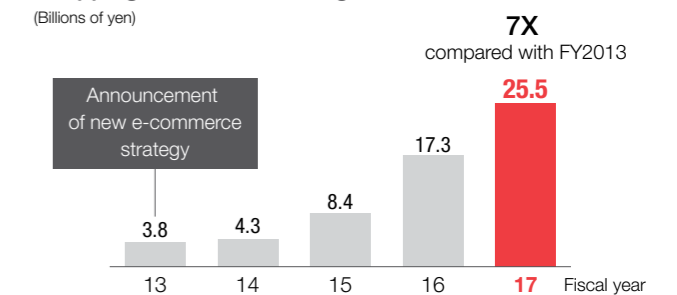
Shopping-related transaction value rose 25.7% year on year, to ¥935.1 billion. Of this, shopping transaction value accounted for ¥627.6 billion, up 31.1% year on year, as it gained market share by continuing to outpace the growth rate of the market. Yahoo! Shopping advertising revenue from stores rose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

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

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



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

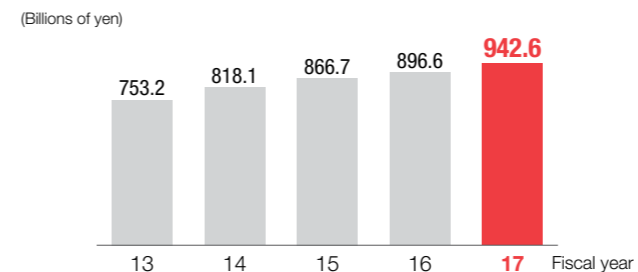


## Auction

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

only for goods listed using our smartphone application where users can list goods without registering as a Yahoo! Premium member. This made listing of items easier even for first-time users. Moreover, as a collaborative measure within the Commerce Business, we conducted a campaign wherein YAHUOKU! (Yahoo! Auction) buyers and sellers using Yahoo! Money were awarded T-points. While we were unable to leverage Yahoo! Money to attract as many YAHUOKU! users to Yahoo! Shopping as we had hoped, the campaign did contribute to an increase in the balance of Yahoo! Money.

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



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



<sup>\*5</sup> Ratio of segment revenue to total revenue for all segments. Segment revenue total does not include adjustments.  
<sup>\*6</sup> Total of shopping-related advertising revenue of Yahoo Japan Corporation; advertising revenue of "StoreMatch," an advertising product in Yahoo! Shopping sold by ValueCommerce Co., Ltd. to stores in Yahoo! Shopping, etc.; and revenues of paid search advertising and YDN, etc. placed by stores in Yahoo! Shopping. The revenues of paid search advertising and YDN, etc. placed by stores in Yahoo! Shopping are posted under advertising revenue for the Media Business segment.  
<sup>\*7</sup> Includes transaction values of Yahoo! Shopping, LOHACO (transaction value of ASKUL Corporation's LOHACO business (closed on the 20th of each month)), and Charm Co., Ltd.  
<sup>\*8</sup> Transaction values of YAHUOKU!, tradecarview (https://www.tradecarview.com/), BOOKOFF Online (http://www.bookoffonline.co.jp/), Yahoo! Tickets (from April 2015), and others. Prior data has been retroactively adjusted.



Commerce Business

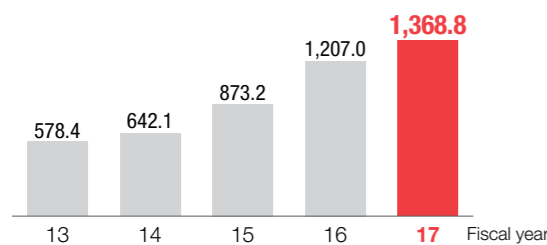
Financial and Payment-related Services

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

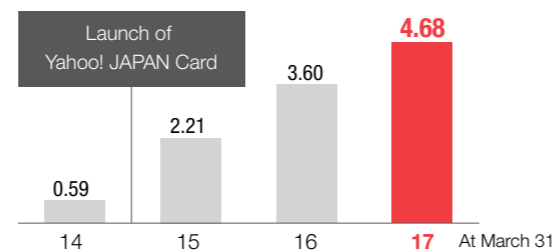
additionally rewarded with T-points. As a result of these efforts, the ratio of transactions using our proprietary payment services such as the Yahoo! JAPAN Card has increased along with the growth of the e-commerce business, thereby resulting in higher profitability in the payment services business.

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

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



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



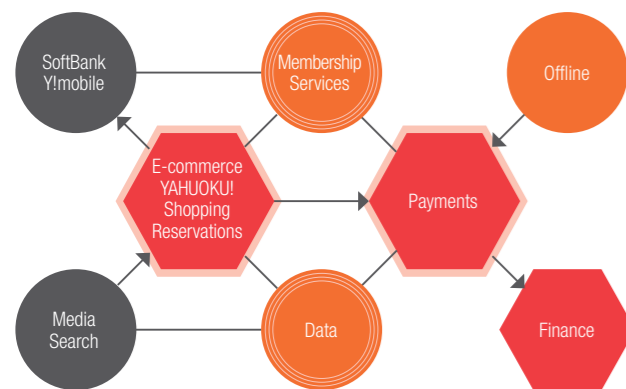
Growth Strategy of the Commerce Business

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

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

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

Commerce Business ecosystem



Use of mobile payment



TOPICS

Joint campaigns targeting SoftBank members

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



SoftBank members get perks on Yahoo! Shopping

The Japan Net Bank, Limited now a consolidated subsidiary

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



ジャパンネット銀行

Addressing Social Issues through Our Business Activities



Secure development of e-commerce

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

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



Announcement of the program

Recognizing stores nationwide through Yahoo! Shopping

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

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

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

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

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