Results for the Three Months Ended June 30, 2014 (FY2014-1Q) [IFRSs]

July 31, 2014

Company Name: Yahoo Japan Corporation
Share Listings: 1st section of TSE
Code No.: 4689
URL: http://www.yahoo.co.jp
Representative: Manabu Miyasaka, President and CEO
Tel: 03-6440-6000
Contact: Toshiki Oya, Managing Corporate Officer and CFO

Scheduled Securities Report Submission Date: August 14, 2014

Scheduled Dividend Payment Date: -

Fiscal Results Supplementary Briefing Materials to Be Created: Yes

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

(Amounts less than one million yen are omitted)

1. Consolidated Results for FY2014-1Q (April 1, 2014 - June 30, 2014)

(1) Consolidated Business Performance (April 1, 2014 - June 30, 2014) (Figures in parenthesis are % change YoY)

	Revenue		Operating income		Income before income taxes		Net income		Net income attributable to owners of the parent		Total comprehensive income	
	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)	Millions of yen	(%)
FY2014-1Q	99,947	(2.8)	48,753	(-0.5)	58,567	(7.1)	36,716	(7.2)	36,416	(7.1)	34,071	(2.8)
FY2013-1Q	97,255	—	49,008	—	54,683	—	34,235	—	33,995	—	33,141	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2014-1Q	6.40	6.39
FY2013-1Q	5.91	5.90

Effective October 1, 2013, the Company conducted a 100-for-1 stock split of its common shares. The basic earnings per share and diluted earnings per share have been calculated as if the stock split provisionally took place at the start of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent
	Millions of yen	Millions of yen	Millions of yen	%
FY2014-1Q	824,234	636,555	628,262	76.2
FY2013	849,987	627,718	619,682	72.9

2. Cash Dividends

	Dividends per share				
(Record date)	1Q	2Q	3Q	Year end	Full year
	Yen	Yen	Yen	Yen	Yen
FY2013	–	0.00	–	4.43	4.43
FY2014	–				
FY2014 (Estimates)		0.00	–	–	–

Note: 1. Revision in dividends previously announced: No

2. Estimated payment of dividends for FY2014 is not determined at this time.

3. Consolidated Performance Estimates for FY2014 (April 1, 2014 – March 31, 2015)

(Figures in parenthesis are % change YoY)

	Revenue		Operating income	
FY2014	Millions of yen	(%)	Millions of yen	(%)
1st half	201,000	(1.5)	93,400	(-5.5)
Full year	–	–	–	–

Note: Revision in consolidated performance estimates: Yes

The Company has only disclosed revenue and operating income of the consolidated performance estimates for the first half of the fiscal year ending March 31, 2015 (fiscal 2014).

4. Others

(1) Changes in significant subsidiaries during the period (changes in significant subsidiaries causing changes in scope of consolidation): None

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

1) Changes due to IFRSs: None

2) Changes other than 1): None

3) Changes in accounting estimate: None

(3) Number of stocks issued (common stock)

1) Number of stocks issued at the quarter end (including treasury stocks)	FY2014-1Q	5,694,920,600	FY2013	5,694,900,600
2) Number of treasury stocks at the quarter end	FY2014-1Q	1,000,000	FY2013	1,016,800
3) Average number of stocks	FY2014-1Q	5,693,909,056	FY2013-1Q	5,750,288,804

Effective October 1, 2013, the Company conducted a 100-for-1 stock split of its common shares. The numbers of stocks have been calculated as if the stock split provisionally took place at the start of the previous consolidated fiscal year.

* Disclosure Regarding Implementation of Quarterly Review

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

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

・ The Company has adopted IFRSs for its consolidated statements as of the first quarter of the fiscal year ending March 31, 2015. For a reconciliation of the differences between IFRSs and accounting principles generally accepted in Japan (JGAAP) for financial performance indicators, please refer to 5. First-time adoption of IFRSs of (7) Notes to Interim Condensed Consolidated Financial Statements of 2. Interim Condensed Consolidated Financial Statements on page 23 of the Results for the Three Months (Attachments).

・ The performance estimates, etc., and other forward-looking statements contained in the main documents are based on the information currently available to the Company and premised on assumptions that have been deemed reasonable by management. For a variety of reasons, actual performance estimates, etc., could differ significantly. For details on the assumptions used in determining performance estimates and special notes on the use of performance estimates, please refer to Qualitative Information regarding the Consolidated Performance Estimates on page 6 of the Results for the Three Months (Attachments).

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1. Qualitative Information regarding the Consolidated Operating Results

- **Adoption of International Financial Reporting Standards (IFRSs)**

Yahoo Japan Corporation will switch from the previously used accounting principles generally accepted in Japan (JGAAP) and adopt IFRSs beginning with the first quarter of the fiscal year ending March 31, 2015. All of the Company's financial figures are presented on an IFRS basis and the comparative figures for the same quarter in the previous fiscal year have also been prepared in accordance with IFRSs.

Regarding a reconciliation of the differences of financial figures between IFRSs and accounting principles generally accepted in Japan, please refer to 5. First-time adoption of IFRSs of (7) Notes to Interim Condensed Consolidated Financial Statements of 2. Interim Condensed Consolidated Financial Statements on page 23.

- **Performance Highlights for the First Quarter (April 1, 2014 - June 30, 2014)**

In the first quarter of the fiscal year ending March 31, 2015, Yahoo Japan Corporation recorded revenue growth compared with the first quarter last year. Revenue increased overall despite the revenue decline caused by the new strategies for the e-commerce business introduced in October 2013 because of the expansion in advertising revenue and revenue growth in other areas.

Display advertising rose sharply year on year, supported by continued growth in revenue from Yahoo! Display Ad Network (YDN), driving overall growth in advertising revenue. Despite a slowdown in the growth of paid search advertising revenue, it also expanded compared with a year earlier along with the increase in the number of searches done on smartphones. The revenue of Yahoo! Premium benefited from the greater use of SoftBank Mobile Corp.'s "Sumaho-Tokusuru Pakku" (Special smartphone discount service package) by smartphone users, posting a net increase in the number of Yahoo! Premium members and a year-on-year increase in revenue. At the end of June 2014, the number of stores on Yahoo! Shopping rose far above 100 thousand IDs, totaling 134 thousand IDs.

Looking at operating income, in addition to revenue decline caused by the new strategies for the e-commerce business, business commissions rose, and sales promotion costs were higher because of e-commerce business-related promotional drives. As a result, the operating income declined slightly from the first quarter last year. Nevertheless, the Group again recorded growth of net income attributable to owners of the Company over the same quarter last year because of the incremental realization of re-evaluation profits from associates and the occurrence of negative goodwill on the Company's investments in associates.

(1) Qualitative Information regarding the Consolidated Business Performance

Business Results Summary (April 1, 2014 to June 30, 2014)

	FY2013 1Q	FY2014 1Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥97.2 billion	¥99.9 billion	+¥2.6 billion	+ 2.8%
Operating Income	¥49.0 billion	¥48.7 billion	-¥0.2 billion	- 0.5%
Income before income taxes	¥54.6 billion	¥58.5 billion	+¥3.8 billion	+ 7.1%
Net Income attributable to owners of the parent	¥33.9 billion	¥36.4 billion	+¥2.4 billion	+ 7.1%

Segment Business Results Summary (April 1, 2014 – June 30, 2014)

Revenue and Operating Income by Segment

	FY2013 1Q	FY2014 1Q	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Marketing Solutions Business				
Revenue	¥66.1 billion	¥71.7 billion	+¥5.5 billion	+8.4%
Operating income	¥34.7 billion	¥38.1 billion	+¥3.4 billion	+10.0%
Consumer Business				
Revenue	¥25.9 billion	¥23.1 billion	-¥2.7 billion	-10.6%
Operating income	¥19.2 billion	¥14.2 billion	-¥5.0 billion	-26.2%
Others				
Revenue	¥6.8 billion	¥6.9 billion	+¥0.1 billion	+1.8%
Operating income	¥2.2 billion	¥2.3 billion	+¥0.04 billion	+1.8%
Adjustments				
Revenue	-¥1.6 billion	-¥1.9 billion	—	—
Operating income	-¥7.2 billion	-¥5.9 billion	—	—
Total				
Revenue	¥97.2 billion	¥99.9 billion	+¥2.6 billion	+2.8%
Operating income	¥49.0 billion	¥48.7 billion	-¥0.2 billion	-0.5%

Notes: 1. The main revenue included in the Others segment is that for settlement- and finance-related services among business activities not included in reporting segments.

2. Adjustments figures represent inter-segment transactions and general corporate expenses not belonging to any reporting segment.

Reporting Segment	Major Revenues
Marketing Solutions Business	・ Paid search, display and other advertising-related services ・ Data center-related and other corporate services ・ Yahoo! Real Estate and other information listing services ・ Game-related services
Consumer Business	・ YAHUOKU!, Yahoo! Shopping, and other e-commerce-related services ・ Yahoo! Premium, Yahoo! BB, and other membership services

■ Marketing Solutions Business in the First Quarter

Display advertising revenue increased year on year because of further expansion in Yahoo! Display Ad Network (YDN) advertising revenue, which supported overall growth in advertising-related revenue. Despite a slowdown in the growth of paid search advertising revenue, it still exceeded first-quarter paid search advertising revenue of the previous fiscal year. Revenues of game-related services and data center-related services also continued to expand from a year earlier.

As a result, first-quarter revenue of the Marketing Solutions Business amounted to ¥71.7 billion, increasing 8.4% from the prior year, and accounted for 71.8% of total revenue. Operating income increased 10.0% year on year, to ¥38.1 billion.

・ In display advertising, revenue from YDN continued to achieve year-on-year growth because of the increase in the number of advertising spaces and an improvement in matching accuracy. YDN revenue from smartphone advertising grew in particular. Brand Panel revenue also advanced from last year because of an increase in sales activities of Top Impact and other advertising products employing advertising technology that provides highly effective branding (Rich Ad).

・ Although growth in paid search advertising revenue slowed during the quarter, revenue still rose year on year along with the increased number of searches on smartphones.

・ Overall revenue of data center-related services grew compared with a year earlier, supported by expanded use of cloud computing services due to a strengthening of sales activities and other factors.

・ Game-related revenue also expanded from the previous fiscal year, supported by growth in revenues from game titles offered by SQUARE ENIX CO., LTD., and BANDAI NAMCO Online Inc., and contributed to higher overall revenue.

■ Consumer Business in the First Quarter

Revenue and operating income of the Consumer Business decreased year on year because of such factors as the introduction of the new strategies of the e-commerce business that eliminated monthly store tenant fees and other fees on Yahoo! Shopping and YAHUOKU! as of October 2013 and a strengthening of promotional activities. However, there were positive results as well—an increase in the number of stores and much more number of items on Yahoo! Shopping, a large expansion of items listed on YAHUOKU!, and an increase in the number of users bidding on auction items for the first time. Moreover, the smartphone transaction values for both Yahoo! Shopping and YAHUOKU! grew substantially. Yahoo! Premium revenue also rose from the first quarter last year because of the increase in the number of members joining through SoftBank stores.

As a result, revenue of the Consumer Business amounted to ¥23.1 billion, declining 10.6% year on year and accounting for 23.2% of total revenue. Operating income decreased 26.2% compared with last year, to ¥14.2 billion.

・ The elimination of monthly store tenant fees and royalty fees on Yahoo! Shopping resulted in the number of stores* significantly exceeding 100 thousand IDs, rising to 134 thousand IDs as of June 30, 2014. Furthermore, the number of items offered expanded greatly and transaction value increased compared with the first quarter last year. The recovery in demand following the reaction to the surge in demand in March 2014 ahead of the scheduled increase in consumption tax was much faster than expected.

・ YAHUOKU! also benefited from the elimination in monthly store tenant fees, etc., with the number of stores and auction items listed increasing. By no longer requiring users to be a registered Yahoo! Premium member to bid on items listed at ¥5,000 or more, the number of new bidders and successful auctions as well as the average winning bid rose, resulting in YAHUOKU! transaction value exceeding the same period in the previous fiscal year.

・ Boosted by, among other factors, the increased use by smartphone users of SoftBank Mobile Corp.'s "Sumaho-Tokusuru Pakku" (Special smartphone discount service package), the number of Yahoo! Premium membership IDs on June 30, 2014 advanced 0.35 million IDs year on year, to 9.66 million IDs. Yahoo! Premium revenue also rose from a year earlier.

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

(2) Qualitative Information regarding the Consolidated Financial Position

Assets, Liabilities and Equity

1) Assets

Current assets amounted to ¥617,911 million, declining ¥40,794 million, or 6.2%, from the end of fiscal 2013, the previous fiscal year. The main components of the change were the following:

・ Cash and cash equivalents decreased from the end of fiscal 2013 primarily because of the payment of income taxes;

・ Trade and other receivables declined from the end of the previous fiscal year mainly because of a contraction in receivables related to advertising.

Non-current assets totaled ¥206,322 million, increasing ¥15,041 million, or 7.9%, from the end of fiscal 2013. The major factors involved in the change were the following:

・ Because of the investment in BOOKOFF CORPORATION LIMITED, investments accounted for using the equity method and other financial assets increased compared with the end of fiscal 2013;

・ As a result of the conversion of The Japan Net Bank, Limited's non-voting shares for common shares, the shares of The Japan Net Bank, Limited were reclassified and transferred from other financial assets to investments accounted for using the equity method.

Consequently, total assets at the end of the first quarter amounted to ¥824,234 million, declining ¥25,753 million, or 3.0%, from the end of fiscal 2013.

2) Liabilities

Current liabilities were ¥183,743 million, falling ¥34,592 million, or 15.8%, from the end of fiscal 2013. The principal reasons of change were the following:

・ Income taxes payable decreased compared with the end of fiscal 2013, chiefly because of the payment of income taxes;

・ Other current liabilities declined from the end of fiscal 2013, primarily because of the payment of accrued bonuses.

Non-current liabilities amounted to ¥3,935 million, increasing ¥1 million, or 0.0%, from the end of fiscal 2013.

Reflecting the above, total liabilities at the end of the first quarter were ¥187,678 million, declining ¥34,590 million, or 15.6%, from the end of fiscal 2013.

3) Equity

The primary reasons for change in equity were as follows:

・ Despite the decrease due to dividends paid, retained earnings increased from the end of fiscal 2013 because of growth in net income attributable to owners of the Company.

・ Despite an increase in the evaluation difference principally because of an increase in the fair value of investment securities, accumulated other comprehensive income decreased from the end of fiscal 2013 because of a reversal in the fair value measurement caused by reclassification and transfer of the investment in The Japan Net Bank, Limited to investments accounted for using the equity method.

Consequently, total equity at the end of the first quarter amounted to ¥636,555 million, increasing ¥8,837 million, or 1.4%, from the end of fiscal 2013.

Cash Flows

At the end of the first quarter, cash and cash equivalents amounted to ¥443,662 million, up ¥52,404 million from the end of fiscal 2013.

The following are the movements in the main components of cash flow and the factors contributing to those changes for the period under review:

Cash flows from operating activities amounted to a cash inflow of ¥3,802 million despite the payment of income taxes mainly because of an increase in net income.
Cash flows from investing activities amounted to a cash outflow of ¥17,122 million, primarily due to expenditures on investment securities and on property and equipment.
Cash flows from financing activities amounted to a cash outflow of ¥25,252 million, attributed mainly to dividends paid.

(3) Qualitative Information regarding the Consolidated Performance Estimates

The Yahoo Japan Group believes that in its performance estimates, the calculation of fiscal performance figures with a high degree of reliability is extremely difficult because of the short-term, large fluctuations in the Group's business environment.

The Group views the degree of usage of each of their services by customers as important management indicators in determining estimations of income and expenses. However, in the rapidly changing environment of the Company's business based on the Internet, it is difficult to establish specific criteria on a rate of growth or change in these indicators. Accordingly, we limit our performance estimates announced with each quarter report to revenue and operating income of performance estimates for the corresponding half-year term.

Consolidated Performance Estimates for the First Half of the Fiscal Year Ending March 31, 2015 (April 1, 2014 to September 30, 2014)

Revenue	¥ 201,000 million
Operating income	¥ 93,400 million

2. Interim Condensed Consolidated Financial Statements

(1) Interim Condensed Consolidated Statements of Financial Position

(Millions of yen)

	As of Mar. 31, 2014	As of June 30, 2014	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Assets				
Current assets				
Cash and cash equivalents	482,336	443,662	-38,674	-8.0
Trade and other receivables	160,396	156,845	-3,551	-2.2
Other financial assets	12,313	12,844	531	4.3
Other current assets	3,659	4,559	899	24.6
Total current assets	658,706	617,911	-40,794	-6.2
Non-current assets				
Property and equipment	60,145	62,121	1,975	3.3
Goodwill	15,808	15,808	—	—
Intangible assets	17,860	20,691	2,831	15.9
Investments accounted for using the equity method	34,364	60,275	25,911	75.4
Other financial assets	49,532	39,749	-9,782	-19.8
Deferred tax assets	12,468	6,404	-6,064	-48.6
Other non-current assets	1,101	1,271	169	15.4
Total non-current assets	191,281	206,322	15,041	7.9
Total assets	849,987	824,234	-25,753	-3.0

(Millions of yen)

	As of Mar. 31, 2014	As of June 30, 2014	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	142,562	142,443	-118	-0.1
Other financial liabilities	5,108	4,204	-904	-17.7
Income taxes payable	45,655	14,862	-30,792	-67.4
Provisions	2,951	2,614	-336	-11.4
Other current liabilities	22,057	19,617	-2,439	-11.1
Total current liabilities	218,335	183,743	-34,592	-15.8
Non-current liabilities				
Other financial liabilities	128	121	-6	-5.0
Provisions	2,655	2,582	-73	-2.8
Deferred tax liabilities	37	85	47	125.4
Other non-current liabilities	1,112	1,146	33	3.1
Total non-current liabilities	3,933	3,935	1	0.0
Total liabilities	222,269	187,678	-34,590	-15.6
Equity				
Equity attributable to owners of the parent				
Common stock	8,271	8,276	4	0.1
Capital surplus	3,892	3,912	19	0.5
Retained earnings	598,012	609,205	11,192	1.9
Treasury stock	-526	-521	4	-0.9
Accumulated other comprehensive income	10,032	7,389	-2,643	-26.3
Total equity attributable to owners of the parent	619,682	628,262	8,579	1.4
Non-controlling interests	8,036	8,293	257	3.2
Total equity	627,718	636,555	8,837	1.4
Total liabilities and equity	849,987	824,234	-25,753	-3.0

(2) Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	97,255	99,947	2,691	2.8
Cost of sales	17,633	19,556	1,923	10.9
Gross profit	79,622	80,390	768	1.0
Selling, general and administrative expenses	30,614	31,637	1,023	3.3
Operating income	49,008	48,753	-254	-0.5
Other non-operating income	5,825	9,639	3,813	65.5
Other non-operating expenses	238	99	-139	-58.5
Equity in earnings (losses) of associates	88	273	185	209.6
Income before income taxes	54,683	58,567	3,883	7.1
Income taxes	20,447	21,850	1,402	6.9
Net income	34,235	36,716	2,481	7.2
Net income attributable to:				
Owners of parent	33,995	36,416	2,420	7.1
Non-controlling interests	239	299	60	25.1
Net income	34,235	36,716	2,481	7.2
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	5.91	6.40	0.48	8.2
Diluted earnings per share (yen)	5.90	6.39	0.49	8.3

(3) Interim Condensed Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Net income	34,235	36,716
Other comprehensive income (loss)		
Items that may be reclassified subsequently to profit or loss		
Available-for-sale financial assets	-1,670	-2,651
Exchange differences on translating foreign operations	84	-84
Share of other comprehensive income of associates	491	91
Total other comprehensive loss, net of tax	-1,094	-2,644
Total comprehensive income	33,141	34,071
Total comprehensive income attributable to:		
Owners of parent	32,901	33,773
Non-controlling interests	239	298
Total comprehensive income	33,141	34,071

(4) Interim Condensed Consolidated Statements of Changes in Equity

Three months ended June 30, 2013

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total		
As of April 1, 2013	8,037	3,694	522,310	-372	4,575	538,245	7,372	545,617
Net income			33,995			33,995	239	34,235
Other comprehensive loss					-1,094	-1,094		-1,094
Total comprehensive income	—	—	33,995	—	-1,094	32,901	239	33,141
Transactions with owners and other transactions								
New issue of shares	102	102				204		204
Cash dividends			-23,057			-23,057	-45	-23,102
Change in interests in a subsidiary		-163				-163	-321	-484
Others		117				117		117
Total transactions with owners and other transactions	102	56	-23,057	—	—	-22,898	-367	-23,265
As of June 30, 2013	8,139	3,750	533,248	-372	3,481	548,248	7,244	555,493

Three months ended June 30, 2014

(Millions of yen)

	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income	Total		
As of April 1, 2014	8,271	3,892	598,012	-526	10,032	619,682	8,036	627,718
Net income			36,416			36,416	299	36,716
Other comprehensive loss					-2,643	-2,643	-1	-2,644
Total comprehensive income	—	—	36,416	—	-2,643	33,773	298	34,071
Transactions with owners and other transactions								
New issue of shares	4	4				9		9
Cash dividends			-25,223			-25,223	-42	-25,266
Net changes in treasury stock		2		4		7		7
Change in interests in a subsidiary		-1				-1	1	—
Others		14				14		14
Total transactions with owners and other transactions	4	19	-25,223	4	—	-25,194	-40	-25,234
As of June 30, 2014	8,276	3,912	609,205	-521	7,389	628,262	8,293	636,555

(5) Interim Condensed Consolidated Statements of Cash Flows

(Millions of Yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
	Amount	Amount
Cash flows from operating activities:		
Income before income taxes	54,683	58,567
Depreciation and amortization	3,279	3,640
Incremental realization of re-evaluation profits from associates	—	-6,249
Decrease (increase) in trade and other receivables	-2,087	3,564
Increase (decrease) in trade and other payables	11,578	1,365
Increase (decrease) in other current liabilities	-2,155	-4,492
Other cash flows	-14,903	-7,528
Subtotal	50,395	48,867
Income taxes paid	-41,407	-45,064
Cash flows from operating activities	8,987	3,802
Cash flows from investing activities:		
Expenditures on property and equipment	-6,552	-5,102
Expenditures on investment securities	-4,309	-11,044
Other cash flows	6,919	-974
Cash flows from investing activities	-3,942	-17,122
Cash flows from financing activities:		
Cash dividends paid	-23,063	-25,227
Other cash flows	-447	-25
Cash flows from financing activities	-23,510	-25,252
Effect of exchange rate changes on cash and cash equivalents	135	-101
Net change in cash and cash equivalents	-18,329	-38,674
Cash and cash equivalents at the beginning of the periods	409,588	482,336
Cash and cash equivalents at the end of the periods	391,258	443,662

(6) Going Concern Assumption

Not applicable.

(7) Notes to Interim Condensed Consolidated Financial Statements

1. Reporting entity

Yahoo Japan Corporation (the "Company") is incorporated and domiciled in Japan, as a company with limited liability under Companies act of Japan. Its parent and ultimate holding company is SoftBank Corp. The address of its registered principal office is disclosed on its website (http://www.yahoo.co.jp/). The nature of the Company's principal businesses is described in "Qualitative information regarding the consolidated operating results."

2. Basis of preparation

(1) Compliance with International Financial Reporting Standards and first-time adoption

The accompanying interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" pursuant to Article 93 of the Regulation Concerning Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements ("the Regulation,") as the Company meets the criteria of a "Specified company" defined under Article 1-2, Paragraph 1, Item 1 of the Regulation. These interim condensed consolidated financial statements are the Company's first interim condensed consolidated financial statements prepared under International Financial Reporting Standards ("IFRSs.") The date of transition to IFRSs is April 1, 2013. The Company applied IFRS 1 "First-Time Adoption of International Financial Reporting Standards" for the transition to IFRSs. The effects of the transition to IFRSs on the Company's financial position, results of operations, and the cash flows are disclosed in "5. First-time adoption of IFRSs."

(2) Basis of measurement

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and other assets that are measured at fair value, as explained in "3. Significant accounting policies."

(3) Presentation currency and unit of currency

These interim condensed consolidated financial statements have been presented in Japanese yen, which is the currency of the primary economic environment of the Company ("functional currency"), and are rounded down to the nearest million yen.

(4) New standards and interpretations not yet adopted by the Company

The Company has not early adopted standards and interpretations that have not been mandated as of June 30, 2014. The Company is currently evaluating potential impacts that application of these will have on the consolidated financial statements and they are not estimable at the time of this report.

3. Significant accounting policies

The following significant accounting policies have been applied consistently to all periods presented in these interim condensed consolidated financial statements, including the condensed consolidated statement of financial position as of the date of transition to IFRSs, unless otherwise specified.

(1) Basis of consolidation

1) Basic policy of consolidation

The accompanying consolidated financial statements have been prepared based on the financial statements of the Company and the companies over which the Company has control (collectively, the "Group.") The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to use its power to affect its returns.

In assessing whether the Group controls the investee, the Group considers its holding ratio of voting power or similar rights, terms of contracts with the investee and other factors.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup balances and transactions and unrealized gain or loss relating to transactions between members of the Group are eliminated in full on consolidation.

2) Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are reclassified to profit or loss.

3) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

• deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits,” respectively;

• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment” at the acquisition date; and

• assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity’s net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests’ proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value, or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

The Company has applied the exemption in IFRS 1 (Please refer to “5. First-time adoption of IFRSs”).

4) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Each cash-generating unit to which the goodwill is allocated is determined based on the unit at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment before aggregation.

A cash-generating unit to which goodwill is allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognized directly in profit or loss and is not reversed in subsequent periods.

The Group’s policy for goodwill arising on acquisition of associates is described in “5) Investments in associates.”

5) Investments in associates

An associate is an entity: (a) over which the Group directly or indirectly has 20 per cent or more of the voting power and significant influence in the financial and operating policy decisions, unless it can be clearly demonstrated that this is not the case; or, (b) over which the Company can directly or indirectly exercise significant influence even if the voting power is less than 20 per cent.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate.

When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group discontinues the use of the equity method from the date when the investee ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39 "Financial Instruments: Recognition and Measurement."

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate.

The Group applies IAS 39 to determine whether any impairment loss is recognized with respect to its interest in the associate. Impairment tests are performed to test the entire amount of investments for impairment, including goodwill, in accordance with IAS 36 "Impairment of Assets."

(2) Foreign currency translation

1) Transactions denominated in foreign currencies

The financial statements of each company in the Group have been prepared in the functional currency. Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Exchange differences arising from translation are recognized in profit or loss, except those from 2) Foreign operations.

2) Foreign operations

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations (including the adjustments for goodwill and fair value arising from acquisitions) are translated into Japanese yen using exchange rates prevailing at the end of each reporting period.

Income and expense items are translated at the average exchange rates for the period.

Exchange differences arising from translating the financial statements of foreign operations are recognized in other comprehensive income and the cumulative differences are included in accumulated other comprehensive income of the foreign entities.

These foreign exchange differences are reclassified from equity to profit or loss when the Company fully or partially disposes of the interests in the foreign operation. The Company has applied the exemption in IFRS 1 (Please refer to "5. First-time adoption of IFRSs").

(3) Financial instruments

1) Recognition

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities other than financial assets at fair value through profit or loss (“financial assets at FVTPL”) and financial liabilities at fair value through profit or loss (“financial liabilities at FVTPL”) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL and financial liabilities at FVTPL are recognized immediately in profit or loss.

2) Classification

(a) Non-derivative financial assets

Financial assets are classified into “financial assets at FVTPL”, “held-to-maturity investments”, “loans and receivables,” and “available-for-sale financial assets.” The classification depends on the nature and purpose of the financial assets.

i) Financial assets at FVTPL

Financial assets held for trading purposes are initially measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. Transaction costs are recognized in profit or loss when incurred. Interests and dividend income earned on the financial assets are recognized in profit or loss.

ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates and that the Company has the positive intent and ability to hold to maturity are classified as “held-to-maturity investments.”

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment. Interest income based on the effective interest rate is recognized in profit or loss.

iii) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as “loans and receivables.”

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income calculated based on the effective interest method is recognized in profit or loss.

iv) Available-for-sale financial assets

Non-derivative financial assets are classified as “available-for-sale financial assets,” if:

・those are designated as “available-for-sale financial assets” at initial recognition; or

・those are classified neither as “financial assets at FVTPL,” “held-to-maturity investments,” nor “loans and receivables.”

Subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value and gains or losses arising from changes in fair value are recognized in other comprehensive income.

When there is objective evidence that the available-for-sale financial asset is impaired, the accumulated other comprehensive income is reclassified to profit or loss.

Foreign exchange gains and losses from monetary financial assets classified as available-for-sale financial assets and dividends and interest income from available-for-sale financial assets under the effective interest method are recognized in profit or loss. When an available-for-sale financial asset is derecognized, the accumulated profit or loss recorded in other comprehensive income is reclassified to profit or loss.

(b) Non-derivative financial liabilities

The Group's non-derivative financial liabilities consist of trade and other payables. These financial liabilities are measured at amortized cost using the effective interest method, subsequent to initial recognition.

(c) Derivative financial assets and liabilities

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately. Derivative financial assets and liabilities are classified into “financial assets at FVTPL” and “financial liabilities at FVTPL,” respectively.

3) Derecognition of financial assets and liabilities

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset distinguish or when it transfers the financial asset and substantially all the risks and economic value of the financial asset. The Group derecognizes a financial liability when, and only when, it is extinguished—i.e. when the Group's obligation is discharged, canceled or expired.

4) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amounts are presented in the statement of financial position when, and only when; (1) the Group currently has a legally enforceable right to set off the recognized amounts, and (2) the Group intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

5) Impairment of financial assets

Financial assets, other than those at FVTPL, are impaired when there is objective evidence of impairment, as a result of loss events that occurred after the initial recognition of the financial assets and these events have adversely affected the estimated future cash flows of the financial assets that can be reliably estimated. The Group assesses such financial assets for any objective evidence of impairment at the end of each reporting period.

In recognizing an impairment loss on held-to-maturity investments or loans and receivables, the Group does not write off the carrying amount of the asset but provides an allowance.

For held-to-maturity investments and loans and receivables, an impairment loss on financial assets is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Interest income after impairment recognition is thereafter recognized through reversal of discount due to passage of time.

For available-for-sale equity instruments, an impairment loss on financial assets is measured as the difference between the asset's carrying amount and its fair value and is recognized in profit or loss.

If, in a subsequent period, an event that decreases the amount of the impairment loss on held-to-maturity investments or loans and receivables occurs, the amount of the reversal is recognized in profit or loss.

For available-for-sale equity instruments, impairment loss will not be reversed.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits and short-term investments with maturities of three-months or less that are readily convertible to cash and subject to insignificant risk of change in value.

(5) Property and equipment

Property and equipment are measured on a historical cost basis, less accumulated depreciation and accumulated impairment losses. Historical costs include costs directly attributable to the acquisition of the asset and the initial estimate of costs related to disassembly, retirement and site restoration.

Property and equipment, other than land and construction in progress, are depreciated using the straight-line method over the estimated useful life of each asset.

The estimated useful lives of major component of property and equipment are as follows:

Buildings and structures 4-62 years

Furniture and fixtures 2-20 years

Machinery and equipment 8-17 years

The depreciation methods, useful lives, and residual values of assets are reviewed at the end of each fiscal year, and applied prospectively as a change in an accounting estimate if there is such a change.

Assets held under finance leases are depreciated over their estimated useful lives when there is reasonable certainty that ownership will be obtained by the end of the lease term. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term or their estimated useful lives.

(6) Intangible assets

Intangible assets with finite useful lives acquired separately are carried at cost basis at cost less accumulated amortization and accumulated impairment losses. Intangible assets with infinite useful lives acquired separately are measured at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Expenditure on research activity is recognized as an expense in the period in which it is incurred. The amount initially recognized for internally-generated intangible assets from development phase is the sum of the expenditures incurred from the date when the intangible asset first meets all of the capitalization criteria to the date the development is completed. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets are amortized using the straight-line method over the estimated useful lives.

The estimated useful lives of major components of intangible assets are as follows:

Software 2-5 years

Customer base 6 years

Amortization methods, useful lives, and residual values of assets are reviewed at the end of each fiscal year and applied prospectively as a change in an accounting estimate if there is such a change.

(7) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of assets to the lessee. All other leases are classified as operating leases.

The assessment of whether an arrangement is a lease or contains a lease is made on a basis of all of the facts and circumstances at the inception of the arrangement.

1) Finance leases

(The Company as lessee)

At the inception of lease, the Group initially recognizes finance leases as assets and the lease obligation at the amount equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Subsequent to initial recognition, the accounting policy for assets held under finance leases are consistent with that of assets that are owned. Lease payments are apportioned between finance expenses (other non-operating expenses) and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

2) Operating leases

(The Company as lessee)

Total amount of operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(8) Impairment of property and equipment and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

(9) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the time value of money has a significant influence, provisions are measured using the estimated future cash flows, discounted using a pre-tax rate reflecting the time value of money and the specific risks of the liability. Reversal of discount due to passage of time is recognized in profit or loss.

Major provisions of the Group are as follows:

1) Provision for Yahoo! Points

In accordance with the Company’s point system as a sales promotion, the Company provides for the estimated future exercise of points by users.

2) Asset retirement obligations

The Group recognizes asset retirement obligations for obligations to restore leased offices to their original conditions upon termination of the lease contract.

(10) Share-based payments

The Company has an equity-settled stock option scheme as an incentive plan for directors and employees. Stock options are measured at the fair value of the equity instruments at the grant date. The fair value of stock options is computed by using the Black-Scholes model considering the terms and conditions of each option.

The fair value of stock options determined at the grant date is expensed over the vesting period with a corresponding increase in equity.

At the end of each reporting period, the Company reviews estimates of the number of options that are expected to vest, and revise them when necessary.

The Company has applied the exemption in IFRS 1 (Please refer to “5. First-time adoption of IFRSs”).

(11) Revenue

Revenue of the Group mainly consists of services which are basically recognized based on the stage of completion of transactions at the end of the reporting period.

Revenue comprises paid search advertising, display advertising, commission fees related to e-commerce such as YAHUOKU!, and membership fees such as Yahoo! Premium.

Paid search advertising revenue is recognized when a visitor of the website clicks the advertisement.

Display advertising comprises premium advertising, Yahoo! Display Ad Network (“YDN”) and others. Revenue from premium advertising is recognized over a period in which related advertisement is displayed. Revenue from YDN is recognized when a visitor of the website clicks the advertisement on the page with the related content.

Revenue from e-commerce-related commission fees is recognized when a transaction occurs. Revenue from membership fees is recognized over an effective period of the membership.

(12) Retirement benefits

The Group primarily participates in defined contribution pension plans. In addition, the Group has adopted contributory welfare pension plans as defined benefit pension plans. Defined contribution plans are benefit plans in which an employer pays fixed contributions to independent pension plans and will have no legal or constructive obligation to pay further contributions. Contributions to the defined contribution plans are recognized as expenses when the related services are rendered by employees, and contributions payable are recognized as liabilities.

The Group participates in multi-employer contributory defined benefit welfare pension plans. Contributions to the multi-employer contributory defined benefit welfare pension plans are recognized as expenses when the related services are rendered by employees, and contributions payable are recognized as liabilities.

(13) Income tax

Income tax expense is comprised of current and deferred taxes, and recognized in profit or loss, except for taxes related to business combinations and taxes related to items that are recognized in other comprehensive income or directly in equity.

1) Current tax

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

2) Deferred tax

Deferred tax assets are recognized for deductible temporary differences, unused tax losses, and unused tax credits to the extent that it is probable that taxable profits will be available. Recoverability of deferred tax assets are reviewed at the end of each reporting period. Deferred tax liabilities are recognized for taxable temporary differences.

Deferred tax assets and liabilities are not recognized for:

・temporary differences arising from the initial recognition of assets and liabilities in a transaction that affects neither the accounting profit nor the taxable profit, other than in a business combination;

・taxable temporary differences arising from the initial recognition of goodwill;

・deductible temporary differences associated with investments in subsidiaries and associates, where it is not probable that the temporary difference will reverse in the foreseeable future or where there will not be sufficient taxable profits against which to utilize the benefits of the temporary differences; and

・taxable temporary differences associated with investments in subsidiaries and associates, where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Company has a legally enforceable right to set off current tax assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

Income tax expense recorded in the respective interim period has been calculated based on the estimated effective tax rate for the full financial year.

(14) Treasury stock

When the Company acquires its own equity share capital ("treasury stock"), the consideration paid, including any directly attributable increments costs (net of income taxes), is deducted from equity. No gain or loss is recognized on the purchase, sale, or cancellation of the treasury stock. The difference between the carrying amount and the consideration on sale is recognized as capital surplus.

(15) Earnings per share

Basic earnings per share is computed by dividing net income attributable to owners of the Company by the weighted-average number of common stocks outstanding for the period.

Diluted earnings per share assumes full conversion of the issued potential stocks having a dilutive effect, with an adjustment for net income attributable to owners of the parent and the weighted-average number of common stocks outstanding for the period.

On October 1, 2013, the Company effected a stock split at a rate of 100 shares for each outstanding share. Basic earnings per share and diluted earnings per share are calculated assuming that the stock split effected on April 1, 2013.

4. Use of estimates and judgments

In preparing interim condensed consolidated financial statements under IFRSs, management makes judgments, estimates, and assumptions that affect the application of accounting policies and carrying amounts of assets, liabilities, revenue, and expenses. Actual results in the future may differ from those estimates or assumptions. Estimates and underlying assumptions are continuously reviewed. Revisions to accounting estimates are recognized in the period in which the estimate is revised as well as in the future periods.

Critical judgment in applying accounting policies that most affect amounts on interim condensed financial statements significantly is as follows:

・Determination of scope of subsidiaries and associates (Please refer to "3. Significant accounting policies (1)")

Key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

・Estimates of useful life of property and equipment and intangible assets (Please refer to "3. Significant accounting policies (5) and (6)")

・Determination of value in use of cash-generating unit as the smallest unit to measure impairment losses of property and equipment, goodwill and intangible assets (Please refer to "3. Significant accounting policies (1) and (8)")

・Assessment of recoverability of deferred tax assets (Please refer to "3. Significant accounting policies (13)")

・Fair value measurement of financial assets (Please refer to "3. Significant accounting policies (3)")

・Fair value measurement of stock options (Please refer to "3. Significant accounting policies (10)")

5. First-time adoption of IFRSs

Up to March 31, 2013, the Group prepared its consolidated financial statements under accounting principles generally accepted in Japan (“JGAAP”). As described in “2. Basis of preparation of consolidated financial statements (1),” the Company first prepared interim condensed consolidated financial statements in accordance with IFRSs.

The significant accounting policies of the Group are applied to: (1) the interim condensed consolidated financial statements as of and for the three months period ended June 30, 2014, (2) comparative information on the interim condensed consolidated financial statements as of and for the quarter ended June 30, 2013, and (3) the interim condensed consolidated statement of financial position as of April 1, 2013 (the date of transition to IFRSs).

In preparing these interim condensed consolidated financial statements, amounts of certain items disclosed in financial statements under JGAAP are reconciled to comply with IFRSs. Effects of transition to IFRSs on the Groups financial positions, operating results, and cash flows are disclosed in the following tables and notes of reconciliation.

IFRS 1 requires first-time adopters to apply IFRSs retrospectively. IFRS 1, however, also grants first-time adopters to voluntarily elect to use exemptions from some requirements of IFRSs. The Group applied the following exemptions:

・Share-based payments

The Group has elected not to apply IFRS 2 “Share-based Payment” to stock options which were vested before the date of transition to IFRSs.

・Business combinations

The Group has elected not to apply IFRS 3 “Business Combinations,” retrospectively to business combinations that occurred before the date of transition to IFRSs.

・Translation differences for foreign operations

The Group has elected not to apply IAS 21 “The Effects of Changes in Foreign Exchange Rates” retrospectively to cumulative translation difference of investments in foreign consolidated subsidiaries and associates prior to the date of transition to IFRSs. The cumulative translation differences are deemed to be zero at the date of transition to IFRSs, and are excluded from the gain or loss on a subsequent disposal of any foreign operation.

Reconciliation of equity as of April 1, 2013 (transition date)

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Assets						Assets
Current assets						Current assets
Cash and deposits	414,086	-4,200	-298	409,588	1	Cash and cash equivalents
Accounts receivable-trade	55,939	87,643	290	143,873	2	Trade and other receivables
Foreign exchange dealings cash—deposits with trust banks	68,451	-68,451	—	—		
	—	13,556	—	13,556	3	Other financial assets
Other assets	39,187	-36,278	-9	2,899	4	Other current assets
Allowance for doubtful accounts	-1,563	1,563	—	—		
Total current assets	576,102	-6,168	-16	569,917		Total current assets
Fixed assets						Non-current assets
Property and equipment	45,179	—	5,887	51,067	5	Property and equipment
Intangible assets						
Goodwill	11,914	—	2,481	14,395	6	Goodwill
Other assets	16,910	—	18	16,928	7	Intangible assets
Investments and other assets						
Investment securities	80,913	-80,913	—	—		
	—	41,241	-960	40,280	8	Investments accounted for using the equity method
	—	48,300	-12,600	35,699	9	Other financial assets
	—	10,179	3,924	14,103	10	Deferred tax assets
Other assets	12,334	-11,453	-5	875	11	Other non-current assets
Allowance for doubtful accounts	-42	42	—	—		
Total fixed assets	167,209	7,397	-1,255	173,351		Total non-current assets
Total assets	743,311	1,229	-1,272	743,268		Total assets

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Accounts payable-trade	10,970	110,658	-20	121,608	12	Trade and other payables
	—	5,647	—	5,647	13	Other financial liabilities
Income taxes payable	42,255	-623	495	42,127	14	Income taxes payable
	—	4,298	—	4,298	15	Provisions
Foreign exchange dealings deposits from customers	72,485	-72,485	—	—		
Other current liabilities	63,377	-46,267	3,150	20,261	16	Other current liabilities
Total current liabilities	189,088	1,229	3,625	193,943		Total current liabilities
Long-term liabilities						Non-current liabilities
	—	153	-6	146	17	Other financial liabilities
	—	2,459	—	2,459	18	Provisions
	—	30	—	30	19	Deferred tax liabilities
Other liabilities	2,957	-2,643	756	1,070	20	Other non-current liabilities
Total long-term liabilities	2,957	—	749	3,707		Total non-current liabilities
Total liabilities	192,046	1,229	4,374	197,650		Total liabilities
Equity						Equity
						Equity attributable to owners of the parent
Common stock	8,037	—	—	8,037		Common stock
Capital surplus	3,117	570	5	3,694	21	Capital surplus
Retained earnings	528,081	—	-5,771	522,310	22	Retained earnings
Treasury stock	-372	—	—	-372		Treasury stock
Accumulated other comprehensive income	4,594	—	-19	4,575	23	Accumulated other comprehensive income
Stock acquisition rights	570	-570	—	—		
	544,029	—	-5,784	538,245		Total equity attributable to owners of the parent
Minority interests	7,234	—	137	7,372		Non-controlling interests
Total equity	551,264	—	-5,646	545,617		Total equity
Total liabilities and equity	743,311	1,229	-1,272	743,268		Total liabilities and equity

Reconciliation of equity as of June 30, 2013

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Assets						Assets
Current assets						Current assets
Cash and deposits	395,750	-4,200	-292	391,258	1	Cash and cash equivalents
Accounts receivable-trade	51,948	93,721	290	145,961	2	Trade and other receivables
Foreign exchange dealings cash—deposits with trust banks	70,928	-70,928	—	—		
	—	19,218	—	19,218	3	Other financial assets
Other assets	45,756	-42,664	-8	3,083	4	Other current assets
Allowance for doubtful accounts	-1,317	1,317	—	—		
Total current assets	563,066	-3,535	-10	559,521		Total current assets
Fixed assets						Non-current assets
Property and equipment	45,601	—	5,841	51,443	5	Property and equipment
Intangible assets						
Goodwill	10,652	—	3,743	14,395	6	Goodwill
Other assets	17,218	—	14	17,233	7	Intangible assets
Investments and other assets						
Investment securities	80,294	-80,294	—	—		
	—	41,165	-799	40,366	8	Investments accounted for using the equity method
	—	47,772	-11,882	35,890	9	Other financial assets
	—	9,027	3,639	12,667	10	Deferred tax assets
Other assets	13,823	-12,972	-5	845	11	Other non-current assets
Allowance for doubtful accounts	-24	24	—	—		
Total fixed assets	167,565	4,723	551	172,840		Total non-current assets
Total assets	730,631	1,188	541	732,361		Total assets

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Accounts payable-trade	13,884	115,447	-151	129,180	12	Trade and other payables
	—	3,917	—	3,917	13	Other financial liabilities
Income taxes payable	18,577	-275	495	18,797	14	Income taxes payable
	—	4,142	—	4,142	15	Provisions
Foreign exchange dealings deposits from customers	80,991	-80,991	—	—		
Other current liabilities	55,005	-41,052	3,150	17,104	16	Other current liabilities
Total current liabilities	168,458	1,188	3,494	173,142		Total current liabilities
Long-term liabilities						Non-current liabilities
	—	149	-6	142	17	Other financial liabilities
	—	2,457	—	2,457	18	Provisions
	—	40	—	40	19	Deferred tax liabilities
Other liabilities	2,942	-2,647	790	1,085	20	Other non-current liabilities
Total long-term liabilities	2,942	—	783	3,726		Total non-current liabilities
Total liabilities	171,401	1,188	4,278	176,868		Total liabilities
Equity						Equity
						Equity attributable to owners of the parent
Common stock	8,139	—	—	8,139		Common stock
Capital surplus	3,220	687	-157	3,750	21	Capital surplus
Retained earnings	537,382	—	-4,133	533,248	22	Retained earnings
Treasury stock	-372	—	—	-372		Treasury stock
Accumulated other comprehensive income	3,065	—	416	3,481	23	Accumulated other comprehensive income
Stock acquisition rights	687	-687	—	—		
	552,122	—	-3,874	548,248		Total equity attributable to owners of the parent
Minority interests	7,107	—	137	7,244		Non-controlling interests
Total equity	559,230	—	-3,736	555,493		Total equity
Total liabilities and equity	730,631	1,188	541	732,361		Total liabilities and equity

Reconciliation of equity as of March 31, 2014

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Assets						Assets
Current assets						Current assets
Cash and deposits	482,628	—	-292	482,336		Cash and cash equivalents
Accounts receivable-trade	61,154	98,950	290	160,396	2	Trade and other receivables
Foreign exchange dealings cash—deposits with trust banks	75,170	-75,170	—	—		
	—	12,313	—	12,313	3	Other financial assets
Other assets	47,654	-43,854	-140	3,659	4	Other current assets
Allowance for doubtful accounts	-1,351	1,351	—	—		
Total current assets	665,257	-6,409	-141	658,706		Total current assets
Fixed assets						Non-current assets
Property and equipment	53,697	—	6,448	60,145	5	Property and equipment
Intangible assets						
Goodwill	10,218	—	5,590	15,808	6	Goodwill
Other assets	17,845	—	14	17,860	7	Intangible assets
Investments and other assets						
Investment securities	82,478	-82,478	—	—		
	—	35,054	-690	34,364	8	Investments accounted for using the equity method
	—	56,414	-6,881	49,532	9	Other financial assets
	—	10,697	1,770	12,468	10	Deferred tax assets
Other assets	13,271	-12,163	-5	1,101	11	Other non-current assets
Allowance for doubtful accounts	-18	18	—	—		
Total fixed assets	177,491	7,543	6,246	191,281		Total non-current assets
Total assets	842,749	1,133	6,105	849,987		Total assets

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Liabilities						Liabilities and equity
Current liabilities						Current liabilities
Accounts payable-trade	12,363	130,218	-19	142,562	12	Trade and other payables
	—	5,108	—	5,108	13	Other financial liabilities
Income taxes payable	45,785	-638	508	45,655	14	Income taxes payable
	—	2,951	—	2,951	15	Provisions
Foreign exchange dealings deposits from customers	81,594	-81,594	—	—		
Other current liabilities	73,377	-54,912	3,592	22,057	16	Other current liabilities
Total current liabilities	213,121	1,132	4,081	218,335		Total current liabilities
Long-term liabilities						Non-current liabilities
	—	134	-6	128	17	Other financial liabilities
	—	2,655	—	2,655	18	Provisions
	—	37	—	37	19	Deferred tax liabilities
Other liabilities	3,066	-2,827	872	1,112	20	Other non-current liabilities
Total long-term liabilities	3,066	1	865	3,933		Total non-current liabilities
Total liabilities	216,188	1,133	4,947	222,269		Total liabilities
Equity						Equity
						Equity attributable to owners of the parent
Common stock	8,271	—	—	8,271		Common stock
Capital surplus	3,351	700	-159	3,892	21	Capital surplus
Retained earnings	600,456	—	-2,444	598,012	22	Retained earnings
Treasury stock	-526	—	—	-526		Treasury stock
Accumulated other comprehensive income	6,408	—	3,624	10,032	23	Accumulated other comprehensive income
Stock acquisition rights	700	-700	—	—		
	618,662	—	1,020	619,682		Total equity attributable to owners of the parent
Minority interests	7,898	—	137	8,036		Non-controlling interests
Total equity	626,560	—	1,157	627,718		Total equity
Total liabilities and equity	842,749	1,133	6,105	849,987		Total liabilities and equity

Notes to the reconciliation of equity

1. Cash and cash equivalents

(Presentation)

Under JGAAP, time deposits with maturities of more than three months as well as those pledged as collateral were included in cash and deposits. Under IFRSs, they are included in other financial assets-current.

2. Trade and other receivables

(Presentation)

Under JGAAP, accounts receivable-trade, foreign exchange dealings cash—deposits with trust banks, and allowance for doubtful accounts were presented separately. Under IFRSs, they are all included in trade and other receivables.

Under JGAAP, other receivables were included in other current assets. Under IFRSs, they are included in trade and other receivables.

3. Other financial assets-current

(Presentation)

Under JGAAP, time deposits with maturities of more than three months as well as those pledged as collateral were included in cash and deposits. Under IFRSs, they are included in other financial assets-current.

Derivative instruments, which were included in other current assets under JGAAP, are included in other financial assets-current.

Certain derivative instruments, which were presented on a net basis under JGAAP, are presented on a gross basis under IFRSs because they do not meet the criteria for netting off stipulated in IFRSs.

4. Other current assets

(Presentation)

All deferred tax assets and liabilities, which were classified as current items under JGAAP, are classified as non-current items under IFRSs.

Other receivables, which were included in other current assets under JGAAP, are included in trade and other receivables under IFRSs.

Derivative instruments, which were included in other current assets under JGAAP, are included in other current financial assets under IFRSs.

5. Property and equipment

(Presentation)

Items of property and equipment, which were separately disclosed under JGAAP, are disclosed collectively as property and equipment under IFRSs.

(Recognition and measurement)

As a result of reviewing depreciation methods and others at the transition to IFRSs, amounts of property and equipment have changed.

6. Goodwill

(Recognition and measurement)

Under JGAAP, goodwill was amortized over the estimated periods in which economic benefits were reasonably expected to be realized. Under IFRSs, it is not amortized on or after the date of transition to IFRSs resulting in a change of the remaining amount of goodwill.

Under IFRS, changes in the parent’s ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Goodwill recognized in relation to such changes under JGAAP has been reclassified to capital surplus.

7. Intangible assets

(Presentation)

Other assets in the intangible assets section under JGAAP are collectively presented as intangible assets under IFRSs.

8. Investments accounted for using the equity method

(Presentation)

Investments in associates accounted for using the equity method, which were included in investment securities under JGAAP, are presented separately as investments accounted for using the equity method under IFRSs.

(Recognition and measurement)

Under JGAAP, goodwill related to investments accounted for using the equity method was amortized over the estimated periods in which economic benefits were reasonably expected to be realized. Under IFRSs, it is not amortized on or after the date of transition to IFRSs resulting in a change of the amount of investments accounted for using the equity method.

9. Other non-current financial assets

(Presentation)

Investments in associates accounted for using the equity method, which were included in investment securities under JGAAP, are presented separately as investments accounted for using the equity method under IFRSs. Investment securities other than the aforementioned investments under JGAAP are included in other non-current financial assets under IFRSs.

Allowance for doubtful accounts, and deposits that were included in other assets of investments and other assets under JGAAP are included in other non-current financial assets under IFRSs.

(Recognition and measurement)

Under JGAAP, unlisted equity instruments are measured based on their historical costs.

Under IFRSs, they are measured at their fair values resulting in a change of amount of other non-current financial assets.

The Company has the right to indemnity against Softbank Corp. for additional taxes which may be levied to income taxes of IDC Frontier Inc, a consolidated subsidiary of the Company. Under JGAAP, total amount of the estimated future tax payments regarding this agreement is recorded as long-term other receivables. Under IFRSs, it is treated as indemnification assets and should be adjusted to the amount equivalent to the estimated tax prepayment within a year as an uncertain tax position which probably results in an outflow of economic benefits. As a result, the amount of other non-current financial assets has changed.

10. Deferred tax assets

(Presentation)

Deferred tax assets, which were included in other current assets under JGAAP, are classified as non-current items under IFRSs.

(Recognition and measurement)

Because of temporary differences arising from reclassification and remeasurement of items on the consolidated statements of financial position such as unlisted equity instruments remeasured at their fair values, deferred tax assets increased.

11. Other non-current assets

(Presentation)

Deposits, which were included in other assets of investment and other assets under JGAAP, are included in other non-current financial assets under IFRSs.

12. Trade and other payables

(Presentation)

Accounts payable-trade and foreign exchange dealings deposits from customers, which were separately disclosed under JGAAP, are included in trade and other payables under IFRSs.

Other payables, which were included in other current liabilities under JGAAP, are included in trade and other payables under IFRSs.

13. Other current liabilities

(Presentation)

Derivative liabilities, which were included in other current liabilities under JGAAP, are included in other current financial liabilities under IFRSs.

Certain derivative financial liabilities, which were presented on a net basis under JGAAP, are presented on a gross basis under IFRSs because they don’t meet the criteria for netting off stipulated in IFRSs.

14. Income taxes payable

(Presentation)

Enterprise taxes payable on a pro forma basis, which were included in income taxes payable under JGAAP, are included in other current liabilities under IFRSs.

(Recognition and measurement)

Additional taxes which may be levied to IDC Frontier Inc, a consolidated subsidiary of the Company, are not recognized under JGAAP because it has not been probable. Under IFRSs, however, they are treated as an uncertain tax position which probably results in an outflow of economic benefits and are recognized at the best estimated amount on an assumption that the Company is oblige to pay the additional taxes within a year. As a result, income taxes payable increased.

15. Provision

(Presentation)

Provision for Yahoo! Points/T-POINT, which was included in other current liabilities under JGAAP, is presented as provisions (current) under IFRSs.

16. Other current liabilities

(Presentation)

Enterprise taxes payable on a pro forma basis, which were included in income taxes payable under JGAAP, are included in other current liabilities under IFRSs.

Other payables, which were included in other current liabilities under JGAAP, are included in trade and other payables under IFRSs.

Derivative liabilities, which were included in other current liabilities under JGAAP, are included in other current financial liabilities under IFRSs.

(Recognition and measurement)

Unused paid absences, which are not recognized under JGAAP, are recognized as liabilities under IFRSs resulting in an increase of other current liabilities.

17. Other non-current financial liabilities

(Presentation)

Long-term deposits received, which were included in long-term liabilities under JGAAP, are included in other non-current financial liabilities under IFRSs.

18. Provision (non-current)

(Presentation)

Asset retirement obligations, which were included in non-current liabilities under JGAAP, are presented as provisions (non-current) under IFRSs.

19. Deferred tax liabilities

(Presentation)

Deferred tax liabilities, which were included in long-term liabilities under JGAAP, are separately disclosed under IFRSs.

20. Other non-current liabilities

(Presentation)

Long-term deposits received, which were included in long-term liabilities under JGAAP, are included in other non-current financial liabilities under IFRSs.

Asset retirement obligations, which were included in non-current liabilities under JGAAP, are presented as provisions (non-current) under IFRSs.

Deferred tax liabilities, which were included in long-term liabilities under JGAAP, are separately disclosed under IFRSs.

(Recognition and measurement)

Under JGAAP, revenue of installation for data center-related services is recognized when the relevant services are rendered. Under IFRSs, they are recognized over an estimated average contract period, resulting in a change of amount of other non-current liabilities.

21. Capital surplus

(Presentation)

Stock acquisition rights, which were separately disclosed under JGAAP, are included in capital surplus under IFRSs.

(Recognition and measurement)

Under IFRS, changes in the parent's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Goodwill recognized in relation to such changes under JGAAP has been reclassified to capital surplus.

22. Retained earnings

(Recognition and measurement)

The effects of transition to IFRSs on retained earnings are as follows:

(Millions of yen)

	As of April 1, 2013 (Date of transition to IFRSs)	As of June 30, 2013 (End of the three months period)	As of March 31, 2014 (End of the previous year)
Depreciation and amortization	3,788	3,758	4,149
Unused paid absences	-1,998	-1,998	-2,358
Goodwill	—	1,537	3,692
Fair value measurement of unlisted equity instruments	-7,471	-7,471	-7,471
Other	-89	40	-455
Total	-5,771	-4,133	-2,444

23. Accumulated other comprehensive income

(Recognition and measurement)

Under JGAAP, unlisted equity instruments are measured based on their historical costs.

Under IFRSs, they are measured at their fair values resulting in a change of amount of accumulated other comprehensive income.

Foreign currency translation adjustments, which were included in accumulated other comprehensive income under JGAAP, were reclassified to retained earnings at the transition to IFRSs.

Reconciliation of comprehensive income for the three months ended June 30, 2013
(from April 1 to June 30, 2013)

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Net sales	92,331	4,941	-16	97,255	1	Revenue
Cost of sales	11,691	5,966	-24	17,633	2	Cost of sales
Gross profit	80,639	-1,024	7	79,622		Gross profit
Selling, general and administrative expenses	31,997	95	-1,478	30,614	3	Selling, general and administrative expenses
Operating income	48,642	-1,120	1,486	49,008		Operating income
Non-operating income	438	-438	—	—		
Non-operating expenses	45	-45	—	—		
Extraordinary income	5,386	303	135	5,825	4	Other non-operating income
Extraordinary losses	1,480	-1,233	-7	238	5	Other non-operating expenses
	—	-23	112	88	6	Equity in earnings (losses) of associates
Income before income taxes and minority interests	52,941	—	1,741	54,683		Income before income taxes
Income taxes	20,417	—	30	20,447	7	Income taxes
Income (loss) before minority interests	32,524	—	1,711	34,235		Net income
Other comprehensive income						Other comprehensive income Items that may be reclassified subsequently to profit or loss
Net unrealized gain on available-for-sale securities	-2,097	—	426	-1,670		Available-for-sale financial assets
Deferred gains or losses on hedges	2	—	-2	—		
Foreign currency translation adjustments	84	—	—	84		Exchange differences on translating foreign operations
Share of other comprehensive income in associates accounted for by the equity method	481	—	10	491		Share of other comprehensive income of associates
Total other comprehensive income	-1,529	—	435	-1,094		Other comprehensive income, net of tax
Comprehensive income	30,994	—	2,146	33,141		Comprehensive income

Reconciliation of comprehensive income for the previous year (from April 1, 2013 to March 31, 2014)

(Millions of yen)

Presentation under JGAAP	JGAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	IFRSs
Net sales	386,284	22,278	-47	408,514	1	Revenue
Cost of sales	49,047	26,813	—	75,860	2	Cost of sales
Gross profit	337,236	-4,535	-47	332,653		Gross profit
Selling, general and administrative expenses	139,820	-362	-3,241	136,215	3	Selling, general and administrative expenses
Operating income	197,416	-4,172	3,194	196,437		Operating income
Non-operating income	1,280	-1,280	—	—		
Non-operating expenses	1,062	-1,062	—	—		
Extraordinary income	12,348	738	107	13,194	4	Other non-operating income
Extraordinary losses	5,375	-4,353	291	1,313	5	Other non-operating expenses
	—	-701	606	-94	6	Equity in earnings (losses) of associates
Income before income taxes and minority interests	204,606	—	3,617	208,224		Income before income taxes
Income taxes	78,427	—	128	78,556	7	Income taxes
Income (loss) before minority interests	126,178	—	3,488	129,667		Net income
Other comprehensive income						Other comprehensive income Items that may be reclassified subsequently to profit or loss
Net unrealized gain on available-for-sale securities	1,451	—	3,645	5,097		Available-for-sale financial assets
Deferred gains or losses on hedges	2	—	-2	—		
Foreign currency translation adjustments	175	—	—	175		Exchange differences on translating foreign operations
Share of other comprehensive income in associates accounted for by the equity method	191	—	0	190		Share of other comprehensive income of associates
Total other comprehensive income	1,820	—	3,643	5,463		Other comprehensive income, net of tax
Comprehensive income	127,999	—	7,132	135,131		Comprehensive income

Notes to the reconciliation of comprehensive income

Major components of reconciliation are as follows:

1. Revenue

(Presentation)

Under JGAAP, traffic acquisition costs and certain commissions for settlement paid in proportion to sales of paid search advertising are deducted from sales (net basis). Under IFRSs, they are presented on a gross basis, resulting in a change of amount of revenue.

(Recognition and measurement)

Under JGAAP, sales of installation for data center-related services are recognized when the relevant services are rendered. Under IFRSs, they are recognized over an estimated average contract period, resulting in a change of amount of revenue.

2. Cost of sales

(Presentation)

Under JGAAP, traffic acquisition costs and certain commissions for settlement paid in proportion to sales of paid search and other advertising products are deducted from sales (net basis). Under IFRSs, they are presented on a gross basis, resulting in a change of amount of cost of sales.

3. Selling, general and administrative expenses

(Presentation)

Under JGAAP, impairment losses and other losses are included in extraordinary losses. Under IFRSs, they are included in selling, general and administrative expenses.

(Recognition and measurement)

As a result of reviewing depreciation methods and others at the transition to IFRSs, amount of depreciation expenses changed.

Under JGAAP, goodwill was amortized over the estimated periods in which economic benefits were reasonably expected to be realized. Under IFRSs, it is not amortized on or after the date of transition to IFRSs, resulting in a change of amount of amortization of goodwill.

4. Other non-operating income

(Presentation)

Gain on sales of investment securities and other gains, which were included in extraordinary gains under JGAAP, are included in other non-operating income under IFRSs.

Interest income and other income, which were included in non-operating income under JGAAP, are included in other non-operating income under IFRSs.

(Recognition and measurement)

As a result of remeasuring gains and losses on sales of investments in associates at the transition to IFRSs, there were differences in gains and losses on sales between those under IFRSs and those under JGAAP, resulting in a change of the amount of other income from sales of investments.

5. Other non-operating expenses

(Presentation)

Loss on sales of investment securities and other losses, which were included in extraordinary losses under JGAAP, are included in other non-operating expenses under IFRSs.

Losses from investments and other losses, which were included in non-operating expenses under JGAAP, are included in other non-operating expenses.

6. Share of profit (loss) of associates accounted for using the equity method

(Presentation)

Share of profit (loss) of associates accounted for using the equity method, which were presented as non-operating income or expenses under JGAAP, is presented as a separate component under IFRSs.

(Recognition and measurement)

Under JGAAP, goodwill related to investments accounted for using the equity method was amortized over the estimated periods in which economic benefits were reasonably expected to be realized. Under IFRSs, it is not amortized on or after the date of transition to IFRSs resulting in a change of the amount of share of profit (loss) of associates accounted for using the equity method.

7. Income taxes

(Presentation)

As a result of reviewing depreciation methods and others and remeasuring deferred tax assets at the transition to IFRSs, amounts of income taxes increased.

Reconciliation of cash flows

There is no significant difference between the consolidated statements of cash flows prepared and disclosed in accordance with JGAAP, and those prepared and disclosed in accordance with IFRSs.

(Reference: Quarterly information)

Interim Condensed Consolidated Statements of Income

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	97,255	99,947	2,691	2.8
Cost of sales	17,633	19,556	1,923	10.9
Gross profit	79,622	80,390	768	1.0
Selling, general and administrative expenses	30,614	31,637	1,023	3.3
Operating income	49,008	48,753	-254	-0.5
Other non-operating income	5,825	9,639	3,813	65.5
Other non-operating expenses	238	99	-139	-58.5
Equity in earnings (losses) of associates	88	273	185	209.6
Income before income taxes	54,683	58,567	3,883	7.1
Income taxes	20,447	21,850	1,402	6.9
Net income	34,235	36,716	2,481	7.2
Net income attributable to:				
Owners of parent	33,995	36,416	2,420	7.1
Non-controlling interests	239	299	60	25.1
Net income	34,235	36,716	2,481	7.2
Net income per share attributable to owners of the parent				
Basic earnings per share (yen)	5.91	6.40	0.48	8.2
Diluted earnings per share (yen)	5.90	6.39	0.49	8.3

Breakdown of Selling, General and Administrative Expenses

(Millions of yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Selling, general and administrative expenses				
Personnel expenses	10,654	11,125	470	4.4
Business commissions	3,858	4,701	842	21.8
Sales promotion costs	2,669	3,304	635	23.8
Depreciation expenses	2,628	2,949	320	12.2
Royalties	2,683	2,713	30	1.1
Content provider fees	1,868	2,522	654	35.0
Lease and utility expenses	1,784	2,223	439	24.6
Communication charges	1,616	1,419	-197	-12.2
Administrative and maintenance expenses	693	844	151	21.9
Advertising expenses	588	744	156	26.5
License fees	298	620	322	108.2
Taxes and public dues	322	322	-0	-0.0
Sales commissions	215	252	36	17.2
Travel and transportation	202	233	31	15.7
Investigation fees	82	119	36	44.8
Others	449	-2,459	-2,909	—
Total selling, general and administrative expenses	30,614	31,637	1,023	3.3

Analysis of Business Results for the First Quarter (April 1, 2014 to June 30, 2014)

1) Revenue

Revenue in the quarter under review amounted to ¥99,947 million, increasing ¥2,691 million, or 2.8%, from a year earlier. The increase can mainly be attributed to growth in advertising revenue.

2) Cost of sales and Selling, General and Administrative Expenses

Cost of sales in the quarter under review climbed ¥1,923 million, or 10.9%, to ¥19,556 million, primarily because of growth in advertising revenue.

Selling, general and administrative expenses for the quarter were ¥31,637 million, rising ¥1,023 million, or 3.3%, from the same quarter last year.

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

・ Personnel expenses amounted to ¥11,125 million, edging up ¥470 million, or 4.4%, year on year. The higher personnel expenses resulted from the total number of employees of the Yahoo Japan Group rising to 6,555, an increase of 421 employees, or 6.9%, from the same quarter in the previous fiscal year.

・ Business commissions rose ¥842 million, or 21.8%, year on year, to ¥4,701 million. The expansion in business commissions resulted primarily from increases in operations commission fees for the Group's services, etc.

・ Sales promotion costs increased ¥635 million, or 23.8%, year on year to ¥3,304 million. The growth in quarterly sales promotion costs can be mainly be attributed to increases in e-commerce-related promotion expenses and in T-POINT expenses.

3) Other Non-Operating Income (Expenses)

Other non-operating income for the quarter under review amounted to ¥9,639 million, increasing ¥3,813 million, or 65.5%, from the same quarter in the previous fiscal year.

The main components of other non-operating income were ¥6,249 million in incremental realization of re-evaluation profits from associates and ¥2,480 million from the occurrence of negative goodwill on the Company's investments in associates.

Other non-operating expenses for the quarter under review amounted to ¥99 million, decreasing ¥139 million, or 58.5%, from the same quarter in the previous fiscal year.

4) Income Taxes

Income taxes for the quarter under review amounted to ¥21,850 million. The effective income tax burden ratio for income before income taxes was 37.3% for the quarter.

5) Net Income

Net income amounted to ¥36,716 million, increasing ¥2,481 million, or 7.2%, from a year earlier. Basic earnings per share attributable to owners of the Company was ¥6.40 for the quarter.