Results for the Fiscal Year Ended March 31, 2020 [IFRSs]

April 30, 2020

Company Name: Z Holdings Corporation
Code No.: 4689
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Scheduled Ordinary Shareholder’s Meeting Date: June 23, 2020
Scheduled Dividend Payment Date: June 5, 2020
Scheduled Securities Report Submission Date: June 22, 2020
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 FY2019 (April 1, 2019 - March 31, 2020)

(1) Consolidated Business Performance (April 1, 2019 - March 31, 2020) (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 (%)
FY2019	1,052,943 (10.3)	152,276 (8.4)	135,676 (10.0)	88,020 (13.1)	81,675 (3.8)	79,393 (-5.0)
FY2018	954,714 (6.4)	140,528 (-24.4)	123,370 (-36.1)	77,828 (-42.1)	78,677 (-40.0)	83,554 (-38.6)

	Basic earnings per share	Diluted earnings per share	Profit ratio to equity attributable to owners of the parent	Profit before tax ratio to total assets	Operating margin
	Yen	Yen	%	%	%
FY2019	16.88	16.88	10.3	4.3	14.5
FY2018	14.74	14.74	8.6	5.0	14.7

(For reference) Equity in losses of associates and joint ventures: FY2019 -¥24,542 million FY2018 -¥17,541 million

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent	Equity attributable to owners of the parent per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
FY2019	3,933,910	1,047,823	771,548	19.6	162.01
FY2018	2,429,601	910,523	818,291	33.7	160.96

(3) Consolidated Cash Flows Status

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash & cash equivalents at the end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2019	243,278	-503,034	593,410	880,100
FY2018	149,957	-212,193	-263,305	546,784

2. Dividends

	Dividends per share					Total amount (Full year)	Payout ratio (Consolidated)	Dividend ratio to equity attributable to owners of the parent (Consolidated)
(Record date)	1Q	2Q	3Q	Year end	Full year	Millions of yen	%	%
	Yen	Yen	Yen	Yen	Yen			
FY2018	—	0.00	—	8.86	8.86	45,042	60.1	5.2
FY2019	—	0.00	—	8.86	8.86	42,195	52.5	5.5
FY2020 (Estimates)	—	—	—	—	—		—	

(Note) Estimate for dividends to be paid for fiscal year ending March 31, 2021 is yet to be determined.

3. Consolidated Performance Estimates for FY2020 (April 1, 2020 – March 31, 2021)

The forecast of business results for the fiscal year ending March 31, 2021 has yet to be determined on a reasonable basis at this point, due to the spread of the novel coronavirus (COVID-19). Announcements will be made when reasonable forecast can be made in the future.

*** Notes**

(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: Yes

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 year end (including treasury stocks)	FY2019	4,822,507,465	FY2018	5,151,629,615
2) Number of treasury stocks at year end	FY2019	60,061,000	FY2018	67,879,000
3) Average number of stocks	FY2019	4,838,708,061	FY2018	5,338,012,538

* The Results for the Fiscal Year are not subject to audit by certified public accountants or audit corporations.

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

- The forecast of business results for the fiscal year ending March 31, 2021 has yet to be determined on a reasonable basis at this point, due to the spread of the novel coronavirus (COVID-19). Announcements will be made when reasonable forecast can be made in the future.

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1 Analysis of Business Results and Financial Position

(1) Qualitative Information regarding the Consolidated Business Performance

1. Business Results Summary (April 1, 2019 to March 31, 2020)

■ Fiscal Year Highlights

- The revenue for the consolidated fiscal year ended March 31, 2020 exceeded ¥1 trillion for the first time since our foundation, contributed by the consolidation of ZOZO, Inc. and the expansion of revenue of the ASKUL Group and the advertising revenue.
- Net income attributable to owners of the parent increased 3.8% due to the revenue increase and increased efficiency in investments such as sales promotion costs. Returned to increase in revenue and income.

	FY2018	FY2019	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Revenue	¥954.7 billion	¥1,052.9 billion	+¥98.2 billion	+10.3%
Operating Income	¥140.5 billion	¥152.2 billion	+¥11.7 billion	+8.4%
Income before income taxes	¥123.3 billion	¥135.6 billion	+¥12.3 billion	+10.0%
Net Income attributable to owners of the parent	¥78.6 billion	¥81.6 billion	+¥2.9 billion	+3.8%

The revenue for the consolidated fiscal year ended March 31, 2020 amounted to ¥1,052.9 billion for the first time since our foundation, an increase of ¥98.2 billion (+10.3%) compared with the same period last year. This was mainly due to the consolidation of ZOZO, Inc. in November 2019, and the increases in the revenue of the ASKUL Group and in advertising revenue.

Operating income also increased year on year, due to the revenue increase.

Despite recognition of equity in losses of associates and joint ventures of ¥22.3 billion, etc., primarily due to active investment in “PayPay”, income before income taxes and net income attributable to owners of the parent increased year on year mainly because of increase in operating income, increased efficiency in investments such as sales promotion costs, and recognition of gain on change in equity interest of PayPay Corporation of ¥10.8 billion.

As a result, revenue of the Z Holdings Group of the consolidated fiscal year ended March 31, 2020 amounted to ¥1,052.9 billion, increasing 10.3% year on year; Operating income increased 8.4% year on year, to ¥152.2 billion; Income before income taxes amounted to ¥135.6 billion, increasing 10.0% year on year; and Net income attributable to owners of the parent increased 3.8%, to ¥81.6 billion.

2. Segment Business Results Summary (April 1, 2019 – March 31, 2020)

Revenue and Operating Income by Segment

	FY2018	FY2019	Year-on-Year Change (Amount)	Year-on-Year Change (%)
Commerce Business				
Revenue	¥649.6 billion	¥742.7 billion	+¥93.1 billion	+14.3%
Operating income	¥55.7 billion	¥80.7 billion	+¥24.9 billion	+44.7%
Media Business				
Revenue	¥303.4 billion	¥308.6 billion	+¥5.2 billion	+1.7%
Operating income	¥141.0 billion	¥154.3 billion	+¥13.3 billion	+9.5%
Others				
Revenue	¥9.9 billion	¥8.0 billion	-¥1.9 billion	-19.2%
Operating income/ loss	¥10.2 billion	-¥4.6 billion	-¥14.8 billion	―
Adjustments				
Revenue	-¥8.2 billion	-¥6.4 billion	―	―
Operating income	-¥66.5 billion	-¥78.1 billion	―	―
Total				
Revenue	¥954.7 billion	¥1,052.9 billion	+¥98.2 billion	+10.3%
Operating income	¥140.5 billion	¥152.2 billion	+¥11.7 billion	+8.4%

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

Reporting Segment

	Main business areas
Commerce Business	- YAHUOKU!, Yahoo! JAPAN Shopping, ASKUL Corporation, ZOZO, Inc., and other commerce-related services - Yahoo! JAPAN Premium, and other membership services - Credit card and other financial and payment-related services
Media Business	- Paid search, Display and other advertising-related services

Main types of advertising

<table>
<tr><th colspan="3">Advertising products</th><th>Main Format</th><th>Fee Calculation</th><th>Placement Pages</th><th>Main Advertiser Base</th></tr>
<tr><td>Paid search advertising</td><td colspan="2">Sponsored Search®</td><td>Text</td><td rowspan="2">Per-click rate (Performance-based) *2</td><td>Search results pages</td><td rowspan="3">Major corporations

Small and medium-sized companies</td></tr>
<tr><td rowspan="5">Display advertising</td><td rowspan="2">YDN and others</td><td rowspan="2">Yahoo! JAPAN Display Ad Network (YDN) *1</td><td>Text
Banner</td><td rowspan="3">Top page *1

Interior pages of service sites *1</td></tr>
<tr><td>Video</td><td>Per-view rate (Performance-based) *2</td></tr>
<tr><td rowspan="3">Premium Advertising</td><td>Brand Panel, Prime Display, etc.</td><td>Rich ad (Including video) Banner</td><td>Per-impression page view rate (Guarantee-based) *3</td><td rowspan="2">Major corporations</td></tr>
<tr><td>Banner
Text ads
Others</td><td rowspan="2">Text
Banner</td><td>Per-guaranteed period rate, etc. (Guarantee-based) *3</td><td rowspan="2">Yahoo! JAPAN Shopping</td></tr>
<tr><td>PR Option</td><td>Conversion-based</td><td>Stores in Yahoo! JAPAN Shopping</td></tr>
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*1 Includes In-feed Advertising on timeline view pages

*2 Advertising that is programmatically or manually managed on a real-time basis to optimize ad placements

*3 Advertising for which specific placement is reserved in advance

*4 Includes listing fees for PayPay Mall of 3%

1) Commerce Business in the Consolidated Fiscal Year

Revenue of the Commerce Business rose from the same period last year, due to consolidation of ZOZO, Inc. in November 2019 and increases in the revenue of the ASKUL Group, in the advertising revenue from Yahoo! JAPAN Shopping (*1) and in the revenue of Ikyu Corporation, etc. In addition, EC transaction value (merchandise) (*2) amounted to ¥2,147.3 billion, increasing 14.4% year on year.

As a result, revenue of the Commerce Business of the consolidated fiscal year amounted to ¥742.7 billion, rising 14.3% year on year, and accounted for 70.5% of total revenue. Operating income increased 44.7% year on year, to ¥80.7 billion.

*1 Total of the shopping-related advertising revenue and advertising revenue of “StoreMatch”, an advertising product in Yahoo! JAPAN Shopping sold by ValueCommerce Co., Ltd. to stores in Yahoo! JAPAN Shopping, etc. Revenues of paid search advertising and YDN, etc., placed by stores in Yahoo! JAPAN Shopping are recorded in the advertising revenue of the Media Business segment.

*2 Includes transaction value of YAHUOKU! including that of Yahoo! JAPAN Government Auctions, shopping business transaction value, other merchandise transaction value, and ASKUL’s BtoB-related revenue via the Internet (closing date: 20th of every month).

2) Media Business in the Consolidated Fiscal Year

As Premium Advertising revenue increased year on year chiefly due to the effect of sales measures and revenue of paid search advertising grew because of improvement in display options and other factors, total advertising revenue grew year on year.

As a result, revenue of the Media Business amounted to ¥308.6 billion, increasing 1.7% year on year and accounting for 29.3% of total revenue. Operating income increased 9.5% year on year, to ¥154.3 billion.

3. Outlook for Fiscal 2020 (April 1, 2020 – March 31, 2021)

The forecast of business results for the fiscal year ending March 31, 2021 have yet to be determined on a reasonable basis at this point, due to the spread of the novel coronavirus (COVID-19). Announcements will be made when reasonable forecast can be made in the future.

(2) Qualitative Information regarding the Consolidated Financial Position

1 Assets, Liabilities and Equity

1) Assets

Total assets at the end of fiscal 2019 amounted to ¥3,933,910 million, increasing ¥1,504,308 million, or 61.9% from the end of fiscal 2018. The main components of change were the following:

- The principal reasons for the change in cash and cash equivalents are noted in "Cash Flows" below.
- Trade and other receivables increased from the end of fiscal 2018, principally due to the increase in the transaction value of payment-related business and the consolidation of ZOZO, Inc.
- Loans for credit card business increased from the end of fiscal 2018, mainly due to the increase in the transaction value of the Credit Card business.
- Other financial assets increased from the end of fiscal 2018, attributed primarily to increase in deposits in the central clearing house.
- Right-of-use assets were newly recognized due to the adoption of IFRS 16, Leases.
- Goodwill and intangible assets increased from the end of fiscal 2018, chiefly because of the consolidation of ZOZO, Inc.

2) Liabilities

Total liabilities at the end of fiscal 2019 were ¥2,886,086 million, increasing ¥1,367,009 million, or 90.0%, from the end of fiscal 2018. The major components of change were the following:

- Deposits for banking business increased from the end of fiscal 2018 due to the increase of deposits from customers.
- Interest-bearing debt increased from the end of fiscal 2018 chiefly due to the increase in borrowings, issuance of bonds and the adoption of IFRS 16, Leases.
- Deferred tax liabilities increased from the end of fiscal 2018, attributed principally to the consolidation of ZOZO, Inc.

3) Equity

Total equity at the end of fiscal 2019 amounted to ¥1,047,823 million, increasing ¥137,299 million, or 15.1%, from the end of fiscal 2018. The primary reasons for change in equity were as follows:

- Common stock and capital surplus increased from the end of fiscal 2018 because of issuance of new shares.
- Retained earnings decreased from the end of fiscal 2018 because of cancellation of treasury stock and payment of dividends despite the increase due to the recognition of profit for the period attributable to owners of the parent.
- Non-controlling interests increased from the end of fiscal 2018, chiefly because of the consolidation of ZOZO, Inc.

2 Cash Flows

At the end of fiscal 2019, cash and cash equivalents amounted to ¥880,100 million, up ¥333,316 million from the end of the previous fiscal year, out of which deposit with the Bank of Japan for banking business was ¥311,897 million.

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

Cash flows from operating activities amounted to a cash inflow of ¥243,278 million mainly because of the recognition of profit before tax despite the payment of income taxes.
Cash flows from investing activities amounted to a cash outflow of ¥503,034 million, chiefly due to the acquisition of stock of subsidiaries.
Cash flows from financing activities amounted to a cash inflow of ¥593,410 million, attributed mainly to short-term borrowings and the issuance of bonds and new shares, despite the expenditures on purchase of treasury stock.

(3) Basic Policy regarding Profit Distribution and Dividend Payments for Fiscal 2019 and 2020

Z Holdings Corporation aims to achieve sustained growth in corporate value over the medium to long term. For that purpose, the Company recognizes the importance of actively pursuing upfront investments to our services, capital expenditures, and capital and business alliances for future growth. At the same time, Z Holdings Corporation recognizes its responsibility as a listed company to recompense shareholders by returning profits to them.

Guided by the above policy, for the fiscal year ended March 2020, the Company has resolved to pay year-end dividends of ¥8.86 per share, equivalent to a total dividend payout of ¥42.1 billion. Going forward, while continuing to invest for future business growth, the Company will aim to build corporate value by providing an appropriate return of profits to shareholders.

The estimate for dividends to be paid for fiscal year ending March 31, 2021 is yet to be determined. Announcements will be made when forecast can be made in the future.

(4) Significant Contracts

The following are the significant contracts for the Z Holdings Group.

1) License agreement with Oath Holdings Inc.

Contract name	YAHOO JAPAN LICENSE AGREEMENT
Contract date	April 1, 1996
Contract term	From April 1, 1996; termination date unspecified Note: The license agreement may be terminated under the following conditions: (i) mutual decision by the companies to terminate the agreement; (ii) cancellation of the agreement following bankruptcy or loan default by one of the companies; (iii) purchase of one-third or more of the outstanding shares of Yahoo Japan Corporation by a competitor of Oath Holdings Inc.; or (iv) merger or acquisition of Yahoo Japan Corporation rendering shareholders of Yahoo Japan Corporation before such merger or acquisition incapable of maintaining over 50% of shareholder voting rights of Yahoo Japan Corporation (may be waived by agreement of Oath Holdings Inc.).
Counterparty	Oath Holdings Inc.
Main details	1) Licensing rights granted by Oath Holdings Inc. to Yahoo Japan Corporation: ・ Non-exclusive rights granted to Yahoo Japan Corporation for reproduction and use of Oath Holdings Inc.'s Internet search and other services customized and localized for the Japanese market (hereinafter referred to as the Japanese version of information search services, etc.) ・ Non-exclusive rights granted to Yahoo Japan Corporation for use in Japan of the trademark, etc., of Oath Holdings Inc. ・ Exclusive rights granted to Yahoo Japan Corporation for publishing of the trademark, etc., of Oath Holdings Inc. in Japan ・ Exclusive rights granted to Yahoo Japan Corporation worldwide for development, commercial use, and promotion, etc. of the Japanese version of information search services, etc. 2) Non-exclusive rights granted (gratis) to Oath Holdings Inc. worldwide for use of Japanese content added by Yahoo Japan Corporation 3) Royalties to be paid by Yahoo Japan Corporation to Oath Holdings Inc. (see Note, below) Note: Initially, royalties were calculated as 3% of gross profit less sales commissions. Effective January 2005, the calculation method for determining royalties was revised, as follows: Royalty calculation method {(Revenue) - (Advertising sales commissions*) - (Cost of sales of consolidated subsidiaries with a different gross margin structure and others)} x 3% * Advertising sales commissions on a consolidated basis

2) Business alliance contract with Google Asia Pacific Pte Ltd.

Contract name	GOOGLE SERVICES AGREEMENT
Contract date	October 21, 2014
Contract term end	March 31, 2021
Counterparty	Google Asia Pacific Pte Ltd.
Main details	1) Non-exclusive provision of search and paid search advertising distribution technologies by counterparty The counterparty shall provide its search and paid search advertising distribution technologies to Yahoo Japan Corporation on a non-exclusive basis, which will be used by Yahoo Japan Corporation to offer its own brand of services. 2) Differentiation of search services Both parties are entitled to freely develop and use additional functions for the search results in order to differentiate their search results. Yahoo Japan Corporation may decide on its own whether to display the search results provided by the counterparty. 3) Yahoo Japan Corporation's payment for counterparty's services The consideration for the counterparty's services received by Yahoo Japan Corporation shall be the sum of (1) an amount calculated using a method determined on an annual basis based on the revenue of the website of Yahoo Japan Corporation and (2) an amount calculated using the standard for excess amounts on any revenue of the website of Yahoo Japan Corporation in excess of a specific amount during the specified period. The consideration for the services used by Yahoo Japan Corporation on a partner site shall be the amount calculated by multiplying the revenue derived from the partner site by a rate determined on an annual basis.

3) Share exchange agreement

Based on the resolution of the board of directors meeting held on January 31, 2020 ("Agreement Execution Date"), the Company entered into a share exchange agreement on the same day with LINE Split Preparation Corporation ("LINE Successor"), a wholly owned subsidiary of LINE Corporation ("LINE"), as part of the series of transactions for accomplishing the business integration with LINE.

The outline of the share exchange is as follows.

① Detail of share exchange

Share exchange in which the Company will become the wholly owning parent company, and the LINE Successor will become the wholly owned subsidiary.

② Date of share exchange (effective date)

The effective date shall be October 1, 2020 ("Effective Date"); provided, however, that the effective date may be changed after discussion and agreement if necessary for proceeding with the procedures for the share exchange or for other reasons.
The share exchange shall be effective conditional on the events listed below.

a An absorption-type company split has taken effect in which LINE is the splitting company and LINE Successor is the successor company based on an absorption-type split agreement executed between LINE and LINE Successor dated as of the Agreement Execution Date (provided, however, that in principle, rights and obligations pertaining to all of LINE's business must be succeeded to under such agreement and its content must be approved by the Company in advance).

b On the previous day of the Effective Date, the number of total outstanding shares of LINE Successor shall be 240,960,343, all of which are held by LINE.

③ Method of share exchange

11.75 shares of the Company's common stock will be allocated for each share in the LINE Successor.
(Note 1) The allocation ratio is calculated on the assumption that the number of issued and outstanding shares of the LINE Successor (excluding treasury shares), immediately prior to this share exchange, will be equal to the number of issued and outstanding LINE shares (excluding treasury shares) as of September 30, 2019 (240,960,343 shares).
(Note 2) If the allocation ratio set forth above is followed, the number of shares of the Company that will be delivered via this share exchange is expected to be 2,831,284,030 shares. (The number of treasury shares to be issued by the Company is undecided.) For LINE, which is the wholly owning parent company of the LINE Successor, this would result in the allocation of 11.75 shares of the Company being delivered for each share in the LINE Successor.

④ Share exchange ratio

	Company	LINE Successor

Share exchange ratio	1	11.75

⑤ Basis of valuation of share exchange ratio

The Company retained Mitsubishi UFJ Morgan Stanley Securities Co.,Ltd. and LINE retained J.P. Morgan Securities Japan Co., Ltd. as financial advisors and third-party valuation institutions, and the Company retained as its legal advisors the law firms Mori Hamada & Matsumoto and Latham & Watkins, and LINE retained as its legal advisors the law firms Anderson Mori & Tomotsune and Shearman & Sterling, to obtain third-party advice and recommendations to thoroughly carry out due diligence for the transactions with respect to the financial conditions of each of the Companies, performance trends, share price trends, etc. Based on numerous discussions and analyses taking all of these points comprehensively into consideration, it was determined that the share exchange ratio noted in ④ above was fair, and the share exchange ratio was agreed and decided.

4) Loan agreement

On November 14, 2019, for the purpose of funding the tender offer for the common shares of ZOZO, Inc., the Company entered into a loan agreement with the Company's five main banks, Mizuho Bank, Ltd. acting as the agent, and the loan was drawn down on November 19, 2020.

The summary of the loan agreement is as follows.

① Amount of borrowing

JPY 400,000 million

② Interest rate

The Japanese Bankers Association Yen TIBOR + interest rate spread
Please note that the interest rate spread applied is that stipulated in the agreement.

③ Maturity

November 14, 2020

④ Collateral

None

⑤ Guarantee

Yahoo Japan Corporation

⑥ Major obligations of the borrower

a Unless consent is obtained from multiple lenders, the Company shall not provide guarantees to third parties, make loans to third parties other than the Company's consolidated subsidiaries, or make loans to the Company's consolidated subsidiaries for the purpose of allocating the loans to fund investments and lending to third parties other than the Company's consolidated subsidiaries. The Company shall not provide guarantees to the liabilities of SoftBank Group Corp. or SoftBank Corp., make loans, provide other credits or capital, or make other investments to the two companies.

b Financial covenants

- Net assets in the balance sheet of the Company on the last day of each fiscal year after the fiscal year ending March 31, 2020 shall not be less than 75% of the amount for the result ending September 30, 2019 (Second quarter of fiscal 2019).
- Net assets in the consolidated balance sheet of the Z Holdings Group on the last day of each second quarter and each fiscal year after the fiscal year ending March 31, 2020 shall not be less than 75% of the amount for the result ending September 30, 2019 (Second quarter of fiscal 2019).
- The liabilities do not exceed the assets in the balance sheet of the Company on the last day of each fiscal year after the fiscal year ending March 31, 2020.
- The liabilities do not exceed the assets in the consolidated balance sheet of the Z Holdings Group on the last day of each second quarter and each fiscal year after the fiscal year ending March 31, 2020.
- The operating income/loss or the net income/loss in the profit and loss statement of the Company, on the last day of each fiscal year after the fiscal year ending March 31, 2020, shall not record a loss.
- The operating income/loss or the net income/loss in the consolidated profit and loss statement of the Z Holdings Group, on the last day of each fiscal year after the fiscal year ending March 31, 2020, shall not record a loss.
- The net leverage ratio (a) on the last day of each second quarter and each fiscal year after the fiscal year ending March 31, 2020, shall be less than a certain figure.

(a) Net leverage ratio ＝Net debt (b) ÷ Adjusted EBITDA(c)

(b) Amount derived by deducting cash and cash equivalents from interest-bearing liabilities in the consolidated balance sheet of the Z Holdings Group. There are certain adjustments involved such as: interest-bearing liabilities here do not include interest-bearing liabilities arising from asset securitization; the interest-bearing liabilities and cash and cash equivalents in the consolidated balance sheet of The Japan Net Bank, Limited shall not be included in the interest-bearing liabilities and cash and cash equivalents, etc.

(c) EBITDA is derived by adding certain adjustments prescribed in the agreement with the financial institutions such as depreciation and amortization, and loss on retirement included in operating expense, etc., to the operating income.

2 Management Policy

The matters related to the future in the text were determined by the Z Holdings Group (the “Group”) as of the end of this consolidated fiscal year.

(1) Fundamental Business Management Policies

With its mission “UPDATE THE WORLD”, unleashing the infinite potential of all people with the power of information technology, the Group aims to realize its vision of creating a hopeful future whereby “Mankind can be free and in control.”

With the development of the information technology, we are now able to acquire all kinds of knowledge and information through the Internet and to disseminate information around the world. Using the power of information technology, we believe that mankind will be liberated from various restrictions and that a new future will be created.

The Group will adhere to a “users first” standpoint while endeavoring to improve services for sustainable growth. In addition, we aim to contribute to solving various problems of people and society, and to improve the corporate value of the Group.

(2) Management Performance Indicators Used for Goals

As its core management performance indicators, the Z Holdings Group gives priority to the revenue, operating income and net income per share for the overall Group. As indicators for the Commerce Business, the Group uses e-commerce transaction value, credit card transaction value, number of PayPay payments, number of Yahoo! JAPAN Premium member IDs, etc. For the Media Business, advertising-related revenue, number of monthly logged-in user IDs, time spent by logged-in users via smartphones, etc., are used as important indicators of performance evaluation.

(3) Medium- to Long-Term Business Strategies

1) Business environment

Due to the recent development of information technology, the distinction between the online and offline worlds has rapidly disappeared in various sectors of society. As the possibility of the Internet dramatically broadens, new business models and lifestyles that could never have been imagined before are being realized.

In addition, as the online world merges with the offline world, the value of big data is growing exponentially. As the Japanese government’s “Society 5.0” strategy points out, there is a demand for enterprises that use data to create services and businesses that balance economic development and the solving of social issues.

2) Market environment

Through the use of the Internet, we have seen the birth of numerous innovative and highly convenient services around the world, such as cashless payment, IoT and big data, which are becoming the new standard of our lifestyle. Moreover, the presence of foreign IT companies which have entered the Japanese market is growing year by year. Meanwhile, many startups have also been launched in Japan, and we expect a dazzling evolution in the environment of the highly competitive Internet market in the future.

The businesses of Z Holdings Group can be largely classified into Commerce Business and Media Business. For the Commerce Business, according to a research by the Ministry of Economy, Trade and Industry (“METI”) , the BtoC e-commerce market is JPY 18 trillion in 2018, and the EC ratio in the merchandising sector is 6.22%. Japan’s EC ratio is rising every year, and we see considerable upside potential. Also, for the highly prospective field of cashless payment, METI’s Cashless Vision, “Declaration of Payment Reform”, sets a target of hiking the ratio of cashless payment to 40% by 2025, based on the fact that Japan’s cashless payment ratio is at around 20%, lower than other countries. Going forward, we expect the market for our Commerce Business to expand and the online and offline domains to merge even further through the use of big data, technologies, and payment methods such as mobile payment.

As for the Media Business, a business we have been engaged in ever since our foundation, according to Dentsu Inc., total advertising expenditures in Japan was JPY 6.9381 trillion for 2019. Out of this, Internet advertising spending recorded JPY 2.1048 trillion, exceeding television advertising spending and surpassing the JPY 2 trillion benchmark for the first time. Internet advertising media expenditures, which excludes Internet advertising production expenditure and advertising expenditure for merchandise-related EC platforms from the Internet advertising spending, continue to grow, and amounted to JPY 1.663 trillion.

By type, paid search advertising and display advertising accounted for more than 70% of the total, while video advertising largely grew from the year before, accounting for about 20% of the total.

3) Management strategy

The cross-use of multi-big data plays a central role in understanding the people living in Japan the best, solving social issues through the provision of the best user experience and creating the future. Positioning ourselves in our third founding since fiscal 2018, we have made active investments in future growth to transition to a data-driven company with a business model that leverages our multi-big data.

The Group offers over 100 services that center on e-commerce, media and payment businesses in two different business fields, Commerce and Media. We are a globally unique corporate group that covers online to offline services in a comprehensive manner. We aim to provide optimal services for each and every user, and to provide even higher-quality user experiences through the cross-use of data we receive from each service.

One of the key initiatives undertaken to achieve this goal is the strengthening of collaborations with SoftBank Corp. From before, we have promoted business collaborations in e-commerce and mobile payment businesses, but the Group became a consolidated subsidiary of SoftBank Corp. in June 2019. As an information communication group with an unprecedented scale even in the world, we aim to achieve further growth and improve our corporate value by leveraging various services and one of Japan’s largest user base of both companies. The multi-big data derived from the services and user base, which is both vast in volume and wide in variety will also play a key role in achieving our goal.

Furthermore, in order to strongly promote these initiatives and to become a leading corporate group in Japan and Asia, the Group has concluded a definitive agreement on the business integration with LINE Corporation. After the business integration is complete, we will endeavor to create synergies in the fields of e-commerce, media and payment by leveraging the user base of LINE Corporation (83 million monthly users), an operator of one of Japan’s largest communication services.

The abundance of data we collect through our extensive lineup of services provides us with an important competitive edge in the creation of new and unique services. We will utilize such competitive edge and strength to create new user experiences through higher-quality services that meet the needs of our users.

Through these measures, we aim to achieve a record-high operating income of JPY 225 billion in fiscal 2023, as announced in our operating income outlook.

As a Group that has one of the largest data in Japan, both in volume and in variety, we will maximize the capacity of our data and will aim to become an enterprise that enhances the value of the whole of Japan.

4) Basic Policy of Major Business Segments

Commerce Business

The Group’s Commerce Business provides e-commerce related services, membership services and financial and payment-related services, etc. For four consecutive years, shopping business transaction value has continued to record a high growth rate of over 20% as a result of the point-reward measure, a successful collaboration with SoftBank Corp. In fiscal 2019, PayPay Mall was launched under the concept of “premium online shopping mall”, and “PayPay Flea Market” as an entry into the flea market business field. In addition to the SoftBank subscribers, which was a growth driver for the business, we will conduct promotional measures geared towards PayPay users and will continue to grow the e-commerce transaction value. Furthermore, from November 2019, ZOZO, Inc. joined the Group as a consolidated subsidiary. Through this consolidation, we will not only strengthen our fashion field, but will also realize synergies in multiple businesses of both companies. In addition, through the collaboration with PayPay Corporation, we will develop various businesses such as O2O (Online to Offline/traffic referral) business and financial service, by utilizing various data accumulated from offline activities and originating from payments using PayPay. The increase in the balance of PayPay user accounts will also contribute to this purpose.

Media Business

The Media Business provides various media services that are indispensable to the daily lives of our users. These services are used by many, and the major source of revenue for the Media Business is advertising. An important index on service usage, number of monthly logged-in user IDs, has expanded steadily and exceeded 50 million IDs for the first time in fiscal 2019. By using the data accumulated from service usage, we will deepen our understanding of our users to provide optimal services and to increase their use frequency. We also regard our entry into the offline world to be a new chance for our business and are promoting initiatives to also make the users' lives in the offline world even more convenient. Using the offline payment data through PayPay, we will comprehensively visualize user actions from "encounter with information" to "purchase" which will give us a foothold to develop the sales promotion market in the future.

(4) Major Business Issues

In executing the Group's management strategy noted in 3. 3), the Group will constantly have a user-first standpoint to improve services for its sustainable growth. For this, the Group gives top priority to reinforcing security with protecting the personal information of users at the top of the list. In promoting the cross-sectional use of multi-big data, we also believe that the most important and basic stance is to respect the privacy of our users. For this, we have established the Privacy Policy which is enforced based on the laws and regulations of Japan. The Group will continue to take measures to ensure that users can continue to feel safe and confident in using its services.

Since the Internet is an indispensable infrastructure for people's daily lives and for businesses, the Group's public responsibility is also increasing. Consequently, we conduct thorough risk management measures in pursuing its activities in terms of both facilities and operations to address unexpected accidents, natural disasters, and other events. In particular, we regard that corporate governance plays a crucial role in the enhancement of mid-to long-term corporate value. Moving on, we will strengthen the governance structure so that our management will serve the interests of all shareholders including the minority shareholders. Furthermore, we will further step up our efforts to fulfill our corporate social responsibility and establish and operate an internal control system to address corporate management risks.

Maximizing the performance of our human resources, the source for creating the Group's value, is also an important issue to deal with. For this, we continue to create systems and frameworks that will raise employees' awareness towards work and work quality. Under the belief that our employees can maximize their performance when their physical and mental conditions are at their best, we will continue to create a work environment where all employees can work in their best physical and mental conditions.

(5) Risk Factors (Excerpt)

Business risks related to COVID-19

Following the continued reports on COVID-19 since December 2019 and the increased spread thereafter, the World Health Organization declared that the situation can be described as a "pandemic" on March 11, 2020, and these circumstances have impacted economic activities on a global scale.

The Z Holdings Group has deepened its understanding of the gravity/severity of the situation ever since the media began covering the spread of the infection in January 2020, has assessed the extent of the impact the spread of the disease may have on our business, and has comprehensively evaluated the risks and established our response policies under the leadership of the President and Representative Director in order to alleviate the uncertainty that may be caused in relation to COVID-19. Major risks that have been evaluated and response policy established include our employees being infected, a ban on entry into our business bases and facilities, and changes in productivity caused by the promotion of remote working.

However, as of this moment, we cannot predict when the spread will be curbed. Therefore, our consolidated business result may be affected due to both internal factors (such as a decline in productivity or an increase in capital investments) and external factors (such as a decline in revenue) that exceed the aforementioned presumptions. In order to best prepare ourselves, the Z Holdings Group will continue to bolster our mechanism to respond to this case, and will resolutely work together to manage the risks.

3 Basic Stance on Selecting Accounting Standards

The Z Holdings Group adopted IFRSs beginning with the fiscal year ended March 31, 2015.

4 Consolidated Financial Statements and Significant Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of Mar. 31, 2019	As of Mar. 31, 2020	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Assets				
Cash and cash equivalents	546,784	880,100	333,316	61.0
Call loans for banking business	20,000	—	-20,000	—
Trade and other receivables	328,281	386,799	58,518	17.8
Inventories	18,306	20,889	2,583	14.1
Loans for credit card business	253,340	342,245	88,904	35.1
Investment securities for banking business	419,551	415,809	-3,742	-0.9
Loans for banking business	80,942	98,752	17,809	22.0
Other financial assets	191,260	264,213	72,953	38.1
Property and equipment	133,867	131,215	-2,651	-2.0
Right-of-use assets	—	106,304	106,304	—
Goodwill	175,301	400,034	224,732	128.2
Intangible assets	165,293	679,375	514,081	311.0
Investments accounted for using the equity method	24,510	8,567	-15,943	-65.0
Deferred tax assets	34,551	43,739	9,188	26.6
Other assets	37,609	155,863	118,253	314.4
Total assets	2,429,601	3,933,910	1,504,308	61.9

(Millions of yen)

	As of Mar. 31, 2019	As of Mar. 31, 2020	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Liabilities and equity				
Liabilities				
Trade and other payables	394,545	487,242	92,696	23.5
Deposits for banking business	768,613	903,118	134,504	17.5
Interest-bearing liabilities	215,212	1,086,436	871,224	404.8
Other financial liabilities	8,683	10,157	1,473	17.0
Income taxes payable	24,138	32,887	8,748	36.2
Provisions	30,360	28,161	-2,199	-7.2
Deferred tax liabilities	20,403	160,976	140,573	689.0
Other liabilities	57,118	177,106	119,987	210.1
Total liabilities	1,519,077	2,886,086	1,367,009	90.0
Equity				
Equity attributable to owners of the parent				
Common stock	8,939	237,422	228,483	—
Capital surplus	-12,545	212,539	225,084	—
Retained earnings	832,147	330,752	-501,394	-60.3
Treasury stock	-24,440	-17,382	7,058	—
Accumulated other comprehensive income	14,190	8,216	-5,974	-42.1
Total equity attributable to owners of the parent	818,291	771,548	-46,742	-5.7
Non-controlling interests	92,231	276,274	184,042	199.5
Total equity	910,523	1,047,823	137,299	15.1
Total liabilities and equity	2,429,601	3,933,910	1,504,308	61.9

(2) Consolidated Statement of Profit or Loss

(Millions of yen)

	Fiscal year ended Mar. 31, 2019	Fiscal year ended Mar. 31, 2020	Increase/decrease	
	Amount	Amount	Amount	Change (%)
Revenue	954,714	1,052,943	98,229	10.3
Cost of sales	408,912	424,463	15,550	3.8
Selling, general and administrative expenses	413,249	476,204	62,954	15.2
Gain on sales of subsidiary's stocks	7,977	—	-7,977	—
Operating income	140,528	152,276	11,747	8.4
Other non-operating income	1,320	12,954	11,633	880.7
Other non-operating expenses	1,238	3,691	2,452	198.0
Gain on sales of equity method investments	301	-1,319	-1,621	—
Equity in losses of associates and joint ventures	-17,541	-24,542	-7,000	—
Profit before tax	123,370	135,676	12,305	10.0
Income tax expense	45,542	47,655	2,113	4.6
Profit for the year	77,828	88,020	10,191	13.1
Attributable to:				
Owners of the parent	78,677	81,675	2,998	3.8
Non-controlling interests	-848	6,345	7,193	—
Profit for the year	77,828	88,020	10,191	13.1
Earnings per share attributable to owners of the parent				
Basic (yen)	14.74	16.88	2.14	14.5
Diluted (yen)	14.74	16.88	2.14	14.5

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended Mar. 31, 2019	Fiscal year ended Mar. 31, 2020
Profit for the year	77,828	88,020
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Equity financial assets at FVTOCI	3,746	-6,677
Subtotal	3,746	-6,677
Items that may be reclassified subsequently to profit or loss		
Debt financial assets at FVTOCI	1,080	-1,415
Exchange differences on translating foreign operations	911	-535
Share of other comprehensive income of associates	-13	0
Subtotal	1,979	-1,949
Other comprehensive income, net of tax	5,725	-8,627
Total comprehensive income	83,554	79,393
Total comprehensive income attributable to:		
Owners of the parent	83,855	73,822
Non-controlling interests	-301	5,570
Total comprehensive income	83,554	79,393

(4) Consolidated Statement of Changes in Equity

Fiscal year ended March 31, 2019

(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		
Balance at April 1, 2018	8,737	-4,602	993,894	-1,316	16,655	1,013,368	108,518	1,121,887
Accumulated impact by the application of new accounting standards (*)			-205		167	-38	-20	-59
Balance at April 1, 2018 (corrected)	8,737	-4,602	993,688	-1,316	16,822	1,013,330	108,497	1,121,827
Profit for the year			78,677			78,677	-848	77,828
Other comprehensive income, net of tax					5,178	5,178	546	5,725
Total comprehensive income for the year	—	—	78,677	—	5,178	83,855	-301	83,554
Transactions with owners and other transactions								
Issue of common stock	201	201				403		403
Payment of dividends			-50,449			-50,449	-1,815	-52,264
Transfer from accumulated other comprehensive income to retained earnings			7,810		-7,810	—		—
Acquisition of treasury stocks				-220,704		-220,704		-220,704
Cancellation of treasury stock			-197,579	197,579		—		—
Changes attributable to obtaining or losing control of subsidiaries						—	1,693	1,693
Changes in ownership interests in subsidiaries without losing control		-8,050				-8,050	-15,872	-23,923
Others		-93				-93	29	-63
Total	201	-7,942	-240,218	-23,124	-7,810	-278,894	-15,964	-294,858
Balance at March 31, 2019	8,939	-12,545	832,147	-24,440	14,190	818,291	92,231	910,523

(*) Accompanying adoption of IFRS 9, Financial Instruments, accumulated impact of retroactive correction is recognized by correcting the beginning balance of retained earnings and accumulated other comprehensive income.

Fiscal year ended March 31, 2020

(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		
Balance at April 1, 2019	8,939	-12,545	832,147	-24,440	14,190	818,291	92,231	910,523
Accumulated impact by the application of new accounting standards (*)			-2,466		—	-2,466	-2,997	-5,463
Balance at April 1, 2019 (corrected)	8,939	-12,545	829,681	-24,440	14,190	815,825	89,234	905,060
Profit for the year			81,675			81,675	6,345	88,020
Other comprehensive income, net of tax					-7,852	-7,852	-774	-8,627
Total comprehensive income for the year	—	—	81,675	—	-7,852	73,822	5,570	79,393
Transactions with owners and other transactions								
Issue of common stock	228,483	226,393				454,877		454,877
Payment of dividends			-45,042			-45,042	-5,608	-50,650
Transfer from accumulated other comprehensive income to retained earnings			-1,877		1,877	—		—
Acquisition of treasury stocks				-526,625		-526,625		-526,625
Cancellation of treasury stocks			-533,684	533,684		—		—
Changes attributable to obtaining or losing control of subsidiaries						—	186,309	186,309
Changes in ownership interests in subsidiaries without losing control		-1,138				-1,138	777	-361
Others		-170	-0			-170	-9	-180
Total	228,483	225,084	-580,603	7,058	1,877	-118,099	181,469	63,369
Balance at March 31, 2020	237,422	212,539	330,752	-17,382	8,216	771,548	276,274	1,047,823

(*) Accompanying adoption of IFRS 16, Leases, accumulated impact of retroactive correction is recognized by correcting the beginning balance of retained earnings.

(5) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended Mar. 31, 2019	Fiscal year ended Mar. 31, 2020
	Amount	Amount
Cash flows from operating activities:		
Profit before tax	123,370	135,676
Depreciation and amortization	52,498	83,419
Equity in losses of associates and joint ventures	17,541	24,542
Decrease in call loans for banking business	58,000	20,000
Increase in trade and other receivables	-40,744	-31,237
Increase in trade and other payables	50,274	73,784
Increase in loans for credit card business	-66,719	-88,904
Increase in loans for banking business	-5,057	-17,980
Increase in deposits for banking business	60,559	134,504
Others	-40,408	-31,467
Subtotal	209,314	302,337
Income taxes—paid	-59,356	-59,058
Net cash generated by operating activities	149,957	243,278
Cash flows from investing activities:		
Purchase of investment securities for banking business	-312,802	-278,180
Proceeds from sales/redemption of investment securities for banking business	200,393	279,696
Purchase of investments	-49,633	-41,089
Purchase of property and equipment	-41,771	-34,361
Purchase of intangible assets	-43,278	-50,765
Acquisition of control over subsidiaries	-6,709	-378,575
Others	41,608	242
Net cash used in investing activities	-212,193	-503,034
Cash flows from financing activities:		
Net increase in short-term borrowings	2,044	503,440
Proceeds from long-term borrowings	1,200	21,000
Proceeds from issuance of shares	394	454,498
Purchase of treasury stock	-221,014	-526,695
Proceeds from issuance of bonds	25,000	229,217
Dividends paid	-50,463	-45,036
Repayment of lease liabilities	—	-23,630
Others	-20,467	-19,382
Net cash generated by (used in) financing activities	-263,305	593,410
Effects of exchange rate changes on cash and cash equivalents	515	-338
Net increase in cash and cash equivalents arising from transfer to assets classified as held for sale	3,484	—
Net increase (decrease) in cash and cash equivalents	-321,540	333,316
Cash and cash equivalents at the beginning of the periods	868,325	546,784
Cash and cash equivalents at the end of the periods	546,784	880,100

(6) Going Concern Assumption
Not applicable.

(7) Notes to Consolidated Financial Statements
1.Significant accounting policies
The significant accounting policies applied by the Z Holdings Group in preparing the statements are the same as those applied to Consolidated Financial Statements for the previous fiscal year, except for the following:

(Changes in the significant accounting policies)

From fiscal 2019, the Z Holdings Group applies the following standards and interpretations:

IFRS		Summary of new/amended provisions
IFRS 16	Leases	Accounting treatment regarding leases and disclosure requirement

1) Adoption of IFRS 16, Leases

The Z Holdings Group observes the transitional measures for IFRS 16, Leases (hereinafter referred to as IFRS 16) and has made retroactive correction by means of applying them on the adoption start date (April 1, 2019) and recognizing accumulated impact of such application by correcting the beginning balance of retained earnings on the adoption start date. For this reason, the Consolidated Financial Statements for the previous consolidated fiscal year and the Consolidated Statement of Financial Position at the end of the previous consolidated fiscal year as comparative information are not restated.

IFRS 16 requires a lessee's lease not to be classified as either a finance lease or an operating lease, but requires a single lessee accounting model to be introduced. In general, it also requires a lessee to recognize, for all leases, a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In addition, while a lease payment related to an operating lease is recognized as a rental expense in IAS 17, Leases (hereinafter referred to as IAS 17), it is recognized as depreciation of the right-of-use asset and interest on the lease liability in IFRS 16.

The Z Holdings Group has adopted a practical expedient in which it is not required to review whether an agreement is or includes a lease in adopting IFRS 16. Because of this, IFRS 16 is applied to agreements that have been identified as leases up to now, and is not applied to agreements that have not been identified as leases by means of applying IAS 17 and IFRIC 4, Determining Whether an Arrangement Contains a Lease. Consequently, identification of a lease based on IFRS 16 is only applied to any agreement entered into or revised on or after the adoption start date. Also, regarding sale and leaseback transactions before the adoption start date, the Group does not redetermine whether they meet the requirements of IFRS 15 for transfer of the underlying assets to be accounted for as a sale even after the adoption start date according to the transitional measures.

In addition to the above, the Group has adopted the following practical expedients among those in the transitional measures. Application of these practical expedients is determined for each lease:

・ Allowing a lessee to rely on an appraisal to determine whether an agreement is onerous according to IAS 37, Provisions, Contingent Liabilities and Contingent Assets on the adoption start date, instead of performing an impairment review of the right-of-use asset

・ Allowing a lessee to exclude initial direct costs from measurement of right-of-use assets as of the adoption start date

・ Where an agreement includes an option to extend or terminate a lease, allowing a lessee to use after-the-fact determination when the lessee assesses a lease term

As a result of the transition to IFRS 16, as of the adoption start date, mainly right-of-use assets and lease liabilities included in interest-bearing debt, increased by ¥85,654 million and ¥89,588 million, respectively, and accrued expenses included in other liabilities decreased by ¥3,205 million. In addition, while the Group recognized right-of-use assets on the adoption start date with regard to part of the lease agreements, it booked impairment loss because recoverable amount fell below the carrying amount of the cash-generating unit including right-of-use assets and thus accumulated impairment loss and deferred tax asset increased by ¥7,735 million and ¥2,368 million, respectively.

As a result, retained earnings and non-controlling interests decreased by ¥2,466 million and ¥2,997 million, respectively.

Right-of-use assets are measured in one of the following methods:
・ Measured amount of lease liabilities adjusted using prepaid and accrued lease payments
・ Carrying amount calculated as if IFRS 16 had been adopted since the start of lease

Lease liabilities are measured as the present value for which lease payments unpaid as of the adoption start date are discounted using the lessee's incremental borrowing rate for the Group on that date. The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities is 0.1%. The following table shows adjustments between the amount discounted using the lessee's incremental borrowing rate on the adoption start date with regard to the discount on future minimum lease payments under operating leases that we disclosed by adopting IAS 17 at the end of the previous fiscal year and the amount of lease liabilities recognized on the Consolidated Statement of Financial Position on the adoption start date.

	(Millions of yen)
Undiscounted future minimum lease payments under operating leases as of March 31, 2019	105,694
Discount on future minimum lease payments under operating leases described above	-3,056
Discounted future minimum lease payments under operating leases on April 1, 2019	102,637
Leases classified as finance leases	14,595
Adjustments due to the reassessment of lease terms	5,580
Adjustments related to agreements before start of leases	-27,875
Adjustments due to other factors	-5,350
Lease liabilities on April 1, 2019	89,588

2) Significant accounting policies that have changed by adopting new standards and interpretations
The Group determines at the start of an agreement whether it is a lease agreement or if it includes any lease. For the consideration as of the start date or revaluation date of an agreement that contains a lease, the Group accounts for each lease component within the agreement as a lease separately from non-lease components of the agreement by allocating the consideration in the agreement to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. In addition, the lease term is the combination of a non-cancellable period of the lease, the period subject to an extension option that is reasonably certain to be exercised and the period subject to a termination option that is reasonably certain not to be exercised.

(Lessee side)
a. Lease transactions for intangible assets
The Group has not adopted IFRS 16 for lease transactions for intangible assets.

b. Right-of-use assets
The Group recognizes right-of-use assets on the lease commencement date. The right-of-use assets are measured on a historical cost basis on the commencement date. The historical costs comprise the sum of initially measured amount of lease liabilities, lease payments made at or before the lease commencement date less lease incentives received, initial direct costs incurred by the lessee, and estimates of costs to be incurred by the lessee in dismantling and removing the underlying assets, restoring the site on which the underlying assets are located or restoring the underlying assets to the condition required by the terms and conditions of the agreement.

The Group adopts a cost model after the commencement date and the right-of-use assets are measured by deducting accumulated depreciation and accumulated impairment loss from the cost of the right-of-use assets. The Group depreciates the right-of-use assets from the commencement date to the earlier of the end of the useful life of the underlying assets or the end of the lease term using a straight line method, unless the ownership of the underlying assets will be transferred to the Group at the end of the lease term. The useful life of the right-of-use assets is determined in the same manner as property and equipment.

c. Lease liabilities

The Group recognizes lease liabilities on the lease commencement date. The lease liabilities are measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. The lease payments included in the measurement of the lease liabilities comprise mainly fixed lease payments, the lease payment for the extension period if the Group is reasonably certain to exercise its extension option, and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease by a lessee.

After the commencement date, the Group measures the lease liabilities at amortized cost using an effective interest method. Then, the Group remeasures the lease liability if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessment of the possibility of an option to extend or terminate the lease being exercised.

If the Group remeasures the lease liability, the amount of the remeasurement of the lease liability is recognized as a modification in the right-of-use asset. However, if the amount of liability reduced by the remeasurement of the lease liability exceeds the carrying amount of the right-of-use asset, any remaining amount of the remeasurement after reducing the right-of-use asset to zero is recognized in profit or loss.

2. Business Combination

Previous consolidated fiscal year (April 1, 2018 – March 31, 2019)

There is no significant business combination which took place in the previous consolidated fiscal year.

This consolidated fiscal year (April 1, 2019 – March 31, 2020)

Major business combination that took place in this consolidated fiscal year is as follows:

1) Outline of Business Combination

With the aim of strengthening its clothing/fashion e-commerce category in order to further expand its e-commerce business, the Company implemented a tender offer for the common shares of ZOZO, Inc., as resolved at its board of directors meeting held on September 12, 2019. This tender offer was completed on November 13, 2019, and the Company acquired ZOZO, Inc.'s 152,952,900 common shares in cash for JPY 400,736 million. As a result, the Company holds 50.1% of voting rights ratio in ZOZO, Inc., and ZOZO, Inc. became a consolidated subsidiary of the Company. In addition, in order to procure part of the fund necessary to acquire the target shares for this business combination, the Company made a borrowing of JPY 400,000 million.

2) Outline of Acquired Company

Name	ZOZO, Inc.
Business description	Planning/operation of fashion online shopping website “ZOZOTOWN” Planning/development of private brand “ZOZO” Customer support, operation of logistics center “ZOZOBASE”

3) Date of Acquisition

November 13, 2019

4) Fair value of consideration paid, assets acquired and liabilities assumed; non-controlling interests and goodwill; as of the date of acquisition

(Millions of yen)

Fair value of consideration paid	
Cash	400,736
Fair value of assets acquired and liabilities assumed	
Assets	607,479
Cash and cash equivalents	22,875
Trade and other receivables	30,442
Property and equipment	8,609
Intangible assets *2	503,017
Others	42,533
Liabilities	-233,902
Trade and other payables	-28,362
Interest-bearing liabilities	-42,589
Others	-162,951
Net assets	373,576
Non-controlling interests *3	-185,750
Goodwill *4	212,910
Total	400,736

Notes: 1. Adjustment to the provisional amount

Consideration of the acquisition is allocated to acquired assets and assumed liabilities based on the fair value on the acquisition date. Allocation of the consideration of the acquisition was completed in this consolidated fourth quarter. There is no difference between the initial provisional amount and the final amount.

2. Intangible assets

Includes identifiable assets of JPY 502,199 million. The following table shows the breakdown. For clarification purposes, the estimated useful life of customer base is 18 – 25 years; trademark is classified as indefinite-lived intangibles.

	(Millions of yen)
Customer base	322,070
Trademark	178,720
Others	1,409
Total	502,199

3. Non-controlling interests

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

4. Goodwill

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

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

Revenue and net income of the acquired company on and after the date of acquisition that are recognized on the Consolidated Statement of Profit or Loss are JPY 57,462 million and JPY 5,773 million, respectively.

For confirmation, the net income above includes amortization expenses for intangible assets, etc. recognized on the date of acquisition.

3. Segment information

The Z Holdings Group's reporting segments are business segments for which it is possible to obtain financial information separate from the overall compositional structure of the Group. The Board of Directors of Z Holdings Corporation regularly examines these segments in order to decide on allocation of business resources and to evaluate business performance.

The Group's reporting segments comprise two business segments, the Commerce Business and the Media Business.

The Commerce Business mainly sells products, plans and provides services via the Internet to small and medium-sized business enterprises and to individuals and also offers Financial- and Payment-related services.

The Media Business mainly plans and operates each service for the purpose of planning, sales, and placement of advertising products, and provides information listing services and other corporate services.

The Others segment contains business segments not covered in the reporting segments, including cloud-related services, etc.

The accounting policies adopted for each reporting segment are the same as the Group's accounting policies referred to in 1. Significant accounting policies. Segment profit is adjusted with the operating income in the Consolidated Statement of Profit or Loss. The adjustment figure for segment profit is the figure for general corporate expenses not belonging to each reporting segment. General corporate expenses principally comprise general and administrative expenses not belonging to each reporting segment. Inter-segment revenue is based on actual market prices.

The Z Holdings Group's segment information is as follows:

Prior Consolidated Fiscal Year (April 1, 2018 – March 31, 2019)

(Millions of yen)

	Reporting segment			Others	Adjustment figures	Consolidated figures
	Commerce Business	Media Business	Total			
Revenue						
Sales to customers	646,443	301,880	948,323	6,390	—	954,714
Intersegment sales	3,189	1,591	4,781	3,518	-8,299	—
Total	649,632	303,472	953,104	9,908	-8,299	954,714
Segment income (*)	55,795	141,018	196,814	10,225	-66,511	140,528
Other non-operating income						1,320
Other non-operating expenses						1,238
Gain on sales of equity method investments						301
Equity in losses of associates and joint ventures						-17,541
Profit before tax						123,370
Others						
Depreciation and amortization	26,570	4,328	30,898	1,790	19,809	52,498

* Others includes the gain on sales of subsidiaries' stocks of ¥7,977 million.

Current Consolidated Fiscal Year (April 1, 2019 – March 31, 2020)

(Millions of yen)

	Reporting segment			Others	Adjustment figures	Consolidated figures
	Commerce Business	Media Business	Total			
Revenue						
Sales to customers	740,466	307,672	1,048,139	4,804	—	1,052,943
Intersegment sales	2,266	1,000	3,266	3,199	-6,466	—
Total	742,732	308,673	1,051,405	8,004	-6,466	1,052,943
Segment income/loss	80,739	154,388	235,128	-4,668	-78,184	152,276
Other non-operating income						12,954
Other non-operating expenses						3,691
Gain on sales of equity method investments						-1,319
Equity in losses of associates and joint ventures						-24,542
Profit before tax						135,676
Others						
Depreciation and amortization (*)	45,584	4,213	49,798	2,233	31,387	83,419

* Includes the amortization of the right-of-use assets, accompanying the adoption of IFRS 16

4. Per Share Information

Basic earnings per share attributable to owners of the parent and diluted earnings per share are calculated on the following basis:

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
	Amount	Amount
Basic earnings per share	14.74	16.88
Profit for the year attributable to owners of the parent (million yen)	78,677	81,675
Profit for the year not attributable to owners of the parent (million yen)	—	—
Profit for the year used in the calculation of basic earnings per share (million yen)	78,677	81,675
Weighted-average number of common stock (1,000 shares)	5,338,012	4,838,708
Diluted earnings per share	14.74	16.88
Adjustments on profit for the year (million yen)	—	—
Increase in the number of common stock (1,000 shares)	214	110
Potential common stock that are anti-dilutive and therefore excluded from the calculation of diluted earnings per share	Option Series: 1st of 2010; 2nd of 2012; 1st, 2nd of 2013; 1st of 2014	Option Series: 1st, 2nd of 2010

5. Significant Subsequent Events

Not applicable.
