Last updated: 12/22/2021

A Message from the Co-CEOs

While strengthening our data governance structure, we are moving forward steadily with our post-merger integration toward a world-leading AI tech company.

- 1.Overview of Fiscal 2020
- 2.Strengthening Data Governance
- 3.Progress on Post-merger Integration
- 4.Enhancing Our Non-financial Capital
- 5.ESG Initiatives
- 6.To Our Shareholders and Investors

Highlights of fiscal 2020: Double-digit growth in two consecutive years, and business integration with LINE.

In fiscal 2020 (the year ended March 31, 2021), the Z Holdings Group moved forward cautiously and flexibly and considered multiple scenarios encompassing every possibility as we worked to adjust to the global social and economic impact of the COVID-19 pandemic. We quickly and nimbly restructured our work systems for employees, and we have been working ever since to ensure business continuity by protecting the health and safety of every worker under our health and productivity management policy, while also fulfilling our mission to users.

People's lifestyles have changed dramatically over the past year because of the unprecedented situation caused by COVID-19. Now more than ever we are committed to putting users first, and our priority has been the timely provision of functions that match the needs of users in this new environment. This approach was reflected in 14.5% year on year growth in revenue, which reached ¥1.2 trillion, a double-digit increase for the second straight year.

The main driver of this growth was the Commerce Business, which recorded substantial increases over the previous year's results. E-commerce transaction value was 24.4% higher at ¥3.22 trillion, and there was also significant profit growth, with adjusted EBITDA rising by 18.8% year on year to ¥294.8 billion. We attribute this expansion amid the prolonged impact of the COVID-19 pandemic to a combination of flexible decision-making and bold initiatives in anticipation of medium- to long-term future growth.

Our greatest achievement during fiscal 2020 was the successful completion of our business integration between Z Holdings and LINE Corporation ("LINE") on March 1, 2021. With a total domestic user base in excess of 300 million, the new Z Holdings is able to approach almost every Internet user in Japan. Its emergence can be seen as a pivotal event in the history of the Internet in Japan.

> Promotion of Health and Productivity Management

Strengthening Data Governance

We aim to achieve the highest standard of governance in the world through user-focused efforts to strengthen systems along both horizontal and vertical axes.

Both Yahoo Japan Corporation (“Yahoo Japan”) and LINE handle extremely large volumes of data compared with other Japanese companies. We were aware from the outset that the integration of our operations would require us to set new standards for Japan by creating the most advanced data governance and cyber-security systems.

Following the discovery of an issue concerning the handling of data by LINE, the Z Holdings formed the Special Advisory Committee on Global Data Governance (the “Special Advisory Committee”), which is made up of independent experts, and the Technology Verification Subcommittee, which provides technical assistance to the Special Advisory Committee. Their task was to examine and assess the security standards and operating structures employed by LINE. On October 18, 2021, we received the final report of the Special Advisory Committee.

Based on the recommendations of the Special Advisory Committee, LINE has implemented voluntary reforms and improvements. Z Holdings has also introduced a range of reforms, the first of which was the establishment of the Data Governance Working Group as part of the existing Risk Management Committee. The Data Governance Working Group consists of teams specializing in R&D, data utilization, and security and privacy protection. These three teams work together to formulate policies and rules relating to group-wide data

governance. In addition, they assess and audit compliance with these rules and policies.

The Z Holdings Group is also developing governance systems based on the “Three-Line Model.” The first line of defense under this model is the appropriate evaluation and control of risks by risk owners. The second line is auditing, evaluation, and advice to ensure that first-line activities are being implemented appropriately. The third line is the auditing of activities for the first two lines, and the recommendation of specific remedial measures if problems are identified. The aim is to create independent governance structures that reflect the business characteristics of individual group companies. While enhancing these horizontal governance structures, the Data Governance Working Group is also collaborating with group companies to strengthen governance along the vertical axis in order to create a governance structure from the user’s perspective and ensure that it is suitable for the globally integrated business environment of the Z Holdings Group.

Our policy going forward calls for continuing efforts to enhance and strengthen our systems based on continuous reporting to and advice from separately created expert panels. Digital transformation (DX) has become a national priority in Japan. We are keenly aware of our mission and responsibilities as a platform operator in this context, and we are determined to maintain world-class data governance and cyber-security systems that consistently meet the expectations of society and our users.

> Final Report Received from the Special Advisory Committee on Global Data Governance, and Future Efforts to Strengthen Group Governance

Progress on Post-merger Integration

Business integration benefits are steadily becoming apparent, and we anticipate cost synergies worth ¥10 billion in fiscal 2021.

We have made steady progress with post-merger integration (PMI) in various areas since the completion of our business integration with LINE in March. The process deviated slightly from the original schedule because of the need to prioritize the enhancement of data governance and security as a result of the aforementioned information management issue. Despite this, we are making good progress with PMI.

One example of the synergies that are being achieved in the Media Business is the start of distribution of Yahoo! JAPAN Ads on LINE NEWS sections. This initiative has only just begun, but we anticipate growth, and we also plan to distribute the LINE Ads on Yahoo! JAPAN service pages. In the Commerce Business, LINE GIFT has achieved significant growth through collaboration with Yahoo! JAPAN Shopping, PayPay Mall, and ZOZOTOWN. We will continue to use the group's various assets to expand our services. We are also making good progress in the Strategic Business segment, including steps towards the integration of the domestic QR/barcode payment businesses of PayPay and LINE Pay.

In addition to synergies across our existing businesses, we have also started to create new services based on collaboration with group companies. One of these is the Quick Commerce service provided collaboratively by Demae-can Co., Ltd. and ASKUL Corporation. While this initiative is still at the trial stage, we have already confirmed the demand for rapid deliveries of household necessities and food items, as well as the practicality of base and delivery operations. There has been a very positive response to this new service, which delivers items to users in as little as 15 minutes after the placement of orders.

We have also started to develop specific synergies with NAVER Corporation. For example, in October 2021 we launched MySmartStore, an online store creation service developed by localizing a service provided by NAVER in South Korea for the Japanese market.

Progress on PMI is yielding cost synergies as well as business synergies. We are projecting savings of around ¥10 billion in fiscal 2021, thanks to cost synergies that include cost reductions achieved through the consolidation of offices of Group companies, the reduction of operating costs relating to sale promotion and merchant recruitment activities for LINE Pay, and the reduction of financing and content procurement costs. We will continue to identify cost synergies in the next fiscal year and beyond, such as the internalization of LINE data centers, the elimination and integration of duplicated services in the same areas, and the centralization of procurement.

Another priority for the PMI process is the convergence of our corporate cultures. Yahoo Japan and LINE are both Internet companies and have similar corporate cultures, but there were differences in their philosophies and approaches. We are fostering reciprocal understanding about these differences by maintaining close communication among business units as part of our business processes. In this sense, the data governance issue referred to earlier has ultimately provided an opportunity to deepen reciprocal understanding. We will continue to work steadily toward the integration of our corporate cultures.

> LINE GIFT Demonstrates Early Effects of Z Holdings Synergy

Enhancing Our Non-financial Capital

Business integration has enhanced our non-financial capital—the key to growth.

Business integration has also enhanced our non-financial capital, which is essential to the sustainable improvement of corporate value. The introduction of the Product Committee into our service development processes has been especially beneficial. The task of the Product Committee and the Group Chief Product Officer (GCPO) is to ensure that our products provide optimal value to users by basing development on a long-term approach centered on our overall vision for the services provided by the Z Holdings Group. This is resulting in service development processes that differ from the approaches used by Yahoo Japan and LINE in the past. We are currently exploring ways to extend positive effects across the entire group by holding Product Committee meetings under the leadership of the GCPO. By consolidating this approach, we aim to concentrate our service development activities toward the creation of products with enhanced strategic potential.

Integration with LINE has also greatly enhanced our capacity to develop business globally. The addition of LINE's global development capabilities to the Z Holdings Group is expected to result in the consolidation of international development structures in each business area.

Changes in the capital relationship following the business integration are also helping to enhance our non-financial capital. The growth potential of the Z Holdings Group has expanded dramatically thanks to the establishment of collaborative relationships not only with SoftBank, but also with NAVER, South Korea's biggest Internet company.

Human resources play a vital role in the enhancement of non-financial capital. We will pursue a global human resource strategy combining the advantages of the Yahoo Japan approach of recruiting and comprehensively training new graduates, and the LINE approach of hiring highly skilled mid-career recruits. We have already started to apply a hybrid strategy based on the Yahoo Japan and LINE approaches to the recruitment of human resources in the field of AI, which is a priority area for investment. We are actively recruiting staff while monitoring progress across the entire group. In addition, we have enhanced the attractiveness of our working environment by transitioning to online work styles. This is expected to bring talented people around the world into our development activities through an online environment.

ESG Initiatives

We will continue to fulfill our social responsibilities as one of Japan's largest Internet service companies.

We are also strengthening our initiatives relating to the environment, society, and governance (ESG) as part of the PMI process.

One of our environmental goals is the introduction of energy-saving systems in our data centers, which account for the bulk of our power consumption. Yahoo Japan has pledged to switch to 100% renewable energy in its data centers by the end of fiscal 2023, and we recognize the need to work toward this standard across the entire group. Other new initiatives include a ¥20 billion "Green Bond" issue to support the reduction of our own CO2 emissions. We also started to invite local governments to participate in the "Yahoo! JAPAN Regional Carbon Neutrality Promotion Project," which aims to promote the expansion of decarbonization in Japan. This project is based on the Japanese government's "hometown tax" scheme, which allows individuals and enterprises to donate part of their tax payments to specific municipalities.

Our most important focus in the area of social initiatives is the recruitment of human resources. We will also continue to implement workstyle reforms with the aim of achieving sustainable improvements in productivity, while further expanding and enhancing our employment formats for a world in which people are learning to coexist with COVID-19. Another focus is diversity and inclusion. We are creating environments in which individual employees can achieve their full potential regardless of differences in their experience, values, life stages, and other attributes. We also recognize the establishment of AI ethics as a vital social priority. Dramatic improvements in the performance of AI systems are expected to lead to the use of this technology in an expanding range of areas, but there is concern about the ethical aspects of the technology, including the risk of discrimination and human rights violations. To address these issues, we are taking steps, including the establishment of the Expert Panel on AI Ethics, to ensure that users can feel safe when using our AI-based services.

Governance is a particular priority. We used the business integration as an opportunity to make substantial changes in the composition of our Board of Directors, including an increase in the number of independent outside directors from diverse backgrounds. As a result, the Board of Directors is now benefiting from insightful advice and recommendations based on expert knowledge from a wide spectrum of fields. All members of the Board of Directors are aware of the need to ensure management independence in an environment in which controlling shareholders own approximately 65% of shares. That is why we established the Governance Committee in the first fiscal year under the new structure.

> Data centers powered by 100% renewable energy
> Z Holdings to Issue JPY 20 Billion Green Bond in July
> Future Envisioned by Z Holdings, the First Japanese Internet Company to Issue Green Bonds
> AI Ethics
> Carbon Neutrality Declaration

To Our Shareholders and Investors

We will distinguish the Z Holdings Group from other global IT companies by creating our own ecosystem, leading to our growth toward a world-leading AI tech company.

The Z Holdings Group is committed to sustainable improvement in corporate value leading to growth in our share price over the medium- to long-term future. We see this as the best way to return profits to shareholders. We also recognize upfront investment and capital expenditure in business areas with future growth potential as an important step toward the achievement of this goal.

Major cyclical changes are emerging in the world of information and communications technology (ICT), including the Internet. The proliferation of smartphones has brought dramatic changes in the daily lives of consumers over the past decade. More recently, the use of AI has started to drive the evolution of user experiences in every field. Other technologies, such as virtual reality (VR), the metaverse (virtual space), and blockchain, are also expected to trigger new paradigm shifts in the future. The ongoing challenge for the Z Holdings Group in this era of rapid change will be to create services that users will recognize as the best, under a strategy of creating our own service environment different from those offered by other global IT companies, in which users can enjoy optimal convenience and ease of use.

Despite its status as the world's third biggest economy, Japan has lagged behind the United States and China in terms of the digital transformation (DX) of social and economic activities. While the COVID-19 pandemic has unexpectedly accelerated the DX trend, Japan's digital service market is still at the "blue ocean" stage and offers ample scope for expansion. As one of Japan's largest Internet service companies, the Z Holdings Group is determined to introduce more services that will be recognized as the best in each area. We will also take up the challenge of global business expansion, especially in Taiwan, Thailand, Indonesia, and other Asian markets.

We hope that our shareholders and investors will understand our strategies and initiatives and recognize the future potential of the Z Holdings Group.

Copyright (C) Z Holdings Corporation. All Rights Reserved.